AUTOMOTIVE INDUSTRY IN WARWICKSHIRE

Background

1. The motor industry has undergone radical restructuring and the impact of these developments has been felt throughout the sub-region.
2. During the nineties, investment from foreign firms led to something of a revival in the UK motor industry. Locally, employment in the industry has proved resilient in the face of wider manufacturing job losses. At the end of 2003 (prior to the recent redundancies), the automotive industry employed around 9,500 people in Warwickshire, almost unchanged from 1991.
3. Recent developments have refocused attention on the future for automotive assembly and component making in the sub-region.

Recent Developments

4. The last eighteen months have seen a string of negative developments surrounding the future of the automotive industry in Warwickshire, culminating in the collapse of MG Rover and more than 5,000 redundancies.
    - July 2003 – Land Rover announces plans to switch production of its Freelander model from Solihull to the Jaguar plant at Halewood, in Merseyside, with the loss of 1,000 local jobs.
    - September 2004 – Workers at Land Rover in Solihull vote to accept changes to their working conditions after Ford warns Land Rover bosses and Unions that 8,000 jobs are at risk unless productivity improves.
    - September 2004 – Ford confirms that production will end at its Browns Lane factory with the loss of 400 manufacturing jobs and a further 750 mostly white-collar jobs, in Coventry and across the Jaguar Group, as back office work is combined with Land Rover.
    - March 2005 – Peugeot announces 850 redundancies at its Ryton plant, near Coventry. The cuts are blamed on rising competition in the small car sector and a dip in sales of its 206 model.
    - April 2005 – MG Rover, Britain's last volume car manufacturer, calls in the administrators; last ditch efforts to find a buyer fail and more than 5,000 redundancies are announced. The collapse threatens an estimated 15,000-20,000 jobs in the area supported by business from Rover.

Motor Industry Context

5. There are a number of key trends affecting the automotive industry that are central to understanding the rationale behind these business decisions.
    - Industry restructuring and consolidation
    - Globalisation of business operations
    - Competitiveness and cost reduction
    - Global over-capacity in manufacturing
    - Maturity of US and European markets versus growth in other regions (e.g. China & Eastern Europe)
    - Increased R&D costs
    - Value chain restructuring
6. In recent years, the global automotive industry has been characterised by consolidation and the increased globalisation of business operations; the UK economy with its anglo-american business model and emphasis on shareholder value has encouraged these trends more than in other major European centres in Germany, France or Italy.
7. Ford and Peugoet-Citroen now dominate vehicle manufacturing in the West Midlands. Ford acquired Jaguar, with its plants in Birmingham, Coventry and Liverpool, in 1991 and bought the Land Rover plant near Birmingham, and its technical centre in Warwickshire, from BMW in Spring 2000.
8. Overseas ownership has brought major investment, but also made the industry more vulnerable to global trends and dependent on the continued commitment of foreign-owned multi-nationals.
9. Because the motor industry is a mature industry the long-term growth potential of the sector is below average. Overcapacity and commoditised product offerings mean that price competition is very tough. There is a limit to the amount of cars any one person can own; consumers are becoming increasingly cost sensitive and companies are having to offer incentives, such as interest-free loans, to persuade them to buy new vehicles.
10. The latest financial bulletins highlight the effect that rising raw material prices and strong price competition are having on profitability. Peugeot reported net income down 9% last year. Ford issued its second profit warning of the year last month and announced 1,700 job cuts among white-collar staff in North America – net profits fell almost 40% to $1.2bn in the first three months of 2005.
11. Rationalisation and consolidation has meant a growing centralisation among component manufacturers, leading to the establishment of mega-suppliers and system integrators. More and more Tier-1 suppliers are expected to merge and reinforce the coordination role they already play vis-à-vis the activities of Tier-2 and Tier-3 suppliers.

12. Many of these Tier-1 suppliers, such as TRW, Bosch and Johnson Controls have bases in the West Midlands. GKN and Wagon are UK-owned first tier firms, both with headquarters in the Region.
13. Vehicle assemblers, keen to off-load risk and costs are sourcing more of a model's content from these mega suppliers. The geography of the supply chain has changed and component sourcing is now done on a global scale. The UK-based Japanese manufacturers, Honda, Nissan and Toyota source up to 70% of their components abroad.
14. In response to these pressures many foreign owned Tier-1 suppliers are moving production out of Britain. In addition, several of the major car producers are pushing their first tier suppliers to reduce costs by sourcing parts from low cost economies in central and eastern Europe, and China. GKN recently announced plans to switch 20% of parts manufacture to lower cost economies in India, China and Thailand. This will result in job losses not just in the UK but also in other European countries and has a knock on effect of lost business to tier 2 and 3 companies many of which are British owned.
15. Many of these lower tier companies make simple, single process, components which are cheap to manufacture and can be transported without significant costs from low wage areas. Over-concentration on low value components has consistently been identified as a weakness of the automotive sector in the West Midlands; there is a danger UK supplier volumes will sink below critical mass as component sourcing shifts abroad, forcing firms to diversify or close.
16. However, not all these smaller companies are under immediate threat. Much sourcing continues to be local in order to facilitate just-in-time production routines. Future purchasing patterns, therefore, depend not only on costs but also on convenience and reliable quality.

PSA Peugoet-Citroen

17. A couple of years ago the Peugeot plant at Ryton could lay claim to being Europe's only car factory producing cars at close to 24 hours a day, seven days a week. More recently, declining sales of its 206 model, which is coming towards the end of its lifecycle, have resulted in a decision to cut the weekend C-shift just ten months after the D-shift was cut.
18. The future of the plant at Ryton is uncertain given company bosses continued reluctance to commit to building another car there apart from its ageing 206 model. Production of the new 207 model has been allocated to a new plant in Slovakia (and other plants in France); while the Ryton plant will become the sole European maker of the 206.

Jaguar

19. Along with Aston Martin, Volvo and Land Rover, Jaguar is part of Ford's Premier Automotive Group. The Group made a combined loss of $740 million in 2004 and while Ford doesn't break out results for individual brands analysts believe that only Volvo ended last year in the black.
20. Jaguar's performance is particularly worrying. The company haemorrhaged more then £600 million in 2003 - double the previous year's deficit, and stated in November that it was unlikely to break even before 2007. The company reported sales were down 21% in the first three months of 2005 as a result of refocusing its car range in the US towards top-of-the-range models.
21. The company has addressed its overcapacity in the UK by cutting production at Browns lane and has dropped an aim to produce 200,000 cars a year. Production of the X-type at Halewood was recently cut to three days a week.
22. About 50% of Jaguar's production goes to the United States. This exposes the company to a considerable degree of exchange rate risk; the dollar's weakness against sterling has been making Jaguar cars uncompetitive in the US. Rivals such as Mercedes Benz, BMW and Japanese luxury car-makers assemble cars in the US, avoiding the risk of exchange rate movements working against them in this way.

Impact of MG Rovers Closure

23. MG Rover employed nearly 6,000 people and indirectly supported a further 15,000 jobs in the supply chain. Estimates from Job Centre Plus suggest that around 120 Warwickshire residents were directly affected by the redundancies at Rover.
24. The current consensus is that the impact of Rover's closure on the supply chain will be less than it would have been 5 years ago. However, a number of local companies have been affected: Callow and Maddox have made more than 100 workers redundant; RDS in Southam, who supplied body kits and bumpers to Rover, went into administration in May; and Coventry-based Stadco, which manufactured body panels and other parts for Rover and employed more than 400 people, is in the process of a phased closure to be completed by the end of 2006.

Success Stories

25. Aston Martin sold only 42 cars in 1994, the year that Ford Motor Company became sole owner. The development of the DB9 model saw the creation of state-of-the-art purpose built facilities and several hundred jobs at Gaydon. Currently, production is running at about 2,000 cars a year, but the launch of the new V8 Vantage should see this more than double.

26. The BMW engine plant at Hams Hall, the first to be built outside Germany or Austria, manufactures four cylinder petrol engines for export to BMW vehicle plants in Germany and South Africa. Opened in 2001, the plant currently employs more than 600 people. The plant has established itself as an increasingly important player in the BMW production network; further investment is scheduled, to increase output and to develop facilities for the assembly of an additional new family of four-cylinder petrol engines that will be used in future variants of the MINI.

Motorsport

27. The UK is the centre of the world Formula 1 industry with almost all the major teams being located in ‘Motor Sport Valley’ an area stretching South and East from the Midlands. Warwickshire is part of this globally competitive cluster; although the sub-region is not home to F1 constructors and engine builders it contains a number of globally recognised motorsport companies across the broad spectrum of motorsport and performance engineering activity.
28. Recent research identified more than 200 firms in the Coventry Solihull Warwickshire sub-region involved in the motorsport sector. Leading names include:
    - **MMSP** who operate a World Rally Championship team for parent company Mitsibushi from their base in Rugby.
    - Leamington-based **Ricardo MTC** (a division of the UK automotive and engineering consultancy Ricardo) specialises in powertrain design and development for the international motorsport and performance engineering marketplace. In 2002, Ricardo bought out Gemini Transmissions, a motorsport specialist, formerly based in Brackley, employing 40-45 people and is expected to grow in personnel terms by up to 50% this year due to a new non-motorsport roadcar project for SAIC.
    - **Prodrive AT**, a division of the Banbury-based motorsport constructor Prodrive, specialises in automotive design and consultancy and has a test track on-site at Fen End.
29. Most commentators see the continued development of successful ‘innovation based’ industries, for example in design, research & development and motorsport as key to the future of the industry in the sub-region.