A Game Plan for UK Automotive Suppliers
As advances in technology and recent political and economic risks continue to impact the automotive industry landscape, decisions that determine global footprints are becoming increasingly complex for C-level executives in the supply chain. Louis Burns, Partner at Mazars and Sajid Yacoob of Tata Consultancy Services talk through some of the current challenges facing the UK automotive sector and how suppliers can exploit market growth and manage risk.

British car manufacturing hit a 17-year high in 2016 as 1.72 million cars rolled off production lines, making the UK the third biggest car producer in Europe. And with volumes forecast to hit 2 million by 2020, there is further potential for the supply sector to exploit market growth. To maximise this potential requires executives to have a clear game plan; one that ensures there is inbuilt capability to service growing demand, while at the same time developing the skills required as technology transforms cars into digital living spaces. As the second biggest producer of premium cars in Europe and a reputation for cutting-edge design, UK-based suppliers are in a good position to capitalise. Indeed, there was £4 billion of unfilled demand for UK-made components in 2015, which has attracted suppliers such as Nifco and Calsonic Kansei from Japan, Lear from the USA and Brose from Germany to expand their business in the UK. But there are a number of risks on the horizon.

With Europe the UK automotive industry’s biggest trading partner, uncertainties over Brexit and access to the single market currently make it very difficult for suppliers to plan and implement investment decisions. While Nissan’s decision to commit to the UK is encouraging, plans to ‘re-evaluate the situation’ once Brexit negotiations have concluded means suppliers reliant on Nissan, and other OEMs whose commitment to the UK hinges on negotiations remaining favourable, face a tough decision in terms of whether to go ahead with plans to implement further investment in research and production. Uncertainty has already seen some repercussions in the UK with a fall in total committed investments down to £1.66 billion in 2016, from £2.5bn in 2015 as investment plans are put on ice until the Brexit fog clears. As a result, the industry is potentially looking at a volatile short to medium term future as key geopolitical events such as Brexit and the new US presidential regime start to take effect.

Developing the right skill set is a further area for concern. Despite the UK having a reputation for innovation, long term underinvestment in manufacturing capabilities combined with a period of recent high growth for the car industry has created a skills shortage in the UK. Which means suppliers not only face the challenge of a lack of resources to meet rising demand, but also the ability to meet the growing range of skills required in areas such as technology, digital and robotics. It requires suppliers to be more creative in terms of developing the necessary skill sets over the next 5-10 years. A more hands-on approach between the industry and higher education can help to lock-in graduate talent and retain knowledge at company level longer term.

In the short term, entering into strategic partnerships could be the most effective way to bridge the skills gap. Taking a partnership approach not only opens up valuable opportunities to share resources and expertise, but can also help to increase a supplier’s capability footprint, without incurring significant capital costs. The benefits of a partnership are further enhanced if it opens up the door to new international locations which allows suppliers to reconfigure...
Vertical integration in the value chain

New technology is transforming and shifting customer requirements which will require a significant change in mindsets. UK suppliers who don’t innovate could face significant disruption to their historical revenue streams. Increasingly, OEMs want suppliers to work with each other and act as partners in developing integrated end-to-end solutions. In specific areas, like electronics and info-tainment, OEMs will increasingly favour common processes and protocols to enable a plug and play approach. Those suppliers with products that cannot integrate or communicate with other parts of the value chain may see a downturn in demand. To some extent risks can be mitigated by suppliers investing in software development and integration. Similarly, OEMs want repeatable processes from their suppliers so they can be lifted, shipped and dropped into any global environment wherever the manufacturer is operating.

To cope with change, suppliers need to be proactive in understanding customers' long term strategic vision and to reflect this in forecasting mechanisms in order to mitigate risk. Being able to accurately forecast demand is key to not only ensuring demands are met, but that quality is maintained. It also gives suppliers vital information for planning investments in plant and machinery.

Technology as a disrupter

Alternative powertrains and automated driving are two areas where we can see how technology is beginning to disrupt traditional automotive business models, not only in the UK but globally. The connected car is now a reality and opens the door to new competitors from pure technology firms to data security experts. We have already seen technology giants Google and Apple begin to test automated driving which gives suppliers a clear idea of where the industry is heading. Plus with alternatives to outright car ownership increasingly popular, the dynamics of the market change from a one time sale to a vehicle that can generate a lot of information from many people through leasing. An important revenue stream going forward is how data is gathered and used. Suppliers who can help OEMs come up with solutions that protect proprietary data will be in high demand going forward.

In an environment where technological disruption is the norm, suppliers need to stay competitive. They need to be astute about how to work with other suppliers to gain valuable expertise or build up technological capabilities through M&A.

As a location, the UK has a reputation for its R&D capabilities and a supply sector to match, but having a flexible game plan remains crucial. While it’s tempting to enjoy current growth, standing still is no longer an option. Getting as close to clients as possible to keep a finger of the pulse of market changes is key for suppliers.

1. The Society of Motor Manufacturers and Traders (SMMT)
2. The Automotive Council - 'Growing the Automotive Supply Chain – The Opportunity Ahead'
3. The Society of Motor Manufacturers and Traders (SMMT)
Strengths & weaknesses of the UK as a location for global automotive industry suppliers

**Strengths**
- UK is the fastest growing market for premium automotive suppliers
- Strong global appetite for British-built cars
- A productive, flexible & cost-effective workforce
- Recognised R&D capabilities
- A low rate of corporation tax & regulatory neutral

**Weaknesses**
- A skills shortage due to long term underinvestment in manufacturing
- Current uncertainty over access to the European market
- Potential difficulties in attracting overseas talent due to tighter immigration rules
- Lack of government focus

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