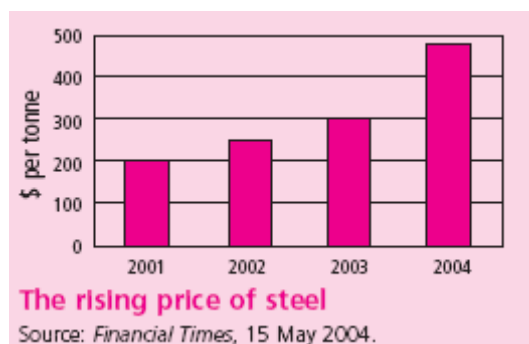


## The ups and downs of manufacturing in Wales

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

Just under 20 per cent of employee jobs in Wales are in manufacturing. This percentage is higher than that of the UK generally. However, manufacturing employment in Wales has diminished, along with manufacturing jobs generally in the UK. Wales has seen plants close and existing plants have contracted their workforce. At 7 per cent, Wales has a higher rate of unemployment than other parts of the UK except the northeast, and its GDP per head is about 80 per cent of the national average. Wales qualifies for economic support from the European Commission, to bring greater prosperity to the region.

Some manufacturing firms have managed to succeed, and even grow, in this difficult competitive environment. DBK Technitherm Ltd of Wales manufactures advanced technology heating systems used in a range of applications, including white goods such as tumble dryers and hot plates used in coffee machines. In 2004, it received two large contracts, leading the management to increase the workforce by a fifth, to 120 workers. But rising oil and steel prices and rising interest rates adding a 20 per cent rise in costs in one year, began to worry the managing director. The company has been warned by its major steel supplier, the Anglo-Dutch group Corus, that further rises are in the pipeline. Steel is a key material in much manufacturing and economic growth would be inconceivable without it. Surging demand for steel by the Chinese economy has led to rising global prices (see figure). For manufacturing businesses such as DBK, rising costs are eroding margins. The company could even be making a loss on some of its products. The managing director says: 'We are being squeezed from the top end by our customers in the white goods markets, who are seeing falling retail prices, and by the costs of components from our suppliers.' With retail prices low in white goods markets, 'it is difficult to get that price increase on to the customer ... We are stuck in the middle' (Moules, 2004). Of course, rising steel and oil prices are affecting all businesses, wherever they are. Although the price of steel has doubled in three years, this level may fall as demand in China slows and its steel corporations, having grown rapidly in response to home demand, are now rethinking further expansion plans. However, apart from these cyclical factors, businesses in the EU are affected by employment protection legislation and high levels of taxation. In particular, the EU's Working Time Directive limits working hours that employees may work in a week to 40 hours. The effect may be to raise the wage bill considerably, adding to costs.



Of concern to the company, and other similar manufacturing businesses, is the fact that its products may become uncompetitive in international markets. Welsh governmental authorities are committed to keeping manufacturing as a significant share of employment in Wales. The success of technologically advanced manufacturers such as DBK Technitherm is indicative of levels of innovation and skills in component manufacturing, which will contribute to economic development.

Sources: Moules, J., 'Dearer oil, steel and money turn the screw on UK businesses', *Financial Times*, 15 May 2004;

### **Case questions**

What are the causes of DBK's financial strain, and to what extent are all manufacturing businesses affected by the same forces?

What would be your advice to DBK management?

@ DBK Technitherm's website at <http://www.dbktechnitherm.ltd.uk>

@ The Welsh European Funding Office website at <http://wefo.wales.gov.uk>