

Item No. 6



GM LOCAL ENTERPRISE PARTNERSHIP BOARD

SUBJECT: Greater Manchester Business Survey

DATE: 7th September 2015

FROM: John Holden, Director of Research, New Economy

PURPOSE OF REPORT

To provide an update on the findings of the 2014/15 GM Business Survey and the main implications of its results for GM.

RECOMMENDATIONS:

To note the findings and implications of the 2014/15 GM Business Survey and the actions that are now on-going to ensure these are fed into GM policy development and programme delivery.

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BACKGROUND PAPERS:

Greater Manchester Business Survey 2014, Full Results. Prepared by BMG.

Available here: <http://neweconomymanchester.com/downloads/3457-Background-report-GM-Business-Survey-full-results-pdf>

1. INTRODUCTION

- 1.1. The 2014 Greater Manchester Business Survey (GMBS) is the third large-scale business survey that has been coordinated across Greater Manchester (similar surveys were undertaken in 2012 and 2013). The sample frame was selected to make it representative of the business base, in terms of size (number of employees), sector and location. The 2014 survey saw 2,161 firms complete a telephone survey. The GMBS is one of a number of surveys that provide information at a Greater Manchester (GM) level – including the Chamber of Commerce Quarterly Economic Survey; the UK Commission for Employment & Skills Employer Skills Survey; and the Business Register Employment Survey.
- 1.2. All GM local authorities were given the chance to fund boosted samples in their districts and four local authorities (Manchester, Oldham, Rochdale, and Salford) did so. As well as providing local authorities with consistent and robust business survey findings, this coordination ensured that businesses in GM were not asked to do very similar surveys at similar times by partner organisations.
- 1.3. This note summarises the main findings from the 2014 GMBS that were discussed at the June Manchester Growth Company Board and identifies the key messages for Greater Manchester. Detailed results are provided in the consultant's report in Annex 1.

2. SURVEY RESULTS

Business Outlook

- 2.1. The survey found strong business sentiment within GM, with 26% of companies reporting an increase in employment over the last 12 months (up from 22% in 2013) and 43% of firms reported an increase in turnover (up from 35% in 2013). ICT; finance/real estate, professional/technical; construction; and manufacturing reported the strongest growth in employment over the last 12 months – with more than 25% of companies in each of these sectors reporting employment growth.
- 2.2. Looking to the year ahead, 30% of firms expect employment to increase or stay the same. This was up from 21% in 2012 and 25% in 2013 results. Optimism amongst firms was broad based with the most positive being in Information & communication (40% of firms expect employment to increase), Professional & technical (39%), Transport & storage (38%), Manufacturing: (33%), Admin, Education, Health, Arts & Others (30%) and Accommodation & food (30%).

Drivers of, and barriers to, growth

- 2.3. The survey asked firms to identify their top drivers of, and barriers to, growth. By some distance the main drivers of growth were the products

and services their company provides (47%) and their workforce and skills (44%) (see Figure 2). The main barriers (see Figure 3) to growth are access to markets/sales opportunities (24%), a lack of staff or skills (24%) and the need for finance (22%). The remainder of this section looks at the results for these drivers of, and barriers to, growth in more detail.

Figure 2: Top drivers of growth in GM

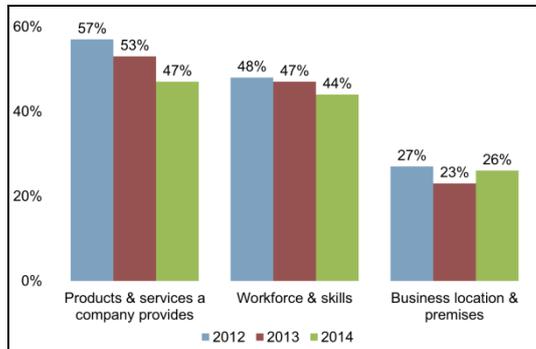
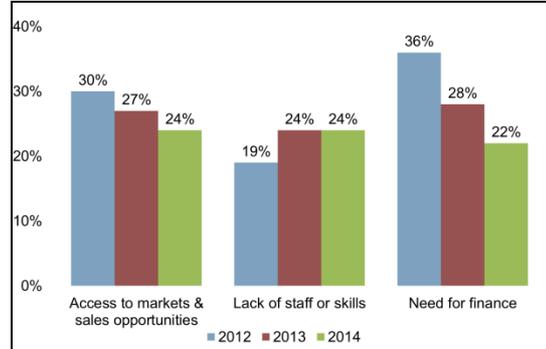


Figure 3: barriers to growth in GM



Products and services a company provides: Innovation

2.4. Firms were asked whether they had undertaken any innovation activities within the last three years. Such activities include: investing in new machinery/plant/ICT equipment/software; training which supports the development/introduction of new products/services; undertaking in-house R&D; and accessing advice/guidance from universities. The main findings in relation to innovation can be summarised as:

- **Innovation levels declining:** Just 66% of GM businesses had engaged in innovation activities in the last 3 years – down from 74% in 2013 and 79% in 2012. While this is in part a national issue – the 2014 Small Business Survey highlights a 5 percentage point decline in SMEs reporting innovation in products since 2012 – it is potentially worrying as, even in a weak national environment, GM is only a mid-ranking performer based on the latest UK Innovation Survey data.
- The top innovation activity undertaken in GM is investment in new machinery, ICT equipment and software. It is important to note that the survey less likely to pick up more difficult to define innovation such as introducing new services, which may be a particular factor in GM given that it is predominantly a service based economy. The information & communication sector (also top in 2012); and manufacturing sector (third in 2012) are most likely to invest.
- **Barriers & drivers:** The main constraints to innovation are: lack of finance; lack of time; and lack of qualified personnel. Finance has been a key issue over the last two years. It is positive that currently 10% of businesses are engaging with universities and 14% of companies say they may undertake innovation activities with them in the future.

Workforce and Skills

2.5. The main findings in terms of workforce and skills are:

- **Skills is a key business driver:** Across firms of all sizes, a lack of staff or skills is a key barrier to growth – identified by almost 25% of companies; this is a similar level to previous years. Across companies of all sectors and sizes, workforce skills are also a key driver of business growth (identified by 44% of firms). This reaffirms findings from a wider body of evidence, including GM's emerging thinking on productivity. The two sectors with the highest proportion of firms reporting that workforce & skills are a key driver of growth are information & communications; and professional, scientific & technical activities – both at 50%. Companies with up to 199 employees were more likely to mention workforce and skills. While important for large firms (200+), it was a lower percentage.
- **Hard-to-fill vacancies:** Around 10% of firms have hard-to-fill vacancies, half of whom raised skills/qualifications issues as a major cause, which was similar to 2012 and 2013. Manufacturing, transport & storage and information & communication all had 60% or more for firms citing lack of skills/qualifications as a reason for having hard-to-fill vacancies.
- **Investing in the future workforce:** The apprenticeship penetration rate into businesses has doubled in two years (from 10% in 2012 to 20% in 2014). This is a rapid rise and GM's figure is now significantly above the 11% figure that is reported nationally. The 2015 GM Business Survey will ask additional questions on apprenticeship employment so that this figure can be interrogated further. The main sectors for employing apprentices are: construction (29%, up from 25% in 2013); admin/education/health/arts/other (24%, 16% in 2013); and manufacturing (22%, 16% in 2013). Around 32% of firms offer work experience/internships (17% offer paid; 25% unpaid).

Business location and premises: Satisfaction with Local Area

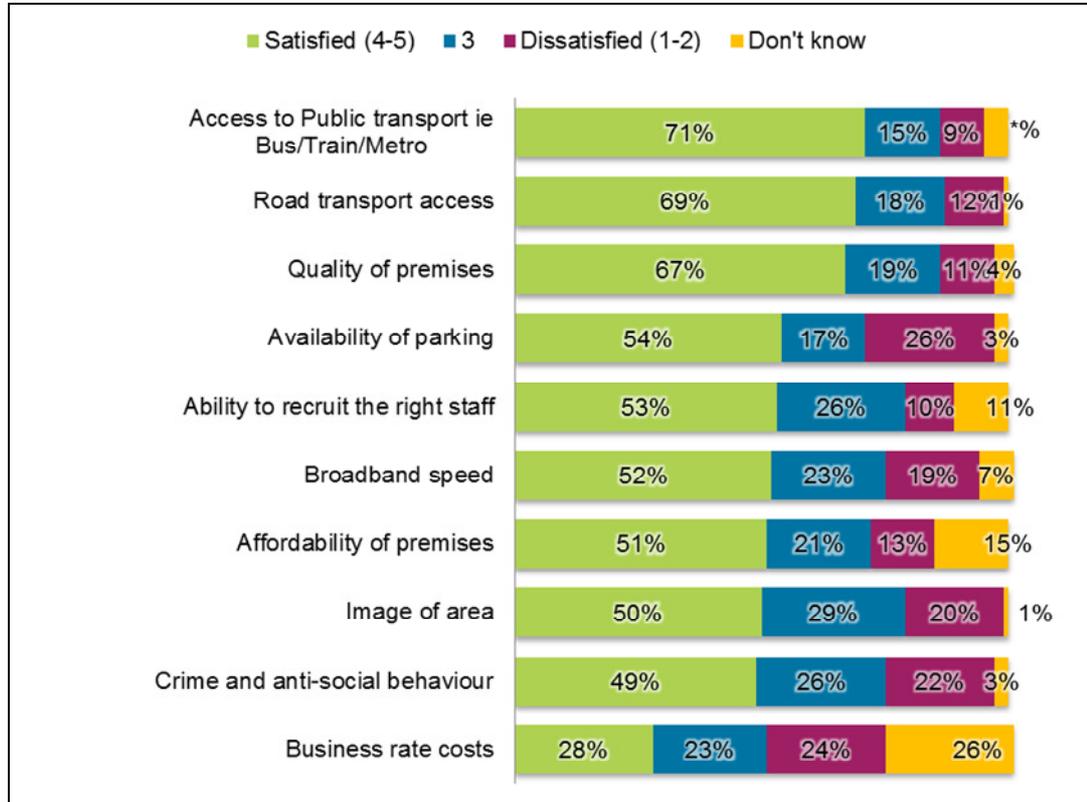
2.6. Overall, 62% of companies in GM are satisfied or very satisfied with the local area as a place to do business. Only 10% are dissatisfied or very dissatisfied. Companies most likely to be satisfied/very satisfied are those with 50+ employees (74%) and those in the finance/real estate sector (74%). Firms likely to be dissatisfied/very dissatisfied are those considering relocation (22%) and companies in the transport & storage sector.

2.7. Businesses were asked to rate their level of satisfaction with aspects of their local area. They gave a rating of between 1 and 5, where 1 is very dissatisfied and 5 is very satisfied. Figure 5 shows a summary of those who are satisfied (scoring 4 or 5), neither satisfied nor dissatisfied (scoring 3) or dissatisfied (scoring 1-2). Satisfaction data is available to a local authority level for all Greater Manchester districts. Across

Greater Manchester, aspects of the local area rated most positively (scoring 4-5) included:

- Access to public transport (71%; 66% in 2013)
- Road transport access (69%; 69% in 2013)
- Quality of premises (67%; 55% in 2013)

Figure 4: Satisfaction of Local Area as a Place to do Business – by Indicator



Exports

2.8. The main findings around international markets and exporting by GM companies can be summarised as follows:

- **Propensity to export:** 11.2% of firms in GM export (down from 12.9% in 2012). The UK Business Barometer gives a national average for exporting of 21%, so GM lags behind. GM's weak exporting performance reflects findings from the MIER and also HMRC goods export data. Firms most likely to export are large (50+ employees) and have been trading for 6 years or longer.
- **Sectors and markets:** Export intensive sectors include: manufacturing (27% of firms in the sector export); transport & storage (26%); and info & comms (25%). The main export market is Europe (78% of firms that export) followed by North America (46%), and other Asia Pacific (43%) and China (39%).
- **Future export growth:** An additional 5% of GM businesses plan to engage in international trade in the future (4% in 2013). The main sectors in this respect are: admin/education/health/arts; manufacturing; and construction. This broadly aligns with the GM

Chamber QES for Q1 2015 – which reports that manufacturers are more optimistic about exporting prospects than services. The perceived main barriers to exporting are: regulation/legal requirements; political risks; and language/cultural barriers.

Access to finance

2.9. On the issue of access to finance the key findings were:

- 15% of firms had sought finance in the last 12 months (compared to 12% across the UK) – the same as 2013. 25% of firms who sought finance did so to support expansion/growth, up from 20% in 2012, whereas 24% required finance to provide working capital – substantially less than the 49% reported in 2012.
- 34% of firms who sought finance reported experiencing difficulties, down from 49% in 2012. The main reasons cited were: lenders considering a sector too risky for investment; not meeting lending criteria; insufficient/no security; and unfavourable terms. Sectors reporting difficulties were concentrated in general services; construction; digital; transport & storage (30%+ of companies seeking finance in these sectors reported difficulties).
- 63% of firms who had difficulty accessing finance (and stated the amount they required) were looking for loans of up to £100,000.
- Of firms looking to finance long-term growth, 21% said they would look for finance from local & central government – a similar figure to 2013. Firms that are experiencing high levels of growth (based on turnover and/or employment trends) were especially likely to look to the public sector for funding, with 24% saying that they would look for finance from local & central government.
- Only 7% of firms would use venture capital or business angels to support growth, broadly the same as 2013.

3. IMPLICATIONS FOR GREATER MANCHESTER

3.1. The 2014 Business Survey results were discussed at the June Manchester Growth Company Board. The main implications for Greater Manchester that were discussed were:

- **Business growth:** 30% of firms now use some form of publicly-funded business support. However, most firms only use one form of support and there may be scope to increase referrals between public and private sector providers. Awareness/use of the Business Growth Hub has increased rapidly in recent years and is now at 31% (which is consistent across districts).
- **Skills:** The results unsurprisingly confirm the focus on improving skills is central to business growth. There is now a positive platform with strong business prospects, high interest in apprenticeships and engagement with work experience. It will be important to capitalise on this as GM develops a new approach to skills through the devolution deal and looks to tackle the productivity gap.
- **Innovation:** Stimulating higher levels of innovation and R&D will be critical in closing GM's productivity gap with the UK. Building on recent successes, there is an opportunity to continue to influence national big science infrastructure investment, work with local & national institutions (for example, universities and Innovate UK), as well as working directly with firms to raise the appetite for innovation. The ERDF calls on Research and Innovation and Competitive Business are key routes through which GM can boost innovation activity.
- **Finance:** The survey confirms that a finance gap still exists: even with improved credit conditions there are still a significant number of firms having difficulty accessing finance, especially for growth and innovation. There could also be scope to develop niche products or targeted campaigns aimed at areas where there appear to be particular market failures (for example, resource efficiency, innovation & exports; sectors such as digital, logistics & construction). There is also a need to increase the appetite of firms to take on growth finance.
- **Exports:** Most firms don't export and are not thinking of doing so. This suggests a focus on broad-based awareness raising and outreach and "myth busting" to firms that don't currently have an interest in exporting, as well as ensuring a targeted export offer focused on the barriers faced by specific business in specific sectors. Further work is needed to do a deeper dive on barriers to exporting in order to understand perceived and "real" issues. This will feed into the development of the refreshed GM Internationalisation Strategy and the GM Export Plan.

4. NEXT STEPS

- 4.1. To ensure the 2014 Business Survey is used widely in both policy development and programme delivery, the next steps with the report are:
- The detailed survey findings will be published on New Economy's website following presentation to the GMCA and LEP.
 - Following a request from the MGC Board, a series of small groups will be set up to look at some of the areas in depth (including exports, innovation and skills) and the results/implications of this detailed analysis will be shared with relevant GM organisations/boards so that they can be acted on.
 - New Economy is holding an open seminar (aimed at public and private sector representatives) in September to present and discuss the implications of the findings.
- 4.2. Finally, work is beginning on developing the 2015 Business Survey. Local authorities and other GM partners will again be asked if they wish to fund a boosted sample.