

UK PLASTIC INJECTION MOULDING, 2002

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ii. About the Author

The Author was until recently Managing Director of a plastics processing business in the UK, and has therefore seen the industry at first hand. He has led an international career, with 8 years of management experience in Europe and successful business experience in most parts of the world including China, Japan, South East Asia, Brazil, Southern Africa, Eastern and Western Europe and USA. It is this international exposure that has left him with both a knowledge of how other countries manage their businesses and support their industries and with a passionate belief in what the UK manufacturer can achieve, given the will and the right encouragement.

The author has held other board level positions in the UK, including Sales & Marketing Director of a precision engineering business. In the UK he has good turnaround management experience, where he has been quick to define clear business strategies and manage focused and effective sales campaigns as well as technical programmes.

The author now operates as a consultant and is free to advise businesses on devising and implementing the strategies contained in this report.

iii. About the Report

This report provides a picture of the injection moulding industry that will be of as much interest to the moulder as to other stakeholders in the industry: investors, suppliers, machinery manufacturers, trade bodies, Regional Development and other government agencies.

The report is not intended to be a technical report, or even a financial or a market report. There are plenty of each of these types of report available, produced by well established and recognized authorities. However, there are not many reports available which pull the essential elements together into a single strategic overview, and of these, there are very few indeed which focus on the injection moulding industry in an international context. At a time when the industry faces a great many uncertainties, this report aims to try and fill that gap.

With this in mind, some of the important issues which the industry is facing are excluded from the main body of the report, simply because there is not sufficient room to cover them within a strategic overview in anything like enough detail. Recycling and environmental issues, Financing and E-commerce are offered instead as additional modules in **Annex III**.

The injection moulding industry in Western Europe and North America is under serious pressure. This report is forthright in addressing the problems facing the industry, focusing primarily on the UK, with comparative data from other countries, and from the perspective of the small or medium-sized enterprise (SME). The SME moulders make up well over 75% of the UK's injection moulding sector.

The international material gives good comparative data on the UK's main international competitors, especially USA, Germany and France. Data from the US market is prolific, but it is not always easy to obtain the same comparative data for the same period from different European countries.

This comparison should help the UK moulder to benchmark his or her business against international competitors: Size, number of employees, sales growth and profitability. This is clearly an important process, because the greater the productivity gap between the UK and its competitors – and there is one - the faster and harder must be the consolidation process that will follow.

For UK and other exporters into these international markets, and for overseas exporters into the UK, this report can be useful in identifying

market growth opportunities in broad terms, and assessing the strength and weaknesses of the local competition.

For companies domiciled outside the UK, including material suppliers, machinery suppliers, customers groups, investors and companies on the acquisition trail, this report can provide a valuable overview of the opportunities and trends in the UK industry.

1. Introduction

The plastics market gave rise to a generation of small family-owned processing businesses in all the developed markets in the 1970s and 1980s. At this time, the number of upstream plastic suppliers and downstream customers was infinitely greater than they are now, and the end-user markets were still defined along national lines and were relatively parochial.

Equally significantly, the injection moulding and other plastic processing industries in the Far East were immature and of no immediate threat to the industries in the developed economies – the quality standards, production know-how and capacity were still insufficient, and their industries were preoccupied with domestic demand. Although the first “Made in China” or “Made in Korea” toys and basic plastic products began to appear in the early 1980s, these were very much the cheap end of the market.

Twenty to thirty years later, the picture is very different.

The upstream supplier markets, (including machinery manufacturers) and the downstream customer groups (especially automotive, packaging, consumer goods and electronics) have consolidated to an astonishing degree. This has created such supply and buying power that the processing industry, which has been slow to follow suit, is squeezed heavily from both sides.

The markets are now truly global. It has become increasingly difficult to retain large local customers of perhaps 15 years standing or more, even when the customer has been entirely satisfied with the supplier’s performance. How many times do we hear “we need a global supplier”, or “we need our suppliers to be right there with us in our markets”?

The emergence of purchasing as a strategic business tool, rather than an operational function, has taken its toll, too: “Sorry, directive from Group: we are pooling Group requirements and sourcing elsewhere”.

And of course, the producers in the emerging markets have come of age. Not only is it now common practice to source plastic parts in these countries, but for the new breed of professional buyers, it is almost negligent not to explore it. The quality of product and reliability of supply in very many cases are every bit as good as a locally produced part.

It is not surprising then, that an industry that has been slow to adapt now finds itself in trouble.

But that is not all. What has been happening, during this period, to the manufacturing industry as a whole? This needs to be looked at within the context of this report, because it provides a framework within which not only the injection moulding industry itself has been operating, but also most of its customers.

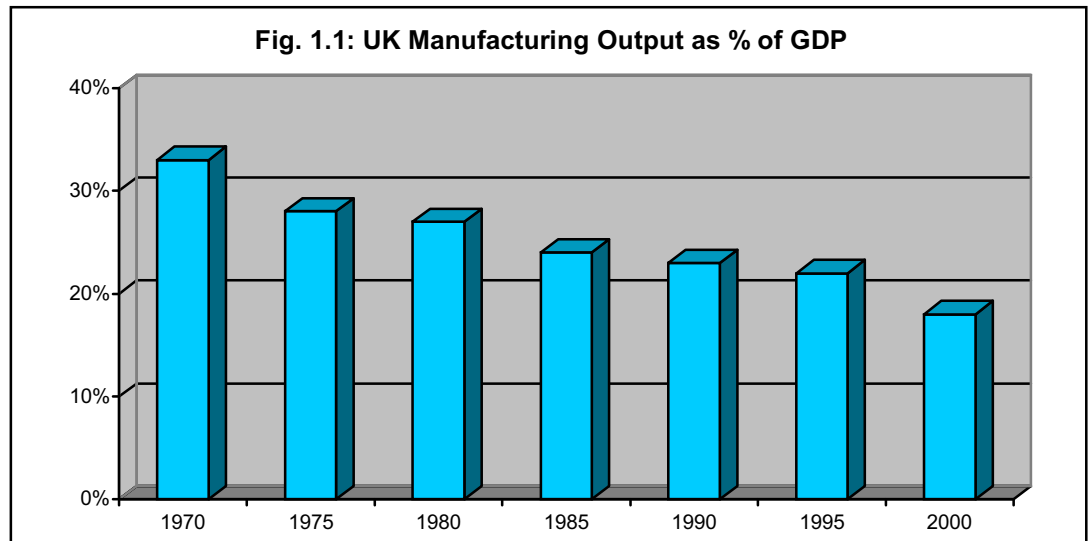
UK manufacturing has been in steady decline for most of the past 50 years. As a percentage of GDP, manufacturing industry represented a mere 18% in 2001, whereas it stood at 33% in 1970, (see **Fig 1.1**).

There is deep frustration at the lack of manufacturing culture in the UK. This is not new and is certainly not alone as a persistent manufacturing problem. It is common to all manufacturing sectors (especially “old economy” industries), it manifests itself in many ways and, to some extent, the trends are visible in almost all western economies. However, it seems that the UK has a particularly bad dose. At its most basic level, it can be broken down into four elements:

- ◆ The skills framework. This is the lack of coherent and long term planning by successive governments to foster pride in a profession, encourage the desire to learn and promote the pursuit of excellence. This is a huge and very complex series of inter-connected issues and is the result of decades of neglect, but it goes right to the heart of UK manufacturing. There is depressing evidence that the current government regards UK manufacturing as a lost cause, representing “only” 18% of GDP – (see **Fig 1.1**). If UK manufacturing is not to shrink further, there is an urgent need for a coordinated effort to address these issues, although it might take as much as a generation to change the mindset at shop floor level. It must start with a clear statement from the Government that manufacturing is an essential component of the national economy, and be followed by corresponding action to “join up” the policies in education, social security, employment, technology, taxation and finance and industry in a single, coherent strategy to regenerate manufacturing industry – not quick-fix, headline- grabbing measures but long term measures to underpin a return to a skills-based economy.
- ◆ The manufacturing image. The drift in young people away from technical skills and away from manufacturing is also a social issue. They are lured perhaps by the “future promise” of software and internet services, but they are also dissuaded by the imagery of hard work, rigid “9 to 5” working practices, repetitive and “boring” occupations, high pressure work environments with the constant threat of cost cutting redundancies – and all that for comparatively low pay. This is an area which manufacturing industry itself must address, as well as governments, schools, universities and job centres.

- ◆ The “platform UK” strategy. The UK has deliberately set out to cultivate a reputation for low employment and manufacturing costs, without addressing properly the reverse side of the coin: productivity. In practice, what we have is the worst of both worlds: a low-cost self-image which is steering low-cost budgets and strategies, but failing to produce low-cost product. This is because these same low-cost strategies are actually losing ground in terms of productivity because of low-cost attitudes to training, pay, industrial relations, morale, and skills. The benefits of low employment costs are therefore lost. It is incredibly difficult to lift a low cost marketing strategy into a niche or any other differential strategy, and the same will apply to a low-cost national manufacturing strategy. In short, it is a strategy that has manifestly failed, and we should be considering the options for what is left of a decimated manufacturing industry. Successive UK governments are just as deeply implicated here, as is manufacturing industry itself.
- ◆ The short-term planning cycles of UK industry, driven by the demands of the capital markets. In this context, training and staff development are costly overheads, and these have typically been among the first victims of cost reduction programmes in the drive to meet short-term profitability. Perhaps for this reason, there has not been the demand for the type and quality of training infrastructure that is found, for instance, in Germany, and governments have therefore not delivered. The investor community can help by promoting longer term planning in manufacturing and encouraging business to treat investment in people with the same high priority as investment in plant and facilities.

Two further points are worth noting: The strength of the pound and the UK’s decision to remain outside the Euro zone during the initial phase are completely fallacious arguments when it comes to excuses for poor industrial performance in the UK. There is one simple answer for the currency issue: a hard currency sustained Germany and Japan for forty years, because they both used the opportunity to invest in training, technology and higher productivity, and throughout this period, both countries led the world, along with the US, in exports. The problems each country now faces are not directly related to the value of the currency over this period.



(Source: ONS)

So, an industry that has frankly failed to adapt to its own changed circumstances, also shares the problems associated with decades of poor management on a national manufacturing level.

Sadly, there is strong evidence that the danger signs are still being ignored in a “head-in-the-sand” mentality, as small moulders try to escape by simply pedalling harder, instead of stopping to plan their way out of difficulties.

To illustrate the scale of the challenge, a recent survey of the UK plastics industry by Faraday Plastics Partnership, showed that 25% of moulders had no quality accreditations, 85% of equipment is over three years old and 89% of staff are not technically qualified or of graduate status.

Even though the demand for plastic injection moulded products is expected to continue to grow at above average rates for most of the next decade, the industry will be forced to rationalize and consolidate, of that there is no question. There will be losers in this process. There are also urgent lessons to be learned from international competitors as well as the successful UK moulders - there are indeed some outstanding examples of world class moulding companies in the UK and their skills, attributes and business strategies are in marked contrast to the overall performance of the sector. For those companies who do not adapt quickly in this way, the issue will be one of survival.

Given that injection moulding is a relatively mature market, the opportunities are not so much in ground-breaking market innovations, although there are some success stories here too, (plastics have some way to go in such fields as metal and glass replacement and recycling). The opportunities will be in

niche markets, new applications for existing products and in increased market share through superior part and mould design, advanced moulding technology, highly skilled staff, market or product specialization, scale and productivity, superb quality of product and fast, responsive and flexible customer service – not much to aim for, really! This requires long term planning and investment and the real innovations will flow from these measures.

How does the small, family owned business - struggling to break even month after month, unable to afford skilled staff or long term investments, fighting to hold on to customers week in, week out, lurching from one crisis to the next – how does this business lift its game to these dizzy heights? The answers are as hard as the questions, but there are ways to begin the journey.

In the final analysis, if the moulder is unable or unwilling to take these steps, then he had better prepare to sell his business. In many cases, that may be a perfectly legitimate strategy.