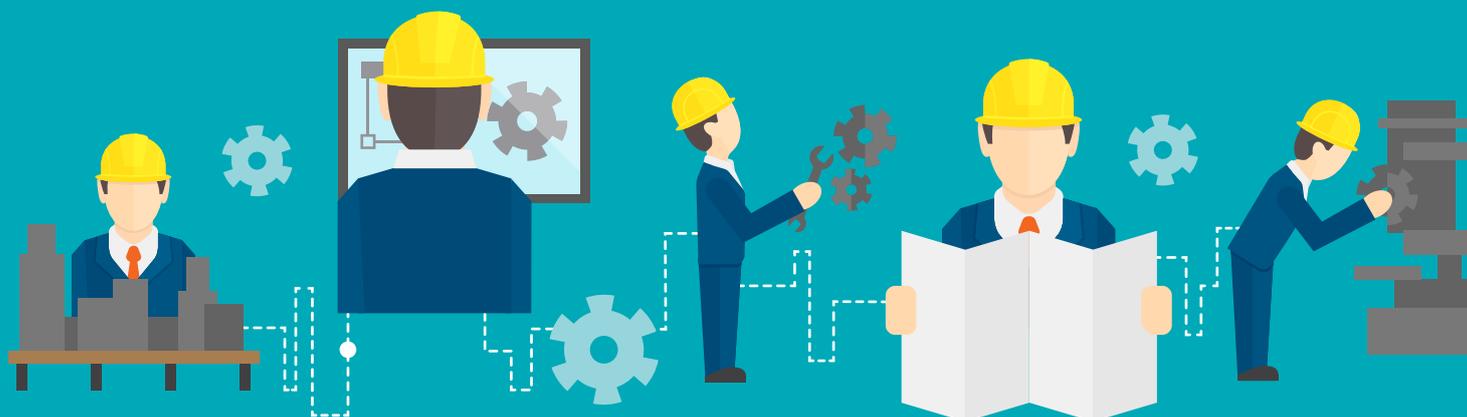


Manufacturing 2015

The West Midlands Review



Introduction

“UK manufacturing is having to contend with a rollercoaster of risks from the rest of the world” (Lee Hopley, Chief Economist at the EEF) and 2015 has certainly been a case in point.

The General Election in May produced a surprising Conservative majority and with it came the uncertainty of a referendum on EU membership. Ongoing discussions around the Transatlantic Trade Partnership (TTIP) famed as the ‘biggest bilateral trade deal in history,’ together with price rises in China eroding the cost advantage of production, are producing both political and economic challenges for the sector. UK manufacturers are considering reshoring both their manufacturing operations and also their supply chains to drive efficiencies, de-risk and drive up quality, but with widespread currency instability in the Eurozone and ongoing skill shortages the future doesn’t look straightforward. That said, the sector has a positive outlook - production is on the increase, access to finance is proving less of a challenge, and new technology is positioning the UK as a global leader.

Squire Patton Boggs and TheBusinessDesk.com joined forces on a survey into the manufacturing sector to give West Midlands manufacturers a voice and have their say on the big issues facing their businesses. In this review we have summarised the survey findings and discussed the results with manufacturers on the front line – their insight can be found on page 6. Finally, Kit Halliday, joint CEO of Covpress Limited, from one of the region’s leading manufacturers shares his views on the sector. We would like to thank Kit and all of those who have contributed their views on the sector. We hope that you find our report a thought-provoking read.



Foreword

The Business Desk



The manufacturing sector has undergone a rollercoaster-ride over the past six years and for many firms the turbulence is still being felt.

Yet for others, the recession has proved to be the springboard for major expansion, fuelled by a strong demand from abroad for British manufactured goods.

The West Midlands, due to its historical reliance on the manufacturing sector, has been impacted to a greater degree than almost anywhere else in the country. However, due to the strength of advanced manufacturers and some pre-eminent brands, such as in the Automotive and Aerospace sectors, it has fared better than most.

However, that is not to say that the region is without challenges.

The new government has made its ambitions for the region clear – it wants it to become the engine for growth in the UK; a heavy burden which will depend much on the success of the West Midlands Combined Authority and its ability to mount a serious challenge to the so-called Northern Powerhouse.

There are also the challenges inherent to the industry such as access to growth capital and skills shortages which affect firms wherever they are based.

The same can be said about the looming issue of the UK's membership of the European Union and the impending referendum. For many manufacturers this is an unwanted distraction and most are of the opinion that the vote should be brought forward and dealt with as quickly as possible, rather than having it meander on for another two years.

In advance of this supplement, Squire Patton Boggs, in partnership with TheBusinessDesk.com, conducted a comprehensive survey gauging the opinion of manufacturers not just in the West Midlands, but in Yorkshire and the North West as well.

The results provide a clear picture of the manufacturing sector, the companies operating within it and the challenges they face. I hope you find it useful.

Andy Coyne

Editor

TheBusinessDesk.com (West Midlands)

Key Survey Findings

The BIG Issue – Skills



of respondents cited the most significant issue for them is the skills gap and a multi-generational workforce



of respondents suggested that the skills shortage is likely to impact on the short to medium term performance of their business



Upskilling existing workforce and taking on apprentices were the top ranked solutions to the skills gap



of respondents think that there should be a greater focus on STEM subjects in schools and colleges

Government Support

83%

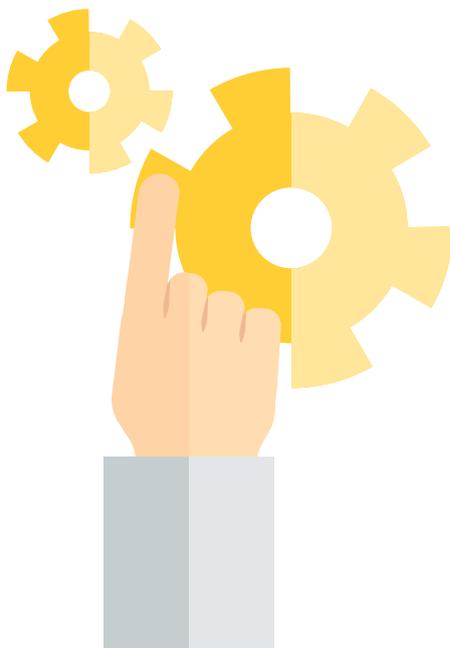
of respondents want to see the UK remain part of the EU

58%

of respondents do not think there is enough support with innovation, industrial R&D and commercialisation of new products

Types of Government Support Required

- Clear strategy to support UK manufacturing – long term strategic thinking
- Skills – financial support, education policy
- Grant aid – capital investment/skills
- Economic stability/FX stability/no EU departure/taxation stability
- Cut red tape – less regulation, reshore the process of regulation and control
- Better all round support for SMEs
- Infrastructure/transport links
- Access to finance
- Export support
- Business rate reduction



Supply Chain Improvements

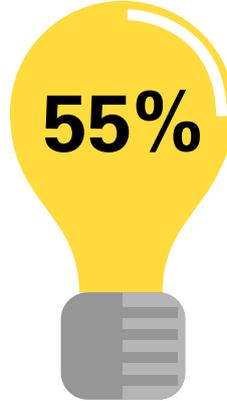
43% responded that greater collaboration with suppliers followed by use of new technologies would have greatest impact on their bottom line

Just over 50% of respondents do not currently have reshoring as an active priority, although shortening the supply chain is seen as a strategic priority

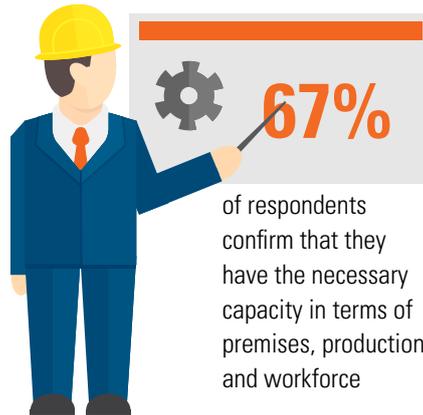
Production and Collaboration



of respondents are expecting to ramp up production by the end of 2015



of respondents suggested that new technology and digital intelligence (intelligent products/availability of data) are likely to have the greatest impact on future growth



of respondents confirm that they have the necessary capacity in terms of premises, production and workforce



More than half

of the respondents do not see access to finance as a restricting factor

Infrastructure

Over 50% of respondents perceive UK transport infrastructure as a hindrance to growth. Improvement suggestions include:

- Produce and implement a clear, coherent UK-wide transport strategy
- Improve road and rail networks to support the movement of goods and people
- HS2/HS3 – start the system at all points at once
- Integrated public transport infrastructure in the Northern Powerhouse cities
- Increase regional airport capacity
- Improve digital capacity – especially in rural areas



Green Manufacturing

57% of respondents have Green Manufacturing on their agenda

- Of the 57%, implementing an energy reduction programme and improving on waste management were the priority strategies

A View from the Sector

Attendees:

Chris Barlow

Managing Director, Bloomer Heaven

Rupert Boddington

Senior Relationship Director, RBS

Richard Halstead

Regional Director West Midlands, EEF

Dr Richard Hutchins

Director, Jaguar Land Rover Programmes,
Warwick Manufacturing Group

Prof Jon King

Manager Applications and Engineering,
Research and Development, Tata Steel

Carl Perrin

Director, Institute of Advanced
Manufacturing & Engineering

Simon Garbett

Partner, Squire Patton Boggs

Chris Reeves

Commercial Director, MIRA

Duncan Tift

Deputy Editor, TheBusinessDesk.com

Business leaders addressed the major issues affecting the manufacturing sector at a roundtable event in Birmingham.

High on the agenda at the lunch hosted by law firm Squire Patton Boggs in partnership with the TheBusinessDesk.com were topics including Britain's continued membership of the EU, devolution, achieving growth, the skills agenda, innovation as well as the availability of finance.

Tift was met with unanimity among delegates when he opened proceedings by asking for the panel's opinion about the forthcoming referendum on leaving the EU.

Halstead said that the findings of the survey undertaken by Squire Patton Boggs in conjunction with TheBusinessDesk.com were "uncannily" similar to what the EEF had discovered. "This survey shows that 83% of manufacturers want to stay in the EU and the EEF's most recent survey found that 85% of companies want to do the same.

"If you break that figure down to the large businesses – those with 250 employees or more – that figure rises to 90%. Yes there will always be exceptions. There will be some businesses that say that it doesn't bother them and I'm told that there are aspects of the construction sector which consider leaving Europe would be a good thing.

"But you've got to look at the facts – and the majority of businesses say that they want to stay in Europe and the fear is that public opinion will be swayed. Manufacturing businesses need to encourage employees to say that we need to stay in.

"Uncertainty is causing a lot of problems at the moment and the sooner we can have the referendum and get the answer the better."

Hutchins subsequently expressed his belief that it would be difficult to find any university in the country that would vote to leave the European Union. "Universities – as providers of higher education skills training – are among the biggest exporters of any sector in the country. Leaving the EU would also have implications for recruiting staff as well."

King added: "I think that it's easy for manufacturers to simply say that they want to stay in Europe, but it has to be a reformed Europe. I understand that some of the business lobbies around Europe have now shifted their thrust to get sensible reform and deregulation.

"Our own position is slightly less vocal – we have business across the UK and Europe. But we have some issues with the current state of affairs in the UK including business rates and energy costs. It would be good to see moves to see something done about that. Carbon pricing is also a major one for us."

Tift asked delegates for their thoughts on how manufacturers can best convey the importance of remaining in the EU – particularly to employees.

Boddington replied: "I think that history shows that the UK population is not a great one for change. And change doesn't happen that quickly. But I think that there's a real challenge to demonstrate what's good for business and good for manufacturing is good for the man on the street. I think that it will be really easy for the 'no' camp to connect with people on an emotional basis. My suspicion is that the outcome could ultimately prove to be much tighter than has recently been predicted."

Tift subsequently asked whether panellists were concerned about European funding for research and development – among other manufacturing processes – drying up.

Reeves said: "We rely on European funding for some of our innovation and we would obviously not want to see that put at risk. And I'd agree that the lack of certainty around Europe that we're currently witnessing is damaging.

“The uncertainty is not just damaging to the European partnership but it’s also damaging to global wealth creation and inward investment with the UK.”

Hutchins expressed his view that the “financial” arguments concerning our membership of Europe are always difficult to substantiate. He added: “But you don’t have to walk far in the centre of Birmingham to see the benefits that have resulted from ERDF money... among other types of funding.”

Barlow added that his clients are telling him that they would like to see the referendum held sooner rather than later. “But, in all honesty, I’m not sure how quickly the referendum could be held. And I’d agree that it’s the uncertainty that’s causing the problems.”

Devolution...

With the government looking at the West Midlands as the engine for growth within the whole of Britain – predominantly driven by the ongoing success of the automotive and aerospace sectors – Tift asked delegates whether they believe that they’re now in a position to challenge the Northern Powerhouse.

Halstead expressed his belief that the Midlands requires a “strong figurehead”. He explained: “I think that the Midlands lacks this – although I don’t know who could do the job. But we need someone who can champion the cause... I think that this needs to be a strong leader – and someone who understands the needs of both business and manufacturing.

Barlow seconded this view adding: “Like him or not, the influence that Boris Johnson has over London – as well as being the voice for London – is huge.”

Hutchins added that there was no reason why the West Midlands shouldn’t continue to play a major role in the manufacturing sector. “Can we challenge the North West? Absolutely! If you measure our business base, our supply chains, our skills assets and our infrastructure – and the fact that HS2 is coming straight to our front door – there’s no doubt in my mind that we can do it.

“Uncertainty is causing a lot of problems at the moment and the sooner we can have the referendum and get the answer the better.”

Richard Halstead, Regional Director, EEF

“But we just have to get on and do it because that’s what they did in the North West – they’ve been planning this for at least 10 years. I do think that the business community needs to speak with one voice.”

There was broad agreement among the delegates that Birmingham and the Black Country also need to work together “as closely as possible” to champion the region’s cause.

The Skills Gap...

Tift subsequently moved the discussion onto the skills gap within the manufacturing sector, asking Hutchins – who is also a board member of the Coventry and Warwickshire LEP – whether the lack of appropriately qualified staff is proving a barrier to growth.

Hutchins replied: “Without doubt, it remains the biggest challenge to industrial growth. There are also a huge number of engineers and technicians who are about to retire so there’s another issue.

“What do we do about it? This is a very complex area and I think that few people really understand the whole breadth of the challenge. I think that we need to join secondary education with the business world. But there’s another issue here: the Department for Education is resolutely separate from the Department for Business, Innovation and Skills.

“Until we join these two department’s policy agendas at a national level I think that we’re always going to struggle with this issue.”

After Tift asked whether it was an issue of overcoming stereotypes surrounding the manufacturing sector or simply promoting science, technology, engineering and maths (STEM) subjects, Perrin replied: “I think that it’s all of those things and we just have to accept that manufacturing and engineering will just not be right for everyone.

“It’s my impression that it’s not just parents and students who aren’t aware of what opportunities are present within manufacturing, it’s also the case that the schools themselves aren’t aware. When I bring school pupils into a factory and they see for themselves the technology that’s present in terms of robots and automation, it’s never what they anticipated. They quickly realise that it’s rewarding, interesting and a good career to be in.

“I don’t think that we do enough to sing about our successes.”





“There are really good career structures in manufacturing and until we get this message out, there will continue to be a problem attracting the best into the industry. I think that it requires a sustained marketing campaign to remove those misconceptions.”

Chris Reeves, Commercial Director, MIRA



King added that he believes that there’s a “fundamental rebalancing process” necessary within the education sector if growth is to be maintained. “Universities provide courses to students on the basis that they’re what students want to do. If not enough students are doing engineering and manufacturing-related courses then it’s because we’re not selling them well enough.

“There are innumerable programmes available which see people from industry going into schools – but we don’t follow these programmes through and tie these initiatives together in order to celebrate the sector. Let’s challenge the government to find out what the employment mix will look like in 20 years and think through the processes we need to put in place now to deliver on this.”

Reeves agreed with this sentiment. “I think that it goes right back to removing the stigma that surrounds engineering and manufacturing that has manifested itself over the past 20 years.

“There are really good career structures in manufacturing and until we get this message out, there will continue to be a problem attracting the best into the industry. I think that it requires a sustained marketing campaign to remove those misconceptions.”

Halstead added: “I think that we’ve come a long way on skills. Just five years ago, parents used to tell their children not to consider manufacturing because of what happened to their relative at Rover. I don’t hear that so much anymore.

“I hear a lot of enthusiasm around apprenticeships – and the challenge that the Apprenticeship Centre has here in Birmingham is finding appropriate youngsters. They’re being encouraged to stay on at school and do A levels - because that’s how schools are funded.”

Perrin added that the Institute of Advanced Manufacturing, of which he’s a director, has been established to bring industry and education closer together in the West Midlands. It aims to deliver a manufacturing and engineering focused curriculum via project work, work experience, vocational and academic learning based on industry needs. “Our manufacturing students come to us when they’re 18-years-old and they learn in the classroom in the morning and work on the project line in the afternoon.

“They get direct opportunity to problem solve after learning the skills to achieve this in the classroom. At the end of the first year, all but four of our students wanted to spend their summer vacation in a factory – they can’t get enough of what the sector can do for them.”

Reshoring – and Improving the Supply Chain...

With so many companies facing difficult decisions surrounding whether to reshore operations to satisfy their needs, Tift subsequently garnered opinion about whether this topic is unduly preoccupying the sector.

King said that, in his opinion, there’s huge opportunity to achieve growth through reshoring – and exporting – particularly within the automotive sector. Barlow has noted a definite move towards reshoring among his clients involved in the supply chain. “Nonetheless, it’s not an easy thing as they can’t just bring things back to the UK and continue from there. Generally, they’ve experienced problems over the past few years. Sometimes, these have been quality issues and on these occasions they’ve simply not been able to get in the car to drive down the road to sort things out.”

Halstead continued that among the EEF’s members, reshoring is on the increase. He explained: “But the biggest trend among many manufacturers currently is ‘not off-shoring’ the next generation of their products in the first place. In short, they’re making them here.”

Hutchins expressed his concerns that – if this proved to be the case – it raised problems over where increased manufacturing would take place as the availability of viable sites for new factories across the West Midlands was now at a premium.

Energy costs... and Access to Finance

Tift then garnered opinion regarding the impact escalating energy costs are having on the manufacturing sector.

Halstead placed the issue in context thus: "Cost and capacity are the two major issues affecting manufacturers.

"Energy costs in this country are too expensive. The UK, on average, is about 35% more expensive than the rest of Europe at a net level when you take into account carbon taxes, carbon reduction commitments, carbon price law. In mainland Europe, there are incentives and rebates off the kilowatt hour rate. This remains a major issue on our price competitiveness.

"The second important point concerns capacity – I think that as we head into winter, there are serious concerns that we could start to see the usage of energy limited. In Europe, they insist that the energy companies keep reserves of energy and that simply isn't the case here."

Halstead suggested that solutions to these issues might involve implementing "reserve policies" to ensure continuity of supply. In addition, he suggested that manufacturers should be encouraged to "innovate" at every opportunity in order to do more while using less energy.

When delegates were asked for their opinion about access to finance, King expressed his view: "There's lots of money about – and there's lots of help from the banks available to manufacturers in terms of putting together the right business case."

Boddington agreed with this sentiment adding: "I've noticed down the years that the art of writing a good proposal for the bank manager got lost around the same time as receiving funding from the bank also got lost. I do think that lending has got much better – although I wouldn't suggest for a minute that it's completely sorted.

"But I also think that banks generally have got much better at thinking 'If we can't help on this occasion, is there another pot of funding that might be available?' In other words, we're signposting to other lenders and grant funds much more than we used to do."

Barlow concluded that manufacturers frequently need "educating" about the financial benefits that could be available to them. "One of the things that we talk to our clients about extensively is how they can use the money that they can get back on research and development through tax credits. This can then be reinvested in the business – the money is there and otherwise they are just walking over it. They don't always need to go and borrow it. It really is a case of educating companies about the best options available to them."



"There's huge opportunity to achieve growth through reshoring – and exporting – particularly within the automotive sector "

Prof Jon King, Manager Applications and Engineering, Research and Development, Tata Steel



Our View on Manufacturing in the Midlands



The manufacturing sector continues to power Britain's economy in a myriad ways, and nowhere is this more evident than in the Chancellor's "Engine for Growth" of the Midlands. Following a ground breaking survey into the state of the sector, Simon Garbett – Head of Squire Patton Boggs' manufacturing team based in Birmingham – lends his insight into current and future developments...

Ask Simon Garbett about the strength of the manufacturing sector in the West Midlands and his response is unequivocal.

"This is a part of the country where an immense amount of creativity and innovation within manufacturing has always gone on – it was, after all, the heart of the original industrial revolution – and this remains the case today," he explains.

"That's not to say that many companies haven't had a tough time during the recent economic maelstrom but there remain significant pockets of expertise, as well as centres of advanced manufacturing excellence across this region, including at the Warwick Manufacturing Group and other universities.

"In short, many Midlands manufacturers are excelling, delivering high quality and highly specialist products all around the globe.

"It's well documented that the automotive sector is central to the success of manufacturing in the West Midlands.

"And the vibrantly beating heart of this subsector remains Jaguar Land Rover (JLR)."

Garbett continues: "Those companies that supply to JLR are undoubtedly continuing to experience boom times as this company, its iconic brand and burgeoning product range grows both locally, nationally and internationally.

"Without doubt, JLR continues to be a major catalyst for the sector's success across the region, not least because it has significantly invested in state of the art advanced manufacturing facilities and pushed an export led productivity drive, including in the fast growing markets of the developing world such as Brazil and China. Indeed, its recent product expansion is estimated to be worth £13 billion to the UK supply chain.

"But I also believe that this success has resulted in a slight dichotomy sometimes being present within manufacturing here in the West Midlands – life isn't always so rosy for those companies that aren't supplying to JLR."

Nonetheless, Garbett believes that the "innovative spirit", "drive" and "passion for success" that have manifested themselves across the region's manufacturing community for decades will help ensure continued prosperity and attract increasing amounts of foreign direct investment into the region, including from the US and China.

But more needs to be done to ensure increased research and development (R&D) and investment takes place if companies are to compete globally, remain competitive and – ultimately – reach their full potential.

He added: "Generally, my impression is that there's awareness about the various funds that are available to support R&D and investment – but many manufacturers, particularly SMEs, shy away from applying for them because of the sheer amount of box ticking that needs to take place to access them.

"My hope is that the referendum will be done and dusted both quickly, decisively and cleanly – so that normal business can be resumed with all potential problems for manufacturers arising from an EU exit removed."

“They’d rather get on with the day to day running of their businesses.

“Consequently I do believe that the whole process of applying for grants – particularly for small to medium sized companies – needs to be streamlined and simplified to make access to such funds and rebates easier to secure for all concerned. And better promotion of the wide range of external help that is available to business is equally important too.”

The Forthcoming EU Referendum...

While talking with manufacturing clients, Garbett has heard first hand on many separate occasions how the “red tape” surrounding European legislation is both frustrating and hindering growth.

Nonetheless, it is also his impression that most companies remain broadly very supportive of continued EU membership – although they want to retain that membership “on better terms”.

“My fear is that negative issues surrounding our European membership will be whipped up by those with a vested interest or agenda in the months before the referendum - and if this resulted in a “no” vote it could ultimately prove highly detrimental for ‘UK PLC’.

“My hope is that the referendum will be done and dusted both quickly, decisively and cleanly – so that normal business can be resumed with all potential problems for manufacturers arising from an EU exit removed.”

Skills Shortages...

Equally important too is the on-going issue of skills shortages within manufacturing.

While this is an area where the West Midlands has an advantage over other regions in terms of the blue chip businesses that are here which attract and retain the top talent, Garbett believes that further decisive, joined-up and sustainable action still needs to be taken by government to continue to actively promote manufacturing and remove obvious barriers to resolve escalating issues and ensure long term stability and growth.

He explained: “This is one of those perennial issues – but I’m also aware that here in the West Midlands big companies like JCB and JLR don’t always have the same problems attracting and retaining the brightest and the best that other manufacturers’ more routinely experience.

“That said, the country generally has issues attracting students to study science, technology, engineering and mathematics (STEM) subjects to ensure that the next generation of engineers can be fostered. A lack of STEM lecturers and graduates is part of the problem, but the increasing focus by companies on partnerships with schools, colleges and universities, as well as other stakeholders, and an increasing awareness of the need to invest in industrially relevant and technically excellent training and apprenticeships, are obvious moves in the right direction.

“Whenever I visit clients’ factories, I’ve heard first-hand what a challenge it is finding the right, highly skilled engineers.

“But I’ve also been amazed what fascinating and dynamic places the manufacturing shop floor can be, complete with cutting edge production processes, advanced technology and robotics – and it is always terrifically useful for schoolchildren from quite an early age to have the chance to visit them to witness first-hand the fulfilling careers on offer. Indeed, many progressive manufacturing companies now actively promote their businesses by opening their doors in this way to win ‘hearts and minds’.”

“My impression is that we’re not going to witness the tidal wave of reshoring that many have predicted, at least for the foreseeable future, but in appropriate cases UK manufacturing businesses will actively look to do so, such as in the automotive context where significant opportunities undoubtedly exist.”

“There’s a definite appetite among manufacturers to win increasing market share and I believe that embracing new and novel technology is undoubtedly delivering these efficiencies.”

Squire Patton Boggs' Public Policy Practice: Getting Clients Heard When It's Needed Most

Squire Patton Boggs' Public Policy Practice is providing an ever-increasing number of businesses with "a voice" in the corridors of power across Britain and Europe.

The practice develops strategies that ensure clients get their perspective heard at the right time, by the right people.

It also assesses – either in advance or in real time – what government policies could affect those organisations' business interests and seeks to shape discussions before they become legislation.

In Britain, the law firm has a long-standing reputation for excellence in this area having worked on behalf of a wide variety of different clients.

Following the merger last year of Squire Sanders with Washington-based lobbyists Patton Boggs - one of the largest lobbyist firms in America - Squire Patton Boggs is now targeting ambitious growth across its global Public Policy Practice.

Simon Garbett explained: "I believe that Squire Patton Boggs' Public Policy Practice has rapidly become one of our firm's key unique selling points (USP).

"Clients across all sectors are increasingly showing an interest in what we can do for them in order to ensure that they have a voice regionally, nationally as well as in Europe.

"Sometimes, it's about presenting your case clearly to the right people - and that's something at which Squire Patton Boggs has always excelled both in Britain and internationally."

Squire Patton Boggs Public Policy Practice now has a presence in all major capitals across five continents.

Increasing Productivity...

When it comes to increasing productivity – which remains one of the hot topics within the sector – Garbett is acutely aware that all manufacturers have their own "puzzles to grapple with".

He added: "It is often a puzzle that they have to find the solution to themselves, on their own terms.

"This is one of the main reasons why we're witnessing an increasing use of partnerships and joint ventures within the manufacturing sector – and this ultimately has the potential to make those companies stronger, more stable and sustainable – so long as these collaborations are both appropriate and properly formalised."

He also reiterated the importance of continuous improvement of production processes, skills training, investment and R&D within this context.

"There also remains a lot of talk about re-shoring as a way to increase productivity and improve quality, as well as building more robust, de-risked supply chains through more localised supply networks.

"While it can undoubtedly bring benefits in the long-term, I think that companies are all too aware of the short-term disruptions to their supply chains that will ensue when bringing production back across borders.

"My impression is that we're not going to witness the tidal wave of reshoring that many have predicted, at least for the foreseeable future, but in appropriate cases UK manufacturing businesses will actively look to do so, such as in the automotive context where significant opportunities undoubtedly exist."

Embracing New Technology – and Best Environmental Practice...

When it comes to achieving growth, embracing both technological innovations – such as smart and highly connected factories, 3D printing/additive manufacturing and digital manufacturing, lightweight materials and composites, robotics and use of drones and next-generation power sources to name but a few – and "appropriate" environmental practices, remains of fundamental importance.

"There's a definite appetite among manufacturers to win increasing market share and I believe that embracing new and novel technology is undoubtedly delivering these efficiencies," continued Garbett.

"Now's the time for manufacturers to ensure that they've looked seriously at how they can prepare their factories for tomorrow to harness emerging intelligent and connected technologies, as well as innovations which have the internet at their heart.

"Similarly, the whole process of cutting out production and supply chain waste, building transparent, ethical and sustainable lines of supply, as well as increasing use of process, data and diagnostic analytics in order to operate at an optimum level, is no less important.

"Quite apart from making good business sense, I've seen first-hand how this responsible approach retains and wins business.

"And, after all, that's what it's all about."

- Based in Squire Patton Boggs' Birmingham and London offices, Simon Garbett works on behalf of many high profile manufacturers regionally, nationally and internationally on a wide range of contentious, supply chain, risk management and compliance issues.

A View From...

Covpress Limited

Chinese investment in the West Midlands automotive sector has gone a long way since its first foray into the marketplace more than a decade ago. Back then, MG Rover was teetering on the brink of collapse and there were many who feared that another great British institution was on the verge of falling into foreign ownership.

Little did anyone know at that stage the true depth of the problem at Longbridge and that, in all reality, the company was beyond saving.

NAC, the Chinese company expressing an interest in the car making business, having investigated the operation was savvy enough to back off, preferring to wait for the inevitable.

When the collapse came, NAC was astute enough to realise there was still value in some of Rover's assets and keen to acquire as much Western technology as it could, exported whole chunks of the Longbridge production facility over to China, even down to the decades old workbenches complete with their etched in graffiti.

But then something strange happened. NAC said it would be retaining an interest in Longbridge and would be setting up the European arm of its business at the old plant – at least what was left of it.

What the company had realised – and it is an approach that has gone on to shape much of Chinese foreign investment – was that engineers and designers from the plant possessed a wealth of knowledge about the car industry; a resource that it was keen to exploit.

Setting up the Longbridge Design Centre, it employed 300 designers and tasked them with designing the next generation of its global product.

NAC, now part of SAIC, also invested in an assembly operation; firstly producing new versions of the old MGF sports car and now a new range of saloons and superminis characterised by the MG6 and MG3.

It also has a growth strategy lined up for MG UK which while minor in terms of volume, is growing at a significant rate, all the time gathering knowledge for use in its domestic production operation.

The trailblazing deal was mimicked two years ago, when Chinese manufacturer Geely acquired the London Taxi International business from the collapsed Manganese Bronze and set about regenerating the business on a global footing, backed by UK-based expertise.

Forming the London Taxi Company to continue with production of the iconic black cab, it is investing £250 million in a new state-of-the-art research, development and assembly facility at Ansty Park in Coventry where it will develop the next generation electric and ultra-low emission version of the London black cab.

Lest anyone think Geely's approach is merely UK-focused, it should be noted that it also owns Volvo, a brand that has undergone a dramatic rebirth under its new ownership.

British firms are now keen to work with their Chinese rivals, none more so than Jaguar Land Rover, which has entered into a major joint venture agreement with Chinese company Chery to produce a domestic version of its best-selling Range Rover Evoque especially for the Chinese market.

Recent headwinds suffered by the Chinese economy have done little to dampen enthusiasm for this operation and JLR continues to have high expectations both for the joint venture and for its long-term sales strategy in China, which remains its largest market.



Kit Halliday, joint CEO of Covpress Limited

Covpress Limited has a manufacturing history dating back over a century. Its eight acre site at Coventry includes autonomous engineering, quality and commercial facilities and 33,000 square metres of manufacturing space. With a range of 30 presses from 125 to 2,500 tonnes, together with robotic and manual assembly cells, and a new powder coat facility, they firmly embrace the principles of standardised work and continuous improvement.



Remarkable Events

Without the success of these deals – certainly the acquisition of MG – the remarkable events taking place at automotive supplier Covpress might never have happened.

It was back in 1890 that the Jackson family founded Coventry Radiator and Presswork Company. The firm's first premises in Trafalgar Street produced parts for the then burgeoning motor industry.

The expansion of the British automotive industry, whose traditional heartland has always been Coventry, warranted the further expansion of the supply company, which moved to its present day site at Canley in 1930.

Press shops three and four were constructed in 1954 and 1962 respectively and the company soon became the largest manufacturer of radiators in Britain.

The first takeover of the company was in 1965. The new name was Associated Engineering and a period of unrest caused by further corporate battles led to further name changes. In 1980, the company split and the Presswork division became Armstrong Equipment followed by Armstrong Presswork in 1985. Following a management buyout in 1987, Coventry Presswork was born.

French group Lebranchu, founded in 1925, acquired Coventry Presswork in 1991. The company then became a subsidiary of Sofedit in 1994. Sofedit, based in Paris and part of the multinational Trianon Industries Corporation, continued to invest in Coventry Presswork and in 2001 its name was changed to Sofedit UK Ltd.

In 2004 the company underwent a management buy-in, backed by David Groves' GIL Investments. The following year the now-renamed Covpress acquired Stratford upon Avon based NCJ Holdings and relocated the business to Coventry, forming Covpress Holdings Ltd.

Then in July 2013 came the most momentous announcement of all: its acquisition by China's Shandong Yongtai.

Aside from being a shot in the arm to the Covpress business, it was also a vote of confidence in the UK's manufacturing industry.

Massive Investment

In common with other Chinese investments, Covpress has essentially remained a British company, but one which is in the very lucky position to be able to take advantage of massive overseas investment.

The first evidence came just three months after acquisition when the company announced a £3 million investment with the installation of a new 1,000-tonne press, one of the largest of its kind in Europe.

The press is capable of producing 70,000 individual vehicle parts in 24 hours – up to half a million a week. It was built by Italian firm IMV at its plant near Monza.

The machine produces vehicle body sections for a number of automotive OEMs including JLR, General Motors and Honda.

Almost two years on from this, Covpress has expanded its presence in the supply sector with the acquisition of components manufacturer UYT in a deal approaching £30 million.

UYT, which is also based in Canley, employs around 400 people and supplies the likes of Honda. The deal has seen the business become part of the larger Yongtai Group, which was advised on the transaction by global law firm Squire Patton Boggs.

"The Chinese strategy has long been linked to inward investment. They have been looking to have facilities in China for manufacturing but they also want facilities overseas where they can draw on global expertise, which is where we have been successful."

The deal has created a business with a combined workforce of 1,200 with plans to grow this by a further 100 over the next two years.

It means that in two years under Chinese ownership the Covpress business has expanded from one employing 430 people to one employing more than 1,000 people.

UYT supplies almost exclusively Honda's UK manufacturing operation in Swindon but by taking on the business, Covpress will now be able to meet the increasing demands of its other automotive clients, principal of which is JLR.

Good news for Kit Halliday, joint Covpress CEO, who said the deal had been a tremendous boost to the business and to its entire workforce as well as the wider economy.

"The Chinese strategy has long been linked to inward investment. They have been looking to have facilities in China for manufacturing but they also want facilities overseas where they can draw on global expertise, which is where we have been successful," he said.

"That expansion is not complete yet and there will be further growth here provided suitable acquisitions can be identified."

The site at Coventry now covers around eight acres, providing 33,000 square metres of manufacturing capacity. It boasts a range of 30 presses from 125 to 2,500 tonnes together with robotic and manual assembly cells and a new powder coat facility – all of which help to identify the group's plan for continuous improvement.

Crucial Role

While helping the growth of its Chinese parent, the company is also playing a crucial role in supporting the development of the local manufacturing industry.

It is keen to be a major player with the automotive supply chain and in so doing is helping to support the growth of one of the UK's manufacturing success stories.

Any firm which has a presence in the automotive sector has benefited in recent times due to the surge in global demand - such is the high regard in which the rest of the world views UK manufactured goods.

Not that this isn't without its challenges.

"Success inevitably brings challenges and we are no exception," says Halliday.

Chief among the challenges is one of securing enough skilled labour in order to maintain growth.

And when you have a company such as JLR on your doorstep with its own ravenous appetite then it is not an easy one to overcome.

"Wage costs have been driven up because of the high salaries JLR is prepared to pay. That means we have to match them if we are to secure the people we need," explains Halliday.

"We have to strategise for a percentage of the labour pool, together with recruiting the number of graduates and apprentices we need. This is not always easy but is a fact of life these days and we have to face up to it."

Those companies which have successfully embraced this approach are currently the ones flourishing, and with its massive Chinese backing Covpress is better placed to succeed than many others.



"Success inevitably brings challenges and we are no exception. Chief among the challenges is one of securing enough skilled labour in order to maintain growth."

Conclusion

Winning in the Future – Facing the Manufacturing Challenges

There can be no doubt that the manufacturing sector is facing unprecedented challenges across the board, driven by the uncontrollable; government policy, energy supply and overseas markets, together with the controllable; the sector's approach to skills, collaboration and innovation.

Through our survey and manufacturing roundtables it is clear that the sector is positive and ready to face the challenges to cement a profitable future for UK manufacturing.

Skills: This is the biggest challenge the sector is facing. Manufacturers would like to see positive government policy around the STEM agenda, and there also needs to be greater collaboration with education institutions to build the brand of manufacturing as a sector offering interesting, rewarding and challenging careers. Skills training funded by industry through statutory apprenticeship levies is one interesting idea currently being debated; an idea which has the potential to reshape technical education to ensure it is technically and industrially relevant and delivers the highly skilled workforce required for the future.

EU Referendum: It is clear that the overwhelming majority of the manufacturing sector wishes to remain part of Europe and sees it as a critical factor in the long term success of the sector. Manufacturers now have the opportunity to join together and deliver a single message to government.

Government support: The sector would like to see increased support for innovation, industrial R&D and the commercialisation of new products. Technological innovation will give UK manufacturing a competitive advantage and manufacturers need to work more closely with government to focus on creating a long term strategic plan to drive the sector forward.

Collaboration: Supplier collaboration goes hand in hand with innovation as new technologies are developed and used to create competitive advantage, so inter-relationships across the supply chain become more critical. The development of the Asian market means that the price advantage of Far Eastern manufacturers is narrowing; reshoring to shorten the supply chain will become ever more apparent.

Infrastructure: Current UK transport infrastructure is seen as a major hindrance to growth – the physical movement of goods and people is a major challenge facing the sector. There is a need for manufacturers to join forces and work with government in the development of a coherent, UK-wide transport strategy. The timing of HS2 and HS3, together with the infrastructure connectivity throughout the Northern Powerhouse economies to major ports and airports, is critical to growth in the sector.



Key Contacts

For more than 100 years, manufacturing, engineering and distribution companies have looked to Squire Patton Boggs 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 40 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, and known for our pre-eminent Public Policy Practice and deep-rooted relationships in Washington DC and Brussels, we can help you manage your industry concerns in the UK and overseas.



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