

Restructuring in the manufacturing sector:

What does the future hold?

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Synopsis

Britain's manufacturing sector contributes £191 billion to the economy and supports 2.7 million jobs, making it a core pillar of the UK economy. The sector is hugely diverse, comprising a wide-ranging number of different industries, technologies and activities. And, while for manufacturers of every size in every industry, the coronavirus crisis has been a game-changer, some sub-sectors are faring better than others.

Here, we explore the specific challenges the sector is facing, and the immediate and long-term priorities for businesses operating in the space.



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What is the current state of play?

Like many other industries, manufacturing is facing significant challenges on a range of fronts; not least the impact of the COVID-19 pandemic and changes to the UK's relationship with the European Union (EU). Having endured a difficult 2019, the arrival of the pandemic severely undermined any returning confidence that had materialised within the sector at the start of 2020.

Despite this, manufacturers across the UK demonstrated their underlying resilience, bouncing back to growth following the first national lockdown. However, for many that growth is now slowing, and businesses are concerned by the challenges that lie ahead.

These include widespread issues across transport, with demand plunging within core sub-sectors such as aviation and automotive. The same is true for those operating in energy. While factory production supplying these sectors is unlikely to be restricted again as severely as it was during the early throes of the pandemic, the evolution of the economy and consumer behaviour in these areas since suggests that these challenges will persist for the next 12 months at the very least. Already, we are seeing manufacturing firms taking action to streamline their operations to mitigate the reduced demand, with further far-reaching job cuts an unfortunate consequence.

That being said, there remains a number of positives for the sector as it looks to meet changing demand in other areas. For example, we have seen a surge in demand for food products, cleaning chemicals and medical and protective equipment. Furthermore, government policy is directing the economy towards a green industrial revolution, where offshore energy production, electric vehicles and low-carbon plane and shipbuilding are expected to revitalise the UK's manufacturing industry.

How has the COVID-19 pandemic impacted the sector?

Despite its wide-ranging implications, many manufacturers are enduring the effects of the pandemic very well and have shown great resilience. But ultimately some firms have been benefiting from changing consumer behaviour and others really struggling. As noted previously, the impact largely depends on the sub-sector that businesses are supplying into.

For the internal market, the pandemic has created some unexpected improvements, as firms have been forced to address supply chain resilience while benefiting from reduced international competition in the UK.

There are now fewer overseas products coming into Britain and more manufacturers are better able to supply their local markets, which in turn has helped to build better relationships that had previously been undermined by pricing issues. As such, customers are being reminded once again of the quality UK manufacturing has to offer.

Diversification has also been very encouraging, with firms pivoting effectively to address new demands. A lot of the machinery used in automotive manufacturing, particularly at the higher end, has been used to produce complex products for the NHS. Being agile and diversifying quickly has enabled many businesses to maintain good financial health.

Many have also revamped their operations, adopting new technologies to overcome the challenges of social distancing and to address any future uncertainties around the workforce. But, for those that haven't yet seen their order books begin to return to strength, there are understandable concerns around the limitations of government support. For example, manufacturers haven't received some of the benefits such as rates reductions that the retail sector has, despite similar demand issues.



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What issues do manufacturers need to overcome in the next 12 months?

A lot of UK manufacturing depends on a global supply chain and many businesses have struggled to maintain production due to the delay in raw materials coming from other countries like China. Manufacturers have been forced to review the whole of their supply chain and, in some instances, pay more to reduce risk in the long-term.

Manufacturers have had to look at how they can adapt and change some of their products to make the most of what's coming through and improve productivity. Should we see further border issues relating to the pandemic, firms will need to understand how they can use less to deliver more.

Dual-sourcing is also an issue – this is the supply chain management practice of using two suppliers for a given component, raw material, product or service. Those who saw a sharp upturn in the DIY market during lockdown were faced with overwhelming demand. Businesses can get into real trouble if they can't source their raw materials and find themselves unable to maintain their contractual obligations to retailers.

As such, dual-sourcing will undoubtedly be on the increase and, while businesses may have been able to rely on one or two suppliers from the same region in the past, they should avoid doing so now, given the logistical risk associated with localised lockdowns.

What steps can firms take to reduce risk?

Above all else, manufacturers need to know who their critical suppliers are; the ones that they are dependent upon to function. It's also imperative to understand the reach of supply chains to create greater transparency and visibility. How resilient is the supplier and who are they depending on further down the chain?

As discussed previously, they should be looking to widen their supply options to reduce risk. In the interim, they may need to consider developing buffer stock. Some suppliers are willing to keep stock on a consignment basis in case of future emergencies. Manufacturers don't always like carrying stock due to the costs involved, but the cost of not having the additional stock available can be more problematic in the long run.

Investing time in understanding the terms and conditions (T&Cs) manufacturers have in place with their customers, will help them plan for the future, particularly those who operate a 'just in time' model. There can be significant consequences where obligations are not fulfilled, the automotive sector for example carries huge penalties for businesses that interrupt supply chains.

Directors need to have a firm understanding of what T&Cs they hold with their customers to ensure any breaches to these contracts are not invoked. Most companies already have business continuity plans in place, but they are unlikely to fully address the fast-moving and unpredictable variables of a disease like COVID-19.

Technology will be a critical tool in aiding this level of planning, as well as identifying and addressing issues as they arise. By digitising the supply chain, manufacturers can better understand their access to materials, helping increase their flexibility in times of adversity. In addition, technology can aid efficiencies in the workforce, should disruption occur. Robotics were already emerging prior to the pandemic but those in a position to invest will no doubt see it as a reason to accelerate the transition towards redeploying resources and upskilling workers.



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With insolvencies expected to increase, what does this mean for the future of the industry?

We are likely to see more manufacturers facing challenges than other sectors, as a consequence of certain sub-sectors experiencing lower levels of demand from end users in addition to increased levels of competition.

To avoid extreme competition on price, manufacturers can improve efficiencies or consolidate through mergers and acquisitions (M&A). Those in a position of strength may explore opportunities to combine businesses, or take on customer bases, rather than new entities.

In terms of larger restructuring work, large plants are likely to be consolidated to optimise production, with manufacturers also investing heavily in technology to aid the process. This will give them the opportunity to explore buy and build strategies, while making acquisitions out of insolvency. Many businesses that struggle to remain viable will have intellectual and physical assets, client relationships and expertise that can be preserved to aid the future of the industry and the economy.

The biggest danger is that firms don't continue to invest having weathered the initial storm. R&D investment and making improvements across production and operations will all stand firms in better stead for future challenge, build their long-term resilience and aid their chances of growth.

191

Billion pounds of economic output generated from UK's manufacturers in 2018

2.7

Million jobs are supported by the UK's manufacturing sector

9

The UK is the ninth largest manufacturing nation in the world

Conclusion

The pandemic has prompted management teams to take a wholesale look at their business and consider how they will operate in a post-COVID world.

Some manufacturers have been investing time in understanding and exploring customers future behaviour, actively mapping out plans that meet these anticipated demands. Business leaders can prepare by contingency planning, taking steps to ensure they diversify and avoid potential issues that may have arisen during the pandemic.

By understanding customers requirements now and in the future and building resilience into supply chains, manufacturers can move forward into a position of strength.

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