



Industry Forum

Business Excellence Through Inspired People

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# The Future of UK Transport Equipment Supply Chains

Support for the UK transport equipment supply chain now includes the UK Rail Supply Group which has been given £500,000 to help rail suppliers secure new business. £38bn is being invested in the UK rail infrastructure over the next fifteen years. Many other countries have similar investment plans and so there is a series of great opportunities for the UK sector.

The Rail Supply Group is led jointly by Vince Cable, Terence Watson who is president of Althom UK and the Transport Secretary, Patrick McLoughlin. It represents a sector with some 3,500 firms employing 80,000 people and value added of £7bn. The sector will be heavily involved in HS2, further work on Thameslink and Crossrail, London Underground upgrades and major electrification projects.



The Rail Supply Group Council have identified five priorities for increased competitiveness covering exports, inward investment, innovation, skills, focused support for SMEs and HS2.

On the innovation front, last November the Rail Vehicles Powertrain competition was launched with a budget of £4.4m. The funding is for novel technical solutions making self-powered rail vehicles more energy efficient.

In addition, last month the £4m COMPASS competition was launched as part of the development of new systems which will allow trains to keep moving when signal systems fail. This month a £6m competition is being launched to help de-risk potential step change innovations.

2014 saw the CBI develop its industrial strategy by highlighting the need for the UK to strengthen its manufacturing supply chains. The report 'Pulling Together' identified a number of supply chain development priorities including increased innovation capability and higher standards of quality and service. The upside potential is estimated at an extra 500,000 jobs and £30bn in value added by 2025. The need to rebalance the UK economy is widely accepted and strengthening manufacturing supply chains is one of the best ways of achieving this.

The drivers for majors in the UK to seek improved local manufacturing supply chains include risk analysis of extended supply chains and the high priority of innovation strategy with reduced product development lead times. This amounts to a strong case for reshoring supply - a trend which is evident not just in the UK but across Europe and North America.

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Offshore wind, automotive and civil nuclear are identified by the CBI as sectors with substantial growth potential. While cost remains an important factor in supplier selection, innovation and service related criteria put UK suppliers in a much stronger position than hitherto.



Strengthened manufacturing supply chains mean more healthy employment ecosystems. Manufacturing supply chains involve a diversity of activities with a broad range of jobs at all skills levels.

In the UK R&D expenditure is still too low as a share of national economy compared with many of our advanced competitors. China's R&D spend has been rising steadily and has recently overtaken the UK. In addition UK's spend is still too heavily concentrated in larger firms compared with smaller firms especially those in manufacturing supply chains.

In the same way smaller firms at the lower level in the supply chain are particularly vulnerable to shortages in technical and managerial skills which seem to be developing as the labour market continues to expand.

In addition to the sectors mentioned so far, the supply chain opportunities arising from growth in global aerospace are also substantial. Just under a year ago the aerospace trade association, ADS, published a report on growth prospects. Emerging aerospace markets include Brazil, Japan, Mexico and South Korea. Major existing markets for UK aerospace include China, USA, Canada and India and these will continue to be important.

The Aerospace Growth Partnership has identified investment priorities for the development of these opportunities - new technology, skills and supply chain enhancement.

The AGP Supply Chain development working group seeks to remove barriers to growth via collaborative technology development, improved access to finance, increased performance building on the Supply Chain 21 programme, advanced manufacturing capability and access to new markets.

The importance of this kind of long term sector planning and development is highlighted by the challenges faced by European machinery manufacturers, another industry grouping where competitiveness depends on a rich supply chain. Chinese machinery makers have now developed their capabilities so that they can compete with European firms in both domestic and emerging markets. China's share of the machinery global market increased from 23% in 2008 to 37% in 2012. Besides cost advantages the Chinese have used process innovations to boost their productivity and efficiency. The Chinese have also benefited from increased demand in rapidly growing economies for equipment which is cost competitive and has sufficient performance rather than the advanced customisation which European manufacturers offer.

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Boston Consulting Group suggests that European firms need to identify the market sectors where the catch-up barriers for the Chinese are high and reinforce their existing competitive advantage there.

Where the catch-up barriers are low, European firms need to match the cost innovation strategies of the Chinese by applying similar techniques such as value engineering.

Medical equipment and technology is an area where Europe faces a particularly strong competition from the Chinese. Here, European firms should exploit their inherent strengths and consider acquisition of some Chinese firms and strategic alliances with others.

The UK automotive supply chain has grown as the overall automotive manufacturing sector has been expanding with greatly increased investment and R&D spend. But, while this is encouraging, there is plenty of scope for further supply chain development. The CBI is right to think in terms of a ten year program to enhance supply chain competitiveness.

The Automotive Council has made the supply chain a priority area and Industry Forum has been working on this programme with funds from the Advanced Manufacturing Supply Chain Initiative (AMSCI) to help bolster the efficiencies of the UK's automotive supply chains.

With the general election in May 2015 the UK Government policy dimension of supply chain development will enter a period of uncertainty. Hopefully with so much support across manufacturing, supply chain development will remain a priority for whatever government emerges.

The work that has already been done in automotive, aerospace and rail plus the support of the CBI should all help make a strong case for further development underpinned by government support. It is no exaggeration to say that the UK has the potential to develop a powerful national transport industries cluster fully internationally competitive exploiting synergies in key areas like relations with higher education and skills supply and employment.

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