THE CHALLENGES FOR SMALLER SUPPLIERS IN THE UK AUTOMOTIVE SECTOR

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INTRODUCTION

This short insight paper explores the findings of The Institute for Turnaround's (The IFT's) recent research into the automotive supply chain. This involved two roundtables with industry and turnaround experts along with a Tier 2 supplier mapping exercise which identified UK suppliers and looked at certain criteria such as importance to the supply chain, the environmental objectives and importance to skilled employment.

A key policy message is that increased focus is needed on smaller Tier 2/3 suppliers. This base matters for supply chain resilience, industrial strategy, jobs, innovation and retaining more value in the UK. The challenge faced is three-fold: first to close the gap between domestic capability and local sourcing, second to support smaller firms to be able to manage macroeconomic and geopolitical instability and third to navigate the transition to electrification.

BACKGROUND

The automotive industry is a key sector in the UK economy and important for regional employment, the delivery of environmental objectives, and ensuring growth. According to a July 2026 report by industry body The Society of Motor Manufacturers and Traders (SMMT), automotive-related manufacturing contributes £85.4 billion in turnover and £18 billion value added to the UK economy.[1]

The automotive industry is also a key source of employment in the UK, with roughly 188,000 people employed directly in manufacturing and around 830,000 people in total in the wider automotive industry in 2025. This is in addition to the jobs that the automotive industry supports in other key sectors such as chemicals, finance, logistics, advertising, sales and steel. The SMMT estimates that every job in vehicle assembly, supports 2.2 jobs elsewhere in the economy.[2] Furthermore, manufacturing jobs in the automotive sector often pay higher wages than the national average in areas outside of London and the South East,[3] making the sector important for supporting household incomes, consumer spending and regional growth.

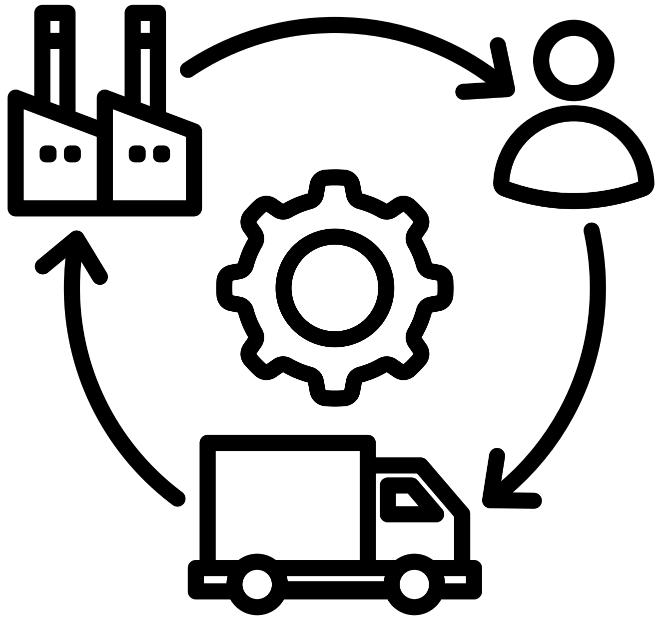
Finally, the automotive industry is one of Britain's key export markets, with 8 out of 10 cars produced in the UK being sold overseas to over 140 markets worldwide.[4] The UK automotive market includes high end and high performance vehicles, with significance in the national consciousness and international prestige, including brands such as Bentley headquartered in Crewe, Rolls Royce in Goodwood, Aston Martin in Gaydon, Jaguar Land Rover (JLR) operating across the UK as well as Formula 1 style sports cars from Lotus and McLaren. Beyond providing economic value, these brands represent globally recognised names, strengthening the UK's manufacturing reputation for quality, innovation and advanced capabilities.

[1] SMMT-Facts-2026-July-update.pdf
[2] Powering the economy - SMMT
[3]Jobs in the automotive sector often pay higher wages than the national average in areas outside of London and the South East according to SMMT evidence in July 2025 to parliament; committees.parliament.uk/writtenevidence/144383/pdf/
[4] SMMT-Facts-2026-July-update.pdf

THE AUTOMOTIVE SUPPLY CHAIN

In terms of the wider automotive supply chain specifically, the SMMT estimates that there are more than **2,500** automotive suppliers in the UK, with **5,000** in the wider supply chain, employing **79,000** people and with revenue of **£15.5 billion**.[5] Office for National Statistics data for 2025 records over **3,500** businesses (registered for PAYE/VAT) as involved in the manufacture of motor vehicles (Standard Industrial Classification code 29). The largest tranche of these by far having turnover within the range of **£100-249,000** (1,140 businesses), but with also significant numbers having turnover of less than **£99,000**[6].

	United Kingdom							
	0-49 Turnover ('000s)	50-99	100-249	250-499	500-999	1000-4999	5000+	Total
29 : Manufacture of motor vehicles; trailers and semi-trailers	315	480	1,140	485	300	445	385	3,550



[5] SMMT-Facts-2026-July-update.pdf
[6]UK business: activity, size and location - Office for National Statistics, 2025 dataset; figures taken from Table 8 of 2025 dataset which covers Number of VAT and/or PAYE based enterprises within region by Standard Industrial Classification (SIC) division, turnover sizebands (£000s) and region

STRUCTURE OF THE SECTOR

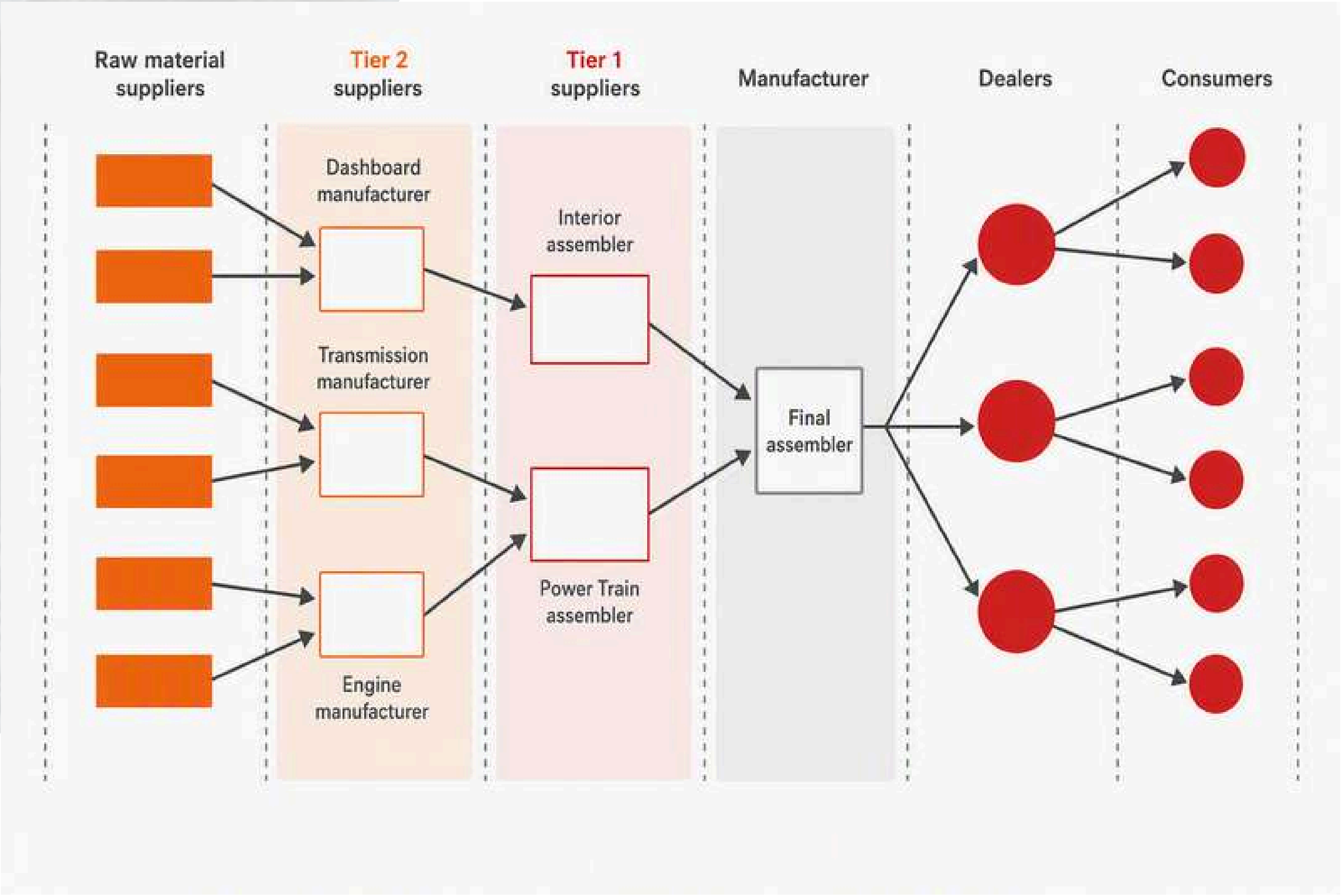
The automotive sector is characterised by several tiers that each perform a different role in the supply chain[7].

Tier 3: predominantly supplies raw materials such as leather hides, metals, chemicals or very simple parts to Tier 2 suppliers.

Tier 2: manufacture components used by Tier 1 suppliers and OEMs including engines, interiors, EV parts, sensors, gaskets and pressed metal parts.

Tier 1: Supplies component/ modules to OEMs.

Original Equipment Manufacturers (OEMs): The car manufacturers which assemble and sell the final product. OEMs include household names such as JLR, Bentley and Aston Martin.



An illustrative example of the Automotive Supply Chain adapted from Sectoral Analysis for the House of Commons Committee on Exiting the European Union[8]

As noted above, businesses across these tiers can range from large, international organisations to much smaller manufacturers.

[7] Automotive Supplier Tiers 1, 2, 3 Explained | Kiyokuni
[8] https://www.parliament.uk/globalassets/documents/commons-committees/Exiting-the-European-Union/17-19/Sectoral-Analyses/4-Sectoral-Analyses-Automotive-Report.pdf#:~:text=In,in%20Asia%20and%20the%20Americas

CHALLENGES

During the two roundtable discussions held by the IFT in April and May 2026, several well-publicised challenges for the automotive sector were highlighted by attendees. They noted deep structural pressures driven by weaker volumes and revenues, tariff pressures, succession challenges, supplier risks, battery transition requirements and short-term funding which is causing volatility, stalled investment and difficulty in making decisions and taking action despite the need for strategic change

Pressures in the sector are no longer cyclical; furthermore, the sector is experiencing a stacking of different pressures including labour costs, energy costs and tariffs. This uncertainty makes it increasingly difficult for business leaders to make long-term decisions, as they cannot reliably anticipate the economic and operating environment over the next 12 months. Automotive leadership teams are still struggling to adapt to the new normal of uncertainty where decisions must often be made quickly despite incomplete information.

The structure of the UK automotive industry can leave it open to supply chain risks. Where a supplier is particularly specialised or focused on niche components or capabilities, these can represent a single point of failure should they cease operating, cascading disruption through the supply chain.

There is also a backdrop of growing competition from China. The Chinese market is highly volume-driven and is advancing rapidly in terms of technology, with advanced automated production lines. Chinese automotive manufacturers are increasingly capturing market share through affordable electric vehicles that offer advanced software capabilities.

At the same time, consumer behaviour has shifted, particularly among younger generations of car buyers, who are demonstrating less brand loyalty and are more willing to shop around for the best deal. For example, it was commented at the first IFT roundtable that in the UK the most popular new car in March 2026 was the Chinese-made car Jaecoo 7.

Roundtable participants noted that the low-volume, high-specification segment of the market has historically been a UK-strength. However, Chinese automotive manufacturers are also exploring opportunities to enter this segment, for example with Huawei's Maextro S800 luxury sedan becoming China's bestselling car, outselling German imports like Porsche Panamera and BMW 7 Series[9], creating a further source of competitive pressure for European producers.

Another challenge facing the automotive sector is how the UK competes for specialised skills on the global stage, in particular, desirable skills in software, electrification and advanced manufacturing. It is important for the industry to protect existing skills from exiting the sector at the same time as attracting skills from external industries to help fuel growth and innovation. This also links in with government priorities in relation to technical and higher education, and growing the talent required to support the priorities of the Industrial Strategy. Investment capacity for the sector is misaligned with the scale of change required for the sector in developing the skills base, managing the EV transition and futureproofing against global demand and competition trends.

Finally, finding good strategic leadership with individuals who can combine near-term management with longer term trendspotting remains a challenge in the sector. Good leaders should be able to make bold decisions in the face of changing market conditions and take advantage of opportunities, as well as having the ability to have difficult conversations around size, costs and structures.

[9] The world's carmakers are struggling to compete with China - BBC Newst

WHO FEELS THE PRESSURE?

The roundtable discussions highlighted that pressures are not felt equally throughout the supply chain; there is broadly less pressure on OEMs than there is on suppliers and retailers, as OEMs tend to have the capital structure and internal capacity to be able to fend off pressures and deal with cashflow issues in a way that smaller Tier 2 and 3 suppliers cannot (albeit not immune to changing conditions, for instance significant restructuring and job reductions recently announced by JLR)[10]. The UK automotive supply chain faced a number of production challenges in 2025. These included supply chain issues impacting rare earth minerals, semiconductors and chips.[11] The 2025 cyber-attack at Jaguar Land Rover also brought into stark relief the risks for small and medium suppliers when facing sudden shocks or supply chain shutdowns.[12]

Roundtable attendees working in the sector as turnaround or restructuring advisors reported seeing a number of Tier 1 and Tier 2 suppliers in distress. They see that suppliers are often reactive to pressures and lack the commercial mindset to look at different options to avoid reliance on one or two OEMs. Even suppliers further down the supply chain that may perceive themselves to be independent of OEMs are often more dependent on them than they realise, due to the complexity and interconnected nature of the supply chain.

Overall, the roundtable discussions concluded that there is currently a need for additional support for smaller, locally based suppliers at Tier 2 and 3 who are more vulnerable to the challenges facing the sector and with less capacity to manage these. Against this, it was noted that there is a deep pool of expertise and value in Tier 2/3 suppliers, with great potential in supporting high value UK automotive manufacturing as well as other sectors such as defence. Overall, this aspect of the supply chain therefore represents an obvious focus for government support.

[10]https://www.bbc.co.uk/news/articles/c36lx560jjko
[11] Automakers hunt high and low for chips as supply crisis worsens | Reuters
[12] Jaguar Land Rover: Some suppliers 'face bankruptcy' due to hack crisis - BBC News

THE TIER 2 SUPPLIER BASE IN MORE DETAIL

The UK automotive industry Tier 2 layer spans a range of specialist suppliers which feed into Tier 1 or directly to OEMs. These include smaller SMEs and larger businesses manufacturing automotive components including metal components (castings, forgings, stampings) electronic parts and wiring, polymer and plastic components, chemicals and coatings, tooling and testing services and subsystem specialists spanning across powertrain, chassis and interiors.[13]

The network of Tier 2 suppliers is concentrated in regional clusters, often in the vicinity of OEM plants or historic industrial sites. The West Midlands is a leading region with over 1,400 auto supply businesses. The region benefits in its proximity to leading OEM facilities as well as a supply of engineering talent from local universities.[14]

The North-East of England (Tyne-Tees region) is another critical cluster, with a key hub around Nissan's Sunderland plant and its local supply chain. The North-East cluster produces nearly one-third of UK's passenger vehicles and a large amount of engine production. It has recently emerged as a leading hub for Electric Vehicles, for example being home to Europe's first mass-production battery gigafactory. The region has numerous innovative Tier 2 firms.[15]

Other significant automotive clusters include the North West, which includes manufacturing locations at Ellesmere Port, Halewood and Crewe,[16] and South Wales, where areas such as the Vale of Glamorgan and Bridgend are adapting following the closure of Ford's engine plant.[17] The South and East of England, including Oxfordshire, Northamptonshire and Surrey, have a dense concentration of motorsport and high-performance engineering firms, many of which also operate as Tier 2 suppliers to premium and performance vehicle manufacturers.[18]

[13] Automotive Supplier Tiers 1, 2, 3 Explained | Kiyokuni
[14] ME-Cluster-Snapshot-AUTOMOTIVE.pdf
[15]North East England article business.gov.uk international; The North East is a global hub for automotive manufacturing; Electric North East | Why locate in North East England
[16]Crucial role of North West to UK Automotive – Wheels Within Wales
[17]Wales' automotive strength lies in diversity, Welsh forum told – Wheels Within Wales
[18] https://www.globaledgegroup.com/news/inside-motorsport-valley-the-heart-of-uk-racing

As noted above, there are several vulnerabilities for the UK automotive industry in the Tier 2 layer. This layer is susceptible to single-point failures, and collapse of Tier 2 suppliers can cripple production at higher tiers.[19] This is because they may be difficult to easily substitute in the short term due to niche expertise and employee skillsets.[20] Furthermore, financial and cashflow risks can be concentrated in the mid and smaller level of the supply chain, as noted in the example of the JLR 2025 cyberattack, which caused severe liquidity issues for some SMEs[21].

Tier 2 suppliers are also impacted by the UK's reliance on global sources for critical components such as chips or battery cell components.[22] This means Tier 1s and OEMs can in effect be relying on long, international supply lines. When global shocks occur such as conflicts or pandemics, Tier 2/3 segments without alternatives in the local area can face severe part shortages which halt production. If particular specialist Tier 2 suppliers shrink or exit the market, OEMs become even more reliant on foreign imports, further undermining resilience and trade balance.[23]

Tier 1 and OEM purchasing practices can exacerbate pressures on Tier 2 suppliers. Just-in-time production models, inventory requirements and extended payment terms can shift financial and operational risk down the supply chain, leaving smaller suppliers with limited resilience to absorb shocks. During periods of disruption, OEMs often prioritise their own stability, creating uncertainty around support for critical suppliers and increasing systemic supply chain risk.[24]

[19]The JLR attack and automotive supply chains | S&W Group; Beyond Tier 1: A new playbook for managing multi-tier supplier risk | KPMG
[20]See above
[21]https://www.verlingue.co.uk/news/article/the-jlr-breach-and-its-ripple-effect-on-uk-supply-chains/ ; CBM calls for urgent support package for downstream JLR suppliers - CBM
[22]Global Supply Chains of EV Batteries
[23]CBM calls for urgent support package for downstream JLR suppliers - CBM; Automotive Industry Supply Chain Issues in 2026: Causes, Impacts and Strategic Solution; the-new-power-struggle-EV-batteries-rewiring-risk-across-auto-industry-whitepaper-moodys.pdf
[24]CBM calls for urgent support package for downstream JLR suppliers - CBM; Build resilience in the automotive supply chain | Logistics Matters

IFT RESEARCH

As part of and subsequent to the two roundtables with individuals involved in the automotive sector, The IFT undertook a mapping exercise to identify a snapshot of small (UK and locally based) Tier 2 suppliers, and assessed these in terms of importance to the UK automotive supply chain, based around the following criteria: relevance of the supplier to the EV transition and net-zero and for economically viable UK vehicle assembly, relevance for local employment and skills, and dependency risk (how easily could the UK industry replace them if they fail)[25]. This resulted in a list including 57 suppliers[26].

Out of this list, **22%** showed some evidence of declining financial performance or financial pressure such as closure of sites, turnover/profit decreases and losses. However, this figure may understate the true level of challenge and distress among suppliers, as financial information was not available for a number **(28%)** of suppliers due to reporting limitations and filing requirements for SMEs and micro companies.

In Companies House filings some suppliers referenced cost inflation and margin pressure as significant challenges, as well as difficulties arising from geopolitical issues, with one supplier specifically citing the war in Ukraine and another pointing to the impacts of US tariffs as key areas of concern.

[25] The research used two AI tools for initial mapping, in addition to manual research and subsequent manual checking and research of sources including the SMMT supplier directory and feedback from members of the IFT's Automotive Special Interest Group.
[26] [1]Please note that this is not intended to be an exhaustive list of all suppliers who meet the criteria, given the breadth and complexity of the supplier base, rather a snapshot of identified suppliers.

Competition from China and global competitors was referenced by one supplier and some companies reported that they have diversified their offering by expanding into other markets such as the medical and aerospace industries. For example, one supplier reported strong performance during the pandemic as they were able to effectively restructure production to respond to the global demand for medical devices.

When thinking about the regional concentration of Tier 2 suppliers (and therefore local employment and localised manufacturing ecosystems), the IFT supplier mapping accords with the overarching structure of the UK automotive sector, with the West Midlands the region with the most suppliers identified (37%) followed by the South East (14%) and the North West (12%). The chart below shows the complete breakdown of the 57 suppliers by region.

Region/country	Percentage total
West Midlands	37%
South East	14%
North West	12%
East Midlands	11%
South West	7%
East of England	5%
North East	5%
Wales	4%
Scotland	4%
Northern Ireland	2%

Across the IFT supplier mapping, 31% of suppliers employed between 50 and 200 people, 26% employed between 11 and 50 people, and 7% employed between 2 and 10 people[27]. This suggests that a significant proportion of strategically important Tier 2 suppliers are medium to small sized companies, operating with the challenges that being a smaller company with fewer resources brings.

[27] These percentages are based on the full supplier sample, including suppliers for which employee numbers were not available, so may not be fully representative but provide some indication of size of companies.

TIER 2 SUPPLIERS: WHAT SUPPORT IS NEEDED?

As stated by the SMMT, a resilient supply chain is central to the UK's ability to attract new investment, secure new vehicle programmes and remain globally competitive.[28] Furthermore, there is an opportunity for growth in the sector, with a £4.6 billion opportunity for UK-based suppliers as manufacturers try to increase local sourcing[29].

The IFT automotive roundtable discussions highlighted the need for a more proactive approach to identifying and collating early warning signs of financial distress in smaller automotive suppliers, supported by the sharing of insights between turnaround professionals, lawyers, lenders, auditors, OEMs and Tier 1 suppliers, rather than relying solely on supplier internal self-assessment and willingness to seek help. Roundtable participants noted that distress within Tier 2 suppliers is often difficult to identify until it becomes a liquidity issue. Early identification of emerging operational issues such as declining quality or non-delivery, together with a clear understanding of KPIs, would help enable timely intervention and improve the prospects of successful rescue and restructuring.

Access to funding is another critical lever for supporting strategically important suppliers that play a fundamental role in the automotive supply chain and serve as major regional employers. Government investment programmes such as Drive35,[30] alongside other national and local funding mechanisms, can provide a vital lifeline to otherwise viable businesses facing a convergence of economic pressures. Targeted financial support can help safeguard high-quality jobs, maintain supply chain resilience, and preserve capabilities that are essential to the UK's long-term automotive competitiveness.

[28]https://www.smmt.co.uk/article/supply-chain-resilience/
[29] Ibid.,
[30] https://www.gov.uk/guidance/drive35-funding-programme-innovation

The IFT believes engagement with turnaround professionals is crucial to supporting suppliers experiencing financial distress. Effective interventions require advisers with both hands-on restructuring experience and sector-specific expertise. Equally important is the timing of that engagement, as too often, businesses seek turnaround advice only when financial difficulties have become acute, reducing the range of available options and increasing the risk of insolvency.

Encouraging earlier engagement and reducing barriers to accepting external advice may be as important as the availability of funding itself. For the longer-term view, support for smaller suppliers should also focus on professionalisation and building strategic and leadership skills and capacity to manage sector transitions and changes to business models where this is required. This is particularly important when recognising the above noted wider trends impacting automotive including to lower volumes, more limited access to the European market, global competition and technological transition.

POLICY IMPLICATIONS

The Government's 2025 Industrial Strategy highlighted advanced manufacturing (including automotive) as one of its eight most "high potential" and therefore priority sectors. Automotive was highlighted as a frontier manufacturing industry to be supported with innovation, including by strengthening supply chains and driving "innovation and commercialisation".[31] The IFT's roundtables and supplier mapping suggest that achieving these objectives will require focus on the Tier 2 and 3 supplier bases, where financial and operational pressures are often concentrated, but which are often harder to identify and reach with funding and support.

In particular, the conclusions and areas for further consideration included more intensive policy focus on SMEs and mid-market Tier 2/3 suppliers in order to stabilise the entire sector; exploration of how accessible existing funding streams are to these Tier 2 suppliers (supported by improved identification and mapping of strategically important suppliers across the UK automotive supply chain) as well as appropriate structuring or conditions attached to funding to ensure it is applied effectively to support longer term resilience, diversification, and talent and skills pipelines.

[31] The UK's Modern Industrial Strategyt

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