

MANUFACTURING MATTERS

Interview with
MARTIN HENNESSEY
MANAGING DIRECTOR
AUSTIN HUGHES EUROPE



In a series of interviews with the directors of Dynamics Consultants, manufacturers talk about their ambitions and reveal the issues which are mission-critical for them to address in achieving their goals.

The interviews will be brought together as a report to be published by DECISION magazine and then as a digital book.



DEMONSTRATION-MODEL servers hum soporifically behind Martin Hennessey, their blue LED digital numbers indicating the meeting room's humidity and temperature, as he discusses the potential benefits of bringing their manufacturing back to the UK.

The managing director of Austin Hughes Europe, which designs and manufactures solutions to enhance the security and energy efficiency of data centre equipment, explains that the business has traditionally based its manufacturing facilities in low-cost countries, while retaining R&D and design in the UK.

"We want to be as competitive as possible, hence the primary decision to manufacture outside the UK, but at the same time short lead times are critical, so we are assembling more in the UK so we can ship across the EU countries with next-day delivery." That's been happening over the past five or so years; 40% is now assembled here and then shipped back out to overseas customers.

And while Asia continues to be most competitive place for Austin Hughes to manufacture, with Eastern Europe a close second, reductions in corporation tax could make it more attractive to manufacture in the UK. "We could come full circle," Hennessey comments. "It might make more sense to have more production in the UK and we're starting

to have more discussions about that – though it does depend on the ease of doing business with Europe continuing."

The case for UK manufacturing has been strengthened by recent currency fluctuations and increases in the price of raw materials, along with rising manufacturing costs in Asia. "Regulations have become more complicated there and employment costs are rising at double the rate they are rising in Europe," says Hennessey. "So it has become less competitive to manufacture there to serve our European markets – although it will still make sense to manufacture there for the Asian markets."

Either way, he would want to retain assembly in the UK, saying it's more efficient – and gives customers more confidence – to have that in-house. "Our quality is a significant part of our solution so we want to control assembly. Companies like Apple do sub-contract assembly but they have a lot more resources to manage it; for us, it's easier in-house."

The decision to do much of the assembly here has also been driven by a shift in the relationship with distributors. Over recent years, Hennessey explains, distributors have been reducing their stock holdings, which has put pressure on manufacturers to supply direct to end customers – and to deliver to shorter

timescales. "We probably deal with twenty or thirty companies which would have previously held stock and are now placing orders on a daily basis for next-day delivery. So we ship to the end client on behalf of the distribution channel."

Which he's happy about. That direct contact with the end customer means that Austin Hughes have got the chance to influence their future decisions about technology. But then they are happy to pass the business on to the distributor or integrator to maintain those valuable, long-established long-term relationships.

Interestingly, this change has been the foremost factor in being able to demonstrate the difference between Austin Hughes and competitors. "We can deliver in four days something that it would take American competitors four weeks to deliver," says Hennessey. That, he is sure, is a reason why Austin Hughes were invited to go head-to-head with three major American manufacturers for a contract with a large US corporate headquarters in London - which they won.

Traditionally about half of production has gone overseas; this proportion has grown in recent years, and Hennessey is generally optimistic about exports regardless of Brexit.

However, Hennessey is naturally worried about the effect Brexit will have on international markets. "All we can do is sit back and enjoy the ride. It's totally uncharted and it could have a really big impact," he says. "If we experienced a downturn in our EU business we would just have to find more from other major markets."

For that reason, Austin Hughes have hired a new business development person for the London market. "You have to commit to something long term, you can't just dip in and out," Hennessey explains.

Most of the company's competition comes from the United States. There are some small competitors in the UK but they don't have the same international reach.

One of the most important things for a company in Austin Hughes' position is to have good systems and reporting tools, says Hennessey. "A lot of owner-managed businesses don't really like systems and try to work around them but I think IT in that respect is the number one investment we have to make because data is our lifeblood."

Hennessey spends a lot of time away from the office seeing customers so needs to be able to access all the information he

needs on an iPad. "I can look at every nut and bolt; I can pull out a profit and loss account from three years ago and compare it in every detail with how we're doing today. Looking back can be as beneficial as looking forward if as a result you can see why things are not on track and then make the tweaks to fix them quickly."

The challenge with IT, he goes on, is it you have to be extremely diligent in managing it. For example, the business backs up its data daily from four different locations, and then the hardware for the backup is physically removed from site. "That's the thing when people store data in the cloud," comments Hennessey. "Where is it? You have no idea. Then there's the issue of data protection, with the customer not really sure who has the overriding jurisdiction over all that remotely stored data, or whether overseas data centre operators are compliant with UK data protection legislation."

Not that Austin Hughes have exactly suffered while the debate continues. The "enormous" adoption of cloud-based data storage has had a beneficial impact on the business because it has led to growth in the number of data centres. It's difficult to predict the rate of further adoption of the cloud, adds Hennessey. "When I go to seminars and read reports

they say it will happen fast, but then that was said that about IP telephony and it didn't."

His point is that it's important not just to keep on top of new technology, but to continue to service existing technology as there are business opportunities there too. "You have to be clever enough to recognise that just because big companies stop making particular solutions, it doesn't mean there is no longer a market there to be serviced. People said that KVM (keyboard video mouse) technology was dying and three of our big competitors have stopped making them and moved on to the next technology. But we took the business that they had walked away from, and the demand is still growing; we still make thousands of them a month."

One of the fastest-growing products is an intelligent power unit, which now accounts for 40% of turnover. This helps to address energy usage, which is the highest cost for IT businesses, by, for example, enabling customers to bill individual departments for their energy use, or to challenge the energy bills they are given at shared data centres.

Another popular product which sells well is an access control device that enables customers to identify who has entered their data area. There's a lot

happening in technology in the data centre area, Hennessey comments, including research into the use of DC electricity, which is safer and cheaper than traditional AC supplies. This is the "next big thing" in this field, he says, and the company already offers a DC option as a higher-priced upsell.

The company has grown consistently in almost every year since it was founded in 1995, with at least high single-digit growth year on year. Turnover now at the kind of level which will inevitably make Austin Hughes an attractive acquisition target. Two big competitors have been bought out by larger concerns recently.

"We don't have growth targets just for the sake of it," muses Hennessey. "You need a vision and a clear plan if you are investment intensive. If we decide from the sparks coming out of the crystal ball that you need to invest more, we need to plan that at least eighteen months ahead."

The biggest challenge in terms of growth is recruitment and retention. Although many staff have been with the business since the early days, it's getting and keeping new recruits that's difficult, especially given that the manufacturing sector of IT is not seen as particularly glamorous. "What we do is behind the scenes," explains Hennessey.

"We have twenty-something- year-olds who can take a drawing and jump onto a CNC machine, and make a product and dispatch it tomorrow. It's taken a long time to develop that and skill it's not something you generally see in the UK. As a country we have lost that skill set by becoming a service and financial services economy and you can't just switch it back on – that will take longer than anyone anticipates."

In that respect the free movement of people has been one of the big benefits of being in the EU, he observes. "People from other European countries have a greater desire to go into manufacturing – up to 40% of manufacturing jobs in companies run by friends of mine are filled by people from the EU. They are more reliable and more ambitious; my wife works for a manufacturing company which offered to incentivise its staff to take engineering qualifications – an extremely high percentage of those who applied were EU nationalities."

Another challenge facing all businesses is that of cyber fraud, as Hennessey knows to his cost. He tells how scammers spoofed an e-mail address that looked very like an Austin Hughes address, copied Hennessey's signature, obtained the company's letterhead, and then emailed a customer saying the company had changed its bank account

details. The customer then paid several hundred thousand US dollars to the fake Austin Hughes account. Luckily, because the payment was made at a weekend, to a different bank in a different country, there was time to spot the rogue payment – and stop it being completely processed.

The business is now super-vigilant, having added new security measures such as password protection of invoices and registering some twenty domains that resemble 'Austin Hughes' in any way. "It did make us revisit our security arrangements," says Hennessey. "We also found out that we would not have been covered by our business insurance so it would've been a write-off. Now we've changed our insurance to make sure we are covered for fraud and that has resulted in a massive increase in premiums to cover it."

Worth it though. Because creating a brand, getting into the mix along with the big companies, has taken time. "There is still a mindset of 'nobody got fired for buying IBM', but I think we are now seen as their equivalent in our market sector," suggests Hennessey.

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