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EXECUTIVE SUMMARY

1. INTRODUCTION

1.1 BACKGROUND

- 1.1.1 In August 1996 Newry & Mourne Co-Operative applied to the Newry & Mourne Peace and Reconciliation District Partnership for funding for an Export Development Programme in TSN Areas. Simultaneous applications were also made to LEDU and the District Council.
- 1.1.2 In December 1996 the Newry & Mourne Peace and Reconciliation District Partnership approved the Programme followed in January 1997 LEDU and Newry & Mourne District Council's economic forum.
- 1.1.3 The Programme is 75% funded by the Peace and Reconciliation Programme, 15% by LEDU and 10% by Newry & Mourne District Council.

1.2 PROJECT DESCRIPTION AND RATIONALE

- 1.2.1 Many marginalised areas in Newry and Mourne have had little or no exposure to export activity. Export-led growth produces new sources of income, avoids displacement and develops the competitiveness of the local economy. Recent research by economists in Britain has shown that for every job created in the manufacturing sector an extra 1.3 jobs are generated in the wider economy. Sustaining these jobs in manufacturing almost inevitably requires capturing new export markets. This Programme aims to expose businesses in disadvantaged and marginalised areas of Newry & Mourne to the benefits of exporting; to support the growth of quality-led, small manufacturing firms in sufficient numbers to make an impact on entrenched unemployment; to set in place systems to assist SME's to seek out and exploit overseas markets; and to promote entrepreneurial activities particularly in stigmatised areas. South Armagh and Newry town especially have suffered from negative publicity for twenty-five years. The associated stigma is a deterrent to trade and economic development. Intervention is required to challenge this negative image and seek new trade.
- 1.2.2 The programme is structured as follows:
 - 1. Carry out an in-depth survey/analysis of export activity within the commercial and industrial sector in Newry, South Armagh and South Down to identify sectors and businesses with under-exploited trade potential.
 - 2. Based on that analysis of capacity, an Action Programme for 15 companies from TSN areas with under-exploited export potential will be drawn up. This will focus on the changes that these companies will need to make in order to enter new export markets.

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3. The 15 target companies will be provided with intensive mentoring support in the form of new market analysis and market penetration strategy. Assistance will also be provided to enable companies to attend trade conferences in association with LEDU and the Northern Ireland Chamber of Commerce. Support will also focus on the follow-up negotiations and in assessing the production implications of new contracts.
- 1.2.3 The District Partnership, LEDU and the District Council have supported the Programme because of its positive action to directly address the issue of improving economic performance in areas designated as disadvantaged. The mentoring assistance which is an integral part of the Programme will address issues which have acted as a barrier to company growth in TSN areas.

1.3 **OUTPUTS**

- 1.3.1 It is hoped that as a result of the Programme by the beginning of 1999 5 small businesses in Newry & Mourne will be in the process of negotiating new export contracts and will be getting support through the LEDU Business Advance Programme, creating or safeguarding 15 jobs; and that by the beginning of 2000 at least 5 companies will have increased their collective turnover by 20% and that 9 companies will have been entered onto the LEDU Business Advance Programme.

1.4 **THE NEWRY & MOURNE EXPORT SURVEY**

- 1.4.1 This survey represents the first stage in the Export Development in TSN Areas Programme. The aim of the survey is to identify those sectors and companies in Newry & Mourne and in the region's TSN areas in particular which are under-performing in terms of export sales relative to the performance of those sectors in the rest of Northern Ireland, the Republic of Ireland and Great Britain. The survey also seeks to highlight issues which companies have identified as having interfered with their ability to enter and maintain a presence in export markets. The survey highlights markets which are currently important to Newry & Mourne companies and markets into which companies have an intention to expand. The purpose of the survey is to inform those organisations involved in providing advice and assistance to companies about issues which need to be addressed if company growth through export is to be achieved. The report will conclude by recommending a number of specific actions which would help Newry & Mourne companies in general and those in TSN areas in particular to enter new export markets.
- 1.4.2 The report firstly looks at export trends in Northern Ireland as a benchmark for its assessment of the export performance of key sectors in Newry and Mourne. The analysis of Newry & Mourne includes a look at key economic variables which impact on the export performance of businesses in the region. The survey looks at export trade in Newry & Mourne followed by a detailed analysis of the export activity of companies in Newry and Mourne with a

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particular focus on TSN areas. Key trends are distilled from the research. This includes: 1) highlighting areas of activity in which Newry and Mourne companies are performing well and which should be accentuated in future economic development programmes; 2) Focusing on areas of under-performance and weakness, particularly in TSN districts. A number of actions will be recommended based on that analysis.

- 1.4.3 In Phase II of the Programme in TSN areas 15 companies with under-exploited trade potential will be identified. These companies will be offered a package of support to enable them to expand by entering new export markets.

2. THE CONTEXT : THE EXPORT PERFORMANCE OF COMPANIES IN NORTHERN IRELAND

2.1 DESTINATION OF SALES

- 2.1.1 Northern Ireland is a small market of 1.5 million people. It is not surprising therefore that 68% of its manufactured output in 1990 was sold to customers outside the Province. Almost 50% of those sales went to Great Britain, 21% to Continental Europe, 20% to the rest of the world and 9% to the Republic of Ireland. By 1996 external sales were worth £6million to Northern Ireland companies and an estimated 74,000 jobs in the Province (i.e. 71% of manufacturing employment) now rely on external sales. Despite the small size of the home market, 32% of the Province's total output in 1995 was sold within Northern Ireland.
- 2.1.2 Research shows that Northern Ireland's small firms concentrate on markets geographically closer to the Province, with a higher proportion of their external sales going to Great Britain and the Republic of Ireland than is the case for large companies (200+ employees). Small firms export 10% of sales to the Republic of Ireland compared to 5% for large firms. There is also a strong correlation between ownership and company size, in that **most small firms are locally owned and most large firms are externally owned**. In 1990 the Northern Ireland Economic Research Council (NIERC) found that just under 60% of firms employing <5 employees (turnover <£100,000) had sales outside Northern Ireland compared to 100% of firms employing >500 employees (Turnover >£50m).
- 2.1.3 In summary, the **geographical range of exporters correlates strongly with their size**:
- Larger companies in Northern Ireland sold around four-fifths of their output outside Northern Ireland and two-fifths (40%) outside the UK.
 - Whereas small firms sold only one-third of their output outside Northern Ireland and around one-sixth outside the UK.
- 2.1.4 Clothing and Footwear is the only exception to this general pattern where small firms make a disproportionately large contribution to export performance - small firms account for 21% of output but 44% of exports.
- 2.1.5 In the sectors which produce bulky or perishable goods or goods offering low per unit margins only a small proportion of indigenous firms sell their produce outside the UK, in particular:
- Paper, Printing and Publishing
 - Timber and Furniture
 - Food, Drink and Tobacco

2.2 EXPORT GROWTH

- 2.2.1 Export growth during the 1990's, especially since 1995 has been strong. Between 1991/92 and 1994/95 exports increased by £853m (48%) compared to a growth rate of 30% for the UK over the same period. Northern Ireland companies now export 35% of their products (increased from 33% 1994/95 and 28% 1991/92). Exports outside the UK were up by one-fifth in 1995/96 (compared to a growth rate of 14% in the UK as a whole). The shift from Great Britain to other export markets has been a trend since 1990 with the expansion in export sales particularly significant in the Food sector and Textiles & Clothing.
- 2.2.2 The largest increase in Sales was in 1994/95 (8%) - an increase which analysts attribute partly to improved business confidence during the first ceasefire period.

2.3 TRADE WITH THE REPUBLIC OF IRELAND

- 2.3.1 Northern Ireland's trade deficit with the Republic of Ireland is just under £300m. That there is a trade deficit it should not be unexpected given that the population of Northern Ireland is only one third that of the Republic of Ireland.
- 2.3.2 However, given that the Republic of Ireland is geographically contiguous with Northern Ireland, the level of sales into its market of 3.5 million people from Northern Ireland is relatively small. When level of sales per capita figures are analysed it becomes clear that the Republic of Ireland, despite its geographical proximity is far from being a quasi-home market for Northern Ireland companies. Sales per capita to the Republic of Ireland at £110 is low in comparison with local sales in Northern Ireland at £1,222 per capita or locally produced sales within the Republic of Ireland (IR£1,600 per capita).
- 2.3.3 Some economists have pointed out that Northern Ireland sales to the Republic of Ireland are similar to Danish exports to their Scandinavian neighbours in Norway and Sweden. However Denmark is separated from its Scandinavian neighbours by sea borders whereas Northern Ireland and Republic of Ireland are separated by land border.
- 2.3.4 Trade with the Republic has though been growing rapidly during the 1990's. The proportion of Northern Ireland export sales accounted for by the Republic of Ireland rose from 9% in 1990 to 12% in 1991 and 26% in 1994. The NIERC has estimated that 54% of all Northern Ireland's small firms and 69% of its large firms sold some output across the border.
- 2.3.5 In assessing the competitiveness and performance of Northern Ireland industry it is worth noting that, compared to the Republic of Ireland, Northern Ireland manufacturing sales to Great Britain and abroad are lower per employee at £41,000 compared to £64,000 in the Republic of Ireland and that these sales

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represent only 45% of Northern Ireland's GDP compared to 58% of the Republic of Ireland's.

- 2.3.6 The main reason for the higher level of manufacturing exports from the Republic of Ireland is the growing concentration of externally owned manufacturing in high value added and high labour productivity sectors such as Pharmaceutical and Computers.

2.4 BARRIERS TO CROSS BORDER TRADE

- 2.4.1 Exporting companies surveyed across Northern Ireland highlighted the **following obstacles to cross-border trade:**

- Poor transport linkages
- Administrative difficulties: Customs documentation
 Exchange rate fluctuations
- Lack of Market information and sourcing opportunities
- Distribution Costs.
- Payment Problems (20% of Northern firms saw this as a problem).

- 2.4.2 65% of exporters said there were **constraints** on their ability to **increase** sales to Republic of Ireland. The Main Difficulties cited were:

- Competition from Republic of Ireland companies
- Competition from elsewhere
- Lack of market intelligence

Only a limited number of firms identified transport costs or legislation as a significant constraint.

- 2.4.3 47% of businesses **do not** export to the Republic of Ireland. The reasons cited by an NIERC sample survey are:

- The existence of sub-branches in Republic of Ireland
- The perceived lack of demand for their products

- 2.4.4 Despite these findings, it has been estimated that there is potential for trade between Northern Ireland and the Republic of Ireland to double under the right conditions. If this were to be achieved some 7,500 new jobs would be created North and South (with 2,500 - 3,000 of these being in Northern Ireland) over five years.

- 2.4.5 The Northern Ireland Economic Research Council has concluded that: *"There worthwhile achievable benefits in terms of an increase in incomes and jobs which would flow from efforts to stimulate cross-border trade within the island. Moreover, there is additional advantage in helping the large numbers of small firms which currently make no cross-border sales to do so. For small firms, the Republic of Ireland might represent an initial experience in exporting which will help to stimulate them to trade further afield in later years."*

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- 2.4.6 Analysts caution against expectations of a rapid acceleration in crossborder trade in the wake of a political settlement in Northern Ireland. This view is in part based on a 1995 survey in which only 15% of companies said that the 1994/95 ceasefire had encouraged them to trade with the Republic of Ireland. It was concluded that this small figure could be explained by the fact that companies had traded with Republic of Ireland regardless of the troubles.
- 2.4.7 Strategies to increase cross border trade have to be careful to avoid displacing home producers in the respective markets. For this reason economists believe that about half of any significant increase in Northern Ireland sales to Republic of Ireland would come in 4 sectors where there is scope for new product entry:
- Food, Drink and Tobacco
 - Timber, Furniture
 - Paper and Printing
 - Mineral Products

2.5 “THE PROBLEM WITH EXPORTING”

- 2.5.1 Surveys of Northern Ireland exporters have found that most have a number of concerns in common:
- **Price competitiveness:** Of fundamental significance because typically exporters have to compete with home producers in target markets. Transport costs and exchange rate volatility, however, can distort and exporting company's ability to compete. This is an issue for most sectors (except some sub-sectors of engineering).
 - **Worries over delay in payment:** Exacerbated by not using local agents/distributors, language problems, cultural differences and distance.
 - **Transport costs:** The geographical peripherality of Northern Ireland means that exporters are disadvantaged in terms of transport costs and journey time relative to competitors in continental Europe.
 - **Exchange rate fluctuations:** There are major concerns about the effect of the £ sterling remaining outside European Monetary Union.
 - **Identifying agents:** Most sales are made through company outlets in external markets or through direct contact with the final purchaser. There is an over-reliance on reactive sales following contact initiated by prospective purchasers. Only 25% of export sales currently are made through importers and distributors. Yet it is this method which offers the greatest prospect of rapid growth in external markets because of the pro-active selling method employed by distributors. This was especially an issue for firms in metal goods, mechanical engineering, food, drink and tobacco, textile, and clothing and footwear.
 - **Lack of information on export markets:** An issue which provides food for thought for Northern Ireland's economic development agencies.
 - **Lack of management time to explore market opportunities:** Companies would welcome a system which could provide concise quality information on export opportunities and which helped them to evaluate their potential.

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- **Insurance cover.**

2.5.2 For those companies which **do not export** the two reasons most frequently cited to explain their reluctance to export are:

- Transport costs
- Uncertainty or delay in getting paid.

2.6 **MODE OF TRANSPORT**

2.6.1 Not surprisingly given the accessibility of Northern Ireland's seaports and airports, 86% of external sales pass through Northern Ireland seaports or airports. The price competitiveness of the Northern Ireland seaports in particular has resulted in an increasing throughput of export traffic from the Republic of Ireland.

2.7 **TAKE UP OF EXPORT ASSISTANCE ON OFFER**

2.7.1 40% of Northern Ireland exporters surveyed by NIERC had received Export Assistance from the IDB and 11% from LEDU, the majority of whom found the assistance useful. However, the flipside of these statistics is that 49% of exporters do not make use of the sophisticated trade support services provided by Government agencies. **Given that almost all exporters highlighted the difficulty in securing agents/distributors and the lack of information on export markets there would seem to be a considerable role yet to be fulfilled by IDB/LEDU in improving the external market penetration of Northern Ireland exporters.**

3. PERFORMANCE OF EXPORT COMPANIES IN THE NEWRY AND MOURNE AREA

- 3.1 During the course of May - July 1997 Newry and Mourne Enterprise Agency carried out an analysis of data on the export performance of companies in Newry and Mourne collected by LEDU and the IDB during 1996 as part of a Northern Ireland-wide survey. The Agency carried out a further survey of a sample of 200 companies which focused on issues which affect their propensity to export and which mapped the trends observed at a sub-regional level in order to identify ways in which the export performance of companies in TSN areas could be improved.
- 3.2 Export related information has been collected on LEDU and IDB client companies for a number of years. For LEDU companies this has provided sales and employment information along with broad destination of sales. For IDB client companies it has involved identifying detailed markets for large firms sales. This research has led to the publication of a number of annual reports including the "Evaluation of the Performance of LEDU Companies" and "Made in Northern Ireland: Sold to the World" which provides the only available export statistics for Northern Ireland. However the information has only ever been published in the form of aggregated Northern Ireland level statistics. **This is the first time that a detailed disaggregated analysis of the export performance of LEDU and IDB companies in Newry and Mourne has been carried out.**
- 3.3 A total of 85 companies provided full information on sales, destination of sales and employment for the period 1995/96 (ending March). A further 55 companies provided information over a five year period. The analysis ensured that no individual company could be identified from the results highlighted.
- 3.4 Where possible, the figures have been compared to the overall performance of Northern Ireland manufacturing companies
- 3.5 Below is a summary of the analysis of IDB and LEDU client companies:

3.5.1 *The Manufacturing Sector*

- Manufacturing firms in Newry and Mourne have a lower reliance on sales within Northern Ireland than Northern Ireland manufacturing industry as a whole.
- Sales are particularly strong to our nearest neighbours, Great Britain and the Republic of Ireland.
- Sales to the Republic of Ireland account for 17 percent of total sales, twice as high as the manufacturing sector in Northern Ireland as a whole.
- However, local companies performance is not as strong in markets outside the UK and Republic of Ireland. As a result, whilst external sales (sales outside Northern Ireland) are higher for local companies compared to Northern Ireland as a whole, the export (sales outside the UK) share of sales is slightly lower.

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- The sales, external sales and export growth of companies in the Newry and Mourne area over the period has, in general, been significantly stronger than the performance of manufacturing industry overall in Northern Ireland.
- This has been particularly the case for export growth. Over the last few years, export sales have increased on average by 23 percent per annum for companies in the Newry and Mourne area compared to 15 percent per annum for the Northern Ireland manufacturing sector as a whole.
- As a result of strong growth in sales to markets outside Northern Ireland, local companies have significantly expanded their export share of overall sales and to a lesser extent external sales.
- These gains have been particularly significant in terms of the proportion of sales accounted for by the Republic of Ireland (from representing 11 percent of sales in 1991/92 to 17 percent of sales in 1995/96).

3.5.2 *Large Firms in Manufacturing*

- Whilst large firms in the local area are performing better than the Northern Ireland average in the Great Britain and Republic of Ireland markets, their performance is significantly weaker in the continental European Union and elsewhere.
- However, over the year to 1995/96 sales, external sales and exports have expanded.

3.5.3 *Small Firms in Manufacturing*

- Small firms have experienced strong export growth over the last year from a small base, though overall sales by small firms grew more slowly than in Northern Ireland as a whole.
- Small firms in the local area sell a higher proportion of their goods across all manufacturing sectors, outside Northern Ireland but particularly in Great Britain and destinations outside the European Union, than all small firms in Northern Ireland manufacturing.
- As a result, exports account for 29 percent of sales in small manufacturing firms in the Newry and Mourne area compared to 19 percent for all Northern Ireland small firms in manufacturing.

3.5.4 *Sectoral Analysis*

- The largest sector in terms of its representation of sales, external sales and employment is Food, Drink and Tobacco.
- The Engineering sector is also a significant sector in the area accounting for 15 percent of manufacturing sales and 18 percent of external sales.
- Food and Drink, Textiles, Clothing and Leather and Engineering are all highly orientated to markets outside Northern Ireland.

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- Textiles, Clothing and Leather is the most export orientated industry.
- Engineering sells the highest proportion of its sales to destinations in the European Union and beyond.

3.6 Companies Profile for 1995/96

3.6.1 Overall Group

3.6.1.1 The following highlights information from a total of 85 companies in the area. Just over 95 percent of companies are in manufacturing. Seventy-five percent or 63 companies have less than 50 employees. In total, the analysis covers just over 3,700 employees in the area, three-quarters of which are employed by large firms.

3.6.1.2 Sales for 1995/96 totaled just over £354m, 80 percent of which was accounted for by firms with 50 or more employees (Table 1).

3.6.1.3 Sales are split roughly equally between Northern Ireland, Great Britain and elsewhere in overall terms. However, as one would expect, the larger companies are much more orientated towards markets outside Northern Ireland than their smaller counterparts. Over 70 percent of sales of larger firms are sold outside Northern Ireland compared to 45 percent for smaller firms. This is largely due to significant sales to Great Britain by the larger firms.

3.6.1.4 However, if we look at export sales, that is sales outside the UK, the export share of small firms sales compared to their larger counterparts is quite good. Larger firms sold around one-third of their sales to export markets in 1995/96 compared to 26 percent for small firms during that year.

Table 1: Overall Sales, Destination of Sales and Employment

	All Firms £m	Employment	
		less than 50 £m	50 plus £m
Sales	£354.38	£70.22	£284.16
	%	%	%
<i>Northern Ireland</i>	33.9	54.5	28.8
<i>Great Britain</i>	34.8	19.4	38.7
<i>Republic of Ireland</i>	15.9	14.5	16.3
<i>Rest of European Union</i>	8.0	5.2	8.7
<i>Elsewhere</i>	7.4	6.4	7.6
	100	100	100
 <i>External Sales %</i>	66.1	45.5	71.2
<i>Export Sales %</i>	31.3	26.2	32.6
 Employment	3,724	932	2,792

n=85

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3.6.1.5 The Republic of Ireland share of small firms sales is similar to larger companies, 15 percent and 16 percent of sales respectively. There is no significant difference in terms of the proportion of sales sold outside the European Union by both sizes of firms. Most of the difference is in terms of the share of sales attributed to the European Union excluding the UK and Republic of Ireland. Nine percent of large firm sales were sold to these destinations in 1995/96 compared to 5 percent for smaller firms.

3.6.2 Manufacturing Firms

3.6.2.1 As highlighted above, 95 percent of the firms analysed are classed as manufacturing. Information on sales, external sales and exports is also available for all Northern Ireland manufacturing firms. The following therefore highlights how local companies are performing in external and export markets compared to the Northern Ireland manufacturing sector as a whole.

Table 2: Sales and Destination of Sales of Companies in Manufacturing

	All Firms		Less than 50		50 Plus	
	N&M Manuf	NI Manuf.	N&M Manuf	NI Manuf.	N&M Manuf	NI Manuf.
	£m	£m	£m	£m	£m	£m
Sales	331.0	8705	64.4	1848	266.6	6857
	%	%	%	%	%	%
Northern Ireland	29.8	32.4	50.3	66.3	24.9	23.3
Great Britain	37.3	32.2	21.1	14.7	41.2	37.0
Republic of Ireland	16.4	8.2	15.8	12.2	16.6	7.1
Rest of European Union	8.6	14.3	5.7	4.4	9.3	16.9
Elsewhere	7.9	12.9	7.0	2.4	8.1	15.7
	100	100	100	100	100	100
External Sales %	70.2	67.6	49.7	33.7	75.1	76.7
Export Sales %	32.9	35.4	28.6	19.0	33.9	39.7

*N&M Manuf - Newry & Mourne Manufacturing Firms (n=81)

**NI Manuf - All Northern Ireland Manufacturing Firms (n=3,500 approx.)

3.6.2.2 Within the manufacturing sector in both Northern Ireland and Newry and Mourne, large firms account for around four-fifths of overall sales.

3.6.2.3 As Table 2 above highlights, manufacturing firms in Newry & Mourne have a lower reliance on sales within Northern Ireland than the Northern Ireland manufacturing sector as a whole. Just under 30 percent of sales of firms in the area remain within Northern Ireland compared to 32 percent for all Northern Ireland companies.

3.6.2.4 Sales are particularly strong to our nearest neighbours, Great Britain and the Republic of Ireland. This is very significant in terms of **sales to the Republic of Ireland which account for twice the proportion of total sales in Newry and Mourne compared to Northern Ireland manufacturing firms.** Some

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16 percent of manufacturing sales in the local area are sold to the Republic of Ireland compared to 8 percent for Northern Ireland manufacturing industry.

3.6.2.5 **However, local companies performance is not as strong in markets outside the UK and Republic of Ireland.** Over 14 percent of sales for all Northern Ireland manufacturing firms are to markets within the European Union (outside the UK and RoI) compared to just 9 percent for companies in the Newry and Mourne area. Similarly, 13 percent of overall manufacturing sales are to destinations outside the European Union compared to 8 percent for local companies.

3.6.2.6 As a result, whilst external sales (sales outside Northern Ireland) are higher for local companies compared to Northern Ireland as a whole, the export (sales outside the UK) share of sales is slightly lower. Around one-third of local sales are sold outside the UK compared to 35 percent for all Northern Ireland manufacturing firms.

3.6.2.7 This overall performance of manufacturing firms in the Newry and Mourne area and indeed for Northern Ireland as a whole is largely driven by the performance of larger firms. Therefore, **whilst large firms in Newry and Mourne are performing better than the Northern Ireland average in the Great Britain and Republic of Ireland markets, their performance is significantly weaker in the continental European Union and elsewhere.** Around 32 percent of overall sales of large firms in manufacturing are made to these destinations compared to just over 17 percent for firms in the local area.

3.6.2.8 **The better performance of local companies in external markets is largely attributable to the greater export orientation of smaller firms in the area when compared to all small firms in Northern Ireland.** Whilst two-thirds of sales made by all small firms in manufacturing remain in Northern Ireland, for local small manufacturing firms this falls to 50 percent. Small firms in the local area perform better than the total across all markets but particularly in Great Britain and destinations outside the European Union. As a result, exports account for 29 percent of sales in small manufacturing firms in the Newry and Mourne compared to 19 percent for all Northern Ireland small firms in manufacturing.

3.6.2.9 The following table highlights the importance of sectors within manufacturing to the overall results. Results have been desegregated to the lowest level possible without affecting disclosure of individual firms.

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Table 3: Sectoral Share of Manufacturing Sales and Employment

Manufacturing	TOTAL	Food, Drink & Tobacco	Textiles, Clothing & Leather	Engineering	Rubber & Plastics	Non-Metallic Mineral Products	Other Manuf
	£m	% Share	% Share	% Share	% Share	% Share	% Share
Sales	331.0	42	3	15	5	4	32
Northern Ireland	98.7	22	1	8	6	8	55
Great Britain	123.4	62	3	21	5	3	6
Republic of Ireland	54.3	40	8	6	8	2	36
Rest of European Union	28.3	44	1	18	2	0	36
Elsewhere	26.1	16	0	28	0	0	56
External Sales	232.2	50	3	18	5	2	22
Export Sales	108.8	35	4	14	5	1	41
Employment	3528	33	6	19	7	7	28
Companies	81	26	9	20	10	11	25

3.6.2.10 The largest sector in terms of its representation of sales, external sales and employment is Food, Drink and Tobacco. Food and Drink companies in the Newry and Mourne area account for just over two-fifths of sales, half of all external sales and one third of employment. This is also the largest overall sector in Northern Ireland accounting for one-third of overall manufacturing sales 26 percent of external sales.

3.6.2.11 The Engineering sector is also a significant sector in the area accounting for 15 percent of manufacturing sales and 18 percent of external sales.

Table 4: Distribution of Sales by Sector for Manufacturing Firms

Manufacturing	TOTAL	Food, Drink & Tobacco	Textiles, Clothing & Leather	Engineering	Rubber & Plastics	Non-Metallic Mineral Products	Other Manuf
	£m	£m	£m	£m	£m	£m	£m
Sales	331.0	137.4	8.6	48.9	17.1	13.1	105.9
	%	%	%	%	%	%	%
Northern Ireland	29.8	16.1	12.7	15.2	33.9	59.5	51.5
Great Britain	37.3	56.0	36.6	53.1	36.7	31.1	6.6
Republic of Ireland	16.4	15.7	48.4	6.5	26.6	9.4	18.5
Rest of European Union	8.6	9.1	2.0	10.2	2.8	0.0	9.7
Elsewhere	7.9	3.1	0.2	15.0	0.0	0.0	13.7
	100	100	100	100	100	100	100
External Sales	70.2	83.9	87.3	84.8	66.1	40.5	48.5
Export Sales	32.9	27.9	50.7	31.7	29.4	9.4	41.9

3.6.2.12 Food and Drink, Textiles, Clothing and Leather and Engineering are all highly orientated to markets outside Northern Ireland. More than four-fifths of sales in these sectors are sold outside Northern Ireland. Whilst this is in line with the Northern Ireland average for Textiles and Clothing and Engineering, a significantly higher proportion of sales are sold outside Northern Ireland by Food and Drink companies in Newry and Mourne than in Northern Ireland as a whole.

3.6.2.13 This is due to a high proportion of sales sold to Great Britain and as a result the export sales of Food and Drink companies in the area is lower. With the exception of non-metallic mineral products where export sales account for less than 10 percent of overall sales, Food and Drink have one of the lowest export shares of total sales.

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3.6.2.14 Textiles, Clothing and Leather is the most export orientated industry. Just over one half of sales in this sector are sold to destinations outside the UK, almost all of which is to the Republic of Ireland. The Republic of Ireland market is also an important market for Rubber and Plastics products, accounting for 27 percent of overall sales for this sector.

3.6.2.15 Engineering sells the highest proportion of its sales outside to destination in the continental European Union and beyond. Around 25 percent of sales are accounted for by these markets.

3.7 Performance of Manufacturing Companies - 1991/92 to 1995/96

3.7.1 Information is available over a five year period on sales, external sales and exports for 55 manufacturing companies identified in the area. Together they account for 98 percent of sales and almost all external and export sales for the manufacturing companies analysed in Table 2 of this report.

Table 5: Growth in Sales, External Sales and Exports of Manufacturing Companies - 1991/92 to 1995/96

	91/92 - 92/93		92/93-93/94		93/94-94/95		94/95-95/96		Average Annual	
	N&M % Ch.	All NI % Ch.	N&M % Ch.	All NI % Ch.	N&M % Ch.	All NI % Ch.	N&M % Ch.	All NI % Ch.	N&M % Ch.	All NI % Ch.
Sales	6.4	5.8	7.9	6.4	13.9	8.0	18.6	10.9	11.7	7.8
External Sales	4.7	5.5	6.1	6.5	19.6	11.3	20.9	12.7	12.8	9.0
Export Sales	23.6	11.0	19.4	9.8	26.5	19.7	22.6	18.1	23.0	14.7

3.7.2 The sales, external sales and export growth of companies in the Newry and Mourne area over the period has, in general, been significantly stronger than the overall performance of manufacturing industry in Northern Ireland. This has been particularly the case for export growth. Over the last few years, export sales have increased on average by 23 percent per annum for companies in the Newry and Mourne area compared to 15 percent per annum for the Northern Ireland manufacturing sector as a whole.

3.7.3 In general, companies have performed particularly well over the last two years for which figures are available. Between 1994/95 and 1995/96, sales, external sales and exports grew by 19 percent, 21 percent and 23 percent respectively for companies in the local area. This was significantly higher than the growth rates experienced by Northern Ireland manufacturing firms, particularly for sales and external sales.

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Table 6: Change in the Market Orientation of Manufacturing Companies - 1991/92 to 1995/96

	Newry & Mourne			All NI Manufacturing Firms		
	1991/92 % of total	1995/96 % of total	PP.* Change in % Share	1991/92 % of total	1995/96 % of total	PP. Change in % Share
Northern Ireland	33.4	31.0	-2.4	35.3	32.4	-2.9
Great Britain	44.0	35.6	-8.4	37.0	32.2	-4.8
Republic of Ireland	10.6	16.7	6.1	6.8	8.2	1.4
Rest of European Union	7.7	8.7	1.0	12.2	14.3	2.1
Elsewhere	4.3	8.0	3.7	8.7	12.9	4.2
	100	100		100	100	
External Sales	66.6	69.0	2.4	64.7	67.6	2.9
Export Sales	22.6	33.4	10.8	27.7	35.4	7.7

* PP. - Percentage Point

3.7.4 Table 6 illustrates the change in the proportion of sales sold to the five key markets for local and all Northern Ireland manufacturing companies over the period.

3.7.5 As a result of strong growth in sales to markets outside Northern Ireland, local companies have significantly expanded their export share of overall sales and to a lesser extent external sales. Export sales accounted for just 23 percent of sales for local companies in 1991/92 compared to 33 percent in 1995/96, an increase of almost 11 percentage points. This compares to an increase in the export share of sales for all manufacturing firms of 8 percentage points over the same period to account for 35 percent of the total. These gains have been particularly significant in terms of the proportion of sales accounted for by the Republic of Ireland (from representing 11 percent of sales in 1991/92 to 17 percent of sales in 1995/96).

Table 7: Growth in Sales, External Sales and Exports of Small & Large Firms - 1994/95 to 1995/96

	Less than 50 employees		50 or more employees	
	N&M Manuf % Change	All NI % Change	N&M Manuf % Change	All NI % Change
Sales	6.5	10.7	21.2	10.2
External Sales	3.1	10.6	24.1	10.6
Export Sales	43.6	17.8	19.5	17.8

3.7.6 The performance of small and large firms has been examined in Table 7 above for the period 1994/95 to 1995/96 only.

3.7.7 **Large manufacturing firms in the Newry and Mourne area outperformed the Northern Ireland manufacturing sector as a whole in terms of sales, external sales and export growth over the year 1995/96.** This has been most marked in terms of overall sales and external sales which grew at 21 percent and 24 percent respectively over the year, more than twice the growth rate experienced by the overall manufacturing sector.

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- 3.7.8 Whilst the performance of small manufacturing firms in the Newry and Mourne area in terms of sales and external sales was not as strong as the performance of small firms in Northern Ireland as a whole, the export growth they experienced was very striking by comparison, albeit from a small base. Over the year, small firm exports in the area expanded by 44 percent against 18 percent for small Northern Ireland manufacturing firms as a whole.

4. THE NEWRY & MOURNE CO-OPERATIVE SURVEY OF EXPORT DEVELOPMENT IN TSN AREAS

- 4.1 Between May and August 1997 Newry and Mourne Co-operative's Enterprise Agency division surveyed a further sample of 200 manufacturing firms in Newry and Mourne in order to identify whether there was a correlation between propensity to export and TSN/non TSN location.
- 4.2 98 manufacturing companies responded to the survey questionnaire. Of these 53% (52) were located in TSN wards. 21 firms were located in TSN wards in Newry town, 17 in TSN wards in South Armagh and 12 in TSN wards in South Down. 75 of the companies who responded did export, with firms in TSN areas marginally more involved in exporting (i.e. sales to markets outside the UK, including the Irish Republic). Of the 50 firms from TSN areas which responded to the survey, 78% (39) were engaged in some form of export. Of those firms responding from non TSN areas 76% were engaged in some form of export.
- 4.3 Given the geographical distribution of TSN areas in Newry and Mourne this pattern is perhaps not unexpected. All of South Armagh is designated as a TSN area and much of Newry town, including the ward within which the Greenbank Industrial Estate is located. Thus:
1. All of the region which is contiguous with the border and in which a significant degree of cross border trade would be anticipated is a designated TSN area.
 2. Four of the seven wards within the regions commercial and transport hub, Newry, are also designated as TSN. Easy access to the main road and rail routes south to the Irish Republic could also be expected to encourage export trade with the Republic.
- 4.4 Of those companies who responded to the survey, 45% had been in business for more than 10 years. Only 13% had been in business for under 2 years. There was a strong correlation between company age and propensity to export and this applied in both TSN and non-TSN areas. **All of the companies aged over 10 years were involved in some form of export activity.**
- 4.5 47% of companies were registered as limited companies, 17% as partnerships and 33% as sole traders. These proportions were remarkably consistent across Newry and Mourne regardless of whether an area was TSN or not.
- 4.6 The majority of companies (67%) were in the very small range (1-15) and of these 53% were located in TSN areas. 8 companies employing more than 50 employees responded. The majority of those (62%) were located in Non TSN areas. Interestingly none of the companies across Newry and Mourne employing more than 15 full time staff employed people on part-time basis. Of those small companies which did employ staff on a part time basis, the majority (58%) were located in TSN areas.
- 4.7 Focusing on exporters, 35% stated that they had been exporting for more than 5 years. 59% of these more mature exporters were located in TSN areas and 70% were located

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in the Newry/Bessbrook area (i.e. greater Newry). By contrast 60% of the new exporters, i.e. companies exporting for less than 2 years, were located in Non-TSN areas. It is clear that Newry's pivotal position as a transport and population centre is a major influence on industrial location. More telling perhaps is the fact that 60% of new exporters are located in non TSN areas primarily in Carnbane, WIN, Warrenpoint, Rostrevor and Kilkeel. The concentration of mature exporters in TSN areas in Newry/Bessbrook explains the fact that in 1996 export sales accounted for 74% of the total sales of TSN exporters, compared to 50% amongst Non TSN exporters. Exporters based at the Greenbank Industrial Estate, for example, attributed 87% of their sales to export contracts.

- 4.8 The influence of a location close to the border was also apparent. Exporters in Crossmaglen ward for example in 1996 attributed 95% of their total sales to export, of which between 71% and 90% went to the Irish Republic.
- 4.9 93% of exporters across Newry and Mourne stated that they exported to the Irish Republic, with 54% of these located in TSN areas. 43% exported to Great Britain, with slightly more of these (53%) located in Non TSN areas. Only 28 companies (37%) stated that they exported to destinations outside the British Isles. Of these 36% exported to the USA, 17% the Netherlands, 14% to Belgium, 7% to Germany, 10% to the rest of the EU, 10% to South East Asia/China/South Africa and 14% elsewhere. Those exporting beyond the British Isles were concentrated in the St. Mary's Ward (Greenbank), Drumgullion ward (Carnbane, WIN Business Park), Derrymore ward and Lisnacree ward. **There is a clear pattern of exporters being concentrated in established industrial estates in the greater Newry area.** Some of these estates are located in TSN areas others are not. There is very little connection between TSN status and the presence or otherwise of industrial agglomeration within the locality.
- 4.10 **It was notable that none of the exporters in South Armagh exported beyond the British Isles.**
- 4.11 71% of all exporters rated the Republic of Ireland as their principal export market. All but 4 of the remaining respondents cited Great Britain as their principal export market. 4 companies cited a non British Isles market (Belgium was the most popular) as their principal market.
- 4.12 The survey sought to elicit the markets which companies intended to export to in the future. Outside of the Republic of Ireland and Great Britain, Germany was the most popular choice as a future export market, followed by France and then Belgium. This was followed by the rest of the EU and the USA.
- 4.13 The survey also asked non exporters if they intended to begin exporting in the next year and if so to what markets. The vast majority cited the Republic of Ireland or Great Britain. Only a very small number, based in Newry, proposed making an attempt to branch into new markets overseas. The markets cited by that group were France (first) Italy (second) Benelux (third) - the rest of the EU, USA and Japan were also highlighted as having potential.
- 4.14 Exporters cited the following problems as significant; in rank order:

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Rank

- 1 Lack of market information
- 1 Lack of product development funding
- 1 Payment problems
- 4 Price competition
- 5 Lack of information on good export opportunities
- 6 Finding good overseas distributors or agents.

Mentioned also, but by fewer respondents were:

- Transportation difficulties
- Lack of trained staff
- Difficulty servicing clients (e.g. warranties)
- Exchange rates/currency fluctuation

Rated low or not at all were:

- Complexity of export documentation
- Language difficulties
- Cost of freight
- Don't want to export
- Prefer to support home market only
- Product only applies to the local market
- Red tape / restrictive practices

This was broadly the pattern across Newry and Mourne, irrespective of location. However in TSN areas some issues were given particular prominence:

- Lack of market information
- Lack of product development funding

4.15 The survey asked non exporters what forms of assistance would encourage them to export. By far the most frequently cited service was "marketing assistance". This was felt particularly keenly in TSN areas where 73% of non exporting respondents cited marketing assistance as a service that would encourage them to export. The other two services most frequently highlighted were : product development assistance and assistance with training. Again both factors were highlighted particularly by TSN respondents. Of less importance were better prices, an agency to sell product, funding for marketing, and extra production space. In simple terms therefore the demand from non exporters was for information and knowledge rather than physical capacity or product pricing issues.

4.16 Of the 98 survey respondents 55% were LEDU client companies, 7% (all in non TSN areas) were IDB clients, and notably 36% referred to themselves as "neither LEDU or IDB client companies". Clearly there are a number of currently exporting companies who are either not being assisted by LEDU/IDB or who do not rate the services sufficiently highly to class themselves as "client companies"

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4.17 53% of respondents were aware of the export assistance and services provided by LEDU (47% were not!); 34% only were aware of the services provided by IDB, although this may be due to the fact that only 8 companies in the survey employed 50+ people. Only 38% were aware of the services provided by the Enterprise Agency and 26% of the Northern Ireland Chamber of Commerce.

4.18 Turning to the proportion of respondents who had actually made use of the services available from the various agencies : 24% had made use of LEDU advice and assistance, 3% only of the IDB, 11% of the Enterprise Agency and 3% of the Northern Ireland Chamber of Commerce.

4.19 The methods of selling into export markets in terms of significance where as follows:

% of total export sales
in Newry & Mourne

• Sales direct to final customer	32%
• Sales to a wholesaler	27%
• Through agents or distributors	29%
• Sales through other plants in group	3%
• Through a retail outlet	6%
• Other	3%
• By mail order	0.02%

4.20 Of the entire sample, 56% used their own vehicles to distribute their goods and 35% used a carrier or haulage company. Of exporters 17% used the port of Warrenpoint and 13% used another port. 3% used air freight to export goods.

4.21 In the established export sectors, such as food, drink and tobacco, electrical engineering, timber and furniture, plastics, most if not all companies have been in existence for more than 5 years. The sectors in which there were young exporting companies, less than two years old were:

- General engineering
- Textiles
- Clothing/footwear
- Electrical engineering
- Paper/printing

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- 4.22 The proportion of sales attributable to export by sector in Newry and Mourne in 1996 was as follows:

	1996 %
Food, drink and tobacco	60.8
Transport equipment	--
Chemicals	19.5
Electrical engineering	93.3
Clothing, Footwear	36.3
Textiles	97.8
Mechanical engineering	29.3
Mineral products	40.5
Timber, Furniture	36.9
Paper, Printing	35.1
Rubber plastics	14.8
General engineering	27.8
Pharmaceuticals	93.7
Other manufacturing	34.1

- 4.23 The chemicals sector reported trading difficulties in 1996 with both overall turnover and the share of exports down.
- 4.24 For some other sectors overall turnover went up, but the proportionate share accounted for by exports went down : clothing and footwear, mineral products, general engineering and other manufacturing.
- 4.25 Those sectors exporting beyond the British Isles are:
- Electrical engineering
 - Clothing and Footwear
 - Textiles
 - Timber and Furniture
 - Paper and Printing
 - Rubber and Plastics
 - General Engineering
 - Pharmaceuticals
- 4.26 Sectors whose export activity is confined to the British Isles are:
- Food , Drink and Tobacco
 - Mechanical Engineering
 - Other Manufacturing

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- 4.27 The survey asked those companies which do not export to highlight the main reasons why they were not exporting. The most frequently cited reasons, in order of significance were:
- The lack of spare production capacity
 - The lack of product development funding
 - A lack of market information
 - Product unsuitable for export
 - Unsure how to go about exporting
- 4.28 Of lesser significance were:
- Finding an overseas agent
 - language difficulties
 - Price competition
 - Transportation difficulties
 - Health and hygiene regulations
- 4.29 Relatively insignificant or not mentioned at all were:
- Problems servicing at a distance
 - Lack of trained staff
 - Lack of investment capital
 - Currency problems
 - Red tape overseas
- 4.30 Factors particularly highlighted by non exporters in TSN areas were:
- Lack of market information
 - Lack of product development funding
 - Lack of information on good market opportunities
 - Do not know how to go about exporting
- 4.31 41% of non exporting companies are in the timber and furniture sector, 23% in the food, drink and tobacco sector, 14% in textiles, 14% in general engineering, 4.5% in transport equipment and 4.5% in mineral products.

5. CONCLUSIONS AND RECOMMENDATIONS

- As most companies find agents by word-of-mouth reference, an arrangement whereby local companies could benefit from the experience of larger companies already selling into export markets may be the most promising route for government agencies to encourage.
- Newry and Mourne companies have sold proportionately more goods into the Republic of Ireland than companies overall in Northern Ireland.
- However local large companies performance is not as strong in foreign markets (i.e. outside the British Isles).
- Small companies are more export-orientated in Newry and Mourne than in Northern Ireland as a whole. The food and drink sector in particular as well as textiles, clothing and leather are very export orientated.
- Strong, recent export growth - above Northern Ireland rate of growth particularly since 1994.
- The growth of small export-orientated firms in Newry and Mourne has been the most striking trend to emerge from the survey.
- All companies over 10 years old were involved in some form of export activity.
- There was no correlation between TSN location and a companies propensity to sell to external markets. However in most cases TSN-based companies engaged in external sales sold only to the Republic of Ireland or Great Britain. None of the South Armagh companies for example sold product beyond the British Isles.
- It was also notable that none of the large companies surveyed were located in TSN wards, an indicator perhaps of the historic under-development of these areas.
- Outside of Newry/Bessbrook there was a pattern of more new exporters being located in non TSN areas.
- Most of the mature exporters located in TSN areas are located in Newry/Bessbrook.
- There was a strong correlation between location close to the border and propensity to export into the Republic of Ireland.
- Only 37% of respondents exported beyond the British Isles. The USA was a more significant market than expected. These firms were concentrated in Newry.
- Across Newry and Mourne 71% of exporting companies cited the Republic of Ireland as their principle market.
- Companies considering future export activity outside of the British Isles focused on the EU, in particular Germany, France and the low countries. The Mediterranean countries, Scandinavia and the Middle East rarely figured.

Reasons for not exporting:

- The exporters cited lack of market information along with lack of product development funding as the most significant problems they faced, particularly in TSN areas. These are both issues which development agencies can seek directly to address (more so than, for example, the problems of currency fluctuations or journey-to-market times).
- It is notable that several issues which traditionally would have been identified as problematic for exporters were rated low in the survey. For example: red tape, freight costs and language difficulties. Probable explanations are that the

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consolidation of the Single European Market has reduced red tape; that increased level of exports and greater competition on ferry and air routes have reduced freight costs; and increasingly English is the international language of business.

- Those companies not exporting said that marketing assistance would be the form of assistance which would most encourage them to export. This was particularly keenly felt in TSN areas. The two other services highlighted by non-exporters were: product development assistance and assistance with training. In simple terms the demand from non exporters was for information rather than physical development.
- A third of respondents referred to themselves as neither LEDU or IDB client companies (GM - can you find out who these were - i.e. how many were exporters?)
- Awareness of the services provided by the IDB/LEDU/and the Enterprise Agency was not as high as expected, particularly given that the LEDU Southern Region Office is located in Newry (although awareness was higher of LEDU than of the IDB). While there may be a view in some quarters that there are too many bodies providing support to business, clearly there are a substantial number of businesses who are not accessing that support either through lack of interest or lack of information. There is clearly a need to increase the awareness of the services available from the IDB/LEDU and Enterprise Agency, particularly given the relatively low level of actual usage of the services available. It is worth noting that this is the pattern across Northern Ireland.

APPENDICES

BIBLIOGRAPHY