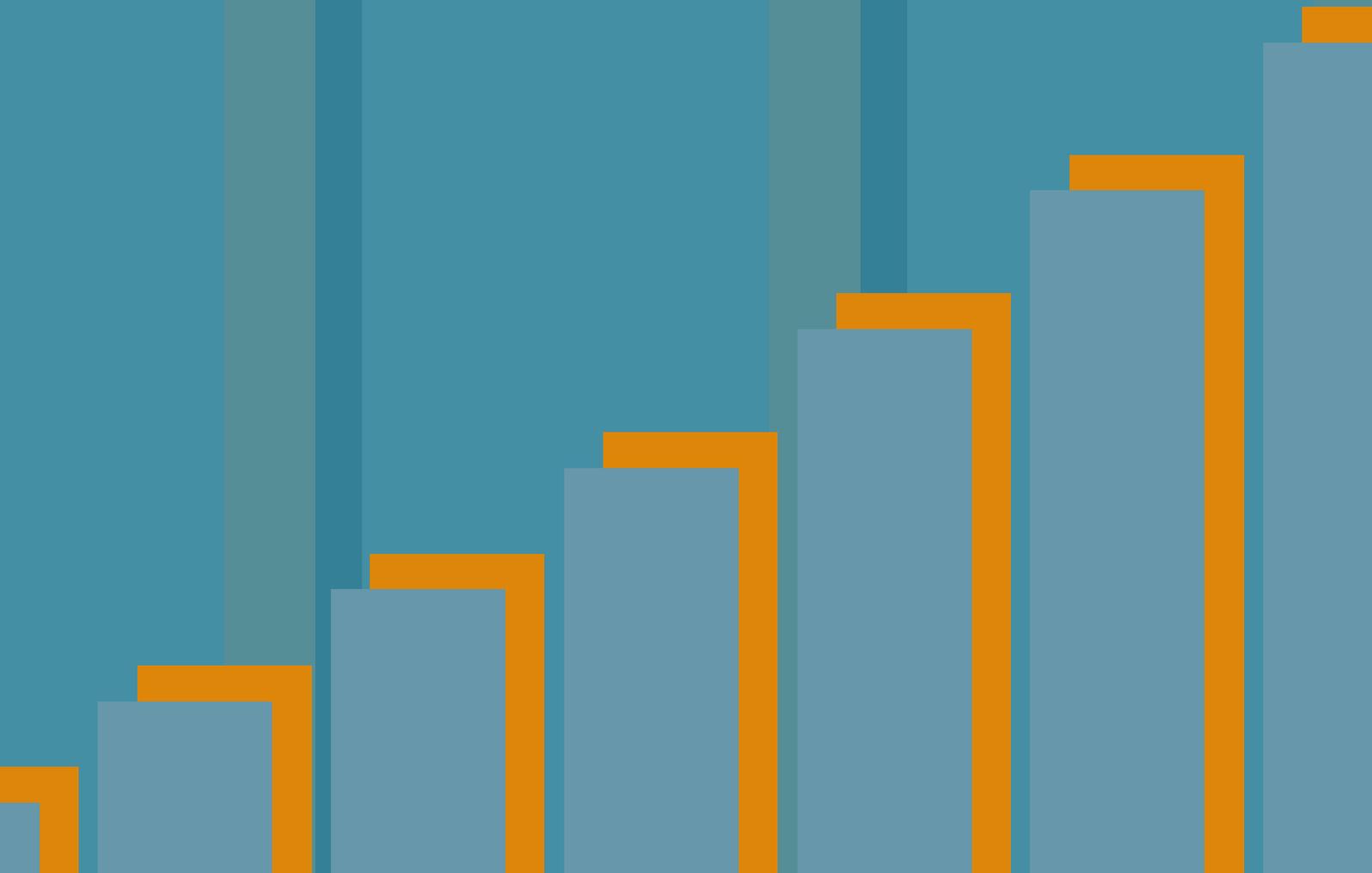


# CHAPTER 4

SHAPING POLICY TO FOSTER  
UK SCALEUPS: BREAKING  
DOWN BARRIERS



# SHAPING POLICY TO FOSTER UK SCALEUPS:

## Breaking down Barriers

The UK policy landscape to foster scaleups has moved forward in 2017 and momentum from corporate, university and financial services to address the scaleup gap has picked up pace. Initiatives from local and national Government and the private sector are showing stronger signs of awareness of, and engagement with, scaleup businesses than last year. The value that growing businesses bring to both local and national economies and the actions necessary to help them to thrive are increasingly being recognised. It is vital to monitor the situation actively so that no community is left behind.

# 2017

was a year of advancing a national scaleup action plan through education and local engagement

For the ScaleUp Institute, 2017 was a year of advancing a national scaleup action plan through education and local engagement.

A central element of our work has involved monitoring both nationally and locally the talent, leadership, markets and finance challenges that scaleups face and progressing knowledge of what is working and should be emulated.

At the local level we have continued to engage with local stakeholders to share insights on the actions being taken up and down the country to deliver impactful ‘joined up’ solutions which are relevant and effective in terms of employment and turnover growth to those who lead scaling businesses in their community.

Early in 2017, the Government met three major policy milestones:

1. Margot James MP, the Minister for Small Business, was appointed as cross-government Scaleup Champion.
2. The launch of the UK’s Industrial Strategy Green Paper which includes a focus on scaleups and the appointment of a Scaleup Taskforce alongside the Patient Capital and Entrepreneurship Reviews.
3. The requirement across England for every Local Enterprise Partnership (LEP) to create a Scaleup Programme as part of its Strategic Economic Plan

These steps closely align with the wider goals that the ScaleUp Institute has set for the UK if it is to become a true scaleup nation.

At present OECD research currently ranks the UK third for startups but 13th for the number of businesses that scaleup successfully<sup>1</sup>. The Industrial Strategy Green Paper, therefore, appropriately urges that “to raise our productivity we need to marry

our effective startup culture with the right support and investment to facilitate the growth of businesses and social enterprises with the greatest potential”<sup>2</sup>.

In this context, the work of the ScaleUp Institute is ever more important in guiding the response in closing the scaleup gap between the UK and our competitor nations.

<sup>1</sup> OECD (2014) Chiara Criscuolo, Peter N. Gal and Carlo Menon, The Dynamics of Employment Growth: New Evidence from 18 Countries  
<sup>2</sup> [https://beis.gov.uk.citizenspace.com/strategy/industrial-strategy/supporting\\_documents/buildingourindustrialstrategygreenpaper.pdf](https://beis.gov.uk.citizenspace.com/strategy/industrial-strategy/supporting_documents/buildingourindustrialstrategygreenpaper.pdf)

## A MODERN INDUSTRIAL STRATEGY FIT FOR SCALING

The Government's Green Paper on 'Building Our Industrial Strategy' issued in January 2017 heralded a significant step forward for the UK. Encouragingly, the Paper

significantly focuses on what the UK needs to do to foster business growth and its ten pillars are closely aligned to core scaleup challenges.

In our response to the Green Paper, the ScaleUp Institute laid out a clear eight-point plan to catalyse scaleup results from a Modern Industrial Strategy.

## THE SCALEUP INSTITUTE'S RESPONSE TO BUILDING OUR INDUSTRIAL STRATEGY

Our response to the Industrial Strategy laid out eight principles that build on the Institute's core recommendations for the private and public sectors.

**SCALEUPS ARE THE KEY TO PRODUCTIVITY AND GROWTH** and it is vital to recognise the role that established fast-growing businesses have in creating jobs, and the support that will help to supercharge growth on a local and national level by encouraging companies to scale.

**BUILD ON WHAT WORKS AT AN INSTITUTIONAL AND LOCAL LEVEL** This means strengthening the LEP Network, Growth Hubs, Innovate UK, Catapult Centres and Knowledge Transfer Partnerships. The Ministerial Scaleup Champion is an important part of drawing these institutions together, and the Patient Capital Review is an excellent opportunity to address finance needs and gaps.

**MAKE IT SIMPLE TO NAVIGATE FOR SCALEUP BUSINESSES** with time-pressed leadership teams and other institutions by embedding an Account Manager model into LEPs and Growth Hubs (as per the Scottish account managers and private sector models). A mirroring of the Ministerial role at a local level using Metro Mayoral offices would also be valuable.

**MAKE EFFECTIVE USE OF EXISTING DATA SOURCES** by continuing Government work to enhance the openness and usability of data, including the use of HMRC data – with Companies House – to help identify fast-growing firms more quickly.

**LEVERAGE PROCUREMENT AND EXPORT OPPORTUNITIES** through simplified Government processes for procurement and export support, and by encouraging best practice amongst corporates and their supply chains. The Department for International Trade should also look at help for fast-growing firms already exporting rather than just new businesses looking to export.

**ALIGN THE SKILLS AND RESEARCH AGENDA TO SCALEUPS** by ensuring that investment the Government makes through UKRI are aware of and closely connected to fast-growth businesses. This includes mandating broader players accessing those funds to engage with high growth firms when opening research facilities and deploying students. It will also be essential to help to foster better connections between educational establishments, LEPs, Growth Hubs, Business Schools and local high-growth firms. Ensuring that schools and scaleups are on LEP Skills and main Boards will help this.

**CREATE INFRASTRUCTURE CAPACITY FOR GROWTH** by helping fast-growth businesses to identify available real estate quickly through an online digital tool drawing upon the 'Workspaces'<sup>3</sup> finder tool developed by the London Enterprise Panel Growth Hub. The new Government should continue a digital drive and inclusion for all.

**COORDINATE ACROSS DEPARTMENTS AND INITIATIVES** to ensure the outcomes are optimised and continue to address regional and sector equity disparities, alongside broader fiscal and regulatory barriers, as part of a comprehensive strategy to improve the attractiveness of our capital markets.

<sup>3</sup> [https://lep.london/content\\_page/london-open-workspaces](https://lep.london/content_page/london-open-workspaces)

A positive development in aligning resources to this end, was the appointment of Margot James MP as a Ministerial Champion for Scaleups. The call for a Government Minister to be appointed with responsibility for closing the scaleup gap was among the original recommendations of the 2014 ScaleUp Report. A cross-governmental view is crucial to breaking down key barriers facing scaleup businesses. For this reason, we particularly welcome this appointment and with it the simultaneous launch of a ScaleUp Taskforce to give impetus to recommendations made and future initiatives.

Throughout 2017 we have been working closely with the Minister and her team alongside the co-chair of the Taskforce, Sahar Hashemi, the co-founder of Coffee Republic, herself a serial entrepreneur and philanthropist. Bringing together the ecosystem of entrepreneurs, corporates, financiers and academics, with local and

national policy makers, to address the challenges at hand has been vital to the impetus of the Taskforce. Armed with the Institute's evidence of the greatest barriers that scaling businesses face, the Scaleup Taskforce has focused its efforts on moving the dial on data; talent and leadership; access to markets and finance with practical, sustainable outcomes.

So where are we in our journey to make the UK the best scaleup nation in the world? Do we have appropriate policies and practices across both public and private sectors? And what are our hopes for 2018?

In the following pages we consider the issues by each scaleup 'gap.' We assess where the journey has taken us and what more still needs to be done. We reflect on the progress made against our 2016 ScaleUp recommendations and refresh them for 2017/18.

## SCALEUP IDENTIFICATION:

Making effective use of existing data sources, and building a data infrastructure that can effectively increase the number of scaleups in every community

Resolving the challenges that scaleup business leaders in every community face requires a more efficient way to identify the UK's fastest growing firms at a national and local level.

We repeat our previously stated recommendation: identifying, verifying and making available the current 'scaleup status' of a business remains the single most important tool for boosting UK productivity.

If a company's scaleup status were freely made available on a national (digital) register, then the rest of the ecosystem could simply focus on initiatives directed towards them and scaleup leaders could focus on selling more products to more customers in more markets.

We continue to recognise that both ONS and Companies House have excellent and developing datasets and welcome the engagement we have had with ONS this year to build a more comprehensive picture of scaleup firms over time. That said, the fact remains that these datasets are not real-time and lag the current scaleup status of any business by at least 18 months. This is further reflected through our Scaleup Index, developed with Beauhurst which highlights the disparity between formally-held public data that must be filed with Companies House, versus scaleups which are below the required filing thresholds and therefore not readily visible. This significantly hampers the ability to deliver timely and effective interventions and the ability to remove barriers scaleup leaders face when they face them.

### SCALEUP DATAFEEDS

In 2014 it was clear that the identification of a company as a scaleup was the single most important ask of the Government. In 2016 we recommended that 'scaleup' should be officially recognised as a formal business classification and that national datasets be used to allow the verification of a company's 'scaleup status' so that national, local public and private sector organisations can collectively drive economic growth more easily.

We further recommended the development of a 'Scaleup Impact Datafeed' derived from various datasets, including HMRC, ONS etc. to provide accurate, real-time information to stakeholders in local communities so that they could identify which of their businesses were growing quickly. This is seen as doubly important in our culture where leaders are reticent to call attention to themselves if they are doing well (or poorly, for that matter).

Identifying scaling businesses at the earliest possible opportunity means that private and public sector resources can be harnessed much more efficiently and effectively towards our fastest growing firms to enable their continued growth, remove hurdles and make sure they can access the necessary talent, leadership, finance and infrastructure in a timely manner.

*"Clearly identify a business as a scaleup or high-growth company. Single these companies out and label them as such."*

North/North East scaleup business leader

We continue to believe these recommendations are vital and we are pleased to note below that in 2017 some progress has been made with HMRC towards these outcomes.

## HMRC COLLABORATION

Using insights gained from a pilot study undertaken by the ScaleUp Institute, Sage and the Behavioural Insights Team earlier this year, HMRC has now undertaken analysis of key datasets to assess the population of scaling businesses.

In coming months HMRC, subject to its statutory responsibilities, will work with the ScaleUp Institute to trial different communication and information strategies in ‘scaleup ready’ locations. These pilots will work in areas with local scaleup programmes already in place. They will inform scaleup companies of their ‘scaleup status’ and make them aware of services into which they can be ‘fast-tracked’ such as trade missions, Innovate UK challenges and proven private sector scaleup programmes that are available to help them with talent, leadership capacity or finance.

Insights from these pilots will allow us to understand how to use data more effectively to boost productivity through removing barriers that inhibit scaling businesses. It will also allow us to explore what options may look like for ‘self declarations’ or ‘opt-ins’ to a central point for identification and/or a tool to allow scaleups to request to self-identify against a closed database when looking at joining a scaleup programme, finance or export scheme.

While this work develops, the ScaleUp Institute will also continue to update its Scaleup Map<sup>3</sup> and ScaleUp Index as developed with Duedil and Beauhurst respectively. We also encourage universities, banks, accounting firms, LEPS and schools to continue to put ‘Scaleups on the Map’ based on indices, client and local knowledge. This has already been undertaken to excellent effect in Cambridge and Thames Valley Berkshire and by Barclays and Sage – to name but a few examples – which can be emulated.

<sup>3</sup> <http://www.scaleupinstitute.org.uk/scale-up-businesses/>

## IN SUMMARY

While progress is being made on a more targeted approach to scaling businesses, very much more still needs to be done and as such we reinforce our earlier recommendations and update them as follows:

1. We recommend that **'Scaleup status'** is officially recognised as a formal business classification and that national datasets are made available to allow local and national stakeholders to verify the 'scaleup status' of a business. If this data were to be released, it would answer the calls from stakeholders in local communities to develop a comprehensive picture of their local scaleup businesses. The development of a scaleup 'kite mark' should also be considered.
2. We recommend that funding for local communities should now be tied to the effective deployment of scaleup initiatives that close the scaleup gap, and the results and impacts that they have on the number of scaleup businesses in their area.



## TALENT:

Extending the Talent Pipeline and creating the right skills for tomorrow’s businesses

*“Our overriding issue is – and will continue to be – our ability to attract experienced resource to coincide with our growth.”*

South East scaleup business leader

*“Understand and instil real-life skills as well as academic and curriculum-focused knowledge, such as how banks and credit work; how to work in teams; how to make presentation.”*

East Midlands scaleup business leader

*“I would like to see an improved understanding of common business software, arithmetic, more professional style of writing as well as more emphasis on emotional intelligence, task prioritisation, critical thinking and problem solving. Entry-level hires often lack softer skills and wider understanding of business.”*

South East scaleup business leader

Attracting the right talent remains the single biggest barrier for scaleup leaders.

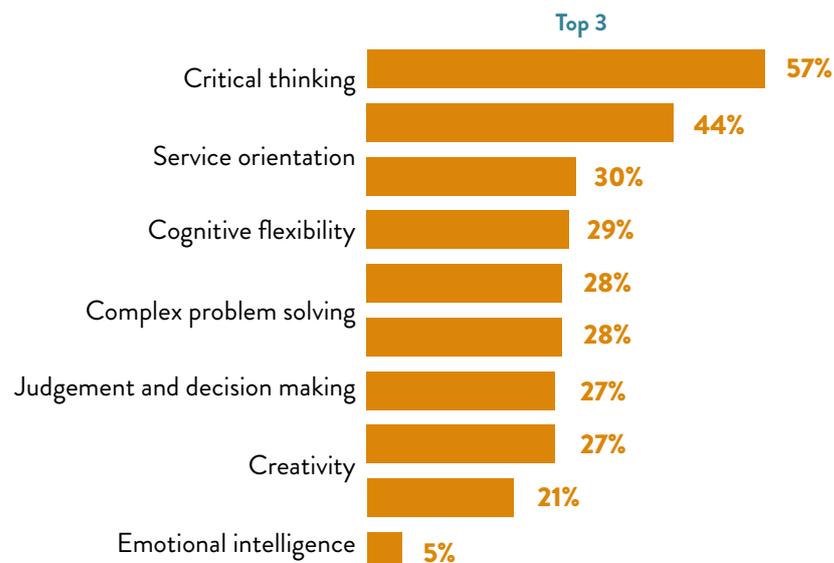
Scaleup leaders continue to experience significant barriers in recruiting people with the requisite technical and business skills, whether taking on young people straight from education or more experienced people. There is an ongoing challenge to attract people to help them simply fill their customer orders. Whilst Science, Technology, Engineering and Maths (STEM) skills remain essential, scaleup businesses have indicated that they also value general social and business skills. This suggests that a re-evaluation of how Personal, Social, Health, and Economic education (PSHE) is approached and leveraged to better prepare

students for the world of work.

When assessing ‘future skills’ as categorised by the World Economic Forum in their ‘Future of Jobs’ report<sup>4</sup>, scaleups are clear that the top two requirements are critical thinking and service orientation as outlined below. This means making sure that students are equipped with these skill sets through the education system, and that this is recognised as part of the curriculum along with employability skills. A helpful blueprint is offered by the Gatsby Charitable Foundation’s Good Career Guidance<sup>5</sup>.

### Scaleup Leaders Ranking of World Economic Forum future skills

Important future skills for staff



<sup>4</sup> <http://www.gatsby.org.uk/education/focus-areas/good-career-guidance>

<sup>5</sup> The Sutton Trust also looks at this: <https://www.suttontrust.com/research-paper/life-lessons/>

Recent work from Nesta published in collaboration with Pearson & Oxford<sup>6</sup>, has also found that similar traits will be important in the future.

## THE SKILLS GAP IS GROWING

Job-tracking company Adzuna has registered an increase in UK open positions to 1,169,747 in October 2017 – a 3.2% increase from 1,132,844 in September 2016.<sup>7</sup>

Our PISA<sup>8</sup> rankings continue to fall short of international competitors: our Maths ranking worsened in 2016, while Reading only improved one place, although there was notable progress in Science – up from 21st to 15th.

While the UK's focus on STEM education therefore appears to be improving our talent pipeline in science, it remains to be seen whether, coupled with the national computing curriculum, this will move the dial on Engineering, Maths and Technical skills. These technical skills continue to be required by scaling businesses, particularly those in technology-led industries, and currently fall woefully short of expectation. This is an area we will be further monitoring in 2018, along with progress on the Digital Skills Partnership commenced by Government in 2017 which is welcomed.

## CONNECTING EDUCATION COMMUNITIES TO THE SCALEUP COMMUNITIES

Scaleups are good corporate citizens – they offer work experience, employ interns and apprentices – but it is an ongoing challenge to make sure that these scaling businesses are better connected to local educational institutions.

Scaleups want the education system to step up its engagement with them and to get to know them better – this demands co-ordinated action at a local level. More work experience and apprenticeship opportunities would be made available by our scaleups if it was made easier – with readily accessible information on what it takes to make these available, helpful tools and resources and examples of what others have done.

This means that initiatives highlighted in the ScaleUp Institute report of 2016 such as the Careers Enterprise Company in England<sup>9</sup>, the Scottish Government Skills Review<sup>10</sup> and Action Plan, and the Welsh Regional Skills Partnerships<sup>11</sup> must continue to drive forward.

It also means that the work taking place with the Department of Education on API access to the National Pupils Database must progress at pace as this will enable the better assessment of which interventions are working and those that are not and so we can all make more timely decisions on what to invest further in and what to curtail.

The objectives of and funding for schools, colleges and universities should be better aligned to their engagement with local growth businesses. **Primary, Secondary, Further and Higher education establishments should also make it easier for scaling businesses to access the student projects, research facilities and graduates within our education establishments.** This has also been highlighted in the Witty review<sup>12</sup>. To ensure that evolving needs are spotted and acted upon, it will be important to ensure schools and scaleups are represented on the skills boards of LEP and other relevant authorities.

*“Engage with the Careers & Enterprise Company as they are already capturing what businesses want and helping schools and universities deliver that. Business must also engage with the process.”*

East Midlands scaleup business leader

*“Despite trying, universities are not very easy to access. Their co-ordinators need to be more commercially aware.”*

South East scaleup business leader

<sup>6</sup> <https://futureskills.pearson.com/>

<sup>7</sup> <http://www.bbc.co.uk/news/education-38157811>

<sup>8</sup> <https://www.adzuna.co.uk/jobs/uk> (accessed 10 October 2017)

<sup>9</sup> <https://www.careersandenterprise.co.uk/>

<sup>10</sup> <http://www.gov.scot/Topics/Economy/EntandSkillsreview>

<sup>11</sup> <https://businesswales.gov.wales/skillsgateway/regional-skills-partnerships>

<sup>12</sup> <https://www.gov.uk/government/consultations/universities-and-growth-the-witty-review-call-for-evidence>

## BUILDING TEACHING CAPACITY

We must recognise that our teaching profession needs ongoing training and support so they can understand how best to engage with business and local labour market developments. The Government and private sector should continue to work with and support our teachers in their vital role. This can be achieved by supporting organisations such as Teach First, Computing at School etc. in their role as well as considering new models for continual learning of teachers in evolving business skills and opportunities. We are pleased to be working with the National Education Union to look further at how connections between local businesses and teachers can be strengthened, including how employability skills can be better understood and incorporated.

To encourage students to acquire skills needed in a modern business environment, it may be useful to consider adapting innovative models of curriculum delivery and partnering with private sector programmes that provide students with practical approaches to learning (e.g. General Assembly; Founders4Schools; Makers Academy; LifeSkills created with Barclays; and Freeformers).

## THE ROLE OF THE PRIVATE SECTOR

The private sector must continue to enhance its skills programmes. Arguably more of our larger businesses need to step up their skills drive, not just for their own employees, but for scaling businesses in their supply chain. Google and LifeSkills created with Barclays remain leading examples of how to take this agenda forward. Freeformers, featured in Chapter 2, shows how larger companies engaged in improving their digital skills can also 'pay it forward' to the next generation.

## INTERNATIONAL TALENT REMAINS VITAL

Scaleup companies are significant employers of international talent – 75% of them employ staff from overseas. Continued ease of access to overseas talent remains a top priority, particularly for those in highly technical and/or life science sectors, who also report difficulty in finding enough UK PhD level applicants with the requisite skills to support their growth. There is a clear, ongoing need for highly skilled overseas workers to support the UK's scaling economy. As noted in previous reports, a scaleup focused visa scheme will help firms to access the talent that they need to grow in a timely manner.

The work of the Migration Advisory Committee (MAC) to look at the role of talent from overseas in developing a modern industrial strategy is therefore welcome. It should specifically consider impacts faced by high-growth firms as part of the ongoing report it is undertaking on the impact to the UK labour market of the UK's exit from the European Union, and how the UK's immigration system should be aligned with a modern industrial strategy. This assessment should explore the ability to recreate or expand the Tech Nation Visa Scheme to meet the ongoing needs of the UK's fastest growing firms across all sectors and geographies, including broadening the sponsor base.

## IN SUMMARY

The recommendations made in 2016 remain as valid today as they did then: the needs of scaleups have to be closely aligned with the education curriculum and strong connections should be built between schools and higher education institutions with scaleup companies. We therefore continue to recommend that LEPs / Higher Education establishments and schools have scaleups on their Boards and, vice-versa, local authorities align their skills and business boards with education establishments in a joined-up manner.

3. We recommend that the Department for Education and Local Enterprise Partnerships use their convening and promotional power to ensure that students at schools, colleges and universities come into contact with the top 50 scaleup business leaders within 20 miles of their establishment and that an API to the National Pupils database (with suitable protections) is made available so that the impact of these interventions can be measured.
4. We recommend that a 'Scaleup Visa' be made available in communities where there are 100 + scaleup companies to enable scaleup leaders to recruit staff they need to increase their capacity to grow. The Migration Advisory Committee should make the skills needs of scaling businesses a priority.

# SCALEUP INSTITUTE INSIGHTS TALENT ROUNDTABLE 2017



**RECENTLY, THE SCALEUP INSTITUTE BROUGHT TOGETHER STAKEHOLDERS FROM EDUCATION, LEADING CORPORATES, POLICYMAKERS AND INDUSTRY, INCLUDING SCALEUP BUSINESSES. THE AIM WAS TO EXPLORE SOLUTIONS TO THE SKILLS CHALLENGES THAT HIGH GROWTH BUSINESSES FACE AND THE BEST WAYS FOR SCALEUPS TO WORK WITH THE EDUCATION SECTOR.**

Key issues for the group were a better understanding of employability and lifelong learning as a concept and the way it can be taught; the value of work experience; increasing the visibility of scaleup businesses to schools and universities; and building opportunities to bring teachers and industry closer together.

The positive impact of work experience as part of education came out strongly during discussions,

especially the role it plays allowing students the chance for personal development and to gain insights into the world of work. The Careers & Enterprise Company has produced a 'what works' series<sup>13</sup>. However, despite the wide range of programmes, many schools and teachers still do not have easy access to business networks to allow students access to high-quality placements and likewise scaling businesses require easier entry to schools and universities. Participants committed to take three priority actions:

- **SHARE BEST PRACTICE AND TOOLS FOR WORK EXPERIENCE**
- **WORK MORE CLOSELY TOGETHER ON THE EMPLOYABILITY REQUIREMENTS OF SCALEUPS**
- **DEVELOP A GREATER UNDERSTANDING ON LIFELONG LEARNING**

This is work the ScaleUp Institute will be taking forward in 2018 with its partners.

<sup>13</sup> <https://www.careersandenterprise.co.uk/blog-category/what-works>



## LEADERSHIP:

### Boosting leadership capacity in our fastest growing scaleup companies

Leadership capacity and building it out remains a top priority for scaleup executives in 2017 and is consistently identified as a key challenge in fast-growing firms.

Scaleup leaders are hungry for local access to high-quality peer-to-peer networks; locally-delivered, impactful business leadership programmes; better access to qualified non-executive directors and mentors with scaleup credentials, and university/business school linkages.

In a time of ongoing uncertainty, confidence and consistency is needed across the business community and it is important to build upon and strengthen programmes that exist and are effective.

### LOCAL SOLUTIONS ARE VITAL

Development of an Industrial Strategy has quite rightly recognised the value of 'place'. The importance of 'place' is further endorsed by the independent Industrial Strategy Commission as enabling growth across the UK.

Critically, our recent research shows scaling businesses most value **locally-rooted resources** as central to enabling their growth. This is emphasised very strongly by the Scaleup Business Survey 2017 and points to the need for much better curation at a local level of current national Government services.

We believe that focus should be given to strengthening, expanding and, where necessary, upskilling current structures to ensure that the local 'toolkit' is fit for purpose for engaging **at a community level** with the fastest growing businesses.

Scaleup businesses are time-constrained. Engaging with them effectively requires the right framework and engagement model to identify and help them across their growth journey, providing the maximum uplift to jobs, productivity and the overall UK economy.

Locally-rooted solutions are an essential component and should also provide the gateway for scaleup businesses to local ecosystems and national programmes from both the public and private sectors.

This is why in 2016 the ScaleUp Institute, in partnership with Goldman Sachs 10,000 Small Businesses UK put such focus on its education programme 'Driving Economic Growth through Scaleup Ecosystems'<sup>14</sup>. Alumni of this programme have in turn developed new scaleup leadership development programmes in the North East, Swindon and Wiltshire, Scotland, Manchester, Liverpool, Cambridge, Thames Valley Berkshire, The Marches, and West of England (these are highlighted in Chapter 3). In 2018 we will continue to monitor their impact and we expect to work further with local areas, including alumni and new participants.

*"Ensuring we carve out time for strategic thinking and leadership team alignment from the busy day jobs of driving growth."*

West Midlands scaleup business leader

*"Leadership and management development programmes that are flexible, local, practical and affordable."*

West Midlands scaleup business leader

<sup>14</sup> With support from Innovate UK

## EVOLVING RELATIONSHIP CO-ORDINATION: DEVELOPING A CLIENT-CENTRIC APPROACH FOR SCALEUP BUSINESSES

Frameworks are starting to emerge which involve an account management model based on the way that private sector firms (e.g. banks) effectively segment their client base.

The ScaleUp Institute has reviewed the Growth House system in Denmark to understand how they are organised to encourage growth and optimise opportunities for their scaling businesses. This system brings together all finance, export and innovation interventions of national government in one local hub to be convenient to the businesses. They provide a single point of contact for businesses with an account management approach. The future funding of the Growth House is also aligned to the performance of the scaling businesses with which it has engaged, providing a clear incentive for adopting best practice.

In the UK, the national Government has many business interventions but research consistently shows that scaling leaders find it very difficult to navigate and access them. Our assessment of the international and domestic market place shows that coordinated engagement with a business at a local level in a curated manner delivers significantly more effective results than multiple ‘scattergun’ stakeholder approaches.

As we assess this international model and those closer to home in Scotland<sup>15</sup>, it is notable that England stands out as **not** having such a dedicated relationship management structure.

As such, the ScaleUp Institute believes that local public sector-funded entities such as LEPs should have ‘Account Managers’ as part of a wholly client-centric, client demand-led approach, with the needs of scaleup business leaders at the centre of the service.

The development of such an approach should draw upon models that already operate in this way. This local ‘go to’ account manager for scaling businesses at a local level could be mirrored in the ‘product specialist’ units of national Government such as Innovate UK, Department for International Trade, British Business Bank so that one creates an effective holistic ‘**relationship team**’ for the scaleup business.

This should engender better engagement with scaling businesses, with the local ‘client account manager’ fully knowledgeable in impactful public and private sector programmes for scaling businesses. To ensure consistency, this Account Management structure should be to a national standard, incorporating standardised KPIs and backed by a comprehensive CRM system to professionally manage the relationships developed. Continued funding should be based upon success.

To augment local engagement through account managers, an online communications toolkit should be provided for scaling businesses to signpost public and private sector programmes and initiatives. This should be created by building on work that is underway with the ScaleUp Institute.

<sup>15</sup> Scotland’s Account Management Model: <http://www.evaluationsonline.org.uk/evaluations/Search.do?ui=basic&action=show&id=530>

## PEER-TO-PEER NETWORKS ARE THE MOST VALUED SUPPORT

In successive years the Scaleup Institute has recommended that private and public sector local ecosystem leaders prioritise the signposting of high-quality mentorship programmes and develop effective matchmaking between peers with scaleup experience. We do recognise, however, there is a shortage of role models to provide vital mentoring and guidance. This is also backed up by other research, including the recent ‘State of Small Business’ report launched by Nesta<sup>16</sup>.

The 2017 Scaleup Business Survey finds that 89% of scaleup businesses most value peer-to-peer networks in fostering their growth. Some strong examples of peer-to-peer networking programmes are already in place; others are evolving. We have assessed and highlighted exemplar programmes, such as the Supper Club, in Chapters 2 and 3. Key features of these involve clear criteria for participation, the agenda being led by businesses themselves, a confidential environment allowing for open discussion on strategy, finance, markets and people, and the space to air growth challenges with those experiencing similar issues. There remains a need across the UK to develop these types of environments for our scaling business leaders.

## GROWTH HEROES

Entrepreneurial and scaleup growth is still most often inspired by examples of success. It is important to boost the profile of businesses that are succeeding, and create a clear path to growth to generate a halo effect in local areas across the UK. Greater awareness amongst scaling businesses of the success of their peers will help to spur others on. To this end, across all channels of national government, local government, private and education sectors,

it is important to celebrate scaleup success at a local level. A conscious effort to ground all business support and inspiration in the stories of successful “growth heroes” is a vital plank of encouragement.

## THE ROLE OF THE EDUCATION SECTOR

In 2017, local university and business school engagement was ranked by scaling business leaders as the second most important resource to their current and future growth. As such, these entities should align their services to scaling businesses in their community. Insights can be drawn from the manner in which Saïd, Imperial, Bristol, Cambridge, Leeds, Liverpool, Manchester, Strathclyde, Newcastle, Henley, Worcester, Cranfield, Teesside have invested in developing scaleup programmes. Given this is the second-most important matter to scaleups this year, we will continue our focus on this area in 2018. This will include working with the Small Business Charter and others to assess how university and business schools provide programmes that can provide evidence that they work.

*“The private sector can provide non-executives peer to peer mentoring and informal coaching – businesses learn from other businesses.”*

North/North East scaleup business leader

*“Better local business networking events with similar sized organisations.”*

West Midlands scaleup business leader

*“More work experience should be embedded in the curriculum. There needs to be better engagement with and promotion of graduate careers with SMEs.”*

Yorkshire and Humberside scaleup business leader

<sup>16</sup> <https://www.nesta.org.uk/blog/launching-state-small-business-report>

## IN SUMMARY

In successive years, we have recommended that LEPs, universities and the private sector should work together to ensure effective leadership development programmes for scaleup business leaders are available in their areas. We have also highlighted the need for high-quality mentoring programmes to be more easily found. The results of the 2017 survey show that, at a local level, these actions are still important. Peer-to-peer networks, as well as local resourcing available from business schools and universities, are highly valued by scaleups. Local high-quality mentorship and support programmes, including options to recruit high-quality non-executive directors, still need to be better signposted. The same applies to the availability of high quality local leadership programmes which enable scaleup leaders to link with other successful scaleup peers experiencing rapid growth.

We must get better at curating the programmes in a more coordinated and consistent manner with a relationship model that works for scaling businesses.

Leadership support in a rapidly changing and fast-paced environment remains of critical importance to the CEOs of

our scaleup companies. Communities must increase their efforts at a local and national level if we are to enjoy the increased productivity and prosperity that comes with scaleup companies continuing their growth.

5. We recommend that all local communities appoint a Scaleup Champion and develop a relationship management structure for scaleup businesses
6. We recommend that local stakeholders signpost effective mentorship programmes and matchmaking programmes between peers and non-executive directors who have scaled businesses before.

Local and national educational institutions should prioritise the introduction of high-quality flexible courses designed to help scaleup leadership teams with their development needs. Better connections should also continue to be made between national programmes and local ecosystem leaders to encourage scaling business leaders to apply to courses with known impact. The Small Business Charter, and other such mechanisms, should integrate an assessment of 'scaleup engagement' into their performance analysis.

# ACCESS TO MARKETS:

## Opening up markets for scaleups



Access to corporate customers, the opportunity to bid for Government contracts and exporting opportunities are significant for scaleup leaders. There is a strong correlation between a scaling company attaining an “anchor customer” – in the shape of a well-known corporate or a government department – and how this generates further opportunities for growth.

### IMPROVING CORPORATE COLLABORATION

Over the past few years, we have seen strong growth in the number of partnerships, incubators and hubs that aim to foster closer working relationships between corporates and scaling businesses. For corporates, effective collaboration leads to innovation and the creation of new products and new services. For the scaling business, it generates better sales and supply chain opportunities. Over the past few years there has been greater intent to engage with scaling businesses more effectively. However, the pathway to procurement contracts or collaborations is still not easy, simple or clear for scaling businesses. More concerted action is required to facilitate and simplify these processes to enable our scaling businesses to increase engagement with corporates and gain access to procurement contracts and collaboration opportunities.

Many scaleups tell us that the most important help they can receive is the ability to access corporate buyers in a **timely, consistent and efficient**

manner. Our Scaleup Business Survey 2017 shows that this issue has also moved further up the agenda for scaling business leaders. In practice, the culture and procurement processes that go with trying to become a supplier to a large corporate are often difficult and time consuming for a fast-growing business leader to navigate. The Scaleup Business Survey 2017 highlights that the time it takes to secure a contract with a large corporate is now seen as a greater barrier than securing one with Government.

The more we can do to foster the interaction between large corporations and our scaling businesses the better. Corporates can create online tools to become clearer and more transparent on their supplier requirements, and look to other means of refining and standardising their procurement processes to make them more accessible to smaller, growing businesses.

It is evident that there are some practical ways in which improvements can be made in this area and there is scope for industry-led initiatives to develop the capability of scaleup leaders, such as the Sharing in Growth case study reviewed in Chapter 2.

*“A framework for SMEs to showcase what they can do for larger businesses. Some type of government-backed system that helped SMEs win contracts from larger businesses.”*

South West scaleup business leader

*“Hold open events at which SMEs can meet with large corporates in a structured programme of events.”*

North West scaleup business leader

*“Greater support from Government to promote the use of UK suppliers by UK businesses with overseas operations. This provides the bridgehead for establishing credibility in these markets.”*

West Midlands scaleup  
business leader

*“Better access to public sector contracts. Make it easier for small companies to grow by having access to this work.”*

South East scaleup  
business leader

*“We have to comply with numerous schemes which basically assess the same information. It’s the age-old issue of having a single approved supplier scheme.”*

Scottish scaleup  
business leader

*“Provide so much more in terms of tender opportunities, frameworks, supply chains. Our feeling is that we receive very little help or support in this regard.”*

North/North East scaleup  
business leader.

This includes considering ways to support scaling businesses in the supply chain in their talent development and overseas needs. The Unilever Foundry provides a range of opportunities for businesses throughout their growth, including mentoring and opportunities for partnership and investment from Unilever. Deloitte also emphasise the benefits of corporate collaboration in their recent report *Power Up: UK Business*.

In the ScaleUp Institute’s recent reports, and ongoing work with NESTA, we have identified elements of good scaleup collaboration practice and in this year’s review, we publish a checklist in chapter 2 of what corporates and non-executive directors should be considering.

## UK GOVERNMENT PROCUREMENT

Each year, the central Government spends around £45bn centrally with non-public sector organisations, with approximately £4.8bn spent directly with SMEs and a further £7.2bn spent indirectly. Additionally local Government spends approximately £20bn with non-public sector organisations of which approximately £11.1bn goes to SMEs (These reports are based upon 2014/15 data). This offers a huge market for innovative private sector companies to scale through supplying services to the public sector.

As a result of the current Government procurement target to buy 33% from SMEs, it is clear from recent analysis by Public<sup>17</sup> looking at the GovTech market shows that Government sales cycles today are significantly less complicated than even a few years ago, reduced to as little as three months in some cases. Our Scaleup Business Survey 2017 also notes that Government performs slightly better than large corporates in relation to time taken to win a contract.

However, there are still further improvements to be made.

Scaleup leaders still view the current procurement process and requirements from Government as not responsive to their needs. For instance, Contracts Finder allows the user to search for information about contracts with the government and its agencies, but it does not yet contain information on all public sector contracts. Furthermore different procurement policies being implemented by individual local authorities mean that often only contracts worth more than £100,000 appear on Contracts Finder. This compares to £10,000 for central Government. At present, opportunities from large corporate primary providers to Government are also not featured on the site. If this were to be improved, including making it into an interactive smart platform coupled with rolling out of the Crown Marketplace to target scale up businesses earlier, it will create more accessibility through a more intelligent, simple and faster platform.

There is also a need to simplify the navigation of Government procurement opportunities so while it is excellent that procurement champions for SMEs do exist in every Government area, these civil servants are not well known and often undertake multiple roles. Awareness of these individuals needs to be raised substantially within the scaleup community and we would like to see a significant increase in more ‘meet the buyer’ scaleup events undertaken. This is a proven concept in the private sector for delivering results as seen by SVC2UK and ELITE. It is also important to train procurement managers not to raise qualifying thresholds unnecessarily. Whilst this may reduce the risk for the buyer, it raises hurdles for small firms.

<sup>17</sup> [http://www.public.io/wp-content/uploads/2017/07/Public\\_GovTech\\_market.pdf](http://www.public.io/wp-content/uploads/2017/07/Public_GovTech_market.pdf)

## PROVIDING NEW OPPORTUNITIES TO INNOVATE

The Government should build upon the successful FCA sandbox (which is a world-first and continues to grow in popularity). Of the 24 firms successfully accepted into Cohort 1, the majority are expected to take their propositions to market. The programme has now also released the names of 24 firms that have been successfully accepted into Cohort 2, and completed the applications process for Cohort 3. Innovate UK is also doing valuable work in its oversight of the Industrial Challenge Fund Process which works to foster further innovation, and scaleups should be part of this process.

There are also broader examples of a ‘sandbox’ approach to encourage innovation. Sandboxes help scaleups experiment within a realistic environment without penalty, but they also help ‘regulators’ learn how they need to adapt. In New South Wales (Australia) there is now an open approach to sandbox environments allowing companies to apply to test ideas relating to any of the State’s regulations (federal regulation is not part of the current programme). The nature of the applications submitted will be used to decide the focus of the first sandbox environment. In the UK expanding a sandbox approach to other Government areas such as a central NHS sandbox (overseen by Innovate UK) or one for the Department of Education would allow for greater innovation. Digital Health Valley Belgium<sup>18</sup> and Valencia Urban Laboratory<sup>19</sup> are each good examples of broader applications. It is also important to continue to open up APIs to allow for private sector innovation in this area.

## SUPPLY CHAINS

Large suppliers to Government need to provide opportunities for scaling companies

in their supply chains. In 2014 it was recommended that Government should do more to monitor this and while SME procurement is being kept under review, scaleups within that are not yet tracked. It is also important for government to play its part in ensuring that contractual conditions are passed down the supply chain. The responsibility of the larger company should include nurturing scaleup growth through helping such businesses in their talent, leadership and markets access and by the introduction of activities such as those exemplified by the Sharing in Growth Case Study from Chapter two. Requiring large corporates who are competing for Government contracts to do this will help to shift corporate culture, deliver innovation and lead to breakdown down barriers to business growth.

Celebration of success is also vital, and should include recognition of large companies who have a track record in procuring more from small and medium sized companies over time.

## EXPORTING FOR GROWTH

Building an export market is an important stage for growing companies in their scaleup trajectory and the Government should be directing attention to this area.

As noted elsewhere in this report we have been impressed by the impact of the Mayor of London’s Go to Grow programme which has been supported by consecutive London Mayors to establish ‘scaleup only’ trade missions. The programme has had outstanding results, with the goal of supporting 800 companies so far, with focus in 2016 on scaleups from Tech, Life Sciences, and urban sectors. The programme mentors scaling businesses and takes a cohort to major cities around the world to meet with relevant corporate customers, investors etc. For the first 100

*“More investment opportunities, open calls and grants for innovation and open data projects, particularly those that impact government and civil challenges.”*

South West scaleup business leader

*“Public sector needs to make tendering processes easier for small businesses who are just as talented and skilled as their larger competitors.”*

East Midlands scaleup business leader

<sup>18</sup> <http://digitalbelgium.be/>

<sup>19</sup> [https://ec.europa.eu/eip/ageing/commitments-tracker/d4/val/C3%A8ncia-urban-lab-innovation-build-more-age-friendly-city-and-environments\\_en](https://ec.europa.eu/eip/ageing/commitments-tracker/d4/val/C3%A8ncia-urban-lab-innovation-build-more-age-friendly-city-and-environments_en)

companies alone this resulted in £51m of new investment, 438 new jobs created and over half entering into new markets.

The ScaleUp Institute recommends that this example should be considered carefully by other Mayoral Cities as well as the Department of International Trade. This should include a review of the mix of allocation of Government, City, and local funding to such (possible export vouchers etc.) and options for local private sector involvement. The Sage programme of City to City exchange for key growth sectors, developed in association with Invest Atlanta, DIT and Newcastle City Council, is also an important example.

The Department for International Trade should have a team trained and dedicated to working with the UK's fastest growing companies, with local resources based in the same locality/building as other product specialists from different departments. This effort should be supported by broader progress towards better use of data, making it easier to identify firms that are already exporting and wanting to grow in current or new markets, and who will benefit from a stronger alignment of Department for International Trade resources.

# SCALEUP INSTITUTE INSIGHTS EXPORT ROUNDTABLE SEPTEMBER 2017



**IN SEPTEMBER 2017, THE SCALEUP INSTITUTE BROUGHT TOGETHER SENIOR FIGURES FROM THE DEPARTMENT OF INTERNATIONAL TRADE, REPRESENTATIVES FROM THE GOVERNMENT'S SCALEUP TASKFORCE, BANKING GROUPS, LEPS AND TRADE ASSOCIATIONS ALONG WITH SEVERAL SCALEUP LEADERS. THE GROUP EXPLORED THE WAYS IN WHICH SCALEUP COMPANIES CAN BE MOST EFFECTIVELY ENABLED TO BEGIN OR CONTINUE THEIR INTERNATIONAL GROWTH.**

Initial results from our Scaleup Business Survey 2017 were considered as part of the discussion. Participants specifically noted that scaling businesses want better connections with international buyers and need the skills to access these markets effectively. While Europe and North America remain key export destinations there is increasing appetite to move in to broader markets such as the Middle East, Africa and notably India.

The group listened to a presentation of the Mayor's

International Business Programme, Go to Grow – a market access programme that has been endorsed by the ScaleUp Institute and agreed there were many lessons to learn from that.

The importance of international trade missions that are tailored for scaleups came out clearly during discussions. It was recognised that a key role for government is to assist scaleups “open doors,” by facilitating introductions and access to potential customers, and that this could be better targeted.

Other issues for the group were a better understanding of the fragmented landscape of export information and support; how a local Department for International Trade account management approach, working more closely with LEPs, could address this; the value of peer-to-peer networks; the availability of finance to support export growth; and ensuring continued access to talent with international experience.

Department for International Trade took away a number of issues to progress and recognised the importance of aligning resources to scaling businesses already exporting and seeking to do more. The ScaleUp Institute will continue to work closely with all parties to ensure that export activity can be better aligned to scaling businesses' needs at a local and national level.

## IN SUMMARY

Market uncertainty has increased the focus of scaleup business leaders and challenges around access to domestic and international markets. The issue is moving strongly up the agenda.

While progress is being made on a more targeted approach to scaling businesses, more still needs to be done and as such we reinforce the prior recommendations made and update them as follows:

7. We recommend that Public bodies review and report on the procurement procedures for scaleups and improve the way opportunities are promoted to scaleup companies so that we see an increase in the extent to which Government procures from scaleups. This could also be achieved by significantly raising awareness of scaleup procurement champions. This should include the evolution of Contracts Finder to become a smart platform and depository of supplier opportunities from large companies that have contracts with Government; the development of ‘meet the buyer’ events and the development of more sandbox environments.

Any Government agencies that interact frequently with scaleups should introduce fast-track procedures for scaleups and report on these.

- 8: Large companies should report on the level of collaboration and procurement they source from scaleup companies. Any procurement contracts with Government should require an increase in the amount of business undertaken with scaleups as part of the contracting process and provide an annual update.
- 9: We recommend that central Government should align a significant portion of its export activities and resources towards scaleups and create bespoke trade missions for scaleups. All local areas should be encouraged to set up a local exchange programme for scaling businesses, such as that developed by the Mayoral ‘Go to Grow’ campaign in London.



## ACCESSING FINANCE:

### Attracting appropriate growth capital

The historic shortage of risk capital available in the UK for scaleups is well-documented. While a range of initiatives have been put in place in order to address this gap, our annual surveys of UK scaleup leaders consistently reflect that access to finance – notably patient capital, particularly venture debt, venture capital and equity – remains one of the top five critical areas where barriers still remain.

Finance constraints exacerbate the challenges a fast-growing company leader faces during his or her journey to scale. The 2017 survey shows that business leaders deploy a range of external finance options as they grow – yet four out of ten still do not feel that they currently have the right finance in place for their business.

It is clear that the UK must continue to expand its overall pool of investors, notably institutional investors, willing and able to provide ongoing rounds of follow-on or scaleup finance to ensure there is a connected funding environment from seed through to IPO. We want UK-based entrepreneurs to be able to identify and raise capital in the UK; they should not feel it necessary to look towards the sources of finance originating from the US and Asia.

That is why we welcomed the Government's recent consultation on *Financing Growth in Innovative Firms*<sup>20</sup> which took on board the analyses undertaken by the ScaleUp Institute and its partners in prior years.

The need to address the issue of long-term 'patient' capital within the UK is not new and has been tackled in successive reviews from Cruickshank to Rowlands to the 2012 Breedon Review and the 2014 Scaleup Report on Economic Growth.

As a consequence, much has been done to address some of the long term 'market/structural failures' identified in these reports, such as the establishment by the major banks of the Business Growth Fund (BGF) with its regional offices; the set-up of the British Business Bank (BBB); the flourishing of the UK angel investment market; the creation of the Small Business Act; the fintech revolution supported by the UK regulatory environment. These have all been positive measures which have placed the UK in a stronger, more plural and diverse finance market than has previously been seen.

That said, much more work remains to be done in unlocking UK institutional funding to our fastest growing firms to create a depth of UK-based, long-term capital that is ready to invest in cycles of ten years and more, and capable of multiple follow-on rounds. Scaling businesses consistently cite challenges arising in finding patient ten-year-plus investors for series B and above, which is why they often turn to overseas investors.

History tells us that there is no 'silver bullet' that can solve the challenge, but rather a blend of different and complementary initiatives will need to be adopted and adapted in a timely manner. Resources should therefore be focused

*"There is not enough 'patient' capital for manufacturing businesses."*

East Midlands scaleup business leader

<sup>20</sup> <https://www.gov.uk/government/consultations/financing-growth-in-innovative-firms>

on a number of interventions across a number of different programmes.

The key is to turn consultation and learnings from previous reviews into targeted, appropriate and measured action which achieves the outcomes for which we all strive. With the emerging sentiment among our fastest growing firms that the UK has become a harder environment in which to scale, it has never been more important to make sure the UK is 'match fit' for scaling up. This requires deep pools of

connected capital, available through the lifecycle of a business to reach global scale, sustained growth and longevity. Attention will also need to be given to the talent, skills, market access and infrastructure so critical to scaling up.

Flexibility alongside investment scale will be critical, as will collaborative engagement across regulators, senior finance industry leaders and Government. It is crucial to maintain and build upon what works today.

## IN OUR RESPONSE TO THE CONSULTATION PAPER *FINANCING GROWTH IN INNOVATIVE FIRMS*, THE SCALEUP INSTITUTE RECOMMENDED A SET OF ACTIONS TO BE UNDERTAKEN IN A CONCURRENT MANNER. THESE WERE:

- 1. Allocation of new funding to the British Business Bank (BBB) to develop the necessary flexible and scalable substitutes for a UK EIB/EIF that will work with private sector players across debt and equity instruments.** The EIB and the EIF have played significant roles in the development of the UK financial services ecosystem over successive years. They have acted as an essential ‘cornerstone’ to the evolution in the UK of various Growth Capital instruments across debt and equity instruments. The contribution from EIB/EIF in 2016 alone is estimated to be circa £750m mainly spread across Venture Capital (c£300m); Private Equity (c£200m); and Debt Funds (£155m). While we will always encourage a continued fostering of European relationships, with the Brexit dynamics, it is now essential to ensure the UK has the funding capacity to ‘step-up’ to take on what has previously been an EU capital resource to so many UK Financial Investors and growth businesses. The joint initiative between the EIB and the European Commission has also provided vital pools of capital and research collaboration for life science businesses and other innovative sectors under the Horizon 2020 and COSME programmes. As matters evolve and the UK relationship with the EU is clarified, access for UK innovative businesses should be maintained to these schemes, or they must be replicated as part of the UK replacement to EIB/EIF arrangements. Substitute arrangements for EIB/EIF replacements should be housed within the BBB which has built a successful track record. In taking on this enhanced role the BBB’s UK and sectoral reach will be essential, to address regional disparities and sector needs. This may lead to specific sector funds (life science, fintech, creative) as well as localised solutions relevant to local gaps which may be in growth debt or equity.
- 2. Continuation of targeted Tax Relief under EIS/SEIS and the lifting of current time and capital limits on Venture Capital Trusts (VCTs) to allow VCTs to provide appropriate follow-on funding for scaling firms in their portfolios. In parallel, assessment of the removal of stamp duty for these and closed end funds should be made and if necessary a principles-based approach could be developed to ensure that funding flows into scaling corporates.** VCTs are a proven route to provide growth finance and significant investors in the real economy – the VCTA estimates that companies currently backed by VCTs have created 27,000 jobs and in 2015 its members alone invested £220m. However, current rules limit VCTs ability to provide follow on funding for scaleup firms who are on a continuing growth trajectory. Current time and capital limits on VCTs should be lifted to allow such to provide appropriate follow on funding for scaling firms. In practical terms, it is clearly immensely disruptive for a fast-growing business to be forced to find an alternative/additional investor due to regulatory barriers. At a time when the Government is focused upon improving productivity, removing barriers that prevent that is essential.
- 3. Creation of an ‘at scale’ National Investment Fund / Patient Capital Investment Vehicle / Trust(s) to ‘crowd in’ Institutional and Retail Investors, with the vehicle capable of listing, and operating alongside a substitute EIB /EIF structure.** Releasing Institutional ‘money’ to provide long term, patient capital is key: Life insurers hold assets of £1.81trn and UK corporates have £500bn of cash on balance sheets which could be invested as patient capital. As a result of a number of factors including a range of regulatory and tax constraints only 16% of UK Pension Funds are currently invested in UK equities. The ScaleUp Institute therefore concurs with Government that a National Investment Fund (NIF) or Patient Capital Investment Vehicle(s) (PCIV) should be established for the purpose of ‘crowding in’ large scale Institutional Investors, corporates and retail investors. Arguably the UK has always needed some form of long term, fully fledged, National Investment Fund. There are of course varying methods by which such can be achieved but what is clear is Institutional Investor’s require economies of scale, a portfolio approach with inherent liquidity and a favourable regulatory regime to enable and optimise investment flows. As such ‘scale to scale’ must be a factor in deployment i.e. the NIF/ PCIV must be ‘at scale’ itself and where investing into funds these should also be at ‘scale’ and capable of regional deployment. In developing such a vehicle it will be essential / necessary to work with proven existing players such as BGF and Woodford Investment Management, who have the proven capability to take scaled investment and implement / deploy it to fast-growing businesses across localities and sectors.
- 4. Stimulation of demand and improvement of knowledge of finance among high-growth firms, as part of developing comprehensive local ecosystems that are able to effectively support growth in fast-growing firms.** Supply is not the sole answer in addressing the risk capital needs of scaling businesses. Education and demand also have a key role to play as expanded on below.

## ADDRESSING REGIONAL DISPARITY

Regional disparities in access to private equity, both by deal numbers and value, are also noted in recent analysis, with London and the South East attracting

a higher proportion of equity compared to their weight in the UK economy. London received 47% of all equity deals by number and 56% by value in 2016, despite only 20% of high-growth businesses being located in this region<sup>21</sup>.

### Proportion of Equity investment, deals and high growth businesses by region and devolved administration.

	% of total value of UK equity investment (2016)	% of total number of UK equity deals (2016)	% of total number of UK high growth businesses (2014)
London	56%	47%	20%
South East	16%	10%	14%
East of England	12%	8%	9%
North West	4%	7%	11%
Yorkshire and Humberside	3%	3%	8%
Scotland	3%	6%	7%
South West	2%	5%	8%
West Midlands	1%	3%	8%
East Midlands	1%	2%	7%
Wales	1%	3%	3%
North East	1%	3%	3%
Northern Ireland	1%	1%	2%

Source: British Business Bank 2017 Small Business Equity Tracker

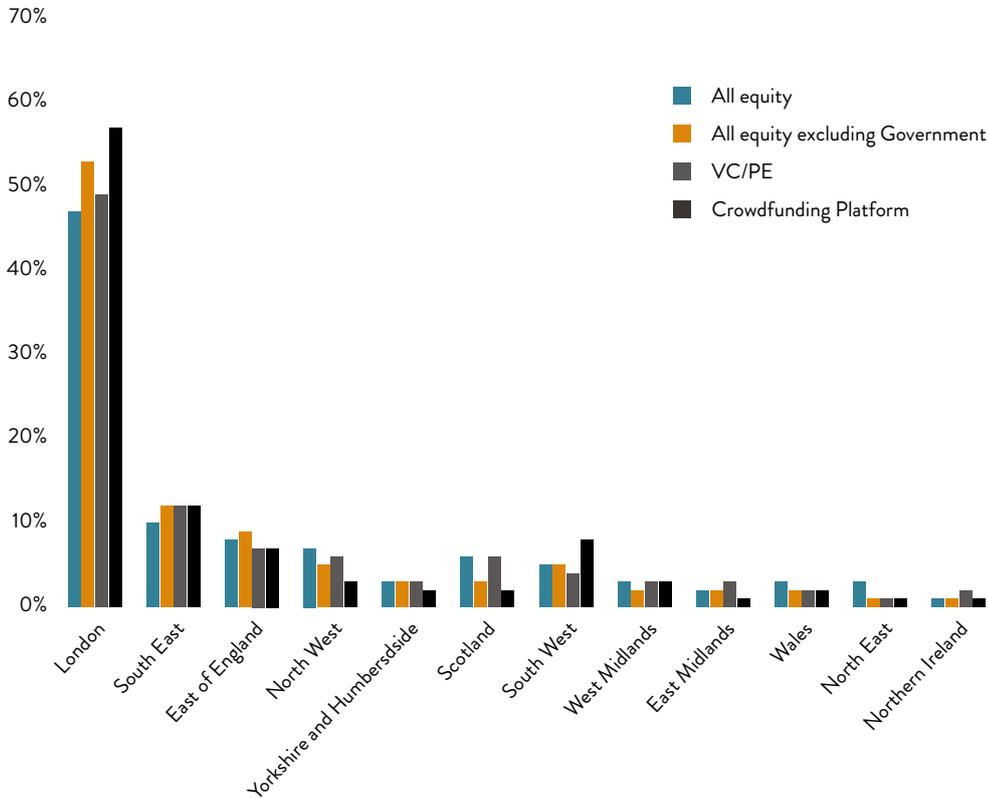
Regional differences can be observed for different types of equity investor. Whilst 47% of all equity deals are in London, the figure is even higher (53%) if Government

VC funds are excluded. Crowdfunding deals are also disproportionately based in London (57%).

<sup>21</sup> British Business Bank (2017) Small Business Equity Tracker

### Distribution of equity deals by type of investor (2016)

Source: British Business Bank



English regions and devolved administrations disguise the large variation in equity deal numbers that occurs within areas as equity deals tend to be grouped into geographic clusters. Whilst equity deals are concentrated in London, there are clusters of deal activity outside of London. The British Business Bank 2017 Equity Tracker report shows the top 25 areas for equity deal activity in the UK in 2016. Boroughs in London form nearly half of top 25 list (with 12 boroughs), but represent 8 of the top 10 areas ranked by number of deals. Cambridge and Oxford are ranked 6th and 12th respectively, but a number of cities outside of London and South East are important equity hotspots including Edinburgh, Manchester, Cardiff, Bristol, Glasgow, Sheffield, Leeds and Birmingham.

This is also seen in our ONS analysis of data from between 2013 and 2015 (Please see further information in Chapter 1 and Annex 1 which also shows that there is a wide disparity between communities in the UK.)

### THE KNOWLEDGE AND DEMAND CONUNDRUM

Supply is of course not the only issue. Demand and knowledge of finance options still play a vital role. In combination with supply levers, demand levers should be encouraged by the building out of sustained education to businesses on the options, benefits and accessibility of growth capital.

The CBI's *Slice of the Pie* report<sup>22</sup> finds that of the businesses that use equity finance, more than two-thirds would recommend it to other businesses.

However, only one per cent of UK SMEs draw on external equity finance, showing that equity capital may be under-utilised despite recognition from those who have chosen it that it is a key form of patient capital for scaleups and aspiring scaleups.

Our recent research with Beauhurst shows that 16% of scaleups use equity and there is a direct correlation between even faster growth and an equity stake. 40% of scaleup events (e.g. if a company has met the OECD criteria for two years, it has had two scaleup events) that saw revenue grow at a rate of more than 100% were in companies that have used equity financing, compared to 18% of scaleup events that saw revenue growth of 20 to 40%. The more equity investment a company has received, the more likely its revenue is to be growing at a rate quicker than 100% a year. There is much more work to be done to encourage other scaling businesses to consider equity finance as an option for growth.

Innovate UK has identified that businesses can miss opportunities to secure investment because of misunderstandings of what investors look for, as is noted in their recent report *Scaling Up: The Investor Perspective*.

Recognition of finance programmes by scaleups could also be improved: only 24% of scaleups are aware of the BGF, 16% of scaleups are aware of the British Business Bank and 5% aware of the Business Finance Guide.

This shows it is important to increase the consistency and quality of guidance and education on growth capital finance. There is a clear opportunity for policymakers to create a long-term and ambitious growth mind-set towards external finance

and to signpost opportunities better for appropriate growth finance to scaleup and scaling businesses.

In 2018 the ScaleUp Institute intends to work with the British Business Bank and other private sector players to develop a digital platform to enable scaling businesses to find the finance options most suitable to their needs, supported by a series of case studies to create further understanding of how peers have approached finance requirements. It is also notable that the British Business Bank plans to put more regional resources in place to work with the investor and business community as it expands its local reach. This is to be welcomed and engenders a relationship management culture, which has worked to good effect in Scotland in joining up public and private sector initiatives to its fastest growing companies.

<sup>22</sup> [http://www.cbi.org.uk/cbi-prod/assets/File/pdf/cbi\\_equity\\_finance\\_report\\_3\\_feb.pdf](http://www.cbi.org.uk/cbi-prod/assets/File/pdf/cbi_equity_finance_report_3_feb.pdf)

## IN SUMMARY

No one silver bullet will address the needs of scaling firms or “encourage the development of young innovative firms ... to foster their ambition ... and ensure they grow to maturity in the UK [and] fulfil their full economic potential”<sup>23</sup>.

The consultation on *Financing Growth in Innovative Firms* must deliver on several fronts (as detailed above) if we are to make progress. There also remains regional disparity in growth capital distribution in the UK across geographies as well as sectors such as those heavily dependent on R&D or IP (e.g. life sciences or the creative industries), that still require support to tap into non-traditional finance options.

The global competitive landscape is shifting. Many countries are placing more effort and resources into supporting their scaling firms and, indeed, seeking to lure those who have set up operations in the UK to move overseas. We must act now.

Continued concerted action to focus on closing the finance gap for scaleups will secure a long-term competitive advantage to the UK and therefore we continue to recommend that:

10. Government and industry ensure progress is made closing the finance gap. Growth finance to be included as core curriculum in all local scaleup leadership courses.

<sup>23</sup> <https://www.gov.uk/government/consultations/financing-growth-in-innovative-firms>



# INFRASTRUCTURE

## Space with room to grow

It is important to recognise the role that physical infrastructure plays when scaling firms are making decisions about seeking investment and expansion.

*“More incubator type facilities targeting SMEs.”*

London scaleup  
business leader

‘Place’ has been rightly emphasised in the industrial strategy, and a primary infrastructure requirement for most growing businesses is the ability to quickly identify available real estate. The Government, working with LEPs, City and Metro Mayors should consider online tools to showcase available business real estate around the country.

Location, connectivity to high speed internet, and ensuring the existence of the right leasing structures to accommodate fast growing, potentially very new, businesses should be taken into account. Companies with high rates of staff growth may find themselves locked into leases with landlords that dissuade them from hiring, or taking on finance to grow more quickly. Artificial barriers like this dampen productivity and can undermine otherwise sound business growth.

Science Parks like Alderley Park BioScience Campus in Manchester and initiatives such as Engine Shed in Bristol provide important solutions to the infrastructure needs of fast-growth firms. These hubs combine Government, education and private sector initiatives, including peer-to-peer networks, to excellent effect.

Looking beyond office space to manufacturing capacity, however, scaleup businesses do highlight that the UK has fewer ‘plug and play’ factories with pre-existing and trained work forces. This makes the ability to quickly augment production within the UK more of a

challenge and can mean that – as growth is achieved – complex international negotiations are necessary – especially for high tech manufacturing.

Research and Development (R&D) is intrinsically tied to the education agenda, but is also strongly linked to the infrastructure available to growing firms. The new structure the Government proposes, under UK Research and Investment (UKRI) and the allocation of an Industrial Challenge Fund, is a step forward and essential if we are to keep pace with global and European developments. The significant investment the Government makes through UKRI and the Challenge Fund must ensure our research and innovation drives are closely connected to scaling businesses – and sectors.

It should be mandated that those accessing such funding ensure engagement with scaleups, including the opening up of research facilities and deployment of students to projects with scaling businesses. This engagement must be across the country and seek to bolster scaling business across all localities. Programmes that are geared towards the commercialisation of research are likely to have more impact if the role that fast-growing firms have in the area of innovation and research is effectively captured. The options for evolving the R&D tax credit treatment should also be kept under review including ways in which it could support firms in adopting new technologies, driving productivity.

*“Establish a central government R&D collaboration portal where it is easier to find who is researching and developing what, for whom and why.”*

South West scaleup  
business leader

## IN SUMMARY

In 2018, the ScaleUp Institute will be reviewing additional initiatives throughout the UK designed to help make it easier for scaleup leaders to access the infrastructure they need. We have received nominations to review Manchester Alderley Park and Silverstone Technology Cluster which we plan to review in our programme of work in 2018.

Some good progress has been made with certain infrastructure needs of our scaleup leaders being answered. We need to ensure this continues and encourage ecosystem stakeholders from across the country to take inspiration from peers so that this hindrance can be removed from

scaleup leaders' list of growing pains. The continued focus and investment by the Government on local infrastructure will remain key, as will development of local hubs such as those exemplified in Manchester and Bristol (Engine Shed).

# 2016 RECOMMENDATIONS: PROGRESS

## PROGRESS KEY



STRONG PROGRESS



PROGRESS



FURTHER PROGRESS NEEDED



SIGNIFICANT PROGRESS NEEDED



### EVIDENCE GAP

**1:** We recommend that scaleup status is officially recognised as a formal business classification and that national datasets are utilised to allow the verification of a company’s ‘scaleup status’ so that national, local, public and private sector organisations can collectively drive economic growth more easily.

We welcome the progress that is being made with Government on the range of data sources held particularly within ONS and HMRC and how these can be utilised to better effect. This is the single most important action that can be taken to drive up the ability for all to lean in and interact with scaling

In late 2017 and into the first half of 2018 the ScaleUp Institute will be working with HMRC on a number of data pilots with ‘scaleup ready’ areas.

We look forward to reporting further on this throughout 2018.

**2:** We recommend that local stakeholders have funding they receive from central Government tied to whether or not their strategy addresses closing the scaleup gap and whether or not this strategy is working.

It is encouraging that Government, through the Cities and Local Growth team, have requested that LEPs include within their Strategic Economic Plans a core focus on scaling businesses and the development of specific scaleup programmes. We are also encouraged by Scotland’s progress in this area and the recently launched Scotland CAN DO Scale programme. These initiatives are reported upon in Chapter 3 and Annex 1 to this report.

In 2018 the key is to ensure that this progress leads to actual delivery of impactful scaleup initiatives.

The ScaleUp Institute will be monitoring this closely as well as working further with local areas including building on our work with Scotland, Wales and Northern Ireland.

**3:** We recommend that central Government make a Minister accountable for closing the scaleup gap and local governments and local stakeholders should make someone responsible for the same.

We are pleased that the Government has appointed a Ministerial champion for ‘Scaleups’ in Margot James and has initiated a ScaleUp Taskforce.

The development of local scaleup champions has also progressed.

In 2018, we hope to be able to report that all local areas have appointed scaleup Account Managers to work with individual scaleup business leaders, and have also appointed someone to be responsible for increasing the number of scaleups in their community so that we can report on their progress.



### SKILLS

**4:** We recommend that the Department for Education and Local Enterprise Partnerships use their convening and promotional power to guarantee that students at schools, colleges and universities come into contact with the top 50 scaleup business-leaders within 20 miles of their establishment.

Through the Careers Enterprise Company and private sector initiatives there is better alignment between schools and scaleup businesses, but there is still much to be done on the skills gap as well as efforts to align students with scaleup business leaders. Many scaleups still do not feel as connected as they need to be to educational institutions and initiatives and 93% of them are worried about the skills of young people who are coming to them straight from formal education.

The progression of an API to the National Pupils Database has made some progress with the Department for Education. We hope this will develop at pace in 2018.

**5:** We recommend that a ‘Scaleup Visa’ be made available in communities where there are 100 + scaleup companies to enable scaleup leaders to recruit staff they need to increase their capacity to grow.

Further work is required on implementing a suitable Visa system to support the ongoing skills needed by businesses that are growing rapidly.

The Tech Nation Visa is a proven model and one that should be built upon, and sought to be rolled out to all scaling businesses, from all sectors, across local communities in 2018.

In 2018, the Migration Advisory Committee should consider ways to achieve this in its work.



**LEADERSHIP GAP**

**6:** We recommend that local stakeholders prioritise the signposting of high quality mentorship programmes and develop effective matchmaking between peers and non-executive directors who have scaled businesses before.

Local and national educational institutions should prioritise the introduction of high-quality flexible courses designed to help scaleup leadership teams with their development needs. Better connection should also continue to be made between national programmes and local ecosystem leaders to encourage scaling business leaders to apply to courses with known impact.

Many local stakeholders, including those in the private sector, have responded to the challenge to the leadership gap setting up peer-to-peer networks, ‘matchmaking’ services between mentors and non-executive and new leadership programmes.

The leadership gap has also been a key feature of the work of the Scaleup Taskforce. In 2018 the ScaleUp Institute will continue to assess and monitor progress and the impact of developing initiatives.



**ACCESS TO MARKETS**

**7:** We recommend that public bodies report on the level of procurement they source from, and the collaboration they have with, scaleup companies and their funding should be tied to increasing this amount.

Local and central Government procurement / collaboration has been a key focus of ScaleUp Taskforce consultation exercise.

Whilst it is welcome progress that SME procurement champions exist within Government departments, these are not well known to scaling business leaders and significant awareness raising is needed, as well as a continued focus on procurement opportunities for scaling businesses.

In 2018, we hope to be able to report on ‘meet the buyer’ events occurring in every local area; a scaleup friendly evolution of Contracts Finder’ and would hope to see sandbox environments being utilised more.

**8:** We recommend that large companies report on the level of procurement they source from scaleup companies and the collaboration they have with scaleup companies.

Any procurement contracts with Government should require an increase in the amount of business undertaken with scaleups.

The ScaleUp Institute continues to work with NESTA, among others, to monitor progress in corporate collaboration with scaleups and the checklist published in chapter 2 should facilitate adoption of best practice.

It remains a priority area and, whilst progress is being made, barriers still exist to scaling businesses working effectively with corporates and these need to be broken down.

By the end of 2018, we hope to be able to report that suppliers to Government list opportunities on Contracts Finder.

**9:** We recommend that agencies that interact frequently with scaleups, such as the Border Authority, Listing Authority and HMRC, have fast-track procedures for scaleups and report on these in relation to peers in other countries.

Data referred to in Recommendation 1 is essential in order to be able to make progress on Recommendation 9.

In 2018, we hope that data will be made more available so that progress on fast tracking for scaleups can develop further as a result of Government utilising its data more comprehensively.



**FINANCE GAP**

**10:** We recommend that Government and industry ensure that progress is made closing the finance gap and ensure that growth finance is included as core curriculum in all local scaleup leadership courses.

The Government’s 2017 consultation on Financing Growth in Innovative Firms recognised the importance of scaleups and closing the finance gap. How this is progressed will be crucial and we will be specifically monitoring how risk capital and equity evolves as part of this.

Alongside this, a range of private sector companies continue to progress education on finance: In 2018, the ScaleUp Institute will work with the British Business Bank and others to make available a robust knowledge digital hub for scaleups.

