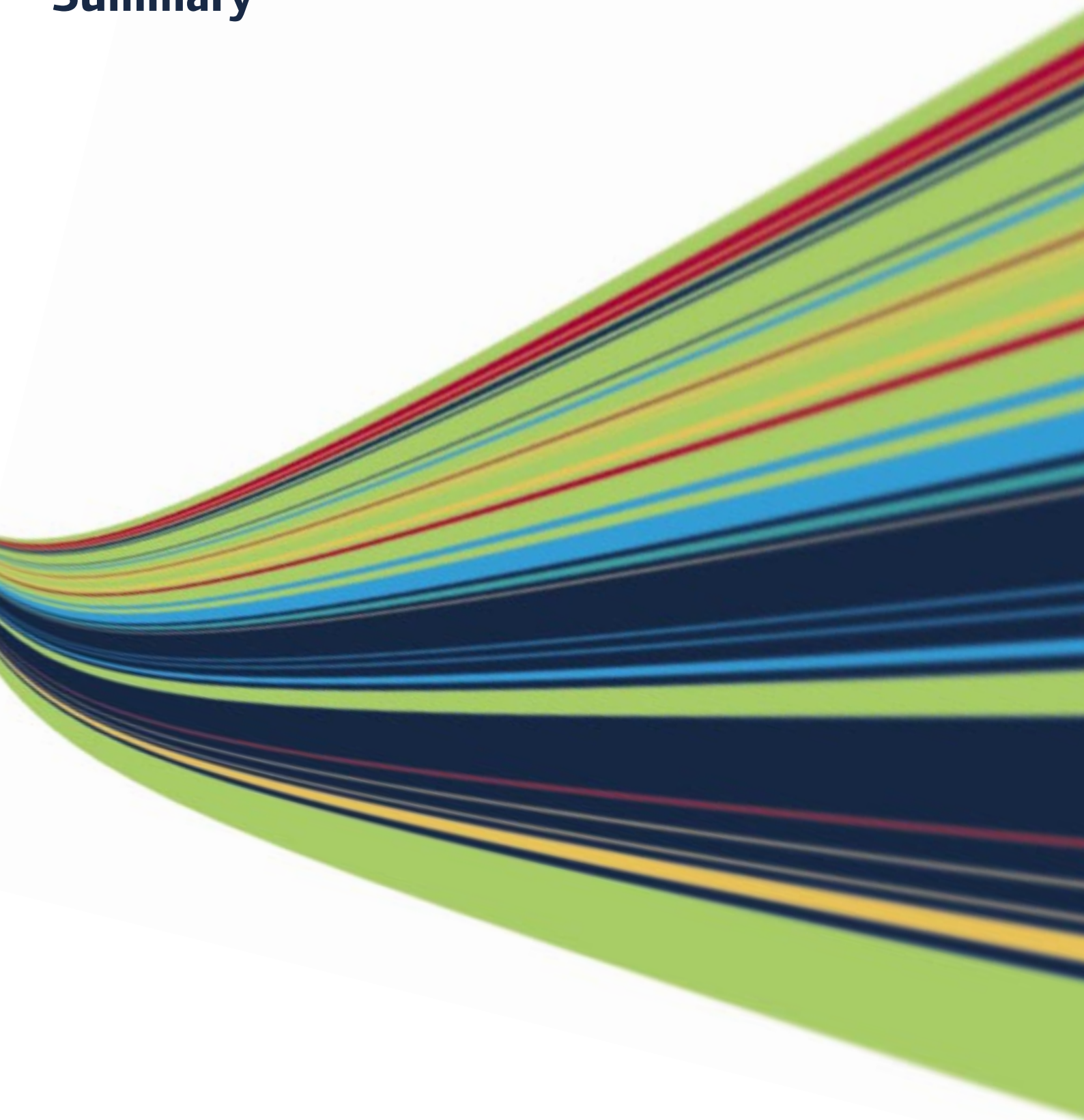


# London Annual Business Survey 2004

## Summary



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## FOREWORD

The 2004 London Annual Business Survey (LABS) is the second annual survey of private sector businesses in London undertaken jointly by the London Development Agency (LDA) and Business Link for London (BL4L). The survey is the largest and broadest of its kind reflecting the London business marketplace, providing vital information on the structure of businesses which is not available from any other source. The survey also asks businesses crucial questions about the factors that make them successful and what challenges they face by being located in London. LABS is therefore an effective tool in identifying and quantifying how businesses succeed in London.

We would like to thank the 4008 businesses who took part in the survey. Their information is instrumental in ensuring we can effectively target our activities and refine current business support services, helping to ensure that in the long term London maintains its position as a leading global location for business.



**Manny Lewis**  
Chief Executive  
London Development Agency



**Judith Rutherford**  
Chief Executive  
Business Link for London

# INTRODUCTION

The London Annual Business Survey (LABS) 2004 covered all types of private sector businesses in London excluding the self-employed. The survey was telephone based and aimed at the CEO/MD of the business, other director or senior manager. The fieldwork for the 2004 survey was undertaken in September–October 2004 and 4008 businesses were interviewed.

## **The objectives of the survey are:**

- to measure indicators of performance of businesses in London and analyse the operational factors that effect business performance to help develop LDA and BL4L activities
- to analyse how the physical/social infrastructure of London affects business performance
- to identify any particular problems faced by businesses where they may need further help or support
- to monitor how these factors are developing over time.

The survey is widely used by other organisations in the Greater London Authority (GLA) group to look at issues affecting businesses in London. LABS is also used by the LDA to monitor progress on London's Economic Development Strategy.

The analysis of the results from the 2004 survey shows that successful businesses are those that are innovative in both their products and processes, adopt new IT, effectively use external sources of finance, have well set up management systems and are willing to collaborate with other organisations in London. However the survey also identified that a London location can present challenges as well as benefits to businesses. Availability of skilled labour, cost of premises and access to finance can be significant issues for a number of businesses.

The survey allows us to establish what type of businesses are particularly experiencing these challenges. Availability of skilled employees is a particular problem for the Construction sector, Education, Health and Social Work sector and the Transport and Communications sector. Cost of premises is an obvious problem for all businesses in London but is a particular issue for new businesses and those that need to be located in the centre of London, such as the increasingly important tourism industry.

London also has a large number of increasingly important businesses owned by Black and other minority ethnic groups. These businesses do generally appear to face more challenges than white-owned businesses and there are also significant differences between different ethnic groups that LABS allows us to see. However the detailed information obtained from LABS enables us to also look at how other factors such as access to finance, the gender of business-owners, and the level of engagement the business has with the rest of London also impacts on their success.

The survey is divided into three parts:

### **Part 1: Structure of businesses in London**

Looking at the location, size, sector and age of businesses, their ownership and their workforce.

### **Part 2: Economic performance of businesses in London**

Addressing how well businesses have been performing during the survey period.

### **Part 3: Factors affecting business performance in London and how businesses operate.**

Looking in detail at how the business and physical/social environment in London affects this performance, the problems being faced by businesses in London and how different businesses operate and their use of external finance, IT and business support services.

**This summary provides the key findings from each part of the survey.**

# PART 1:

## STRUCTURE OF BUSINESSES IN LONDON

### Location, sector, size and age of businesses

- There were 303,826 businesses in London in 2004 employing 2,696,411 people including owners, partners and directors (full-time and part-time) based on LABS estimates.
- The number of businesses and associated employment is not evenly distributed across London. Together the Central sub-region and East sub-region (which includes Canary Wharf) contain over half (61%) of total employment in London.
- Businesses in London are predominately involved in either Business Services or in Wholesale and Retail activities. Four out of 10 businesses (40.5%) were involved in Business Services and one in five (20.3%) in Wholesale and Retail activities. Together these two sectors account for just under half (48%) of total employment by businesses in London or an estimated 1,286,019 jobs.
- Businesses in the Financial Services sector are significantly larger in size than in other sectors and therefore despite accounting for only 3.3% of the number of businesses, they provided 258,438 jobs or 10% of total employment by businesses in London.
- Almost a third of businesses in London (30.1%) can also be classified as involved in the Creative Industries sector. These businesses accounted for just over a fifth (21.1%) of the total employment by business in London or 569,305 jobs.
- The vast majority of businesses are small. Just over two-thirds (68.9%) of businesses employed less than five people with almost nine out of 10 businesses employing less than 10 people. Only 7,945 (2.7%) of businesses in London employed over 50 people.
- Just under half (46.3%) of private sector employment in London was in businesses employing less than 25 people, although businesses employing over 200 people (0.6% of total businesses) accounted for just over one-fifth (21.7%) of total employment in London.
- Almost one in ten (9.1%) businesses had been opened in the 12 months prior to the survey. It is estimated that these 27,041 new openings created 116,266 jobs in London or 4.3% of total employment.

### Ownership of businesses

- The vast majority of businesses in London are UK-owned. It is estimated that there were 13,610 foreign-owned businesses operating in London (4.4% of all businesses), of which 6,719 (2.2% of all businesses) were foreign-owned businesses operating in London with global operations.
- Almost one in four businesses in London (22.6%) can be categorised as Black and Minority Ethnic (BME)-owned.
- Collectively, it is estimated that BME-owned businesses employed 510,010 people equivalent to 18.9% of total employment by businesses in London .
- Over one in 10 businesses in London (11%) could be categorised as female-owned ie where over 50% of owners or partners were female.
- Female-run businesses are smaller on average than those run by a majority of males (5.6 jobs compared to 7.5 jobs). Nevertheless, it is estimated that female-owned businesses employed 186,254 people equivalent to 6.8% of total employment by businesses in London.
- There are significant variations in percentages of female-run businesses in different ethnic groups. Over a fifth (17.9%) of Black-owned businesses were run by women in 2004 compared to only 5.2% of Asian-owned businesses and 12.1% of white owned businesses.
- Two-fifths of businesses were categorised as family-owned.
- One in ten businesses described themselves as social enterprises.

### The workforce of businesses

- It is estimated that 19% (512,324) of those employed in London businesses can be categorised as owners, directors or partners – an average of 1.7 for each business.
- Overall, two-thirds of total employment is male, and just over four-fifths of total employment is full-time employment (30 hours or more per week). Female full-time employment accounts for just under one-third of all full-time employment.
- By far the greatest variation in the proportion of female employment is found when the gender of the owners, directors or partners is examined. The percentage of full-time female employees is significantly higher in businesses where the majority of partners and directors are female. Female full-time employment as a proportion of total employment is 47.5% in those businesses where the majority of partners and directors are female compared to 16.9% where the majority of partners and directors are male.
- 29.2% of employees in London businesses were sales staff; 20.9% involved in administration, 13.8% were classified as production or operations staff, while around 4.0% were involved in R&D activities.

## PART 2 ECONOMIC PERFORMANCE OF BUSINESSES IN LONDON

### How businesses performed in 2004

- The median level of turnover of businesses in 2004 was £164,693 based on the survey results. Businesses in the Financial Services and Transport and Communications sectors had the highest levels of turnover (medians £600,000 and £500,000 respectively). Businesses in the Education, Health and Social Work sector and Personal Services sector had the lowest levels of turnover (medians £70,000 and £40,000 respectively).
- There were significant differences in actual levels of annual turnover across the ethnic groups with the highest median values reported by businesses with a mixed and 'other' ethnic ownership: (£200,000 and £400,000 respectively).
- The median level of turnover per employee in 2004 was £50,000, with the highest levels being in the Financial Services (£125,000), Transport and Communications (£100,000) and Construction (£80,000) sectors, and the lowest in the Hotels and Restaurants sector (£36,500).
- Black-owned businesses and female-owned businesses had significantly lower levels of turnover per employee than other groups (medians £35,000 and £28,571 respectively).
- Business performance in London improved between the 2003 survey and the 2004 survey. Businesses increased their employment at approximately the same rate with 18% reporting an increase in employment in the 2004 survey compared to 20% in the 2003 survey. However, businesses did increase their turnover, productivity and profitability at a faster rate than in 2003. Of all businesses 38% reported an increase in turnover in the 2004 survey (compared to 34% in 2003), 32% reported an increase in productivity (compared to 26% in 2003) and 35% reported an increase in profitability (compared to 25% in 2003).
- Businesses in London generated 70.4% of their sales from within London, 22.6% from the rest of the UK, and 7% from the rest of the world. Of all purchases 60.9% were made from within London, 32.7% from the rest of the UK, and 6.4% from the rest of the world. London is therefore a net importer from the rest of the UK and is marginally a net exporter to the rest of the world, although the excess of exports over imports to the rest of the world in 2004 was significantly lower than in the 2003 survey.
- BME-owned businesses are much more likely than other businesses to be generating sales and making purchases from within the borough where they are operating.

## Models of business growth

- Larger businesses are more likely to have increased employment, turnover, and productivity, and profitability. The relationship between size of business and employment growth is particularly strong. Micro-businesses (one-four employees) are significantly less likely to have increased employment, turnover, productivity or profitability.
- Younger businesses are also more likely to have increased employment, turnover, productivity and profitability. The relationship between age of businesses and employment growth is also particularly strong.
- Businesses in the Manufacturing, and Hotels and Restaurants sectors were less likely to have increased employment than businesses in other sectors and more likely than other businesses to be associated with increasing productivity. Hotels and restaurants were also more likely to have increased profitability. Business in the Transport and Communications sector were also more likely to have increased productivity. These results may obviously reflect the sectoral patterns of growth in 2004.
- Social enterprises are more likely to report employment growth. Female-owned businesses are less likely to report increasing productivity and also slightly less likely to report increasing employment or turnover.
- Global businesses are more likely to have increased profitability and productivity. This is irrespective of whether the business is UK-owned or foreign-owned. Single site operations are also less likely to be reporting productivity growth. Private limited companies are more likely to report growth in employment, turnover or profitability.
- Businesses located in the East and North sub-regions are more likely to report a decrease in turnover in the previous 12 months – the same is true for profitability in the North sub-region. This cannot be explained in terms of the differing characteristics of the business populations in these areas compared to elsewhere in London as the model was controlled for these other factors.
- Internal management systems are clearly associated with growth and a consistent picture emerges that the existence of a written business plan that is used on a regular basis, a formal management information system and external collaboration are all part of the profile of growing businesses in London.
- A range of strategies are associated with growth – R&D and innovation, market expansion and the adoption of IT. However, the introduction of new products and services is seen to have a negative impact on growth possibly as these are more likely to have medium-term impacts on business performance rather than in the year they were introduced.
- The successful search for external finance is related to turnover and productivity growth although this may simply be because growing businesses find it easier to obtain external finance.
- Cost of premises impacts negatively upon turnover while the cost of labour in London has a negative effect on both profitability and productivity.



## **PART 3:**

# **FACTORS AFFECTING BUSINESS PERFORMANCE IN LONDON AND HOW BUSINESSES OPERATE**

### **Barriers and enablers affecting business competition**

- Availability of appropriately skilled employees, crime, transport and the cost of current premises were seen by businesses as their most significant problems. Access to finance was seen as their fifth most significant problem. Availability of appropriately skilled employees was also seen as the most significant problem in the 2003 survey, although transport and cost of current premises were seen as more serious problems in the 2004 survey than the 2003 survey.
- Availability of appropriately skilled employees was seen as a more significant problem in the Primary, Construction, Transport and Communications, and Health and Social Work sectors. This also seems to be a more significant problem for small and medium (rather than micro or larger) businesses.
- Proximity in London to customers, suppliers and other businesses in the same sector were seen as important to the successful running of businesses but were not seen as significant problems.
- This chapter also examines the internal factors that affect the competitiveness of London's businesses. The results show that quality and reliability of product or service and customer relations were high on the priorities of businesses in terms of their competitive edge. On the other hand, few were emphasising low prices and low costs.
- Businesses were using a variety of ways of raising their competitiveness. They stressed the importance of enhancing relationships with end customers and clients, undertaking a marketing strategy and launching new products or services within their existing product base as a means of raising their competitiveness.

### **Investment and access to finance**

- The majority of London businesses did not change their levels of investment in the previous 12 months.
- Larger businesses were more likely to have increased spending across all categories of investment.
- Foreign-owned businesses tended to have increased investment in premises, salaries, and training/retraining to a greater degree than their UK owned counterparts.
- Few businesses predicted decreases in investment levels over the next 12 months.
- Of businesses making an investment 37% had funded at least part of it from external sources. Smaller businesses were less likely to source finance externally and typically invested less than average.
- Of all businesses 44% had approached an external source of finance. Banks were the most common source, approached by 26% of all businesses.
- Smaller businesses are more likely to seek bank finance, and the tendency to approach banks for finance decreased as business size increased.
- The highest success rates in securing external finance were with credit card companies (87% of businesses being successful) and leasing/hire purchase companies (84% being successful)
- Black-owned businesses were much less likely to be successful in accessing bank finance compared to other ethnic groups.
- Black business owners were also less likely to be satisfied with the amount they were able to invest compared to other ethnic groups.
- Of businesses making capital investment 34% did not invest as much as desired.
- Small businesses were more likely to have not invested as much as they would have liked in the past 12 months.



### Information technology and innovation

- A quarter of London businesses are described by their owners or managers as being 'high-tech'. Larger businesses and businesses in the financial and business services sectors are more likely to describe themselves as 'high-tech'.
- Half of all staff in London businesses use computers on a daily basis.
- Of all businesses in London 81% now have some form of Internet connection and 61% have a broadband connection. Online purchasing was used by almost a third of businesses, although online sales were only used by approximately one in five businesses, with the proportion of turnover deriving from online sales in these businesses generally being low.
- It was found that 40% of businesses had been involved in introducing new products or services, modifications to products or services, major new equipment or major changes in working practices. The introduction of new products or services was the most common form of innovation. Larger businesses were more likely to have undertaken all forms of innovation, but were especially more likely to have undertaken some form of process innovation than smaller businesses.

### Research and development and collaboration

- 23.7% of all businesses reported that some R&D had been undertaken during the previous 12 months with larger businesses, with those in Financial and Business Services being more likely to have undertaken R&D.
- 42.6% of businesses undertaking R&D reported engaging in some form of external collaboration in undertaking R&D, with other businesses being most likely to be the collaborative partner.

### Management and planning

- Managers gain their experience through a range of formal and informal means. On-the-job acquisition of experience is common amongst all businesses.
- Managers in businesses with less than 200 employees are more likely to have gained on-the-job experience and less likely to have gained formal management qualifications.
- Use of external management advisors increases as business size increases.
- One-quarter of all businesses did not have any of the four management tools asked about (management accounts, business plan, sales and marketing plan, training plan), and most of these were micro-businesses (employing one to four employees).
- Black-owned businesses are much more likely to have a business plan compared to the average for all businesses.
- Of all businesses with business plans 67% had written business plans while 30.4% only had an informal business plan.
- Of all businesses 57% neither had computer-based nor paper-based management systems in place – most of these were micro-businesses.
- The use of computer based management systems increases as business size increases.
- Management and planning practice in micro-businesses (employing between one and four employees) is very different to the rest of the business population. The micro-businesses employ fewer managers and tend to use external advisers to a much lesser degree. They rely more on informal methods and processes in terms of management systems, styles, and management training and development.

### Business information and advice seeking activities

- Accountants are the most frequently used source of advice (used 61.9% of businesses) followed by friends and relatives (used by 37.2%), bank managers (used by 32.9%) and solicitors (used 31.3%).
- Public and quasi-public providers were used less frequently than private sector providers.
- Business Link for London was used by 11% of the survey's respondents.
- The most commonly sought advice and support are around the subjects of finance, sales, marketing and coping with government regulations.
- Many respondents were able to make links between receiving advice and improvements in business performance in terms of sales, profits and productivity.
- The level of exit planning by business owners-managers (ie plans by owners-managers for what happens to the business when the leave) is very limited.
- Medium-sized businesses along with BME-owned businesses were more likely to have a exit plan, but even amongst these groups those undertaking exit planning are in a minority.

This document is also available in large print, braille, on disk, audio cassette and in the languages listed below.

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### Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، الرجاء  
الاتصال برقم الهاتف أو الكتابة الى العنوان  
أدناه:

### Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

### Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি  
(কপি) চান, তা হলে নীচের ফোন নম্বরে  
বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

### Turkish

Bu broşürü Türkçe olarak edinmek  
için lütfen aşağıdaki numaraya  
telefon edin ya da adrese başvurun.

### Chinese

中文  
如果需要此文档的您的母语拷贝，  
請致電以下號碼或和下列地址聯係

### Urdu

اگر آپ اس دستاویز کی نقل اپنی زبان میں چاہتے  
ہیں، تو براہ کرم نیچے دیئے گئے نمبر پر فون کریں  
یا دیئے گئے پتہ پر رابطہ قائم کریں۔

### Greek

Αν θα θέλατε ένα αντίγραφο του  
παρόντος εγγράφου στη γλώσσα  
σας, παρακαλώ να τηλεφωνήσετε  
στον αριθμό ή να επικοινωνήσετε  
στην παρακάτω διεύθυνση.

### Vietnamese

Tiếng Việt  
Nếu bạn muốn bản sao của tài liệu này bằng  
ngôn ngữ của bạn, hãy gọi điện theo số hoặc  
liên lạc với địa chỉ dưới đây.

### Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં  
જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર  
ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.

### Hindi

यदि आप इस दस्तावेज़ की प्रति अपनी भाषा में चाहते हैं,  
तो कृपया निम्नलिखित नम्बर पर फोन करें अथवा दिये  
गये पता पर सम्पर्क करें।

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