

Making it in Leeds

News from Leeds Manufacturing

17th November 2011

Quality not quantity: investment, collaboration and skills will drive UK manufacturing growth

Recent investment in a new Leeds plant by Siemens has seen the transfer of mechanical gear assembly and servicing to a purpose-built 50,000 sq ft factory in Stourton, close to the city centre of Leeds. Part of a strategic move into offshore power generation, the investment will allow the mechanical drives division to handle additional and bigger contracts, including gear assembly and servicing for the growing renewable energy sector as well as rail, utilities and general industry. By the end of 2013, Siemens also expects to be manufacturing wind turbines at a new factory located at the Associated British Ports development in Hull. According to Juergen Maier, managing director of Siemens industry sector operations in the UK, investment on this scale is what is required to drive the growth of UK manufacturing. Ahead of his appearance at The Business of Manufacturing debate taking place in Leeds, Maier talks about the prospects for growing the UK manufacturing sector.



“There are huge opportunities for growth, particularly in emerging sectors such as renewable but investment, or rather the lack of it, is the single biggest obstacle to the growth of the sector. If manufacturing is to play its part in rebalancing the UK economy, we need to get Government, banks and manufacturers on side and change the culture of investment – for too long it’s been dominated by a short term, cash flow mentality – and we need the banks to start lending again, particularly to SMEs.

“Investment and how we stimulate investment in plant and machinery is top of the list. Government certainly has its part to play in making investment more worthwhile through things like capital allowances and regulation.”

Despite what people say Maier is of the view that the regulatory environment isn't that bad in the UK. "The problem is that we tinker with it too much. Manufacturers invest over a ten to 15 year period. You need consistency in regulation and government policy over a similar time frame."

He points to the carbon reduction commitment as a classic example of the short term mentality of government. "The incentives were taken away two years after the initiative was introduced. As manufacturers we are investing in assets and we need to be able to write those investments off over a longer period of time."

The same 'make do' mentality exists in industry. "It's no secret that investment rates in manufacturing in the UK are way behind those in other countries.

"UK manufacturers tend to sweat their assets for a lot longer. Even when machinery is working at less than optimal output and it's clear that the payback on new plant would be much quicker, cash flow rather than business strategy dictates that we 'fix it' rather than replacing it."

But how can business invest if it can't – and quite often doesn't want to – borrow from the banks?

"Part of the problem is that business isn't smart enough in putting together the business case for borrowing but, equally, there's a responsibility on the banks to be far more proactive in seeking out and helping businesses with financial management and investment planning in order to grow."

The question is whether mainstream banks can provide the specialist services and long term approach that's needed. Maier is in favour of a specialist, public sector bank with key responsibility for lending to SMEs: "Something along the lines of the green investment bank," he suggests, although he recognises it is insufficiently capitalised to do the kind of job that's required.

Prospects for growth

Growth for the sector as a whole will not come from a resurgence in 'traditional' commodity-based manufacturing. Growth will come off the back of emerging sectors and innovation. Offshore and renewable energy technologies, for example, are certainly areas of opportunity as well as innovation around automotive manufacture."

With industry sources quoting growth rates for renewables of up to 25%, compared to 2-6% in traditional markets, there's serious business to be won and not just for the 'big beasts' of the manufacturing world. There are plenty of opportunities further down the supply chain, particularly for smaller manufacturers.

SMEs need to be thinking now about how they can grow into these areas. Partly it's an issue of investment – you need to invest in the capacity and manufacturing plant that will equip you take advantage of those opportunities. Of course, you also need to spot the opportunities and activity at the new technology innovation centres, for example, offers some pretty big clues about the sorts of projects companies should be looking at. They also provide relatively cheap entry tickets because most of the funding comes from larger companies. A 'big clue' for anyone looking to start selling up the supply chain would be to look at Nissan's plans to build The Leaf – the new generation electric car at its Sunderland plant.

Joint ventures, strategic partnerships or a looser consortium-based approach offer ways for SMEs to take advantage by pooling resources, sharing risk or expertise and gaining the production capacity needed to compete for and fulfil larger contracts. You can cut these things all sorts of different ways. We're talking about collaboration, to use the most general term, and again technology innovation centres by their very nature present an easy way to get involved in collaborative projects.

Ultimately, future growth, whether you're a large, small or medium enterprise, depends on investment in skills. For that reason, Maier is delighted that apprenticeships are being promoted so strongly once again. "There's an ageing workforce across manufacturing and we need to replace skills, as well as equip young people as they enter the workforce but it will take a good ten years to change the mentality of parents, teachers and careers advisors and get them to recognise that apprenticeship-based qualifications, in particular engineering apprenticeships, are as good and as valuable as a university qualification."

There's a huge upskilling agenda we need to address. It's less about quantity and more about quality. Although we expect a resurgence in manufacturing, there isn't going to be a massive increase in the numbers employed in the sector. Growth will come from increased productivity and automation and that means having people with higher level skills and qualifications."

Juergen Maier is one of a panel of business leaders and industry experts taking part in *The Business of Manufacturing* a 'debate taking place in Leeds this November. As well as providing a showcase for the region's strengths as a centre for manufacturing – Leeds is the UK's second largest manufacturing centre outside London – the event will include themed sessions on supply chain development, export, the new enterprise zones and meeting the skills challenge. For more information, visit www.thebusinessof.co.uk