

## Financial resilience during economic decline

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# WM REDI

## Policy Briefing Series



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### Financial Resilience During Economic Decline: Top 50 West Midlands' Manufacturing Firms

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Professor Simon Collinson

The manufacturing output of the West Midlands is notably higher than the average across UK regions, making a significant contribution to UK GVA. However, manufacturing sectors are some of the hardest hit by changing macro-environmental factors, including soaring energy prices, the impacts of the pandemic and the UK's withdrawal from the EU. Our analysis of the resilience of the largest West Midlands manufacturers on the basis of their current ratio finds that 20 of these firms are considered to be at high risk of being unable to cover their short-term liabilities. Notably, these firms employ 105,320 individuals; thus, the impacts of any firm bankruptcies would be significant. We call for policy interventions that precisely target firms which have a disproportionate share of employment and value-added. We also urge that interventions should be properly administered, with appropriate governance mechanisms installed, so that financial support reaches legitimate firms to ensure their efficacy.

## Introduction

The UK's departure from the EU, as well as the aftermath of the pandemic and recent rise in energy prices, have contributed to a severe and accelerated decline in national output. The manufacturing sector is particularly vulnerable as the aforementioned factors have significantly increased production costs. Given this, manufacturing firms are facing severe pressures to stay afloat and there is an urgent need to understand the financial health of operating firms within the UK.

## The West Midlands Manufacturing Sector – Overview

As the fifth largest region in terms of gross value added (GVA), the West Midlands plays an important role in the UK economy. According to the Regional Manufacturing Outlook (2021), as of 2021, the region contributes 7.3% of the UK's total output. Given that the West Midlands manufacturing sector produces 15.4% of the region's total output, which is 5.5% higher than the average across UK regions (9.9%), with over 300,000 people working in the sector, the region is quite dependent on the manufacturing sector relative to other regions.

The manufacturing sector within the region has a diverse portfolio of subsectors; however, the largest three subsectors account for more than 60% of the region's manufacturing output. In 2021, accounting for 35.2% of total manufacturing output within the region, the largest subsector is the Transport Equipment industry. The second largest subsector is the manufacture of Metal Products at 14.9%, with the Machinery Equipment subsector coming in third accounting for 11%. The region is also home to an automotive cluster, which includes OEMs operating downstream in automotive supply chains and a diverse network of suppliers upstream in supply chains. The region has a long history in automotive manufacturing, with research demonstrating that SMEs operating upstream in supply chains have acquired critical assets, skills, practices, and knowledge to remain competitive in comparison to overseas rivals (Qamar *et al.*, 2021).

## Investigating the Financial Resilience of Manufacturing Firms in the West Midlands

The current economic conditions provide an interesting context in which to analyse the financial resilience of firms. Bailey *et al.* (2022) specify that economic shocks can disrupt development paths at different spatial scales, and indicate the need for policy intervention at multiple levels. Given this, we believe the on-going impact of the UK's departure from the EU, the aftermath of the pandemic, and the recent depreciation of the pound provide a clear need and opportunity to explore firm resilience, and in turn regional resilience in some depth. More specifically, we study the largest (based upon revenue) 50 manufacturing firms in the West Midlands, to assess which of these firms are likely to require the most support during the current economic downturn.

During times of uncertainty and economic shock, organisations may experience a delay in order-lead times across their supply and demand chains. Thus, cash flow can be used as a financial resilience indicator. In this analysis we use the current ratio as a proxy for cash flow, as it is used to estimate the liquidity position of an organisation. The current ratio represents a firm's ability to convert its assets into cash to cover its short-term liabilities.

**Table 1: Top 50 Manufacturing Firms in the West Midlands Ranked by Revenue 2020**

Company name	Postcode	Operating revenue £ ('000's)	Employees	Profit Margin (%)	Current ratio (x)	Liquidity Ratio (x)	Gearing (%)	Stock Turnover (x)	Risk
1 JAGUAR LAND ROVER LIMITED	CV3 4LF	19,849,000	33,084	-3.57	0.84	0.65	189.37	10.00	HIGH
2 AAH PHARMACEUTICALS LIMITED	CV2 2TX	3,566,006	3,005	2.25	1.34	1.08	38.38	17.10	MEDIUM
3 J.C.B. SERVICE	ST14 5JP	3,141,800	10,298	4.14	2.76	2.21	42.69	6.27	LOW
4 BOPARAN HOLDCO LIMITED	B3 2BJ	2,692,000	18,843	-0.65	0.37	0.29	n.s.	26.68	HIGH
5 MULLER UK & IRELAND GROUP LLP	TF9 3SQ	1,916,794	7,539	0.86	1.17	1.00	44.13	27.56	HIGH
6 TARMAC TRADING LIMITED	B37 7ES	1,828,700	2,537	-7.10	1.42	1.36	154.97	44.71	MEDIUM
7 IMI PLC	B37 7XZ	1,825,000	10,446	11.74	1.53	1.03	83.95	6.22	MEDIUM
8 MEGGITT PLC	CV7 9JU	1,684,100	10,520	-19.83	1.92	1.05	73.96	3.94	LOW
9 PILGRIM'S PRIDE LTD.	CV34 6DA	1,342,572	5,370	0.48	1.52	0.95	23.61	11.73	MEDIUM
10 HALFORDS GROUP PLC	B98 0DE	1,155,100	11,007	1.68	1.15	0.60	184.38	6.68	HIGH
11 SUMITOMO ELECTRIC WIRING SYSTEMS EUROPE LIMITED	ST5 6PA	766,324	28,854	-6.06	2.12	1.05	n.s.	4.27	LOW
12 ZF AUTOMOTIVE UK LIMITED	B90 8BG	710,330	2,196	-2.05	1.11	1.04	80.64	17.36	HIGH
13 HILL & SMITH HOLDINGS PLC	B90 4LH	660,500	4,499	5.37	1.70	1.02	62.62	6.86	MEDIUM
14 SCHNEIDER ELECTRIC LIMITED	TF3 3BL	590,149	2,480	4.10	1.13	0.89	217.60	9.01	HIGH
15 FREEMANS OF NEWENT LIMITED	HR4 9PB	561,362	2,636	1.95	1.90	1.31	5.99	24.80	LOW
16 CEMEX UK OPERATIONS LIMITED	CV21 2DT	549,564	2,303	-3.75	9.14	9.07	53.57	20.34	LOW
17 ASTON MARTIN LAGONDA LIMITED	CV35 0DB	530,100	2,303	-84.47	0.46	0.36	n.s.	2.97	HIGH
18 GKN AEROSPACE SERVICES LIMITED	B90 8BG	528,749	3,657	-9.75	3.86	3.56	92.67	8.17	LOW
19 MARSTON'S PLC	WV1 4JT	515,500	13,316	-75.40	0.98	0.96	788.10	49.57	HIGH
20 BOSCH THERMOTECHNOLOGY LTD	WR4 9SW	479,700	1,770	22.60	1.70	1.44	136.56	11.84	MEDIUM
21 YAMAZAKI MAZAK U.K. LIMITED	WR4 9NF	433,822	612	0.49	1.86	0.76	117.32	4.02	LOW
22 ORNUA FOODS UK LIMITED	ST13 6SP	410,933	746	1.27	1.13	0.77	286.31	8.46	HIGH
23 MICHELIN TYRE PUBLIC LIMITED COMPANY	ST4 4EY	398,802	858	-10.55	0.99	0.84	407.48	16.08	HIGH
24 GOODRICH ACTUATION SYSTEMS LIMITED	B90 4SS	398,444	1,215	-12.17	0.69	0.41	n.s.	6.50	HIGH
25 AGCO LIMITED	CV8 2TQ	397,080	407	5.40	2.12	2.12	67.48	n.s.	LOW
26 GENERAL ELECTRIC ENERGY UK LIMITED	ST16 1WT	365,777	1,422	10.66	1.36	1.31	n.s.	19.23	MEDIUM
27 TITAN EUROPE LIMITED	DY10 3SD	340,187	2,397	0.43	2.15	1.08	47.23	2.82	LOW
28 CEDO HOLDINGS LIMITED	TF7 4LZ	338,363	2,266	6.58	1.73	0.97	1.73	6.25	MEDIUM
29 BAXI HEATING UK LIMITED	CV34 4LL	310,753	1,267	10.90	3.64	3.42	15.68	9.10	LOW
30 COOKSON PRECIOUS METALS LIMITED	B1 3NZ	300,900	245	0.60	1.88	1.31	5.33	53.29	LOW
31 CARLSBERG MARSTON'S BREWING COMPANY LIMITED	WV1 4JT	297,392	373	-7.79	2.17	2.17	73.44	5.62	LOW
32 RICOH UK PRODUCTS LIMITED	TF2 9NS	283,890	610	2.78	4.89	3.24	38.77	5.62	LOW
33 K.T.C. (EDIBLES) LIMITED	WS10 7DE	283,865	435	3.55	1.28	0.94	97.78	16.85	MEDIUM
34 ADIENT SEATING UK LTD	CV4 8AE	283,396	1,355	-6.14	0.74	0.61	n.s.	20.63	HIGH
35 DENNIS EAGLE LIMITED	CV34 6TE	261,550	913	7.71	1.85	1.12	37.42	6.95	LOW
36 JOY GLOBAL (UK) LIMITED	WR2 5EG	254,286	658	-8.16	0.99	0.72	141.56	5.01	HIGH
37 ERIKS INDUSTRIAL SERVICES LIMITED	B69 4JR	250,997	1,573	1.03	2.36	2.04	126.12	13.05	LOW
38 EPWIN GROUP PLC	B90 4QT	241,000	2,030	0.79	1.13	0.69	118.25	8.14	HIGH
39 INTERNATIONAL AUTOMOTIVE COMPONENTS GROUP LIMITED	B37 7HE	235,797	1,190	1.40	1.17	1.00	50.72	19.42	HIGH
40 ANTOLIN INTERIORS UK LIMITED	CV34 6RW	235,233	1,803	-16.43	0.87	0.35	415.49	3.93	HIGH
41 ASSA ABLOY LIMITED	WV13 3PW	214,846	1,085	7.07	1.22	0.79	58.56	4.91	MEDIUM
42 SERTEC CORPORATION LIMITED	B46 1JU	212,624	1,817	-1.27	1.02	0.77	81.23	16.64	HIGH
43 TARMAC BUILDING PRODUCTS LIMITED	WV1 1LH	211,552	954	-4.00	1.59	1.10	51.17	8.28	MEDIUM
44 MONDELEZ UK CONFECTIONERY PRODUCTION LIMITED	B30 2LU	195,404	482	0.80	0.66	0.62	99.71	19.98	HIGH
45 LEONI WIRING SYSTEMS U.K. LIMITED	ST5 9BT	192,666	349	-6.63	3.75	3.24	312.69	12.42	LOW
46 SANDVIK LIMITED	B62 8QZ	191,155	708	100.00	0.55	0.45	225.67	7.36	HIGH
47 CPC FOODS LIMITED	CV2 2OB	187,185	692	-1.03	0.52	0.45	n.s.	34.49	HIGH
48 DENSO MANUFACTURING UK LTD.	TF1 7FS	185,741	968	1.20	1.46	1.08	47.30	10.16	MEDIUM
49 B.E. WEDGE HOLDINGS LIMITED	WV13 1RZ	183,742	1,316	10.91	5.63	4.19	19.50	7.30	LOW
50 GOODYEAR TYRES UK LIMITED	B37 7YN	177,044	345	1.83	4.37	4.31	21.36	31.62	LOW

Source: FAME Bureau Van Dijk database

Notes: (1) data corresponds to 2020; (2) FAME does not provide precise information about the region in which employees are based; (3) SIC codes used relate to all manufacturing sectors in the region; and (4) Given that the data in Table 1 relates to headquarter location, not all employees are necessarily working within the region.

## How Resilient are Manufacturing Firms in the Region?

Although there are several useful indicators in Table 1, our analysis is largely based on the current ratio. Essentially, the current ratio is a liquidity ratio that compares a firm's current assets to its current liabilities. We use the current ratio in order to evaluate and understand whether firms have enough resources to meet their short-term obligations, which we categorise into three risk groupings (i.e. low, medium, high). We adopt a similar methodological approach to Qamar *et al.*'s (2022) recent research that explored the financial resilience of the largest 50 automotive firms in the West Midlands region. With this in mind, we define a firm as being high-risk when its current ratio is below 1.2, medium-risk if current ratios are between 1.2 and 1.8 and low-risk firms if above 1.8.

Table 1 lists the largest 50 manufacturing organisations in the West Midlands region. These are ranked based upon their revenue. The firms that are highlighted in red are the firms that we define as high-risk. In total, we find that there are 20 high risk firms and cumulatively these firms have a workforce of 105,320. Importantly, 12 of the high risk firms are also illustrating negative profit levels.

Crucially, a large proportion of the identified high risk firms are located downstream or 'relatively' downstream (close to the end consumer) within their respective supply chains. Thus, if these giant firms were to fail there would be severe repercussions amongst their supply chains (e.g. ripple effects) which could lead to downsizing and inevitably redundancies more broadly across the sector. This is particularly relevant to the automotive sector and a number of OEMs (e.g. Jaguar Land Rover, Aston Martin) are highlighted as high risk firms.

Next, our analysis reveals that there are 12 firms which we identify as medium-risk (highlighted in amber). In total, these 12 firms which we identified as medium-risk employ 34,757 individuals. However, only 2 (Tarmac Building Products Limited, Tarmac Trading Limited) out of the 12 medium-risk firms are also illustrating negative profit margins.

Table 1 reveals that there are 18 low-risk firms that together employ 68,675 people. These firms are considered to be relatively healthy in terms of their financial resilience; thus we consider these jobs to be relatively secure. Although there are a number of low risk firms illustrating negative profit margins, there are 3 firms signalling 'more' profit concerns, namely: Meggitt PLC, GKN Aerospace Services Limited, and Carlsberg Marston's Brewing Company Limited.

## Policy Implications

Our findings reveal that the largest 50 manufacturing (based upon revenue) organisations in the West Midlands employ 208,753 individuals. We use the current ratio as a proxy for cash flow and find that 105,320, 34,757 and 68,675 people are working in firms of high-risk, medium-risk and low-risk respectively.

Our analysis reveals that there are 20 high-risk firms and 9 of these firms are located in the Birmingham postcode area. Therefore, Birmingham has the highest number of high-risk firms (out of the top 50) and the Coventry postcode area (also covering much of Warwickshire) comes in second with 5 high-risk firms.

Telford and Stoke-on-Trent postcode areas have 2 high-risk firms each and Wolverhampton and Worcester postcode areas are also each home 1 high-risk firm. Moreover, all of the firms listed in Table 1 are subsidiaries to parent groups and a large proportion of these groups are of foreign ownership. Government policies often focus on a place-based need to attract Foreign Direct Investment (FDI), and current FDI initiatives are, at times, overlooked. Thus, policies also need to reflect the importance of existing foreign investment as opposed to attracting new investment.

With regards to the high-risk firms, precise government support will be required for these firms as they have a large share of employment and value-added in the region. This is especially important given the recent rise in energy prices which will inevitably dampen the health of these already high-risk firms. The government announced that they will be issuing energy discounts to businesses via the energy relief scheme. This scheme will apply to fixed contracts agreed on or after 1 April 2022 and will apply to energy usage from 1 October 2022 to 31 March 2023.

However the government must ensure that a thorough governance system is in place prior to issuing discounts. This is because the Public Accounts Committee accused the government of being rather 'complacent in preventing fraud'. Reportedly, £4.9 billion of the £47 billion issued in the form of the Bounce Back Loan Scheme (BBIS) is expected to be lost to fraud (Open Access Government, 2022). Moreover, it is estimated that a further £4.5 billion was also lost due to 'error and fraud' under the Coronavirus Job Retention Scheme, the Self Employed Income Support Scheme and the Eat Out to Help Out initiative (Open Access Government, 2022).

Government intervention may also be required in terms of support centres which can be used to tackle issues such as productivity. Although the region is reported to be rather productive in terms of manufacturing, Green *et al.* (2018) found that manufacturing firms are struggling to grasp the concept of productivity, let alone robustly capturing this important indicator.

The current weakening of the pound sterling, rising interest rates and the rising cost of living have implications for manufacturers and consumers alike. Precisely how these impact will vary by sub-sector and the balance and location of imports of raw materials and components and the location of finished goods. Again, this calls for close monitoring of the fortunes of particular companies.

However, there are common concerns across manufacturing companies in the current volatile economic environment. One relates to an uncertainty hampering investment – in plant, new products, processes and training – which is crucial for growth in the medium- and longer-term. Another concerns the resilience of supply chains given the cost of energy and potential shortages across Europe, as well as ongoing disruptions caused by shortages, transportation difficulties and the impact of industrial unrest. Another common issue relates to skills shortages across much of manufacturing, with high vacancy rates alongside high rates of economic inactivity. In the context of job losses should there be major redundancies it is crucial that skilled workers are able to move to other jobs within the sector or to other sectors where their skills can be utilised productively elsewhere, rather than atrophy.

## Conclusion

The findings from our analysis indicate that of the top 50 firms, 20 are considered as operating with a high level of financial risk, with 12 of these also reporting losses, thus experiencing severe cash flow issues. As such, the downsizing of businesses may be inevitable. Some of these high-risk firms are household names, and located at the top of supply chains, such as Jaguar Land Rover, Aston Martin, Michelin Tyres, and Marstons. This means that if such firms were to collapse, there would be significant ramifications throughout the supply chain, multiplying the economic and social impacts. Policy makers need to ensure support mechanisms are properly governed and that support packages are proportionality tailored to firms that account for a disproportionate share of employment and value-added in the region. Finally, if redundancies are to be made then it is important that skilled workers are not lost from the region as this will signal productivity concerns for the future of the West Midlands.

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