

# START-UP TO SCALE-UP: AMBITION

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# FOREWORD

**The first step for any entrepreneur starting a business today, to be successful, is to have ambition and a vision for the future of that business. But the definition of ambition can change from person to person, as it's not the same wherever you look. For some, the ambition that pushes an individual to start a business is a means to putting food on the table. It is an alternative option to having a job and may provide a better quality of life.**

For others, the ambition is to grow the business into something of value to more than one or a few individuals. These types of businesses create value in communities by developing products or services that are of use to others, by providing jobs and collectively improving the prosperity of regions, resulting in other businesses prospering as well. This ultimately increases the economic value and output of nations and proliferates into greater benefits for society and an increase in opportunities for more entrepreneurs with ambition.



Manufacturing businesses would not exist if it were not for such individuals who strive for growth. Manufacturing is capital intensive and requires skills that are often considered to be at the peak of knowledge and expertise. It's a high-risk, high-reward environment that puts innovation at the forefront of growth and is becoming increasingly digitalised and greener.

However, the industry is dominated by SMEs and presents significant opportunities for manufacturers to scale up and increase their contribution to output and jobs. Ambition in our report is defined as whether SMEs had plans to grow their business into a large business (based on employment or turnover or both) in the next 5-10 years. The latest research shows that 17% of SME manufacturers plan to grow their turnover (more than £50 million) into the size of a large business within that time frame. Only 4% plan to do the same with their workforce, while 22% have ambitions for scaling up both elements. This means almost half of the manufacturing industry has a craving for scaled growth and reaching the size of a large business.

But many of these firms will face challenges along the way. As expected, our figures indicate that manufacturers are well aware of the blockades that exist on their journey to upscaling. Just under half identified access to skills as the biggest barrier to achieving their ambitions for growth. This has been an issue for decades now, and with today's labour shortages the problems appear to be worsening. Following changes to the trading environment, SME manufacturers have highlighted access to overseas markets as the second biggest barrier, followed by access to the domestic market, access to physical space and real estate, and finally access to finance, to complete the five biggest issues facing small and medium-sized businesses today.

Some of these issues affect non-manufacturing industries at a broad level too, but they can differ significantly at the granular level when looking at manufacturing. The types of skills, physical space and finance needed to support manufacturers make the sector unique in the UK. And if we are to ensure that entrepreneurs are not disincentivised from acting on their ambitions for business, then it is imperative that the social and economic environment built by the Government and industry is as supportive of that journey as possible.

**Stephen Phipson, CEO, Make UK**

# A CRAVING FOR GROWTH: MANUFACTURERS' GROWTH AMBITIONS

Without ambition and a desire for growth, it is very difficult to grow a business. For an SME, scaling up to a large business is not always the end game. Sometimes running a business is about survival; at other times it is about generating enough growth to enable owners to live the lifestyle they desire. Ambition is the source of all the different paths businesses take and includes those that do strive to grow their business exponentially. What business owners with differing ambitions have in common are the barriers they face when they do attempt to grow, whether that be to scale up or to grow modestly. This chapter looks at the level of ambition in the industry and focusses on the top five barriers faced by businesses when they grow.

There are significant benefits to be gained from scaling up SME manufacturers in terms of economic value and job creation. However, no matter how much support there is from the Government and the private sector to encourage or help businesses to grow to their potential, the impact of the effort would be mute if businesses themselves did not have the appetite and ambition for scaling up.

Fortunately, many SME manufacturers do not fall into the category of low appetite for growth. Just under half (43%) of SME manufacturers aspire to grow their business (in terms of turnover or employment or both) into a large business within the next 5-10 years, and a further 33% aspire to grow but not into a large business.

## SME ambitions to grow into a large business in the next 5-10 years

**17%**  
plan to expand their turnover

**4%**  
plan to expand their workforce

**22%**  
plan to expand both turnover and workforce

**33%**  
want to expand, but not into a large business

**11%**  
have no plans to expand in this timeframe

**12%**  
feel their business is already at the right size

**ONLY 1%**  
plans to de-scale their business

The small proportion of manufacturers that indicated a lack of interest in achieving growth covered several reasons for doing so, from owners nearing retirement to views that suggest bigger is not always better. For most manufacturers within that group, it is largely a belief that there is not sufficient demand or market share to be gained from upscaling.

## 12% of SME manufacturers sit comfortably in the "Goldilocks" zone

For some manufacturers, there is a size that could be considered the right size: when that business is not so small it cannot compete and generate a profit, and not so large that it becomes inefficient and overproduces for the market. These businesses have either reached the optimal size based on the demand available or are just big enough to meet the needs of the owners. In other words, the business is neither too hot nor too cold, but at just the right temperature.

The challenge with SMEs that sit within the "Goldilocks" zone is that some may still have the potential to scale up but the objectives of the current owners may not align with significant growth aspirations. It is possible that a change in regime or a transfer of ownership may lead to significant growth if the new owners have such ambitions. But changes

of this type usually occur naturally, particularly with family-owned businesses and owners passing on the business to a relative.

The main impact of this is that when support for growth and upscaling is available, these types of companies are less likely to come forward to access it. Targeted scale-up support may not be appropriate for these firms, but fortunately this is the situation for only 12% of SME manufacturers.

## Growing a business to sell it in the long haul

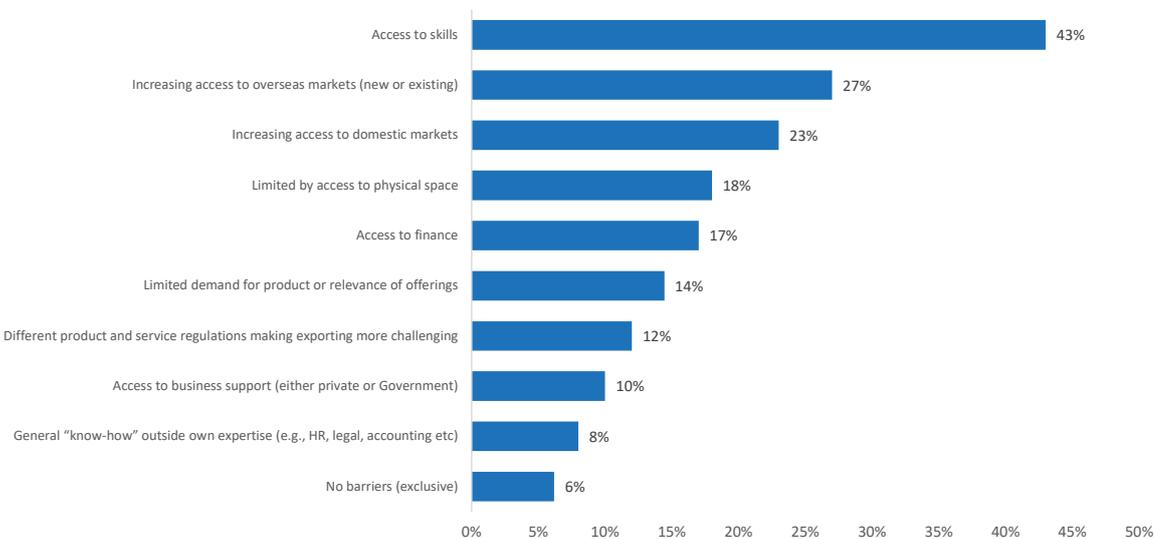
In some cases, business owners strive to grow a company to sell it in the future, after a specific time frame, once it has reached a certain value or when potential investors believe that the business is worth something great. Sometimes this is a positive step, as one ambitious owner transfers their company to another ambitious owner, who may indeed have the skills needed to scale up. However, what has been growing in frequency is the greater number of foreign investors buying up UK businesses, with little intention to grow them or to keep them in the UK. It should be acknowledged that this is a growing problem and should be addressed with further research into its impact, and policymakers should explore incentives to encourage these companies to remain and grow in the UK.

# THE AGE-OLD QUESTION: BARRIERS TO GROWTH

There already exists a plethora of research and anecdotes that have identified the biggest barriers to growth for businesses, whether that be in workforce or turnover or both, in all industries, and past surveys have often shown similar results.

Make UK's latest survey of SME manufacturers across the UK indicated that access to skills is the number one barrier to scaling a business. Challenges around exporting, access to domestic markets, lack of physical space and finance follow that list down to complete the top five biggest barriers.

Chart 5: Top barriers to a manufacturer's growth ambition



Source: Make UK Start-up to Scale-up survey 2021

## ALMOST HALF OF SME MANUFACTURERS SAY ACCESS TO SKILLS IS THE BIGGEST BARRIER TO GROWTH

### Access to technical and leadership skills are the main barriers to growth.

From a skills perspective, it is unsurprising that it tops manufacturers' concerns, as highly skilled labour has been a bane in the industry for decades now. Recent challenges because of the pandemic and the UK's new relationship with the EU have aggravated these issues even faster than before. This barrier to growth for manufacturing is unique, when compared to other sectors. Workers in manufacturing are in most cases within the upper quartile of skill levels, with technicians, engineers and more recently software and programming skills being the most difficult to fill. The latter skill set is in line with a positive trend towards digitalisation within manufacturing, resulting in the industry competing with other industries, such as software or Big Tech firms, to capture individuals with digital skills.

In addition, the industry faces a shortfall of leadership skills that are critical to initiating transformational change in the sector. Manufacturers recognise that the education sector has a role to play in filling the need for technical skills, but access to top management and leadership skills have been more challenging to find, particularly as education must be combined with experience to achieve success. Also, SME manufacturers are often family owned and rely on members or individuals who have worked in the business for a long time to take over management duties.



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## SMEs recognise the value of exporting to expand

**One in four manufacturers indicated access to overseas markets as a barrier to its growth ambitions.**

The timing of this result is interesting, given the seismic shift in the trading environment that took place at the start of 2021 as UK manufacturers faced new frictions when exporting and importing goods to and from the EU. However, this barrier to growth is not exclusive to our UK-EU challenges as it can refer to any country UK manufacturers wish to trade with. SME manufacturers in the UK face an uphill battle to scale up if they underestimate the value of going “global”, which presents tremendous opportunity for growth. Given that this issue stands second to access to skills indicates that manufacturers recognise this value, and desire to grow through exporting. It is imperative that we ensure there is ample support available to ease challenges to the best degree that is achievable.

## But there are challenges when expanding domestically too

**Looking inward, just under one in four manufacturers finds it challenging to grow domestically.**

This raises important questions on what the likely limitations are to cause such an issue. One explanation could be related to manufacturers that produce a specialist product for a niche market, and therefore have already reached an acceptable size to saturate the market. Or it may indicate those manufacturers that struggle to compete with an incumbent larger firm that already has a significant market share. The challenges firms face when looking to expand domestically may be a combination of the other challenges that affect them directly, or indirectly affect their customers. It is difficult to concur what would be the best approach to solve these issues; however, Make UK's recent quarterly Manufacturing Outlook Survey<sup>10</sup> has been indicating that the domestic market is expanding rapidly.

<sup>10</sup> “Manufacturing Outlook 2021 Q3”, Make UK, 2021

<sup>11</sup> “Exploring the success and barriers to SME access to finance and its potential role in achieving growth: ERC Research Paper 53”, Enterprise Research Centre, November 2016 (<https://www.enterpriseresearch.ac.uk/wp-content/uploads/2016/12/ERC-ResPap53-OwenBotelhoAnwar-03.01.pdf>).

## Manufacturers struggle to grow without access to space

**Almost one in five SME manufacturers says it is limited by a lack of physical space to grow.**

This challenge is particularly unique to manufacturers, as well as to other physical businesses such as retail and hospitality, as it places a strict limitation on the maximum size a company could achieve based on available land. However, for manufacturers specifically, it is not just the quantity of space available that prevents growth, but also the quality of land for prospective new plants and machinery. Manufacturing is highly energy intensive and requires access to adequate infrastructure, such as high voltage and amp ports to run energy-intensive machines, and access to gas pipes from multiple areas of a new site. In many cases, a decision to expand through the acquisition of a new site will require additional investment to get the physical space operationally ready – something businesses that access traditional office space do not need to deal with. As such, SMEs can be deterred from even attempting a step change as the finance required would be astronomical. There is also a question of the surrounding infrastructure, such as roads and access for Heavy Goods Vehicles (HGVs), which is explored further in this report.

## Access to finance is access to opportunity

**Only 17% of SME manufacturers indicated access to finance was a barrier to growth.**

This is quite surprisingly low on the list of priorities given that SMEs, and particularly start-up manufacturers, have some of the greatest potential gains to be made from increasing use of finance in growth and productivity. Despite this, finance is one of the top five issues cited by SME manufacturers, and it is possible that many businesses are not aware of the opportunities that could exist if they were to seek out finance more aggressively. Research by the Enterprise Research Centre (ERC), which conducted a survey of SMEs across the UK in 2016, found that only one in five firms actively sought finance – in most cases this was for working capital and equipment purposes.<sup>11</sup> The number of SMEs that seek finance specifically for growth appears to be lower.

It is interesting that our research shows little has changed since then, with access to finance specifically for growth purposes remaining low today. It may be down to red tape or a lack of information that results in the finance barrier not being a higher priority. If SME manufacturers can see the benefits of accessing finance, it may solve the issues on the demand side for growth finance allowing the supply side to focus its efforts on providing attractive options.

# START-UPS MAY FACE DIFFERENT BARRIERS FROM THOSE FACED BY SMES

The logo for Tosho, featuring the word "TOSHO" in a white, sans-serif font with a small circle above the 'O's, set against a black square background.

**Tosho & Co is a two-year-old design and manufacturing start-up in the UK specialising in the design of innovative products, such as plugs that are more suitable for disabled users. The business was financed by personal capital from the owner and did not seek additional finance through loans or grants to meet start-up costs.**

Tosho & Co specialises in the design and innovation of new products. It achieves this through the adoption of technologies such as 3D printing which enables it to reduce R&D costs by producing prototypes of innovative ideas – highlighting the benefit adoption of technologies by start-ups and SMEs can have on reducing barriers to growth. According to Tosho & Co, once you have an idea and a prototype, it is more challenging to find a suitable supplier / manufacturer in the UK that is willing to produce that product than in a country like China, which boasts a speedy turnaround time and a plethora of manufacturers willing to take risks on new ideas. This issue results in a growing trend among new manufacturing start-ups who are increasingly focussed on design and innovation in the UK but prefer to outsource physical production overseas. This is not necessarily a negative outcome, depending on the perspective, but it does result in the UK losing capacity to produce its own goods over time.

Nevertheless, Tosho & Co's ethos was against the idea of outsourcing production, and despite the high-cost nature of seeking a suitable supplier, the company sourced production locally. However, the process of finding a suitable supplier was incredibly time consuming, as there was little information available about which manufacturers in the UK had the tools and equipment available to produce its goods. Even when a supplier was successfully found, there was a lot of work involved in convincing the manufacturer to take a risk on a new product. The problems this created led to Tosho & Co taking on the burden of packaging its goods without access to a facility.

These issues highlight the significant challenges start-ups face when expanding for the first time, as a lack of knowledge and the substantial search costs associated with finding suppliers and customers create barriers to growth.

Start-up organisations such as Tosho still face other barriers to growth too, which bear similarities to more established SMEs as well as many differences. For example, Tosho & Co faced initial barriers to fill the skills gap around understanding finance and legal. According to the firm, there is plenty of support and mentorship available to assist the starting of a business, but not much to offer advice on these other critical areas. In addition, the business views networking as critical to its success, but indicates that the significant search costs for new customers and suppliers is a barrier to domestic growth as well as to exporting. However, online exchange platforms, such as Amazon, have reduced costs on achieving B2C growth – highlighting the benefits of accessing digital technologies to expand.



## Scale-ups and modest-growth manufacturers face similar barriers

Looking at the survey results for only manufacturers that have achieved at least 10% growth or more than 20% growth in employment year on year for the last three years (2016-2019), the results were as follows:

- More than half (54%) identified skills as the top barrier to their growth ambitions.
- One-third (32%) cited physical space.
- One-third (32%) cited overseas markets.
- Access to finance, business support and domestic demand were cited by almost a quarter (23%) of firms.

It is evident that fast-growing manufacturers share many similarities to slow-growing manufacturers but place access to physical space and business support higher on the agenda.

From the perspective of turnover, scale-up and modest-growth manufacturers reported an identical order of priorities to the average, although they place greater importance on exports than the sample average.

However, as noted previously, the sample for scale-up and modest-growth manufacturers is small,<sup>12</sup> and only serves to indicate whether the order of preference changes in comparison to the economy-wide average for manufacturing SMEs. The figures offer a useful indicator of how priority challenges change as manufacturers grow faster.

<sup>12</sup> Only 21% of the sample (based on the employment definition) and 38% of the sample (based on the turnover definition).



Make UK is backing manufacturing – helping our sector to engineer a digital, global and green future. From the First Industrial Revolution to the emergence of the Fourth, the manufacturing sector has been the UK’s economic engine and the world’s workshop. The 20,000 manufacturers we represent have created the new technologies of today and are designing the innovations of tomorrow. By investing in their people, they continue to compete on a global stage, providing the solutions to the world’s biggest challenges. Together, manufacturing is changing, adapting and transforming to meet the future needs of the UK economy. A forward-thinking, bold and versatile sector, manufacturers are engineering their own future.

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