

Industrial Strategy Advisory Council:

Unlocking the potential of disruptive businesses to boost growth in the UK

Published: July 2026

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About the Industrial Strategy Advisory Council

The Industrial Strategy Advisory Council (ISAC) is an independent expert committee, responsible for advising government on the development and delivery of the UK's [modern Industrial Strategy](#) and monitoring progress on its objectives.

In its first year, the Council was [commissioned](#) by the Chancellor of the Exchequer and Secretary of State for Business and Trade to focus on three priority areas alongside its ongoing advisory role: labour markets and skills, dynamism in the UK and strengthening the monitoring and evaluation of the Industrial Strategy.

This report is the first publication from the Council under that work programme. Alongside this sector-focused work, the Council is also examining the place-based dimensions of market dynamism, generating insights from the experience of Manchester and Birmingham for driving local growth. This analysis will be published later this year. The Council will also publish an annual report later this year.

Further details of the Council's remit and work programme can be found on [gov.uk](#).

Foreword

I am pleased to present this report as the first publication from the Industrial Strategy Advisory Council. In December 2025, the Council was asked to provide independent advice on how the government can address declining market dynamism in the UK. Specifically, we were asked to consider how policy can better support the market entry and scale-up of disruptive business models in Clean Energy Industries and Defence, with a particular focus on government's policy levers of regulation and public procurement.

This is timely. The UK faces a long-standing growth and productivity challenge that has been further compounded by the crisis in the Middle East. As the UK grapples with the challenges of driving up productivity and economic resilience in an increasingly fraught global context it cannot rely on stability alone: addressing growth will require bold action to address long standing structural challenges and drive a more dynamic economy. The Council has been encouraged by the focus government is placing on strengthening market dynamism, including its procurement reforms and efforts to reduce regulatory friction. This report intends to complement that reform agenda, while identifying where government needs to push further and prioritise areas that will have the greatest impact on market dynamism.

I am grateful to the Council members who led and advised on this work, bringing economic insight, industry expertise and constructive challenge that strengthened both the analysis and recommendations that follow.

Dame Clare Barclay DBE, Chair of the Industrial Strategy Advisory Council

I have spent much of my career building businesses that start from a simple principle: things don't have to work the way they always have. Markets that look static from the outside are often full of inefficiency, complexity and inertia and this is where some of the biggest opportunities for growth lie. Not by incrementally improving yesterday's models, but by rethinking them and trying something new. Innovation may sometimes sound "fluffy", but without it we would still be living in caves.

This belief has sat at the heart of the Council's work on dynamism, and I am encouraged that government is taking this challenge seriously. Speaking directly with founders, investors and system enablers reinforced the view that often meaningful productivity growth comes from new ways of doing things, as well as making existing approaches a little better. Throughout this work we have sought to speak to challengers and new entrants alongside incumbents who are actively reinventing themselves to understand what genuinely helps innovation scale and what still holds it back.

What we heard was strikingly consistent. New entrants can move at extraordinary pace, but they collide with regulatory friction, opaque processes and procurement systems designed for yesterday's technologies. Incumbents face similar constraints and without real competitive pressure, the incentive to move faster is often blunted. Disruptive business models are not about picking winners or celebrating novelty for its own sake. They are about forcing markets to become more dynamic: enabling challengers to thrive, and compelling established firms to turbocharge their own rate of innovation.

I want to thank the many individuals and organisations who spoke to us with refreshing candour about what it takes to innovate. Their insights, challenges and ideas run throughout this report with their lessons applicable across the economy. Government must be sharper in how it uses regulation and procurement to unlock innovation, and industry must lean into experimentation. If the UK is serious about long-term growth and competitiveness, we need to make it an easier place for bold ideas to scale and the recommendations within this report outline practical steps to achieve that.

Greg Jackson CBE, Member of the Industrial Strategy Advisory Council

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Executive summary

In an increasingly uncertain global context, the UK faces an urgent challenge to raise its growth and productivity performance. Fixing this will depend on sustained and coordinated action across the government's growth agenda, and commitment to the delivery of its [modern Industrial Strategy](#). This report focuses on one part of that agenda: restoring market dynamism.

In a dynamic economy with healthy competition, we would expect new companies to enter markets regularly and scale, pushing less-productive firms to improve or exit. This continuous movement of people and capital - market dynamism¹ - strengthens competition, pushes incumbents to improve and accelerates the spread of new ideas and technologies. This underpins innovation, productivity growth and by extension rising living standards.

The UK has seen a decline in market dynamism over the last 25 years. Dynamism as measured by the job reallocation rate was lower in 2024 than 2004 across the whole economy.² While the UK has a higher-than-average rate of start-ups and firm entry, these firms are less likely to survive and grow³, and since 2005 the share of all turnover accounted for by young firms has almost halved.⁴

The decline is also seen in the Industrial Strategy's eight priority sectors (IS-8) where the UK demonstrates clear strengths and growth potential. Given the importance of these sectors to the UK's productivity and competitiveness, these trends have real consequences for the economy. The risk is that innovators and founders have to take their technology abroad to be able to successfully enter the market and scale, resulting in the UK missing out on higher-paying jobs and an opportunity to grow investor confidence through its home-grown talent.

Declining dynamism reflects a range of factors, including the entrenched systemic barriers that have long constrained new entrants and UK industry more broadly. These include a slow and unpredictable planning system, disjointed regulatory pathways, and a culture of risk-aversion in our finance and public procurement systems. Without reversing this trend, the UK will struggle to fully realise the ambitions of its Industrial Strategy and to sustain more resilient growth over time.

Disruptive business models⁵ are one route to more dynamic markets. By offering consumers a novel, often simpler and more convenient, product or service they can intensify competitive pressure and accelerate the adoption of new technologies, resulting in improved consumer choice and value. The economic contribution of disruption varies by sector and over time and should not be mistaken as a substitute for the other fundamentals that support entry and scale up (for example access to finance and a strong skills pipeline). Disruption itself is not the policy goal, nor a silver bullet for growth. But it can be one way of creating more contestable markets that enable new entrants to scale and encourage incumbents to respond by competing with greater innovation and improvement in their business models.

Case study: [Monzo](#)

Monzo, founded in London in 2015, showed how a new entrant can change everyday banking and disrupt a market. It identified key pain points in traditional banking and redesigned the experience by offering a fully digital, customer-centric mobile app. Monzo made it quick to open an account, get real-time spending notifications, and introduced an array of budgeting tools. Now, with over fourteen million customers, it has rapidly changed what consumers expect from a bank, driving incumbents to improve their own digital services. Monzo has also become a significant employer, reporting 3,700+ employees in 2024⁶. It has continued to innovate, for example with its industry-first security feature of “undo payments” giving customers a 60 second window to easily cancel bank transactions if a mistake is made. Monzo is one example of how challengers can improve services for consumers, drive wider competitive pressure and become a significant employer within the UK economy.

We recognise that market disruption is complex and can involve real trade-offs. For example, some models improve services and lower costs but create fewer jobs than more traditional models. For the purposes of this report, our focus is on the improvements that more dynamic, contestable markets can bring with greater scalable new entrants (and reinvigorated incumbents). We explore how ‘disruption’ can drive productivity, innovation and better outcomes for consumers and the taxpayer.

This report focuses on where government can most directly shape the conditions for entry and scale. It focuses on the Clean Energy Industries and Defence sectors; Industrial Strategy priority sectors where government plays an important role through regulation and public procurement, complex structural barriers to entry are high, and the potential for innovation and new technologies is significant. While framed through the lens of disruptive business models, our engagement with industry ranged more broadly across the themes of innovation, commercialisation and scaling challenges, reflecting how businesses experience barriers to market entry and growth in practice.

The findings in this report are drawn predominantly from structured engagement with businesses, investors, academics and public-sector stakeholders, complemented by targeted analysis and case-studies. This work presents a snapshot of the live challenges facing disruptor companies, to provide government with timely, targeted recommendations. It should be read as indicative of priority issues and opportunities, rather than an exhaustive set of recommendations.

Addressing declining dynamism will require government to act decisively on the levers it controls and deliver change at pace. Rather than predicting successful business models, government should set predictable, outcome-focused rules that will allow markets to determine how best to achieve success. Access to markets and credible demand and price signals are critical to incentivising innovation, entry and scale. Targeted reforms can remove practical barriers, but they will not stick without clear ownership, faster decision-making and a willingness to tackle entrenched risk aversion.

Many of the suggested reforms highlighted in this report relate to improving the wider business environment to support innovation and experimentation. While these changes

would lower barriers to entry for new firms, they would also benefit established businesses seeking to innovate by addressing some of the current frictions and structural barriers. Drawing on insights from our business roundtables and bilateral engagements, we make three priority recommendations to strengthen market dynamism and drive growth:

1. Modernise regulation to reduce friction and unlock greater competition

- Strengthen incentives for regulators to support market dynamism and contestability alongside burden reduction
- Create a clear mechanism to surface and remove live regulatory barriers affecting new entrants

2. Reform procurement to widen access and accelerate innovation pull-through

- Use procurement reform flexibilities to create more disruptor-accessible routes (including streamlined pre-qualification where it blocks new entrants)
- Pilot rapid innovation procurement pathways in priority areas, designed to test pull-through from early procurement into scaled adoption
- Build commercial capability where procurement teams are encouraged to take risks and can design and manage competitions that are accessible for UK entrants with innovative models

3. Improve procurement data to monitor the impact of policy initiatives and adjust activities to widen business participation and improve dynamism

- Publish lower value pipeline and planned procurement notices to enable potential entrants to better understand demand
- Improve the usability of procurement data by standardising the reporting of award criteria, unique identifiers, and SME engagement
- Create public and procurer-facing analytical tools to track procurement in real time and embed data into decision making

Delivering these recommendations will require a system shift in how government takes and owns decisions to deliver lasting impact. Throughout our engagement, stakeholders repeatedly highlighted a system that is often slow to act. Many well-thought-out reforms are not having the intended impact due to a pervasive risk-averse culture, reinforced by fragmented accountability. We therefore urge government to pair these reforms with clearer accountability, delegated authority, and a greater willingness to test and learn from practical interventions at pace. We recognise that not every pilot or change will succeed but the cost of inaction is higher.

If government commits to targeted interventions to tackle the barriers outlined in this report, it will see more contestable markets where innovative firms, new and established, can enter, compete and scale. In practice, this would look like faster pull-through from innovation to deployment, regulatory systems that adapt more quickly to new technologies, and procurement that delivers better value for money by supporting competition and innovation. Together, these changes would strengthen productivity, resilience and support the UK's ability to deliver its Industrial Strategy.

Section 1: The UK's dynamism challenge - the case for increased market dynamism to boost productivity and the role of disruptive business models

A decline in market dynamism has been an important contributor to the UK's slowdown in productivity growth since the Global Financial Crisis

Dynamic markets are characterised by high degrees of business entry, scale-up and exit, as well as the smooth movement of capital and labour between firms, both within and across sectors. These features generate competitive pressure on incumbents which benefits consumers and drives innovation. They result in a market where leaders change and/or leadership positions are contested relatively frequently over time as challenger firms emerge and increase their market share. Without this, even the IS-8 sectors – where the UK currently demonstrates strength or has the greatest potential to raise productivity – may struggle to maintain their position over time.

Dynamic markets are far more likely to arise where markets are contestable. Contestable markets are those where the barriers to entry and exit are low enough to ensure that incumbent businesses face sufficient competition, or the threat of competition, to innovate and change.

Dynamic markets benefit workers because they can improve job opportunities, pay, and productivity. When new firms enter markets or incumbents expand, they create new jobs. This can lead to workers moving into more productive jobs where their skills can be used more effectively and where firms are often able to pay higher wages. It also gives workers more choice while employers must compete to attract and retain them. All things being equal, this can raise wages and improve working conditions, even for workers who don't move.

Average wage rises are around four-fold higher for those who move jobs compared to those who don't, rising to nearly six-fold among those who switched not only their firm, but also their region or sector.⁷ Market dynamism also helps shift resources such as capital and labour away from less productive firms to more productive ones. This is important for sustainable wage growth and living standards for workers as high-productivity firms tend to pay higher wages, and dynamic regions are more resilient and able to recover faster from economic shocks.⁸

However, there may be costs to this reallocation in the form of job losses or workforce disruption, particularly in the short term. This extends to the impact on firms themselves with evidence suggesting that UK firms face relatively higher restructuring costs than in parts of Scandinavia and the US.⁹ It is critical that policymakers consider these broader implications and the policy levers it could pull, for example skills and training interventions, to ensure livelihoods are protected during periods of change and support affected groups' transition to new, higher productivity jobs and opportunities.

Market dynamism and productivity growth are intrinsically linked, with the former declining and the latter slowing in recent years. The slowdown in productivity growth, from averaging 2% in the decade leading up to the 2008 Global Financial Crisis to around 0.4% on average until 2024, has been the subject of extensive coverage and

policy efforts to reverse it.¹⁰ However, the decline in market dynamism has perhaps received less attention and focus, even though between 1999 and 2007 market dynamism was the largest component of productivity growth in the non-financial business economy.¹¹ And since then, about 60% of the fall in productivity growth is attributable to falling market dynamism.¹²

At the same time, the productivity advantage of market-leading firms has increased, exacerbated in part by larger firms' faster adoption of AI.¹³ Industry leaders are more likely to remain in place over time, and younger firms make up a smaller share of the market (turnover and employment) than they did 20 years ago.¹⁴

Unlocking more dynamism is therefore a potentially powerful policy tool in the fight to improve the UK's productivity growth.

Professor Dame Diane Coyle DBE

“Dynamic, high-functioning markets depend on contestability. The insights from this work reinforced the idea that it is the credible threat of entry by new firms, and their ability to scale, which drives productivity, innovation and better outcomes for consumers and taxpayers alike.”

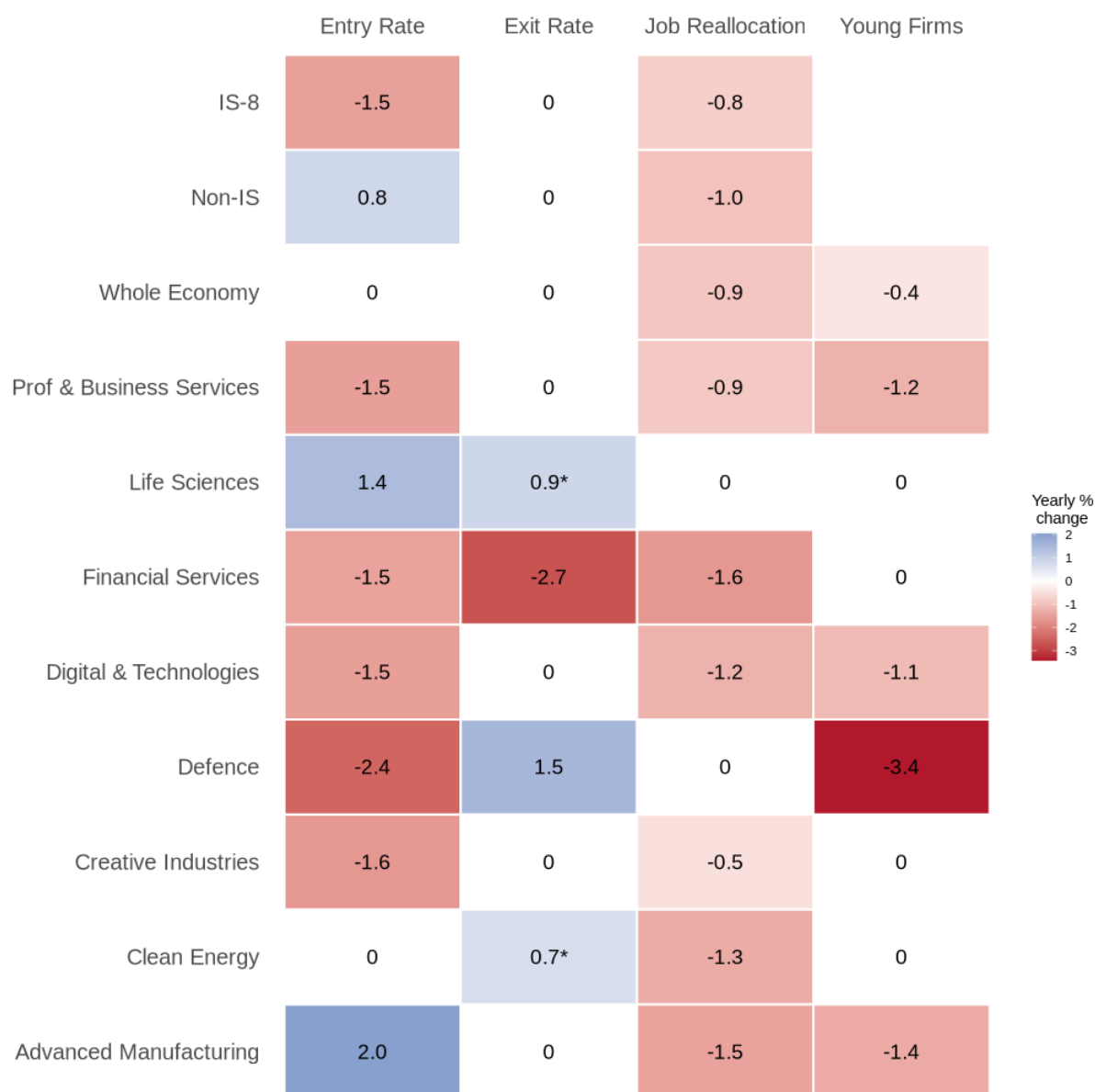
Market dynamism has declined in several of the growth-driving sectors of the Industrial Strategy and is more pronounced than in many advanced economies

A range of indicators of market dynamism have declined in several of the IS-8 sectors since 2004 (Table 1). The rate at which firms are entering the market and at which jobs are being reallocated has fallen across a range of sectors.¹⁵ Most IS-8 sectors saw a decline in firm entry rates over the period except Advanced Manufacturing, Clean Energy and Life Sciences. Defence and Creative Industries saw the sharpest declines.

Entry rates have generally declined more strongly than exit rates across several IS-8 sectors and the share of employment accounted for by young firms, defined as those between 0 and 5 years old, has also declined for several sectors suggesting there is a sustained weakening of business renewal.

Table 1: Several IS-8 sectors have seen a greater decline in indicators of market dynamism than the whole economy and non-IS sector average

Heat map of change in entry, exit and job reallocation rates, and proportion of employment accounted for by young firms in IS-8 sectors, non IS-8 sectors, and whole economy, from 2004 to 2024.



Source: ISAC analysis of [ONS data](#).

Notes:

- A value of -1 in the table suggests the indicator is falling by 1% of its 2004 value per year. Compared with 2004, the indicator would be 20% lower by 2024 (1% x 20 years) based on a linear trend.
- Results are taken to be statistically significant at $p < 0.1$ level, with coefficients being set to 0 otherwise. *Life sciences and Clean Energy Industries are taken to be statistically significant at $p < 0.2$ level.
- SIC codes for IS-8 sectors are subject to change.
- See Annex B for further analysis and method notes.

The UK is not alone in experiencing a decline in market dynamism. However, the shortfall in the productivity level (compared with the pre-Global Financial Crisis trend) is more pronounced here; an estimated 10 percentage point larger reduction than the OECD average in 2019.¹⁶

In partnership with the Economic Statistics Centre of Excellence and Kings College London, we have commissioned further research that will enable us to explore how the evolution of a range of dynamism indicators across the IS-8 sectors compare across a panel of European countries.

Businesses with disruptive business models have a critical role to play in boosting market dynamism for higher productivity

The entry and scale up of new firms can contribute directly to national productivity. But the scale of their impact depends on their ability to disrupt – challenging and competing with incumbents by introducing new technologies, ideas, and practices which transform how things are done. It is not just the number of new entrants that matters, but the presence of high-performing firms capable of influencing incumbents or becoming incumbents themselves, and critically, choosing to stay in the UK to continue their development.

Firms with disruptive business models shape long-term growth by altering the incentives for innovation and common practices across the whole market. However, it's difficult to predict or identify genuinely disruptive business models, particularly in the early stages of their development. For example, while they can and do deploy entirely new business models, it's also the case that disruptive strategies can entail more incremental changes in how an existing product or service is sold or how a business operates. Due to the complexity in categorising which business models are deemed 'disruptive' we have therefore focused our engagement on identifying the market conditions and industry-specific frictions that affect the ability of innovative firms to enter, scale and exert competitive pressure.

In an international context, the UK already demonstrates a strong foundation for market dynamism with a higher share of firms under 2 years' old in the business population than the OECD average.¹⁷ This suggests a relatively healthy rate of entrepreneurial activity and experimentation – important drivers for innovation-led growth.

However, this strength is not being sustained. UK firms are less likely to survive the early stages of their development and those that do survive tend to grow and scale more slowly than their international peers.¹⁸ This suggests that a significant share of potentially high-productivity firms fail to reach the scale at which they can meaningfully contribute to sectoral and economy-wide productivity.

The opportunity lies in addressing these scale-up constraints. Evidence shows that for UK firms that do scale-up, the financial turnover per employer is substantially higher than other businesses – scale-ups are 37% more productive on average.¹⁹ Helping a greater proportion of young, innovative firms to survive and expand in IS-8 sectors would allow the UK to convert its strong start-up rates into sustained productivity growth.

Section 2: Clean Energy Industries and Defence - insights from sectors shaped by regulation and public procurement

At the request of government, this project focused on the key Industrial Strategy priority sectors of Clean Energy Industries and Defence. These sectors make useful case studies as they share features that can make disruption difficult. They have complex and fragmented regulatory and planning regimes; large upfront capital requirements; long development cycles; and institutional systems and policies that may struggle to keep pace with innovation. At the same time, the government has significant potential to influence and improve these features via its policy levers – notably public procurement, planning and regulation.

To understand the experience of industry leaders and the barriers they face for disruption, we engaged with a range of disruptors, investors, academics, representative bodies, departmental innovation teams, regulators and incumbents.

Clean Energy Industries

A strategic growth opportunity for the UK economy

The Clean Energy Industries Sector Plan, published as part of the Industrial Strategy, describes the sector as “the economic opportunity of the 21st century”, with global demand for clean energy technologies growing.²⁰ The Sector Plan aims to increase manufacturing capabilities, scale domestic supply chain capacity, and drive high commercialisation of evolving clean energy technologies. The sector already makes a substantial contribution to the economy, generating £83 billion Gross Value Added (GVA) in 2024 and supporting 951,000 full-time jobs.²¹ It is critical to delivering the UK’s net zero, energy security and supply chain resilience goals.

The Clean Energy Industries are an important enabler of the UK economy and productivity growth, particularly as the sector offers high-quality, well-paid employment and regional prosperity. Jobs in this sector tend to pay higher wages than the national average and are spread across the UK with a particular presence in Scotland, and the North East and North West of England.²²

How disruption can accelerate clean energy innovation

The Clean Energy Industries encompass a broad set of frontier markets with significant growth potential, including onshore and offshore wind, heat pumps, nuclear fission and fusion, carbon capture, utilisation and storage (CCUS) and hydrogen. Energy demand technologies such as smart energy software and electric vehicle to grid technologies also present growth opportunities for the UK economy. Because many of these markets are still in their early evolution without well-established incumbents or industry standard business models, they present an opportunity for new entrants and challenger firms to shape how the market develops and adopts new technologies.

Disruption will play a key role as it can help new ideas and products reach consumers faster and accelerate the pace at which the clean energy market innovates. It is often driven by companies that bring together digital technology, data and new financing approaches to offer practical services that reduce cost and complexity for consumers. This can be seen in examples such as smart energy tariffs that automatically shift

electricity use to cheaper alternatives, EV charging platforms that simplify access and heating services that bundle technology, installation and payment into one monthly offer.

These examples underline why disruption is particularly important for the Clean Energy Industries sector. Markets with uncertain technology pathways or less entrenched incumbents are exactly where disruptors can most easily influence the structure of the market, accelerate the pace of innovation adoption and support the emergence of globally competitive firms. In more mature parts of the sector, such as electricity and energy supply, disruptors can play a greater role in improving affordability, challenging incumbent approaches and driving forward adoption of smarter, more flexible solutions.

Enabling greater entry and scale-up of disruptor firms in Clean Energy Industries would deliver benefits well beyond individual companies. New products and services can have wide-ranging impact such as strengthening competition, driving improvements in supply-chain resilience, accelerating cost reduction in the energy system and supporting the UK's ambition to be a world-leading exporter of low-carbon technologies. However, as we heard from business, unlocking this potential requires a policy environment that supports experimentation, avoids prematurely locking in specific technologies and ensures regulation and procurement can adapt at the pace of innovation.

[The practical barriers facing new entrants and disruptors](#)

Through our engagement, we sought to understand where new entrants and disruptors encounter barriers that constrain market dynamism and prevent productivity-enhancing churn. The message was strikingly consistent: constraints do not stem from a lack of ideas, but from structural frictions that slow entry, scaling and adoption. This is particularly true where regulation and procurement pathways have not kept pace with new technologies and business models.

Many of the barriers new entrants face reflect intrinsic features of Clean Energy Industries, including long development cycles, uncertain revenue streams and the need to navigate complex regulatory and planning systems. Collectively these characteristics increase project risk and can deter investment or delay commitment, slowing the pace at which new technologies can be brought to market.

Data and transparency were also highlighted by industry leaders as an area which hampers innovation and business development. Improvements would allow innovators to be able to find and leverage pockets of value for the system and for customers. For example, improving visibility and accuracy of connections data, grid constraints and upgrades would help innovators develop timely solutions, products and services.

Business and other expert stakeholders highlighted how prominent government policy decisions and frameworks have sometimes unintentionally reinforced these challenges. Repeated delays to schemes such as the [Warm Homes Plan](#) were cited as weakening investor confidence and delaying capital deployment, which has particularly impacted new challenger firms. More broadly, we heard that much of the current legislation was designed around old technologies, meaning many policies favour established technologies and incumbent delivery models.

While regulation and public procurement processes play a critical role in protecting consumers, managing risk and ensuring value for money, businesses consistently emphasised the cumulative burden created by multiple processes, approvals and oversight bodies. Navigating these systems requires time, capital and specialist expertise that smaller or earlier-stage firms often lack.

As a result, even well-capitalised innovators described prolonged periods in which proven products and services have struggled to move beyond pilots or limited deployments. For new entrants in particular, delays and the fragmentation within the system increase the risk of losing investors, partners or supply-chain commitments.

Amit Gudka, CEO, [Field Energy](#)

“The UK is a global leader in clean energy, with the widespread deployment of renewable energy infrastructure a major British success story. There is now a real opportunity to build on this foundation by improving coordination across the system.

For smaller, more disruptive companies, navigating multiple regulatory bodies and processes can be a challenge. Reducing this institutional fragmentation would streamline processes, accelerate innovation and ensure new technologies can scale alongside established solutions. Taking steps to improve this experience will unlock the full potential in the energy system, one where innovators and new technologies can thrive.”

The most cited barriers facing disruptors in the Clean Energy Industries were:

- **Institutional fragmentation, lengthy regulatory pathways and a lack of accountability** which cause confusion and delays to decision making. Businesses referenced having to navigate a “spaghetti” of regulators and being faced with slow processes. This includes navigating fragmented requirements and sequencing across planning and permitting processes. They also face long and uncertain timelines for permissions and/or consents (for example, grid connections). Many emphasised that the core issue is not simply that multiple bodies are involved. The challenge is that there is often no single accountable owner for key decision-making points. This is particularly acute for disruptors operating in renewable energy infrastructure companies, who must navigate both national and local-level decision making. These structural issues reduce investor and supply chain confidence, as there is an increased risk of project failure. New entrants risk losing their access to finance because of concerns with delays to product development and approvals. This kills the speed (and enthusiasm) of entrepreneurship and can result in investment being diverted elsewhere, either to different projects or globally to other geographies.
- **Policy uncertainty and overly specific technology requirements** limit companies’ ability to innovate on how they deliver products and services. Business argued that investment and innovation adoption are significantly hampered by shifting policy positions and a lack of clarity on policy direction, and overly prescriptive technology requirements. We heard repeatedly that government should focus on setting outcomes, enabling the market to determine the best route and technology solution.

Rigid regulations and policies which specify technology are likely to limit innovation as new entrants are unable to utilise their products and services. As a result, government risks failing to utilise technological advances and unlocking value for money through improved services and more competition.

Guy Newey, CEO, [Energy Systems Catapult](#)

“The changing nature of technology requires a new approach to regulatory innovation – one that unleashes innovators by cutting through today’s regulatory restraints.

We see this every day with the businesses we support, especially on the demand side, where new flexibility technologies promise a more affordable, resilient system but they’re constrained by rules designed for yesterday’s technologies.

Our Living Lab shows that allowing consumers to use a secondary supplier for specific services like EV charging could accelerate innovation and flexibility, but current rules prevent a single home using multiple suppliers. More targeted regulation could enable new services while maintaining strong safeguards.

We’ve also launched a Sherpa service to help companies navigate complex compliance requirements, particularly in government programmes. It aims to halve time to market and cut costs by a third – so we support government efforts to remove barriers that slow innovation.

By getting this right, the UK’s high-potential companies will scale up – we’ll unlock that potential for homegrown disruption and economic growth.”

Despite these challenges, business and other expert stakeholders highlighted that there are good examples of public financial institutions across the UK, such as the [National Wealth Fund](#), and the [Scottish National Investment Bank](#), helping to crowd in investment. Furthermore, regulatory decisions such as mandated efficiency standards or schemes like the [Public Sector Decarbonisation Scheme](#) were cited as having successfully driven market transformation whilst still allowing for flexibility within the delivery mechanisms.

Defence

An engine for growth and resilience

As set out in the [Defence Industrial Strategy](#), government has been clear about its ambition to make the UK a defence industrial leader by 2035 and “the most attractive country in the world to grow a defence business”.²³ The sector supports over 460,000 jobs in the UK with nearly 70% of direct jobs located outside London and the Southeast.²⁴

Emerging and disruptive technologies are already reshaping security and defence, and allies are increasingly focused on accelerating the pace at which innovation is adopted within their supply chains. With a record £20 billion²⁵ in defence exports in 2025 and a clear [Strategic Defence Review](#) commitment to make defence an engine of national growth, the UK is well positioned to meet rising international demand for new defence technologies and services.

Delivering on this ambition will depend not just on how much government spends on defence, but how that spending is targeted. In a sector in which government is the dominant buyer, public procurement can be a powerful tool for shaping the defence market. It determines who can access demand, which products are chosen, and how rapidly innovation is adopted. Used strategically, it can strengthen dynamism by widening access for new entrants, accelerating innovation, and reinforcing competitive pressure.

Amelia Gould CEng FIET

“I have seen firsthand both the opportunity and barriers faced by disruptive firms in defence.

Throughout our work, industry was clear that while there are pockets of real excellence, navigating defence procurement remains fragmented and unpredictable. If the UK is to stay competitive, the Ministry of Defence’s planned reforms must translate into more consistent and accountable routes that allow innovation to move into larger scale adoption.”

According to data from *Tussell*, the total value of public procurement expenditure was £283 billion in 2024.²⁶ Nearly one-third (30%, £86 billion) of all public procurement expenditure in 2024 was spent in IS-8 sectors.²⁷ For new entrants, this represents a sizeable revenue opportunity; accessing even a small share of this procurement market can support early-stage scaling, provide predictable income, and de-risk investment. However, procurement spend remains heavily skewed towards large businesses across the whole economy and in the IS-8 sectors, including defence.²⁸ Just 4% of the Ministry of Defence’s (MOD) total direct expenditure goes to SMEs.²⁹

This is especially salient for the defence sector, with MOD direct expenditure totalling £31.9 billion in 2024/2025.³⁰ Defence spending is also set to increase to 2.7% of GDP by the end of the decade, boosting government’s purchasing power.³¹ However, as it stands, this growing expenditure will be deployed within a market that is highly concentrated with significant non-competitive sourcing. Eight of the top ten holding companies which received the most expenditure in 2024/25 were also in the top ten a decade ago in 2015/16.³² In addition, 45% of MOD’s Core Department payments were through non-competitive sourcing in 2024/25, making it the predominant procurement method for the third consecutive year.³³

This concentration of spend matters as it increasingly sits at odds with the direction of technological change in defence. The pressure and opportunity for disruption in the defence sector are intensifying. Software-enabled systems, autonomous and dual-use technologies are expanding the range of solutions available and accelerating the speed of innovation cycles. As a result, the ability to adopt and scale new capability at pace is becoming a key factor for operational effectiveness, value for money and national resilience.

The UK’s [Strategic Defence Review](#) highlighted the increased international focus on faster adoption and scaling of new defence capabilities, driven by rapid technological

change and a more contested security environment. Recent conflicts, including the war in Ukraine, illustrate an extreme end of the spectrum where wartime footing and operational criticality have expedited the removal of institutional friction and accelerated the rapid adoption of new technologies. Lessons are being reflected internationally, with allies such as the United States, Germany and Japan undertaking reforms to accelerate procurement and strengthen pathways for innovative technologies.

The lesson is not that such models are only viable in wartime, but that elements of this model, such as greater delegated authority, streamlined procurement processes, and outcome-focused contracting, could be deployed within existing systems to deliver better capability, faster, and at lower cost.

Blythe Crawford CBE, [Tiberius Aerospace](#)

“When we examine the lessons from Ukraine, it is easy to focus on the tactical use of robotics, autonomous systems and AI.

The most strategic lesson is that whoever innovates faster, scales quicker, and does it cheaper, will prevail. We have seen innovation cycles for hardware in 4-6 weeks – software in hours, manufacturing federated across all sectors not just defence – furniture makers cutting frames for drones rather than wardrobes, and the use of agile marketplaces to drive down cost.

We will still need tanks, ships, planes, delivered through a strategy-driven, long term development model, but we must simultaneously be able to use user-centric, problem-orientated design, to absorb the latest tech of today, to fund and scale those disruptive capabilities.”

Why new capability struggles to move from pilots to scale

Despite the size of this opportunity, defence remains structurally difficult for new entrants to access and scale within. High upfront costs for testing new technologies, long development timelines and demanding supplier accreditation create barriers that are materially higher than in many other sectors. This is particularly acute for disruptors whose technologies do not align neatly within established routes to market.

From discussions with business, these challenges are not driven by a lack of ambition within government to innovate or adopt new capability. Rather, they reflect the structural features of the defence procurement system and the way risk, accountability and authority are distributed within it. Industry emphasised this is not about relaxing legitimate safety and security controls but how existing governance arrangements shape decision-making and the ability to act with pace and committed intention to adopt novel approaches.

As with clean energy, defence businesses consistently highlighted the cumulative effect of navigating multiple processes, approvals and decision points. While each requirement may be justified in isolation, together they can create disproportionate

friction at critical stages of the commercial journey, particularly for new entrants and smaller firms with limited resource and financial headroom.

In addition to the broader system-level barriers, we heard numerous examples of the cumulative administrative burden of legitimate and security-critical processes. Features such as security clearance requirements, multiple and complex overlapping procurement frameworks, restrictive export controls, and stringent assurance processes are most acutely felt by new entrants and cause friction at key gateways.

Throughout our engagements, business and other expert stakeholders consistently pointed to three inter-related barriers, which have been illustrated through examples below:

- **Exclusionary pre-qualification and assurance requirements** that become a cumulative burden. This includes reliance on prior government contracts, stringent financial requirements and rigid assurance thresholds. These often screen out venture-backed or fast-scaling firms even where technical merit and value for money have been achieved. New entrants who often don't have an established contract history, strong balance sheet or dedicated compliance resource to commit to these lengthy processes are disproportionately disadvantaged. As these prequalification and assurance stages often represent the first gateway into MOD procurement, they can deter participation entirely or discourage future bidding. This narrows the supplier base and weakens competitive pressure, making it harder to achieve strong value for money from defence spend.

Case Study: an SME's experience of government tenders. Dan Davies - Labrys Technologies.

[Labrys](#) is a UK sovereign technology company, founded by two military veterans and backed by some of Europe's largest VC funds; raising a \$20m Series A in May 2025.

"Disruptor businesses face multiple challenges navigating government procurement processes. This can range from limited in-house resource to engage lengthy processes to restrictive financial requirements limiting our ability to compete. We experienced this when applying for an invite-only tender, where, as a VC-backed SME, we would not meet the required turnover threshold.

Despite raising concerns during the process, and taking mitigations (such as additional bank guarantees), we were disqualified from the tender on the basis of perceived financial risk.

Our experience highlights how financial assessment criteria can limit participation from innovative SMEs, even where technical capability and delivery experience are strong. To support new entrants, greater flexibility is needed to recognise alternative forms of financial assurance. Reducing such barriers will ensure that procurement processes support a broader and more competitive supplier base."

- **Re-assurance, budget fragmentation and limited delegation as the practical ‘valley of death’**, which is especially acute for software-led, AI-enabled and service-based systems. Business described repeated re-assurance requirements and fragmented ownership of budget and approvals that drastically slowed (and in some cases blocked) the move from pilots, R&D projects and even smaller scale contracts onto larger procurement programmes. Even when capability has been proven and operational demand exists, the slow pull-through weakens the opportunity for new technologies to make it to the front line, and new entrants struggle to retain their investor confidence and grow their market footprint. This contributes negatively to the much-discussed challenge the UK faces in retaining and scaling its high-potential firms.
- **A risk-averse culture that rewards procedural compliance over outcomes.** In defence, consistency and due process are rightly valued as they protect security, safety and taxpayers’ money. However, businesses described a culture in which overly cautious and risk averse behaviour has become entrenched. This is driven by limited delegated authority and fear of consequences to trying new approaches. In practice, this means commercial teams are not empowered to exercise flexibilities available to them, particularly those introduced through the Procurement Act 2023, or to pursue alternative approaches better suited to new technologies and business models. This reluctance persists even when doing so could deliver capability faster at lower cost. Industry leaders noted that it is often perceived as “safer” to default to the traditional procurement routes, which typically favour incumbents and are designed for slower technology cycles. This makes it harder for disruptors to displace legacy solutions, and the pressure on incumbents to innovate weakens. Businesses were keen to point out that this primarily reflects cultural and organisational constraints, rather than a lack of flexible procurement methods. This is reinforced by several examples within MOD where commercial practices have been adapted to better suit new technologies and innovation while remaining fully compliant with assurance and compliance requirements.

Using reform momentum and pockets of excellence to drive meaningful change

This is not to say that progress or a willingness to change the system is absent. Recent announcements highlight that defence policy intent is increasingly focused on prioritising innovators and smaller businesses through commitments to pursue rapid innovation procurement taskforces and SME-focused reforms (for example, launch of the [Defence Office for Small Business Growth](#) and the [SME Commercial Pathway](#)).

Businesses also pointed to areas of excellence within the MOD, including innovation units and commercial teams such as [jHub](#)³⁴ and [Commercial X](#)³⁵. These units are actively experimenting with, contracting and deploying new technologies to the front line. One industry leader, drawing on experience across multiple international defence markets, described Commercial X as an “international gold standard”, demonstrating how a faster, more flexible approach can help newer suppliers break through bureaucratic friction.

These areas of excellence demonstrate that it is possible to contract and field new capability quickly, the challenge is how to scale these practices beyond individual units, so they become the norm rather than the exception.

Al Roan, Cervus Defence and Security Ltd

“The UK Defence sector is at a decisive moment, and intent must now translate into action. The pace of change across AI, data, and synthetic environments means we cannot afford to pilot innovation indefinitely. Government must prioritise the rapid adoption and scaling of proven technologies, with clear pathways from experimentation into funded, operational capability. Crucially, this requires a cultural shift: embracing a ‘fail fast, fail early’ mindset that allows ideas to be tested, refined, or stopped quickly - so that the best capabilities are delivered at speed.

Models such as Commercial X show what works: aligning procurement, funding, and user needs around pace and outcomes. These approaches should now be scaled and normalised across Defence, not treated as isolated successes.

For SMEs and disruptors, the opportunity is clear, but so is the expectation. Lean into these mechanisms and actively partner with Primes to access scale and integration into major programmes. The future model is collaborative. Initiatives such as the Defence Office for Small Business, NAD, and UKDI signal strong intent. The next step is delivery at pace - turning reform into measurable capability advantage and sustained investor confidence.”

The current period of reform offers an opportunity to utilise learnings from some of the more innovative approaches in the system to tackle the more entrenched barriers identified. The flexibilities within the Procurement Act 2023 alongside MOD’s ongoing organisational reforms, including the establishment of [UK Defence Innovation](#) (UKDI) and appointing the [National Armaments Director](#) (NAD), create a pathway for making targeted improvements.

Business emphasised the importance of harnessing this moment to strengthen demand signalling to industry, protecting headroom for innovation spend and systematically introducing proven technologies into larger programmes, rather than allowing spend to default to legacy programmes. Rapidly testing streamlined approaches that enable innovative businesses to access defence procurement, particularly in dual-use technologies, would create a strong signal of intent to the market and provide a government-industry learning environment.

Enabling a wider range of innovative suppliers to compete and grow would broaden the solution set and capabilities available to the UK. Government taking action to shift the system towards faster, innovation-enabling routes to market would strengthen national resilience, improve taxpayers’ value for money and provide the long-awaited demand signals that help crowd in private investment.

Across both Clean Energy Industries and Defence, a consistent message emerges: when regulatory and procurement routes default to legacy approaches, challengers struggle to enter, prove value and scale. These insights underpin the recommendations

set out in Section 3, which focus on the practical reforms government can make to keep markets more contestable.

Section 3: Recommendations

This section sets out specific recommendations for actions government should take to encourage disruption and improve market dynamism.

The Rt Hon Greg Clark

“By utilising levers such as regulation and procurement, government can play a significant role in improving market entry, supporting innovators to scale and improving competition.

This work highlights the need for a more deliberate and adaptive approach to regulation, one that protects public interests whilst keeping pace with technological and commercial change.”

Regulation: reducing friction for new entrants while maintaining standards

The UK has long been recognised for its mature and effective regulatory system.³⁶

Regulation is essential to address market failures, protect consumers, ensure fair competition and manage safety. Well-designed regulation can promote productivity growth by supporting competition, creating stability and protecting intellectual property.

Yet many stakeholders highlighted the ways in which fragmented, complex regulatory pathways have hindered their ability to scale. They repeatedly stressed that the answer was not deregulation but “better regulation”: clearer pathways, faster decisions, more joined-up working across multiple bodies, and a system that embraces new technologies.

Regulation needs to do more than manage risk, it should keep markets open and contestable by making it easier for new ideas to compete, while maintaining high standards and a consistent business environment. In practice, this means clearer ownership of decisions, more accessible routes to navigate the regulatory system and stronger capability to tackle barriers that span multiple government departments and regulators.

The government’s reform agenda provides a strong foundation to build on through its [Regulation Action Plan](#), sector specific reforms such as John Fingleton’s [Nuclear Regulatory Review 2025](#) and early lessons from the Regulatory Innovation Office’s (RIO) ‘Front Door’ initiatives.³⁷

While these steps are welcomed, the impact on new entrants is not yet being felt across the system and in many areas needs to go further. The next phase of reform should build on this momentum ensuring that regulatory change translates into a faster pace of technology adoption, stronger competition and more predictable routes to market.

Recommendation 1: Ensure new entrants and contestability are at the centre of regulatory reform

Specific actions we recommend:

- **Embed market dynamism and contestability explicitly into the Regulatory Action Plan and strengthen the Growth Duty to capture market dynamism and contestability.** This should include incentives for regulators to prioritise these outcomes alongside existing plans to reduce regulatory burdens, and to consider where existing regulations could be removed because their intended outcome (for example, better standards for consumers) could be better addressed by encouraging competition.
- **Ensure that new and existing regulations and impact assessments address impacts on new entrants and competitive market structure.** This should include consideration of integrating advice from the Competition and Markets Authority (CMA) or Regulatory Innovation Office (RIO) through or alongside the Regulatory Policy Committee to support this.
- **Build on the RIO ['Front Door' initiative](#) and carry out similar exercises,** such as for disruptive technologies in Clean Energy Industries, considering the whole of the energy ecosystem. This could be trialled as a time-limited pilot to enable government to quickly gather live insights and drive committed action on the regulatory barriers for disruptive companies operating in this sector.

Public Procurement: a mechanism for contestability and innovation adoption

As set out in Section 2, the government's recent procurement reforms are a welcome step in the right direction with the [Procurement Act 2023](#) introducing new flexibilities alongside the new [National Procurement Policy Statement](#) (NPPS). However, we heard from industry that practical impact is not yet being felt consistently. This underlines the importance of pairing these reforms with the capability and accountability required to apply it in practice.

Our analysis of both the data and stakeholder views points to a consistent problem: where procurement pathways default to incumbency, the system narrows the offer available to the public sector and slows the adoption of proven innovation. This has reinforced our case for focusing recommendations on practical procurement reforms that can widen access, strengthen competition and improve the rates of pull-through from early R&D pilots through to securing more substantial market access via larger procurements.

We have focused our recommendations on Defence, where procurement most clearly shapes market structure and the pace of innovation adoption. However, the underlying principles should be considered for wider application across other IS-8 sectors wherever similar barriers-to-entry are limiting dynamism.

Recommendation 2: Reform Defence sector procurement practice to improve access and pull-through at scale

The government's continued focus on embedding its procurement reforms alongside MOD's own transformation are steps in the right direction for creating opportunities that strengthen competition and support innovative approaches.

However, to deliver effective and lasting change, reform must move beyond the introduction of new procurement flexibilities and structures and focus on how change is delivered in practice. The National Armaments Director (NAD) and UK Defence Innovation should play key roles in driving accountability for applying the reforms and adopting new flexibilities to deliver a more innovation-focused approach for defence procurement.

Specific actions we recommend:

- **Identify specific priority capability areas**, where improved access for new entrants would materially strengthen competition and outcomes. This should include named capability sponsors with authority over outcomes and budget responsibility.
- **Pilot rapid innovation procurement pathways in the priority capability areas** identified, utilising the Procurement Act 2023 flexibilities and streamlined pre-qualification requirements where current thresholds disproportionately exclude new entrants. The pilot should include delegated budget authority and test pull-through from early procurement opportunities to adoption within larger programmes of record, drawing on lessons from MOD's [JHub](#) and [Commercial X](#).
- **Streamline processes for new entrants that have previously engaged in government procurement processes** (for example, providing a certificate of conformity) to allow companies to better navigate procurement processes and requirements to support them in scaling onto larger programmes of work.
- **Establish a targeted MOD-to-industry secondment programme to grow innovation expertise within commercial and procurement functions.** This should be limited to placements with disruptors, early-stage scale-ups and high-growth innovators. It should focus on building MOD capability to identify where existing processes and legacy requirements inadvertently inhibit new entrants and could be better calibrated for new entrants, particularly those with novel technologies.

Procurement data: transparency that supports entry and accountability

Dr Aislinn Rice

“Through this work and from my own experience, it’s clear that government really needs clear visibility on where parts of the procurement system are lacking new entrant and SME participation. Improving the quality and use of procurement data would allow government to target interventions, increase transparency and widen access for new entrants and the SME ecosystem more broadly.”

While our earlier recommendations respond directly to barriers raised by business and other expert stakeholders, this recommendation is an enabling one: without stronger procurement data, government cannot reliably track whether its reforms are translating into more contestable markets.

Recent research and reports highlight limitations in available procurement data.³⁸ Stakeholders within academia reported that without reliable information on what the government is buying, who is winning contracts and the terms associated with tenders, it is difficult to judge whether public procurement is supporting key government objectives such as accelerating innovation, encouraging greater SME participation and driving better value for money.

In addition, inaccessible data can act as a barrier to market entry for businesses, restricting the ability of potential disruptors to better understand procurement trends, identify opportunities, and compete effectively.

Recent reforms create a real opportunity to improve this. The Procurement Act 2023 introduced a new [Central Digital Platform](#) and a wider notice regime that looks to strengthen transparency drive procurement to become more strategic through a greater emphasis on quality and outcome-based contracting. The platform highlights genuine progress however some indicators and signals for judging “innovation procurement” and contestability are still missing, inconsistent or remain difficult to analyse at scale.

Recommendation 3: Improve the quality and transparency of public procurement data to ensure public procurement is leveraged to promote innovation

Government should improve the quality of procurement data to ensure that procurement practices can be monitored and assessed for delivery against strategic outcomes important for the Industrial Strategy, including innovation, SME engagement, and the creation of high-quality jobs and skills. This is particularly important for monitoring outcomes in sectors where the Standard Industrial Classification system is too restrictive and sectors are defined by other bases, such as Clean Energy Industries and Defence.

This recommendation has been informed by engagement with and research undertaken by The Manchester Institute of Innovation Research at the University of Manchester.

Specific actions we recommend:

- **Government should publish information on pipeline and planned procurement³⁹ in the IS-8 sectors**, including for lower value procurements that currently don't require a notice under the Procurement Act 2023. This would enable potential disruptors and new entrants to gain a better understanding of demand and focus their participation.
- **To improve the quality, granularity, and 'linkability'** of procurement data, there should be full consistency of unique buyer/supplier identifiers and expanded visibility of SME engagement in contracts below current reporting thresholds, and where they are subcontractors.⁴⁰ This would improve understanding of whether suppliers grow, innovate and/or attract further investment.
- **Reporting award criteria** (for example, innovation capability, environmental and social value) in a structured, codified way would enable government to track whether procurement is being used strategically and improve the visibility on priorities for potential disruptors.
- **Developing additional data visualisation tools such as a public-facing analytics interface** aligned with the UK's [Open Government commitments](#), would help researchers and government track procurement outcomes against Industrial Strategy objectives. **Similarly, by developing tools and dashboards for procurers with real-time visibility** of key performance metrics, including SME engagement, procurers would be able to embed this data into their decision-making.

A more dynamic UK fit to deliver on its modern Industrial Strategy

To deliver stronger growth and resilience, the UK must become better at turning its innovation into high-potential firms that can grow here, not just start here. Increasing market dynamism is not a silver bullet but it does serve as a key part of the solution to helping improve the UK's productivity growth by making markets more contestable and fostering innovation.

The speed of innovation and technological change requires the mechanisms and systems of government to respond and adapt in a timely way. To enhance this, ensuring effective coordination across government, policy stability and clearer decision making by accountable figures will provide business with the certainty they need to invest. These overarching objectives will provide the conditions to strengthen productivity, resilience and support the UK's ability to deliver its Industrial Strategy.

The recommendations outlined in this report are intentionally practical and centre on the levers that government controls. They will only deliver if market contestability and a proportionate appetite for managed risk are treated as government-wide priorities. These must be embedded in how decisions are made, how procurement is designed and operates, and how the regulatory system is empowered to act quickly and embrace innovation. Acting on these recommendations alone will not solve the UK's productivity challenge, but it will make the wider ambitions of the growth agenda more effective by enabling new ideas to scale and by incentivising incumbents to innovate.

Annexes:

Annex A: engagement lists

Annex B: economic dynamism across the IS-8 - additional analysis and method notes

Annex C: estimates of the distribution of government procurement across the IS-8

Annex A: engagement lists

We would like to thank all stakeholders who informed this project and shared insights with us, including the following stakeholders who consented to be listed and those who preferred not to be named.

ADS Group
AIRTO
Babcock International Group plc
Catalyst
CBI
Clean Growth Fund
Energy Systems Catapult
Energy UK
Field
Goodlord
Heat Pump Association UK
HiiROC Ltd.
Hydroluminum Ltd
Hypermotive Ltd.
Judge Business School, University of Cambridge
Labrys Technologies
Naked Energy
NATO Innovation Fund
Net Zero North West
NCC
Manchester Institute of Innovation Research at the University of Manchester
Oxford Innovation Advice
Software NI
The Marketing Society
Undaunted - Imperial College London
University of Nottingham, UK Procurement Law Unit
Vaillant Group UK Ltd
Xlinks

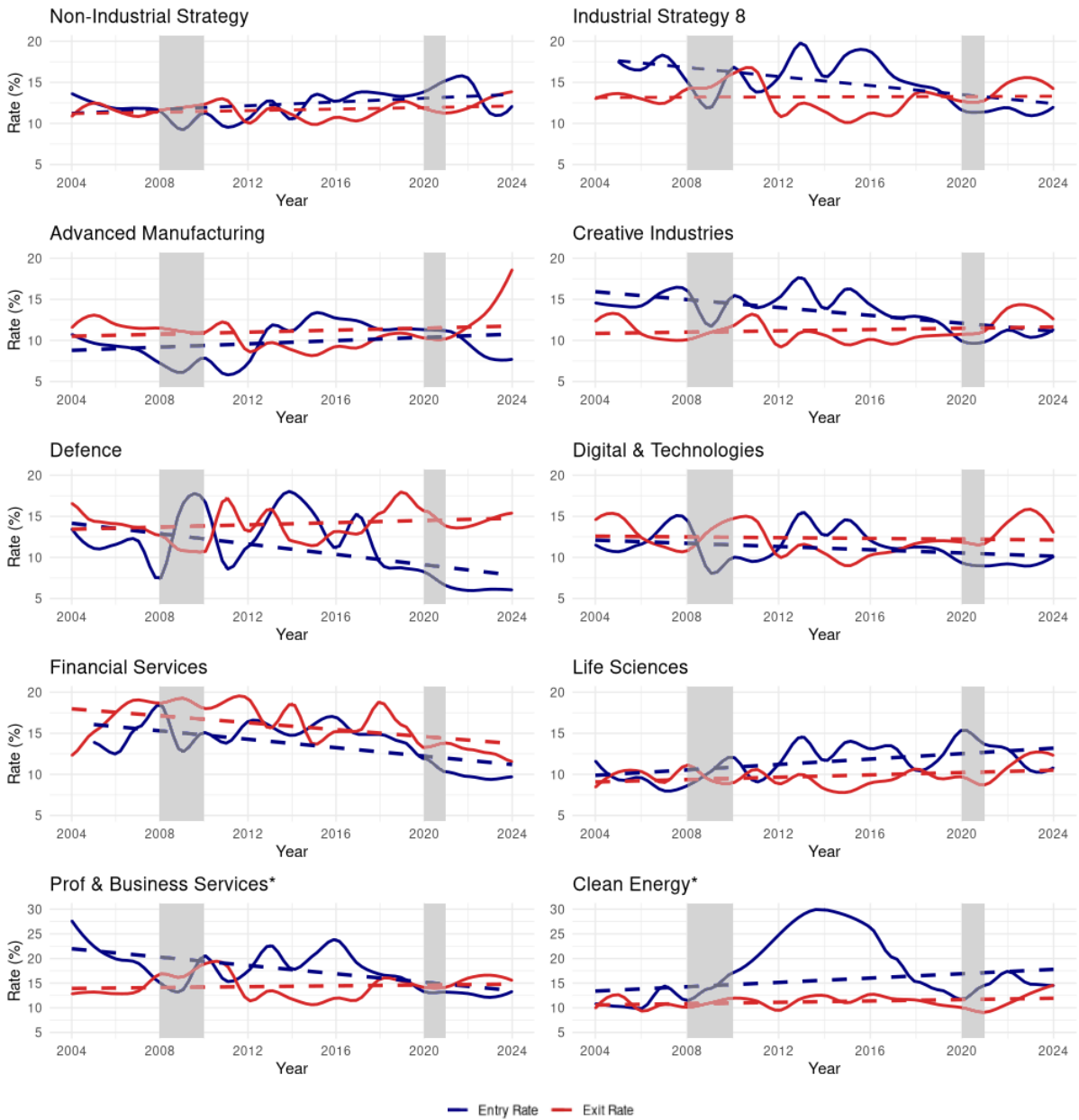
Annex B: economic dynamism across the IS-8 - additional analysis and method notes

We have analysed a range of indicators of market dynamism using data from the Office for National Statistics (ONS) to facilitate comparison across the IS-8 sectors. Market dynamism trends were computed using a simple linear equation involving year as the independent variable. Results are taken to be statistically significant at $p < 0.1$ level, with coefficients being set to 0 otherwise. Life sciences and Clean Energy Industries are taken to be statistically significant at $p < 0.2$ level.

Further methodological details, including the sector classification used, are described in the ONS publication [Business dynamism rates by age, size and industrial strategy sectors, UK, 2004 to 2024](#). SIC codes for IS-8 sectors are subject to change.

Figure 1: Several IS-8 sectors have seen a decline in market entry rates since 2004

Entry and exit rates in IS-8 sectors, and the IS-8 and non IS-8 sector average from 2004 to 2024



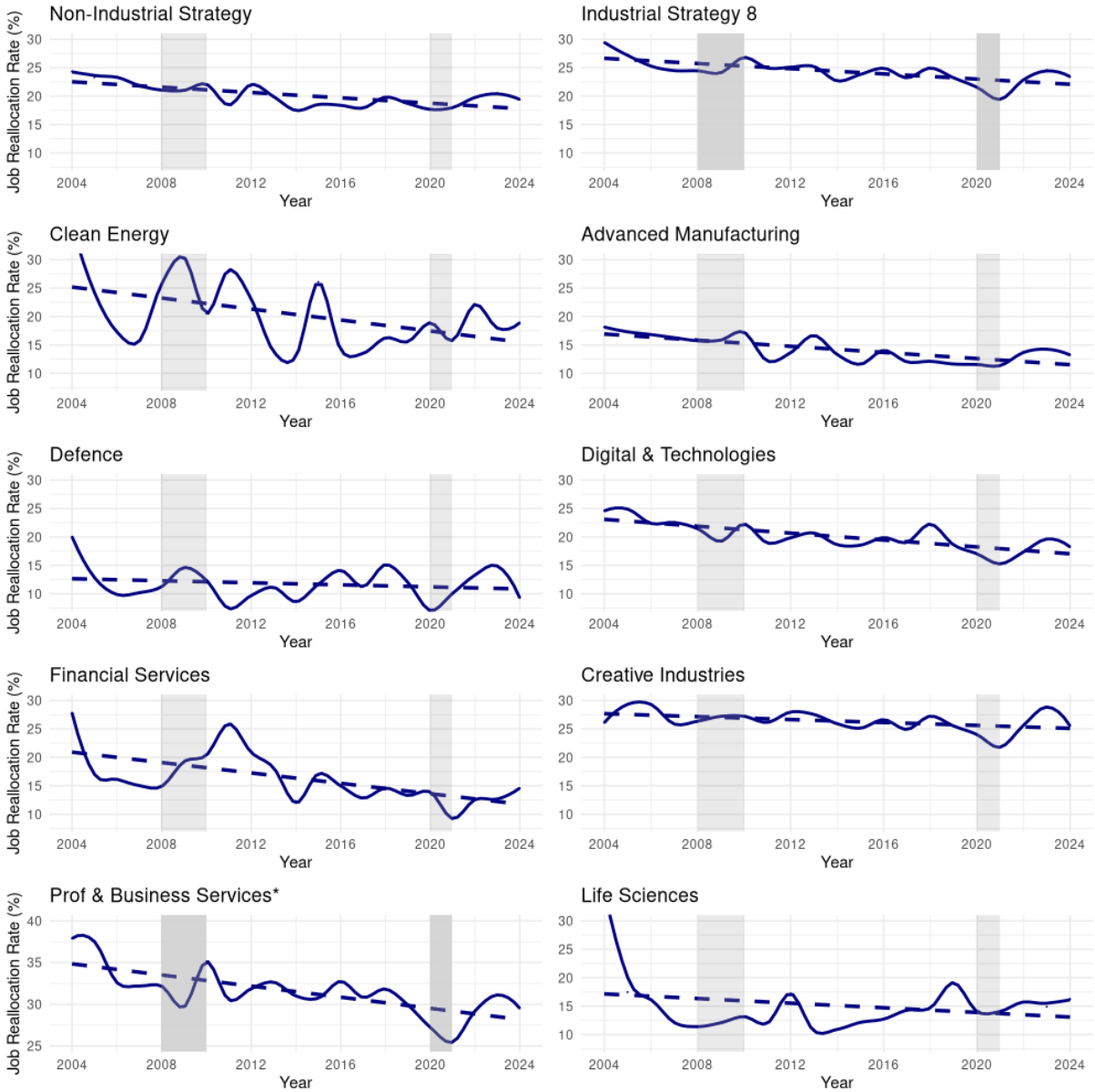
Source: ISAC analysis using ONS data

Notes:

- Entry rates are shown by the blue lines. Exit rates are shown by the red lines.
- The dotted lines represent the linear trend over the period.
- Shaded areas represent the Global Financial crisis and the Coronavirus pandemic.
- The scale for Professional and Business Services and Clean Energy is different compared to other sectors in figure 1.
- Lines smoothed using Locally Estimated Scatterplot Smoothing.

Figure 2: Declines in job reallocation rates for several IS-8 sectors are greater than the non IS-8 sector average since 2004

Job reallocation rates in IS-8 sectors and non IS-8 sectors from 2004 to 2024



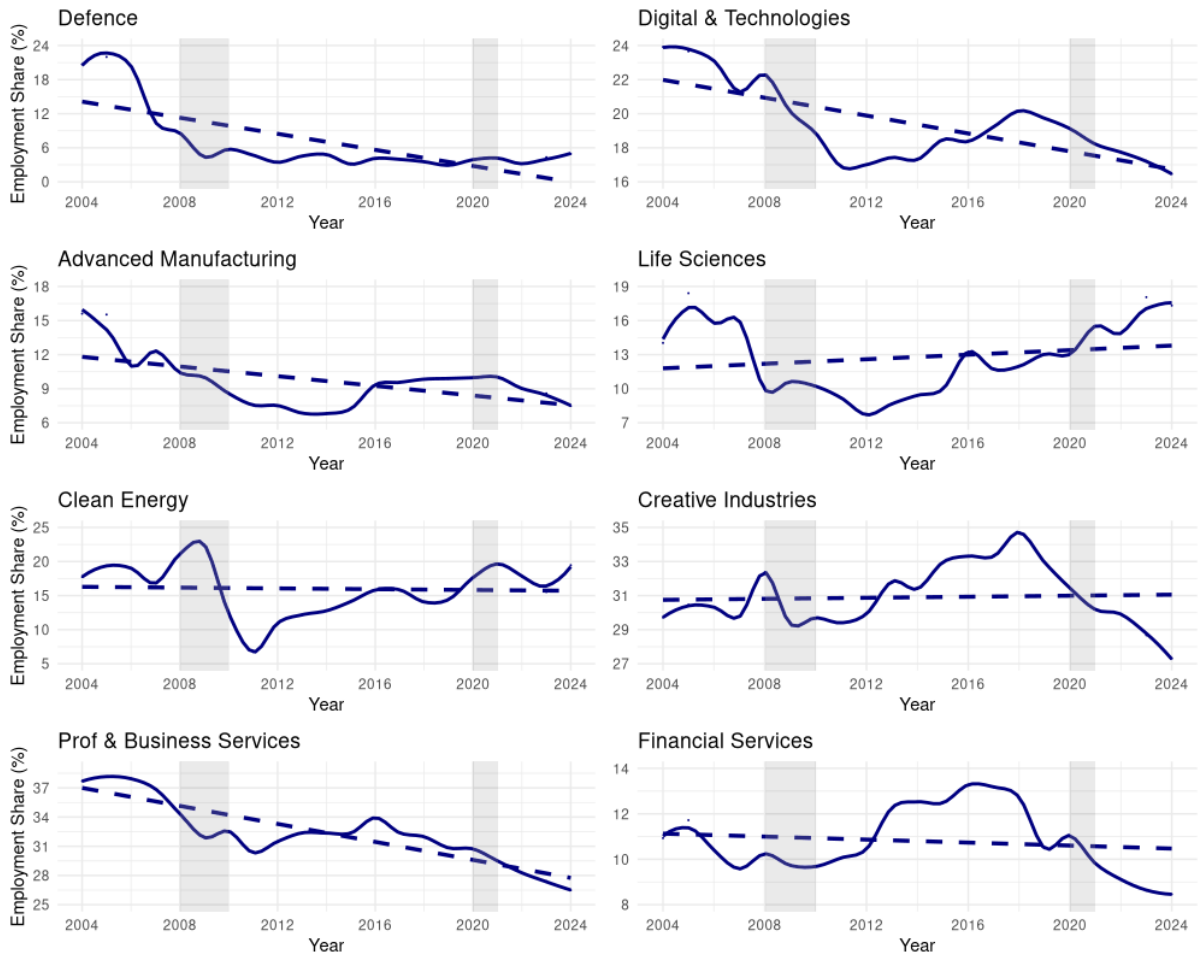
Source: ISAC analysis using ONS data

Notes

- The solid blue lines show job reallocation rates.
- The dotted lines represent the linear trend over the period.
- The shaded areas cover the Global Financial Crisis and Coronavirus pandemic.
- The scale for Professional and Business Services sector graph is different to other sectors in figure 2.
- Lines smoothed using Locally Estimated Scatterplot Smoothing.

Figure 3: The employment share of young firms in IS-8 sectors has either fallen or remained flat since 2004

Employment share accounted for by young firms in IS-8 sectors from 2004 to 2024



Source: ISAC analysis using ONS data

Notes:

- The solid blue lines show employment share in young firms, defined as those between 0-5 years old.
- The dotted lines represent the linear trend over the period.
- The shaded areas cover the Global Financial Crisis and Coronavirus pandemic.
- The scale varies for each sector due to high volatility.
- Lines smoothed using Locally Estimated Scatterplot Smoothing.

Annex C: estimates of the distribution of government procurement across the IS-8

Using data from *Tussell*, we have analysed the distribution of public procurement spend across the IS-8 sectors for which data allows.

The analysis was conducted using *Tussell* spend data between 2016 and 2024.⁴¹

Spend data was segmented based on spend on private sector companies and buyer types (local, central government and NHS). Results were adjusted for inflation as per the Green Book (2026) methodology using OBR supplementary data tables from November 2025.⁴²

IS-8 sectors were identified using the published Sector Industry Classification (SIC) codes where possible and are subject to change.

The analysis is subject to the following caveats:

- *Tussell*'s SME marker used to identify Small and Medium Enterprises, is constructed using data from Moody's Bureau van Dijk company information database. A high level of manual verification is then applied, with suppliers classified as SMEs based on the EU definition.
- A UK company can be assigned up to four SIC codes for various activities. The primary SIC code best describes the company's main business activity, and is the one assigned to a supplier entity in *Tussell*. Where a supplier does not have a SIC code, *Tussell* occasionally endeavours to assign one based on the supplier's public-facing website and public sector sales activity.
- Due to a lack of official definitions of Clean Energy Industries an approximation was conducted using the following SIC codes: "3511", "3512", "3513", "3514", "2446", "4222", "2711", "2712", "2811". It should be noted that this is a broad approximation which doesn't account for nascent clean energy technologies due to SIC code features. Some SIC codes will also overlap with other sectors.
- Not all spending is published: below-threshold payments, sensitive categories (MOD), intermediaries, grants, transfers and personal payments may be missing or inconsistent. Defence procurement data from *Tussell* has therefore been omitted in the analysis.
- Grants Publication of grants varies; they are often included but not always indicated as such, and departments may apply internal rules on whether to record them as expenditure.
- Spend results may be overstated as it is unclear from the data that *Tussell* collects whether spend values include VAT, and practices vary between publishers.

Table 2: Nearly one-third of public procurement expenditure is in IS-8 sectors
IS-8 sector proportions: Public Procurement Spend, Central Government spend, and SME Shares, from 2016 to 2024.

Sector	Share of Public Procurement Spend (%)	% of Central Government Procurement Spend	% Public Procurement going to SMEs
Life Sciences	1.6	1.4	16.8
Advanced Manufacturing	2.3	3.2	18.3
Digital and Tech	11.9	18.3	15.3
Creative Industries	5.4	10.0	18.9
Professional Business Services	14.8	16.4	34.8
Financial Services	3.0	3.4	25.6
Clean Energy	1.7	1.9	5.5
IS-8 total	32.3	40.5	24.9
Non-IS-8 total	67.7	59.5	30.7
Whole Economy	100	100	28.8

Source: ISAC analysis of Tussell data

Notes:

- Individual IS-8 sectors do not sum to 'IS-8 total' due to overlapping sector definitions.
- The Defence sector is excluded from the IS-8 breakdown due to data limitations but is included in the 'IS-8 total'.

Endnotes

¹ Market dynamism sees well-functioning markets encouraging reallocation of resources (for example, workers and capital) from less to more productive firms, and diffusion of ideas, technologies and practices across the economy, driving productivity growth.

² [ONS \(2025\) Trends in UK business dynamism and productivity.](#)

³ [OECD \(2025\) OECD Insights on Productivity and Business Dynamics – Country Notes: United Kingdom.](#)

⁴ [CMA \(2024\) The State of UK Competition Report 2024.](#)

⁵ Disruptive business models provide a novel offer for customers, innovating both in what is delivered and how it is delivered, often introducing new ways of operating. These can be developed by new challenger businesses or by established firms adopting new approaches. They support dynamism both directly through growing disruptive businesses, and through the beneficial impacts of increased competitive pressure.

⁶ [Monzo \(2024\) Annual Report 2024.](#)

⁷ [Resolution Foundation & Centre for Economic Performance, Ending Stagnation: A New Economic Strategy for Britain.](#)

⁸ [OCED \(2021\) The Role of Firms in Wage Inequality and Business dynamism and regional growth across the business cycle: Implications for recovery from the COVID-19 crisis.](#)

⁹ [Coatanlem and Coste \(2025\) Cost of Failure, Disruptive Innovation and Targeted Flexicurity: more evidence supporting targeted reforms.](#)

¹⁰ [ONS UK Whole Economy: Output per hour worked SA: Index 2022 = 100, May 2025](#)

¹¹ [ONS \(2022\) Estimates of total factor productivity from the Annual Business Survey, Great Britain: 1998 to 2019.](#) Growth from dynamism, defined as reallocation across industries, inside industry, and net entry and exit inside industry, is compared to growth due to capital-deepening and total factor productivity. Dynamism-productivity growth relationship is not necessarily causal, as the market dynamism may be the result of other factors.

¹² ISAC analysis of [Estimates of total factor productivity from the Annual Business Survey, Great Britain: 1998 to 2019: August 2022.](#)

¹³ [Should we be worried about business dynamism? - The Productivity Institute; Trends in UK business dynamism and productivity - Office for National Statistics; and AI Adoption Research - GOV.UK](#)

¹⁴ [CMA \(2024\) The State of UK Competition Report 2024.](#)

¹⁵ Entry and exit rates measure the number of new entrants and exits as a proportion of the population of businesses at any given time. Job reallocation rates measure the proportion of employment in a sector which changes hands from one year to the next.

¹⁶ [OECD \(2020\). Boosting Productivity in the United Kingdom's Services Sectors, November. 2020.](#) Since the Global Financial Crisis, there has been a productivity shortfall between actual productivity levels and the level productivity would have reached had it improved at pre-financial crisis rates in most OECD countries. This shortfall is estimated to be ~10% on average across OECD countries, but it amounted to 20% in the UK in 2019.

¹⁷ [OECD \(2025\) OECD Insights on Productivity and Business Dynamics – Country Notes: United Kingdom.](#)

¹⁸ Ibid.

¹⁹ [ScaleUp Institute \(2025\) Annual Review Highlights 2025.](#) High-growth (scaleups) defined by the OECD as businesses which experience a 20% growth rate in turnover or employment over a 3 year period, starting with a minimum of 10 employees.

²⁰ [The UK's Modern Industrial Strategy \(2025\) Clean Energy Industries - Sector Plan.](#)

²¹ [Energy & Climate Intelligence Unit \(2025\) The future is green: The economic opportunities brought by the UK's net zero economy.](#) For the purposes of statistics given here, Clean Energy Industries is defined as those operating in the net zero economy.

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- ²² [LSE \(2021\) Are ‘green’ jobs good jobs?; and University of Bristol, PolicyBristol \(2026\) The geographies of ‘clean energy’ jobs in Great Britain remains uneven.](#)
- ²³ [Defence Industrial Strategy \(2025\) Making Defence an Engine for Growth.](#)
- ²⁴ [Ministry of Defence \(2025\) MOD supported employment estimates 2023/24.](#) Direct jobs are the jobs supported within companies receiving payments for goods and services directly from MOD.
- ²⁵ [Ministry of Defence \(2025\) 2025 sees highest British defence exports since records began in huge boost to workers and companies.](#)
- ²⁶ ISAC analysis of [Tussell dataset](#) on public procurement in the private sector, in 2024 prices. Due to incomplete data for the defence sector, the total figure is likely undervalued. Local government accounts for 34% of total spend followed by central government (approximately 31%) and the NHS (approximately 20%). The remaining 15% is distributed between fire and police services, charities, transport and higher/further education, devolved transport, rail and other. See Annex C for method notes.
- ²⁷ Ibid. See Table 2 in Annex C for further information.
- ²⁸ See Table 2 in Annex C for further detail.
- ²⁹ [Ministry of Defence \(2026\) MOD regional expenditure with industry 2024/25.](#)
- ³⁰ Ibid
- ³¹ [The Defence Investment Plan: Equipping our forces, defending out future, 2026.](#)
- ³² Ibid and [MOD trade, industry and contracts: index](#). In 2015/16, Leonardo was known as Finmeccanica.
- ³³ [Ministry of Defence \(2025\) MOD trade, industry and contracts.](#)
- ³⁴ [jHub Defence Innovation](#) is part of the [Ministry of Defence](#) and the [Cyber & Specialist Operations Command](#)’s innovation team.
- ³⁵ [Commercial X](#) is a programme set up by the MOD to accelerate procurement of digital and innovative technologies.
- ³⁶ [HM Treasury \(2025\) New approach to ensure regulators and regulation support growth.](#)
- ³⁷ [The ‘Front Door’ is an experimental, business-led pilot to collect and address regulatory challenges.](#) It aims to make it easier for business to highlight barriers to enable government to target reforms.
- ³⁸ [Oishee Kundu, Elvira Uyarra, Raquel Ortega-Argiles, Mayra M Tirado, Tasos Kitsos, Pei-Yu Yuan \(2025\) Impacts of policy-driven public procurement: a methodological review.](#)
- ³⁹ A Pipeline Notice sets out specific information about future public contracts with an estimated value of more than £2 million. A Planned Notice provides advance notice of an upcoming procurement, giving further detail than a pipeline notice to enable interested suppliers to determine if the upcoming procurement is something that they wish to bid for, and to provide maximum time for preparation.
- ⁴⁰ [Ibarra Gutierrez, M.F., Ospina-Forero, L. and Uyarra, E. \(2024\) ‘Transparency on the reporting of public procurement information: lessons from handling compiled procurement information’.](#) [IPEC Research Brief, Connected Places Catapult.](#)
- ⁴¹ Data accessed from: [www.tussell.com](#).
- ⁴² [Office for Budget Responsibility \(2025\) Economic and fiscal outlook – November 2025.](#)

The Department for Business and Trade

The Department for Business and Trade is an economic growth department. We ensure fair, competitive markets at home, secure access to new markets abroad and support businesses to invest, export and grow. Our priorities are the Industrial Strategy, Make Work Pay, the Trade Strategy and the Plan for Small Business.

Artificial Intelligence

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Published by**Department for Business and Trade**

2 July 2026