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Enterprise cities:

Supporting SME growth across the UK

At a glance

- Small and medium sized enterprises (SMEs) have a fundamental role to play in driving the economic recovery
- Yet SMEs in different cities vary enormously in their ability to generate jobs and value
- The external business environment – including consumer demand, workforce capacity and skills, suitability of business premises, connectivity and access to finance – can have a significant impact on how SMEs perform
- It is important that the government recognises the geographical dimension of SME success and failure and that every city is enabled to respond to the specific needs of their SME base

SME performance and resilience

Thirty years ago there were 2.4 million small businesses in the UK. There are now 4.8 million and they form the lifeblood of every city economy across the country.

SMEs make up at least 99 per cent of businesses in UK cities and this is growing: between 2005 and 2012, the number of city-based SMEs increased by 37 per cent, compared to a 14 per cent increase in the number of large firms.

Top 10 most enterprising cities (based on the Enterprise Score)

Aberdeen

London

Reading

Cambridge

Aldershot

Warrington

Milton Keynes

Brighton

Crawley

Bristol

Centre for Cities' latest report, Small Business Outlook 2013 – the first city-by-city health check of SMEs in the UK, sponsored by Zurich – shows how important SMEs are to the economic recovery of our cities and the UK as a whole.

Yet SMEs in different cities vary enormously in their ability to generate jobs and value. Seven out of the top 10 most enterprising cities – with a high number of business start-ups, large business base and lots of growing businesses – are located in the Greater South East.

It's not a simple North-South divide though. Aberdeen and Warrington feature in the top 10 cities. Meanwhile, Luton and Chatham – both less than 15 miles from the M25 – rank in the bottom 20.

So why do SMEs perform better in some cities compared to others?

Many different issues affect the success or failure of a new business, with performance largely down to how a business is managed and run. But external factors relating to the sector in which an SME operates or the external business environment matter too. The top 10 most enterprising cities have several common characteristics: large professional sectors, highly skilled workforces and businesses operating in diverse markets. These factors help explain why the performance of the SME base is so strong these cities compared to others.

Part of the reason Aberdeen has seen stronger business growth compared to Dundee for example is linked to the mix of industry in the two cities. All industries have been affected in different ways by globalisation, technology and changing consumer habits. Some of the largest industries in Dundee, including construction and distribution, have been hit hard in the recession. The UK has seen stronger growth among professional and business services firms – and there is a strong concentration of these types of business in Aberdeen (many likely to be tied in to the supply chain in the oil industry). As a consequence, these two cities have seen very different patterns of growth.

Skills are also an important part of the story. At least one in three people in the top ten cities, with the exception of Milton Keynes, are graduates. This rises to one in two people in Aberdeen and London and compares to just one in five in Chatham. Access to skills affects all businesses. While this is not all about graduates, the more highly qualified a city's workforce is the more likely it is to have seen strong business growth.

Levels and nature of demand matter too. Businesses in the top ten most enterprising cities tend to operate in more diverse markets. Over 20 per cent of businesses in London and 16 per cent of businesses in Reading operate primarily in international markets. The more diverse a city's market base is the more resilient it is likely to be. And the buoyancy of the ten city economies is likely to mean higher demand for the businesses operating in local markets. In contrast, up to 75 per cent of businesses in cities such as Blackburn and Luton are dependent on local or regional markets. Some of these cities have also seen large falls in wages in recent years and are likely to be disproportionately affected by public sector cuts – all reducing the amount of money that could potentially be spent in local businesses.

Beyond sectors, skills and markets, there are other factors, which may act as barriers to growth in different cities. For example, less than 10 per cent of postcodes in Hull and Hastings have access to high speed broadband, an increasingly important component of modern business infrastructure. Meanwhile, congestion is a particular problem in London and Nottingham.

Breaking down the barriers

Many of the barriers to SME growth relate to the external business environment, As a result, indirect approaches to enterprise policy – strengthening transport connections and improving the planning system, for example – can have a significant impact. Building effective partnerships – with local Chambers, FE colleges, businesses and others – are an important part of improving the business environment and providing support for businesses on management, skills, access to finance and help with exporting.

Because every city is unique, these responses will require tailored solutions. The Government needs to deliver on devolution to enable cities and Local Enterprise Partnerships to respond in ways most appropriate to local circumstance.

Local economies are vital to the success of the small and medium sized businesses that will drive economic recovery; it's vital we understand this and that government and cities do all they can to create the conditions in which businesses can thrive.

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