

# High Value Manufacturing

## Summary Report



*Manufacturing has a strong future in the UK. That future is based on generating high value – to the company, to shareholders and to the country. High value manufacturers have strong financial performance, are strategically important and have positive social impact.*

*Apple is a manufacturer which has extended itself into services building on a strong design reputation. The iPod has shipped over 30m units since 2001 and customers have bought over 600 million songs via the iTunes service*

*The Business in the Community Awards 2005 recognised GSK's Commitment to Ending Lymphatic Filariasis and Ricoh UK's Green Procurement Programme*

*Value added is sales less cost of bought in materials, components and services*

*The pharmaceuticals, aerospace and automobiles sectors spent over £10B on R&D in 2004 in the UK*

## **Manufacturing has evolved but our understanding of it has not**

Manufacturing firms turn ideas into products and services. In today's globally competitive landscape manufacturers are inventors, innovators, global supply chain managers and service providers. What was once seen just as production is now production, research, design and service provision.

## **Value is more than profit**

When thinking about value it is easy to assume it is the same as profit or revenue. However, a firm's value goes beyond its financial performance and includes social impact and strategic importance to the regional and national economy. Each type of value will be considered important in varying degrees by companies, individuals and countries.

## **HVM companies create financial, strategic and social value**

High Value Manufacturing (HVM) companies have strong financial performance but they also generate significant value externally. For example, at a strategic level, HVM companies may be significant contributors to national R&D investment. In terms of social impact, HVM companies may be measured for environmental performance, sourcing policies or their community involvement.

## **There is no simple definition of high value manufacturing**

High value manufacturers can create value in a variety of ways. For example they may have unique production processes, high brand recognition, rapid delivery times or highly customised services. Three examples of HVM from the UK are provided by Cadbury Schweppes, Rolls-Royce, and GlaxoSmithKline (GSK).

### ***Cadbury Schweppes focuses on production aligned to a strong brand***

In 2004 Cadbury Schweppes, a confectionary and soft drinks producer, had £2,266M in value added. The company has a strong base in production with a core focus on quality. Its strategy is brand led and customer focused. However, even Cadbury, with such a strong production focus, has an element of service revenue from its bottling franchises.

### ***Moving into service provision has strengthened Rolls-Royce***

In 2004 Rolls-Royce reported that over half its revenue came from services. While still investing heavily in R&D and engine production, Rolls-Royce generates its revenue through service contracts – power by the hour. In this way it has become a service-led producer.

### ***GSK's value is based on its research strength linked to production and marketing***

GlaxoSmithKline is ranked fifth overall in the UK in terms of value added (£12,538M) and is first overall in terms of R&D spend (£2.8B globally). Its value creation comes from the invention of new chemical entities and it captures value through a highly intensive sales and marketing process. Essential to the overall value proposition is the synergy of R&D, production and commercial activities.



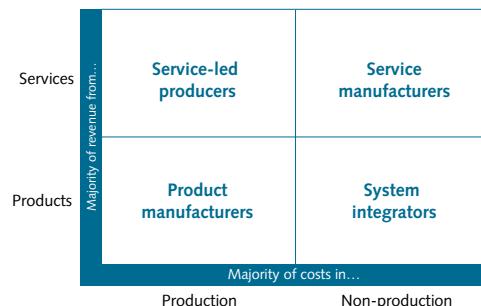
## The IfM has developed a framework for analysing HVM

Since a simple definition is not possible, the IfM has developed an initial HVM framework that builds on the financial measure of value added, categorises manufacturers into one of four types and provides a matrix in which the nature of the financial, strategic and social value generated by a company, for a variety of stakeholders, can be illustrated.

### High value manufacturers come in many shapes and sizes



- **Service-led producers** who provide customers with services based on a significant production capability
- **Product manufacturers** who focus on generating value through production
- **Service manufacturers** who have little or no production and generate value from services which are based around a product
- **System integrators** who control the channel to customers and manage an external production network



Each of these approaches can be high value – it depends on the context and capabilities of the company.

### UK manufacturing has to be high value in the future

If the UK is to maximise the potential of its businesses it is essential to broaden our perception of manufacturing beyond production. The HVM framework provides a basis for doing this. This initial framework will be developed further and it is hoped will be adopted by policy makers and industry and be used to help change public perceptions of manufacturing.

In a highly competitive global market the prosperity of the UK is dependent on companies that deliver high value – to the country, to investors, to their employees and to themselves. Many parts of the UK's current industrial base already deliver high value; the challenge is to make high value the standard.

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## The Centre for Economics and Policy

The Centre for Economics and Policy (CEP) is one of several research centres within the Institute for Manufacturing (IfM) – part of the University of Cambridge's Department of Engineering. CEP seeks to understand the changing nature of manufacturing and its strategic role within companies and economies, with the aim of supporting sustainable economic growth.

## The Institute for Manufacturing

The IfM works closely with industry, at a regional, national and international level, providing strategic, technical and operational expertise to help companies to grow and to become more competitive. This work brings benefits to both parties. Industry receives practical solutions based on the latest applied research. The university receives live feedback to help set the agenda for new research and an income stream to assist in funding future research activities.

The IfM's work with industry is characterised by:

- practical solutions underpinned by research
- collaborative working style designed to transfer knowledge
- balance of training and consultancy chosen by the client
- projects delivered and facilitated by experienced industrial professionals
- continued interest and support during and after implementation



This document is a summary of the High Value Manufacturing report produced by the IfM for the CBI and the DTI. The report was written as part of an IfM project co-funded by the DTI and the CBI to investigate the definition of high value manufacturing. The report presents an initial framework for companies and policy-makers to analyse the complex issues involved in modern manufacturing. It contributes to the work on improving the understanding of manufacturing that is being taken forward by the Manufacturing Forum, a joint industry and Government-led body responsible for the development and implementation of the Government's Manufacturing Strategy. For further details of the project and the High Value Manufacturing report, please contact Finbarr Livesey at the Centre for Economics and Policy.

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