Engineering and
Machinery Alliance

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Grass Roots Survey

Mechanical Engineering Firms'

Investment – Drivers and Performance

Seven of EAMA's nine associations took part in this survey:

British Automation and Robot Association (BARA)
British Paper Machinery Suppliers Association (BPMSA)
British Plastics Federation BPF)
British Turned Part Manufacturers Association (BTMA)
Confederation of British Metalformers (CBM)
Gauge and Toolmakers Association (GTMA)
Manufacturing Technologies Association (MTA)
Printing, Publishing and Converting Suppliers Association (PICON)
Processing and Packaging Machinery Association (PPMA)

March 2007

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Introduction

Mechanical engineering supplies capital goods and components for capital goods to other manufacturers.

In the UK, manufacturing investment has fallen every year from 1998 to 2005 (the latest date for the Annual Business Inquiry from the Office of National Statistics), declining 43% overall or by 37% allowing for the drop in the number of companies over the intervening years.

Against that background we asked our member companies what they were investing in and why in the winter of 2006.

This report presents the results of that survey, summarising their views and performance both as a sector and in four company-size segments: micro firms (employing less that 20 people), small companies (with 20-49 employees), medium size companies (with 50-249 workers) and big companies (with over 250 people).

The Engineering and Machinery Alliance
62 Bayswater Road
London W2 3PS

Why are you investing just now?

"To improve quality"

"Lack of previous investment"

"Need to increase turnover"

"We've got to expand our sales"

"Reduce labour costs"

"Speed and efficiency"

"Legislation forces me to invest in environmental, health & safety and energy, leaving me with nothing to invest for the future"

"Need to reduce the cost of production to keep existing customers and help find new customers"

"We've increased our profit"

"We want to lead the market innovatively"

"Skilled workforce, training"

"We've spotted an export opportunity in new markets"

"It's not glamorous. It's all about survival in a dead market"

“Very difficult to find good skilled m/c tool engineers”

Summary

Confidence and investment levels appear to be good …

1. 66% of participating companies are confident about business in 2007
2. 83% of respondents said in 2006 that they were investing as much or more than in 2005.
3. The outlook is only marginally less positive from that perspective with 78% expecting to maintain or raise their investment levels in 2007.

Main reasons for investing revolve around production …

4. The main reasons for investing are: to improve productivity (53%) and take on new technology (50%). The third most popular reason, product development, was quoted by just over a third of firms (36%).
5. All size companies and the Top 20 Investor companies reported a similar hierarchy.
6. However, the Top 20 Exporters' group, companies all selling more than 60% of their turnover directly overseas, had a different focus. For them the overwhelming driver for investment is product development (65%), followed again by new technology, but at a slightly higher level than for the respondents as a whole (55%).

Sums invested are very high as a percentage of sales amongst smaller firms …

7. The amount companies spend on investment as a proportion of their business varies enormously, often with much higher percentages recorded by smaller firms.
8. Because the sector is capital intensive, 39% of firms say that they are investing at levels substantially above 10% of sales (19% of firms above 20% of sales)
9. On segmentation by sector (based on trade association affiliation) the turned parts manufacturers recorded the highest investment levels averaging 8.5% (and 16% mean).

Training, plant & machinery and IT are the most popular areas of investment, but …

10. The most popular areas for investment overall are training (84%), plant and machinery (82%) and IT (77%). Slightly more than half of respondents are involved in R&D (56%).
11. For most of these areas, the majority of firms are investing as much as last year, with a large minority investing more and then a rump (of 10% or less) investing less (e.g. on training, 60% the same, 36% more and 4% less).
12. IT however, is different. In 2006, more firms (48%) invested more, 45% invested the same amount as last year and 7% invested less.

Firms are not making use of their entitlements …

13. 52% of firms had used at least one of their entitlements to support their investment, with capital allowances accounting for half that number. 13% of firms had made use of two or more of these channels (Capital Allowances, R&D Tax Credits, Training Grants and RDA Grants).
14. However, in areas such as the R&D Tax Credit far fewer companies are accessing it (13% of all firms) than are investing in R&D (56%).

But where they do they bring additional gains in other areas too …

15. Firms using capital allowances also report major IT investment with 62% of them spending 'more' on it than last year (compared with 48% for firms overall)
16. Firms accessing R&D Tax Credits are no more confident about the future than firms in general, but they say that they are investing at a higher level 'this year than last' (54% vs 37%) and 'next year' (39% vs 29%) than the norm. They also report very high participation rates, in addition to R&D: plant and machinery 100%, training 92%, and IT systems 92%.
17. Firms using training grants are also more likely to say that they have a multi-year strategy for investment (54% vs 24% overall)

Conclusions

1. If these investment levels are typical of the mechanical engineering sector as a whole, after nine years of decline, mechanical engineering investment may have bottomed out and even now be beginning to grow again.
2. Much of the percentage lift in investment is down to the SMEs that have been prepared to invest a larger proportion of their business. This produces some dramatically high ratios for the firms involved, but as the individual SME figures are relatively small in absolute terms the segment percentage increase will have a more limited impact on the consolidated industry data.
3. However, the threats from the skilled workforces of Eastern Europe and the newly industrialising economies in Asia mean that as capital intensive companies these firms, whatever their size, have little choice but to keep on investing if they are to remain internationally competitive.
4. As stated this requires very high rates of investment among SMEs, in some cases 20-30% and more of sales. With the risks so high, external factors, including changes in regulations and tax can push companies to put back investment decisions. (Only 24% of firms mentioned a multi-year investment strategy).
5. The R&D Tax Credit is having a beneficial effect amongst those companies that are using it, but the take-up is so small (13%) that it has not yet reached the critical mass to produce a high-profile sector-wide impact. However, there's plenty of potential with 56% of all respondent investing in R&D.
6. Trade associations could help promote benefits of this allowance. The same applies to capital allowances and to any other 'dues' that may be available as a result of any Budget realignments. However from other EAMA research (*Grants Grassroots June 2006*) we strongly suspect that two of the key reasons for the low take-up are: 1) the complex nature of such applications; 2) the expense involved in contracting a consultant to help with the necessary paperwork.
7. Medium and big size firms make up a large proportion of the 'Top 20 Exporters' (58% vs 27% overall). As a result they share many of the same attitudes and performance characteristics (e.g. higher investment levels 58% vs 37 for all companies).
8. The impact of the measures contained in the 2007 Budget should be assessed for their impact on manufacturers of all sizes given the levels of risk inherent in exposure to investment rates equivalent to more than 10% of sales. Depending on the results, industry should bring these conclusions to the attention of HM Treasury and ministers.
9. However, the two segments, Top 20 Exporters and large companies, vary in the level of their investment activity. The exporters clearly outperform the large companies in three of the six investment categories (R&D, IT, vehicles) and lead in one (training):
    - R&D 80% vs 67%;
    - IT 90% vs 78%;
    - vehicles 70% vs 56%;
    - training 85% vs 78%;
    - plant and machinery 90% vs 89%;
    - and new buildings 60% vs 56%.
10. In terms of their main reasons for investing, the exporters are much more about product development (65% vs 44%), and new technology (55% vs 44%) and much less about protecting their markets (5% vs 33%) or expanding production (10% vs 22%) than the large companies on their own. Clearly innovation is a key ingredient for success in export markets. So UKTI's strategy to help build British success abroad could have a direct impact on manufacturing investment driven by the need to innovate.

Plans and attitudes

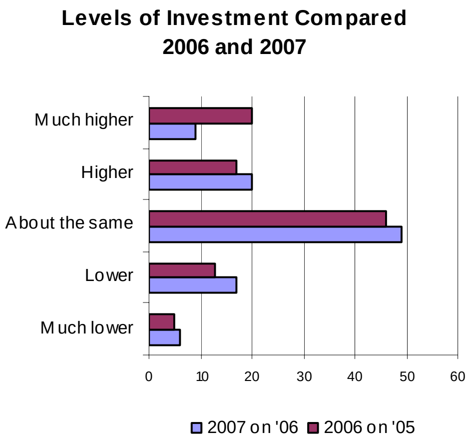
Investment and confidence

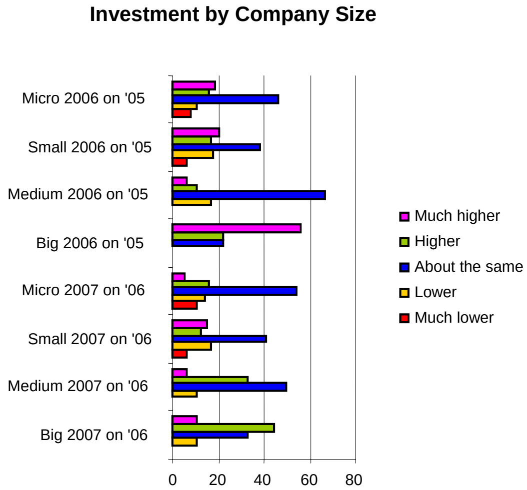
Level of investment (% all firms)

	Much higher	Higher	Same	Lower	Much lower
2006 on 2005	20	17	46	13	4
2007 on 2006	9	20	49	17	5

Confidence About the Business Year Ahead (% all firms)

Very confident	Confident	Not very confident	Not at all confident
6	60	30	4





Firms were generally positive about investment with over a third (37%) investing more in 2006, while nearly half (46%) say they are investing as much as in 2005. Under a fifth (17%) said they were investing less than in 2005.

With one exception, over 20% of all segments said that they were investing more in 2006 than in 2005 and reportedly planned to invest more in 2007 than in 2006. The exceptions were the medium sized companies where 17% of firms reported investing more in 2006. For 2007, 39% of this segment's companies said they were going to invest more than in 2006.

However, overall 22% did say that they were going to invest less in 2007 than in 2006. So, the general outlook for 2007 is a little less positive with 29% of firms saying that their investment level is going to be higher than in 2006 and 49% that they will maintain investment at the same level as in 2006.

Overall, large firms are more likely to say they are investing more 'this year' than the norm (78% vs 37%). Next year too (55% vs 29%). They also seem to be more confident about business next year (88% vs 66%).

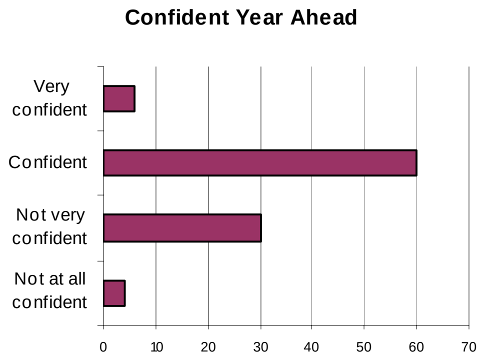
The so-called 'confident companies' are those firms that said they were 'confident' or 'very confident' about business in the year ahead (2007). Distribution by size parallels the sample fairly well with slightly more medium and big companies.

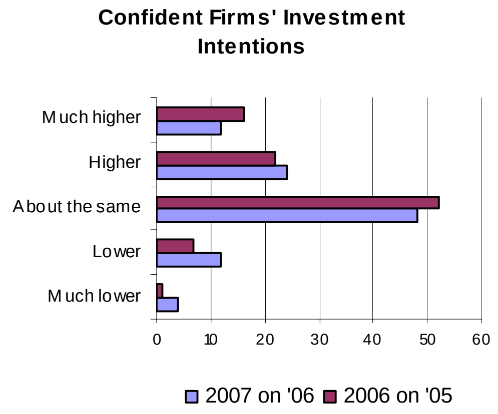
Confident Companies by Size (%)

Micro	Small	Medium	Big
34	32	22	12

Overall Report Participating Companies (%)

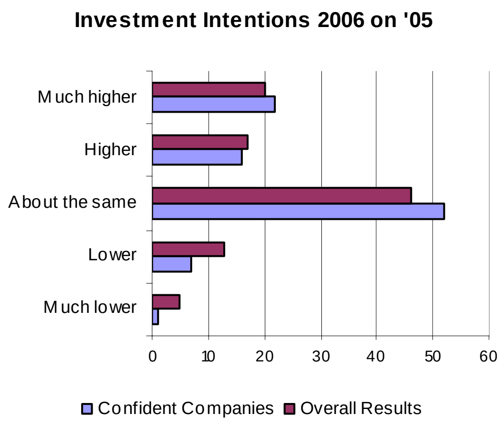
Micro	Small	Medium	Big
38	35	18	9

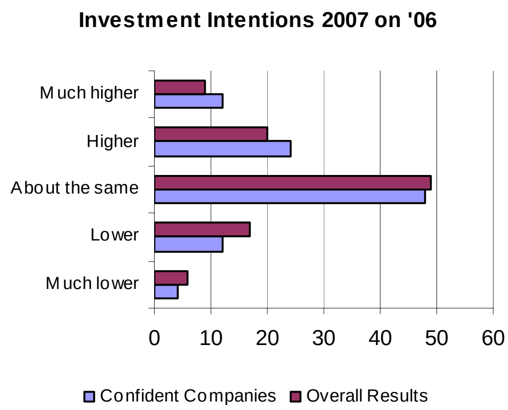




Two-thirds of companies are confident about the business outlook for 2007. However, 16% of these ‘confident’ firms expected to reduce the level of their investment in 2007, while 36% expected to increase it (a third of them ‘much higher’).

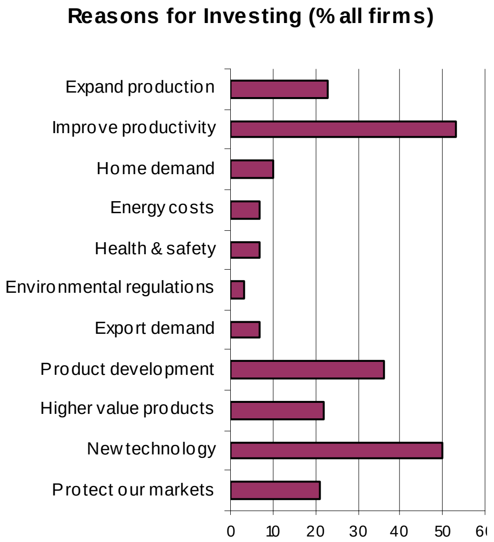
It seems that these ‘confident’ companies’ investment intentions diverge only a little from the mainstream findings, gaining seven extra points on next year’s (2007) ‘higher’ investment plans (36% vs 29% for the companies overall) and not unexpectedly recording fewer companies planning to lower their investment levels

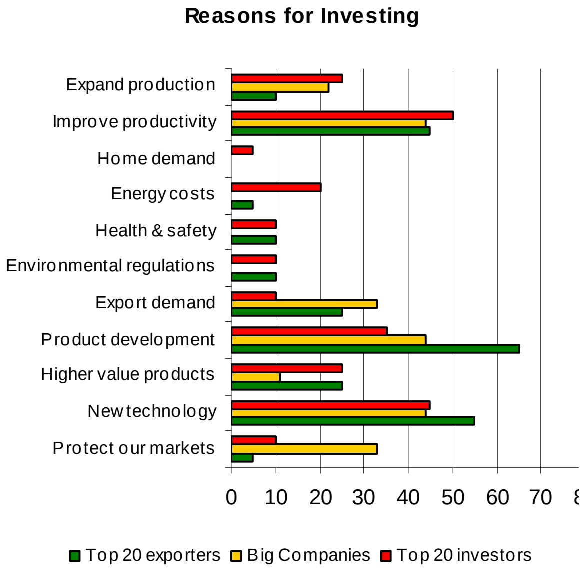




Investment drivers

Firms were asked what the three main reasons for their investments were.





More companies invest to improve productivity than for any other reason (53% of all firms), closely followed by new technology (50% of all firms). Product development, mentioned by 36% of firms, was the third most frequently quoted reason.

Reasons for Investment *(choose any three) (% segment)*

	All Firms	Top 20 Exporters	Big Companies	Top 20 Investors
Protect our markets	21	5	33	10
New technology	50	55	44	45
Higher value products	22	25	11	25
Product development	36	65	44	35
Export demand	7	25	33	10
Environmental regulations	3	10	0	10
Health & safety	7	10	0	10
Energy costs	7	5	0	20
Home demand	10	0	0	5
Improve productivity	53	45	44	50
Expand production	23	10	22	25

Segmentation into the top 20 exporters, the big firms and the top 20 investors reveals some significant differences in the drivers' hierarchy.

The top 20 exporters (all selling more than 60% in foreign markets) place 'product development' before all other reasons (65%) with a higher score for 'new technology' (55%) as their second main reason, than is recorded by any of the other groups for their number one choices (44% tie amongst big companies for 'improve productivity', 'product development' and 'new technology' and 50% for 'improve productivity' from the top 20 investors).

In this section companies were also given the opportunity to select ‘multi year strategy’ as one of the reasons for their investment ‘this year’.

The results were as follows:

All firms	Micro	Small	Medium	Big	Top 20 Exporters	Top 20 Investors
24	16	24	28	44	30	10

Investment planning over several years is still not the norm. Only 24% of firms mentioned a multi-year investment strategy; and only 10% of the top 20 investors, underlining the short-term nature of much of the investment decision-making, especially for the smallest companies (16%).

On the other hand, amongst the biggest companies, not quite half mentioned a multi-year approach as one of their three key reasons.

Large companies tend to be more planned in their approach, taking a view over several years (44% vs 24% overall).

The exporters’ and investors’ behaviour reflects the size of the companies involved in those activities.

Top 20 Exporters %				Top 20 Investors %			
Micro	Small	Medium	Big	Micro	Small	Medium	Big
21	21	26	32	42	42	11	5

With more medium sized and big companies among the exporters there’s a greater accent on using an investment strategy over several years, while the micro and small companies with their high percentage increases in their investment activities dominate the top 20 investors.

Investment performance

Levels of investment

Respondents were asked what their overall levels of investment were (covering training, R&D, IT, buildings, plant/machinery) as a percentage of sales. Overall our firms reported a mean average of 11%.

Investment by size of company

	Median average % sales	Mean average of those giving a figure as % sales
Micro	7	14
Small	7	11
Medium	5	6
Big	5	8

Investment by Sector

	Median average % sales	Mean average % sales
Automation and robotics	5	12
Gauge and toolmaking	5	8
Machine tools	7	9
Packaging machinery	5	9
Print and paper machinery	7.5	9
Turned parts	8.5	16

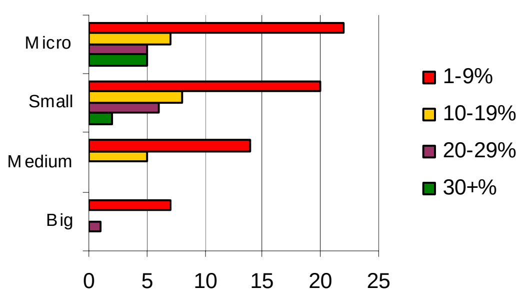
However, the percentages varied widely, with smaller companies tending to record much higher figures. There were also very big differences between sectors (based on trade association membership). These variations can be seen by comparing the median and mean averages. In the case of the automation and turned parts companies their investment mean average is double the median, with similar results for the micro and small companies.

Levels of Investment by Company Size *(% all replies)*

	Investment Level % Sales			
	1-9%	**10-19%**	**20-29%**	**30+%**
Micro	22	7	5	5
Small	20	8	6	2
Medium	14	5	0	0
Big	7	0	1	
% Overall	62	20	12	7

NB Numbers add up to over 100% due to rounding

Investment Levels by Company Size



Micro firms' investment levels extended from 1% to as high as 80% in a couple of cases with 20-30% not uncommon.

The top range for small firms was 30%, while medium size companies highest levels were half that (15%) and the big companies' levels rose as high as 20% but more typically were around 5% of turnover.

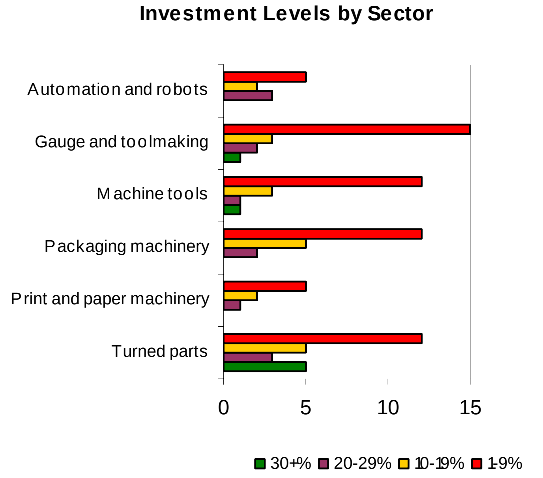
62% of all respondents said that they were investing at a rate of up to 9% of sales in 2006. However, large proportions of the micro and small firms were investing up to 30%, with some even going beyond that figure.

Overall, 39% said that their investment level was more than 10% of sales.

A comparison across the sectors shows that automation and robot investment levels ranged from 1% to 20%, while turned parts were even more broadly dispersed with a few firms reporting levels as high as 80% of sales for their investment levels.

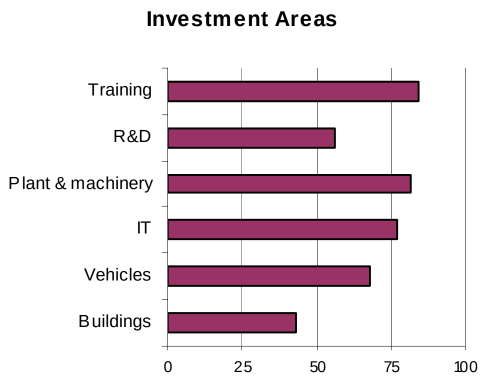
Investment Levels by Sector (% of Sales)

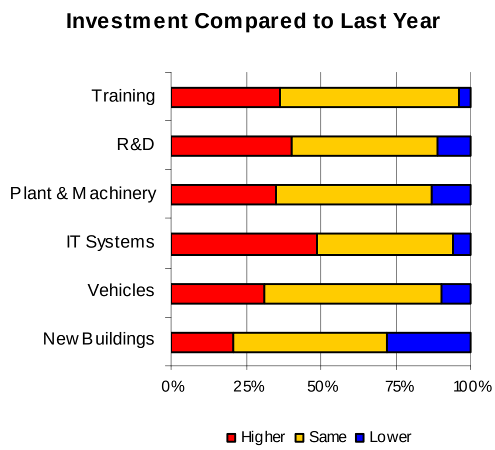
	1-9%	10-19%	20-29%	30+%
Automation & robots	5	2	3	0
Gauge and toolmaking	15	3	2	1
Machine tools	12	3	1	1
Packaging machinery	12	5	2	0
Print & paper machinery	5	2	1	0
Turned parts	12	5	3	5



Areas of investment

Overall, more companies said they were investing in training (84%) and plant & machinery (82%) closely followed by IT (77%), than in vehicles (68%), R&D (56%) and buildings (43%).





The pattern of investment for each area is pretty similar with most respondents saying that their level of investment was the same as last year, then a large group investing at a higher level than last year and lastly the smallest group saying that they were putting less money in than in 2005. Thus on training, 60% the same, 36% higher, 4% lower.

The exception is IT investment, where more participating firms said that they were investing more (48%), than investing at the same level as last year (45%).

While only 56% of companies say they are investing in R&D, 40% of those involved are spending more than last year. That's a larger proportion for R&D than for any of the other four areas, saying their levels are 'higher than last year'. 'Higher' investment levels are mentioned by 37% of firms for training, 35% for plant and machinery, 31% for vehicles and by 21% of companies for buildings.

Buildings are the only area where less than half of the companies decided to invest in 2006 (43%).

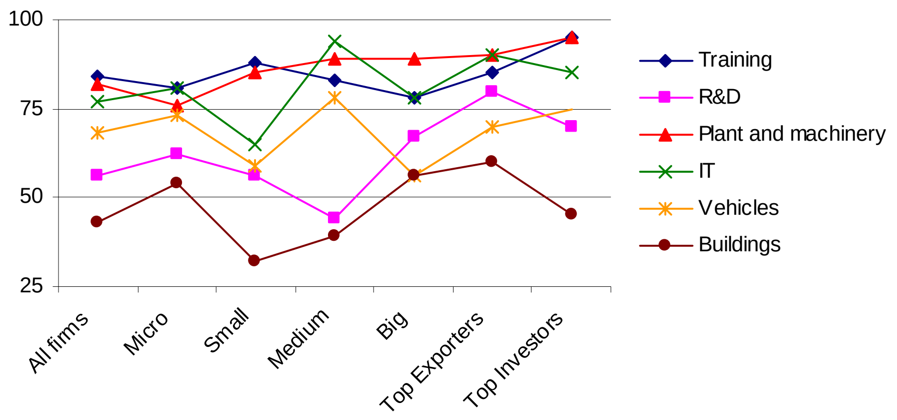
Comparison of investment practice by size and type of company (% segment)

	All firms	Micro	Small	Medium	Big	Top 20 Exporters	Top 20 Investors
Training	84	81	88	83	78	85	95
R&D	56	62	56	44	67	80	70
Plant and machinery	82	76	85	89	89	90	95
IT	77	81	65	94	78	90	85
Vehicles	68	73	59	78	56	70	75
Buildings	43	54	32	39	56	60	45

Training is consistently one of the top investment areas for all these firms and buildings are generally mentioned by fewer firms, particularly in the small and medium categories (32% and 39% respectively).

Top Investors and medium size companies record the largest investment participation with 95% of firms in training and plant and machinery (Top Investors) and 94% for IT (medium firms).

Investment by Company Size and Type



Most micro companies too are investing in training (81%), which they score equal first with IT. Training is again the lead area for small firms (88%) followed by plant and machinery (85%).

Big companies' main investment area is plant and machinery (89%). The proportion of large firms investing in buildings is about the same as for micro firms, but substantially more than in the small and medium segments.

Investment by Company Size

Comparing investment performance in each of the six areas by size of company, firms reported very little reduction in training expenditure last year. SMEs and big companies all had substantial majorities either maintaining or increasing their spend in this area.

<u>Investment Areas Compared to 2005</u> *<u>(% level by company size)</u>*

	Training			R&D			Plant & Machinery		
	Higher	**Same**	**Lower**	**Higher**	**Same**	**Lower**	**Higher**	**Same**	**Lower**
Micro	37	53	10	30	65	5	36	53	11
Small	34	66	0	37	42	21	38	45	17
Medium	33	67	0	50	38	12	19	62	19
Big	43	57	0	67	33	0	50	50	0

	IT Systems			Vehicles			New Buildings		
	Higher	**Same**	**Lower**	**Higher**	**Same**	**Lower**	**Higher**	**Same**	**Lower**
Micro	47	53	0	22	56	22	20	50	30
Small	52	43	5	42	53	5	9	64	27
Medium	41	35	24	36	64	0	29	29	42
Big	71	29	0	40	60	0	40	60	0

Investment in IT systems recorded a similar balance with however nearly a quarter (24%) of medium sized players reporting a reduction in their expenditure. Micro and small firms as well as big companies all said they were maintaining or increasing their pay outs in this area.

On R&D the picture is a shade more mixed. The majority of medium and big companies increased their disbursements and around a third of micro and small firms increased their expenditure, but a fifth of small firms cut back in this area.

Plant and machinery spend is similarly mixed, with more firms reporting increases than deceases. However, in the case of the medium size companies there were equal numbers of firms reporting ‘higher’ and ‘lower’ expenditures.

In the case of investment in vehicles it was the micro firms that reported a similar phenomenon with 22% saying they were increasing their purchases and the same number reducing them.

On new buildings all SME segments reported more firms cutting their pay outs than increasing them.

As for every other investment area, the big companies said that they were either maintaining or increasing their levels of investment. There were no big companies reporting a reduction.

Making use of the system

Companies Making Use of the System (% segment**)**

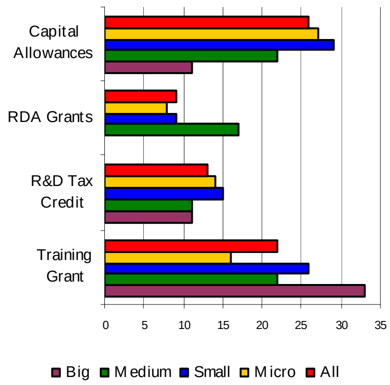
Company Size	**Micro**	**Small**	**Medium**	**Big**
Making Use	37	42	13	8
Full Survey	38	35	18	9

The companies taking advantage of the various investment supports available (R&D tax credit, capital allowances, RDA support, training grants) differ a little from the overall sample in terms of size of company.

Companies Making Use of the System (% segment)

	Capital Allowances	**RDA Grants**	**R&D Tax Credit**	**Training Grant**
Full Survey	26	9	13	22
Micro	27	8	14	16
Small	29	9	15	26
Medium	22	17	11	22
Big	11	0	11	33

Firms Using their Entitlements



Overall, 52% of the firms took advantage of at least one entitlement. In terms of participation, there's a higher proportion of small firms accessing capital allowances and R&D tax credits. Medium firms lead on RDA grants and big companies on training grants.

Slightly more than one in eight had taken advantage of two of two or more, with over a quarter of respondents claiming 50% capital allowances, more than one in five a training grant.

Only 13% had claimed an R&D tax credit this year.

The companies accessing 50% capital allowances tend to express a less confident view about the year ahead although their investment plans for 2007 are along similar lines to the more positive overall results.

Capital Allowances
Firms using capital allowances are more likely to cite productivity and increasing production as reasons for their investment; less likely to refer to product development or protecting their market.

The impact of capital allowances is clearly visible on IT, where the number of firms saying they have increased their investment this year reaches 62% compared with 48% for companies overall.

R&D Tax Credit
R&D tax credit access seems to be broadly dispersed across the survey population. However, more of these firms seem to be investing at higher levels this year (54% vs 37%) and next (39% vs 29%). On the other hand there's no real increase in the number of firms that are confident about business in 2007 (69% vs 66%).

Their key reasons for investing are different. Far fewer of them mention a multi year strategy, protecting a market or productivity and a far greater proportion cite new technology, introducing higher value added products and product development generally, with all firms investing in plant & machinery and more than nine out of ten in IT systems.

Training Grants
Firms using training grants tend to see the same priorities driving their investment as the companies overall.

However, they are much more likely to have a multi-year strategy (54% vs 24%).

Unexplored Potential
Overall it seems, companies may not make as much use of the facilities that are open to them as they could.

It's true that some of facilities have tight eligibility criteria.

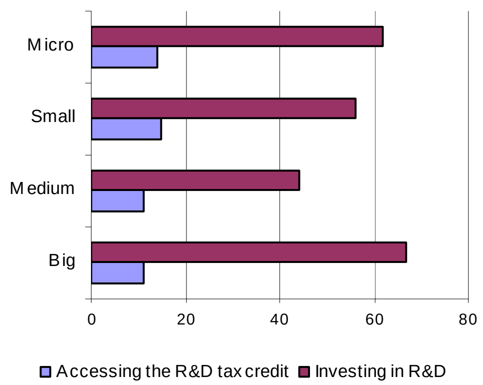
However, others take a more flexible approach, albeit there is still the paperwork to complete.

For example on R&D tax credits, which are not limited by geography or company size, 56% of firms say they are investing in R&D, but only 13% are drawing on the tax credit.

Potential for the tax credit (% segment)

Company size	Accessing R&D Credit	Investing in R&D
Micro	14	62
Small	15	56
Medium	11	44
Big	11	67

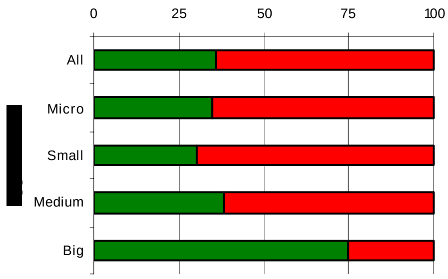
R&D Tax Credit Use



Company views (Agree Disagree)

<u>We are currently able to make good margins</u>

Firms	% Agree	% Disagree
All	36	64
Micro	35	65
Small	30	70
Medium	38	62
Big	75	25

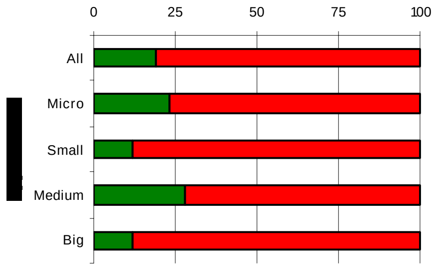


Opinion is divided between SMEs who reject it by two to one, while the big companies take the opposite view by three to one.

The 36% of companies that are currently able to make good margins only have one other characteristic as a group that differentiates them from firms overall. They are 25% more confident about their business in 2007.

<u>We have been slow to adopt new technology</u>

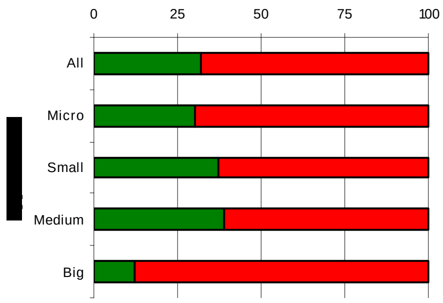
Firms	% Agree	% Disagree
All	19	81
Micro	23	77
Small	12	88
Medium	28	72
Big	12	88



Around 80% of firms of all sizes disagree. Nearly 40% of firms disagree strongly, particularly the smaller companies.

<u>Competitive pressure is pushing us to leave the UK</u>

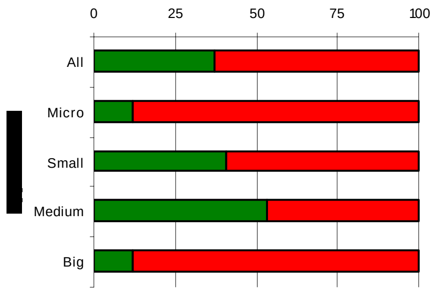
Firms	% Agree	% Disagree
All	32	68
Micro	30	70
Small	37	63
Medium	39	61
Big	12	88



While approximately two-thirds of SMEs disagree, the big companies reject the idea by nearly nine in ten.

We don’t have the skilled employees needed to take on new technology

Firms	% Agree	% Disagree
All	37	63
Micro	12	88
Small	41	59
Medium	53	47
Big	12	88

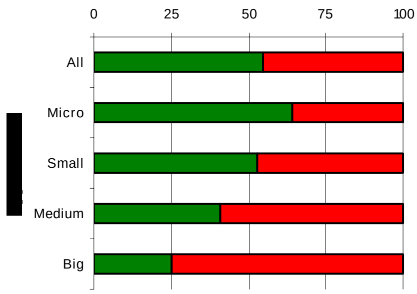


Over a third of respondents agree that they don’t have the skilled employees to take on new technology, a view that tends to be shared more highly by small and medium size companies (with 20 to 249 people) than by the micro firms or the big companies.

However, these very same companies don’t say that they invest much more in training than firms overall although they are more likely to agree that training is expensive and that new technology suppliers could do more to help their customers to use their products.

We want to invest in new technology but lack the finances

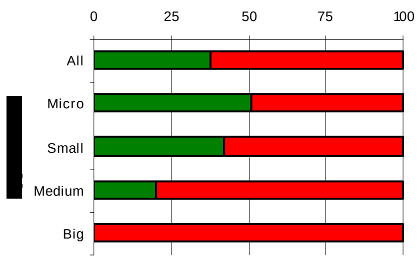
Firms	% Agree	% Disagree
All	55	45
Micro	64	36
Small	53	47
Medium	41	59
Big	25	75



Opinion is split over all on this. However, as the chart shows, the majority view changes depending on the size of the company. Micro firms tend to agree with the statement, while the big companies overwhelmingly disagree.

Training is too expensive for us

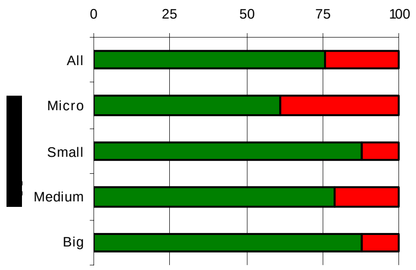
Firms	% Agree	% Disagree
All	38	62
Micro	51	49
Small	42	58
Medium	20	80
Big	0	100



Nearly two-thirds of companies disagree. The large numbers of micro and small firms agreeing are more than offset by the overwhelming view of the larger companies. The companies that agree that training is too expensive for them, still have training as their (equal) first investment area 86% (with plant and machinery). This is directly in line with the overall views expressed by all their colleagues in the survey.

<u>We are seeing strong competition from low wage economies</u>

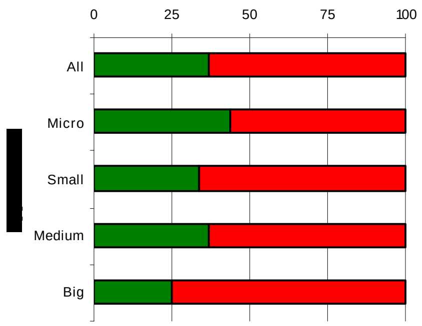
Firms	% Agree	% Disagree
All	76	24
Micro	61	39
Small	88	12
Medium	79	21
Big	88	12



Respondents agree by three to one. Firms agreeing tend to be larger companies and have stronger opinions on the matter. This time it's the smallest companies employing fewer than 20 people that have a significant minority (39%) saying that they disagree, perhaps reflecting small firms' stronger focus on UK customers and their ability to tackle niche markets.

<u>Suppliers of new technology do not help us enough to buy and use their products</u>

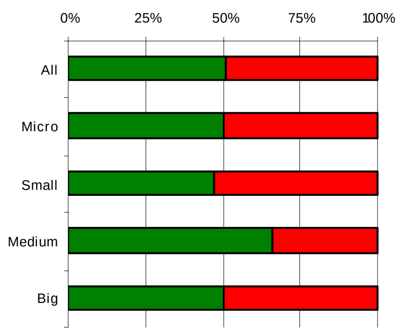
Firms	% Agree	% Disagree
All	37	63
Micro	44	56
Small	34	66
Medium	37	63
Big	25	75



Although opinion is split amongst the micro firms, there's a majority of at least two in three amongst the larger companies that will have more flexibility to tackle technology training than firms employing less than 20 people. Overall, the priority for companies that believe suppliers do not help enough is investment in plant and machinery (91%), followed by training (82%).

<u>Business has increased in the last three months</u>

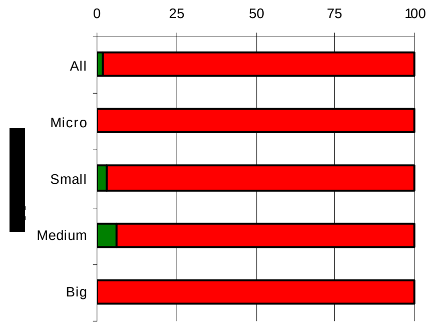
Firms	% Agree	% Disagree
All	51	49
Micro	50	50
Small	47	43
Medium	66	34
Big	50	50



Opinion is split pretty evenly across most of the segments, the exception being the medium sized companies where two-thirds agree that business has increased.

We have noticed a reduction in Government red tape

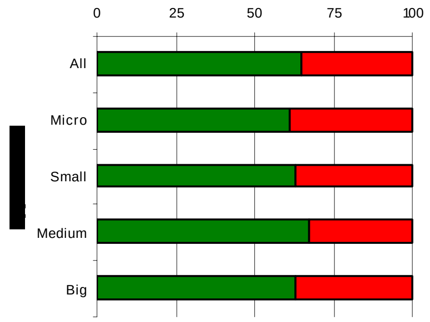
Firms	% Agree	% Disagree
All	2	98
Micro	0	100
Small	3	97
Medium	6	94
Big	0	100



The overwhelming majority (98%) disagree, with the majority strongly refuting the claim.

Our overseas customers are adopting new technology faster than our customers in the UK

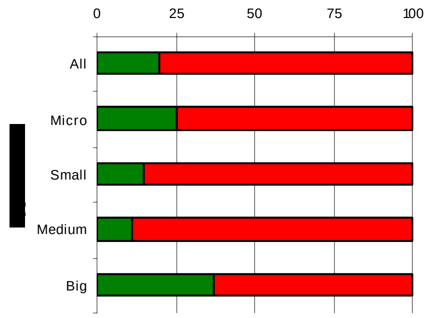
Firms	% Agree	% Disagree
All	65	35
Micro	61	39
Small	63	37
Medium	67	33
Big	63	37



By 65% to 35% firms agree that overseas companies are adopting new technology faster than in the UK, with nearly 28% agreeing strongly. The top 20 exporters group are a little less pessimistic with 45% of them disagreeing.

We have been able to pass on most of our input cost increases

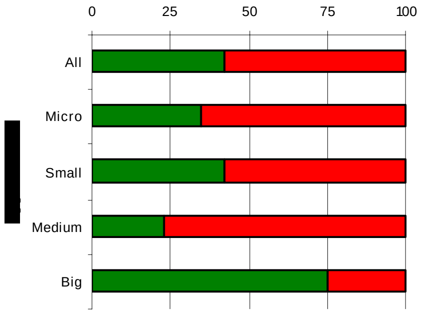
Firms	% Agree	% Disagree
All	20	80
Micro	25	75
Small	15	85
Medium	11	89
Big	37	63



80% of firms disagree with each of the SME segments sharing similar levels. However, 37% of the large companies agree that they have been able to pass on their input cost increases.

Our UK customers are confident about next year

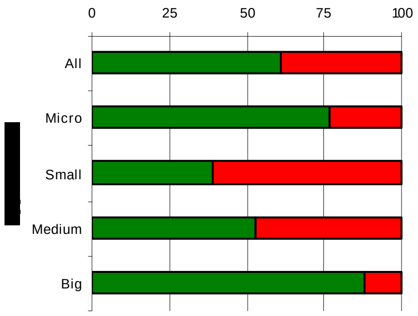
Firms	% Agree	% Disagree
All	42	58
Micro	35	65
Small	42	58
Medium	23	77
Big	75	25



There's big difference in view on this. SMEs disagree, particularly the medium size companies (77%). On the other hand the overwhelming majority of large firms agree (75%).

There's growing interest from overseas in our products

Firms	% Agree	% Disagree
All	61	39
Micro	77	23
Small	39	61
Medium	53	47
Big	88	12



While 61% of firms agree, there are big variations in opinion across the segments: 77% of micro firms and 88% of big companies agree; 61% of small disagree; and opinion is split 53-47% amongst the medium size firms.

Nearly half of the companies agreeing tend to be investing in product development compared with just over a third overall. They also account for 85% of the firms applying for R&D tax credits, but in most other respects their views and behaviour coincide with other respondents.

Amongst Top 20 Exporters, 89% of firms agree that there's a growing interest from overseas in their products.

Further segmentation

Firms saying that they are investing more/much more in 2006 than in 2005
While well over a third (38%) of these companies say they will be cutting back in 2007, another hefty third (35%) say they will be investing more in 2007 than in 2006 and a quarter (27%) will be maintaining their investment levels in 2007.

The investment drivers are substantially the same except that 32% of companies say that they have a multi year strategy (compared to 24% amongst firms overall). Productivity and expanding production weigh with more companies.

And substantially larger proportions invest at the higher levels than the norm in training (57% vs 37%, R&D (54% vs 40%), plant & machinery (65% vs 35%) and in IT systems (61% vs 48%).

The views of these companies are substantially the same as the results overall.

The Top 20 Exporters
This group is different from the main body of firms taking part in the survey:

- Large and medium sized companies dominate -- 58% compared with 27% of returns overall
- Investment this year is higher/much higher -- 50% compared with 37% overall
- And next also – 40% vs 29%.
- Business confidence for 2007 is stronger 74% vs 66%
- The drivers are:
    - Much less about protecting markets – 5%
    - Much more about product development – 65% and new technology 55%
    - There's less accent on productivity and expanding production than the norm – 45% vs 53% and 10% vs 23% respectively.

However, like the respondents overall, they don't seem to take advantage of the supports to which they are entitled.

For example, substantially more exporters are investing in R&D than firms in general (80% vs 56%), but only 25% of them are using the R&D tax credit. Admittedly this is substantially higher than the 13% participation recorded by the group as a whole.

R&D is also the one area where a majority of these firms (50%) is investing more than last year, whereas amongst all respondents it is in IT that the majority of firms say that they are investing more than last year (48%, compared with 45% for the same as last year 6% investing less).

"Our overseas customers are adopting new technology faster than our customers in the UK" -- companies that disagree

These firms are more IT oriented and have more definite opinions (positive and negative) showing that they are a cohesive group across a number of different parameters, not just on this topic.

The composition of the group is dominated by SMEs (89%): micro 33%, small 37% and medium 19%.

These firms seem to be less volatile in their investment patterns (more same as last year, fewer lower than the previous year) and more confident about the year ahead (81% compared with 66% overall).

The main reasons driving investment are generally similar to the overall results, albeit with considerably less emphasis on new technology, and slightly more on product development and productivity.

More of these firms make use of the 50% capital allowances and training grants, but despite a 50% increase in the proportion investing in R&D, there’s little or no change in the ratio of firms accessing R&D tax credits.

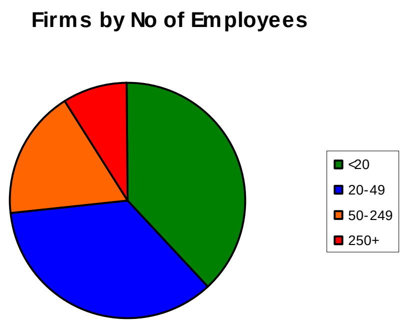
The firms invest in roughly similar areas, the remarkable difference being in IT systems, where 62% of these companies are investing more this year (compared with 48% of all respondents).

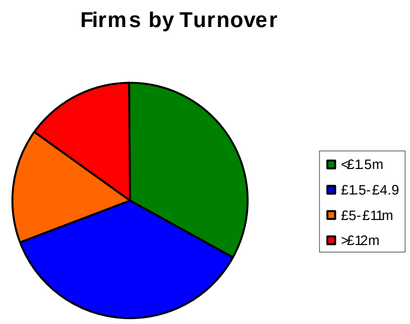
Background

Responses and sector representation

Over 70 per cent of responses came from firms employing fewer than 50 people (i.e. micro and small firms). Eighty-five cent were from SMEs by turnover.

Proportion by number of employees					***Proportion by size of turnover***			
<20	**20-49**	**50-249**	**250+**		**<£1.5m**	**£1.5-£4.9**	**£5-£11m**	**>£12m**
38	35	18	9	**Per cent**	33	36	16	15





Using the ratios by number of employees therefore, the survey results could be segmented to take a look at whether views varied by size of company. Throughout the report these segments are called ‘micro’ (below 20 employees), ‘small’ where they employ between 20-49 people, ‘medium’ (firms with 50 to 249 employees) and ‘big’ for companies with 250+ people.

These proportions in our survey compare with UK mechanical engineering as a whole as follows:

Respondent to EAMA survey (%)		**Firms’ size and key to group abbreviations**	**UK mechanical engineering % all firms with employees**
73	(38)	Very small firms employing less than 20 people (micro)	**80**
	(35)	Small firms with 20-49 employees (small)	**11**
18		Medium size companies 50-249 employees (medium)	**7½**
9		Large companies over 250 employees (big)	**1½**

Note: The overall UK mechanical engineering figure includes companies with no employees

EAMA Grassroots Survey

Manufacturing Business and Investment Questionnaire

EAMA is an alliance of eight trade associations. It presents their shared views to Government and opinion formers and has lobbied for incentives that encourage manufacturing investment.

Public statistics say that manufacturers are investing more than for many years. We want to tell the Minister for Industry and the Regions what is actually going on when we see her in November.

Please help us do that by completing the following short questionnaire and returning it by fax or e-mail as appropriate to EAMA's secretary, Rupert Hodges as soon as possible and in any case before Friday 27 October. **We want to hear from you all, whether you have been investing or not.**

A Your company (PLEASE TICK BOXES AS APPROPRIATE)

a) Number of employees <20 ❑ 20--49 ❑ 50--249 ❑ 250+ ❑

b) Turnover under £1.5m ❑ £1.5m--£5m ❑ £5m--£11 ❑ £12 m ❑

c) How much of your business is for export?________%

B About your company's investment performance

1 How does your overall level of investment this year compare with last year? (TICK ONE ONLY)

Higher ❑ Much higher ❑ About the same ❑ Lower ❑ Much lower ❑

2 Next year do you expect your overall level of investment to be? (TICK ONE ONLY)

Higher ❑ Much higher ❑ About the same ❑ Lower ❑ Much lower ❑

3 How confident are you about business next year? (TICK ONE ONLY)

Very confident ❑ Confident ❑ Not very confident ❑ Not at all confident ❑

4 Counting all your investment this year (plant/machinery, R&D, training, IT, vehicles and buildings), what is it roughly as a % of your sales? _______%

5 What are the main drivers behind your current investment? (PLEASE TICK 3 MOST IMPORTANT)

Multi-year strategy ❑	**Protect our markets** ❑	**New technology** ❑
Offer higher value products ❑	**Product development** ❑	Export demand ❑
Environmental regulations ❑	**Health and safety** ❑	**Our energy costs** ❑
Home demand ❑	**Improve our productivity** ❑	**Expand production** ❑

Key reason (not listed) ____

6 Are you taking advantage of any of the following? (TICK ANY RELEVANT)

50% capital allowance ❑ **RDA incentive/grant** ❑ **R&D tax credit** ❑ Training grant ❑

Other ____

7 What are you investing in this year? If you are investing, is it the same, higher or lower than last year? (TICK ALL RELEVANT)

Training ❑	The same ❑	**Higher** ❑	**Lower** ❑
Research and development ❑	The same ❑	**Higher** ❑	**Lower** ❑
Plant and machinery ❑	The same ❑	Higher ❑	Lower ❑
IT systems ❑	The same ❑	Higher ❑	Lower ❑
Vehicles ❑	The same ❑	Higher ❑	Lower ❑
New buildings ❑	The same ❑	Higher ❑	Lower ❑

D Do you agree or disagree with the following statements? (PLEASE TICK ONE BOX PER STATEMENT)

	Agree strongly	**Agree**	**Disagree**	**Disagree strongly**	**Not applicable**
"We are currently able to make good margins"	❑	❑	❑	❑	❑
"We have been slow to adopt new technology"	❑	❑	❑	❑	❑
"Competitive pressure is pushing us to leave the UK"	❑	❑	❑	❑	❑
"We don't have the skilled employees needed to take on new technology"	❑	❑	❑	❑	❑
"We want to invest in new technology but lack the finances"	❑	❑	❑	❑	❑
"Training is too expensive for us"	❑	❑	❑	❑	❑
"We are seeing strong competition from low wage economies"	❑	❑	❑	❑	❑
"Suppliers of new technology do not help us enough to buy and use their products"	❑	❑	❑	❑	❑
"Business has increased in the last three months"	❑	❑	❑	❑	❑
"We have noticed a reduction in Government red tape"	❑	❑	❑	❑	❑
"Our overseas customers are adopting new technology faster than our customers in the UK"	❑	❑	❑	❑	❑
"We have been able to pass on most of our input cost increases"	❑	❑	❑	❑	❑
"Our UK customers are confident about next year"	❑	❑	❑	❑	❑
"There's growing interest from overseas in our products"	❑	❑	❑	❑	❑

If you have any other comments on this topic, please do add them in a covering note with your return.

Thank you very much for contributing to our meeting with the Minister!