



West Midlands State of the Region 2012

A joint survey by DLA Piper, CBI, PwC and TheBusinessDesk.com



Background

As 2011 came to a close continued uncertainty around the future of the eurozone remained at the forefront of many people's minds as it threatened to undo any progress made in improving business and consumer confidence in the UK's own economy.

A year ago, the prospect of a double dip recession had seemingly diminished but uncertainty around the eurozone and a bleak forecast for in the Autumn Statement of declining growth and rising unemployment, mean that threat still looms.

The Office for Budget Responsibility reduced its UK growth forecast to 0.7% for 2012, down from the 2.5% growth for 2012 predicted in March.

Both business and consumer confidence are of course vital to staving off the threat of double dip. When confidence is up, businesses are more willing to spend and invest – that itself is self-perpetuating with growth in new markets and countries becoming possible, and more staff being taken on.

Many business owners purport that despite a wider sense of continuing economic uncertainty, they themselves are doing well, or at least better than expected given the environment.

Confidence in the economy is a prerequisite for growth. Anecdotally, businesses suggest that for this to be bolstered a more rounded presentation of the experience of businesses on the ground will help to break the collective depressive consciousness.

The coalition government has performed its duties better than many survey respondents expected. Measures it has put in place, such as the public spending cuts - which resulted in mass outrage from within the public sector - were viewed as tough but necessary actions by most business leaders.

Locally, 2011 tolled the death knell of Regional Development Agencies but in came Local Enterprise Partnerships (LEPs) to fill the void. These bodies are heralded as being different - not only because they have nowhere near the budgets of their predecessors - but also because they have been set up as partnerships between local authorities and businesses.



“Last year did not bring the economic turmoil to an end as many had hoped. But despite ongoing uncertainty, West Midlands businesses continue to adapt to make the most of opportunities that emerge from adversity. As we move into 2012, business leaders appear ready to build on the resilience that has brought them this far, focusing on core strengths and key markets to bring about growth in what remain extremely challenging conditions.”



Mark Beardmore, managing partner of DLA Piper in Birmingham

The government says they are a key vehicle in delivering its objectives for economic growth and decentralisation, whilst also providing a means for local authorities to work together with business in order to quicken the economic recovery.

However, a report published in late October criticised Coventry and Warwickshire Local Enterprise Partnership on the first anniversary of it being approved by the government. Think tank Centre for Cities suggested it has grown too big and could become bureaucratic.

It said: “Eight (LEPs) have yet to have their boards recognised by government, only two have produced a long-term strategic plan and five do not have a dedicated website.

“In some cases, LEPs have appointed huge boards and advisory teams. The South East LEP has 43 board members and the Coventry and Warwickshire LEP has 14 associated focus groups, with at least 160 people involved.”

It also warns that LEPs that have not been awarded an Enterprise Zone could become “second-tier organisations” and are likely to need further sources of funding.

Other LEPs in the region are Marches, Black Country, Greater Birmingham and Solihull, Stoke-on-Trent and Staffordshire and Worcestershire, part of 38 across England.

But despite the fact some are only a few months old, the report argues there may already be a case for the government insisting some are too big or small to have an impact.

The think tank also urges the government to consider giving LEPs more powers in areas such as transport and skills if they

are to drive growth.

With public sector funding being slashed, investment vehicles such as the Regional Growth Fund are also being heralded as a saviour for private sector growth and the recent addition of a further £1bn to the existing £1.4bn pot for the for the Regional Growth Fund is a significant boost. The enlarged fund of £2.4bn is expected to support around half a million jobs in total.

There will be at least two further rounds of bidding, with the next round opening during February 2012. The focus of the fund will remain on creating jobs, encouraging private investment and supporting areas dependent on the public sector.

With the government continuing to emphasise the importance of the regions outside London for future UK economic growth and prosperity, law firm DLA Piper has joined forces with accountancy firm PwC and the Confederation of British Industry (CBI) to support TheBusinessDesk.com's annual State of the Region survey – now in its third year.

The survey aims to understand the attitudes of regional business leaders across companies of all sizes and sectors, to identify the important issues that will shape 2012 and to lobby on business' behalf for the changes they wish to see in the future.

The survey covers three UK regions: the Midlands, North West and Yorkshire. More than 800 business leaders responded to the survey, giving an invaluable insight into the challenges and opportunities they expect to face in 2012 and their views on how their local economy compares to the rest of the UK.

Regional overview

Confidence in the strength of the region has remained steady, with 56% continuing to see the West Midlands as a good place to do business (2010: 58%). However, two fifths say that it is not as good as other places in the UK.

The vast majority of businesses based in the region (59%) do expect their turnover to grow over the next 12 months, with just 11% expecting it to fall.

38%
of West Midlands business leaders expect their staff numbers to grow in 2012, however 47% say numbers will remain the same

Staff numbers are expected to grow or remain the same within 85% of businesses surveyed. Give or take a percentile, this view is mirrored exactly across both the North West and Yorkshire.

As was the case last year, businesses across all three regions identified the impact of public sector spending cuts as the biggest challenge over the next twelve months, followed by a lack of private investment. 56% of businesses in the West Midlands – more than any other region surveyed – expect the cuts to have a direct impact.

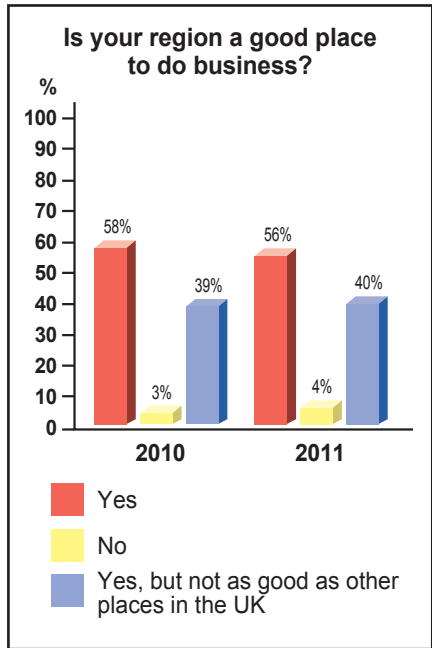
56%
of respondents anticipate cuts to public spending having a direct impact on their business

Of those who weren't directly affected, many said that they would feel a knock on effect because their clients would lose business and there was a recognition that new business would have to be found to fill the gap.

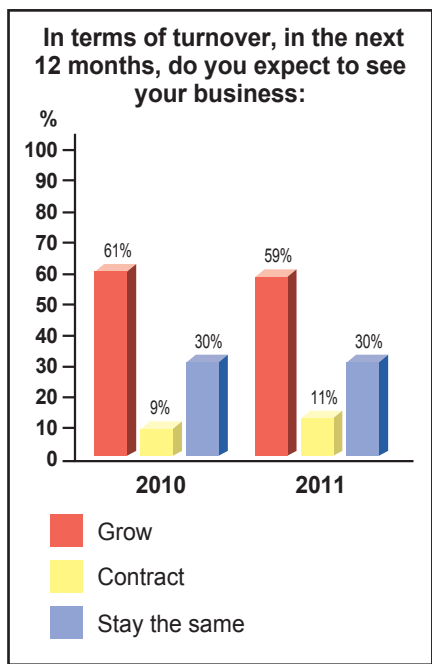
One respondent said: "I will need to develop new clients to offset the lack of spending in the public sector," while another said: "Businesses that do mainly public sector work will have less work and so will start chasing our sector - the private sector."

“The real opportunities come with broadening our horizons, working together to promote our commercial strengths and making the most of the LEPs and our political and business influence so that we continue to build our presence on the world stage. By achieving this, we will attract the right investment, the right people and the right businesses to ensure our regional economy has the potential to flourish.**”**

Mark Beardmore,
managing partner
of DLA Piper in
Birmingham



Challenges resulting from a lack of skilled labour were the third most pressing issue for Midlands businesses, with 16%



citing it as a concern. This is higher than both the North West and Yorkshire, suggesting that in this region businesses are not seeing the same benefits of rising unemployment where they are able to cherry pick the best talent from an enlarged pool of potential employees.

Although it is still early days, Coventry and Warwickshire Local Enterprise Partnership (LEP) has already come under fire for being too large.

However, the jury is still out amongst the business community with 42% of respondents saying they don't yet know whether the LEPs will have a positive impact in the region. Many explained that this was because they just did not know enough about them or what their remit and powers are, or that it was too early to say.

It should be noted that the Black Country LEP was mentioned by several respondents in a positive light, with comments including that it was "set up quickly", "well run" and "active".

However, the remaining 58% of respondents are led by the 'no' camp with 33%.

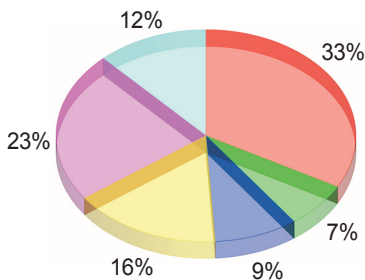
One respondent said: "Most of the time has been spent changing one organisation for another without meaningful delivery of improvements, a talking shop as opposed to delivering real benefit."

Another said the LEPs were a "complete waste of time". He added: "The West Midlands was fortunate to have a good Regional Development Agency in Advantage West Midlands and its demise will not be made up for by the LEP. If it had been a West Midlands LEP I might have had more empathy with it but going back to setting local business neighbours at war with each other for business funding and development is contemptible."

 **70%**

of respondents think the new Enterprise Zones are good for overall growth in the region

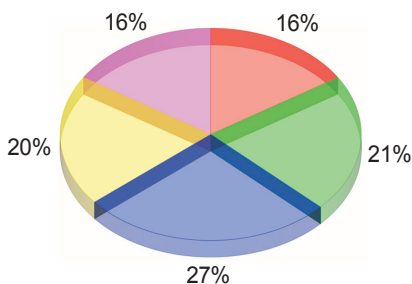
Which of the following do you see as being the biggest challenge facing the region in the next 12 months?



- Impact of public sector spending cuts
- Increased north/south divide
- Increased competition from overseas
- Lack of skilled labour
- Lack of private investment
- Other

The Enterprise Zones, meanwhile, are seen by most as important to encouraging growth within the region, with 70% seeing them as a positive step.

Which of the following issues need to be addressed to further drive growth in the region?



- Transport/infrastructure
- Skills/training
- Access to finance
- Inward investment
- Business support



“Private businesses are understandably concerned about the extent to which the public sector cuts will directly impact them in the year ahead, but in most cases these issues have already been well thought through. Despite their concern about the impact of the cuts and the uncertain economic climate, there is an over-riding sense of optimism about the year ahead among many private businesses.”



Paul Norbury, partner and private business expert at PwC, Midlands

When asked to expand, many said their positive response was qualified and that they would have to wait to see solid results.

Others extolled Jaguar Land Rover’s new £355m engine plant on the i54 site, north of Wolverhampton - part of the Black Country Enterprise Zone - as proof that the strategy had worked.

The new factory, which will manufacture JLR’s new generation low-emission engines, is set to create 750 jobs directly - a figure which is expected to more than double when taking into account new opportunities for the component supply chain.

One person who responded positively added: “Historically there has been no incentive to find/release fresh business land and where some has been available expediency has allowed quick, low-cost development (e.g. warehousing) which spends very little money and employs low numbers of low skilled, low-paid personnel.”

When it comes to driving further growth in the region, access to finance (27%), skills and training (21%) and inward investment (20%) have moved up the agenda compared to last year, and they now sit ahead of improvements to transport and infrastructure (16%) in order of importance.

The economy

Confidence in the UK economy has waned considerably over the last year – 87% of respondents in the West Midlands said they were no more confident than they were 12 months ago. Indeed the majority (52%) are less confident. This is a marked change – last year just 18% said they were less confident.

The view is compounded further looking ahead to 2012, with the majority (47%) expecting economic conditions to get worse and 44% expecting things to stay the same. Just 9% are expecting 2012 to see an upturn in the economy.

However, more than half of people see government spending cuts as stabilising

and “painful but necessary” while a further 11% think yet more cuts should be made.

 **57%**

of respondents think the cuts are painful but necessary and will stabilise the economic situation

Just 2% think the government should have maintained spending levels until the UK was firmly out of recession, however, close to a fifth did express a concern that the government should have made less drastic cuts over a longer period of time to preserve confidence.

The gloomy forecast for 2012 can be explained by the fact that uncertainty surrounding the financial crisis in the eurozone is at the forefront of many people’s mind, with almost 70% of West Midlands business people saying it will have an impact on their business.

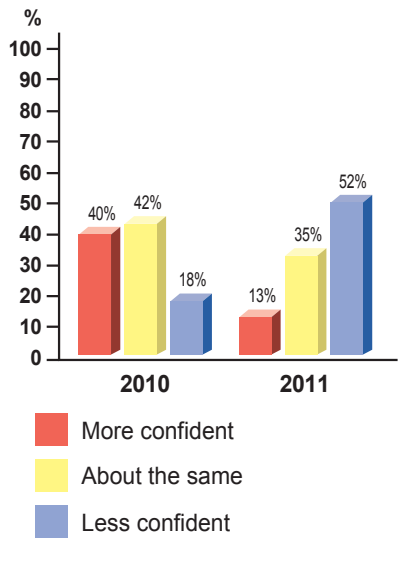
When asked to explain why, the majority responded that it will hit general confidence in the market, which will have the knock on effect of depressing activity, while others said they or their own clients export to, or have direct dealings within Europe.

 **69%**

of respondents think the recent situation in the eurozone will affect their business

One respondent said: “The euro has a direct impact on the success of business in this country. Our business is directly aligned to the success and growth of commercial enterprises if they are growing and have confidence, they will invest in property.”

Are you more or less confident about the state of the UK economy than you were 12 months ago?



Those who said their business wouldn't be affected often cited that they had no direct exposure to or dealings with Europe, however, others suggested that a strengthened pound, as investors favour it over the euro, will mean exports become more expensive.

Respondents also expressed concern that the financial crisis could impact the banks – making it even harder to access funding.

Indeed, one banker responded: "As a bank we fund part of our capital in the financial markets and the euro issues impact on the costs / liquidity of these."

Yet 60% of respondents said they expected bank lending levels to remain about the same in 2012. Just 17% said they expected bank lending to fall.

Opportunities and barriers to growth

Despite subdued expectations for the performance of the wider UK economy, an entrepreneurial spirit is still very much alive in the region with 80% of West Midlands business people saying targeting new markets and clients or developing new products for existing markets is their main business objective for 2012.

That is way ahead of the North West (68%), which is much more focussed on maintain the status quo, and the same level as Yorkshire (80%), which of the three regions is most focussed on targeting new markets. Of all three regions, the West Midlands is



"Most private businesses in the region have clear business objectives for the year ahead, according to the poll. A focus on driving sales and opening up market opportunities is positive and is further evidence of an underlying optimism within the entrepreneurial business community. However, businesses also know that they can't afford to take their eye off the ball when it comes to cash management in the challenging economic climate."



Paul Norbury, partner and private business expert at PwC, Midlands

the least interested in merely 'maintaining the status quo', with just 9% saying it will be their focus in 2012, compared to the North West (25%) and Yorkshire (16%). Just over a quarter think that overseas markets provide the best opportunities for their business, with the vast majority (74%) focussing on the regional and national scene.

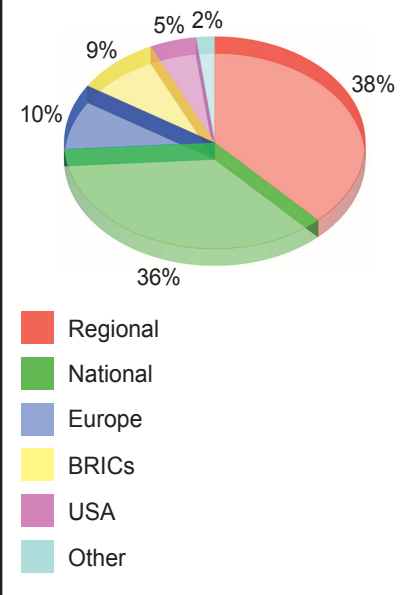
Several cited the increased costs in looking to new markets as a reason for focussing on the UK, while others saw expansion into the South East and gaining a presence in London as the next logical step for growth.

One respondent said: "I still think there is more to get from the Midlands, one of the issues is Midlands businesses going to London and not using the services on their doorstep. There is an inaccurate feeling that London is always better."

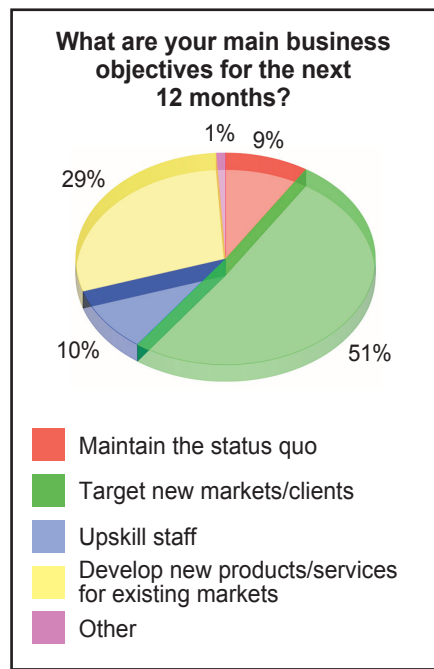
The West Midlands could be the least active of the three regions surveyed on the deals front over the coming year, with just 30% expecting to be involved in either an acquisition or disposal, compared with 51% in Yorkshire and 34% in the North West.

It is demand for products and services that is seen as the greatest challenge, with

Which markets do you feel provide the best opportunities for your business going forward?



more than a third of businesses citing it ahead of increased competition (20%), cuts to public spending (12%) and access to finance (12%).



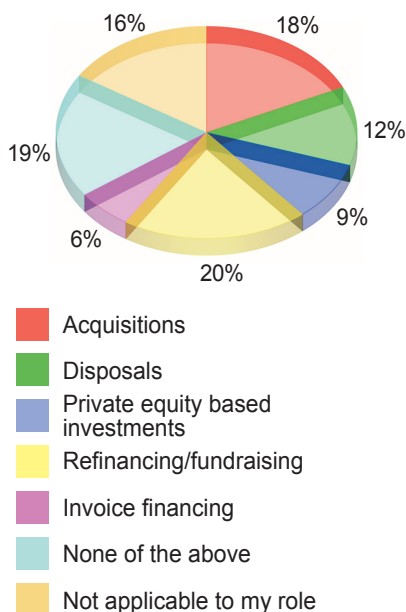
64%

feel their businesses have adequate access to finance from organisations such as banks and the Regional Growth Fund

A relatively small number of businesses believe that they will need to make redundancies in 2012 (12%), down on last year.

Close to a third of employers anticipate that they will face problems with salaries. Last year, this figure was closer to 50%, following a difficult period in which many industries have found it necessary to impose pay freezes and even pay cuts.

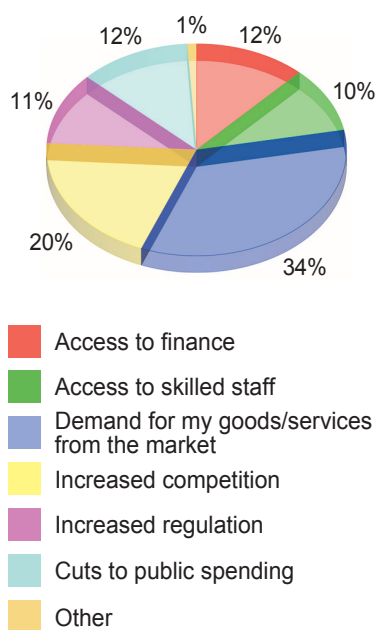
What sort of transactional activity do you expect to be mainly involved in (either as a business or adviser) over the next 12 months



Close to two thirds of respondents feel they have adequate access to finance, although many of these said this was because their business did not actually require any external funding.

Of those who said they did not have adequate access, many explained that they had to self finance because lending terms were tightening.

What do you see as the main challenges to your business over the next 12 months?

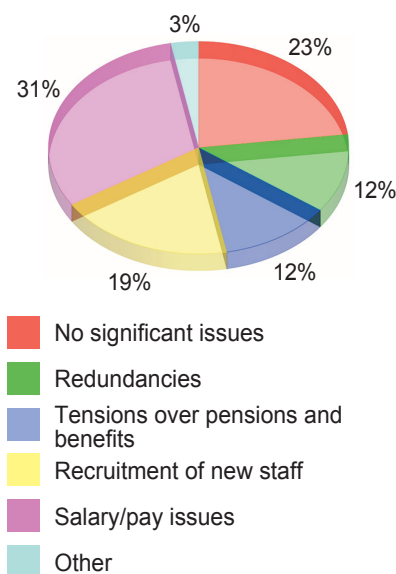


“The troubled situation in the eurozone undoubtedly stalled business confidence across the UK as 2011 drew to a close. There remains much uncertainty as we move into the New Year, with two thirds of the region’s businesses expecting to feel the effects of continued instability. However, whilst this presents challenges, it also brings opportunities - fortune favours the brave and it’s encouraging to see such a high percentage of West Midlands businesses looking to grow market share in Europe and beyond.”



Mark Beardmore, managing partner of DLA Piper in Birmingham

What employee issues do you anticipate facing in the next 12 months?



One businessman said: “Although the government talks of providing guarantees for small businesses the banks still want full security from the businesses being covered by such guarantees. This makes it impossible for many businesses to get access to finance.

“In addition the banks are charging extortionate interest rates on loans to small businesses which then erodes the profits of those businesses.”

A few people commented that the banks don’t like to lend to small businesses, while another said that although finance was available, high level of personal security such as directors’ personal guarantees were required.

Another respondent said: “As a business with a proven track record of substantial growth in our first five years of operation, we have had to curtail our significant growth plans due to no finance available from any source.”

Conclusions

When concluding last year’s report, there was a clear sense that although times were still tough, businesses in the region felt the economy was stabilising and that they had survived the worst.

The outlook for 2011 was optimistic and businesses believed that although there were more public spending cuts on the horizon, generally they could look ahead to blue skies.

Although then there was an understanding that recovery would be long and slow, today, confidence in the ‘green shoots’ of recovery has wilted, almost entirely as a result of the uncertainty caused by the ongoing economic crisis in the eurozone.

Despite many West Midlands businesses saying they have confidence in their own region as a place to do business, and anecdotally saying that they are yet to be directly impacted by events in Europe, the vast majority do expect it to impact in 2012.

The fear is that reduced confidence will in fact create a self fulfilling prophecy, with chances of the dreaded double dip recession looming closer as resolution to the eurozone crisis drags out.

While many businesses recognise that positivity begets confidence, few are in a position to go out on a limb and buck the cautious trend.

This is highlighted by the fact that although most do expect their turnover to grow in 2012, they will be targeting new markets within the UK, rather than further afield, and have some concerns over demand for their products and services.

In 2012, much will hang on how issues in Europe are played out, how confident the markets are in the resolutions brought, and how quickly they are resolved.

State of the Region survey methodology

The State of the Region survey was run online by www.TheBusinessDesk.com throughout December 2011. A link to the survey was mailed to all registered users of TheBusinessDesk.com and responses were encouraged via regular editorial features.

The survey focused on business confidence and covered questions about the UK economy, the region and businesses. Questions were primarily multiple choice with some opportunities to expand using free text to give a balance of quantitative and qualitative data.

- 800 businesses completed the survey in total across the West Midlands, Yorkshire and the North West.
- 72% of respondents in the West Midlands were either a business owner, chairman, chief executive, managing director, partner or director
- The majority of responses (68%) came from organisations with a turnover of <£25m
- Professional services firms were the most prolific respondents (42%)
- Other responses were from those in other sectors including; Financial services (8%), Manufacturing (7%), Property (10%), Public Sector (2%), Technology (4%), Media (8%) and other industries including creative, recruitment, hospitality & leisure, tourism, education and IT (16%).

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