

KNOWLEDGE

EXCHANGE

Is there growth within the Manufacturing & Industrial Sector?

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March 2013

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FOREWORD



The Knowledge Exchange events, held by CoreNet Global UK Chapter, are a unique opportunity for CRE professionals to discuss and debate the trends that are impacting our industry.

The UK is the 7th largest manufacturing economy in the world and yet there is an increasing debate in the news about whether the economy is too reliant on its service industries with insufficient emphasis being devoted to the manufacturing sector, with the question being increasingly posed as to whether the economy should be rebalanced towards manufacturing.

The economics are complex, particularly as we operate within a global economy, however the newly formed Manufacturing and Industrial Group is attempting to shed light on at least some of the key issues, such that the resulting debate was particularly thought-provoking, looking to draw out key themes and trends that are likely to underpin future growth.

The unique insights are those which I hope you can all draw value from. As always, this wouldn't have been possible without the positive engagement and commitment from all of our attendees.

We are especially grateful to our speakers Jonathan Turner at Honeywell and John Burgess at Carefusion, and facilitator Simon Lloyd at DTZ.

Lastly I would like to thank our planning committee who organised such a fantastic event and DTZ for their continued sponsorship.

A handwritten signature in black ink, appearing to read 'Steve Probert', with a long horizontal stroke extending to the right.

Steve Probert
President, CoreNet UK Chapter

BACKGROUND

The Manufacturing & Industrial sector is having to react to a number of global influences such as competitive cost pressures and reduced demand in domestic markets, yet growth is still very much on the agenda. In this interactive CoreNet Global UK Chapter knowledge exchange event, two leading operators in this field, Jonathan Turner (Honeywell, EMEA and India Real Estate Director) and John Burgess (Carefusion, Director of International Corporate Real Estate), explored a number of key themes that are emerging in today's market and identified trends that are driving growth. At the same time, they linked these findings back to the role that an increasingly sophisticated corporate real estate function can and must play.

This white paper put together by DTZ, a UGL company outlines some of the main conclusions arising from the discussions.

INTRODUCTION

The financial crisis dealt a heavy blow to the manufacturing sector from which it is still recovering. While macroeconomic uncertainties still abound (i.e. the euro zone debt crisis continues to hamper growth), **manufacturers generally feel confident about the outlook for their business**, with the majority believing that renewed growth in their sector is imminent.

However, the highly competitive and volatile business environment comes with challenges and reducing manufacturing costs has become a necessity for many. Indeed, global manufacturers are using this low-growth environment to ramp up their innovation activity and to develop cost-reduction strategies that maximise overall efficiency whilst maintaining the overall value of their operations. As a result, manufacturers' business models are changing, with value-added services becoming an increasingly important driver of demand and source of revenue. Furthermore, as the cost-benefit dynamics of labour versus transportation are changing, outsourcing manufacturers are increasingly choosing nearshoring over offshoring - thus moving manufacturing closer to home and capitalizing on the benefits of proximity.

Although growth is still on the cards, **manufacturers need to carefully study their business model in order to improve overall efficiency and identify potential areas of growth.**

INNOVATION IS A KEY DRIVER OF GROWTH

There are a number of factors that manufacturing companies continue to identify as important to their growth. These include:

- Innovation (encompassing the availability of new ideas, as well as the capacity to innovate)
- The quality and availability of skills, and labour productivity
- Regulation and taxation
- The performance of supply chains (including the cost, quality and timeliness of inputs).

In particular, innovation will continue to play a key role in determining which countries and companies can succeed in global manufacturing going forward. **The bottom line is that manufacturers must innovate to stay ahead of the game.** They must also be enabled by infrastructure and a policy environment that better supports university and research lab breakthroughs in science and technology. Ultimately **the common goal is competitiveness, both in the short term and long term.**

GLOBALISING FOOTPRINT TO HELP ACCELERATE GROWTH

The manufacturing sector in many countries is in a state of flux and global demand for manufactured goods is shifting. **Whilst manufacturing is shrinking but becoming more productive in advanced economies**, where customers are demanding more variety and faster product cycles, **it is growing in emerging economies**. The new manufacturing giants with low wage economies tend to compete on cost, whilst the established players prefer to move up the manufacturing value chain to compete on technology and innovation. **Ultimately those countries that are considered more innovative than their counterparts will perform better when it comes to GDP and GDP per capita.**

Globally, manufacturing output continues to grow - by about 2.7 percent annually in advanced economies and 7.4 percent in large developing economies. Economies such as China, India and Indonesia have all risen into the top ranks of global manufacturing. In a global ranking by HIS Global Insight of top 15 manufacturers by gross value added, China ranked second in 2010 - just behind the US - when it ranked seventh in 1980. Japan also jumped from 15th position in 1980 to 10th position in 2010. This reinforces the trend that **large developing economies are moving up in global manufacturing.**

In terms of target markets, the manufacturing sector is growing rapidly in India and China, Malaysia, Vietnam and Singapore, as well as in other high growth regions such as Eastern Europe (in particular Turkey) and Middle East and Africa. However, **companies must tread carefully in order to navigate the local barriers and incentives to market access.** It is also imperative that companies define a clear strategy for dealing with these local requirements, including whether or not to invest in setting up their own manufacturing sites, acquiring existing players or entering partnerships.

LOWERING COSTS AND BUILDING A STRONG COMPANY IS KEY

In our environment of cost saving, many companies operating in the manufacturing sector are thinking about how to save costs within their real estate. There are various ways of achieving this; by reducing rooftops, reducing footprints or reducing ongoing facilities cost. In a nutshell, **the ultimate aim is to lower costs and build a stronger company.**

Typically, the real estate divisions of manufacturing companies are responsible for designing and delivering the buildings inside and out, so that companies can perform in the best way possible in order to ensure an efficient manufacturing flow. Companies have to think carefully about their exit strategy (could be up to 50-60 years) when putting up a manufacturing site. It has to have the advantage of being usable by someone else when the building life has 'expired'. When companies look to expand, they look for new developments, essentially building it themselves to suit their own needs and preferences. It is therefore important to think ahead in terms of what the exit strategy is going to be. However, some companies are more concerned about the plan and equipment within the building and less concerned with the possible re-use of the building by a third party.

Improving consistency in delivery continues to be a key challenge. Quality in terms of both design and execution is key.

HUMAN TALENT IS THE MOST CRITICAL RESOURCE DIFFERENTIATING SUCCESSFUL MANUFACTURING COMPANIES

According to many manufacturing companies, the biggest obstacle facing the manufacturing sector today is the lack of skilled workers. As a result of this, **the future of global manufacturing is turning into a competition for global talent**. This skills gap ranges from scientists, researchers, engineers to technicians and skilled production workers. This is a problem affecting both developed and emerging economies. Only those companies that can attract, train and retain the highest-skilled talent will come out on top.

So, what are the skill-sets required to succeed in the manufacturing sector?

- Knowledge of manufacturing
- Customer focus
- Business acumen
- Strong communication skills
- Analytical mindset
- Project management skills

NEW OPPORTUNITIES ARISE IN A COMPLEX AND UNCERTAIN ENVIRONMENT

We are currently witnessing the rise of a global manufacturing and industrial sector, driven by innovation in operations and shifts in demand, where developing countries will have a key role in providing new customers and low-cost production points.

Whilst many manufacturers remain optimistic about the outlook for the sector, **innovation and the ongoing review of business models will be key in ensuring success in a highly-competitive sector**. To ensure business success, cost management and the pursuit of global talent should be the main areas of focus for small and large manufacturing businesses in the coming years.

CONCLUSION

In conclusion:

- The broader economic climate impacts on manufacturers' ability to compete and growth
- Innovation will play a key role in determining which countries and companies can succeed in global manufacturing
- Ensuring manufacturing companies have a skilled workforce remains the industry's biggest challenge.