Business

WORKSHOP

Is it time for you to come home?

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Rebecca Prime, audit director at Baker Tilly, on re-shoring.

NOT so long ago, the trend in manufacturing was to move production abroad. It was called "off-shoring".

Many businesses moved production to the Far East, in particular China, and Eastern Europe.

Over the past couple of years, however, some surveys have indicated that an increasing number of manufacturers are bringing production back to the UK. This is called "re-shoring".

It's estimated that one in six businesses have taken advantage of the economic circumstances in the UK over the last three years and moved back home.

If this is not a strategy you have already reviewed, now is the time to consider where best to locate your manufacturing capability going forward.

There are a number of reasons to revisit previous decisions on manufacturing location. These include:

- The cost of overseas production has increased. The cost advantage which existed for businesses relocating to developing economies has been eroded, as wages and other costs in these countries have increased.
- The cost of transportation has increased.
- The cost of transporting the goods manufactured overseas to their markets has been going up, so the price differential of off-shore manufacturing is reduced.
- Improved quality control in the UK. Businesses which re-shore have reported that they have experienced improved quality, in part due to the ability to oversee production more easily.
- Increased responsiveness to customer needs. Re-shoring reduces the time from production to delivery and enables businesses to be more responsive to customers' needs .
- The UK reputation for excellence. We have a great track record of producing quality products.

There are various incentives to attract business to the UK and re-shoring manufacturing may enable businesses to take advantage of these. These include:

- Incentives for businesses locating in enterprise zones. These can include reduced business rates and simplified local authority planning. Many local businesses have taken advantage of this by locating in the Nottingham enterprise zone and there are also various local grants available.
- Reducing UK tax rate.
- Research and development tax credits - tax incentives to encourage research and development expenditure in the UK.
- Patent box - this offers a lower rate of corporation tax to profits earned from patented inventions.
- Annual investment allowance - this can accelerate the tax relief given in respect of capital expenditure.

All of the above need to be taken into consideration when deciding where to locate operations. Other factors will include accessibility to skilled labour and the availability of suitable properties.

There is an increased focus by the Government on providing skills relevant to entrepreneurial business, and also a large number of vacant properties, but you need to ensure that these will meet the specific needs of your business.

The impact of exchange rates will also impact the decision.

Finally, a factor which should not be overlooked is where the future growth of the company is likely to come from.

Whilst UK and European markets might be key now, keeping a manufacturing base in the Far East might enable the business to more easily access the rapidly expanding consumer markets in this area.

- Top tip: Regularly review the business strategy with regard to manufacturing location and revisit the opportunities and threats of on-shore/off-shore.

Consider all factors, not just direct costs, and look beyond the short term to develop medium to long-term strategies.

Don't underestimate the amount of management time which will be needed to implement the decision.

Boots deal will help to realise global ambition

By Richard Tresidder
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Stefano Pessina, right, interim chief executive of Walgreens Boots Alliance, with executive chairman Jim Skinner.

THE architect of the deal which made Boots an American-owned company said it would now be "much easier" to sell its products across the globe.

Stefano Pessina, acting chief executive of the new company, said the germ of the idea for the merger began with a discussion at the back of a Boots store, which involved Alex Gourlay, the chief executive of Alliance Boots Health & Beauty.

The bosses of Walgreens, the US drugstore giant, were on a visit to London. Stefano Pessina, executive chairman of Alliance Boots and essentially its owner, recalled: "Alex said 'you have to meet these guys next time you go to the US', which I did. Talks started in the back of a store, not a fancy office."

He continued: "My dream has always been to be as big and as present as possible. Is there a precise moment where I say I want to be global? No. It has been a natural process."

Last Friday morning, Mr Pessina stood on the rostrum of the NASDAQ stock exchange in New York to ring the bell marking the start of the day's trading. Behind him, on a screen, the words Walgreens Boots Alliance. At the age of 73, he had completed his biggest deal.

The new global healthcare company has a value of $72 billion (£48 billion), a fifth controlled by the Italian-born billionaire – its biggest shareholder.

The search is now on for a permanent chief executive after Greg Wasson, chief executive of Walgreens, stood down.

Mr Pessina said: "He was under pressure and decided he should go. It was his own decision and he wasn't pushed by me or by the board. Certain shareholders were very critical about him and he decided for the sake of the company that he had to leave.

Speaking about his "long-cherished ambition" to create a global healthcare company, Mr Pessina added: "My satisfaction is that I have really been able – with my colleagues and the help of many others – to give a new life to Boots. At the end of the day, it will be much easier now to sell Boots products across the globe."

Part of the "execution" is exporting Boots products, largely from Nottingham, to the US. "The idea is very simple," he said. "This has a lot of positive implications – for research and development, for manufacturing."

Boots has struggled to make its Nottingham factories profitable and put in a new boss at its BCM (Boots Contract Manufacturing – a subsidiary that makes healthcare products) factories.

"We are almost there," he declared. "It has been a long way. The only factory which is not profitable yet is the UK but the new management is very good. Benoit Portier is rescuing the manufacturing company.

"Manufacturing is so volatile, so many things could happen that it could fall back into the red quite easily. What is important is not to lose too much."

Boots and Walgreens are two strong and respected retail brands and each will retain their trading names.

> **My dream has always been to be as big and as present as possible. It has been a natural process**
> Stefano Pessina

Boots healthcare products, such as No 7, went on sale in some of Walgreens' 8,000-plus stores a year ago and the hope is their success will drive production and secure jobs in the Beeston factories.

"All the trials suggest the products are very well received," said Mr Pessina, who is confident there is a "fantastic opportunity" for Boots.

He said Christmas trading was "good".

The health and beauty retailer exceeded last year's sales but it will not be issuing a trading statement now that it is under US regulatory control.

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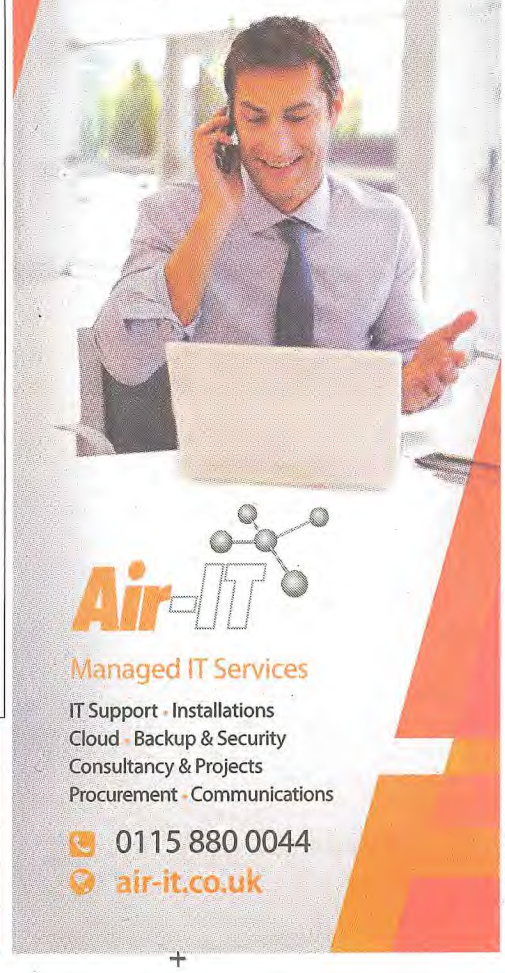
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