# Merseyside: enterprising region?

***Discussion paper***

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## Context

The last few months have seen a flurry of reports and comments on the state of Merseyside's small business and enterprise economy. These reports range from the internationally benchmarked Global Entrepreneurship Monitor (GEM) to detailed analysis by the UK's small business service and clearing banks like Barclays.

These reports gain their importance from the growing acceptance that the state of the local small business economy goes a long way to indicate and measure the state of the wider economy. A vibrant small and medium sized enterprise sector reflects a community's ability to stand on its own two feet. This is increasingly important as larger firms are not only downsizing but becoming more mobile as they seek out new markets and new sources of supply.

Few of the recent reports draw an especially promising picture – from levels of self-employment, through micro-firms and larger size bands through to the broader indicators of entrepreneurship highlighted by their analysis. The exception is The Mersey Partnership's evidence that local small firms generally have higher survival rates than elsewhere in the UK.

## Start-Ups

According to Barclays Bank the second half of 2004 (the most recent period for which data is available) was one of the most buoyant periods on record for the creation of new small businesses. Nationally "mainstream business starts reached 288,200, a rise of 23 per cent compared to the same period last year."

These start-ups are not distributed evenly across the country. London, for example, has roughly twice the rate of new business formation as the North East, with the North West sitting somewhere in the middle (see table 1).

| **Region** | **Mainstream Starts (000)** | **New Firms Per 10,000 People Of Working Age** |
|---|---|---|
| East | 28.6 | 87 |
| East Midlands | 21.3 | 83 |
| London | 57.2 | 122 |
| North East | 9.8 | 64 |
| North West | 34.2 | 84 |
| South East | 46.3 | 94 |
| South West | 30.6 | 104 |
| Wales | 13.7 | 79 |
| West Midlands | 23.2 | 73 |
| Yorkshire | 23.3 | 77 |

Table 1 Regional Variations in Business Formation

Even within regions there are wide variations. The North West, for example, does not perform especially well overall, but contains three of the Barclay's Bank "hotspots" outside London.

| **Rank** | **County Council Unitary Authority** | **New Firms Per 10,000 People Of Working Age** |
|---|---|---|
| 1 | **Blackpool** | 139 |
| 2 | Somerset | 138 |
| 3 | **Manchester** | 135 |
| 4 | Pembrokeshire | 125 |
| 5 | Southend-On-Sea | 122 |
| 6 | Cornwall | 122 |
| 7 | Flintshire | 119 |
| 8 | **Trafford** | 118 |
| 9 | Torbay | 117 |
| 10 | Leicester | 116 |

Table 2 Regional Hotspots Outside London

The high ranking of Blackpool is not a surprise. The economy has long been based on small firms, especially in the leisure, catering and related sectors. The best predictor of whether a person will start a business is her or his experience of small business ownership. The more direct that experience the more likely it is that the individual will start – and succeed - in business ownership.

Here is the rub for Liverpool and the other Merseyside boroughs. Not only is the rate of business formation low overall, but the stock of existing small firms is low compared to much of the rest of the UK. The Barclays' study comments that "in the period under consideration the difference between Manchester (135 per 10,000) and Liverpool (65) is striking"

None of the local boroughs performs well against the Barclays' Bank measures. Only Sefton is above the overall average for the North West while other areas share Liverpool's disappointing figures.

| Borough | Mainstream Starts (000) | New Firms Per 10,000 People Of Working Age |
|---|---|---|
| Sefton | 1.6 | 97 |
| Knowsley | 0.7 | 79 |
| Wirral | 1.3 | 73 |
| Liverpool | 1.8 | 65 |
| St Helens | 0.6 | 56 |
| Halton | 0.3 | 47 |

Table 3 Start-Ups on Merseyside

It is possible to see a reliable pattern in the data with traditional small business "hotspots" e.g. Sefton, including Southport, having high rates of start-up, while those areas which have historically been dominated by large firms, notably St Helens and Halton, not enjoying the same rates of ownership and creation.

## VAT Registrations and the Stock of Businesses

The official figures on UK business indicate that of the 4 million enterprises in the UK (including the self employed) over 386,000 are in the North West of England, of these around 190,000 are VAT registered. Merseyside accounts for around 16 per cent of all VAT registered firms in the region, but the number of VAT registered firms per 1000 of the working age population is the lowest in the North West.

| Sub-Region | VAT Registrations | Registrations per 1000 People Of Working Age |
|---|---|---|
| Cheshire | 25565 | 77 |
| Cumbria | 20690 | 89 |
| Greater Manchester | 74950 | 64 |
| Merseyside | 29805 | 51 |
| Lancashire | 35210 | 64 |

Table 4 VAT Registered firms in the North West

This disappointing pattern is reflected across the local Boroughs with none of them matching or exceeding the average for the North West.

| Sub-Region | VAT Registrations | Registrations per 1000 People Of Working Age |
|---|---|---|
| Knowsley | 2,495 | 41 |
| Liverpool | 10,380 | 58 |
| St. Helens | 3,785 | 48 |
| Sefton | 6,600 | 53 |
| Wirral | 6,545 | 46 |
| Halton | 2,840 | 55 |

Table 5 VAT Registered firms across Merseyside

There are some inconsistencies between this data and the Barclays data. Knowsley, for example, performs well according to the Barclays data but poorly in terms of VAT registrations. This suggests that firms in Knowsley either struggle to win turnovers greater than the VAT threshold of £56,000 or deliberately stay below this threshold. Either way, the result is that Knowsley based firms are likely to be smaller than those elsewhere on Merseyside.

This pattern of low rates of start-up, mirroring a relatively small stock of locally owned and controlled businesses, is well established. The reasons for this are varied and often fiercely debated, but despite a host of initiatives and schemes, the region has relatively low rates of VAT registrations, business ownership and new business formation, even for the North West.

| | Region NW (Registrations) | Region NW (stock) |
|---|---|---|
| 1 | **Knowsley** | Barrow-in-Furness |
| 2 | Barrow-in-Furness | Copeland |
| 3 | **Liverpool** | **Knowsley** |
| 4 | **Wirral** | **St. Helens** |
| 5 | Blackpool UA | **Wirral** |
| 6 | **St. Helens** | Halton UA |
| 7 | Halton UA | **Liverpool** |
| 8 | Fylde | Blackpool UA |
| 9 | E Port and Neston | Wigan |
| 10 | Manchester | E Port and Neston |

Table 6 VAT registrations lowest = 1 , Stock lowest = 1

Four of the five Merseyside districts appear in the bottom ten areas in the North West in terms of both total business stock and VAT registrations. Given that the North West, as a whole, underperforms in UK terms, these figures are doubly worrying.

## Turning the Corner

Not surprisingly, this evidence has prompted a range of business initiatives designed to stimulate the creation of new businesses and build up the stock of locally owned firms. There is some evidence that the efforts of organisations like the Business Link for Greater Merseyside, the Chambers, the Government Office, the Learning and Skills Council and others are starting to bear fruit.

The last five years have seen a significant growth in the total number of small and medium sized firms according to the research team working on the BETA model. The total number of firms has grown from just over 33,305 to 37,140 an increase of just over 12 per cent[1]. Equally important, the fastest growth has occurred in the vitally important smallest size band.

| **Size Band (number of Employees)** | **Percentage All Firms** |
|---|---|
| 1 to 5 | 60% |
| 6 to 10 | 18% |
| 11 to 20 | 8% |
| 21 to 50 | 10% |
| 51 to 100 | 3% |
| 101 to 200 | 1% |
| 200 + | 1% |

Table 7 Size Distribution of Merseyside Firms

These smaller size bands are the stock from which the population of all firms will grow. They are doubly important as the most entrepreneurial communities (and the highest rates of successful business formation) are those in which:

- High rates of business ownership exist
- There is a current tradition of successful personal enterprise
- Markets and local demand are high
- Private sector large compared to public sector
- Limited bureaucracy

[1] The difference between these figures and those mentioned earlier is that the BETO model includes some, different types of venture

These are reflected in the factors, which lead to successful, personal enterprise. The most successful entrepreneurs tend to have a background (family or social) in enterprise, to be better educated than the majority in the population, have access to capital (or related assets), be market oriented and have tradable technical skills.

## Total Entrepreneurial Activity

This more positive outlook is reflected in the picture emerging from the Global Entrepreneurship Monitor. This internationally recognised survey includes countries around the world, besides local areas like Merseyside[2]. This study showed that if Total Entrepreneurial Activity (TEA) is analysed – including both the aspiration to start a business and running a business – local areas perform relatively well. Merseyside, as a whole is below the overall figure, but some Boroughs perform better than the North West overall.

| Locality | TEA % |
|---|---|
| Knowsley | 7.1 |
| Liverpool | 6.6 |
| Sefton | 1.5 |
| St Helens | 1.7 |
| Wirral | 3.8 |
| Merseyside (Overall) | 3.6 |
| North West | 4.6 |

Table 8 Total Entrepreneurial Activity

This suggests that although relatively small numbers of people are starting or running their own firms, there are larger numbers who want to be self-employed or start their own firm. In some Boroughs – notably Knowsley – a concerted effort over the last couple of years to highlight these opportunities is beginning to bear fruit. There are persistent barriers ranging from low educational attainment levels and lack of experience of running or working in small firms, but the climate is changing.

## Realities

Starting up or survival is only part of the enterprise equation. A vibrant small and medium sized enterprise economy requires firms with strong turnovers, good profits and strong balance sheets. Not surprising as some of the soundest principles of business success are summarised in the saying "turnover is vanity, profits are sanity, cash is reality". The limited evidence available suggests that local firms suffer on all three measures.

Turnover by employment is estimated to be significantly less than both the UK and North West norms across most size bands, with the smallest size bands facing the greatest differences.

[2] Liverpool Chamber of Commerce sponsored a special Merseyside analysis with the support of the Objective One programme as part of the work of the Merseyside Entrepreneurship Commission

| | Average T/O £000's | Average T/O £000's | Average T/O £000's |
|---|---|---|---|
| **Size Band** | **UK** | **NW** | **Merseyside** |
| All enterprises | £586 | £473 | £436 |
| With no employees | £62 | £50 | £45 |
| 1-4 | £266 | £215 | £178 |
| 5-9 | £669 | £540 | £468 |
| 10-19 | £1,400 | £1,130 | £1,041 |
| 20-49 | £3,127 | £2,525 | £2,326 |
| 50-99 | £7,734 | £6,245 | £5,753 |
| 100-199 | £15,807 | £12,763 | £11,758 |
| 200-249 | £24,403 | £19,704 | £18,153 |
| 250-499 | £46,490 | £37,538 | £37,583 |
| 500 or more | £227,644 | £183,809 | £189,341 |

Table 10 Turnovers by Enterprise

Source: The UK figures are derived from the Small Business Service, while those for the North West and Merseyside are derived from samples of regional and local firms

The relatively high figures for the larger firms, probably reflects the importance of process industries in the North West. The overall figures, however, highlight the difficulties faced by local firms in generating the turnover to pay high salaries, invest in innovation and expand their businesses internationally.

Data on profitability is significantly harder to obtain or estimate, but anecdotal evidence suggests that profitability is lower than seen elsewhere in the UK. Even greater problems exist with data on payment practices. UK businesses take an average of 45 days to pay their suppliers' invoices, compared with a global average of 42 days. The North-West region fares worse than the UK average, at 47 days. There is some evidence that locations like Merseyside, highly dependent on the public sector, fare worse than average. Some local estimates suggest that payment periods of over 60 days are not uncommon.

## Conclusion

Overall the patterns of small business performance on Merseyside are like the proverbial curate's egg – good in parts. The region still underperforms the rest of the UK and the North West on most measures, but signs of change are clearly identifiable. This can be seen in both the increased interest in business ownership and the relatively high survival rates of local firms.

The latest evidence from the Mersey Partnership suggests that “comparisons of 3 year and 1 year survival rates against Metropolitan area comparators shows that Merseyside is the best performing area, and outperforms both the North West and UK.” The challenge is to reinvigorate entrepreneurship across Merseyside. Some of the greatest challenges and highest priorities lie in stimulating enterprise among women, ethnic minorities, silver (more mature) entrepreneurs, the disabled and other key groups.

This will stimulate new business formation especially in those sectors capable of generating the kind of turnover capable of paying high wages and the significant investments in market development, innovation and international success that produce sustainable profitability. Initiatives like the Merseyside Entrepreneurship Commission are vital elements in creating the environment in which communities across the area win the benefits of a truly entrepreneurial economy.