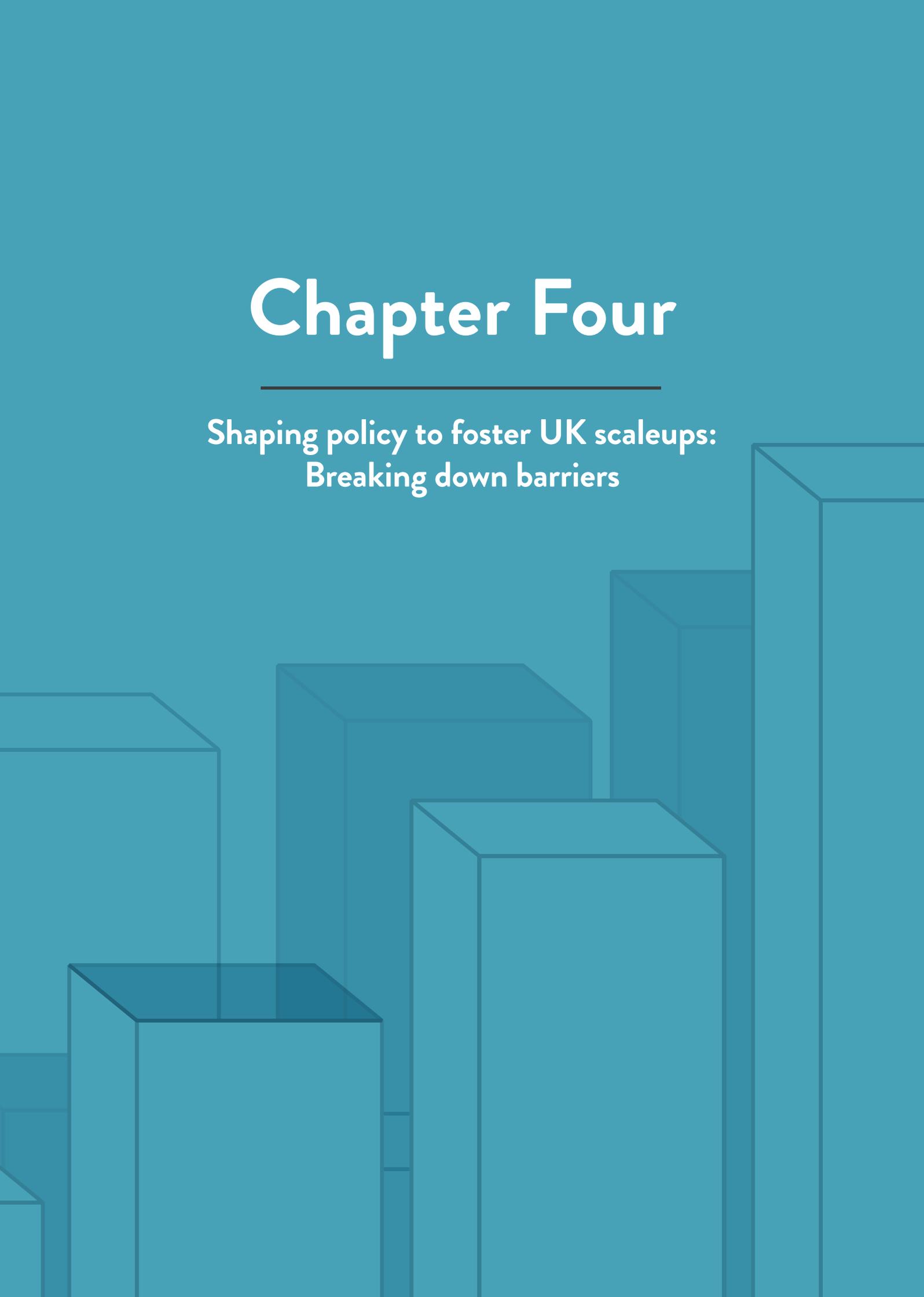


Chapter Four

Shaping policy to foster UK scaleups:
Breaking down barriers

The background of the page is a solid teal color. In the lower half, there are several 3D rectangular blocks of varying heights and widths, rendered in a lighter shade of teal with dark teal outlines, creating a sense of depth and structure.

Shaping policy to foster UK scaleups

The UK scaleup policy landscape has continued to evolve across 2018 with further impetus from the private, education and public sectors to address the scaleup gap.

The value that scaling businesses bring to all parts of the UK and to local economies is broadly recognised. Scaleup needs are becoming embedded into local economic strategies and solutions. Now, we must monitor results, to ensure good intent leads to impactful outcomes and that no community is left behind.

For the ScaleUp Institute, 2018 has been a year of building upon the good work already underway to ensure policy intent is translated into effective outcomes. We continue to advance a national scaleup action plan through education and significant local engagement, monitoring what exists and sharing insights on impactful actions around the country to ensure we have a joined up ecosystem for addressing the barriers to scaling up.

An effective segmentation of the UK business population, and a client-centric approach to solutions for scaling firms, must be at the heart of ongoing policy intervention and developments.

We have consistently emphasised the need to address scaleup leadership capacity through peer-to-peer networks and effective mentoring, as well as recommended specific interventions to break down barriers facing scaleups in relation to talent, procurement, exports and innovation, finance and infrastructure.

As we reflect on taking action to close these scaleup gaps, we can see progress on many of our past recommendations, notably in leadership, finance and local policy alignment towards scaling businesses. However, there remains a long way to go as regards closing down the UK's scaleup talent and market access gaps; the latter of which is rising in criticality.

The 2018 Policy Milestones

In 2018 we recognise that there have been some key scaleup policy milestones reached (outlined overleaf) which have been borne out of the evidence and learnings the ScaleUp Institute has fostered over recent years and from our work with the Scaleup Taskforce.

It is clear that we are on a journey which is gaining momentum, but we have not yet reached the finish line in the scaleup race – the execution of these policy initiatives now needs to translate to meaningful scaleup outcomes. As we assess where we are it remains clear that:

We are far from solving the **talent** shortage which affects scaleup businesses. We must work closely with schools, universities and business schools to close the talent gap and develop a fast track 'scaleup visa' process to enable our scaling businesses, who are major innovators and exporters, to access the talent they need to fuel their growth.

While an **Export** Strategy has been launched, which is welcomed, the delivery of the new, enhanced International Trade Adviser Service must, at home and abroad, provide the results to scaleups that they want to see in relation to market opportunities, connection to buyers, market insights and bespoke trade missions, including replicating what has been undertaken to great effect with the Mayoral Go to Grow programme in London.

In relation to **procurement**, the policy announcements in April must translate to better engagement with, and buying from, scaling business across central Government and every local area. Procurement champions and meet the buyer events need to connect better with emerging local scaleup hubs and programmes exemplified in Chapters 2 and 3.

As the **leadership** announcements within the 2018 Budget move in to implementation, it should be ensured that the spend in relation to peer networks and mentoring – so valued by scaling businesses – and the creation of the Small Business Leadership programme – have suitable allocations towards scaleup companies.

On the **finance** side, the private and public sector collaboration between British Business Bank (BBB) and financiers needs to continue at pace to deliver more localised equity, as well as more patient capital from institutional investors. The awareness of and connection to growth capital solutions needs to also continue, building on the good work currently underway in the Finance Hub, launched in June, and the Relationship Manager network at BBB now under development.

At a **place level** – every local area needs to turn their Strategic Economic Plans into effective Local Industrial Strategies which place scaleups at their heart. This means making sure infrastructure is scaleup fit and local programmes and initiatives that address scaleup barriers are built upon including the championing of scaleups, putting them on the map and coordinating their relationship in more holistic manner across the public, education and private sectors. We recognise the strategic alignment to scaleups in the devolved nations of Scotland and Northern Ireland, and will continue to work with them as they evolve their scaleup ecosystems.

Underpinning all of this is **data and segmentation** – while encouraging progress continues to be made with Government, this must move ahead at pace in 2019, with the introduction of legislation if required, if we are to spot scaleups early and lean in quickly to these businesses. Evidence shows the timeliness of interventions is crucial if we are to optimise our scaling businesses greatest potential. It is also essential that we crowd in and build upon what works, while at the same time closing the gap on any under-served areas. This work should be collaborative with the private and education sectors.

These policy initiatives, alongside the continuing role of a Ministerial Scaleup Champion, provide a strong foundation for further progress. We need to continue to make sure that the UK can rise in the ranks to lead our international peers and make the UK the leading scaleup nation and counter any Brexit headwinds. Challenges to UK scaleups predate the current 'Brexit' focus and yet remain. They are within the power of the UK to fix.

In this context the work of the ScaleUp Institute is a critical as ever in guiding our response to closing the scaleup gap.

PUBLIC POLICY MILESTONES

- The **Industrial Strategy White Paper, including the ScaleUp Taskforce**, with the ambition of making the UK the best place to start and **grow** a business at its core. This has five foundations, each directly linked to key scaleup needs and challenges **People; Places; the Business Environment; Innovation, and Infrastructure**. It takes forward many of the prior recommendations of the ScaleUp Institute and those of the Scaleup Taskforce.
- The **Patient Capital Review** outlining a suite of actions to be taken to improve the availability of, and access to, appropriate finance for scaling businesses. Implementation is now under way with additional funding allocated to the British Business Bank who have also established a network of regional managers; the launch of British Patient Capital in June 2018; the development of additional regional funds through British Business Bank, working with the private sector; and, the launch of a finance hub (on which the ScaleUp Institute was a collaboration partner).
- Improvements in **Public Procurement** announced in April 2018, including expansion of Contracts Finder to include all contracts above £10,000 and requiring companies working on large government contracts to advertise subcontracting opportunities; requiring prime suppliers to report their spend on government contracts; and, the appointment of Ministerial Procurement Champions in every department and within major Government suppliers.
- The new **Export Strategy** launched in August 2018 placing emphasis on high potential scaleup businesses as a clear segment, and developing a programme of active peer networks as well as targeted initiatives for high potential scaling firms.
- Alignment of **funding for LEPs/ Growth Hubs to services for scaling businesses** and the creation of the role of relationship managers to better connect public and private sector offerings to local scaleups. This builds on the requirement across England for every LEP to embed scaleups in their Strategic Economic Plans and emerging Local Industrial Strategies.
- The **Budget 2018** builds upon each of these areas and has at its heart the importance of ensuring the UK is the best place in the world to start and scale a business. The Budget details further actions intended to increase management capability, smooth access to apprentices for growing firms, improve firms' access to finance, and support innovation.

An ecosystem fit for scaling and productivity

Productivity is a complex issue. There is no silver bullet. But, key to shifting the dial on UK productivity, is a sharper, better segmentation of the business landscape and the provision of bespoke solutions for our most productive scaling firms.

The outcomes of the Productivity Review must build upon what works, and ensure that places lacking in services, and under-served by current programmes, are better provided for. As we consider the Comprehensive Spending Review and evolution of the Shared Prosperity Fund no gaps can be allowed to arise should EU support no longer be accessible.

The ScaleUp Institute will continue its mission to maintain focus on our ambitious scaling businesses. Three key principles will remain, guiding our input into and evaluation of policy interventions:

1. **Data and building upon what works:** All interventions should be data driven and measurable. Continued funding to initiatives should only occur where impact can be evidenced.
2. **Segmentation:** Businesses are not homogeneous – scaling business must be treated as a separate segment with bespoke solutions.
3. **Client centric and local:** Scaleups value locally delivered solutions – even when a programme is national. In a growing company, time is a scarce commodity and community level engagement is essential, alongside active relationship management.

These principles should be used as a foundation for efforts to overcome the challenges which scaleups have continually identified to their growth. We will continue to champion them.

SELECT COMMITTEE ENGAGEMENT

The ScaleUp Institute: Driving the productivity agenda, local solutions, and ensuring implementation through parliamentary engagement

This year ScaleUp Institute has appeared, by invitation, twice at the House of Lords EU Internal Market Sub Committee. We were also delighted to host the BEIS Select Committee, at our offices in the Digital Catapult, for a session of their Small Business and Productivity Inquiry.

In each of these we were able to clearly impart our scaleup imperatives.

Key scaleup messages across each of these sessions:

- The UK's scaleup challenge of being 13th in the world at growing a business significantly predates Brexit and the challenges to scaling up continue to persist.
- It is in the UK's own gift – and hands – to fix these challenges through the national policy agenda and greater collaboration between the public, private and education sectors.
- We need to harness our resources more effectively towards scaleup businesses, and double down on efforts to address their needs in talent, leadership, market access, finance and infrastructure. Building on what works and as impact, making sure no community is left behind.
- Now more than ever the UK must 'turbocharge' engagement with scaleups and the solutions available to our scaleup 'growth heroes' and make sure we continue to make strides to close the scaleup gap by:
- Identifying scaleup businesses sooner through effective use of our datasets, specifically harnessing HMRC data to enable engagement. The progress being made on this needs to be accelerated, and if required, legislation should be passed to enable a full scaleup register to be created.
- Ensuring our education sector prioritises engagement with local scaling businesses, and is able to equip all students with the skills of today and tomorrow. It is important to link scaleups, schools and colleges to the local skills agenda by having scaleup leaders on the boards of LEPs and education bodies, and skills and business boards.



- Higher Education Institutions should also support scaleups by ensuring that they can easily access student projects, research facilities and graduates.
- Developing a 'client centric', scaleup Relationship Management approach to scaleup businesses, harnessing and aligning resources towards them in a coordinated manner whether this be in the private or education sectors, and building upon local infrastructure and solutions which exist and are proven to work. This must be rooted in local areas, but measured to a national standard.
- Continuing to align UK export and innovation strategies towards scaleups and dial up the intensity of interaction with them. Ensure research and innovation under UKRI is closely connected to scaling businesses.
- Boosting access to public sector procurement contracts for scaleup firms; Government should also encourage OEMs and Tier 1 companies to seek out innovative scaleup firms as part of larger opportunities.
- Continuing to implement the Patient Capital Review recommendations, and make steps to unlock institutional investment, alongside wider progress to tackle regional disparities.



Scaleup Taskforce

Sahar Hashemi



Every three months since March 2017, the Scaleup Taskforce has come together to support and push for the development of policies that will foster growth and productivity in the UK economy. Our members come from global financial institutions such as the London Stock Exchange, banks and private equity houses, entrepreneurs, academics and LEPs. The Scaleup Taskforce doesn't only comprise a brilliant breadth of institutions, it is also a group of passionate, highly informed individuals who can provide government with a unique perspective on the growth challenges facing the UK.



When I was first invited to co-chair the Scaleup Taskforce, I was particularly struck by one statistic: that the UK ranked third in the OECD for startups but 13th for scaleups.

Yet our 35,000 scaleups are the gems in our economy. They are amazing businesses that should be celebrated and supported for their huge contribution to creating wealth and jobs, both locally and nationally.

We are getting better at identifying scaleups. This is one issue which we are very focused on. A great amount of work has already been conducted by HMRC on VAT and NI records to identify and understand better the patterns of scaling businesses in the UK. This is essential – scaleups can't be provided with the support that they need unless we know who they are.

This is not just a question of data science; local teams need to be able to use these insights to spot scaleups and companies aspiring to scale. It will be crucial part of the ongoing work of the Scaleup Taskforce to ensure that the use of this data can continue to highlight and better target interventions to businesses as they scale.

Support for scaleups has to be targeted. A general, broad-brush approach that tries to help all small businesses does not yield results. There is a real power that comes from focusing on scaleups and helping them get to the top. This is not just about helping young companies to grow exponentially. Scaleups are found in all sectors and are of all ages. To continue their growth, they may need to increase their exports, win more contracts, develop succession plans, or hire the right people. That means providing them with the



There is a real power that comes from focusing on scaleups and helping them get to the top

right tools and a great level of service. Get this right, and we will create a climate of aspiration – one where more companies aspire to scale.

The delivery of targeted help to scaleups is an attainable goal that will deliver fast, fruitful results to the UK economy. These are businesses who are already on their way and who just need tiny nudges to achieve their full potential. The dividend of enabling scaleups is evident; a one per cent increase in their number creates a hugely disproportionate yield.

Delivering a consistent, high quality service for scaleups across the country is achievable so long as it is carried out at a local level to provide ownership and focus. The LEP and regional structures do help to make this manageable – there are, several hundred scaleups per local area. It's great to see how far some local areas have already gone in their provision of scaleup support. The work that the ScaleUp Institute has done through the Driving Economic Growth (DEG) course¹, enabling local areas and Growth Hubs to share and learn the latest thinking about scaleups, has been exciting to see.

When I first started out in business, the label of entrepreneur was attached to just one or two people such as Richard Branson and Anita Roddick. Now, the idea that we are a nation of entrepreneurs has taken hold and many people call themselves entrepreneurs. The same needs to happen with scaleups. As 2019 is the year in which we can start Scaleup Week, we are creating that momentum.

¹ Supported by Goldman Sachs 10,000 Small Businesses UK, Innovate UK and in 2018, the British Business Bank.

Scaleup identification

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

Accessing up to date data remains the single most important item on the ScaleUp Institute's agenda. This means being able to enquire on a company's scaleup status against the most recent data held within Government, namely at HMRC.

In 2018, we have been encouraged by the data pilots we are undertaking with HMRC and the collaborative cross Government approach to reviewing options for disseminating this data more readily. Evidence shows the timeliness of interventions is key if we are to optimise our scaling businesses' greatest potential. Research reflects that when a business is scaling rapidly speedy engagement early on in its journey is vital as the window of opportunity is 'limited' if the scaling firm is to realise its fullest opportunities and 'scale' again.

Data is the fundamental ingredient to make sure all communities can engage on a timely basis with scaling companies and make sure they get the right support at the right time that fosters their continued growth here in the UK.

As we move into 2019, we must escalate the current good work underway with Government with further vigor – using data held by HMRC, ONS and Companies House – to build an integrated solution that allows for timely identification and, verification of scaleups for all the stakeholders in the community.

We believe, that if a company's scaleup status is made available to enquire upon via a 'verification service' it will encourage engagement from the public and private sector. It will also enable resources to be targeted much more efficiently and effectively towards specific scaleup firms to foster their continued growth, removing hurdles and allowing access to the necessary talent, leadership, finance and infrastructure support.

A more granular understanding of UK businesses, and effective firm level interventions, will also benefit monitoring and analysis of existing policy interventions and work on future initiatives. It is only through greater understanding, segmenting and targeting of our scaling businesses and available services towards them that we as a country will be able to shift the dial on UK-wide growth, exports, procurement, innovation and productivity. The data also enables prioritisation of those areas of the country where the scaleup gap is increasing and makes the ecosystem more efficient in their assessments and solutions.

Over the last 5 years, including our 2018 research, evidence has built up and been corroborated again that leaders of scaleup businesses would value the data that is filed in to Government, to be used more effectively to engage with them. How we achieve this is imperative to finalise in the coming 12 months. If legislation is required to be more proactive with Government datasets, then we believe that Government should actively consider the appropriate framework for this legislation, and work to move this forward.

HMRC, Cabinet Office collaboration

In 2017 we highlighted the fact that we would be working with HMRC – subject to their statutory conditions – in scaleup ready locations. We are pleased to confirm that this work is underway; informing scaling companies of their scaleup status and making them aware of services that they can be fast-tracked into at a local level. Pilot programmes are now active in Scotland, Greater Birmingham and Thames Valley Berkshire. Each of these areas have dedicated scaleup programmes in place, able to provide businesses who are contacted with services that are bespoke and match their requirements.

This work with HMRC is vital to unlocking relevant data – particularly as most public datasets today are not real time and lag the current scaleup status of business. Good progress with Government has been made. We look forward in 2019 to this work being accelerated to enable a full scaleup register to be created with a view on what options may look like for ‘self declarations’ or ‘opt-ins’ to a central point for identification, acknowledging that some form of legislative change may be required. Alternatively, a tool to allow scaleups to request to self identify against a closed database could be developed.

While this work develops, the ScaleUp Institute will also continue to update its Scaleup Map and Scaleup Index, developed with DueDil and Beauhurst, and our newly published Scaleup Procurement Index which we have developed with Tussell. We also encourage universities, banks, accounting firms, LEPs and schools to continue to put ‘Scaleups on the Map’ based upon indices, client, and local knowledge. This challenge has already been taken up, to excellent effect, in Cambridge, Thames Valley Berkshire, Ashford, and by Barclays and Sage; just a few examples, which can be emulated.

In summary

While progress continues to be made on a more targeted approach to scaling businesses, much more still needs to be done across 2019 to move the dial and ensure that a segmented approach can be implemented at all levels. As such we reinforce our previous recommendations and update them as follows:

2018 Recommendations

1

A verification process with Government should be created to allow for local and national stakeholders to verify the ‘Scaleup status’ of a business, building on the recent work of the ScaleUp Institute with Government. This should tap into datasets that combine ONS, Companies House and HMRC data points to enable stakeholders to fast track solutions to scaleup leaders. If necessary, legislation should be passed to introduce such an enquiry capability.

GOVERNMENT INSIGHT:

Working together to unlock the power of data to understand and support high growth businesses

Through its modern Industrial Strategy, the Government is committed to harnessing the value of publicly held data as a means of identifying businesses with scaleup potential and connecting these business to the range of support available to help them reach their potential.

Her Majesty's Revenue and Customs (HMRC) has the largest and richest dataset on individual businesses. HMRC is committed to maximising the value of the data it holds, both for the department and for others while continuing to appropriately safeguard confidentiality. HMRC has frequent requests to share its data, but is bound by a strict statutory duty to protect taxpayer confidentiality, laid out in the Commissioners for Revenue and Customs Act 2005 (CRCA), which governs all information held by the department.

In early 2018 the Department for Business, Enterprise and Industrial Strategy (BEIS) and HMRC began an experimental project using cutting edge data science techniques to understand the characteristics of high-growth firms and test whether these could be used to identify firms with similar characteristics that might go on to achieve high rates of growth.

Initial results are encouraging and the dataset will be developed further through winter and into spring 2019 to build a fuller picture of scaling businesses in our economy.

Making it simple for scale ups to navigate the support available

A key part of the project is looking at how this firm-level data can be used to target messages to scaleup businesses to signpost them to local initiatives designed to help them in their growth challenges. Early work by HMRC indicated that customers would be receptive to such messaging and wanted targeted, timely and more joined up communications from government.

Since 2016 HMRC has embarked on a series of small scale pilots, to understand how data can be used to profile businesses and then send them targeted messages to signpost to local, government-backed growth support.

The most recent pilot, in October 2018, aimed to signpost selected scaling businesses towards local scale up programmes. The pilot used HMRC data to identify scale-up businesses. Emails and letters were issued to raise the business leaders awareness of their potential high-growth status, and to advise them of tailored local initiatives geared to their growth challenges.

To shape the approach and fine tune the detail of the offer the work involved HMRC, BEIS, Cabinet Office, Insights, the ScaleUp Institute and three of the local areas who have benefitted from the Institute's Driving Economic Growth course and established bespoke scaleup programmes, namely, Thames Valley Berkshire and Greater Birmingham Growth Hubs, and Scotland.

“

Ruth Mackman, who led the work for HMRC, said: “Getting these pilots running took a lot of planning and close collaboration with stakeholders. All the partners’ expertise was needed to ensure we got various aspects aligned, including timing and communication styles. Our partners were all very generous in their support and willingness to work together to get this right.”

NEXT STEPS

The pilots went live in October 2018. HMRC and BEIS plan to continue working with stakeholders through 2019 to evaluate these pilots and shape further pilots in 2019. This will lead to delivery of a series of communications trials from early 2019, to further connect high-growth potential businesses to the right support at the right time. These trials will build on this year’s work and learnings from it. They will not involve any sharing of individual company data with BEIS or any of the partners.



Talent and skills

“Teach them basic professional skills.”

NORTH/NORTH EAST SCALEUP BUSINESS LEADER

“Teach more relevant social, emotional and technical skills so students leave better armed to thrive in the modern workplace.”

EAST MIDLANDS SCALEUP BUSINESS LEADER

“Technical skills can be taught with the right aptitude, but the soft skills – understanding of workplace culture and buying into the values of a company – are more important.”

SOUTH WEST SCALEUP BUSINESS LEADER

“Coding skills are crucial across the board in everything we do – even the non-coding jobs.”

EAST OF ENGLAND SCALEUP BUSINESS LEADER

“It’s soft skills and confidence that we find most lacking and that we need to train from scratch.”

SCOTTISH SCALEUP BUSINESS LEADER

Accessing the right talent and skilled workforce continues to be the most significant barrier for scaleup leaders.

The intersection between the need for a world class skills pipeline and the modern global jobs market is a stark reality for our scaling businesses, who continue to experience significant barriers in recruiting the requisite skill sets into their business as they grow.

On average scaling businesses are increasing the number of people they employ by 3,000 people per week¹ and overall employ circa 3.6 million people across the country. Given the export focus of many of these companies, they place a high value on international expertise and many – two thirds – have employees from overseas.

Job tracking company Adzuna shows 1,115,677 open positions in the UK² – a skills shortage that predates Brexit, but has widened since 2014³ and could become ever wider for our scaling firms if the UK does not address its domestic skills gap and ensure that international access to skilled workers remains open. Half of all exporting scaleups say that it is vital or very important, to have a fast-track visa system if they are to retain their growth rates.

Social skills, technical skills and the skills of tomorrow – what more needs to be done

Technical and social skills remain the most vital to our scaling businesses far outstripping any other skills when force ranked. These findings reinforce our previously stated position that while retaining the impetus on Science, Technology, Engineering and Maths (STEM) skills is essential, there is a need to examine how school and university students are prepared for the world of work developing softer skills, earlier on.

With this in mind, we continue to urge all actors to work together to better prepare students for the world of work.

This is further cemented by the view scaleup leaders have of future skills, where they highlight **Critical Thinking** as most important, followed by **Service Orientation** (anticipating, recognising and meeting others’ needs), and **Cognitive Flexibility**.

These survey findings reinforce our own findings last year, and are in line with the World Economic Forum’s (WEF) 2018 Future of Jobs Report.⁴

Given the future skills desired by our scaleup workforce and the global nature of them it is disappointing that England (but not Scotland) will be among a number of countries⁵ to opt out of the ‘Global Competence’ section on the PISA Framework which includes a specific goal to measure how schools are teaching students to develop a fact-based and critical worldview including understanding of intercultural and global issues.⁶

From a scaleup perspective this is concerning. All UK students must be equipped with these attributes and taught them at an early age. We need to monitor our effectiveness in this area if we are to stay ahead of our competitors in the scaleup race and find an effective mechanism to do that.

1 Octopus HGSB Report 2018: <https://octopusgroup.com/high-growth-small-biz/>

2 <https://www.adzuna.co.uk/jobs/search> [retrieved 6 November 2018]

3 In the 2014 ScaleUp Report on Economic Growth, this number stood at 990,000 – p46

4 <http://reports.weforum.org/future-of-jobs-2018/conclusions/>

5 <https://www.tes.com/news/england-shunning-global-skills-test-because-pupils-are-not-ready-it>

6 <http://www.oecd.org/pisa/pisa-2018-global-competence.html>

“Collaborate with employers and independent training providers to ensure progression into employment that meets predicted skills shortages. Collaborate to ensure meaningful careers advice that highlights opportunities to secure employment based on predicted regional needs.”

**NORTH WEST SCALEUP
BUSINESS LEADER**

The growing role that automation will play of course means that there must be a twin approach, ensuring that our current and future workforce is equipped to work alongside, and effectively engage with, AI and Machine Learning driven processes.

The UK skills pipeline – connecting educators and scaleups in a collaborative approach

The evidence shows that scaleups are good corporate citizens, ready to offer work experience, employ interns and apprentices.

The education sector has an essential role to play in enabling talent acquisition for UK scaling firms with a resultant knock on effect to productivity and growth.

Domestically, many initiatives exist to better connect schools and universities with businesses – such as the work of the Careers & Enterprise Company highlighted in Chapter 2. Encouragingly the Government’s recent Careers Strategy⁷ endorses the Gatsby Charitable Foundation benchmarks and explicitly links careers provision with social mobility seeing this as vital if we are to address the skills needs in every community. In Scotland, the creation of the Enterprise and Skills Strategic Board, and the publication of their Strategy in October 2018,⁸ is an important step forward and seeks to address skills shortages for business and boost Scotland’s productivity.

Encounters with employers, one of the Gatsby benchmarks, remains a vital factor in making sure our scaleups needs are well understood by the education community. The Careers & Enterprise Company’s (CEC) work in this area and recent ‘Closing the Gap’⁹ report highlights the progress being made on this in numerous areas but also flags the significant gaps and ‘patchiness’ in others. Scaleups want better engagement and educators to get to know them.

We still need more commitment from both sides of the fence. The Careers & Enterprise Company sets out some helpful recommendations for the education sector in this regard. We encourage all localities to embrace these, including recognising the importance of these engagements at primary and Key Stage 3 (11 – 14 year old students) where, approximately, only 50% of students participate in at least one employer encounter.

We also continue to consider it important that the LEPs, higher education institutions and schools have scaleup leaders on their Boards and, vice-versa, local authorities align their skills and business boards with education establishments in a joined-up manner. The recent LEP Review should offer an excellent opportunity to implement this in England.

Supplementing traditional education establishments and routes is also key, such as through the work being undertaken in the growing EdTech sector. EdTech 50 showcases some of the modern ways in which skills training is being supplemented by private and not for profit players through collaboration with the education sector and/ or direct student engagement. This should be built upon.

Apprenticeships as a solution and role of the private sector

Scaling businesses value apprenticeships and the significant opportunities they offer. In the 2018 Survey 38% said they employed apprentices – double the national average. Of those not employing apprentices, 47% note that this is because they do not know where to get good candidates from. Making sure there is readily accessible information on what is available with helpful tools and resources and examples of what others have done should continue to be a focus.

The Chancellor’s announcement earmarking £695m for apprenticeships, alongside allowing the transfer up to 25% of apprenticeship funding of larger corporates into supply chains – which we have previously recommended – is very welcome. This should be a further valuable resource to our scaling businesses which we will be monitoring.

7 <https://www.gov.uk/government/publications/careers-strategy-making-the-most-of-everyones-skills-and-talents>

8 <https://www.gov.scot/groups/enterprise-and-skills-strategic-board/>

9 <https://www.careersandenterprise.co.uk/research/closing-gap-report>

“Schools and universities should recognise the importance of apprenticeships and offer students the ability to train in non-academic areas. There is a huge shortage of skills in most engineering and manufacturing sectors, and they need to be reintroduced.”

NORTHERN IRISH SCALEUP BUSINESS LEADER

“Not everybody needs to go to university. Promote apprentices and work-based vocational activities.”

EAST OF ENGLAND SCALEUP BUSINESS LEADER

The private sector can also play a greater part in building skills. The work of such entities as Ada, the National College for Digital Skills, with its apprenticeship and digital skills training, is an excellent example of how larger companies can collaborate to support an education entity that is gearing up of the skills of the workforce for all. Google’s Digital Garage and Freeformers – SU1 endorsed programmes – also exemplify the role the private sector can play in skills transformation.

Enabling teachers to make a difference

There is still work to be done to enable the teaching profession to have the capacity to engage in the scaleup business community. In a resource-constrained profession, which itself is looking overseas to fill the skills shortages it currently has, there are a number of practical limitations to the way in which these institutions can effectively resource additional calls upon their time. Effective collaboration at a local level between the private, public and education sector becomes ever more vital to enhance the capacity of our teaching profession. A partnering approach is essential. This enables more innovative models for curriculum delivery that provide students with practical ways to learn. Barclays LifeSkills, General Assembly, Makers Academy, Computing at School, RaspberryPi, Founders4Schools and others highlighted by the EdTech 50 are good examples of these that can be leveraged and expanded upon.

It is encouraging that Ofsted has found that careers guidance within schools is improving,¹⁰ but more work is needed. Ongoing training is a vital component – especially for those teachers leading careers and enterprise education. The ScaleUp Institute particularly recognises the work of Teach First and their ‘Careers Leader’ programme which up-skills careers leaders in the nation’s schools. Its pilot has produced good results and is now being rolled out more widely. It is featured as a key ‘One to Watch’ initiative in Chapter 2.

Lifelong learning and digital skills

The development of effective skills for the modern workplace is not limited to primary and secondary education or university. Indeed, opportunities for progression throughout working life are recognised as core parts of the Taylor Review on ‘Good work’,¹¹ as well as the suggested metrics for measuring good work.¹²

There is wider associative evidence to suggest that ongoing ‘upskilling’ of our workforce is an important part of the wider productivity puzzle, facilitating digital adoption among firms of all growth rates. It is also most significant to ensuring that there is a strong, digitally capable, and adaptable talent pipeline at all levels of seniority, and across all sectors.

The ability to learn throughout life is also a core skill¹³ of the future, with the World Economic Forum explicitly noting that ‘active learning’ is in itself becoming an in-demand skill. This tallies with the changing nature of skills requirements within the workplace, and the recognition by employers that adaptability among their staff will be essential as the skills required in ten years’ time may be substantially different from those today. This is most evident within scaleup businesses who are rapidly evolving as businesses, innovating and looking for new market opportunities.

The Digital Skills Partnership launched by the Government in 2017 is beginning to produce some interesting developments. The launch of the Heart of the South West Digital Skills Partnership in June saw more than 50 businesses, recognised as excelling in the sector, attending. We look forward to this initial interest and enthusiasm producing practical results.

The National Retraining Scheme set out in the 2018 Budget is to be welcomed as another potential resource in the future for scaling business who want experienced hands in the company but may require them to have more technical skills.

¹⁰ <https://educationinspection.blog.gov.uk/2018/06/12/building-confidence-encouraging-aspiration/>

¹¹ Good work: the Taylor Review of Modern Working Practices – July 2017

¹² Measuring Good Work, Carnegie UK and The RSA – April 2018

¹³ <https://www.weforum.org/agenda/2018/09/future-of-jobs-2018-things-to-know/>

“Like many other businesses, we have great concerns over Brexit and the access to labour from around Europe. We employ a large number of EU nationals in our organisation due to the lack of skilled local workers.”

**NORTH WEST SCALEUP
BUSINESS LEADER**

“Restricting access means it is more likely we will consider opening offices in the EU to access talent.”

**SOUTH EAST SCALEUP BUSINESS
LEADER**

“UK scaleups have succeeded through access to UK and EU talent – at all levels.”

**WELSH SCALEUP BUSINESS
LEADER**

“We need to continue to encourage universities to train talent from outside the UK to create a richer and more diverse pool of talent.”

**SOUTH EAST SCALEUP BUSINESS
LEADER**

International talent remains vital

Scaleup companies are significant employers of international talent – 64% of scaleups employ staff from overseas. There is a clear, ongoing need for highly skilled overseas workers to support the UK’s scaling economy. Of the scaleups who employ overseas staff, two thirds say that it is vital or very important that they can continue to bring in talent from overseas (66% for EU staff and 69% for other overseas staff). Half of all exporting scaleups (50%) say that it is vital or very important to have a fast-track visa system when hiring people and talent from overseas.

Indeed, concerns about accessing skills is likely to be a significant contributing factor in the high rate of concern about the impact of Brexit, which we have noted elsewhere. In 2017 we recommended 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 extension of the Tier 1 visa system for exceptional talent¹⁴ which was announced at the end of 2017 is very welcome, as is the Startup Visa adjustment to the existing student visa announced in June – but this needs to also cover scaleups.

We have noted the Prime Minister’s recent announcement of a skills-based immigration system post-Brexit and the expected White Paper. It will be important for the details and outcomes of this White Paper to address the ongoing evidence of a skills shortage in the short term, working effectively to smooth access to talent for growing businesses. This should be in addition to any longer term, structural changes intended to develop a more robust domestic skills pipeline.

It is essential for outcomes from this policy process to recognise that talent is needed across growing businesses in all sectors, as was highlighted in the MAC review¹⁵ publication earlier this year.

Sector specific needs cannot be ignored. Scaleup sectors such as life sciences and creative industries have bespoke needs. The recent letter by 29 Nobel Laureates and six winners of the Fields Medal further highlights this issue¹⁶, emphasising the role that overseas talent plays in UK science and research. In the letter, the group stated that for science to flourish it “requires the flow of people and ideas across borders to allow the rapid exchange of ideas, expertise and technology.” This international, inclusive outlook is also fundamental to innovative scaleup businesses, many of whom are developed from the UK’s rich research base.

To support growth across the UK, we recommend a more localised focus for visa arrangements, with local institutions given powers to act as sponsoring organisations, better ensuring that the talent needs of growing firms are met across the whole of the UK. Connecting local sponsoring organisations to local educational institutions will also help to smooth the wider skills pipeline, ensuring that we are able to capitalise directly upon our world class education system, and retain the very best minds who have come to the UK to learn, to start a business, or to join an existing business. As noted elsewhere, international linkages through graduate students have a direct bearing on companies looking to export, and can form the seeds of significant overseas expansion.

¹⁴ <https://www.gov.uk/government/news/government-doubles-exceptional-talent-visa-offer>

¹⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF

¹⁶ <https://royalsociety.org/~media/news/2018/brexit-nobels-fields-UK-letter.pdf>

In summary

The Talent Gap remains, and with Brexit around the corner we need to collaborate to find innovative ways to address it. This demands ever stronger partnerships between educators, the private and public sector, at both local and national level, as well as greater connectivity to scaling businesses and their needs. As the UK considers its future outside of the EU, a specific focus will be necessary on the development of a ‘scaleup visa’ – to be administered and delivered locally – to allow all businesses to have access to the talent that they need to continue their growth journey.

2018 Recommendations

9a

We recommend that the Department for Education, Local Enterprise Partnerships and the Careers & Enterprise Company use their convening and promotional power to ensure that students at schools, colleges and universities come into contact with business leaders and that an API to the National Pupils database (with suitable protections) are made available so that the impact of these interventions can be measured. To further enable these connections, LEPs should have higher education institutions and schools represented on their Boards, and educational institutions should seek to have scaleup leaders represented on advisory committees.

2

We recommend that a ‘Scaleup Visa’ be made available in communities where there are 100+ scaleup companies to enable scaleup leaders, across all sectors, to recruit staff they need to increase their capacity to grow. The Government should make the skills needs of scaling businesses a priority. Local authorities, education establishments, advisory and finance companies should be able to be sponsors of such.



Leadership

Boosting leadership capacity in our scaling companies

Leadership capacity and extending it remains a consistent challenge in fast growing firms. They are looking for local solutions which include peer-to-peer networks, improved access to universities and business schools, quality mentors with scaleup credentials and better coordinated engagement at a local level by Government Agencies.

When a business is growing fast – with the number of employees and sales doubling and trebling in size year after year – leadership support in a rapidly changing and fast-paced environment remains of critical importance to the CEOs of our scaleup companies. These CEOs consistently advise us that they want local-based leadership development opportunities. They are concerned that there is insufficient capacity to cater for their current leaderships needs where they are operating. This is evidenced in Chapter 1 and it is clear that bespoke programmes for scaling businesses were rare prior to the ScaleUp Institute being established.

That is why, since 2016, we have placed such an emphasis on our education programme ‘Driving Economic Growth through Scaleup Ecosystems’ (DEG) delivered in partnership with Goldman Sachs *10,000 Small Businesses UK*.¹ This seeks to galvanise local leaders to work together across the private, public and education sector; to both join up existing initiatives more effectively and develop new ones where significant gaps exist.

As a consequence of this work a range of solutions is now emerging – highlighted in Chapter 3 – which we are monitoring closely to ensure they have meaningful and impactful outcomes that deliver added value to scaleups. Quality remains paramount, as does ease of access for scaleups. Our evidence shows that programmes which feature a combination of universities and business schools, working with the private sector at a local level are likely to be the most valued.

It is also clear that there are localities and sectors which remain under-served – a challenge that we must meet. As such we are pleased to see that the Government has now given the objective to all LEPs – and Growth Hubs – to make scaleups a core part of their strategic offering. In addition, Scotland and Northern Ireland have placed scaling businesses as core to their strategic growth. This focus and vigour needs to be maintained and requires investment.

Attention should be particularly paid to those programmes that work so they can be strengthened and expanded to ensure that scaleups can access them across all communities.

Local ecosystems are the gateway to national programmes from both the public and private sectors. Scaleups want far better signposting of current national Government services at a local level.

¹ In 2016, DEG was also supported by Innovate UK, and in 2018 DEG was supported by Innovate UK and the British Business Bank.

“A strong peer network is like a trusted board of advisors, holding you accountable for turning good intentions into great results,”

SAYS ONE SCALEUP LEADER

Peer-to-peer networks and mentoring

Scaleup leaders continue to highlight the importance of meeting peers who are growing at pace. Well organised peer-to-peer networks and high-quality mentors are the most prized leadership interventions.

This is reinforced again in our 2018 survey where 6 in 10 scaleup leaders place peer networks as the most important guidance to their future growth. The number of peer-to-peer programmes is growing in the UK, with many run locally as standalone offerings or as part of hubs and broader leadership programmes. A few are national or international in their reach. However, by their very nature they generally contain a relatively small cohort of participating firms at any one time and therefore building peer-to-peer network capacity is essential. In addition, we are seeing some peer groups evolving for varying leadership levels and disciplines in an organisation, for example for CFOs and COOs, which is valued by the broader leadership team.

Based on our work it is pleasing that the importance of effective peer-to-peer networks has been strongly endorsed in the Industrial Strategy, the Export Strategy, and recent Budget announcements by the Chancellor where £20m has been provided to support local peer-to-peer networks.

These announcements are helpful, but it will be important to understand better how this money will work for scaleup firms. A significant portion should go towards bespoke peer networks for scaling businesses with a defined methodology of measurement. Care should be taken to build on existing initiatives that are proven to work and crowd-in, rather than crowd-out, impactful providers of effective solutions that are already in the market and have structured frameworks of operating based on the below criteria.

From the peer-to-peer groups the ScaleUp Institute has endorsed (detailed in Chapter 2) – Vistage, The Supper Club – we observe the following key attributes that drive ongoing impact and value to the scaleup leaders.

Key elements of effective scaleup peer networks

Scaleup leaders consistently tell us about the great value they derive from learning from their peers. Strong, trusted peer networks between scaleups can have a powerful impact on their individual performance, and they must be fostered.

- 1 PARTICIPANTS SHOULD ALWAYS DRIVE THE AGENDA FOR DISCUSSION**, not the sponsors of the network or those who organise or facilitate the meetings.
- 2 EFFECTIVE CURATION REALLY MATTERS** Match members on personality, experience and expertise at appropriate events and forums in order to optimise peer learning.
- 3 HAVE A MIX.** Peer networks work well as both cross-sector and sector-specific groups. Trust between individual members is built more effectively and quickly if they are not commercial competitors.
- 4 INCLUDE SCALEUPS AT DIFFERENT STAGES OF BUSINESS GROWTH.** Scaleup leaders learn more effectively from peers who have encountered similar issues to their own, particularly if recently.
- 5 KEEP IT LOCAL.** Peer groups want the engagement without the disruption to their day-to-day running of business.
- 6 DISCUSSIONS MUST BE CONFIDENTIAL.** Effective peer groups discuss their plans, strategy, finance and people in an open and frank environment.
- 7 PEER NETWORKS ARE NOT JUST FOR CEOs.** Some scaleup programmes run similar groups for other management team members.
- 8 MAKE EACH MEMBER ACCOUNTABLE TO THE GROUP.** Scaleup peer networks should report on their progress to one another, testing plans and assumptions with time bounded measurable goals.

“I think my managers would benefit from having a peer group network of contacts at a similar level, who they could share their experiences and questions with without being embarrassed in front of their co-managers.”

**NORTH EAST SCALEUP
BUSINESS LEADER**

“Our MD is a member of Vistage, our chairman has just completed the Goldman Sachs 10,000 Small Businesses UK course and we are continuing to strengthen and train our senior and middle management team.”

**SOUTH EAST SCALEUP BUSINESS
LEADER**

Local solutions with relationship management at its heart

Scaleup leaders are focused on growing their business and do not have the time or resources to seek out and research the right programmes to meet their needs.

Over the past two years we have highlighted evidence of the benefits of local account management structures in working with scaleup businesses, as reflected by activities in Denmark and Scotland. These account managers act as a single point of contact for the business, to work with them on their challenges and harness private and public sector solutions towards their needs, as they arise. They often work alongside product specialists to create an effective holistic ‘relationship team’ for the scaleup business.

In our 2018 survey, two thirds of scaleup leaders have affirmed that they value this type of approach and we are pleased that this model of operation is beginning to take root in increasing numbers of local areas. This is clear in many of the local DEG-trained areas highlighted in Chapter 3, such as Greater Birmingham, the North East and Swindon and Wiltshire, etc. These account managers are skilled individuals, many of whom have scaled businesses themselves and have direct knowledge of the challenges that scaling brings. Alongside this approach, the product specialist units of UK Government such as Innovate UK, the Department for International Trade and the British Business Bank are re-examining their models of engagement with scaling businesses, harnessing their support for these companies with a more co-ordinated interaction. For example, Innovate UK has piloted ‘The Scaleup Board’ (see page 90) and British Business Bank is creating regional managers to work across the finance ecosystem in gearing up its alignment with scaling businesses.

We continue to recommend that all local public sector-funded entities adopt this scaleup ‘Account Manager’/relationship approach as part of a wholly client-centric, client demand-led service, with the needs of targeted business leaders at its centre. The development of such an approach should draw upon models that already operate in this way in both public and private sectors.

To ensure consistency, this Scaleup Account Management structure should be benchmarked to a national standard, incorporating standardised Key Performance Indicators (KPIs) and backed by a comprehensive Customer Relationship Management (CRM) system to professionally manage the relationships developed. Continued funding should be based upon success.

We also recommend that 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 underway with the ScaleUp Institute.

The role of the scaleup champion and enabler: diffusing growth, celebrating success

In 2017 we recommended that all local communities appoint a Scaleup Champion to celebrate local scaleups and foster understanding of their needs and the connectivity of local solutions. We continue to encourage local communities to follow this approach, and are keen for City Mayors to take an even more active role in championing ‘scaling up’, and acting as a facilitator within city and regional ecosystems.

We are seeing notable exemplars of this approach in areas such as Greater Manchester, Liverpool and Bristol. Bristol has established a Scaleup Enabler role working across the West of England and rooted in the Engine Shed hub supported by the LEP, universities and the private sector. In Chapter 3, we describe the results of this role, which we recommend others learn from and replicate.

Entrepreneurial growth is still often inspired by examples of success. It is important to boost the profile of businesses that are succeeding and help create a clear path to growth by generating a halo effect in local areas across the UK. Greater awareness among scaling

“What works best is one-to-one leadership coaching from someone who truly understands our unique challenges.”

NORTH EAST SCALEUP
BUSINESS LEADER

“We need more help from education sector to ensure that effective leadership training is offered.”

NORTHERN IRISH SCALEUP
BUSINESS LEADER

“We need flexible, inclusive mentoring and training.”

WEST MIDLANDS SCALEUP
BUSINESS LEADER

businesses of the success of their peers will help spur others on. To this end, 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 education sector has a central role

In 2018, as 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 our suite of endorsed case studies in Chapter 2 shows, there is a growing evidence base that those scaleup programmes that feature a combination of universities and business schools, working with the private sector and at a local level are likely to have the most impact. They can be anchor institutions. We are therefore very much encouraged by the range of educators who have participated in our DEG programme alongside local ecosystem teams who have then gone on to be a key element of delivery and partnership in the emerging scaleup initiatives.

Insights can be gained from those active in this work such as Aston, Saïd, Imperial, Bristol, Cambridge, Lancaster, Leeds, Liverpool, Manchester, Strathclyde, Newcastle, Henley, Worcester, Cranfield, and Teesside. Each has worked closely with local Growth Hubs and private sector players, to develop scaleup programmes (see Chapters 2 and 3). Lessons can be drawn from the programmes these institutions have developed – from university-led bespoke scaleup peer groups such as in Manchester, to a MBA for scaleup leaders in Liverpool, to a Scaleup Leaders’ Academy in Newcastle as well as the established models of ELITE, Goldman Sachs *10,000 Small Businesses UK* and the Cranfield Business Growth Programme.

Based on our body of evidence, it is pleasing that the importance of expanding the provision of leadership courses has been recognised in the 2018 Budget, through the creation of a Small Business Leadership Programme. This aims to deliver 2,000 places in 2019-20, and has an ambition to train 10,000 managers per year by 2025. It is right that these should be undertaken in partnership with business schools and leading businesses across England.

Deploying this expenditure to the most effective solutions for scaling businesses will be essential, as is the need to build on programmes we have identified that work and can be extended. Tackling regional disparities is crucial; our scaleup support mapping in Chapter 1 has shown how important it is to ensure that every scaleup business, in every part of the country, has the right access to the tools to fuel their growth. The role of the Small Business Charter should also be considered in relation to the ongoing assessment of the fostering of ‘scaleup engagement’ and leadership development opportunities for scaleups across its members.

As we progress into 2019, we also need to consider the manner in which we can close the gaps in scaleup specific interventions that may arise from EU withdrawal as ERDF provides support to many leadership programmes, as evidenced in our scaleup support mapping in Chapter 1. Ministers will need to think about what this means for the priorities of the Shared Prosperity Fund and Comprehensive Spending Review.

In summary

Following our recommendations in previous years, it is encouraging to see the growing focus on development of high quality tailored leadership programmes, peer groups and mentoring at a local level, for scaleup leaders. Scaleup leaders immensely value them and will be pleased with the recognition in the 2018 Budget of the vital role leadership development plays in a company's growth and productivity journey. However, some areas are still under-served and any new programmes must be effective for scaleups, and based upon what works. We must get better at curating the programmes in a more coordinated and consistent manner. It is now essential for access to these effective programmes to be made as seamless as possible for scaleup businesses, through proactive relationship management at a local level. Ecosystems must increase their efforts at a local and national level if we are to enjoy the increased productivity and prosperity that comes continued scaleup growth. We therefore recommend the following:

2018 Recommendations

3	Funding for local communities should continue to be tied to the effective deployment of initiatives that close the scaleup gap as well as the results and impacts that they have on the number of scaleup businesses in their area. Every Local Industrial Strategy should have a scaleup pillar, including a markets access strategy and a scaleup cluster map based on currently available datasets.
4	All local communities appoint a Scaleup Champion and develop a relationship management structure for scaleup businesses.
9b	The public, private and education sector should continue to work together to close the gap on provision of high-quality flexible scaleup leadership programmes, including mentoring, peer networks and matchmaking of non-executive directors who have scaled businesses before. Better connections should also continue to be made between national programmes and local ecosystem leaders. The Small Business Charter, and other such mechanisms, should integrate an assessment of 'scaleup engagement' into their performance analysis.
5	The outcomes of the Productivity Review, Shared Prosperity Fund and Comprehensive Spending Review should ensure that funding for impactful business support (whether it be mentors, leadership or networks) has a significant focus and segmentation towards our scaleup businesses, which are generators of wealth, exports and productivity to the UK economy. These Reviews should collectively ensure no gap in scaleup support provision is allowed to arise in light of the UK's changing relationship with the EU.

Scaling up creative businesses



The creative industries contributed a record £91.8bn to the UK economy in 2016 and employ over £2m people. Measured by Gross Value Added (GVA), the contribution of the creative industries rose more than twice as fast as the national average.

Creative industries services exports grew more than three times faster than those from the rest of the economy in 2016 (up 8.8 per cent), and accounted for 11 per cent of total services exports from the UK. At a local level, they demonstrate the vibrancy of a region and can provide a magnet for economic development. So the economic value of scaling up greater numbers of local creative businesses is important – but it is not easy.

Talent

In line with the broader findings of this year's Scaleup Survey, access to talent is one of the main challenges that creative businesses face in order to maintain their growth. There are concerns about the supply of talent from the education system as well as deep fears surrounding access to talent in the wake of Brexit.

"I know we can't just magic ten computer science teachers into every secondary school but there needs to be greater emphasis on subjects such as computer languages, digital design processes and data analysis," says Jim Mawdsley, CEO of Generator, a creative digital sector specialist development agency in the North of England.

Apprenticeships are starting to play a role at the junior end of the employment scale, but there remain concerns about the small number of relevant apprenticeship frameworks. And it takes "a lot of effort for a growing creative business to appropriately manage apprentices," notes Richard Jeffrey, Director of Greater Manchester Business Growth Hub.

Finance

The 2018 Scaleup Survey shows that almost half of scaleups do not have the right amount of funding in place for their current ambitions. This is evidently the case for many scaling creative businesses.

Creative Industries Council research shows that there is a greater appetite for investment among creative businesses than from the wider population of SMEs – but that they do not always ask for enough. They depend more significantly on informal sources of funding from friends and family (27% use this source as opposed to nine per cent of businesses generally) and 52% ask for less than £25,000. "Businesses in our sector are undercapitalised," says Caroline Norbury, CEO of Creative England and council member of the Creative Industries Council.

Leadership

Talent and finance are not the only challenges. The creative industries are full of "accidental leaders," says Richard Jeffrey. This is because businesses are formed by an individual who starts as a freelance contractor and who then takes on a project that grows. After pulling together a team, the founder has created a business with the potential to scale. "Leaders of creative business may want to grow and have the opportunities to grow, but they can find it difficult to put the systems in place to enable them to grow," says Jim Mawdsley.

The need for more specialist, targeted support

Creative businesses are keen to seek out specialist help from those with practical experience in the sector yet there is little available sector-specific support, according to Caroline Norbury.

The benefits of such a sector-specific programme can be seen from the impact of Generator, the creative digital sector specialist development agency in the North of England. A key element of the programme is providing access to interim directors who can help the scaling business in areas of need such as finance, sales and marketing as they grow and evolve their operating models. The 20 businesses in the first two cohorts have reported an average 53 per cent increase in revenues in the 12 months after participating in the programme, and overall employee growth has increased by 230 per cent. This programme has been endorsed by the ScaleUp Institute this year.

Mentoring is also greatly valued in the creative industries and demand for mentors is increasing, according to Richard Jeffrey. And here, too, he says, "sector experience is the golden ticket for credibility." Mentoring, peer-to-peer structured learning and coaching are core aspects of Greater Connected, a service focussed on creative sector scaling businesses run out of Manchester Growth Hub and based on the learnings from the ScaleUp Institute's executive education course.

Government Action to address creative industries specific issues

Given the above figures the importance of the creative industries are an undoubted strength of the economy and are at the heart of the nation's competitive advantage. To build on this success the Government announced earlier this year a raft of measures to support creative businesses to scale as part of the Creative Industries Sector Deal, including;

- **Creative Scale-Up** – A £4m investment readiness programme improve the leadership capacity for early stage scalable creative businesses wishing to grow their business through growth finance; and,
- **Creative Careers Programme** – To increase the supply and diversity of skills and talent in the creative industries, government will make up to £2m available to support an industry-led creative careers programme aiming to reach at least 2,000 schools and 600,000 pupils in two years and industry development of apprenticeship standards. Industry will provide further leadership on diversity and scope expanding the voluntary Skills Investment Fund supporting on-the-job training.

The ScaleUp Institute has worked closely with DCMS and the Creative Industries Council on Creative Scale-Up and will continue to do so in 2019.



Access to markets

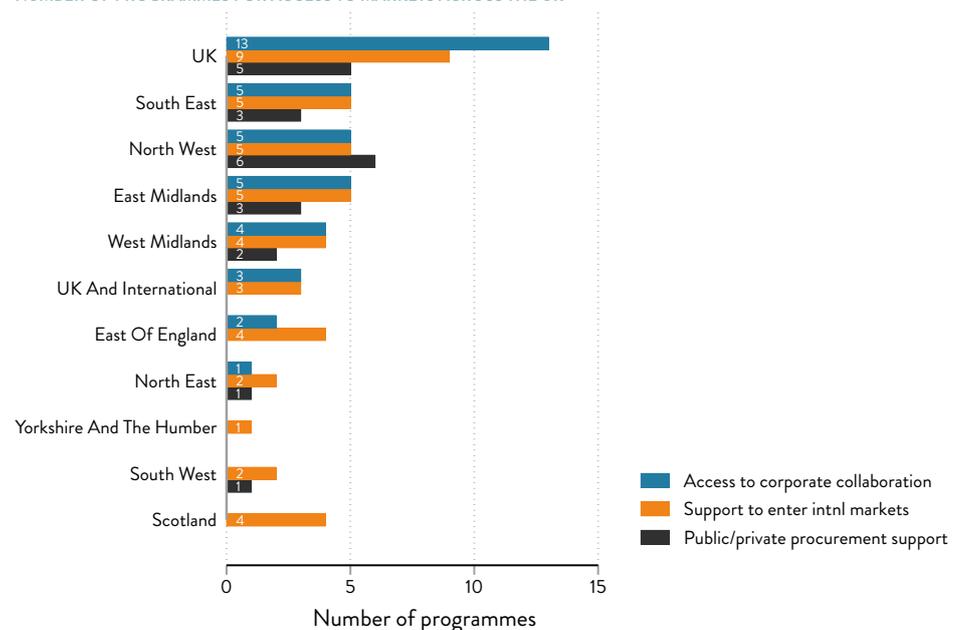
Access to corporate customers, the opportunity to bid for Government contracts and exporting opportunities are ever more crucial to scaleups. In 2018 our scaling leaders cite this as a rising challenge – on a par with Talent – making it a priority for the ecosystem to address.

Access to Markets, both UK and International, has risen sharply in importance for scaleup leaders who are twice as likely to be international as compared to other businesses.

In our Scaleup Business Survey 2018, Access to UK Markets (corporate and government procurement and collaboration) was the second biggest barrier highlighted by scaleup leaders at 79% and Access to International Markets was a concern for 5 out of 10 of our scaling leaders.

It is also significant that this spike in importance is consistent with the gaps in provision of specific ‘access to markets’ support to scaleups, which we have uncovered as part of the mapping of scaleup services we have undertaken with Innovate UK (see Chapter 1: Mapping the Maze). Our mapping shows that of the programmes that purport to exist for scaleups – only 10% of the total are focused upon corporate collaboration and procurement, and only 20% on internationalisation. This highlights a significant gap in provision for scaleups in an area of acute importance which needs priority attention.

NUMBER OF PROGRAMMES FOR ACCESS TO MARKETS ACROSS THE UK



“My company gets 60% of its revenues from outside the UK, but this is not recognised or encouraged by any government body.”

LONDON SCALEUP BUSINESS LEADER

“Our problem is being able to execute sales and services in foreign markets.”

NORTH EAST SCALEUP BUSINESS LEADER

“Help in expanding my supply base in overseas countries would be really helpful, especially India.”

WEST MIDLANDS SCALEUP BUSINESS LEADER

“The Government should stop trying to fit export opportunities into neat boxes and offer tailored support...in the form of export vouchers.”

EAST MIDLANDS SCALEUP BUSINESS LEADER

“A barrier for us to grow internationally is not having people with the knowledge of different countries and potential markets.”

SOUTH WEST SCALEUP BUSINESS LEADER

Exporting for growth

Access to customers and partners overseas, and having the people and talent to win overseas sales, are explicit issues raised by scaleups as barriers to further international expansion. In our 2018 annual survey, when asked what they would value more from the public and private sector to address these challenges, they cited as most important: better introduction to buyers overseas; a single point of contact at the Department for International Trade (DIT); more information on trade missions and market opportunities, alongside tailored missions.

The Export Strategy¹ – published by DIT on 21 August this year – has an ambitious goal to increase exports as a share of UK GDP from 30% to 35%. Focusing more support on scaleups will make this achievable.

The Strategy acknowledges the importance of scaleups as a segment for intensive engagement as part of its High Potential Export Businesses category. This stated intent is welcome and now must be delivered on with the implementation of an enhanced International Trade Adviser Service creating a proactive relationship management team, at home and abroad, dedicated to our scaling businesses that encompasses buyer introductions, market insights and more tailored trade missions. This dedicated expert team should be rooted in hubs closest to the scaling business and be skilled in scaleup needs.

Evidence in Denmark and Scotland shows the value in this approach as we are also witnessing in our exemplar case studies in Chapter 2. How this also operates effectively in the overseas markets will be key and considering how best to create a ‘soft landing’ in markets with a suite of solutions at hand. The recognition of the need to have peer-to-peer networks as an active part of ongoing DIT work is to be encouraged.

This export effort should, as indicated in the Strategy, be supported by the broader joint work being undertaken between the ScaleUp Institute and the Government towards better use of data, making it easier to identify scaling businesses that are already exporting and wanting to grow in current or new markets. It is also important to encourage the development of, and build upon innovative solutions – such as the ‘Google Market Finder’ tool launched in 2017.²

As noted elsewhere in this report we continue to view the Mayor of London’s Go to Grow programme as an exemplar of a focussed service for scaling businesses which others should follow. Since our last report it is pleasing to see that Manchester’s City Mayor is now taking a similar approach at a local level. These bespoke scaleup solutions should be accelerated as part of the Export Strategy rollout involving City Mayors and local areas. Export vouchers should be assessed as part of this.

The Export Strategy deployed effectively towards scaling businesses has significant potential to help in closing the UK balance of payments – indeed directly working to lift the export turnover quotient with the Index of visible scaleup companies has alone the potential to add billions towards the UK’s export drive. The public and private sector needs to redouble efforts to identify and work with scaling businesses in their localities and client base to make sure we can turn scaleup export aspirations into reality – and at pace.

Accessing UK customers

Corporate and Government procurement / collaboration can drive productivity both through the engagement of scaleups and innovative firms, as noted in the recent IPPR report ‘Charting a Course for the Future’,³ and corroborated through our own research.

Engagement in global supply chains gives exposure to global competition, and increases the need for the adoption of industry ‘best practice’ and technologies that improve a firm’s competitiveness.

For many scaling businesses achieving an “anchor customer” – either a major corporate or a government department is a huge milestone, acting as a trigger to further growth.

1 <https://www.gov.uk/government/publications/export-strategy-supporting-and-connecting-businesses-to-grow-on-the-world-stage>

2 <https://www.thinkwithgoogle.com/tools/market-finder/>

3 <https://www.ippr.org/research/publications/charting-a-course-for-the-future>

“For corporates or Government, there should be dedicated entry portals so vendors can present themselves and articulate their value proposition – so at least they are visible.”

SOUTH EAST SCALEUP BUSINESS LEADER

“A SME/Scaleup procurement track should be made mandatory... we should not be pushed through the same procurement process as a large company... it's too onerous for us.”

SOUTH WEST SCALEUP BUSINESS LEADER

“Government purchasing portals are not efficient. We would need a whole department just to respond to tenders. Let's just have one template that we can complete and upload to any tender.”

SOUTH EAST SCALEUP BUSINESS LEADER

Improving corporate collaboration

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. Consistently, scaleups cite the culture and procurement processes that go with trying to become a supplier to a large corporate as difficult and time consuming to navigate.

Our 2018 survey again highlights that the time it takes to secure a contract with a large corporate is longer than securing one with Government. It reinforces the need for corporates to become clearer and more transparent in their supplier requirements and to create simpler online tools that makes the procurement process more accessible to scaling businesses.

There are some practical ways improvements can be made and this is seen in the endorsed programmes which we have exemplified in Chapter 2 and the checklist we have created with Nesta from our observations of good practice. These practices include: Board sponsorship; dedicated senior level scaleup champions across functions – not just in the procurement arena but also in risk, compliance, legal, IT, etc.; dedicated scaleup units; fast-track options and procedures, or other practices such as preferential payment conditions.

Corporates should also emulate the Government's transparency in identifying the businesses they are buying from and what opportunities exist to do more with them. This transparency has allowed the ScaleUp Institute, with Tussell, to create a Public Procurement Index. Individual corporates could use the same methodology to cross check their scaleup buying. Highlighting this work in practical 'meet the buyer' events in local areas and via online hubs is invaluable to scaling businesses. Despite the intents stated, our evidence currently shows this is not being undertaken as well as or as extensively as it might. 2019 needs to see a 'stepping up' of direct corporate / scaleup engagement. We hope the emerging scaleup programmes across the country will seek to do much more in this space.

UK government procurement

Government procurement – at both national and local – is a huge potential market for scaleups. Each year Central Government spends over £40bn with non-public sector organisations. This year, working with data firm Tussell, and building upon our ongoing work with Beauhurst to identify visible scaleups, we have published our inaugural ScaleUp Public Procurement Index identifying the 397 individual scaleups who have been procured from by the public sector to a total value of £1.5bn. As depicted on page 216, this shows that Local Government accounts for 49% of public sector purchases from scaleups with contracts totalling £977m; Central Government comparatively has 20% of scaleup contracts by number and 10% by value at £149m.⁴ Cabinet Office is recorded as the largest single procurer from scaleups and overall 2.1% of purchases made by the public sector are with visible scaleups. This showcases the opportunity available for more to be done and highlights the variation between localities and at a central level which can be improved upon.

Going forward this Index will be our benchmark by which we measure the progress of the Government's intent to do more with scaling firms. The policy announcements made this year in Spring reflected a range of the recommendations made by the ScaleUp Institute and Scaleup Taskforce to further move the dial including: expansion of Contracts Finder to include large corporate supplier subcontracting opportunities, and the development of procurement champions across all Government departments. The Index will be a tracker by which to measure whether the announcements actually deliver meaningful impact.

There still remains much to be done to build on the current policy steps if we are to address the significant scaleup gap compared to larger businesses. In 2019 we would wish to see further progress on:

⁴ The remainder of public procurement is from the NHS, Housing Authorities, and other public sector bodies.

“Large companies are generally a real challenge unless you have a very decent and practical senior sponsor.”

LONDON SCALEUP BUSINESS LEADER

“If corporates want to support the ecosystem, then lip service about innovation units... isn't enough. The board should have a KPI of money spent with scaleups. To get deals done takes superhuman powers, even when a large enterprise truly wants to buy your product.”

LONDON SCALEUP BUSINESS LEADER

“Have more, smaller procurements than fewer, larger, procurements.”

SCOTTISH SCALEUP BUSINESS LEADER

- Contracts Finder being better used by the public sector,⁵ more user oriented, and better known among the scaleup business population.
- Procurement champions having clear objectives and measurements. They should work to a defined job description, with clear expectations and recognised outputs and be more visible in localities and sectors.
- OEMs and Tier 1 companies working with Government being further encouraged to work with scaleups in their supply chain. Productivity will be improved if interactions within supply chains can be enhanced and made more efficient.
- More ‘meet the buyer’ events being conducted with scaleup firms and Government departments, working closely with the emerging local scaleup programmes to make these more targeted. Lessons should be taken from endorsed programmes, such as SVC2UK, on how to conduct these to good effect.
- Qualifying thresholds should not be unnecessarily high as this can create significant hurdles for scaling firms.
- More timely advertising of procurement contracts.
- Informal notifications about upcoming tenders, in order to give scaleups time to prepare.
- Breaking larger opportunities into smaller packages, to enable scaleups to compete for a wider range of contracts where they would otherwise face capacity constraints.

The role of supply chains in scaling up

Some large infrastructure projects, such as Hinkley Point, are already well engaged in promoting local supply chain opportunities and have created a very effective hub and engagement model to work with scaling businesses on the huge opportunities they present. There is an opportunity for others to learn from this which we will be exploring further in 2019. Larger corporates have a key role to play in their supply chain in identifying scaling businesses and working with them as regards their talent, leadership and finance needs. Sharing in Growth, outlined in Chapter 2, remains delivering this in the manufacturing space and we are watching with interest the Productivity through People initiatives to monitor their effect on scaling businesses.

Requiring large corporates who are competing for Government contracts to do more through their supply chain, including contract and payment terms will help to shift corporate culture and lead to a breakdown in barriers to growing firms. Celebrating those that do this well is also to be encouraged.

Providing new opportunities to innovate

In this year's review we feature the FCA Sandbox as one to watch as it is a concept with significant value for boosting and facilitating innovation and growth. The FCA Sandbox provides an environment for firms to test innovative products, services and business models with delivery mechanisms in the real market with real consumers. The scheme is showing real signs of success with 90% in Cohort 1 progressing towards a wide market launch and many attracting investment to enable their scaling up. Sandboxes help scaleups experiment within a realistic environment without penalty, but they also help ‘regulators’ learn how they 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. Last year we encouraged the UK to seek to emulate these models across departments and sectors such as health and education. It is therefore pleasing to see the £10m now being deployed to regulatory sandboxes through the ‘Regulators’ Pioneer Fund’. We will be monitoring outcomes of this programme closely. It is also important to continue to open up APIs to allow for private sector innovation in this area.

⁵ Work by the Spend Network suggests that Contracts Finder is not being properly used. So we also need more emphasis on public bodies using this as they should.

“We are working hard to create good relationships with a couple of larger corporates but the changes that occur within them means that it is hard to manage their contacts and delivery timescales.”

SCOTTISH SCALEUP BUSINESS LEADER

“Government spend should be prioritised towards UK/ regional and local companies ... and help develop local and regional champions.”

SOUTH EAST SCALEUP BUSINESS LEADER

“Work packages are often aimed at larger companies as the public sector believes that large companies are safer than smaller ones.”

SCOTTISH SCALEUP BUSINESS LEADER

Innovate UK’s role in the scaleup landscape continues to evolve. As exemplified in the ScaleUp Index 2018 its investment programme has been a key anchor to over 345 Visible Scaleups. Crucial to this impact is also the broader services Innovate UK provides across its Enterprise Europe Network (EEN), Knowledge Transfer Network (KTN), the Innovate 2 Succeed offer, Catapults, Industrial Challenge funds, international collaboration support and connections to corporates. In 2018 the ScaleUp Institute has been delighted to work with the Innovate UK EEN team on their Scaleup Pilot Programme utilising their concept of a ‘Scaleup Board’ and engaging a team of Scaleup Directors to work intensively with a cohort of ambitious innovative scaling firms in breaking down their scaleup challenges. The initial results reported on this intensive coordinated intervention are encouraging and we are pleased to learn of its expansion in 2019.

In summary

Access to domestic and international markets has significantly moved up in scaleup leaders issues and challenges placing it alongside talent as the most significant barrier to further growth. The research that the ScaleUp Institute has undertaken shows an insufficient range of solutions at local level to address scaleup ‘access to markets’ demands. The private and public sector need to intensify their focus and services on scaling businesses to make sure they can achieve their fullest potential both at home and abroad and follow through on the following recommendations:

2018 Recommendations

6

We recommend that Central Government when implementing its Export Strategy allocates a significant portion of resources to scaleups, including dedicated 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.

7

We recommend that Public bodies use the inaugural Visible Scaleup Public Procurement Index to further improve their understanding and reporting on the procurement from UK scaleups, including scaling businesses not yet visible at Companies House.

All public bodies should improve the way opportunities are promoted to scaleup companies by significantly raising awareness of procurement champions and ensuring their roles have objectives and measurements. The Government should increase the promotion and continue the evolution of Contracts Finder to become a smart platform and the development of ‘meet the buyer’ events and more sandbox environments.

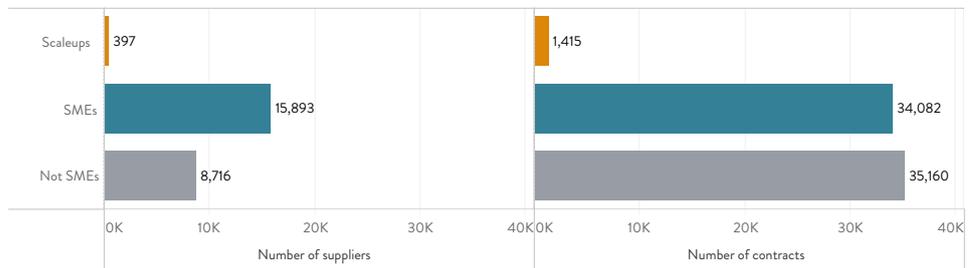
8

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.

Scaleup Public Procurement

Based on visible scaleups from Companies House data, excluding charitable and third sector scaleups and listed companies. Data analysed by Tussell, based on the period July 2017-June 2018.

Public sector suppliers and contracts Q3 2017 - Q2 2018



By value, **2.1%** of public sector contracts were won by visible scaleups, worth **£1.5bn**

An additional **£4.6bn** was awarded to scaleups in framework value

LOCAL GOVERNMENT ARE THE MAIN BUYERS FROM SCALEUPS

Number of Scaleup contracts by buyer type as a proportion (Q3 2017 - Q2 2018)



Value of Scaleup contracts by buyer type as a proportion (Q3 2017 - Q2 2018)



HA = Housing Association

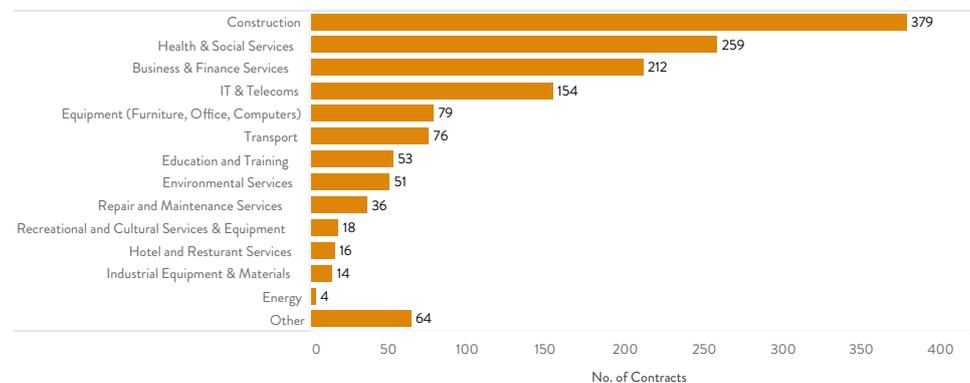
The top 3 buyers from visible scaleups:

By number of scaleups awarded contracts

LOCAL GOVERNMENT		CENTRAL GOVERNMENT	
1	Eastern Shires Purchasing Organisation	1	Cabinet Office/Crown Commercial Services
2	South East Shared Services	2	Business Services Organisation
3	Staffordshire County Council	3	Home Office

Scaleups won the most contracts in the construction sector, followed by Health & Social Services and Business & Finance Services

Number of contracts won by scaleups by sector (Q3 2017 - Q2 2018)



AWM based in Leeds was the top visible scaleup by award value, winning awards worth £165m



Accessing finance

The finance challenge for scaleups in the UK remains, particularly at a local level where surveys continue to show an ongoing perception that funding is most available in London and the South East. Scaleups are keen for a vibrant and connected finance market, that is easily accessible in the regions in which they operate and suitable to their needs as scaleup businesses – including the availability of patient money to finance long term growth plans.

While scaleups consistently report the most need for action on talent, access to markets and leadership, they also cite access to finance – and notably long-term patient capital – as a barrier to their growth. Scaling businesses consistently point to the problems of finding long-term investors which is why they have often turned to overseas investors. This requires the UK to create ‘at scale funds’ and deeper and more visible pools of connected capital, available through the lifecycle of a business to reach global scale, sustained growth and longevity.

Our annual survey reflects that three-quarters (74%) of scaleups surveyed this year are currently using a source of external funding, far in excess of SMEs, generally where 36% are using external finance. The largest proportions of scaleups are, like their peers, finding resources from traditional sources – 40% using overdrafts, credit cards or loans, 28% through leasing or hire purchase and 25% have received cash injections from family and friends or directors. Only 23% received equity from a third party investor and 13% from Government funding.

Reservations about the use of equity finance remain, with too few high profile regional case studies able to counter: perceptions of complexity; perceived unsuitability; a fear of having to “give up control”; or, a simple lack of knowledge.

When it comes to finance, scaleups are not just looking for cash; they want smart, patient money which brings knowledge, skills and customer and market connections with it. It is clear that financial providers must work more closely with local communities in order to provide tailored solutions for scaleups where they are based and that certain sector challenges still persist.

Provision of patient capital

We were pleased by the Government’s response in both the 2017 and 2018 Budgets to the consultation feedback given as regards ‘Financing Growth in Innovative Firms’ meeting the challenges of patient capital. The additional capital injection to the British Business Bank and launch in June of British Patient Capital, a newly established £2.5bn investment fund incubated in the British Business Bank, is an important step towards enabling long-term investment in innovative and scaleup companies across the UK.

We very much welcome the fact that plans have progressed to include regulatory reforms and a commitment from industry leaders such as Aviva, HSBC, L&G, NEST, The People's Pension and Tesco Pension Fund, to work with the British Business Bank to explore options for pooled investment. This is closely aligned with our own consultation response, bespoke research and recommendations of our Annual Review 2017.

The importance of EIS and VCTs is also noted by many scaleups as a cornerstone of early stage growth capital and follow on funding. It is important that clarity around these incentives – alongside Entrepreneurs' Relief – has been given as part of the 2018 Budget to maintain long-term investor confidence about the availability of these instruments in order for them to remain a key component of the funding ladder.

Addressing regional disparity

Regional disparities in access to private equity by deal numbers and value persist.

Latest figures from the British Business Bank show that – as in previous years – London accounts for a significant proportion of deal activity. The business stage composition of equity deals varies by region and devolved administration (see table below) with overall activity in Scotland in 2018 increasing compared to 2017.

While proportions of deals between seed, venture and growth stages are broadly similar between London and the rest of UK overall, there is larger variation in individual areas.

Some regions have a higher than average proportion of seed stage deals in 2017 including Northern Ireland, Wales, West Midlands, Yorkshire and Humber, and the North East. The North East and East Midlands have a high proportion of growth stage deals. In the case of the East Midlands this is driven by the small number of seed stage deals in the region. Scotland has a higher proportion of venture stage deals than the overall UK market, but a relatively low proportion of growth stage deals.

PROPORTION OF EQUITY DEALS BY BUSINESS STAGE (2017)

Area	Seed	Venture	Growth
London	47%	37%	16%
South East	49%	39%	12%
Scotland	43%	48%	9%
East of England	47%	36%	17%
North West	49%	33%	18%
South West	49%	37%	15%
Wales	51%	38%	11%
West Midlands	51%	37%	12%
Yorkshire and Humberside	52%	33%	14%
North East	50%	15%	35%
Northern Ireland	64%	14%	23%
East Midlands	29%	24%	47%
UK	47%	37%	16%

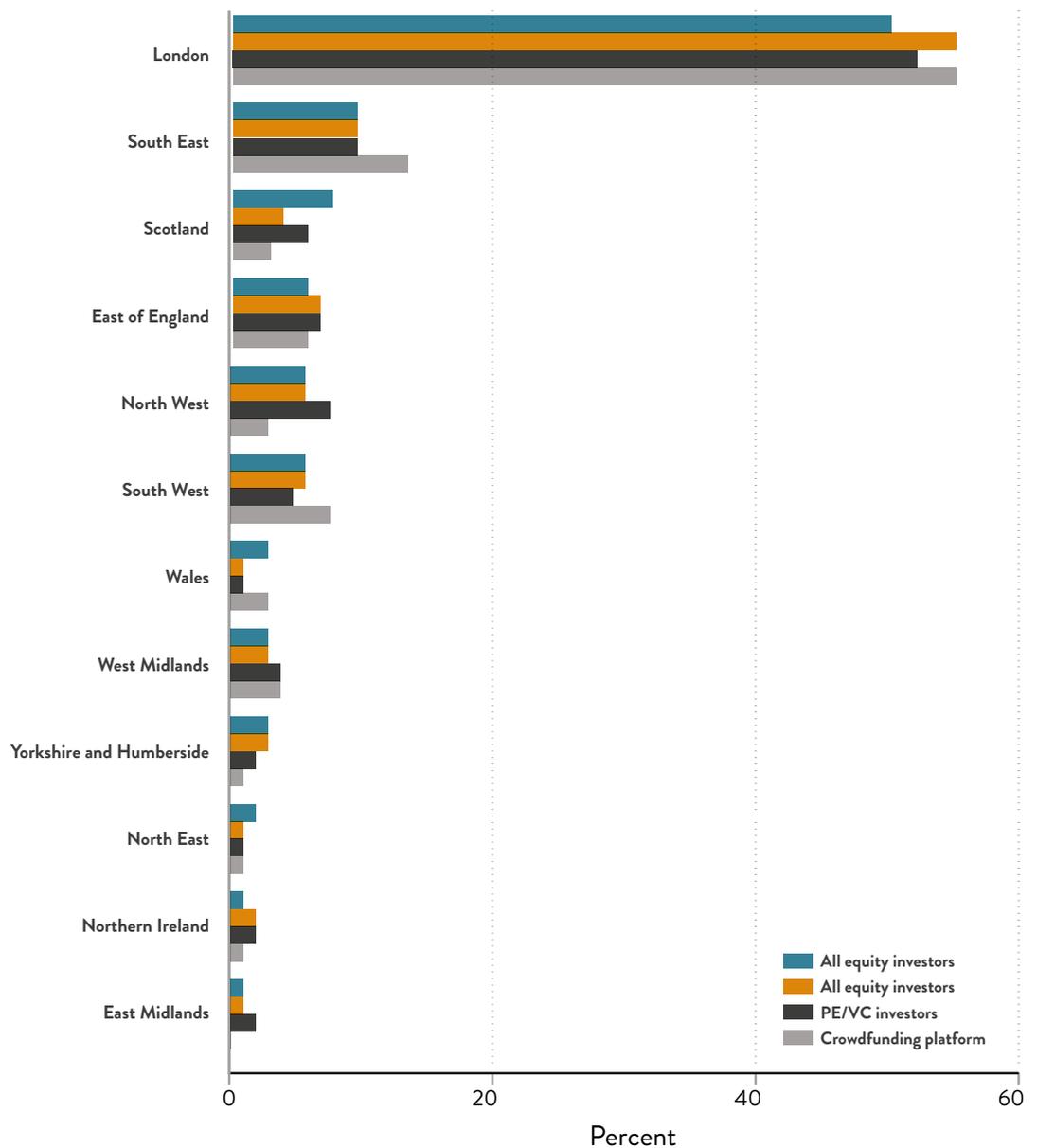
Source: British Business Bank analysis of Beauhurst

The role of the British Business Bank and its partnership with the private finance and business community is ever more important if we are to address these regional and capital asymmetries.

An important criteria going forward for British Business Bank co-investment will be the ability of the private investor co-partners to deploy the funds into scaling businesses in the regions and local areas outside London and the South East.

Equally the British Business Bank-led commercial investment programme to support developing clusters of business angels outside London, alongside its deployment of a network of regional managers, which we endorse, are essential elements to address the regional imbalance.

DISTRIBUTION OF EQUITY DEALS BY TYPE OF INVESTOR (2017)



Source: British Business Bank analysis of Beauhurst

The Europe effect

Analysis from the British Business Bank shows that significant amounts of regional equity funds are backed by EU money, and it is important that money has been identified to fill any potential EIB shortfalls here for 2018/2021. This will need ongoing assessment.

Additionally, the joint initiative between the EIB and the European Commission has 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 EIB/EIF arrangements through the British Business Bank.

Knowledge and demand

It is not just a question of supply. It is also important to increase the provision of education about growth capital so that scaleup leaders are fully aware of all the available options and can structure their companies appropriately.

Our most recent research with Beauhurst shows that 16% of visible scaleups use equity. This is 687 out of the 4,420 on our Visible Scaleup Index, and continues to show a direct correlation between even faster growth and an equity stake. 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. It is therefore important to continue our work to encourage other scaling businesses to consider equity finance as an option for growth.

As part of our efforts to close this knowledge gap, as announced in our 2017 Annual Review, the ScaleUp Institute has been pleased this year to collaborate with the British Business Bank, alongside the London Stock Exchange and other important players, to develop the Finance Hub which better brings together the knowledge on growth capital across the country on a digital platform tailored to scaling businesses.

The establishment of regional relationship managers within the British Business Bank is also important to better connect capital between locations and scaling businesses. They will play an important role in developing a more comprehensive, connected, and productive UK finance ecosystem across geographies to help ensure the ecosystem is connected and funding gaps addressed from the seed stages through to public markets.

Funding innovation

Innovate UK's role in the fostering of the UK's most innovative businesses across sector and geographies is evidenced again in the 2018 Scaleup Index – it shows Innovate UK has played a critical investment role in 345 of the visible scaleups (a 37% increase in the number supported from the 2017 Index) to a value of £74m (a 19% increase from 2017) – showing the vital role Innovate UK plays with businesses that are scaling up. This role must be maintained and built upon.

The sector dynamic

As effective finance solutions are developed, it will be important to consider how these can be applied across different sectors. It is notable from our case studies – evidenced in Chapter 2 – that there is a growing pool of financiers providing investment capital to scaling businesses which is encouraging. However, many of these are addressing the needs of the tech sector which, while good, also highlights a need to be vigilant on sectors that may be under-served by the finance community. This is why it is important that monitor finance options for female-led firms – a focus for the British Business Bank – and IP rich businesses.

Across this year the ScaleUp Institute has been working with the social business sector and creative sector to assess the challenges of scaling up as relates to them. Both of these sectors, alongside Lifesciences, show greater sensitivities to availability and access to scaleup finance than others. Later this year we will publish, with Barclays Bank, a report into the

challenges faced by ‘Social Scaleups’ where we will provide further insights for the finance ecosystem to act upon. We have also been working across this year with the Creative Industry Council Access to Finance Forum, and DCMS, and how we address the issues here in relation to investment readiness, and connections to capital, which will be a feature of our work in to 2019.

In summary

History tells us there is no single lever to pull to solve the finance challenge but a combination of initiatives are necessary.

At a time when the global competitive landscape is shifting, many countries are placing more effort and resources into supporting their scaling firms, and looking to tempt those in the UK to move overseas and many international investors are scouting here for our scaleup business talent. While this creates opportunity for our scaling firms, they want better connected capital here and if we wish to maintain our competitive advantage it is imperative that the policy initiatives introduced in recent years, or currently being implemented, are ambitious and deliver meaningful outcomes. We shall monitor carefully the impact of current and recently announced initiatives as they are implemented and work with organisations to ensure that funding is targeted towards and reaches scaling businesses. It will be important to maintain impetus and we therefore continue to recommend:

2018 Recommendations

10

Government and industry ensure progress is made closing the finance gap for scaleup by continuing the work to implement the Patient Capital Review. Growth finance to be included as core curriculum in all local scaleup leadership programmes enabling them to seek out and secure the most appropriate funding at each stage of their company’s growth. The status of current EU sources of funding needs to be monitored, and replaced as appropriate.



“The British Business Bank’s mission is to help drive economic growth by making finance markets work better for small and scaling businesses – wherever they are in the UK and wherever they are on their business journey – enabling them to prosper and grow. Compared to their peers in the USA, the leading scaleup environment, a major barrier holding back the continued development of young innovative firms is access to longer-term investment. The lack of this patient capital slows these firms’ growth and ultimately holds back the UK’s productivity. Following the Patient Capital Review, addressing this gap has been a major focus of our activity. To deploy the £2.5bn of new resources for the Bank announced at last year’s Budget, British Patient Capital has been established to enable long-term investment in innovative companies across the UK led by ambitious entrepreneurs who want to build successful, world-class businesses. Over time, our goal is to develop these markets and encourage private institutional investment into this area.

“Our research also shows that the UK’s high-growth scaling businesses suffer from regional imbalances in the supply of early stage equity finance, with London and the South East receiving a disproportionate share of equity flows compared to their population of high growth businesses. Launched in October 2018, the Regional Angels Programme will deploy £100m of new funding to help redress these imbalances and will ensure that more ambitious scaling businesses can access the early stage equity finance they need to grow and succeed, wherever they are in the UK”

KEITH MORGAN, CEO, BRITISH BUSINESS BANK



Infrastructure

Space with room to grow and evolving scaleup campuses offering a suite of scaling services.

“Universities work pretty slowly compared to businesses so we always find it frustrating. We usually give up and move on. They aren’t set up to work at pace and over the summer they all disappear.”

NORTH/NORTH EAST SCALEUP BUSINESS LEADER

“Universities need to advertise their facilities and services better, maybe all on one website.”

EAST ANGLIA SCALEUP BUSINESS LEADER

“We would like to have access to a university’s R&D facilities as that would help us accelerate our product development and technology without needing to invest in expensive equipment that we might only use occasionally.”

SCOTTISH SCALEUP BUSINESS LEADER

‘Place’ has been rightly emphasised as one of the five core foundations of the Industrial Strategy. Finding the right flexible space in which to flourish and grow is a consistent concern for scaleups.

Having the ‘space to scale’ in the localities in which a scaleup already has a presence and existing workforce is a fundamental enabler to their growth – or inhibitor if not available. Scaling businesses in manufacturing and those in the life science sector are particularly sensitive to this opportunity given the ‘kit’ that also comes with any expansion plans. Not having the local ecosystem make a concerted effort to make sure growth is frictionless can be an acute hindrance to a company scaling.

This means that ever more local authorities and regions need to know, work with and consider their local scaleups making sure they plan for the future to meet the capacity demands that scaling businesses will have. Whether this be in flexible leasing structures and online tools to showcase available business real estate such as the examples seen in London and Bristol; or transport and digital infrastructure; or the homes in which employees will need to live. Significantly it is important to factor these issues into the development of Local Industrial Strategies, and policies designed to ensure that existing companies can be retained within localities as they grow.

In Chapter 2 of this Review we have highlighted the very effective work being performed by universities, science parks and hubs in creating not only the space but the environment to rapidly grow, so wanted by our scaleup leaders. In particular we have endorsed **Alderley Park** in Cheshire and the **Babraham Research Campus** in Cambridge for their work and continue to endorse the expanding role of the Bristol-based **Engine Shed**.

A key attribute that all three bring to the table is not just space but, importantly, the way in which they have created a ‘scaleup’ campus mentality in which ideas can thrive and joint solutions to challenges be developed, as well as a pool of peers, mentors, and investors, to work with these scaling firms. These hubs are also growing with their scaleup communities rather than holding a static place in their companies’ growth journey. For example, Babraham is investing to build scaleup space having realised the need to cater for businesses that have started with them but are scaling fast, and the importance of frictionless access to new premises on the same campus. Similarly in Bristol, Engine Shed is building new space as well through their ScaleUp Enabler, who identified the lack of suitable accommodation as a major challenge for West of England scaleups, and has worked with the local ecosystem to source new office space for scaling firms.

“Small companies with original ideas are concerned about going to some universities because of IP issues and because university funded collaboration attract large fees for overheads. This makes the process expensive and erodes the funding for innovation.”

NORTH WEST SCALEUP
BUSINESS LEADER

“We work well with universities but that is a function of personal contact with professors and others, rather than a more formal process.”

EAST ANGLIA SCALEUP
BUSINESS LEADER

“Office space and rents are a barrier to our growth. We need the commercial landlords to move with the times more.”

SOUTH WEST SCALEUP
BUSINESS LEADER

Financiers are also playing their part in scaleup space with on-the-ground support through the repurposing of buildings to create new scaleup space and environments to support their growth. Notable in this regard are:

- **Barclays Eagles Labs**, which we endorse in 2018, now has 18 sites across the UK, offering scaling businesses offices and co-working spaces alongside a dedicated scaleup leadership programmes and mix of facilities, workshops and relationship experts to help scaling businesses grow even further.
- **NatWest Entrepreneurial Accelerator** has 12 UK hubs, offering development managers who work with scaleups to provide expertise and support. This service makes our ‘one to watch’ list in 2018.
- **Level39**, which is ‘one to watch’, based in the heart of Canary Wharf’s financial district, focuses on supporting early-stage businesses and scaleups with a high-quality infrastructure, structured access to investors, mentors and business experts as well as links to major customers.

We are aware that other corporates in the UK are involved in initiatives such as this like BT, and will be exploring these further in 2019.

Research and development

Research and Development (R&D) is intrinsically tied to the education agenda, but is also strongly linked to the infrastructure available to growing firms. Scaleup leaders have again highlighted that they highly value access to R&D and innovation, including Innovate UK, and wish to see even more engagement with these opportunities.

Those accessing Challenge Funds should be encouraged to engage with growing and scaleup businesses including the opening up of their research facilities and deployment of students to projects with scaling businesses. 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. As in 2017, we continue to view the Government building upon the work of Innovate UK and the Industrial Strategy Challenge Funds as important to ensure that research and innovation drives made under it are closely connected to scaling businesses – and sectors.

In this regard we are encouraged by the 2018 Budget announcements allocating £25m to the Knowledge Transfer Partnership scheme with its intent to place over 200 additional graduates and academics with relevant skills into firms to translate their research insights into business growth. We will monitor with interest its progress. It is also positive that the Government is confirming £115m to extend funding for the Digital Catapult, which has centres in the North East, South East and Northern Ireland, and the Medicines Discovery Catapult in Cheshire. This builds on the £1bn in long-term funding already committed to the broader network of Catapult centres located across the UK.¹

As EU transition discussions progress, the continued access to, and/or replication of, COSME/Horizon 2020 initiatives will be essential.

In summary

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 on local infrastructure will remain key, as will development of local hubs such as those exemplified in Cambridge (Babraham Research Campus), Cheshire (Alderley Park), and Bristol (Engine Shed).

¹ Budget 2018 – HM Treasury



2017 Recommendations: Progress

PROGRESS KEY

 STRONG PROGRESS	 PROGRESS	 FURTHER PROGRESS NEEDED	 SIGNIFICANT PROGRESS NEEDED
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EVIDENCE GAP

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 AND SKILLS

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.



LEADERSHIP GAP

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

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 'GotoGrow' campaign in London.



FINANCE GAP

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.

