3 keys to reindustrialization: collaboration, training and R&D

European industry needs to be revitalized to promote growth and competitiveness. A new study by Deloitte, IESE and APD shows how.

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Spain's industrial sector has declined in importance: industry's contribution to GDP has fallen by 4.5 percent over the past 10 years. Over the same period, Spain's global competitiveness ranking has fallen from 28th to 35th.
Going forward, Spain needs to reindustrialize in order to boost competitiveness, foster growth and help the EU reach its goal for 2020: for European industry to account for 20 percent of GDP — up from just 15 percent in 2013.

To help the country reindustrialize, there are three key things Spanish companies can do: (1) promote industrial clusters, (2) improve professional training and (3) increase the efficiency of investments in research and development (R&D).

This is according to a 2015 study by Deloitte in collaboration with IESE's **Beatriz Muñoz-Seca** and María Luisa Blázquez. The report, supported by Spain's APD (*Asociación para el Progreso de la Dirección*), also highlights the importance of competitiveness to turn reindustrialization into a means to generate wealth.

Big challenges need big ideas

The study proposes specific measures to confront the challenges presented by the reindustrialization process in Spain. They are:

1. *Choose strategic industries in which to compete.* Spain's economy needs all the help it can

get, and so it should prioritize industries with the best export potential (like automotive and transportation) and the highest likelihood of stimulating demand in related industries (namely automotive, food, chemicals, electronics and machinery). In addition, Spain should pay special attention to those industries in which it already has a competitive advantage — for example, in leather goods and graphic design. Global trends should also be taken into account to anticipate future demand. Megatrends include the aging population, tendency towards obesity and the digital and sharing economies.

2. *Prioritize parts of the value chain.* Many Spanish companies have moved production to countries with lower labor costs. Accepting this fact, Spanish companies should realize that they could profit from focusing on the pre- and/or post-production phases in manufacturing, which have a lot of added value. In pre-production, the report notes that a future trend is likely to be exporting industrial designs rather than the products — thanks to new technologies, such as 3-D printers.

3. *Encourage clusters for smaller companies.* The average European manufacturing company has 17 employees. The average Spanish company has only 10. And 80 percent of Spanish firms have fewer than 10 employees. This smaller size has negative implications for productivity and competitiveness. Small businesses also face difficulties in obtaining loans, developing new technologies, reaching new markets and hiring skilled workers.

One way for small businesses to gain scale is to come together in clusters. Clusters are collaborative groups of companies working in the same industry and in the same geographic area. Good examples of this collaborative approach can be seen in Basque Country, where automotive companies are clustered, or in Lleida for farm machinery. Despite some success, Spain still ranks just 42nd globally for its development of clusters.

4. *Promote dual training to help prepare students for the workplace.* Despite Spain's high unemployment rate, companies are having a hard time filling their vacancies with the right hires. The problem is the gap between available workers' qualifications and the labor market's requirements. When new hires lack key skills or knowledge, additional on-the-job training is required and initial productivity suffers. A possible solution would be more dual training programs, in which students receive classroom training and on-the-job experience. This requires greater collaboration between schools and private companies.

5. *Boost the efficiency of spending on R&D.* On measures of innovation, Spain has a lot of room for improvement. The country ranks 28th for its number of patents per million inhabitants, 52nd for its private-sector investment in R&D, and 60th for its ability to innovate.

The following measures help optimize R&D investments:

- Focus on development over research. In other words, invest in applications for specific areas rather than in general research.
- Remember the specific needs of small and medium-sized companies, which have a harder time carrying out R&D.
- Get private companies to invest in R&D projects to ensure these projects reflect their actual needs.
- Encourage collaborative structures — such as technology centers and open innovation models — to give companies with fewer resources access to R&D.

Currently, R&D spending in Spain is equivalent to just 1.3 percent of GDP, and of that spending, only 53 percent is financed by private companies. In contrast, R&D spending in Germany represents 3 percent of GDP and is 78 percent financed by its private sector.

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