

# Survival Rates of VAT-Registered Enterprises, 1995-2004

## Key Results

*DTI Small Business Service, February 2007*

### 1. Survival Rates Estimates

This paper presents one-year and three-year survival rates of new businesses in different locations<sup>1</sup> and industry sectors, using VAT registrations and de-registrations as a proxy for business start-ups and closures<sup>2</sup>. Survival rates are calculated as the proportion of VAT registrations in a given year that have not de-registered within a certain period of time. This paper summarises survival rates up to the end of 2005 of enterprises registering for VAT between 1995 and 2004.

Tables accompanying this paper, available from the DTI Small Business Service (SBS) website [www.sbs.gov.uk/survival](http://www.sbs.gov.uk/survival), give survival rates at six-monthly intervals up to 48 months after registration, broken down by district/unitary authority or equivalent, industry sector and, for the first time, rural/urban location and deprivation quintile by region. A methodology note explaining how the figures were produced is also available from this website.

All figures contained in this publication have been revised since last year's publication to incorporate the most up-to-date data. The main effect of this is that the decrease in one-year survival rates in 2003 seen in last year's data is not seen in this year's. In contrast, enterprises registering for VAT in 2003 have a higher one-year survival rate than those registering in 2002. This is discussed in more detail in the methodology note.

***Please note: due to resource constraints, this publication will not be repeated in 2008. Further updates of survival rates estimates will be available, at the earliest, in early 2009.***

---

<sup>1</sup> "Location" in this context means the business address given for VAT registration. Enterprises with multiple sites are able to choose the site at which they register. London is the region most affected by this issue, with many multiple site enterprises choosing London as their registration address.

<sup>2</sup> For more information on the limitations of using VAT registrations and de-registrations as a guide to start-ups and closures see the guidance note accompanying this paper, available from [www.sbs.gov.uk/survival](http://www.sbs.gov.uk/survival).

## 2. Key Results

- One-year survival rates decreased slightly in 2004 after a steady eight year increase.
- Three-year survival rates have continued to increase.
- London has the lowest one-year and three-year survival rates of the English regions, while the South West has the highest.
- Northern Ireland continues to have higher three-year survival rates than the rest of the UK.
- Mining and quarrying/utilities have the lowest survival rates of all industry sectors, followed by hotels and restaurants. Agriculture and fishing have the highest survival rates.
- More sparsely populated areas tend to have higher survival rates.
- The gap in survival rates between the least and most deprived areas has narrowed considerably in the past 10 years, with survival rates in the most deprived areas increasing much more than in the least deprived areas.

## 3. Context

For those wishing to invest in a business, higher survival rates are preferred as they imply a higher return on the initial investment. However, this viewpoint fails to take into account the dynamic effects of business entry and exit on the economy and its constituent markets. As such, longer survival rates are not necessarily optimal for the economy overall. Studies have shown that high levels of business churn (high levels of business entry and exit) lead to improvements in productivity and economic growth as highly productive or innovative businesses displace less efficient incumbent businesses<sup>3</sup>. In contrast, a static market with little entry and exit will have longer survival rates but may be less efficient.

---

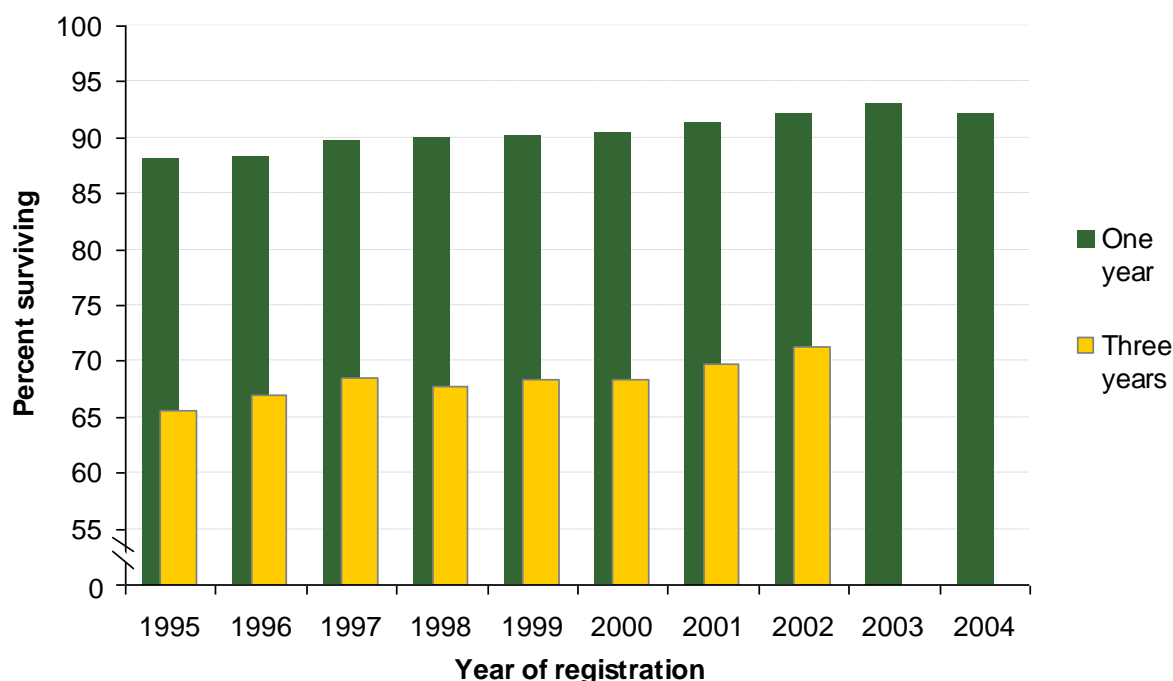
<sup>3</sup> The DTI Small Business Service recently published a review of the literature on economic churn, available from:  
[www.sbs.gov.uk/SBS\\_Gov\\_files/researchandstats/ChurnReport.pdf](http://www.sbs.gov.uk/SBS_Gov_files/researchandstats/ChurnReport.pdf).

#### 4. One-Year and Three-Year Survival Rates for the UK

The survival rates of UK enterprises have increased since the mid-90s. Chart 1 shows the percentage of enterprises still registered for VAT one and three years after first registering. After an increase in every year from 1995 onwards, the one-year survival rates for enterprises registering in 2004 (92 per cent) decreased slightly on 2003 (93 per cent).

Having shown little change between 1997 and 2000, three-year survival rates increased for enterprises registering in 2001 (70 per cent) and 2002 (71 per cent).

**Chart 1 Percentage of enterprises surviving one year and three years after registration, UK, 1995-2004**



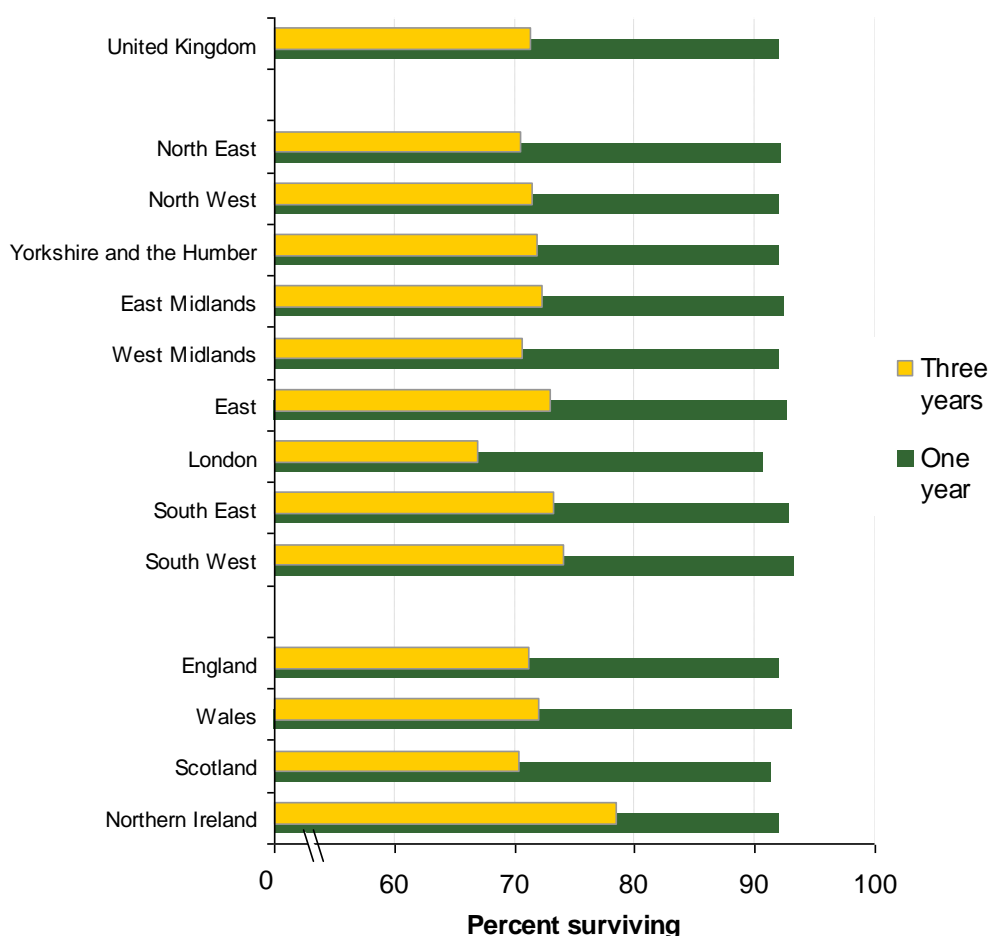
Source: DTI Small Business Service

## 5. Regional Patterns

Across the UK there is little difference in one-year survival rates for enterprises that registered in 2004, which range from 91 per cent in London to 93 per cent in the South West. After three years, survival rates show much more variation. London still has the lowest survival rate, at 67 per cent, and most other English regions have rates of around 70 to 73 per cent, with a high of 74 per cent in the South West. Northern Ireland has the highest three-year survival rate, at 79 per cent. Chart 2 shows the one-year and three-year survival rates for the different regions and countries in the UK.

The low survival rates in London and the high rates in Northern Ireland can be partly explained by the differing start-up rates in these places. In London business start-up rates per population are high, leading to greater competition and making it more difficult for businesses to survive. In Northern Ireland start-up rates are relatively low, leading to less competition and hence higher survival rates. Population density and industrial mix also have a role to play in explaining differences in survival rates.

**Chart 2 Percentage of enterprises registering in 2004 surviving after one year and percentage registering in 2002 surviving three years, UK regions and countries**



Source: DTI Small Business Service

The individual areas with the highest one-year survival rates are: Redcar and Cleveland UA; Eden LA; Chorley LA; South Ribble LA; Chesterfield LA; South Shropshire LA; Stratford-on-Avon LA; King's Lynn and West Norfolk LA; and Epsom and Ewell LA, with survival rates of 96 per cent.

Armagh and Down in Northern Ireland are the Council Areas with the highest 3 year survival rates, at 85 per cent.

Wolverhampton LA had both the lowest one-year and three-year survival rates, at 85 per cent and 57 per cent respectively<sup>4</sup>. Tamworth LA also had a one-year survival rate of 85 per cent.

The London Boroughs of Newham, Barking & Dagenham and Waltham Forest also had low three-year survival rates, of 59 per cent.

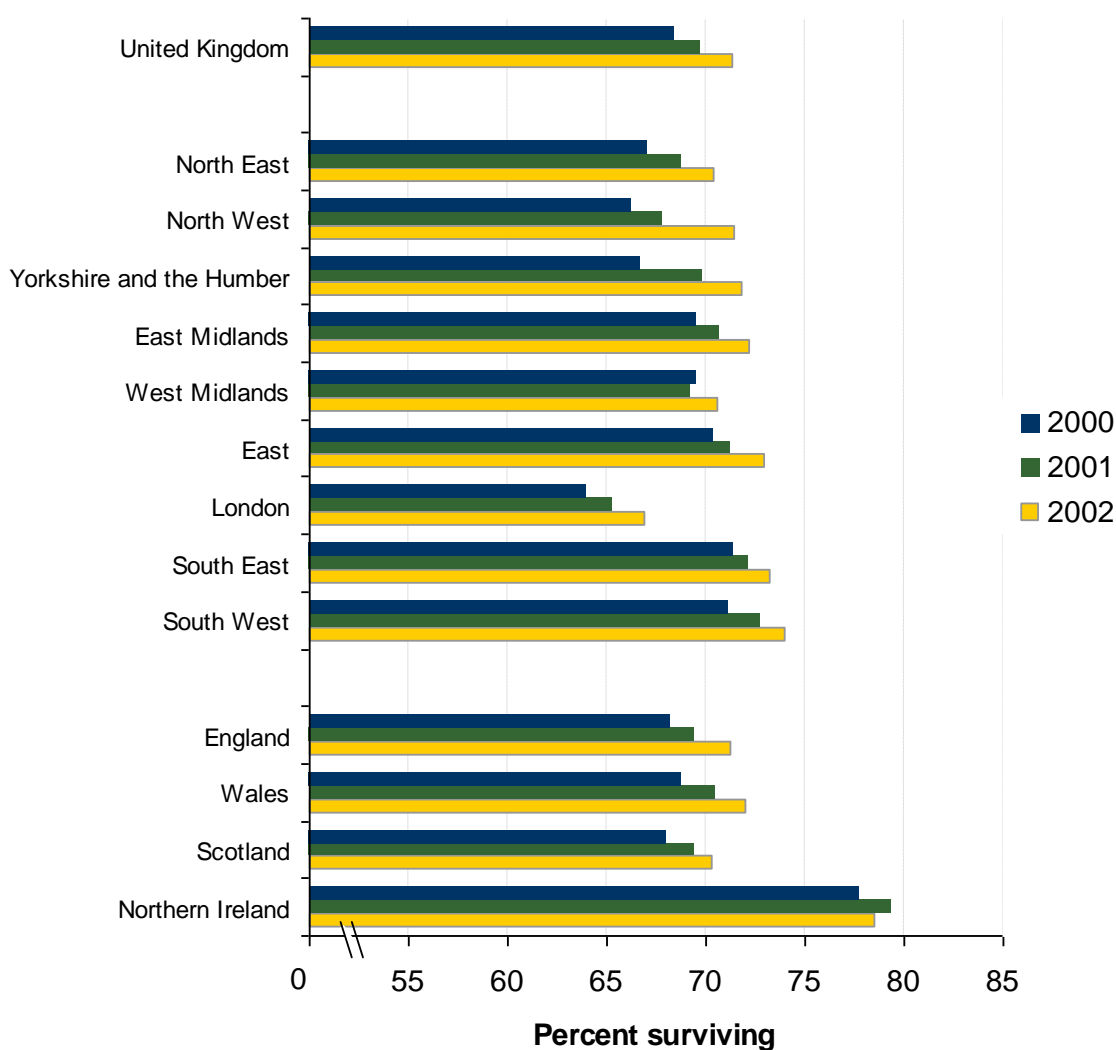
---

<sup>4</sup> However, there are administrative issues with the Wolverhampton data which mean that Wolverhampton data should be treated with caution until these issues can be corrected (see the guidance note accompanying *Business Start-ups and Closures: VAT Registrations and De-registrations* at [www.sbs.gov.uk/vat](http://www.sbs.gov.uk/vat) for more detail).

## 6. Regional Trends

Chart 3 compares three-year survival rates for the three most recent years available. Three-year survival rates increased in every region over this period, by between one percentage point (Northern Ireland and the West Midlands), to five percentage points (Yorkshire and the Humber and the North West).

**Chart 3 Three-year survival rates of enterprises registering in 2000, 2001 and 2002, UK regions and countries**



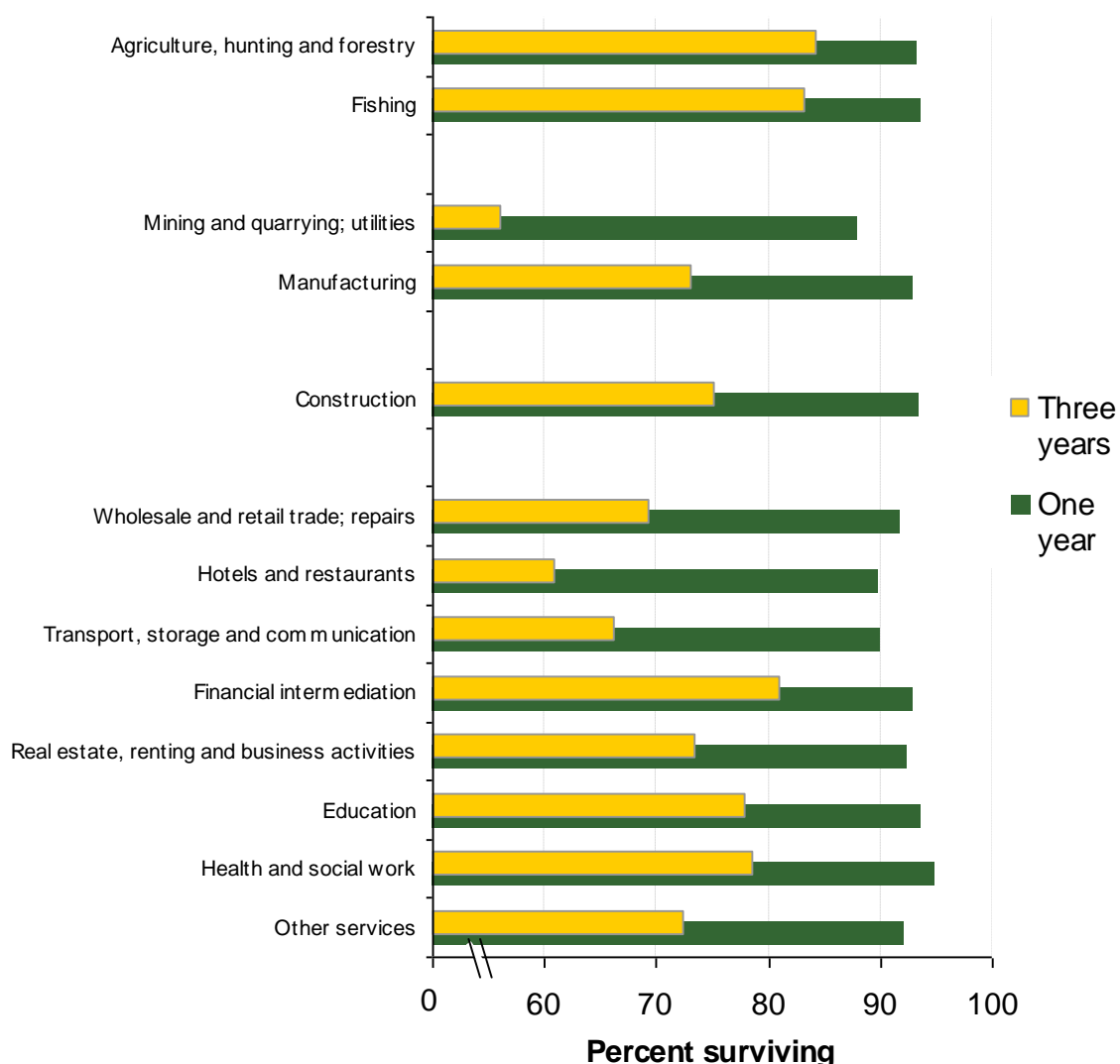
Source: DTI Small Business Service

## 7. Sectoral Patterns

Survival rates vary greatly between different industry sectors. Chart 4 shows one-year and three-year survival rates by sector. Mining and quarrying with utilities has both the lowest one-year and three-year survival rates, at 88 per cent and 56 per cent respectively. Hotels and restaurants also have relatively low survival rates (90 per cent and 61 per cent for one and three years).

Health and social work enterprises have the highest survival rate after a year (95 per cent) but agriculture, fishing and financial intermediation enterprises are most likely still to be registered after 3 years (84, 83 and 81 per cent respectively).

**Chart 4 Percentage of enterprises registering in 2004 surviving after one year and percentage registering in 2002 surviving three years, UK industry sectors**



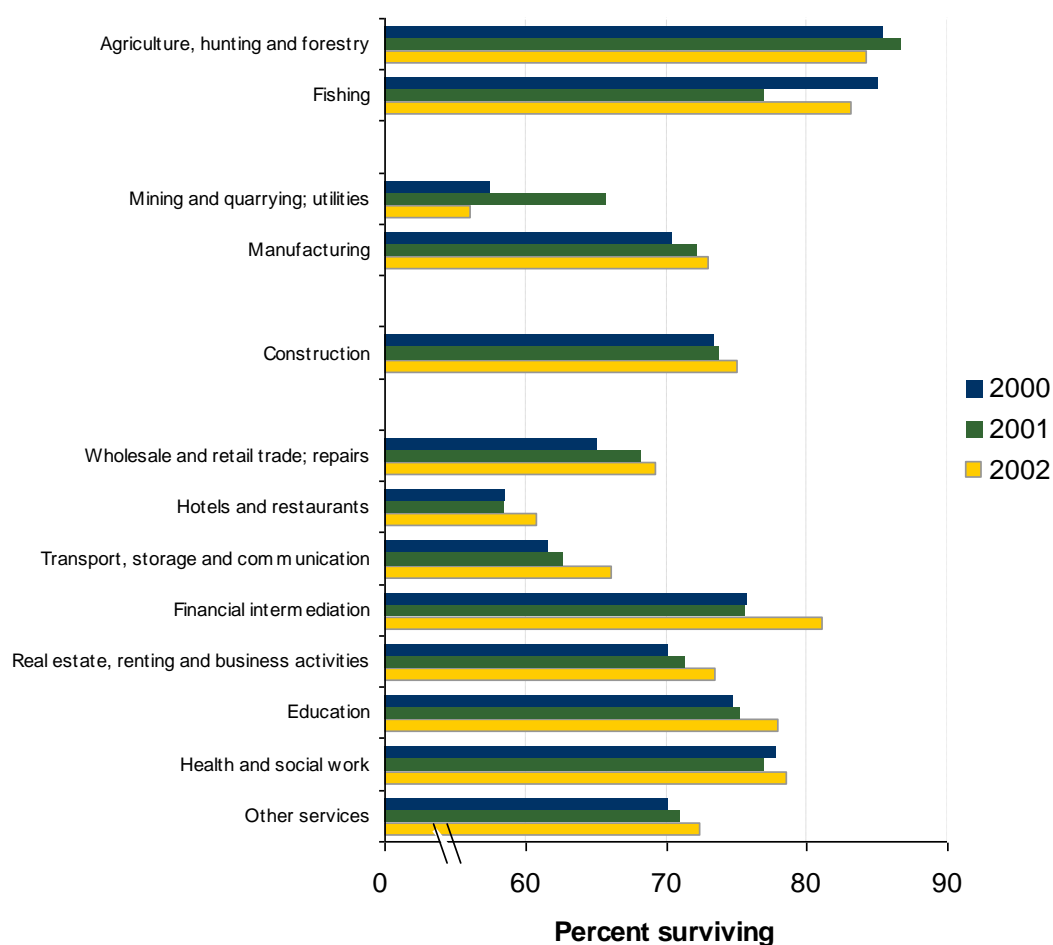
Source: DTI Small Business Service

## 8. Sectoral Trends

Chart 5 shows the three-year survival rates in different sectors for enterprises registering for VAT in 2000, 2001 and 2002. The survival rate for mining and quarrying/utilities enterprises that registered in 2001 was almost ten percentage points higher than for those that registered in 2000 and 2002. However, as the total number of mining and quarrying enterprises is small, much of this change may be due to fluctuations in registrations over the period.

The three-year survival rate of financial intermediation enterprises showed a large increase (5 percentage points) for 2002 registrations. Most other industries saw a rise in three-year survival rates between 2000 and 2002. The exceptions are agriculture, hunting and forestry, for which survival rates peaked in 2001 at 87 per cent, and fishing, which hit a low of 77 per cent in 2001 and decreased overall between 2000 and 2002.

**Chart 5 Three-year survival rates of enterprises registering in 2000, 2001 and 2002, UK industry sectors**



Source: DTI Small Business Service

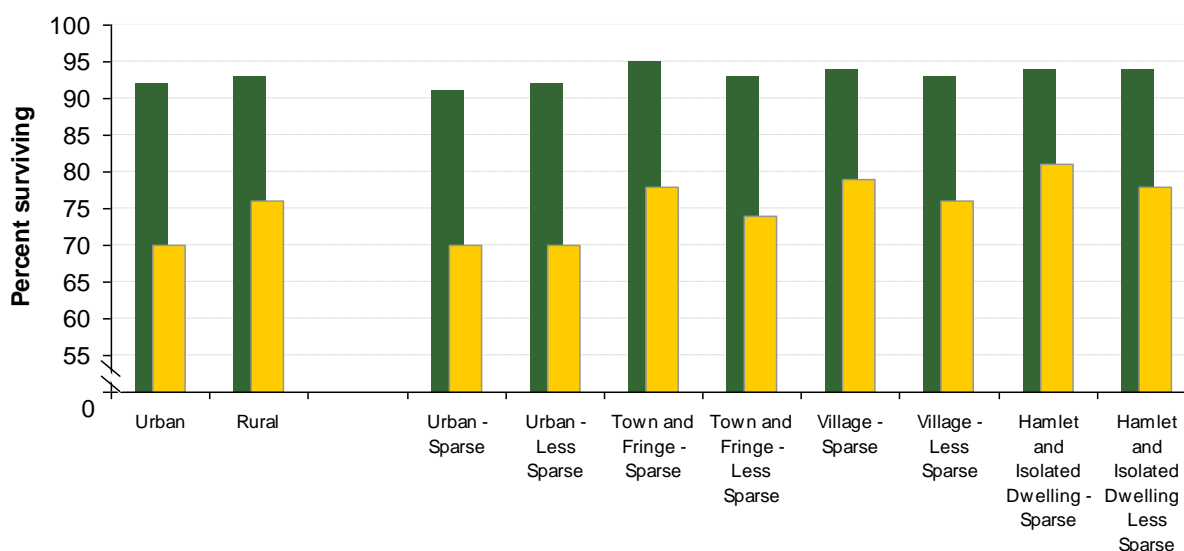
## 9. Rural and Urban Areas

This is the first time that this publication has included survival rates based on the location of the enterprise in terms of rurality. Chart 6 shows the most recent one-year and three-year survival rates for enterprises in England and Wales, broken down by the Rural and Urban Area Classification<sup>5</sup>. Scotland and Northern Ireland are responsible for their own rural-urban classifications<sup>6</sup> and survival rates have not been produced for these countries.

VAT-registered enterprises in rural and urban areas have similar one-year survival rates. However, after three years, survival rates in rural areas are much higher than in urban areas (76 per cent compared to 70 per cent). This may be due to higher start-up rates, and hence competition, in urban areas.

In rural areas sparse locations have higher survival rates than their less sparse counterparts; again, this may be due to a low level of competition in these areas, or the sectoral mix within the location. There is a clear pattern of increasing survival rate with decreasing settlement size, with the highest survival rates in hamlets and isolated dwellings.

**Chart 6 One-year survival rates of enterprises registering in 2004 and three-year survival rates for those registering in 2002, by rurality, England and Wales**



Source: DTI Small Business Service

<sup>5</sup> More information on the Rural and Urban Area Classification (2004) can be found at <http://www.statistics.gov.uk/geography/nrudp.asp> or <http://www.defra.gov.uk/rural/ruralstats/rural-definition.htm>.

<sup>6</sup> Information on the rural and urban classification for Scotland is available from the Scottish Executive at <http://www.scotland.gov.uk/Publications/2004/06/19498/38784> and that for Northern Ireland from the Northern Ireland Statistics and Research Agency at [http://www.nisra.gov.uk/statistics/financeandpersonnel/DMB/urban\\_rural.html](http://www.nisra.gov.uk/statistics/financeandpersonnel/DMB/urban_rural.html).

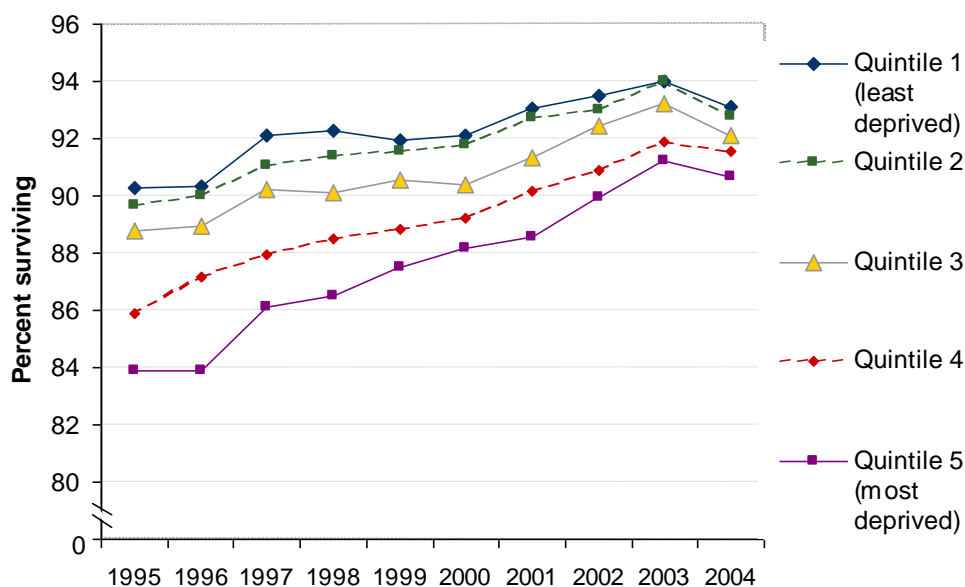
## 10. Deprivation Quintiles

Survival rates of enterprises in England have also been analysed by the Index of Multiple Deprivation (IMD) 2004<sup>7</sup> quintile of the location of the enterprise. Wales, Scotland and Northern Ireland define their own deprivation indices and survival rates by deprivation have not been produced for these countries. The results of this analysis are shown in Charts 7 and 8. Both one-year and three-year survival rates follow a pattern of lower survival rates with increasing levels of deprivation.

The one-year survival rates of enterprises in all IMD quintiles have increased overall since 1995, with the greatest increase in the most deprived areas. As a result, the gap between the first and fifth quintile decreased from six percentage points in 1995 to two percentage points in 2004.

A similar trend can be seen in the three-year survival rates, with the gap between the first and fifth quintiles narrowing from 12 percentage points in 1995 to seven in 2002.

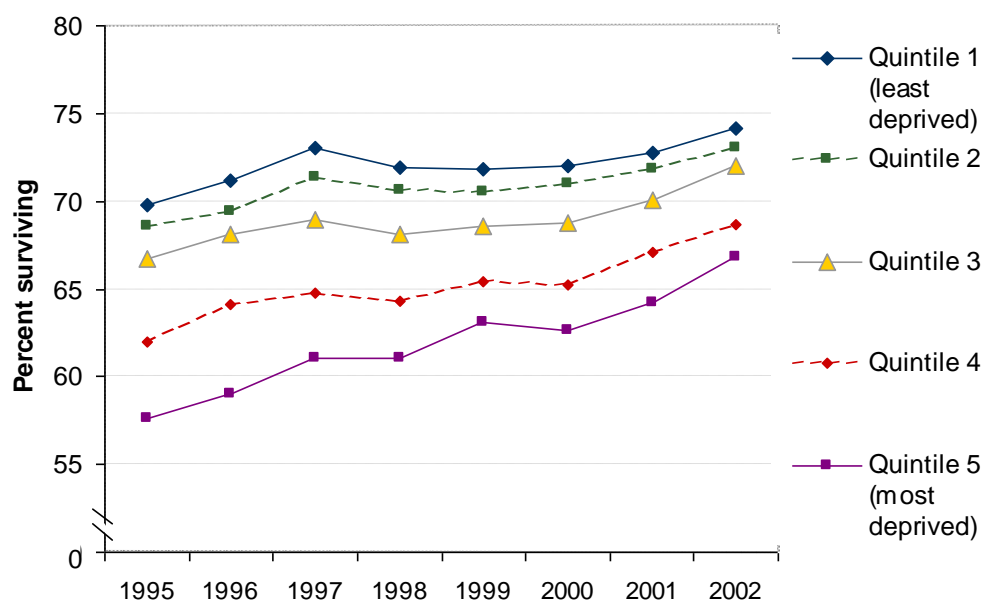
**Chart 7 One-year survival rates of VAT registered enterprises, IMD 2004 quintile, England, 1995-2004**



Source: DTI Small Business Service

<sup>7</sup> More information on the Index of Multiple Deprivation 2004 can be found at <http://www.communities.gov.uk/index.asp?id=1128440>.

**Chart 8 Three-year survival rates of VAT registered enterprises, IMD 2004 quintile, England, 1995-2004**



Source: DTI Small Business Service

## 11. Other Publications on Small and Medium Enterprises

More statistics on Small and Medium Enterprises are available from the SBS website at [www.sbs.gov.uk/statistics](http://www.sbs.gov.uk/statistics). These include annual estimates of the number of Small and Medium Enterprises (SMEs) in the UK and of the number of business start-ups and closures, based on VAT registrations and de-registrations.

Data on VAT registered enterprises is taken from the Office for National Statistics' (ONS) Inter Departmental Business Register (IDBR). More information on the IDBR is available from [www.statistics.gov.uk/idbr](http://www.statistics.gov.uk/idbr). The ONS also publish detailed breakdowns of IDBR data in their publication *UK Business: Activity, Size and Location*, available from <http://www.statistics.gov.uk/pa1003>.