
STATE OF UK MANUFACTURING REPORT



NexSys 
Powering business growth



FOREWORD

Recent years have been challenging for the UK's manufacturing sector. High inflation arising from supply chain disruptions and the ongoing war in Ukraine have dampened domestic demand and caused uncertainty for businesses, with the UK economy tipping into a technical recession in Q4 2023.

Nevertheless, there is optimism that this recession, such as it is, may already be over. Yet while January's UK manufacturing PMI edged up to 47.0 from 46.2 in December, output, new orders and employment continued to contract, indicating continuing challenges for the sector.

The longer-term picture is a mixed one. Those manufacturers that successfully ride the cresting wave of new technologies, including artificial intelligence, could reap lavish rewards. At the same time, however, the ever more pressing issue of climate change and the urgent need for greater environmental sustainability threatens to impose higher costs and increase the regulatory burden.

Supply chain difficulties have eased somewhat, but the current crisis in the Middle East – which has resulted in attacks on some ships attempting to pass via the Red Sea – could add to cost pressures once more.

NexSys' State of UK Manufacturing survey aims to delve deeper into the challenges currently facing UK manufacturing, with a view to understanding what steps manufacturers are taking in order to adapt and put themselves on a firmer footing for the future.

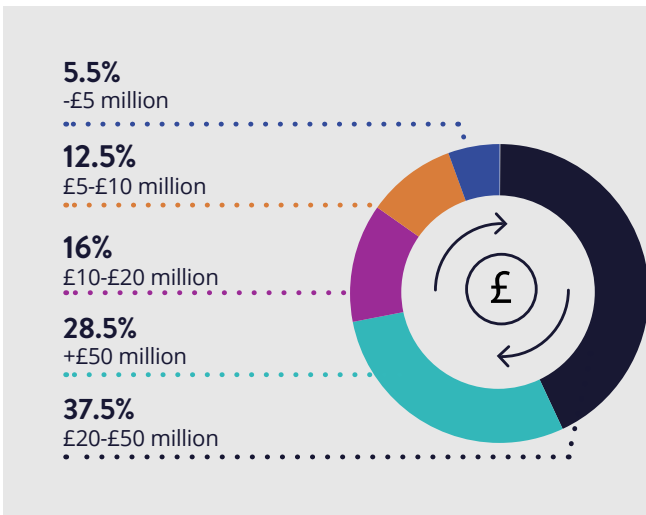
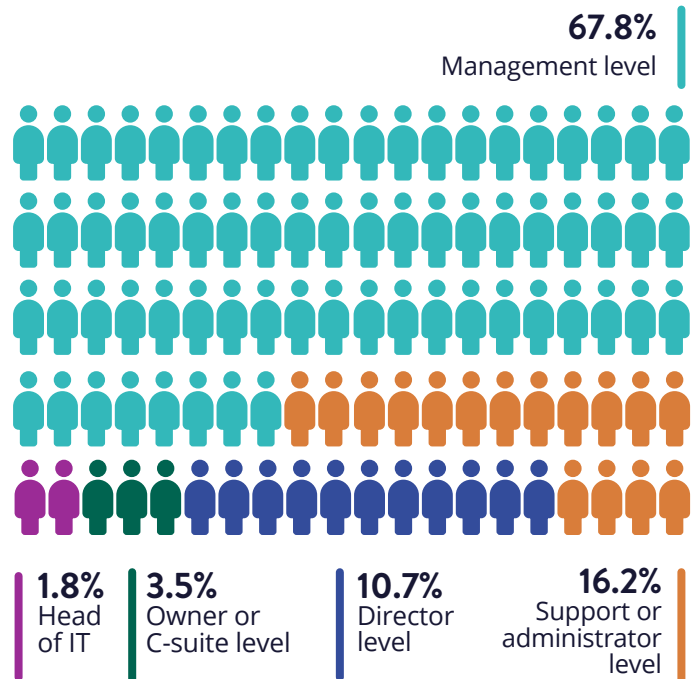
UK manufacturers are nothing if not resilient. As our survey reveals, businesses in the sector have adopted a wide range of strategies to help them clear the hurdles in front of them, from investing in new tech – which is likely to prove crucial to boosting the UK's flagging productivity – to sourcing more supplies locally.

With a general election likely this year, the industry can only hope that the contending political parties – cognisant of the importance of growth in general – will come up with some worthwhile policies to boost UK manufacturing. It is our hope that this report can, in some way, contribute to shaping the much-needed debate about what form those policies might take.

Nick McGrane
Managing Director

WHO WE SURVEYED

Of the respondents to our survey, 67.8% worked at management level, with 16.2% at support or administrator level and 10.7% at director level, while 3.5% were at owner or C-suite level and 1.8% working as head of IT.



More than a third of respondents worked for **businesses with an annual turnover** of between £20-£50 million, with 28.5% working for firms with a turnover in excess of £50 million. Meanwhile, 16% were at £10-20 million turnover each year, 12.5% between £5,000,001 and £10 million and 5.5% of less than £5 million.

Respondents were drawn from a wide range of subsectors across the **UK manufacturing industry**. These included the manufacturing of medical devices (18%), automotive (13%), plastics (11%), and electronics (9%).

“When Covid and the war in Ukraine happened we were hit hard, it had a huge impact on us due to increased supply chain costs. By using new supply routes and moving manufacturing closer to home, we were still able to hit current stores at the right time... avoiding empty shelves.”

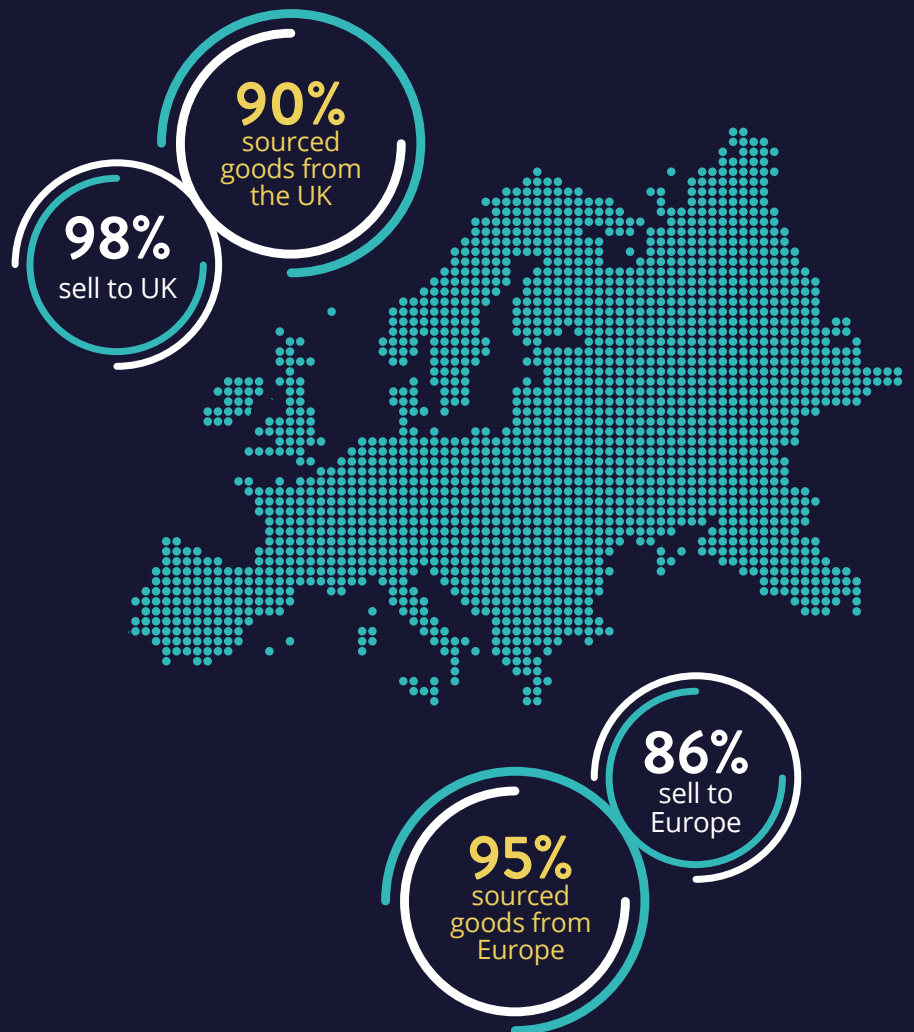


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“Medical devices used to be reusable... stainless steel could be sent away to be sterilised and reused, that moved to single use which meant moving to plastics...which isn't that sustainable. Where we can we are looking for alternatives that are better, however the nature of our products and regulations are creating a barrier to be able to do that easily, we are limited to what we can achieve due to cost”.

The majority of our respondents were primarily focused on the UK and Europe. While 98% and 86% said they sold to the UK and European markets respectively, 59% said they sold to the North American market, with 45% selling to Australasia-Oceania, 41% to Asia, 27% to South America and 21% selling to Africa.

In terms of where our respondents sourced their supplies from, the focus was again primarily on the UK and Europe. More than nine-tenths said they sourced goods from the UK and 95% said the same for Europe. However, nearly two-thirds said they sourced goods from Asia and a third from North America; just 5% sourced them from Australasia and 2% from South America and Africa.



SUPPLY CHAIN

The supply chain difficulties facing UK businesses – and hitting consumers in the pocket in the form of higher inflation – have been the subject of much discussion in recent years, particularly since Britain’s departure from the European Union and the coronavirus pandemic.

Despite this, however, **most of our respondents felt that UK supply chains had adapted well to Brexit and the pandemic**; 69.6% felt they had adapted ‘quite well’ and 10.7% ‘very well’, with 19.6% of the opinion that supply chains had adapted ‘quite badly’.



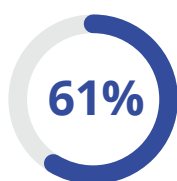
However, **48.2% of respondents said that Brexit and supply chain disruptions had impacted where they sourced their products from**, compared to 39.3% who said that they had not.

Manufacturers are also taking steps to insulate themselves from future supply chain disruptions.

Two-thirds said they were diversifying their suppliers, while 61% reported that they were reviewing their procedures and 52% said they were investing in new technology.



Diversifying Suppliers



Reviewing Procedures



Investing in new Tech

Interestingly, despite much media hype around reshoring – bringing production back to the UK from overseas – our survey suggests that this is something only a minority of manufacturers are doing. Just 11% said they were reshoring to protect themselves against future supply shocks.

By the same token, only 28.6% of participants in our survey said they were sourcing more products locally or domestically than they had been 12 months before. Nearly half said that they were not.



“We had the fall out from Brexit, our tubes are manufactured in Germany so we had the chaos of road transport bringing products over that caused lots of paperwork. Once that was settling down the war in Ukraine started. The manufacturer of our product are high gas and electric users, which meant prices increased, and have never come back down. We have been affected by lots of European and global decisions”

COST PRESSURES



“It’s about having to adapt to whatever comes up at the time. Brexit became a big headache and actually still is to this day. It’s just created so many problems with delays and customs”

Inflation has been one of the major economic talking points of the last year. While the rate of price increases has come down sharply from its highs in late 2022 and early 2023, it remains above the Bank of England’s target rate of 2%.

Manufacturers have responded to these cost pressures primarily by increasing their prices (80%). Just under half said they had changed or diversified their suppliers, while 23% reported that they had sourced more supplies locally or domestically in response to inflation.

Only 7% of manufacturers surveyed said they had reduced their staffing levels due to rising costs, while 11% said they were selling to fewer markets than before. Just 2% said they had negotiated price cuts or freezes with their suppliers, and the same proportion said they had made efficiency savings on raw materials.

81% Increased prices



48% Changed or diversified suppliers



23% Sourcing more supplies locally or domestically



7% Reduced staffing levels



11% Concentrated on selling to fewer markets



2% Negotiated price decreases/ freezes with suppliers



2% Efficiency savings on raw material



SUSTAINABILITY

The need for improved environmental sustainability is widely acknowledged as being one of the key challenges facing manufacturers.

In particular, increased energy costs have been identified as a major concern and a roadblock to enhanced sustainability in the industry.

The findings of our survey underline this point. Some 61% of respondents cited rising energy costs as one of the **main barriers to improved**

sustainability in manufacturing, while 57% cited the costs involved in adopting greener technologies.

Just under half (48%) said that lack of expertise was a major barrier, and 30% pointed to technical barriers. In addition, 16% of those who responded to our State of UK Manufacturing survey felt that the framework for monitoring and evaluation of sustainability measures was inadequate to the task.



Rising energy costs



Cost of greener technology



Lack of expertise



Technical barriers



Inadequate framework for monitoring and evaluation

There was, however, a general feeling that the introduction of new technologies is making manufacturing more sustainable; 71% agreed with this statement, while only 5% of respondents disagreed.

When those who answered in the affirmative were asked **how they thought technologies were enhancing the sustainability of manufacturing**, 90% said that it had improved efficiency and reduced waste, with 57.5% saying that it had facilitated greater integration of production processes.

Also, 47.5% of respondents felt that technology had enabled more sustainable sourcing of materials, and 37.5% believed it had made supply chains more efficient. Only 7.5% of those surveyed felt that technology had made regulatory compliance easier.

A plurality of respondents said they did not expect climate change to impact their ability to source supplies, with only 18% stating that they felt it would.

Respondents from the latter group cited the potential for more frequent extreme weather events, material shortages and disruptions to freight as climate-related factors that might cause disruption.

Respondents were asked what regulators could do to help manufacturers enhance their sustainability. Most wanted to see more regulatory flexibility (54%) and greater clarity around regulatory requirements (52%).

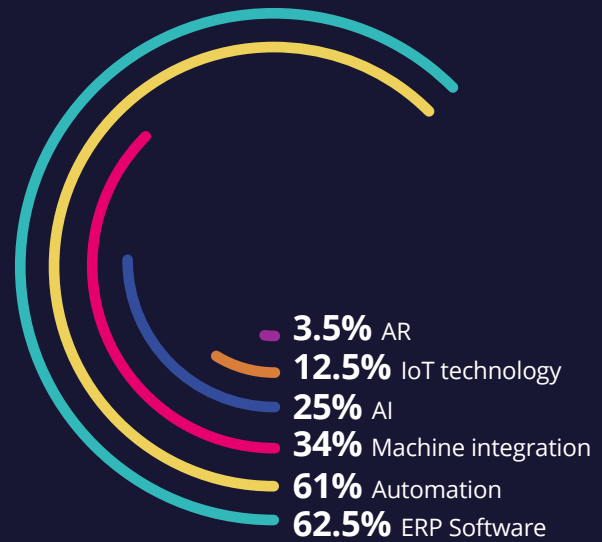
Only 20% of those questioned felt that there should be tougher enforcement of environmental regulations, while 18% wanted to see stricter regulatory requirements. Just over a fifth of respondents (21%) said the government should impose stronger green criteria for public sector contracts.

TECHNOLOGY

The advent of new technologies – often referred to cumulatively as **‘the fourth industrial revolution’** – has been the subject of much discussion and hype regarding its impact on business. Artificial intelligence, most of all, has been singled out for its potentially revolutionary effects in industry.

As part of our survey, we asked our respondents **what technologies their business intended to invest in over the coming 12 months**. The most common choices were ERP software (62.5%) followed by automation (61%), followed by machine integration (34%) and AI (25%).

In addition, 12.5% said they intended to invest in Internet of Things technology, while only 3.57% signalled an intention to invest in virtual or augmented reality. Only 1.79% planned to invest in workflows or solar technology.



Nearly nine-tenths (89%) of respondents said their business made use of AI, with only 11% responding in the negative. Of those businesses that used AI, 83% said they did so for administrative tasks.

Respondents were also asked what they thought were the most important potential benefits of AI to manufacturers. Almost three-quarters cited making more efficient use of data, while 61% chose freeing up employees for other tasks.

Furthermore, 45% cited the elimination of menial production processes, 43% chose more efficient inventory management or reduced overstocking, and 41% cited improved problem-solving capabilities. Just over a third (36%) said that supply chain optimisation was one of the most important uses of AI; only 1.79% said that they thought AI would be more of a hindrance than a help.



“We are virtually all electronic now - we have a fully linked CRM to SYSPRO system, we use an electronic document storage system so we don't keep paper, everything gets stored electronically. Technology is the backbone of our operation.”



CONCLUSION

After a challenging 2023, it's clear that there is an appetite for growth and a willingness to invest among UK manufacturers. But with economic uncertainty persisting – and political uncertainty too, with a general election on 4th July – the sector needs reassurance if it is to invest and help drive the country's economy forward.

The importance of environmental sustainability is not in dispute, nor is the need to act swiftly if the worst consequences of climate change are to be averted. Yet manufacturers need more certainty around what's required of them in helping the UK meet its climate goals, and while there is optimism about the potential of technology in this regard, few believe tougher regulation is the answer.

Manufacturers have shown adaptability in the face of rising cost pressures and supply chain disruptions, for example by diversifying their suppliers and investing in new tech. Our survey suggests, however, that despite all the media talk about reshoring production to the UK from abroad, relatively few are currently doing this.

Our State of UK Manufacturing survey indicates that manufacturers are looking to invest in new technology over the next 12 months, and there is considerable optimism about the potential of AI. Despite concern over the potential for job losses, manufacturers largely see AI as a way of freeing up employees to concentrate on more important tasks, which bodes well for employment.

This willingness to invest in new tech needs to be backed up by supportive government policy. It is therefore incumbent upon the next government, whatever its political colouring, to offer the kind of strategic, long-term policy that can support the sector in unleashing its full potential.

While government strategy lies outside industry's control, there are important steps that manufacturers can take themselves to boost growth in what remains a challenging business environment – and, as our report reveals, many are already doing exactly this.

Investing in automation and digitisation continues to reap rewards, as does upskilling staff so that they're equipped with the skills they need to perform in a technologically complex working environment. This requires agility and a willingness to embrace digital transformation; fostering a culture of change and inculcating a change-focused mindset should therefore be a key focus.



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NexSys is an Elite partner of SYSPRO in the UK.**

We have more than 40 years of experience in delivering innovative ERP+ solutions to UK manufacturers and distributors, helping them to realise their maximum ROI by providing services including project management, software development, consultancy, support and training.

