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January 08

Design Centre of the North

Workspace Demand Study

Prepared by Adroit Economics
For and on behalf of

ONE NorthEast

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1. Introduction

1.1 Adroit Economics were commissioned by ONE NorthEast to assess the potential demand for workspace at the Design Centre of the North. Our work encompassed:

- A review of existing literature to understand North East design trends and sectors.
- Building a database of design companies based on categories specified by ONE NorthEast
- A survey of a sample of design companies
  - Extracting cluster trends
  - Assessing current workspace
  - Exploring future demand for workspace

1.2 Together, these analyses provide the basis for gaining an overview of the performance of the design sector; and assess potential demand for workspace at the Design Centre of the North.

1.3 If you have any questions or require further information, please do not hesitate to contact me:

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2. Sources and methodologies

2.1 In the report, we:

- Provide alternative definitions for the design sector
- Assess the size, nature, drivers, past and future change and the importance of the design sector, at the level of the UK economy and in the Northeast
- Conclude by assessing potential interest in relocating to the Design Centre for the North.

2.2 To do this we utilise a number of sources and a variety of methodologies.

2.3 Sources include:

- Analysis of ABI/ ONS data on employment, turnover, GVA and firm size
- Web based literature review
- A survey of 41 design firms across the Northeast

The survey

2.4 The survey sought general details about the nature and size of firms, views on market trends and growth prospects, but focussed on assessing interest in taking accommodation in the Design Centre for the North and on the scale of rent, nature of tenure and particular features and facilities design companies need/ want.

Sample overview

2.5 41 companies were interviewed.

Survey sample	
Total number of companies available	226
Number of companies approached	80
Number of companies accepted	41
Number of companies declined	39
Number of completed consultations	**41**
Breakdown by Category	
Completed consultations comprise:	
· Computer Aided Design Services	5
· Design Consultants	6
· Designers – Advertising & Graphic	17
· Designers – Product	2
· Display Artists & Designers	1
· Exhibition Designers	6
· Furniture – Manufacturers & Designers	4
Northumberland	
Total number of companies available	47
Number of companies approached	11
Number of completed consultations	**6**
Tyne and Wear	
Total number of companies available	90
Number of companies approached	41

Survey sample	
Number of completed consultations	**20**
County Durham	
Total number of companies available	34
Number of companies approached	12
Number of completed consultations	**7**
Tees Valley	
Total number of companies available	55
Number of companies approached	16
Number of completed consultations	**8**

3. Defining the design sector

3.1 To define the sector is a very difficult task due to the sheer number and range of disciplines it includes.

3.2 *Designers are creating everything from consumer electronics to corporate identities, interiors to interactive interfaces and fabrics to Formula 1 cars*

Source: *The business of design - Design industry research 2005 Design Council (2005*

3.3 *Design is integral to most economic activities. The UK – widely regarded as a world leader across all design disciplines – is the top exporter of design worldwide, with consultancies estimated to generate £1 billion in export earnings in 2000. Our design education system is held in high regard internationally, reflected in the growth of overseas students (up 112% between 1994/5 and 1998/9).*

Source: *Creative Industries mapping document, DCMS (2001)*

3.4 In short, design is (or should be) involved in the creation of nearly all goods and services. As a result, design activities are often integrated within other economic activities and are not necessarily separately identified.

3.5 We put forward below, three contrasting definitions of the sector:

- A definition based on the SIC codes – listing all the sectors with the word *design* included
- The Design Council's definition
- The definition used in this research – based on categories in Yell, the database from which we identified companies to include in the survey.

SIC-based definition

3.6 The following table lists all the SIC codes, at five digit level, for both 2003 and 2007, with the word design in – a total of 54.

SIC Codes Relevant to Design Related Activities		
SIC 2003	***SIC 2007***	***Description***
74142	70221	accounting systems design
74204	71129	acoustical engineering design
74201	71111	advisory and pre-design architectural activities
74205	71121	automotive production design
74872	74100	boot and shoe designing
74142	70221	budgetary control procedures design
74201	71111	building design and drafting
74204	71129	building structure design for ancillary services
74872	74100	calico printers' designing
74204	71129	chemical engineering design projects
74872	74100	clothes designer
72220	62011	computer games design
74205	71121	consultant design engineer
74142	70221	cost accounting programmes design
74872	74100	costume designing
72400	62012	database structure and content design
74204	71129	design consultant for civil and structural engineering

SIC Codes Relevant to Design Related Activities		
SIC 2003	***SIC 2007***	***Description***
74205	71121	design consultant for industrial process and production
74204	71129	design office for civil and structural engineering
74205	71121	design office for industrial process and production
92319	90030	designing (artistic)
74204	71129	electrical and electronic engineering design projects
74205	71121	electrical power systems instrumentation design activities
74205	71121	electronic design consultant
74204	71129	engineering design activities for the construction of civil engineering works
74205	71121	engineering design services for industrial process and production
74205	71121	equipment layout and other plant design services
74873	82301	exhibition stand design
74872	74100	fashion designing
74872	74100	furniture designing
74872	74100	graphic designer
74204	71129	heating systems for buildings design activities
74204	71129	hydraulic engineering design projects
74205	71121	industrial design consultants
74205	71121	industrial design service
74872	74100	interior decor design
74872	74100	interior designers
74204	71129	jacket substructure design and other foundation design services
74872	74100	jewellery designing
74872	74100	lace designing
74205	71121	machinery and industrial plant design
74204	71129	mechanical and electrical installation for buildings design activities
74204	71129	mechanical, industrial and systems engineering design projects
74204	71129	mining engineering design projects
74205	71121	motor vehicle design
74204	71129	pipeline design activities
22250	18130	printers' designing (manufacture)
74402	73110	showroom design
92311	90020	stage set designers and builders
74130	73200	survey design services
74872	74100	textile or wallpaper printing designing
74204	71129	traffic engineering design projects
74204	71129	water management projects design
72220	62012	web page design

Design Council Definition

3.7 The Design Council's definition comprises:

- Communications design
  - = Graphics, brand, print, information design, corporate identity
- Product and industrial design

- = Consumer/household products, furniture, industrial design (including automotive design, engineering design, medical products)

- Interior and exhibition design
  - = Retail design, office planning/workplace design, lighting, display systems, exhibition design
- Fashion and textiles design
  - = Fashion, textiles
- Digital and multimedia design
  - = Website, animation, film and television idents, digital design, interaction design
- Other
  - = Including advertising, aerospace design, building design, engineering design, landscape design, jewellery design, mechanical design etc.

The definition derived from Yell

3.8 The definition derived from Yell, for the purposes of the survey, focuses only on those design activities likely to find the accommodation that will be offered in the Design Centre of the North suitable:

- Computer Aided Design Services
- Design Consultants
- Advertising & Graphic Designers
- Product Designers
- Display Artists & Designers
- Exhibition Designers
- Furniture Manufacturers & Designers

3.9 We've translated the above definition into the nearest equivalent SIC codes[1], as follows:

SIC Codes that match the Yell Classifications			
ONE Category	***SIC 2003***	***SIC 2007***	***Description***
Computer Aided Design Services	74201	71111	building design and drafting
	74204	71129	building structure design for ancillary services
	74204	71129	electrical and electronic engineering design projects
	74204	71129	engineering design activities for the construction of civil engineering works

[1] There is not always an obvious match. For example, advertising & Graphic Designers and Design Consultants – we have found from the survey that a significant proportion of advertising & graphic designers and Design Consultants offer identity creation and branding as one of their top three services. There is no obvious SIC code that would match this activity, we have therefore made an assumption that SIC 74402-73110 – advertising consultants would include this activity and therefore should also be included in these categories.

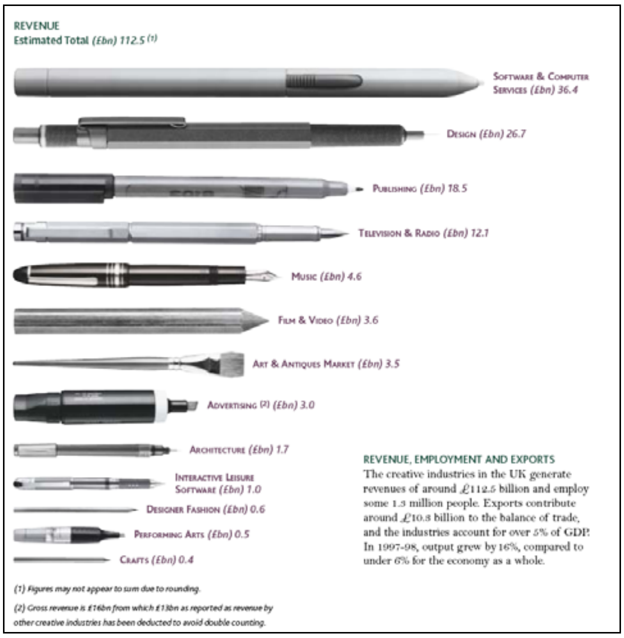
SIC Codes that match the Yell Classifications			
ONE Category	*SIC 2003*	*SIC 2007*	*Description*
	74205	71121	engineering design services for industrial process and production
	74205	71121	equipment layout and other plant design services
	74204	71129	hydraulic engineering design projects
	74205	71121	industrial design service
	74204	71129	jacket substructure design and other foundation design services
	74205	71121	machinery and industrial plant design
	74204	71129	mechanical, industrial and systems engineering design projects
	74204	71129	mining engineering design projects
	74205	71121	motor vehicle design
	74204	71129	pipeline design activities
	74204	71129	traffic engineering design projects
	74204	71129	water management projects design
Design Consultants	74205	71121	consultant design engineer
	74204	71129	design consultant for civil and structural engineering
	74205	71121	electronic design consultant
	74205	71121	industrial design consultants
	74402	73110	advertising consultants
Designers – Advertising & Graphic	74872	74100	graphic designer
	72220	62012	web page design
	74402	73110	advertising consultants
Designers – Product	74872	74100	calico printers' designing
	74205	71121	design consultant for industrial process and production
	74205	71121	electrical power systems instrumentation design activities
	22250	18130	printers' designing (manufacture)
Display Artists & Designers	92319	90030	designing (artistic)
Exhibition Designers	74873	82301	exhibition stand design
	74402	73110	showroom design
	92311	90020	stage set designers and builders
Furniture – Manufacturers & Designers	74872	74100	furniture designing

4. The design sector in the UK

4.1 The following table sets out the revenue, employment and exports of the UK design sector.

<table>
<tr><th colspan="2">UK design sector: revenue, employment and exports.</th></tr>
<tr><td>Revenue

▪ most revenue is derived from software and computer activities, closely followed by general design, then publishing.

▪ In contrast, least revenue is derived from crafts, performance arts and designer fashion</td><td>
</td></tr>
<tr><td>Employment

▪ most employment is derived from software and computer activities, closely followed by publishing, then music.

▪ In contrast, least employment is derived from designer fashion, interactive leisure software and architecture</td><td>
</td></tr>
</table>

<table>
<tr><th colspan="2">UK design sector: revenue, employment and exports.</th></tr>
<tr><td>Exports
▪ most exports are derived from software and computer activities, closely followed by publishing, then music.
▪ In contrast, least exports are derived from crafts, architecture and performing arts</td><td>
</td></tr>
<tr><td colspan="2">Source: Creative Industries mapping document, DCMS (2001)</td></tr>
</table>

Past change

4.2 The following table outlines changes in the design sector's employment, turnover, fee income and exports.

<table>
<tr><th colspan="2">Past change in the UK design sector - employment, turnover, fee income and exports</th></tr>
<tr><td>Employment
▪ Fell by 4.9% in 2006/7
▪ Parts of the industry saw growth</td><td>Number of employees
• The 2006/7 results show a fall of some 3,000 employees (4.9%), continuing the fall reported in the 2005/6 survey. This amounts to a fall of around 9,000 employees over the past 2 years
• Parts of the industry have seen some growth. The 0-5 bracket has seen a rise in the number of companies and a 12% rise in the number of employees
• The 50+ bracket also saw a rise in the number of design firms and an 11% rise in the number of employees.
• The industry has also seen the percentage of total employment in the 0-5 bracket rise, from representing 51% of the sector in 2005/6 to representing 57% of the sector in 2006/7.</td></tr>
</table>

Past change in the UK design sector - employment, turnover, fee income and exports	
Turnover ▪ Fell by 8% in 2006/07 ▪ Larger companies continue to take the greatest fall	**Design industry turnover, UK** • Turnover for the industry has seen an 8% fall on last years figures, from £4.3bn to £4bn • The largest growth was among companies in the £100k to £250k bracket, seeing a rise of some 28% over last year in turnover and an estimated 248 more companies in this bracket. This sees it return to the growth area it occupied before the 2005/6 fall • The fall in value of turnover among the £1m+ bracket is as last year - greater than the fall for the whole industry. This sector of the industry has suffered an estimated £0.7bn loss in turnover in the last 2 years
Fee income ▪ Fell by 8% in 2006/07 ▪ Only growth experienced was among the smallest companies	**Design industry fee income** • Industry fee income has fallen by 8% compared to the 2005/6 results, a fall of £254m • The second consecutive year of falling fee income represents a total fall of £912m in the last 2 years. • In previous years, the £1m+ fee income bracket has accounted for a comparatively greater fall than other brackets – again in 2006/7 it follows suit and accounts for 72% of the fall in the value of the industry fee income • The largest percentage fall has been in the £500k to £1m brackets, which has seen fee income fall by 20% - accounting for 32% of the fall in value of the industry. The £500k to £1m bracket has also seen the largest fall in number of companies, down 20% • The only growth in fee income is in the £50-£100k brackets, where income and number of companies rose by 20% or more
Exports ▪ Fell by 10% in 2006/07 but remains around the level reported in 2004/05 ▪ More companies are now working overseas	**No. of companies by % of fees earned overseas** • Overseas fee income has seen a fall of 10% compared to last years results. However, unlike fee income and turnover, it remains about the level seen in the 2004/5 survey. • The fall accounts for a third of the total fall in fee income for the industry • Growth has been at the bottom of the scale and results suggest more companies are working overseas as the percentage of companies reporting overseas fee income has risen for all brackets that receive more than 10% of fee income from overseas

Past change in the UK design sector - employment, turnover, fee income and exports

- Destinations in Europe remain the most popular export markets accounting for nearly three quarters of all overseas fee income
- The Top 10 countries remain the same with the US leading the survey again this year. The main change has been Belgium moving up to 6th place
- The majority of overseas fee income continues to come from Europe and North America
- Minor change has occurred in single market destinations with Asia and the Middle East rising slighting thereby marginally reducing the Europe and North American % share.
- A small increase is shown in companies now exporting to two or three markets.

Source: The British Design Industry Valuation Survey 2006-2007, British Design Innovation (2007)

Future prospects

4.3 The following table outlines both concerns and optimism for the UK design sector.

UK design sector – future prospects

The insert opposite suggests there are a number of concerns about the future of the design sector, particularly:

- Fall in employee levels
- Impact of freelance market on larger firms
- Lack of investment in training
- Lack of guidance on sustainability

But the positives are:

- Larger firms continue to recruit
- Firms are more aware of sustainability issues

With so much government activity centred on the value design brings to business it is worrying not to see that message translating into increased purchase of design or increased fee levels.

The fall in company employee levels and conversely the health of the freelance market supported by increased freelance rates is making it harder for design firms to turn a profit. Consequently, lack of investment in staff training and employment incentives increase the attractiveness of freelance work.

The larger design firms are recruiting, yet project income continues to fall.

Key issues such as sustainability ought to be providing increased business opportunities. Design firms with a published sustainability policy rose from 13% in 2005/6 to 20% in 2006/7. However it is difficult to ascertain whether this represents business investment and learning or simply an increased awareness in the subject.

Sustainability has been widely debated and there is an enhanced awareness of the issue and a greater level of responsibility felt. However only a few dozen design firms have sought to make sustainability a core focus of their offer. We would argue that this is due to lack of guidance on what is a very complex issue.

Overall, despite the significant public sector investment in consultations focused on seeking to understand creative industries and their needs, the under-resourced and time-starved design sector itself is struggling to engage or understand how to benefit.

BDI would argue that there exists an imbalance between benefits gained by businesses utilising design as a competitive advantage and the commercial benefits derived by the design sector itself. The business model needs to be reviewed in order to equitably benefit industry and the design sector.

BDI would also question the regional fragmentation of the design sector in context of the national strength required to counter overseas competition.

Source: The British Design Industry Valuation Survey 2006-2007, British Design Innovation (2007)

Predictions for the design sector

4.4 Predictions for the sector, provided by BDP are:

BDI's predictions for 2008...

More out of necessity than burning desire, design firms will review their income models and look for ways in which to earn income through investment in their own ideas and through alternative business models such as licensing, royalty and other forms of shared risk and reward.

Design firms will seek to develop a greater understanding of Intellectual Property and how to negotiate more equitable terms with industry.

Collaboration and co-creation will be a growth area both between creative disciplines & innovation skills sets.

Arguably the ease of use of technology and rise of social networks that has led to exponential growth in ideas & file sharing and collaborations through people power, will continue to influence the professional creative market.

The Government agenda will shift towards development of entrepreneurialism linking it directly with innovation. The skills agenda is likely to focus on multi-disciplinary learning and development of business skills through CPD and training initiatives.

Mergers and acquisitions will continue throughout 2008 leading to a widening gap between large multi-disciplinary design groups and small, niche firms regularly collaborating with other creative firms and innovation disciplines to broaden their offer to industry.

Knowledge, and in particular technology transfer, will become a driving influence in the creative industries and as such new types of design firm will begin to emerge. These firms will have a greater understanding and control over the intellectual property they create.

Industry itself will begin to look externally for new ways to manage and access innovation from the individual and SME originator market place.

Structure of the UK design sector

Top 10 industry sectors that engage design firms

- Having seen growth for the last 2 year, business to business has shown a fall of 7% this year along with entertainment and leisure (-14%) an construction (-7%)
- Sector growth is seen in Food and Drink (+11%) and a large rise of 17% year-on-year for Manufacturing
- The service sector is now the largest source of work for the UK design sector

industry sectors:

the British Design Industry valuation survey 2006 to 2007

agencies operating in sector	%	number
services	55	2495
entertainment/leisure	54	2435
retail	54	2422
consumer goods	52	2325
public sector/non-profit	48	2145
business to business	45	2038
food and drink	42	1908
fashion / luxury goods	39	1758
pharmaceuticals/healthcare	37	1658
construction	36	1605
finance	34	1531
telecommunications	34	1528
manufacturing	34	1531
child/youth	33	1488
medical	33	1491
electronics	32	1424
transportation	28	1251
automative	26	1178
personal care	24	1084
packaging	24	1061
utilities	20	894
publishing	19	877
tv, film, video, dvd	15	687
agriculture	13	607
capital goods	10	440
aerospace	9	400
sport	9	384
biotechnology	8	364
textiles	8	364
environmental technology	8	364

- This table represents the industry sectors engaging design firms and the number of firms operating in these sectors. It might also be taken as an indicator of UK plc sector strengths and growth industries as a whole – noting manufacturing at 34% and services as 55%.

- The top 5 disciplines remain branding and graphics, multimedia/new media, packaging, exhibition & events and design/innovation management
- However, these have all seen at least a 5% fall compared to the previous year in companies reporting them as a discipline.
- Branding and Graphics has seen an 8% fall year-on-year down from 70% in 2005/6 and Packaging is down from 55% to 49%
- Reflecting the rise in new disciplines such as Proposition Creation; Service design and IP exploration all have reported an increase in number of companies operating in these disciplines. Proposition design has marginally increased from 6 to 7% and Innovation, research and technology has risen from 7% to 9%.

design disciplines:

the British Design Industry valuation survey 2006 to 2007

agencies undertaking discipline	%	number
branding & graphics	62	2804
multimedia / new media	56	2508
packaging	49	2227
exhibitions & events	47	2109
design & innovation management	32	1433
product / industrial design	25	1109
design strategy	22	1001
interior design	22	982
brodcast, tv, film, video	21	927
architecture / landscape	19	852
designer & manufacture	14	646
social responsibility	14	636
designer-maker	13	602
engineering	11	488
music & entertainment	11	497
financial / legislative	10	445
high-end consumerism	10	454
fashion	9	411
innovation, research, technology	9	402
prototyping	8	380
proposition creation	7	321
internal communications	6	287
product testing	5	207
service /experience design	4	201
commercial IPR exploitation	3	120

5. Contribution of the design sector to the UK economy

5.1 Evidence is now emerging indicating the contribution of design to company financial performance, stock market performance and company growth

Ways in which design contributes to the business

How have design, innovation and creativity contributed to your business over the last three years?

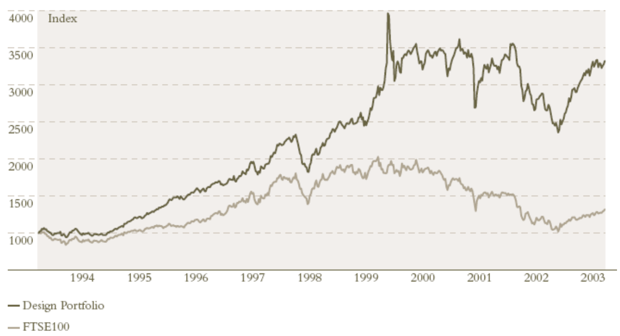
		In the past year our turnover has			Role of design in our company			
	All companies	Got smaller	Not changed	Grown	No role	Limited	Significant	Integral
Improved quality of services/ products	17	7	11	24	1	8	49	72
Improved image of organisation	13	3	9	18	1	10	35	43
Increased competitiveness	11	2	7	16	1	7	25	44
Improved communications with customers	10	2	8	14	1	7	28	36
Aided development of new products/services	9	4	4	14	1	0	24	47
Increased turnover	8	2	3	13	1	2	16	44
Increased profit	8	2	3	13	1	2	16	43
Supported development of new markets	8	2	4	13	1	3	17	39
Improved productivity	8	2	5	12	1	4	17	35
Increased market share	7	0	2	12	1	1	17	38
Increased employment	4	0	1	7	1	0	6	25
Improved internal communications	4	0	2	7	1	2	8	21
Reduced costs	3	0	1	5	1	0	8	13

Source: Design in Britain 2004-2005 – Design Council

Impact of design

Impact of design on stock market performance

- There's strong evidence for the first time of the direct relationship between the effective use of design and financial performance.
- An in-depth study (Design Index) tracked a group of UK quoted companies identified as effective users of design over a ten-year period between 1994 and 2003.
- The study found that this group of 63 companies out-performed the FTSE 100 over the full period by 200% and surpassed their peers in the bull and bear markets.



Source: The Impact of Design on Stock Market Performance (Design Index), Design Council, 2004

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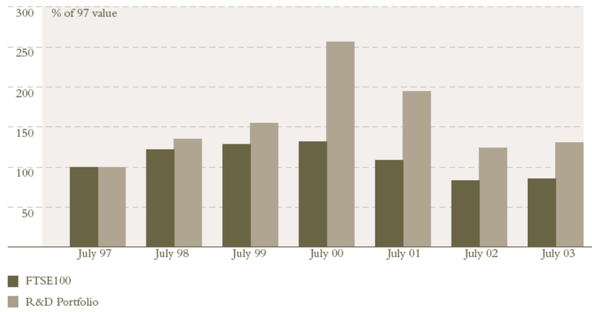
Impact of design

- The tracked companies are drawn from a wide range of sectors and include household names such as Barclays, Egg, Tesco, Marks & Spencer, Boots, British Airways, EasyJet, Rolls Royce, BP and Unilever

These results are complemented by the findings of another study looking at the link between share price and spending on R&D. The R&D Scoreboard has tracked the share prices of the 39 FTSE 100 businesses which reinvest most heavily in R&D.

The group's share price performance has outrun the FTSE 100 every year since 1997,and by July 2003 the group's combined price had risen by 30%,while the FTSE 100 had declined by 15%



Source: The 2003 R&D Scoreboard, Department of Trade and Industry, 2003

Design is integral or significant to **33%** of growing companies, but to only **11%** of shrinking ones.

What role does design play in your business?

		In the past year our turnover has		
%	All companies	Got smaller	Not changed	Grown
Integral or significant	28	11	22	33
Limited	35	20	24	47
None	37	69	54	19

Better return on investment

- UK businesses have got more out of investing in design than they bargained for. On average, they expected a return of around 50% on their most successful design project last year, but they actually got a return of more than 75%
- The UK's most successful businesses rate design as the second most important factor for success, with only marketing judged to be more significant. UK companies as a whole rate financial management as the number one factor for success, with design rated as seventh most important

	Rank the key ingredients of business success 1	2	3	4
All companies	Financial management	Marketing	Operational management	Education and training
In the past year our turnover has: Grown rapidly	Marketing	Design	Financial management	Innovation; Creativity
Grown moderately	Financial management	Operational management	Marketing	Communication
Not changed	Financial management	Marketing	Operational management	Innovation
Got smaller	Financial management	Human resource management; Innovation		Education and training

Source: Design in Britain 2004-2005 – Design Council

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6. Comparing the design sector across the UK regions

6.1 London has the largest share of design companies, confirming it is the design centre of the UK, followed by the South East and the East of England.

6.2 In contrast, Wales, the Northeast and Northern Ireland have the lowest share – **the North East has only 2%.**

regions:

the British Design Industry valuation survey 2005 to 2007

regional company analysis

	no. of companies	percentage of UK
London	1,454	32
South East	716	16
East of England	456	10
Scotland	354	8
South West	351	8
East Midlands	311	7
North West	227	5
West Midlands	206	5
Yorkshire and Humberside	190	4
Wales	118	3
North East	97	2
Northern Ireland	21	0
total	4,501	

- Despite a hive of regional activity over the last couple of years particularly in the South West, North East and Scotland the regional market shares have barely changed. The East of England where no particular activity has been centered has in fact increased its market share, perhaps led by firms moving slightly further out of London into Counties such as Hertfordshire.

- Thereby regionalised design activities seem to have little bearing on the choice of location for design firms. Life style choice is more likely to be a driver of re-location.

- Regional activities in context of local networks; information sharing and collaboration are worthy. However a strong national force must be maintained to save the design industry from further fragmentation and a potential weakening of the national story in face of increased international competition.

- London remains the largest design region in the country with nearly one third of all design firms 32% based in London; a slight decrease over 2005/6.

- The East of England market share has increased from 8% to 10% whilst Scotland has dropped from 9% to 8%.

- All other regions have maintained the same percentage market share as in 2005/6.

7. The design sector in the North East

7.1 This section examines the scale, nature, drivers and prospects for the design sector in the Northeast. The sources we use are:

- ABI-ONS data analysis covering employment, turnover, GVA and firm size
- Findings from the survey.

ABI-ONS data analysis

Data issues and assumptions

7.2 The following figures are based on a number of assumptions and judgements and so should be treated only as an approximate guide:

- The most difficult issue was matching up a definition of the design cluster to SIC categories. This proved quite difficult to do because design is often only a part of the activity embraced within anyone SIC category. It is possible to identify a number of SICs categories in which design is likely to be a substantial element, at 5-digit level, but ABI and ONS data is not available at this level because of confidentiality concerns. We checked this directly via a telephone discussion with contacts at NOMIS. Instead, we had to use 4-digit categories in which design is usually only likely to represent a much smaller element. We had no other option than to take a view and judge the percentage likely to relate to design. Our judgement in each case is based on the 5-digit make-up of the 4-digit category coupled with generic knowledge about the 4-digit category and the sorts of activities it presents. This is a technique we've used frequently when trying to map specific clusters using SIC codes. Because of the defuse nature of design however, we could be considerably out in some instances
- Moreover, ONS data on turnover and GVA is not available at 4-digit level so that it is impossible to even judge the percentage attributable to design using SIC classifications. Instead, we've applied turnover per head figures derived from the survey, to employment to arrive at total turnover and GVA estimates for the design cluster. But please note that the survey definitions are different to the SIC definitions of design as the former had to be based on the categories utilised by the company data base we used (Yell). These differ considerably from the SIC system. Also, the definition used in relation to Yell represents only a proportion of the design cluster as defined above using SICs
- For GVA per head, we've not been able to derive estimates from the survey but instead have estimated GVA as a percentage of turnover - we've assumed GVA equals 50% of turnover. This is higher than the regional average and is because most design activities are time intensive rather than cost intensive, thus a higher proportion of turnover will be wages, profit and dividends.

7.3 These issues in cluster mapping are not uncommon and the process of estimating the % of each SIC that is relevant and applying turnover and GVA per head figures is commonly used – but – the issues are particularly significant for the design sector because of it's dispersed and integrate nature within the wider economy.

7.4 Nevertheless the analysis does provide some broad messages.

Size of the design sector in the Northeast

- Employment– the design cluster in the region, as we've been able to define it, accounts for 17,157 FTE jobs in 2006, comprising 1.96% of total employment FTE in the region, with an LQ against England of 0.73, indicating a lower relative concentration in the Northeast of 0.75 indicating that the cluster has grown marginally more in England as a whole
- The Northeast design cluster had a slightly higher employment LQ in 2000 of
- Design cluster turnover equals circa 1.2bn representing 1.05% of turnover of the whole regional economy
- Design cluster GVA equals very approximately 0.62bn representing 2.11% of total regional GVA

Performance

- Average turnover per head in the design cluster, of circa 72k, is low at only just over half the regional average. This reflects the predominance of 1 person lifestyle companies seeking to make sufficient to survive comfortably but no more, coupled with the high degree of competition and falling prices in the sector
- We estimated GVA per employee FTE in the design sector to be a little better (36k) compared with the regional average of 33k

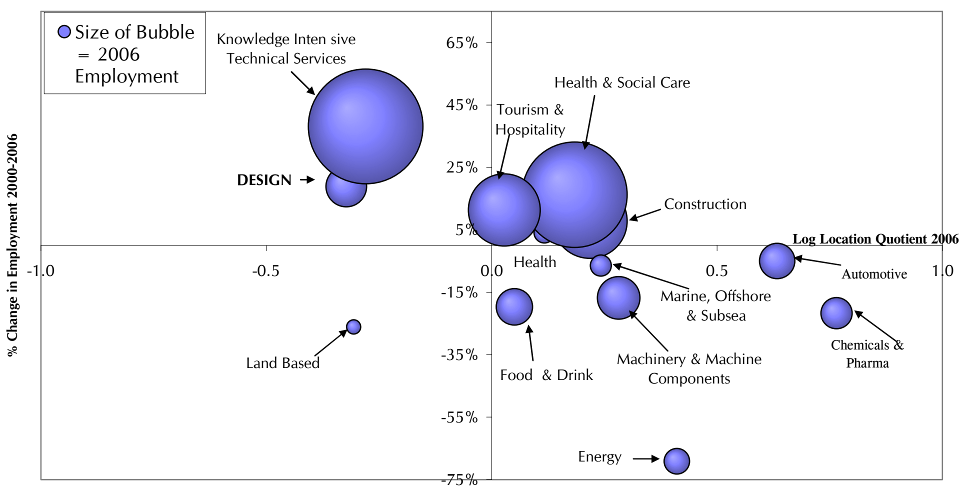
Past change

- Employment in the design cluster in the region increased by 19% between 2000 and 2006, at a similar rate to the cluster in England as a whole. In contrast, employment in the Northeast economy as a whole grew by only 12%.

Relative concentration of the design sector compared with other sectors

7.5 The following diagram indicates the relative concentration (in employment terms) of the design sector compared with other sectors in the North East region economy, using LQ analysis, benchmarked against England. Whilst there is not yet a concentration of employment in design in the NE (the LQ), the sector is one of the fastest growing in the region; and in terms of scale is on a par with machinery manufacture – and employs more than the regions food and drink and automotive sectors.

Clusters of Employment in the North East



Further details of the NOMIS, ONS and survey employment, turnover and GVA data analysis

7.6 The following three tables set out the data derived form ABI, ONS and the survey.

Design cluster employment								
	England			NE		NE - design		
Employment	England	England - design cluster emp	England - design cluster as % total emp	NE	% NE emp of England	NE - design cluster emp	NE - design cluster emp as % total emp in NE	LQ of NE against England
Employment in 2000 FTE	17,591,836	433,148	2.46%	778,444	4%	14,429	1.85%	0.75
Employment in 2006 FTE	19,244,029	516,001	2.68%	875,679	5%	17,157	1.96%	0.73
Emp change 2000-06 FTE	1,652,193	82,853		97,235		2,728		
Emp change 2000-06 %	9%	19%		12%		19%		

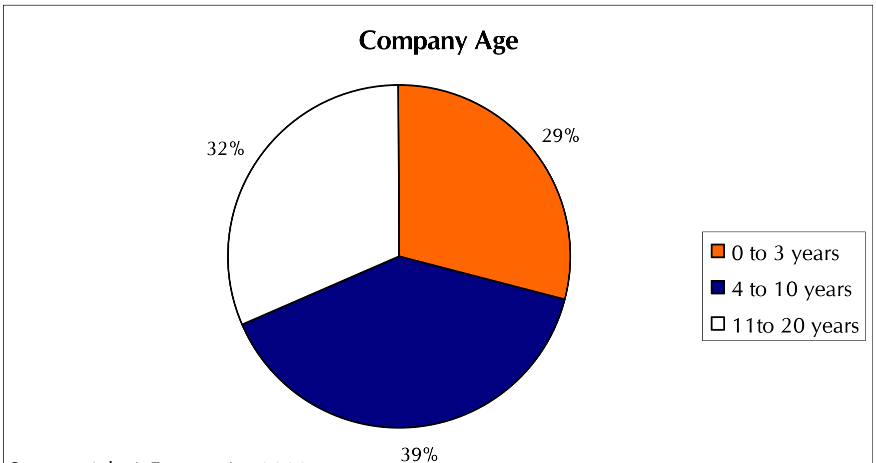
Design Cluster - Turnover and GVA			
Turnover	**NE economy**	**NE design cluster**	**% Design cluster of whole NE TO**
Turnover per head	135,283	72,781	0.54
Total Turnover 2006 (m)	118,464	1,248.7	1.05%
GVA	**NE economy as a whole**	**NE design cluster**	**% Design cluster of whole NE GVA**
GVA per head	33,800	36,391	1.08
Total GVA 2006 (m)	29,598	624	2.11%

Cross check from survey		
	Average per company	**Average per head**
Average turnover excluding the >1m band is £255,405	255,405	60,666
Including the >1m band (assuming mid point of 1.5m) is £306.410	306,410	72,781
Average employment per company in sample of 41	4.21	
Total employment in sample	173	
Total employment in population - assuming circa 300 firms	1,263	
Assumed GVA conversion rate (50% of TO)		50%
GVA per head		36,391

Survey findings

Company age

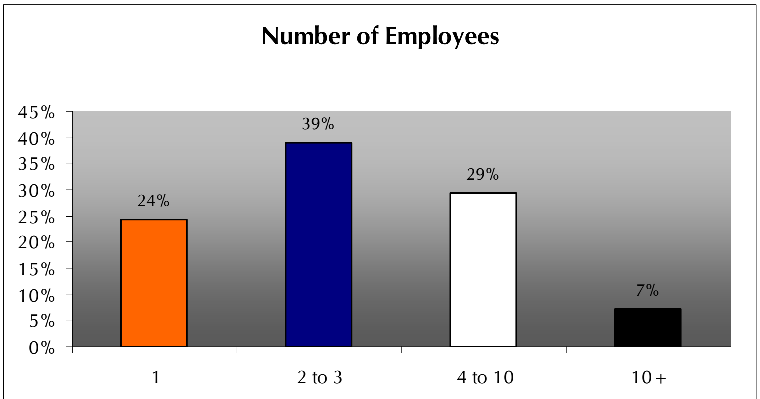
7.7 A third of the sample are 3 years old or younger and two thirds are 10 years old or younger, indicating a reasonable degree of maturity across the sample.



Source: Adroit Economics 2008

Employment

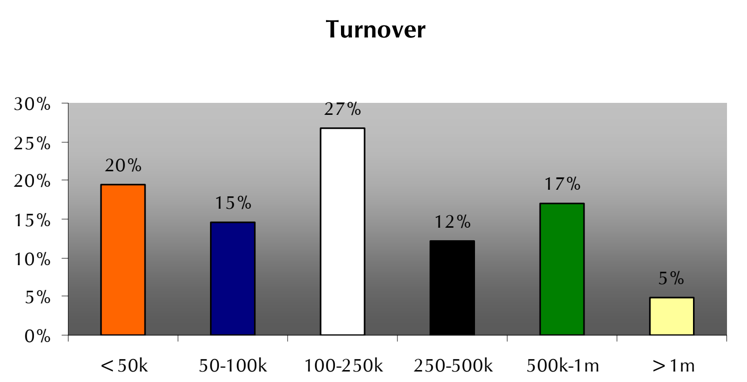
7.8 A quarter were one person companies, just over a third employed 2 to 3, just over a quarter employing 4 to 10 and larger companies making up the rest.



Source: Adroit Economics 2008

Turnover

7.9 Just over a quarter of the sample fell into the 100-250k bracket with the next largest proportion falling into the <50k bracket.



Source: Adroit Economics 2008

Distribution of the sample across the region

7.10 The table below provides the location of customers as a percentage of turnover. The table shows that geographical location is becoming less of an issue for design companies.

- Only 22% of companies work only for clients based in North East England;
- 73% of companies work for customers across the UK;
- 10% of companies work for clients based in Europe; and
- 10% of companies work for clients based in the US and/or worldwide

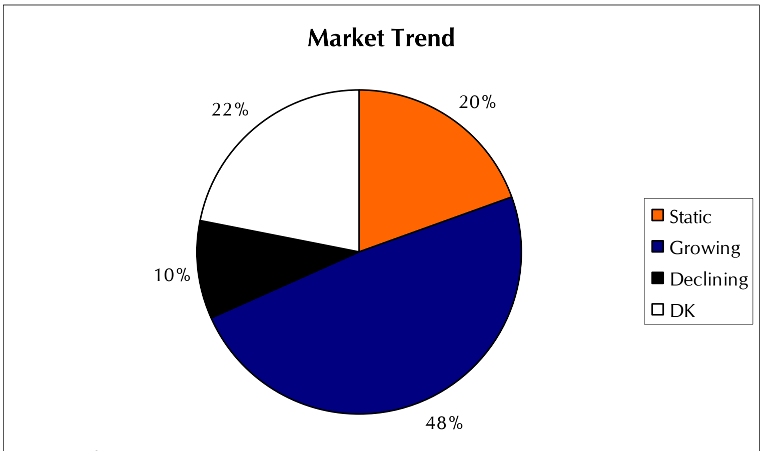
Location of Customers as % of Turnover					
Tyne and Wear	***The wider North East***	***Rest of UK***	***Europe***	***US***	***Other***
		100%			
	60%	40%			
90%		5%		3%	2% France
100%					
	70%	30%			
10%	90%				
	20%	80%			
	60%	40%			
90%	10%				
	75%	15%	10%		
70%	25%	5%			
	50%	45%			5% Australia
90%		10%			
30%		70%			
	99%	1%			
75%	25%				
		100%			
90%		10%			
	70%	15%	15%		
50%	10%	30%	10%		
100%					
90%			5%		

Location of Customers as % of Turnover					
Tyne and Wear	***The wider North East***	***Rest of UK***	***Europe***	***US***	***Other***
90%		10%			
	75%	25%			
65%	35%				
	100%				
90%		10%			
	90%	10%			
	25%	75%			
100%					
	90%	10%			
95%	5%				
	20%	80%			
	80%	20%			
95%		5%			
35%	15%	50%			
70%	10%	20%			
95%		5%			
80%		20%			
80%	20%				
10%		40%			50% Worldwide

Drivers of growth

7.11 Our survey of design companies shows that the majority of respondents consider the sector to be growing. In addition to natural growth, the main reasons given for this are:

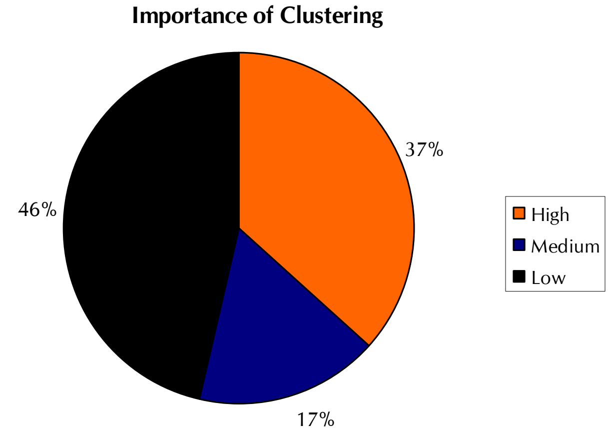
- Lower cost of technology equipment along with technological advancement
- Customers are becoming more aware of the value of design
- Pro-activity of the design community
- Government initiatives to promote the growth of the sector
- Increase in the number of graduates coming into the sector



Source: Adroit Economics 2008

Importance of local clustering

7.12 A third felt micro clustering was a significant benefit, just over a half felt it was either a significant or a medium benefit and the remaining felt it presented disadvantages:



Source: Adroit Economics 2008

Issues and difficulties

7.13 Issues and difficulties commonly expressed include:

- **Tendering and pitching –** common practice across the design industry is for clients to require design companies, when tendering for work, to produce illustrative designs. Customers expect this, in addition to presenting a portfolio of past work. This in effect amounts to speculative work which has cost and time implications for the design company concerned. This is a particularly difficult issue for one person and small companies. The design companies believe this problem is particularly true of public sector clients. The public sector tend to actively encourage this kind of tendering process to the detriment of the sector. The sheer number of design companies asked to tender often stops companies pitching at all, the number of designers invited for one project is often over 10.

- **Finding skilled staff** – common points made were:

  = The CAD industry requires staff who are both skilled in IT, in design and in the particular trade or industry in question. This is a demanding requirement. On the job training is particularly important yet the survey suggests that not many companies are willing to invest in training.

  = Most of the good graduates choose the more recognised design cities as a first choice.

  = It is very difficult to find people who can design and understand it - this is also a problem in the trades eg. joiners.

  = There are very few courses that actually teach web-site design; the majority of good designers are self-taught. What is taught in universities and colleges is not good enough, all of the innovation happens in the workplace, not in the universities. Students need to be taught to be competent in the commercial world.

- **Valuing design** - Raising the awareness of businesses of the value of design and getting them to incorporate it as a part of their business plans. The educational process does have value, companies are simply not aware of the benefits good design can bring to their businesses.

This is exacerbated by design companies being unable to show them anything tangible until they create the model.

Competitors

7.14 The table below clearly shows that the majority of design company competitors are located in Newcastle; this could suggest that a natural cluster has developed there.

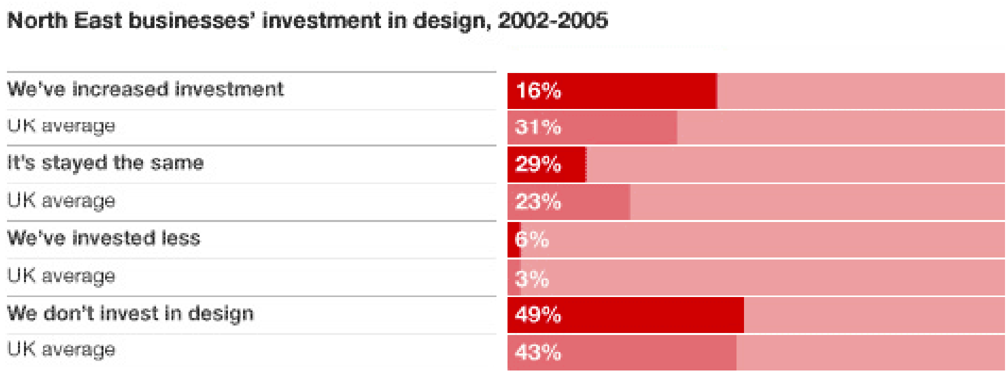
Location of Competitors	
56%	Newcastle
7%	DK
7%	London
5%	Darlington
5%	Leeds
2%	Birmingham
2%	Consett
2%	Durham
2%	Gloucester
2%	Middlesbrough
2%	Northallerton
2%	Stanley
2%	Newton Aycliffe

8. Contribution of design to the North East economy

8.1 Design clearly contributes to the overall performance of the Northeast economy, but not as much as in other regions, perhaps.

North East businesses are less convinced about the value of design

- North East businesses are less convinced about the value of design than the rest of the UK is.
- Design often plays a marginal role, and businesses are less positive than elsewhere in the UK.
- But there are positive signs. While only 6% of the region's businesses rate design as integral to their operations, 19% think it is crucial to their success.
- Half (**50%**) of North East businesses believe that, over the past decade, design has become more important in helping them compete (UK average 46%)
- While this belief mirrors the picture nationally, it falls some distance behind the most positive regions such as the East Midlands (68%) and South West (65%).
- Only one in six businesses (16%) in the region increased their investment in design in the past three years. Also, half (49%) don't invest at all
- More than four out of five of the region's businesses compete on the basis of the price or cost of their offer. This is the highest proportion in the UK. Other grounds for competing – such as innovation (7%) – are substantially less attractive than in the UK as a whole.



Source: Design in the North East – Design Council 2006

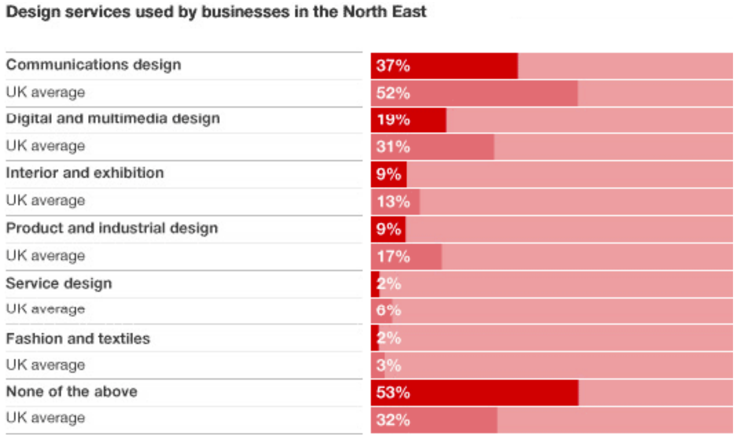
Low rates of product and service development in the Northeast

How many businesses have developed new products or services	▪ Only a quarter (**26%**) of North East businesses have developed new products or services in the past three years. UK average 40% ▪ Along with Northern Ireland, businesses in the region are the least likely in the UK to develop new products or services

Low rates of product and service development in the Northeast

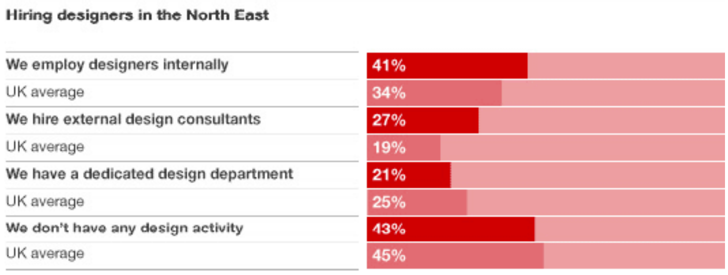
What types of design do businesses use?

- Compared to the rest of the UK, the North East makes less use of every type of design. **53%** of businesses, compared to only one in three elsewhere, haven't used any type of design we surveyed. UK average 32%
- This differs significantly from other regions where design is used far more. For example only 17% of East Midlands businesses haven't used any of the types of design we surveyed



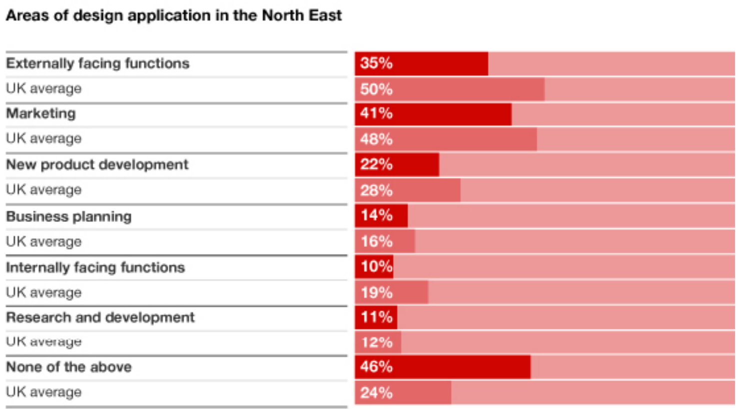
Do businesses use designers?

- Over half of businesses (57%) in the North East employ or commission designers. UK average 55%
- In some aspects of design employment, the region falls just short of UK averages. Fewer businesses have design departments of their own. However, two in five employ a designer internally.



Where do businesses apply design?

- North East businesses use design less than average. Almost half (46%) of businesses don't apply design to any of the areas surveyed. UK average 24%



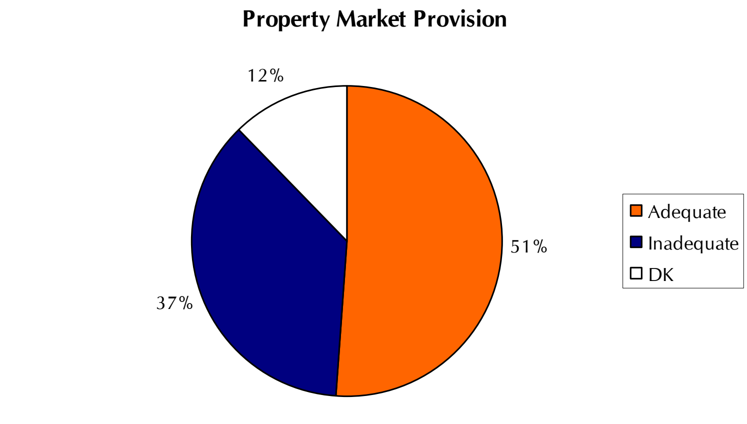
Source: Design in the North East – Design Council 2006

9. Accommodation and facilities needs of the design sector

9.1 In this section we set out the findings from the survey regarding the accommodation needs of the sample and potential interest in the Design Centre of the North.

Satisfaction with existing premises

9.2 A half felt their current premises were adequate, but just over a third felt them to be inadequate.



Source: Adroit Economics 2008

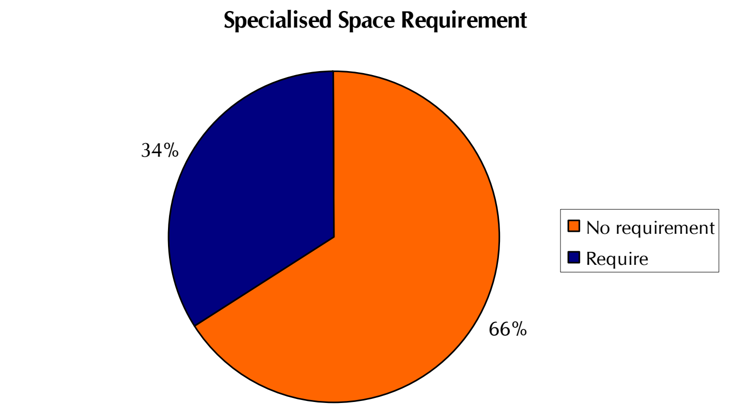
Single or multiple sites

9.3 7% of companies have multiple sites. Of these, all have other sites within the North East, with one company having sites throughout the UK and world-wide.

Specialist space and facilities

9.4 34% of companies stated that they required access to specialised space, they defined theses specialised spaces as:

- Meeting and conferencing rooms
- Temporary build/workshop
- Photo studio
- Presentation rooms including the latest hi-tech AV equipment and screens
- Large scale exhibition venue



Source: Adroit Economics 2008

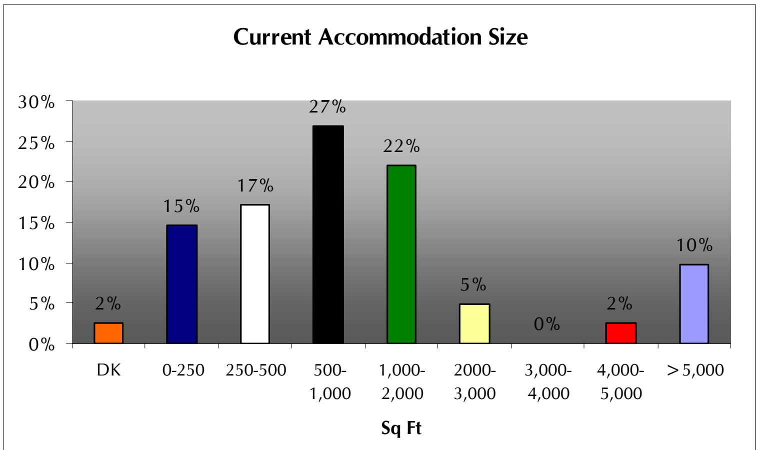
Specialist equipment

9.5 90% of companies use specialised equipment and of these, 83% own their own specialised equipment. The majority of companies defined the specialised equipment as Mac computers and specialised design software. Other specialised equipment was defined as:

- Prototyping equipment - 3D printing and vacuum casting,
- FDM rapid prototyping equipment and PCB manufacturing equipment
- 3D laser scanner
- Large format printers and finishing equipment
- Mill machines and lathes
- Wide format digital print and laminating machines
- CNC machine - vertical milling machine
- Multi Screens
- Large servers and databanks
- Air conditioning

Accommodation size

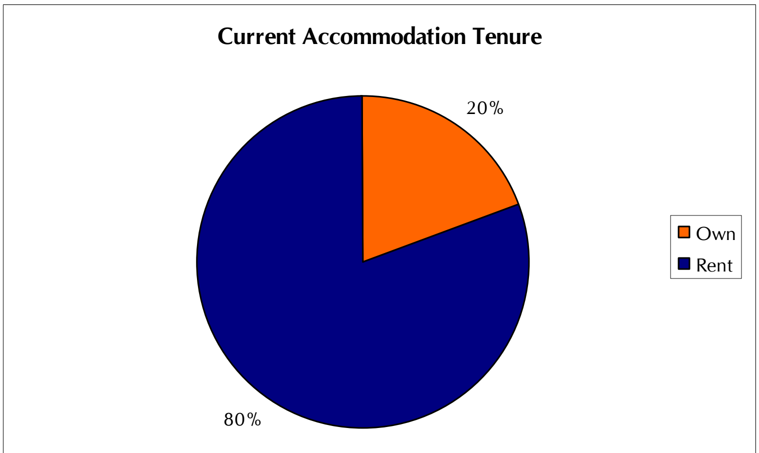
9.6 One quarter of the sample currently have 500-1,000 sq ft of space and one quarter have 1-2,000 sq ft of space.



Source: Adroit Economics 2008

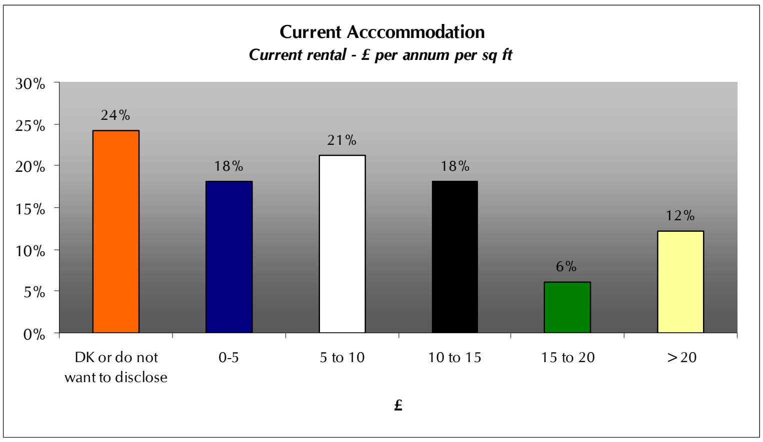
Tenure

9.7 Four fifths rent and 20% own their own premises.



Source: Adroit Economics 2008

9.8 Of those that rent......

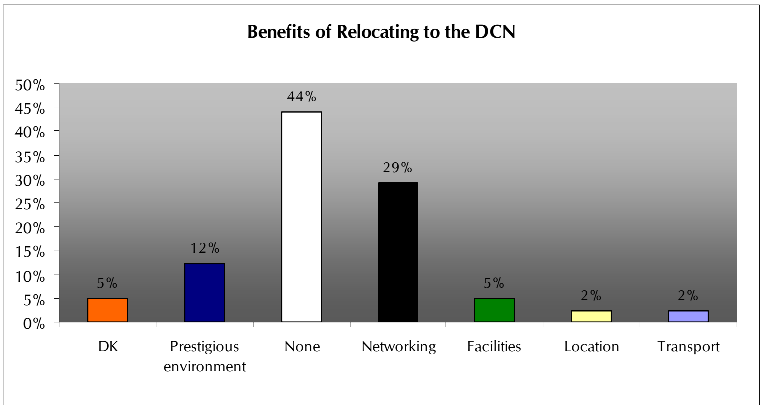


10. Interest in the Design Centre of the North

10.1 Just over half the sample saw one or more benefits in relocating to the Design Centre of the North. This is significant:

- 29% saw networking benefits
- 12% liked the environment
- And 5% the facilities

10.2 We should stress however that these factors may not be sufficient to cause companies to actually relocate.

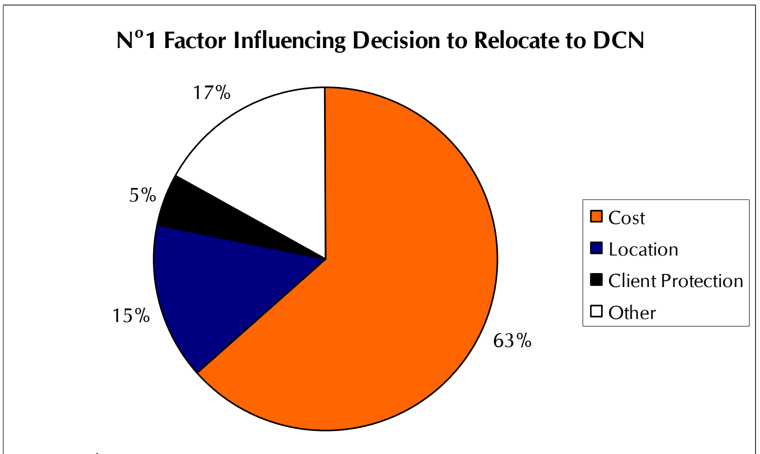


Source: Adroit Economics 2008

10.3 Of those that saw benefits in relocating to the design centre, 76% would consider relocating there, of these, half would consider a move if drawbacks were addressed.

What would make companies relocate?

10.4 The primary factor would be cost – the rent needs to be pitched right.



Source: Adroit Economics 2008

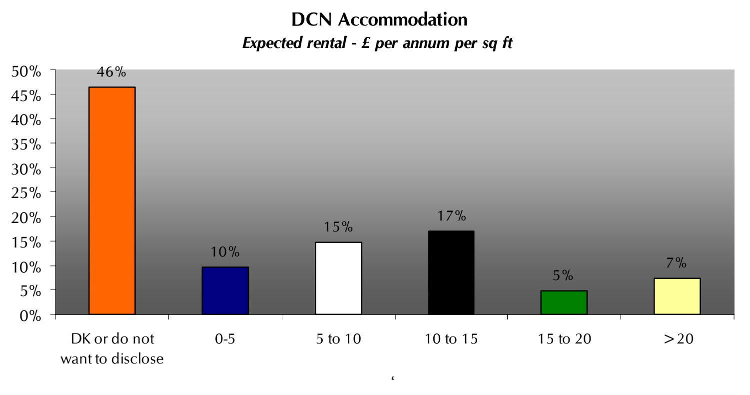
Facilities sought at the Design Centre of the North

10.5 Companies were asked to name key facilities they would like to see available at the design centre, the most common responses are:

- High speed broadband
- Meeting and conferencing rooms
- Manned reception with telephone answering
- Attractive well designed high quality environment providing natural light and climate control
- Presentation rooms including the latest hi-tech AV equipment and screens
- Showcasing space

Rents companies are willing to consider

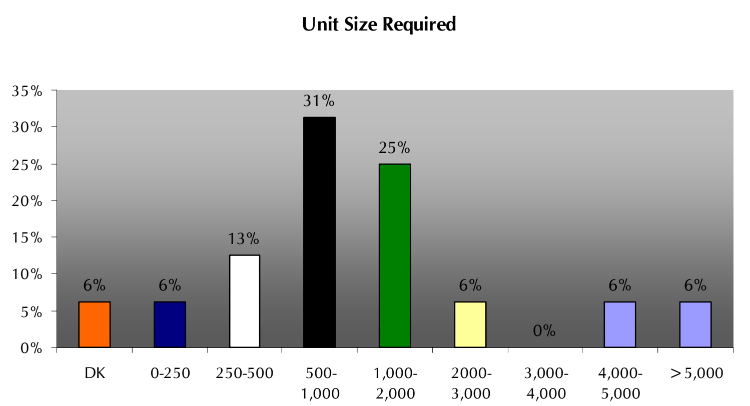
10.6 54% of the sample had a view on rents - figures ranged form £5 per sq ft up to £20 per sq ft.



Source: Adroit Economics 2008

Size of units required

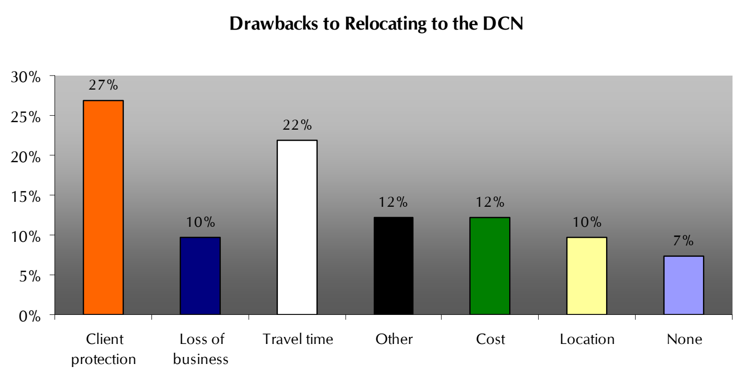
10.7 Of those that would consider relocating to the design centre, 81% require less than 2,000 sq ft.



Source: Adroit Economics 2008

Reasons for not relocating to the Design Centre of the North

10.8 44% of the sample could see no benefit in moving the Centre. The most significant reason was fear of losing clients (27%), followed by increased travel time (22%).



Source: Adroit Economics 2008

10.9 Concerns expressed were:

- Client protection - customers are no longer loyal and design companies would not want their customers to walk past several other designers when visiting them at the design centre
- IP protection - a number of design companies have had negative experiences when collaborating in the past.

10.10 A solution put forward was that the design centre could screen tenants to ensure they were complimentary to each.

Quantifying demand

10.11 Drawing on the survey findings, we've estimated the quantum of demand for the centre, if it were available now and offered the facilities required and the right rents.

10.12 Assumptions made are:

- £10 per sq ft maximum
- 20% of companies expressing interest actually relocate
- Average unit size of 1,500 sq ft

10.13 On this basis, we estimate that one in 10 firms, requiring 1,500 sq ft of space, would seriously consider relocating.

10.14 The survey sample represents 13% of the total design firm population in the region as defined by our survey. If we apply the conclusions for the sample to the whole population, this would suggest demand in the order of 54,000 sq ft of space.

10.15 These estimates should be treated as indicative only rather than certain. They are based on the survey findings and on key assumptions based on our judgement.

Appendix A – Survey Questionnaire

Q.	Co Name Address Town Post Code Tel Contact Name Contact Position Contact Email Direct Tel Web Site Sub-Region Yell Classification
	Company
1	**Year of Establishment**
2	**No of Employees** Of these, how many are full-time? Of these, how many are part-time?
3	**Into which of the following ranges does your company turnover fall?** <50k 50k - 100k 100k - 250k 250k - 500k 500k - 1m >1m Did not disclose
4	**What are your three main areas of business?** 1 2 3
5	**Does your company have multiple sites, if so, where are they?** *(Y/N)* Head Office 1 2 3
6	**Customers – do you work for one, or a small number, or for many**
7	**Where are your customers based** *(record by % of TO)* Tyne and Wear The wider North East Rest of UK Europe US Other (specify)

Sector

8 **In your opinion, is the market you are in static, declining or growing and what are the reasons for this** *(identify drivers of growth/ decline)*

9 **Please name the top 3 locations where your competitors are located**
1
2
3

10 **Does the property market currently provide adequate accommodation for your particular type of company?**

11 **What factors are/ are not a problem for your particular business and why?**
Skilled staff.....explain
Right location.....explain
Appropriate accommodation .....explain
Access to specialist facilities and equipment .....explain
Finding right suppliers.....explain
Finding right customers .....explain
Other (specify)

Current Accommodation

12 **Size (sf)**

13 **Do you own or rent your current accommodation?**

If own, total cost of building
If rent, current rental level psf per month
current rental level psf per annum
If rent, tenure (any restrictions)

14 **Do you have access to or require access to specialised space?**

15 **Do you use any specialised equipment?**

If yes, do you own your specialised equipment?

Design Centre of the North

16 **In your ideal accommodation, what key features and facilities would you like to see and why?**
(in order of desirability)
1
2
3
4
5

17 **What would you consider to be the benefits of relocating to DCN?**

18 **What would you consider to be the drawbacks of relocating to DCN?**

19 **What would be the key factors influencing your decision regarding possible relocation to DCN?**

1
2
3

20 **What rental level (psf) would you expect to pay for accommodation at DCN if it provided you with your ideal accommodation? (per annum)**

21 **What level of importance would you attach to the ability to cluster?**

High/Medium/Low
Expand

Other

22 **Are there any other issues or points you would like to raise that you believe are pertinent to this study?**

Appendix B – ONE NorthEast Survey Invitation

One NorthEast has been working with partners to develop an extensive programme to support the development and use of good design in the region. The Design Centre for the North (DCN) concept seeks to boost design capacity and capability in the region, particularly in business, by encouraging integration, knowledge-transfer and design-focused business solutions.

We have spent considerable time conducting an official consultation with members of the design community to ensure that our product and service offering is indicative of your needs as an industry partner, as well as the needs of our end user target markets.

The DCN concept combines a physical building and a virtual network, both of which will assist the delivery of design-related business advice and a design brokerage service.

The virtual network will exist online but will have use of the physical building with the presence of a small team of staff. The physical building, which will be located in part of the Baltic Business Quarter on the Gateshead Quays, will house a design brokerage facility servicing organisations in the design industry and SMEs throughout the North East region. The building has dedicated office space to lease to design-related companies as well as modern conferencing facilities.

One NorthEast is working with Adroit who will be undertaking a survey to review the demand for the 1st floor accommodation at the DCN building. We hope that you are able to participate in the research as your industry insight and our understanding of your business needs are vital in the development of the DCN concept.

If you have any further questions about the DCN project, please contact Naomi Charlton on 0191 229 6803 or naomi.charlton@onenortheast.co.uk

Thank you.