

City-based small businesses: are some cities more equal than others?

Regional economies depend on the success of their SMEs for growth – but are some cities better placed than others? And how much does that affect an SME's chances of prosperity? **Jane Chittenden** looks at a new report from Centre for Cities: *Small Business Outlook 2013*.

SMEs (small and medium-sized enterprises) make up 99% of all businesses in UK cities and provide more than half of all the private sector jobs. They're increasingly important for growth across a regional economy. But how much is an SME affected by the city where it does business?

New research from Centre for Cities shows that different cities have an enormous impact on an SME's ability to thrive – and not always in ways that might be expected.

I'm looking at what this means for the three main cities in our region: Cambridge, Ipswich and Norwich (Centre for Cities regards large towns such as Ipswich as cities).

Numbers of SMEs and their growth rate

Cities provide ready access to skilled workers, markets and suppliers, which is why most high growth SMEs are based in cities. A city's prosperity depends on the strength of its local SMEs: large numbers of SMEs means low unemployment.

Cambridge ranks 7/64, reflecting a very high density of knowledge-based industries. Norwich is close behind; but Ipswich is around the average for the UK.

New business start-ups across the UK were acutely affected by the recession; however, Cambridge has had more start-

ups than most cities last year. New business start-ups in Ipswich and Norwich were within the mid-range.

Strong performing SMEs have increased their workforces. Cambridge's SMEs were second only to London; Ipswich's SME expansion was also very strong. Norwich SMEs achieved average rates of expansion. And very few of Cambridge's and Ipswich's SMEs reduced their workforces; Norwich also performed well.

Access to workforce capacity and skills

People are essential to business: a strong labour market locally is a key indicator of success. And population growth means more access to workers plus more customers for local businesses.

Ipswich has one of the fastest-growing populations in the UK, ranked at 4/64; Cambridge takes the next place, whereas Norwich – although last year among the top ten fastest-growing cities – is now near the average.

It's a very different picture when looking at the educational qualifications of local residents. This is a significant indicator: a more highly skilled workforce means stronger performing SMEs.

Not surprisingly, Cambridge scores very high indeed, taking second place after Oxford; Norwich does well; but Ipswich's achievement is among the lowest: 60/64.

All SMEs report a gap between the skills they need and the skills that are available to them. Skills gaps don't necessarily reflect a city's skills profile – they could indicate unusually high demand for a particular skill.

Cambridge has very few problems in filling its skills shortages, Norwich is able to find most of the people it needs, but Ipswich struggles in comparison.

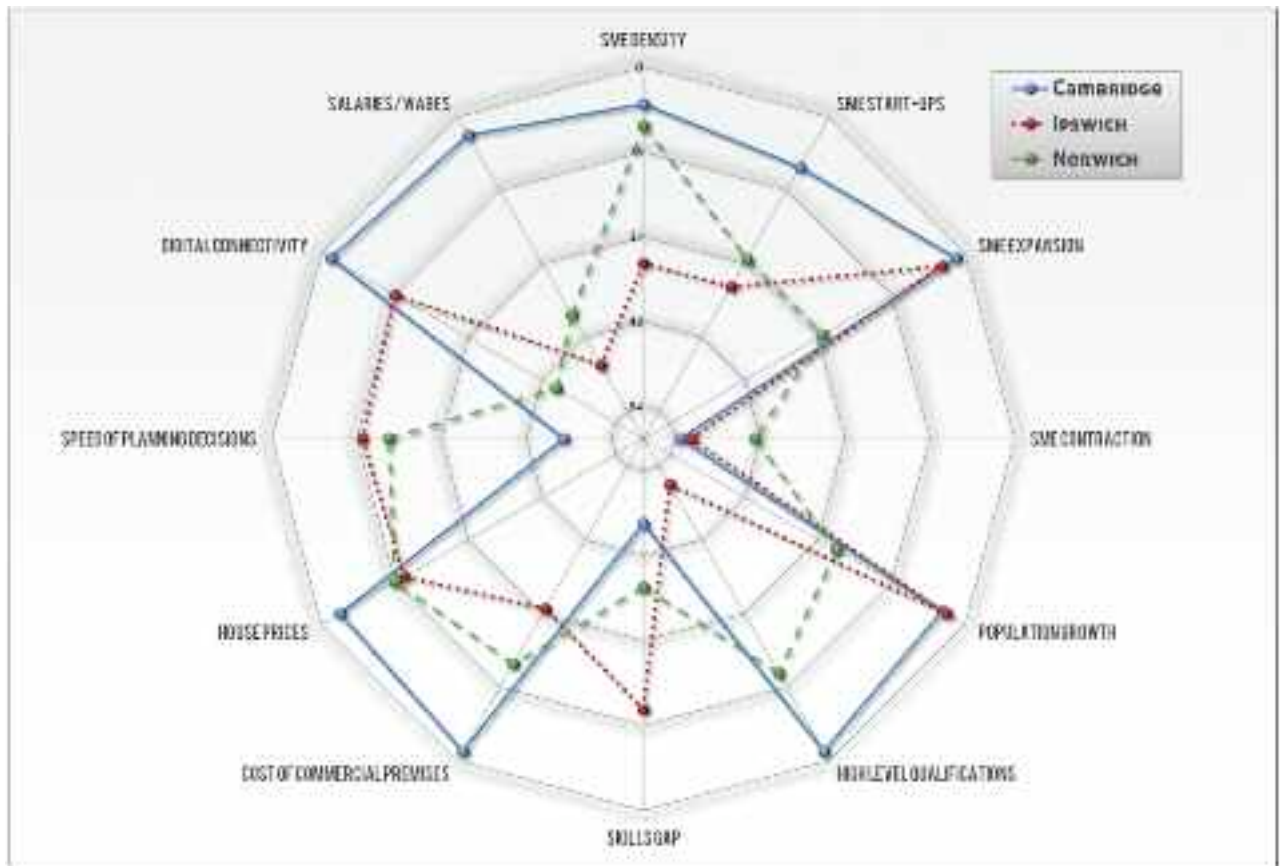
Affordability

Affordability of commercial premises is a big problem nationwide. According to the LSE (London School of Economics) office space in the UK is in general prohibitively expensive; business space in Birmingham is more expensive than New York.

Cambridge is one of the most expensive cities in the UK for business premises, second only to London. Norwich is relatively expensive; Ipswich prices are average.

High house prices indicate strong SME economies and high demand – but this could affect their ability to attract skilled workers because of the impact on their disposable income.

This is particularly problematic for Cambridge, with very high prices and strong demand for housing that outstrips supply, but it's also an issue for both Ipswich and Norwich, with house prices much higher than the national average.



Barriers: red tape, connectivity and dependence on local market

Speed of planning decisions affects businesses' ability to start up and expand.

Planning decisions are much speedier than the average in Ipswich and Norwich, but Cambridge is one of the worst places in the country for delays in planning decisions.

Digital connectivity (access to superfast broadband) is an essential component of modern business infrastructure – and a cause of major frustration across the region.

In Cambridge, connectivity is excellent, second only to London; Ipswich is also well connected. But Norwich suffers one

of the lowest levels of access (it's even worse in rural areas, of course).

Local demand for goods and services is important for many SMEs (over half of them operate in their local markets), so disposable income locally is an important factor. If local incomes are low, SMEs need to look for markets further afield.

Cambridge, the city with least dependency on local markets (many of its SMEs operate in global markets) has residents with very high earnings but this has to be set against its exceptionally high housing prices. Norwich citizens earn considerably below the national average; Ipswich figures are even lower.

Conclusion

What do these figures mean for our three cities? Clearly their priorities are different – for example, more affordable housing and commercial property in Cambridge, improved educational performance for Ipswich and better access to broadband for Norwich.

Every city is unique, but for all cities, three factors are very important: access to a skilled workforce, quality of place (an attractive place to live and work), and dealing with the barriers to progress, such as red tape and poor connectivity.

Centre for Cities is an independent non-partisan research organisation that aims to understand why and how cities' economies succeed. It focused on the 64 largest towns and cities in the UK. The latest research can be seen here:

www.centreforcities.org/research/businessoutlook13.html