



UNIVERSITY OF  
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Institute for Manufacturing



Making  
*the*  
Most  
*of*  
Production

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# Executive Summary

When companies make decisions on the location or outsourcing of production, they do not appear to be taking an inclusive view of the importance of production to their performance. Through interviews with fifty manufacturing executives in the United Kingdom and the United States, and an indicative survey of 100 UK manufacturing companies, this report has sought to bring to light the linkages between production and the other functions of manufacturing companies.

Five major linkages have emerged in our research and discussions –

- Production can enhance **product and process innovation**, acting as a source and testbed for new concepts.
- Production can provide a **source of distinctiveness**, allowing companies to differentiate themselves through hard-to-copy production techniques.
- Production can enable rapid and responsive **customisation of products** to support the swift introduction of new products and meet volatile market demands.
- Production can form a **platform for services** for businesses through intimate customer and product knowledge leading to enhanced service capability.
- Production can offer a mechanism for **value capture** through the ‘productisation’ of intellectual property.

This report outlines these linkages, highlighted in our interviews and survey. We provide an initial framework for companies to understand whether these linkages are important within their company context, and we note that these issues may need to be reflected in policy thinking at national and regional levels.

For a country such as the UK these linkages are important to consider, as manufacturing continues to leave the country. Of the companies surveyed, over 70% think that this outward trend will accelerate, leaving the country with a continually shrinking production base. If the themes that we have highlighted are significant, this could have a major impact on the vitality of the UK economy.

At the same time it is argued that the UK is moving up the value chain into higher value activities. Whilst that is certainly part of the adjustment that is ongoing within the economy, there are some signs that the transition may not be so easy. When asked whether design and development will start to leave the UK in the coming decade, over a third of the companies agreed that it would.

It is not our contention that all production needs to remain in the UK. Rather, production that has significant impact on a company’s ability to innovate, differentiate itself, provide customised products, offer services, and to capture value from their activities should be examined carefully before it is either outsourced or sent offshore. This inclusive view of production is necessary to counter the polarized debate of manufacturing versus services, which is not helping UK companies continue to succeed in a highly competitive global marketplace.

# Conclusions

The continuing movement of production out of the industrialised nations has once again raised questions about the strategic importance of production to companies and countries. This report captures the opinions of a cross-section of UK and US manufacturers about production, in particular the linkages between production and other business functions. This report does not suggest the retention of all production activities, rather it highlights the issues that should be considered when companies are making decisions on whether to outsource or to send production offshore.

Across the companies that were involved in this work there was no consistent rationale on how their production capability should be structured. Some companies have moved all of their production abroad, while some continue to invest in production locally. Each company's context is different and so variation is to be expected. But the lack of consistency was surprising, indicating that the problem of how to structure global production networks is not well understood. Many companies appear to rely upon relatively simple cost models, and there is a danger that these cost calculations will dominate all other considerations.

While the strength and depth of the linkages between production and the other functions of a manufacturing company remain to be fully understood, broad conclusions can be drawn from this report. Firstly, if these linkages are strong, there is a high probability that a strategy of moving out of production and into high value add activities, such as design and development, may not be viable. Many countries, as well as developing their production base, are beginning to develop sophisticated design and development capabilities. Secondly, in cases where the arguments to retain production are weak, companies and countries are likely to need enhanced skills in managing global production networks. Both of these issues are potential weaknesses of UK companies, and need to be addressed if UK manufacturing is to remain competitive.

This report highlights the linkages between production and other business functions and provides an initial framework for companies to review their decisions about production. To repeat, this is not an argument for all production to be retained in the UK. There are activities which have become commoditised and which should move if labour costs are dominant. However, more complex production activities, particularly at the early stages of product life cycles, may not need to move. Indeed, in-house production capability may provide companies with a significant advantage in markets that continue to demand faster cycle times and higher degrees of customisation. Only by understanding the complex links between production and the rest of the manufacturing cycle can we hope to make the correct decisions for production in the UK.

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