

# Assessing the uk manufacturing sector



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UK manufacturing sector is a diverse sector that is based upon various industries, activities and technologies. There are some developed industries in UK like drinks and food, pharmaceuticals, aerospace and automotive and electronics industries. Furthermore some new industries are also developing in UK like biotechnology, low carbon, digital and advanced materials and nano technology. Overall UK manufacturing sector now becomes a balanced sector that is putting its contribution in the development of UK.

UK manufacturing sector is at number three in UK economy in terms of UK GDP, after services and retail sector. In 2009 this sector has generated £ 140 billion of gross value added that is around 11 percent of UK economy. 2. 6 million, individuals are working in manufacturing sector that is around 8 percent of total labour force of UK (BIS, 2010).

In the current report I have provided an in depth analysis of UK manufacturing sector and its contribution in the economic development of UK. For the analytical purpose I have used different tools like PESTLE and SWOT analysis that highlighted the need of strong manufacturing sector for the economic development of a country and I also have provided the information of some weak sectors of manufacturing due to some lack of skills and other aspects that cause for decline in manufacturing industry in some years for example UK's Textile industry etc . Moreover I have provided some valuable information related with the contribution of UK manufacturing sector in terms of providing jobs, foreign exchange and gross value added.

Introduction:

Two conflicting views were always there in the minds of peoples in relation to UK manufacturing industry. Individuals were perceiving from the last two decades that the new age will be for service industry so there should not be any need to worry about manufacturing sector and factories. Second point of view was that real jobs were created by the factories and manufacturing sector so with out manufacturing sector workers cannot get jobs and it will create economic problems for British citizens. In 2003, UK manufacturing industry was contributed 16 percent to GDP and 13 percent British citizens were employed there. It also representing continuous decline of manufacturing sector but until 2003 this sector has contributed 83 percent of exports (Ferguson, 2004). But after the recent recession this sector of economy is experiencing boom.

### **Defining manufacturing of UK :**

UK manufacturing sector is a diverse sector that is based upon various industries, activities and technologies. This sector is coming at number three in UK economy in terms of UK GDP, after services and retail sector. In 2009 this sector has generated £ 140 billion of gross value added that is around 11 percent of UK economy. 2. 6 million, individuals are working in manufacturing sector that is around 8 percent of total labour force of UK (BIS, 2010). According to SIC code system of 2007 for industry statistics, manufacturing sector is made up of following industries

Beverage, tobacco and food products

Textile products

Wood products

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Paper and Pulp products

Printing and publishing

Petroleum, Nuclear and Coke

Man made fibres and Chemicals

Plastic and Rubber products

Non Metallic and Mineral products

Metals and Fabricated metal products

Machinery and Equipment

Optical and Electrical equipment

Transport equipment

Other manufacturing

## **Literature Review**

There is a long history of UK manufacturing industry and this industry has always produce good results of UK and contributed for the UK economy. As discussed above that manufacturing industry is composed upon different industries like beverage, tobacco and food products, textile products, wood products, paper and pulp products, printing and publishing, petroleum, nuclear and coke, man made fibres and chemicals, plastic and rubber products, non metallic and mineral products, metals and fabricated metal

products, machinery and equipment, optical and electrical equipment, transport equipment and other manufacturing (BIS, 2010).

We can say that there are different sub parts of UK manufacturing industry but at the same time these industries are dependent upon each others because lot of time finished product of one industry will becomes the raw material for another industry e. g. metal industry produces metal sheets but it will becomes the raw material for automobile and transport industry.

### **Capabilities and strengths of UK manufacturing industry:**

UK manufacturing industry has different strengths and capabilities and due to this once UK was considered as the leader of industrialization. Some of the capabilities and strengths of UK manufacturing industries are provided below

### **Changed circumstances of manufacturing industry of UK:**

Current globalisation has changed everything and it has impact on manufacturing industry as well. The manufacturing of the current time period is based upon technological innovation, knowledge, investment in intangibles and investment in skills. As a result of current manufacturing industry in the world consumers are able to get better quality and sophisticated products that helps to satisfy customers (ABPI, 2010)

UK got specialization in highly technical manufacturing industries e. g. pharmaceuticals and aerospace as compared to the emerging markets e. g. Brazil, China, India and Russia that have specialization in lowest technical industries like textile. Once a country gain specialization in a particular industry then that country can hold that specialization or competitive advantage for a long period of time normally until that time when new

technological change came. After an in depth analysis I came to know that UK have strong position in the industries such as organic chemistry, medical technology and pharmaceuticals while it has weak position in electronics, information technology and optics or nano technology (Arthur, 2009)

### **Innovative capabilities of UK manufacturing industry:**

Innovation is exploration of new idea successfully. Innovation can be linked with establishment of new concepts, products, technologies, new designs, business models management practices or organisational structure. The scope of innovation is much broader as research and development.

Innovation is linked with the establishment of latest technologies, processes that can increase the efficiency and by diffusing new concepts.

The result of UK Innovative Survey of 2009 has showed that more than 70 percent of UK manufacturing firms are innovative especially most of electronic and optical industry firms are highly innovative (ONS, 2010)

Moreover the maximum research and developmental activities across UK are being financed by the business and especially by manufacturing industry. In 2008 UK business sector has spent £ 16 billion on R & D and out of that £ 16 billion, £ 12 billion are financed by manufacturing sector (Swann, 2000)

### **Skills capability of UK manufacturing sector:**

Skills are helpful to improve the performance and productivity of the employees. If the firm has skilled labour force than that firm can respond flexibly and innovatively for enhancing competition, establishing and applying new concepts that ends up in efficient processes, better products, better organisational structures and better business processes.

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In the recent times workers want to improve their skills levels so they are getting formal education for it due to this reason now labour force are more educated. In other words skilled work force can be a back bone of any organization, In 1994 from the total work force that has joined manufacturing industry only 9.7 percent were holding a degree but in 2009 this figure has improved and now 17.1 percent of the workers have degree. The workers who are interested to join service sectors, research and development and marketing and sales field they always hold degree and in 2009, 31.7 percent of these worker hold degree. As workers who are interested in services and other profession prefer to hold degree this factor has effect those workers as well who want to join manufacturing sector to get degree before starting their career (Technology Strategy Board, 2008)

### **Capabilities of UK manufacturing firms to export :**

There is no specific criterion to check that if a country is involved effectively in global value but at least one tool which can give some sort of information is the percentage of companies that are selling into offshore markets. It is no doubt that there are some manufacturing companies in UK who are really doing well in this industry e. g. car manufacturing in UK (Vauxhall , Astra) etc which is in the peek at this time but on the other hand there are some industries who are badly declining like Textile and Clothing industry of UK. This is the 9th biggest sector of UK manufacturing. In 1997 this industry had a great boom, in 1999 5.1 billion of goods were exported but after that the total output starts decline gradually each year due to different factors like higher exchange rates, shortage of skilled labour etc .

Normally the firms that are involved into exporting business they are big, productive, having technical know how and always remain involved into research and development. These are some of the features of those firms that involve in the export but it is not essential that all the firms that have these features they involved in exports.

Harris and Li (2010) have stated that majority of the manufacturing firms involved in export business as compared to service firms. It means that good have more tradability as compared to services. Chemical firms, medical instrumentation and metal firms are providing higher level of foreign exchange to UK economy as compared to other components of UK manufacturing industry.

As discussed earlier that the firms which are involved into exporting business they always involved into research and development as well as always come up with innovate ideas. Research and development and innovative activities help firm to generate higher revenues and profitability. Moreover it will result in getting higher foreign exchange for the country.

UK manufacturing firms were facing problems from the last few years due to recession but now this industry is doing well due to tax relief that is offered by the government to UK manufacturing firms. Moreover the managers that are linked with the UK manufacturing industry they know they strengths (changing nature of UK manufacturing, innovative capabilities in UK manufacturing, skills capacity of UK manufacturing and capabilities of UK manufacturing to export) and with the help of this they can improve their condition as soon as possible



## **Competitive Analysis**

There are different methods to analyse the performance of different business units, business sectors and different economies of the world. One of these analytical tools is PESTLE analysis that is representing by political, economical, social, technological, legal and environmental factors (Johnson, Scholes and Whittington, 2008). With the help of PESTLE analysis I am able to analyse the current situation of UK manufacturing industry.

## **PESTLE ANALYSIS**

### **Political factors:**

Factors that has an impact on political situation or different political decisions that can bring any sort of changes for the individuals that are living in a country can be covered under political factors. Most of the times when there is a political stability in a country then it has positive impact on the citizens of that country and political stability bring about positive changes for the citizens and every field of life. Vital factors that are linked with the political factors are support of government to governmental institutions, restriction upon net migration and security control within the country.

Due to the recent recession in UK, manufacturing industry was facing different problems. For the elimination of these hurdles for UK manufacturing industry the current government has launched different schemes to give some incentives to the manufacturing industry e. g. Lord Mandelson in 2009 has explained that the government want to give tax relief to all entrepreneurs who want to make investment in the manufacturing sector of UK (Peter, 2009). Moreover Labour MP Richard Caborn explains that the government want to start £ 1 billion National Investment Corporation for the <https://assignbuster.com/assessing-the-uk-manufacturing-sector/>

development of manufacturing sector of UK (Rae, 2009). In this way the sound political leadership can support the different sectors of the economy so that these economical sectors will perform well in future

### **Economic factors :**

Economic factors are the factors that are linked with economic conditions of a country. Major economic factors are growth rate, inflation rate, interest rate, unemployment rates and per capita incomes of the citizens.

There are different economic factors that are linked with the growth of manufacturing industry of UK. One of the main factors is the higher salary and wage rates in UK as compared to other countries and due to this reason most of the companies have shifted their plant into different other countries of the world where the labour cost is less. In this way employers are trying to decrease the cost of production and increasing profit margin. The best example is Vauxhall that has its car making plant in Luton but it was close down in 2003 and it is only involved in manufacturing of different vans of Vauxhall and the production of cars facility is transferred to Ellesmere Port. In 2006 Vauxhall has created trouble to its parent company General Motors due to improving efficiency and in 2009 General Motors has decided to sell off Vauxhall and Opel to Magna (David, Zeleny and Vlastic, 2009)

Second major economic factor is tax liabilities of the firm. UK government is now keen to give some tax incentives to the manufacturing firms that are operating in UK to improve their performance (Peter, 2009)

**Social factors :**

Social factors are those factors that are linked with that specific society in which the people's live and common social factors are norms, traditions, habits and values of the peoples that are lived in a particular society.

Social factors that are related with the manufacturing industry of UK are taste of the peoples to work with a particular industry. As explained earlier that from the last two decades British peoples have a perception that the coming age is of services industry and British peoples prefer to improve their skills for service industry as compared to manufacturing industry but manufacturing industry is the backbone of the economic prosperity of a country due to this reason now more peoples are coming toward manufacturing industry (Ferguson, 2004)

**Technological factors :**

Technological factors are linked with the use of latest technology and technological advancement in a particular country. The companies which are using latest technology their productivity is higher as compared to the companies that are not using modern methods of production and latest technology

UK manufacturing industry has the benefit of getting latest technology and uses it in their manufacturing units because UK has the long history of research and development and innovation that is the key factor for technological advancement. Moreover UK has the basic infrastructure available for the technological advancement as well as they has skilled labours (BIS, 2010). All these factors are considered as vital for the

technological advancement and once that infrastructure is available within the country business sector can get benefit from it whenever and whichever way they want

### **Legal factors:**

Legal factors are related with making new legislature by the government for the country whenever it is required by government. Legal system of UK is considered as one of the best legal system of the world. Government always introduced new laws whenever any field of life need it for their ease

UK government always make those laws that are helpful for the economic growth of the country. The best example is in 2009 when UK was in recession and the manufacturing sector was not able to perform well at that time the government has made amendment in the law related with the tax liability of the corporate sector especially for the improvement of manufacturing industry of UK and due to this now the manufacturing industry is experiencing mini boom. That is how legal factors can be used to enhance the productivity of a particular sector of economy (Peter, 2009)

### **Environmental factors :**

Individuals are very much concerned about the environmental factors because now they have realized that industrial waste is a main cause of pollution and that can damage and destroy the environment. Due to this reason individuals always criticise whenever they find any that a particular business unit is not dispose off industrial waste properly.

Moreover there are laws and regulations of different government departments that are binding on business units and whenever any business

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unit is not following these rules and regulations they find penalties.

Furthermore most of the manufacturing companies are trying to complete all their environmental liabilities because with out it they cannot survive in the long term. But most of the times manufacturing companies are following all their responsibilities because the management of these companies know that it is their corporate social responsibility and by performing corporate social responsibility these firms can create softer image that will be helpful to them in long term (Short, Keasey, Wright and Hull, 1999)

With the help of PESTLE analysis I have explained most of the potential factors that have their impact on UK manufacturing industry and now it is the duty of the top management of these UK manufacturing companies to work in line with these factors for improving their performance

In addition to the PESTLE analysis, SWOT analysis is also another important analytical tool. SWOT is representing internal strengths and weakness of the firm as well as external opportunities and threats that the firm is facing in a particular time period. Now I am conducting SWOT analysis for UK manufacturing industry

## **SWOT Analysis**

### **Strengths:**

The strength that the UK manufacturing industry has is that most of the educational and non educational institutions always involve in research and development activities and manufacturing industry can get benefit from this research Deloitte (2009)

UK is an industrialized country and proper infrastructure is available there in the form of skilled labour, availability of inputs and technological advancement. All these factors are pre-requisites for manufacturing boom (Gil and Haskel, 2008)

Manufacturing sector is still providing job opportunities to at least 8 percent of UK labour force. Overall 2.6 million peoples are linked with UK manufacturing industry (BIS, 2010)

Contribution of manufacturing industry towards UK GDP in 2009 was £ 140 billion which is third largest contribution after services and retail sector contribution in UK economy (BIS, 2010)

UK manufacturing sector has the ability to produce the products and export them to the international market. Even though in 2003 UK manufacturing sector were able to generate 83 percent of the total UK exports (Ferguson, 2004). This much higher exports in 2003 is the evidence that the manufacturing industry of UK can generate higher amount of foreign exchange

## **Weaknesses**

Labour cost is pretty much higher in UK as compared to other countries and due to this lot of factories are transferring from UK to other countries where the labour cost is comparatively low (Neely, 2009)

Maximum job opportunities are created by services sector due to this reason most of the individuals are getting professional education or training that is required by services sector (Hall and Jones, 2004). Due to this reason best

and productive employees are not coming towards manufacturing sector. Moreover the jobs are very hard in manufacturing sector as compared to services sector so work force prefer to join services sector as compared to manufacturing sector

Any potential investor has to make higher amount of investment for setting up a manufacturing unit in UK because of strong local currency (pound sterling). Most of the times when investors want to invest their funds they are investing in other countries where the exchange rate is less as compared to pound sterling.

The utility expenses in UK is higher as well as cost of living and this is one of the potential weakness due to which investors are hesitate to invest in the UK manufacturing sector. Moreover higher utility expenses will increases the cost of production for the manufacturing concerns (Girma and Gorg, 2002)

There are different sort of taxes that the general public has to pay whenever they are purchasing anything. Moreover income taxes and corporate taxes are also relatively higher in UK that also discourages potential investors to invest in UK.

## **Opportunities**

Tax relief that is announced by the tax department for the UK manufacturing firms is an opportunity for existing manufacturing firms as well as for the potential investors who are finding a good place for setting up their manufacturing unit (Peter, 2009)

Government is starting to give some relief to the potential investors who want to start any manufacturing unit in UK. Government has started National Investment Corporation of £ 1 Billion for the development of manufacturing sector of UK (Rae, 2009)

Geographic location of UK makes it one of the ideal locations to set up a manufacturing unit here. Access through UK for American markets is easier so any one who want to set up a manufacturing unit he prefer UK

Easy availability of raw material, right infrastructure, secured location and skilled labour force make UK a best location to set up a plant by any investor. Most of the investors are making investment in UK manufacturing sector to get all such advantages

## **Threats**

Threat to UK manufacturing industry is the emerging market like China, India and Brazil which have now improved their local industries and are giving tough time to different developed economies of the world (PriceWaterhouseCoopers, 2006)

Another threat to the UK manufacturing industry is the low wage rate in different countries as compared to UK due to this reason most of the plants and factories are transferring from UK to other countries where the wage rate is less (Neely, 2009)

Transfer of one manufacturing plant from UK is a loss but this loss of manufacturing plant has an impact on other production units as well because some time different other manufacturing units are producing raw material for



a big manufacturing unit. In this case transfer of one manufacturing unit has higher level of impact on other manufacturing units as well.

## **Critical Analysis**

In the current section I am providing different information related with UK manufacturing sector. Furthermore in the current section I am providing details of different charts and figures that are provided in the appendix 1.

Figure 1 is related with the proportion of various industries to total manufacturing gross value added (gross inputs – gross outputs) and employment data related with 2009. This graph is helpful for the users who want to get the information regarding the proportion of each and every industry and its contribution to the total manufacturing gross value added. Moreover this graph is providing information related with the job creation for the UK workforce by the UK manufacturing sector. Overall contribution of manufacturing sector in 2009 is that this sector has generated £ 140 billion of gross value added that is around 11 percent of UK economy. 2. 6 million, individuals are working in manufacturing sector that is around 8 percent of total labour force of UK (Department of Business Innovation and Skill, 2010).

With the help of figure 2 we can get the information related with total manufacturing employment and structure by occupation from 1994 to 2009. According to this graph one point is clear that in 1994 UK manufacturing sector was provided employment to 4. 7 million peoples but in 2009 manufacturing sector is providing employment opportunities to only 2. 7 million workers. With the help of this graph one point is clear that production, support and trades were employing more workers in 1994 as

compared to 2009 but all the other sectors like logistics and distribution, marketing and sales, support and professional, R & D and production professional have provided more jobs to the employees in 2009 as compared to 1994.

Figure 3 is providing information related with manufacturing employment in selected developed countries (Canada, France, Germany, Italy, Japan, United Kingdom and United States) from 1990 to 2009. After analysing this figure one point is clear that in all these countries manufacturing sector is now providing less jobs as compared to before. But still now maximum employees are employed in US manufacturing sector and figure is around 15 million. After US, the manufacturing sector of Japan has created around 11 million jobs. Germany is at third place and German manufacturing sector has provided jobs to around 8 million peoples. Next is Italy and around 5 million peoples are linked with the manufacturing sector of Italy. France is next to Italy and its manufacturing sector has provided jobs to around 3 million peoples. As discussed before that UK manufacturing sector is providing jobs to 2.7 million employees. Canada is at the end of this list by providing jobs to only 2 million Canadian peoples.

Figure 4 is providing information related with productivity performance of UK manufacturing sector from 1991 to 2009. This figure shows that overall employees that are linked with manufacturing sector has increases and UK manufacturing sector is contributing its best in the economic development of UK

Figure 5 is related with the total exports of UK manufacturing goods to other countries. The proportion of every industry along with the amount of export is given in the figure 5. With the help of this graph it is clear that every sub sector of UK manufacturing industry is contributing something in the total exports of UK for earning precious foreign exchange.

Above mentioned information is vital because it is representing the contribution of UK manufacturing industry in the economic growth. With the help of this information one point is clear that UK manufacturing sector is contributing its part into different ways e. g. this sector is providing jobs to the UK workforce, this sector is the third largest sector of UK in terms of GDP and this sector is helpful to UK government to earn precious foreign exchange by selling manufacturing goods to the different other countries of world.

## **Conclusion and Recommendations**

Current report is helpful in explaining the contribution of UK manufacturing industry in the economic development of UK. UK manufacturing sector is at number three in UK economy in terms of UK GDP, after services and retail sector. In 2009 this sector has generated £ 140 billion of gross value added that is around 11 percent of UK economy. 2.6 million individuals are working in manufacturing sector that is around 8 percent of total labour force of UK (BIS, 2010). Moreover this sector is helpful to UK government to earn precious foreign exchange by selling manufacturing goods to the different other countries of world.

In the current report I have provided PESTLE and SWOT analysis of UK manufacturing industry that is helpful to analyse the political, economical, social, technological, legal and environmental factors of UK manufacturing industry as well as SWOT analysis was focused on strengths, weaknesses, opportunities and threats that UK manufacturing industry is facing in the current time. Moreover I have provided some figures and tables that have provided a comparison of UK manufacturing industry in past to the current state. All these analysis are helpful to get an in depth information about UK manufacturing industry.

Based upon my analysis at the end I want to give some suggestion that will be helpful for further improving the UK manufacturing industry. Suggestion are provided as follows

UK government should give some sort of tax relief to the existing manufacturing units as well as tax holiday should be announced for the potential investors that are interested to set a manufacturing plant in UK

UK government should give some sort of incentives to the existing manufacturing units as well as potential investors by the way of supplying cheap utilities so that more peoples will come to manufacturing sector

UK government and manufacturing units should invest higher resources on the research and developmental activities so that UK manufacturing firms are able to produce those products that have better features. In this way UK manufacturing industry will able to give tough time to the emerging economies like China, India and Brazil and their manufacturing units

UK government should take different steps to reduce the higher labour cost that is currently being paid by the manufacturing units in UK. This higher labour cost is one of the main factors for which the firms are not establishing their manufacturing units in UK. Emerging markets are giving tough time to other developed countries of the world because labour cost in these countries is low. For getting the benefit of cheap labour some of the manufacturing firms are transferring from UK to these emerging markets (China, India and Brazil)

In addition to this UK government should try to reduce the foreign exchange rate of pound sterling with other currencies. Investors have to invest more if they want to start their business in UK because of higher value of pound sterling as compared to other currencies. Higher value of pound sterling is also a vital factor for decreases level of investment in UK manufacturing sector

If the UK government is able to follow the above mentioned suggestion then definitely UK manufacturing industry will able to get more attraction from the world and it will contribute more as compared to its current contribution.

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