

GROWING YOUR BUSINESS

A REPORT ON GROWING MICRO BUSINESSES

Lord Young, May 2013

THE SECOND PART OF THE REPORT ON SMALL FIRMS

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Lord Young's first report as the Prime Minister's adviser on enterprise and SMEs was *Make Business Your Business*, 2012.

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Foreword by Lord Young

My first report on small firms, *Make Business Your Business*, was published last year and dealt with start-ups and the development of small business. The second instalment published today, *Growing Your Business*, deals in the main with micro-businesses and small firms employing fewer than 25 people. This is an area of some strength in our economy for we have one of the best environments in the world for the creation of new firms. What this report endeavours to do is to help and encourage all those new firms to grow and become an important part of our economy.

Today we have some 4.8 million firms in existence, a sixfold increase on the number of firms at the time of the Bolton Report in the early seventies, but of all these firms no fewer than 3.6 million are sole traders without employees. Programmes like Start-Up Loans are creating many thousands more and the purpose of this report is to help the sole trader take on his or her first employee, and the micro firms to expand and grow their business.

The UK is one of the few countries in the EU which has seen the number of people in employment grow since the 2009 recession. Despite a considerable reduction in public sector employment over 2010–12, the private sector has expanded to more than make up the difference. But we are by no means at the end of this road. Estimates by the Department for Business Innovation and Skills (BIS) suggest that if we were as entrepreneurial as the United States we would have nearly a million more firms.

“ *If we were as entrepreneurial as the United States we would have nearly a million more firms.*

Even without that, if we could just help the million micro firms that employ between one and nine people to employ on average one more employee we would transform the economy. If we helped even a small portion of sole traders to become employers it would further improve the unemployment figures and our prospects for the future.

Is this possible? Yes, I believe it is. In the last recession in the early nineties, small firms were in debt for over four years. This time small firms have had money in the bank throughout. Figures from the Office for National Statistics (ONS) indicate that large corporates are sitting on over £720 billion. When firms large and small are sitting on cash and not investing, the missing ingredient for growth is simply *confidence*. Indeed confidence, or rather the lack of it, is the origin of many a recession. If merely £10 billion of this cash was injected into our economy – in addition to current levels of business investment – the UK would see business investment return to pre-crisis levels.

No report, no matter how well intentioned, can provide that missing confidence. What it can do, and what I hope this report does, is to highlight the help and assistance that already exists – or will soon exist – to give businessmen and women the ability to grow their businesses. Here are the tools; now it is up to you.

Lord Young, 2013



Lord Young of Graffham

The Rt Hon the Lord Young of Graffham PC DL graduated from University College London before becoming a solicitor. He spent a year in the profession before moving on to establish a number of successful businesses. He became Chairman of the Manpower Services Commission in 1982, entered the Cabinet in 1984, became Secretary of State for Employment in 1985 and in 1987 became Secretary of State for Trade and Industry and President of the Board of Trade. He was Executive Chairman of Cable and Wireless plc from 1990 to 1995 and thereafter Chairman of Young Associates Ltd, which invests in new technologies.

Lord Young is an adviser to the Prime Minister on small business and enterprise. He published a report on start-ups, *Make Business Your Business*, in May 2012.

Executive Summary

Prime Minister,

Record numbers of people are starting a business each year, as part of a burgeoning population of over 4.8 million firms in the UK today.¹ Although three quarters of these firms are sole traders there are nearly a million micro firms (with one to nine employees), many with opportunities for growth.

The purpose of this report is to highlight the abundance of opportunity and support available for small and medium-sized enterprises (SMEs) and is aimed at policy makers and all those who advise and champion small businesses.

I want to highlight three areas that I believe create the right conditions for businesses to fulfil their growth potential:

1. **Confidence** – not only in the economy and overall prospects for growth, but also in their conviction to make it happen.
2. **Capability** – by improving a firm's skills and performance. The evidence is unequivocal: businesses that seek and engage external help are more likely to grow. But much more needs to be done to encourage firms to invest in their capability.
3. **Coherence** – businesses need support that is designed and marketed in a way that they understand, trust and can find.

A NEW PACKAGE OF SUPPORT FOR GROWING SMALL BUSINESSES

In my review of start-up businesses in 2012, I asked the Government to put in place a first important building block for young entrepreneurs through the creation of Start-Up Loans. This programme has begun well and should make a considerable difference in years to come.

This review on growing small firms accompanies a number of new developments.

Capability and skills

- A greater role for business schools in the local economy with the establishment of a new national **“Supporting Small Business Charter”** and accompanying award scheme to incentivise business schools to help SMEs grow. This will include advising small firms and increasing the flow of highly qualified students and graduates into SMEs. Business schools will also become a key part of the referral process and provision of Start-Up Loans and Growth Vouchers.
- A **£30 million Growth Vouchers** programme to find innovative approaches to help SMEs overcome behavioural barriers to increasing growth. Funded by Government, this will aim to unlock growth potential among small businesses who are holding back on investing in growth and encourage them to seek external advice.

Finance

- In response to high demand, **Start-Up Loans** will be boosted by a further £30 million to provide important funding and mentoring to help young people get their business ideas off the ground. The age limit for entrepreneurial candidates has been increased from 18-24 up to 30,

and I recommend removing the age cap altogether.

- **SME Growth Loans**, to be piloted from the summer of 2013 and as part of the Enterprise Finance Guarantee (EFG) scheme. These will facilitate loans of up to £25,000 targeting SMEs in their third year seeking access to growth capital. This accompanies a new EFG Trade Credit pilot which uses a Government guarantee to facilitate additional Trade Credit provided by suppliers to boost liquidity for SMEs.
- **£100 million of new funding to SMEs** from the Business Finance Partnership which promotes new sources of finance to businesses, including peer-to-peer and crowdfunding.

Public sector procurement

- A new **“single market” commitment** to ensure a simple and consistent approach is taken across public sector procurement. Government will consult public sector bodies and will make this a legal requirement.
- The pilot of a proactive function for Government’s **Mystery Shopper** to hold contractors to account in their relationships with SMEs.

- A first **national competition to find the best Councils to engage small suppliers** in local government procurement.

Marketing of Government schemes

- Better marketing of Government initiatives to support new and developing businesses. I am proposing a commitment for up to 5% of future initiatives to be spent on marketing and advertising, and with a view to sustaining a commitment over time where marketing is showing benefits.
- This report will also highlight the range of existing and new help targeted

at growing SMEs. This includes the development of a new digital capability programme for SMEs to make more effective use of the internet and technology as well as help to export, take on a first employee and innovate. A summary of these starts on page 47.

Much of the analysis and support for business described in this report is applicable to all parts of the UK. However, my review and its conclusions focus on the position in England, accepting that other arrangements apply in the devolved administrations.

The Vital 95%

THE GROWING IMPORTANCE OF SMALL AND MICRO BUSINESSES

Over recent decades there has been a remarkable transformation in the fortunes of the UK economy. In the early 1980s fewer than 24 million people were in employment. Today that figure is close to 30 million.² It has never been higher.

Likewise there has been an inexorable rise in the number of businesses in the economy. The *Bolton Report* identified around 820,000 small firms in the UK in 1971.³ By the turn of the century, according to official Government estimates of the business population, this figure had increased to 3.5 million.

Evidently, this rise in the number of enterprises is part of a long-term trend. Even more encouraging is the rise in the number of businesses in recent years. In 2008 there were 4.26 million businesses. By 2012 this had increased to 4.8 million – a rise of around half a million from the onset of the recession.

A number of factors contributed to this growth. One key factor is the impact of the internet. It has never been easier to set up a business, with the internet enabling greater access to markets, advice and guidance, marketing opportunities and cost savings than previously feasible.

The UK also has one of the most efficient labour markets in the EU – such flexibility and light regulation provides tangible benefits to us all. Economic growth and employment raises income and improves living standards. Our employment rate is well above the EU average and exceeds that of the United States too.

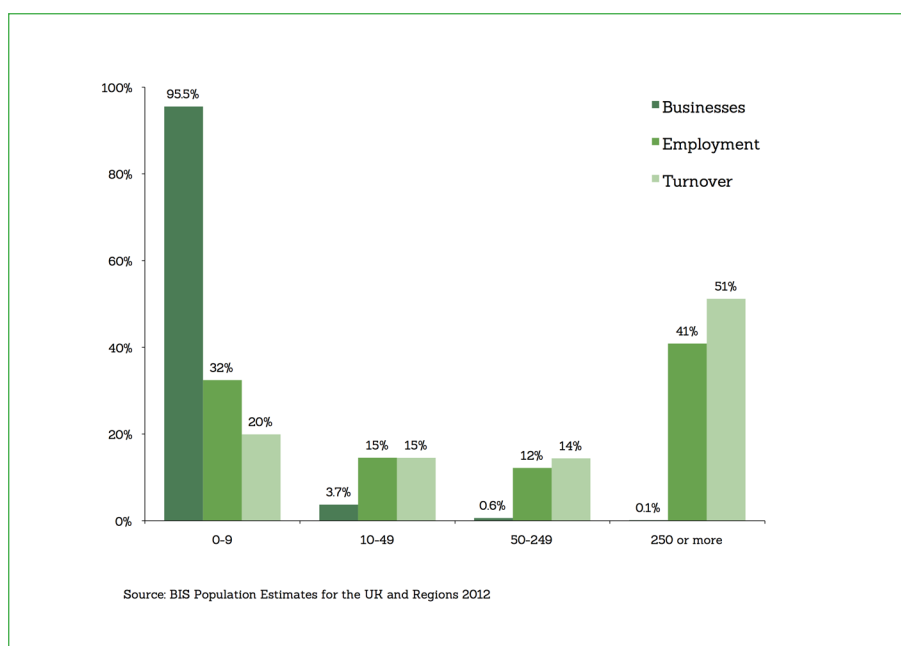
Number of people in employment aged 16 and over, 1983 to 2012 and Number of private sector businesses in the UK, start of 2000 to start of 2012



The contribution of micro firms to the economy is huge

At the start of 2012, 95.5% (4.6 million) of private sector businesses in the UK were micro firms (0–9 employees). Micro businesses together accounted for 32% of private sector employment (7.8 million) and 20% of private sector turnover.

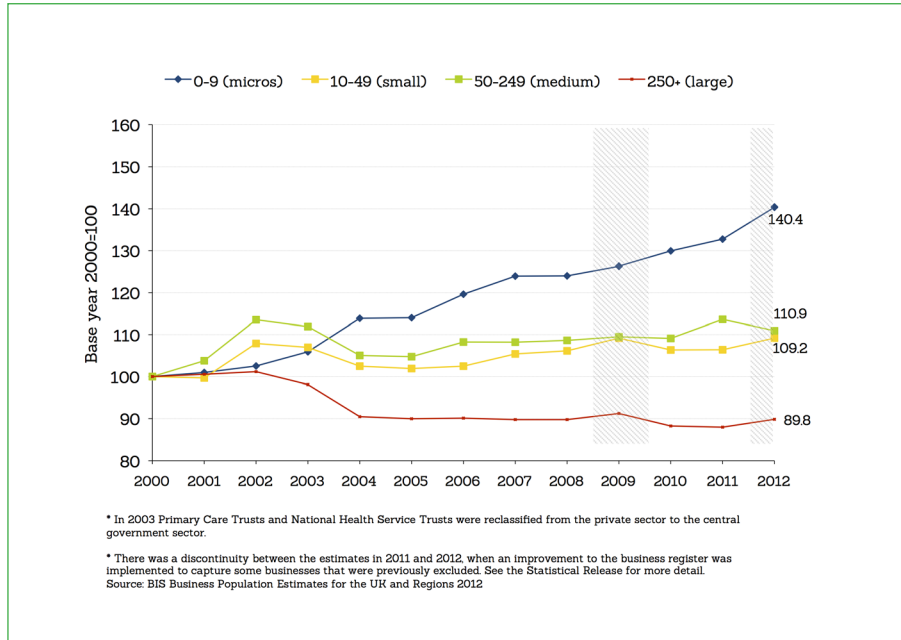
Share of private sector businesses, employment and turnover by employment size-band, 2012



This contribution has been increasing over recent years

The contribution of micro businesses to the economy has been increasing in recent years. The growth in the business population has been driven by micro firms which have increased by 40% since 2000.

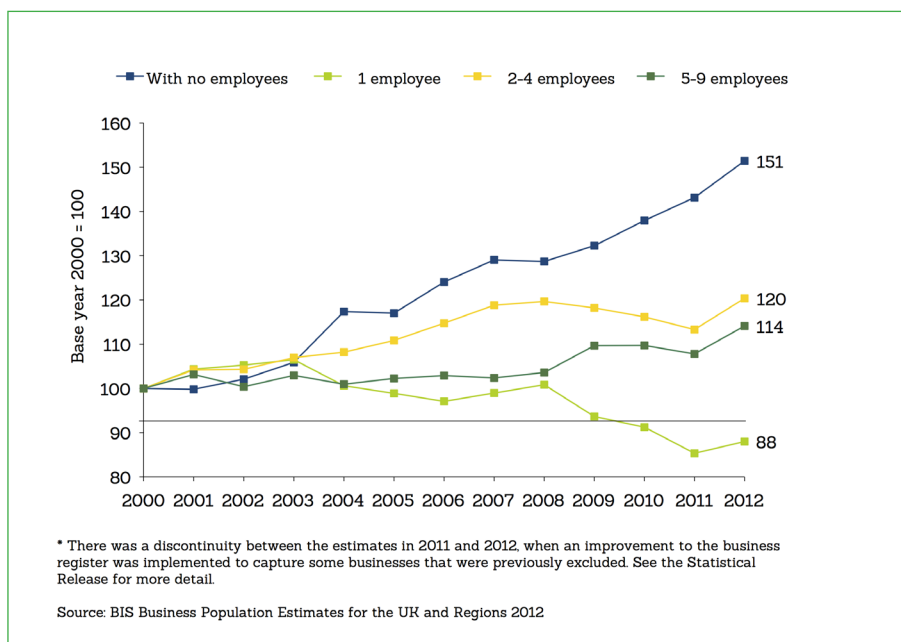
Change in the number of UK private sector micro businesses by size band, 2000–2012 (indexed)



But growth has come from firms with few employees

Within the micro business population itself growth has been driven predominantly by businesses without employees. Another interesting trend has been the fall in the number of businesses with just one employee, particularly since the onset of the recession in 2008.

Change in the number of UK private sector businesses by size band, 2000–2012 (indexed)



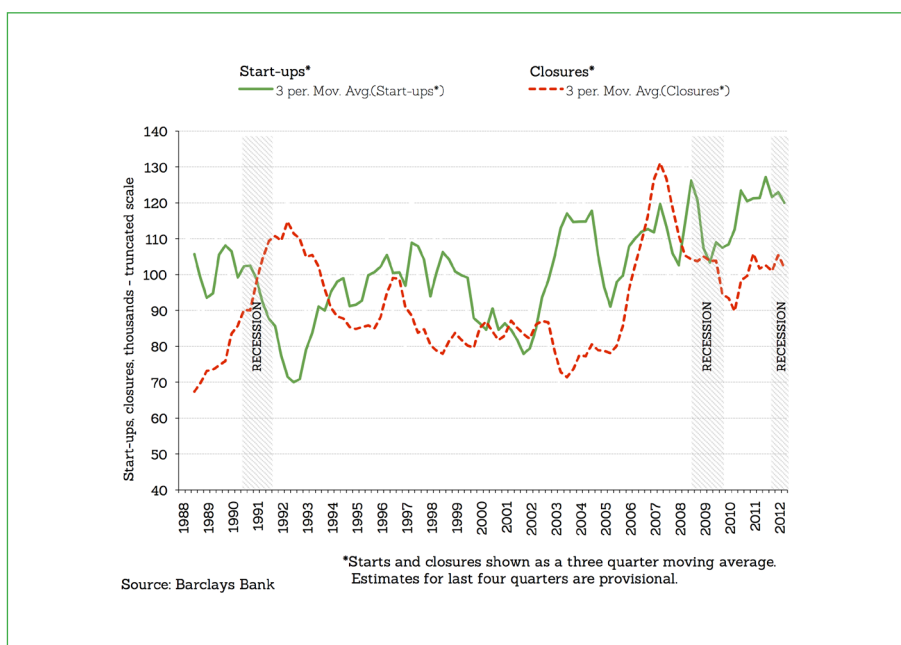
Coupled with their contribution in other areas, this justifies a strong focus on helping micro firms to move forward. New and growing small businesses drive economic growth by stimulating innovation, by creating a competitive spur to existing businesses to increase their productivity,⁴ and by making a disproportionate contribution to job creation.⁵

An excellent time to start a business

The rise in the number of businesses in recent years shows that a recession can be an excellent time to start a business.

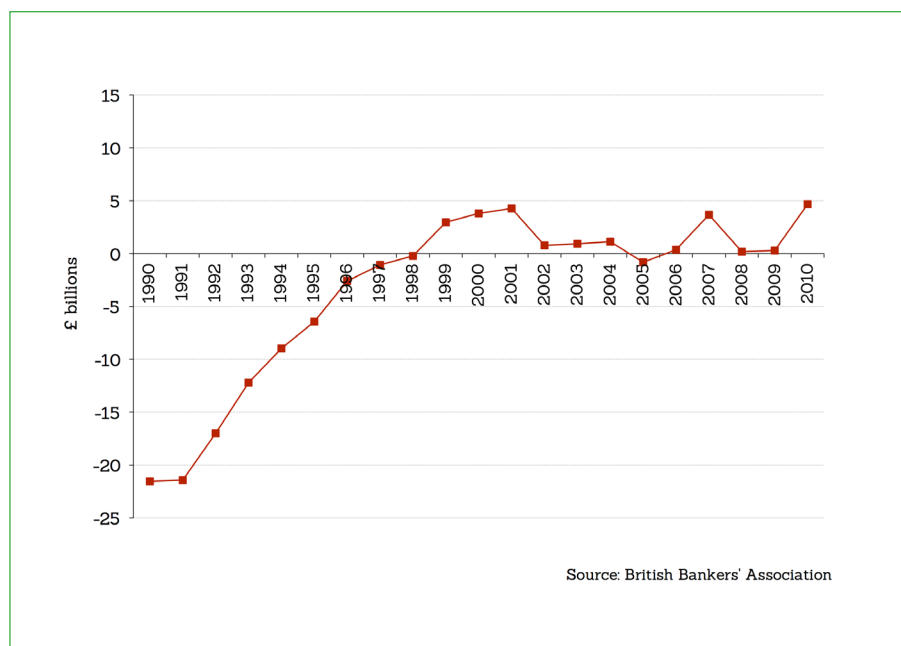
The following chart shows that despite tough economic conditions the number of new businesses has remained remarkably resilient and at historically high levels. Business closures have remained stable and lower than pre-recession levels.

Estimated business population, start-ups and closures (truncated scale)



One factor that has contributed to the relatively small number of business closures across 2008–12 when compared to previous recessions is the improved financial position of SMEs. The next chart shows that, in the early nineties, lending to SMEs outstripped their deposits and so SMEs were net borrowers. In 2007 this position had reversed and SMEs were net depositors. This meant that SMEs were better able to weather the economic storms that hit from 2008.

Net financial position of SME sector, total lending minus total deposits (SMEs with less than £1 million turnover)



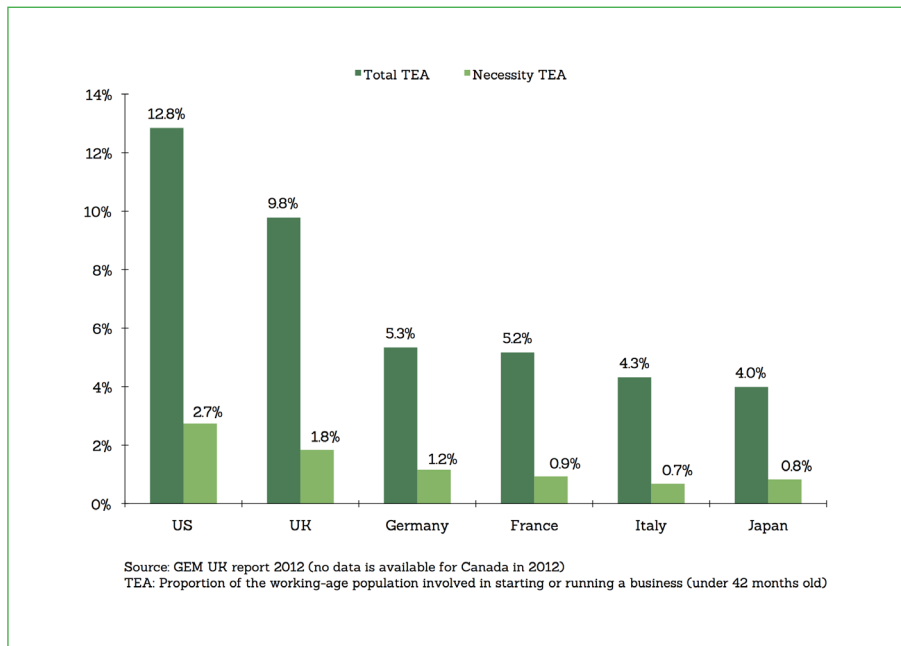
It has always been the case that a recession can be a good time to grow a business. This is true for a number of reasons. Competitors who fall by the wayside enable well-run firms to expand and increase market share. Factors of production such as premises and labour can be cheaper and higher quality, meaning that return on investment can be greater.

Research shows that well over half of the companies on the 2009 *Fortune 500* list (a yearly ranking of America's largest businesses) began during a recession.⁶ World renowned firms such as GE, Microsoft and Disney all started during a recession.

Opportunity rather than necessity

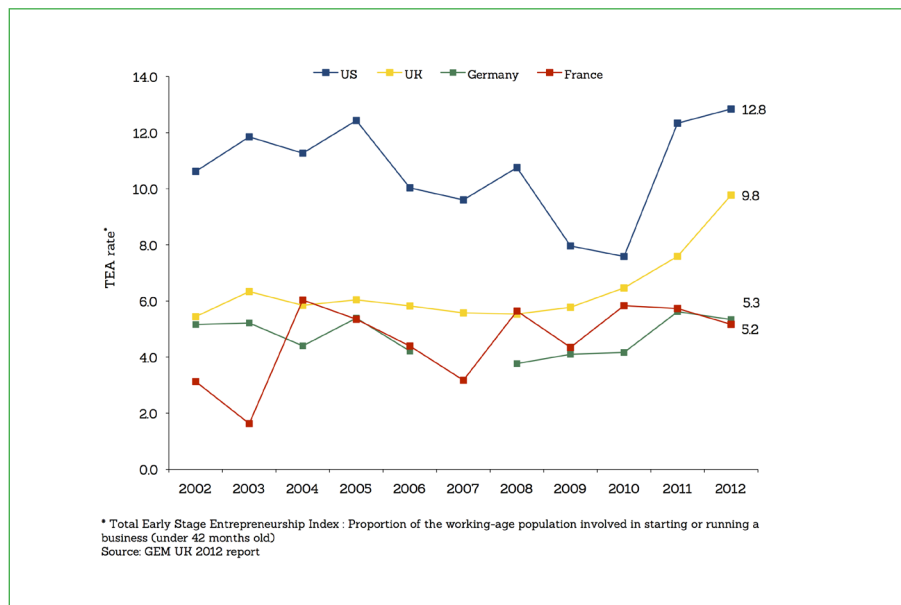
Most people in the UK who start up a business do so because they view it as an opportunity rather than a *necessity* (motives for growing that business are different, as we shall see later). The Global Entrepreneurship Monitor (GEM) measures Total early-stage Entrepreneurial Activity (TEA).⁷ The following chart shows that, in the UK, most entrepreneurial activity is opportunity-driven with less than a fifth driven by necessity.

Total and Necessity entrepreneurship in participating G7 countries, 2012



The next chart shows just how the enterprise activity has strengthened in recent years. Between 2002 and 2009 the TEA rate stood at around 6%. Since then it has increased year-on-year reaching 9.8% in 2013. This has seen us pull away from Germany and France and begin to chase down the US.

Total Early Stage Entrepreneurship in select G7 countries, 2002-2012



Small firms and economic growth

Economic growth raises income levels and improves living standards. One of the main ways this occurs is through job creation; and new and growing small businesses fuel job growth.

A recent study found that of the jobs created each year between 1998 and 2010, small firms and start-ups created around two-thirds.⁸

Factors Influencing Growth

For the past 12 to 18 months, I have seen many small businesses grow, often keeping a low number of employees despite rapid growth in profit and turnover.

This is being achieved through:

- increasing adoption of technology to innovate, raise finance and find new customers
- increasing use of shared services **and** outsourcing specialist functions, enabling business owners to keep costs down, stay nimble and respond rapidly to new opportunities.

Growth needs to be measured not just by job creation but also by the economic activity these firms are generating through the flexible use of people, technology and services.

A FOCUS ON MICRO ENTERPRISES

We know that SMEs dominate the stock of businesses and the majority of these will start and remain small – nearly 95% of all firms are micro enterprises employing fewer than ten people; 75% have no employees.⁹

Government is right to focus much of its attention on SMEs with high growth potential and I welcome the development of GrowthAccelerator

(www.growthaccelerator.com) and other programmes to support these businesses. But I know from experience that it is not easy to spot the high-flyers at an early stage or to make predictions about their long-term success. That is why I am keen that Government keeps up its efforts to build the capacity of the wider population of SMEs, including those that start very small and have a strong desire to grow.

This report concentrates on the early stages of growth for new micro businesses – from a sole trader and its first employee, up to ten and beyond. These will be businesses across a range of sectors, trading for a couple of years and establishing themselves, and now thinking about growth opportunities. But these lessons could also apply to established firms looking to make a step-change in their performance.

My report emphasises a number of important factors influencing small business growth:

1. Confidence remains key

This report will demonstrate how small businesses, unlike in previous recessions, have for the most part remained strong with good growth prospects since 2008.

I meet many small firms who fit this profile – strong viable businesses with very good growth prospects. But for many of these firms there is no current inclination or preparation to expand. Over a third of SMEs in recent research cited the economic climate as the main obstacle to the success of the business. 56% of SMEs that express a need for finance say they do not apply because they do not want to take on additional risk; and fewer SME employers aim to grow in 2012 compared with 2010, particularly among micro firms.¹⁰

Challenging economic periods can be a prime time to strike for growth – markets that appear to be at their lowest point can offer gaps and openings as customers seek new solutions and alternatives to the way things were before, and suppliers become more competitive to win your business. This is how successful brands like Screwfix, The Body Shop and Hackett saw it when they were starting out. These

businesses started very small and faced many of the challenges small firms face today. When others were pulling back or just holding on, these businesses were spotting new market openings and making the most of opportunities to grow and expand.

A little later in this report we shall meet Crux Product Design. This business started in 2003 as a two-man product design team and made the decision to expand in 2008. Crux have now become synonymous with Great Britain's London Olympic success as the designers and makers of the Team GB cycling helmets. For Crux and many others, a decision to expand was as much about a survival strategy as it was about growth success. Not investing now can make it much harder to make the most of the opportunities for growth when economic prospects start to improve.

2. Strength of ambition matters

Ambitious SMEs are more likely to grow in terms of turnover and employment.¹¹ However, while the majority of SMEs assert that they want to grow, relatively few achieve this in practice. Fewer than a quarter of SMEs have what is described as 'a substantive ambition to grow' – in other words, a desire to grow met with determination, opportunity and a strong level of leadership and management to make it happen.

There will always be "lifestyle" firms with little or no growth ambition, but there will also be many other firms that do not grow but are well placed to do so. These could be SMEs that have downsized due to the recession with a strong desire to grow back to previous levels. There are others like the 'ambitious but unprepared' that have a strong aspiration but little awareness of the opportunity and help available to them. And then there are social enterprises

looking to develop their business model and extend their help to the people they employ and the communities they serve.

3. Perceptions affect ambition

I am also struck by how much perceived obstacles can stunt not just a firm's *ability* to grow, but also the owner's *desire* to grow. These can be difficulties navigating regulations, hiring staff or exporting. These psychological barriers stifle ambition and discourage people from taking growth plans forward. I am therefore keen that one of the results of this review will be to demystify the misperceptions out there about growing a business.

4. Small firms are using technology like never before

We are seeing the increasing adoption of technology amongst small firms to innovate, raise finance and find new customers. These firms are realising that the internet and digital technology is no longer an optional extra, but a key driver to growth. An example of this is rising customer demand for 4G (high-speed mobile internet) which will both increase commercial opportunities for SMEs and test their ability to remain competitive.

5. Small businesses that use external help are more likely to grow

Outside assistance has a strong and positive impact on the growth of a small business. However, much more needs to be done to encourage firms to invest in their own performance. As well as an overall mood of confidence in the economy, firms need to build confidence in their own skills. Intrinsic to this is the strength of a firm's leadership and management.

This makes it imperative that we encourage firms to improve in the key areas which can make a sustainable difference to their business. This is why I have asked Government to put in place a Growth Voucher programme available for small and micro firms seeking support to tackle their key growth challenges.

6. SMEs need to broaden their awareness of sources of finance

Small businesses continue to complain that they are unable to access bank finance. But this should not prevent small firms from accessing the finance they need – whether from micro finance¹² or alternative sources of finance provided by crowdfunding platforms.

7. There is more Government itself can do to facilitate new and growing enterprises

I want new and existing business support schemes to belong to a coherent package of help for growing small businesses. This should include:

- **Better use of existing assets**, for example by helping business schools to play a central role in the development of local businesses through better engagement with their students and facilities, or by unlocking the huge growth potential for SMEs through government procurement.

- **Greater emphasis on marketing Government initiatives.** There is an abundance of support available to growing businesses, but it is not always marketed to the small firms that need it most. When I think back to my time as the Secretary of State for Employment in the 1980s, I am reminded that the popularity of the Enterprise Allowance Scheme (EAS) was due to strong and well-resourced coverage and a simple and clear message to unemployed people looking to set up their own business. Some of the companies set up with the assistance of the EAS are even listed today in the FTSE 100.

I have put forward a proposal to Government which would enable departments to use all relevant marketing channels at our disposal to ensure that schemes like Start-Up Loans, Growth Vouchers and the Seed Enterprise Investment Scheme (SEIS) are effectively targeted at entrepreneurs and potential investors in enterprises. If we can do this, I am confident that we can repeat the success of businesses like Superdry and Warehouse, which were started with the help of programmes like EAS, and produce a new generation of successful businesses.

CASE STUDY

CRUX PRODUCT DESIGN | *James West, Director*



You may not have heard of Crux Product Design, but you've probably seen the cycling helmets they developed for Team GB at the 2012 Olympics and Paralympics...

Crux started in 2003 as a two-man team and you're now a global brand, famous for the Team GB cycle helmets. How did that happen?

When the recession hit, growth was a necessity rather than a luxury – we were overly exposed to a small number of client accounts, so we quickly went about expanding our client base. It was essential that we had the confidence and conviction to continue with our plans whilst managing risk. The biggest risk was doing nothing at all – if we'd battened down the hatches we'd be out of business.

We also found that being in a recession

meant we could negotiate good deals on premises and new staff, as many other businesses were cutting back.

What key steps were critical to your growth?

Two key changes have driven our growth: new premises and new people. Taking on new staff was not about increasing our headcount – it was about investing in a skillset that could give us that competitive edge.

Recruiting a person with sales and marketing expertise immediately boosted Crux sales and has



given us a strong strategic direction to expand into new markets and develop the Crux brand.

Moving from a small office to a fully functioning design studio and rapid prototyping workshop was also key – it gave us the room and facilities to expand and underlined our drive to develop from a surviving micro firm to an ambitious and sustainable business.

What has been your biggest mistake?

Not understanding the value of marketing and PR early enough.

What does social media mean to your business?

Social media is a great way of gathering market intelligence. We monitor the interests and trends of prospective clients, thinking about how we might offer solutions to their needs. A key part

of winning the Team GB cycling helmet contract was the approach we made to UK Sport via LinkedIn.

What would be your top tip for other micro businesses?

Keep a close eye on costs: only make business expenditure on items that you really need. Start a cash flow forecast from day one and keep it up-to-date. Maintaining a positive cash balance gives you speed and flexibility to capitalise on business opportunities that may come your way. And use universities. They're an important resource for your business. Academia and the corporate world are merging ever closer. Setting and supporting university projects, for example, can yield excellent results for both parties at low cost.

www.cruxproductdesign.com

Using What We Have in Better Ways

There is often a call for the Government to come up with new schemes and programmes to help businesses, yet right under our noses we have assets which can be developed to offer further benefits to SMEs. I want to use this chapter to highlight some of these, including business schools and the wider education sector, and government procurement.

BUSINESS SCHOOLS AS 'ANCHOR INSTITUTIONS'

There are no fewer than 130 business schools across the country, the majority attached to universities. These business schools are seen as one of the big success stories of UK higher education, producing large numbers of talented students of business, management and related disciplines. Many of their students will go on to find placements and careers in large corporate and mid-cap firms here and abroad.

However, in the main, these business schools play a variable role in the local economy – graduates generally do not have ambitions to take up employment opportunities in small firms and small

businesses do not see business schools as a useful source of help in the local area. Without direct contact with the small business sector, I believe business schools are underselling themselves in terms of their expertise. Nor do they provide the breadth of skills and experience students need to enter the wider world of business, entrepreneurship and commerce.

I want this to change. I have found that I am pushing on an open door with the Association of Business Schools (ABS). The ABS is equally committed to increasing direct contact between local SMEs and business schools, and ensuring that the latter become a force in their

local community. The ABS has agreed to lead a national programme to recognise and encourage good practice in the relationship between business schools, their faculty and students, and small businesses. The imperative is to extend such activities more widely across the business school community and develop the capacity of business schools to act as anchor institutions, supporting economic development on a sustainable basis.

Incentives and rewards for business schools

I have asked the ABS to develop a “Supporting Small Business Charter” and an associated award scheme to incentivise business schools to help small firms to grow. This will include the provision of small firm growth programmes, advice clinics, improving the flow of highly qualified graduates into small businesses, and increasing export potential through engagement with international students. As an indication of the high regard to be associated with this charter, I intend that business schools in receipt of the ‘Supporting Small Business’ awards should benefit by gaining a role in the delivery and referral for Start-Up Loans, Growth

Vouchers and other elements of the SME support identified elsewhere in this report.

I will explore this by hosting a summit at Number 10 in the summer of 2013 which will bring together deans and other relevant representatives of business schools, business organisations and other key players in the local enterprise agenda. I would like to see a charter and award scheme in place for the next academic year.

This charter and award scheme would underpin a coherent package of help on offer from business schools to small businesses, making the schools easily identified as places where students and staff are keen and able to work with small firms on the specialist areas that drive their growth. I believe in future such schools should also encompass resources such as incubators where small firms and entrepreneurs can interact with the facilities and students in business schools. And there should be initiatives to support high quality academic research into key issues facing the SME community, such as crowdfunding and the value of SMEs in public sector procurement.

UNIVERSITIES AND COLLEGES

As well as business schools, I am constantly reminded of the expert advice, collaboration, student placements and technical support that universities and colleges provide to local businesses and firms operating in specialist areas.

There are many good examples of higher and further education institutions working in their local communities to support small business. Many colleges have dedicated

business development centres open to businesses for staff development and technology improvement. New College Nottingham, for instance, worked directly with 1,346 companies in 2011–12, of which 80% were SMEs.

I would like to see universities at the heart of clusters of innovative businesses. Knowledge transfer between local businesses, universities and the research

councils will be a key driver for growth. One way this is already happening is through the Technology Strategy Board (TSB) and Knowledge Transfer Partnerships (KTPs). These support UK businesses wanting to improve their competitiveness by bringing a recently qualified graduate into their businesses for up to three years.

As well as KTPs, I am a firm believer in the value of students undertaking

internships and placements in small businesses. Students can provide fresh thinking, opportunities and new talent. In this report's chapter on *Employment and Outsourcing* I will look more closely at the issues of graduate recruitment in SMEs. I also want to ensure that students from all education institutions (not just business schools) are given the confidence and support to start their own businesses – not just to be employed in them.

THE CUSTOMER TO GROW: PUBLIC SECTOR PROCUREMENT

Government procurement has the potential to create significant business and growth opportunities for SMEs – £230 billion per year is spent on goods and services across the whole public sector.¹³ For small suppliers, winning a share of this market could be transformational for their business. This can include procurement supply chains which can offer businesses the opportunity to build capacity and know-how in what is a huge marketplace.

In this report I want to draw closer attention to the innovative solutions SMEs are bringing to the public sector. I also want to put the spotlight on the approach taken by local authorities and NHS trusts to open up opportunities for SMEs in their procurement, including the way small suppliers are treated in the contract process. I am recommending that all parts of the public sector agree a set of “single market” principles which all suppliers can expect when doing business with the **public sector**.

A stocktake on progress

There are signs of steady progress in central government opening up the procurement process to small suppliers, marked by a decision to remove Pre Qualification Questionnaires (PQQs) for contracts under £100,000 in value. This has demonstrated that procurers can manage procurement efficiently without adding additional burden on themselves and suppliers.

But the fact is, central government will need to almost redouble its spend with small firms if it is to achieve its target of a 25% SME market share in procurements by the end of this parliament (2015).

Moreover, Whitehall procurement only accounts for about 20% of overall public sector business won by small firms. It is local government and the NHS which present the biggest opportunities for these suppliers – some 70% of small firms supplying the public sector sell to these two markets alone. However, Government's Mystery Shopper (www.gov.uk/doing-business-with-government-a-guide-for-smes) shows that Councils and NHS

trusts in particular continue to be the most complained about authorities for their PQQ practices.

My own conversations with SMEs back this up. Findings from my review point to significant constraints in the procurement process and discouragement across the wider population of SMEs that public procurement is impenetrable to new entrants. The fact that so many small firms do not consider government work an option is a measure of the scale of the turnaround required.

What can be done about this? I have identified three areas where I believe change could make a big difference to SMEs' ability to win public sector contracts.

1. A greater focus on what SMEs can offer

First and foremost SME engagement with the public sector is about delivering better value in procurement. I continue to find examples of small suppliers producing spectacular gains and at a lower cost than larger (and often incumbent) government contractors.

An SME, **Redfern Travel Limited**, was awarded a four-year contract in 2011 to deliver national travel services to Government. This recognised the efficiencies to be gained by aggregating spend from 17 central Government departments all with similar travel requirements, into a single national and international contract. Redfern was able to deliver a high quality service significantly cheaper than the next best bidder, with an estimated saving of £20 million (a saving of over 70% versus existing costs).

SMEs are also delivering extraordinary value in Government **IT contracts**. For instance, a recent Home Office hosting and server procurement has seen a 90% reduction in cost from £73,000 to £7,000 by awarding the contract to a small provider.

The launch of the innovative **Government Procurement Service (GPS) G-Cloud framework** – where more than 70% of the 470 suppliers are SMEs – has given Government departments an easy route to fulfil cloud-based ICT requirements and allowed small, innovative suppliers to compete against the traditional large ICT providers. Departments are quoting savings on bids from incumbent and large suppliers from 30% to 90% by using the G-Cloud to open up the market to a more diverse and innovative range of suppliers.

Despite the extraordinary savings small suppliers like these are offering, I am not convinced that the value of SMEs is being fully exploited across the whole public sector.

What I want is a more direct route for innovative SMEs into procurement. This should include programmes like the Small Business Research Initiative (SBRI) which are specifically aimed at helping businesses provide new technical solutions and products to solve specific problems identified by Government departments.

I am pleased that ministers across Government have committed to promoting greater use of SBRI in their departments. And I welcome the increase in pre-dialogue and the publication of medium-term procurement plans through sector specific “pipelines” in Government, which

give SMEs the opportunity to help shape procurements before the start of the formal procurement stage.

Small suppliers (particularly in the area of IT) are put at a disadvantage when contracting authorities stipulate existing security clearance as a prerequisite for recruiting a contractor. Large companies are often able to keep their staff security clearances up to date which is not always possible for new and very small firms. I am pleased that new guidance has been issued to all departments that makes it clear that pre-security clearance should not be made a condition of a procurement unless there are exceptional circumstances.

I also welcome the Cabinet Office Digital Procurement Framework which will open up digital services to SMEs to the benefit of both. I particularly welcome the fact that this will create a regional digital market as well as a national one.

2. A “single market” for all parts of the public sector

Chief amongst the criticisms from SMEs about public sector procurement is the complexity, cost and inconsistency when trying to sell to more than one authority. An obvious example is the disparity between central government’s removal of PQQs for small value procurements and their continued use by the wider public sector, usually with different thresholds and often requiring burdensome details and the “gold plating” of training, health and safety policies and wider objectives of the contracting authority. SMEs want procedures in place to make contracts quicker to award, and more certainty about the likely success of a tender.

A key recommendation in this report is the creation of “single market” principles

to provide a simple and consistent approach to procurement across all public sector agencies, where SMEs can gain better and more direct access to contract opportunities. This would apply five common principles:

1. Access

The public sector removes all PQQ requirements for contracts below the EU Threshold (€200,000).

Above this, all public authorities use a single standard PQQ: this would allow public authorities to assess a supplier’s suitability to bid based on considerations about technical skills and capacity, but would avoid gold plating with a plethora of different locally-determined objectives.

The public sector adopts a “single-passport” system to allow companies to enter pre-qualification data once on the standard form, to be approved by one public body and then counted as the PQQ for all their bids across any other authority.

2. Visibility

To locate all contract opportunities in a single place using the existing Contracts Finder platform (www.gov.uk/contracts-finder). This would not preclude additional advertising through an authority’s own local and sector led communication channels.

3. Completion bonds

There is some evidence that the demand for completion bonds from the public sector unfairly tilts the playing field against small and medium-sized firms. Large firms that have substantial assets do not find any difficulty in providing suitable bonds but the small firm will often find that the only way they can provide such bank bonds is at the expense of

their overdraft facilities which effectively prevents them bidding. I recommend that the Business Bank investigate whether they can, by way of joint-venture with a finance provider, introduce an insurance scheme to replace the necessity for completion bonds.

4. Payment

All authorities' payment terms are made standard for all procurements.

5. Accountability

For all authorities to monitor and collect data on public sector spend with SMEs, and for Government to report it in one place.

How can we make this work?

It is clear from my discussions with Government departments that there is strong willingness to support a single market approach.

The Department of Health is working closely with the NHS to embed these principles in new guidance it will issue to trusts in **summer** 2013. This will include clear advice that trusts should not apply PQQs for contracts below the EU threshold; and training and closer engagement with non-executive members of hospital boards to ensure they have the ability to challenge the way in which SMEs are being considered in procurement decisions.

The Department for Communities and Local Government and the Local Government Association are also clear that local councils need to be more active and visible to create a competitive environment for SMEs in their procurement. I was pleased to join the Secretary of State for Communities in January 2013, to launch the first national "Best councils to do business with" competition.

This competition has produced a good response from councils. We will be looking to the best of these for examples of councils that recognise the benefits of doing business with small firms and are actively removing the barriers which impede their ability to compete successfully for contracts. I am proposing that the winners of the competition become the early adopters of single market principles. The winners will be announced in May 2013.

I want this positive response from departments to extend to all parts of the public sector. To make it happen I have asked the Government to lead a consultation with public bodies to consider their appetite to adopt these single market principles **and then embed these principles into procurement practice through a legal requirement.** This should take account of good procurement practice across the whole of the public sector and the ability of public bodies to respond flexibly to local or sector-based needs. But above all, I want the simplification of PQQs and other procurement practice to be recognised as a deregulatory measure that increases business and growth opportunities for small firms in local areas and the sectors in which they do business.

I believe that the combination of the abolition of PQQs together with the replacement of completion bonds by an insurance scheme would transform the opportunities for small firms and result in a stronger SME sector and at the same time save the taxpayer considerable expenditure.

3. Enforcement and accountability – an enhanced Mystery Shopper

SME suppliers not only report problems in their direct relationship with public procurers but also in their engagement through public procurement supply chains.

Central government commits to pay invoices in five working days. However, a prime contractor can often take several months before they pay their subcontractors. The introduction of Project Bank Accounts is a welcome development and allows a procurement authority to put in place a mechanism for timely payments to all contractors in a supply chain, not just the prime contractor. This has begun in construction procurement and I would like to see this rolled out across all main areas of government procurement where possible.

My review has also unearthed a practice where large companies partner a small firm to use their specialist skills to secure a contract as equal partners, and then lean on the small firm to reduce the junior partner's contractually agreed share of the work.

The Government's Mystery Shopper scheme can hold public bodies and supply chain managers to account when malpractice is reported. But this approach is reactive and reliant on the supplier coming forward – often reluctantly when they are in the midst of a commercially sensitive contract relationship. I have asked the Cabinet Office to review how Mystery Shopper can strengthen its hand by becoming proactive, and to embed a stronger inspectorate function to ensure that procurement contract agreements are better enforced.

From March 2013 a new approach to Mystery Shopper has been piloted

to enable spot checks on advertised procurements to ensure good procurement practice, as well as checks on supply chain payments and terms of business between a prime contractor and its partners and subcontractors. If a department is not satisfied, it **may** cancel contracts as well as exclude contractors from future government work. Where slow payment is discovered, contractors will be named through the reports of Mystery Shopper cases published online.

I have also asked the Cabinet Office to increase awareness of the published Mystery Shopper results. **This will enable** business representatives, local councillors, hospital board members and all others involved with small firms and the delivery of public services **to** increase pressure on public bodies in their areas, when abuses in procurement practice are committed by procurers or the prime contractors they do businesses with.

Programmes and Schemes to Help Businesses Grow

I now want to consider programmes and schemes that the Government supports which are specifically aimed at improving the internal capabilities of SMEs.

We need to get from a position where too few SMEs access external help, to where they routinely identify the support they need to improve and know where they can find it. I see the task as twofold:

1. to stimulate demand amongst SMEs by raising awareness of the benefits and trustworthiness of the advice on offer
2. to target the areas of help businesses need most.

This is why I have asked the Government to put in place a Growth Vouchers programme for small and micro businesses seeking support to tackle key growth challenges. This would focus on the key areas that we know can make a sustainable difference.

Online advice and guidance

Entrepreneurs and small firms are increasingly turning to the internet, including social media platforms like LinkedIn and Twitter, to seek guidance and encouragement. The internet also offers Government the opportunity to deliver practical and relevant advice to a large number of SMEs in an efficient and targeted way.

The transformation of Government business support services has resulted in a new digital offering – GOV.UK (www.gov.uk). This is designed as a simpler and faster means for all firms to access business information, and I anticipate many businesses using it to find answers about compliance and regulation. However, that only works when people know what they are looking for; and there remains a problem when looking for advice including support and encouragement: it is not offered.

The migration of some but not all BusinessLink **business advice** content to GOV.UK (along with material from Directgov) has opened

up a gap in the online provision of this advice to small firms. This poses a danger that we undo a great deal of the good work Government and its partners have done to help people make a business idea happen. That is why I want to encourage the private sector to step forward with proposals to provide advice and inspiration to help people start and develop their businesses. Much of this can arise out of exploiting the treasure trove of data held by Government, and GOV.UK are shortly going to release the APIs to enable access to this.¹⁴ I hope that this will enable many organisations to create web sites of their own offering relevant and effective advice.

I would expect this external provision of advice to sit alongside existing programmes like the British Library's Business & IP Centre (www.bl.uk/bipc), which will soon be part of a national network in partnership with many city libraries. I hope that they will be joined by business schools, Local Enterprise Partnerships (LEPs), business organisations and private companies offering web sites based upon the GOV.UK data that will greatly assist new and growing companies.

Mentors

Alongside online advice, I see a strong role for face-to-face and interactive specialist help for businesses. Mentoring has proven to be popular as a way to build businesses' confidence and know-how, and is often the first step towards use of external advice and support. It also meets a common preference for learning to be informal, delivered by peers and tailored to the needs of a business. Mentors are not there to run someone's business, but to make themselves available to help with problems.

We need to get more business owners recognising the benefit of using this type of support. It is as vital for growing businesses as it is for start ups – as little as 280,000 (6%) of all SMEs used a mentor in the last 12 months. Many mentors are available via the BBA's Mentorsme.co.uk, which provides a single point of access to around 27,000 business mentors. So we have the supply – the priority now needs to be to encourage more businesses to make use of this valuable source of help.

Intensive help and tailored solutions

Once businesses have a better understanding of their needs, they should be looking for bespoke solutions to drive growth. However, over 800,000 micro and small firms in the UK have not taken advice from the private sector in the last three years, despite 100,000 recognising a clear need for it.¹⁵ This includes just 25% of SME employers who rate themselves as strong at accessing external finance and fewer than half (42%) who feel they are strong at introducing new products and services.¹⁶

Why don't SMEs access external help? The reasons can be varied. Most of all, though, small firms' awareness of the value of advice to their businesses is low. This makes them reluctant to pay for it. Matters are not helped by the market for accessing advice being fragmented and difficult to navigate.

Growth Vouchers

The proposal for Growth Vouchers began with a British Chambers of Commerce suggestion to jump start small businesses' take up of specialist help by way of a voucher scheme.

I believe that if we can use a voucher scheme that encourages small firms to seek external help, we can make a real impact on their performance. However, what remains uncertain is how best to structure and target this scheme to encourage the appropriate use of advice.

The Government has agreed to commit £30 million over two years to trial a variety of innovative approaches to help small firms overcome the barriers that hold them back. This will test the type of support a scheme should offer and the amount provided. There are a number of problems that almost all small and micro firms seem to have in their early days. Taking on their first employee means they have to master the delights of PAYE and National Insurance. Few small firms understand the importance of cash flow, particularly when applying for a first bank loan. And I suspect that many firms could improve their performance by increasing their mastery of technology.

The scheme will also consider which firms to target, and in what form to offer support. One thing I would like to ensure is that businesses pay part of the cost, for I have found over the years that free schemes are valued by the recipient at cost. We should also test whether this support is best delivered by giving firms advice and training or if their capability is increased by buying in a particular service. And it will be important to consider the most appropriate delivery channel to ensure firms know where to find this support and can access it.

If we can get the model and the delivery right, the potential prize to increasing the growth capability of small firm will be significant.

More effective use of the internet and digital technology

Today the business environment is going through revolution rather than evolution largely due to the use of the internet. The web and associated technology is not an optional extra, but a key driver to growth.

A report in late 2012 showed that digital technology could help SMEs to unlock £18 billion in revenue.¹⁷ Over half of SMEs using the internet across their businesses see increased sales as a result of effective online marketing and wider geographic reach,¹⁸ and SMEs with a strong web presence grow more than twice as quickly as those with minimal or no presence – and create more than twice the number of jobs.¹⁹ As well as individual internet sites, specialist portals like Trivago and trading platforms like eBay and Etsy are providing online shop windows for firms to get their products and services known.

This technology also makes it perfectly possible for micro firms to become exporters. A common characteristic of many internet businesses is that they don't see themselves as exporters even when they are already selling goods and services abroad. These are "inadvertent exporters", with little awareness of their export activity until they require more postage to dispatch their products abroad. Analysis of online sales and internet search engine activity shows that UK businesses, by and large, offer the most competitively priced products and services across Europe.²⁰ PayPal reports that 25% of its payment transaction activity in the UK is from overseas trading. I see this as a rich source of undetected business activity which could usefully contribute to UK export and domestic economy statistics.

Despite these opportunities, many small firms' use of technology still falls short. 82% of small businesses have not adopted anything new in the last 12 months and still spend an average of 11.4 hours per week on administrative tasks which could be more efficiently managed using technology.²¹ By increasing their use of technology they could significantly improve their productivity. This includes the speed and efficiency of payment. I am pleased to see Government increasing its use of e-invoicing in its procurement with SMEs, and I hope this can be adopted more widely in business-to-business transactions, including supply chain relationships.

I was pleased to be part of early dialogue between Government departments and the private sector to discuss the importance of digital technology. This has resulted in a major programme of work, expected to be announced later in 2013, as part of the Information Economy strategy and the Government's wider industrial strategy. The programme will look at reaching up to 250,000 SMEs over the next five years with practical help for exploiting the web to achieve growth and exports. It will also aim to drive take-up of superfast broadband and other ICT supply services.

Access to **fast, affordable and reliable broadband** is essential for new and growing small businesses but for many rural SMEs broadband is slow or non-existent. That is why Government is investing £530m through its rural broadband programme to ensure universal broadband. The target is for at least 90% of premises to have access to superfast broadband by 2015. And the complementary Rural Community Broadband Fund will provide grant funding for superfast broadband projects which would not otherwise receive it under the main programme.

Innovation and high growth

While this review on small business has focused primarily on very small and low-technology firms, I want to complete the growth picture so that firms with the potential to grow quickly can understand how they can access help.

Fast-growing technology companies can require intensive help to realise their potential. There are some promising results with companies helped by GrowthAccelerator (www.growthaccelerator.com) and I look forward to hearing about more successes as this programme develops.

Innovative creative businesses can also take advantage of programmes supported by the Technology Strategy Board (www.innovateuk.org), including Innovation Vouchers, funding and knowledge transfer partnerships with universities and colleges. These are accompanied by guidance and services offered by the Design Council (www.designcouncil.org.uk) and the Intellectual Property Office (www.ipo.gov.uk) to enable companies to commercialise and protect their ideas.

The Government is backing high-growth social enterprises with the Cabinet Office's Investment and Contract Readiness Programme that provides grants to ambitious social enterprises to **improve** capacity to raise investment or to bid for public service contracts.

Contacts for all of these initiatives are available on pages 48–49.

The **Goldman Sachs “10,000 Small Businesses”** programme, hosted by four English universities, provides high-quality, practical support to the owners and leaders of established small businesses and social enterprises as they seek to grow. For the participants, the core of the program is a practically-focused business and management education, delivered over 12 sessions lasting a total of approximately 100 hours. During the course of the programme every small business owner develops a customised growth plan to direct their organisation's business strategy and expansion.

CASE STUDY

SUGRU | *Jane Ní Dhulchaointigh, Inventor and CEO*



Jane Ní Dhulchaointigh came up with the idea for sugru while studying product design. She knew that a self-setting rubber which could be formed by hand and used to fix and improve things had commercial potential and gathered together a team of scientists and entrepreneurs to turn the idea into a business. It took six years before she was ready to launch, but now the company employs 40 people and exports worldwide ...

Did you use advice or help to develop your business?

Yes! Lots! I would say one of the most important things that has allowed sugru to be a success is that I have not been afraid to ask people for help and advice.

NESTA had a grant scheme to fund

“Creative Pioneers” – creative people with a genuinely groundbreaking business idea. This was a three-week residential business course specifically for 30 creative graduates each year. They inspired us to think big by inviting all kinds of incredibly inspiring people to come talk to us, like Lord Puttnam, who told us about his long career in advertising, producing Hollywood films and as UK President of UNICEF. I was so inspired by all these people – they showed me that it was possible to dream big and do things your own way.

My co-founder Roger Ashby is a serial entrepreneur with a background in science and engineering, so he was able to give me the confidence to start building a team of scientists to develop our technology with me. Over the years, I have also benefited from the Design Council's advice through

their Innovate programme. All of these and many more were instrumental to our success.

Your stock sold out six hours out after launching – how did you adapt your business to ensure you were able to meet demand?

What a great problem to have! We managed to get people excited about sugru online by giving sugru to writers and bloggers who wrote about the topics we cared about – innovation, design and the maker movement – and their readers' reactions were beyond our wildest dreams.

Our first batch of 3,000 sugru packs looked like they were made in a factory, but we actually made them in our lab. We didn't have the money to pay or build a factory. But after the sell-out, that all changed. Investors started approaching us, and we raised enough money to start hiring a small team, get bigger premises, and buy machinery. We shut down for six months, and then opened up for business again with a scalable manufacturing set-up.

sugru sells in many stores around the UK – how did you approach retail sellers?

For the first two years, we concentrated almost entirely on selling online, and our

business has doubled each year to £1 million turnover in 2012. We now employ almost 40 people and are continuing to grow fast. Recently we secured our first order from a major UK retailer who will launch sugru in their 360 stores around the UK. Introductions really help. We've found making genuine connections and building good relationships the key to all our best opportunities.

What tips would you give to other micro businesses?

The best advice I have ever had came at a turning point for my business. Back in 2008, the recession had hit and it was impossible to raise funding to launch sugru. After spending four years of my life developing it, it was uncertain if sugru would have a future. I had always been dreaming big, and so my plans required a lot of funding. Then a friend said to me: 'Start small and make it good.' She changed my perspective completely. I decided to forget about shops for now and to launch sugru online, and focus on getting people excited about my mission to help people fix and create. So *start small and make it good* – if it's right, it'll grow from there.

www.sugru.com

Finance to Grow

I have learnt from many years of investing in businesses that small and well-targeted finance can make a big difference in the early stages of a company.

Start-Up Loans have begun well. Since the scheme's launch in September 2012, over 3,520 new businesses have benefited, **drawing on £19.2 million of loan capital and benefiting from further business and mentoring support of over £3.5m.** In January 2013, the Prime Minister agreed an additional £30 million over the next three years, to meet high demand, as well as to extend the age limit up to 30 years of age.

This brings the total amount of funding available for Start-Up Loans to over £117.5 million. **I am now asking the Government to go further and remove the age cap for all entrepreneurs, to enable the board of the Start-Up Loans Company to work towards extending the benefits of the scheme to all start-ups.**

For other businesses, the Enterprise Finance Guarantee (EFG) is in place and

I have asked the Government to use this facility more flexibly to create Growth Loans and EFG Trade Credit for small growing businesses.

It should not be forgotten that through Start-Up Loans many thousands of new businesses will be created. As the ambition of these and other businesses grow, so will the scale and nature of their funding requirements. This may be to invest in new products, premises and people, or to fund marketing and new market opportunities. Whereas a small firm may start with very modest finance, often from personal savings and credit, finance for growth can require a more structured approach to attract funding from external sources like banks and business angels.

Making finance available

A criticism I hear from businesses is that they don't know where to find finance when they need it. These businesses not only report the difficulty of accessing bank finance but also remain unsighted about alternative finance options available

to them. My focus is to ensure that micro enterprises have the awareness and the encouragement to approach these other types of finance. I hope that the new Government-backed Business Bank will play a key role in the future provision of funding for new and developing small businesses – and this could include funding for Start-Up Loans.

I also look forward to seeing proposals for this bank and how it can deliver much-needed simplification of the support that Government currently offers small firms by making it easier for businesses to find it.

Growth Loans

I have spoken at length with banks to understand the circumstances in which small firms can access loans for growth capital. Thirty years or so ago when banks started to remove the manager from their branch network they inadvertently broke many of their links with SMEs. This has had a disastrous effect. Lending decisions

have become based on the personal credit rating of an individual within a business and not on that business's performance or viability. Evidence has identified credit scoring as the main reason for loan declines, accounting for 39%, followed by affordability at 26%.²²

I believe that Government interventions such as EFG should be adapted to address the credit scoring and affordability issues behind the majority of loan declines. Government has responded with SME Growth Loans as part of the EFG. Initially as a pilot, this will facilitate loans of up to £25,000, targeting SMEs in their third year seeking access to growth capital. This will flex the EFG scheme to support more marginal but still viable lending applications that banks process through credit-scoring systems and enable a lender to take account of both financial and non-financial aspects of the business not captured by the credit score. The pilot will begin from the summer 2013.

GROWING WITHOUT A BANK

Discouragement or an unsuccessful application for finance from a bank does not spell the end for a firm looking for funds.

Credit and working capital

As well as Growth Loans, I have asked Government to be more innovative in the way it uses EFG to bring other finance providers, not just banks, to the finance market for small growing firms. An excellent example of this is the EFG Trade Credit pilot which is using the Government guarantee to facilitate additional trade credit provided by suppliers. Trade credit is increasingly important for SMEs and is

often a simpler and more appropriate form of credit than bank finance.

This pilot is providing support to the building and construction sector, trail-blazed by Kingfisher, with the Government keen to extend the programme to other trade credit providers across a range of business sectors. And this joins other private sector entrants into this market such as PayPal and its Merchant Cash Advance pilot aimed at supplying capital to help small firms run and grow their businesses.²³

Micro finance

I am aware of the increasing importance of micro finance providers – often described as Community Development Finance Institutions (CDFIs) – and their lending to businesses and individuals who are unable to access finance from more traditional sources, including the gap left behind by the banks.

CDFIs have emerged as strong delivery partners for Start-Up Loans and I want to encourage more of these organisations to come forward as demand rises for the loans. Yet the value of CDFIs lies not just in assisting start-up companies, but in helping micro firms to *develop* their businesses. This has been recognised by £30 million of funding from the Regional Growth Fund (RGF) which has been matched with a further £30 million by the Co-operative Bank and Unity Trust Bank to drive investment in small, micro and social enterprises.

Even with support from the RGF, it is clear that there remains a significant space for the micro finance sector to fill if they are to prove themselves as a viable alternative to banks. This requires sufficient scale in the sector to enable these lenders to access cheaper capital to pass on to ambitious SMEs. That requires community lenders to be equally ambitious. I hope they step forward.

Peer-to-peer lending and crowdfunding

The difficulties SMEs face accessing bank credit has created a widening finance gap for SMEs which peer-to-peer lending (directly connecting firms in need of cash with investors) and crowdfunding (where small amounts are raised from a large number of funders) is increasingly filling. These have the added

attraction of direct access to a diverse and numerous pool of lenders and investors who would not otherwise be in contact with SMEs. Asset-based finance is also becoming much more accessible and more competitively priced with the advent of invoice finance exchanges, facilitated by crowdsource platforms like MarketInvoice (marketinvoice.com) and Platform Black (www.platformblack.com).

It is important that we continue to promote these sources of alternative finance. Small business survey data indicates that awareness of peer-to-peer funding amongst micro firms falls below that of other SME companies (27% compared to 35% and 45% for small and medium sized SMEs respectively).²⁴ And micro firms are even less sighted when it comes to knowing where to find this type of finance – with 16% level of awareness amongst micro firms compared with 24% and 33% for small and medium sized firms respectively.

Awareness of these types of funding not only needs to be raised directly with micro firms but also the intermediaries and advisers that they rely on for finance advice. These include chartered accountants; and I am pleased that the ICAEW (www.icaew.com) is raising awareness amongst its members of these alternative types of finance.

There have been several important developments in the last 12 months which I believe will go further to strengthen the credibility and awareness of this sector:

- An announcement by HM Treasury that the peer-to-peer lending sector will have its lending and borrowing activities overseen by the UK's new market regulator, the Financial Conduct Authority, from April 2014. I see this as a major step to bring credibility to

this sector and provide the protection lenders and borrowers seek if they are to have confidence in these lending platforms.

- The £100 million award of new funding to SMEs from the Business Finance Partnership (BFP), as part of the Government's drive to diversify sources of finance to business. BFP provides a welcome opportunity to promote new entrants in the peer-to-peer and crowdfunding market. This will instil confidence in investors when it comes to putting their money into internet-based finance platforms and encourage small firms to see the opportunities of seeking investment in this way.
- The increasing application of these finance internet platforms at the local level. An example of this is Lancashire County Council which has committed to lend £100,000 initially, with a possible multi-million pound investment in time.

The Council will use these funds to participate in loans through Funding Circle to help suitable local businesses secure important growth capital. For this Council, investing through an existing and established platform provides an efficient funding mechanism which is highly visible to other local investors and businesses.

- The increase of reward-based crowdfunding for small enterprises looking to fundraise, develop and pre-sell exciting new projects. This has been marked by the merger of Peoplefund.it (www.peoplefund.it) and Crowdfunder (www.crowdfunder.co.uk) to become a much bigger portal and the expansion of US-based Kickstarter (www.kickstarter.com) to the UK. As the popularity of this sector increases, I see many more opportunities for new and growing businesses looking to fund and test innovative new products.

BUSINESS FINANCE PARTNERSHIP: SMALL BUSINESS TRANCHE

The £100m small business tranche of the Business Finance Partnership (BFP) aims to increase the supply of capital through non-bank channels to businesses with a turnover below £75m. The lenders which have recently been appointed are ...

Funding Circle (www.fundingcircle.com) is an online marketplace enabling savers and investors to side-step banks and lend

directly to small businesses. Set up in August 2010, Funding Circle has helped businesses borrow over £60 million. Each loan is comprised of small sums from many different people who compete to lend to the business in question. This enables businesses to borrow at a better rate. With no bank in the middle, both investors and borrowers achieve a much better deal, with investors receiving an average 9.1% yield on their money.

Zopa (www.zopa.com) is the peer-to-peer online platform that brings together people who are good with their money, to reward them with better rates on their borrowing and saving. Responsible, creditworthy borrowers get access to loans cheaper than banks offer, with no additional fees for paying some or all the loan off early. By lending to these people, savers get inflation-beating returns far higher than those paid by banks' savings accounts. Zopa has now arranged more than £250 million in peer-to-peer loans in the UK, all at rates that borrowers and lenders have effectively agreed between themselves. Zopa now accounts for around 2% of all personal loans issued in the UK each month.

BOOST&Co (www.boostandco.com) has been providing credit solutions to growing and innovative small businesses throughout Europe since 2011. It is management-owned and funded by some of Europe's largest private equity investors and family offices. It has offices in London, Paris and Berlin. The Business Finance Partnership funds will allow BOOST&Co to provide loans to British small businesses at scale.

Credit Asset Management Ltd (CAML) (www.craml.co.uk) is a subsidiary of City of London Group plc which uses a traditional merchant banking model across its business platforms to provide specialist financing to the SME sector. Credit Asset Management Limited provides leasing and professions loans. CAML also enables

institutional investors to secure efficient exposure to the SME sector.

MarketInvoice (marketinvoice.com) gives small businesses flexible access to advances on invoices from their blue-chip corporate customers. Funds come from a network of institutional investors and high net-worth individuals, who bid competitively to buy the invoices. MarketInvoice launched in February 2011, and now closes over 70 auctions each month, with an average auction value of £60,000 (range of £10,000–£500,000). Since its launch, the platform has funded over 800 auctions, representing close to £50 million of invoices.

URICA (urica.biz) is launching a new model of supply chain finance within the UK SME market that provides SME suppliers with the option to receive cash from Urica 14 days from the invoice issuance date in return for accepting a 2% early settlement discount. The customer will then pay Urica the full value of the invoice on day 60. URICA is working in partnership with one of the world's largest credit insurers to give direct access to a proven credit assessment engine.

Beechbrook Capital LLP (www.beechbrookcapital.com) was established in May 2008 to provide long-term loan capital to businesses in Northern Europe. The new fund will deploy a diversified portfolio of mezzanine loans to SMEs in the UK.

Business angels

Business angels can be pivotal in the early stages of a small firm trying to grow. They offer expert knowledge of a market or sector and important contacts to help a business to the next level which can be just as important as the finance they invest in these businesses.

In the last year, I have chaired a business angel working group with an explicit intention of increasing the number of angels investing in early growth firms. This has been helped by the success of the £50 million Business Angel Co Investment Fund (CoFund) created with funds from the RGF.

Business angel investing became even more attractive in 2012 with the launch of the Seed Enterprise Investment Scheme (SEIS). SEIS aims to encourage investment in small and early stage companies by offering a range of tax reliefs to the investor. My support for SEIS has been matched by a concern that too few potential investors know about this scheme or are encouraged to use it. I welcome the SEIS regional road shows led by Doug Richard, the entrepreneur and business angel last autumn and the development of a dedicated SEIS website (www.seiswindow.org.uk). But this is an area where Government should do more to market the scheme to potential investors.

Employment and Attracting Specialist Skills

The changing nature of employment has had a significant impact on attitudes to business. Business population statistics testify to an increasing number of people choosing to be their own boss. Some of these will be freelancers or contractors, choosing who they work for and when. But for many the intention is to create a permanent living in a full-time business venture.

The statistics provide the full scale of this activity – 3.6 million sole traders in the UK. But what is most interesting in recent labour market statistics is the recruitment trends amongst businesses. While the data indicates a rising trend of firms with two or more employees, the number of businesses operating as sole traders is increasing despite a clear business need to take on more staff.

My experience in the SME sector fully supports the mounting evidence that not taking on your first employee is the most important brake on growth ambitions. Research by BIS found that just 9% of sole

traders expected to employ someone in a year's time.²⁵

Challenges of SME recruitment

I see these as the challenges facing SME recruitment:

1. The process seems too complicated and too fraught

Many sole traders are put off by what they see as the daunting and complex regulatory burdens of recruitment. Part of the solution is to provide businesses with an accurate picture of the recruitment process and how the relatively few requirements on them can be met in a manageable way. This could include the use of Growth Vouchers to enable sole traders to navigate the process using expert help.

The launch of the “Taking on an Employee” portal last year was a good start – and helped to disentangle the myriad of guidance about recruitment. Further work has happened this year to streamline this

advice further using GOV.UK. But I would like this to go much further. The actual employment process should be simplified. We need to ensure that employers can complete the actions required of them more seamlessly. Ultimately I would like us to create a one-stop shop which can service all of the tasks involved in taking on an employee.

2. Recruiting with confidence

Often, the decision not to take on a first employee is based on the fear of getting the recruitment wrong. Businesses cite the financial implications if the individual is not right or concerns about being hit with a tribunal claim.

I have engaged extensively with the Institute of Recruiters (IoR) (www.theior.org.uk) to understand how we can help employers manage these risks effectively and provide the confidence they require to recruit the right people with the right skills. This has resulted in a new guide, *Your First Employee – the essential 10 step guide* which addresses the confidence and decision-making issues involved in hiring and managing staff.

In addition, BIS and ACAS (www.acas.org.uk) have developed new online guides to help small business employers manage issues with staff behaviour and performance. This simple, step-by-step guide will walk them through the relevant processes and provide easy access to information on common issues and resolutions.

3. Attracting affordable specialist skills

Small firms can require very specialist skills to enable them to move forward, often in key areas like finance, legal services, business administration and IT. They will only recruit if they are confident that the investment in staff will deliver

financial benefits to the business. And even then the question of affordability may influence whether and how they bring these skills into the business on a full-time, part-time or contract basis.

Outsourcing

Some firms on limited resources are outsourcing secretarial and more specialist services to help them build scale and growth into their business. This is being achieved through a well-connected and flexible use of people, technology and services. Alago, profiled later in this report, outsource their design and manufacturing needs to take an idea from concept to market.

Firms like these make a rational assessment that outside expertise can perform a task better, faster or more cost-effectively than an in-house option. By acting accordingly, business owners are focusing on what they do best. But Alago has also built a core workforce. And like them, for many businesses a time may come when investment in staff (as well as, or instead of, outsourcing) delivers sustainable and long-term commercial advantages to the business.

The graduate labour market

I believe a fertile ground for small firms looking to bring high calibre people into their businesses is offered by graduates from universities and colleges. I am also keen to promote the value of apprenticeships where small businesses can benefit from the fresh talent and affordable skills that apprentices bring from their training. The earlier section on universities and colleges highlighted the value students can offer as placements and interns. But when I look into graduate-recruitment trends amongst small firms,

the picture is less promising.

The research points to a mutual lack of understanding about the benefits to both sides.²⁶ Small firms tend to undervalue the contribution of graduates to the business, based on concern about their experience and the need for supervision. Graduates can have negative perceptions about levels of pay, career progression and working conditions.

But studies also find that the potential benefits and opportunities of working in small businesses exceed graduates' expectations, particularly with regards to levels of autonomy, flexibility and input into the business.²⁷ I believe this supports the case for doing more to encourage

graduate employment in the SME sector, and through some encouraging initiatives this is beginning to work. For instance, the National Association of College and University Entrepreneurs (NACUE) has piloted a BIS proposal for SME **Launchpads**. The pilot (called **SME Milkround**) brought SMEs and 20 university enterprise societies together to facilitate student internship and graduate job opportunities. NACUE will extend this programme to a further 18 university enterprise societies and 5,000 students. BIS also continues to fund the Graduate Talent Pool, where 87% of the 7,000 registered employers are SMEs.

CASE STUDY

ALAGO | *Tony Curtis, Founder*



The idea for Alago heated sports and leisure gloves began when Tony Curtis watched his son playing rugby in the freezing cold. Tony transformed his kitchen into a laboratory to turn his idea into a product but had very little funds to employ people or buy expensive equipment. Alago is now an award-winning business selling to customers in over ten countries ...

How did you build your business on a shoestring budget?

I think it's fair to say I started with little more than an idea – no scientific training, no product development skills and not much cash. But my kitchen table served me well for developing initial ideas and a

business plan. I then outsourced through experts and professionals to gain the specialist help I needed in areas like product design and developing prototypes. As the business got off the ground, I also procured important functions like manufacturing, accounts, warehousing, packaging and PR. Outsourcing was absolutely key at that early stage because I simply could not afford the overhead costs of doing these operations in-house.

How did you know who to find and what you needed?

I tried to use as many local services as possible including my accountant and PR, and other services were sourced from further away, even other countries. I used

the internet for most of the searching and sites like Alibaba and Elance to find specific expertise. In fact I still use them now for product development.

What drove your decision to take on staff?

Recruitment for me was about investing to improve the performance and capability of my business. I was getting healthy interest in my product but needed a better way to target customers and generate sales. Fundamental to this was getting my website right and making it proficient and widely recognised – not skills I had or had time to learn.

My first employee was a web designer. This was followed by a communications specialist. Both have had a dramatic impact on the productivity and turnover of Alago. We are now able to find and facilitate trade from overseas in key markets like Argentina, Canada, Norway and Sweden, and target our marketing through social media and other communication channels.

And how did you find the experience of taking on staff?

The prospect was terrifying – to be responsible for paying wages and your employee's career development is pretty scary. But the process was fine and pretty straightforward. My lawyer drafted employment contracts and my accountant sorted out PAYE. That was it – I had my team!

I had to change my mindset from being a one-man band to being the boss and my relationship to the business changed. The benefit of taking on these first appointments was not just about bringing

in skills; it was also about freeing up my time and capacity to concentrate on finding new opportunities to take the business forward. This took enormous pressure off my shoulders and provided me with a team to bounce ideas off.

My advice to a small firm in a similar position would be to look at what jobs you need doing. If they are small or one-offs then look at using a freelance specialist. This will cut costs enormously whilst also supporting people who are self-employed. If the work needed is on-going, is essential for growth and frees up your time then seriously consider taking on a member of staff. Building even a small team will not only support the growth of your business but also support you as the leader.

Did a new team and an expanding business result in new commercial premises?

That seemed like the logical next step but after a few months in a new commercial outlet, I realised that this wasn't cost-effective and more importantly it really wasn't necessary.

The combination of outsourcing, the availability of communications technology and the provision of virtual offices and flexible work spaces mean that I can run a very lean operation and grow the business without the associated increase in costs and overheads. My team all work from their homes and we use the Bristol and Bath Science Park and its business facilities when we need to meet up, or engage clients. This provides us with the professional image we need, but most of all it gives us flexibility and an efficient way to run a profitable small business.

www.alago.co.uk

Relationships with Big Businesses

Big businesses have capital and access to markets and customers. Small businesses are often more agile and innovative and can provide niche products or services. By bringing these elements together, big and small businesses are well placed to work together through commercial relationships and collaboration.

Supply chain relationships

An SME's strength in a supply chain relationship is often its ability to provide a specialist product or service that larger businesses cannot provide themselves, or cannot provide as cheaply. This positions small firms as problem solvers and as small but significant players in terms of their value to the prime contractor and the client.

A key advantage for a small firm in these relationships is access to markets. Supply chains create a way in for small businesses; they can use the opportunity to build capacity and reputation in a sector. Research also shows improvements

in productivity and performance in such firms when they work in supply chains. They benefit from the mentoring and experience of the larger companies they work with,²⁸ and the insistence on quality standards by larger businesses often improves quality in SMEs, enabling them to win contracts with other companies.

Supply chain finance allows small firms to secure funds to ease cash flow and invest in other ventures. But small firms will also expect to receive the share of work agreed in accordance with the terms of the contract; and, importantly, they will expect to get paid on time. The earlier section on "The Customer to Grow: Public Sector Procurement" looked at this, including how small firms can take advantage of a partnership or sub-contract relationship with a large company without being put at a disadvantage.

New collaborative relationships – “open innovation”

As well as supply chains, many SMEs and their networks are involved in R&D partnerships or engage in joint ventures with large firms.

An interesting development is an increasing appetite among large companies to drive innovation through

collaboration with SMEs. “Open innovation” encourages organisations to look outside to develop new products, services and revenues, innovatively and often at lower cost. It provides good opportunities for the more specialised small firms with the result that they can share risk and reward with their corporate partner.

CASE STUDY

100%OPEN | *Roland Harwood and David Simoes-Brown, Co-founders*



100%Open work in the field of open innovation – helping large companies innovate by working with partners, in particular with small businesses. Originally part of Nesta, the co-founders Roland and David spun out 100%Open in 2010, and it now works with the likes of LEGO, P&G, E.ON, Fujitsu, Interface, Ordnance Survey and Oxfam ...

How do small firms benefit from working with large firms?

The benefit for small firms is the opportunity to rapidly scale their businesses, which in turn creates opportunity to access new markets and build their brands through association. Often small companies have great ideas and capabilities but lack the channels, investment and infrastructure to implement them at a global scale. In addition, many growth-orientated small companies become overly focused on securing expensive equity investment. That definitely has a role to play, but only in the

minority of cases. Much more frequently the route to market for their products and services is best delivered through partnership with a larger organisation. Small companies can of course go it alone and become the big players of tomorrow. However, the vast majority of small company exits are through trade sales to larger customers.

And what does the big firm get out of it?

In many ways large companies need small companies more than vice versa, and it certainly wasn't always that way. Most large companies need to sustain a minimum level of growth to satisfy their shareholders, which becomes more difficult the bigger they become. This is partly because operating at scale leads to risk aversion; but also inflexibility and homogeneity that inhibit innovation. And so the innovation comes increasingly from outside – from customers, from suppliers, and from non-competing partners. If done well this becomes a much better, faster

and cheaper way of innovating than traditional methods. As well as revenue and growth opportunities, working with small companies can have tremendous uplift on other aspects of the business such as building a buzz around their brand, and providing creative and entrepreneurial opportunities for staff.

What's the key to successful collaboration?

In our experience the key to successful collaboration between large and small companies comes down to having a clear process, collaborative business model and metrics that works for both sides. This requires an open and collaborative mindset that looks to create shared value, not just maximise returns for one side or the other. It also requires trust and empathy to enable honest conversations to surface and work towards a successful outcome together.

What are the key challenges?

In our experience one of the key challenges comes down to the risk aversion of the large company, which puts too much risk on the shoulders of the small company. This is amplified by the very different timescales and resources that large and small companies are able to deploy.

Ultimately, collaboration can only happen through equals so even with an obvious buyer/seller situation, we work hard to understand the motivations on both sides and align incentives so everybody has "skin in the game". For large companies the challenge can be that the sheer number of potential relationships is so great that it becomes too complex to manage them all, exposing the organisation to risk and IP contamination if not dealt with carefully.

What approach should a small firm take if it's thinking of working with a big company?

Small companies should take time to understand the needs of the big organisation. These are often published and publicly available, though difficult to find. They should take care to tailor their pitch. You only get one chance to make a first impression. And finally they should start with "why" – namely why customers would want what they are offering, and what is the unmet need that they can solve. It can require considerable investment of time and energy but if handled smartly, collaboration can lead to much bigger opportunities than growing organically.

www.100open.com

Locations

Many SMEs will start as home-based businesses because of low set-up costs and the flexibility it gives them to test the viability of their business. When their business begins to take off or their ambition increases, the firm will face a new set of growth challenges to do with space and access to customers.

A leap from the kitchen table to a commercial lease and investment in expensive equipment and services may remain beyond the resources of the firm at this stage. This is where access to affordable spaces and shared facilities is becoming increasingly popular and is helping businesses make the transition from a micro enterprise to an expanding business.

Locate to grow

Expanding outside the home can mean anything from using access to WiFi in a local café, to a fully serviced office providing secretarial services. Use of these has greatly expanded over recent years.

Coworking spaces – A growing phenomenon is the development of coworking spaces (or “unoffices”). There are now more than 2,000 coworking spaces worldwide.²⁹ Rather than committing to a fixed term office rental, freelancers and entrepreneurs can rent a desk in a shared space with others and gain access to meeting rooms to engage clients and colleagues. These venues not only offer space but sometimes services like childcare and the opportunity for business networking and peer learning.

Virtual offices – Along with coworking spaces many micro businesses are using virtual office spaces (which include secretarial services and other facilities) to provide professional customer service and a corporate image.

These resources can provide particular benefits to new and growing firms. For example, young entrepreneurs receiving funding from Start-Up Loans are also given access to workspace, meeting rooms and business services delivered by Regus as one of the fund’s global partners.

These services enable firms to outsource important functions without having to invest in-house, covering functions like mail and call-handling, providing a business address and logistical services such as packaging, shipping and order systems.

Incubation – Incubation and acceleration facilities are often used by start-up companies but are equally important for small growing businesses. These can be delivered through the public, private or third sectors, including local authorities

and higher education campuses. Typically these will offer coaching and advice, alongside space and facilities, and will attract businesses from specific sectors and business clusters, which enables peer-learning and networking. A good example is the £10 million Social Incubator Fund, funded by the Cabinet Office to support the development of social incubators – providing space, mentoring, networks and finance to early-stage social ventures.

CASE STUDY:

COCKPIT ARTS | *Vanessa Swann, CEO*

COCKPIT ARTS

Cockpit Arts is an award-winning social enterprise and the UK's only creative-business incubator for designer-makers. Established in 1986 it has helped thousands of talented craftspeople to grow their businesses, many of whom have gone on to achieve global success ...

What are the things that arts and crafts entrepreneurs don't do well?

Craft designers mainly set up either as sole traders or small partnerships. The majority are graduates and self-taught or have undertaken some further education. Mostly they struggle to think more broadly about their business – to look beyond their creativity and skill – and find it difficult to build strong, growing enterprises.

Many fail to develop their firm beyond being a “lifestyle business”, often supported by other sources of income.

How does Cockpit Arts help?

Cockpit offers incubation as a series of interventions to help these designers to build on their creativity and skill, and overcome some of the key weaknesses that are common to this sector such as low levels of profitability, financial literacy and strategic planning skills.

This includes studio space for designer-makers unable to afford commercial space; one-to-one business development coaching, workshops and events; Open Studios (to test and sell products);

promotional opportunities (in key locations including international trade art fairs, and introductions to trade buyers and press); and resource centres and office facilities.

The clustering effect of having two large buildings, each housing 50 to 100 like-minded businesses, pays huge dividends; a lot of knowledge, skills and ideas can be shared. The community provides a support network, and encourages entrepreneurship (and peer competition!) as well as positive role models for growth.

You target finance help – how?

Through a Growth Loan Fund – a combination of a low-interest loans and dedicated one-to-one support. This helps makers identify where the primary value of their business lies and makes them “investment ready”. Loans can also be used to boost sales or identify new routes to market. Beneficiaries receive on-going coaching for the duration of the loan (up to three years).

Tell us about some of your successes

The Cockpit model has helped to nurture over 500 talents, many going on to national and international success. Textile designer Clarissa Hulse sells to over 100 outlets worldwide, including bestselling ranges of bed linen for House of Fraser and John Lewis, and Scottish knitwear designer Jo Gordon has grown into an internationally-renowned label selling in 19 different countries.

www.cockpitarts.com

Online brands onto high streets – the rise of pop-ups

Another development that I am interested in is the growing prominence of pop-up shops. The challenges facing many of Britain's high streets – and their ever-increasing numbers of empty shops – has created opportunities for start-up and growing firms to experience a temporary retail presence.

The model is simple: pop-ups are short-term shops located in vacant commercial properties, providing temporary relief for landlords of the liabilities associated with holding redundant shops and offices. Businesses occupy these premises on temporary lease terms, on a shared basis through co-working or co-funding. For online businesses, a pop-up offers them retail experience to raise their brand profile, test products and prices and have direct contact with customers, all with minimum financial commitment.

The pop-up model remains experimental but there is already an abundance of experience out there and some excellent examples across England that can be learned from. I was pleased to be at the launch of PopUp Britain's flagship store in Richmond in July 2012 and to meet its new business occupants. And I want to congratulate the Department for Communities (DCLG) for the strong signal of support it has shown for this model by asking PopUp Britain to open the first ever Government office pop-up store in its department building. I hope this can act as a blueprint to town teams and other public sector bodies to show how pop-ups can be run out of other public spaces.

Online silk scarf retailer, **Nanukk**, was one of the first six businesses to share DCLG's pop-up shop for two weeks. After selling out of stock in the first week, owner Sarah McLeod had to go home and organise some more. Not only did she cover her costs of rent and travel by more than £1,000, Sarah pointed out the other benefits. 'When you work alone and online, you never get the feedback – it was wonderful to hear that what I was doing on my own wasn't crazy and that people actually liked my product and were prepared to buy it.'

As well as PopUp Britain, national coverage is growing through providers like We are Pop Up and Popupspace. I want learning from these early pioneers to help to improve the model and enhance the experience for others. This is coming from tools like PopUp Britain's Kit for Town Teams and consultancy offered by Popupspace to local authorities. The other interesting development is engagement with private and professional sector providers who are recognising opportunities to promote their products and services through helping pop-up shops; for example, by providing easy and inexpensive ways to accept card payments or affordable short term insurance cover for pop-up tenants.

Summary of Help for Growing Small Businesses

Information and guidance

- GOV.UK | www.gov.uk/browse/business
- Business in You | www.businessinyou.bis.gov.uk
- The Association of Business Schools | www.associationofbusinessschools.org
- StartUp Britain | www.startupbritain.co
- Enterprise Nation | www.enterprisenation.com
- Doing business with government: a guide for SMEs (including Mystery Shopper) | www.gov.uk/doing-business-with-government-a-guide-for-smes
- Contracts Finder | www.gov.uk/contracts-finder
- Growing Business | www.growingbusiness.co.uk

Capability and skills

- Growing your business | www.gov.uk/growing-your-business
- Mentoring | mentorsme.co.uk, www.getmentoring.org
- Digital Youth Academy | www.digitalyouthacademy.com
- Advanced Institute of Management practice | www.aimpractice.com
- Social enterprise Investment and Contract Readiness Programme | www.beinvestmentready.org.uk
- Mutuals Support Programme | mutuals.cabinetoffice.gov.uk/what-support-available

Finance

- Start-Up Loans | www.startuploans.co.uk
- Business finance support finder | www.gov.uk/business-finance-support-finder
- Community Development Finance Institution Finding Finance tool | www.findingfinance.org.uk
- ICAEW Business Advice Service | find.icaew.com/pages/bas
- ICAEW Best-Practice Guideline – SME Finance | www.icaew.com/cffsmefinance
- Angel CoFund | www.angelcofund.co.uk
- UK BusinessAngels Association | www.ukbusinessangelsassociation.org.uk
- Seed Enterprise Investment Scheme | www.seiswindow.org.uk

Recruiting and managing staff

- GOV.UK - Employing staff for the first time | www.gov.uk/employing-staff
- Business in You – employment | www.businessinyou.bis.gov.uk/advice/employment
- Institute of Recruiters, *Your First Employee – the essential 10 step guide* | www.theior.org.uk/your-first-employee-essential-guide
- Advisory, Conciliation and Arbitration Service (Acas) | www.acas.org.uk
- Graduate Talent Pool | graduatetalentpool.direct.gov.uk
- Internships | www.internships.com
- Apprenticeships | www.apprenticeships.org.uk
- National Consortium of University Entrepreneurs | www.nacue.com

Exports

- Open to export | opentoexport.com
- UK Trade & Investment (including Passport to Export and Export Vouchers) | www.ukti.gov.uk
- UK Export Finance | www.ukexportfinance.gov.uk

High Growth and Innovation

- GrowthAccelerator | www.growthaccelerator.com
- Research and Development (R&D) Tax Credits | www.hmrc.gov.uk/randd
- Technology Strategy Board (including Knowledge Transfer Partnerships; Smart; Innovation Vouchers; Small Business Research Initiative (SBRI); _connect) | www.innovateuk.org

- Design Council's Design Leadership Programme | www.designcouncil.org.uk/our-work/leadership
- Intellectual Property Office | www.ipo.gov.uk
- British Library's Business & IP Centre | www.bl.uk/bipc/index.html
- Manufacturing Advisory Service | www.mymas.org
- Goldman Sachs 10,000 Small Businesses | www.goldmansachs.com/citizenship/10000-small-businesses/UK/index.html
- Nesta | www.nesta.org.uk

Locations

- Popupspace | www.popupspace.com
- We Are Pop Up | www.wearepopup.com
- PopUp Britain | www.popupbritain.com
- PopUp Britain's Kit for Town Teams | popupbritain.com/guidance-for-town-teams

Membership and support organisations

- British Chambers of Commerce | www.britishchambers.org.uk
- National Enterprise Network | www.nationalenterprisenetwork.org
- The Confederation of British Industry | www.cbi.org.uk
- Federation of Small Businesses | www.fsb.org.uk
- EEF, The manufacturers' organisation | www.eef.org.uk
- Forum of Private Business | www.fpb.org
- The Chartered Institute of Marketing | www.cim.co.uk
- The LEP Network | www.lepnetwork.org.uk
- Capital Enterprise | www.capitalenterprise.org
- Social Enterprise UK (SEUK) | www.socialenterprise.org.uk
- The Prince's Initiative for Mature Entrepreneurs (prime) | www.prime.org.uk

Acknowledgements

I would like to acknowledge the enthusiastic help that I have received from the many people and organisations listed in this report: and the even greater help and advice from those with whom I worked and whom convention dictates that I cannot name. Needless to say the mistakes are mine alone and although I would like to take personal credit for any good idea contained in the report it is a collective effort of many contributors.

Meetings and Engagements

1. 100%Open
2. Alago
3. Alibaba.com
4. The Association of Business Schools, Innovation taskforce
5. Association of Consulting Actuaries (ACA)
6. British Bankers' Association (BBA)
7. British Chambers of Commerce
8. British Library, Business & IP Centre
9. Business Growth Fund
10. BusinessZone
11. Capital Enterprise
12. Cockpit Arts
13. Community Development Finance Association (CDFA)
14. Confederation of British Industry (CBI)
15. The Corporate Finance Network
16. Council for Industry and Higher Education (CIHE)
17. Crimson
18. Crown Representative for SMEs
19. Crux Product Design
20. eBay
21. EEF: Manufacturers Organisation for UK Manufacturing
22. EEFC (European Economics and Financial Centre)
23. Enternships
24. Enterprise Nation
25. Ernst & Young Entrepreneur of the Year
26. Etsy
27. Export Credits Guarantee Department (ECGD)
28. Federation of Small Businesses
29. Forum of Private Business
30. Funding Circle
31. The Gazelle Colleges Group
32. Grant Thornton
33. GrowthAccelerator

34. Gust: Angel Investors and Startup Funding
35. The Institute of Chartered Accountants in England and Wales (ICAEW)
36. KindredHQ
37. Institute of Credit Management (ICM)
38. Institute of Directors (IoD)
39. Institute of Recruiters (IOR)
40. Intuit
41. London Stock Exchange
42. MADE: The Entrepreneur Festival
43. MarketInvoice
44. The National Enterprise Network
45. Nesta
46. New Entrepreneurs Foundation
47. Office for National Statistics (ONS)
48. Office of Tax Simplification
49. PayPal
50. Piccalilly
51. Platform Black
52. Premier League Enterprise Challenge
53. Rockstar Youth
54. School for Startups
55. Seven Hills
56. The Small Business Consultancy (CIC)
57. Social Enterprise UK
58. StartUp Britain
59. Start-Up Loans Company
60. Technology Strategy Board
61. Telford Enterprise Hub
62. Telos
63. Tomorrow's Company
64. UK Business Angels Association
65. University of Buckingham
66. Venture Capitol Ltd
67. The Work Foundation
68. Young Enterprise
69. Shared Impact
70. Upshift London

As well as the above organisations, Lord Young met with Government ministers, executive agencies and policy officials across Government departments as well as MPs and business owners.

Notes

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5. SMEs generate the majority of new job creation. For a recent assessment see Wright, Peter W. *et al.* (2010), "Job Creation, Job Destruction and the Role of Small Firms: Firm-Level Evidence for the UK", *Oxford Bulletin of Economics and Statistics*, 72, 5, Blackwell Publishing Ltd and the Department of Economics, University of Oxford.
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11. "Business Growth Ambitions Amongst SMEs", BIS, August 2012.
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25. Small Business Survey 2012.
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27. *Ibid.*
28. Jamieson, D. et al. (2012), "Large Businesses and SMEs: Exploring how SMEs interact with large businesses", ORC International.
29. 2nd and 3rd Global Coworking Surveys (2011, 2012), *deskmag*.