

Impacts 08 Team

Dr Beatriz García, Director
Ruth Melville, Programme Manager
Peter Campbell & Sonia McEwan, Programme Assistants

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Doing Business in the European Capital of Culture

A Profile and Initial Assessment of Impact
on the Merseyside and North West Business Base

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Report by

Sarah Louisa Phythian-Adams, David Sapsford and Alan Southern
(University of Liverpool Management School)

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Summary

This report is an independent piece of work conducted by academics from the University of Liverpool Management School. It reports on a survey carried out in late 2006 on the characteristics of the Merseyside business base, and provides an initial self-reported assessment of the value to the sub-region from sales enterprises attributable to the European Capital of Culture 2008 designation. The characteristics of the survey were as follows:

- A sample of 3,000 enterprises across the North West was surveyed, made up mainly of SMEs (small and medium-sized enterprises). This yielded 223 responses (an 8% response rate).
- One hundred and twenty five responses (56%) came from Merseyside enterprises, and 98 (44%) from enterprises within the rest of the North West.

The following impact of the Liverpool European Capital of Culture (ECoC) 2008 designation was reported:

Awareness:

- In general enterprises are aware of the ECoC, although a significant minority of enterprises in the North West (16%) are not aware of the ECoC designation. For Merseyside enterprises, the proportion was 5%.

Sales:

- Ten percent of Merseyside businesses and 5% of businesses elsewhere in the NW reported gains in sales during the financial year 2005/06 that were attributable to ECoC 2008. This averaged 8% across the region.
- In general the majority of businesses do not anticipate winning future sales from the ECoC. However, a significant minority do expect an increase in sales, with 40% of Merseyside businesses thinking there may be some impact in 2007 to 2009.
- Those Merseyside enterprises that did attribute a rise in sales to ECoC effects estimated this to be 12% of their total sales. This was slightly lower (7%) in the rest of the NW.

Economic Impact:

- The proportion of reported sales attributed to the ECoC for Merseyside enterprises for the financial year 2005/06 was 1.0%. Across the rest of the NW the figure was 0.4%.
- Using this information, it is estimated that the input to Merseyside GVA arising from this would be £216m, and across the whole NW (including Merseyside) sales attributable to the Liverpool ECoC in 2005/06 would input £529m into the regional GVA.

The characteristics of enterprises experiencing benefit were as follows:

- Mainly from Merseyside, with Liverpool enterprises dominant.
- Some form of business relationship with the local authority.
- 'Extrovert' in nature, in particular engaging in the following activities once or more per year: updating company websites; renewing IT software; researching competitors; seeking inter-company collaborations on projects; business networking; sending managers on training courses as well as employees.

Overall shape and growth of the business base on Merseyside:

Employment:

- Individual enterprises across the NW reported an average of 12% growth in their employment levels during the 12 months prior to the survey. However, there is a marked differential within this between the experience of Merseyside enterprises, reporting 5% growth, and the rest of the NW, reporting 21%.
- Looking at the aggregated change in employment reported across all enterprises, an increase of 6% in actual employment is suggested.
- The makeup of the workforce was more polarised in Merseyside than the rest of the NW, with slightly higher (but significant) levels of both Professionals & Managers and Unskilled Workers.

Sales:

- The sales performance of Merseyside enterprises was less than the rest of the NW, with just less than half (49%) of the mean sales reported by their NW counterparts.
- Merseyside enterprises reported a greater dependence on their top three customers (47% of their sales) than the rest of the North West
- A quarter (26%) of sales for businesses on Merseyside were attributable to the public sector.
- Small businesses on Merseyside and across the rest of the NW depend heavily on local markets for their sales (47%), yet only source 35% and 39% (respectively) of their supplies locally.
- Enterprises across the NW reported that while they sourced 12% of materials and services for their business internationally, international sales accounted for only half of that at 6%.

Growth:

- Although mean sales were less for businesses within Merseyside than for the rest of the NW, they are increasing at a greater rate than those of their NW counterparts – particularly in the small enterprise sector.
- The businesses on Merseyside that were identified as more 'extrovert', based on the key business activities described above, were also more prominent in the small enterprise sector. There seems to be some link between being an 'extrovert' business and an increase in sales (although this was not proven to be statistically significant).

These results will be considered within the wider analysis of research carried out between 2005 and 2009 on the impact of Liverpool ECoC on the business base of Liverpool, Merseyside and the North West (for findings on these to date see: <http://www.liv.ac.uk/impacts08/Dissemination/I08reports.htm>). In particular, further research is needed in order to continue the attempt to disaggregate impact from other initiatives and to assess actual and projected sales from 2008 itself.

Table of Contents

Summary.....	2
1. Introduction	5
2. European Capital of Culture 2008: Evidence of Initial Impact	5
2.1. Levels of awareness of European Capital of Culture 2008	5
2.2. Sales attributable to the European Capital of Culture 2008	7
2.3. Confidence in gaining sales attributable to European Capital of Culture 2008.....	8
2.4. Type of enterprise able to secure sales from European Capital of Culture 2008	8
2.5. Summary of this section.....	11
3. The Performance of Merseyside Enterprises, 2006	12
3.1. Employment and prospects for growth.....	12
3.2. Sales and markets	15
3.3. Changes in sales	20
3.4. Purchases and supplies.....	24
3.5. Business behaviour: the ‘extroverts’	26
3.6. Summary of this section.....	29
4. Concluding Remarks	29
5. Appendices	30
5.1. Other work used in this report.....	30
5.2. Description of the Survey Respondents.....	31
5.2.1. Geographic distribution.....	31
5.2.2. Basic characteristics of businesses in the survey.....	31
5.3. Questionnaire.....	39

1. Introduction

This report for Impacts 08 provides evidence on two particular areas of relevance. Firstly, we offer an initial indication of how the European Capital of Culture (ECoC) designation is adding economic value to the sub-region and to the wider North West, in the years prior to 2008. Secondly, the report elucidates the broader economic indicators used by Impacts 08 with a survey of Merseyside businesses. This primary data has the benefit of comparable information with enterprises from the Rest of the North West (RoNW).

The first part of the report considers the initial evidence of economic 'impact' from the ECoC. This early assessment provides a signal of how the message about the ECoC 2008 has been disseminated within the business sector, for example by showing levels of awareness in the two years prior to the actual event. There is also evidence to suggest what proportion of sales from Merseyside enterprises is attributable to the ECoC designation. This allows us to indicate an initial economic value that can be attributed to the ECoC. We also consider the type of enterprise that has been most successful in securing sales arising from activities related to the ECoC up to and including the end of the financial year 2005-2006.

The report is drawn from a postal survey conducted during the last two quarters of 2006 (see a description of survey respondents in Appendix 5.2). The survey was sent to a sample of 3,000 enterprises, mainly SMEs,¹ across the North West and yielded 223 responses (an 8% response rate). One hundred and twenty five responses (56%) came from Merseyside enterprises, and 98 (44%) from enterprises within the rest of the North West. The second section uses results from this survey to give an indication of how enterprises in the Merseyside sub-region have performed, how they have experienced recent growth (or contraction), and the types of business relationships that exist with customers and suppliers in terms of geography and size of enterprise. An indication is also provided of the extent to which owner managers pursue business sustainability and growth through forms of innovative practice. These results provide a description of important aspects of Merseyside business that the ECoC may potentially affect.

The report is part of a broader research investigation into the economic impact of the ECoC on the Merseyside business base, in which the authors of this report are currently involved. There will therefore, undoubtedly be gaps and further questions to consider. This report represents a single stage in this larger research agenda. The appendices of this report provide technical detail.

2. European Capital of Culture 2008: Evidence of Initial Impact

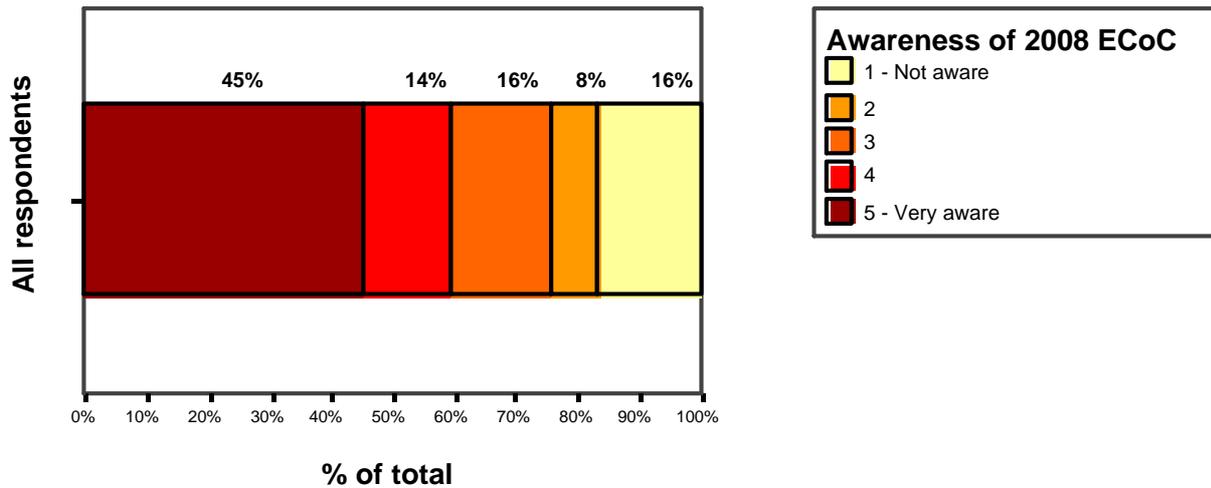
In this section, we look specifically at some of the evidence of impact from the European Capital of Culture designation. This is drawn from the survey used to provide information on the Merseyside business base, using the questionnaire shown in Appendix 5.3 of this report. We are able to provide an initial scope of, firstly, the level of awareness of the ECoC designation, and then we turn to consider the important matter of sales attributable to the ECoC 2008, including a statement on the value of the ECoC to date. Finally, we consider the type of enterprise successful in securing additional sales from the ECoC designation.

2.1. Levels of awareness of European Capital of Culture 2008

We asked owner managers across the North West about their level of awareness of the ECoC 2008 designation. Figure 2.1 gives an indication of this with most having some degree of awareness, although 16% of owner managers in the North West region have no awareness of the ECoC.

¹ Small and medium-sized enterprises.

Figure 2-1: North West enterprises' awareness of European Capital of Culture 2008



There was an obvious split in levels of awareness between Merseyside and RoNW enterprises, with only 5% of Merseyside enterprises stating they were not aware of the 2008 ECoC in Liverpool. In turn, as Table 2.1 shows, 31% of RoNW enterprises stated they had no awareness of the designation. Notably, 61% of Merseyside enterprises stated they were very aware of the ECoC compared to only 26% of enterprises beyond the sub-region.

Table 2-1: Comparison of awareness of ECoC 2008

Level of Awareness	Merseyside		Rest of Northwest	
	No.	%	No.	%
Not aware – 1	6	4.8	30	30.9
2	6	4.8	12	12.4
3	16	12.9	20	20.6
4	21	16.9	10	10.3
Very aware – 5	75	60.5	25	25.8

As Figure 2.2 demonstrates within Merseyside awareness was high. Those enterprises with least awareness were in the northern districts of the RoNW such as in Cumbria, (although we need to bear in mind the issues of sample size here) with 'not aware' scoring relatively high, and a similar picture emerges from enterprises in Lancashire.

There was also some variance by size of enterprise in respect of levels of awareness. Those owner managers who recorded the greatest level of awareness came from small enterprises, followed by medium size enterprises and just slightly less, micro enterprises. This is shown in Figure 2.3.

Figure 2-2: Awareness of ECoC 2008 by geography

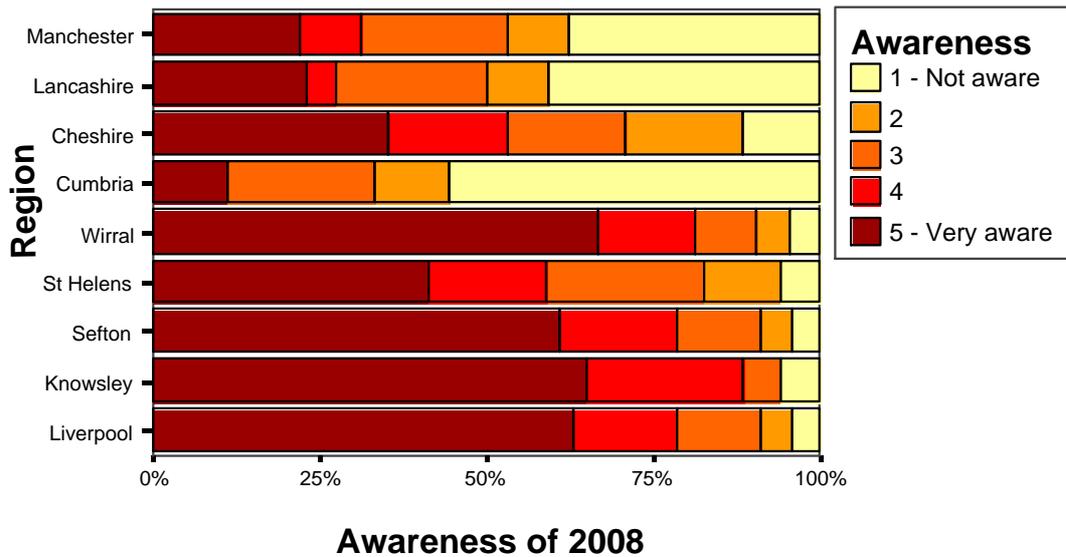
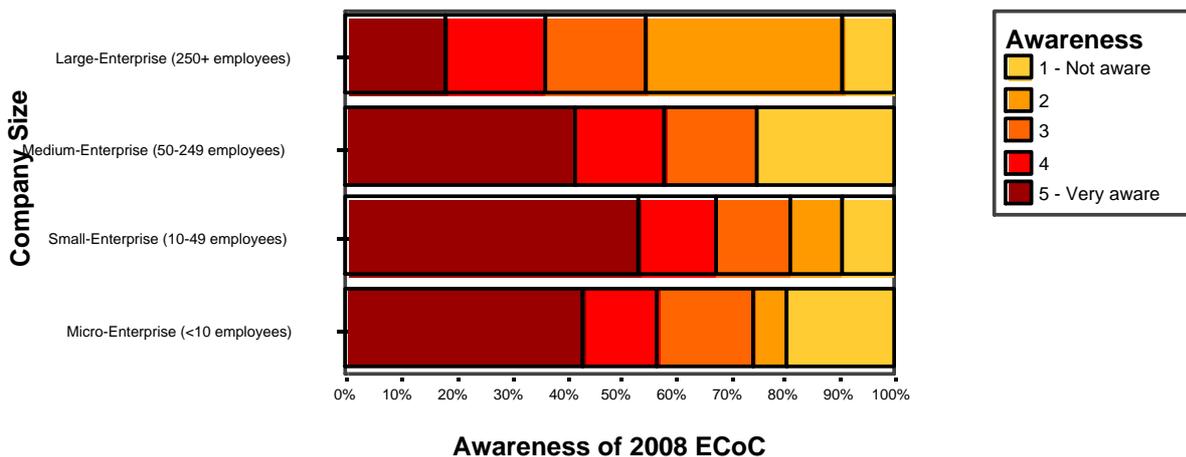


Figure 2-3: Awareness of ECoC 2008 by size of enterprise



2.2. Sales attributable to the European Capital of Culture 2008

From the survey overall, 8% of owner managers stated that their business had received additional sales attributable to the ECoC. The proportion of enterprises in Merseyside who gained sales was twice that of those businesses in the RoNW at 10.4% for the former, and 5.2% for the latter. We estimate that Merseyside has around 40,000 enterprises² which, crudely interpreted, would mean if we extrapolated this figure then some 4,000 enterprises in the sub-region have gained additional work during 2005-2006 due to the Liverpool ECoC.

A very preliminary calculation of the reported value of sales attributable to the Liverpool ECoC was also estimated. The average proportion of sales made by Merseyside enterprises attributable to the ECoC was 1.0%. Of those businesses that stated they had gained additional sales, the average proportion of sales by those enterprises attributable to the ECoC was 12%. In comparison, for all enterprises in the RoNW then only

² Beta Model data suggests in the region of 37,000 enterprises in Merseyside.

0.4% of sales could be attributable to the ECoC. Again, of those businesses that stated they had gained sales due to the designation, the proportion of sales attributable to the ECoC was 7%. Across the North West region this averaged out at a 0.7% of total sales, but of those businesses who indicated that they had gained sales due to the ECoC, then the averaged proportion of sales attributable was 10.1%.

The above allows us to make an initial assessment of the value of additional sales that enterprises have gained due to the ECoC. We can achieve this by using the Regional 2005 GVA figure of £106.1bn in the North West (mentioned below in Section 3.3), where £17.6bn is attributable to Merseyside and £88.5bn to the rest of the North West. An assessment of the approximate value of the increase in sales due to the Capital of Culture can be calculated as follows, based on figures to one decimal point:

Sub-Regional GVA (from 2005) x Proportion of Gainers x % sales gain of gainers, which gives the following figures:

Merseyside at £216m, RoNW at £313m, and for all of North West region at £529m.

Therefore we are estimating that, according to respondents, the ECoC has led to additional sales for Merseyside enterprises during 2005-2006 that is worth an estimated value to the sub-region of some £216m; and sales attributable to enterprises in the rest of the NW during 2005-2006 worth an estimated value of some £313m to the rest of the region; meaning that total sales derived from the ECoC 2008 during 2005-2006 is worth an estimated value of some £529m to the North West.

2.3. Confidence in gaining sales attributable to European Capital of Culture 2008

Owner managers were asked to score on a scale of 1 to 5 the likelihood that their business would gain sales from the ECoC designation over the next three years. For the survey overall 9% of respondents score 4 or 5, indicating a positive likelihood. This equates to an additional 1% of respondents who have not already benefited (8% indicated that they have already made additional sales due to the ECoC). A further 11% scored a neutral 3 and 80% scored a 1 or 2, indicating that they thought it unlikely that the designation of ECoC in 2008 would generate additional sales within the next 3 years. This tends towards a pessimistic view of 'not likely' that future sales (based on geography, sector and company size) would increase due to the ECoC.

While the difference in confidence was apparent between Merseyside and RoNW enterprises (see Figure 2.4), it is thought provoking to consider that around 60% of Merseyside businesses believe it is not likely that there will be future sales generated for their business by the ECoC events. The comparable figure for RoNW enterprises is approximately 80%.

As might be expected, confidence in future sales was the least in the regions outside Merseyside, with Cumbria enterprises having the least confidence, (although we must consider the low sample size of the the sub-region here), within Merseyside the figures for Knowsley are more similar to that of Cumbria than other Merseyside districts. A high proportion of enterprises in Sefton appear to have the little confidence in the sales revenue potential of the ECoC, while those in the Wirral and Liverpool seem to have the most confidence.

2.4. Type of enterprise able to secure sales from European Capital of Culture 2008

We were able to examine a number of characteristics of enterprises to form a typical view of those able to secure sales from the ECoC. For example, those that have gained have tended to be (disproportionately) larger companies. While only 5% of enterprises were classed as large organisations, 28% of those large enterprises reported gaining sales compared to the 8% rate across all company size classifications. The majority of those who gained in sales typically came from Merseyside (72%) and were more prevalent within

the Liverpool local authority district (at 38%). Awareness of the ECoC status was low in Cumbria and correspondingly the number of those gaining sales was also low - in fact, none from this part of the region (but again we must consider the effects of sample size here). Figure 2.5 demonstrates the geographic breakdown of those enterprises that gained from the ECoC 2008 designation.

Figure 2-4: Comparison in confidence of ECoC 2008 generating future sales

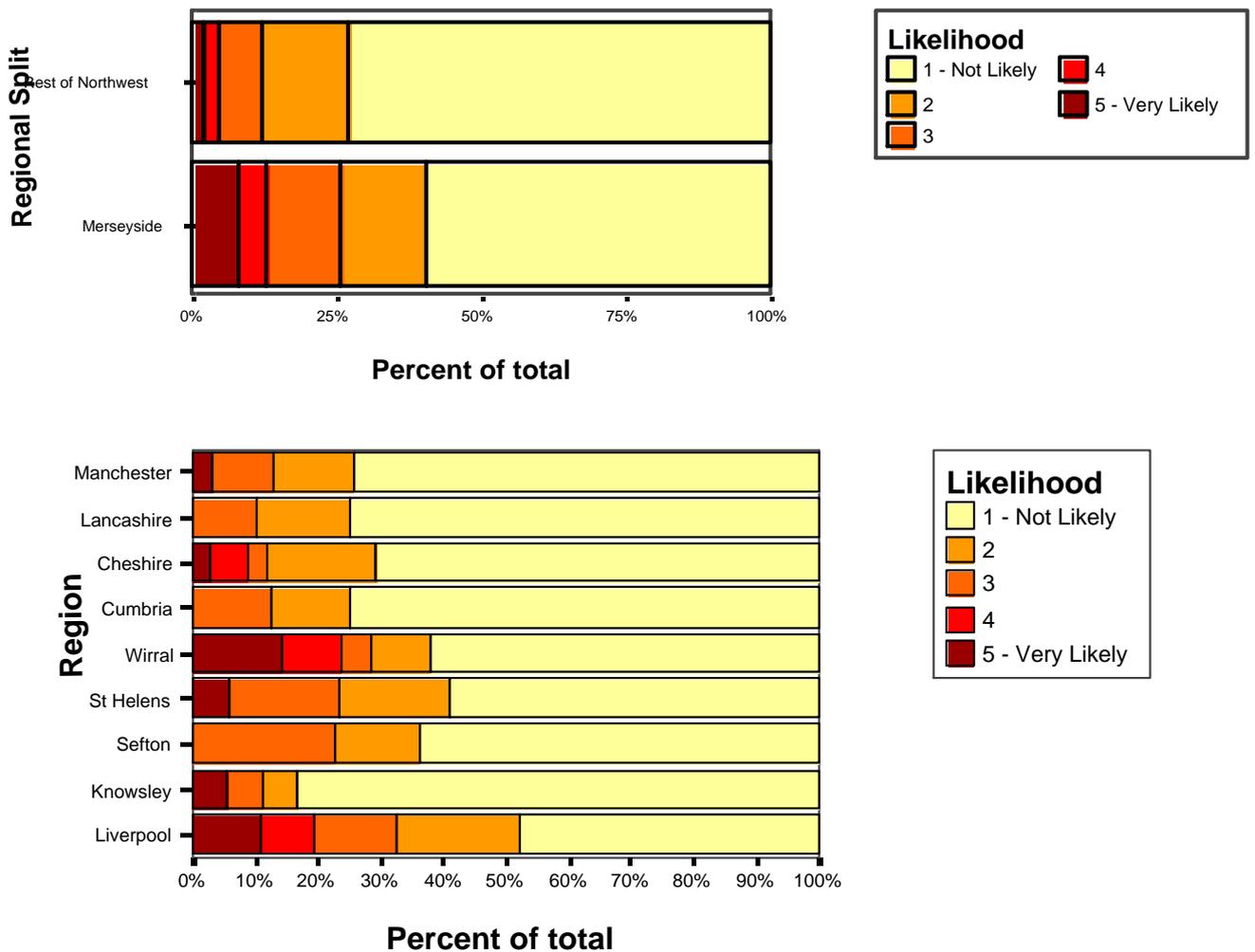
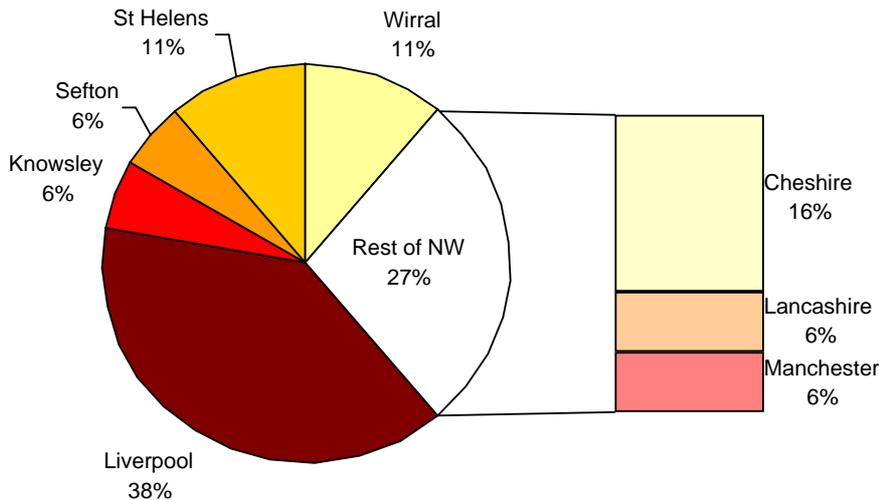


Figure 2-5: Those who gained sales from ECoC 2008 by geography



To this we can add that size of enterprise was found to be associated with gains in sales due to the ECoC. Larger enterprises were more than three times more likely to have gained sales than micro sized enterprises, but it is medium sized enterprises that gained the most, with some 29% of medium sized enterprises responding that they had achieved an increase in sales due to the ECoC. These differences proved to be statistically significant (at the 99.5% level).

With the general growth in the Liverpool and Merseyside economy and particular emphasis on physical infrastructure development, there exists an increased potential for businesses supplying infrastructure and related supply services and the ECoC potential for tourism generation could mean increased direct sales in the tourism sector. With this in mind a cross-tabulation was run between dependence on public sector sales (see below Table 3.6 and Figure 3.6) and gains from the ECoC 2008 to establish if gains were more likely to have come directly from public sector spending, but this was not the case. Only 18% of those gaining from the ECoC had a medium to high dependence on public sector clients (that is, they depended on them for at least half of their sales).

Interestingly, we found that dependence on local sales was a statistically significant in explaining gains from the ECoC, where an ordinal relationship could be established, but an inverse one. That is to say, the lower the dependence on local sales, the higher the likelihood of gaining from the ECoC.

A further characteristic we found was how gains in sales due to the ECoC appeared to be associated with use of business support. Overall, those enterprises that had received some form of business support (such as use of Business Link, an Enterprise Agency, a trade organisation or local authority, or from the private sector such as solicitor or accountant) appeared to be twice as likely to have reported sales attributable to the ECoC (at 9% compared to 4.5%). In particular it seems that those obtaining business advice from their local authority were over four times as likely to have reported additional sales associated with the ECoC than those who had not used this method of support; that is 28.6% of this group had gained sales from the ECoC compared to 6.0% of those who did not receive business support from a local authority. This association was also statistically significant ($p=0.001$).

For those who scored highly in the Extrovert matrix (see Section 3.5) there appears to be some form of association with likelihood of winning sales from the Liverpool ECoC, as Table 2.2 shows.

Table 2-2: Extrovert matrix scores and additional sales from ECoC 2008

Levels of Extrovert Matrix Score	Gained additional sales in 2005-2006 due to ECoC		
	No	Yes	Total
None (score of 0)	0.5	-	0.5
Low (score of 1-10)	6.9	5.6	6.8
Average (score of 11-20)	59.9	33.3	57.7
High (score of 21-30)	32.7	61.1	35.0
Total (N=220)	100%	100%	100%

This can be summarised by suggesting that those who secured sales from the ECoC 2008 were twice as likely to: research their competitors; take part in business networking; contact customers for reasons other than for immediate sales; and to purchase from the internet, than those who failed to secure any sales from the ECoC. They were also 40% more likely to visit suppliers and 20% more likely to have planned for new products and services and have sent managers on training courses.

Although the extrovert matrix total scores were not statistically significant when ran against sales gains from the ECoC, when investigated individually, a significant relationship was found (to the 95% confidence level) with seven of the individual key activities of a frequency of greater than once per year: Updating company websites; Renewing IT software; Researching competitors; Seeking inter-company collaborations on projects; Business networking; Sending managers on training courses as well as employees.

2.5. Summary of this section

In summarising this section of the report we can point to the following:

A significant minority of enterprises in the North West (16%) are not aware of the ECoC designation and the potential impact this might have. There is obviously a discernable difference in levels of awareness between Merseyside enterprises and those from the RoNW, nevertheless there exist a small proportion, at 5%, of Merseyside enterprises who stated they are not aware of the Liverpool ECoC. Small and micro size enterprises appear to be more aware of the ECoC than their larger counterparts.

In the North West region, 8% of businesses report that sales have been gained during the financial year 2005-2006 due to the ECoC. In Merseyside some 10% of enterprises have gained sales from the ECoC with the figure for enterprises in the RoNW lower, at 5%. Even so, there remains a pessimistic view of businesses winning future sales from the ECoC: on Merseyside 60% of businesses believe that the ECoC designation will not lead to an increase in sales over the next three years (2007, 2008 and 2009).

The proportion of total sales made by Merseyside enterprises for the financial year 2005-2006 that is attributable to the ECoC is 1%. Across the RoNW the figure is 0.4%. Of those Merseyside enterprises who have been able to gain sales, 12% of their total sales are attributable to the ECoC, with the figure for RoNW enterprises slightly lower at 7%. Therefore, we can calculate sales by Merseyside enterprises in 2005-2006 attributable to the ECoC give an input to Merseyside GVA of some £216m; for the RoNW an input of £313m. This means that for the North West region sales attributable to the ECoC in 2005-2006 input some £529m into the regional GVA.

Enterprises that win business from the ECoC designation have the following characteristics: they are mainly from Merseyside with Liverpool enterprises dominant, they are small to medium in size, they have some form of business relationship with the local authority, they research their competitors on a regular basis, are keen to business network, as well as seek inter-company collaboration on projects, are Internet and IT savvy, and ensure training for their managers and employees.

3. The Performance of Merseyside Enterprises, 2006

3.1. Employment and prospects for growth

We asked about change in employment numbers from 12 months prior. Responses varied extremely from a reduction of 50% in the number of employees for one company, to a tenfold increase for another. On average, a proportionate increase of 12% in employment (per company) was reported. The largest proportionate increase in employment seen in the small enterprise class, of 21%, can be attributed to the small overall number of employees which gives increases and decreases proportionately more impact.

Table 3-1: Average change in employee numbers by size of enterprise (2005-2006)

	No.	Mean proportionate change in employment (as %)
Micro-Enterprise	112	+ 5.6
Small-Enterprise	71	+ 21.1
Medium-Enterprise	21	+ 9.3
Large-Enterprise	10	+ 18.9
Total	214	+11.7

Looking at the aggregated change in employment across all enterprises, a more modest 6% increase is suggested. This can be compared to findings from other studies suggesting that the North West region has seen only a slight increase in levels of overall employment, up less than 0.25%, while economic activity rates has also increased modestly.³ This can be explained as a net increase based on overall growth but recognising that a proportion of businesses will have closed. The survey indicates that there may be a slow shift away from employment in large organisations towards small and medium sized enterprises. For instance, the distribution of employment 12 months previously shows the total proportion of large enterprise employment moving marginally from 73% down to 70%.

Increases in enterprise employment by region show that, compared to the RoNW the Merseyside respondents experienced a much lower average proportionate growth in employment of 5% compared to 21% for the RoNW. Cross tabulation against unitary authority boundary demonstrates that much of this is attributable to outstanding increases in Cheshire enterprises proportionate employment. Table 3.2 shows employment growth in the surveyed businesses at 4% for Liverpool, down 2% in Knowsley, up 8% in Sefton, up 3% in St Helens and up 10% in Wirral. Between the first quarter of 2005 and the same quarter in 2006 the numbers defined by the Government as economically active in these districts changed as follows: Knowsley up by 3%, Liverpool up by 1%, Sefton down by 3%, St Helens down by 2% and Wirral remaining static.⁴

Owner managers were asked how they thought their employment needs would change over the next year. Overall, two thirds (66.5%) of businesses, small and large alike thought that employment would remain the same, although expectations did differ regionally. The level of optimism was higher for those businesses outside of the Merseyside sub-region, with 32% of RoNW enterprises believing employment would rise and 4% expecting a decrease, compared to 24% of Merseyside counterpart expecting an increase, and 7% expecting levels of employment to go down. As Figure 3.1 indicates enterprises in Lancashire had the highest incidence of optimism for employment, but also that 100% of owner managers in Cumbria and Manchester felt that employment would not decrease in the next 12 months.

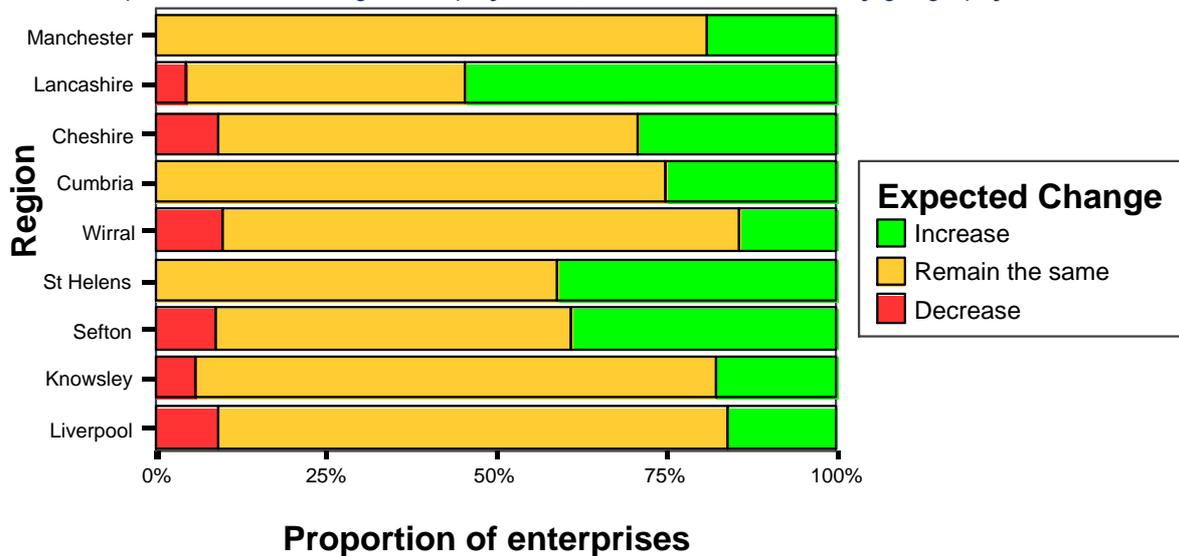
³ For example, those recorded as economically active in the North West rose slightly from 3,224,300 in the first quarter of 2005 to 3,240,100 in the first quarter of 2006 (source: Nomis, based on Labour Force estimates).

⁴ Derived from figures provided on Nomis and based on Labour Force estimates.

Table 3-2: Average proportionate change in employment by geography

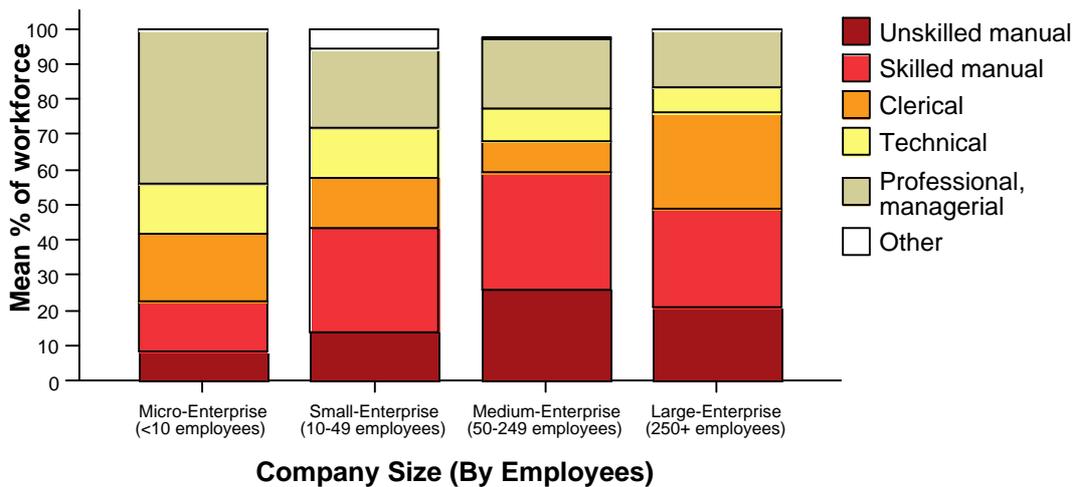
Region	Mean proportionate change in employment (%)	No.	Minimum	Maximum
<i>Merseyside:</i>	4.6	119	-50.0	140.0
Liverpool	3.7	43	-40.0	41.4
Knowsley	-1.7	18	-50.0	30.0
Sefton	8.1	21	-35.7	100.0
St Helens	3.2	17	-50.0	140.0
Wirral	9.6	20	-3.9	87.5
<i>Rest of North West:</i>	21.0	94	-50.0	1,000.0
Cumbria	19.6	6	-50.0	150.0
Cheshire	37.8	34	-26.3	1000.0
Lancashire	17.3	19	-20.0	100.0
Manchester	6.6	34	-30.0	233.3
Total	11.8	212	-50.0	1,000.0

Figure 3-1: Expected overall change in employment (in the next 12 months) by geography



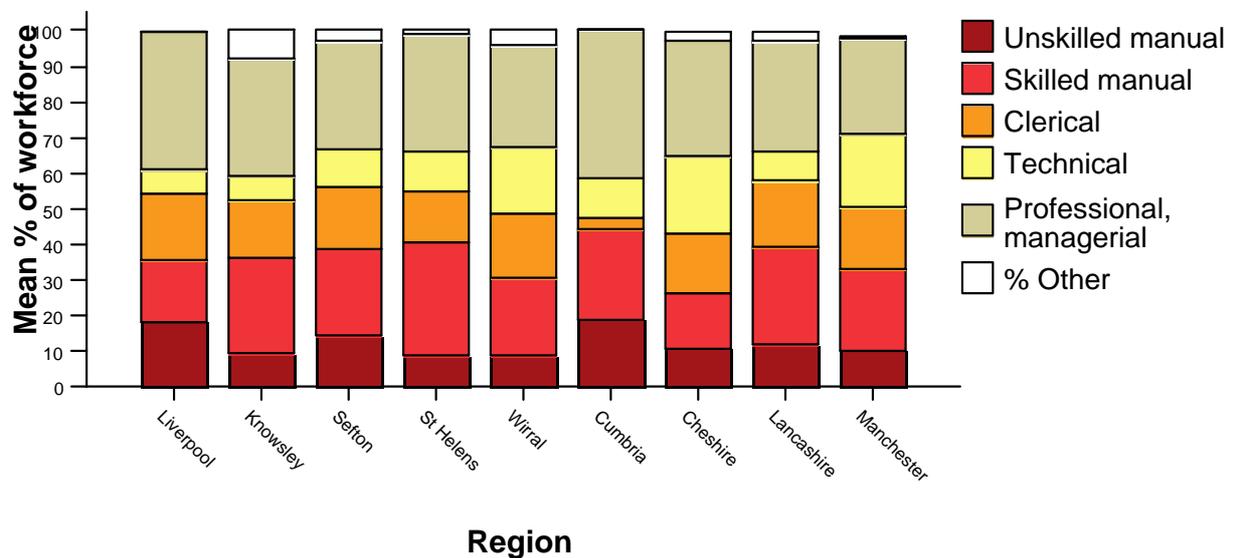
Another aspect of business that impacts on growth is the type of labour available within the enterprise. Basically, the better the level of skill, technical and managerial competence then the greater the potential is for business growth. Figure 3.2 shows that the proportion of employees classed as 'Professional and Managerial' varies with company size, most probably because of the definition of functions, as in smaller companies individual employees may take on a variety of roles although may be classed as 'Professional and Managerial'. The responses within this group do show a proportionately greater percentage of the workforce as professional and managerial and congruently, larger companies have a higher proportion of employees classed as 'Unskilled Manual'.

Figure 3-2: Analysis of labour force within enterprises by size of enterprise



We also examined this by geography, looking specifically at the districts within the Merseyside sub-region. Figure 3.3 shows that Liverpool and Cumbria have the highest proportionate rates of 'unskilled' workforce, but also the highest rates of those classed as 'Professional and Managerial' (39% and 41% respectively). Manchester had the lowest reported proportion of 'Professional and Managerial' staff at 27%. In fact the difference between Greater Manchester and Liverpool (city) was found to be statistically significant at the 95% confidence level. In other words, the make up of labour in enterprises in these places is an important part of their difference, particularly that concerning professionals and managers.

Figure 3-3: Analysis of labour force within enterprises by geography



That Liverpool and Cumbria also reported the highest proportions of unskilled workforce at 18% and 19% respectively, suggests that there is a greater polarisation than in other parts of the region. Furthermore, a comparison between the proportion of unskilled workforce in Liverpool (18%) compared to the RoNW (including Cumbria) of 11% was statistically significant at the 95% confidence level. Again, this tends to indicate that the occupational make up of enterprises is important in any difference between Liverpool businesses and those in the rest of the region.

3.2. Sales and markets

The survey reported average enterprise sales in the region for the financial year 2005-06 as £10.5 million. This varied across enterprise size as well as business sector and there are differences to note within the region. By size, Table 3.3 shows that average sales for the micro enterprise sector were £357,000 and for the small enterprise, £2.7 million. It was the finance sector that reported the highest mean sales of just under £19 million and the (private) education and health sector the lowest at £719,000. Although it should be noted that this sector comprised of only 3 respondents in our survey. Average sales in enterprises from manufacturing stood at £15.4 million and for wholesale and retail businesses at £7.6 million. Further comparison made by sector is provided in the appendices (see Table A1).

Table 3-3: Mean sales in the financial year 2005-06 by company size

Company Size	No.	Mean (£000s)	Minimum (£000s)	Maximum (£000s)
Micro-Enterprise	94	357	1	4,300
Small-Enterprise	67	2,746	50	26,000
Medium-Enterprise	23	6,827	400	24,000
Large-Enterprise	11	151,800	4,800	400,000
Total	195	10,484	1	400,000

When we compare the average sales of enterprises between Merseyside and the RoNW we find some difference. Table 3.4 shows a noticeable difference between micro and small enterprises with Merseyside micro businesses having average sales in 2005-06 of around £250,000, much less than for the RoNW micro enterprises recording average sales of £494,000. There is a similar picture for small enterprises with RoNW businesses, at £3.8m, recording almost twice the level of sales as their Merseyside counterparts (at £1.9m).

Table 3-4: Comparative mean sales in the financial year 2005-06 by company size

	Merseyside		RoNW	
	No.	Mean (£000s)	No.	Mean (£000s)
Micro-Enterprise	53	250	41	494
Small-Enterprise	38	1,942	29	3,801
Medium-Enterprise	12	6,827	11	6,827
Large-Enterprise	4	147,750	7	154,114
Total	107	7,102	88	14,595

We also looked at the proportion of sales that were dependent on each enterprises main customers. So for example we were able to confirm that sales in the hotel and restaurant sector are mostly to a wide base of customers while those businesses in transport and communications tend to concentrate on one or two main customers. Overall, we found that enterprises in our survey take 28% of their total sales from their largest customer, a further 12% from their second largest customer and 8% from their third largest customer. This indicates that businesses in the North West rely on their top three customers for nearly half of all their sales (see Table 3.5).

When we compare Merseyside to the RoNW only a slight difference can be detected. Table 3.5 shows Merseyside enterprises rely upon their largest customer for 27% of their sales, a further 13% of sales comes from their second largest customer and 9% from their third main customer. Overall, this is only slightly less than for the RoNW enterprises who appear to depend a little more on the largest and second largest customers.

Table 3-5: Reliance on top 3 customers comparison by company size

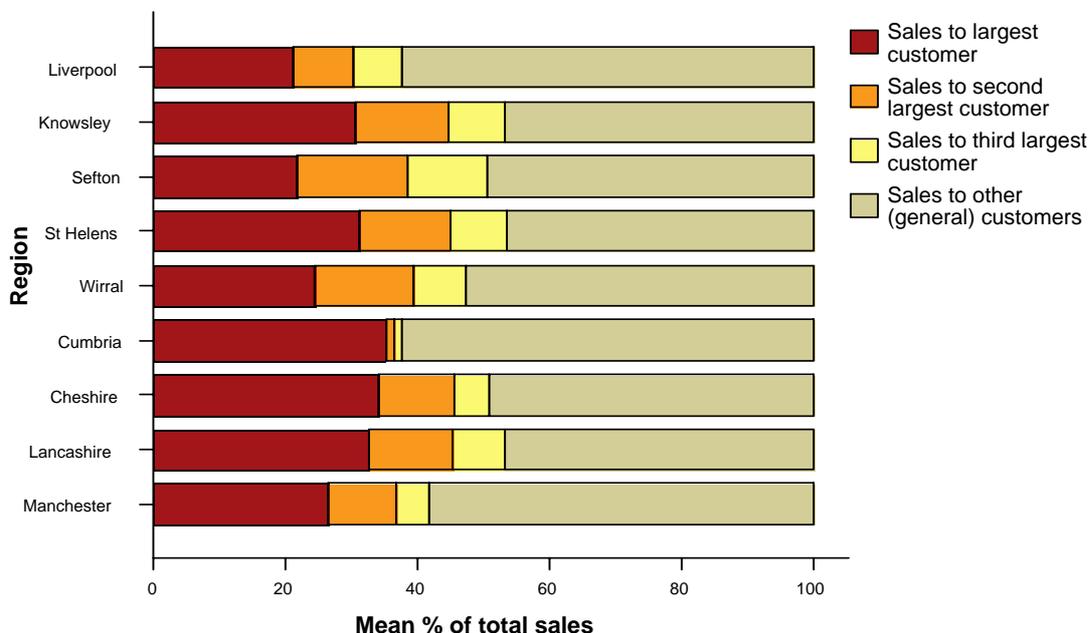
Merseyside	Largest customer	Second largest customer	Third largest customer	Top 3 customers
No.	92	90	86	85
Mean (%)	26.4	12.9	9.4	46.8

RoNW	Largest customer	Second largest customer	Third largest customer	Top 3 customers
No.	74	70	66	66
Mean (%)	29.1	10.3	5.4	47.4

All of NW	Largest customer	Second largest customer	Third largest customer	Top 3 customers
No.	166	160	152	151
Mean (%)	27.6	11.7	7.7	47.1

Figure 3.4 demonstrates these differences by comparing districts within Merseyside with Lancashire, Cheshire, Cumbria and Greater Manchester. Most notably enterprises in Cumbria have the lowest reliance on top three customers (38%), possibly due to their higher dependence on tourism related industries; those businesses in Liverpool record the second lowest reliance (38% to three largest customers). Enterprises in Knowsley St Helens and Lancashire appear to have well over half of sales dependent on their top three customers. Those in Sefton are close behind but have less dependence on the main customer.

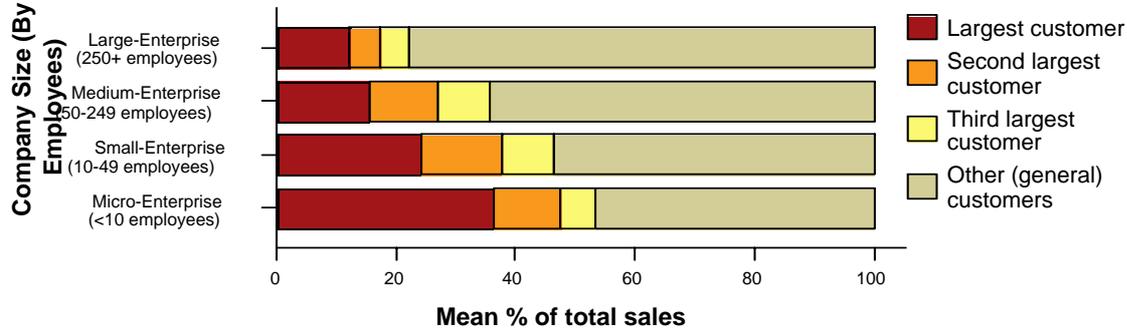
Figure 3-4: Reliance on top 3 customers comparison within Merseyside and RoNW



By cross-tabulating the composition of sales with company size we find an inverse relationship between enterprise size and reliance on the top three customers (see also Figure 3.5). Larger enterprises show a lower reliance on their top three customers with an average of 22.3% of all sales, and this reliance increases as the category of firm size becomes smaller, where micro-enterprise average sales is 53.3%. This relationship is statistically significant (at a 97% confidence level), tending to confirm the point that sales for smaller

businesses are volatile because they are more dependent on a smaller total number but greater overall proportion of customers. Furthermore, this level of volatility increases disproportionately precisely because of over dependence on the main customer.

Figure 3-5: Reliance on top 3 customers by enterprise size



In a similar manner we were able to identify the dependence of enterprises by sector, examining the comparative level of sales to public or private sector organisations, and to the general public (see Table 3.6). This shows the mean sales to the public sector by Merseyside micro enterprises at less than 9%, although as the size of the enterprise increases we find that a quarter (25.7%) of total sales revenue for small businesses depends on this sector. Often the sub-region is accused of being over-dependent on the public sector but the argument can go both ways in respect of this evidence. Nevertheless, it would appear that overall businesses in the RoNW are less reliant on the public sector for sales than in Merseyside.

Table 3-6: Comparative sales to public and private organisations

Merseyside		Private Business	Public Sector	General Public
Micro	No.	55	54	54
	Mean (%)	57.4	8.9	32.5
Small	No.	40	40	40
	Mean (%)	58.4	25.7	16.0
RoNW		Private Business	Public Sector	General Public
Micro	No.	42	42	42
	Mean (%)	68.2	9.4	22.5
Small	No.	27	27	27
	Mean (%)	70.6	10.0	19.4

This indication of a greater reliance by Merseyside enterprises on the public sector is demonstrated further in Figure 3.6. We see that sales to the general public are highest in Cumbria, possibly because of the greater reliance on tourism in this region. Sales to the public sector are highest in St Helens and Knowsley, and lowest in Cumbria.

Figure 3-6: Sales to type of organisation by geography

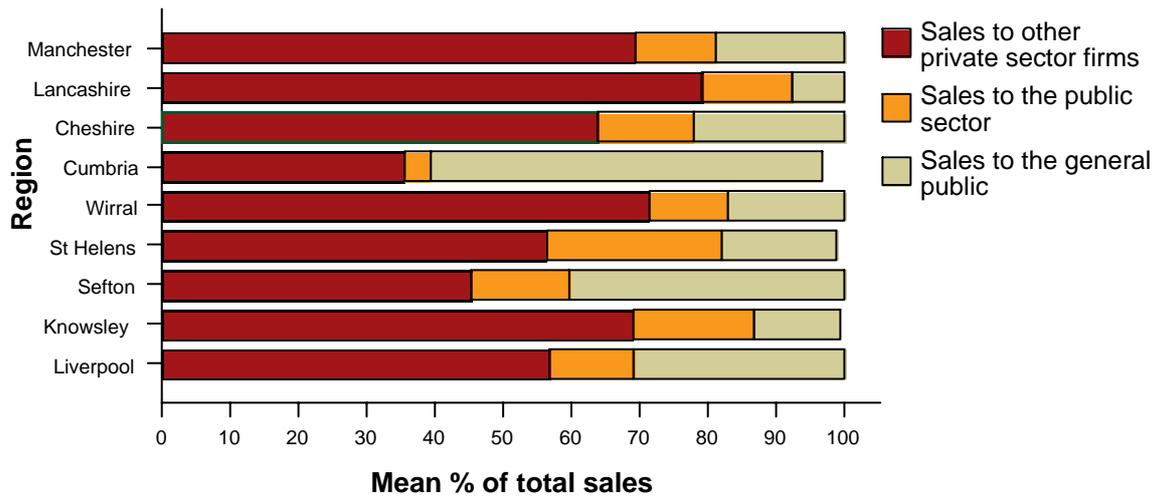
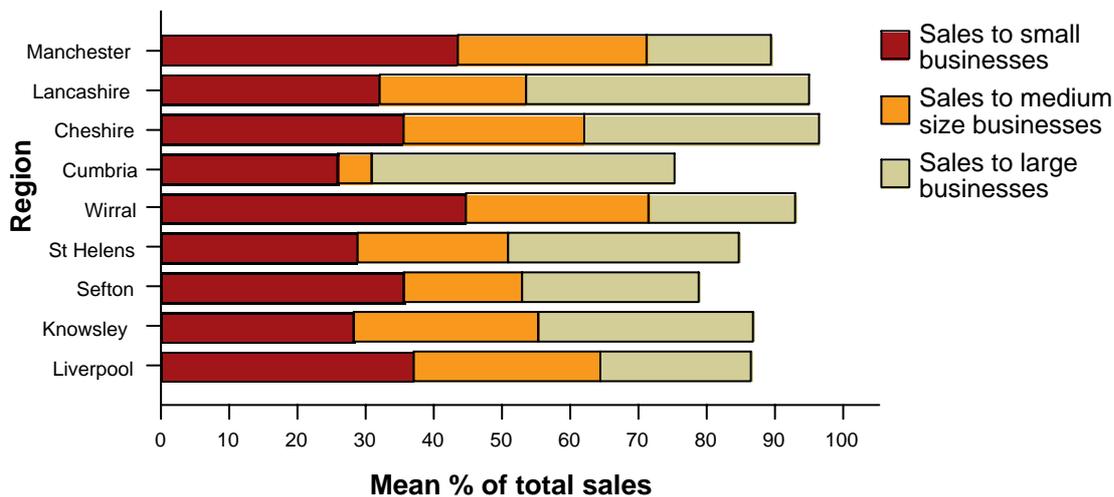
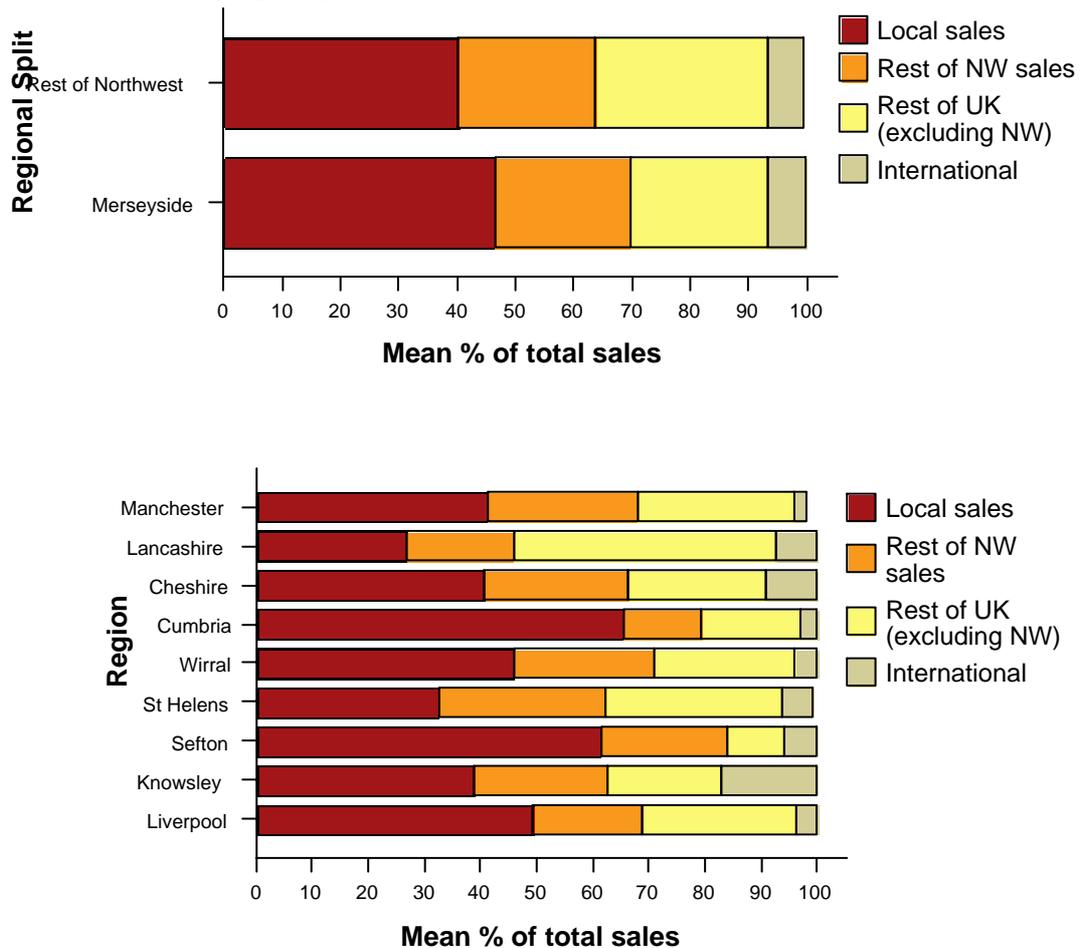


Figure 3-7: Sales to businesses by size and geography



Micro size enterprises rely on other small businesses for 45% of their total sales. The inverse is also true of sales to large companies, with micro companies selling the least to large companies (18.5% of mean sales compared to 34.7% - 41.4% range from other size enterprises). There is a significant relationship between the sales to small companies and company size, tending to confirm that level of dependency on large customers leaves smaller enterprises in a vulnerable position. Within the North West, Cumbria shows the lowest mean level of sales to small businesses and Wirral, Manchester and Liverpool the highest (see Figure 3.7) although the differences are not statistically significant.

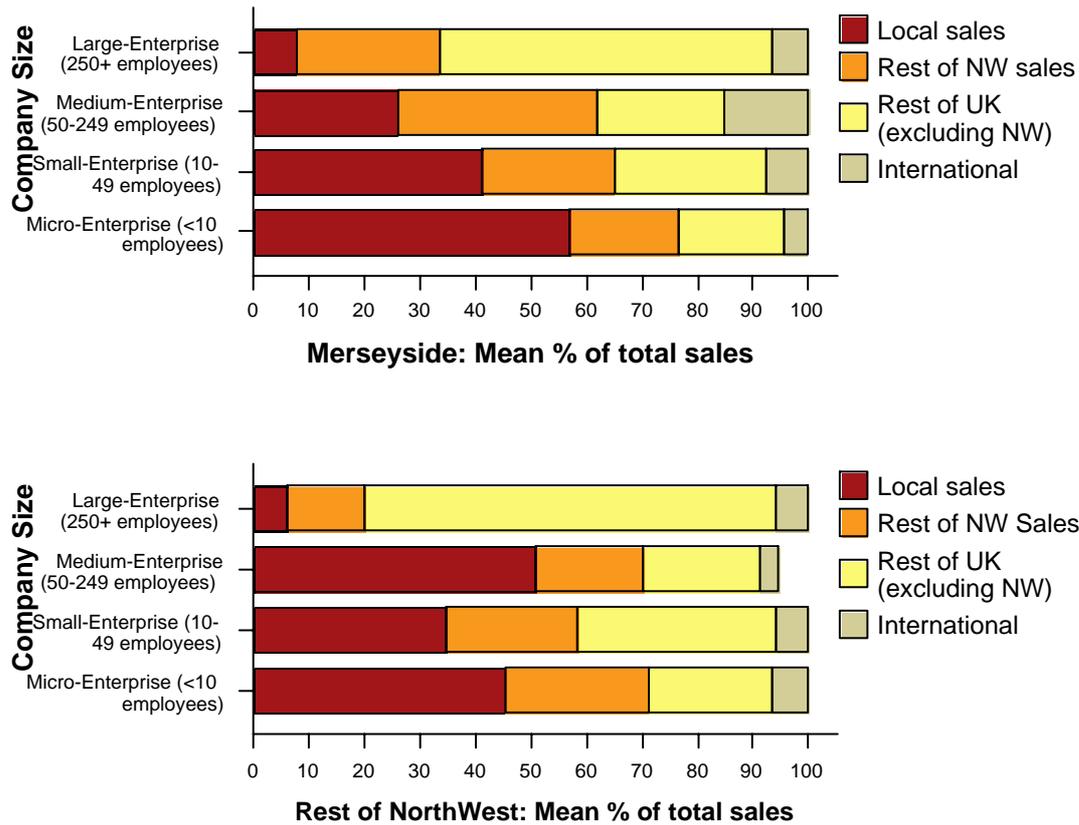
Figure 3-8: Comparison of market geography



Looking further at location of markets we find that the survey suggests over two-thirds (67%) of sales remain within the North West region (see Figure 3.8). When we compare this between Merseyside and the RoNW, it seems that enterprises in the sub-region rely slightly more on local markets, that is those markets within the sub-region, compared to those enterprises in the RoNW (64%). Overall it would appear that the North West market accounts for around 70% of sales to Merseyside businesses, slightly more than that for RoNW businesses. In detail, Merseyside enterprises attribute 47% of their sales to Merseyside markets, a further 23% to regional (North West) markets, and a further 24% to the rest of the UK, with only 6% is attributable to international markets. In comparison, 40% of RoNW enterprises sell locally, a similar 24% to North West markets, a further 30% to the rest of UK markets, and just under 6% to international markets.

Respondents in Cumbria and Sefton the most reliant on local sales (65.4% and 61.4% of total sales respectively). In terms of combined local and regional sales, Cumbria and Sefton again have a greater reliance on these (79% and 84% respectively). Respondents in Wirral also have a reasonably high reliance on these (70.9% of all sales). Furthermore, as Figure 3.9 shows, micro enterprises on Merseyside rely more on local and regional sales than their RoNW counterparts, and the same is true of Merseyside small enterprises. Medium size enterprises appear to be more internationally focused than either micro or small enterprises.

Figure 3-9: Merseyside – RoNW comparison of markets by enterprise size



When we examined this further we find a strong inverse relationship between the size of the company and the dependence on local and (combined local and) regional sales. So, for example, while enterprises in the hotels and restaurants sector, the wholesale and retail sector, and the finance sector have the greatest reliance on local sales, those in manufacturing, in transport and communications, and (perhaps counter-intuitively) in real estate and business services sectors have the greatest reliance on national and international markets.

The dependence on local sales for micro enterprises is 52%, reducing down to 7% for large enterprises. Comparing categorical mean rates of the aggregated data, this inverse relationship is statistically significant at a 99.7% confidence level. We find a direct relationship between national and international sales and company size, exemplified by the fact that national sales represent only on average 21% of total sales of micro enterprises, but represent on average 68% of large enterprise sales. Similarly, by comparing categorical aggregated means we find a statistically significant relationship between national sales and company size at the 99.95% confidence level. This implies an intuitive relationship between size of enterprise and access to markets and therefore indicates certain consequences in terms of enterprise growth and sustainability. In other words, Merseyside enterprises appear to be slightly more vulnerable to changes in market conditions than their RoNW counterparts due to their reliance on local markets.

3.3. Changes in sales

Overall, from the companies surveyed there was an average increase of 13% in sales from the previous trading year. We find a variance in sales by geography, sector and enterprise size. Table 3.7 demonstrates how the Merseyside sub-region experienced a 16% increase in sales during this period compared to a 9% increase for those enterprises in the RoNW. Liverpool and St Helens enterprises experienced a high growth in sales at 29% and 25% respectively. One small enterprise recorded sales growth at 1,000% – a Merseyside

business working in the debt recovery sector heavily dependent on local markets! Those in Cumbria, Sefton and Knowsley experienced an averaged low growth of less than 3%. Sefton experienced an overall decline in sales.

Table 3-7: Average change in sales during the previous 12 months by geography

Region	No.	Mean % change in sales	Minimum	Maximum
<i>Merseyside</i>	118	15.9	-40	1,000
Liverpool	44	29.0	-25	1,000
Knowsley	17	2.8	-36	35
Sefton	20	-1.4	-40	20
St Helens	16	25.4	0	250
Wirral	21	8.2	-30	100
<i>Rest of the NW</i>	90	9.3	-79	212
Cumbria	8	1.1	-79	50
Cheshire	33	8.0	-35	75
Lancashire	19	8.9	-24	39
Manchester	30	13.3	-10	212
Total	208	13.0	-79	1,000

What stands out as we look at this data by size is the difference in the small enterprise in Merseyside. These small enterprises record, on average, a 32% increase in sales in 2005-2006 and should be considered in combination with Table 3.2, showing growth in employment and Table 3.4 indicating current mean sales, both of which demonstrate Merseyside enterprises performing less well than RoNW enterprises.

Results from the survey show that a direct relationship exists between company size and the rate of companies reporting an increase in local sales, where 27% of micro enterprises reported an increase in local sales compared to 50% of larger companies. Also, 16% of micro enterprises reported a decrease in local sales but none of the larger companies did. However, because of the level of variance, these categorised results proved not to be statistically significant.

In terms of overall sales performance, a 4% increase in general sales for medium size enterprises includes a Merseyside figure of 6%, and a RoNW increase of 2%. High levels of sales growth were found in enterprises in transport and communications who recorded an average growth in sales at 42%, in the finance sector at 17% and in real estate and business services growth was also at 17%.

53% of all enterprises surveyed experienced a general increase in sales, 32% stated no change and 15% a general decrease over the last 12 months. The highest proportion of enterprises reporting decreases were in Lancashire (30%) and Sefton (25%), and the lowest proportion of enterprises reporting decreases were in St Helens. St Helens and the Wirral had the greatest proportion of enterprises reporting general increases in the level of sales (63% and 61% respectively). The micro-enterprise sector reported the greatest proportion of enterprises experiencing a reduction in sales (18%), as well as a below average proportion of enterprises experiencing an overall increase in sales (43%), reflecting the way in which enterprises of this size are experiencing current trading conditions.

As well as providing sales figures and an indication of the proportionate change in overall sales, owner managers were asked to indicate changes in local, regional, national and international sales using the simple scale: 'increased', 'stayed the same' 'decreased'. The most volatile market is anticipated in national sales although regional sales are expected to be the best performer in 2006-2007. Responses to this question are summarised in Figure 3.11.

Figure 3-10: Comparative change in sales by enterprise size

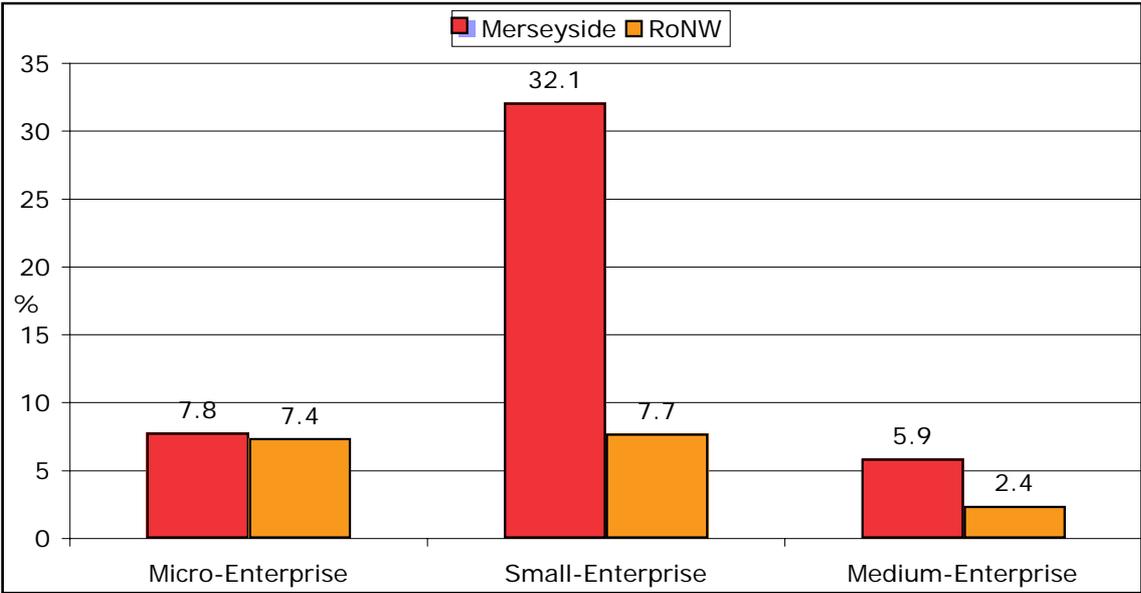
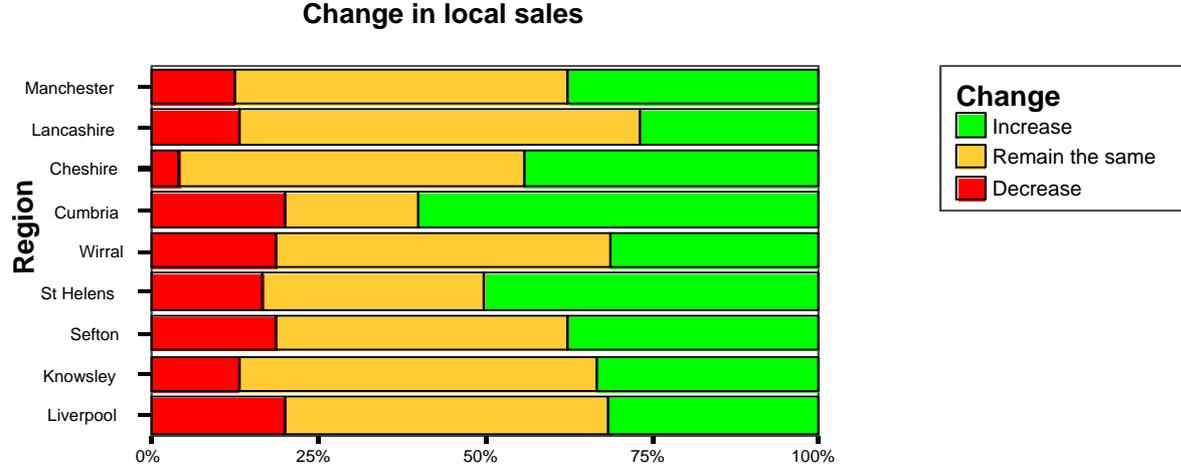
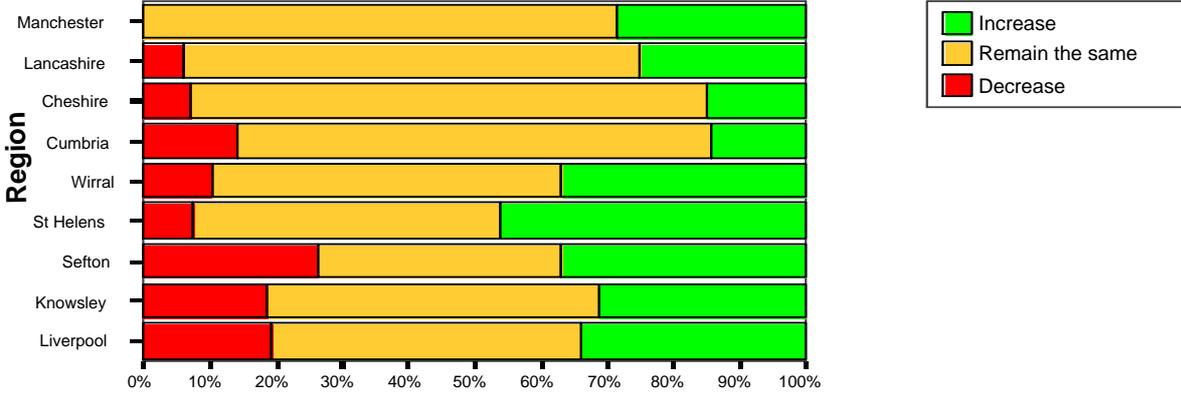
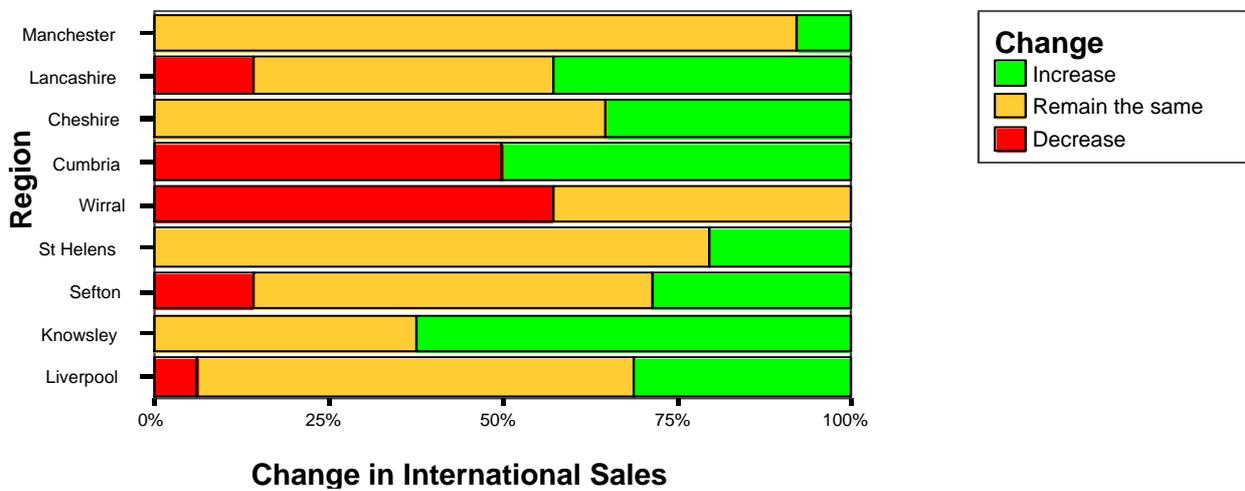
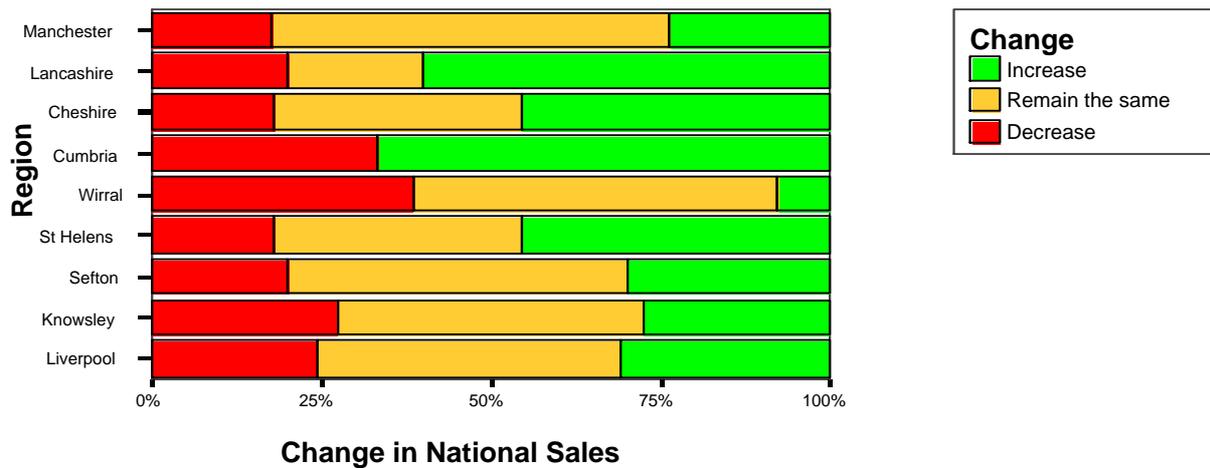


Figure 3-11: Change in Local, NW, UK and International sales by region





Merseyside enterprises report a comparable proportion experiencing a decline (15%), rise (53%) and hence static sales (32%) (compared to the rest of the NW experiencing 52% increase, 15% decrease and 33% static) which suggests that the region may be experiencing a period of high levels of change in the agents and infrastructure of the marketplace. Of course the context for this are the GVA figures for the North West region, which in 2005 was reported as £106.1bn, representing a growth of 3.7%, a figure slightly less than the UK average of 3.9%. However, Merseyside was listed as one of the bottom five GVA per capita sub-regions, with a per capita GVA of £12,400 (compared to a national GVA per capita of £17,100). In addition, Wirral was ranked in the bottom five unitary authorities GVA per capita at £9,900.⁵

The next step was to ask about anticipated sales for the financial year 2006-2007, focusing on how owner managers thought local, regional, national and international sales would change. The opinion within businesses in Merseyside is polarised, with the survey results demonstrating a greater degree of optimism compared to business in the RoNW (see Table 3.8) but also higher levels of pessimism.

⁵ Regional, Sub-regional and Local Gross Value Added, December 2006, Office of National Statistics. Nationally, market GVA grew by just 3.2% from the end of the second quarter of 2005 to the end of the second quarter of 2006; source: Market Sector Gross Value added (experimental) 2nd Quarter, 2006, Office of National Statistics).

Table 3-8: Comparative change in expected sales over next 12 months (%)

Expected sales change over next 12 months	Merseyside	RoNW	Total
Increase	36.1	21.8	30.1
Remain the same	46.3	73.1	57.5
Decrease	17.6	5.1	12.4
Total	100.0	100.0	100.0

Further examination demonstrated that although confidence of *local* sales increasing is higher with Merseyside enterprises, confidence in *national* sales is lower than for businesses in the RoNW. Around half of all enterprises on Merseyside expect an increase in local sales compared to 31% of businesses in the RoNW. In addition, 46% of Merseyside enterprises expect their international sales to increase compared to 34% of RoNW businesses.

Table 3-9: Comparison of expected future sales 2006-2007 (%)

Merseyside	Increase	Remain the same	Decrease
Local Sales	49.5	37.8	12.6
North West Sales	44.6	46.7	8.7
National Sales	42.7	44.0	13.3
International sales	45.5	45.5	9.1
RoNW	Increase	Remain the same	Decrease
Local Sales	30.9	63.0	6.2
North West Sales	43.7	52.1	4.2
National Sales	51.7	38.3	10.0
International Sales	34.1	58.5	7.3

Expectations of future sales are summarised in Table 3.9. The increased level of optimism for Merseyside enterprises may well reflect a ‘feel good’ factor in the sub-region. While this is difficult to confirm, the extent to which the ECoC designation has impacted on these expectations requires further examination (see Section 4). The next section of the report turns to the purchasing behaviour of enterprises.

3.4. Purchases and supplies

Owner managers were asked to provide an estimate of the proportion of their business purchases made from small, medium and large sized businesses. Overall, on average 29% of all purchases are made from small businesses, 30% from medium size businesses, 39% from large businesses, with 2% reported from elsewhere.

We found that 56% of purchases from Merseyside enterprises are made from other businesses within the North West. This is similar to the figure for the RoNW at 58%. For supplies purchased from overseas, the RoNW enterprises average 12%, a little more than Merseyside enterprises at 8%. We can compare this with the information provided above in respect of sales, shown in Table 3.11.

Figure 3-12: Comparison of average purchases from other businesses

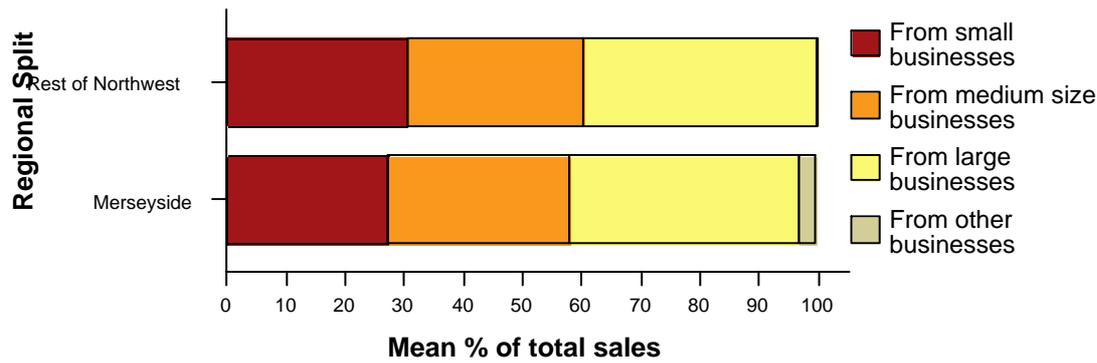


Table 3-10: Comparison of purchases by size of enterprise

Merseyside Average % purchases						
	No.	Local	Rest of NW	Rest of UK	Intl.	Other*
Micro-Enterprise	59	41.5	18.8	36.0	3.4	0.3
Small-Enterprise	40	30.5	22.1	33.8	13.1	0.0
Medium-Enterprise	12	28.1	26.1	33.6	11.4	0.8
Large-Enterprise	3	8.3	16.7	60.0	15.0	0.0
Total (All sizes)	114	35.4	20.6	35.6	7.9	0.3

RoNW Average % purchases						
	No.	Local	Rest of NW	Rest of UK	Intl.	Other*
Micro-Enterprise	42	46.7	21.5	16.9	14.9	0.0
Small-Enterprise	28	35.0	11.8	40.1	13.1	0.0
Medium-Enterprise	11	28.6	26.8	40.5	3.2	0.0
Large-Enterprise	6	22.5	17.5	51.7	8.3	0.0
Total (All sizes)	87	39.0	18.8	29.7	12.4	0.0

Table 3-11: Comparison of sales and purchases (%)

	Local		Region		UK		International	
	Sales	Purchase	Sales	Purchase	Sales	Purchase	Sales	Purchase
Merseyside	47	35	23	21	24	36	6	8
RoNW	40	39	24	19	30	30	6	12

We find Merseyside enterprises attribute 47% of their sales to local markets while purchasing 35% of supplies from local markets; a further 23% of sales are attributable to markets outside Merseyside but in the North West, with 21% of supplies from within the rest of the region; 24% of sales are attributable to the rest of UK markets and also 36% of purchases; and 6% of total sales come from international customers, although 8% of purchases come from international suppliers. The corresponding figures for the RoNW enterprises are: sales local 40%, purchase local 39%; sales in the rest of the region 24%, purchases 19%; sales in the rest of the UK 30%, purchases 30%; and sales internationally 6%, purchases 12%.

In addition and as with sales, the data showed that the geography of purchases varied with company size: the larger the company the more likely it is to source purchases nationally and internationally. Conversely, smaller companies are more likely to source locally and regionally. These figures have implications through what is known as 'externalities'; the more that Merseyside enterprises can increase sales from outside of the locality then the greater the levels of new income into the sub-region. At the same time, if more purchases can be made locally, then the circulation of that income will also have a desirable economic impact. There is great scope for increased levels of national and international sales particularly with those small and medium size enterprises, and also for more local purchasing.

3.5. Business behaviour: the 'extroverts'

To gauge the type of behaviour among enterprises we asked a set of questions about a number of key business activities often associated with growth. These are shown in Figure 3.13 and cover the frequency with which owner managers do the following: Update business web pages, Sell via the Internet, Purchase via the Internet, Renew IT hardware, Renew IT software, Plan for a new product/service, Research competitors, Seek collaborators (with other firms), Take part in business network event, Contact customers (other than for direct sales purposes), Visit suppliers, Send managers on training course, Send other employees on training course, Appraisal of managers, Appraisal of other employees. The feedback indicated that the highest instances of key activities were to be purchasing via the internet and contacting customers for reasons other than direct sales. Visiting suppliers and researching competitors were also frequently engaged in.

In order to investigate the correlation between these key activities and growth (particularly sales) a matrix score was calculated that graded 0 for no activity, 1 for a low level of activity and 2 for high (at least once every 12 months). A maximum score of 30 was possible for a high frequency of all activities and a minimum score of zero. A high score would indicate that enterprises tend to be more outward looking in the search for new business opportunities, and therefore more entrepreneurial and potentially innovative. We term this as 'extrovert' behaviour. As an indication of scale: to gain the maximum matrix score of 30 means, a business would have to undertake all ten of the key business activities once per year or more. An 'average' score of 15 could be gained by engaging in all ten of these activities at least once or more during every five years, or some proportion therefore, for example half of all activities at least once per every year, or half of the activities at least once every five years. The mean 'Extrovert matrix' score was then compared across region, company size and sector.

By region, the areas where enterprises had the highest 'extrovert' scores were Lancashire and Cheshire (both 19.7) and Wirral (19.4). The lowest were Cumbria (16.8) and Sefton (17.3). Interestingly, this tends to correspond with the results reported in change in sales in the last 12 months, where Sefton and Cumbria experienced the lowest average growth in sales over the last year at -1.4% and 1.1% respectively. However, Wirral and Lancashire also reported below average increase in sales (as reported in Table 3.7). As Table 3.12 shows the average 'extrovert' matrix score for Merseyside enterprises was 18.4 slightly less than that for the RoNW enterprises at 18.7. Knowsley enterprises scored 18.4 and Liverpool enterprises 18.5, and noticeable in Wirral was the tight range within which scores were registered.

Figure 3-13: Engagement rates in key business activities

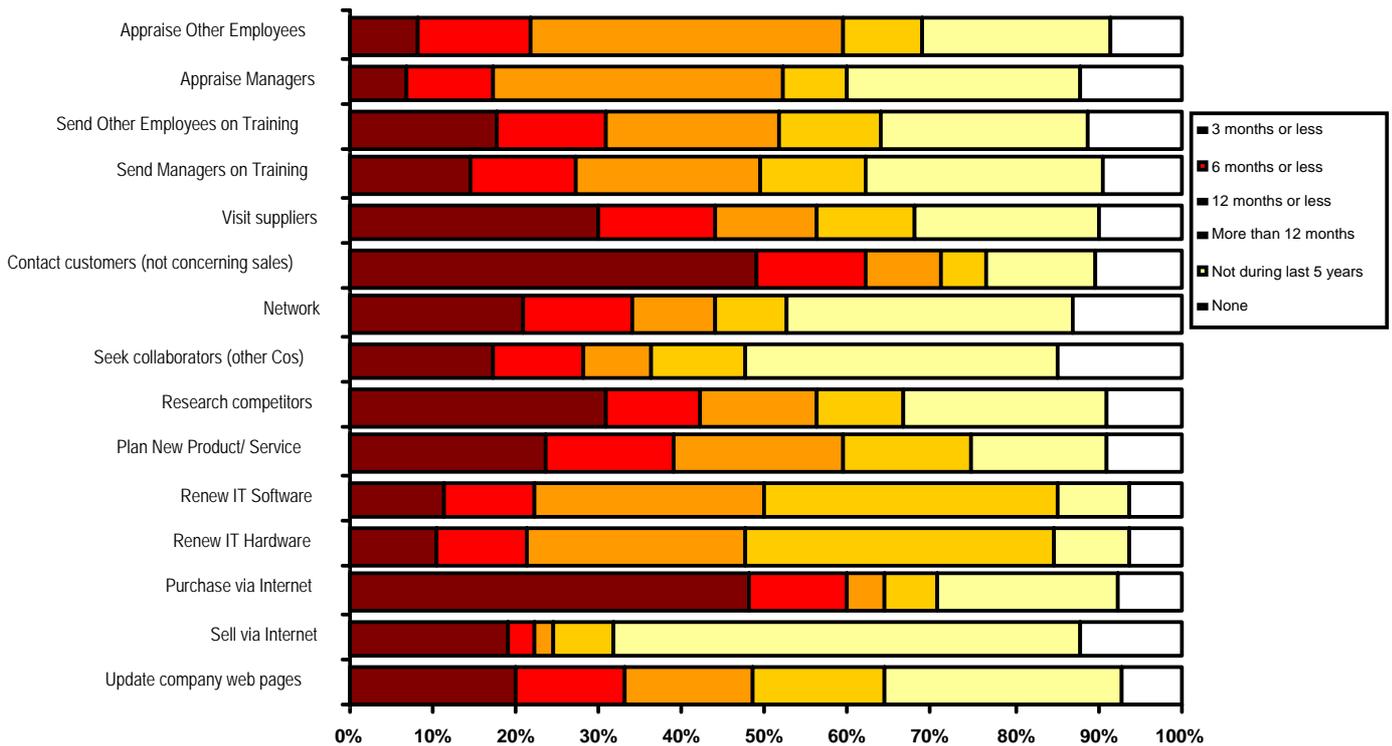


Table 3-12: Comparison of Extrovert matrix scores by geography

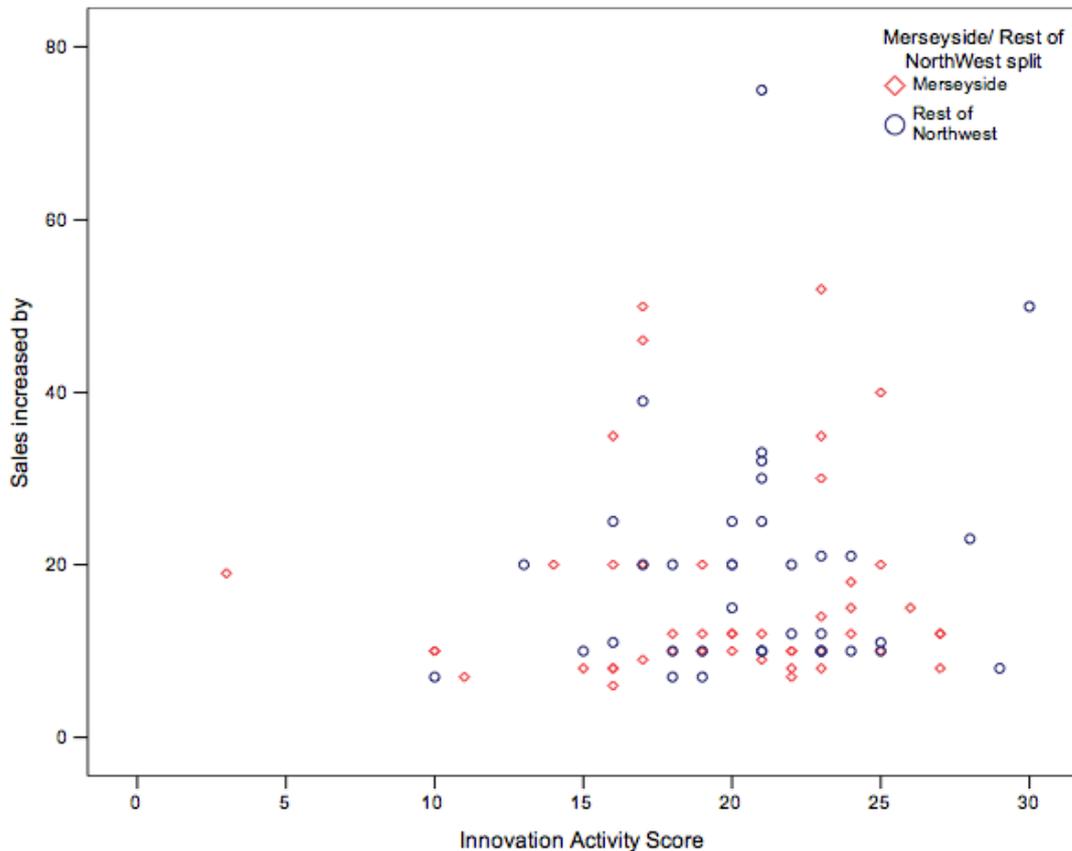
	No.	Mean Matrix score (Max=30)	Minimum	Maximum
<i>Merseyside:</i>	124	18.4	1	30
Liverpool	46	18.5	1	28
Knowsley	18	18.4	3	30
Sefton	22	17.3	4	26
St Helens	17	18.2	6	25
Wirral	21	19.4	14	26
<i>Rest of Northwest</i>	97	18.7	0	30
Cumbria	9	16.8	0	30
Cheshire	34	19.6	10	29
Lancashire	22	19.7	9	26
Manchester	32	17.6	0	25
Total	221	18.5	0	30

The size of enterprise again proved to be important as the mean extrovert score appeared to increase with the size of the enterprise, with larger firms more likely to undertake these key business activities on a regular basis. However, we found that medium size enterprises on Merseyside score 19.7, compared to small enterprises with a score of 20.2 and micro enterprises that score 16.9. Small enterprises on Merseyside score higher than their RoNW counterparts although micro enterprises and medium size enterprises in the sub-region score less than those in the RoNW (see Table 3.13). By sector, hotels and restaurants generated the highest mean Extrovert matrix score (20.3) – a sector not generally known for innovation. Then came manufacturing at 19.6 and transport and communications at 19.5. The transport and communications sector also showed the highest growth in sales at 42%, however, manufacturing sales growth averaged at just 2% and hotels and restaurants at 9.5% suggesting that evidence of a relationship is therefore mixed using these averages.

Table 3-13: Comparison of Extrovert matrix scores by geography and size of enterprise

		No.	Mean	Minimum	Maximum
Micro-Enterprise	<i>Merseyside</i>	67	16.9	1	28
	Rest of Northwest	47	16.8	0	30
	Total	114	16.9	0	30
Small-Enterprise	<i>Merseyside</i>	40	20.2	14	27
	Rest of Northwest	32	19.5	9	28
	Total	72	19.9	9	28
Medium-Enterprise	<i>Merseyside</i>	13	19.7	6	30
	Rest of Northwest	11	22.7	18	29
	Total	24	21.1	6	30
Large-Enterprise	<i>Merseyside</i>	4	20.8	19	24
	Rest of Northwest	7	21.9	18	25
	Total	11	21.5	18	25
Total	<i>Merseyside</i>	124	18.4	1	30
	Rest of Northwest	97	18.7	0	30
	Total	221	18.5	0	30

Figure 3-14: Comparative correlation between Extrovert matrix scores and change in sales



We explored further the association between growth of sales and frequent engagement in the key business activities identified in the Extrovert matrix. What we found was that the mean proportionate change in sales from last year for those with low levels of score along the Extrovert matrix was 0.8%, for those with medium levels of score along the Extrovert matrix was 4.1%, and for those with high levels of score along the Extrovert matrix was 29.2%. Figure 3.14 shows a correlation between Extrovert matrix scores and change in sales compared between Merseyside enterprises and RoNW enterprises. Any outliers, that is those enterprises that

have recorded an increase in sales above 100%, have been excluded from this examination, as have those enterprises with a sales increase of less than 5%. This simple scatterplot indicates a relationship between the frequency of engaging with the business activities we have set out and experience of sales growth in the previous 12 months, although we have as yet been unable to confirm that this is a statistically significant relationship.

However, in tests of significance of high, medium and low levels of individual key activities against sales growth, three elements proved significant at the 95% confidence level – Appraising Employees, Employee training and Planning new products and Services.

3.6. Summary of this section

To summarise this section of the report we can point to the following:

The survey had an 8% response rate, mainly made up of small and medium size enterprises with 56% of responses from Merseyside and 44% from enterprises within the rest of the North West region. Ownership of enterprises was defined mainly as local, and in the main we captured businesses that were well established with an average employment of around four people in micro size businesses and about 22 in small enterprises.

In the 12 months prior to the survey, employment in those enterprises surveyed had grown on average by 12%, although only by 5% in Merseyside enterprises. We also identified that the make up of the workforce in Merseyside enterprises was more polarised with slightly more professionals and managers, but also slightly more unskilled.

Sales performance by Merseyside enterprises was less than that achieved by enterprises in the rest of the region. We noted that businesses in Merseyside depended for just under half (47%) of total sales on their three largest customers, while for the small enterprises in the sub-region just over a quarter (26%) of total sales was attributable to work with the public sector. Businesses on Merseyside depend on Merseyside markets for 47% of their total sales yet purchase 35% of their supplies from other businesses in the sub-region.

We found that enterprises from Merseyside have performed better in increasing sales than their RoNW counterparts, particularly in the small enterprise sector. Those businesses that we identified as more 'extrovert' based on a set of key business activities, on Merseyside were more prominent in the small enterprise sector. There seems to be some limited association between being an extrovert business and an increase in sales although this was not proven to be statistically significant.

4. Concluding Remarks

This survey has been able to compare Merseyside enterprises with those in the rest of the region and therefore highlights some of the more nuanced differences that are often invisible to those outside of the North West. The first part of this report demonstrated some of the early evidence of impact from the ECoC designation. This has given an initial economic value to the sub-region and to the North West as a whole. It has also implied that businesses with certain characteristics are well positioned to secure ECoC related work. Further research is needed to understand some of the seeming contradictions in the report and also to assess actual, as well as predicted additional sales attributable to Liverpool ECoC.

5. Appendices

5.1. Other work used in this report

The Beta Model see <http://www.betamodel.com/>

Merseyside Partnership (2007), 'Merseyside Economic Review 2007 Summary Report', The Mersey Partnership, Liverpool

National Statistics (April, 2007), 'Labour Market Statistics April 2007: North West', National Statistics, London

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National Online Manpower Information Service, Nomis see <http://www.nomisweb.co.uk>

Office for National Statistics (2006), 'Labour Market Review 2006'; HMSO, Norwich

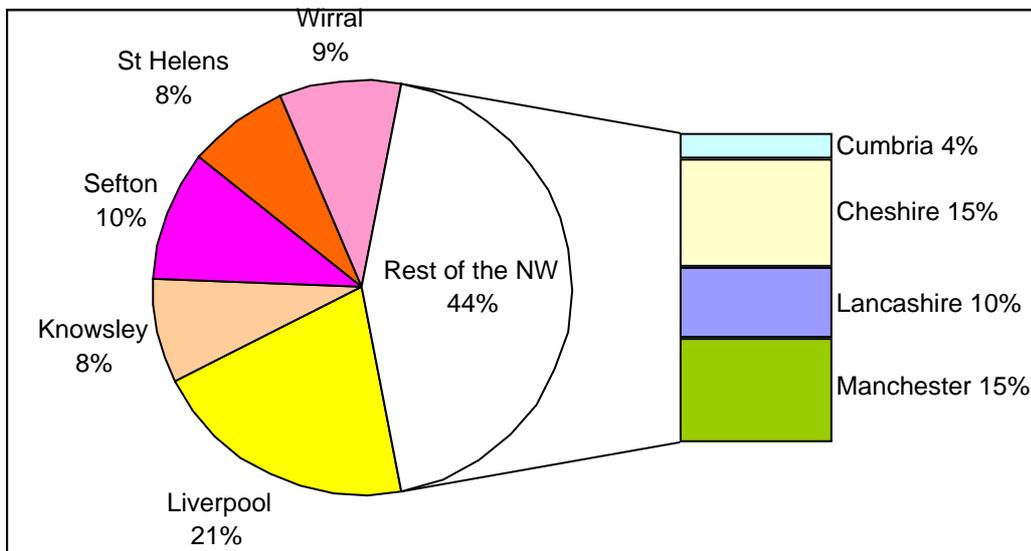
Small Business Service (2006), 'Annual survey of small businesses: UK 2005', Institute for employment studies, Sussex

5.2. Description of the Survey Respondents

5.2.1. Geographic distribution

We begin this section by outlining the type of enterprises involved in the survey. The survey was disseminated between July and December 2006 when a total of 3,000 questionnaires were sent to the owner managers (or equivalent) drawn from a database of 12,000 enterprises in the North West region held at the University of Liverpool. This database has been constructed through random selection of enterprises in the region stratified by geography, local authority district and industrial classification. For this survey 2,000 enterprises (67% of the total) were randomly chosen from the Merseyside Region and 1,000 (33% of the total) randomly chosen in the Rest of the North West (RoNW). A total of 223 usable responses were received, with 56% received from Merseyside enterprises and the 44% from RoNW enterprises. A small proportion of responses were returned from businesses outside the region and a number of returns were received as the owner manager chose not to take part (n=35) or the business was no longer situated at the address held on the database (n=17). The response rate of 8% is typical of postal surveys of small businesses.

Figure 5-1: Survey response by geography



As Figure 5.1 shows, the respondents were also profiled according to their local authority boundary. Responses in Merseyside based on district boundary were received as follows: Knowsley 8% of the total survey, Liverpool 21%, Sefton 10%, St Helens 8% and Wirral 9%. In the RoNW Cheshire and Greater Manchester each accounted for 15% of all responses, with Lancashire 10% and Cumbria 4%. The scope of survey geographic catchments is shown in the appendices (see Figures A3 and A4).

5.2.2. Basic characteristics of businesses in the survey

The majority of companies who responded to the survey were limited companies (82%), followed by partnerships (9%) and sole traders (8%). Only one respondent was of the relatively new business form 'Limited Liability Partnership' and one respondent was classed as a 'Community Interest Company'. In recent years enterprises have tended towards establishing themselves as limited companies, spurred on by tax advantages; nevertheless, the ability to capture sole traders in postal surveys remains extremely difficult.

Businesses were classified by size using employee numbers. Enterprises were then categorised using the following scale: micro enterprise with 1-9 employees; small enterprise with 10-49 employees; medium sized enterprises with 50-249 employees; and finally large enterprises with 250 plus employees. The last category was chosen as 250 plus employees, rather than using 250-499 employees and a further category of 500 plus employees due to limited numbers of respondents in the latter category (N=4). As Figure 5.2 shows, 51% of respondents fall into the micro enterprise categories (i.e. with a workforce of less than 10 employees) and 84% fall into either the micro or small enterprise categories.

We can note that data from the DTI indicates that response rates for our survey were greater from medium and large sized companies compared to the regional proportional distribution of companies. When required, a weighting factor has been used in the analysis (see Table 5.1).

Figure 5-2: Frequency of enterprise type (classification by number of employees)

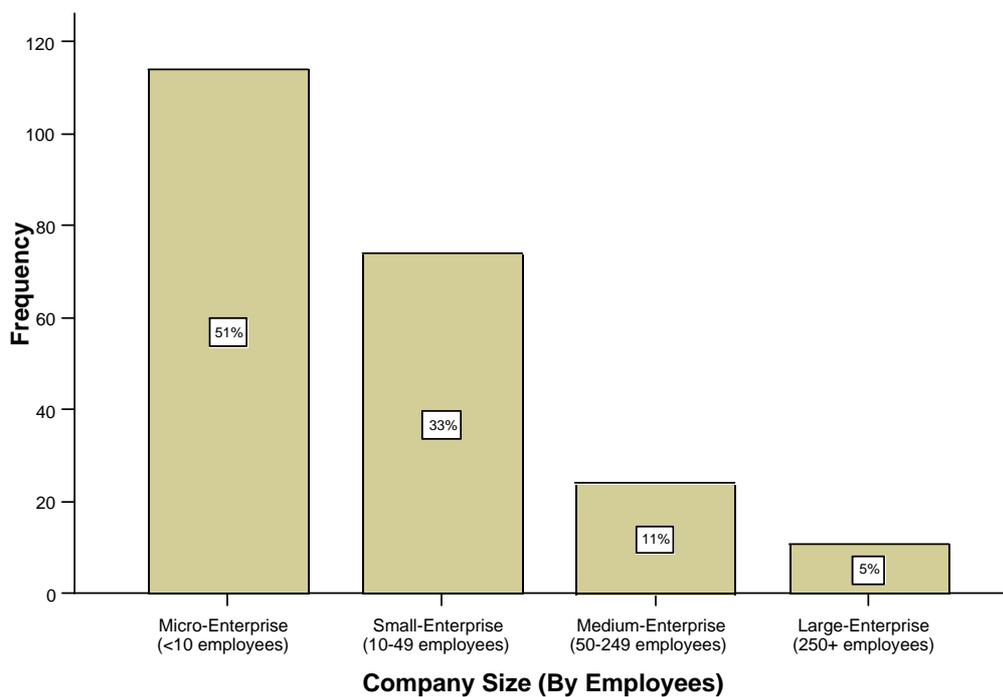


Table 5-1: Company distribution (by size) compared to national and regional average

	Residents*	Number of Companies (by employees)			Total
		(1-49)**	(50-249)	(250+)	
All UK	48,188,700	4,308,070	28,913	4,819	4,341,802
As %		99.2	0.7	0.1	100.0
North West	5,477,300	433,798	2,742	549	437,089
As %		99.2	0.6	0.1	100.0
Survey		188	24	11	223
As %		84.3	10.8	4.9	100.0

Possible weighting factor

1.177

0.058

0.025

* Business numbers derived from per 10,000 residence figures quoted

**including sole proprietors

Source: DTI Small Business Service Analytical Unit, 2007

The respondents represented a good spread across business sector types although there were fewer than five respondents in each of the following categories:

- Agriculture and fishing
- Mining, energy and water

Where these sectors are included in many of the tables and figures that follow it is done for illustrative purposes and they do not form part of the analysis. For the rest, the distribution of response in Table 5.2 below provides a comparison with 2005 VAT sectors.

Table 5-2: Respondent's business sector definition (%)

Industry	UK VAT 2005	NW VAT 2005	Survey
<i>Excluded Agriculture and Mining</i>	8	6	2
Manufacturing	9	9	21
Construction	13	12	14
Wholesale and retail	23	26	20
Hotels and restaurants	8	9	5
Transport and communications	5	5	12
Financial intermediation	1	1	10
Real estate and other business activities	31	30	12
Education and health	2	2	3

The main reason for difference between sector representation in VAT records and our survey, is that the survey specifically asked for owner manager definition of which sector the business belongs to. The clear differences that can be seen in real estate and other business activities compared with the difference in financial intermediation is likely to be a case in point whereby self-definition produces a different proportionate result in classification than that determined by government. We would also suggest that the same explanation is pertinent to the difference in manufacturing.

Of the 223 enterprises that provided employment data, a total employment base of 13,634 is represented. Although the number of firms classed as 'large enterprises' only made up 5% of the respondent base, this sector accounted for 70% of the employment. This does represent a slight bias in the figures, due to an over-represented response from large firms. Using a weighted response of large firms making up 0.1% of the businesses, employment would be at 8.5% from this sector.

Table 5-3: Mean numbers of employees by enterprise size

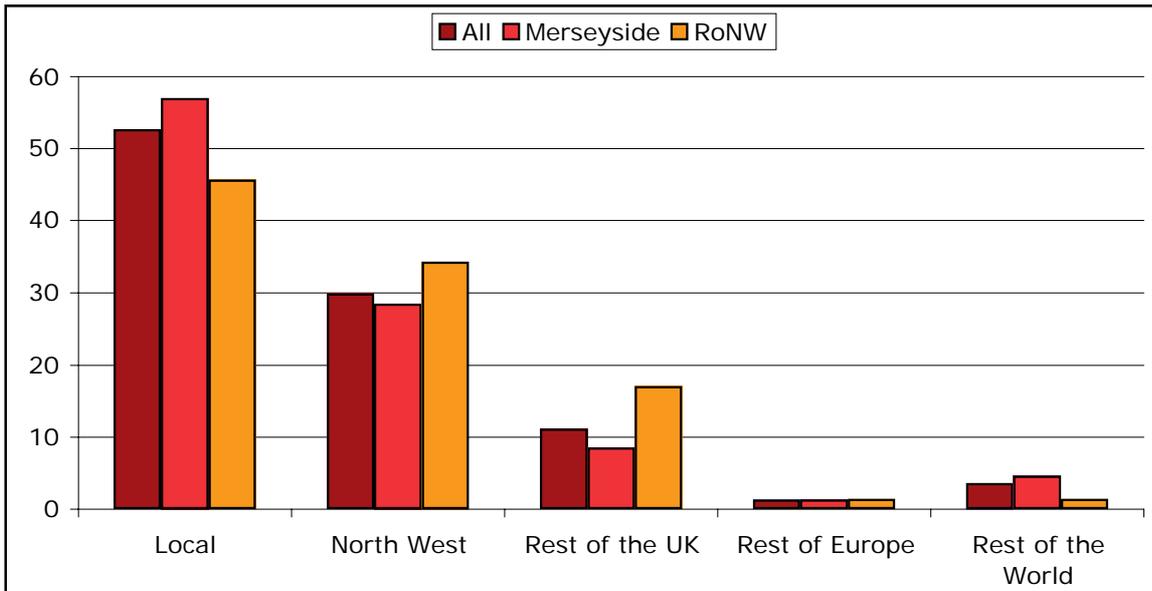
	All Survey		Merseyside		RoNW	
	No.	Mean	No.	Mean	No.	Mean
Micro-Enterprise	114	4	67	4	47	4
Small-Enterprise	74	22	41	21	33	23
Medium-Enterprise	24	87	13	-	11	-
Large-Enterprise	11	869	4	-	7	-
Total	223		125		98	

Table 5.3 shows the skewed distribution of number of employees towards the smaller enterprise. In the micro classification the mean employee number was 4 and in the small enterprise class 22. This was also consistent

when figures were compared between Merseyside and the RoNW. The small proportion of larger enterprises tends to inflate the mean figure for employment overall.

We looked at where the ultimate ownership of the enterprise was located. Figure 5.3 shows that businesses in Merseyside have a slightly higher tendency to be locally owned (within the local district i.e. Merseyside, Manchester, Chester, Preston etc.), with this being the case for 57% compared to 46% for the RoNW. Also, more are internationally owned, (6% compared with 3%). For ownership located within the region, overall this is 86% for Merseyside businesses and 80% for RoNW businesses, and as a result more enterprises in the RoNW have an ultimate ownership deemed as non-regional.

Figure 5-3: Ultimate ownership comparison



Finally for this section, we asked for the year business operations started and from and from this an average age (to December 2006) was calculated. This indicated the extent to which those enterprises surveyed could be regarded as established and therefore as having a higher chance of survival.⁶ This shows that 15% of businesses had been operating for five years or less and 30% of businesses were ten years or less in operation.

Table 5-4: Average age of business by enterprise size (years)

	Number of Businesses	Mean age
Micro-Enterprise	108	18.7
Small-Enterprise	69	28.6
Medium-Enterprise	24	38.5
Large-Enterprise	11	55.9
All Enterprises	212	26.1

As Table 5.4 demonstrates the average operating age of the enterprises surveyed was just over 26 years. However, this varied according to business size with micro enterprises having a mean age of just under 19 years, small enterprises slightly over the average at 29 years, and large enterprises at about 56 years.

⁶ In many ways this counters the inability of surveys to capture the smallest of enterprises and specifically sole traders who appear as much more transient in the total population of enterprises and are more susceptible to closure.

These basic characteristics indicate the comparative nature of the survey in assessing the performance of Merseyside enterprises relative to those with the rest of the region. This intra-regional analysis determines some of the specific difference that can be ascribed to the business base in the sub-region, not least because from afar North West enterprises will be thought of as a homogenous group.

In summary, the survey has questioned small enterprises, with some larger businesses also captured, with one in five in manufacturing. The same proportion of enterprises is located in wholesale and retail. The mean figure for employment for the micro size enterprise is four, and for the small business is 22, with little difference between Merseyside and the RoNW enterprises. More Merseyside businesses are locally owned, but also more are internationally owned. More RoNW enterprises have a national ownership. Finally, the average age of the enterprises surveyed is 26 years although for the micro enterprise it is 19 years, demonstrating that the survey has captured established enterprises that can provide data on the basis of their previous experience of the business environment with some considered thought given to the future.

Figure A1 North-West Survey Coverage

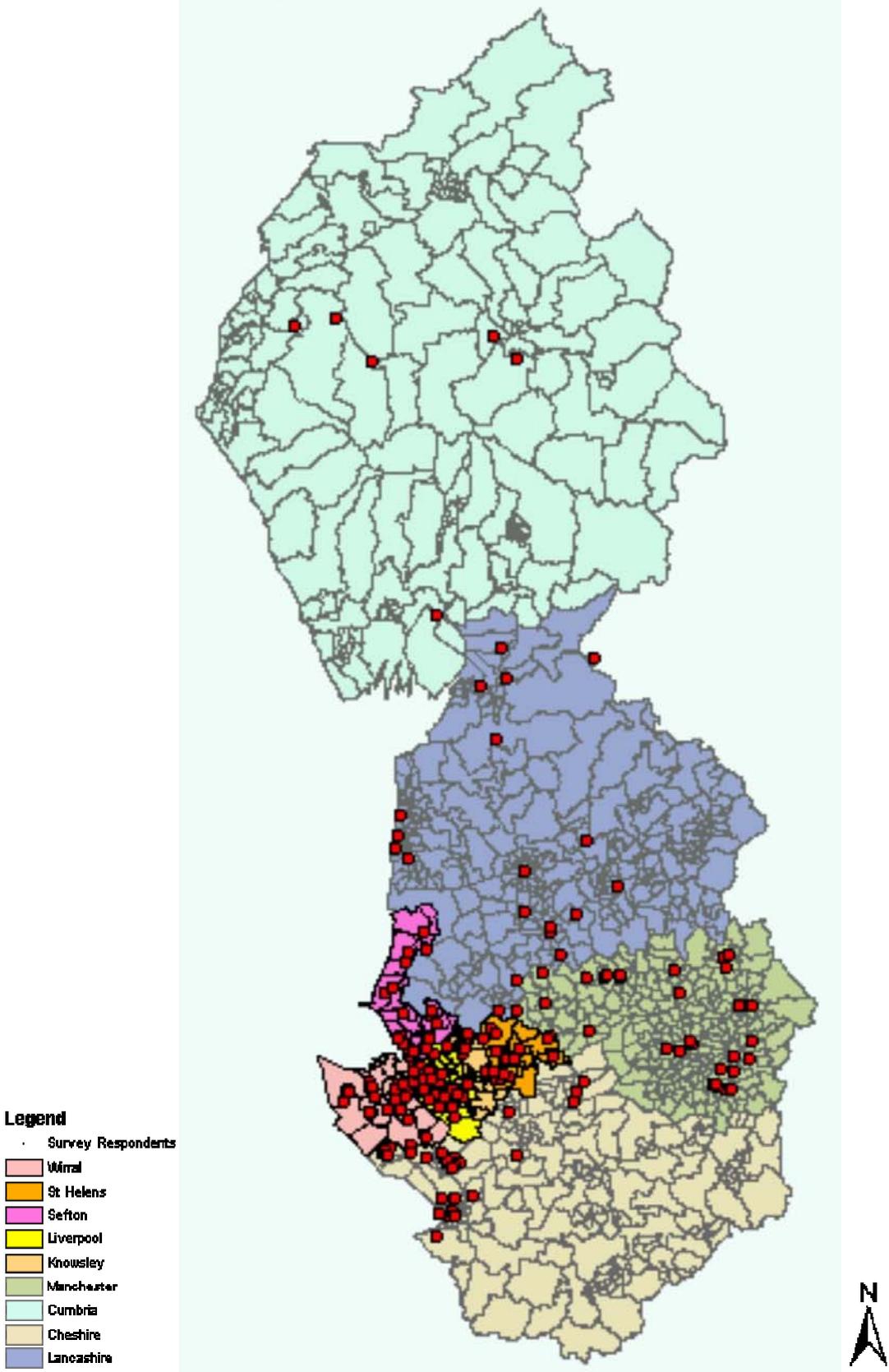


Figure A2 Merseyside Survey Coverage

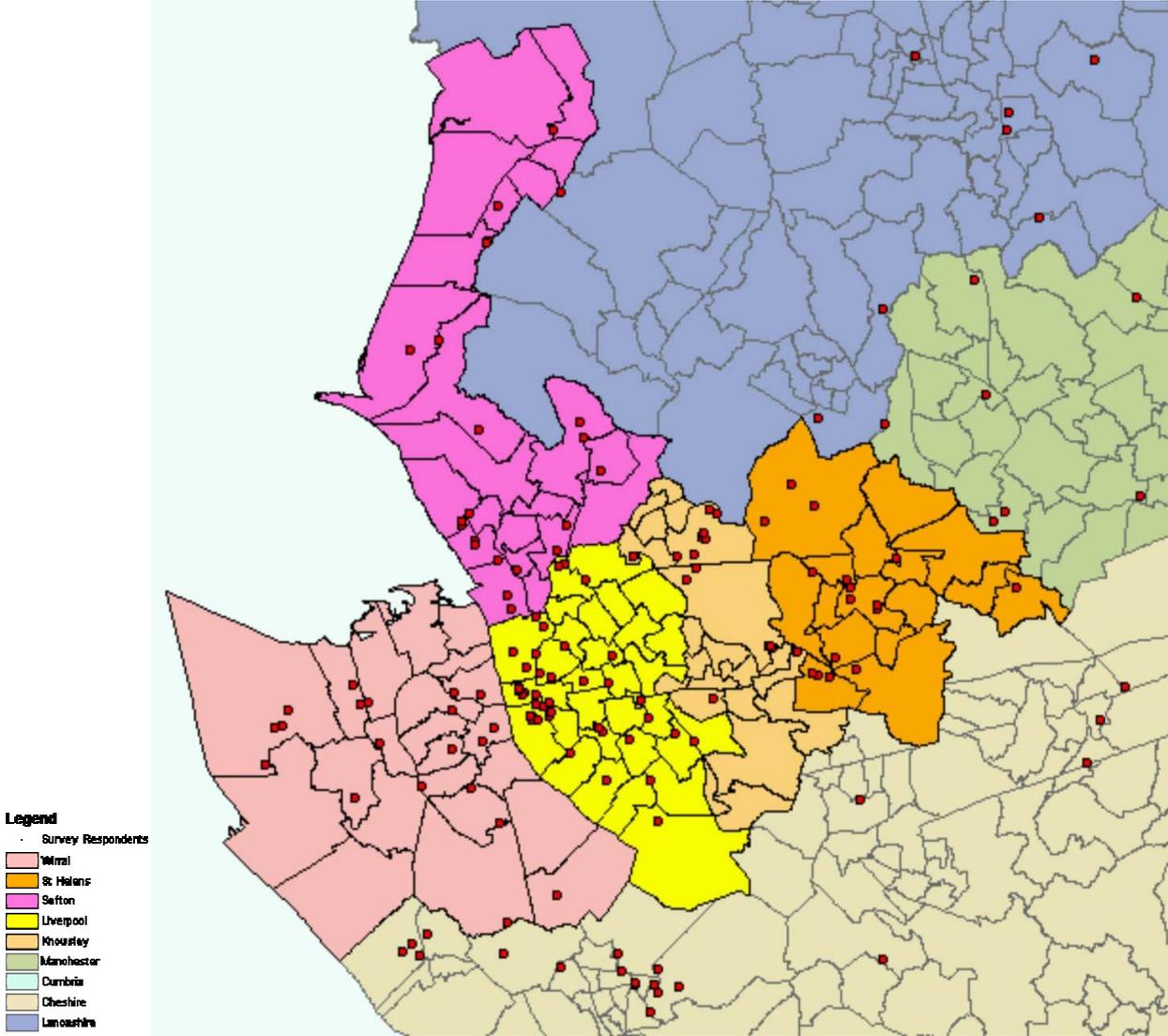


Figure A3 Employment distribution by enterprise size

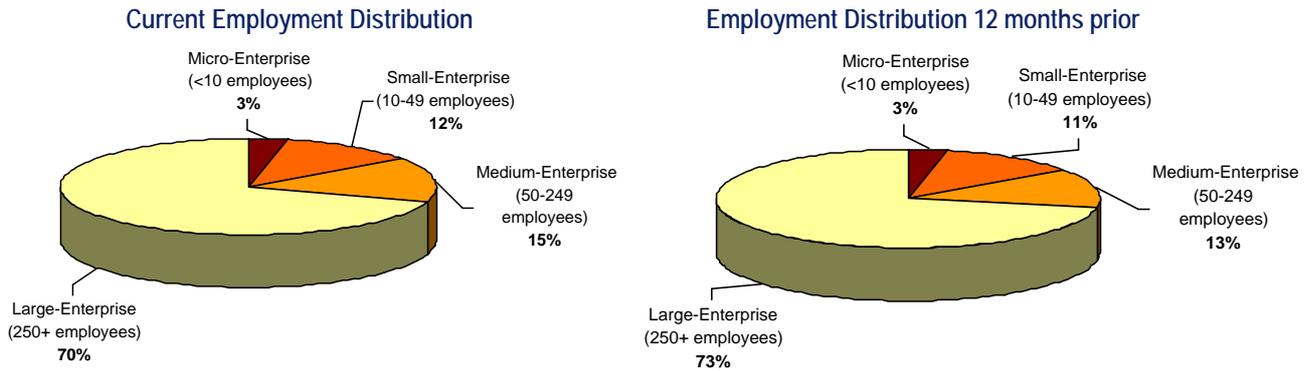


Table A1 Mean sales in the financial year 2005-06 by industry sector

Business sector	N	Mean Sales (000's)	Std. Deviation (000's)	Minimum value (000's)	Maximum value (000's)
Agriculture, fishing	3	360	382	120	800
Mining, energy or water	1	105	.	105	105
Manufacturing	41	15,363	39,980	36	206,000
Construction	29	3,195	4,298	15	18,000
Wholesale and retail	40	7,555	36,201	47	230,000
Hotels and restaurants	10	1,361	1,560	61	4,500
Transport and communications	23	13,763	60,451	1	291,000
Finance	22	18,900	85,137	50	400,000
Real Estate	22	12,242	48,768	14	230,000
Education and health	3	719	731	100	1,526
Total	194	10,533	45,775	1	400,000

* Those sectors with less than 5 respondents and where have limited interpretive value

5.3. Questionnaire



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**The performance of enterprise in the North West of England 2005-2006
A survey by the University of Liverpool Management School**

Your individual replies are confidential and the utmost respect is paid to your sense of privacy.

Please provide your postcode

--	--	--	--	--	--	--

Section A: About the business

1. What is the legal form of your business? 2. In what year did operations start at your business?

Limited Company

--

Partnership

Sole Trader

Franchise

Other (please state) _____

3. How many people are currently employed in your business?

--

Of which: Full Time

--

 Of which: Male

--

Part Time

--

 Female

--

4. How many people were employed in your business 12 months ago?

--

5. Over the next 12 months do you expect employment to Increase

--

 Stay the same

--

 Decrease

--

6. Please indicate the proportion of staff designated as

Professional, managerial		%
Technical		%
Clerical		%
Skilled manual		%
Unskilled manual		%
Other (please state)		%
Total		100%

7. Please indicate the industry sector that your business belongs to

<input type="checkbox"/> Agriculture, fishing	<input type="checkbox"/> Wholesale and retail	<input type="checkbox"/> Real Estate	<input type="checkbox"/>
<input type="checkbox"/> Mining; energy or water	<input type="checkbox"/> Hotels and restaurants	<input type="checkbox"/> Public administration	<input type="checkbox"/>
<input type="checkbox"/> Manufacturing	<input type="checkbox"/> Transport and communications	<input type="checkbox"/> Education and health	<input type="checkbox"/>
<input type="checkbox"/> Construction	<input type="checkbox"/> Finance		

8. What are the two major products or activities of your business?

i	
ii	

9. Please indicate which location best describes the ultimate ownership of your business

Local	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="width: 50px; height: 15px;"></td></tr></table>		Rest of Europe	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="width: 50px; height: 15px;"></td></tr></table>	
Regional (North West)	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="width: 50px; height: 15px;"></td></tr></table>		Rest of the World	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="width: 50px; height: 15px;"></td></tr></table>	
Rest of the UK	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td style="width: 50px; height: 15px;"></td></tr></table>				

Section B: Sales

10. What was the value of sales at your business for the financial year 2005-2006? £

11. Please indicate how sales changed from the previous financial year, 2004-2005

	Sales increased by	<input type="text"/> %
	Sales decreased by	<input type="text"/> %
	Sales remained about the same ✓	<input type="text"/>

12. Please indicate the proportion of your total sales over the last financial year, 2005-2006, sold...

	To your largest customer	<input type="text"/> %
	To your second largest customer	<input type="text"/> %
	To your third largest customer	<input type="text"/> %

13. Please indicate the proportion of your total sales over last financial year, 2005-2006, sold...

	To other private sector firms	<input type="text"/> %
	To the public sector	<input type="text"/> %
	To the general public	<input type="text"/> %
	Total	100%

14. Please indicate the proportion of your total sales over the last financial year, 2005-2006, sold to the private sector...

	To small businesses	<input type="text"/> %
	To medium size businesses	<input type="text"/> %
	To large businesses	<input type="text"/> %

15. Please indicate the proportion of total sales your business made in the 2005-2006 financial year by location, sold...

	Locally (in your own district)	<input type="text"/> %
	Within the rest of the North West	<input type="text"/> %
	Beyond the North West but in the UK	<input type="text"/> %
	Beyond the UK	<input type="text"/> %
	Total	100%

16. Please indicate how sales have changed over the last 12 months ✓

	Increased	Remained the same	Decreased
Local sales have	<input type="text"/>	<input type="text"/>	<input type="text"/>
North West sales have	<input type="text"/>	<input type="text"/>	<input type="text"/>
National sales have	<input type="text"/>	<input type="text"/>	<input type="text"/>
International sales have	<input type="text"/>	<input type="text"/>	<input type="text"/>

17. Please indicate how you believe sales will change over the next 12 months ✓

	Increase	Remain the same	Decrease
You expect local sales will	<input type="text"/>	<input type="text"/>	<input type="text"/>
You expect North West sales will	<input type="text"/>	<input type="text"/>	<input type="text"/>
You expect national sales will	<input type="text"/>	<input type="text"/>	<input type="text"/>
You expect international sales will	<input type="text"/>	<input type="text"/>	<input type="text"/>

Section C: Purchases

18. Please indicate the proportion of your total business purchases over the last financial year, 2005-2006, bought from...

	Small businesses	<input type="text"/> %
	Medium size businesses	<input type="text"/> %
	Large businesses	<input type="text"/> %
	Other (please state)	<input type="text"/> %
	Total	100%

19. Please indicate the proportion of total purchases your business made in the 2005-2006 financial year by location, bought...

Locally (in your own district)	%
Within the rest of the North West	%
Beyond the North West but in the UK	%
Beyond the UK	%
Other (please state)	%
Total	100%

20. Please indicate how you believe purchases will change over the next 12 months ✓

	Increase	Remain the same	Decrease
You expect local purchases will			
You expect North West purchases will			
You expect national purchases will			
You expect international purchases will			

Section D: General business activities

21. Please indicate how often you or your company carry out the following activities ✓

Every	3 months or less	6 months or less	12 months or less	More than 12 months	Not during the last 5 years
Update business web pages					
Sell via Internet					
Purchase via Internet					
Renew IT hardware					
Renew IT software					
Plan for new product/service					
Research competitors					
Seek collaborators (with other firms)					
Take part in business network event					
Contact customers (other than for direct sales purposes)					
Visit suppliers					
Send managers on training course					
Send other employees on training course					
Appraisal of managers					
Appraisal of other employees					

Section E: Finance and business support

22. Please indicate if you have raised finance for investment or revenue purposes recently from ✓

	Investment finance		Revenue finance	
	2004-2005	2005-2006	2004-2005	2005-2006
Own savings				
Family member				
Own bank				
Other bank				
Venture Capital firm				
Business Angel				
Credit Card				
Other (please state)				

23. Has your business received advice from any of the following in the past 12 months? ✓

Business Link	<input type="checkbox"/>	Trade Organisation	<input type="checkbox"/>	Business Mentor	<input type="checkbox"/>
Enterprise Agency	<input type="checkbox"/>	Accountant	<input type="checkbox"/>	Relation or Friend	<input type="checkbox"/>
Local Authority	<input type="checkbox"/>	Bank Manager	<input type="checkbox"/>	Solicitor	<input type="checkbox"/>
Other (please state)	_____				

Section F: The 2008 European Capital of Culture award

In 2008 the European Capital of Culture is being hosted in the North West of England.

24. Please indicate how aware you are of the 2008 European Capital of Culture designation? ✓

1 = not aware					5 = very aware	
1	2	3	4	5		

25. Please indicate if your business has gained any additional sales in 2005-2006 directly or indirectly due to the 2008 European Capital of Culture designation ✓

Yes	No
-----	----

26. Please indicate the proportion of your sales in 2005-2006 directly or indirectly due to the 2008 European Capital of Culture designation

%

27. Please indicate how likely it is over the next three years that your business will gain additional sales, directly or indirectly due to the 2008 European Capital of Culture designation ✓

1 = not likely					5 = very likely	
1	2	3	4	5		

Section G: The Owner Manager, Chief Executive or Equivalent

28. Your position:

29. Your age:

30. Years working in this or similar position:

31. Hours on average worked each week:

32. Please indicate the highest level of education most applicable to you personally (tick only one) ✓

Degree (e.g. undergraduate, MBA etc.)	<input type="checkbox"/>
Vocational (e.g. management qualification)	<input type="checkbox"/>
A levels	<input type="checkbox"/>
GCSE	<input type="checkbox"/>
None	<input type="checkbox"/>
Other (please state)	<input type="checkbox"/>

33. If you would like a synopsis of the research results please tick the box and attach your company card

Thank you for your time and assistance. Please return to Dr Alan Southern, University of Liverpool Management School, Chatham Street, Liverpool, L69 7ZH.