

The SME Landscape in the North

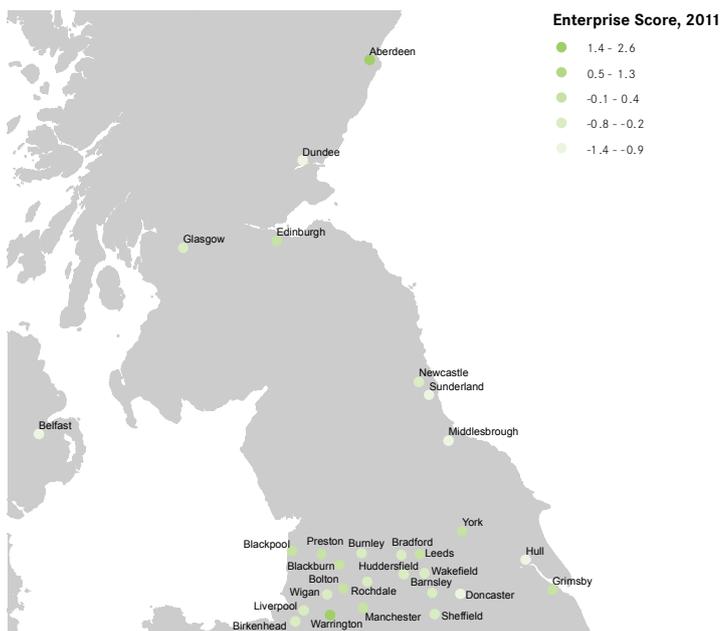
Signs that the UK economy is returning to growth has sparked renewed debate about the spatial re-balancing of the economy and the need to address the so-called North-South divide. However, while businesses in Northern cities tended to be hit harder during the recession and many continue to struggle, the picture is far more complex than a struggling North and a prosperous South. The Centre for Cities report Small Business Outlook 2013, supported by Zurich, shows that several cities in the North are outperforming those in the South across a range of small business indicators.

Enterprise hubs in the North

Edinburgh, Leeds and Manchester remain important growth poles in the North. As three of the most significant and diverse urban economies in the country, the cities stand out as hotbeds for entrepreneurship – and they have a long history of doing so. Manchester, for example, had the fourth highest number of business start-ups in England and Wales in 1901 and it remains in the top ten today.

A high percentage of small and medium-sized enterprises (SMEs) in Edinburgh, Leeds and Manchester operate in the financial and professional services sector. The cities also act as ‘global connectors’ with international airports and a significant number of firms operating within the global market. The challenge for leaders in the three cities is to ensure that infrastructure development keeps pace with growth to provide the best environment for business.

Figure 1: Enterprise in the North



Source: Centre for Cities, 2013

Several other smaller cities in the North also stand out. Aberdeen (Box 1) and Warrington (Box 2) rank in the top ten on the majority of enterprise measures. A particularly high number of firms are growing in both cities. Preston (Box 2) also stands out with a relatively large SME base. These cities have not been traditional service hubs in the same way as Edinburgh, Leeds and Manchester. Instead SMEs have benefited from specialisation in a particular industry (oil in Aberdeen) or targeted investment in infrastructure (road network in Preston).

Box 1: Aberdeen - a hub for high tech SMEs

Aberdeen was highlighted as a ‘city to watch’ in Cities Outlook 2012 due to its strong economic performance. Economic output in the city is 10 per cent higher than the national average. Our latest report showed that the SME base in Aberdeen continues to be one of the highest performing in the country. The city has a large SME base relative to the size of its population, a high number of business start-ups and a large number of expanding firms. Many of these firms operate in high technology, knowledge intensive sectors connected to the oil and gas industry, and have access to a highly skilled workforce.

The challenge for Aberdeen is to explore opportunities to diversify its business base to reduce its dependence on oil and gas. This comes back to creating the best environment for business by ensuring the city is well connected (both physically and digitally) and that there is a good supply of affordable office space.

Box 2 : Warrington and Preston - well-connected cities in the North West

Preston and Warrington have bucked wider trends across city economies in the UK. Other cities of similar size and location have struggled in the most recent economic downturn and over the longer term.

Blackburn and Burnley, based within 20 miles of Preston and 45 miles of Warrington, have struggled to adjust to global economic and technological change over the last century as both were heavily specialised in the textiles industry. Both still have a relatively large number of businesses in more traditional industries hit hard in the recession.

In contrast, Preston and Warrington have historically been slightly more diverse. The diversity of the SME base coupled with targeted investment in infrastructure in these cities has meant that Preston and Warrington have fared much better in the face of change.

Table 1: Enterprise in four cities in the North West

	Business start-ups per 10,000 population, 2011	SMEs per 10,000 population, 2011	Firms with more than 10 employees expanding, 2008-2011	Firms with more than 10 employees contracting, 2008-2011	High-growth firms, 2008-2011
Warrington	42.43	337.10	0.52	0.31	0.07
Preston	38.26	328.03	0.44	0.38	0.06
Blackburn	35.21	261.54	0.48	0.38	0.08
Burnley	31.14	268.40	0.42	0.42	0.05

The recent recession largely reinforced longer term trends: cities that had low rates of entrepreneurship and SME growth prior to the recession tended to do worse during the recession, and have continued to struggle in the current period of low growth.

For example, cities in the North on the east coast – Dundee, Hull, Middlesbrough and Sunderland – tend to have some of the lowest levels of enterprise in the country (Table 2). To some extent this reflects the industrial legacy of

these cities. All four were dominated by a single industry – shipping or textiles – and several large employers; this combination can crowd out entrepreneurship and innovation. Changes in transport, with a shift away from shipping to road and rail, have also impacted on these cities by making them more peripheral.

SMEs in Dundee, Hull, Middlesbrough and Sunderland continue to operate in more traditional industries such as manufacturing and construction, and there are fewer graduates among the workforce. Businesses in these cities are also more likely to be affected by public spending cuts as there are higher levels of dependency on the public sector and relatively high numbers of businesses operating primarily within the local or regional market.

Table 2: Top 10 and bottom 10 Northern cities on the 'Enterprise Score'

	Rank on 'Enterprise Index' (out of 64)	Business start- ups per 10,000 population, 2011	SMEs per 10,000 population, 2011	Firms with more than 10 employees expanding, 2008- 2011	Firms with more than 10 employees contracting, 2008-2011	High-growth firms, 2008-2011
10 Northern cities with the highest 'Enterprise Score'						
Aberdeen	1	55.13	374.00	57%	30%	11%
Warrington	6	42.43	337.10	52%	31%	7%
Edinburgh	15	43.40	294.75	49%	39%	8%
Manchester	18	42.63	290.45	46%	38%	7%
Preston	20	38.26	328.03	44%	38%	6%
Grimsby	22	45.08	253.98	47%	38%	7%
Leeds	23	38.76	286.36	47%	38%	7%
York	26	33.11	299.39	48%	38%	7%
Blackpool	28	34.37	316.72	44%	39%	4%
Blackburn	29	35.21	261.54	48%	38%	8%
10 Northern cities with the lowest 'Enterprise Score'						
Liverpool	52	28.59	203.84	46%	37%	7%
Sheffield	53	28.41	228.55	45%	39%	6%
Barnsley	54	26.09	221.82	46%	39%	5%
Birkenhead	55	31.11	220.58	44%	39%	5%
Belfast	58	20.91	277.52	47%	46%	6%
Hull	59	27.14	204.10	41%	39%	6%
Middlesbrough	60	28.47	196.69	43%	40%	6%
Dundee	61	23.01	191.07	46%	40%	0%
Doncaster	62	26.45	217.95	41%	41%	7%
Sunderland	64	20.70	170.90	42%	39%	5%

Source: Centre for Cities, 2013

Box 3: Middlesbrough - rich history, new start

Teesside once set the world price for iron and steel. But as the global economy has changed many businesses have struggled with the decline of the city's traditional industries. SMEs of all sizes in the city were hit hard in the recession, partly due to the large number in the construction sector. The SME base in Middlesbrough can be characterised by low start-up rates and high numbers of firms reducing their staff base. Low levels of business churn in the city indicate low levels of competition, which can have a negative impact on growth over the longer term. Businesses located in the city are likely to benefit from good digital connectivity, and affordable housing and business premises. But one of the biggest challenges for Middlesbrough is to improve its skills base to enable businesses to innovate and grow.

If the Government is to succeed in re-balancing the economy it needs to ensure that cities like Edinburgh, Leeds, Manchester, Preston and Warrington are able to keep up with the demands that economic growth places on infrastructure. Cities like Middlesbrough and Sunderland need to help foster a more entrepreneurial culture and support businesses to access new opportunities across the UK and in global markets. All cities need to be able to make the right decisions about investment in transport, broadband, new sites and premises, and skills based on their unique circumstances to enable their business base to grow and to nurture high-growth businesses.

About the author:

Naomi Clayton is a Senior Analyst at Centre for Cities.

Contact Naomi on:

n.clayton@centreforcities.org / 020 7803 4314