

Focus on: Manufacturing

International Business Report 2010 – Sector focus series

The Grant Thornton International Business Report (IBR) 2010 reveals that privately held businesses (PHBs) in the manufacturing sector are markedly more confident about their current prospects compared to this time last year; a balance¹ of +25 per cent are optimistic this year compared to -19 per cent last year. Businesses, on average across all sectors, are more optimistic this year (+24 per cent) than they were in 2009 (-16 per cent).

Of the ten sectors considered in the 2010 series of focuses, financial services is the most buoyant at +42 per cent; ahead of technology (+40 per cent), cleantech (+34 per cent), hospitality (+32 per cent), retail (+31 per cent), manufacturing (+25 per cent), construction & real estate (+13 per cent), food & beverage (+7 per cent), transport (+5 per cent) and healthcare (-18 per cent).

The manufacturing sector

The manufacturing sectors of many economies across the globe have led the recovery from the deepest recession since World War II. The collapse of world trade, a lack of access to credit and declining consumer confidence saw demand plummet across the sector, but in recent months output and orders have increased dramatically.

Economies which have historically been reliant on growth in manufacturing output, such as the US, Japan and the eurozone, have suffered during the recession. Meanwhile, the global search for lower input costs combined with rapid domestic consumption growth has driven continued expansion in Brazil, India and China.



¹ the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic

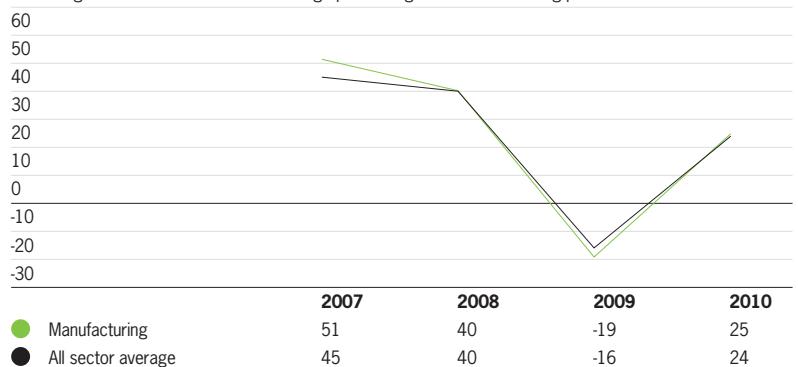
The state of the sector

Optimism/pessimism

- a balance of +25 per cent of businesses in the manufacturing sector are optimistic about their respective countries' economic outlook this year, an increase of 44 percentage points from -19 per cent last year
- the balance of businesses across all sectors indicating optimism for the year ahead has risen by 40 per cent this year, from -16 per cent in 2009 to +24 per cent.

Figure 1: Outlook for the economy over the next 12 months: 2007-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



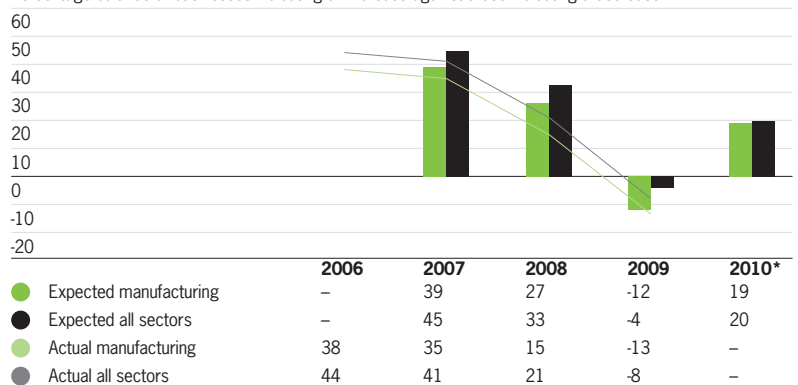
Source: Grant Thornton IBR 2010

Employment

- a balance of +19 per cent of businesses in the manufacturing sector expect to expand the size of their workforce in 2010, in line with the all sectors average of +20 per cent
- actual employment growth reported by businesses in the sector in 2009 (-13 per cent) was similar to what was expected 12 months previously (-12 per cent)
- actual employment growth reported across all sectors (-8 per cent) was worse than expected 12 months previously (-4 per cent).

Figure 2: Employment history: 2006-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



*actual 2010 data will be documented in IBR 2011

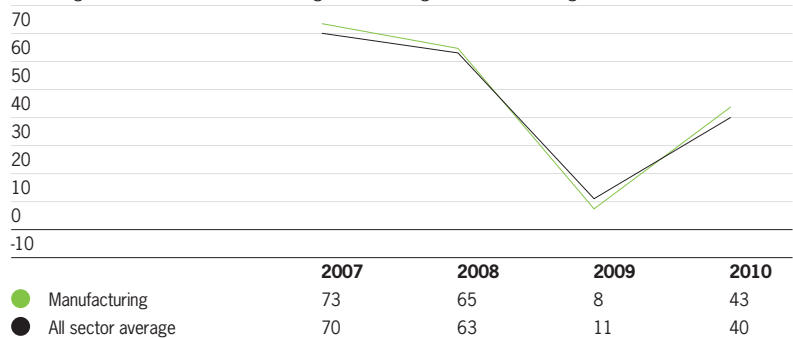
Source: Grant Thornton IBR 2010

Revenue expectations

- a balance of +43 per cent of businesses in the manufacturing sector expect their revenue to increase across 2010, compared to +8 per cent last year
- across all sectors, revenue expectations have rebounded to +40 per cent this year, up from just +11 per cent in 2009.

Figure 3: Revenue expectations: 2007-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



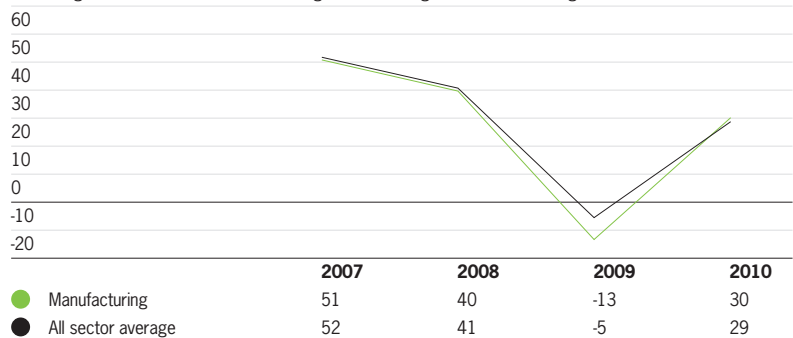
Source: Grant Thornton IBR 2010

Profitability expectations

- the balance of businesses in the manufacturing sector expecting to increase profits in 2010 is +30 per cent, an increase of 43 percentage points from last year (-13 per cent)
- the all sector average has increased by 34 per cent, from -5 per cent in 2009 to +29 per cent this year.

Figure 4: Profitability expectations: 2007-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2010



David Reuben
Grant Thornton, South Africa

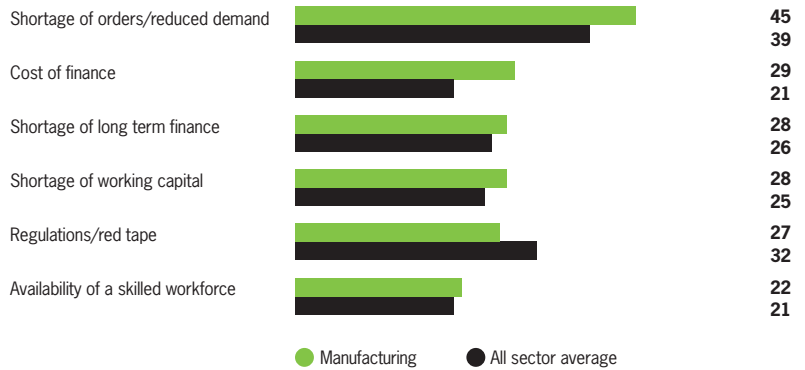
“Inefficient businesses and practices have been looked at very critically during the downturn. Bad practices have been terminated and weak businesses have gone to the wall; inefficiencies in the sector have been routed out relentlessly.”

Constraints

- a shortage of orders/reduced demand is the most pressing concern for businesses in the manufacturing sector (45 per cent), and more so than it is across all sectors (39 per cent)
- whereas regulations/red tape is less of a constraint for manufacturing businesses (27 per cent), compared to 32 per cent across all sectors
- all other constraints are slightly more of a concern in the manufacturing sector, compared to the average across all sectors.

Figure 5: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



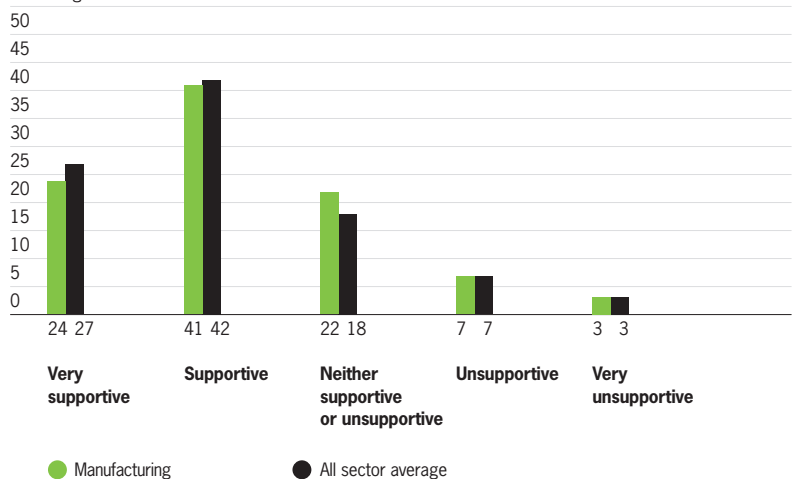
Source: Grant Thornton IBR 2010

Support of lender

- 65 per cent of businesses in the manufacturing sector are happy with the level of support provided by lenders, compared with 69 per cent across all sectors
- ten per cent of businesses in the sector believe that lenders are unsupportive or very unsupportive of their business; this is identical to the all sector average.

Figure 6: Level of support provided by lenders

Percentage of businesses



Source: Grant Thornton IBR 2010



Ian Wilson
Grant Thornton, United Kingdom

“Efficiency improvements and cost reduction initiatives need to be continuous for manufacturers of all sizes. They should be applied at every phase of their economic cycle, not only turned to when things get difficult.”

Mergers & acquisitions

- the proportion of businesses in the manufacturing sector planning to grow through acquisition fell by six percentage points this year, to 27 per cent
- this followed a 13 per cent drop the previous year, from 46 per cent in 2008 to 33 per cent in 2009
- the all sector average has fallen steadily over the past three years from 44 per cent in 2008 to 26 per cent this year.

Figure 7: Plans to grow through acquisition in the next three years

Percentage of businesses planning to grow through acquisition

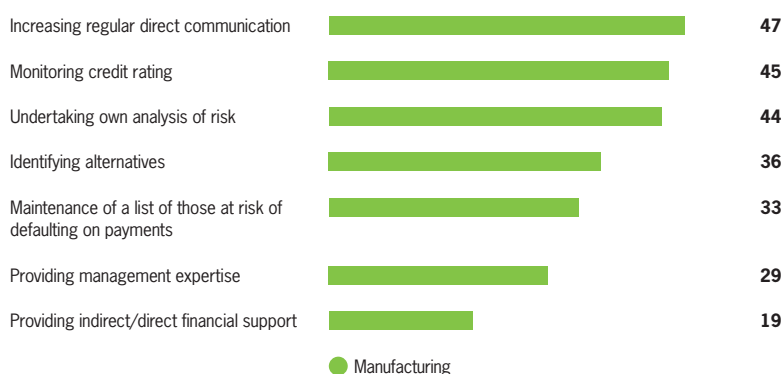


Source: Grant Thornton IBR 2010

Supply chain

- almost half of all businesses in the manufacturing sector (47 per cent) are increasing regular direct communication to manage supply chain in preparation for an upturn
- monitoring credit rating and undertaking their own analysis of risk are also popular steps (45 per cent and 44 per cent respectively)
- providing indirect/direct financial support is the least popular step, although one-fifth (19 per cent) are adopting this option.

Figure 8: Steps being taken with regards to managing supply chain in preparation for an upturn
Percentage of businesses



Source: Grant Thornton IBR 2010



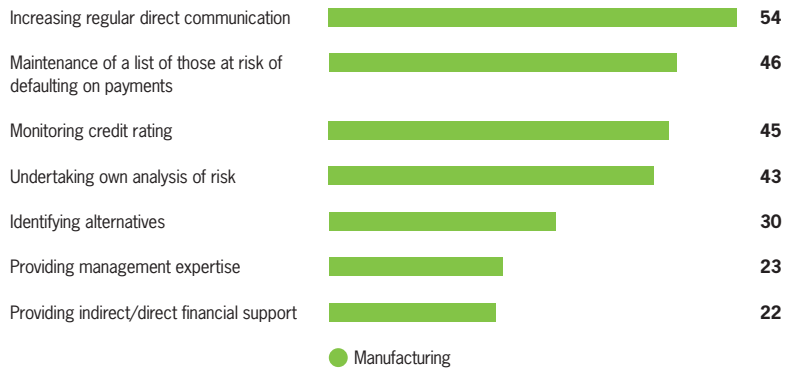
Rose Zhou
Grant Thornton, China

“A key problem for the manufacturing industries in China is the appreciation of RMB; this will continue in the future years and this will cause a lot of problems for exporters creating a problem in return for manufacturers.”

Customer base

- increasing regular direct communication is also the most popular step being taken to manage the customer base in preparation for an upturn (54 per cent)
- risk management methods are adopted by two-fifths of businesses; maintenance of a list of those at risk of defaulting, monitoring credit rating and undertaking own analysis of risk (46 per cent, 45 per cent and 43 per cent respectively)
- providing management expertise (23 per cent) and providing indirect/direct financial support (22 per cent) are the least popular steps.

Figure 9: Steps being taken with regards to managing customer base in preparation for an upturn
Percentage of businesses

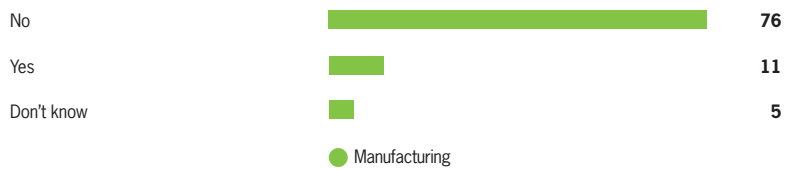


Source: Grant Thornton IBR 2010

Relocating for tax purposes

- three-quarters of businesses in the manufacturing sector have not considered in the past 12 months, nor are they considering, the relocation of plants as part of a tax reduction strategy (76 per cent)
- just one-tenth (11 per cent) are considering or have considered relocation for tax benefits
- whilst five per cent are unsure.

Figure 10: Are you considering, or have you considered over the past 12 months, the relocation of plants as part of a tax reduction strategy?
Percentage of businesses



Source: Grant Thornton IBR 2010



Wally Gruenes
Grant Thornton, United States

“Most manufacturers in the US have got their costs in line and the next logical step to be taken would be to really implement some permanent improvement practices. Most companies have not really implemented many lean production techniques such as continuous improvement, benchmarking, value screen mapping and total cost management which could further reduce their total costs.”

Outlook for the sector

The outlook for the global manufacturing sector is largely positive as orders-to-inventory ratios and backlogs of work continue to climb. In some of the more mature economies, manufacturing remains under the spotlight as governments seek to redress an over-reliance on services. Some manufacturers are looking at adopting energy efficient processes and green technologies to give them an edge in the market place, and to reduce costs – especially on energy – in the longer term.

In emerging markets such as Brazil, China and South Africa, the strength of the sector looks set to continue to drive the recovery. Meanwhile, the outsourcing of low-skilled production to low-cost centres in emerging markets, such as in China, looks set to continue, further boosting growth prospects in these economies.



James Menzies
Grant Thornton, Canada

“The younger generation is much more sensitive to the impact that companies have on the environment. As this younger generation starts to gain awareness and purchasing power, the green initiatives and energy efficiency initiatives that companies have implemented will really start to impact the commercial sales of their products.”

Sector's perspective



A manufacturing firm in Poland that produces industrial furniture, other carbon and stainless steel products, aluminium products, tool trolleys and professional hand trucks. The company employs over 200 people.

Lessons learned from the downturn

“The most important lesson that we have learnt is that we need to have a wide range of products. We have learnt that customers who are outsourcing their production are the first who resign from ordering, so it is important to have our own products with our own trademark.”

Major risks for the year ahead

“The currency exchange rate is a major risk for us, as we do not have the Euro and we need to face the increase in the price of raw materials. We are waiting and looking forward to economic growth. We are all expecting that it will happen this year.”

Planning for the future

“We are concentrating on development. We are in the process of installing four new machines. Development activities are the plan for the future. We are not planning staff reductions. We are looking forward, to develop and grow.”

“The currency exchange rate is a major risk for us, as we do not have the Euro and we need to face the increase in the price of raw materials.”

“60 per cent to 70 percent of our business comes from clients in other countries and around 30 per cent comes from clients in China.”

A manufacturer of machinery in mainland China employing around 130 staff

Lessons learned from the downturn

“It is mainly about business development and about business channel. In the last years, we did not develop a lot of business. We focused on old customers. Due to the financial crisis, we have less orders and our capacity is not fully used. 60 per cent to 70 percent of our business comes from clients in other countries and around 30 per cent comes from clients in China. Therefore, the financial crisis affects us a lot.”

Major risks for the year ahead

“In terms of major risks in the future, it is mainly about exports’ steady and continuous development. Now, although the orders from other countries are increasing, most of the orders are of small volume. There are few orders of large volume. We feel that the clients’ needs are not high. In addition, in terms of our company’s product structure, we focus on basic infrastructure. However, the need for infrastructure is shrinking. Our products are more for exporting, so we will be affected by currency issues as well.”

Planning for the future

“We start the development of a third party Internet sales platform. It is for clients in the other countries, because traditional channels are more frequently used. The level of internet sales is not high. In addition, we are working on energy saving, so as to respond to the government’s appeal. Our new products will consider the energy saving element. For example, we have energy saving automation products. We will improve our technique and will make it simple.”

Other comments

“Now, the market situation is relatively good. We are enjoying government’s policies, which aim to help small and medium sized companies. I hope that the government can provide some leading policies for small and medium companies regarding the science, technology and company development.”



View from Grant Thornton

Lessons learned from the downturn

- **relationships with key suppliers and lenders:** over the downturn businesses realised the importance of improving channels of communication with their key suppliers and banks
- **reliance on export markets:** manufacturers with a heavy dependence on foreign trade have suffered more than others
- **government policy:** businesses need to keep a close eye on government policy and remain flexible enough to respond to changes
- **maintaining liquidity:** businesses with stronger balance sheets were much more better protected from the economic storm
- **making quick decisions:** businesses with strong management teams, capable of making quick decisions about cost cutting measures, such as redundancies, were more likely to survive
- **working capital management:** the manufacturing sector was hit particularly hard by client destocking, meaning lower-tier suppliers were faced with unwanted stock
- **continual improvement:** business focus should remain on improving processes and reducing costs throughout every phase of their economic cycle, not just the troughs.



Major risks for the year ahead

- **input price fluctuations:** volatility in raw materials and energy markets could impact on business plans
- **sovereign debt crisis:** suppliers of the eurozone could find sales dropping if the sovereign debt crisis spreads
- **access to finance:** without access to public capital markets, some SMEs are struggling to get hold of finance, putting their futures at risk
- **lack of investment:** many businesses have had to put investment in plant and machinery, R&D and training on hold, damaging future medium term growth prospects
- **restocking:** sector inventory levels are generally quite low, meaning businesses may not be able to meet increased demand.



Planning for the future

- **balancing overseas and domestic business:** many businesses in the more mature markets are looking to expand into emerging markets to boost flagging sales at home
- **lean manufacturing:** businesses have been very focused on expansion but finding efficiencies, working capital management and service quality will be more important moving forward
- **production costs:** businesses will continue to look at low cost country sourcing for specific processes as an integral part of their supply chain
- **acquisitions:** selectively looking at opportunities to pick up strategic technologies or assets in particular locations
- **green technologies:** businesses are becoming increasingly aware of the impact that their energy efficiency initiatives are having in terms of starting to impact how people buy and in terms of keeping their costs down.



Is the increased focus on cost saving observed during the downturn here to stay?

- **focus on green technologies:** increased pressure from governments to pursue more energy efficient production techniques will translate into lower costs
- **survival of the fittest:** only the strongest businesses will have survived the downturn, which should lead to better and healthier competition in the future
- **manufacturing on the public agenda:** the problems in the financial sector have highlighted an under-reliance of the stability of the manufacturing sector, but this seems to have changed
- **consolidation:** accelerated consolidation in some of the more fragmented supply chains will drive efficiencies and improved competitiveness of those sectors on a global basis.

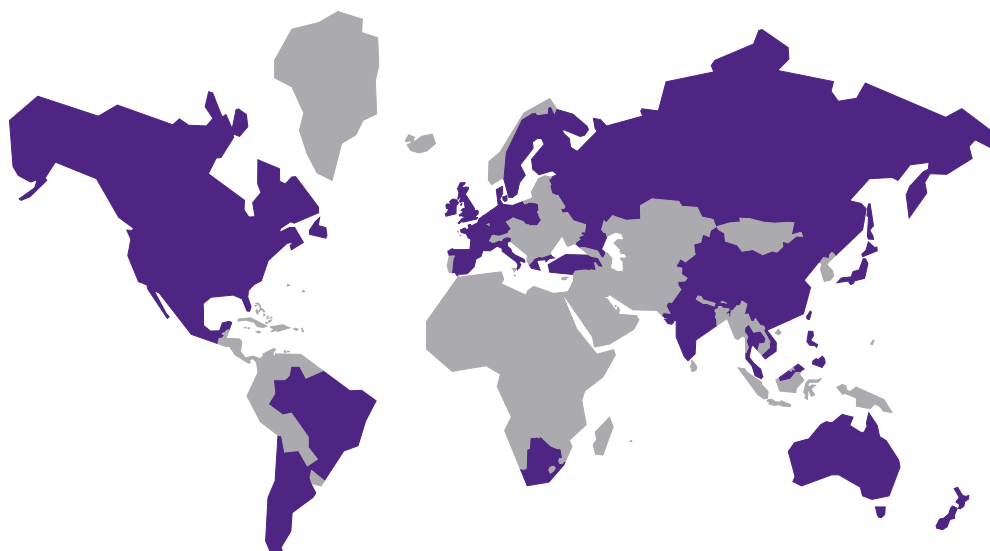


The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In the manufacturing sector, 2,107 businesses were interviewed, 12 per cent from machinery & equipment, ten per cent from fabricated metal products, eight per cent from rubber and plastic products, seven per cent from chemicals & chemicals products, six per cent from computer, electronic & optical products, six per cent from motor vehicles, trailers & semi-trailers, five per cent from electrical equipment, four per cent from basic metals, four per cent from furniture, three per cent from other non-metallic mineral products, three per cent from wood & products of wood/cork, three per cent from printing & reproduction of recorded media, three per cent from coke & refined petroleum, three per cent from wearing apparel/clothing, two per cent from textiles, two per cent from paper & paper products, one per cent from leather & related products and 20 per cent from other manufacturing.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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