

## State of the Sector Affiliate Manufacturer Survey: January 2022

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## Introduction

This is the first of our quarterly EDA State of the Sector Surveys for 2022: in 2021 they were bimonthly and in 2020 monthly. The survey opened on Tuesday 4 January 2022, the same day as the UK registered its highest positive covid tests in the current wave – [you'll find the numbers on this slide](#), and closed on Monday 17 January 2022. This survey represents the feedback of EDA wholesaler businesses (members). There is a separate survey for EDA manufacturers (affiliates).

This survey generated a 58% response rate (51 responses from 88 EDA manufacturers). The top response was 62% in the July 2022 survey.

A summary of wholesaler and manufacturer feedback was shared at our Talking Shop Zoom Dialogues Tuesday 25 & Thursday 27 Jan 2022.

## Highlights

Manufacturers continue to wrestle with a perfect storm of rising costs across their business from all directions – raw materials, energy, fuel, transport, logistics and container prices, staff costs and so on – coupled with product shortages and delays. [You'll find manufacturers' top 3 business concerns on this slide](#).

All this against the backdrop of the Chinese New Year on Tuesday 1 February 2022, and the Beijing winter Olympics, 4 – 20 February, with factories in 64 northern Chinese cities due to close to improve air quality.

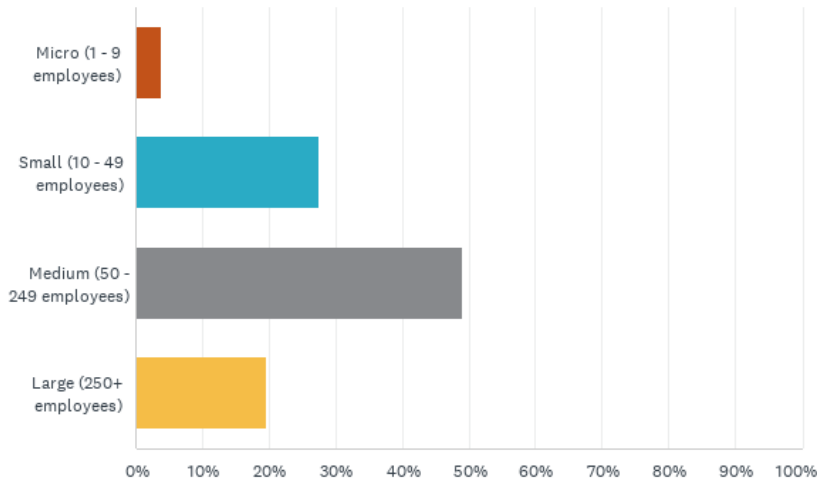
Over [53% of respondents reported a 20%+ price increase](#) in raw materials during 2021.

Manufacturers' comments on the [threats to the 2022 bottom line range](#) from navigating Brexit rules through to volatility of demand and weak performance of sterling, but they continue to be [relatively optimistic about the prospects for 2022](#) for the sector.

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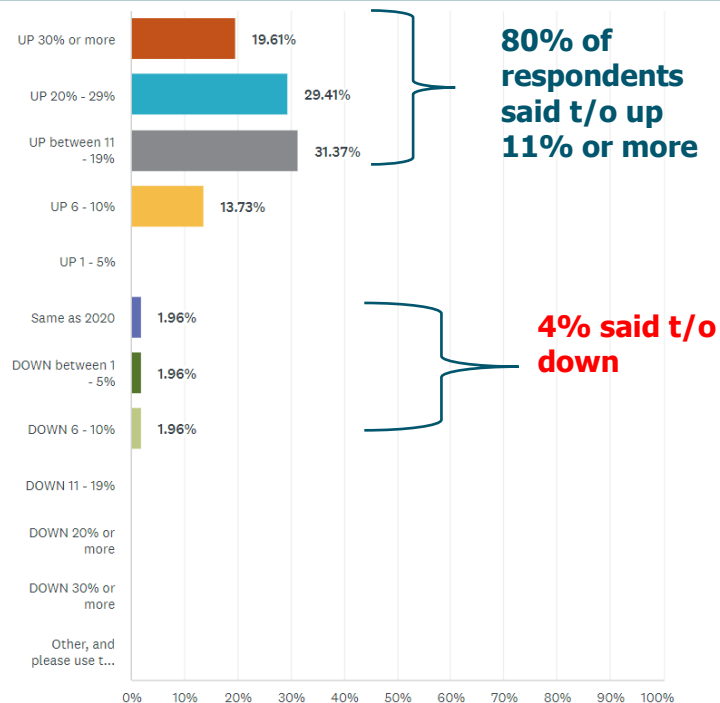
## Q1: Business size



ANSWER CHOICES	RESPONSES	
Micro (1 - 9 employees)	3.92%	2
Small (10 - 49 employees)	27.45%	14
Medium (50 - 249 employees)	49.02%	25
Large (250+ employees)	19.61%	10
<b>TOTAL</b>		<b>51</b>



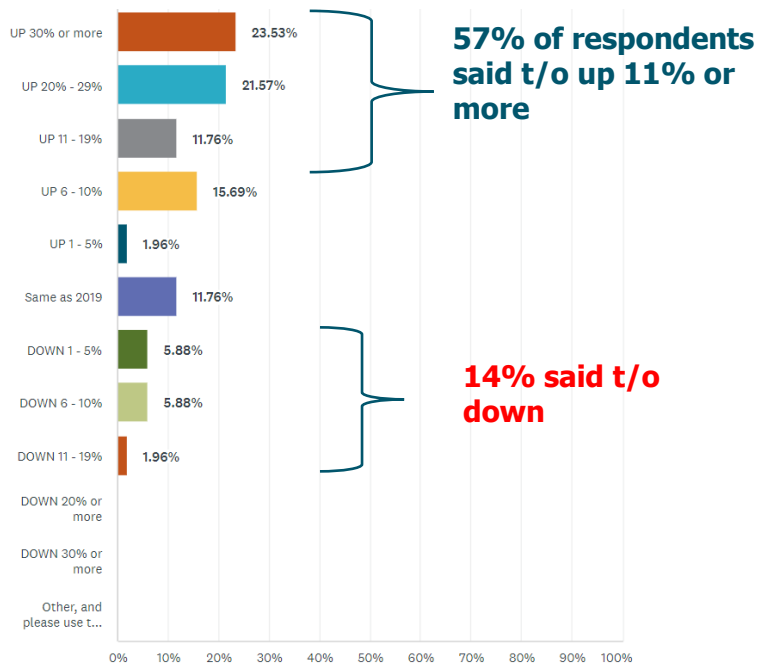
## Q2: How does your turnover compare in 2021 with your turnover in 2020?



ANSWER CHOICES	RESPONSES	
Turnover is UP 30% or more	19.61%	10
Turnover is UP 20% - 29%	29.41%	15
Turnover is UP between 11 - 19%	31.37%	16
Turnover is UP between 6 - 10%	13.73%	7
Turnover is UP between 1 - 5%	0.00%	0
Turnover is about the same as 2020	1.96%	1
Turnover is DOWN between 1 - 5%	1.96%	1
Turnover is DOWN between 6 - 10%	1.96%	1
Turnover is DOWN between 11 - 19%	0.00%	0
Turnover is DOWN between 20% or more	0.00%	0
Turnover is DOWN 30% or more	0.00%	0
Other, and please use the space below for your feedback:	0.00%	0
<b>TOTAL</b>		<b>51</b>



## Q3: How does your turnover compare in 2021 compares with turnover in 2019?

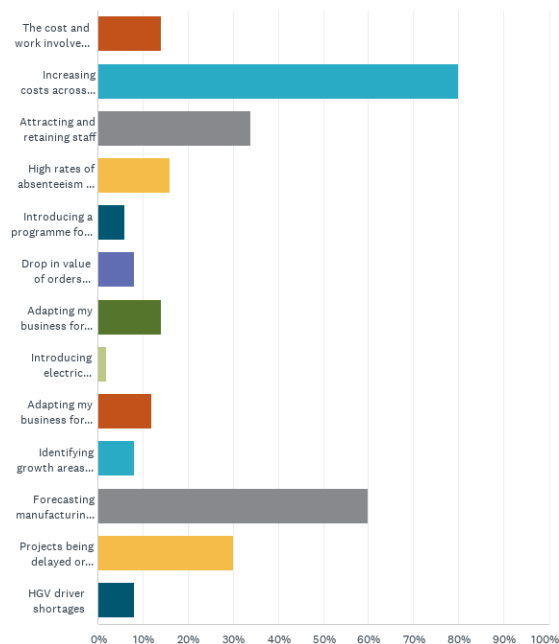


ANSWER CHOICES	RESPONSES	
Turnover is UP 30% or more	23.53%	12
Turnover is UP 20% - 29%	21.57%	11
Turnover is UP between 11 - 19%	11.76%	6
Turnover is UP between 6 - 10%	15.69%	8
Turnover is UP between 1 - 5%	1.96%	1
Turnover is about the same as 2019	11.76%	6
Turnover is DOWN between 1 - 5%	5.88%	3
Turnover is DOWN between 6 - 10%	5.88%	3
Turnover is DOWN between 11 - 19%	1.96%	1
Turnover is DOWN between 20% or more	0.00%	0
Turnover is DOWN 30% or more	0.00%	0
Other, and please use the space below for your feedback:	0.00%	0
<b>TOTAL</b>		<b>51</b>

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## Q4: Which three business challenges are your most pressing at this time?



ANSWER CHOICES	RESPONSES	
The cost and work involved in meeting UKCA requirements	14.00%	7
Increasing costs across all areas of my business	80.00%	40
Attracting and retaining staff	34.00%	17
High rates of absenteeism due to the Omicron variant	16.00%	8
Introducing a programme for staff development and training	6.00%	3
Drop in value of orders received due to Covid	8.00%	4
Adapting my business for a green future	14.00%	7
Introducing electric vehicles for both deliveries and representatives	2.00%	1
Adapting my business for a more digitalised world	12.00%	6
Identifying growth areas for my business	8.00%	4
Forecasting manufacturing output, stock levels and managing allocation	60.00%	30
Projects being delayed or cancelled due to a shortage of building materials	30.00%	15
HGV driver shortages	8.00%	4
Total Respondents: 50		

Manufacturers also mentioned: energy prices; rising raw material and transport costs; uncertainty of market demand under the pressure of inflation and weak sterling.

'Increasing costs across all areas of the business' is the top challenge in January 2022, up from 3<sup>rd</sup> place in our November 2021 survey. 'Forecasting manufacturing output, stock levels and managing allocation' is in second place, with 'Attracting and retaining staff' is in third.



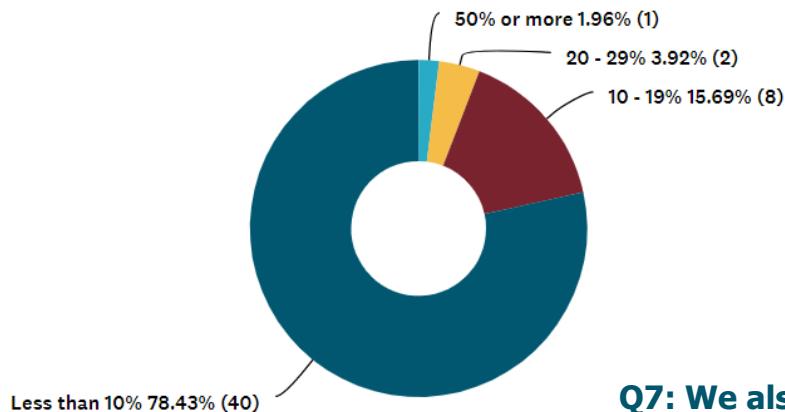
## Q5: Are there any other challenges your business may face in 2022 which we have not mentioned above?

- The time for a projects to start work from design stage is much longer in the last 18 months.
- There is currently an inability to visit certain customers who are concerned about Covid which leaves us limited to telemarketing when dealing with these customers.
- Shortage of specific raw materials
- Energy prices
- Rising raw material and transport costs.
- Uncertainty of market demand under the pressure of inflation and weak sterling





## Q6: What percentage of your workforce is currently absent due to the Omicron variant?



On Tuesday 4 January 2022 (the day we opened this survey) the UK recorded its highest number of new covid cases in a single day during the current wave: 218,724.

Total for 7 days: 1,269,878, up 51% on the week before.

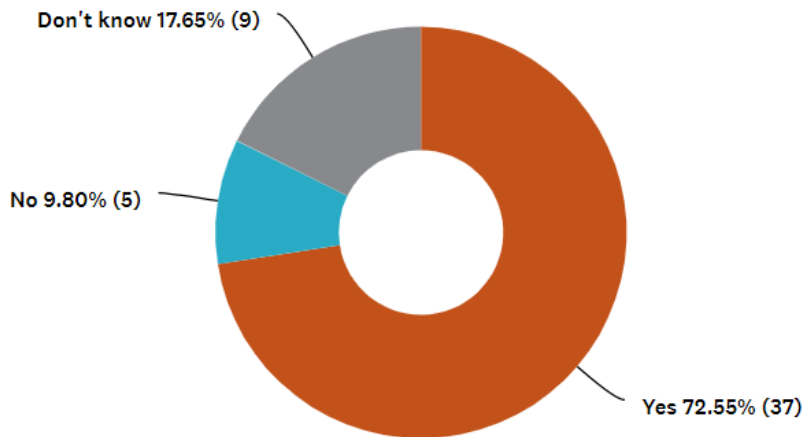
## Q7: We also asked 'Which of your services, if any, have you cut back on as a result of staff absence due to Omicron?'

Manufacturers said: sales; face-to-face selling; our ability to supply product in December 2021; statistical returns to wholesalers for year end rebates; returns collections.





## Q8: Would a shortening of the Covid isolation period from the current 7 days to 5 days help your business?



### Covid isolation date summary

#### England:

22 December 2021: isolation period cut from 10 to 7 days.

From Monday 17 Jan 2022: isolation cut to 5 full days, with negative test on days 5 & 6

Wed 26 January 2022: Plan B measures expire

#### Scotland:

From 6 January 2022: end isolation on day 6 with negative test

#### Wales:

31 December 2021: isolation period cut from 10 to 7 days.

#### Northern Ireland:

21 January 2022: isolation period cut from 7 days to 5.



## Q9 - 12: Manufacturers were asked to rank the potential impact on their business for 4 key cost indicators

Ranking scale

1: not harmful at all

5: somewhat harmful

10: very harmful

- **Interest Rates: Average Score 4**
- **Rises in the cost of energy: Average Score 5**
- **Increases in salary costs, including National Minimum Wage rises: Average Score 5**
- **Rising fuel costs, affecting deliveries and sales personnel: Average Score 5**

Background: UK inflation rate now highest since 1982: 5.4% in December 2021, from 5.1% in November.



## Background into rising staff costs

### National Living Wage and National Minimum Wage rates from 1 April 2022

	Rate from April 2022	Current rate (April 2021 to March 2022)	Increase
National Living Wage	£9.50	£8.91	6.6%
21-22 Year Old Rate	£9.18	£8.36	9.8%
18-20 Year Old Rate	£6.83	£6.56	4.1%
16-17 Year Old Rate	£4.81	£4.62	4.1%
Apprentice Rate	£4.81	£4.30	11.9%

#### April 2022

1.25% increase in national insurance to be met by employers and their staff

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## Fuel and energy costs

### UK pump and wholesale fuel prices over time

Latest start-of-month prices in pence per litre for **unleaded petrol** and diesel

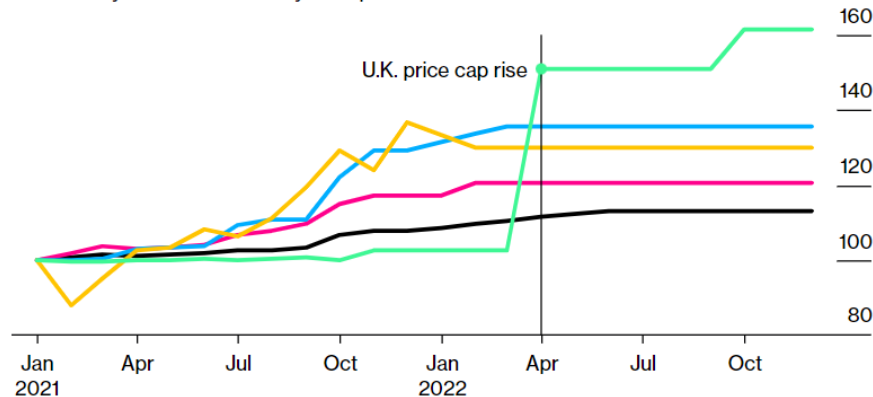


Errors and omissions excepted  
Source: RAC Fuel Watch - Embed

### Powering Up

A steep price-cap rise in April will send U.K. energy inflation soaring

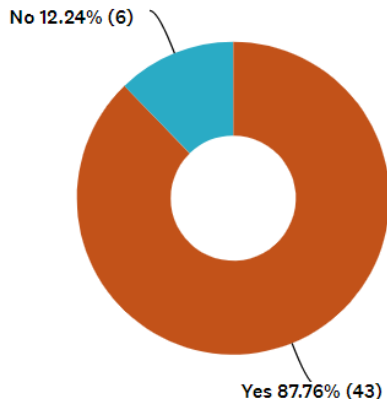
Germany France Italy Spain U.K.



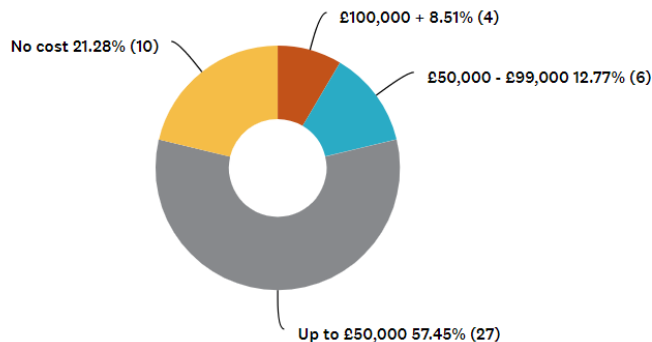
Source: Office for National Statistics, Eurostat, Bloomberg Economics forecasts  
Household energy costs in the consumer price index (January 2021 = 100)



## Q13: Have you made provision in your budget for UKCA marking?



## Q14: Factoring in both direct and indirect costs, what would you estimate to be the cost to your business of implementing the requirements for UKCA?



### Manufacturers said:

- I'm not aware of the costs
- The UKCA Mark is for the time being only a paper work exercise as a CE product can be converted to as UKCA product! We would prefer a real game changer such as - UK 3rd party type test certificates - Introduction of a " Gulf Conformity Mark Process" as it is required to export to the Middle East for instance Moulds have to be corrected what is not really costly. Instruction leaflet, Packaging, etc.. have to be updated. Hours to be dedicated

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## Q15: Please share your thoughts on the biggest threats to your bottom line in 2022.

Open-ended comments grouped into themes:

### Increasing costs/pricing

- Continuation of increased sea freight and domestic freight costs along with export costs and manufacturing cost increases.
- A decline in sales remains our biggest concern. We will have to implement a further small increase in March 2022 which we are hopeful will not affect our sales turnover and the margin we would make from these sales.
- Continued price increase from far east supply and shipping and competitors not increasing prices sufficiently.
- Inflation impacting raw material pricing. Lack of investment in certain business sectors
- Raw material increases and sustained shipping costs and delays
- Rising raw material and transport costs
- Continued rising material costs and semiconductor shortages
- Increasing costs
- Willingness / Ability of distributors, contractors & end users to accept necessary price rises.

### Manufacturing challenges

- Manufacturing and freight lead times also continue to pose major challenges

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### Product shortage

- Worldwide component shortages
- Supply of components
- Component shortages, long the ongoing shipping costs and raw material price movements
- sales mix. cost of RM [raw materials]
- Uncertainty of supply chain to fulfil orders

### New rules

- UKCA, Goods in from Europe/border and material shortages
- Brexit regulations

### Non-compliant products

- Non compliant product sales at discount from competitors

### Lead times and lockdowns

- Lead times with deliveries - having to put contingency plans in which cost more.
- Another Covid-19 lockdown
- Extended lead times on China imports



**Q15:** Please share your thoughts on the biggest threats to your bottom line in 2022.

### **Volatility of demand/sales**

- Lack of ability to forecast stock requirement
- The market slowing and the impact on sales.
- Uncertainty on demand, which will result in inefficient structure

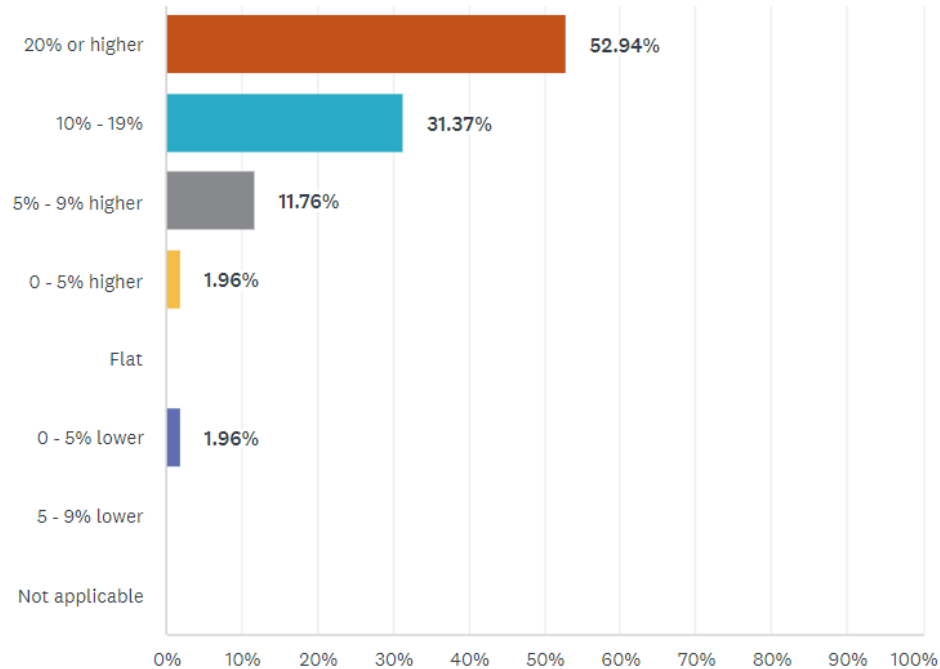
### **General economic concerns**

- Shipping & USD v GBP
- Weak sterling
- Cheap imports from Turkey & China
- Product cost inflation v selling price pressure





## Q16: How much have your raw material costs increased during 2021?

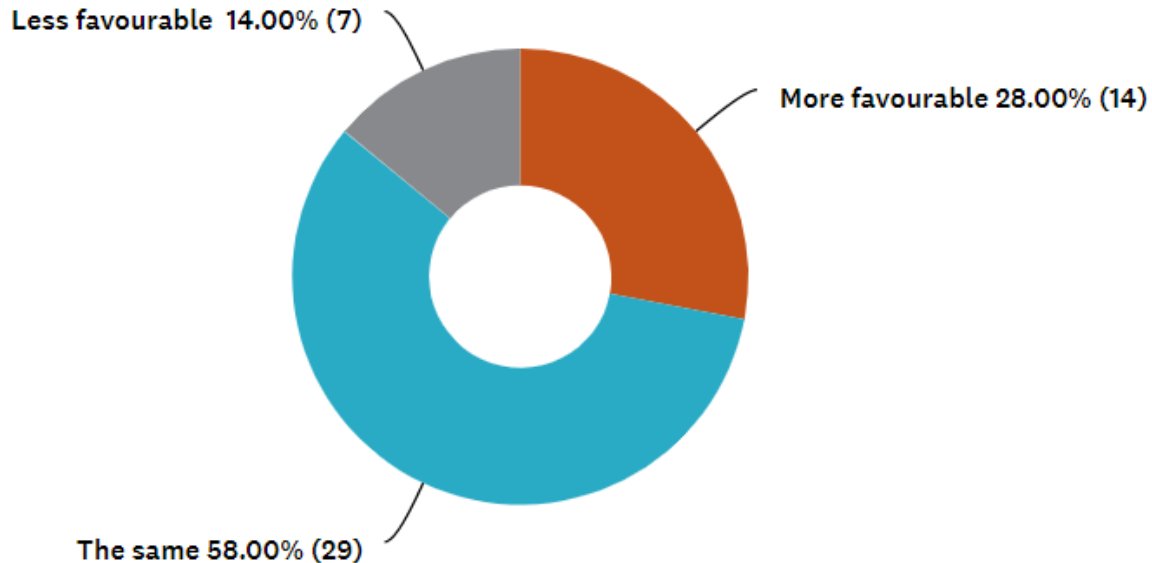


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## Q17: How optimistic do you feel about market conditions in 2022 compared to 2021?



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