MANUFACTURING in North-West England

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Inside

William Hall savours the wide range of food and drink producers in the region, including the makers of the Vimto brand

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Engine of growth set to fire on all cylinders

Recession in the region has been deeper than the national average but the sector is recovering, writes **Andrew Bounds**

Flight plan: final assembly of the Eurofighter Typhoon at BAE's Warton plant, near Preston. The region's aerospace sector is the biggest in the UK

Manufacturing has become fashionable in the UK again, but in the north-west of England it never fell out of favour. It is part of the DNA of a region that invented the spinning jenny, produced the first computer and where Mr Rolls met Mr Royce.

In spite of years of decline as Britain embraced a retail and bank-driven boom from the 1980s onwards, the sector still comprises 20 per cent of the region's gross domestic product, well above the national average of 13 per cent.

Since the financial crisis, the government has pledged to rebalance the UK economy away from services – even designing an industrial strategy. The idea had been buried for 30 years after its policy of picking winners proved disastrous.

The region's factories help power – and safely land – aircraft, pump oil and gas, prevent hospital infection and build nuclear submarines. Its aerospace sector, which began with Avro triplanes and now includes parts of Airbuses and Eurofighters, is the biggest in the UK, as is its food and drink sector. Pilkington, the glass maker acquired by Japan's NSG Group in 2006, still has a big presence in St Helens, Merseyside.

Even after the worst recession since before the second world war, the region's manufacturing sector employs some 400,000 people and contributes £19.6bn to the economy. Annually, each job creates about £45,000 in gross added value.

Steve Broomhead, chief executive of the Northwest Regional Development Agency (NWDA), the state-funded body fostering economic development, says: "Manufacturing is critical to the north-west. The sector is the biggest of any English region and remains a major driver for economic growth."

However, for the past 18 months it has been a drag on growth. The recession in the region has been deeper than the national average and is expected to persist until the third quarter of 2010, according to a recent report from the Commission for the New Economy, a branch of local government.

The jolt has been huge, as witnessed by Leyland Trucks in Lancashire. A chronic sufferer from the "British disease" of strikes in the 1970s, it fell into receivership in 1993. A management buy-out revived the brand and then Paccar of the US bought it in 1998. It invested heavily and exports grew by 123 per cent between 2006 and 2009, as trucks were sold to 44 countries as far afield as Mexico and Australia.

Production hit record levels, sharply increasing output to about 24,700 units in 2008, from 13,000 units in 2002, while the workforce grew by a fifth to 1,300. As late as March 2008, the company was taking on 80 staff, introducing a night shift and expecting annual production of 25,000 trucks. By December that year, it was announcing 250 job cuts.

Now, however, aided by the fall in sterling, manufacturing is recovering. It will be a long, hard road. Mike Damms, chief executive of the chamber of commerce in East Lancashire, says: "The challenge is that in manufacturing, we have become so productive and efficient that we have had jobless growth."

Take the car industry. The north-west accounts for 12 per cent of UK car output, with big brands such as Land Rover and Vauxhall leading the way. While turnover of its companies increased by more than a third between 2002 and 2007, employment levels remained about the same, at around 23,000.

However, there are grounds for optimism, say business leaders. Jürgen Maier, the Manchester-based head of the industrial division for the UK at Siemens, says: "The trend towards offshoring is slowing. Labour costs are rising, shipping costs are rising. There is the quality issue also."

An EEF/BDO Stoy Hayward report last year found that one in seven UK manufacturers had repatriated production lines over past two years.

Mr Maier also argues that foreign ownership of British companies – about 70 per cent of manufacturers nationwide – is positive.

British management, often answerable to the City of London, frequently chased short-term profit over innovation and sustainability. "There is a different attitude towards investment," says Mr Maier. "[Foreign owners] are prepared to put the money in and ensure the rewards are achieved over time."

Chris Rowlands, head of manufacturing at the NWDA, says: "We have been very good at attracting inward investment." Only London and the south-east have been more successful.

As bank finance remains tough, it is foreign or privately-owned conservative companies, of which there are many in the north-west, that can seize markets from rivals.

Michael Oliver, owner of Oliver Valves, in Knutsford, Cheshire, says: "We have little debt and plenty of cash. We concentrate on gross margin." He commands a market niche – high quality valves for subsea operations – which makes it hard for rivals to compete and he can sell worldwide to blue chip clients such as BP and Petrobras.

"We go to our customers and ask them what they will need in two to four years' time and then try to design it for them. A lot of British manufacturers suffered because they came up with a great product then found no one wanted it," says Mr Oliver.

This trend for customer service is mirrored by Ener-g. Originally a spin-out from what was then the University of Manchester Institute of Science and Technology (Umist), it was bought by entrepreneur Tim Scott in 1997. It builds combined heat and power plants and also makes waste-to-energy plants and anaerobic digestion facilities that replace landfill for waste. It employs 230 in the north-west.

Derek Duffill, managing director, says: "Private ownership allows us to plan long-term."

For example, the company pays the capital cost of new plants and then allows customers to pay for them through the energy savings they make over its lifetime. About 10 per cent of revenues come from long-term service contracts, another trend among manufacturing companies looking to add a stable income stream to smooth out demand.

Tony Wilson, of Klarius, a car components maker, has built a big empire quickly. When buying companies he disposes of any parts that do not have market-leading capability.

"Our aim is to outdistance the competition. We don't want to be top of our league – we want to be in a league of our own," he says, arguing that too many companies settle for less.

One threat to all these companies' growth is a skills shortage.

Many engineering graduates are to be found in the City working for investment banks designing financial products rather than solid ones. While manufacturers hope such people can be now be wooed, it is hard to compete with salaries elsewhere.

There is a big push to improve the industry's image. The Manufacturing Institute, a Manchester-based charity, has produced a myth-busting brochure and is setting up the UK's first Fab Lab, where people can design their own products.

Whereas in many countries, Engineer is a formal title as respected as Doctor, in the UK it conjures up images of greasy rags, gloomy mill chimneys and shuttered factories.

"There is no instantly identifiable role model for manufacturing, which is part of the problem, but when asked what their image of an engineer is, many people say: 'Kevin Webster from Coronation Street'," says Mr Rowlands. The TV soap opera character is a car mechanic best known for moaning about the world as he downs several pints of beer in the local pub, and lists his dislike as "ambition".

Mr Wilson says some company bosses bring the doom-laden image upon themselves. "Too many of them whinge. They are looking for help or handouts when they should be updating or changing their products to give customers what they want."

That is what Verna Group in Bolton has done for 50 years. It began by using waste paper from the Bolton News to develop single-use pulp products, such as bedpans and urinals, that would save nurses time.

It makes macerators, which shred the waste and neutralise its chemicals. That creates new business in maintenance and new demand – as it cuts hospital infection. The machines are used in 90 per cent of UK hospital and 43 countries worldwide.

Lesley Webster, an ex-nurse and Verna's UK director, says: "We have to innovate constantly and improve our products. There are plenty of other companies out there that would like to copy them and they have a lower cost base. We are winning on innovation and quality."

Inside this issue

Weft and warp of history leave dwindling band of survivors

Textiles

New names are finding ways to compete against low-cost rivals, writes **Peter Marsh**

Inside an old weaving factory adjacent to the Leeds & Liverpool canal in Burnley, the 20 employees of Lancashire Textiles are doing their best to maintain some of the traditions of the region's clothing and fabric industries.

Joe McBride, the company's 42-year-old owner and managing director, says that competing in the textiles business is a struggle, given the much lower costs of countries in Asia which in the past 30 years have become the leaders in this sector.

"We have to do things differently and work out how we can make products in the way our competitors in China can't," says Mr McBride.

His 10-year-old company produces a range of duvets, pillows and mattress covers, sold mainly by a mixture of mail-order groups and retailers in the UK.

Cameron Mill, the cavernous building where Lancashire Textiles is based, was built in the 1890s. Back then, Burnley was one of the world's most important textiles towns, with a speciality in cotton weaving.

But, as in much of the rest of the Lancashire textiles business, decline set in soon after the start of the 20th century.

Local companies were found wanting in their ability to adapt to new production techniques, and were undercut hugely on wages by new rivals, particularly in India and Japan.

The Lancashire textile industry was one of the UK business sectors worst hit by the 1920s economic slump, with progress since then being mainly downhill – with the number of companies and employees in the region dwindling year by year.

> Fewer companies have failed in the latest recession than in previous downturns

The recession of the past two years has added to the difficulties.

However, the numbers of companies going under in this period have been fewer than in other downturns, indicating the relative resilience of the survivors in the sector.

Today, the industry comprises a few dozen companies, including a handful of relatively new businesses. Among the latter are Mr McBride's and others that have found ways to move into areas, where competition from low-cost nations is noticeably less than in commodity textiles.

Looking ahead to the rest of 2010, Mr McBride says he is fairly hopeful.

"I am turning orders away, because I don't want to overreach myself by taking on more working capital than the business can afford," he says.

As a consequence, he thinks the company's sales will dip from £2m last year to £1.8m this year, but climb to £2.5m in 2011.

But Mr McBride does not underestimate the problems

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Pharmaceuticals industry has deep local roots

Biomedical

Andrew Jack on a success story that faces challenges

The modern glass and metal building with its stacks of sophisticated laboratory equipment looks like the headquarters of a Californian biotechnology company, but it is in fact the new extension of the Liverpool School of Tropical Medicine.

In the past few years, Janet Hemingway, its head, has turned the world's first such dedicated academic centre – founded at the end of the 19th century by merchants concerned about the diseases afflicting their crews – into a hub of global research for innovative drugs and pesticides.

Yet while the school has forged impressive partnerships with industry, philanthropists, universities and governments in some of the world's poorest countries, Liverpool's own historically rich commercial drugs sector is feeling the pinch of global pressures.

Across the region, pharmaceuticals – born from the chemicals industry and spanning the more recent expansion of biological medicines – remains an important presence.

The Northwest Regional Development Agency estimates that the biomedical sector accounts for 20,000 jobs, £1.6bn in gross value added, and generates more exports for the sector than any other part of the UK at £3.4bn a year.

Alongside the School of Tropical Medicine, Liverpool boasts two universities. Manchester has a large life sciences academic hub and a strong record of research through the National Health Service.

Last year, the North West Exemplar began operating as a way to reverse the UK's falling international share of commercial clinical trials by easing red-tape and "match-making" company projects with sympathetic and skilled NHS researchers with capacity.

The region's workforce, with skills in a wide range of manufacturing sectors, has allowed cross-fertilisation. AstraZeneca has even borrowed several car industry managers to help introduce Japanese-style lean production techniques.

Pharmaceuticals has a long history in the region. Speke, near Liverpool, boasts a European biotechnology manufacturing hub, although it is dominated by well established, long-standing names: Eli Lilly, which produces insulin and human growth hormone; and Novartis and AstraZeneca, which took over existing flu vaccine sites.

> Some smaller companies in the sector have had to go abroad to find business

ICI's chemical factories have morphed through demerger, merger and restructuring over the years into AstraZeneca's Macclesfield drug production operations and its Alderley Park research and development facilities, where staff are awaiting news of job losses following fresh cost-cutting plans.

"The axe is hanging in the air at AstraZeneca," says Derek Ellison, chief operating officer of Eden Biodesign in Speke. His company ran the National Biomanufacturing Centre, designed partly to help local biotech companies scale up production with experimental batches of vaccines and biological products for clinical trials.

Yet he has had to go abroad to find business. "We have more Portuguese clients than British ones," he says, citing others from Sweden and Japan. His company is now set to be transformed following its recent purchase by Watson, the US generics group.

2Bio, a consultancy that manages Mersey Bio, an incubator attached to Liverpool University's life sciences department, has also changed strategy. It has nurtured 38 small businesses, only a handful of which have failed.

But many are service providers rather than fledgling drug development companies, and 2Bio itself now makes much of its money from clients elsewhere in Europe, helping identify the most promising innovations to commercialise.

Geoff Wainwright, 2Bio's joint director, points to the absence of capital in the north-west to help early stage companies in the sector, with a regional investment fund ill adjusted to the long-term and uncertain returns of biotechnology.

He also argues that there is a skills gap, with academics pushed in too many directions, while those who have left large pharmaceutical companies find themselves abandoned in small biotechnology companies without supportive infrastructure, where "you have to be chief cook and bottle-washer".

That view is shared by Ms Hemingway. "People in the space [between research and commercialisation] have often not made it in academia or industry," she says. "It's the blind leading the blind."

The more the drug industry globalises its operations, the harder it will prove for any single location to combine all the skills needed across the development value chain.

Search for work never stops

Profile

Merc

Peter Marsh visits the Lancashire components maker

Les Nuttall thinks the story of the demise of the UK's engineering industry has been overdone.

"There is plenty of work around – but you have to make a lot of effort to find it," says 54-year-old Mr Nuttall. He is managing director and owner of Merc Engineering, based in a cramped former textile mill in Barrowford, a small town in eastern Lancashire.

Mr Nuttall started the company in 2001, when he bought an engineering business that had been run by Geoff Nuttall, his father, but had gone into receivership after getting into financial difficulties.

After taking over a staff that had been slimmed down to just 16, he has expanded the employees to 53 – roughly the same number as the company employed in its previous incarnation.

Merc's sales in the year ended March 2009 were £3.9m. In 2008 Mr Nuttall felt sufficiently confident to buy Bright Spark, another local engineering company, which employs 16 and – like Merc – concentrates on making parts for other UK-based businesses on a subcontracting basis.

Mr Nuttall runs the two companies separately, although sometimes they may work jointly on the same production run to make the overall process more efficient.

In the past year, demand for Merc's components, in fields such as railway rolling stock, defence, energy equipment, Formula One racing and general engineering, has been lower because of the recession.

Mr Nuttall estimates that sales in the current financial year will be down by about 25 per cent. Even so, the number of employees has been kept at roughly the same number as 12 months ago.

> 'We do a lot more planning and marketing than most small companies'

"It's been difficult, but I feel we are now on an upward curve," he says. The key for Merc has been to look continuously for new orders.

"We do a lot more planning and marketing than most small companies," Mr Nuttall says. "We have a database of 1,500 potential customers and are continually plugging away at them in an effort to pick up work."

Of the 80 customers that Merc is working for, 40 are fairly new, having been signed up only in the past few months.

"Our key competence is that we can take on work in small production runs and do it quickly," Mr Nuttall says. "Customers are becoming more demanding. Nowadays, they are asking for deliveries [of a new set of parts] in between one week and five weeks while a few years ago, the delivery time might have been as long as three months."

Being a UK-based manufacturers is particularly helpful when working for other British companies on small production runs with short lead times.

The focus on searching for work has meant that frequently in the past year Merc has kept its prices low to win new orders. Partly as a consequence, the company is likely to record a small loss in 2009-10.

But Mr Nuttall says he is confident it will return to profit in the coming financial year. "I feel the hard work we've put into building up relationships with new customers is going to pay off," he says.

Weft and warp of textile sector

Continued from Page 1

caused by the 2008-09 recession. "We had to write off £250,000 last year, because two of our customers collapsed, owing us money," he says.

One other notable new enterprise in the region is Sweet Dreams, set up in Burnley in 1988 by Riaz Ahmed, its managing director. It is now one of the UK's biggest producers of mattresses and divans.

Also representing this same branch of the textiles industry is Silent Night, based in nearby Barnoldswick. As well as making bedding products, it is a large bed manufacturer.

Another textiles business that has relatively recent roots is Cavalier, based in Blackburn, and among Britain's leading carpet manufacturers. Set up by its chairman Gerry Lowe in 1974, the company specialises in tufted wool-based carpets and has among its senior managers Mr Lowe's three sons, Nathan, Hans and Julian.

Nathan Lowe, Cavalier's managing director, says that despite cutting back the company's employees by about 20 per cent to 225 over the past 18 months, he thinks an upturn is on the way. "We're feeling more confident and are getting ready to launch a series of new ranges of carpets," he says.

One of the oldest companies in the area still in the weaving business is James Thornber, in Clitheroe. It dates to 1906 and specialises in furnishings and fabrics. Owned by the seventh generation of the Thornber family, the company employs 50 people and had sales last year of £5m.

Illustrating adaptability is James Dewhurst, based in Altham, which was established in the 1930s as a producer of fabrics for consumer applications. But in recent years the company has moved into high-value textiles for industrial applications, for instance for the building industry.

Another company that has taken a similar route is Mitchell Interflex, which has its headquarters near Colne. It makes specialised fabrics for processes such as filtration as well as for deckchairs and the walk-through "strip curtains" used in factories.

Formula for growth built on the salt of the earth

Chemicals

The region's biggest export industry retains a world-class reputation, writes **William Hall**

The chemicals industry is one of the north-west of England's overlooked success stories. During a 25-year period when many of the region's traditional heavy industries have shrunk beyond recognition, it has retained a world-class chemicals sector, which has also emerged as its biggest exporter.

The region is home to the biggest concentration of chemicals manufacturing in the UK, primarily around Runcorn and a cluster of sites along the M62/M56 motorway corridor.

It embraces some 650 businesses employing 50,000 people directly, and accounting for 27 per cent of total UK chemical exports. It generates more than £10bn of sales a year and contributes £3bn to the regional economy.

Until the onset of the recent global recession, the north-west's chemical sector had been growing faster than the rest of the UK chemical industry. Productivity, measured by gross value added per head, increased 27 per cent between 2005 and 2008, and regional chemical exports grew 8 per cent a year between 2001 and 2008, well ahead of growth in the global chemicals industry.

There are a number of historical reasons for the sector's continued success. Abundant supplies of salt under the Cheshire plain provide the raw material for chlorine and caustic soda, which in turn are essential for the production of chemical products for industries ranging from water treatment and paints to pharmaceuticals and electronics.

Runcorn's Ineos Chlor is the sole UK producer of chlorine and Europe's largest PVC manufacturer. It estimates that its output of chemical raw materials supports 133,000 jobs directly and indirectly in the UK chemical industry supply chain.

Another of the region's strategic assets is Shell's 86-year-old Stanlow oil refinery, the UK's second biggest. It provides a sixth of the UK's petrol and the integrated Shell Chemicals plants manufacture a variety of petrochemicals.

The region's chemical industry boasts a long history of innovation, and continues to benefit from a strong chemistry research base at universities in Manchester and Liverpool, as well as sizeable research facilities at multinationals such as Unilever and Shell.

Unilever employs more than 700 scientists at Port Sunlight, the main research centre for its home and personal care brands, while Shell's main UK research centre is near Chester. Its work ranges from providing technical support for some of the top Formula One motorsport teams to biofuels research.

However, the biggest influence on the north-west's chemical industry was the creation of Imperial Chemical Industries (ICI) in 1926, from the four-way merger of Brunner Mond, which produced soda ash at Northwich, United Alkali, another local competitor, Nobel Explosives and British Dyestuffs.

As ICI developed into the UK's largest and most successful manufacturing company, the north-west's chemical industry prospered on the back of two core ICI businesses which remained firmly anchored in the region – heavy chemicals, based in Runcorn, and dyestuffs in Blackley, Manchester.

White move: a digger pours salt into a waiting truck at the Runcorn factory of chemical company Ineos, which released some of its supplies for use on the UK's roads during January's nationwide cold snap AFP/Getty Images

When the ICI growth engine began to splutter in the 1990s, there were understandable fears that the region's chemicals industry would not be able to survive the loss of such a dominant player as ICI, which finally left the industry in 2008.

However, the north-west's chemicals industry is a great survivor.

> 'For every company that is struggling, there are companies that have had their best year ever'

The old ICI pharmaceuticals business is now part of AstraZeneca and retains a large research and manufacturing facility in the region.

Most of ICI's heavy chemicals operations at Runcorn were taken over by Ineos, a highly leveraged, private equity-backed vehicle which has grown into one of the world's biggest chemicals companies. It is investing more than £400m in a new combined heat and power plant at Runcorn to reduce its reliance on gas.

Indeed, the region is littered with ex-ICI companies that continue to prosper under other names.

Blackpool-based Victrex, a producer of high performance polymers, and its neighbour, AGC Chemicals, have both been expanding their plants in the north-west, as has Brunner Mond, the UK's sole producer of soda ash.

But the north-west's chemicals sector is made up of far more than ex-ICI companies.

McBride, founded more than 80 years ago to supply chemical products to Lancashire's cotton industry, is now Europe's leading supplier of private label household and personal care products.

PZ Cussons, which began making soap in 1920, has recently opened a £26m research and manufacturing facility in Manchester to accelerate the growth of its personal care product businesses (*see story on opposite page*).

In the short term, there are a number of clouds on the horizon. The future of Ineos, under pressure from its bankers to slim down its heavily indebted operations, and Shell's Stanlow oil refinery, which is up for sale, are concerns.

In addition, the steady rundown of the UK's manufacturing industry in recent decades has reduced local demand for the north-west's chemicals output, while rising energy costs and environmental controls threaten to dent export competitiveness.

However, Jenny Clucas, chief executive of Chemicals Northwest, a promotional body, is keen to dispel the myth that the region's chemicals sector is a sunset industry. "For every company that is struggling, there are companies that have had their best year ever", she says.

Centre of excellence reflects history of scientific innovation

Profile

Thermo Fisher

The US laboratory supplier is strongly committed to the north-west, says **Andrew Bounds**

In a factory in Runcorn, near Liverpool, sit rows of machines that until recently were whirring away in California. A research director from the US will soon be joining them.

Those moves illustrate the commitment of America's Thermo Fisher Scientific, a leader in supplying laboratories worldwide, to Runcorn – and the lure of the town for it.

The west coast of the US may have spawned software and biotechnology revolutions but the north-west of England has an even longer history of scientific innovation.

Thermo Fisher, which already had a manufacturing plant at Runcorn, has now created a centre of excellence in disease research and in chromatography, a process used to analyse everything from contaminated food to crime scenes.

Some 60 extra staff have been hired and the 200 employees could increase to 500 within five years, says Yuh-Geng Tsay, senior vice-president and head of speciality diagnostics, who opened the facility last month.

"A centre of excellence is a site we have made a strong commitment to and we own the property," he says.

"The north-west of England has advantages in terms of academic and medical capability. There is a lot of high-tech research and we can take advantage of the great universities in Liverpool and Manchester," Mr Tsay adds.

"Our cancer diagnostic business is headquartered in Kalamazoo, Michigan and we will relocate the research director here."

> 'It is just this kind of investment that is critical to the success of the region'

John Griffiths, who is leading research into leukaemia at the University of Manchester, says he cannot work to isolate potential problem proteins and genes without Thermo Fisher products, including reagent liquids.

Chromatography allows researchers to break down samples quickly in the search for clues as to which proteins are responsible for different cancers, and these could be targeted by new drugs.

Runcorn will also remain a centre for anatomical pathology, supplying products for hospitals that need to analyse tissue samples.

Mr Tsay says it is a growth area and he is confident of finding qualified staff in the region. "We are pleased with our ability to continue to attract talent in this area," he says.

Thermo Fisher arrived in Runcorn after buying Shandon, a laboratory equipment maker.

It had to leave those premises to make way for a new bridge across the river Mersey, but Mr Tsay says it has never considered leaving the town.

Yuh-Geng Tsay: opened the new research facility last month

Rather, it found a bigger building with help from the Northwest Regional Development Agency and Halton council. "We have been made very welcome here," he says.

The company spent £4.5m refurbishing the 85,000 sq ft offices. With five acres of land, it could almost double in size if necessary.

It is a big vote of confidence from a Fortune 500 company with revenues of $10bn and 36,000 employees, 380 of them in the north-west in four locations.

North America accounts for 61 per cent of sales and Europe 24 per cent, so the potential for growth in emerging markets is large.

Roger Platt, chairman of the Northwest Science Council, which represents universities and businesses, says: "It is just this kind of investment that is critical to the success of our region and the UK as a whole."

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Workforces trimmed but flag is still flying high

Aerospace

The sector is defying financial gravity, says **Andrew Bounds**

It was the woes of the car industry that dragged the aerospace industry down to earth in this recession.

When three US car company bosses were pilloried for flying company aircraft to Washington in November 2008 to beg for a bail-out, demand for business jets plummeted. They did not fit with corporate belt-tightening, as workers were laid off or received pay cuts.

Commercial travel then fell, too, and it was the workers of the north-west aerospace industry that suffered. Annually, they generate £74,000 of gross value added each – more than four times the regional average – and had a record year in 2007. But making top-quality products is no guarantee of a job if there is no demand.

David Bailey, operations director of the North West Aerospace Alliance, the sectoral body that has 750 member companies, says they have endured well. "We have seen organisations having to cut back on the workforce but we have not seen any key strategic companies go into liquidation."

He says some 50,000 people still work in the industry. "I think from the projections we have of the civilian and military market at the moment, we have a wall of work in front of us."

He cites the F35 Joint Strike Fighter, part of which BAE Systems is building at Samlesbury near Preston, the Airbus A400, which will have its wings built at the company plant at Broughton in Wales, and Rolls-Royce's Barnoldswick operation, which has been designated a centre of excellence for the front fan of its Trent engines, guaranteeing significant investment.

These three prime contractors have been working with the NWAA to improve local companies that supply them in an ambitious plan to create world-class companies, capable of winning work on their own.

"We focused on the 45 most strategically important companies in the north-west," says Mr Bailey. "They have a joint turnover of £658m and 7,000 employees." The aim is to take the companies through five stages of improvement to become world class. They work with the big three to improve management and production.

The companies include APPH, which makes landing gear at Runcorn, RLC and Brookhouse Composites near Blackburn. Four, including the latter two, have won work on the F35 that could have gone anywhere.

Nigel Blenkinsop, head of aircraft manufacturing at BAE, says: "The demand on us for better quality and cheaper prices is relentless. We can only satisfy that if we have a world class supply chain." He says the next step is to share projections of orders with suppliers so they could work on what capacity and skills are needed.

> 'We are under pressure to be more efficient. If we are not, our customers won't win contracts'

BAE is investing £800m in the F-35 with help from the Pentagon. Production should rise from one aircraft every 15 days to one a day by 2016 as part of an order for 3,000. That would create 600-800 jobs to add to the 5,500 at Samlesbury.

Mr Blenkinsop concedes that any government programme is vulnerable as public spending cuts loom, though many jets that have flown long hours in Iraq and Afghanistan will need replacing. BAE's historic Woodford aerodrome, which makes the Nimrod surveillance aircraft, is closing with the loss of 630 jobs in 2012, after the government cut order numbers following cost-overruns.

However, he says: "I am positive about the future. We have some of the most advanced manufacturing techniques in the world. There is nowhere else that can do it."

It was BAE's experience with lightweight composites for the Eurofighter Typhoon that helped win it part of the US Department of Defense contract, with Lockheed Martin. It developed a moulded titanium fuselage, which provides strength and manoeuvrability.

One beneficiary is Brookhouse Composites. Employing 240 staff and with turnover of £18m, it was founded in 1986 and was bought by Kaman of the US in 2008. Mike Haworth, managing director, says he is confident, although he had to make 10 people redundant last year.

"We are under pressure to be more efficient. If we are not, our customers won't win contracts," he says.

Aircelle, which make the engine flaps that help aircraft brake on landing, is also hopeful. Demand for the A330, the smaller Airbus jet, has compensated for the loss of work on corporate jets.

Part of France's Safran group, it occupies a site once owned by Lucas, the component company, and has increased workers from 550 in 2007 to 750 last year. Andrew White, managing director, says competition is fierce, but the UK's skilled and flexible labour force gives an advantage."We are a medium-cost country, not a high-cost one."

The expertise available in universities such as Liverpool, Manchester, Lancaster and Bolton also helps. They have established the Northwest Composites Centre, which will lead research into using the strong, lightweight materials in other industries.

The £5.3m virtual engineering centre led by the University of Liverpool will aid design of virtual prototypes, cutting costs and lead times.

Carmakers turn the corner while suppliers suffer

Automotive sector

After a tough year, the future looks brighter, writes **Andrew Bounds**

Basking in reflected glory: a Bentley car receives a final polish at the Crewe factory

Getty Images

Vehicle makers had to slam on the brakes hard last year, but there are signs that many have pulled out of their skid before running off the road altogether.

The region is heavily dependent on four big producers that employ about 9,000 between them: the Jaguar Land Rover plant at Halewood in Liverpool, the nearby Vauxhall plant at Ellesmere Port, Bentley in Crewe and Leyland Trucks in Leyland.

Huge question marks hung over the first two last year, as JLR sought a British government subsidy and GM, Vauxhall's parent, entered bankruptcy.

At Bentley, production – which hit record levels of 10,000 in 2008 – may have sunk as low as 5,000 in 2009 according to reports. Volkswagen, the luxury carmaker's parent, does not give out figures. Nevertheless, it also launched the Mulsanne, the first car for a generation to be designed and built entirely in Crewe.

Over the past 18 months, all these plants have had to lay off contract staff, while shutting for extended periods or introducing shorter hours. Now, at least their short-term future is safe.

Neil Barlow, of the Northwest Automotive Alliance, which represents the sector, says: "The recession has hit badly. The bigger producers have survived OK, but the second and third-tier companies in the supply chain rely on the banks, which have not been supportive. I know one or two companies that are teetering."

Niche producers, such as sports car maker TVR in Blackpool, have gone under.

One problem is that research, design facilities and procurement decisions are taken in head offices elsewhere, with the partial exception of Bentley – which has inhouse design – and the smaller domestic parts makers.

The Vauxhall plant sources 90 per cent of its parts from continental Europe, while JLR buys 70 per cent in the UK, but not necessarily in the region.

However, a purpose-built industrial park nextdoor does host pre-assemblers such as Johnson Controls, Decoma and Visteon.

> Things look bleaker for parts makers. Fierce competition on price reflects overcapacity

Getrag Ford, a transmissions maker, remains at Halewood, although Ford has sold JLR to the Tata Group of India.

Halewood and Ellesmere Port have made huge strides in productivity. Yet political decisions could have seen them closed.

After months of distressing headlines and UK government lobbying, GM said it would close its less efficient plant in Antwerp.

JLR said it would shut one of its Midlands plants and would award the new LRV smaller Land Rover to Halewood, creating 1,000 jobs, subject to productivity agreements. The Liverpool plant's ability to make two models on one production line helped keep it open.

Michael Straughan, operations director, says the LRV will be just reward for a workforce that last year accepted a four-day, 35-and-a-half hour week to cut power and wage bills.

"The workforce has been extremely supportive of the measures we have had to take. We have hit them in the pocket," he says. Production is returning to normal levels, as UK demand for Halewood-built Freelanders rose by half year on year in January, partly thanks to snowy weather.

Things look bleaker for suppliers, Mr Barlow says: "Irrespective of the recession, there is still overcapacity in the industry, especially in continental Europe, and there has been for the last 10 years of so."

The result is fierce competition on price. Over the last few years Honeywell of the US, which made turbochargers, Dunlop Hiflex, a hosemaker, and Federal Mogul all closed factories and sent the work overseas.

Tony Wilson, managing director of Klarius, a fast-growing car parts maker, is targeting the aftersales market as margins on original equipment are so tight.

Turnover at the Cheshire-based business has grown from £10m to £350m in three years, partly through acquisitions. It now has 1,450 employees in the UK and mainland Europe.

All the big carmakers are exploring low-carbon options. Bentley is testing biofuels. Ellesmere Port hopes to win the Ampera electric car. JLR is investing £800m over the next four years in hybrid or electric vehicles.

But it is the humble bus that leads the pack. Optare, which employs 500 to make buses in Blackburn as well as Leeds, has reacted to the downturn by creating a new line of business.

With backing from the government's £30m Green Bus Fund, it is developing a small electric bus and hopes to win orders for 70 fully electric and hybrid buses, worth more than £12m. Durham City Council has agreed to buy three for the north-east city's cathedral route.

Optare has also begun a service to convert buses to operate with alternative fuels, such as plant oil or batteries, so that they can continue in service as emissions rules are tightened.

"In these challenging times, operators are considering every way to extend the service life of their vehicles, while maintaining the highest standards for their passengers," says Glenn Saint, Optare's commercial director.

Profile Sweet smell of success at PZ Cussons

PZ Cussons is a rare company that started in services and then moved into manufacturing, albeit more than 60 years ago. It is also rare in being one of only three UK-listed businesses that have increased dividends consistently for 25 years.

It began life trading commodities from Africa in the 1880s, principally cotton, which was then spun into cloth in Manchester. Still majority-owned by the Zochonis family, it retains its commitment to the north-west.

Sir John Zochonis still lives there, although his nephew, Anthony Green, will step down as company chairman this year, marking the end of family involvement in running the business.

However, the decision to set up a £26m innovation and manufacturing centre in Salford was hard-headed, says Brandon Leigh, finance director.

The company wanted to concentrate its UK operations from three sites to one, making soaps and shower gels such as Imperial Leather and Carex, dishwashing liquids and the Charles Worthington range of haircare products, among others. "We moved manufacture of soap bars to Thailand because [the UK] is a declining market and it is a lot more cost-effective to make them overseas," he explains.

"Then we asked if we should do the same for liquid soaps. From a cost perspective it was pretty neutral because transporting lots of liquid is expensive. From a commercial perspective, it fitted with our aim to make things in the market [where they are sold] to keep it in the UK."

Head start for African deliveries

Unlike big rivals such as Unilever, PZ Cussons believes in retaining different brand names in different markets. This has worked, as it increased its share of the UK personal wash market from 17 per cent to 23 per cent between 2006 and last year.

It has £800m turnover and a market capitalisation of more than £1bn, making it one of the 200 biggest UK plcs, with 10,000 global employees.

Local manufacture also allows it to react quickly to demand. "We have very short lead times. If Tesco wants to change the size of a bottle for an offer, we can do it very quickly," says Mr Leigh.

Bottles are delivered every four hours, there is room to store only four truckloads of packed stock and ingredient tanks are topped up automatically by suppliers as they run down. The plant can expand capacity from 130m bottles annually to 250m.

The Salford site employs 150 people, including those who devise new products and the fragrance division – perfumiers who blend ingredients in a lab on site to meet demand for original gels and shampoos.

Tastes vary widely. PZ Cussons has personal wash businesses in countries such as Poland, Greece, Nigeria and Indonesia, which all prefer different smells. It also makes and sells white goods and food in Africa and home care products.

Sales continued to grow through the recession. Staff received a bonus and pay rise at about the level of inflation while many other manufacturers were laying workers off.

The company is sometimes dismissed as a conglomerate, but Mr Leigh says it will stick to its formula, as refined as the 30 ingredients that go into one of its fragrances. "We will let the giants fight it out over China, Russia and India. We will focus on where we can deliver."

This year, PZ Cussons will also move its 200 headquarters staff to a purpose-built office near Manchester airport. It will be modelled on the Salford plant, which has breakout areas with sofas and bean bags, free tea and biscuits and an open, light feel.

"We want it to reflect our business. It is based on being innovative, entrepreneurial and taking risks – like Google."

Andrew Bounds

Manufacturing in North-West England

Beer, bread and baked beans on the menu

Food and drink

William Hall savours the wide range of producers with a presence in the region

Slice of life: Warburtons, the UK's second biggest bakery, is probably the best-known local success story

Food and drink is big business in the north-west. According to Food North West, the promotional body, the region is the UK's largest for food and drink production, with some 103,000 people employed in more than 2,000 companies.

A number of well-known international brands have their UK headquarters in the region, including Kelloggs cereals at Manchester's Trafford Park, and Typhoo tea on the Wirral. The Wigan baked bean canning plant of US multinational Heinz is said to be the largest food processing plant in Europe, turning out 1.5m cans of beans a day.

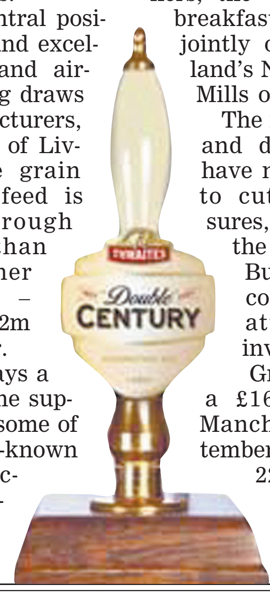
Warburtons, the UK's second biggest bakery, is probably the best-known local success story. But there are several others, ranging from Frank Roberts & Sons, the Northwich bakers, and Nichols, owner of the Vimto soft drinks brand, to Daniel Thwaites, the North of England's biggest regional brewer, and Lofthouse, whose Fisherman's Friend lozenges are sold in more than 100 countries.

Although operating in very different parts of the market, all these companies share a couple of things in common. They remain largely family-controlled and have been operating for more than 100 years. In the case of Blackburn's Daniel Thwaites, it has recently celebrated its 200th anniversary, and is still going strong.

There are a number of reasons why the north-west has such a strong food and drink pedigree. With a population of 6.8m, it is the third biggest region in the UK, after London and the south-east, so for a start there is substantial local demand.

A quarter of the UK's dairy farming activity takes place in the region, which accounts for 16 per cent of the UK's milk deliveries and supports substantial dairy-related activities at companies such as Robert Wiseman, Dairy Crest and Fayrefield Foods.

The region's central position in the UK, and excellent motorway and airport links, are big draws for food manufacturers, as is the Port of Liverpool. More grain and animal feed is imported through Liverpool than at any other UK port – more than 2m tonnes a year.



The port plays a vital role in the supply chains of some of the UK's best-known food manufacturers. Multinational agribusinesses, such as Archers Daniel Midland (ADM) and Cargill, have sizeable raw material processing operations connected to the port, which in turn supply the nearby plants of companies such as Cereal Partners, the UK's second biggest breakfast cereal producer, jointly owned by Switzerland's Nestlé and General Mills of the US.

The north-west's food and drink operations have not been immune to cutbacks and closures, particularly on the bakery side. But the sector continues to attract new investment.

Greggs opened a £16m bakery in Manchester last September which employs 220 people, and Fine Lady Bakeries has named Manchester as its preferred location for a £20m northern base, which will create up to 250 jobs.

Tulip, a Danish meat products company which closed its sliced meats factory on the Wirral last year, is investing £12m in a new sausage-making factory on the same site, which will create 270 jobs.

New Britain Palm Oil, which produces in Australasia, has commissioned a £18m palm oil processing facility at the port. Its first customer is United Biscuits, one of a growing band of north-west food manufacturers that are keen to demonstrate their ethical policies, by securing a supply of palm oil that can be proven to have come from sustainable plantations.

> The Port of Liverpool plays a vital role in the supply chains of some of the UK's leading food manufacturers

Overall, the food and drink industry in the north-west – encompassing all parts of the food supply chain: food retail and food service, food processing and agriculture – contributes 10 per cent to the region's gross value added and accounts for almost 15 per cent of total regional employment.

While the sector still has considerable long-term growth potential, there are signs of increasing consolidation.

Economies of scale in commodity-type food manufacturing, and the need for increased bargaining clout to counter a highly concentrated UK supermarket sector, are putting pressure on mid-sized operators.

The collapse of Blackburn's Inter Link Foods, a fast-growing cake manufacturer with 11 bakeries, highlighted the vulnerability of some smaller food companies. In a attempt to achieve the critical mass to compete with bigger rivals, such as Northern Foods and Associated British Foods, Inter Link overstretched itself, and had to be rescued by McCambridge, an Irish bakery group, in 2007.

Size is not the sole criterion of success. Bells of Lazonby, a Cumbrian company producing allergy-friendly bakery products, and Cheshire's Delamere Dairy, the UK's leading supplier of goats' milk products, are two small north-west companies that have managed to carve out leading positions in national niche markets.

However, they tend to be the exceptions. "The north-west has some very big companies at the top end and small 'cottage' industries at the bottom," says Julian Wild, food group director at Rollits, a Yorkshire law firm. "Life is most difficult for the food companies caught in the middle."

Manufacturers must take advantage of the recovery

Guest Column
TERRY SCUOLER

Does Britain make anything any more? It is a question people often ask, yet few realise the UK remains the sixth largest manufacturing nation in the world.

The north-west makes a large contribution to this total, employing more than 400,000 people and generating almost £20bn across fields as diverse as chemicals, aerospace, automotive, advanced materials and food and drink production.

Manufacturing generates just under a fifth of the region's gross value added (GVA) and is the only sector in the north-west to have an average GVA per head higher than the national figure.

The recession has, of course, created problems for all businesses in the region, but there are signs that trading conditions are stabilising – and the focus must now be on how to move from survival to growth mode.

Policy-makers nationally and in key regions such as the north-west have a vital role to play in creating the conditions in which the UK's manufacturing base can thrive. This will require politicians of all stripes adopting a very different mindset to create an investment-friendly environment.

One of the results of the recession has been a new commitment by the current government to "industrial activism", as it is realised that the value created by the UK's manufacturing base has been seriously neglected for too long.

The strategy is to move away from an over-reliance on financial markets and to provide much greater encouragement for the "real" economy, where companies make and sell products and services to create tangible wealth.

As the next general election approaches, the UK is at a crossroads and for this change to become reality certain things need to happen.

The starting point must be a credible plan for reducing the fiscal deficit, centred on reductions in public spending – driven by significant improvements in the effectiveness of the public sector – strict control over costs and a fundamental rethink of what government does.

The alternative of significant tax rises would weaken competitiveness, undermine businesses' ability to invest in growth and jobs, and send out the wrong signal to international companies looking to invest in the UK.


Scuoler: UK needs balanced economy

But government needs to go further than this. A strategy to diversify the UK's economy must be embedded across government, with all levels of it focused on the future and pulling in the same direction.

Greater co-ordination is needed across government to ensure consistency of strategy and delivery. Cabinet committees, for example, should be given a greater role in the delivery of specific, cross-departmental priorities. A greater focus is also needed on rebalancing the UK's economy away from the south-east and boosting regions such as the north-west.

> Focus is needed on rebalancing the economy away from the south-east and boosting regions such as the north-west

A start must be made, too, on rebuilding the economy by addressing long-term competitiveness issues, such as skills, infrastructure, access to new markets and the regulatory environment.

Government must provide investment and support in markets where manufacturers have, or could have, a comparative advantage.

For example, the government's £175bn annual procurement spend must be used to foster innovation and support the creation of new markets. R&D needs to be given greater encouragement and technology policy better co-ordinated so that the UK leads in low carbon manufactured goods. By 2015 the global market for these goods and services will be worth £4,500bn, according to a report last year by Innovas, the consultancy, for the UK's Department of Business, Innovation and Skills.

Manufacturers and government alike will need to work ever harder to take advantage of growing world markets in areas such as the low carbon economy. The government can make a major contribution by creating a single source of finance to support ambitious, growing companies that are making long-term investments.

It also needs to ensure that UK Trade and Investment is equipped to support these companies in developing markets abroad for their new products. In the low carbon area, it must also take care not to sign up to targets to reduce carbon emissions that are out of step with the rest of the world and would place British industry at a competitive disadvantage.

Manufacturers in the north-west also have a major part to play. It is critical that they take advantage of the recovery, the current sterling exchange rate and low interest rates by investing in their businesses to improve competitiveness, build market share and not concentrate on short-term increases in profit margin.

With countries coming out of recession in 2010-11, foreign competitors will be aggressively targeting their markets and the UK must show courage and commitment in beating them to the punch.

The country's economic future nationally, and in the north-west, is inextricably linked to the development of a strong manufacturing base that has access to global markets, is focused on knowledge and high value, and capable of exploiting fast growing markets.

For the economy to thrive, it is vital that manufacturers continue to evolve, adapt and grow. It is encouraging to note that after the failure of the financial markets, the pundits and politicians finally agree that Britain needs a balanced economy. It is the nation's manufacturers, and those in the north-west, that can make it happen.

Terry Scuoler is the incoming chief executive of EEF, the UK manufacturers' organisation.