



NORTH WEST: STATE OF THE REGION 2010

A joint survey by TheBusinessDesk.com and DLA Piper UK LLP

BACKGROUND

In November 2009, as businesses prepared to bid farewell to one of the toughest years in recent memory, DLA Piper joined forces with TheBusinessDesk.com to carry out an online survey with TheBusinessDesk.com's readership to gauge the attitudes and sentiments of business leaders across the North West and Yorkshire as they looked forward into 2010.

The purpose of the 'State of the Region' survey was to understand the attitudes of regional business leaders, across companies of all sizes and sectors, to the

regional economy, its opportunities and shortfalls, and to gauge their thoughts on the issues that will shape their business over the course of 2010.

In total, around 450 regional business leaders took the opportunity to respond to the survey, giving their invaluable insights into the sectors they felt would prosper in 2010, the legal issues they believed would be the most challenging to address, and their views on how the local economy compares to the rest of the UK.



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NORTH WEST REGIONAL OVERVIEW

Business leaders across the North West are united in their belief that confidence in the economy is up, bank lending will increase this year and that companies will experience growth over the next 12 months. Despite the challenges of recent months, an overwhelming majority of people (89%) still believe that the North West is a good place to do business, indicating that regional passion has not been dampened by the recession.

However, opinion around how much better the North West economy fares in relation to the rest of the UK is more divided, with only 45% believing the North West is better than the rest of the UK, 28% thinking it is the same and 17% thinking that it is worse. This would

“There are a lot of people out there who are playing a “wait and see” game. Recovery may happen more slowly because businesses may adopt a more cautious approach to expansion and borrowing, but it is good to hear that overall confidence in the North West’s economy is on the up. The cost savings of 2009 have left businesses leaner and meaner with a good platform to exploit the opportunities that economic upturn will bring.”

David Gray, Managing Partner, DLA Piper Manchester

suggest that whilst businesses are positive about the region’s business assets, they are comparatively sombre about its overall economic position in the UK. Two-thirds of respondents believe that a change in government will make a significant difference to the region’s economy.

By far, the greatest issue stated as hampering the region’s potential is its transport and infrastructure. 28% of respondents cited this as their main concern, followed by lack of inward investment (24%), skills/training (17%), business support (15%) and regeneration (7%).

When asked what could be done to improve the North West’s business culture, most respondents stated that better sharing of ideas amongst business leaders would be most beneficial. This was followed by easier access to local politicians and decision-makers and opportunities to learn from business leaders outside the region.

BUSINESS ATTITUDES

Over the past 18 months, the global economy has gone through unprecedented challenges and North West businesses have not been immune from these. Key sectors including construction, manufacturing and financial services have all suffered high profile difficulties and redundancies across the region, making 2009 a challenging year for all.

But despite these challenges, North West businesses have battled on and remained largely stoical about their situation. The North West economy has traditionally avoided ‘boom or bust’ status and this pragmatic approach is evident in respondents’ attitudes towards the economic picture for 2010.

Just over half the respondents said they were more confident about the state of the economy than they were 12 months ago, whilst 30% remain the same and only 14% said they feel less confident. But when looking forward to the prospects for market recovery, the majority (56%) think

that conditions will remain the same throughout 2010 and that markets will only start to improve in 2011, with 22% of respondents viewing 2012 as a more realistic timescale. This suggests regional businesses, whilst positive about the general direction of recovery, recognise that inevitably it will be a slow process.

The main barriers to growth were identified as cash flow concerns, limited sales opportunities and access to finance. However, over half of the respondents said they had not looked at alternative ways to raise finance. For those that had, equity finance was the most popular (13.5%). On a positive note, 60% of respondents believe that bank lending will increase in 2010.

However, despite their belief that the overall economic picture will remain the same in 2010, over two-thirds of respondents feel that their own businesses will grow in terms of revenue, profits and staff over the next 12 months. The main driver for this growth is cited as 'organic' (41%), followed by the development of new products and services, which suggests North West companies are focused on sustainable recovery. Given the continued uncertain economic environment and on-going concerns about the cost and availability of credit, just 6% of people expected growth to come via acquisition, while just under 10% expect it to be as a result of entering new markets.

“Retrenchment to home markets is perhaps understandable at this time. However, we are in a global marketplace and businesses should expand their horizons so as not to miss out on global economic opportunities. The World Expo 2010 in Shanghai offers, through the Liverpool-led North West presence, a good opportunity to make the contacts that will pay dividends in the future.”

Philip Rooney, Managing Partner, DLA Piper Liverpool

FACTORS DRIVING RECOVERY IN 2010

When asked what factors would drive economic recovery during 2010 our respondents were split in their views, with 25% believing increased bank lending would be the key factor, whilst the same proportion believe that the key factor will be a change in government. Increased consumer confidence was seen as the third factor.

In terms of the greatest lessons learned from the recession, most responses, unsurprisingly, related to financial issues. “Cash is king” was a popular response, along with low financial gearing, the importance of monitoring debts and cash flow and keeping costs under control.

Business leaders believe that the technology sector will be at the forefront of the region’s recovery, followed by manufacturing, financial services and professional services. This sentiment suggests that despite the challenges of recent months, manufacturing and the financial services remain centrally important to business confidence in the North

West, and that companies who deliver innovative new technologies will be at the forefront of economic success. Unsurprisingly, given the challenges of the last 18 months, retail and property businesses were among the sectors seen as having the least growth potential in 2010.

Attitudes towards the capacity for new markets to aid recovery, however, were more conservative, with the majority of respondents stating that local and national markets offered the best opportunities in 2010. When asked which overseas markets offered the best opportunities for growth, Western Europe was stated as the top target, followed by Asia. This would suggest the fluctuations in international markets in the last 12 months have affected regional business confidence in international trade.

CHALLENGES AND ISSUES

As the UK economy prepares to exit recession and begin the process of economic recovery, companies were asked to state what challenges they would face in the year ahead.

Again, North West businesses showed a great deal of pragmatism in this area and although generally confident about their prospects in the next 12 months, respondents remained realistic about the challenges ahead.

When asked about the greatest issues facing their executive teams in the coming year, financial issues remained the key concern, with cash flow, limited sales opportunities and access to finance cited as the top three challenges. Other issues include credit control and cost management.

Nearly 50% of respondents felt increased regulation would be the biggest legal issue facing their business in 2010, with concerns around employment law, directors duties and liabilities and disputes/litigation featuring highly. The fact that increased regulation is seen as the biggest legal hurdle for businesses throughout 2010 comes as no surprise. Compliance with regulatory requirements is an onerous process for all businesses, although the impact of non-compliance can be extremely costly, both from a brand and financial point of view. The Bribery Act, which comes into force this year, will be additional cause for companies to ensure that they have appropriate compliance systems in place.

CONCLUSIONS

The State of the Region survey has given a clear sense that businesses in the North West are positive about the opportunities that their region has to offer and are looking to 2010 with a general feeling of confidence.

Regional businesses have recognised the importance of innovation and new developments to economic prosperity but also value sustainable, organic business growth. The majority, however, still feel their immediate recovery will be most closely dictated by recovery and liquidity in the financial markets, which will not only free up finance but also improve consumer confidence. And in the longer term, political stability is key to the North West's economic success.

Regional businesses continue to see local and national markets as their main targets, despite concerns about limited sales opportunities in 2010. Those who do see opportunity in international trade believe Western Europe offers the greatest prospects, perhaps suggesting that the pragmatism that enables regional businesses to remain stoical about economic difficulty, also affects their confidence to venture overseas.

'STATE OF THE REGION' SURVEY METHODOLOGY

The survey was run by www.TheBusinessDesk.com during November 2009. A link to the survey was mailed to all registered users of the BusinessDesk.com and responses were encouraged via regular editorial features.

The survey covered questions on the economy, the region and individual businesses. Questions were a combination of multiple choice and free text to give both quantitative and qualitative data. Not all respondents completed every question in the questionnaire, thus explaining why in some instances the percentages listed are less than 100% when totalled.

- 207 users completed the North West survey. The majority of respondents (68%) were at senior management level (CEO, Chairman, Managing Director, Finance Director, Director, Partner).
- 50% of responses came from companies with a turnover of £25 million+.
- Around half of all respondents were from businesses with head offices in the North West.
- Around half of all respondents were from businesses that already trade internationally.

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