

Hampshire
Economic
Partnership

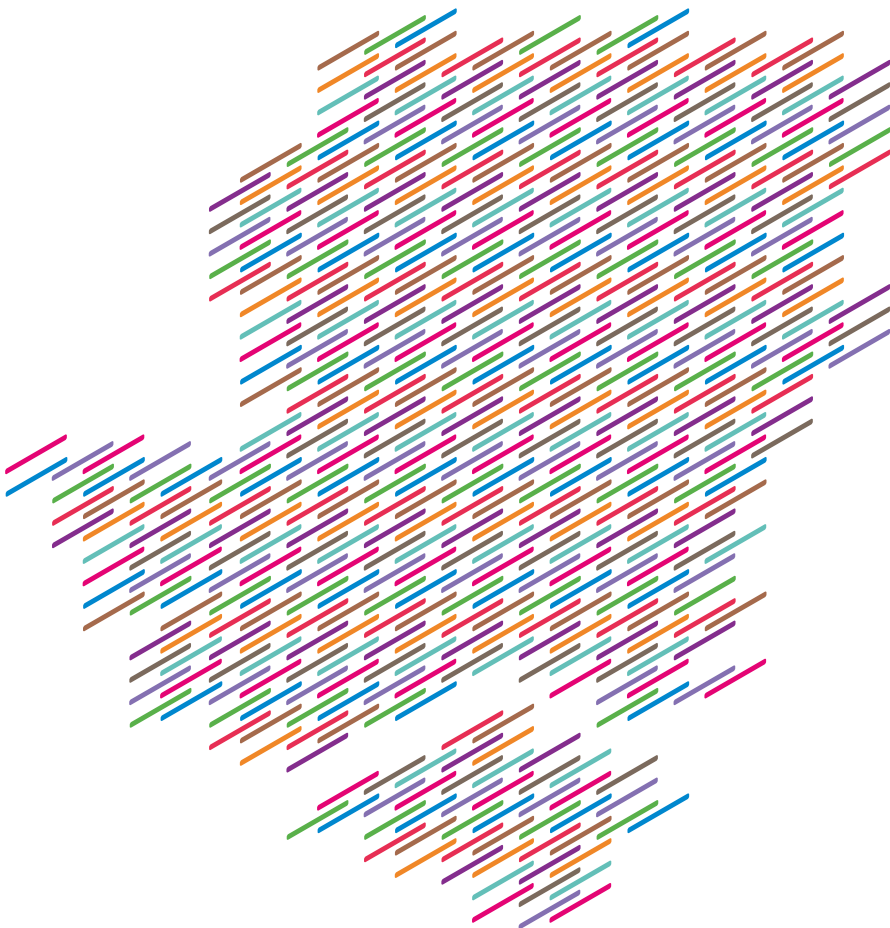


informing our **future**

**Executive
Summary
2010**

An independent assessment of business
trends and economic issues in the
Hampshire Economic Partnership area

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Welcome to 'informing our future' 2010

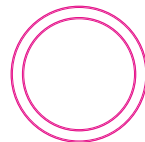
As we recover from the recession there has never been a better time for businesses and policy makers to plan ahead. With this in mind 'informing our future' is an invaluable reference tool for directors and senior managers in their future business plans and strategy.

Prepared by HEP Research and Intelligence Task Group and Portsmouth University, 'informing our future' is an independent assessment of Hampshire's economy and the potential opportunities and challenges it faces. We hope you find the Executive Summary, case studies and attached CD to be informative and practical tools in the year ahead.

Stewart Dunn, Chairman



Hampshire
Economic
Partnership



informing
our **future**

Complete Report 2010

Commissioned by the Hampshire Economic Partnership
Research & Intelligence Task Group

www.hep.uk.com

CD Instructions:

The full report and the associated data can be found on the accompanying CD which should open automatically when placed in the CD Rom drive. You may be required to press 'CTRL' + click in order to access the embedded links.

Further details are also available
on our website: www.hep.uk.com

Introduction

Simon Ward BSC MRICS, Head of Research
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of HEP Research & Intelligence Task Group

This Executive Summary focuses on the effect of the recent recession on the business community. Many firms have experienced a negative impact but almost a third say not. Clearly there are lessons to be learned about working practices as well as the sectors that are more robust than others. Many of our businesses have adopted defensive strategies (e.g. cutting costs and inventories); other firms have been more proactive in pursuing new markets and opportunities.

This edition of 'informing our future' also explores the impact of the recession on the people of Hampshire. The rapid rise in unemployment has a social cost and should be counted in humanistic terms as well as the dry measures of labour market capacity. We all have to adjust – some firms tell us they are making changes that had to be made in any event, so the recession comes with reminders that we operate in a global, interconnected economy in which we must all add value to our clients, whilst sustaining our communities.

The main report explores the global context of the recession. It tells a story of financial 'meltdown', over reliance on 'toxic assets' and a scarcity of credit – uncomfortable conditions for business, especially when combined with a lack of confidence. However, the report identifies clear signs of recovery, albeit fragile at this stage. The Global Competitiveness Index has both positive messages and warnings for the UK – good for labour market efficiency and technological readiness but 'must do better' on education, health, macroeconomic stability and goods market efficiency. Our research highlights the importance of the SE region within the UK but also notes that it is lagging behind some important targets for economic growth. This year's 'informing our future' concludes with a chapter on 'light at the end of the tunnel', focusing on business confidence around Hampshire and successful strategies employed by members of our business community.



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How have businesses weathered the downturn?

The recession has necessitated the need to look for new markets far more proactively

Manufacturing Company

How have businesses weathered the downturn?

Exactly how hard has Hampshire's business community been hit by the recession? What has been the extent and nature of the damage inflicted by the economic downturn? And more importantly, how have firms tried to cope with these effects? These are just some of the key questions that people within Hampshire have been asking themselves. As part of this year's edition of 'informing our future' a survey of businesses throughout Hampshire was undertaken, this along with a number of business case studies and related secondary data, is used to try to answer these questions.

How hard have businesses been hit by the recession?

In reply to HEP's Recession Impact Questionnaire around 70% of respondents felt their business had been adversely affected by the recession and of these, 70% thought they had been either very or fairly severely affected. Whilst the responses to this question were similar across the whole of Hampshire, they varied significantly between different sectors of industry. The hardest hit sector was Construction with 85% of firms saying that they had been adversely affected by the recession. Other sectors equally hit hard by the recession included Manufacturing and Finance and Business Services. At the other end of the scale the sectors least affected by the recession were Agriculture and Distribution, Retail, Hotels and Catering. Whilst demand for Construction and manufactured goods is in many cases a derived demand, or one that can be postponed to a later date by drawing down for example, this is less likely to be possible for necessity goods such as those produced by the Agricultural sector and many products sold within the retail sector.

Has your business been adversely affected by the recession?

Industry Sector	Yes	No
Agriculture	25%	75%
Construction	86%	14%
Distribution/Retail/Hotels etc.	50%	50%
Financial and Business Services	74%	26%
Manufacturing	75%	25%
Other Services	61%	39%
Public Services	70%	30%
Transport and Communications	73%	27%
All Businesses	70%	30%

Source: HEP Recession Impact Questionnaire

In what ways have businesses been affected?

The most significant impacts of the recession upon Hampshire's businesses have been reduced sales and profitability. 72% of firms said that they had seen their sales volume fall, while just over half said that they have experienced reduced profits. Other problems faced by firms included: an increased incidence of late payment by customers; the cancellation of existing contracts and pressure to reduce prices in order to obtain or retain business.

Whilst the majority of businesses have suffered from lower sales volume and profits, some have benefited due to the reduced value of the Pound. This included some parts of the tourism and leisure retail sectors as holidaying in the UK became relatively cheaper compared to holidays overseas. Similarly, some exporting firms have also benefited from increased sales as the reduced value of the Pound has enhanced their competitiveness.

Which of the following strategies (if any) has your business adopted to cope with the more difficult trading conditions over the last year?

Strategy Adopted	%
Looked for/found new markets for products	53%
Reduced waste to save costs	42%
Looked for/found cheaper suppliers	37%
Reduced number of staff	36%
Implemented a pay freeze	34%
Delayed purchasing supplies	24%
Reduced advertising budget	24%
Delayed investment in plant and buildings	23%
Cut back on staff training & development	28%
Reduced number of hours being worked	27%
Refinanced the business	14%
Reduced external sponsorship	9%
Run down inventory	8%
Delayed investment in product R&D	8%
Reduced customers' payment periods	8%

Source: HEP Recession Impact Questionnaire

What strategies have firms adopted in the face of recession?

Just over half of all survey respondents reported a downturn in sales and profits, which had forced them to look for new markets for their products and services. In some cases these were overseas markets, for others the search for new customers required a re-orientation of the business.

In addition to searching for new customers, many firms looked for ways to manage and reduce their costs. This involved a variety of strategies including reducing waste, looking for cheaper suppliers, laying off staff, or the postponement of investments until after the recession. A number of firms believed that actions taken during the period of the recession would make them leaner and more efficient, and in a better overall position to take advantage of the eventual economic recovery.

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How has the recession hit the people of Hampshire?

The recession has forced us to re-focus and that means we will emerge from this recession leaner, meaner and stronger!

Manufacturing Firm, Fleet

How has the recession affected the people of Hampshire?

The most obvious impacts of a recession are the effects that it has upon the local labour market and unemployment. Over the coming years Hampshire, like all other areas, will face a number of labour market challenges as a direct result of the recession. Where will future employment come from? What skills will be required by those businesses that are looking for labour? What training provision will be needed to meet these skills requirements? Section 4 of 'informing our future' 2010 addresses these key questions.

What is the extent of the impact on the Labour Market?

Recent estimates suggest that UK unemployment¹ reached just under 2.5 million between September and November 2009 and it is forecast that another 250,000 jobs will be lost in the UK before the second quarter of 2010 when recovery in the labour market is expected to set in. Within Hampshire the number of people claiming Job Seekers Allowance (JSA) increased by 80% from just under 17,500 in October 2008 to 31,500 in the same month of 2009. A recent report by the Institute of Employment Studies (IES) suggests that increased flexibility in the labour market should mean that employment will be able to recover more quickly than in previous recessions, although actual employment growth could remain sluggish due to spare capacity. This same flexibility may have reduced the number of jobs lost during the recession, as some employers avoided lay-offs and redundancies through cutting working hours and/or wages. However, there is still considerable uncertainty about the current economic situation, and how it will develop over the short to medium term and the impact this will have upon unemployment and the availability of job opportunities.

The IES research suggests that the Finance and Construction sectors will generate jobs in the recovery phase as there is the likelihood of long-term growth in these sectors. They also argue that proximity to London will continue to offer growth opportunities in Finance and Business Services. Whereas, Manufacturing, and in particular Engineering, is forecast to remain weak. However, the fact that there is an ageing workforce in these industries is likely to generate demand for replacement workers.

Demand for people in personal service occupations such as teaching and care is likely to continue because this form of activity is difficult to automate and there are growing needs from an ageing population. Additionally, there is likely to be growth in tourism and hospitality industries, particularly with the upcoming London Olympics in 2012. Other sectors that are likely to experience increased demand for labour are 'green' industries, many of which are founded on cutting-edge technologies and digital media and technology.

Within HEP's survey many companies commented on the importance of investing in their current staff in order to build success. Many large companies and those sectors with inherent skills shortages, tend to 'grow their own' skills by taking on apprentices and other trainees. Smaller companies and those sectors undergoing rapid change or growth are more likely to buy in skilled staff. Training within smaller organisations is more likely to be informal, unstructured and on-the-job.

¹ These estimates use the International Labour Organisation (ILO) definition of unemployment which is around 50% higher than the corresponding claimant count based on JSA claimants.

The report by IES found that those companies that are seeking to grow may need help in diagnosing their skills requirements. This was thought to be particularly important for new micro-businesses. The report identifies the need for intelligence to be shared through Sector Skills Councils, National Skills Academies and Chambers of Commerce to better inform training provision.

The light at the end of the tunnel?

Preliminary estimates from the Office of National Statistics show that the UK economy emerged from recession during the fourth quarter of 2009 with positive growth in GDP of 0.1% on the previous quarter's figure. However, although figures show that GDP growth was positive in this quarter, there are still key questions about how businesses perceive the situation facing them in 2010.

What are the prospects for businesses in 2010?

As part of HEP's Recession Impact Questionnaire, firms were asked how confident they were about the prospects for their business in 2010. The table shows that 56% of firms were either very or fairly confident about the coming year, although only 14% of firms were prepared to say they were very confident. At the other end of the scale, just over 20% of firms said that they were either a little concerned or not at all confident about the coming year. These figures suggest a situation that might best be described as one of cautious optimism.

How confident are you about the economic prospects for your business in 2010?

Level of Confidence	%
Very confident	14%
Fairly confident	42%
Ambivalent	13%
A little concerned	17%
Not at all confident	5%
No response	9%

Source: HEP Recession Impact Questionnaire

The survey also revealed that confidence regarding business prospects varied significantly between different industry sectors. The least confident sector was Construction, where no firms stated they were 'very confident' about their prospects, and 43% felt they were either 'a little concerned' or 'not at all confident'. In contrast, the Manufacturing and Business and Financial Services, which were initially hit as hard as the Construction sector by the recession, were both much more confident about their prospects for recovery. The relative lack of optimism in the Construction sector is likely to relate to the fact that demand for new buildings is dependent upon recovery in the housing and commercial property markets that are still experiencing reduced demand. In addition, anticipated cutbacks in public expenditure are likely to impact upon the demand for new construction.



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Is there light at the end of the tunnel?

The biggest challenge we face is that of continued economic uncertainty - are we out of the recession, or is there more to come?

Transport operator, Portsmouth

What challenges do businesses face in the coming year?

Although businesses may be cautiously optimistic about recovery, they nonetheless recognise the challenges that they will confront in the coming year. Firms were asked what they considered to be the biggest single challenge facing their business. One in three businesses expected that maintaining their market share and growing sales would be their main challenge. Firms also reported problems in attracting and retaining customers which stemmed from a number of factors including: increased competition from overseas businesses; cutbacks in government contracts; difficulties in entering new markets and an increased regulatory environment. In addition to the challenge of maintaining market share, other challenges identified included: reduced business confidence; economic uncertainty and the possible requirement to reduce prices in order to win business at a time when costs are increasing.

How are businesses planning for recovery?

When firms were asked what strategies they planned to adopt as economic recovery begins, almost two thirds planned to continue to keep a tight rein on costs. This is clearly a key lesson that businesses have learned from the recession as they sought to maintain competitiveness and profitability.

Following on from controlling costs, the next three most important strategies identified were all to do with the search for new markets, customers and products. This again emphasises the challenges that face Hampshire firms in an increasingly competitive global business environment.

What strategies are you most likely to employ as the economy recovers?

Strategy Adopted	%
Continue to keep a tight control on input costs	63%
Look for new markets to sell to	52%
Increase sales promotion activity	48%
Launch new products and services	38%
Take on more staff	32%
Continue to keep borrowing under control	29%
Increase staff training and development	25%
Increase the number of hours being worked	18%
Exploit environmental technology	17%
Invest more in plant and buildings	15%
Invest more in product R&D	13%
Increase external sponsorship	6%

Source: HEP Recession Impact Questionnaire

Local authorities need to recognise the importance of small businesses in their planning decisions

Banking and finance firm, Winchester

When asked what could be done to assist businesses at a local level to prepare for recovery, the most common response was for greater assistance for, and promotion of, local businesses by local authorities. Firms requested increased investment in the local transport and communications infrastructures, and stressed the importance of networking opportunities as a means of generating contacts and new custom.

Drawing the threads together

Looking at the results of HEP's survey as well as other leading economic indicators, the reality is that, whilst there are glimpses of light, businesses are not yet out of the tunnel. Business confidence levels appear to be improving, but remain tinged with a degree of uncertainty. It is also clear from the survey that the prospects and timing of recovery will vary between different industrial sectors. The main report includes our analysis of potential growth sectors that businesses said they identify with.

The overall picture that emerges is one of cautious optimism. There are some signs of economic revival as shown by increasing consumer demand and recovery in the stock markets. However, in order to be well placed when the recovery begins to gather pace, businesses cannot simply go back to the tried and tested methods they were using before the recession. Success in the global marketplace and increasing levels of competitiveness will require that firms embrace new and innovative business practices. For many firms this is likely to mean the development of a new business culture, one built on new production processes, with an increased reliance on technology and a smaller workforce. A number of commentators have referred to this as 'productivity led growth' and 'jobless recovery'.

Productivity led growth means that in order to be competitive, businesses need to be more efficient, particularly by focusing on increasing value added per worker. A smaller and more productive workforce will require investment in both training and capital equipment. The workforce of the future will need to be more flexible and more proficient. The downside of productivity led growth is that there will be fewer employment opportunities available and the ratio of job seekers to job vacancies will increase. For those young people looking to enter the jobs market it is essential that they are well qualified and fit for purpose. This means that in addition to paper qualifications, key skills such as IT and literacy, and soft skills in the areas of interpersonal relationships, management and communication, will also be vital.

HEP believes the survey conducted as part of this year's 'informing our future' clearly illustrates the extent to which the Hampshire economy has been hit by the recession. However, the report also provides numerous case studies of how firms have dealt with adversity and are preparing to move forward. These are positive examples from which other businesses can learn valuable lessons.



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Hampshire Health Check

The recession means that Hampshire's performance is likely to have slipped against the targets contained within the Regional Economic Strategy (RES).

'Informing our future' 2010 provides an assessment of how Hampshire is performing in relation to the three RES challenges of:

- **Global Competitiveness**
- **Smart Growth**
- **Sustainable Prosperity**

In relation to Global Competitiveness the overall impression is of a mixed performance with reasonable improvements in infrastructure, innovation and the number of firms operating internationally, but poorer performance in attracting FDI, R&D and knowledge transfer.

The South East Business Monitor Survey (SEMS) 2007 found that 16% of Hampshire firms were 'regular exporters' and 26% 'infrequent exporters.' Hampshire is likely to exceed the RES target of 15% of businesses operating internationally by 2016 even with the impact of the recession, and despite the survey finding evidence of further untapped export potential within Hampshire's business community. The evidence available also shows that Hampshire's businesses are innovating strongly. The South East Business Monitor suggests 34% of companies developed new products and 53% made significant improvements to their products. This should put Hampshire on course to meet the RES target of increasing the percentage of turnover attributable to new and improved products. Regional expenditure on infrastructure has also increased, putting Hampshire on track to achieving four out of seven of the RES targets. The main areas where further progress needs to be made is in terms of expenditure on R&D and links between businesses and universities.

The second part of the health check concentrates on measures relating to Smart Growth. Overall, there are promising signs across two of the five challenges; skills and transport. However, it is more of a mixed picture in relation to the other three challenges of employment, physical development and enterprise. As a result of the recession, economic activity and employment rates are down on the 2006 figures with the result that the number of people who are economically inactive has jumped by around 9,000. In addition, the proportion of residents employed in professional and managerial occupations has increased. Alongside this skill levels are up in all categories against the 2005 figures, although the proportion of the workforce undergoing training has not increased significantly. The least amount of progress has been made in relation to the RES enterprise targets. These relate to increasing the number of businesses per 1,000 head of population, new business start up rates and the incidence of female entrepreneurship. In all three categories Hampshire is likely to miss the targets within the RES. This is likely to be a direct result of the credit crunch and the resultant limited access to liquidity.

The final part of the health check concentrates on measures relating to Sustainable Prosperity. Overall, the available data suggests that the environment in Hampshire is improving across a range of measures such as tackling climate change and energy usage, encouraging sustainable consumption and production, preserving natural resources and environmental quality and promoting sustainable communities. As shown in 'informing our future' 2010 Hampshire is on target to achieve three out of four of the Sustainable Prosperity targets and is making progress towards achieving the fourth one.

Overall, the picture is possibly more encouraging than might have been thought in the face of recession. Out of a total of 20 measures, 10 are on target, seven are registering some progress and only three are classed as likely to be missed. However, whilst this information is encouraging it does mean that Hampshire business cannot afford to be complacent, a lesson that many firms said that they themselves had learnt from this recession.

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Acknowledgements:

This document has been produced for Hampshire Economic Partnership, by Portsmouth University's Centre for Local and Regional Economic Analysis. The work has been overseen by the HEP Research & Intelligence Task Group, led by its Chairman, Simon Ward of Vail Williams LLP.

Grateful thanks are also extended to members of the sub-group committee for their invaluable assistance with commissioning the report, editorial guidance and proof reading: Andrew Dowling, Basingstoke and Deane Borough Council, Di Grist, Portsmouth City Council, Jayne Hancock, Consultant, Jo Hansell, Eastleigh Borough Council, Gareth Henry, Hampshire County Council, Hannah Powell, Relationship & Communication Co-ordinator at HEP, Jola Sysak, Hampshire County Council, Mark K Torokwa, Hampshire County Council

The authors would wish to thank all those who have provided information, support and guidance during the production of this document. Any errors or omissions are the sole responsibility of the authors at the Centre for Local and Regional Economic Analysis.

HEP's Research and Intelligence Task Group:

The vision of the task group is to understand, Interpret and disseminate the current position and future potential of the local economy. Through research, to identify economic issues affecting business and to advocate appropriate policy response and action.

For more information on the task group please go to www.hep.uk.com

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