

UK GROWTH

By Offshore Manufacturing Solutions in India



An Overview For Smaller British Engineering Sub-Contractors

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OFFSHORE MANUFACTURING



The UK has among the best engineering technical, design, and product development expertise in the world. In an era of globalisation, however, manufacturing models are shifting towards lower-cost locations such as India and China. **Offshore manufacturing can boost onshore bottom-line growth.** A key driver of this trend is the ability to achieve “same-quality-lower-cost” manufacture in India, for example, including the benefits of:

- Lower labour costs and overheads
- Large pool of technically qualified work-force
- 24 x 7 operations with multi-shifts capability
- Flexibility and Scalability

In industrialised Western economies, the changing profile of the work-force, the reducing pool of available and motivated workers, and higher overall costs are increasing pressure on smaller companies. India is a well-known destination for IT/BPO services and more recently a destination for engineering/manufacturing ‘offshoring’. The Automobile manufacturing revolution in India – led by global Auto companies and OEM parts manufacturers - has embedded a culture of high Quality Standards and elevated the profile of the non-IT engineering sector



UK SUB-CONTRACTORS

Small UK engineering sub-contractors now face the pressure of labour availability and higher costs in the face of overseas competitors. However, their *Customers* in turn face the real and perceived risks in dealing directly with offshore manufacturers. This offers a **growth opportunity** for UK sub-contractor engineering companies that command **strong customer relationships** and high product design/ development capabilities. Customers would rather avoid additional resource allocation and direct exposure to offshore manufacturers and locations – provided their trusted UK manufacturer-suppliers can offer enhanced, scalable and price-competitive products. For Customers, direct dealing is a risky proposition since typically their procurement departments are ill-equipped to deal effectively with the challenges of offshore locations. Customers cannot adequately substitute the effectiveness of UK *manufacturers* in dealing with offshore *manufacturers*.

LEVERAGE CUSTOMER RELATIONSHIPS



Indian manufacturers have ambitions but low access to effective direct customer relationships. UK engineering companies can therefore seize their 'Customer advantage' and grow their *volumes* and *margins* by developing offshore capabilities **blended** in with their onshore operations. India offers an opportunity for increasing *product range*, *cost reduction* and production *scalability*; and Customers can thus be offered a *wider range of products* with flexibility in *pricing*. This would entail "building" a manufacturing capability in India and developing a large pool of motivated Indian workers.

If their UK manufacturer-suppliers fail to respond, Customers have little choice but to seek out offshore solutions directly. In responding, though, UK SME manufacturers must properly identify the **key risks** when weighing the cost and strategic advantages. The most significant risks are **cultural risk**, and the risk of failing to identify the **hidden costs** when estimating costs-savings - in addition to the usual project life-cycle risks.

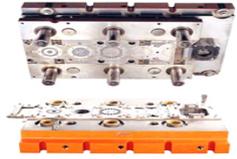


THE OPPORTUNITY

For **pro-active** British engineering companies, the offshore manufacturing trend is a key **differentiator** and a significant opportunity to move up the value chain, expand product range and achieve higher growth by:

Strategic Advantage

- (1) Scaling up in the UK their technology focus, innovation, research, design and product development capabilities, while establishing strategies for establishing scalable, flexible lower cost production of a wider range of products in India - to add to their UK range;
- (2) Strengthening existing customer relationships and expanding by increased marketing;
- (3) Creating higher growth/ value in their overall business to support future exit options for promoters./ shareholders; and
- (4) Building a technical/design/development people resource and skills pool in India - for the UK home market and potentially for the growing Indian market.



Financial Improvement

- (5) Improving their bottom-lines through higher margins by:
 - (a) Lower manufacturing costs, increased volumes and maintaining pricing levels or through flexible pricing options; and
 - (b) Scaling up manufacturing of higher-value more technically complex products in the UK itself
- (6) Building potential 'financial assets' in India - future access to the capital markets

KEY CONSTRAINTS

The **key constraints** on smaller UK Engineering companies in "building" an India sourcing/manufacturing capability - a potential driver for **UK growth** - are:

- (1) Lack of local knowledge/ expertise and a resource gap;
- (2) Management bandwidth/ time; and
- (3) Access to hands-on expertise at a reasonable cost.



LH-BENHEIM ADVISORS

As an **India Project Advisor**, LH-B's role is complementary and fills the *resource gap* within a company's existing internal team. LH-B's 'engagement model' aims to:

- A. Supplement, not substitute, a company's existing internal resources,
- B. Help keep a company's upfront costs low; and
- C. Align LH-B's risk/reward interest in the success of the project with that of the company.

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