

# START-UP TO SCALE-UP: AWARENESS

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# FOREWORD

## **The UK is home to some of the most productive manufacturing businesses in the world, as well as many that have a huge opportunity to improve their performance, but is awareness of support a barrier?**

I am therefore delighted that Make UK is investigating the challenge of increasing awareness of business support for manufacturing firms.

As noted in the 2019 Business Productivity Review, the task of increasing demand for business support requires much more than publicity campaigns. The user journey from lack of awareness of business support through different levels of engagement, especially in sectors as diverse as those in which SMEs operate, requires repeated touchpoints in a range of channels. Ultimately, we need businesses to begin a cycle of continuous business improvement activity.

Over the past four years, Be the Business has worked with businesses of every sector, of every size and in every corner of the UK. One of our mantras from the start has been that we need to understand things from business leaders' perspectives.

Leaders of small and medium-sized businesses are some of the most impressive and hardest-working people you could ever meet. From the extensive work that we do with these incredible leaders, we have learned a few things:



1. Lack of awareness is a key barrier to improvement. Like many of us, business leaders don't always know when they need help, or what type of help they need. It is critical that business leaders are made aware of both the improvements that could be made and the resources available to them.
2. Business leaders sometimes do not realise where they can improve until they investigate how others do things. Indeed, four in five small business leaders believe they are as productive as their peers, if not more so. By inviting comparison, business leaders will become aware of the need for improvement within their business.
3. Not every business owner leads in the same way or requires the same kind of support. We recently conducted what we believe is the most sophisticated behavioural segmentation ever for this audience. It identified six distinct leadership typologies. Tailoring communications based on leadership approach has huge potential to increase engagement.
4. You need to reach people at the right time, in the right way, with the right offer of support. Most of the time, business leaders are too busy with the day-to-day to seek help. It tends to happen at specific moments. This can be when they have growth opportunities, are faced with stiffer competition or when a significant external event, such as a public health crisis, occurs. It's at these points, or triggers, when business leaders are open to support – and that's when they need to have options immediately available.
5. Real world examples are powerful. Showing businesses examples of firms that have successfully adopted new behaviours provides models to follow. Trade associations and membership bodies can play a pivotal role in sharing examples of best practice that can be copied – including how companies they work with benefit from high-quality business support.

If we are to achieve the ambition of becoming a higher-wage, higher-skill economy, it is clear that things need to change. We need to improve awareness of high-quality business support on a large scale – and fast. Make UK's practical recommendations are undoubtedly an important step in the right direction, and I urge the business support ecosystem to help take them forward.

**Anthony Impey MBE, CEO, Be the Business**

# SUPPORTING START-UPS TO SCALE UP: IS AWARENESS THE TRUE BARRIER?

Many institutions are aware that knowledge of and education concerning available support, and how to access it, are important to supporting small businesses in the UK. Both the Government and trade associations like Make UK spend significant resources to ensure that the right level of signposting exists so that all those who can benefit from support are able to do so. And yet, it appears that take-up of many solutions remains low, with many businesses unaware of what exists. This raises one of the most undiscussed issues in business support: is a lack of awareness the real barrier to growth? This chapter highlights the level of “lack of awareness” in the industry, the possible explanations for the results, what could be done about it and what SME manufacturers say is useful for business growth.

It seems that, no matter how many schemes are invented by the Government or the private sector, there will always be an issue of low take-up of support by SME businesses, even within the manufacturing industry. This makes it difficult to assess what types of support are effective and what is helping manufacturers along their scale-up journey.

We could hypothesise that the true barriers to growth are awareness and more behavioural reasons, but it is not simple to test this. Our latest survey proposed a non-exhaustive list of nationally available schemes and programmes to SME manufacturers to get a sense of whether there is a common issue that still exists and to understand what types of mechanisms achieve a greater rate of market penetration (chart 11).

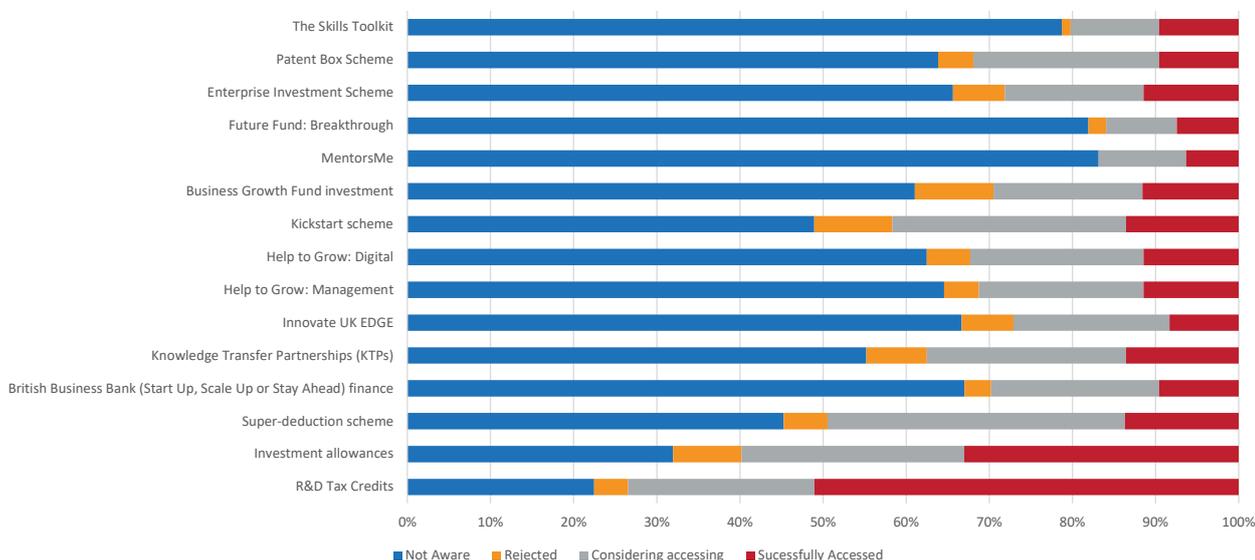
The results are shocking for most of the schemes proposed, indicating that a large share of manufacturers are unaware of their existence (on average 60%). Some of the schemes proposed (like the Skills Toolkit and MentorsMe) are not directly targeting manufacturers, nor are they marketed widely, which may explain the low awareness. The reason such schemes were included was to offer a type of counterfactual scenario for schemes we “expect” SMEs to be aware of and those we do not expect them to be aware of. Although the schemes we do not expect them to be aware of did indicate a lower take-up than those that we believe are more useful for manufacturers, no single solution had a zero rate of successful take-up.

However, other support mechanisms, such as Kickstart, Help to Grow and Knowledge Transfer Partnerships (KTPs), have had a positive impact on manufacturers that have successfully accessed the schemes and have received some greater level of marketing. Yet these schemes are also largely unknown to most SME manufacturers, indicating that there may be something else at play which is affecting access to or interest in Government support.

Some of the schemes are relatively new, which may explain the lack of awareness (Figure 1 shows the order in which the scheme and programmes were announced).

A study by GAMBICA in 2013, which included a more complete list of schemes available, found similar results, with an average of 66% of businesses unaware of available schemes.<sup>21</sup> Eight years later, it appears little has changed in that respect.

Chart 11: The awareness of support, a selection of solutions



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

<sup>21</sup> “Manufacturing Support Scheme Awareness Survey”, GAMBICA, 2013.

## Timeline of a selection of available solutions from oldest to most recent



The relationship between time and awareness is important, as industry has had less time to digest the newer support available for business growth. This explains the low level of awareness for solutions such as Help to Grow, Innovate UK EDGE or the Future Fund. However, it is interesting to observe the difference in awareness that exists between schemes that have been around for a long time too, such as KTPs, the Enterprise Investment Scheme and R&D Tax Credits.

One further explanation may be the method of communication that works best for manufacturers. According to the data, schemes such as R&D Tax Credits, investment allowances and the super-deduction have relatively achieved the least share of “not aware” and the largest shares of “considering” or “successfully” accessing. It is not surprising that R&D Tax Credits are popular, as manufacturing is an R&D intensive industry, accounting for two-thirds of total private sector R&D spend in the UK.<sup>22</sup>

R&D Tax Credits have been available for two decades now, enabling the industry to develop familiarity with the scheme. Conversely, a scheme such as super-deduction, which is relatively new, achieved a greater awareness and impact among manufacturers than other popular schemes, which may indicate that SME manufacturers communicate best through a tax-based system. It may also be reflective of the investment and R&D-intensive nature of manufacturing that incentivises them to seek out cost-saving mechanisms, but that would not explain why the Patent Box Scheme take-up is low in contrast. Additionally, given that access to skills is identified as the biggest barrier to growth, it is interesting to note that SME manufacturers do not seek out solutions such as KTPs or Kickstarts as vigorously as they do investment-related schemes.

<sup>22</sup> “UK Manufacturing, The Facts 2020/21”, Make UK, 10 September 2020 (<https://www.makeuk.org/insights/publications/uk-manufacturing-the-facts-2020-21>).

## Remove the sludge, and accelerate with a nudge

It is possible that the fundamental barrier to achieving scale is intangible. It may be a matter of several behavioural ideas, such as ambition, desire to find solutions, willingness to accept schemes that are easy to access, or something else entirely.

The solutions to such problems and improving the level of awareness may be difficult to ascertain. Certainly, relying on self-selection in the hope that all the right firms would come forward themselves to access the schemes they have a right to would be ideal. Behavioural sciences may have a role in contributing to manufacturers' lack of awareness and lack of interest in the available support, by understanding the frictions that create "sludge" for manufacturers deterring them from accessing, or even from seeking to understand what is available to them.

### DEFINITIONS

#### **Nudge theory:**

An idea in which, by shaping an environment, known as the choice architecture, one can influence the likelihood that one option is chosen over another by individuals. A key factor of nudge theory is the ability of an individual to maintain freedom of choice and to feel in control of the decisions they make. – Imperial College London

#### **Sludge theory:**

Frictions that make making good decisions harder. – Thaler, 2018

Since the popular emergence of nudge theory in 2008,<sup>23</sup> many governments around the world, including the UK, developed their own nudge units. This was to better understand the impact of policy and to apply behavioural sciences to increase adoption of policies, and sometimes to nudge people away from certain behaviours. For example, the UK Government made use of these ideas extensively during the pandemic, such as encouraging handwashing by implanting specific words, like "disgust", to increase the likelihood that an individual would follow through on simple solutions. Of course, not every nudge is perfectly effective, but most are not designed to be perfect solutions to problems. Rather they bring the impact of policies closer to their optimal level by directing them closer to where they need to be.

In business, this may be applying subtle indications about where business support exists, without overbearing on companies that do not wish to feel as if their choice has been taken away. Some suggestions include:

- Highlighting the success of manufacturers that have made use of schemes to grow, and emphasising the risk of falling behind to manufacturers that are not using what is available.
- Reducing the window for the availability of a solution to increase take-up (e.g., a promotion or sale, which is similar to how the super-deduction was marketed).
- Applying default options so manufacturers who engage in productive behaviour automatically receive any benefits they are entitled to.

The solution to encourage scale-up growth to proliferate exponentially may simply be a question of how we encourage businesses to seek out support when they need it.

A more recent, and growing, popular theory is related to "sludge". These are frictions that make it more difficult to make a decision or that direct an individual towards actions that may not be beneficial to them. In the context of business, this often relates to bureaucracy and long-winded processes that deter firms from accessing support or maximising its use. Among SME manufacturers, 16% have already indicated bureaucracy and the cost of time being a barrier to accessing finance and support.

Of course, occasionally some "sludge" may be intentional, to ensure that those firms that have the greatest desire and ambition to grow also have the right level of motivation to go through the red tape.

Yet now the economy is attempting to bounce back from a pandemic. And with industry tackling a growing list of challenges in supply chains, logistics, trade, energy and labour supply, it may be preferable to minimise red tape as much as possible to maximise access and take-up of support, as the key to the UK's return will be to generate growth in scale.

Going forward, institutions such as the UK's Behavioural Insights team, Be the Business and Nesta should conduct further research on whether behavioural barriers are hindering the growth of business, and whether behavioural-focussed solutions can be applied to increase business take-up of services. Make UK would be willing to support research in this field. In addition, the industry should work with the Government to identify the "sludges" that reduce take-up of solutions.



<sup>23</sup> Richard Thaler and Cass Sunstein, *Nudge: Improving Decisions About Health, Wealth, and Happiness* (New Haven and London: Yale University Press, 2008).

## What manufacturers say is useful for growth

We asked SME manufacturers across the UK what types of resources or institutions they believe to be most useful when wanting to grow the size of their business (either in turnover, employment or output capacity).

The results were curiously revealing, indicating that SME manufacturers place significant value on resources that enable them to benefit from networking.



**6/10**

believe joining a trade association (like Make UK) is most useful



**1/3**

believe funding institutions like Innovate UK are most useful for growing



**1/3**

say joining business support groups are useful for growth



**28%**

say that LEPs and Local Government Initiatives are important



**28%**

highlight mentorship schemes and peer-to-peer networks as useful

The remaining choices are completed by Help to Grow Schemes (23%), KTPs (23%), public benchmarking tools (22%, such as ONS data), reading research materials (15%), support for patent applications (14%) and accessing Catapult Centres (9%).

## SME manufacturers scale alongside their networks

Of the top five choices of what SME manufacturers say are most useful for achieving business growth, three are accounted for by functions that enable networking opportunities.

Despite the role of manufacturing in producing tangible goods, the industry is more relationship driven than many realise. Manufacturers need to build relationships with customers and suppliers, and in some cases the opportunity to scale is dependent on whether an SME's current network of suppliers can meet the new demand for inputs. Indeed, SMEs even indicated that one of the most important skills of a leader is the ability to do business development. If not, the ambitious SME would need to be able to secure additional sources of supply, which can involve significant search costs.

The desire to network more may also be a result of manufacturers being aware of their own "lack of awareness" of the support that is available and viewing networking with other manufacturers as the best method of filling in the knowledge gaps.

These problems offer an explanation as to why joining a trade association like Make UK is viewed as the most useful for achieving growth. Trade associations are an industry-led solution to industry problems and can connect businesses at scale, allowing them to prosper at a greater rate. In addition to this, SME manufacturers say that joining business groups and accessing mentorship schemes or peer-to-peer networks are important for growing their businesses. These types of solutions offer businesses opportunities to share their experiences and to obtain knowledge and skills as to how best to navigate uncertain economic conditions. Institutions like Make UK and the Government can work together to create more opportunities for manufacturers to network and share knowledge, incentivising firms to scale organically.

## **A small percentage of SMEs interact with publicly available research and data to inform their decisions**

A surprising 22% of SME manufacturers conduct self-analysis of performance using benchmarking tools such as data available from the Office of National Statistics (ONS) to support their growth, while 15% also access research reports (such as research published by think tanks, consultancies or public institutions) to do the same. Though only a minority of manufacturers are taking such steps, the figures highlight the valuable role both the private sector and Government bodies such as the ONS can play in indirectly supporting the upscaling of firms.

To maximise the potential of utilising data and research, it is imperative that information is released in as timely a way as is feasibly possible. The ONS demonstrated during the pandemic that timely data can be collected and released to help inform decision-makers and the public. Key sources of data, such as inflation, GDP, wages, employment and others, often lag by two months or more, with more granular data (e.g., by region or industry) sometimes lagging by a year or more. We can improve the impact of public data by reducing that time gap. In addition, expanding the granularity of the types of data available will serve to better inform businesses.

Further research will need to be conducted to better understand what types of data and research SMEs find most useful for growth, to better inform policymakers on how to advance the access of information.

## **Catapults ranked low for SMEs**

The reasons why only 9% of SME manufacturers indicated that Catapult Centres are useful for achieving business growth are not exactly clear. The most likely explanation is the lack of awareness of Catapults within the SME community rather than the quality of the service provided, which helps to solve many of the innovation challenges manufacturers face today.

The Catapults should assess whether a more targeted marketing strategy is required to get the word out and to make businesses more aware of the solutions available to them. As we have seen, an awareness of available support is potentially one of the biggest challenges to maximising the benefits of state interventions in industry.



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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