

West Midlands Growth Hubs Cluster

West Midlands Business Trends

Quarter 2 2020/2021 – July-September 2020



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Summary

The West Midlands Growth Hubs led on this West Midlands Business Trends survey. Across the West Midlands we contacted 7,000 businesses and had 466 responses to the Business Trends survey in quarter 2 of 2020/2021. The areas covered were The Black Country, Greater Birmingham & Solihull, Coventry & Warwickshire, The Marches, Stoke-on-Trent & Staffordshire, and Worcestershire.

Businesses were asked to report on their current business confidence and areas of investment, skills and innovation.

32% of respondents had heard of Growth Hubs, which was an increase of approximately 15% from the beginning of 2020. Of those businesses who had heard about Growth Hubs, 38% had received advice or support from a Growth Hub in the past

Growth Hub Area	% of Total
Coventry & Warwickshire	24%
Greater Birmingham & Solihull	11%
Stoke-on-Trent & Staffordshire	12%
The Black Country	23%
The Marches	12%
Worcestershire	18%

Business Profile

The size profile of businesses who took part in the survey was as follows:

- 5% sole employee
- 33% micro (2-9 employees)
- 48% small (10-49 employees)
- 13% medium (50-249 employees)
- 1% large (250+ employees)

This is representative of the SME base across the West Midlands Growth Hubs.

16% of businesses indicated that they are in receipt of small business rates relief or rural rates relief.

Legal Status	% of Total
Private Limited Company	85%
Sole Trader	6%
Partnership	5%
Charity or CIC or Social Enterprise	3%
No info given	1%

Industries

Manufacturing & AME were the industry with the most representation amongst the respondents, which reflects the strategic importance of the sector across most of the West Midlands areas. 47% of surveyed business were from this sector.

Turnover

There was a strong representation of the West Midland's core SME market amongst the businesses surveyed reflected in the turnover values provided. With the highest number of surveyed businesses that provided information on their turnover sat at between £1m and £3m in turnover.

Key Headlines

Current Business Situation

Two thirds of responses from businesses in the Arts, Entertainment and Recreation industry indicated a higher percentage of businesses in crisis mode and survival mode, indicating that a majority of staff were put on furlough.

EU Exit

The results showed the industry most concerned about EU Exit was Agriculture, Forestry and Fishing, at 50% of surveyed businesses saying they were concerned, followed by Manufacturing, with 38% of respondents saying this concerned them, and Accommodation and Food Service, with 36% of surveyed businesses reporting this as a concern. A third of businesses in Transportation and Haulage also indicated concerns around EU exit.

30% of Retail and Wholesale businesses indicated that they are concerned about EU Exit. This, together with the fact 50% of Agricultural, Forestry & Fishing businesses indicated that they are also concerned about EU exit, could illustrate how a potential rise in cost of food products will impact both industries post EU transition.

Cashflow

The industry with the highest percentage of businesses reporting cashflow concerns was Accommodation & Food Service businesses, at 69%. Almost half of manufacturing (46%) and construction industries (48%) were concerned about cashflow. This may be reflective of the length of payment terms in these industries. Health and Social care were the industry least concerned, with 59% stating that they are not concerned about their cashflow – in line with confidence levels being high in that industry.

Sales/Leads

Businesses in the Arts, Entertainment and Recreation sector were most concerned about a lack of sales/leads, with 86% of surveyed businesses reporting this as a concern. This was closely followed at 75% of businesses in the IT, and Education and Training industries, potentially highlighting that training and investment in IT infrastructure have reduced over recent months.

Business Rates

Business rates were of comparatively low concern across all the sectors surveyed. Manufacturing businesses reported Business Rates as a concern the most frequently, with 31% of businesses listing this as a concern, followed by Arts, Entertainment and Recreation businesses at 29% and Retail/Wholesale at 28%.

Exchange Rates

The industries who most frequently reported Exchange Rates as a concern were Digital & Creative and Transportation & Haulage, at 33% each, Manufacturing and Retail/Wholesale at 30% each and AME at 26%.

Taxation

Taxation was an area of concern amongst most of the industries surveyed. 75% of Transportation & Haulage businesses reported this as a concern, likely connecting into EU exit concerns within that

sector. 58% of Digital & Creative businesses, 56% of Construction businesses, 50% of Education and Training businesses and 48% of Retail/Wholesale businesses were also concerned with taxation.

Digitalisation

65% of businesses indicated that digitalisation is not a concern for their business. This may indicate that businesses have either adapted to increasing need for digitalisation throughout the last months, due to the requirement on businesses to adapt their services to continue operating during the restrictions, or it could indicate a lack of understanding of the impact of digitalisation and highlight missed potential for businesses to expand on their digital offer. Businesses may not recognise the need for implementing measures at the current stage.

Supply Chain Disruption

The industries with the most businesses who reported this as an area of concern were Transportation and Haulage at 58%, Agriculture, Forestry & Fishing at 50%, Construction and Retail/Wholesale, both at 48%, Accommodation and Food Service at 46% and Manufacturing at 42%.

Investments

Respondents were asked to report on areas of planned investment and how these plans have changed over the last 3 months. There was a significant trend to reduce investment in plant and machinery in several industries, in contrast to a trend towards increasing IT and digitalisation investment in other industries.

Significant **reductions** in investment in plant and machinery:

- Transportation & Haulage Sector: 42% of businesses surveyed
- Manufacturing, AME & Construction: 30% of businesses surveyed
- Arts, Entertainment & Recreation: 30% of businesses surveyed

Significant **increases** in investment in IT upgrades and business digitalisation

- Education & Training businesses: 88% of businesses surveyed
- Accommodation & Food Service: 31% of businesses surveyed
- Human Health and Social Care: 30% of businesses surveyed

The results highlighted that there was a trend towards businesses investing in improving existing premises instead of investing in new premises, indicating that expansion plans may have been put on hold indefinitely.

Employees & Skills

43% of businesses reported that over a 6 month period (the last three months and the next three months combined), their staff numbers have or will reduce.

38% of Businesses in the Accommodation and Food Service sector reported they would be reducing staff over the next 3 months, the majority by up to 5 staff.

30% of Manufacturing businesses reported they would be reducing staff over the next 3 months, with 12% reporting a reduction of up to 10 employees and 5% reporting a reduction of up to 24 employees.

33% of Transportation and Haulage businesses reported a planned increase of up to 5 staff over the next 3 months, which could indicate a reduction in availability of EU citizen staff. 22% of Human Health & Social Care businesses also indicated they would be increasing staff numbers by up to 5 people over the next 3 months.

Redundancy was the most mentioned reason for staff reductions over the last three months or planned staff reductions in the next 3 months, with 57% of businesses indicating this as the reason, followed by 29% answering that there is currently insufficient work for casual or zero hours contract staff.

Overall, 22% of respondents reported an increase of employees for the 6 months.

Amongst businesses who reported they have, or would be, increasing staff numbers, over 50% said these increases would be for skilled manual or technical staff, 17% would be recruiting semi and unskilled workers and 12% would be taking on apprentices.

Changes in Business Health

30% of businesses in Manufacturing businesses and 26% of AME businesses reported their sales were down by more than 50%. Only 10% of Manufacturing businesses reported any increase in sales and bookings. Less than half of the businesses surveyed were confident about their business' ability to survive over the next 12 months; a drop in confidence from almost three quarters of businesses who are confident in their business' ability to survive the next 3 months.

More than two thirds of businesses in the Arts, Entertainment and Recreation industry were not confident in their business' ability to survive the next 12 months and 65% of respondents from this industry reported a decrease of more than 50% in sales and bookings over the last 3 months.

100% of accommodation and food service businesses reported a decrease in sales and bookings, and well over half of these businesses reported the decrease in sales and bookings was greater than 50%.

92% of Accommodation and Food Service businesses said their cashflow had decreased and 75% of those businesses said cashflow had decreased by more than 50%.

Two thirds of Accommodation and Food Services businesses surveyed said their cash reserves had reduced and, of those businesses, almost half had experienced a reduction of more than 50% of their cash reserves.

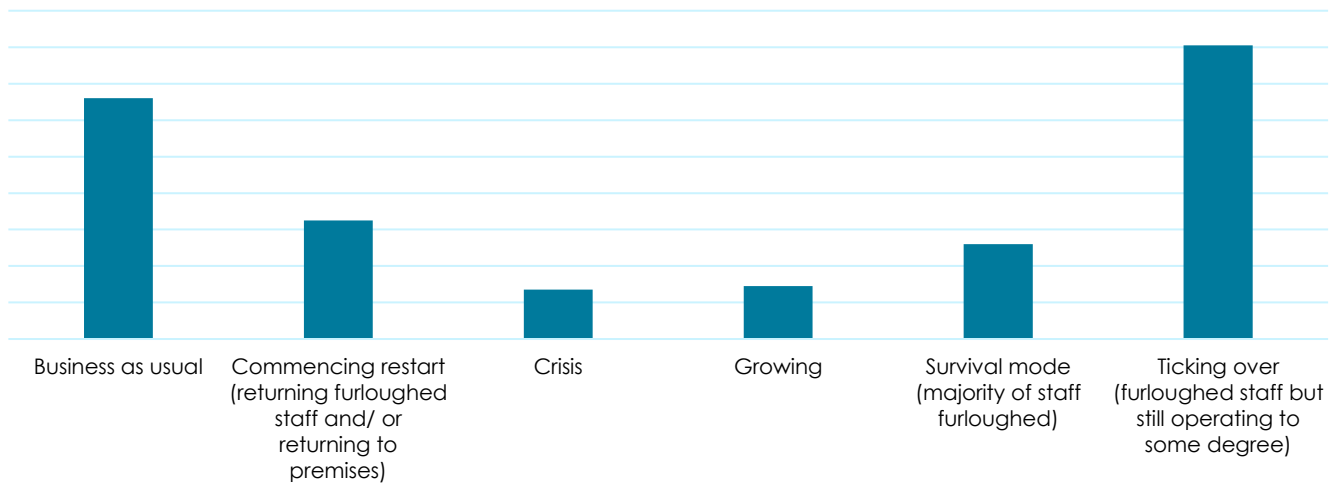
60% of Construction businesses reported their sales and bookings had decreased, and 28% of those businesses said they were down by over 50%.

86% of the Arts, Entertainment and Recreation businesses who had experienced a reduction in cashflow said the reduction was in excess of a 50%. Three quarters of Construction businesses said their cash reserves had reduced over the last 3 months.

Business Trends

Defining the Business' Current Situation

How Would You Define The Business' Current Situation?



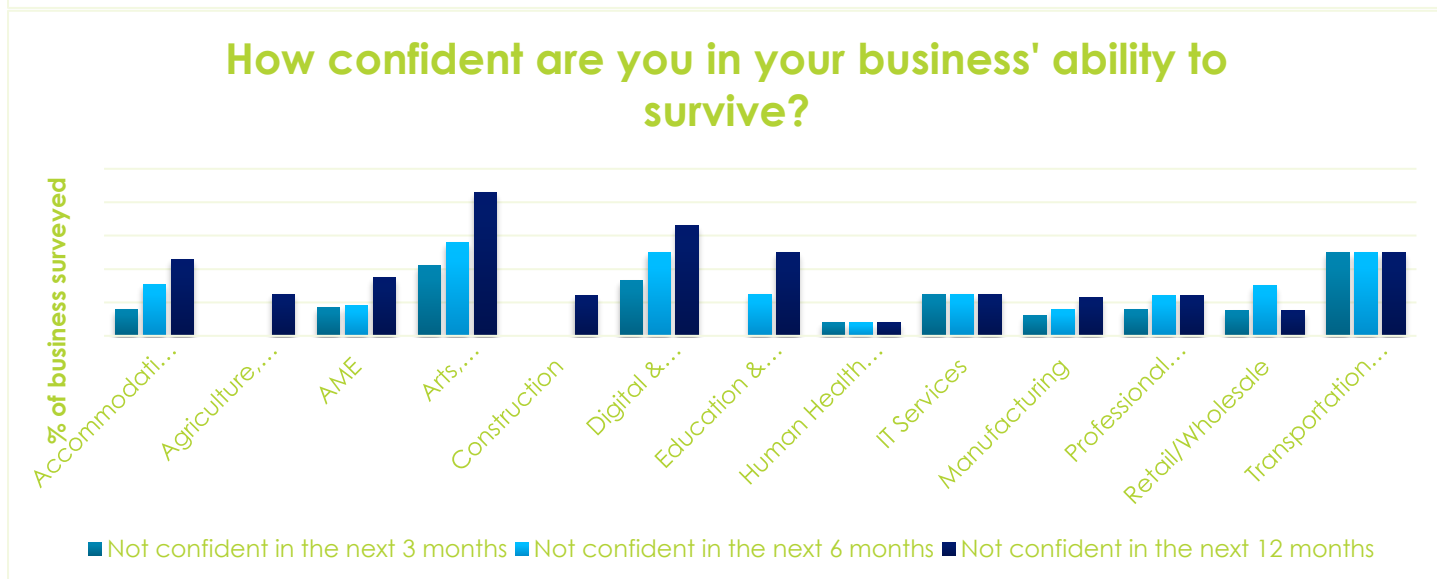
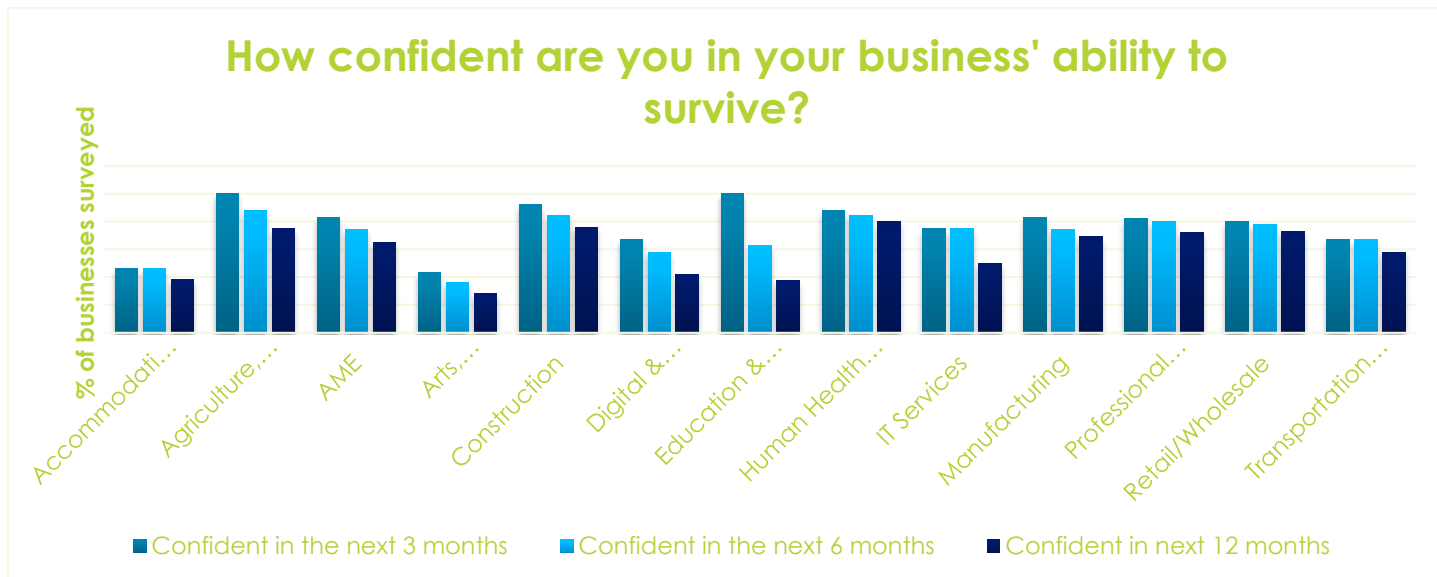
Most businesses defined their business' current situation as "Ticking over". This indicated that they may not have capability to diversify and innovate at the current time. Therefore, whilst those indicating that they are in "Crisis" or "Survival mode" are in low numbers, those "Ticking over" may be at risk of stagnated growth.

64% of businesses in the Arts, Entertainment and Recreation sector reported their business as either being in crisis or survival mode, indicating also that the majority of staff were put on furlough.

56% in the Manufacturing industry indicated being either in Crisis, Survival or Ticking over (with staff still on furlough) – this situation may change in November when the furlough scheme comes to an end, when those 'ticking over' may potentially slip into crisis mode.

56% of the businesses in the Health and Social Care industry indicated that they were operating at "Business as usual" levels – this, along with increasing recruitment and employment demand in this sector – with one of the highest increasing employment levels compared to the other industries – indicates an increasing demand on healthcare and social care services.

Business Confidence



74% of businesses said that they are very confident in their business' ability to survive over the next three months. Confidence however falls significantly when a longer term view is taken. Only 50% of businesses described themselves as very confident about their business' ability to survive over the next 6 months and only 44% over the next 12 months; a drop of 30% over the year. This sharp drop in confidence illustrates the high level of uncertainty about the economy amongst West Midlands SMEs.

The accommodation and food service businesses returned a surprisingly high level, 45%, of neutral responses to this question. There is, however, clear uncertainty and nervousness in this industry, with over a third of businesses reporting that they are not confident in their business' ability to survive the next 3 months, increasing to 43% over a 12 month period.

The results amongst Retail and Wholesale businesses showed a dip in confidence in the next 6 months but shifted towards higher confidence levels in their 12 month outlook. The cut off date for the survey returns was 15th September and we expect this confidence may change over the next quarter, as there is increasing uncertainty over Christmas.

Professional services – while overall confidence levels were high, this industry is getting less confident in their longer term 12 month outlook.

For the AME and Manufacturing sectors confidence levels were currently high, with most respondents indicating they are very confident in their business' ability to survive the next 3 months. Businesses in the Manufacturing sector, however, reported a drop in confidence over a 12 month period.

Results from the Arts, Entertainment and Recreation industry showed a drop in business confidence from 43% to 29% of surveyed businesses being confident in their business' ability to survive, between their 3 month and 12 month outlook, indicating that over two thirds of businesses in this industry are not confident in their 12 month outlook.

Business Concerns

