About Barclays

Barclays is a major global financial services provider engaged in personal banking, credit cards, corporate and investment banking and wealth and investment management with an extensive international presence in Europe, the Americas, Africa and Asia Pacific. Barclays purpose is to help people achieve their ambitions — in the right way.

With over 300 years of history and expertise in banking, Barclays operates in over 50 countries and employs approximately 140,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

For further information about Barclays, please visit our website barclays.com

About Business Growth Fund (BGF)

With £2.5bn of capital, BGF is Britain’s largest single investor of equity in ambitious and growing British businesses.

Its origins are with the Business Finance Taskforce, formed in 2010 to generate ideas that would help return the UK economy to growth. The Taskforce comprised the chiefs of the UK’s largest banks, including Barclays, and BGF was one of its key recommendations.

BGF was officially launched in May 2011 and made its first investment in October that year. Since then BGF has made more than 70 investments, providing over £400m of new capital to UK companies.
Welcome to our fifth Entrepreneurs Index, our biannual study of the UK entrepreneurial life cycle in association with Business Growth Fund (BGF).

In our second report this year, we reveal further evidence of entrepreneurial confidence, pointing to continued growth in business start-up numbers and entrepreneurial strength across the regions and sectors of the UK. As the UK economy continues to recover, the desire to start up a business and embark on that journey of growth, discovery and potentially even wealth creation has perhaps never been stronger.

The life cycle of entrepreneurship is something that we monitor closely at Barclays as we believe it is literally the bottom line for UK PLC. SMEs are responsible for two out of every three private sector jobs and contribute to around half of UK GDP. More importantly they play a key role in innovation and exploration of new opportunities – they are the ‘disruptors’ that are vital to any economy.

At time of writing, according to StartUp Britain approximately 350,000 new businesses have been created in Britain so far this year, driving employment opportunities, growth and innovation across the country. It is therefore vital that we continue to advance our understanding of how, why and where these businesses emerge and what needs to be done to ensure they are able to thrive by seizing opportunities for growth.

This fifth edition shows that, yet again, there are encouraging signs across the whole of the UK. While it remains undeniable that London sees the strongest levels of entrepreneurship with nearly 8% growth in the number of enterprises this year, there are clear indicators of a promising performance across the breadth of the country, particularly the Midlands and the East, as more is being done to promote and nurture entrepreneurship in all the regions.

Starting a business is obviously just the first brave step for any entrepreneur. The key to success beyond that initial business creation lies in the ability to grow that business and generate revenue, employment and broader economic activity. In this edition we examine what barriers there may be to growth for businesses in the UK, from skills and talent pressure to accessing vital growth funds.

We hope that this latest Entrepreneurs Index will provide a further step in helping us to achieve our ambition of promoting these businesses. At the same time, our intention is to provide a useful indicator and barometer for others who monitor the sector and especially those who stand shoulder to shoulder with us in striving to encourage and enable overall levels of entrepreneurial activity in the UK.

Richard Phelps
Managing Director, Barclays Wealth and Investment Management
Our Expert Panel

We are extremely grateful for the time and help given by the experts on our panel.

Guy Rigby, Partner and Head of Entrepreneurial Services, Smith & Williamson is a chartered accountant and leads the entrepreneurial services group at Smith & Williamson. He sold his own accountancy firm and has been a director and part-owner of a number of different ventures. He also wrote the book *From Vision to Exit: The Entrepreneur’s Guide to Building and Selling A Business*.

Marcus Stuttard, Head of UK Primary Markets, Head of AIM, London Stock Exchange has responsibility for Primary Markets in the UK across both AIM and the Main Market. He is responsible for the management and development of AIM, London Stock Exchange’s international growth market for small and medium sized enterprises. He is a regular speaker on growth and business funding issues and sits on a number of industry and policy advisory bodies.

Jenny Tooth, CEO, UK Business Angels Association. The UKBAA is the trade body for angel and early stage investing and the voice of the angel and early stage investment market. Ms. Tooth has over 20 years of experience supporting small and medium-sized businesses to access investment, both in the UK and internationally. She is also co-founder of Angel Capital Group and is a regular speaker on angel investing around the world.

Hamish Stevenson, Founder and CEO, Fast Track set up Fast Track in 1997 with cornerstone sponsorship from Richard Branson. Fast Track publishes league tables in *The Sunday Times*, ranking the UK’s top-performing private companies, from the fastest-growing to the biggest; and runs awards and networking dinners for the top entrepreneurs that run them. Mr. Stevenson is an associate fellow at Oxford, where he held a research fellowship in entrepreneurship and completed his doctorate in management.

Carl Pihl, Founder, TicketingHub, is a serial entrepreneur specialising in disruptive technologies. He has co-founded and exited a variety of start-ups including Drinkyz, Monte Napoleone, and Alternative Food & Beverage. He is co-founder of TicketingHub which connects individual parts of the ticketing ecosystem into one central hub. Brought up in New York and having studied in London, Carl speaks three languages and was featured on BBC’s The Last Millionaire as one of the top 12 young entrepreneurs in the UK.

Stephen Roper, Professor of Enterprise at Warwick Business School and Director of the Enterprise Research Centre (ERC). Focused on issues of small business growth ERC is a collaborative research initiative involving Warwick, Aston, Imperial, Strathclyde and Birmingham business schools. Stephen is a regular consultant for OECD on small business and innovation policy design and evaluation.
**Florian Pixner, Managing Director EMEA, Wealthmonitor.** Florian Pixner oversees Wealthmonitor’s EMEA operations as managing director, with particular emphasis on formulating and implementing commercial strategy to ensure revenue targets are achieved. Prior to Wealthmonitor, Florian gained extensive industry experience having worked for the financial service practice at Corporate Executive Board, and as a competitive intelligence analyst at Siemens.

**Marcus Gibson, Editor and Founder, Gibson Index,** a comprehensive dataset of the UK’s top 50,000 smaller companies. Formerly the Financial Times’ Enterprise and Innovation Correspondent. Prior to 2004, Marcus worked at The European and BBC R4 News in London, reported from three Olympics and on major news stories such as the loss of the Estonia in 1994. He is the co-author of several books and many UK innovation reports.

**Michael Ellis, Group Chairman, Van Elle** has been employed in the construction industry for 45 years. He founded Van Elle with his wife 30 years ago and the company is now the largest industrial piling company in the UK, as well as being the most profitable. The company has also won contracts in overseas markets, sharing its expertise in the Falkland Islands and New Zealand, among others.

**Stephen Welton, Chief Executive, BGF (Business Growth Fund)** launched BGF in May 2011. He has worked in the development capital and private equity industries for over 25 years, including roles at Henderson, Barclays and JP Morgan Partners (CCMP Capital), where he was a founder partner and member of the Investment Committee. In 2013, Stephen was a member of the advisory group formed specifically to guide the UK government on the direction and priorities for the new British Business Bank, a government-funded institution that provides lending and broader support to small and mid-sized businesses.

**Richard Heggie, Head of Proposition and Delivery for Entrepreneurs, Barclays Wealth and Investment Management** has over 15 years’ experience in investment banking and private client wealth management. Richard has headed the Proposition & Delivery for Entrepreneurs at the Wealth and Investment division of Barclays since October 2013. Prior to this role, Richard co-headed the Proposition and Delivery team for Barclays Global Ultra High Net Worth and Family offices. He was a key member of the working group leading the integration of Lehman Brothers’ Private Investment Management business in New York.
The increasing strength of the UK’s entrepreneurial environment is a crucial factor in its continued recovery. The country recorded economic growth of 0.8% in the second quarter of the year, bringing GDP back above the level seen in 2008.

There is evidence that the desire to start a business is becoming more prevalent in the UK. The number of active companies in the country continued to rise in the six months up to June 2014, with an increase of 3.9% recorded. Meanwhile, recent analysis by the Institute for Public Policy Research (IPPR) suggested that the UK is becoming the self-employment capital of Western Europe, as it experienced an 8% increase in the number of self-employed people between Q1 2013 and Q1 20141.

While the jobs recession that began in 2008 helped to create the impetus that drove many individuals towards entrepreneurship – almost 2.7 million people in the UK were made redundant between 2008 and 20122 – there is little doubt that a cultural shift is now taking hold in the country.

The evolution of a more enterprising culture is a phenomenon that spans generations. While school leavers have been encouraged to start ventures because of a slow jobs market, increasing numbers of the baby boomer generation have found themselves with capital to invest and a need to carry on working longer before retiring.

Entrepreneurial activity among the over 50s has risen since 2008 and now stands at its highest ever level3.

At the same time, organisations – both public and private – that seek to promote entrepreneurship as a career choice are becoming more commonplace, and this is contributing to the cultural revolution too. Such resources have never previously been available to the extent we see today.

In the last volume of the Entrepreneurs Index, we observed a broadly positive outlook for the UK’s entrepreneurial environment, with strong growth among start-ups, as the economic recovery began to take hold. Much of this growth, however, was yet to translate into wealth creation as we saw a decline in the number of share sales in the second half of 2013.

The Entrepreneurs Index seeks to provide a health check of entrepreneurial activity in the UK across sectors and regions; to understand the barriers to growth facing today’s entrepreneurial companies; and to assess the extent to which the country’s entrepreneurs are now realising wealth through their businesses.

To achieve this, we study a number of complementary data sets, some publicly available, and others created specifically for this report. We use Companies House data relating to the number of active companies in the UK – which has now surpassed three million, and stood at just over two million a decade ago4 – to provide a measure of the change in start-up activity nationally. At a regional and sectoral level, we complement this with Office for National Statistics (ONS) data recording changes in the number of VAT or

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1 UK becoming the ‘self-employment capital’ of Western Europe, IPPR, August 2014

2 Redundancies since start of jobs recession cost UK employers £28.6 billion, CIPD, March 2012

   http://www.gemconsortium.org/docs/download/3371

4 Statistical tables on companies register activities 2006-2007, Companies House
PAYE-based enterprises. We also look at Experian data on the number of high-growth companies in the UK, to assess whether these have increased or decreased as a proportion of total companies of a similar size, both nationally and by sector and region. For the first time, we are also analysing data provided by Wealthmonitor that captures the number of deals occurring over the previous year, as well as measuring the number of beneficiaries from those deals.

Meanwhile, the addition of qualitative analysis from interviews with our panel of experts – including entrepreneurs, investors, academics, business network leaders, stock exchange representatives, and accountants, among others – enables us to deliver a more comprehensive view of the UK environment for businesses at each stage of the entrepreneurial cycle.

In each of our *Entrepreneurs Index* reports, we look in depth at a closely related subject in the *In focus* section. This time, we have chosen to explore the barriers to the UK’s entrepreneurial businesses achieving high growth, and to investigate what assistance entrepreneurs need both in the start-up and the later scaling up phases to improve their chances of success.

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Glossary

**Active companies** – The term ‘active’ is generally used by Companies House to denote those companies that are ‘live’ in the sense that they are not in the process of liquidation or being dissolved. Types of companies included are private limited, public limited, private unlimited, private limited by guarantee, and community interest companies.

**Beneficiary** – A shareholder of a target company benefitting from the sale of his or her stake.

**Deals** – Any stake sale of a target company that is publicly announced and results in individual wealth creation of at least £0.2m.

**Early-stage Entrepreneurial Activity** – A measure of the 18-64 population who are either a nascent entrepreneur or owner-manager of a new business, defined as a running business that has paid salaries, wages, or any other payments to the owners for more than three months, but not more than 42 months.

**Enterprise** – A term used by the Office for National Statistics (ONS) to refer to the smallest combination of legal units (generally based on VAT and/or PAYE records), which has a certain degree of autonomy within a group of legal units under common ownership.

**High-growth companies** – Companies with revenues of between £2.5m and £100m that have increased turnover by 33% over the preceding three years and produced 10% year-on-year growth for a minimum of two of these years.

**Start-up** – A general definition meaning a company that has recently been set up and is in the first stage of its operations; a fledgling business or enterprise.
Methodology

Data sources
The key data sets used in this report are:

• **Active companies.** The number of active companies in the UK as published in the Company Register Statistics by Companies House. The data covers up to June 2014

• **Deals and beneficiaries.** A publicly announced stake sale of a target company that results in individual wealth of £0.2m and above. Also, the shareholder of the target company benefiting from the sale of his or her stake. Deals and beneficiaries are not included if their address or sector details cannot be established. Data is supplied by Wealthmonitor, part of the Mergermarket Group, and runs up to June 2014

• **Enterprises.** The number of VAT and/or PAYE based enterprises in the UK as contained in Office for National Statistics (ONS) UK Business: Activity, Size and Location. Latest data available is up to March 2014

• **High-growth companies.** Data on companies in the UK with revenues of between £2.5m and £100m, and a 33% increase in turnover over three years, as well as 10% year-on-year growth for a minimum of two of these years, supplied by Experian. Results were compiled in July 2014 and are based on the company accounts with year-ends to December 2013, although some are still outstanding

• **Total early stage entrepreneurial activity.** Percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business (a running business that has paid salaries, wages, or any other payments to the owners for more than three months, but not more than 42 months).
Executive summary

Expanding start-up population
Companies House data points to a continued increase in the number of new businesses registered in the UK. In the six months up to June 2014, there was a 3.9% rise in the number of active companies, up to 3,027,622. Almost 350,000 businesses have been started so far in 2014.4 There remains a high proportion of early-stage entrepreneurs in the UK in comparison to pre-2011 levels: 7.1% of 18–64 year olds are in the process of starting or are already running new businesses, according to the Global Entrepreneurship Monitor (GEM), while this figure was between 5.5% and 6.4% from 2007 up to 2010.

Proportion of high-growth companies is plateauing
Following an increase in the percentage of high-growth companies within revenue bands of £2.5m to £100m during 2012, there has been a levelling effect during 2013, with the percentage falling by 0.3 percentage points. This shows that a lower proportion of the total population of companies with revenue of £2.5m to £100m in the UK are managing to achieve high growth, a point of concern for the UK. In our In focus section, we assess some of the key barriers to smaller businesses achieving high growth, and to medium-sized businesses scaling up to become large businesses. We also debate some of the measures and policy initiatives that could help to make the UK environment more conducive to high growth.

Construction still on a high
The largest proportionate increase in high-growth companies was again found in the construction industry, with a rise of 41%, as the sector continues its return to health following its serious slump after the recession. There have been declines in the proportion of high-growth companies in the other old economy sectors of transport and manufacturing, but there are encouraging signs of growth in the retail and computer services sectors.

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4 StartUp Tracker, StartUp Britain http://www.startupbritain.co/tracker
7 Investment in UK tech at 10-year high, Financial Times, September 11 2012 http://www.ft.com/cms/s/0/8c554de4-4c20-11e1-aef9-00144feabdc0.html#axzz39czGdLa
A new environment for wealth creation

As investor confidence is increasingly restored, a larger proportion of the UK’s entrepreneurs have also been able to benefit by selling a stake in their business. Wealthmonitor recorded an 8.2% increase in the number of partial or full sales that resulted in individual wealth of £0.2m and above in the 12 months up to June 2014, compared with the previous 12 months.

‘New economy’ sectors fare well

There has been a significant rise in the number of beneficiaries from deals in new economy sectors. For example, there was an 84% jump in the number of beneficiaries between 2013 and 2014 when looking at IT and computer services as a whole and, similarly, there was a 76% increase for the medical, pharmaceuticals and biotechnology sectors. This reflects the fact that technology and related sectors have performed particularly well in the UK during the economic recovery. There has been an upturn in tech IPOs during 2014, reflecting the positive impact of a new wave of investment in the sector that began in 2012.

Mixed regional picture

The strongest regions for deals are the East, the Midlands and London, which have seen increases of 27%, 20% and 15% respectively in the number of deals across all sectors. There are encouraging signs of growth for the regions outside England, with a rise in the proportion of high-growth companies observed in Northern Ireland, Scotland and Wales.
Chart 1: Key themes

**Starting**
The number of active companies has continued to increase.

**Growing**
A levelling off in the total proportion of high-growth companies.

**Connecting**
Rise in the number of deals taking place and beneficiaries of deals.

Source: Barclays/Ledbury Research
Headline findings

The entrepreneurial environment in the UK offers plenty of reason for optimism. The desire to start a business in the UK appears to be stronger than ever, with more than 295,000 companies registered by Companies House in the six months up to June 2014.

As mentioned in our introduction, statistics for the number of self-employed people reinforce this shift in business culture. The ONS has found that self-employment in the UK is now higher than at any time in the past 40 years8.

At the same time, however, this optimism is tempered by the number of businesses that appear to be struggling to grow beyond a certain level, indicated by a levelling off in the percentage of high-growth companies. During 2013, there was a very slight drop (0.3 percentage points) in the overall percentage of high-growth companies in the UK. In addition, while there was an impressive surge in new UK companies in the first half of 2014, Companies House also registered almost 180,000 dissolutions in the same period. Our In focus section explores these findings, and looks at some of the underlying reasons for stagnation in high growth among the UK’s entrepreneurial companies.

As we suggested might happen in the previous volume of the Entrepreneurs Index, there are signs that the UK’s economic recovery has now begun to translate into wealth creation through exits, with an 8.2% increase in the number of deals recorded between June 2013 and June 2014. The IT and high-tech sectors in particular have seen significant growth in numbers of beneficiaries.

And while the majority of these deals have occurred in England – most notably in the South East, the Midlands and London – there have been some encouraging signs of growth outside of England, with Northern Ireland and Scotland having undergone the biggest increases in percentage of high-growth companies. The Local Enterprise Partnership (LEP) Growth Dashboard, developed by the Enterprise Research Centre (ERC), found that England, the Midlands, London and the North West had the best rates of company survival accompanied by growth to £1m in turnover between 2009 and 20129.

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8 Self-employed workers in the UK – 2014, Office for National Statistics, August 20 2014

9 LEP Growth Dashboard, Enterprise Research Centre and GrowthAccelerator, June 2014
Starting/Funding: Entrepreneurial spirit strengthens

The number of active companies in the UK has shown consistent growth of 3% or more in each six-month period since June 2012. This trend continued in the six months up to June 2014, when the number of active companies grew by 3.9%, its highest level since this index was created in June 2012.

“Starting your own business has become a cultural phenomenon, particularly for younger people,” says Guy Rigby, Partner and Head of Entrepreneurial Services at accountancy firm Smith & Williamson. “It’s being encouraged massively by both government and privately sponsored initiatives.”

Chart 2: Number of active companies in the UK

Source: Companies House
Over the past few years, there has been a conscious drive from government and from the private sector to cultivate entrepreneurship in the UK and its impact is increasingly evident. Some examples of these efforts include:

• In April 2012, the Seed Enterprise Investment Scheme (SEIS) was launched to provide substantial income tax and capital gains tax reliefs to investors financing start-ups

• Between 2010 and 2013, UK Trade and Investment (UKTI) helped a growing number of UK businesses to improve their performance through internationalisation, with further ambitious targets set for the next two years.

• Lord Young, Enterprise Adviser to the Prime Minister, initiated the Growth Britain campaign in 2013, which seeks to extract ideas from UK businesses that could help to develop policy solutions that will unlock further entrepreneurial growth.

A number of organisations are increasingly promoting entrepreneurship as a career choice – something that is also having a positive impact on start-up activity. Some of these organisations, such as Founders4Schools, are discussed in more detail later in the report.

“Starting your own business has become a cultural phenomenon, particularly for younger people. It’s being encouraged massively by both government and privately sponsored initiatives.”

Guy Rigby, Partner and Head of Entrepreneurial Services at Smith & Williamson

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10 BIS Performance Indicators – Number of UK businesses helped to improve their performance through internationalisation, January 2014
Starting/Funding: An easier start?

But perhaps the biggest factor driving the evolution of the entrepreneurial environment has been advances in technology – and the ability of new technologies to disrupt industries. This has probably had a greater role to play in boosting start-up activity than either government policy initiatives or private sector programmes.

As one example, crowdfunding platforms such as Funding Circle have grown rapidly in number and popularity over the past few years. A benchmarking report on alternative finance in the UK released in December 2013, found that the UK alternative finance market grew by 91% from £492m in 2012 to £939m in 2013. Peer-to-peer charitable fundraising and donation-based crowdfunding represented the largest segment with £310m in 2013; peer-to-peer lending accounted for nearly £287m in 2013; peer-to-peer business lending achieved a notable £193m; invoice trading platforms funding £97m; equity crowdfunding registered £28m; and reward-based crowdfunding recorded a further £20.5m.

Digital technology enables crowdfunding platforms to expose businesses to investors from all over the world, expanding the possibilities for start-ups in need of funding. Crowdfunding is a very effective way to raise finance, especially for consumer-facing businesses that investors can easily understand. For a young business, appearing on a crowdfunding platform such as Funding Circle can prove an excellent way of marketing the company too, given the extensive media coverage that success stories receive, and the number of investors now engaged with such sites.

As we mentioned in the last report in the series, the UK’s tech sector is booming, both in London and increasingly in other regions, too. Underlining this, a recent Markit-compiled report on the sector revealed that in the first six months of 2014 the pace of business activity growth (60.0 according to Markit’s index), has been much stronger than the average since data collection began in 2003 (54.3). Meanwhile data for the year so far indicates the sector is on track for its best annual performance to date (exceeding 58.2 in 2004).

“Fast-growth tech businesses are very easy and very lean with very few team members – you don’t even need any offices in the beginning.”

Carl Pihl, Founder of TicketingHub
As well as being a ripe area for innovation, the strong performance is also partly down to the ease of starting out in the sector. “When you are looking at tech, you do not have that barrier of costs associated with building the business,” explains TicketingHub Founder Carl Pihl. “Fast-growth tech businesses are very easy and very lean with very few team members – you don’t even need any offices in the beginning.”

In addition, digital technology has enabled the rapid growth of networks and support groups for entrepreneurs, such as Enterprise Nation, StartUp Britain and E2Exchange, among others. This means that more information and help has become available for budding entrepreneurs from the outset, again making it a less daunting challenge to establish a new business.

Uber – A success story built on disintermediation

The opportunity for disintermediation makes it far simpler, and consequently more attractive, for entrepreneurs to attempt internet start-ups over non-internet businesses. Car sharing service application Uber, is a perfect example of such disintermediation, with a business model that removes infrastructure and sales costs.

The company takes advantage of device location identification technologies and Google Maps to put consumers in touch with self-employed taxis in their area. Uber has been able to capitalise on low running costs to undergo rapid expansion – it now has a presence in 128 cities in 37 countries and says it is doubling its revenue every month13.

Starting/Funding: The potential impact of a hiring boom

One potential threat to the continuation of this positive trend in entrepreneurial activity is the resurgence in hiring among larger, established corporate firms. According to estimates from employment research organisation Incomes Data Services, employers are likely to boost the number of graduate hires by as much as 18% in 2014, compared with 2013.\(^{14}\)

Marcus Stuttard, Head of AIM at London Stock Exchange, says one way to ensure that starting a business maintains its attractiveness as a career choice, even as the jobs market improves, is for government and private sector organisations to deliver more targeted support for businesses with high growth potential. “Management teams need guidance around how to achieve the next phase of growth and become tomorrow’s big corporates,” argues Mr Stuttard. “If we see more scale-up success I think it will encourage more people to start businesses with a view to growing them over the longer term.”

Richard Heggie, Head of Proposition and Delivery for Entrepreneurs at the Wealth and Investment Management division of Barclays, agrees that the creation of impressive growth stories will be crucial in encouraging tomorrow’s entrepreneurs. “I think it’s essential to maintain a focus on assisting entrepreneurial companies at the more successful end of the market, as well as guiding start-ups through the earlier stages of growth,” says Mr Heggie. “We need to create that aspirational society where people are willing to become entrepreneurs, not just because they think it’s attractive to form a start-up, but because they have the longer-term aspiration to forge a company of great scale.”

GEM’s research provides useful insight into the impetus for entrepreneurship. In 2013, the percentage of total early stage entrepreneurial activity in the UK that was driven by necessity – those entrepreneurs who had no other option for work – had reduced to 16.1%, from 18% in 2012, while the proportion of start-ups established because of improvement-driven opportunity – entrepreneurs driven by the opportunity to increase their income, rather than by necessity – rose from 43% to 45.2% in the same period.\(^{15,16}\)

The success of existing entrepreneurs is clearly pivotal in ensuring that the cultural shift towards entrepreneurship becomes embedded in the UK psyche. While almost 300,000 new companies were registered with Companies House in the first half of 2014, the number of active companies rose by just over 100,000 in the same period as a result of almost 180,000 dissolutions, underlining the importance of maintaining a strong commitment to provide entrepreneurs with the support they need to thrive. Our In focus section will discuss this in further detail.

“We need to create that aspirational society where people are willing to become entrepreneurs, not just because they think it’s attractive to form a start-up, but because they have the longer-term aspiration to forge a company of great scale.”

Richard Heggie,
Barclays Wealth and Investment Management

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\(^{14}\) City hiring boom for graduates, City A.M., June 2014  http://www.cityam.com/article/1401684864/city-hiring-boom-graduates


**Growing: Old and new economies show encouraging signs**

While the data in our last *Entrepreneurs Index* relating to high growth companies was largely very encouraging, according to the latest figures (which measure up to December 2013), the number of UK companies with revenue from £2.5m to £100m that have achieved high growth appears to have levelled off rather than risen during 2013.

Despite this plateau a number of sectors continue to perform strongly against this measure.

As in our last *Entrepreneurs Index*, the construction sector has seen the largest proportionate increase in number of high growth companies, at 41% – a very encouraging finding following the prolonged downturn experienced by the sector during the recession.

The UK government has taken a number of steps to help create an environment that is conducive to growth in the construction sector. The Help to Buy scheme has been extended until 2020 to encourage house building. Work on HS2 is scheduled to start in 2017 and the £14.8bn Crossrail project is well underway and scheduled to run until 2018. Meanwhile the government has also committed to invest over £70bn in UK transport networks, including road infrastructure, between 2015 and 2020, while local communities will also be enabled to invest in road technology and infrastructure through the £170m Local Sustainable Transport Fund. “HS2 will give us work for the next 20 years so that’s fantastic for us. We’re also involved in the electrification of the railway lines and a lot of infrastructure work being carried out on motorways and bridges,” says Michael Ellis, Group Chairman of piling and ground stabilisation contractor, Van Elle.

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**Chart 3: Percentage of companies with revenue between £2.5m and £100m achieving high growth**

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<th>Year</th>
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<tr>
<td>December 2012</td>
<td>22.5%</td>
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<td>December 2013</td>
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Source: Experian
Mr Ellis says the large-scale public investment in the construction sector is having a positive impact for subcontractors and smaller businesses in particular. “There’s huge opportunity right across the board for subcontractors,” says Mr Ellis. “Some of the big contractors still seem to be a bit disorganised from coming out of the recession, with old projects that they took on at ridiculously cheap prices, and now they’re struggling with cash flow. But for subcontractors, there generally seems to be a lot of demand for their services on a whole host of projects at the moment.”

Stephen Welton, Chief Executive of BGF (Business Growth Fund), says that as larger housing developers are spurred into life by the UK’s pent-up demand for housing, it is having a similar positive effect on entrepreneurs further along the supply chain. “House builders have started to bolster their land banks with new investments, which provides knock on opportunities for construction services and suppliers,” explains Mr Welton. “Contractors in the fields of scaffolding, landscaping, interior design and plumbing have started to thrive – we’ve invested in five of these types of businesses since the start of the year.”

While our last set of data for high-growth companies showed that the retail sector was one of the lowest performers between March 2012 and March 2013, it has reversed the trend during the latter part of 2013 and now stands as one of the best performing sectors by this measure. ONS statistics go some way towards explaining this, as they show a 5.3% rise in the quantity of goods purchased in the retail industry in December 2013, as compared with December 2012.17

At the same time, it is perhaps unsurprising that so-called ‘new economy’ sectors such as IT, high-tech and services are all performing strongly, particularly when we assess the number of deals and beneficiaries arising there, as we discuss in more detail below.


“House builders have started to bolster their land banks with new investments, which provides knock on opportunities for construction services and suppliers.”

Stephen Welton, Chief Executive of BGF (Business Growth Fund)
Growing/Exiting: Rising wealth creation

In our last *Entrepreneurs Index*, we found that, despite healthy growth in the number of trading entrepreneurial companies, only a small proportion of UK entrepreneurs were making the transition from the expansion to the exit phase of their journey and realising wealth from their businesses.

Analysis of Wealthmonitor data suggests that this is no longer the case. Between June 2013 and June 2014, Wealthmonitor found that there had been an 8.2% increase in the number of deals taking place across all sectors combined, and a 44.9% rise in the number of beneficiaries from those deals.

There are a number of factors underlying this trend. Jenny Tooth, CEO of the UK Business Angels Association, says the amount of cross-border investment into the UK is growing. There has been increasing interest from investors in North America and parts of Europe in UK start-ups. “We have also noted that cross-border syndicates, where you have UK investors syndicating with investors from other countries, are becoming quite common,” explains Ms Tooth. “That brings an interesting mix for companies because it also means they get access into new markets overseas, aiding expansion.” Online communities such as AngelList are a catalyst for such cross-border syndication since they allow angel investors from around the world to share deals more easily.

London Stock Exchange’s Marcus Stuttard points out that the increase in deal frequency can partly be explained by more entrepreneurs now needing further funding to enter the next stage of growth. At the same time, those entrepreneurs who had built companies up during the recession, often in anticipation of a relatively quick sale, have recognised that as markets continue to recover, there is an increased range of available options. A flurry of deal activity has allowed surviving businesses to seize the opportunity to raise capital for continued growth or exit.

**Chart 4: Number of Deals and Beneficiaries**

<table>
<thead>
<tr>
<th>Number of deals</th>
<th>In the 12 months to June 2013</th>
<th>In the 12 months to June 2014</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,396</td>
<td>1,510</td>
<td>8.2%</td>
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</table>

<table>
<thead>
<tr>
<th>Number of beneficiaries</th>
<th>In the 12 months to June 2013</th>
<th>In the 12 months to June 2014</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,419</td>
<td>2,056</td>
<td>44.9%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Average age of beneficiaries</th>
<th>In the 12 months to June 2013</th>
<th>In the 12 months to June 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>51.4 years</td>
<td>51.7 years</td>
<td></td>
</tr>
</tbody>
</table>

Source: Wealthmonitor
Stephen Roper, Professor of Entrepreneurship at Warwick Business School, says that it may be a case of entrepreneurs taking the opportunity to get out while the liquidity is available. “I think there’s still a sense among many people that we’re in quite a good place but there is considerable fragility out there, and perhaps a lack of confidence in long-term prospects,” he argues.

Equity release schemes offered by private equity investors are giving entrepreneurs the chance to reduce their risk exposure by taking some of their own money off the table, while maintaining a stake in the business. Ms Tooth says a similar pattern is occurring among the angel community. “There has been a massive challenge for the angel community in achieving full exits, but this year there has been more opportunity to attain partial exits,” explains Ms Tooth. “We’ve seen one or two very interesting partial exits in 2014 where the angels have seen that the deal still has huge potential, so have stayed on in the deal, but when a Series B funding round has come along they have taken the chance to get some of their money out.”

Meanwhile, Mr Pihl says that it is increasingly common, particularly in the tech sector, for entrepreneurs to sell out to external investors, yet maintain a key role – such as a director position – within the company, so as not to end their involvement altogether. The driver of such deals is most commonly that larger technology companies are seeking to keep pace with smaller disrupters in the market. “There are a number of start-up businesses that solve a problem, and then the question for big businesses is whether to copy them or to buy them out, and it’s so much easier for these large corporates just to buy them out, which is what Google, Yahoo, Facebook and others are doing,” he says. “When a lot of these start-up companies are bought, the buyers put a price against the founders and employees and that is how the buy-out works – it is all about the team and the people.”

Data supplied to us by the LSE showed that there were 31 initial public offerings (IPOs) from UK-based companies on AIM – the LSE’s market for smaller and growing companies – in the first seven months of 2014. The most common sectors of the 18 represented were software and computer services and pharmaceuticals and biotechnology, with four IPOs in each.

Wealthmonitor data reflects this picture, showing that key sectors for wealth creation have been the internet, computer software and services, as well as the medical, pharmaceuticals and biotechnology sectors. This suggests that investment interest in these sectors remains strong. “There’s a continuation of last year’s theme, that we are seeing a greater number of tech and biotech IPOs, as well as retailers with a very strong online presence such as Boohoo and Just Eat,” says Mr Stuttard.

The strong emphasis on technology and related sectors within these findings also goes some way towards explaining the disproportionate rise in the number of beneficiaries, as compared against the number of deals, observed in the Wealthmonitor data. There is a growing trend for a pair or even a team of co-founders to establish tech start-ups, in contrast with the more traditional view of the individual entrepreneur. At the same time, many start-ups are using stock options to attract the best people into their teams before the business has got off the ground. The upshot of this is that when these businesses are bought out by larger companies further down the line, we see wealth being generated for several individuals rather than just one or two large stakeholders.

In the construction sector on the other hand, despite its continued positive performance in terms of the proportion of companies achieving high growth, there was only a marginal (8%) increase in the number of deals occurring.
“This may be explained by the natural entrepreneurial cycle,” says Florian Pixner, Managing Director, Wealthmonitor – EMEA. “The sector has been recovering and a number of companies are growing but it may be next year when we see this translate into more deals and wealth creation events.”

BGF’s Mr Welton says another factor behind this may be that construction companies and their suppliers tend to change ownership structures less frequently than those in other industries, such as technology. “Construction is characterised by long-term, large scale contract work, which often dictates the pace at which businesses operating within the industry review their financing and ownership arrangements,” explains Mr Welton.

“When a lot of these start-up companies are bought, the buyers put a price against the founders and employees and that is how the buy-out works – it is all about the team and the people.”

Carl Pihl, Founder of TicketingHub
In focus: Breaking through growth barriers

Although there are many encouraging signs for entrepreneurship in the UK, one concern for businesses and policy makers is that the number of companies with revenues of between £2.5m and £100m achieving high growth seems to be slowing, particularly among the lowest turnover bands measured in our dataset.

It is perhaps easier for larger businesses to take advantage of economic recovery than for smaller ones. For example, bigger companies tend already to have a more diverse and international presence, and can focus more readily on specific market recoveries, given that their distribution networks are more likely to be in place.

For entrepreneurs however, capitalising on an upturn may remain challenging, as a plethora of problems can arise. They may not have proper access to international markets, they may lack the necessary management experience to scale the business, they may have a limited set of products or services or perhaps lack the necessary finance.
Finance

The Bank of England recently released figures showing that lending to SMEs via the Funding for Lending Scheme (FLS) fell by £435m in the second quarter of this year, following a drop of £723m in the previous quarter\(^9\). Difficulty accessing finance was the second highest barrier to potential high value entrepreneurs – after risk to income – cited by respondents to the Social Market Foundation’s recent survey\(^9\).

Ms Tooth says that the tipping point for start-ups is often when they have reached somewhere near to the £3m mark in terms of initial financing, and they need a further round of more significant investment for the next growth phase, which angels may struggle to provide. “There is a bit of a precipice between about £3m and £5m in available risk capital in the market, and it still prevails even though the government has brought in schemes such as the Enterprise Capital Funds,” explains Ms Tooth. “I think the Business Growth Fund will have a positive impact in that space and angels are continuing to try to fill the space, but we need large corporates to come in too in partnership with angels in order to help build those businesses.”

While alternative sources of finance, such as crowdfunding, can provide a solution for some start-ups in accessing the capital they need to grow, Mr Pihl explains that it can prove difficult to gain investor confidence for niche B2B firms, often because their business models are difficult to explain, and the problems they are trying to solve for their customers are not immediately obvious to those outside the sector.

Entrepreneurs have other alternative forms of finance to explore, such as peer-to-peer lending platforms like Funding Circle and Zopa. Equity crowdfunding platforms are now emerging too, with Crowdcube being the first of these. The UK government also began investing in SMEs through the British Business Bank last September. MarketInvoice, one of the British Business Bank’s partners, is a platform that allows companies to sell their invoices to a pool of investors, who in return for advancing most of the funds up-front, take a small fee. “If we see the predicted capital shortage in Europe over the next few years, I think it will be hugely important for banks to start working closely with the fintech community and alternative finance providers to find ways of meeting this funding need,” argues Mr Rigby.

Barclays’ Mr Heggie foresees the UK’s banks playing an invaluable role in meeting entrepreneurs’ financing needs, not only in devising more innovative funding propositions, but also in using their extensive networks to better connect various sources of capital. “I think the real game changer for banks will be when we recognise that one of the ways in which we can add the most value is by working with existing communities, such as angels, who are taking on this risk in the UK. Instead of seeking to have proprietary solutions, what we should be doing is using our expertise to connect and create innovative ecosystems by which sophisticated risk takers can invest and work with entrepreneurs, thereby enhancing the efficiency of the whole funding process,” argues Mr Heggie. “In this way we can help the UK develop a mature enterprise funding model and expedite growth.”

We are also beginning to see a more targeted approach to helping the most promising entrepreneurs achieve the high growth needed to scale into large corporates. The LSE for example, has established its ELITE programme, which identifies businesses with high growth potential and helps them prepare and structure for external investment. “If we’re going to increase the overall number of high-growth companies we need to make sure that those with potential, and that are already performing well, have access to funding,” says BGF’s Welton. “Funding initiatives that offer both capital and non-financial support – in the form of access to senior, experienced business people – give us a far greater chance of transitioning more of Britain’s entrepreneurial businesses into successful large corporates over the next five to 10 years, providing these companies are identified early on.”

\(^9\) Lending to small businesses under FLS scheme fails, BBC, August 28 2014
http://www.bbc.co.uk/news/business-28966121
\(^9\) Venturing forth: Increasing high value entrepreneurship, Social Market Foundation, July 15 2014
http://www.smf.co.uk/publications/venturing-forth-increasing-high-value-entrepreneurship/
Talent shortages

Although finance remains a key barrier to some firms achieving high growth, accessing the necessary skills and talent to enable them to scale is often the biggest concern. A December 2013 report from the Department for Business Innovation and Skills notes that businesses face a series of ‘tipping points’ that must be overcome in order to enable growth, and 28% of SME employers reported that a general shortage of skills was an obstacle to their business success20.

Part of the problem lies in a mismatch between the skill requirements of today’s businesses and the ability of the UK education system to impart those skills to young people. The Smith & Williamson Enterprise Index, released in April, found that less than half of job and wealth creators think that the employment pool is adequately educated or trained21. This concern is echoed in a recent McKinsey report that looked at eight European countries, including the UK, and showed that 74% of education providers think that young people are being armed with skills for the workplace, whereas only 35% of employers agree that this is the case22. The OECD says that 16 to 24-year-olds in England have literacy and numeracy levels no better than those of their grandparents’ generation, ranking 22nd out of 24 countries for literacy and 21st for numeracy. England is behind Estonia, Australia, Poland and Slovakia in both areas.

Organisations such as the Aldridge Foundation, which aims to help young people develop the necessary attributes for entrepreneurship through its sponsored academies and colleges, and Founders4Schools which empowers secondary school teachers to promote entrepreneurship as a viable career choice, are making some headway in this area, but such work needs further encouragement and more widespread implementation.

Professor Roper suggests that more can be done to help the UK’s entrepreneurs take advantage of the current situation in other EU countries. “There are lots of talented people sitting across Europe with nothing to do at the moment. If there is a short-term fix here it is to attract more of those skills into the UK, taking advantage of the free movement of labour within the EU. For medium-sized companies with a market presence in these countries, it is easier, but there are some interesting possibilities for smaller companies too, if they were able to work transnationally with public recruitment services, for instance.”

Hamish Stevenson, Founder and CEO of Fast Track, says another part of the problem is that areas of UK employment law can make it difficult for growing entrepreneurial companies to take on the talent they need without accepting a significant amount of liability. “What many firms want is the possibility to bring in new skills quickly without so much red tape – the government can help by revising employment laws to make the hiring process less bureaucratic,” Dr Stevenson argues.

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20 SMEs: The key enablers of business success and the economic rationale for government intervention, Department for Business Innovation & Skills, December 2013

21 The Smith & Williamson Enterprise Index, Smith & Williamson, April 2014

22 Education to employment: Getting Europe’s youth into work, McKinsey & Company, January 2014
http://www.mckinsey.com/insights/social_sector/converting_education_to_employment_in_europe
Knowledge and experience

Although it may seem obvious that a lack of knowledge and experience in areas such as management and internationalisation can be hugely detrimental to a business’ growth prospects, it seems such information and experience is not always easily accessible.

“The business support landscape remains confusing and I think businesses often find that landscape very difficult to navigate,” says Professor Roper. “I think that the lack of a high-profile central agency or support framework for entrepreneurship is probably not helping much.”

One area where such knowledge gaps are most keenly felt is in a firm’s ability to export successfully. According to the Department for Business Innovation and Skills, exporting SMEs are, on average, more productive, innovative and resilient than non-exporters. However, many UK businesses are not fulfilling their potential for growth abroad, partly because they lack the necessary local market knowledge. A recent study found that 25,000 to 150,000 non-exporting UK SMEs have the potential to be competitive in export markets23.

UK Trade and Investment (UKTI) is making positive progress in helping UK companies to access foreign markets through providing support, mentoring and connections, but the government is adamant that its contribution must still increase further. In the past financial year, the UKTI assisted 31,880 businesses to improve their performance through internationalisation and its target has risen to 50,000 for 2014-1524.

Mr Heggie says that banks can be influential in helping entrepreneurs to build the expertise they need to improve their growth prospects. “There is an opportunity for banks to use their diverse networks to help businesses connect to other businesses so as to learn and grow from leveraging expertise,” argues Mr Heggie. “It is a significant shift in approach for banks, and something we are very focused on at Barclays – if we can bring our networks of later and early-stage businesses and entrepreneurs together, the guidance they can share will be hugely beneficial.”

The need to bridge the knowledge gap is also, Mr Heggie argues, another reason to focus on scaling up more of the UK’s entrepreneurial businesses into large corporates. “The UK needs a bedrock of successful entrepreneurs to help the next generation,” says Mr Heggie. “If you look at the US, what they appear to have in more abundance are examples of successful entrepreneurs who have built and/or expect to build billion dollar businesses. These entrepreneurs understand the challenges involved in their markets and sectors, and act as key role models and mentors in sharing their experience with others.”

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23 SMEs: The key enablers of business success and the economic rationale for government intervention, Department for Business Innovation & Skills, December 2013

24 Number of UK businesses helped to improve their performance through internationalisation, Department for Business Innovation and Skills, January 2014
Growth ambition

While the UK may have experienced a cultural shift towards entrepreneurship over the past few years, it seems that many business owners still lag behind those in the US when it comes to attitudes around growth. A November 2013 report from Shell and GEM found that just 11.2% of youth-owned businesses expected to create 20 or more jobs over the next five years25.

“I think there’s a general culture of lack of ambition to scale in the UK – in the States you build a US$100m company and it’s seen as a good start, whereas in the UK it would have been sold three times already,” says Mr Rigby.

Professor Roper agrees that UK entrepreneurs must set their growth sights higher. “We did some research looking at growth ambition and one of the main drivers of the gap in growth ambition between the UK and the US is the growth in self-employment in the UK. Many of those UK firms tend to not take on employees – they are a one man or one woman band and they’ll probably remain that way,” he argues.

However, Fast Track’s Dr Stevenson argues that this does not show the full picture. “In terms of the UK entrepreneurs that we research, these fast-growing businesses highlight the fact there is some strong growth ambition out there in the UK. There are significant growth opportunities arising overseas for UK businesses and many of the best performing firms are those that do possess the ambition and the resourcefulness to enter new markets abroad,” says Dr Stevenson.

Ambition and confidence in alternative funding options are important areas in which UK entrepreneurs would benefit from further support. There are several ways in which this can be addressed, and London Stock Exchange’s Mr Stuttard believes this will be a key focus over the next few years. “It’s extremely important that government policies focused on start-ups over the past four or five years translate into companies gaining scale,” he says.

The way in which UK firms approach marketing can often provide an indication of their growth ambition. Marcus Gibson, Editor of the Gibson Index, which profiles almost 50,000 of the UK’s most promising early stage start-ups, argues that it is a lack of marketing muscle that is the overarching factor in whether a start-up succeeds, fails, or grows at a mediocre pace. “We think that being aggressive in marketing in their media profile, and their web presence, are some of the outstanding factors that mark smaller businesses out,” says Mr Gibson. “Start-up companies often have innovative products or ideas but we are increasingly finding it’s those who shout about them loudest that are the ones that get early success, particularly in highly competitive markets such as the US and Europe.”

“I think there’s a general culture of lack of ambition to scale in the UK – in the States you build a US$100m company and it’s seen as a good start, whereas in the UK it would have been sold three times already.”

Guy Rigby, Partner and Head of Entrepreneurial Services, Smith & Williamson

25 Youth Enterprise: Unlocking Ambitions, Creating Growth, Youth Business International, November 2013
Q&A: How peer-to-peer learning is helping Van Elle towards an IPO

Michael Ellis (Group Chairman) and Jon Fenton (Group CEO) of Van Elle, the UK’s largest independent piling and ground stabilisation contractor, explain how the opportunity to learn from other entrepreneurs in the LSE’s ELITE programme – which supports SMEs in the scale-up phase – is helping them on their journey towards a successful IPO.

What are your aims for Van Elle?
Michael Ellis (ME): I would like to exit the company and take my shareholding out, and to leave a secure future behind for the people that we employ. I’ve had experience in the past of companies trying to buy us out and they haven’t been successful so I thought we’d look at other alternatives – that is IPOs, private equity and so on.

How can the ELITE programme help you to achieve your growth ambitions and to reach the ultimate goal of an IPO?
ME: It is what’s called unbiased networking. We’re talking to similar entrepreneurs, in a similar situation. It’s amazing how even though business is diverse, so many people have the same problems. If you’ve got good people in place throughout the company then you usually have a good company. Even many IT companies we’ve been introduced to have similar staffing problems. We’ve listened to how they overcame those and taken some things on board ourselves.

What challenges have you needed assistance with as you attempt to scale up?
Jon Fenton (JF): We’ve received information about how we can raise finance and funding for Mike to exit, but also for how we can raise finance and funding to take the business forward. We’ve been presented with a range of different professional people and organisations – some who have gone through these processes and have got the tales to tell, and then there’s other successful businesses that have come in to talk to us that can help in these areas. We’ve met with accountants, nominated advisers, brokers, and successful entrepreneurs in industry.

In the past we’ve had difficulty obtaining unbiased advice. Most people are coming to you with a product to sell so they’re making you believe that that’s the best fit for your business. It’s good to sit down with a cross section of people to help understand what is good or not for the company. There’s also a lot we didn’t know about banks and investors, brokers and private equity houses.

Do you feel there is a lack of that type of information available to entrepreneurs in the UK?
JF: Well I think there’s a lack of a coordinated approach certainly. It’s difficult to find an organisation that can provide a broad perspective on these issues.
M Squared Lasers: Cutting through marketing and talent barriers

Graeme Malcolm, (Co-Founder) M Squared Lasers, a next generation laser technology company, cites marketing and skills as two key areas that his firm must address to achieve its scale up ambitions. The company is one of the first to join the LSE's ELITE programme.

Mr Malcolm founded M Squared Lasers in 2006 with business partner Gareth Maker. The business underwent a small seed funding round in 2006 through a local private equity house and Scottish Enterprise. The two partners then grew the company organically until 2012, when it had a £3.85m investment from the Business Growth Fund (BGF). “We’ve grown to round about the £10m point in terms of sales and the potential is there for us to grow through £50m and on to £100m, so that’s the next stage of the journey,” says Mr Malcolm.

Mr Malcolm says it is important for SMEs to learn from other companies in the same phase of growth from across a range of sectors as they seek to scale up. Marketing is a key area where M Squared must improve to expand its reach and achieve further growth. “There are a number of high-growth internet or specialist big data companies in the programme that have developed new marketing techniques, using ‘smart’ marketing, database marketing and word-of-mouth marketing, so I think we’ve learnt quite a lot of the things that they’ve been able to learn from consumer markets,” explains Mr Malcolm. “Some of these internet companies have got great methods for developing the customer base and making sure the customer base is happy, so we’ve taken lessons from that consumer market into our B2B market.”

Another key issue for M Squared Lasers as it strives for further growth is accessing the specialist talent it needs. Given the complex technologies the company is bringing to market, it requires people with a mix of technical skills and commercial skills to market its products. “I think it is quite common among companies that are scaling that have a substantial USP in what the company does, that the drive to find talent is more complex because there is not an existing pool and it’s more about finding the types of people who have the mix of the ambition, the aptitude and the capability to develop into those sorts of roles,” explains Mr Malcolm.

The company is taking a very targeted approach to addressing its talent issues. For commercial activities and innovation activities it is developing hubs in areas that are hot spots of talent. It has an office in Silicon Valley and is opening another office in Boston. “We’re making sure we’ve got a footprint in the areas that are talent rich, and that combination of expertise and innovation are the two things we’re generally looking for in a hub. We’ve got hub activities in London and Oxford as well so we are trying to expand the net by going to the areas where those sorts of skills are more abundant,” says Mr Malcolm.

To mitigate for uncertainty in the rates of growth in different areas of emerging technology, Mr Malcolm says they will continue to focus on a range of revenue streams that can be adjusted according to where fastest growth arises over the next few years.
Accelerating growth

At the smaller end of the enterprise spectrum, there is an increasing trend towards business incubators and accelerators in the UK. Business incubators typically provide affordable office space, services, support and advice for new businesses. They work with small businesses for a certain period of time, after which the small business exits the incubator.

Business accelerators function more like a boot camp for start-ups. They are typically run by successful business owners who have formed an investment group that will provide initial seed money to participants in exchange for a small financial stake in the company.

Wayra is an accelerator for digital start-ups, backed by Telefónica, which offers funding, office space and mentoring to entrepreneurs. Techstars, a US-based mentorship-driven start-up accelerator, opened a London office in 2013, and in addition to mentoring has provided co-working spaces with free office accommodation in Tech City for selected start-ups.

Large companies are increasingly working in tandem with these initiatives. Barclays for instance, launched a global start-up accelerator programme alongside Techstars at the end of 2013 to find 10 companies that can shape the future of financial services. There are now 11 companies in the Barclays accelerator cohort. Each of them will be guided through the process of growing and developing their business with the help of seed funding from Techstars in custom-built facilities near Tech City in East London. Six further programmes are planned in the next three years.

“I think we need to see more of Goliath teaming with David so smaller entrepreneurs can tap into the experience and connections of these larger organisations,” says Mr Rigby.

At present, accelerator and incubator arrangements are particularly prevalent within the technology sector, where short boot camps that help bring disruptive technologies to market deliver clear benefits for both start-ups and their corporate partners. However, Mr Heggie hopes to see such schemes become more commonplace in other sectors too. “Every corporate in the UK needs to think about incorporating innovation into their business model, and this is an effective way to access or promote this development,” says Mr Heggie. “Other sectors can certainly benefit from the same principles, and banks can play a role in providing or supporting opportunities for these ecosystems to form in other sectors.”

Tax incentives could also play a part in fostering alliances between large and small businesses. Between 2000 and 2010, the UK had tax reliefs for companies who invested in high-growth companies under the Corporate Venturing Scheme, but this was not renewed in 2010 due to low uptake of the scheme. The British Private Equity and Venture Capital Association (BVCA)26 and The Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA)27 both argue that this tax should be revisited. In addition, while the construction sector is currently performing well thanks to large injections of government funding, Ms Tooth says that this sector is likely to be less attractive to angels. Furthermore, the fact that the Enterprise Investment Scheme (EIS), that delivers tax breaks for early stage investors, does not apply to the sector deters many in the angel community from investing there.

26 The Missing Piece – How Corporate Venture Capital can transform UK finance and funding, BVCA, October 2013
27 Corporate venturing in the UK, RSA, July 2012
CASE STUDY: Breaking down barriers – Becoming a successful exporter

Clothing retailer Charles Tyrwhitt Shirts has grown into a £160m turnover business thanks in part to its successful overseas expansion. The company has featured on the Sunday Times BDO Profit Track 100 league table for four consecutive years between 2011 and 2014, and on the Sunday Times International Track 200 – which ranks Britain’s mid-market private companies with the fastest growing international sales – for three consecutive years between 2012 and 2014.

Nick Wheeler, founder and chairman of Charles Tyrwhitt Shirts, has built the company into an international British menswear brand without outside capital. He set up the company in 1986 while a student and it now has 22 stores, including in New York, Chicago and Paris. In addition to store openings, it has grown its international business rapidly by selling online and through mail order, which now generates the majority of its sales. For example, its fast-growing Australian online business is forecast to hit £15m by the end of the company’s financial year in August 2015.

Between 2010 and 2013, the company’s sales more than doubled from £57m to £119m, international sales grew from £26m to £59m, and profits (EBITDA) have almost tripled to £16m.

Mr Wheeler has taken full advantage of the emergence of online retailing over the last 15 years to build his company into a global brand. Speaking at the recent Retail Symposium in London, which was run by the British Retail Consortium, he emphasised the importance of tailoring a retail offering to specific markets. “It’s the way you sell it; it’s how you put your website together and how you put your catalogue together,” he said. Underlining its marketing strengths, Charles Tyrwhitt won the ECMOD award for Best Multi-Channel Retailer with turnover over £50m for the second year in a row in 2014, partly as a result of its effective multi-channel marketing strategy.

The company has recently been working to implement a new ERP system that will manage international sales and centralise business data. This platform, which can be rolled out globally, should help to further reduce the barriers of entry into new markets such as local language, currency and distribution.
A mixed regional story

In our last *Entrepreneurs Index*, we saw that while London continues to be the dominant region for UK entrepreneurship in terms of the scale of activity occurring there, several other regions, such as Wales and the Midlands, were beginning to prove their effectiveness at fostering high-growth companies.

Our latest data tells a mixed story among the regions. There has been positive change in the number of high-growth companies in regions outside of England – Northern Ireland, Scotland and Wales.

England has been the centre for wealth creation, with significant increases observed in the number of deals in the East, the Midlands and London especially.
Chart 5: UK and Ireland regional enterprise activity

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Enterprises</th>
<th>Proportion of High-growth Companies</th>
<th>Number of Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>North West</td>
<td>216,665</td>
<td>21.9%</td>
<td>177</td>
</tr>
<tr>
<td>Scotland</td>
<td>156,765</td>
<td>23.2%</td>
<td>70</td>
</tr>
<tr>
<td>North East</td>
<td>59,340</td>
<td>21.2%</td>
<td>36</td>
</tr>
<tr>
<td>Yorkshire and Humberside</td>
<td>156,320</td>
<td>23%</td>
<td>115</td>
</tr>
<tr>
<td>Midlands</td>
<td>329,650</td>
<td>22.9%</td>
<td>198</td>
</tr>
<tr>
<td>East of England</td>
<td>226,940</td>
<td>22.8%</td>
<td>119</td>
</tr>
<tr>
<td>London</td>
<td>400,930</td>
<td>21.4%</td>
<td>358</td>
</tr>
<tr>
<td>South East</td>
<td>352,725</td>
<td>22.2%</td>
<td>215</td>
</tr>
<tr>
<td>South West</td>
<td>207,470</td>
<td>20.8%</td>
<td>120</td>
</tr>
<tr>
<td>Wales</td>
<td>90,205</td>
<td>24.8%</td>
<td>49</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>66,650</td>
<td>23.8%</td>
<td>10</td>
</tr>
</tbody>
</table>

Key:
- Number of enterprises
- Proportion of high-growth companies
- Number of deals

Source: ONS; Experian for BGF; Wealthmonitor.
London remains the economic heartland of the UK. Since the financial crash of 2007, London and the South East have been responsible for 48% of the UK’s growth in output\(^\text{28}\).

Unsurprisingly, London has been home to by far the largest number of deals of any region in the 12 months up to June 2014: at 358, its nearest rival is the South East at 215. There has also been a 15% increase in the number of deals taking place, perhaps reflecting the fact that the UK’s tech sector has performed very strongly by this measure, and many of these businesses are clustered in and around London.

At 7.8% London has also seen the biggest year-on-year increase in the number of enterprises of any region from 2013.

At the same time, there has been a levelling off in the number of London businesses achieving high growth. This could be a sign that intensifying competition for talent and resources within the capital, coupled with the high cost of doing business there, are making it more challenging for many start-ups to achieve fast growth.

\(^{28}\) London’s economic boom leaves rest of Britain behind, The Guardian, October 2013
South East

After London, the South East has the highest number of deals at 215, and it boasts the second highest number of beneficiaries too, at 440. Unlike London, its share of high-growth companies has also increased, with a rise of 3.5%. At the same time, the number of enterprises in the region has jumped by 13,000, more than any other region outside of London.

This impressive performance may partly be explained by the fact that the UK’s fast-growing services sector is concentrated in the South East, with 15.7% of the UK’s business services activity located in the region.29

Louise Punter, Chief Executive of the Surrey Chamber of Commerce, also believes that much of this success can be attributed to an increase in business confidence.

“Everyone was very cautious for a while,” she says. “But in the past six to nine months we have seen a real surge in recruitment, in businesses going to other markets and a big marketing drive, all of which are clear signs of conditions starting to pick up.”

Although the region did experience a small increase in the number of deals (unlike the majority of other regions in the UK), Louise still believes the South East has room to build on this. “We certainly didn’t feel the effects of the recession the way that other regions perhaps did,” she comments. “But people definitely put the brakes on selling up. However, now they have weathered the storm and conditions are looking better, I expect we will see a lot more entrepreneurs out there looking to sell.”

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29 UK Business Confidence Monitor Report, ICAEW, Grant Thornton, 2014
After London and the South-East, the Midlands has the highest number of deals, making it the third most prolific region in terms of wealth creation events. It has also undergone the second biggest increase in the number of deals from 2013, which shows that the region’s billing by StartUp Britain last year as the UK’s most entrepreneurial region outside of London and a start-up hot spot is coming to fruition.

While last year saw only a small increase of 0.4% in the number of enterprises, 2014 has seen a 4.1% year-on-year rise. Tech City UK, a publicly-funded organisation aimed at accelerating the growth of digital businesses in the UK is working hard to bring such businesses to regions outside of London. Birmingham is one of the regions that has seen the most progress to date.30

David Bharier, Policy Advisor at the Birmingham Chamber of Commerce, says that this is an upward trend that is set to grow. “The Chamber of Commerce is seeing a larger number of firms expecting their turnover and profitability to increase and looking to take on extra staff,” he says. “This is a really positive sign that business confidence is up and that people are expecting it to grow even more in the coming months.”

However, in order to continue this trajectory of growth, particularly in Birmingham’s traditional heartland sectors, David believes that more needs to be done to close the skills gap in certain areas. “Greater Birmingham has suffered from structural unemployment over a number of decades and there are discrepancies in the supply and demand for skills in some of our key sectors, like engineering and manufacturing,” he said. “Our big manufacturers like JLR and the associated supply chain are performing very strongly and present a real opportunity, but in order to make the most of this we need to tackle the skills vacuum.”

For further detail please refer to the methodology. Source: ONS; Experian for BGF; Wealthmonitor.

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30 Birmingham takes tech fight to London’s Old Street, Financial Times, June 2014
http://www.ft.com/cms/s/0/ae15d278-ecd8-11e3-a57e-00144feabdc0.html#axzz3ERCktEVj
The North West is another region performing well in terms of the number of deals taking place in the 12 months to June 2014. The percentage rise in number of enterprises since 2013 stands at 4.8%, the third highest percentage rise of any region.

The region has benefitted in recent years from the development of several business hubs. The Manchester Science Park is now home to more than 150 science and tech companies, while MediaCityUK, a £950m development in Salford, has created a hub for small production and media companies.

Multinational pharmaceutical company AstraZeneca has long based its R&D centre at Alderley Park’s BioHub in Cheshire, though it announced its departure to a new facility in Cambridge in March 2013. However, with at least 80% of AstraZeneca’s 2,000 staff expected to remain in the region, this could prove hugely influential in developing thriving communities of successful life science companies to enhance the already growing network of biotech innovation. A taskforce comprising local government, the University of Manchester and the Local Enterprise Partnership, has been forged to focus on replenishing the Alderley Park site with ground-breaking enterprises in the life science industry.

Despite the drop in the number of high growth companies, Christian Spence, Head of Business Intelligence at Greater Manchester Chamber of Commerce is positive about the outlook for business in the North West in the future. “Employment rates are continuing to rise and the general wider economic recovery remains strong,” he says. “The strength of the recovery looks like it is embedded now and it’s hard to see anything – except more serious developments within Europe - that is going to knock that off.”
Yorkshire and Humberside has shown slightly disappointing results, with a small reduction in the number of deals taking place, alongside a slight drop in the proportion of high-growth companies. However, the region has seen its population of enterprises grow by 5,000 since 2013, a jump of 3.3%.

Mark Goldstone, Head of Business Representation and Policy, West and North Yorkshire Chamber of Commerce is positive about the business outlook for the Yorkshire area. “Of course there’s still a degree of uncertainty for small businesses, but certainly in our region we’ve seen a marked improvement in confidence, with this being at the highest it has been in a decade, according to our research,” he says.

Mark pointed to success in both the old and new parts of Yorkshire’s economy, saying: “There has been a big boost in confidence in manufacturing, but also in digital, with a lot of social media consultancies being started in the region. We’re increasingly seeing people coming back to Yorkshire from London.”

Mark also highlighted the so-called ‘Trinity’ effect of the new Trinity Leeds development on retail in the city. “The more people that are spending money in the city centre the better, and Trinity Leeds has had a huge impact on that,” he said. “We’re hoping to see the same effect in Bradford when the new Westfield development is completed – it’s just all about confidence.”

For further detail please refer to the methodology. Source: ONS; Experian for BGF; Wealthmonitor.
The South West has seen a marked rise in the number of deals taking place, with a 10% increase. Meanwhile, the proportion of high-growth companies in the region has remained fairly steady, and the number of enterprises has increased by 3%.

Phil Smith, Managing Director of Business West, says: “Business West has been closely monitoring over the past three quarters the growth in confidence of its 18,000 members, which provides a good indicator of the health of the South West economy, and we are unsurprised to see that the number of deals has grown by 10% compared to last year.”

The ERC’s LEP Growth Dashboard found that Gloucestershire, a key region in the South West, is struggling with a low rate of fast-growing firms and of start-ups reaching £1m turnover. Attracting and retaining the required skills and staff were cited as the biggest barriers to growth.31

Phil Smith is confident of the role that the Growth Hub will play in reversing this trend, saying: “The new Growth Hub launched recently by the GFirst LEP in Gloucestershire will help the region further develop its important cohort of fast growing and entrepreneurial SMEs.”

For further detail please refer to the methodology. Source: ONS; Experian for BGF; Wealthmonitor.

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31 LEP Growth Dashboard, Enterprise Research Centre and GrowthAccelerator, June 2014
North East

The North East has continued to move in the right direction in terms of the proportion of high-growth companies it is fostering. There has been a further 6.4% increase in the proportion of high-growth companies, following positive growth observed in the last report we released. After London, it has also seen the highest year-on-year percentage increase in the number of enterprises in the region, with a 5.4% rise from 2013.

A report from Bibby Financial Services found that more than half of North East SMEs enjoyed an increase in sales in the first quarter of 2014, with 12% reporting a significant rise. The report also found that 35% of businesses will invest in staff or recruit new employees, with 70% planning to invest in their business during 2014.

Ross Smith, Director of Policy at the North East Chamber of Commerce, says: “We are seeing a couple of sectors in particular enjoying strong growth in the North East – both those that have always traditionally done well in the region, such as oil and gas and offshore, but also newer sectors, like technology.

“There is a strong cluster of businesses emerging in the tech sector, particularly in the Sunderland and Middlesbrough areas. This is largely thanks to increased investment both from universities in the area in terms of skills, but also from strong multinational firms starting to set up in the North East, creating a buzz around the technology sector not seen in previous years.”

Ross does not see the drop in the number of deals as a bad thing for the region. “There has been a tendency in the past for companies to sell up too quickly before they realise their full potential,” he says. “Now businesses are seeing much stronger economic prospects and their general performance is much better, it is only right that there would be less incentive to choose to sell up.”

SMEs positive after ‘successful’ first quarter, May 2014
http://www.insidermedia.com/insider/north-east/114770-
The East has seen large growth in the number of deals taking place, while the proportion of high-growth companies has remained fairly flat. There has been a 4.1% rise in the number of enterprises in the region.

By far the most prominent centre for entrepreneurship in the East is Cambridge. The so-called “Silicon Fen” boasts more than 1,500 science and technology based companies, including ARM, one of the UK’s most successful companies. It has an established angel and entrepreneur ecosystem and is expected to benefit from entrepreneurs beginning to invest back into new technology companies in the area going forward.

The University of Cambridge, a firm supporter of the region’s tech cluster, has also been involved in setting up a new £50m investment business – Cambridge Innovation Capital (CIC) – with the specific aim of supporting the development of University spin-outs and other early-stage technology companies in the Cambridge Cluster.

CIC completed its first investments in August, backing three companies that address rapidly growing market opportunities in the areas of cloud-based video archiving, grid-scale energy management and generative music composition.

Nick Burfield, Head of Policy at the Suffolk Chamber of Commerce, also pointed to the effect of having British Telecom based in the region. “We see some exciting spin offs from BT,” he says. “We’re also doing well in sectors like ICT and the services sector. In general things are starting to pick up – we set up a growth hub earlier this year and that is very busy, well ahead of target.”

However, Nick would like to see more support to encourage small businesses to start exporting more to international markets. “We’ve got a lot of companies with the potential to export, but many are not doing so,” he said. “It would be good to see more encouragement from government for this type of activity.”
Scotland’s entrepreneurial activity appears to be improving, as we observed an 8.9% rise in the proportion of high-growth companies, alongside a 4% increase in the number of deals. The region has also seen a 4% increase in the number of enterprises since 2013. Data from the Bibby Financial Services Business Factors Index shows that businesses in Scotland are more bullish about future sales growth prospects than any other region. Three quarters of Scottish firms expect sales to grow during 2014.

Ms Tooth says this progress is unsurprising because Scotland has developed a well connected angel market that is highly leveraged against the Scottish Investment Fund. “There are some highly experienced investors in Scotland and some very well organised syndicates so it’s clearly having an impact,” says Ms Tooth.

Mr Welton meanwhile, says that BGF’s own activity in Scotland rose significantly in the first 6 months of 2014. “While Scotland experienced a weaker economic recovery than the UK as a whole, Scottish companies have now started to dust down their investment plans and are becoming increasingly ambitious,” says Mr Welton.
Though Wales has a smaller number of SMEs than many other regions of the UK there are clear signs showing positive growth. The proportion of high-growth companies in Wales has risen by 5.8%, while the number of deals in the region has increased by 7%.

Graham Morgan, Director at South Wales Chamber of Commerce, puts this rise down to a healthy business services sector. “A number of companies choose to base themselves in Wales, while delivering services across the whole of the UK, as it is a relatively low-cost place to do business. Alongside this there has been some good progress in the Life Sciences and Creative Industries,” he says.

The Wales Capital Growth Fund was established by economy minister Edwina Hart earlier this year to help Welsh SMEs access short-term working capital in order to bid for larger contracts.

According to Graham Morgan, access to funding is still a barrier to growth among local businesses. “It is tougher to get grant funding compared to previous years and that has assisted many Welsh based businesses in the past. Securing funding under conventional bank lending sources does command detailed business plans and projections based on core assumptions. Accordingly those businesses that are well led and managed do find it easier to root out funding whilst those that have not developed their business models still find this challenge very tough indeed.”

While there was a 1% drop in the number of enterprises in 2013, this year has seen a 2.3% year-on-year increase. Graham Morgan points to the shrinking public sector in Wales as a factor behind the rise in number of small businesses. “Consultancies and microbusinesses – firms with fewer than three employees – are on the rise, as many individuals are putting off retirement and want greater flexibility in how they work. We in Wales anticipate this pattern will grow with the roll out of superfast broadband and all that digital connectivity offers.”

For further detail please refer to the methodology. Source: ONS; Experian for BGF; Wealthmonitor.
Northern Ireland has performed very strongly in terms of high-growth companies, the proportion of which has risen by 21.2%, though the number of deals has decreased by 23% and the number of enterprises has remained flat.

Northern Ireland was selected as European Entrepreneurial Region (EER) for 2015 in August. The points of strength identified by the European awarding body included the attention given to the region’s natural resources, the partnership with EER 2013 region Nord Pas de Calais to exchange best practices on social entrepreneurship and the Food Network initiative, which brings together commercial and public sector funders with renowned culinary restaurateurs to create work opportunities for socially excluded citizens, as well as the Aspire Programme, developed and run by local authorities, which addresses graduate unemployment.33

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33 Northern Ireland wins “European Entrepreneurial Region of the Year 2015, NILGA, August 2014
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