NATWEST EVENT LEARNINGS

How do you open doors to investment in manufacturing?

The UK Automation Forum's fifth event was live streamed and featured a panel of industry experts from Automate UK, the MTC, Make UK, BAMUK, FANUC and NatWest. The panel discussed how manufacturers could access finance more easily to allow a higher adoption of robotics and automation. As well as setting the scene as to the current state of UK manufacturing, the discussion included findings from a report from Make UK called Finance: Opening Doors to Investment in Manufacturing that was published in partnership with NatWest and Lombard earlier this year.

Event learnings:

1. UK manufacturers need to invest in automation and robotics to take advantage of the transformational benefits they bring in terms of efficiencies, productivity and ability to compete
2. Evidence suggests that investment could increase by approximately £9.2bn in the next 12 months if manufacturers were to take advantage of the range of public and private financial options available to them
3. Change may be on the horizon as robotics and automation ranked in the top 3 as being the most important areas that manufacturers needed to invest in
4. Keep affordability in mind when applying for finance; be open and transparent with lenders; start the conversation way before you need to apply to build understanding on both sides
5. Bespoke automation is harder to finance because residual value is lower, but today's more flexible robots/cobots may mitigate this going forward.

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According to the Make UK report, the benefits of improving access to finance could be substantial for UK manufacturers. Indeed, its evidence suggests that investment could increase by approximately £9.2bn in the next 12 months if manufacturers were to take advantage of the range of public and private financial options available to them. In turn, this would help to raise the investment potential of the sector overall by up to a fifth and address the UK's long-term productivity weakness.

Setting the scene as to where the UK lies now in terms of manufacturing, formed part of the UK Automation Forum panel discussion. This summer, the UK's manufacturing sector dropped out of the top 10 world rankings for the first time, falling to 12th, according to figures published by Make UK. There is no getting away from the fact it's deeply disappointing to see this, however this isn't a reflection of any decline in UK industry but specific factors and trends which are redrawing the contours of the global economy. Basically, other countries such as Russia, Taiwan and Mexico have upped their game while the UK has stood still.

The panel felt it was important to remember that the UK still makes things, it's just that we could make considerably more if we had bought into the fact that robotics could help us. In fact, manufacturing is still about 10% of the UK's GDP, a similar percentage to the USA and some other European countries, although Germany is much higher at 20%. However, the shifting global sands reinforce the need for the UK to react with a long-term industrial strategy to take competitive advantage of our undoubted strengths.

We need to invest in more automation for a start, and we also need to invest in digital as European businesses are buying digital products faster than we are – even though, ironically, we do make them in the UK.

But what are the reasons behind UK manufacturers being so reluctant to invest in automation? Of course, there are a number of factors, but the panel felt that perceptions such as thinking the technology is very complicated; that a skilled workforce is needed to use the equipment; that robotic systems are very expensive -which isn't true in many cases, has played a part. It also seems that UK firms don't seem to invest in capital equipment at the same level as our competitors overseas.

For instance, many European manufacturers commit to investment in capital programmes that

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have longer term payback periods as they look at total cost of ownership, rather than initial costs. The UKs 'make do and mend' mentality was also cited as a reason for non-investment.

And the long-standing access to low-cost labour has seen companies just add more people if their businesses grew. Also, much of Europe/South Korea, who are large investors in automation, often have very large domestic markets and/or very large export markets.

Although the panel acknowledged that barriers to investing in automation are bigger for SMEs compared to larger businesses – our adoption rates are not just a bit slower, they are a lot slower. Fundamentally, we are way outside where we should be in terms of our capabilities; the rest of the world is heading in one direction, and we are not.

If we want to reshore more manufacturing operations, we need to invest in automation. Addressing finance options is also key to more adoption.

As the owner of a business that has invested in automation, Troy Barratt acknowledged that it was very difficult to make the first investment in robotics but although more involved, it was not tough to get finance. However, he said that once you have made the leap, it transforms your business, helps it to grow and it has allowed his company to compete for bigger contracts.

Thinking more about access to finance in the UK could be a game-changer for investing in more automation across UK businesses. According to the Make UK report, manufacturers are quite open to finance as 7 in 10 would have invested less if they hadn't had access to finance in the last 12 months. And when asked about the things they planned to invest in in the next two years, robotics and automation ranked in the top 3 most important areas that they needed to invest in. However, more than half of respondents remain unaware of many public sources of support.

So, this is a positive; manufacturers in the UK are looking to invest, which is needed. As shown in the most recent figures from the International Federation of Robotics, the UK is the only G7 country that is below the world average for robot density in terms of robot adoption. We have 98 robots per 10,000 employees; Germany has 415 robots per 10,000 employees. Our world ranking is 25th demonstrating that we need to speed up the development of automation in our manufacturing plants.

Having set the current scene and shown how the UK lags behind, the panel turned to how finance can unlock the opportunities that robotics and automation can bring to manufacturers. Countering this optimism, there are still barriers to unlocking the finance to get the benefits that finance can bring. While manufacturers recognise benefits – 60% recognise that automation boosts productivity; 49% believe it offers quality improvements – 38% still cite high costs and lack of budget for stopping investments. Clearly, there is more work to be done to change this perception.

We are seeing a shift in how some capital projects are financed – how equipment suppliers are changing – moving it into an operational cost rather than a capital cost, for instance. Not an additional cost at the start, but as an ongoing operational cost. This can be very beneficial for seasonal products, particularly in the food industry.

But what are some of the challenges that finance institutions face historically in providing finance for robotics and automation? This is where Laura Capper from NatWest shared her thoughts.

Go back to basics as the main aspect of finance is the affordability which, she said, is of equal importance for lenders and also borrowers. Lenders will look at historical performance so if this has been a bit variable, it's important that borrowers explain why this is. If the purpose of borrowing will significantly improve profitability by either increasing sales or reducing costs, this is key evidence for a lender. And if it's a new income stream/new sales order, be really clear on the profitability that this will deliver.

Lenders also need to look at the fall-back position in case of a non-repayment – that's where security plays an important role. Equipment providers/customers/funders need to work collectively on this as a detailed understanding of the proposed robotic/automation investment is key to the funding applications and the assessment process. A thorough, reliable breakdown on the equipment including all the elements such as software, guarding, peripheral services etc must be provided.

This is a trickier assessment for lenders when a robot is highly customised for a unique purpose as this could limit its usefulness to another user. A secondary market is important as an assurance for lenders and the residual value – ask how easy it would be to be resold in the second-hand market? It is harder to determine a resale value for a customised item.

Lenders will also look at the ability of the business to repay this debt and consider how important the asset investment is to the business. Many other factors are considered such as the credibility of the management team; the strength of the contracts, the diversity of the customer base, manufacturing a product that is recession proof. You can also unlock the money tied up in less bespoke items like trucks etc to help in the funding process.

It is important to remember that it is not a one size fits all when considering finance. It is important to be detailed and transparent as all of these factors are considered with the funding need.

With this is mind, the panel discussed if this means only standard equipment should be looked at. “Not necessarily” was the answer, as technology has moved on in recent times and the ability to reconfigure a bespoke machine due to its modular nature etc means it is much easier to do than it was in the past. The introduction of collaborative robots (cobots) which are designed to be easier to program, are relatively quick and easy to install with many collaborative applications requiring little or no guarding, meaning they can be redeployed in the same factory or sold elsewhere more easily. Technology has certainly moved on over the last five years. For instance, applications such as machine tending, welding and palletising are pretty standard these days and can be easily redeployed by a manufacturer.

Troy Barratt was then asked about his experience in automating his company:

1. When you are buying new equipment, you are either replacing existing technology, or you are adding capacity, so you know it’s easy to make the business case.

2. With robots, it’s going to be a step change – automating a process that wasn’t automated … it’s often hard to tie in the same tools for payback terms

3. The more customised a robot, the harder they are to finance…put some thought about how to not over customise.

Longevity of customer contracts is an area that can also be looked at. Increasing the length of business contracts can make it easier to get finance. A contract of between 1-2 years is not much use in securing finance for capital investment. It is better to stress that investing in automation is a journey, so start with a relatively simple technical application, as this enables manufacturers to get started before then moving up to higher technology.

Is there any way that equipment manufacturers could engage differently with finance houses?

The panel felt that BARA (British Automation & Robot Association) recognition for integrators could de-risk an automation project. An approved list in the future will help in this area.

NatWest has assess management teams that come from industry so they can understand the application of the equipment and the benefits it could bring. Work can be done behind the scenes of a finance application and as it continues to evolve and the technology gets more familiar – it's not just about the numbers, it is understanding the assets.

The Manufacturing Technology Centre (MTC) can help manufacturers to build a business case by identifying an easy application and writing a specification which helps the finance provider to see that it's an applicant that has done their due diligence.

Lenders sometimes find less clarity on return on investment evidence in applications, but this is a vital element in funding decisions and so needs to be outlined.

The panel was then asked about the role that the Government should play in improving access to finance for manufacturers? It was felt that the Government's role is not to tell businesses what to do, they are there to set policy and regulations. The capital allowance policy of the previous Government had been very useful, for instance.

The Government should not only focus on start-ups but also support established companies in their growth phase, which continue to require support to scale and reach their full potential. However, available support is often complex and difficult to navigate, leaving many manufacturers unaware of it. The industry must better utilize and streamline this assistance.

The Make UK report found that 68% of manufacturers would like some kind of central portal where they could find out about grants etc, a kind of a one stop shop to get the information they need to help with future investments. We need government to create an environment for investment, not to tell us what to do in terms of investments.

The Government should set an industrial strategy, so everyone knows the direction of travel in terms of automation and investments by devising a strategy to push growth. And although financing robots is a bit more challenging than some equipment, if companies put together a robust application, finance can be accessed.

While starting and growing a business is challenging, lenders offer various tools and resources. A solid business plan and seeking support from key stakeholders throughout the business lifecycle, can improve access to finance.

Collaboration and communication with partners is crucial, especially for SMEs, and technology, including robotics, should be embraced by businesses of all sizes for the opportunities it provides.

To learn more from the Make UK report, you can download the report here:
[Finance for manufacturing: Make UK research highlights | NatWest Business]