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SME BAROMETER 2018

Sector Report Manufacturing

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CONTENT

PREFACE

It's back! The 2018 edition of the independent SME Barometer is here again. For the 3rd year in a row, you'll find out what is happening among Belgium manufacturing companies.

And that's very important. Because thriving SMEs form the true growth engine of a stable economy.

Please dive in, it's a refreshing take on these matters and can lead to a rethink of your current 2018/2019 strategy.

How we approached the research? It has been executed by Pb7, an independent IT research agency, from the start of the SME Barometer. At the end of 2017, they interviewed as many as 1,779 companies in Europe via an online panel survey. Between these European companies, there were 375 Belgian SMEs with between 1 and 50 employees.

The sample is representative of all Belgian SMEs (up to 50 employees). The sheer number of interviews within all the industries we asked them to survey makes the data reliable. On top of that, the datasets were weighed during the analysis, further guaranteeing representativeness and statistical reliability.

In this report, we've summarised the most important results and related conclusions.

Enjoy!

SME BAROMETER FOR MANUFACTURING COMPANIES 2018

It's not bad for business being a Belgian manufacturer. With revenue growth of 17% and a profit margin growth of 16%, things are looking up.

Looking at the key business challenges we see the same story unfold as in other industries. Cost control slowly fades into the background and currently ranks 4th with 36%.

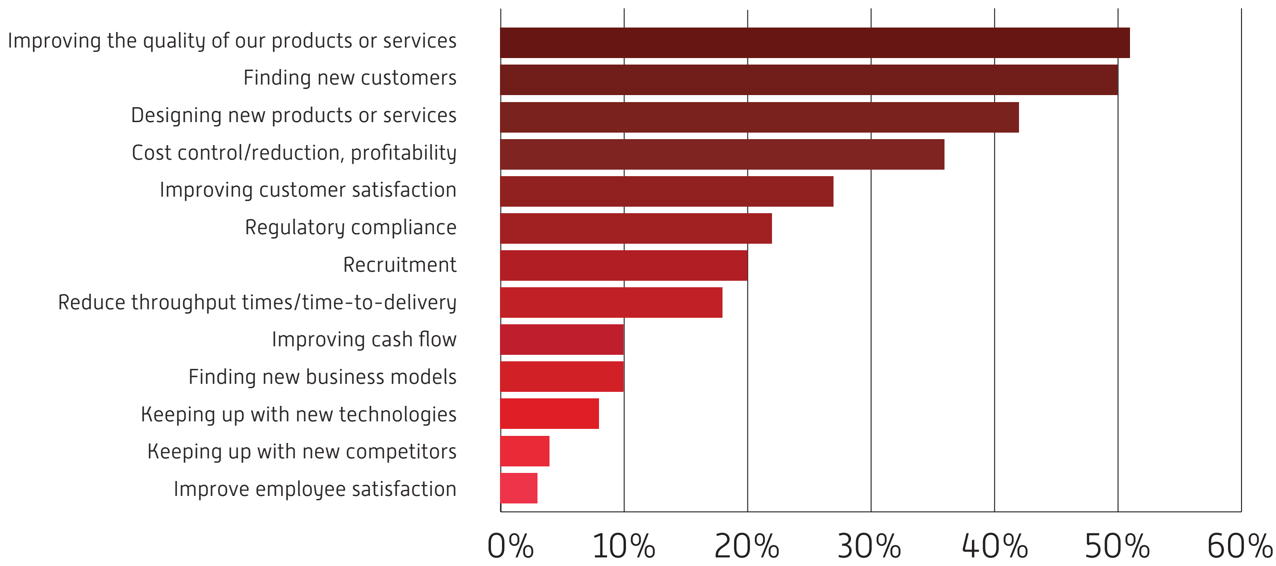
Innovation, on the other hand, is on the rise and occupies the 1st and 3rd spots on the podium. 51% say they find improving the quality of products and services hard while coming up with new ones gathers 42% of the vote.

However, finding new customers is still a big problem seeing it sits just below the top step with 50%. In the somewhat related wholesale industry, we see roughly the same.

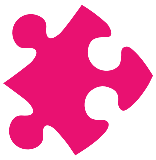
We should probably mention compliance in 6th place with 22% due to GDPR being enforced this year.

> "There is less focus on cost control and more on innovation"

Figure 1: Key business challenges
What are the top-3 business challenges for your company?



NO HUMANS AVAILABLE? LET'S RECRUIT ROBOTS!



Looking at the key industry challenges we see an overwhelming victory for recruiting skilled technical personnel with 77%. Now things are looking up it's not only safe but a must to invest in this area.

Since this is such a major problem, it is no wonder that one of the leading areas where the industry wants to invest in is robotisation of product lines for small series. But more about that later on.

Reducing manufacturing costs comes in much later in 2nd with 44% and customising unique products or small series is a problem for 34%, completing the podium.

Just outside the top 3 in 4th we find entering new markets with 33% and product innovation with 30%. This is quite logical as now is the time to diversify so you are better prepared for the challenges ahead.

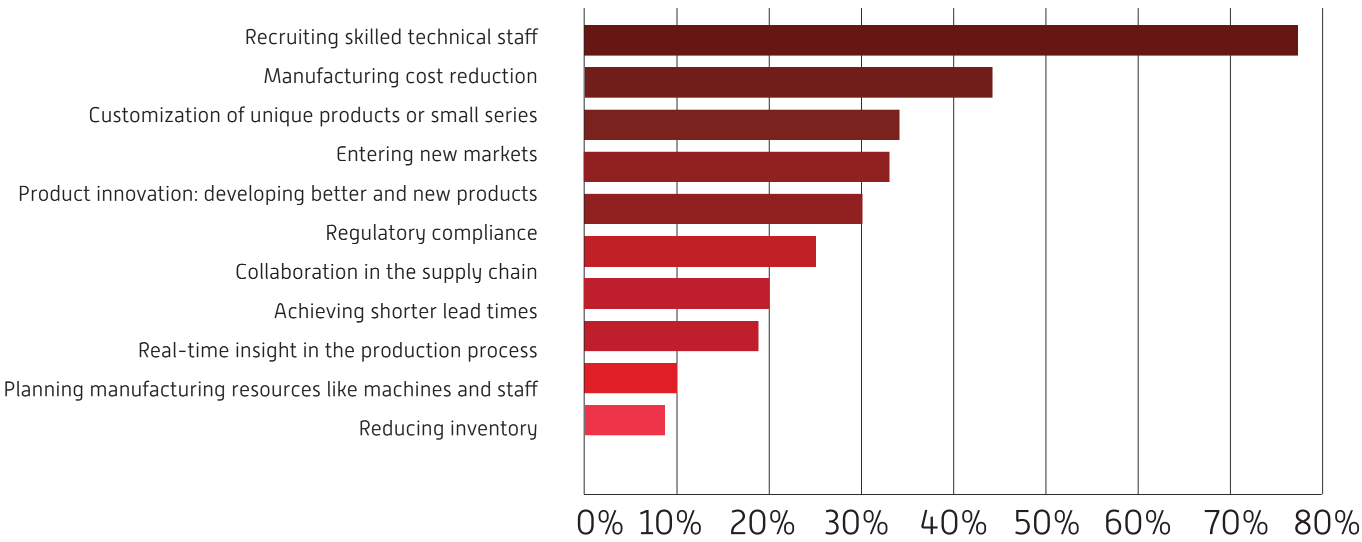
The emerging trade war between the big power blocks is a troubling sign and may even slow down economic growth in the foreseeable future.

So manufacturers may want to speed up their efforts before the next downturn or at least make sure they're not too dependent on a single region or country in particular.

To be clear, nobody can predict what will happen next, but it's best to keep a close eye on current developments and think about backup strategies.

> "It's no wonder the industry wants to invest in robotisation of product lines"

Figure 2: Key industry challenges
You have indicated that your company is active in accountancy. What are for your company the 3 most important industry specific business challenges?



MORE INSIGHT NEEDED TO BETTER CONTROL COSTS

Let's zoom in on controlling costs. It's quite interesting to see 43% find current purchase prices of materials as the most important factor to manage their production costs.

That need for actionable insight is a key trend for manufacturers. 29% like to separate their direct and indirect costs, 28% need to know the materials, hours and related costs per shop order and another 28% want to keep tabs on production capacity and workload.

But this raises the question why they don't have it in the first place. It's quite shocking to see only 24% can get an easy overview of their business performance, the rest use a variety of automated reports, different systems or even have to ask someone in IT to get the figures they need.

> "35% say they will look for new software when they need to replace outdated versions"

And it's not that they don't want to automate their processes. 39% say they won't hesitate to use business software if it will solve their challenges.

68% already use online software in some form or another. 19% even know that online software can improve their company when it comes to cost control and 17% say it gives them more control due to always having access to important data.

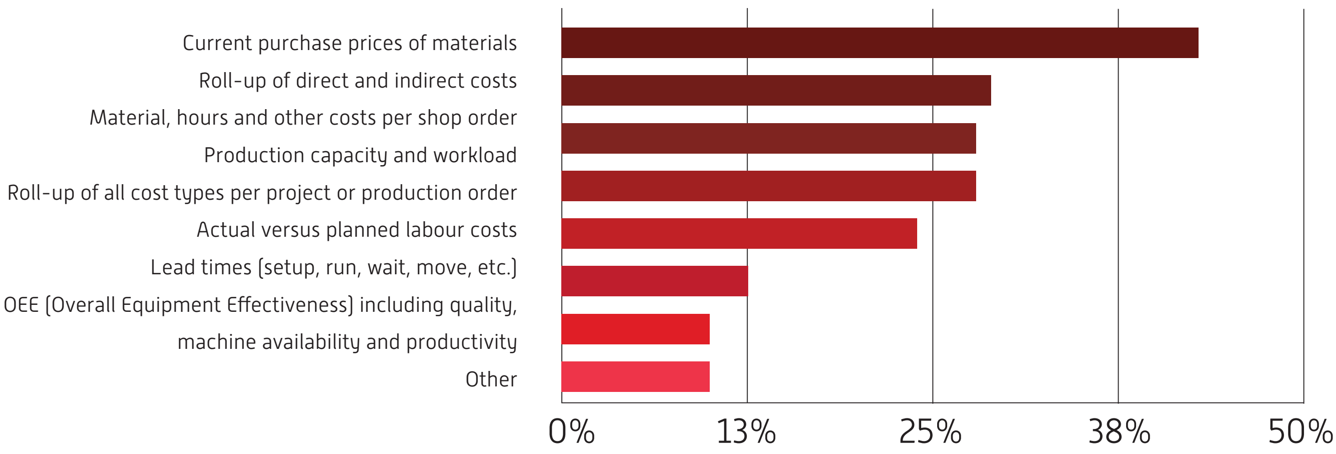
So what's holding them back?

The solution may lie in the use of their current systems. Wherever software is used, on-premise still leads the way. Add to this the fact that 35% say they will look for new software when they need to replace outdated versions - the highest percentage for this question - and things start to make sense.

So there may be a sense of the problem and the appropriate solution - it's still not urgent enough for a large number of them to replace their ageing systems. Maybe they live by the if it ain't broke, don't fix it principle. But it's still a fact they lack the proper insight - even with these systems in place. So maybe it is already broke for many of them to begin with.

> "Only 24% can get an easy overview of their business performance"

Figure 3: These insights are needed to get control of production costs
What do you need to have control over production costs? I need insight into...



WORRYING TREND: LOSING CUSTOMERS DUE TO LATE SHIPMENTS

Now we've arrived at the most worrying trend of the year: the chance their customers leave after a late shipment is 26%. All the more painful since Belgium manufacturers only ship 60% of their shipments on time.

A further drop compared to previous years and the lowest of all countries in this research. Spanish manufacturers top the charts with 80% shipments delivered on time, followed by The Netherlands with 76% and France with 70%. Making the average a worrying 75% for the Belgians.

> "The chance that customers leave after a late shipment is 26% and Belgium manufacturers only ship 60% of their shipments on time"

When we take a closer look at the chance of customers leaving after a late shipment, the Belgians come in 2nd with 26%. In The Netherlands 16% leave, France 29% and Spain 33%.

Even if it's below the average of 29%, it's still 26%. Just calculate that against your revenue. That's a significant amount indeed! Especially if you add up all the costs it took to win and retain the customer in the first place.

Getting shipments right is all about creating actionable insight into your manufacturing business: outstanding orders, inventory levels, planning and so on. Suddenly, the need to replace those old systems seems more urgent than ever.

Figure 4: Customers leaving after late shipments
What are the chances of a customer not returning when you don't deliver in time?

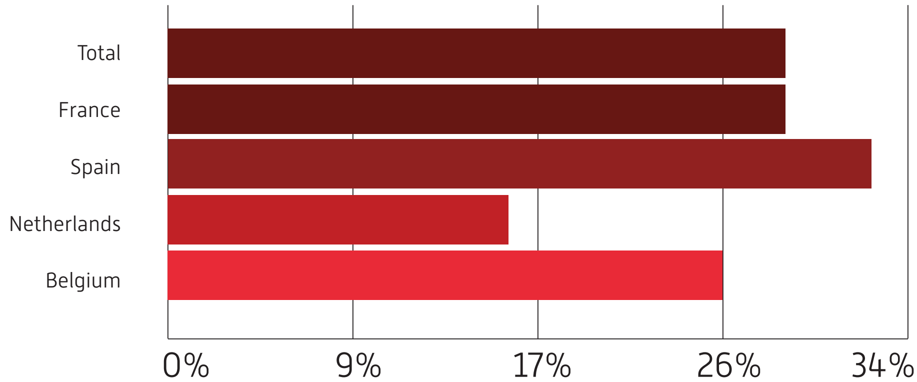
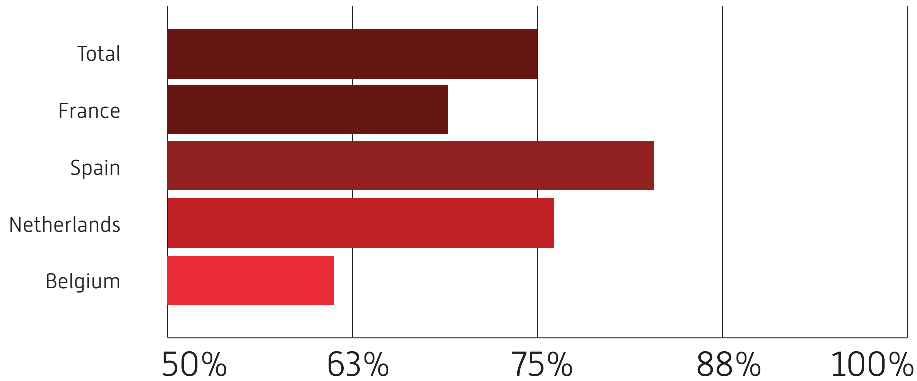


Figure 5: Shipments on time
What is the percentage of shipments that is delivered to the customer in time?



3D PRINTING & ROBOTISATION FOR SMALLER SERIES LEAD IN INNOVATION

Another strong trend is the move towards small series production. That's been going on for a few years now. 10% say this is regular business now, 19% report it's changing rapidly, 28% see it but moving at a slow pace.

This shows when we look at the technology investment wish list. Robotisation of product lines for small series shares the top spot with 3D printing - both getting 29%. Direct-to-consumer manufacturing & home delivery gets 24%.

> "Small series production is still rising: 10% say it's regular, 19% say it's rapidly changing, 28% move towards it at a slow pace"

That's a sure-fire tell of the key trends of entering new markets, finding new customers and designing new products or services. 3D printing helps you to create anything quickly and on demand. And as we mentioned before, by robotising the product lines you need to hire fewer people who are hard to come by nowadays.

And by cutting out the middleman, manufacturers aim to improve their margins. However, they'll need to invest in the proper tools to get the insight needed, a webshop running and all orders delivered on time. As we read earlier on, that's a major issue a lot need to deal with. Otherwise, these new customers will stay away too - with consumers nowadays even more picky since they're getting used to next-day or even same-day delivery.

Finally, there is the notable trend of 20% that want to use IoT (Internet of Things) and machine learning to improve their processes.

Figure 6: Small series production (SSP) keeps growing
Do you find that customers increasingly request orders in smaller series?

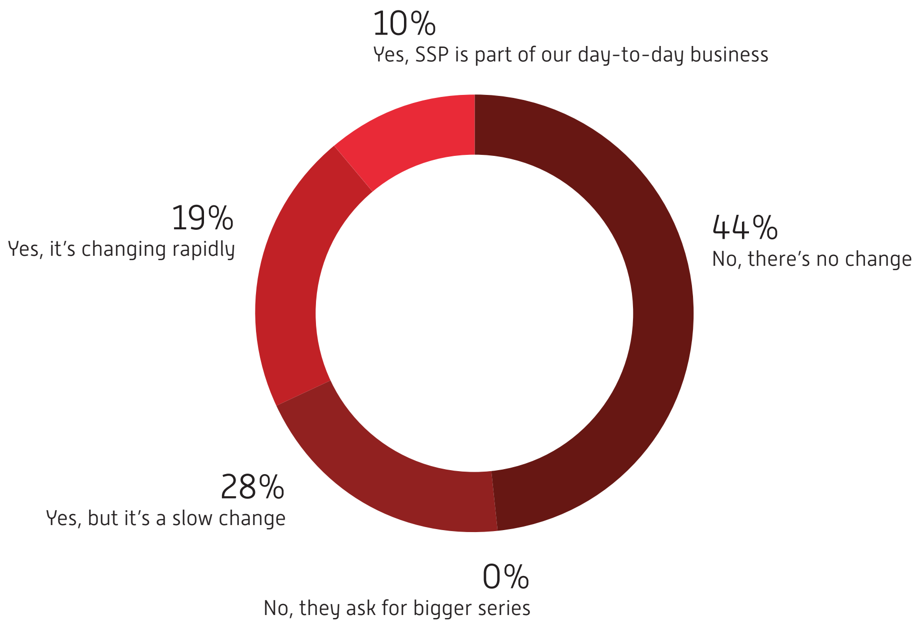
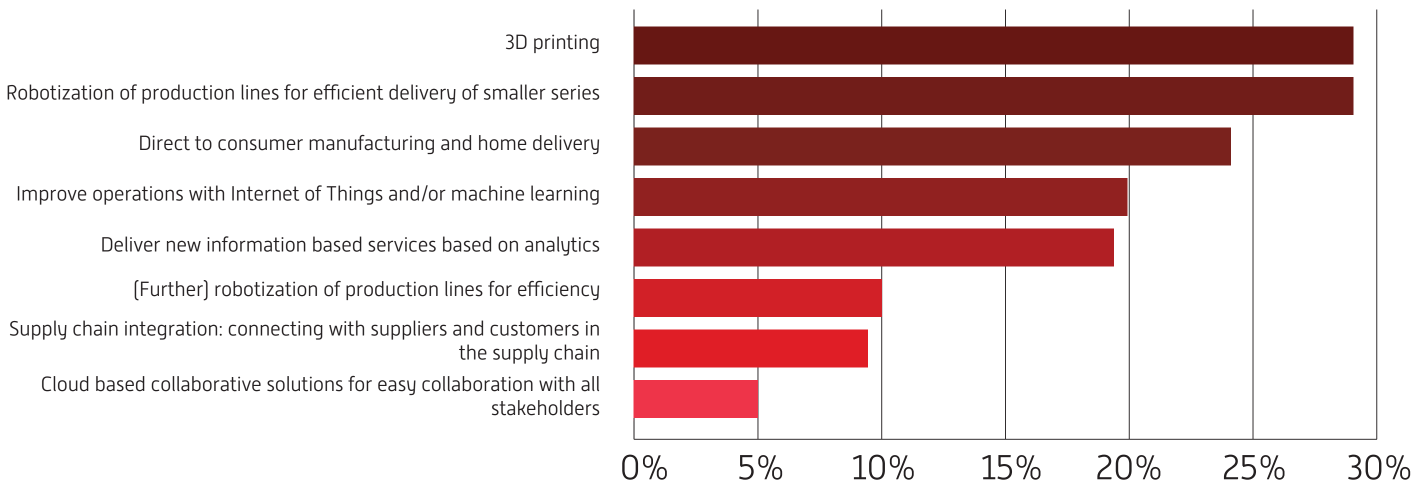


Figure 7: Investment priorities for the near future
In which of the following industry trends do you actively invest or plan to invest over the next three years?



ANALYSIS

Fuelled by a growing economy and with revenue growth of 17% and profit margin growth of 16%, 2017 was a solid year for Belgian manufacturers.

Overall, the need to innovate and diversify is starting to outpace the need for cost control, something we see across all industries. Despite this, finding new customers is still a significant hurdle for 50%. We see a similar trend in wholesale.

The biggest key industry challenge is recruiting technical personnel by a long shot: 77% struggle with it. No wonder then more companies are looking to robotise production lines, although that's not the sole reason.

Small series production is still on the rise, for 10% it's business as usual. So more and more manufacturers need to adjust the way they operate and invest accordingly. 34% find this a challenge and 29% is looking to invest in robotising production lines to accommodate this type of manufacturing.

> "The need to innovate and diversify is starting to outpace the need for cost control"

If we look at the investment top 3, robotising production lines for small series shares the top spot with 3D printing with 29%. Direct-to-consumer manufacturing & home delivery gets 24%.

This goes hand-in-hand with key challenges like innovating, finding new customers and entering new markets. 3D printing helps you to produce anything on the spot quickly and by cutting out the middleman, the margins will improve significantly.

> "Robotisation, 3D printing and Direct-to-consumer manufacturing & home delivery make up the investment top 3"

But that's mostly good news. The bad news is a rise in late shipments. Only 60% is shipped on time against an average of 75% compared to neighbouring countries.

Add to this the 26% chance of customers leaving after a late shipment and even bigger storm clouds are appearing on the horizon. Although this figure is below the 29% average, it's still a high figure when calculated against your revenue and all the costs you made getting and retaining the customer in the first place.

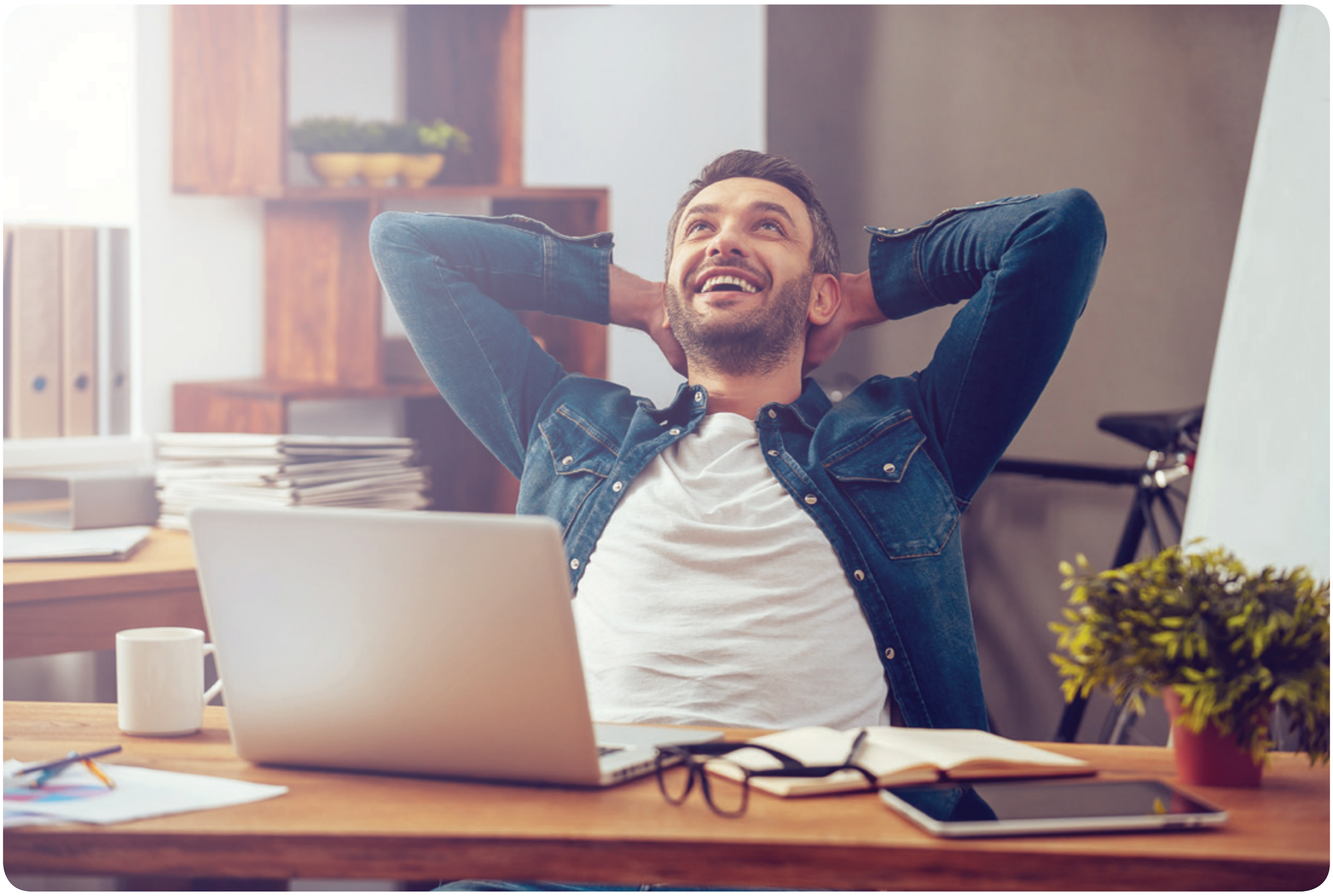
Seeing as more manufacturers want to dive into direct-to-consumer manufacturing and home delivery they need to improve in this area. Consumers are getting used to next-day or same-day delivery so if manufacturers want to succeed they'll have to cater to this even more critical crowd.

To improve on this 29% need actionable insight into direct and indirect costs, 28% into materials, hours and other costs per shop order and another 28% need better insight in production capacity and workload. However, only 24% has an easy overview of their business performance.

> "
> 39% wants to use a tool if it solves their challenges and 68% already uses online software in some form or the other"

The solution is using better tools. 39% say they are happy to use a tool if it solves their challenges and 68% already uses online software in some form or the other. But the majority still uses ageing on-premise tools that may keep the business going for now - but don't give the actual insights needed to stay the course.

Last, but not least, there is the current political sabre rattling going on between the big economic power blocks. This may even lead to an economic downturn with wholesale and manufacturing companies likely to be the first to get hit since many operate on an international level. So it may be wise to look into backup strategies or make sure you aren't too dependent on a single region or country. It's better to have options.



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