

LIFE IN THE FAST LANE

A ROADMAP FOR SCALING UP YOUR
MEDIUM SIZED BUSINESS



In partnership with

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THE STORY

The UK is brimming with entrepreneurial energy, now is the time to focus on empowering businesses to scale-up

With the economy continuing to grow and a record number of businesses starting up in 2015¹, the entrepreneurial spirit of the UK is thriving. Businesses of all sizes have a strong appetite to grow and channeling that energy into scaling-up is integral for the UK's future growth prospects.

Scaling-up is the act of growing quickly, whether through creating new jobs, increasing turnover or investing in your business. In recent years a number of reports have underlined the importance and economic value of fast growth businesses:

- NESTA found that the fastest growing 6 per cent of UK businesses generated half of the new jobs between 2002 and 2008.²
- Octopus Investments have heralded the impact of fast growth small businesses who created 1 in 3 jobs in 2014.³
- Sherry Coutu's 'Scale-Up Report' estimated that a 1% boost to the UK's scale-up population would drive an additional £38bn worth of GVA within three years.⁴

Our ambition for this report:

This report aims to build on that existing evidence with particular focus on fast-growing medium sized businesses – often the unsung heroes of the UK economy. Produced in partnership with Experian and Lloyds Bank its conclusions are based not only on data analysis, but also in-depth interviews with over 50 inspiring leaders of medium sized, scale-up businesses based in the UK. The key findings are:

- Scaling-up medium sized businesses are the heroes of the UK economy; without the additional £59bn these fast growth MSBs generated between 2010-13, the UK would have been in recession over that period
- More MSBs could scale-up – between 2005 and 2008, 15% of them were able to achieve scale-up status, versus 11% in the most recent period
- Businesses from any region, any sector and any age can scale-up – an ambitious mindset is what unites them
- Based on the advice and insights of fast growth companies across the UK, there are 6 key factors that can stimulate your company to scale-up – such as, selling the scale-up journey to hire the best people

Through harnessing the insights of fast growth medium sized businesses, the report also intends to provide practical guidance into the choices that can fuel fast growth and profile how these dynamic firms overcame roadblocks on their way to success. In doing so we want to encourage more companies to follow their lead and gain insight into the key decisions that matter to spurring growth.

SCALING-UP MEDIUM SIZED BUSINESSES ARE THE HEROES OF THE ECONOMY

Medium sized scale-ups are the driving force behind the UK's growth, but there is potential to achieve even more

Medium sized businesses are critical to the success of the UK economy. These businesses are ripe for growth having already proven their business concept and achieved some scale.

Punching far above their weight, medium sized businesses have an impressive track record when it comes to economic growth. Despite accounting for less than 2% of businesses, firms with 50-499 employees are responsible for 1 in 6 jobs and generate nearly a quarter of private sector revenue.⁵

Within this vibrant section of the business landscape, a relatively small number of MSBs are propelling the UK economy to new heights. In 2010, the 11% of MSBs – around 3000 businesses – that scaled-up over the next three years contributed an additional £59bn to the economy.⁶ This during a period when the entire economy only grew by £39.8bn.

£59bn

Scaling-up MSBs added billions to the economy between 2010-13

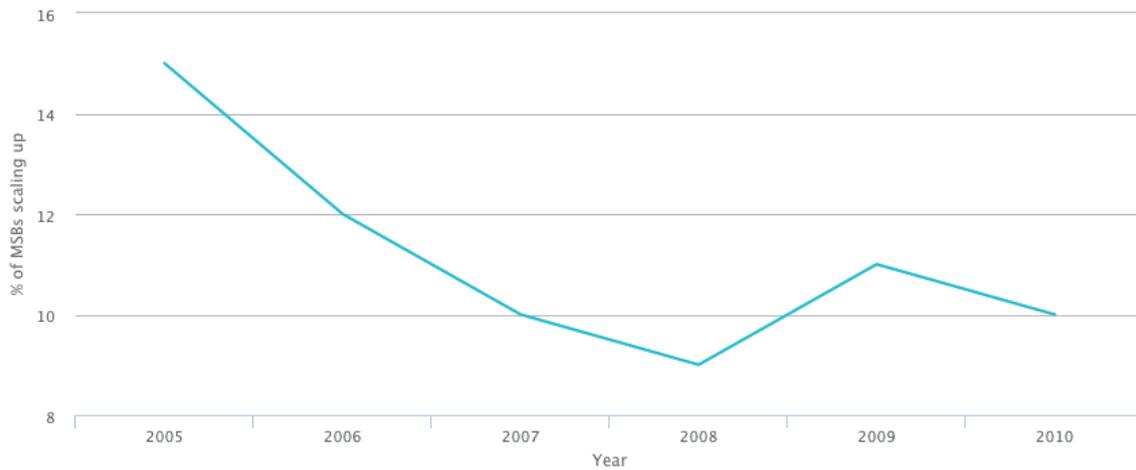
- In 2010, these ambitious MSBs already contributed £57bn, by 2013 they generated £116bn – a turnover increase of 103%
- These scaling-up mid-market firms helped drive the 2.7% growth in the economy between 2010 and 2013, without their influence there would have been a 1.3% decline
- The precedent is there for MSBs to be achieving even more; between 2005-08 over 15% of mid-market firms scaled-up, compared with 11% in the 2010-13 period

Scaling-up definition = a business growing by 72.8% or more in either turnover or employment over a 3 year period

- This definition is the equivalent of the OECD scale-up definition of average annualised growth of 20% per year for a 3 year period.
- Crucially our definition captures a wide range of fast growth journeys, instead of just consistent linear fast growth.

Scaling-up MSBs are critical to the economic health of the UK - while mid-market firms punch above their weight, scaling-up MSBs deliver the knockout blow.

The rate of medium sized businesses that are scaling-up has dropped from its 2005 level



Though this performance is exciting, there is the potential to reap even greater rewards from this dynamic section of the economy. Before the credit crunch impacted upon their growth, 15% of MSBs were achieving scale-up status and we have not yet got back to this peak.

Now, with the shackles of the recession lifted, the emphasis must be on supporting and encouraging more MSBs to start their scale-up journey.

ALL BUSINESSES HAVE THE POTENTIAL TO SCALE-UP

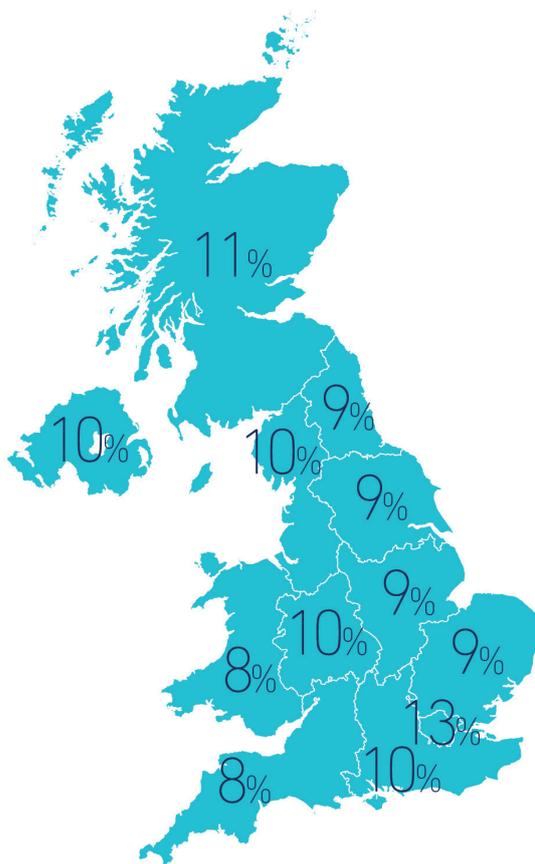
Scale-ups come from all regions, sectors and are both young and old – an ambitious mindset is what unites them

Success stories of medium sized business scaling-up are found across the country and in a wide range of industries. While London leads the way with over 13% of medium sized business scaling-up⁷, crucially 70% mid-market scale-ups are located outside of the capital⁸. This underlines the ability for scale-up companies to stimulate growth across the country and support a balanced recovery.

“Setting up Synapse in the Innovation Birmingham Campus was a great decision. We have the space to expand, proximity to big potential customers and access to top talent. Don’t believe for a second that you have to be in London to scale-up.”

Brian Donnelly, CEO and Co-Founder, Synapse

Rate of MSBs scaling up by region



From tech companies in Shoreditch and Cambridge, to manufacturers in the Midlands and the gaming industry in Dundee, scale-ups are driving economic growth across the country.

Different sectors that MSBs scaled-up in between 2010-13



640

MSBs scaled-up in the manufacturing sector



231

MSBs scaled-up in the construction sector



801

MSBs scaled-up in the business services sector



234

MSBs scaled-up in the financial services sector



646

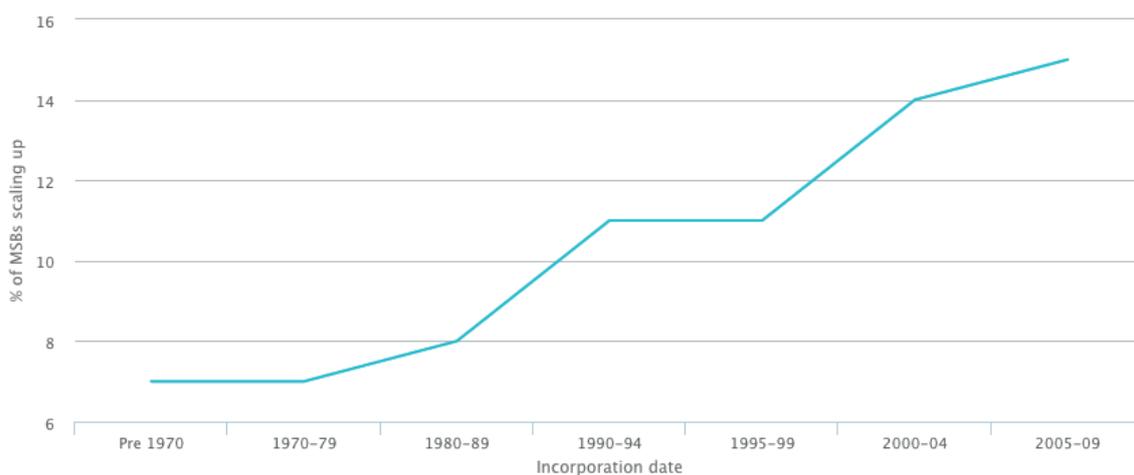
MSBs scaled-up in the wholesale and retail sector

Mid-market firms across all sectors have the ability to scale-up. There is sometimes the tendency to associate scaling-up with only tech sector firms, but the evidence is clear that MSBs across industries can grow quickly.

Businesses in the service sector are more likely to scale-up by creating new jobs, while businesses that operate in the manufacturing industry are more likely to scale-up by becoming more productive and rapidly increasing their turnover.

Scaling-up is not restricted by when the business was set up. While younger medium sized businesses are more likely to grow quickly, a significant proportion of businesses incorporated in the 20th century are reaping the benefits of scaling-up. One of the core reasons why businesses from all demographics can scale is because of the diversity of routes available. Some companies are growing their workforce (“expanding scale-ups”), others increase their turnover (“productive scale-ups”) while some business are increasing both sales and employment (“balanced scale-ups”).

Though younger companies are more likely to scale up, older MSBs can do it too



Never too old! 11% of MSBs incorporated between 1990-94 are scale-ups

Scale-ups are united by an ambitious mindset

From the many stories that fast growth leaders shared, the overwhelming common strand that united them was an ambitious mindset. Scaling-up is fundamentally a way of thinking. MSBs who are just starting out on the scale-up journey to those that have successfully navigated fast growth commonly cite their high aspirations, their clear sense of purpose and concrete sales targets as important.

Scale-up leaders on the importance of ambition

“I’ve talked to countless aspiring entrepreneurs and what distinguishes the ones that scale-up is the hunger to “double the size of the business”. Following through on ambition and hunting for business multipliers - actions that have the potential to multiply revenues - are key traits of companies that experience rapid growth. If you want to scale-up your business, look for the multipliers.”

Simon Devonshire, Investor and Serial Entrepreneur

“Our values of aspiration, accountability and ambition have been instrumental in our success. Now it’s my job as CEO to set ambitious targets and convince staff we can be even more successful.”

Gareth Rogers, CEO, Southampton FC

“We want to enable everyone in the world to learn a foreign language.”

Bernhard Niesner, CEO and Co-Founder, busuu

“The market for online lending has massive potential and we have a clear target of 100% growth every year.”

Giles Andrews, Co-Founder and Executive Chairman, Zopa

“Over the years we found ourselves having to navigate three notable recessions, each a challenge. Coming out of each was marked by a moment of success, a big win that propelled us forwards. What was then key was recognising the fickleness of such moments and immediately searching for the next big opportunity.”

Colin Smithers, Chairman, Plextek

“The 2008 recession taught us, as founders, how we’re all susceptible to global events, not least adverse economic events. As a result, now we’re in more benign trading conditions, we’re going full steam ahead, and the word consolidation does not enter our vocabulary.”

Alan Beresford, CEO, Omega Resource Group

“The market is huge for car finance and we have a clear ambition to triple the size of our business in the next five years.”

Mark Smith, CEO and Co-Founder, Car Finance Company

“Aim high, we want to be a 500m business.”

Sean Taylor, Managing Director and Co-Founder, Redwood Technologies

The evidence is clear - age, size and sector are not barriers to fast growth. What is required is the ambition and the ability to follow through on the action plan to scale-up.

Actions for government

An ambitious mindset is necessary to start, invest in and grow successful businesses. Government should continue to review the tax system to ensure it incentivises entrepreneurialism and investment in medium sized businesses

- Schemes like the Enterprise Investment Scheme, Annual Investment Allowance and Entrepreneurs' Relief are big advantages cited by growing companies and should be built on.
- As part of the government's Business Tax Roadmap, set to be published in 2016, there must be a focus on overall attractiveness of long term investment in and by medium sized businesses.
- In particular, it should consider incentives for owners of MSBs and their investors including the effect of the dividends adjustment announced in the June Budget.

DECISIONS OF LEADERS MATTER

Scaling-up is rarely a straightforward journey - decisions of their leaders really matter

The 50 scale-up leaders we interviewed as part of this project have diverse stories to tell, but there was a clear message that achieving and maintaining fast growth is not always a smooth process. Many interviews focused in on the key point that the decisions the leadership team take can make or break the scale-up process.

- Experian found in 2010 over 34,000 business across the UK had the capacity to achieve fast growth, but fewer than one in five followed through on that potential.⁹ This data highlights that while companies might have the potential, it takes strategic action to scale-up.
- Experience in scaling-up is highly beneficial – your company is twice as likely to scale-up if the business has a previous track record of rapid growth.¹⁰

“Zopa was the first peer-to-peer online lending model in the world, but as the market developed we have worked collaboratively with companies that had similar ideals and ethics to protect the reputation of our industry.”

Giles Andrews, CEO and Co-Founder, Zopa

From our interviews common roadblocks to scaling-up emerged, from an inability to raise growth capital through to not securing the right person for a crucial role in the business. The leadership of a company has the means to address these issues and set the business on the right path.

“Fast growth requires quick decisions – especially in sales. We made sure to empower our staff to make these judgement calls.”

Henry Pepperall, Finance Director, Kelway

Importantly, there are many different paths to scaling-up; some leaders navigating their businesses through tough times before enjoying huge success, while others have had their ventures fail before using that experience to scale-up in the future.

“You need to embrace failure in order to have giant scale-up successes. As a serial entrepreneur, I’ve set up businesses around the world and seen markedly different cultural attitudes towards failure. In the US, creating a new business concept and driving it to success or not is a respected endeavor. In the UK, starting a business that is not successful is more likely to be seen as a black mark against your name. This needs to change to increase innovation and free up entrepreneurs to pursue new opportunities.”

Ulf Zetterberg, CEO and Founder, Seal Software

Scale-up case study

Name: Ensafe consultants **Founded:** 1995 **Growth:** Growing from £1.65m turnover to £5.3m in 4 years

The 33rd fastest growing business in the East Midlands, Ensafe consultants specialises in asbestos surveying, project management and training. Key to stimulating this fast growth has been the strong emphasis on staff training and expanding the business across different sectors.

Fast growth is not without its challenges and Greg Kirkman, Managing Director, credits an excellent senior leadership team, often promoted from within the business, and trusted external advisors in helping evaluate decisions and manage the demands of scaling-up.

This core leadership team was particularly integral when the company had to navigate the 2008 credit crunch. Excellent cash flow management and focus on the core operations of the business meant that Ensafe successfully managed this difficult period and is now looking to expand overseas.

Scale-up case study

Name: Plextek **Founded:** 1989 **Growth:** Growing from £21m turnover to £32m in two years

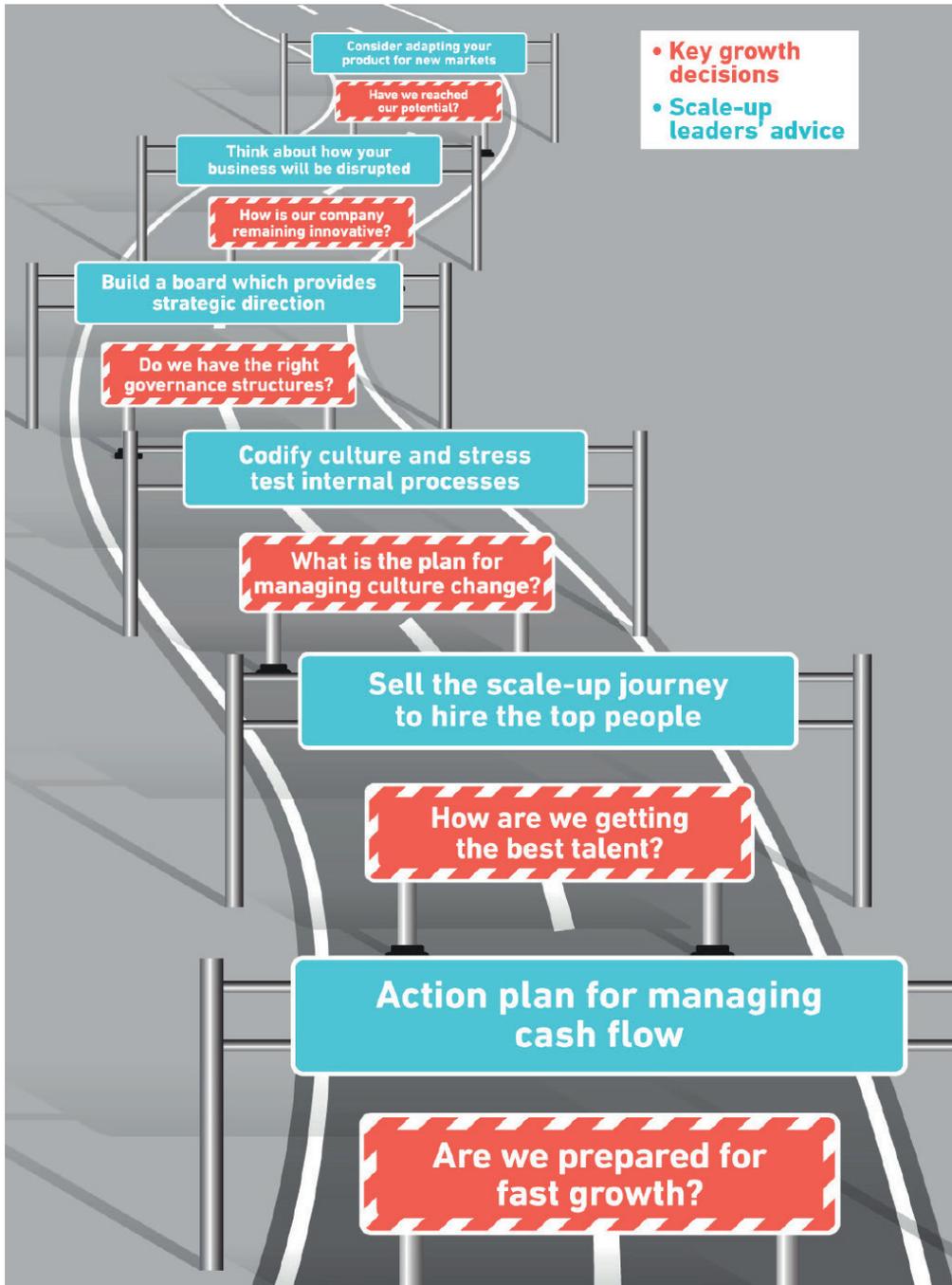
Plextek is a leading independent electronic design consultancy that provides services across a range of sectors from defence to medical markets. One of the fastest growing businesses in the east of England, Plextek has had to manage some tight periods before achieving their scale-up ambitions.

Originally a pure consultancy, the dot com crash in 2001 highlighted the need to diversify the business to include contract manufacturing capabilities and commence numerous long term investments in technology. Similarly, the 2008 recession proved another difficult growth period, during which managing cash flow became a critical task. The company continued to make very significant investments in new products and during these tough periods self-belief that these would pay off was key to the business scaling-up today.

The business has returned again to a strong growth phase and Plextek will continue to spin out its various technology investments into separate companies to unleash the potential of these businesses. From past examples such as Telensa, and Redtail Telematics - which has just placed 19th of the Sunday’s Times Tech Track league – the future is looking bright.

Scale-up roadmap

From talking to over 50 fast growth companies from a range of backgrounds this report has pulled together some of the key decisions and challenges they face in their growth journeys. Straight from the mouths of scale-ups leaders, this roadmap highlights some of the crucial questions and practical insights that can help your company scale-up.



Scaling-up requires action and smart strategies on a range of different issues that can help a business grow. The next chapters aim to highlight some of the practical insights that can help your business scale-up and navigate fast growth based on the experiences of high growth business across the country.

BUILDING GREAT LEADERSHIP TEAMS

Scaling-up requires a team, make sure you are all pulling in the same direction

While one person can start a business, the scale-ups we interviewed stressed the importance of a team in pushing on from there. An ambitious mindset is fundamental to starting the fast-growth journey, but delivery on these aspirations requires action. The chief executive and leadership team have the capacity to make the key decisions that spark a growing company into one that is scaling.

Scale-up leaders also highlight the importance of networks and peer learning when it comes to gaining the experience that can help their company grow quickly. That's why the CBI developed its 'M-club' programme which is exclusively for high-level managers of medium sized businesses to network, receive expert advice and share experiences. From the London Stock Exchange ELITE programme to Future Fifty, joining ambitious networks can help pass on valuable experience and contacts.

Scale-up case study

Name: Two Circles **Founded:** 2011 **Growth:** Grown to 60 permanent employees by fourth birthday.

Two Circles is a sport marketing agency whose inspired use of data allows sports organisations to build stronger relationships with their customers. Founded in 2011, the company has achieved linear fast growth and has no intention of slowing down.

Sparking and maintaining such rapid growth was hugely helped by the strong complementary skill-sets of the leadership team. Matt Rogan, CEO, brought commercial strategy and scaling-up experience, while Gareth Balch, MD, and Claire Rogan, FD, provided consumer insight and financial expertise respectively. This core structure provided a strong base, role clarity and harmonised experience to deal with the capacity and capability requirements of scaling-up. Right from the inception of the business, the management team focused on building deep operational and commercial foundations which would ultimately enable sustained fast pace growth as well as a remorseless focus on retention as the smoothest way to grow.

Now moving into international markets, Two Circles recent acquisition by WPP has given them the credibility and market intelligence to do business with some of the largest sports organisations in the world. 4 years into its life-span, Two Circles is now focusing on building the next cadre of talent into the leadership and management of the business as well as harnessing the digital strength of WPP to build a fuller proposition which can genuinely change the game for sports marketing.

What is clear though is that there is no 'one size fits all' approach to a great leadership team. Scale-up companies exhibit a diversity in the way they are managed; some have multiple co-founders that guide the business, while others have the traditional single point of accountability. What unites the different structures though is a clear management structure, an ability to adapt to change, complementary skill sets and trust among the leadership.

Actions for government

Remove the ELQ bar for management qualifications

- Government can play its part in helping improve the supply of high quality managers. With 2 out of 3 businesses needing staff with higher level skills to grow in the years ahead, there is a strong need for management qualifications
- However, with the 2008 'ELQ bar' (equivalent or lower qualification) the part-time studying market declined by 47%. This bar prevents someone who, for example, has previously studied history at an undergraduate level getting a loan for an equivalent degree in management. Removing this bar is key to ensuring the pipeline of management skills that are essential for companies scaling-up.

4 tips for successful scale-up leadership teams

- 1 Rapid change often accompanies fast growth so ensure the leadership team have a clear cohesive goal the company are working towards

“Being a fast-growth start-up meant that Two Circles has always been in an exciting state of evolution. Change has been a constant. I make sure to write a weekly email – the “Weekly Podium” – which keeps everyone engaged in the delivery of our strategic plan. We find it helps keep people focused and in tune with the business as it grows and evolves. Ultimately this results in deeper team engagement levels and smarter decision-making.”

Matt Rogan, CEO and Co-Founder, Two Circles

- 2 Make sure you honestly assess and are aware of the respective strengths and weaknesses of the leadership team

“Don’t settle for the status quo. In a fast-growing business, every 3 to 6 months you have got to be thinking whether you have the right structure and flow of information for the business.”

Jon Reynolds, CEO and Co-Founder, SwiftKey

- 3 Codify culture and stress test the internal processes that spread the information

“Maintaining culture in a fast-growth business is difficult but incredibly important. Our strategy is to codify the key values and then make sure employees are measured and rewarded against these indicators.”

Mark Smith, Executive Chairman and Founder, The Car Finance Company

- 4** Build a board which provides strategic direction, ideally includes people with experience in scaling-up companies and has the most appropriate chair

Scale-up case study

Name: Green Energy Options **Founded:** 2006 **Growth:** 6x turnover growth in four years

Green Energy Options (geo) was founded in 2006 with a core aim of helping consumers understand and engage with energy use in their homes. Fundamentally a technology company, cracking the relationships with the utility companies was essential to growth of the company.

Starting the business in Cambridge was important to geo as both the right skills and an entrepreneurial attitude can be found in the area and a Cambridge location is benignly associated with hi-tech business without that needing to be stated explicitly.

As the company grew, getting the right board composition was instrumental in underpinning sustainable growth. Utilising the company's networks, geo secured the ex-chairman of an international energy company with a presence in Westminster, an experienced entrepreneur and a highly knowledge energy expert. The board is light touch but provides enormous experience in guiding the company through its rapid growth that saw revenues double last year.

As a company scale-ups, culture change is natural process that the leadership of a business need to actively address. Flourishing scale-up companies place significant emphasis on codifying their culture and rewarding their employees for demonstrating those values. From talking to a wide variety of scale-up leaders the importance of implementing process for disseminating what makes a business tick in the first place is clear.

Scale-up case study

Name: Southampton FC **Founded:** 1885 **Growth:** Fastest growing brand in world football

Southampton Football Club is a Premier League side renowned for developing potential into excellence, both on and off the pitch. Recently named as the fastest growing brand in world football, the club has a clear and ambitious plan for the next five years.

Playing in the top flight of English football kicked the club onto the next level, but with promotion came the challenge to retain the sustainable philosophy of the club. Strong core values and an ambitious mindset are integral to the club's future and Gareth Rogers, CEO, is dedicated to ensuring these key principles continue to guide the club.

A symbiotic relationship between staff and club has also been essential to the business scaling-up. Recruiting talented people and developing them further is a key attribute of the club and gives them an edge over competitors. Equally, achieving incremental improvements in all aspects of the game – from sport science, to nutrition is crucial to maintaining the growth of the business.

HIRING EXCEPTIONAL TALENT

Sell the scale-up journey to hire the best people

From our grassroots research, it is clear that attracting and developing talent is integral to stimulating and navigating fast growth. From developing new products, taking on more customer orders or expanding the business structure - the right hire or promotion can transform a company. With nearly 50% of scaling-up MSBs growing their employment capacity by over 70% over three years,¹¹ the demand for great talent is high.

Giving opportunities to performing staff and those with the potential to step up is important, but equally recognising where external talent is needed is a critical process. With competition for skills rising,¹² medium sized businesses have to be strategic when looking to acquire the best individuals.

“Scaling-up is a journey that requires a robust and proven trust platform with staff. In any business transformation the team will need to dig deep. It is my responsibility as CEO to ensure we have the good will, courage and culture to do that and enjoy the process. Don’t automatically assume your existing team is not able to step up to the next level.”

Andy Corley, CEO, Quadralene

Companies we spoke to focused on leveraging the distinctive benefits that being part of the scale-up journey offers as a method of competing with other firms. Selling the vision of the company, the great culture and the opportunity to be an integral part of a rapidly developing project are key incentives. These tangible benefits often succeeded in enticing talented people to fast-growth companies rather than the bigger firms who could pay higher wages.

Actions for government

Improve access to skilled workers that are essential for scale-up companies to grow by raising the Tier 2 (general) visa cap

- Scale-up companies need access to talent fast. The Tier 2 visa route allows businesses to compete in an increasingly globally connected economy by facilitating talent exchange and encouraging investment to the UK.
- Business supports a managed migration system that strikes a balance between the need for access to skilled workers and the social impacts of immigration, we do not believe the Tier 2 (general) visa cap is an effective way to reduce net migration and should be raised.

4 tips from scale-ups for hiring exceptional talent

- 1 Sell the vision of your fast growth company and the unique benefits and development opportunities that brings

“Our strategy is not to outbid on salary, but rather sell the unparalleled development opportunities, company culture and exciting journey that we’re on.”

Toby Austin, CEO and Co-Founder, Beauhurst

- 2 Leverage new online networks such as LinkedIn and existing traditional forums such as industry events to gain access to high performers
- 3 Incentivise long-term commitment to the business through strategic offering of shares
- 4 Be honest with what the job entails and ensure it meets the candidates development needs

“We look for people that have the ability to deal with ambiguity, to make a choice when there is no clear right or wrong answer. This is a key attribute that can benefit fast growing businesses.”

James McClure, General Manager, UK and Ireland, Airbnb

Scale-up case study

Name: TestPlant **Founded:** 2008 **Growth:** 69% annual compound growth for five years

TestPlant is an international software company and the maker of a range of tools which automate the testing of systems across desktop and mobile devices in a number of industries, including financial services, retail, defence, media and healthcare in all of which software regarded as business and mission critical. Starting-up in 2008, George Mackintosh, CEO, had a clear intention to scale the company and created a software product range, “eggPlant”, that could be deployed quickly and easily in major enterprises and deliver productivity gains through the automation of testing.

Believing that it is better to have secure your own chairman rather than having one thrust upon you, George partnered with a previous and highly experienced non-executive chairman. As the company grew the senior leadership regularly assessed the capabilities of their staff and recognised that a CTO and CFO were required. The technology sector is notoriously competitive and to secure their chosen candidates they made sure to sell the particular benefits that a scale-up offers – great development opportunities, strong company culture and being part of an exciting journey.

Accessing the largest technology market in the world, the United States, was also integral to Test Plant’s scale-up ambitions. Cracking that market and disrupting some of the large companies in that space has been a key driver of their high growth. Now with an exporting presence in markets such as China, Japan and Germany, TestPlant has a clear ambition of growing the company by 40% per year.

FINANCING FAST GROWTH

Managing cash flow paves the way for scaling

Crucially, scale-up leaders were quick to point out that fast growth does not always entail high profitability. The mantra of “cash is king” remains essential for scale-up business and companies should ensure they have a clear plan for managing cash flow.

Core advice from directors focused on making sure the senior leadership have a bird’s eye view of the cash profile of the business, regularly assessing payment performance of customers and understanding the different working capital finance options available to the business such as invoice financing.

Actions for government

- Ensure the Small Business Commissioner speaks out on the impact of late payment for high growth firms
- Shorten the timeframe for the payment of the R&D tax credit by allowing companies to submit evidence of expenditure (e.g. PAYE records) in order to get paid in the same financial year
- Raise the threshold for the Quarterly Instalment Payment of Corporation Tax from £1.5 to £5m

While the constraints of the credit crunch have rescinded, the finance landscape has changed significantly for fast growing businesses. From traditional bank debt, to alternative finance and increasing equity options – there are a diversity of choices for ambitious medium sized businesses.

“Angel investment enabled us to scale at a rate that matched our ambition. Prior to investment, the relationship with our angel was cultivated over many years – demonstrating the power of maintaining a great network.”

Toby Austin, CEO and Co-Founder, Beauhurst

For longer term capital, scale-up teams emphasise the importance of being investment ready. When applying for finance, from bank lending to venture capital, there are a few factors businesses should keep in mind. A convincing strategy for growing the business is the most important step, while concrete risk management plans and verified financial accounts can be crucial differentiating factors.¹³

“We took the initiative to have fully audited accounts before it was legally necessary. This decision gave investors’ confidence in our financial results and helped pave the way for further growth.”

Greg Kirkman, Managing Director, Ensafe Consultants

4 tips scale-ups follow for using growth capital

- 1 Identify the need for the capital well ahead of the crunch point

“Love Home Swap formalised a new category of business – the home swap/rent. Raising money in a nascent sector was difficult – but grit, clear goals for the capital and raising it ahead of time proved successful.”

Debbie Woskowiak, CEO and Founder, Love Home Swap

2 Set clear goals for the use of the capital

3 Scope the market so that the capital is on terms suitable to the senior leadership

“We met with 10 different private equity investors before making a deal. The time investment was worth it as the new equity structure has unlocked the ability for senior managers to invest in the future of the business.”

Martin Tucker, CEO, GatenbySanderson

4 Make sure any external investor is able to bring additional assets into the business, for instance knowledge of the sector or additional contacts

Scale-up case study

Name: Westons-Cider **Founded:** 1880 **Growth:** £20m turnover growth in four years

Established in 1880, Westons Cider, is an independent family business that produces over 30 different ciders and perries that are exported around the world. Employing over 200 people the company has strong ambitions for growth to enable it to be a sustainable business for future generations.

In order to scale-up to the next level new funding was necessary, but maintaining the independence of the business was crucial to any finance agreement. Through developing a strong relationship with Lloyds Bank, Westons Cider was able to scale-up up without sacrificing its independence.

Now the company has set up a subsidiary in Australia and is growing the brand of the company around the world.

Actions for government

Increase the supply of long term capital for medium sized businesses

In our recent Stepping up report the CBI identified a series of actions that Government should take to increase the supply of long term finance for MSBs including:

- Creating new Long Term Lending Trusts which offer income tax relief to savers investing in long term MSB debt funding
- Changing the way the Enterprise Finance Guarantee works by rewarding lenders for providing longer-term loans
- Make the UK the best place to list on a growth equity market by enabling companies listed on AIM to raise more capital from existing investors without needing to produce a prospectus

EMBRACING DISRUPTION

Embracing disruption can boost innovation

The importance of innovation in sparking fast-growth is well documented – businesses that innovate grow twice as fast, both in employment and sales, than firms that fail to do so.¹⁴ Productivity is boosted too with innovative companies 13% more productive than their non-investing competitors.¹⁵

Innovation can come in many forms, from improving a product through to utilising a new marketing method to attract customers. Scale-up businesses are often best in class when it comes to delivering on good ideas.

“Investing in the algorithm behind Love Home Swap’s points system transformed the business. The innovation spurred x6 more home swaps and improved the liquidity of the business.”

Debbie Woskow, CEO and Founder, Love Home Swap

When interviewed, fast growth companies talked at length about the products and services that had stimulated their fast growth. The challenge identified by these thought leaders was often how to ensure their company retained its innovative core as it grew larger. From retaining the close contact with customers that keeps the product at the cutting edge of the market to competing against new disruptive influences in your sector, the need to engrain innovation in a company is paramount.

4 tips scale-ups use to spark innovation

- 1 Actively think about how your business will be disrupted, adapt and adopt early
- 2 Provoke ideas at all level of the company through internal innovation events such as ‘hackathons’
- 3 Retain a relentless focus on the customer and understanding their challenges

“It’s an exciting process developing new cider products. Customers taste change and we are always keen to stay at the cutting edge of the market.”

Helen Thomas, Managing Director, Westons-Cider

- 4** Think bigger – consider how your product can be adapted for new markets, whether that be new industries or international markets

Scale-up case study

Name: busuu **Founded:** 2008 **Growth:** 55m+ users in seven years

Founded in Spain, busuu is the world's largest network learning languages. A few years ago their CEO Bernhard Niesner moved the business to London to get better access to the city's talent pool and financing opportunities.

Originally the language platform was web focused but with the huge uptake in smartphones Bernhard made the decision to pour technical resources into developing the mobile side of the business. Awareness of this broader market trend and the strategic choice to disrupt busuu's original business model were integral to the company maintaining its scale-up progress.

busuu has the clear goal of being the largest platform for language education and working closely with Apple and Google as well as targeting emerging markets have been key drivers of the company's growth.

Actions for government

Double department funding for Innovate UK by the end of this parliament and increase overall spending on R&D in this parliament, with a long term aim of reaching combined public/private R&D spend of 3% of GDP.

- The UK's research and development spending is the lowest among the G8 and action must be taken so that we lead from the front.
- Government should build on the UK's research excellence by fuelling the UK's innovation ecosystem with investment, fresh ideas and skills.

NEW MARKET OPPORTUNITIES

Exploring new market opportunities can open the door to fast growth

Scale-ups by their fast-growing nature need a sizeable market to sell to. This can mean looking to export into international markets or developing a product that can break into new sectors.

The benefits of exploring new market opportunities are clear – out of the 1138 MSBs that started exporting between 2010-13, over 14% of these businesses scaled-up. This is higher than the 11% of the total MSB population that scaled-up during the same period. The fast growing companies we interviewed testified that exporting can be key to boosting further growth through opening up new business partnerships or gaining access to niche markets.

“TestPlant had an international outlook from the outset – we didn’t have a national plan. We wanted to build a global software business with the US as one of the key markets. Now our exports amount to 85% of sales.”

George Mackintosh, CEO, TestPlant

Scale-up businesses can have vastly different export journeys, some being global business from day one courtesy of their online presence while others start at home before looking further afield. While there are many different paths there are common practices that can help mitigate risk and get the most out of exploring new markets.

Scale-up case study

Name: Quadralene **Founded:** 1930 **Growth:** 70% of sales are from new markets

With over 85 years of history, Quadralene is now a leading business in the field of design and manufacturing of high-quality specialised cleaning detergents and disinfectants for the healthcare and dental markets.

Hired in 2005 Andy Corley, MD, and Bob Newsome, Commercial Director, introduced a long term plan to transform their company from a manufacturer of car shampoo to an infection control products company. This required the development of a product portfolio and the business expertise necessary to become a global player through the establishment of creative OEM partnerships. Exploiting this type of niche market would be key to Quadralene’s high growth and after proving their value to a UK procurement division they successfully pitched to the global parent to manage R&D, product design, manufacture and logistics from the UK to 65 country markets on four continents.

The strategic alliance with this global brand was opened up because Quadralene demonstrated significant specialist expertise which was vital to the strategic objectives of their partner. With clear new market opportunities the business has a roadmap for the future and is looking to double in size again over the next five years.

4 tips scale-ups use in successful export journeys

- 1 Ensure the business has a digital and online transactional presence
- 2 Talk to people who have operated in the markets that your business is looking to enter
- 3 Explore whether partnering with existing companies in the region can reduce risk and provide market intelligence
- 4 Leverage UKTI to gain access to key contacts and access market opportunities

MSBs are performing well when it comes to distributing goods internationally with over half the 100 businesses we surveyed in 2014 saying they export. However, 28% of companies highlighted that they find it difficult to identify opportunities in foreign markets. There is a vital role to play for support schemes such as UKEF and the Growth Accelerator in giving businesses the intelligence and capabilities needed to access new markets.

“Scaling-up is an exciting process, but remember to keep an eye on core operations and their performance while you are expanding. You’re likely to need your core operations to be at the top of their game more so than normal.”

Alan Beresford, CEO, Omega Resource Group

Actions for government

Allocate a portion of UKEF’s Direct Lending Facility to fund working capital for general pre-shipment expenditure

- Trade finance and services play a vital role in helping exporters overcome key challenges like: longer lead in times for deals; higher information barriers and the need to transact in foreign currencies.
- UKEF should broaden the working capital support it offers for medium sized businesses to help them on their export journey.

Continue to push for standardisation of the European VAT threshold at €100,000

- The EU wide threshold on VAT rates at the place of purchase is having a disproportionate effect on small businesses, particularly digital firms.
- In a business environment in which we are trying to encourage all businesses to utilise digital technology to take advantage of the benefits that operating online can bring, inconsistency in the rates is a big barrier.
- The VAT threshold rate should be raised to a consistent level to encourage more business to export.

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PROMOTING
MSBs
A CBI CAMPAIGN

This report is part of our wider campaign to champion medium sized businesses. This CBI campaign brings together mid-market companies to share knowledge, best practice and ideas, helping to promote and influence the wider policy debate.



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