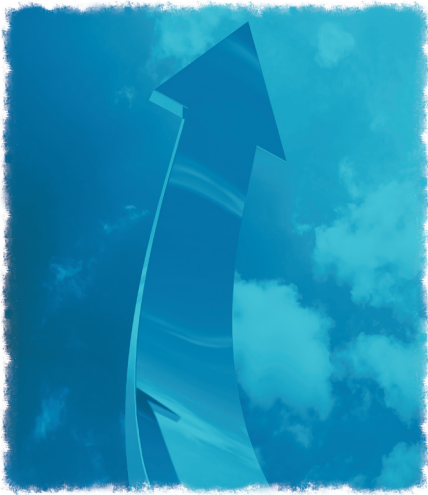




# THE WEST MIDLANDS: STATE OF THE REGION 2011

A joint survey by [TheBusinessDesk.com](http://TheBusinessDesk.com) and DLA Piper UK LLP





## BACKGROUND

At the close of 2010, businesses were reeling from a year of major change. The new Coalition Government, a tough emergency budget and the biggest public sector spending cuts in a century are set to transform the political and economic landscape in which businesses operate over the year to come.

Firms with a significant presence in the regions face additional challenges on a local level. With the eradication of regional development agencies, key business figures fear a black hole in funding and business support unless the fledgling LEPs that replace them secure sufficient powers and financial backing to function efficiently.

As the new Government emphasises the importance of individuals playing a more active role in how their local economy is managed, DLA Piper has joined forces with TheBusinessDesk.com to launch the 'State of the Region Survey'.

The purpose of the survey is to understand the attitudes of regional business leaders, across companies of all sizes and sectors, on the important issues that will shape 2011 and to better understand the changes they wish to see in the future.

"The business community accepts that these are challenging times but 2011 is not a year for standing still. Businesses have been adopting innovative approaches and have been forced to scrutinise their strategies and strengths as well as their weaknesses. As a result of this many have developed a more robust and sustainable business model for the future."

## Russell Orme, Managing Partner of DLA Piper in Birmingham

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Three regions took part in the survey: the West Midlands, Yorkshire and the North West. In total, almost 1,000 business leaders took the opportunity to respond to the survey, giving an invaluable insight into the challenges and opportunities they expect to face in 2011 and their views on how the local economy compares to the rest of the UK.

## REGIONAL OVERVIEW

Despite the challenges of recent months, the survey gives a clear sense that businesses in the West Midlands are positive about the opportunities that the region has to offer in 2011. An overwhelming 97% believe the region is still a good place to do business. However, opinion over how the West Midlands economy fares in relation to the rest of the UK is more divided. Almost 40% of business leaders stated that although the West Midlands is doing well, it is not "as good" as other places in the UK. By comparison, just 30% of businesses in Yorkshire and 29% of businesses in the North West believe that other regions are thriving above their own.

It is not surprising that businesses across all three regions identified the biggest challenge in the next 12 months as the impact of public sector spending cuts, followed by a lack of private investment. However, the third major concern for businesses in the

West Midlands is lack of skilled labour, while the North West and Yorkshire are more concerned about an increase in the north/south divide.

Undoubtedly one of the key issues for the West Midlands over the past few months has been the formation of the Local Enterprise Partnerships (LEPs). In view of the fact that less than half of LEPs proposed across the country were endorsed by the Government, the Midlands was comparatively successful as a region in achieving approval for 75% of its partnerships. However, the result of the survey showed prevailing confusion over the new bodies and a clear call for clarity.

Unsurprisingly, none of our respondents feel they have a clear understanding of the future of LEPs in the West Midlands. Just a third of businesses have some level of understanding but believe that there is still a lot of detail to be filled in, while two thirds have little or no understanding of how LEPs will operate.

New funding structures, such as the Regional Growth Fund, fared little better in the survey. Fewer than 10% of businesses understand the funds clearly, with the remaining 90% divided almost equally between having little or no clarity.

When asked what could be done to drive growth in the West Midlands,

respondents from the region stated that the focus should be on transport and infrastructure, followed by improved access to finance and inward investment. Meanwhile, they believe the business culture could be improved by longer term strategic planning, the streamlining of business representative organisations and better sharing of ideas among business leaders.

## THE ECONOMY

Despite the uncertainty of recent months, business confidence in the economy has held up well for 2011. Most people reported that their confidence in the UK economy is either the same (42%) or greater (40%) than it was 12 months ago. Only 18% reported a fall in confidence.

However, of the three regions surveyed, support for the Coalition Government is weakest by far in the West Midlands. More than half of respondents believe that the new Government will have a negative impact on the UK economy, while 35% believe it is too early to tell.

Only 13% of West Midlands businesses believe that the new coalition will have a positive impact on the economy, compared to 43% of businesses in Yorkshire and 40% of businesses in the North West.

Over two thirds of people in the West Midlands expect their firm to be directly affected by cuts to the public sector, but the prevailing sentiment towards these measures is one of stoicism and realism. More than half of business leaders believe that although the reduction in public spending is painful, it is necessary to stabilise the national economy.

“The West Midlands has some exceptionally talented and dynamic personalities among its business leaders and strong business forums who can make a real difference to the extent they forge a single spearhead approach. The success of LEPs will be dependent upon real partnership working between the public and private sectors. It will be necessary for all parties to determine their priorities in a strategic context so as to ensure economic growth in an era of public cutbacks.”

## Russell Orme, Managing Partner of DLA Piper in Birmingham

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When looking towards the private sector, most respondents do not expect to see a marked improvement in bank lending or a rise in the property market. Almost two thirds believe bank lending will remain at similar levels to 2010.

Last year heralded the launch of The Big City Plan. Whether it will live up to its ambitions in terms of delivery remains to be seen, but hopefully it will achieve its potential to deliver great change.

When asked about the next twelve months 32% of West Midlands businesses expected to see very little activity in the property sector, while 30% predict that owners will try to dispose of existing assets to recoup funds.

In terms of corporate transactions, the majority of respondents expect to be involved in one or more forms of transactional activity during 2011. This is spread relatively evenly between acquisitions or disposals, capital raising and refinancing or fundraising. Meanwhile, 13% would consider a national or international joint venture and a modest amount of activity is predicted in the private equity market.

## OPPORTUNITIES AND BARRIERS TO GROWTH

While only 28% of businesses expect an upturn in the economy in 2011, the entrepreneurial spirit is still very much alive in the region, with 61% predicting that their business will grow. Targeting new UK markets is by far the most popular business objective and it is the primary goal of 59% of companies over the next twelve months. Meanwhile, a quarter of respondents state that their main aim is to develop new products and services.

When asked which markets will provide the best opportunity for growth, 45% stated regional or local markets, 36% stated national markets and 19% believe their best opportunities lie from within international markets.

A relatively small number of businesses believe that they will need to make redundancies in 2011 (16%), indeed 43% expect to see staff numbers increase. However, almost half of employers anticipate that they will face problems with salaries, following a difficult period in which many industries have found it necessary to impose pay freezes and even pay cuts.

Alongside cuts to public spending, pressure on pricing is perceived as the greatest challenge to businesses growth. This is followed by concerns over increased competition in the marketplace.

## CONCLUSIONS

The state of the region survey shows that the outlook of businesses in the West Midlands is far from bleak. Despite concern over a lack of access to public and private sector funding, there is a widespread consensus that 2011 will bring opportunities to target new markets, particularly within the UK, or to develop new products and services. Indeed, businesses generally predict that both their staff and revenue numbers will increase.

Against the backdrop of uncertainty around the Coalition Government, West Midlands' businesses are taking a long term view of the economic climate. Hopes are not high for a swift and speedy recovery, with bank lending and the property market expected to remain stable but relatively stagnant and modest transactional activity expected. However, overall confidence in the economy remains high and businesses recognise the need to impose spending cuts in the short term in order to secure a strong and stable recovery in the future.

The report demonstrates a belief that in order to thrive in terms of both commerce and culture the region needs to focus not on short term wins, but on developing

robust structures for the future through transport and infrastructure projects, strategic planning and the streamlining of organisations. The Big City Plan which launched in 2010, with its focus on infrastructure improvements such as the flagship redevelopment of Birmingham New Street and the High Speed rail link to London, may go some way towards satisfying businesses in this area in the long term if delivered successfully. However, a great deal of work is needed to improve understanding and confidence in Local Enterprise Partnerships and regional growth funds among the professional community.

## STATE OF THE REGION SURVEY METHODOLOGY

The survey was run by TheBusinessDesk.com during November and December 2010. A link to the survey was mailed to all registered users of the TheBusinessDesk.com and responses were encouraged via regular editorial features.

The survey covered questions on the business market in 2011, the region and the economy. Questions were a mixture of multiple choice and free text to give

both quantitative and qualitative data. Not all respondents completed every question which explains why in some instances the percentages listed are less than 100%.

- 1,000 businesses completed the survey in total across the West Midlands, Yorkshire and the North West
- The majority of respondents from the West Midlands (approximately 80%) were at senior management level (eg. business owner, chairman, chief executive, director, partner)
- Just over a third of responses came from businesses operating within the professional services sector with significant representation from financial services, property, manufacturing, technology, public sector and creative industries.

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