



making business sense

The City of London's Supply Chain and its Relationship with the City Fringes

Executive Summary





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centre for economics and business research ltd

Unit 1, 4 Bath Street
London, EC1V 9DX
Telephone 020 7324 2850
Fax 020 7324 2855
www.cebr.com



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PO Box 270, Guildhall
London
EC2P 2EJ

<http://www.cityoflondon.gov.uk/economicresearch>

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Foreword

Stuart Fraser

Chairman, Policy and Resources Committee

City of London

The City of London Corporation has long recognised the benefits of local procurement. In 2003, we initiated our own Local Procurement programme in order to purchase goods and services at competitive prices but also to complement our wider programme of activities to help regenerate the deprived boroughs that surround the Square Mile. Our programme helps stimulate the economy of neighbouring boroughs and promotes local job and training opportunities. Sourcing goods locally also offers particular environmental and sustainability benefits. Since the programme began, we have spent over £150 million with local suppliers. We also offer a programme of business support for Small and Medium-sized Enterprises (SMEs) in the City fringes.

As part of our local procurement approach, we recognise the crucial role that SMEs play in the local economy and we believe that the presence of SMEs in the City's neighbouring boroughs is integral to maintaining the City's status as the world's leading international financial and business centre. City fringe SMEs provide essential support services to City firms and contribute to the area's economic prosperity through providing large numbers of jobs. The presence of SMEs in the supply chain also offers benefits to purchasers in terms of the range, diversity, flexibility and potential for innovation of offerings.

While reaping the benefits of local procurement, we have recognised the potential for a market gap between what City firms buy and what City fringe firms sell. This piece of research, commissioned from cebr, examines which industries in the City fringes are trading with City businesses, ascertains what barriers exist that may discourage trading, and makes recommendations on business support measures to help facilitate local purchasing. From this, the City of London Corporation and the City Fringe Partnership – working with our partners in the City's neighbouring boroughs - hope to work better together with both buyers and suppliers to facilitate increased local procurement.

Historical analysis suggests the procurement needs of City firms were supplied to a rather limited extent by businesses based in the City fringes. The current research suggests that firms in the City of London meet only around 4 – 5% of their total procurement needs from suppliers based in the City fringes. This is out of a total City firm spend of around £13.3 billion on goods and services every year.

Given the advantages of local procurement, there is clear room for improvement here; cebr estimate that 13% of City procurement could potentially be met by firms based in the City fringes – nearly three times the

current procurement rate. The report identifies six key sectors which may be especially suited to City procurement. These are in sectors in which having suppliers based locally is especially advantageous and where the market is suited to smaller firms.

The report also goes on to make specific recommendations for business support measures, based on the perceptions of City fringes based suppliers regarding barriers to trade. These views encompass areas such as reputation, contacts, and knowledge of the correct procedures, suggesting that a lack of information and awareness on both sides may be limiting tendering opportunities. One recommendation endorsed by both buyers and suppliers is the use of appropriately targeted databases, which might, for example, include measures of quality and accreditation.

For the average SME based in the City fringes, 16% of turnover comes from sales to firms located in the Square Mile; the City of London is clearly an important market for the City fringes. cebr's research shows that there are sectors within the City fringes that are both able to supply at competitive prices and being under-utilised by City firms. Purchasing from local SMEs can help increase market competition and regenerate our local economy. I am confident that by sharing knowledge on the rewards which Responsible Procurement, and particularly Local Procurement, can reap, we can encourage others – both buyers and suppliers – to join us in driving forward competition and regeneration across the City, thus increasing the number of people who benefit from its effects.

Stuart Fraser

London

September 2008

Foreword

Cllr Guy Nicholson

Board Chair, City Fringe Partnership

The City Fringe Partnership (CFP) welcomes the findings of this important report, which it jointly commissioned with the City of London Corporation. It draws on detailed research into the purchasing activities of City and Canary Wharf-based firms and, importantly for our organisation, examines the significance of these for small and medium-sized enterprises in the surrounding areas.

The CFP is an economic development partnership between the City of London Corporation and the four neighbouring boroughs of Tower Hamlets, Hackney, Islington and Camden. This new joint research reflects the shared objectives and close working relationship between these organisations.

The CFP's principal aims are to encourage SME business growth and to develop employment opportunities in specific strategic industries located within the City Fringe. Working closely with the private sector, the CFP seeks to address the barriers to growth for SMEs across a range of industries – many of which are identified here. The CFP jointly commissioned this research to examine the routes and barriers to entry into the supply chains of one of the largest procurement markets in Europe.

The CFP's sector investment plans already go a long way to addressing some of these issues. Our *Funds for Print* programme works with local printers and publishers to help them to meet the need for quality services from the City and to access the £400 million of work commissioned annually by the financial and professional services sector.

The findings of the report will allow organisations such as the CFP to further develop business support activities that are relevant to local businesses. By responding to the recommendations the outcome will be a City fringe SME base better prepared for the challenges of operating within City supply chains.

Guy Nicholson

London

September 2008

Executive Summary

The City of London's Supply Chain and its Relationship with the City Fringes is a study conducted by the centre for economics and business research ltd on behalf of the City of London Corporation and the City Fringe Partnership.

The objectives of the study are fourfold:

1. To identify the size and nature of potential markets for suppliers based in the City fringes, resulting from their close proximity to the business cluster in the City, with particular regard to small and medium sized enterprises (SMEs) in the City fringes;
2. To indicate which industries in the City fringes are currently trading extensively with firms in the City and which are not;
3. To obtain the views of firms in the City and City fringes on what barriers exist to trade between them and what market failures need to be addressed; and
4. To make recommendations for business support measures in the City fringes that could help to facilitate local purchasing, including the levels, types and targets of business support and common methods for facilitating local procurement.

In order to meet these objectives, we have conducted three strands of analysis:

- A survey of procurement professionals working within City firms;
- A survey of senior managers of small and medium sized enterprises based within the City fringes; and
- Estimations of the scale and structure of City firm procurement using samples of procurement data that we have obtained from City firms and government statistics.

1. Size of potential markets

We estimate that **firms in the City of London procure £13.3 billion of goods and services per annum from suppliers**, including almost £1 billion of 'computer services', £0.8 billion of 'telecommunications', £0.7 billion of 'postal and courier services', £0.7 billion of 'property services' and £0.6 billion of 'market research and management consultancy'. In addition, £1.3 billion is spent on what government statisticians call 'other business services', including 'labour recruitment', 'security', cleaning, and 'call centre activities'.

The potential for SMEs in the City fringes to supply these requirements will vary from market to market. Markets which may offer the greatest potential for local small and medium sized suppliers include markets where proximity matters, markets where supply by SMEs is already commonplace, and

markets where individual procurement contracts are relatively small and can, therefore, be more easily fulfilled by SMEs.

We have identified **6 'key sectors'** which meet all these requirements and therefore, offer the greatest potential for SMEs based in the City fringes to supply firms in the City of London:

- Property services — where City firms spend £660 million per annum (including real estate spend);
- Legal services — £570 million;
- Print and publishing — £400 million;
- Entertainment — £114 million;
- Office supplies — City firms spend £20 million per annum on 'paper production' companies, which is the closest category to office supplies in official statistics; and
- Events and seminars — City firms spend £15 million per annum on 'unclassified entertainment activities' companies, which is the closest category in official statistics.

In addition, we identify two further 'SME oriented sectors', namely 'public relations and/or affairs', and 'management and business consultancy', where relatively small suppliers are not disadvantaged, but where being located close to the market offers little advantage. Similarly, we identify three 'proximity oriented sectors', namely 'office cleaning', 'catering', and 'facilities management and repair', where there are clear advantages for suppliers located close to their customers but where conditions may be less suitable for SMEs.

2. Current pattern of trade between the City fringes and the City of London

We estimate that **16% of the turnover of the average SME** in the City fringes will come from sales to firms in the City of London. Meanwhile, **4-5% of the procurement needs of City of London firms** by value are met by suppliers based in the City fringes.

At these levels, trade between the City fringes and the City of London is less than would be anticipated by theory alone. Our calculations, based on the industrial structure of the City fringes combined with evidence on the typical distances from which different supplies are sourced, suggest that **13% of City firms' procurement needs could be met from businesses in the City fringes.**

Amongst the 'key sectors' we estimate that the following proportions of City of London firms' procurement is met by companies based in the City fringes:

- Property services — firms based in the City fringes met 2.3% of City firm procurement;
- Legal services — 1.3%;

- Printing and publishing — 6.4%;
- Entertainment — 3.1%;
- Office supplies — 0.1%; and
- Events and seminars — 1.3%.

3. Barriers to trade

To explain these apparently low levels of trade, we asked firms in the City and SMEs in the City fringes what barriers are limiting trade in the supply chain.

The most common responses of SMEs based in the City fringes were:

- Lack of **reputation** in field or **track record** with City firms;
- Lack of **credit history**;
- Lack of **CSR, environmental credentials** and accreditation;
- Lack of **appropriate contacts** at City firms; and
- Lack of **knowledge of the bidding process**.

These findings were corroborated by firms in the City of London to some degree, however, they believed that **improving the price and quality of offerings** would be the most important factor in boosting local procurement.

4. Business support recommendations

On the evidence provided by our research, we can make a number of recommendations on how to best target business support and what measures are likely to be most effective:

- The sectors in which City fringes suppliers are currently underperforming relative to their potential and capacity are office cleaning, legal services, entertainment and facilities management and repair;
- Outsourcing companies can help SMEs based in the City fringes to increase sales to City firms. Companies in the printing and publishing, entertainment and catering sectors currently receive the greatest support from these linkages. Our analysis suggests that there is great potential for these relationships in facilities management and events and hospitality sector;
- Supplier databases were viewed by respondents as the most important measure and can raise awareness of SMEs based in the City fringes;
- Trade fairs and networking events can facilitate relationship building and could help firms in the City fringes to gain a reputation amongst City firms and form linkages with outsourcing companies;

- Assistance in receiving accreditation to ensure greater trust in product/service quality could reduce the perceived risk in taking on suppliers that lack a track record or strong reputation;
- Training to help firms based in the City fringes to produce compliant bids could reduce a further barrier to the efficient operation of the market and create better understanding of the services and goods offered by suppliers in the City fringes; and
- Management assistance to improve the business structure and price/quality of goods and services offered could enable SMEs in the City fringes to become more competitive. This would provide an added boost if other barriers could be reduced.

The City of London Corporation

The City of London is exceptional in many ways, not least in that it has a dedicated local authority committed to enhancing its status on the world stage. The smooth running of the City's business relies on the web of high quality services that the City of London Corporation provides.

Older than Parliament itself, the City of London Corporation has centuries of proven success in protecting the City's interests, whether it be policing and cleaning its streets or in identifying international opportunities for economic growth. It is also able to promote the City in a unique and powerful way through the Lord Mayor of London, a respected ambassador for financial services who takes the City's credentials to a remarkably wide and influential audience.

Alongside its promotion of the business community, the City of London Corporation has a host of responsibilities which extend far beyond the City boundaries. It runs the internationally renowned Barbican Arts Centre; it is the port health authority for the whole of the Thames estuary; it manages a portfolio of property throughout the capital, and it owns and protects 10,000 acres of open space in and around it.

The City of London Corporation, however, never loses sight of its primary role – the sustained and expert promotion of the 'City', a byword for strength and stability, innovation and flexibility – and it seeks to perpetuate the City's position as a global business leader into the new century.

