

The Manufacturing Health Index Report

Q2 2024





Foreword

Joe Llewellyn, General Manager of Cloud ERP at the Access Group, parent company of Unleashed.

Running a manufacturing business has been very much a ‘three steps forward, two steps back’ affair this year. For some it will have felt more like three steps forward, three steps back.

The data we extracted from Unleashed to create this report has painted a sobering picture of conditions for manufacturers – particularly of the long-term trend we’re seeing of shrinking profit margins, which fell by 9%, 17% and 25% respectively in the UK, Australia and New Zealand.

It’s particularly frustrating for businesses working hard on making sales to have their efforts eroded by rising costs. Often these are costs they’re reluctant to pass on to increasingly price-sensitive and cash-constrained customers – and in part it’s this willingness to absorb price increases in order to keep the sales engine running that has so affected margins.

Unreliable supply chains have been the other big profitability challenge. The shipping delays of recent years forced firms to order and store more inventory, soaking up cash flow and making it more expensive to turn a profit.

Those supply chain headwinds may have eased, but the challenges of trading in such changeable times remain. Growing a business by gut-feel is hard – and it’s getting harder to compete with the increasing number of companies that use technology to sail closer to the wind.

Conditions are tough – but the culture of innovation in the manufacturing sector has never been stronger. As manufacturers navigate the next 12 months I’m confident the firms that survive and thrive will be more resilient, more creative and more agile than any previous era has seen.

United Kingdom

Profitability & performance overview

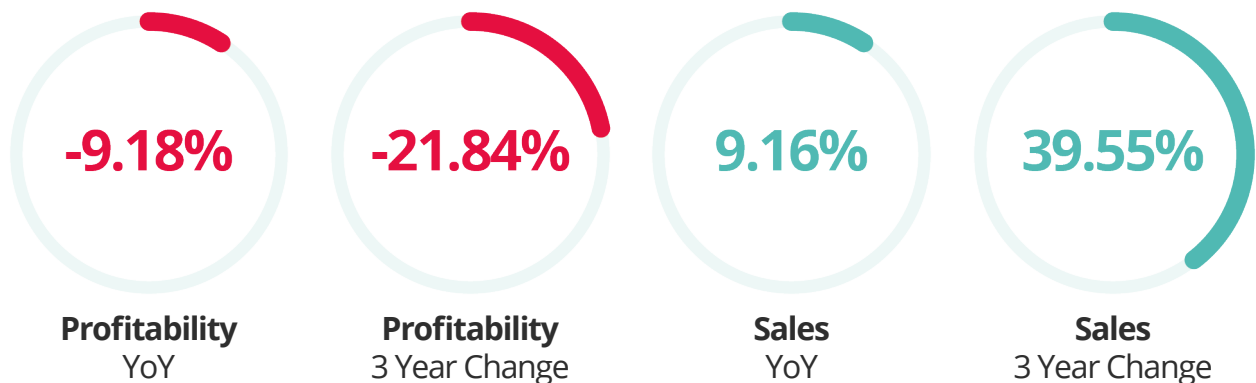
Profit margins in the manufacturing sector have dropped for the third consecutive year, according to the latest Unleashed data.

The decline in profitability comes against a backdrop of improving sales revenues in most regions, highlighting the corrosive – and sometimes hidden – effects of inflation on small-to-medium businesses.

In the UK profit margins were down -9.18% for the 12 months from Q3 2023 to Q2 2024 against the previous period. The decline over the last three fiscal years was -21.84% - down from an average of £4.59 earned on each £1 invested in inventory* in the year ending Q2 2021 to £3.59.

UK sales were up 9.16% for the year, with an average quarterly revenue of £306,425 for UK SME manufacturers – an improvement on the £280,538 average for the previous period – and an almost 40% increase over the last three years.

UK Manufacturing Profitability & Sales Performance



*The Manufacturing Health Index tracks profitability using Gross Margin Return on Inventory (GMROI), which measures the ability of companies to turn goods purchased into profit. Notably GMROI does not record the impacts of labour costs, which have also been subject to high inflation over the period measured.

Despite conflict in key shipping routes UK manufacturers were aided in the last 12 months by continually dropping lead times, which fell to an average of 23 days between a sales order being placed, and the goods being received. Further gains are likely in the pipeline as the last two quarters saw that number stabilise at just 16 days – the best average performance in UK supply chains since at least 2018.

That helped manufacturers keep their stock buffers low, which in turn may have softened the impact on profitability of higher-priced goods: all else being equal, the less inventory required to meet sales demand, the higher the return on investment.

Overall, Purchase Order numbers were elevated for the year, but tailed off significantly in Q2 2024 (-19% QoQ) suggesting a slowing of economic activity is passing down the supply chain.

Fiscal year key metrics: UK SME manufacturers

Overstock



Value of goods held over and above what's required to meet current sales demand & lead times

Lead days



Average time to receive goods once ordered

Purchase Orders placed



Average number of purchase orders placed with suppliers

Australia

Profitability & performance overview

In Australia profit margins* fell by -17% for the year, and -34.38% over the last three years to Q2 2024.

Sales performance improved – up 8% YoY but up only 4.32% over the last three years – highlighting the difficulty of trying to trade a way out of a downturn when inflation is high and economic activity low.

Australian Manufacturing Profitability & Sales Performance



Profitability
YoY



Profitability
3 Year Change



Sales
YoY



Sales
3 Year Change

*The Manufacturing Health Index tracks profitability using Gross Margin Return on Inventory (GMROI), which measures the ability of companies to turn goods purchased into profit. Notably GMROI does not record the impacts of labour costs, which have also been subject to high inflation over the period measured.

Australian manufacturers appear to have been less able to reduce excess stock levels, despite improved supply chain performance, which may account for poorer profitability metrics relative to the UK. On average Australian SME manufacturers held 20% more stock than they needed to meet sales demand and lead times.

Despite an overall lift in sales over the year, revenues dropped in Q2 2024. This will likely drive many SMEs to pare back inventory overstock levels in order to free up operating cash flow, given the current stability in the supply chain.

Fiscal year key metrics: Australian SME manufacturers

Overstock



Value of goods held over and above what's required to meet current sales demand & lead times

Lead days



Average time to receive goods once ordered

Purchase Orders placed



Average number of purchase orders placed with suppliers

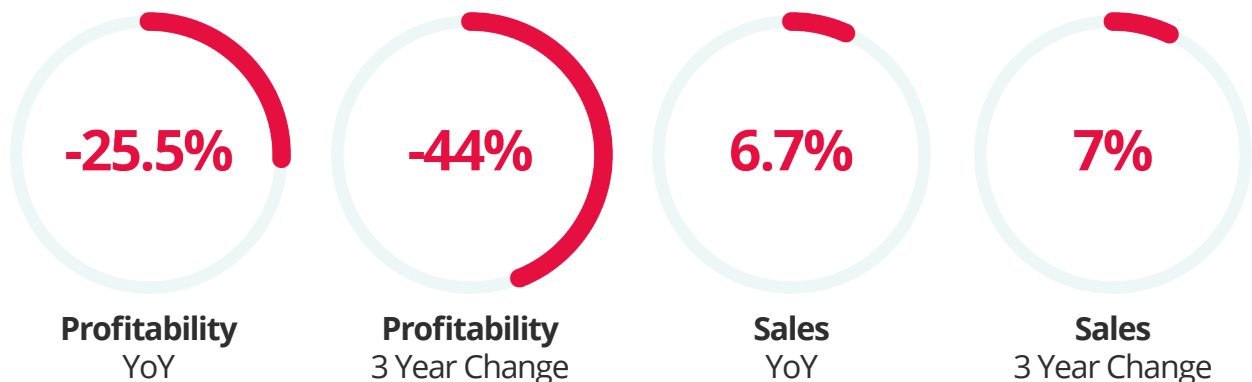
New Zealand

Profitability & performance overview

New Zealand SME manufacturers experienced dramatic drops in average profitability* – GMROI fell -25.5% YoY and -44% over three years. However these eroded margins were not softened by improved sales performance as in the UK and Australia.

Instead the manufacturing sector saw sales revenues slow by -6.7% YoY – the average SME manufacturer in NZ brought in NZ\$234,630 per quarter compared to NZ\$251,488 in the previous period – and sales declined by -7% over the three years to Q2 2024.

NZ Manufacturing Profitability & Sales Performance



*The Manufacturing Health Index tracks profitability using Gross Margin Return on Inventory (GMROI), which measures the ability of companies to turn goods purchased into profit. Notably GMROI does not record the impacts of labour costs, which have also been subject to high inflation over the period measured.

In line with the lower profitability in New Zealand and falling sales revenues – Q2 2024 saw the lowest average sales activity since Q1 2019 – the number of purchase orders placed with suppliers also fell, marking the third year in a row that overall purchasing had declined.

Excess stock levels were reduced by 27%, suggesting manufacturers are taking the opportunity to run as lean as possible in very tight trading conditions.

Fiscal year key metrics: NZ SME manufacturers

Overstock



Value of goods held over and above what's required to meet current sales demand & lead times

Lead days



Average time to receive goods once ordered

Purchase Orders placed



Average number of purchase orders placed with suppliers

Sector Profitability Performance



UK Manufacturing Sector Profitability

	Q2 2024 Average Profit Margin (GMROI)	Average GMROI for the Fiscal Year (Q3 2023-Q2 2024)	% change vs previous Fiscal Year
Beverages (alcoholic and non-alcoholic)	£1.94	£1.90	-29.17%
Building and Construction	£4.15	£4.19	12.87%
Clothing, Footwear, Accessories	£7.80	£6.56	2.78%
Electrical and Electronic Components	£4.68	£4.49	17.47%
Electronics, Telecommunication	£4.33	£2.94	-11.19%
Energy, Chemicals	£3.54	£3.01	31.37%
Food	£1.49	£2.24	-27.02%
Furniture, Fixtures, Home Furnishing	£6.40	£5.37	21.89%
Health, Medical Supplies and Equipment	£3.29	£3.41	-26.66%
Industrial Machinery, Raw Material and Equipment	£3.96	£4.08	-25.63%
Personal Care	£4.03	£3.35	-1.18%
Sport, Entertainment, Recreation	£3.82	£3.24	-24.05%

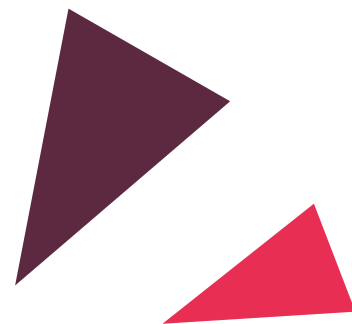
Sector Profitability Performance (Continued)



Australian Manufacturing Sector Profitability

	Q2 2024 Average Profit Margin (GMROI)	Average GMROI for the Fiscal Year (Q3 2023-Q2 2024)	% change vs previous Fiscal Year
Beverages (alcoholic and non-alcoholic)	\$2.09	\$3.18	-28.25%
Building and Construction	\$2.20	\$2.14	1.54%
Clothing, Footwear, Accessories	\$4.03	\$3.79	-7.91%
Electrical and Electronic Components	\$4.50	\$4.38	-8.90%
Electronics, Telecommunication	\$5.12	\$2.94	-13.42%
Energy, Chemicals	\$1.95	\$1.99	-42.55%
Food	\$3.50	\$3.17	-25.28%
Furniture, Fixtures, Home Furnishing	\$4.57	\$3.34	18.32%
Health, Medical Supplies and Equipment	\$3.52	\$3.18	-21.07%
Industrial Machinery, Raw Material and Equipment	\$1.79	\$1.73	-20.28%
Personal Care	\$5.29	\$3.29	-2.30%
Sport, Entertainment, Recreation	\$2.60	\$1.85	-13.57%

Sector Profitability Performance (Continued)



NZ Manufacturing Sector Profitability

	Q2 2024 Average Profit Margin (GMROI)	Average GMROI for the Fiscal Year	% change vs previous Fiscal Year
Beverages (alcoholic and non-alcoholic)	\$0.16	\$0.68	-76.25%
Building and Construction	\$3.64	\$2.03	-37.32%
Clothing, Footwear, Accessories	\$4.94	\$2.80	-50.68%
Electrical and Electronic Components	\$2.05	\$1.76	65.18%
Electronics, Telecommunication	\$1.70	\$2.23	-32.09%
Energy, Chemicals	\$1.98	\$2.69	8.59%
Food	\$2.60	\$3.64	-20.48%
Furniture, Fixtures, Home Furnishing	\$4.36	\$2.85	1.51%
Health, Medical Supplies and Equipment	\$1.49	\$1.37	32.52%
Industrial Machinery, Raw Material and Equipment	\$2.47	\$1.14	-52.40%
Personal Care	\$3.76	\$4.51	48.68%
Sport, Entertainment, Recreation	\$0.95	\$0.62	-74.48%



About the data

The Manufacturing Health Index assesses SME manufacturer performance via a big data approach. Starting with a cohort of 1,282 manufacturers in the UK, Australia and New Zealand, the Q2 2024 report draws on data from every purchase, sale and stock movement made by each business in the study between Q1 2018 and Q2 2024.


About Unleashed

With more than 700 5-star reviews on Trustpilot, Unleashed is the cloud inventory solution trusted by the world's manufacturers. Learn more about how Unleashed can help your business better manage its inventory, sales, production & purchasing here.

[Learn more](#)



UNLEASHED

an  access company

