moneycorp

Taking back control in manufacturing

Currency tools for modern manufacturing

The manufacturing industry is undergoing a period of significant change. Rapid innovation and technology are transforming industry practices. The need for sustainable manufacturing to combat climate change is another key factor. Regulatory and political change is also playing a role; the twin challenges of Brexit and the US-China trade war look set to alter the landscape of global trade.

With so many challenges, it's no wonder that recent CBI industrial trends surveys have shown a fall in business confidence. However, a recent report from Sage suggests that 99% of manufacturers are making preparations for growth and are, as the report states, "taking control of their destiny… by investing in tools to help them remain in the driving seat."

As a currency specialist, we work with manufacturers across the UK to help mitigate currency risk and facilitate international payments and global trade. Despite the numerous challenges in the business landscape, there are opportunities for businesses within the manufacturing sector to deliver growth and compete effectively on the world stage.

Fostering Innovation

For manufacturers to succeed in a changing commercial environment, innovation is key.

Companies across the UK are focussed on innovation as a means of not only surviving the current economic climate but also thriving in the future. This focus is not confined to the products, but can be seen in production processes, right across the supply chain and in every department across a business. From increasing efficiency to partnerships which achieve synergy with other companies, there are many ways that manufacturers can innovate and keep up with the changes in the industry while maintaining healthy profits.

Since the industrial revolution, technology has always been at the heart of manufacturing and the sector is well-placed to thrive in the changing business environment. Recent reports anticipate significant transformation in the next five years. Much of this is set to come from collaboration and the influence of global markets; despite changes on the political level, manufacturing is an outward looking industry. From importing components to exporting products, there is an international outlook which means that manufacturers can be vulnerable to currency risk. The foreign exchange market constantly fluctuates and there has been an increased level of volatility due to factors including Brexit, the US-China trade war.

The weaker pound since the Brexit vote has meant that UK manufacturers are offering value in the global market. However, after an initial rush for sales and a similar period of stockpiling, this activity appears to have slowed down and manufacturers are now looking to the longer-term future of the industry – and technology innovations – to deliver results. Brexit concerns, currency and price pressures have not gone away, but the opportunity that innovation can deliver has meant that new opportunities may arise in markets further afield thanks to the transformation that the industry is embracing.

Supply chain optimisation

Cranfield University recently hosted the tenth National Manufacturing Debate and the key area for discussion was the digitalisation of supply chains.

Considered one of the biggest challenges facing the industry, technology also presents an opportunity for manufacturers to introduce greater efficiencies and consider an optimised supply chain as a significant asset within an organisation.

Over the years, the manufacturing supply chain has transformed from a straight line of materials to factory to market into an ecosystem which considers the wider environment and the social and economic benefits of production. At the same time, digitalisation has meant that additional tools are available to optimise every aspect of a supply chain.

For example, digital asset tracking provides real-time visibility and traceability. Cloud storage has meant that companies of all sizes can leverage the power of big data. As a result of this, predictive analytics can help to anticipate demand in a way that means manufacturers can adjust production and supply accordingly.

All of these positive developments come at a cost; not only the cost of developing and implementing these technologies but also of keeping up with competitors who can make the most of the same opportunities. In many cases, supply chain optimisation can include a reduced time to market, which means operating at a faster pace to address competitive challenges.

Markets are also changing; mass production has in many cases been replaced by increased customisation and personalisation. Bespoke products may require more complex supply chains. While technology provides a means of optimising supply chains, it's clear that the resulting opportunities make them more complicated.

Optimising the supply chain happens on a global scale – from international markets to transport, storage and sales partners across the world. One of the areas that can be optimised is by streamlining international payments, making the management of multi-currency revenue and costs less of a pressure on resources. Prompt and cost-effective payments can help to build strong relationships that alongside technological developments can help to optimise the whole of the supply chain ecosystem.

Sustainability and green manufacturing

Technology has meant that products and components can be manufactured faster than ever, even with customisation.

Improvements in logistics mean that goods can also be transported across the world at speed. However, businesses are under increasing pressure to incorporate environmental concerns into their strategy and therefore the approach of "bigger, better, faster, more" may not pay dividends in the long term as fears over climate change escalate and change patterns of consumption.

A report from Lloyds Bank, which surveyed 200 manufacturers with a turnover of £500m or more, highlighted that sustainability is high on the agenda. Some of the measures considered are common-sense actions which are seen across numerous industries and households, such as reducing waste and energy consumption and cutting back on international travel. Other measures are more specific to the manufacturing industry, such as sustainable procurement (considered by a quarter of businesses surveyed), and changing manufacturing materials or processes, which was an option for a third of manufacturers. A fifth also highlighted the opportunity of making distribution fleets greener using electric and smart vehicles.

While in some cases, manufacturers will be moving to domestic sourcing to reduce their environmental impact, for many this isn't an option and the global market can't be ignored. The good news is that sustainable practices often have a positive impact on the bottom line. Increased efficiency across production and the supply chain coupled with growing market demand for sustainable products mean that manufacturers have the opportunity to reduce costs and grow revenues.

Industry 4.0

At the heart of these changes is the technological improvements commonly described under the catch-all title of industry 4.0. This incorporates a number of significant developments which highlight the impact of technology on the industry. Many of these are facilitating the change towards sustainability models and providing the means to navigate the challenges in the current political landscape and the resulting global trade issues.

Data-driven production and IoT

Data-driven production contributes to reducing waste and improving profitability. Data gathered through the Internet of Things (IoT) means that companies have real-time data on production, distribution and sales volumes. Data collected, analysed, stored and transmitted via the cloud allows organisations to increase their efficiency and analyse the global supply chain. Early warning of spikes or declines in demand, growing markets or issues with sourcing or distribution can help companies maintain a lean operation. It often ensures that companies remain agile and outward looking – as one geographic market declines, another may be found, for example.

Blockchain

Blockchain technology is another technology that is transforming manufacturing. For example, in the food and drink industry, blockchain can log everything from the growing, manufacture and retail of goods in a common blockchain, making it easier to identify any potential food contamination. Systems such as IBM Food Trust, already in use within the industry, facilitate greater transparency and traceability. Integrated sensors can even monitor the quality and safety of the food right up to the point of sale.

While food manufacturers are early adopters, there is potential to extend applications across the manufacturing sector. The challenge is the cost of the initial implementation; assuming that the expertise required isn't currently held within the business, additional staff, systems and strategies may be required to leverage the potential of blockchain. It's likely that as the benefits are proven within the industry and the technology gains wider adoption, more companies will be looking for partners and clients to deliver sector-specific solutions which support efficiency and cost-reduction measures.

Skills gap and automation

The promised revolution which sees robots replacing workers has yet to happen. While there have been many improvements in production due to robotics, far from replacing jobs it has created new areas of employment. One of the challenges that the industry is facing relates to the skills gap created by technology advancing at a faster pace than training.

Automation is becoming integral to production and AI-driven robots can support efficiency strategies. However, the programming, analytics and maintenance of these new technologies need to be supported. The manufacturing industry is keen to address this skills gap. The recent announcement of a government fund to support digital transformation will provide additional support – the £30m fund for the Made Smarter Challenge will support projects relating to data analytics, immersive technologies, connected environments and IoT. In addition, there is an opportunity to gain outside support through partnerships with start-ups and experts across the world.

Cyber security and GDPR

Technological change is transforming the industry for the better, facilitating more cost-effective and sustainable practices and allowing for greater customisation and personalisation to meet market demand. However, alongside these opportunities comes new challenges. Cyber security is a growing concern; major companies are vulnerable to cyber-attacks and the more data are gathered through technologies such as IoT, the more vulnerable manufacturers become as targets. Recent changes to the GDPR mean that data breaches must be made public; primarily these relate to customer data, but some client data will also apply and as more detail is gathered across the supply chain, the risk has increased.

GDPR rules may only apply across the EU, but companies buying or selling to the EU are subject to those rules. Many other countries are following suit in recognition of the changing importance and value of data as an asset within a business. Any strategy that incorporates digital technology or leverages the opportunities of cloud-based and digital analytics needs to have a firm grasp of the requirements.

Brexit

The weakness of the pound since the EU Referendum was initially a significant driver for sales as the decreased value of sterling made products manufactured in the UK great value for overseas buyers.

According to data from the Office of National Statistics, UK exports of goods and services increased to a record £647.1bn in the 12 months to May 2019, an increase of 4%. Goods exports accounted for £357.1bn of that total and increased by 4.7%. However, the continued uncertainty over the departure deal has left manufacturers, like the Brexit deal itself, in limbo. According to recent data from the ONS, the EU currently accounts for just under half of all British exports every year.

Understanding the impact of the General Election

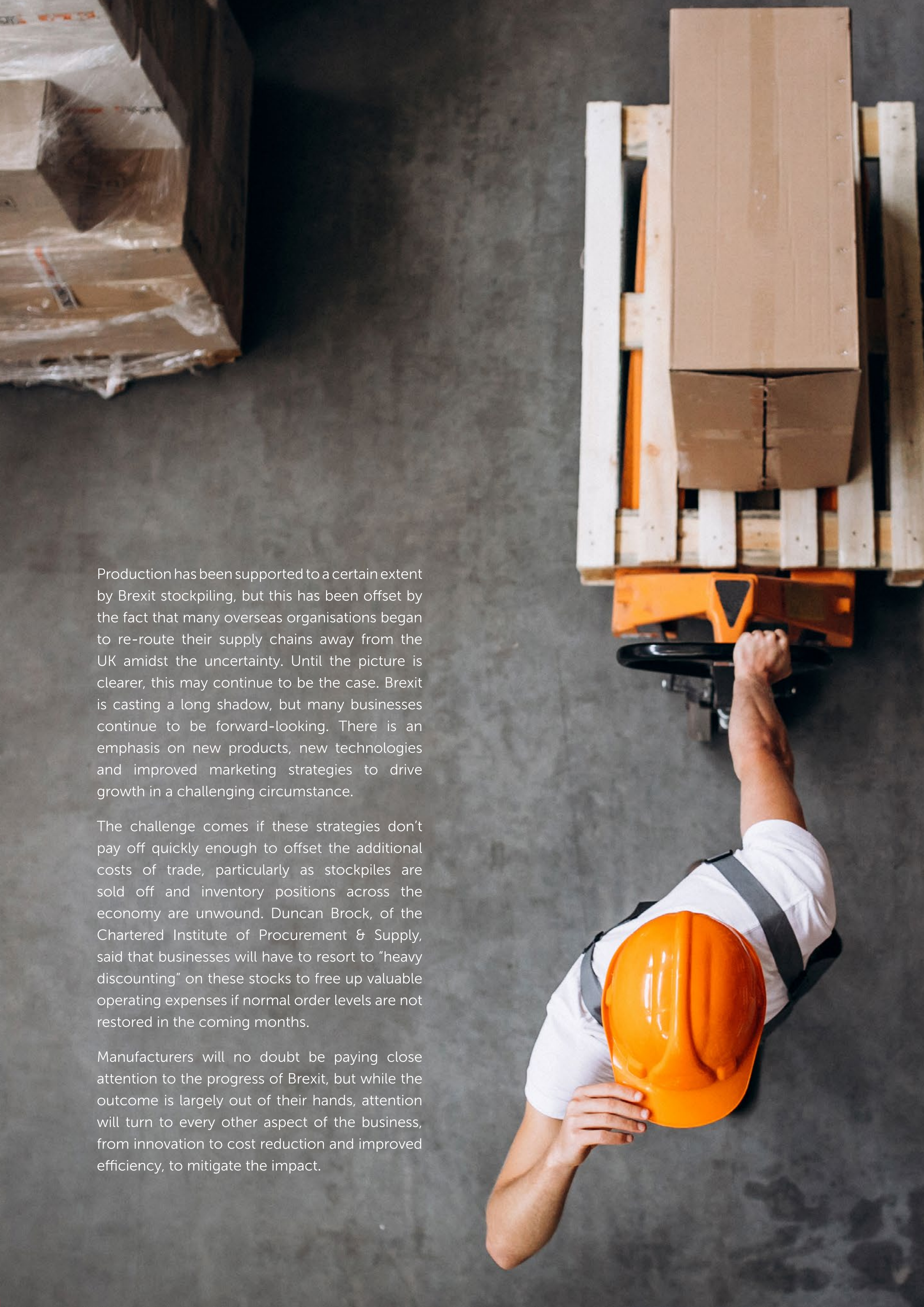
The delay of the Brexit deadline until the end of January 2020 has led to a General Election in a bid to break the parliamentary deadlock. Parliament will be suspended for five weeks during the campaigning period. Whatever other issues arise, the election will be a de facto referendum on Brexit and there are a number of variables – including the departure of a significant number of MPs, making way for new faces. If the Liberal Democrats continue to push for Article 50 to be revoked, there is an opportunity for them to make gains from the section of the electorate keen for the UK to remain in the EU, possibly at the expense of The Labour Party, which has yet to make a clear stance on Brexit. This could cause a radical shift in the makeup of parliament, or could pave the way for a larger Conservative Party majority or for The Brexit Party to gain some seats. Whatever happens in the election, the matter will put more pressure on the pound and may cause further volatility as the market assesses the implications of various campaign promises and opinion polls ahead of the 12th December.

Post-Brexit Manufacturing

Even if the first stage of Brexit is resolved with the approval of the EU Withdrawal Bill, there will still be many issues to iron out. A departure from the EU will mean a change in the paperwork required to export goods to the EU, and may cause delays in the supply chain. The disruption could have a significant impact: according to recent ONS data, a third of UK manufacturers believe that the EU will remain their growth market for the next five years. The next largest geographical segments are China (15%) and North America (13%).

The British Chamber of Commerce (BCC) recently warned that many businesses are not ready for the "immediate and abrupt" changes that leaving the EU without a deal would bring. The BCC cited a "worryingly low" number of firms obtaining the EORI number required for customs. However, the manufacturing industry appears to be looking beyond the specifics of what is in the Brexit deal and focussing instead on R&D and innovation. The ONS report showed that manufacturing leaders were boosting their budgets by an average of 13% in an attempt to accelerate growth through new product development and improvements in the supply chain.

It's clear that Brexit has put pressure on the manufacturing sector and not just in terms of accessible markets and affordable component imports. Britain currently has the lowest level of robotics in the development manufacturing sector and some experts believe that a lack of access to cheap immigrant labour in the future may push production to robots.



Production has been supported to a certain extent by Brexit stockpiling, but this has been offset by the fact that many overseas organisations began to re-route their supply chains away from the UK amidst the uncertainty. Until the picture is clearer, this may continue to be the case. Brexit is casting a long shadow, but many businesses continue to be forward-looking. There is an emphasis on new products, new technologies and improved marketing strategies to drive growth in a challenging circumstance.

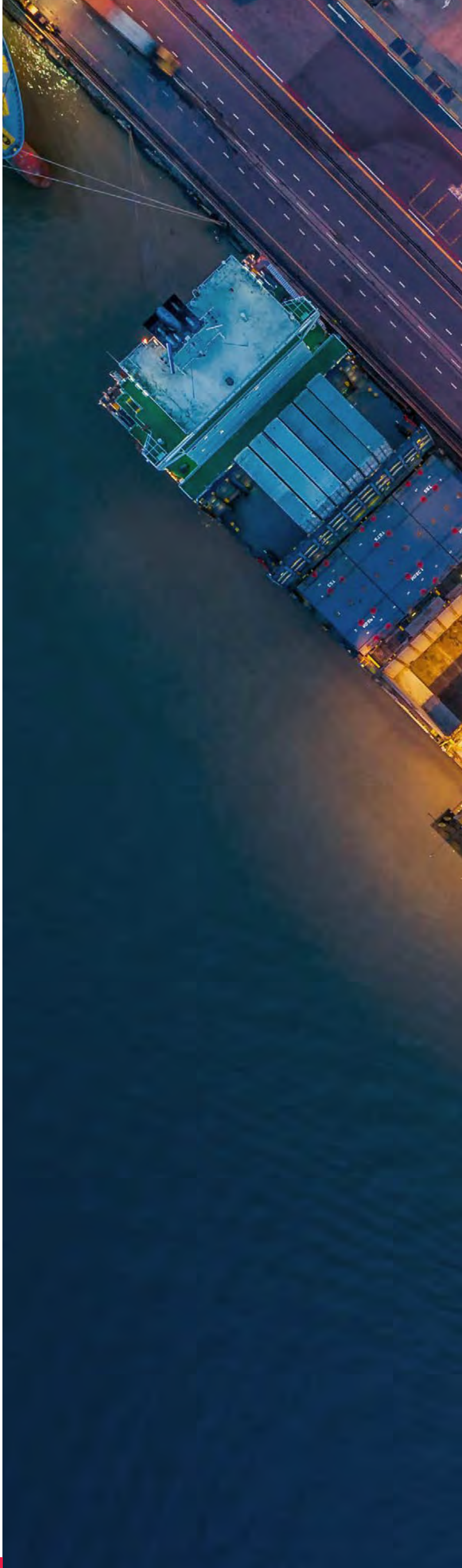
The challenge comes if these strategies don't pay off quickly enough to offset the additional costs of trade, particularly as stockpiles are sold off and inventory positions across the economy are unwound. Duncan Brock, of the Chartered Institute of Procurement & Supply, said that businesses will have to resort to "heavy discounting" on these stocks to free up valuable operating expenses if normal order levels are not restored in the coming months.

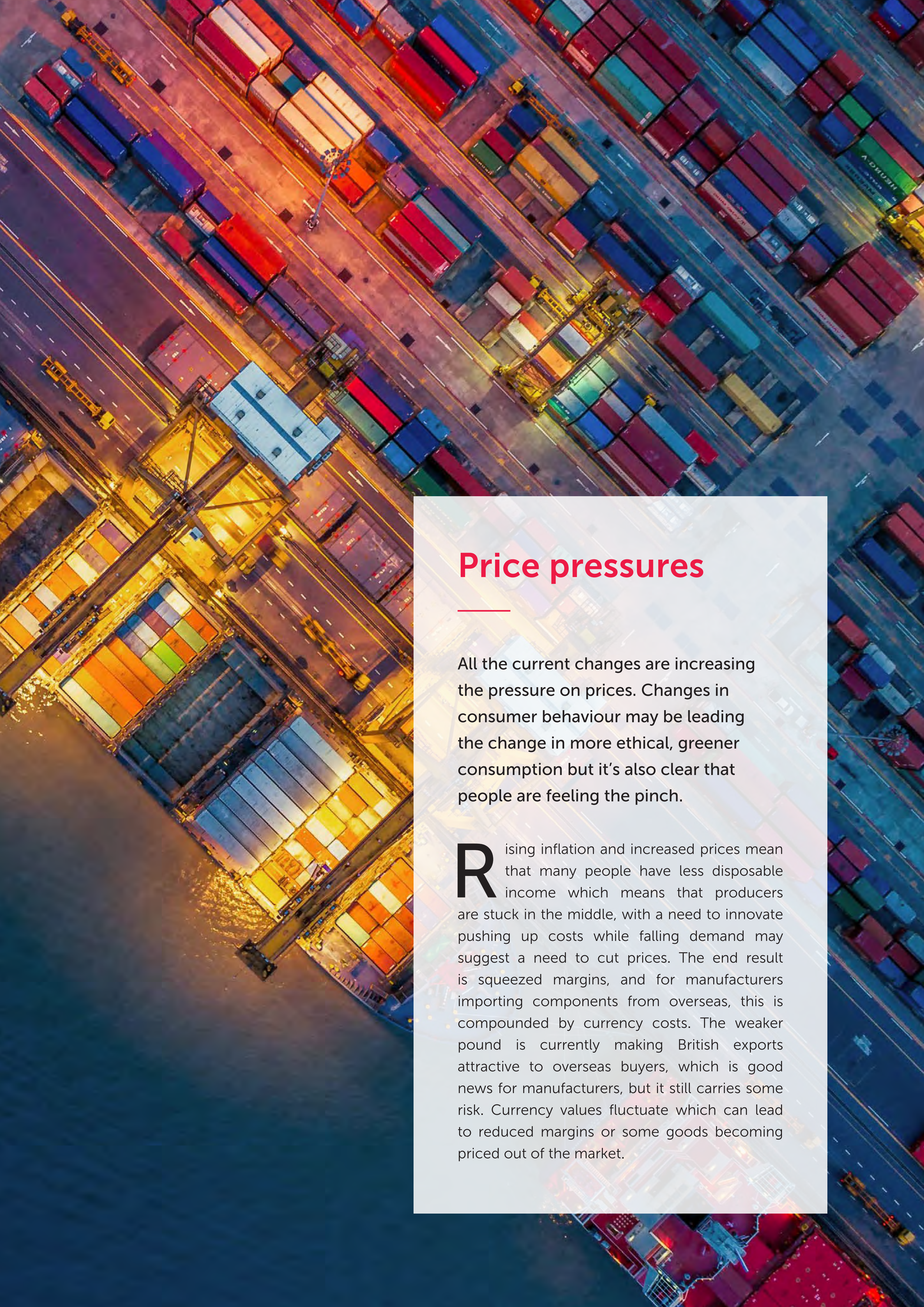
Manufacturers will no doubt be paying close attention to the progress of Brexit, but while the outcome is largely out of their hands, attention will turn to every other aspect of the business, from innovation to cost reduction and improved efficiency, to mitigate the impact.

US-China Trade War

Brexit isn't the only issue currently impacting global trade. The US-China trade war has had repercussions across the world. Commodity-based economies and places on trade routes such as Australia have been the hardest hit, but the situation adds more unwelcome uncertainty as manufacturers seek to move their business forward.

Escalation of the trade war has had an impact on financial markets and each new round of tariffs brings a wave of selling pressure around the world. It has been a factor in the slowing of growth around the world and many companies are putting investment on pause until the situation has been resolved. There are signs that the trade war may be coming to an end; statistics show that US economic growth has slowed as a result of the dispute and with the Presidential election around the corner, the optics are important. Growth in US manufacturing, investment and exports could be seen as a positive development.





Price pressures

All the current changes are increasing the pressure on prices. Changes in consumer behaviour may be leading the change in more ethical, greener consumption but it's also clear that people are feeling the pinch.

Rising inflation and increased prices mean that many people have less disposable income which means that producers are stuck in the middle, with a need to innovate pushing up costs while falling demand may suggest a need to cut prices. The end result is squeezed margins, and for manufacturers importing components from overseas, this is compounded by currency costs. The weaker pound is currently making British exports attractive to overseas buyers, which is good news for manufacturers, but it still carries some risk. Currency values fluctuate which can lead to reduced margins or some goods becoming priced out of the market.

Understanding currency fluctuations

There are so many factors that impact a currency – situations such as Brexit and the US-China trade war are major examples, but currencies fluctuate due to economic statistics, political changes and business confidence. As they fluctuate in relation to each other, a major change in another country will have a knock-on effect on other currencies.

The biggest challenge is that given that there are so many factors, and that it includes changeable areas such as politics, the currency market is difficult to predict. This in turn makes it difficult to set prices with overseas partners and clients. In addition, there are some suggestions that the current economic situation may lead to a shift in buying patterns. The overall approach to a company's currency exposure will depend on a number of factors, but here are some key steps to take when planning ahead in uncertain times.

Managing currency risk

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STEP ONE: UNDERSTAND THE NATURE OF YOUR CURRENCY EXPOSURE

Take a look at your balance sheet and consider what fraction of overall incoming and outgoing funds is held in currency, because this will indicate your measure of risk. If it's only 10% of your business, you may think you have less to worry about than if it's currently 70% but the issue isn't quite that simple. Of course, a company with higher currency exposure bears more risk due to currency fluctuations, but you may want to look beyond the numbers at your strategic plans. You should consider where the market may be growing or shrinking and where the future opportunities lie. In trying economic times, whatever the percentage of your overall profits and losses are consumed by currency, you should aim to make the most of every penny.

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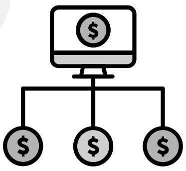

STEP TWO: UNDERSTAND THE CHOICES AVAILABLE

There are a number of currency tools which can help you make the most of your company's resources and still expand into further overseas markets. A forward contract allows you to lock in a prevailing rate of exchange for a set period of time. This can help with forward planning and provide some certainty but it carries its own risk. Currency can go up as well as down, and it depends on what is going to work best for you. In addition, there's the fact that this works best when you have a clear pipeline and this isn't always possible when developing a presence in new geographic markets. If you have definite commitments then a forward contract may be the best approach. However, you can also set up a market order; this allows you to specify your target rate and the funds are transferred if that rate is reached. There are no guarantees with a market order but you can pair this with a stop-loss order which specifies the lowest limit you are willing to accept. This allows you to protect your profit margin while also having the opportunity to take advantage of movements in the market.

Both forward contracts and market orders are longer term strategies that require some planning, but if you operate a more agile business, you may feel like the best approach is to wait and see what the market brings and adapt accordingly. This does carry some risk, but if you work with a specialist who can keep you updated on the latest changes in the market then it could allow you to maximise your profit margin and help protect against too severe losses.

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STEP THREE: SPEAK TO A SPECIALIST

All of the above products and services are available via a currency specialist but that isn't the only advantage. Currency specialists typically offer better rates and lower fees than high street banks. You also get the benefit of expert guidance from someone who not only understands the foreign exchange market but also works closely with clients in the manufacturing industry. Whether you're just starting to consider your currency exposure or are simply looking to review your current approach, the additional expertise can shed light on the opportunities and risks of different approaches – and you can get all this extra help for free when organising your international payments through a specialist.

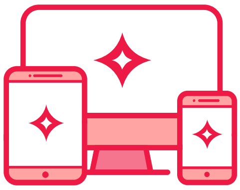
Controlling currency and international payment costs

Fluctuations in the exchange rate have an impact on the cost of international payments, but it isn't the only factor.

Different providers offer different rates of exchange, and even a fraction of a percentage point can make a big difference. In addition, if you're working with multiple partners, perhaps working on innovative new production processes or smart labels, exchange fees can soon add up and can further erode the profit margin. If you're working across multiple markets around the world, then it may be time consuming to set up and deliver the broad range of currency transactions required and to keep track of cash flow when working in multiple currencies.

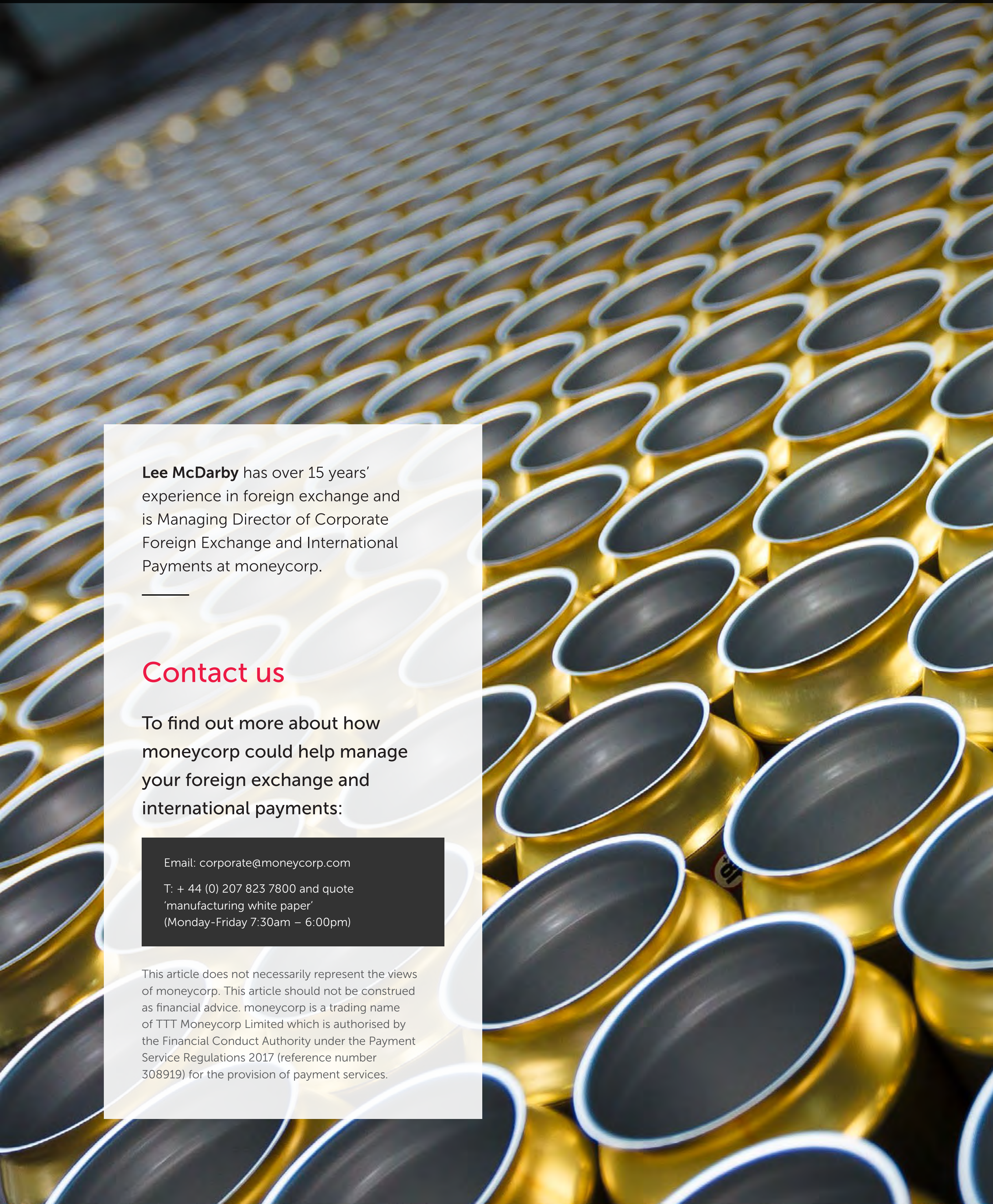
Managing international payments

Working in partnership with a currency specialist like moneycorp can improve the process of managing international markets and partnerships. As well as expert guidance on the currency market and available currency tools for managing risk, moneycorp provides clients with an online platform for managing international payments. Features of the platform include live statements, progress updates on international payments, the facility to make payments in multiple currencies and management controls. This approach doesn't add too many additional layers of administration or require staff with specialist expertise, but does provide the transparency and checks and balances that allow for the close management of currency costs.



Currency support for the global manufacturing industry

For many organisations, a global approach can help to offset some of the challenges of shrinking domestic markets, political changes such as Brexit and changing consumer tastes and priorities. Wherever the market is expanding, the cost of international transfers and the risk of currency exposure are likely to be a key factor in whether your plans succeed – after all, there is no point in tripling your sales through overseas markets if you find that you didn't make a penny of profit. The corporate foreign exchange service from moneycorp helps companies to manage their foreign exchange risk. Our expert team works directly with the manufacturing industry and provides guidance on the foreign exchange market and insight into currency tools and market developments and how they might impact individual businesses.



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