

# AUTO PILOTS

The automotive industry is set to be transformed: challenges with skills, finance, technology supply chain and, of course, Brexit. How can SMEs along the supply chain position themselves in an uncertain future?

## THE MATRIX

One of the biggest changes set to take place over the next few years will be the radical transformation of the UK's £82bn turnover supply chain, concentrated in the Midlands.

The rise of new technologies such as electric and autonomous vehicles, and the move towards mobility-as-a-service (MAAS) will see supply chains become more diffuse and give greater power to some SMEs in the supply chain, notably digital suppliers, whose role will become increasingly important in "smart cars".

"Opportunities are being created as the supply chain moves from linear, with carmakers and tier-one suppliers at the top, to something more like a matrix where smaller SMEs deal directly with bigger businesses," said Kevin Vincent, operations manager at the Institute for Future Transport. "Big manufacturers will have to get used to speaking directly with suppliers rather than pushing them down the chain.

"This will become likely if transport moves towards a service-led sector rather than one based on purchases. For example, a transport service provider may have to speak to both the carmaker and a software house because both their products have an impact on the business."

It was also felt that more SMEs in the supply chain needed to get beyond thinking of themselves as primarily suppliers of product, and towards being service providers, offering vehicle servicing, upgrades, testing and aftermarket. This would be increasingly important if MAAS became

common, where vehicles were leased out rather than bought, and used more: most cars sit idle for 95 per cent of their time.

"The matrix model creates wider opportunities," said Monica Macheng, partner at Bevan Brittan. "But one of the biggest challenges to adopting it will be the mindsets of SMEs themselves. Many still think in silos – who they supply, who supplies them. They're not giving themselves time to look at changes in the chain and technologies such as the Internet of Things and how they might fit in."

One of the other major challenges was the lack of large indigenous carmakers and tier-one suppliers in the UK. This made it difficult for British businesses to take full advantage of changes in the supply chain, and influence its direction. Too many major decisions in the UK industry were made in boardrooms of businesses overseas.



"For businesses that make physical products, the hard stuff, it's difficult," said Dave OudeNijeweme, head of technology trends at the Advanced Propulsion Centre. "Britain's full of innovative people who make things work on tight schedules and small budgets. However, it's poor at scaling up. Growth of businesses in the supply chain can be slow. Before they get to any size and reach something like tier one, they're taken over and dismantled."

The biggest risk to the Midlands' supply chain long term, apart from Brexit, was if a





L-r: Ashley Norman, Monica Macheng, Kevin Vincent, David Shepherd, Tim Hughes, Dave OudeNijeweme, James Oliver, Melvin Wingfield and Helen Keenan

significant outsider – an Apple or Amazon – came into the automarket and set up their own groups of suppliers, along with their own regulations and standards. “Then frankly,” admitted Vincent, “we’re stuffed”.

## BREXIT

Britain’s imminent – or not – departure from the EU was a major worry. There was real concern that Honda’s decision to close its plant in Reading could be a forerunner of more relocation from the UK by big carmakers. If they left, and if Britain departed the EU with no deal, it was thought likely that their supply chains would move with them.

“I can’t emphasise how important it is that we retain the big OEMs [original equipment manufacturers],” said David Shepherd, founder of Drive Midlands. “They’re the ultimate demand creators for this sector. Already we’ve had investment put on hold by all levels of the supply chain for almost three years because of Brexit, which has eroded competitive advantage. We continue to fall behind. It’s important that businesses at the very top of the chain stay here, otherwise it will collapse.”

There were serious worries about the ability to import and export goods,

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**David Shepherd**

particularly if Britain crashed out of the EU. The just-in-time delivery model adopted by the automotive industry meant that even short delays, or problems in shipping small but vital components, could in a worst case scenario bring entire production lines grinding to a halt. If production lines stopped, the effects would quickly ripple out to lines not directly related to the missing part.

Some businesses had made preparations for Brexit. Helen Keenan, head of ADAS at Auto Windscreens, said they started planning a year ago, stocking up six months’ supplies. The business was also fortunate in that its market was wholly domestic and not likely to be as affected.

Others were not so sanguine. Not only had many manufacturers failed to prepare for Brexit, but many simply could not do so because they were unable to buy and store emergency stocks.

Melvin Wingfield, director at A&M EDM, said that, despite government warnings, his business was in the same position unable to build up stocks: “We need lots of brass wire which we import from China, but can’t afford to buy and stock six months’ worth of supplies. It’d cripple cashflow.”

“Even now, a lot of my clients have done nothing about preparing for Brexit,” added Jon Gilpin, partner at BDO. “The ‘business as usual’ approach was fine to some extent, but it concerns me how few have really looked into their supply chains and stock. Some have looked at who supplies them and decided ‘we’re fine’, but not many have looked at who supplies their suppliers.”

Brexit was also having a wider and longer-term paralysing effect on automotive businesses. It was both consuming vast amounts of management time in planning for so many variables, and had eroded general confidence in the UK as a place in which to invest and develop.

“Brexit has already swallowed up huge business resources,” added Tim Hughes, membership account manager at the Society of Motor Manufacturers & Traders. “Not just finance but thinking and planning resources. We have become so entangled

with Brexit that it stops us thinking. We're stuck in an eternal twilight zone, not knowing which way this will go or what – if anything – to do about it.”

“The damage already done will be difficult to recover from,” added Macheng. “Businesses are already lagging behind in planning. No matter what outcome, Brexit will affect inward investment in automotive. It takes a long time to convince a company to invest in the UK; it's not done lightly. Even if we come to a clear decision it will take a long time to recapture confidence.”

## GOVERNMENT LEADERSHIP

There was overall sadness – bordering on despair – about the lack of guidance and thinking by government in a long-term strategy for the automotive supply chain.

Although Brexit has dominated the agenda for three years, the lack of a clear automotive strategy went back further. There was little sign of the ten-year planning and stability that businesses need to make long-term investment decisions.

“The lack of strategy is really concerning, and the uncertainty is crippling,” said Wingfield. “As an SME we can't control the direction of travel, we simply respond to events. But we have no clarity from government – none – on where we're going.”

One example was the government's strategy on diesel engines: ten years after pushing the technology hard, and encouraging industry to make major investments with tax breaks, it reversed its decision and moved diesel from hero to villain status.

“A classic example is the lack of clear regulation surrounding autonomous vehicles,” said Keenan. “The government has set out an ambition that we should be fully electric when it comes to vehicles by 2040, but has failed to set up clear, simple steps on how to get there. For example, regulations on how glass should be used in autonomous vehicles could have been written on the back of a matchbox. There's vague guidance, but no real direction or idea of who is responsible to oversee these things.”

The lack of long term planning in Britain was compared with Germany, which usually thought long-term – 50 years and beyond – in its investment strategies.

“Germany is different in that, instead of leaving it solely to the market, the government makes a big shout, such as a massive investment in photovoltaic cells, and goes



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for it. Sometimes it calls it wrong, but at least it has direction,” said OudeNijeweme.

“It's not just the government's fault,” added Shepherd. “Too many businesses in the supply chain are run on their balance sheet, rather than in developing any long-term technology or market leadership.”

## SKILLS

There was general agreement that skills, or the lack of, was a serious impediment to developing the automotive industry, going back at least a decade. The shortage was being made worse by Brexit, which had deterred many EU workers, on which the auto-industry relied, from working in Britain.

“There's lack of clarity about the position of settled workers from the EEA [European Economic Area – which covers workers from Norway, Iceland and Switzerland as well as the EU] in Britain,” said Ashley Norman, partner at Bevan Brittan. “The chain is heavily reliant on EU workers coming here, so if freedom of movement ends, and is not replaced with something similar, there will be serious shortages.”

There was also concern that the sector had failed to make itself appealing to enough young people and explain to them that it had transformed from a heavy, oily, dirty sector into a clean, hi-tech industry.

“What's needed is a more fundamental change, one of attitude,” said Hughes.

“We need to promote automotive as a sector where kids can get excited about factories, rather than seeing them as dark satanic mills, and can see career paths rather than jobs.”

There was also a need to upgrade the appeal of apprenticeships, which had suffered from the drive to send more young people to university, and a devaluing so that they could be applied to almost any job role. “In the old days holding a City & Guilds Apprenticeship was something to be proud of: it carried weight,” said Wingfield.

This was in contrast to countries such as Germany, where an industrial apprenticeship was held in high esteem.

However, there was agreement that new courses, particularly higher apprenticeships, which allowed workers to take their skills training and education to university level, were having a major positive effect.

## FINANCE

One issue that businesses in the automotive supply chain had to face was changes in funding models. Many businesses had held off investment and were looking for funding after the initial Brexit referendum result, and a slight upturn was disappearing as the EU departure approached.

Some businesses were facing real challenges in getting cashflow agreements to cover the next 12 months, which was forcing managements into defensive-cost cutting strategies, rather than investment and expansion.

“We have seen a slowdown in long-term funding for premises and kit,” said James Oliver, senior director at Yorkshire Bank. “However, there has been something of an upturn, simply because so many businesses have held off investment for so long, and now realise they have to invest. It's a decision made out of necessity rather than choice.”

“In particular, there's a long-term challenge in getting funding for tooling because of the long payback. It can be 12 to 18 months before a business sees a return on initial outlay, which for many is a big ask.”

However, it was felt that auto-industry businesses now had access to a greater variety of funding streams, particularly in invoice finance and equity funding. ■