

# Powered by people and technology in 2018

The manufacturing and engineering view

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## Survey details

To gather the data for this report, we conducted an online survey of OMBs between 1 November 2017 and 12 January 2018. We analysed 653 responses drawn from across all sectors throughout the UK. Respondents were senior leaders within their businesses – primarily founders and owners, chief executives and managing directors, or other high-level directors. We also conducted in-depth interviews with the leaders of a number of OMBs to learn more about their experiences of 2017, their expectations for and concerns about 2018, and the strategies they aim to apply in their businesses.

# Foreword

After last year's subdued survey results, confidence among manufacturing and engineering (M&E) owner managed businesses (OMBs) has bounced back strongly. The initial surprise of the Brexit referendum result has been absorbed and, although many uncertainties remain, the M&E sector has refocused on future plans. There are signs of renewed belief that UK businesses will find a way to succeed in the new environment.

This year's survey also confirms that M&E OMBs want to innovate. As a sector, M&E is leading the way in terms of its commitment to developing and launching new products and services. In every conversation I have with M&E OMBs, their focus on looking for new and improved ways of doing business comes through strongly.

It's also striking that M&E OMBs are now placing more emphasis on staff training than they did last year and more than OMBs in general. This reflects a number of factors. Firstly, M&E companies know they need to address the talent shortage. With Brexit potentially increasing the talent squeeze, training 'your own' is a sensible strategy. Secondly, there's a sense of renewed interest in engineering careers among the young. The buzz around new technologies is filtering through to more

'traditional' engineering. Educational activities around initiatives such as the Bloodhound SSC project to develop a car capable of breaking the world land speed record, which Moore Stephens sponsors, are reinforcing the message that engineering can be exciting. It's also increasingly understood that you don't need to go to university in order to have a rewarding career in the M&E sector – renewed employer interest in apprenticeships is opening the door to more people at a younger age.

So 2018 looks like being a dynamic year for M&E OMBs – not least because of the high interest in mergers and acquisitions – well ahead of interest in other sectors. Some M&E business owners are seeking an exit and undertaking succession planning. Others see opportunities in the market, perhaps even increased opportunities due to uncertainty over Brexit outcomes. Change creates opportunity – and there are plenty of entrepreneurs in the M&E sector looking to take advantage and build strong businesses equipped to thrive long into the future.

**Richard Willis**  
**Partner**

Head of Manufacturing & Engineering  
[richard.willis@moorestephens.com](mailto:richard.willis@moorestephens.com)

# Confidence in 2018



M&E OMBs are relatively optimistic about their prospects in 2018, with 64% expressing confidence about the general outlook (slightly above the national result of 60% and substantially above last year's M&E result of 52%).

They are even more confident about meeting revenue targets this year (71% – exactly matching the national result) and reasonably confident about meeting profit targets (62%, compared to 64% of OMBs overall). Again, M&E OMB confidence levels in relation to revenue and profit targets have improved since last year.

These relatively high levels of confidence in prospects for 2018 are built on relatively good performance by M&E OMBs in 2017: 43% of M&E respondents say their business performed better than expected against revenue and profit targets last year (compared to 40% of OMBs overall). However, 23% performed worse than expected in 2017 (compared to 17% of all OMBs).

OMBs in the M&E sector have a range of ambitions for 2018. Many are perusing managed growth through investing in their business in a variety of ways, while also keeping a watchful eye on costs.



## Aspirations for 2018

*“To continue to develop and expand our manufacturing capabilities to take advantage of new opportunities, bring manufacturing work back into the UK.”*

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*“To continue to steadily grow in turnover and profit. Ride the Brexit rollercoaster.”*

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*“To achieve forecast results through the introduction of new technology and a comprehensive cost-cutting programme. To restructure the organisation chart in order to achieve improved efficiency throughout all operations.”*

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*“Survival first! Followed by managed growth, through investment in production (both processes and people).”*

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*“Open a new R&D facility (after refurbishment of newly acquired building). Steady profitable growth of both export and UK turnover.”*

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# Strategies in 2018



Among OMBs in the M&E sector, investment in staff training is by far the most popular strategy for 2018 (identified by 61%, compared to 51% of OMBs across all sectors). M&E OMBs are placing far more emphasis on staff training than they did last year (when only 43% identified this as a preferred strategy). We consider the training priorities of M&E OMBs later in this paper.

Over half (52%) of M&E OMBs plan to launch new products or services in 2018 (well ahead of the national result of 37%), while 43% intend to develop new products or services (38% nationally). Developing and launching new products or services were the top two strategies for M&E OMBs last year (chosen by 55% and 52% respectively). These activities continue to be vital for sustaining healthy revenues in a competitive environment.

Many M&E OMBs will be using new products and services to attract new customers. Just under half (47%) plan to expand their UK customer base in 2018 (compared to 50% of all OMBs across all sectors, and 51% of M&E OMBs last year).

OMBs in the M&E sector are slightly more likely than OMBs generally to plan investment in new technology or IT systems in 2018 (37%, compared to 33% of all OMBs).

Encouragingly, the majority (80%) view advancements in technology as an opportunity (60% as a medium to long-term opportunity, and 20% as an immediate one). However, 20% perceive technology advancements as a threat. One M&E respondent commented: "We have invested in the latest equipment every time it becomes available, [and] that has kept us ahead of the competition." Another noted that the automotive industry has "never seen so much change...and it's moving at such a pace", while another predicted that "electronics will replace mechanical products".

M&E OMBs are also somewhat more likely than OMBs generally to pursue a range of other strategies in 2018, including succession planning (28%, compared to 24% nationally), reducing costs/overheads (27%, compared to 24% nationally), creating apprenticeships (20%, compared to 15% nationally) and expanding internationally (20%, compared to 14% nationally). M&E OMBs are already active exporters (72%, compared to 33% of OMBs across all sectors).

It is particularly striking that 20% of M&E respondents plan to grow through acquisition – well ahead of OMBs across all sectors (7%). However, only 9% intend to raise external finance (compared to 12% nationally).

# Concerns in 2018



From a macro-economic perspective, M&E OMBs are most worried about the strength of the UK economy in 2018: 69% are concerned about this (though a significantly smaller percentage than the 78% of OMBs across all sectors).

Over half (53%) of M&E OMBs are also concerned about fluctuations in exchange rates – well above the 34% of OMBs nationally, but well below the 73% of M&E respondents who expressed this concern last year. Nevertheless, exchange rate fluctuations will inevitably be a concern for the M&E sector: many M&E OMBs are active exporters and many are also dependent on imports and international supply chains.

Similarly, OMBs in the M&E sector are more worried about the strength of the global economy than OMBs generally (35%, compared to 28% of OMBs nationally). However, only 24% are concerned about domestic competition (compared to 39% of OMBs nationally), although 15% are concerned about international competition (10% nationally). Just under a quarter (24%) of M&E OMBs are concerned about rising interest rates (somewhat below the national result of 30%).

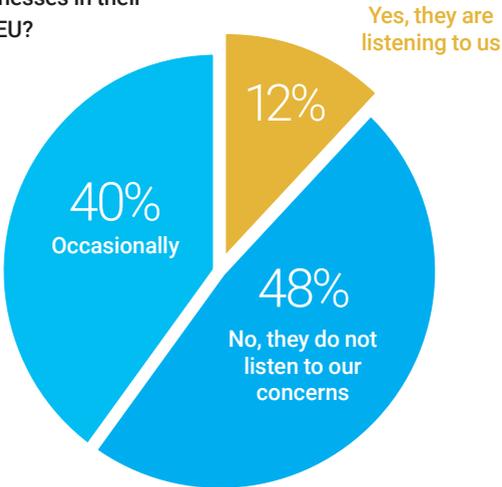
When asked about their business-focused concerns for 2018, OMBs in the M&E sector are most worried about the impact of Brexit negotiations on their business (63%, well above the national result of 51%). This level of concern among M&E OMBs has remained constant from last year's survey and reflects the international nature of the sector.

Many M&E OMBs are also worried about a shortage of skilled staff (43%, compared to 41% of all OMBs). A range of business costs are also weighing on the minds of M&E respondents: 29% are concerned about an increase in the business tax rate (comparable to the 27% of all OMBs), 29% about an increase in business rates (26% nationally) and again 29% about payroll costs (25% nationally).

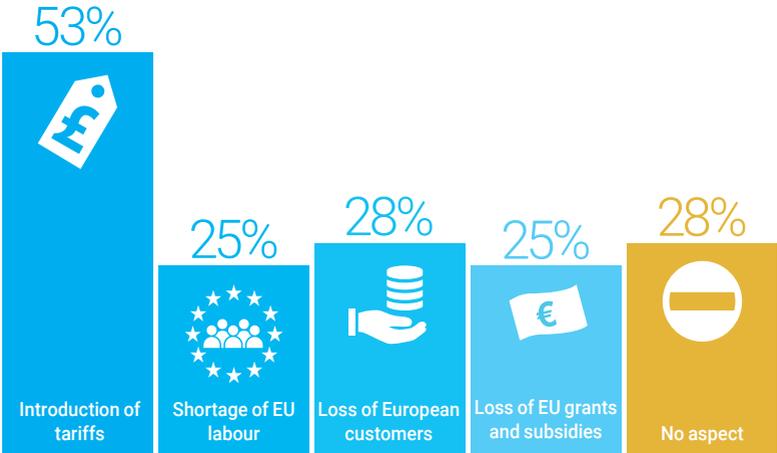
Other significant concerns for M&E OMBs are the threat of cyber attack or data breach (27%, comparable to the national result of 29%), extracting profits from the business (27% – exactly matching the national result) and keeping pace with or adopting new technologies (24%, just below the national result of 27%). In addition, 15% of M&E OMBs are concerned about complying with the EU General Data Protection Regulation (GDPR) – this is well below the national result (24%) and suggests some businesses may be under-estimating the challenges involved.

# Brexit: the M&E view

Do you think the Government is taking into account the concerns of small and medium size businesses in their negotiations with the EU?



What aspect of leaving the EU concerns you most?



As already identified, 63% of OMBs in the M&E sector are worried about the impact of Brexit negotiations on business. We found that 48% don't think the Government is taking the concerns of SMEs into account in their negotiations with the EU (almost matching the overall survey result of 49%). Another 40% think the Government considers SME concerns occasionally (as do 44% of all OMBs surveyed). However, 12% think the Government is listening – a result higher than the national average of 6%.

Over half (53%) of M&E OMBs are worried about the introduction of tariffs after the UK leaves the EU (well above the 38% of OMBs across all OMBs). One M&E respondent commented that the imposition of tariffs would hinder its market penetration and growth in export markets. Establishing operations inside the EU is seen as one potential response.

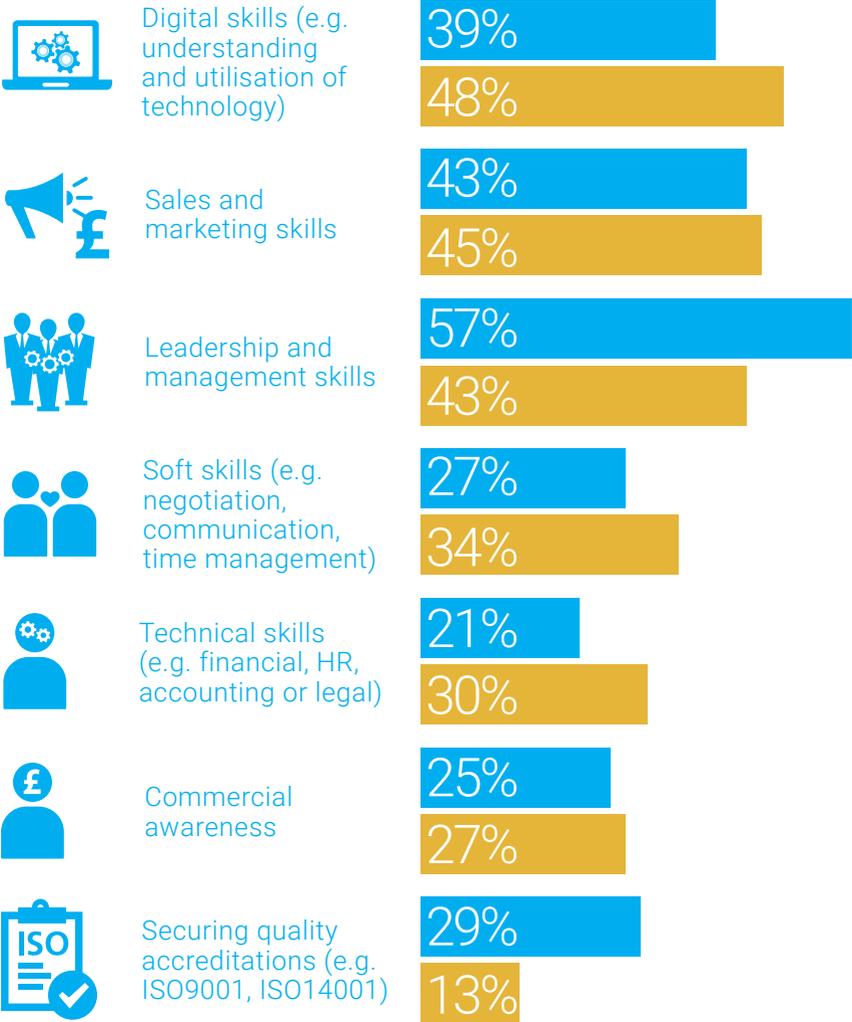
Many M&E OMBs have other Brexit-related concerns too: 28% are worried about a loss of European customers (compared to 23% of OMBs overall) and 25% are concerned about a shortage of EU labour after Brexit (slightly under the 30% of OMBs across all sectors). A quarter of M&E OMBs (compared to 18% of all survey respondents) are concerned about a loss of EU grants and subsidies.

In their comments, the respondents referred to the challenge of coping with uncertainty over the final Brexit deal. One said: "We have mitigation planning in place but [are] still very nervous as we have no vision of what's happening." Another said that the possibility of the failure of negotiations was "an overwhelming concern". One respondent worried about the impact on customer confidence and the economy, while another expressed concern for net importers if sterling kept fluctuating and price rises pushed up inflation.

Some M&E OMBs are seeing an upside, however. One commented: "Business has improved since the decision to leave the European community. My customers are only interested in the bottom line." Another implied there were some exciting opportunities, although gave no explanation of what they might be.

# Bridging the skills gap

## Areas of training or development requiring investment:



M&E OMBs
  OMBs nationally

The skills gap is a theme that arises frequently in discussions and research with OMBs. M&E OMBs are taking action to tackle this issue, primarily through internal development plans: 67% plan to address any skills gap by developing internal teams through training in 2018 (slightly ahead of the 61% of OMBs across all sectors).

In addition, 51% of M&E OMBs will be actively recruiting to fill skills gaps (compared to 45% of OMBs overall). Almost a quarter (24%) of M&E OMBs plan to use funds from the Apprenticeship Levy to spend on training (compared to only 13% of all OMBs), and 20% intend to create apprenticeships (compared to 15% of OMBs nationally).

In terms of training, M&E OMBs see most need to develop leadership and management skills: 57% feel the need for investment in this area (compared to only 43% of all OMBs).

Many M&E OMBs also see the need for the development of sales and marketing skills (43%, comparable to the 45% for all OMBs) and 39% of M&E respondents see the need to develop digital skills in their business (somewhat below the 48% of OMBs nationally).

Just over a quarter (27%) of M&E OMBs highlight the need for improved soft skills in areas such as negotiation, communication and time management (somewhat below the national result of 34%). In addition, 25% of M&E OMBs hone in on the need to develop commercial awareness (comparable to the 27% of all OMBs) and 21% see a need to develop technical skills (e.g. financial, HR, accounting or legal) (compared to 30% of all OMBs).

M&E OMBs provide training and support to talent at all levels of their business: 77% train junior or entry level staff (substantially ahead of OMBs generally – 68%), while 72% train middle management (compared to only 56% nationally) and 51% invest in training their senior leadership team (comparable to the 54% of OMBs overall).

Alongside their training priorities, 29% of M&E OMBs see the need for investment in securing quality accreditations (e.g. ISO9001, ISO14001) – a result well above the 13% of OMBs across all sectors.

# Vikoma: working 'better, smarter, faster' for efficient growth

Based on the Isle of Wight and employing 65 people, Vikoma specialises in the design and manufacture of products for use in oil spill and oil separation solutions. The business was set up by BP in 1967, but has been in private ownership for many years, its most recent ownership change achieved through a management buy-out in 2015.

"We have been looking at year-on-year growth since we invested in the business in 2015," says Managing Director Karen Lucas. "That's been driven by additional sales and marketing activity. We've also released some new products, been competitive on pricing and had more of a focus on industrial markets as well as our traditional marine market." The business is over 95% export, serving customers in Russia, the Far East, Middle East, Europe, South America and North America.

The market in 2018 is "tough" and "price sensitive", Lucas says. "But there is more activity because the oil price has recovered from its really low point in 2014, so I'm quite positive about the outlook." The strategy for 2018 will include further development of partnerships with a couple of manufacturers of complementary products. "We can offer a one-stop-shop solution, which makes it easier for the end user," Lucas says.

The business invested in a new cutting machine to automate part of a manual process 18 months ago. "We are also looking at whether there are ways to make other parts of our manufacturing process better and more efficient," Lucas says. "We have a 'better, smarter, faster' team whose role is to look at how we can do any part of our process better, including looking at new machinery."

Lucas' biggest concerns relate to any developments that could affect international trade, such as "the toughening insurance market and banking regulations, which affect which countries we can receive money from". Any increase in or introduction of tariffs would also be a worry, which means Brexit negotiations are being watched carefully. "Tariffs would introduce reasons for customers to buy from other EU member states, and our main competition is in the EU," Lucas says.

Recruitment has not been an issue for Vikoma, which makes a point of training up staff and uses apprenticeships to good effect. "We can grow people for a career, whether they chose to specialise in their trained area or progress throughout the business," Lucas says.

“We also make sure we multi-skill people so that they can work across the different disciplines – in the fitting shop, the boom shop, the paint shop or as part of our commissioning team which travels worldwide. Work comes through in different areas at different times, so we need to be able to move people around as much as possible.”



[www.vikoma.com](http://www.vikoma.com)



*We have been looking at year-on-year growth since we invested in the business in 2015. That's been driven by additional sales and marketing activity.*

Karen Lucas, Managing Director  
Vikoma



# Our solutions



20% of manufacturing and engineering OMBs are certain or very likely to grow through acquisition

Mergers and acquisitions (M&A) are major events in the lifecycle of any business, involving many complex elements. Our M&A specialists can help you manage the process successfully from start to finish, including identifying suitable targets, establishing realistic valuations, designing appropriate funding structures, achieving effective tax planning, conducting due diligence and supporting negotiations.



80% of manufacturing and engineering OMBs view advancements in technology as an opportunity and 37% plan to invest in new technology and IT systems

Why not make that investment in a solution that automates and optimises the way your business operates? IT and software experts from our R-Sult team can implement an end-to-end solution that streamlines your activities. They have helped manufacturers create joined up systems and processes, enabling seamless operations from start to finish in the production process, from order receipt to product despatch.



27% of manufacturing and engineering OMBs are certain or very likely to reduce costs or overheads

No business can reduce costs without accurate and up-to-date information on business performance. Stream, our cloud-based outsourcing solution, allows owner managers to access key data and reports wherever they are. It enables you to spend more time making effective business decisions and less time on back office accounting.



### 28% of manufacturing and engineering OMBs are certain or very likely to undertake succession planning

We know the importance OMBs place on securing the future of their business, as well as generating personal wealth. We work with you to find the best solution for your specific requirements, including sale to a competitor, the management team or private equity, or passing the business on to a family member.



### 43% of manufacturing and engineering OMBs are certain or very likely to develop new products or services

When businesses are developing new products and services, there is often an element of innovation – and this may qualify for research and development (R&D) tax relief. We have extensive experience in helping companies identify qualifying projects and make successful claims for R&D tax relief.



### 15% of manufacturing and engineering OMBs are concerned about complying with the EU General Data Protection Regulation

Complying with the EU GDPR is a complex challenge. If companies do not comply they can be fined up to 4% of annual turnover or €20 million, whichever is greater. We have developed a GDPR healthcheck to help companies make sure they cover all the angles and avoid regulatory problems.

# OMB aspirations for 2018

“A new range of machines will be introduced in early 2018 based on customer feedback to satisfy their requirements. Expand our small but very productive Apprenticeship Scheme having had some great results at Level 2, 3+4.”

“Build the growth potential of the business through new products and services.”

“Start to address our impending lack of succession planning.”

“Deliver all current orders and machines work thus attracting new customers and new orders. Making the company attractive for a trade sale in 19 or 20.”

“Hope to continue growth phase following significant capital investment. The training and development of staff is also critical to our growth. As we grow, being able to be successful in new regions will be critical.”

“Like most businesses we want to get bigger, which for us means larger warehousing. The high cost of business rates makes it difficult for us to make this transition. Our European competitors have very large storage facilities and have told us they do not have the same costs.”

“To develop new technical solutions and overcome regulatory hurdles. To advance our products to improve margin and then market share.”

“Build on the success of 2017 by the continual improvement of our products and business processes. Internally we will continue to develop teams looking outwards to build better relationships.”

“To increase my business profits by at least 20% from last year, to increase our reputation and standing in the industry, and to nurture and develop talent within the company.”

## About Moore Stephens

We help you thrive in a changing world.

We provide all the support and guidance you need to deal with new risks and opportunities. We ensure easy access to the right people, so decisions can be made quickly and confidently. A consistent team will partner with you to support your aspirations and contribute to your success.

You'll have access to a range of core services, including audit, accounting, tax, risk and systems assurance, corporate finance, restructuring and insolvency, wealth management and disputes analysis. As a Top 10 accounting and advisory network we support a broad range of individuals and entrepreneurs, large organisations and complex international businesses.

If your business and personal interactions need to expand, we'll help make it happen – coordinating advice from a network of offices throughout the UK and in more than 100 countries.

## Contact information

If you would like further information on any item within this report please contact us.



Chichester

**Andrew Henshaw**

**T: 01243 531600**

[andrew.henshaw@moorestephens.com](mailto:andrew.henshaw@moorestephens.com)



Guildford

**Chris Goodwin**

**T: 01483 538881**

[chris.goodwin@moorestephens.com](mailto:chris.goodwin@moorestephens.com)



Isle of Wight

**Sue Lucas**

**T: 01983 825000**

[sue.lucas@moorestephens.com](mailto:sue.lucas@moorestephens.com)



Salisbury

**Andrew Coldwell**

**T: 01722 335182**

[andrew.coldwell@moorestephens.com](mailto:andrew.coldwell@moorestephens.com)



Southampton

**Stuart Datlen**

**T: 023 8033 0116**

[stuart.datlen@moorestephens.com](mailto:stuart.datlen@moorestephens.com)

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[www.moorestephens.co.uk/south](http://www.moorestephens.co.uk/south)

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