SCALEUP INSTITUTE

ScaleUp Insights

ONS ScaleUp Landscape

The latest national and local level picture

August 2020

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FOREWORD

Enabling scaleups to drive the UK out of deeply challenging times

In 2020 the world has faced an unprecedented challenge. The Covid-19 emergency has posed an immense threat to all countries' health, wellbeing and economies. As the UK starts on the path of post-lockdown recovery it is timely to consider the role scaleups can play in restoring the nation's fortunes.

Thanks to the ScaleUp Institute's collaboration with the Office for National Statistics we have had the opportunity to review the scaleup landscape by analysing the most recent data available. The resulting findings confirm our view that scaleups remain the champions of growth and innovation and are powerhouses of productivity. But they also show that scaleups still face major obstacles and these have had an impact on the spectacular growth we have seen in their numbers in recent years.

This report contains the results of the ScaleUp Institute's third annual **analysis of scaleup growth and performance** both national and local, based on ONS 2018 data – the most recent available. It also builds on a joint project with Arup to identify the **drivers of local scaleup growth** through in-depth structured interviews with scaleup leaders and innovative research.

Our evidence is not just designed to improve our collective understanding of the scaleup landscape. The ScaleUp Institute will use it to shape and promote interventions that can help the creation and nurture the development of businesses that are central to the health of the economy.

The top-line finding is that the number of scaleups fell in 2018, driven by an 11% drop in the number scaling by turnover (albeit this masks growth in employment scaleups and those doing both). As a picture of 2018, this fall may reflect the uncertainty surrounding Brexit and the increasing barriers that scaleups tell us they face in gaining access to markets and to customers both at home and abroad. It is a clear signal that complacency is not an option.

Urgent action is vital at national and local level to help scaleups survive this current global crisis because their survival and growth are at the core of future prosperity.

Why do we say that? Very significant positives emerge from the 2018 data. With the UK number of scaleups at 33,860 the total is still **25% higher than it was in 2013** and these high-growth companies **continue to outperform the economy** and small businesses. In the same period – 2013 to 2018 - GDP grew by just 11% and the number of SMEs by 16%.

There was a rise in the number of employment scaleups and in scaleups growing by both employment and turnover. Jobs provided by scaleups also grew to 3.5 million.

This year, for the first time, we have also been able to identify **a substantial pipeline of scaling companies** who fall just outside the definition of a scaleup. In 2018 there were 16,890 businesses in this category employing 1.9 million people and generating £592 billion in turnover. Scaling companies may represent an important source of future jobs as proportionately they are stronger in the employment measurement.

Scaleups remain the most innovative and international of our SMEs. They contributed £1trillion to the UK economy in 2018 - accounting for **50%** of the total contribution by all UK SMEs and are now 54% more productive than their peers. Their performance was particularly striking in the construction industry, producing 161% more turnover per employee than other businesses in the industry despite their numbers in that sector decreasing. They bring benefit to the entire economy because they operate across all sectors and geographies and remain significant drivers of local employment.

These facts on scaleup effectiveness and productivity speak for themselves and make the case for support compelling. The Government's Economic Recovery Taskforces must tackle the long-term challenges the UK has had in scaling companies and introduce systemic shifts to improve access to talent, markets, patient capital and infrastructure.

But our report also underscores how **levelling up across the UK must be a priority**. For the first time we have been able to take a long-term view and assess progress in the five-year period between 2013 to 2018. While confirming scaleup trends have been positive, they also reveal many of the remaining challenges that remain. **In particular, at a regional level large disparities in scaleup numbers persist.**

We have identified a group of local areas and devolved nations where scaleup growth in scaleup numbers has been consistent over that period but other areas continue to show significant fluctuations in performance.

In order to level up opportunities and achieve constant nationwide growth in the number of scaleups, the elements that underpin consistent growth need to be developed in all parts of the country.

To date, there has been relatively little research into the regional economic drivers of scaleup growth. It is the ScaleUp Institute's mission to investigate the evidence and produce robust solutions to scaleup challenges. So in 2019, in collaboration with Arup, we interviewed scaleup leaders, reviewed the academic literature and conducted an in-depth statistical analysis of growth factors, to identify place-based drivers of scaleup growth.

Local leaders consistently told us there were three important drivers: **the sharing and spreading of knowledge, active engagement with and by universities, and strong local ambition** with support and goodwill from the wider group of local stakeholders. Informed by this evidence and insight, our detailed quantitative analysis found three main factors driving scaleup growth – **access to equity finance, access to skills and sectoral clustering**.

In the coming months we will work with our partners to develop proposals and programmes to introduce or strengthen these drivers in those areas of the country where scaleups need more help to flourish.

This is no time for complacency. UK businesses are now facing into the perfect storm of Brexit and Covid-19 and we must double down on fostering and enabling scaleups – locally, regionally and nationally – to help navigate the UK out of deeply challenging times.

Practical solutions, across the public and private sector, now need to be stepped up and should include: the widespread adoption of segmentation and relationship management; effective use of data centrally and locally to enable timely targeting of interventions; expansion of export and procurement programmes such as SBRI, full implementation of local economic plans with scaleups at their heart and the fostering of Clusters and Hubs at a local level, facilitating collaboration and connectivity.

Key agencies have been at the frontline of the public response to the Covid crisis: the British Business Bank, Innovate UK, regional agencies, such as InvestNI, Scottish and Highland Enterprises, and growth hubs.

It is vital to further accelerate the evolution of these agencies, at a national and regional level, including, the continued expansion of existing programmes such as innovation grants and loans alongside regional funds, networks and full implementation of the Patient Capital Review, to unlock UK based institutional investment to fuel scaleup firm growth.

As recovery from the current crisis begins to take hold, it is by addressing these pre-existing gaps that we will enable UK businesses to grow further and faster than they could otherwise have done, enabling a new generation of innovative world beating businesses.

IRENE GRAHAM
CEO, SCALEUP INSTITUTE

SCALEUP LANDSCAPE

33,860
The total number of scaleups in the UK.

3.5m
People employed by scaleups in 2018, across all sectors and local areas of the UK economy, up from 3.4m last year.

£1trn
The total amount of turnover generated by scaleups. This compares to a turnover of £2 trillion by all SMEs combined.

£29.5m
The average turnover of a scaleup.

103
The average number of employees in a scaleup.

Gloucestershire, Oxfordshire and Buckinghamshire Thames Valley.
The three LEPs which have seen the highest scaleup growth relative to their population in 2015-2018.

Information and communication, manufacturing, energy, and accommodation
Sectors which have seen the highest growth in scaleups.

TOP LOCAL AUTHORITIES
Surrey Heath, Corby, Rushmoor, St Albans
saw the fastest scaleup growth outside of London.

6,875
More scaleups in the UK in 2018 compared to 2013. This has been a 25% increase from 2013, compared to 11% GDP growth over the same period.

1.54
Productivity premium of scaleups compared to other businesses in the same sector (on average), up from 1.42 last year. Scaleups continue to be more productive than their peers across virtually all sectors of the economy.

KEY DRIVERS OF LOCAL SCALEUP GROWTH

Factors associated with increased scaleup growth in our quantitative analysis:

- Higher levels of skills.
- Clusters and Hubs.
- Increased equity funding. Bank lending saw no association.

Key factors identified by local leaders to develop higher scaleup growth:

1. KNOWLEDGE SHARING
Active network of peers, strong local supply chains, access to qualified non-executive board members.

2. ACTIVE UNIVERSITY ENGAGEMENT:
Providing relevant training, Research collaboration, Scaleup-graduate interaction.

3. LOCAL AMBITION:
Collective ambition, Ability to tap into 'good will' of stakeholders.

KEY SCALING PIPELINE FINDINGS

16,890
The total number of businesses growing between 15-19.99% in 2018.

1.9m
People employed by scaling businesses in 2018.

£592bn
The total amount of turnover generated by scaling businesses.

SECTION 1

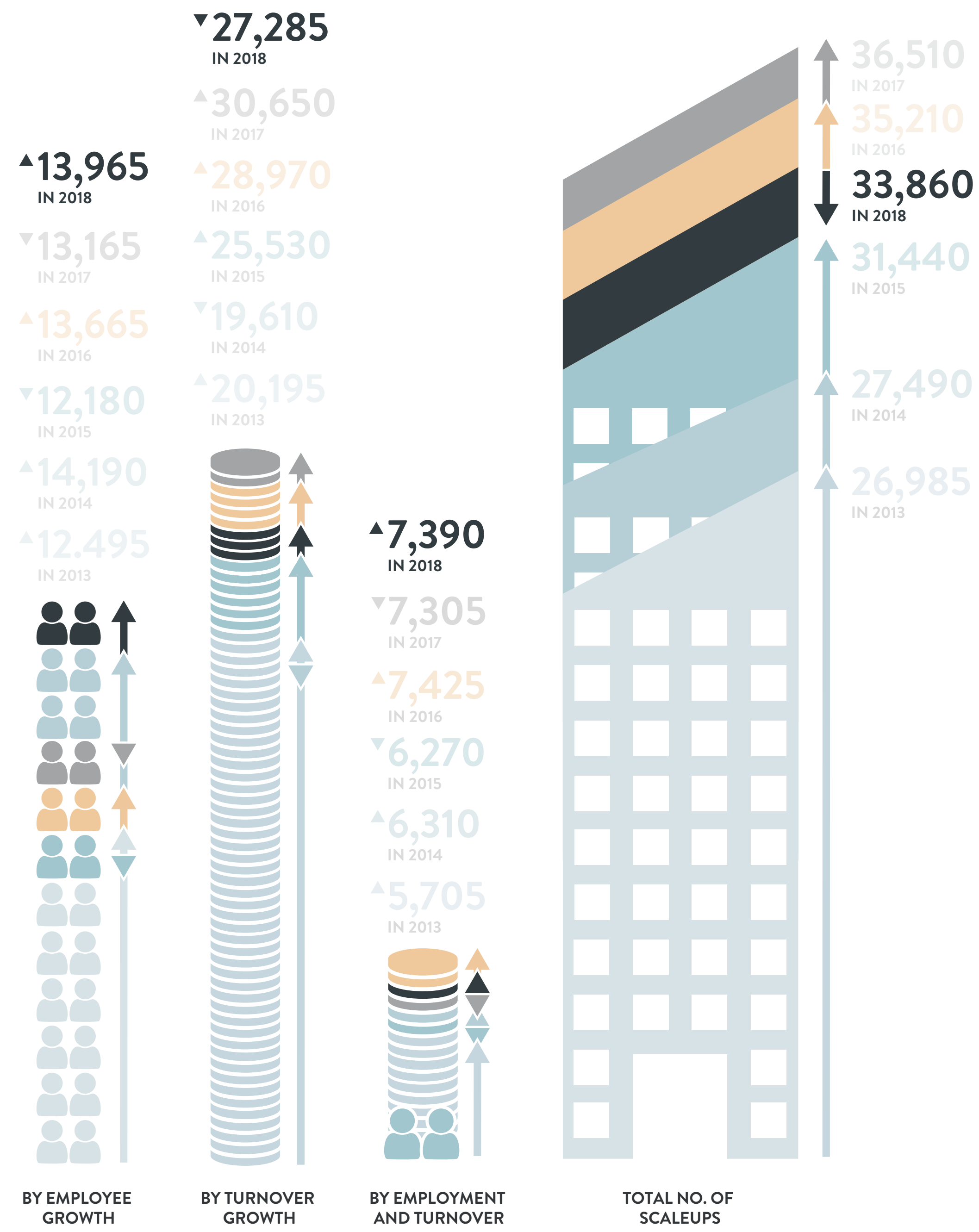
The Scaleup Landscape – Numbers and performance

The ScaleUp Institute's analysis of the latest ONS data showed that in 2018 there were 33,860 scaleups in the UK. This uses the OECD high-growth (scaleup) definition of firms growing their employment numbers and/or turnover by more than 20% a year over a period of three years, with at least 10 employees at the start of the period.

This number has fallen over the year – a risk we signalled in our 2019 review. This was driven by an 11% fall in scaleups growing by turnover which now number 27,285. However, the total number of scaleups is still 25% above the figure in 2013, compared to 16% growth in SMEs over the same period. The ONS data shows that there was a 6.1% increase in scaleups growing by employment - to 13,965. Importantly, there was also a 1.2% increase in scaleups growing by both turnover and employment - to 7,390.

Scaleups employed 3.5 million people in 2018, up from 3.4 million in 2017.

UK SCALEUPS BY EMPLOYMENT GROWTH AND TURNOVER GROWTH



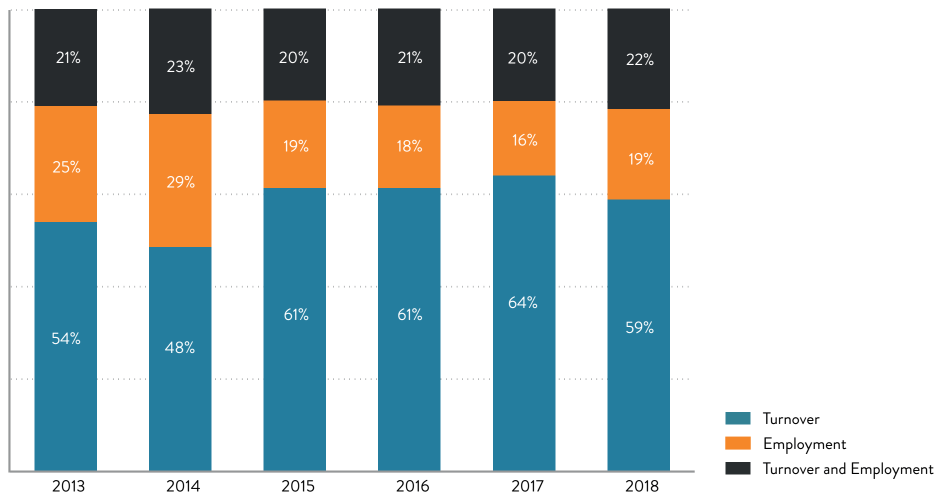
Source: ONS IDBR 2010-2018

The proportion of scaleups in the UK which were scaling both by turnover and employment increased from 20% to 22%. Those which were scaling by employment exclusively increased in 2018 from 16% to 19%. However, the proportion scaling by turnover exclusively showed a significant decrease from 64% to 59%. This may highlight the increasing challenges of gaining access to markets and selling products which will become an increasing problem as we manage the political and economic uncertainties surrounding the UK's decision to leave the EU.

The largest decrease in turnover scaleups was in the health/social work sector, which accounts for 43% of the fall. With construction and education, these three sectors account for almost three-quarters of the decline in turnover scaleups (74%). The decline in the construction industry turnover scaleups is in line with industry trends – 2018 was the first year since 2012 that the UK construction industry contracted in size.[1]

1 ONS GDP Low Level Aggregates.

PROPORTION OF UK SCALEUPS SCALING THEIR TURNOVER, EMPLOYMENT OR BOTH EMPLOYMENT AND TURNOVER

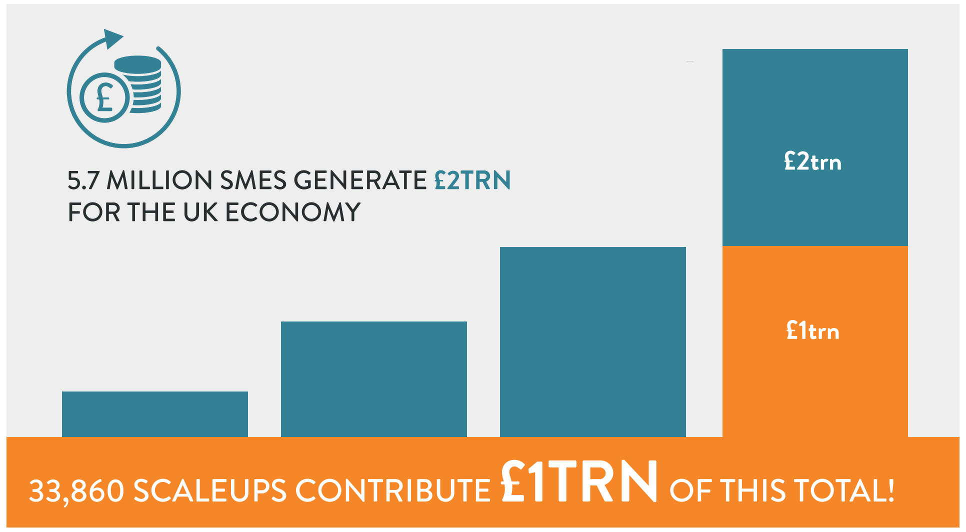


Source: ONS IDBR 2010-2018

Scaleups remain the growth champions of SMEs but there is no room for complacency

While the number of employment scaleups has increased, turnover scaleups are down, we are now at the lowest total number of scaleups since 2016. However, these scaleups generated a total turnover of £1 trillion for the UK economy - for an average turnover per employee of £286,000. This is a powerful demonstration of the significant contribution scaleups make to the economy as it represents half of the total turnover generated by the total SME population.[2] The average turnover per scaleup was £29.5m with an average of 103 employees.

SCALEUP ARE OUR GROWTH CHAMPIONS :



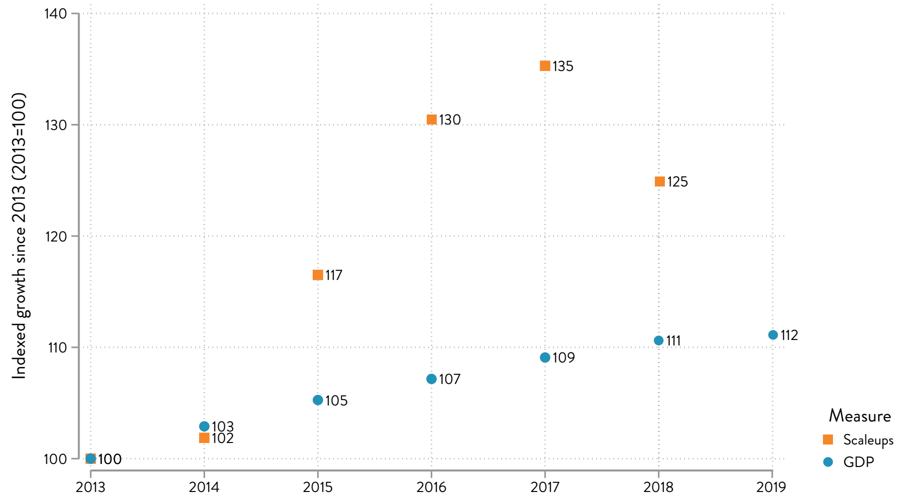
Source: ONS IDBR 2010-2018 for total scaleup turnover, ONS Business Population Estimates 2018 for total SME turnover

2 ScaleUp Institute analysis of ONS Business Population Estimates 2013-2018. ONS Business Population Estimates used for the total SME turnover exclude financial sector turnover, SMEs are defined as companies with 0-250 employees.

Scaleups continue to outstrip GDP

Scaleup numbers are 25% above the 2013 total and in the period up to 2018 they have outperformed the economy and other small businesses. Over the same five-year period GDP has grown by 11% and the number of SMEs has grown by 16%. The chart below compares the growth in GDP, and the growth in the number of scaleups, using 2013 as the base year.

GDP AND SCALEUP GROWTH RATE SINCE 2013

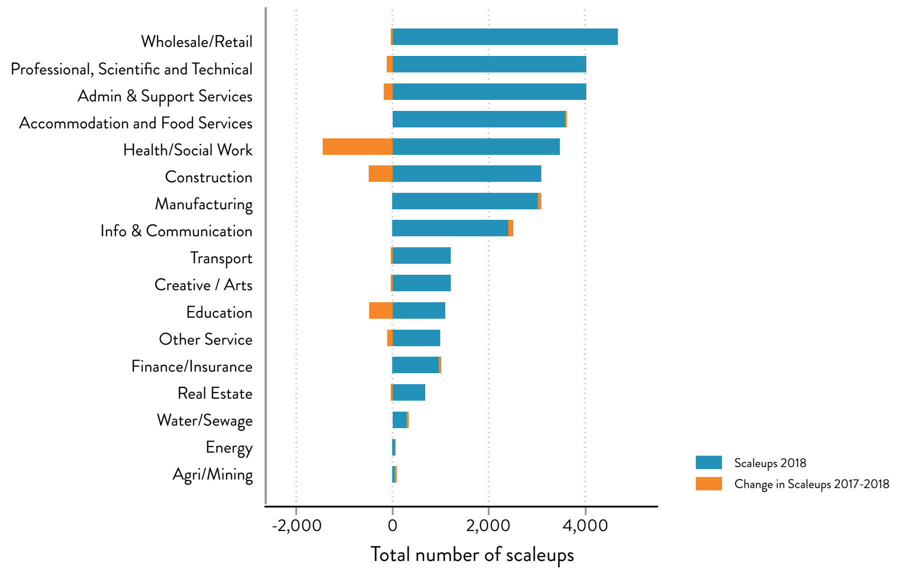


Sources: IDBR 2010-2018, ONS GDP first quarterly estimate time series

Scaleups span the breadth of the economy

Scaleups exist in all sectors of the economy. The ONS data shows that the largest five sectors by scaleup count in 2018 remain the same as for 2017 - although their order has changed. Wholesale/retail has become the largest sector and the professional, scientific and technical has moved up from fourth place in 2017 to the second largest sector in 2018. The health/social work sector shows the biggest decline; it was the largest sector for scaleups in 2017. The sectors which show the largest increases in scaleup numbers are manufacturing, and information & communications.

SCALEUPS BY SECTOR



Source: ONS IDBR 2010-2018

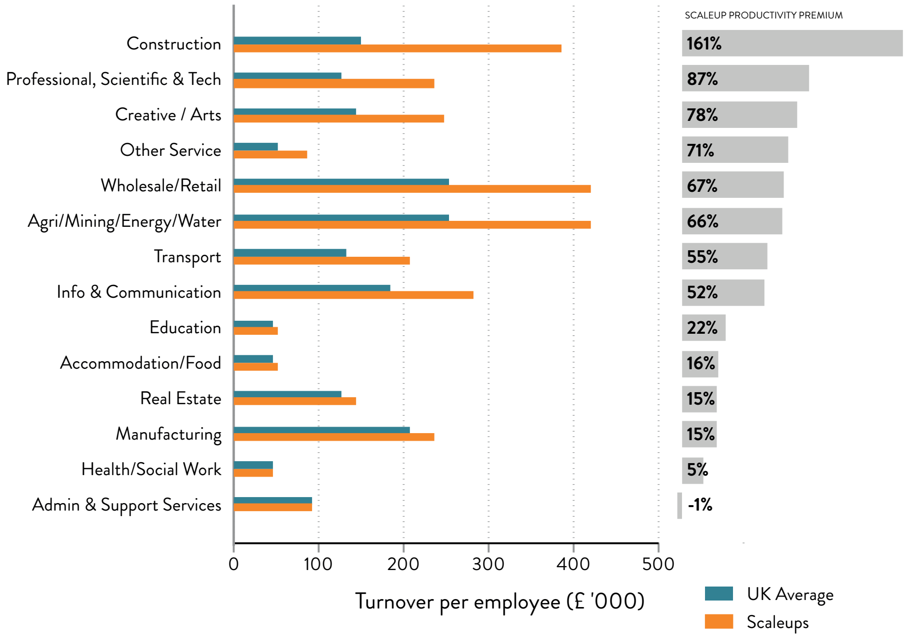
Scaleups: Powerhouses of productivity

Scaleups continue to be more productive than other UK businesses across almost every sector of the economy.

The average productivity **rose significantly in 2018**. The premium of scaleups across all sectors was 54%, compared to 42% last year.[3] In three sectors, the disparity of performance is particularly marked.

- Construction industry scaleups produced 161% more turnover per employee than other businesses in the industry this is despite a decline in the number of construction scaleups.
- Professional, scientific and technical scaleups were the next most productive – 87% more productive than other businesses in the same industry.
- Creative scaleups were 78% more productive than other UK creative businesses.

SCALEUPS ARE MORE PRODUCTIVE THAN THE UK AVERAGE ACROSS ALMOST EVERY SECTOR



ONS IDBR 2015-2018, ScaleUp Institute analysis of ONS Business Population Estimates 2018
Notes: Financial sector excluded as the ONS do not publish financial sector productivity estimates

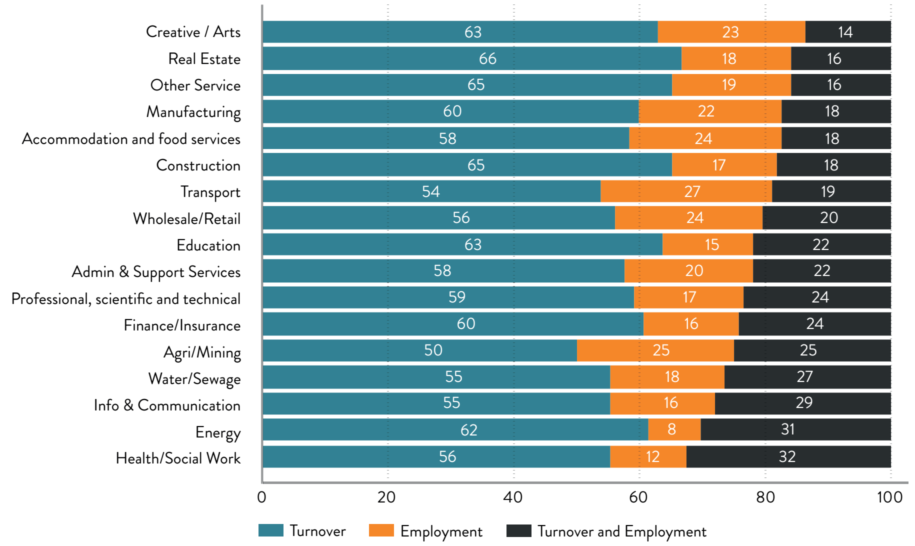
Scaleups: Patterns of turnover and employment growth

Overall, 59% of scaleups are scaling by turnover, 22% by employment and turnover, and 19% by employment exclusively. There is little variation among sectors in the proportion of scaleups scaling by turnover exclusively. However considerable variations are seen in the proportion of scaleups scaling by both turnover and employment and those scaling by employment exclusively.

- 66% of scaleups in real estate and 65% of those in other services and construction were scaling exclusively by turnover.
- Transport (27%), agriculture/mining (25%) and accommodation and food services (24%) were the most likely to scale by employment exclusively.
- Health/social work (33%), energy (31%) and information and communication (29%) sectors had the highest proportion of scaleups scaling by both turnover and employment.

3 Productivity premium is defined as the percentage difference in turnover per employee between scaleups in a given sector compared to that of all UK businesses in the same sector. We obtain the average by looking at the productivity premium in the sector with the median productivity premium.

PROPORTION OF UK SCALEUPS SCALING THEIR TURNOVER, EMPLOYMENT OR BOTH EMPLOYMENT AND TURNOVER BY SECTOR



ONS IDBR 2015-2018, ScaleUp Institute analysis of ONS Business Population Estimates 2018

Levelling up must be a priority — analysis of local scaleup populations and growth rates

Across the 38 LEPs and three devolved nations, we can now look at a five-year time horizon since 2013, as well as the three-year rolling average.

Over the five-year monitoring period since 2013 (outlined in orange on the table below) a number of trends appear across local areas:

- 39 of the 41 LEPs/devolved nations grew in scaleups per 100,000 population
- There were 15 areas[4] where annual growth was greater than two additional scaleups per 100,000 population of which four grew faster than three additional scaleups per 100,000 population - Gloucestershire, Thames Valley Berkshire, London and Enterprise M3.
- In seven 'cold spots' growth was less than one additional scaleup per 100,000 population; these were Swindon and Wiltshire, Stoke-on-Trent and Staffordshire, Greater Birmingham and Solihull, Leicester and Leicestershire, Tees Valley, Coventry and Warwickshire, and Black Country.
- Of the top 10 growing areas between 2013 and 2018, five were also in the top 10 for the 2015-2018 ranking – Gloucestershire, Thames Valley Berkshire, London, Greater Cambridge and Greater Peterborough, and Oxfordshire.

4 Gloucestershire, Thames Valley Berkshire, London, Enterprise M3, Greater Cambridge and Greater Peterborough ,Northern Ireland, Cornwall and Isles of Scilly, Oxfordshire, York, North Yorkshire and East Riding, Cheshire and Warrington, New Anglia, The Marches, West of England, Coast to Capital, Hertfordshire.

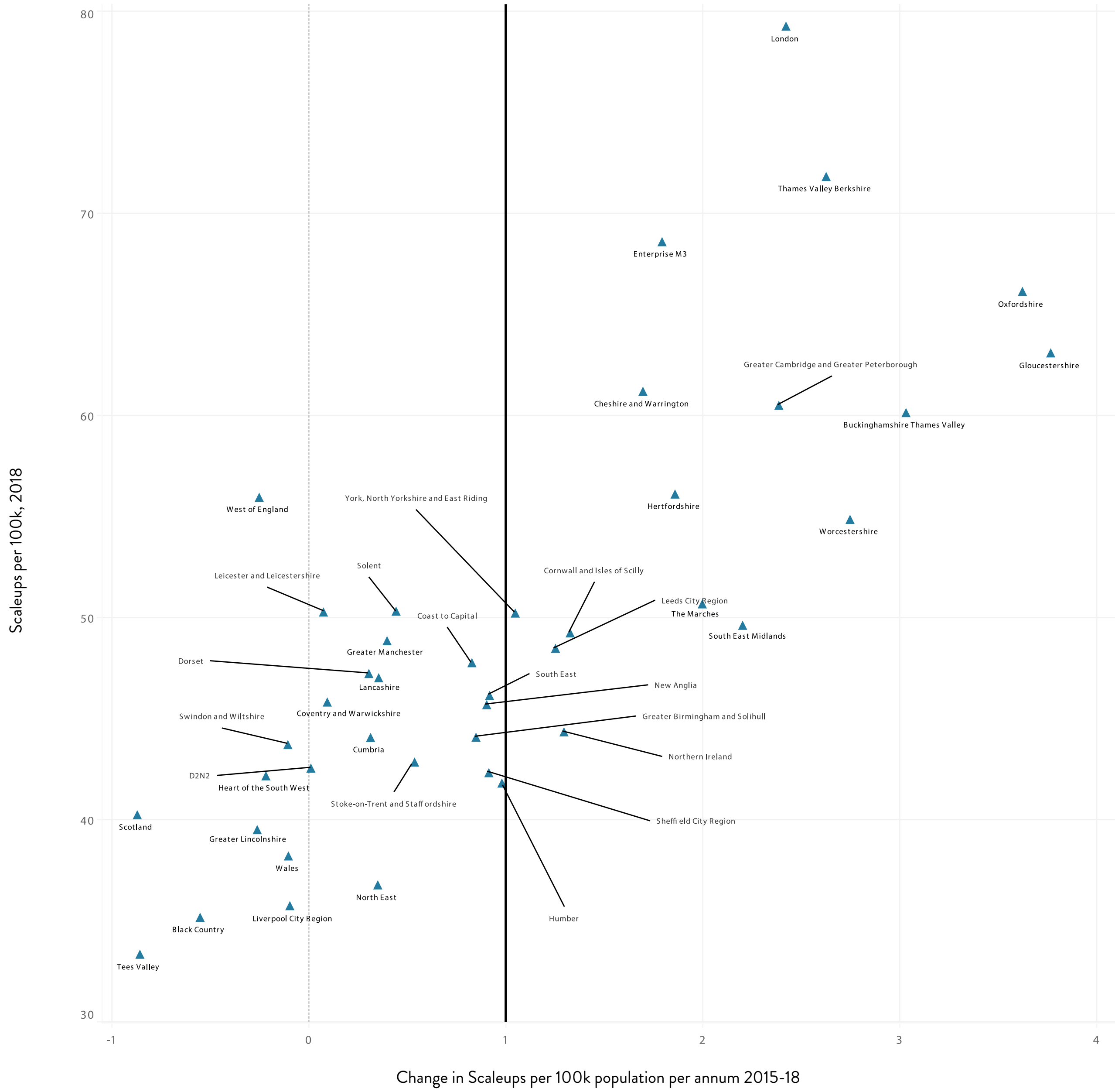
LOCAL GROWTH RATES IN NUMBER OF SCALEUPS PER 100K POPULATION

	5 Year trend	Scaleups per 100k pop	
Local Area	2013-18 (since monitoring began)	2018	2017
Gloucestershire	3.4	63.1	60.5
Thames Valley Berkshire	3.3	71.9	75.6
London	3.1	79.3	81.8
Enterprise M3	3.0	68.6	70.7
Greater Cambridge & Greater Peterborough	2.9	60.5	61.9
Northern Ireland	2.6	44.4	50.2
Cornwall and Isles of Scilly	2.5	49.3	52.3
Oxfordshire	2.4	66.2	70.3
York, North Yorkshire and East Riding	2.4	50.3	57.9
Cheshire and Warrington	2.3	61.2	64.2
New Anglia	2.2	45.7	50.1
Coast to Capital	2.1	47.8	50.3
The Marches	2.1	50.7	50.4
West of England	2.1	56	63.6
Hertfordshire	2.0	56.1	63.5
South East	1.9	46.2	50.4
Sheffield City Region	1.8	42.4	46.9
Solent	1.8	50.4	54.9
Buckinghamshire Thames Valley	1.6	60.2	62.5
Cumbria	1.6	44.1	48.2
Greater Lincolnshire	1.6	39.5	45.3
Leeds City Region	1.6	48.5	54
Wales	1.6	38.2	45.4
D2N2	1.5	42.6	46.7
Greater Manchester	1.5	48.9	54.7
Heart of the South West	1.5	42.2	48.5
Scotland	1.5	40.3	43.8
Humber	1.3	41.8	45.7
Worcestershire	1.2	54.9	55.2
Dorset	1.1	47.3	49.3
North East	1.1	36.8	41.6
Lancashire	1.0	47.1	53.7
Liverpool City Region	1.0	35.8	40.5
South East Midlands	1.0	49.7	54.3
Swindon and Wiltshire	1.0	43.7	52.3
Stoke-on-Trent and Staffordshire	0.5	42.9	47.5
Greater Birmingham and Solihull	0.4	44.1	48.5
Leicester and Leicestershire	0.1	50.3	53.7
Tees Valley	0.1	33.4	37.9
Coventry and Warwickshire	-0.3	45.9	52.4
Black Country	-1.4	35.2	40.5

ONS IDBR 2010-2018

Note: Grey shading indicates where growth rate of the number of scaleups is less than one

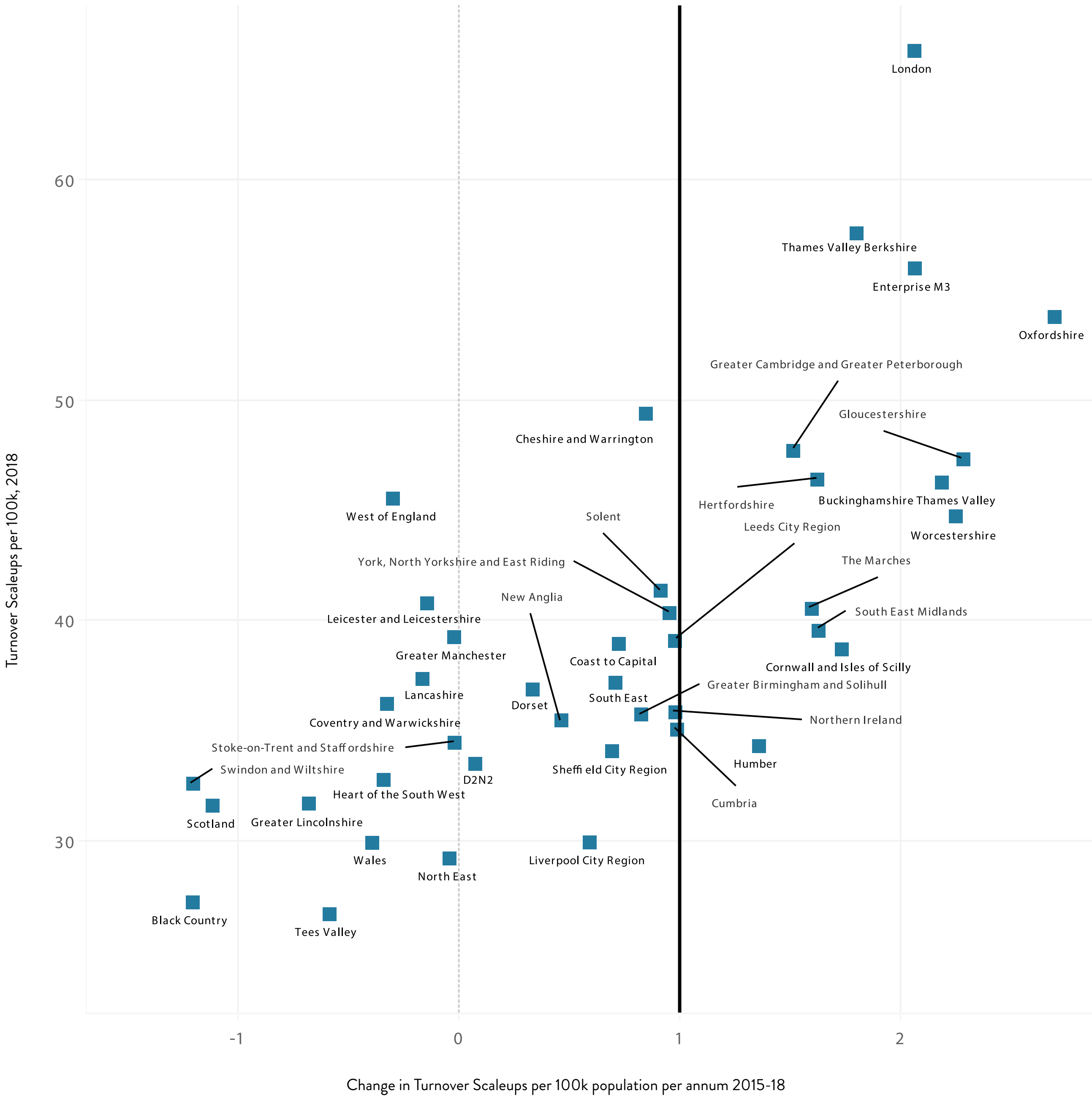
LEP/DEVOLVED NATION GROWTH 2015-2018 (ALL SCALEUPS)



Local patterns on turnover and employment scaleups

The top 5 LEPs/devolved nations for growth in turnover scaleups were Oxfordshire, Gloucestershire, Worcestershire, Buckinghamshire Thames Valley, and Enterprise M3.

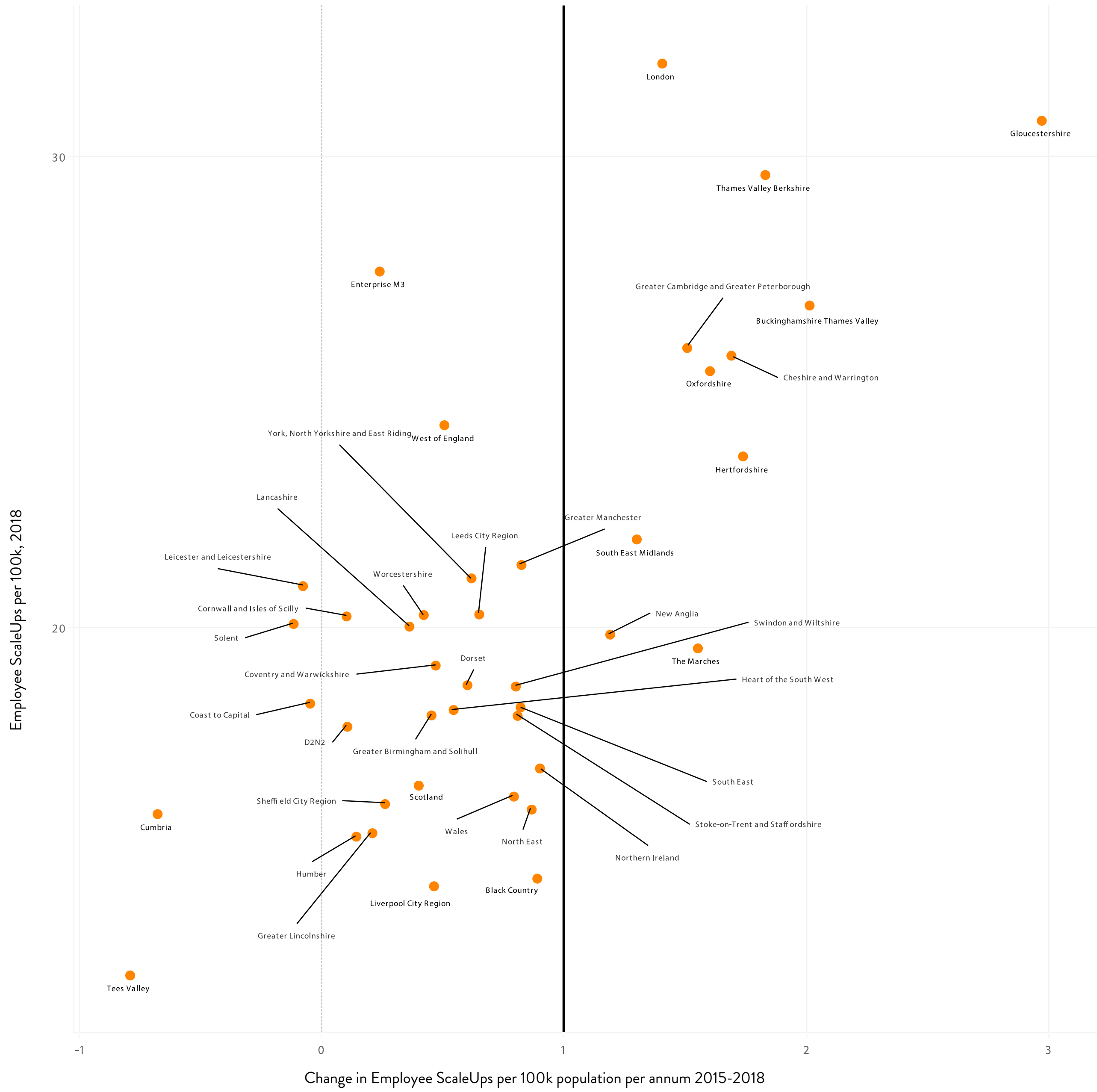
LEP/DEVOLVED NATION GROWTH 2015-2018 (TURNOVER SCALEUPS)



Source: ONS IDBR 2010-2018

The top 5 LEPs/devolved nations for growth in employment scaleups were Gloucestershire, Buckinghamshire Thames Valley, Thames Valley Berkshire, Hertfordshire, and Cheshire and Warrington.

LEP/DEVOLVED NATION GROWTH 2015-2018 (EMPLOYMENT SCALEUPS)

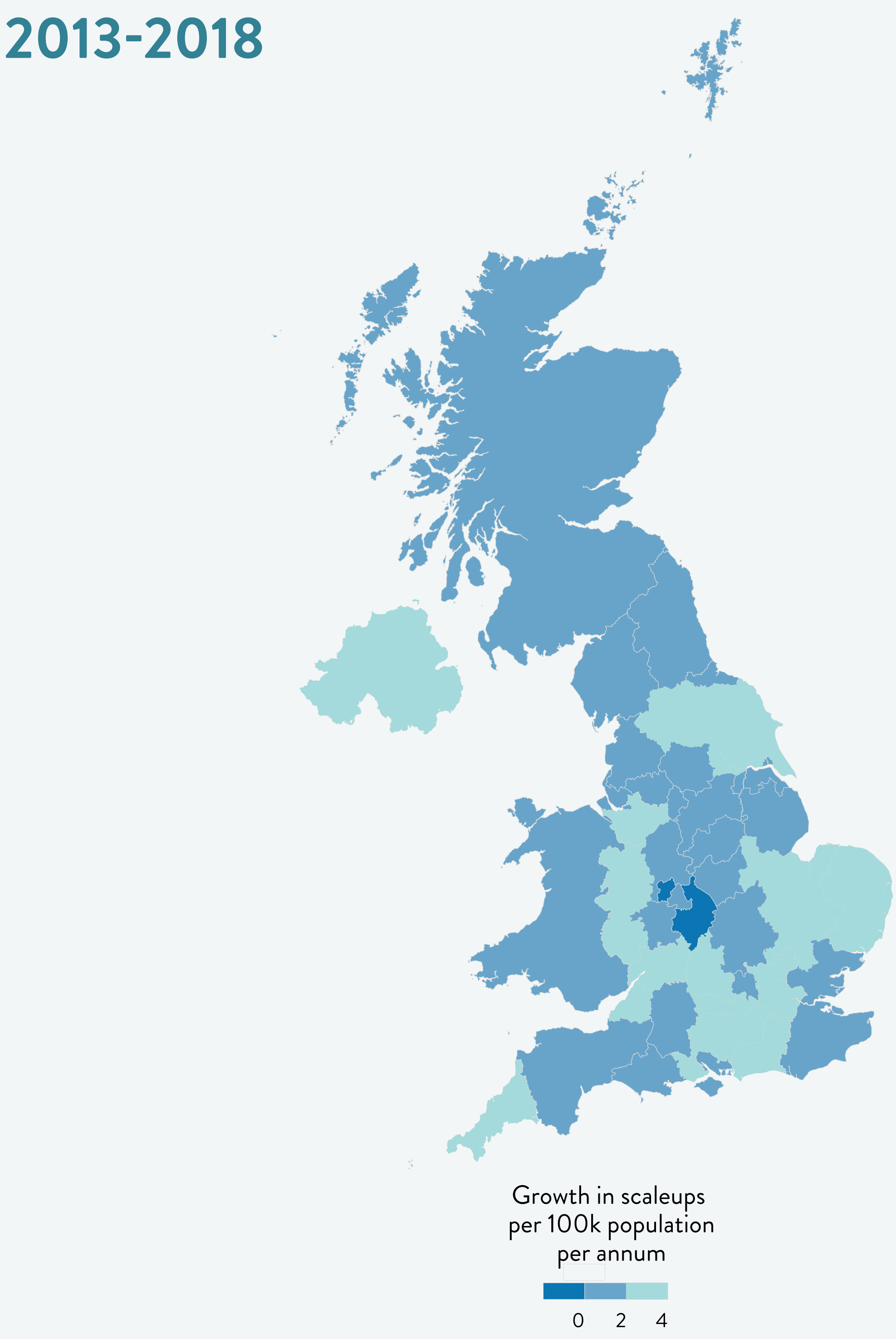


Source: ONS IDBR 2010-2018

Growth in employment scaleups in 2018 was significantly stronger than in 2017. In 2018, 11 LEPs were growing at a rate of greater than one scaleup per 100k population per annum versus one in 2017. These growth rates and scaleup densities for local areas are shown in the charts below.

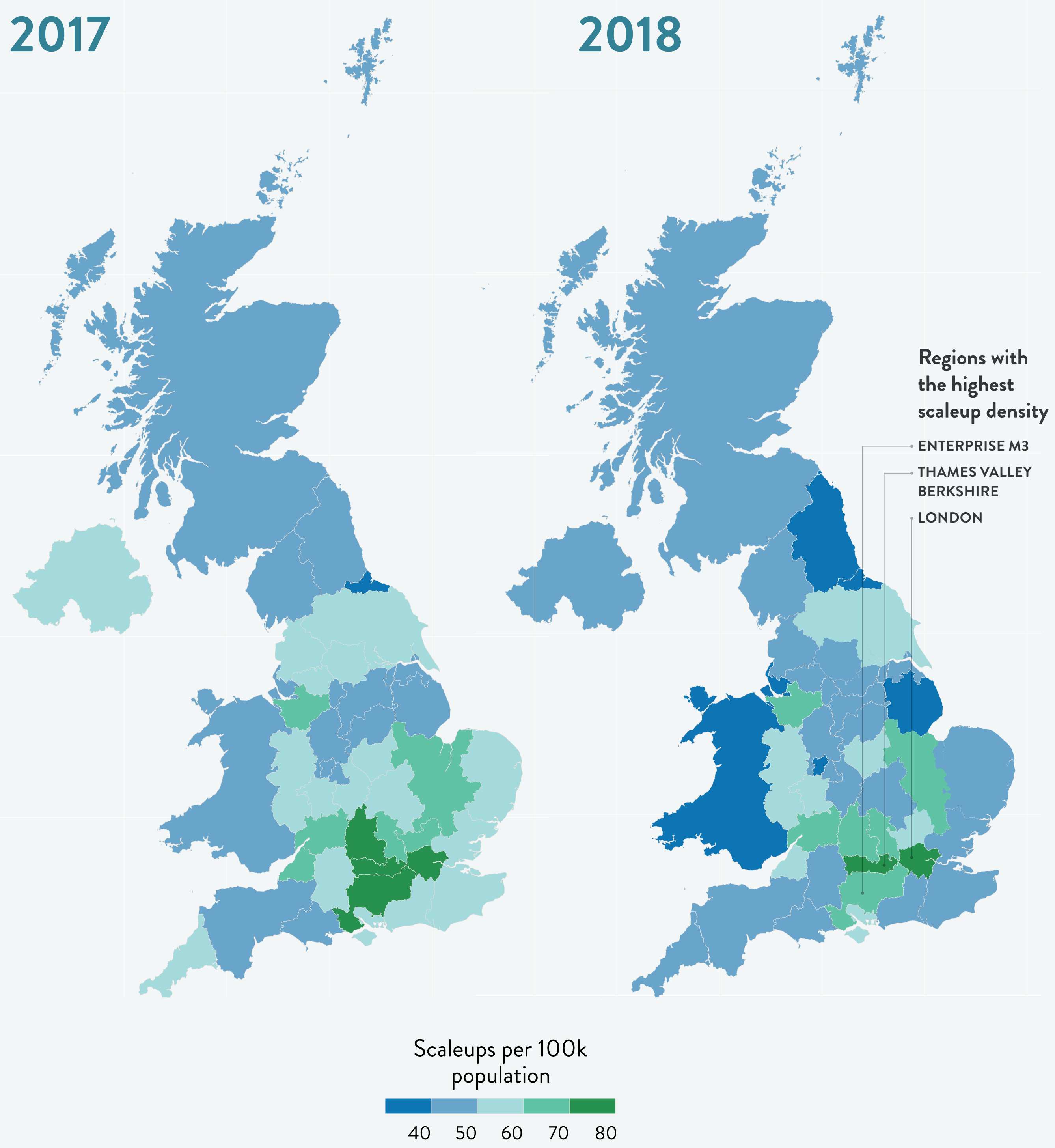
The growth in scaleups at a LEP level is also illustrated in the maps below, with areas of a more fertile green exhibiting higher growth and areas of blue showing slower growth or decline in scaleup populations. Relative to last year, there are more regions of slower growth, while the areas of highest growth are now Gloucestershire, Oxfordshire and Buckinghamshire Thames Valley.

MAP OF AVERAGE ANNUAL CHANGE IN SCALEUPS PER 100K POP, BY LEP/DEVOLVED NATION



The maps below show the variation in the absolute number of scaleups, adjusted for population.

MAP OF NUMBER OF SCALEUPS PER 100K POP, BY LEP/DEVOLVED NATION

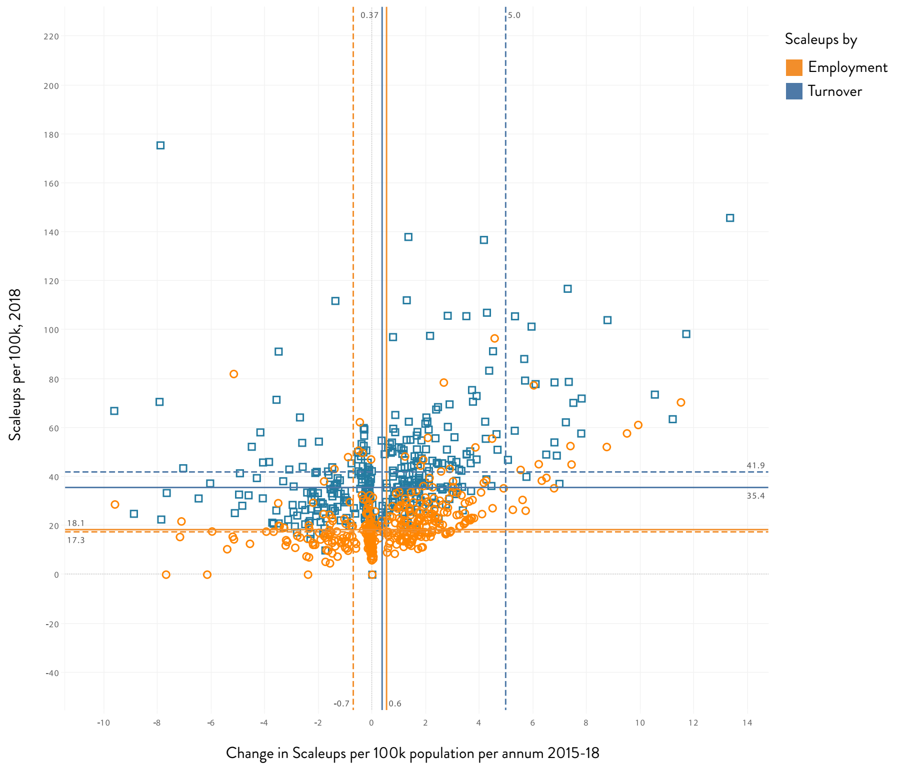


Local authority picture

Analysis at specific local authority level highlights further regional disparities. The number of scaleups per 100,000 of population varied widely among local authorities - from less than 20 in Isles of Scilly, West Somerset, Lewisham, East Dunbartonshire and Inverclyde, to more than 100 in Surrey Heath and several London authorities. The figure below plots the number of employment and turnover scaleups by local authority against the growth rate.

The median growth rate and density for employment scaleups has increased, suggesting that scaleups across many local areas continued to hire in 2018. There were declines in the median density and growth rate for turnover scaleups, reflecting weaker turnover figures. Across the UK, all of 381 local authorities had more turnover scaleups than employment scaleups.

TURNOVER AND EMPLOYMENT SCALEUP GROWTH AND NUMBERS PER 100K POPULATION BY LOCAL AUTHORITY



Source: ONS IDBR 2010-2018
Notes: Solid lines indicate median value by measure, dashed lines indicate median value for previous year's data.
Outliers not shown - these are some local authorities in London.

SECTION 2

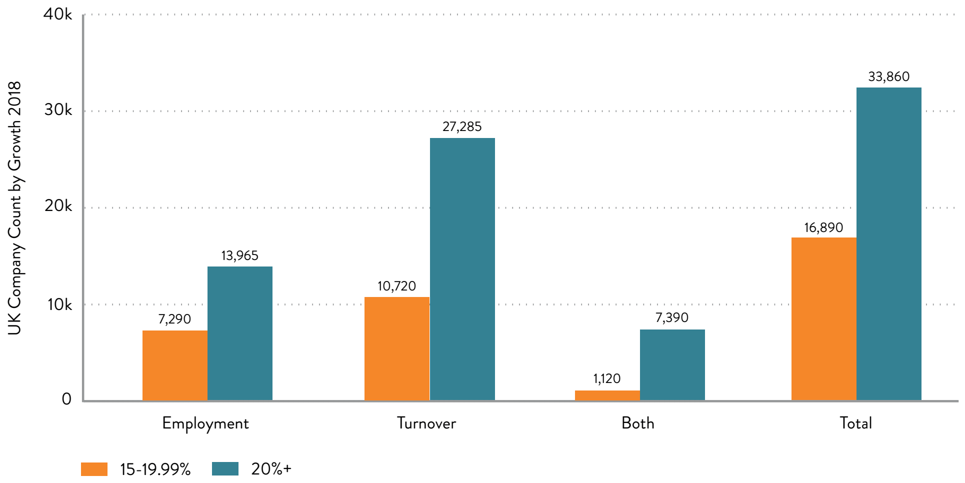
Small high growth businesses

Observing the scaling pipeline

This year, the ScaleUp Institute has looked for the first time at the "scaling pipeline": those businesses that are not yet at scaleup growth rates but are growing either or both turnover and employment at 15-19.99% annually between 2015-18.

In 2018 there were 16,890 scaling businesses, employing 1.9m people with a combined turnover of £592bn.

UK SCALEUPS AND THE SCALING PIPELINE BY EMPLOYMENT GROWTH AND TURNOVER GROWTH



Source: ONS IDBR 2010-2018

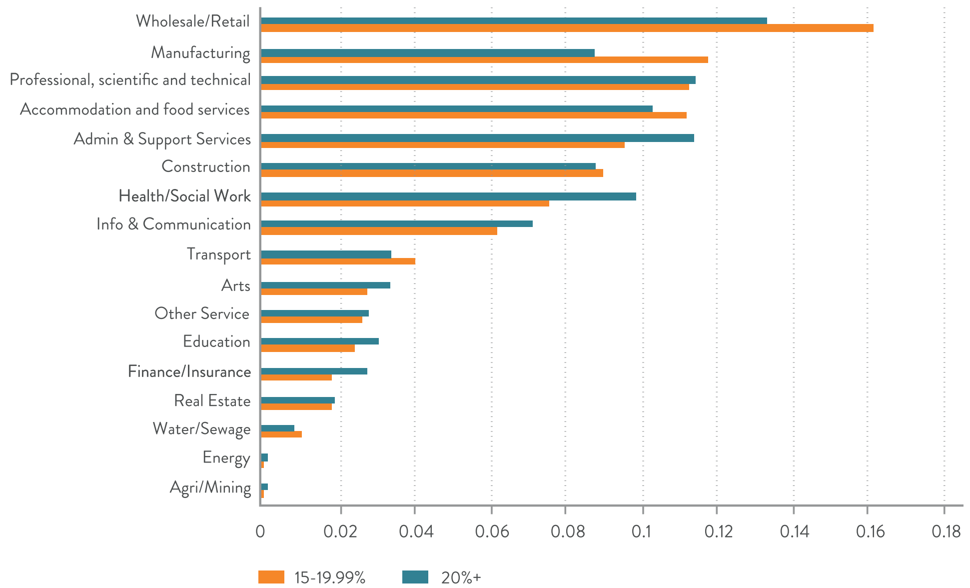
This new analysis allows us to see the characteristics of our pipeline and how it is shaping the scaleup ecosystem. Examination of the absolute number of businesses in the scaling pipeline in 2018 shows:

- The number of companies in the pipeline is half that of the number of scaleups. Proportionately, the pipeline appears to be strongest in companies measured by employment growth - a pointer that the scaleup pipeline represents an important source of future job creation.
- As with scaleups, they are across all sectors of the economy with some notable variations, there is a higher proportion of scaling businesses in manufacturing and wholesale/retail sectors and significantly fewer in health/social work, administration and support services, and finance/insurance.
- There are similar variations regionally - however as with scaleups the highest number of scaling businesses are in London, Scotland and the South East.

Scaling sectors

When viewed proportionally, the number of businesses in the scaling pipeline is greater than the number of scaleups in six sectors. This is particularly notable in the manufacturing and wholesale/retail sectors. But in almost twice as many sectors, there are more scaleups than businesses in the scaling pipeline. This is particularly in health/social work, administration and support services, and finance/insurance.

UK SECTOR PROPORTION BY GROWTH RATE

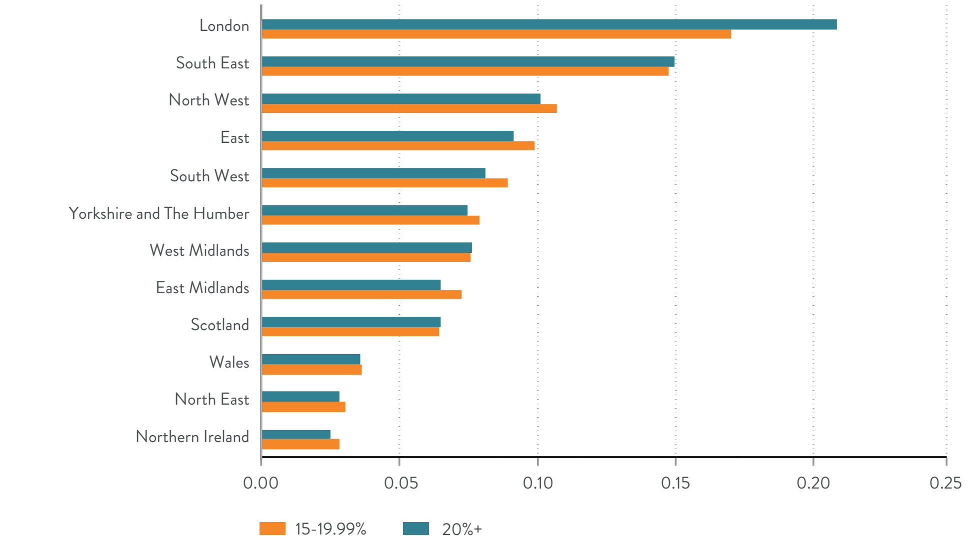


Source: ONS IDBR 2010-2018

Regional distribution of the scaling pipeline

In most areas and regions, the spread of pipeline scaleups is consistent with the spread of scaleups. Only in London are there many more scaleups in London in comparison with the pipeline. In Northern Ireland, East Midlands, South West and East of England the pipeline of scaleups is greater relative to the number of scaleups.

UK AREA PROPORTION BY GROWTH RATE



Source: ONS IDBR 2010-2018

Local area pipelines

At the LEP and Devolved Nation level, we see similar trends between total numbers of scaleups and those in the pipeline:

- London, Scotland, South East, Leeds City Region and Greater Manchester have the greatest numbers of scaling businesses. London, Scotland and the South East are also the three regions with the highest number of scaleups.
- The areas with the fewest businesses in their scaling pipeline were Tees Valley, Cumbria, Worcestershire and The Marches.
- All of the top ten areas in number of pipeline scaleups were also in the top ten for number of scaleups.
- All of the bottom ten areas in the number of pipeline scaleups were also in the bottom ten in the number of scaleups.

SCALEUPS AND SIZE OF SCALEUP PIPELINE, BY LOCAL AREA/DEVOLVED NATION

	TOTAL BUSINESS POPULATIONS		DENSITY PER 100K POP	
LEP / DEVOLVED NATION	Total Pipeline Scaling Businesses (15-19.99%)	Total Scaleups (20%+)	Pipeline Scaling Businesses per 100k (15-19.99%)	Scaleups per 100k (20%+)
Black Country	235	420	19.7	35.2
Buckinghamshire Thames Valley	180	325	33.3	60.2
Cheshire and Warrington	295	570	31.7	61.2
Coast to Capital	505	975	24.8	47.8
Cornwall and Isles of Scilly	175	280	30.8	49.3
Coventry and Warwickshire	235	430	25.1	45.9
Cumbria	130	220	26.1	44.1
D2N2	535	940	24.2	42.6
Dorset	195	365	25.3	47.3
Enterprise M3	**530**	**1,170**	**31.1**	**68.6**
Gloucestershire	205	400	32.4	63.1
Greater Birmingham and Solihull	460	900	22.5	44.1
Greater Cambridge and Greater Peterborough	460	875	31.8	60.5
Greater Lincolnshire	230	430	21.1	39.5
Greater Manchester	700	1,375	24.9	48.9
Heart of the South West	395	740	22.5	42.2
Hertfordshire	355	665	30.0	56.1
Humber	215	390	23.1	41.8
Lancashire	400	705	26.7	47.1
Leeds City Region	785	1,495	25.5	48.5
Leicester and Leicestershire	305	530	29.0	50.3
Liverpool City Region	285	555	18.4	35.8
London	**2,880**	**7,065**	**32.3**	**79.3**
New Anglia	445	760	26.8	45.7
North East	390	730	19.7	36.8
Northern Ireland	475	835	25.2	44.4
Oxfordshire	225	455	32.7	66.2
Scotland	1,085	2,190	20.0	40.3
Sheffield City Region	410	795	21.8	42.4
Solent	385	815	23.8	50.4
South East	1,000	1,955	23.6	46.2
South East Midlands	525	1,010	25.8	49.7
Stoke-on-Trent and Staffordshire	225	485	19.9	42.9
Swindon and Wiltshire	175	315	24.3	43.7
Tees Valley	**120**	**225**	**17.8**	**33.4**
Thames Valley Berkshire	305	655	33.5	71.9
The Marches	170	350	24.6	50.7
Wales	615	1,200	19.6	38.2
West of England	360	645	31.2	56.0
Worcestershire	150	325	25.3	54.9
York, North Yorkshire and East Riding	330	585	28.4	50.3

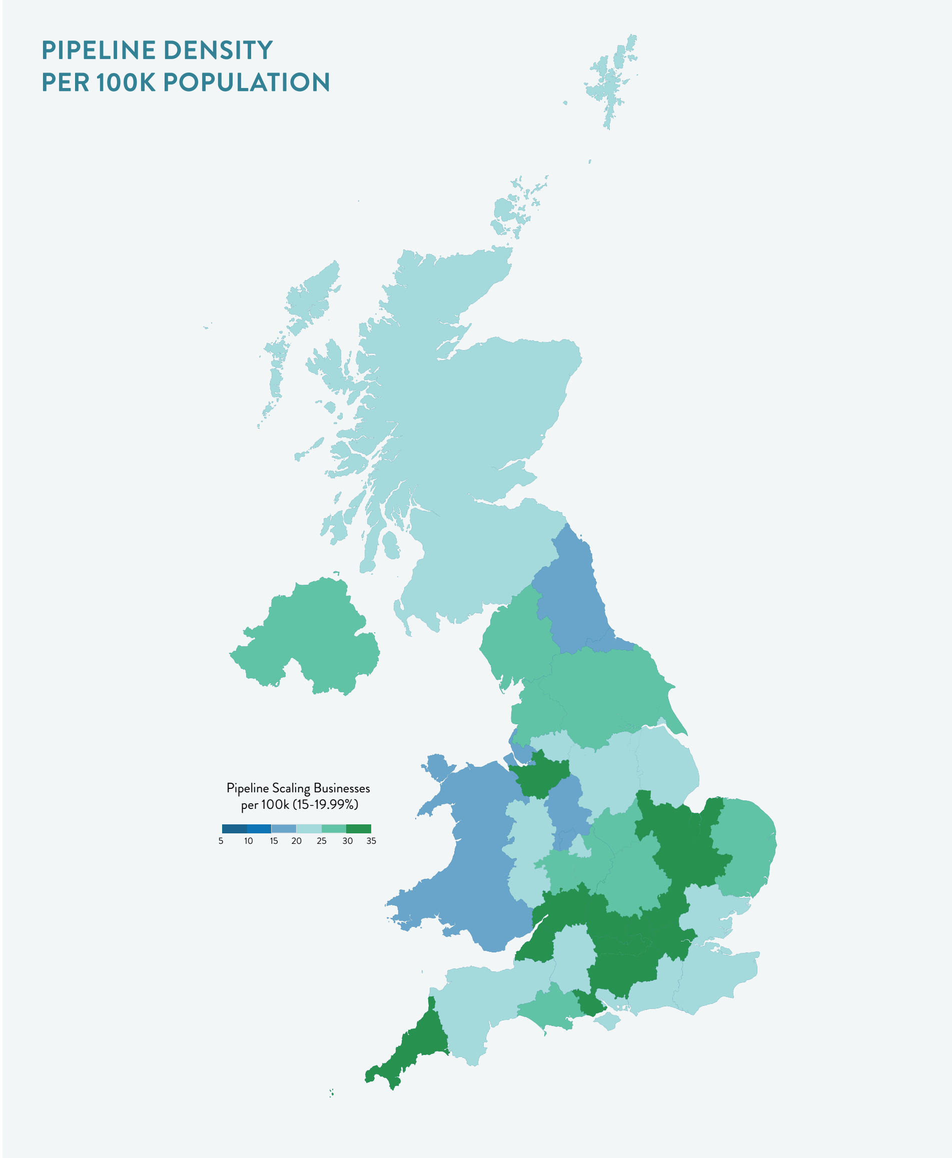
Analysing the density of scaling businesses per 100k population, we find:

- The areas with the highest pipeline scaling density were Thames Valley Berkshire, Buckinghamshire Thames Valley, Oxfordshire, Gloucestershire and London.
- The areas with the lowest pipeline scaling density were Tees Valley, Liverpool City Region, Wales, North East and Black Country.
- There is strikingly little difference between the places which have a strong scaling pipeline and high number of scaleups - nine of the top ten areas in pipeline scaling density were also in the top ten for scaleup density.
- Nine of the bottom ten areas in pipeline scaling density were also in the bottom ten for scaleup density.

There are significant differences when comparing the areas with the highest density of scaling businesses and the most scaling businesses in absolute numbers:

- 2 of the top 10 areas in scaling pipeline density were also in the top 10 for absolute number of pipeline scaling businesses - London and Enterprise M3 (outlined in orange on the table opposite).
- Tees Valley was the only area in the bottom 10 in scaling pipeline density and also in the bottom 10 in terms of total pipeline scaling businesses.

DENSITY OF PIPELINE SCALING BUSINESSES PER 100K POPULATION



SECTION 3

Drivers of scaleup growth

Since 2014, the ScaleUp Institute has consistently identified access to skills, markets, local leadership, finance and infrastructure as the key barriers to scaleup growth.[5] This has been reinforced by a growing body of literature on scaleups.[6,7] There are many potential drivers of growth. However, there is currently insufficient research available assessing the regional economic drivers of scaleup growth. In a report for the OECD, Audretsch and David said that "the geographical dimension [of high-growth firms] have been largely overlooked."[8]

To better understand the factors that drive scaleup growth the ScaleUp Institute collaborated on a project with Arup. We interviewed a sample of scaleup leaders across the UK, carried out a detailed review of recent academic literature and conducted an in-depth statistical analysis of growth factors.

"What, if any, place-based drivers of scaleup growth can be identified in the UK?" was the question to which we sought answers.

We gathered both qualitative and quantitative evidence. This mixed methods approach allowed us to dig deeper into local drivers of growth than before.

Qualitative analysis

In collaboration with Arup, we conducted semi-structured in-depth interviews across a range of local areas from high performing to developing growth paths (Oxford, West of England, TVB, North East, Leeds, Scotland, Cornwall, Greater Manchester). Local leaders consistently identified these areas as key drivers of scaleup growth:

Knowledge sharing - where individuals, businesses and institutions build informal networks which enable knowledge, skills and experience to be spread more widely.

- Active network of peers.
- Strong local supply chains with links between small and large firms
- Access to qualified non-executive board members

Active University Engagement

- Providing relevant training
- Research collaboration
- Interaction between scaleups and graduates

Local Ambitions

- A strong sense of local identity and ambition
- Support and goodwill from the wider group of local stakeholders

5 The Scale-up Report 2014.

6 Teruel, M. and De Wit, G. (2017). Determinants of high-growth firms: why do some countries have more high-growth firms than others?. In Exploring the Entrepreneurial Society, Edward Elgar Publishing.

7 Brown, R., Mawson, S., and Mason, C., (2017). Myth-busting and entrepreneurship policy: the case of high growth firms. Entrepreneurship and Regional Development.

8 Audretsch, David B, (2012). Determinants of high-growth entrepreneurship. In Report prepared for the OECD/DBA International Workshop on "High-Growth Firms: local policies and local determinants.

Quantitative analysis

Informed by this evidence and insight, we identified a number of potential factors linked to scaleup growth, as measured by the average increase in scaleup density between 2013-2018. We used data from the Census, ONS and Beauhurst, at a local authority district (LAD) level. Regression analysis allowed us to isolate the effects of specific factors. We used spatially lagged variables to control for spillover effects from neighbouring areas. We also controlled for GVA and GVA growth.

From our analysis, we found three main factors driving scaleup growth - **equity finance, skills and sectoral clustering**. A number of other factors demonstrated no clear relationship with scaleup growth - SME bank lending rates, proportion of large firms, start-up density and start-up survival rate. We used spatially lagged variables for each factor which account for the effects from neighbouring areas. We also accounted for the starting GVA of the area and GVA growth. The effects remained robust even after controlling for these factors.

FACTORS AND THEIR ROLE IN SCALEUP DENSITY GROWTH 2013-2018

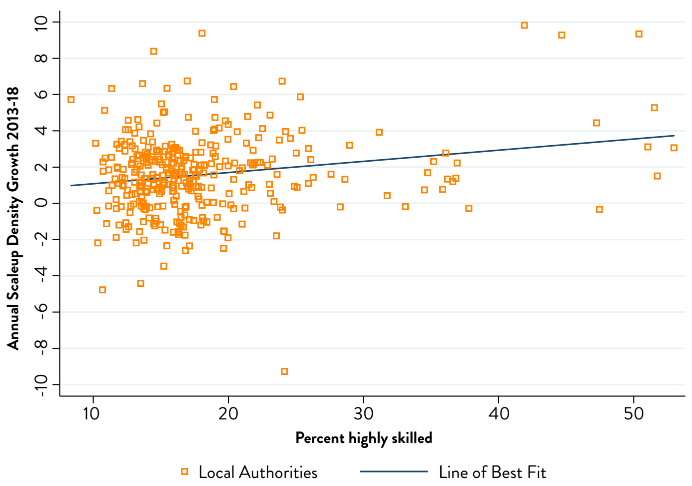
Factor	Description	Relationship with scaleup density growth 2013-2018
Skills	Proportion of 16-24 year olds with Level 4+ qualifications. This comes from the most recent Census data (2011) and provides an appropriate lag between the time that young people acquire skills and when they enter the workforce.	Positive
Sectoral Clustering	Proportion of companies from the most concentrated sector in a given LAD, obtained using ONS IDBR data.	Positive up to a saturation level
Equity	Visible SME equity funding per 100k population in 2013-2014, providing an appropriate period of time for funded SMEs to become scaleups. This data was obtained from Beauhurst's high growth company database.	Positive
Lending	SME bank lending per 100k population in 2013-2014, providing an appropriate period of time for funded SMEs to become scaleups. This was obtained using UK Finance data.	No clear relationship
Large Firms	Proportion of firms with 250+ employees in a given LAD. This was obtained using ONS IDBR data.	No clear relationship
Start-up density	Start-ups per 100k population in 2012. This time lag is necessary to give start-ups a suitable amount of time to become scaleups. This was obtained using ONS IDBR data.	No clear relationship
Start-up survival rate	Proportion of start-ups from 2012 surviving after 5 years. This was obtained using ONS IDBR data.	No clear relationship
Public Transport	Time to get to key services using public transport (England only data), obtained using Gov.uk data.	No clear relationship

High skills are associated with faster scaleup growth

We assessed skills by looking at the proportion of 16 to 24 year olds in a given area with Level 4+ qualifications, indicating post-secondary education or training.[9] Higher skills are associated with an increase in scaleup growth, even after controlling for other factors. High population density on its own did not produce high levels of scaleup growth, unless it was accompanied by high levels of skills.

Local leaders should focus on building skills in the area. Businesses should focus on finding skilled individuals who can transfer ideas and generate innovation.

PERCENT OF YOUNG PEOPLE HIGHLY SKILLED AND SCALEUP DENSITY GROWTH



The graph below shows a positive correlation between the percentage of young people who are highly skilled and scaleup density growth 2013-18. Each dot represents a local authority (outliers excluded) with the line of best fit sloping upwards.

Source: ONS IDBR 2010-2018, Census 2011

Sectoral clustering and hubs are associated with faster scaleup growth

Evidence from the academic literature suggests that clustering allows firms to share resources and transfer knowledge.[10,11]

Using ONS data, we examined sectoral clustering by looking at the proportion of firms accounted for in the largest industry in a given local area.[12] Having a good cluster and proportion of businesses from a given industry does support increased scaleup growth.

However, the analysis also shows if it becomes over concentrated in any one industry, then the growth effects are diminished as areas become reliant on the industry. Local areas should exploit their sector strengths, but make sure they maintain a diversity of sectors.

SECTORAL CLUSTERING AND SCALEUP DENSITY GROWTH

Each dot in the graph below represents a local authority (outliers excluded). The line of best fit is curved, indicating that scaleup density growth tends to peak when sectoral clustering is around 20-25%.

Source: ONS IDBR 2010-2018

9 2011 Census data, UK Data Service.

10 Döring, T., & Schnellenbach, J. (2006). What do we know about geographical knowledge spillovers and regional growth?: A survey of the literature. Regional Studies, 40(03), 375-395.

11 Holmes, T. J. (1999). Localization of industry and vertical disintegration. Review of Economics and Statistics, 81(2), 314-325.

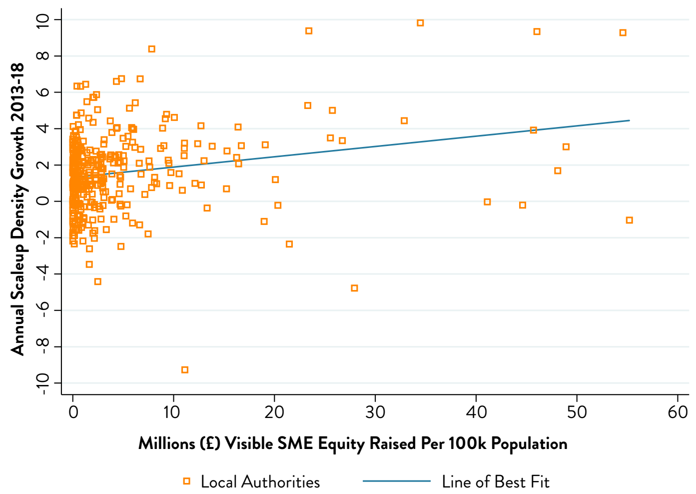
12 ONS IDBR, 2010-2018.

Equity funding is a driver of scaleup growth, while debt is not

In assessing the effect of equity financing on scaleups, we used the Beauhurst database to examine the amount raised by SMEs through equity investments in Visible Scaleups per 100,000 people.[13] These are companies which meet the 20%+ growth threshold and file full accounts at Companies House. Areas with access to larger amounts of equity finance tend to have faster growth in the number of scaleups, even after controlling for other variables. Higher levels of traditional bank lending, in contrast, showing no clear relationship with scaleup growth.

This highlights the importance of equity for building scaling businesses. There is a gap in the ability of companies outside of London and the South East in getting access to equity finance. Closing this will be vital to increasing scaleup growth across the country.

EQUITY FUNDING AND SCALEUP DENSITY GROWTH



The graph shows the positive relationship between visible equity raised and scaleup density growth 2013-18. Each dot represents a local authority (outliers excluded), with the line of best fit sloping upwards.

Source: ONS IDBR 2010-2018, Beauhurst high-growth company database.

13 Beauhurst high-growth company database

Looking forward: Achieving our potential, driving economic growth and recovery

This report has been written during the peak of the COVID-19 pandemic. This impact is not reflected in the ONS data available to analyse, but warning signs for the UK economy are in the data which need to be taken seriously. Even without the massive economic impact of the lockdown the annualised rate of scaleup growth is slowing. In recent years – as scaleups have consistently warned – market access is becoming harder. Complacency and delay are not options.

Scaleups are the growth and innovation champions of the UK economy. If the UK is to innovate and grow out of the current crisis into recovery, and achieve trade success in a reframed international context, it is vital to increase the number of scaleups and remove the growth barriers that they face.

The core tenets of a UK ecosystem tailored towards scaling needs at a local level must be the foundation upon which a path to recovery is charted.

To this end we must further embed clear segmentation of our business population to the way that programmes are developed, ensuring support that is available is clearer to navigate. Peer-to-peer networks remain the single most important form of external help that scaleups value, so we must place further emphasis on getting the right peer networks in place in local areas. It will also be important to harness the impact that effective clusters have in overcoming market barriers and driving growth at a local level. We must ensure that this growth has the fuel of local easily accessible talent and equity including innovation and institutional patient capital. By building upon what works, we should also consider what to enhance and accelerate to provide the best tools for business growth.

In 2019, we refreshed our recommendations for further scaleup action. Taken together, we were confident that they would make the UK the most attractive place in the world for scaleups. These actions remain critical in 2020. Indeed, the Covid-19 pandemic makes them even more so. As the world adjusts to a new normal, the ability to identify and support scaleups through the unlocking of existing Government data and dramatically enhancing intra-governmental, local and private sector engagement with them will ensure that the UK has a powerful engine of future growth.

The ScaleUp Institute is pledged to make the UK the best place in the world for ambitious leaders to choose to scale their business and we will work tirelessly with all those who share our ambition.

2019 RECOMMENDATIONS

01

ENHANCE DATA ACCESS & VERIFICATION

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 datapoints to enable stakeholders to fast track solutions to scaleup leaders.

If necessary, legislation should be passed to enable this strategy to be implemented effectively and be factored into any future data strategy. In the meantime, the scaleup data pilots initiated with Government should be continued.

02

CONNECT TALENT - SCALEUP VISA

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

03

ALIGN FUNDING TO LOCAL SCALEUP INITIATIVES

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 area should have a scaleup strategy, including an access to markets strategy for scaling businesses. A scaleup cluster map should be developed based on currently available datasets.

04

DEPLOY LOCAL SCALEUP CHAMPIONS

All local communities should appoint a Scaleup Champion and develop a relationship management structure for scaleup businesses.

05

SEGMENT SCALEUPS LOCALLY & NATIONALLY

The next Government – in any initiatives 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. No gap in scaleup support provision is allowed to arise in light of the UK's changing relationship with the EU.

06

IMPLEMENT SCALEUP EXPORT STRATEGY

We recommend that Central Government implements its export strategy and ensures a significant portion of resources to scaleups, including the EITA service and 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.

07

SIMPLIFY ACCESS TO PUBLIC PROCUREMENT

We recommend that Public bodies use the 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 the visibility of procurement champions and ensuring their roles have objectives and measurements. The Government should continue the evolution of Contracts Finder to become a smart platform and continue to develop more scaleup specific 'meet the buyer' events working with local areas and build on the current work underway as regards sandbox environments.

08

IMPROVE CORPORATE/ SCALEUP COLLABORATION

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 which should be monitored.

09

ENHANCE LINKS WITH EDUCATORS & PEERS

The Department for Education, Local Enterprise Partnerships and the Careers & Enterprise Company should use their convening and promotional power to ensure that students at schools, colleges and universities come into contact with business leaders and that APIs to the National Pupils database and the destinations database (with suitable protections) are made available so that the impact of these interventions can be measured. 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.

10

CLOSE THE FINANCE GAP

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 SCALEUP INSTITUTE

The ScaleUp Institute is a private sector-led, not-for-profit organisation focused on collaborating with policy makers, corporates, finance players, educators and government at a local and national level.

Our mission is to help the UK to become the best place in the world to grow a business as well as start one, and enable our existing high-growth businesses to scale up even further.

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