eci GROWTH SURVEY 2017

If we boost the population of high growth firms in the UK by just **1%**, we could create an additional **238,000** jobs and add **£38bn** to GVA* within three years.[1]

72%

of participants in our survey of growth companies export compared with 11% of UK businesses nationally[2]

6%

of UK businesses with the highest growth rates have generated half of new jobs[3]

Productivity has only just reached pre-crisis levels.[4] High growth firms can help to drive productivity, create jobs and contribute to GVA[5]

The Endeavour Programme found that

80%

of employees at high growth companies were very satisfied with their job compared with 46% when asked about their previous job[6]

9/10

high growth companies think that they could grow faster if graduates had the skills needed to meet demand[7]

Despite increasing positivity, growth businesses remain vigilant of challenges

65%

of respondents cite a UK economic downturn as their biggest concern

Culture and employee engagement are valued among growth businesses

85%

of respondents state that these are essential for growth and to increase productivity

61%

of participants in this survey report a skills shortage, compared with 77% in 2016 and 91% in 2015

Business confidence among growth businesses is up

50%

of respondents to our survey are expecting revenues to increase by 20% or more

* **Gross value added: The measure of goods and services produced in an area, industry or sector**

1 Sherry Coutu (2014), The Scale-Up Report on UK Economic Growth, p.6
2 CBI (2015), Why Britain's Exporting Firms Are an Important Part of the EU Debate
3 Nesta (2013), Innovation and UK High-Growth Firms, p.6
4 Office for National Statistics, Labour Productivity: Apr to June 2016
5 Deloitte (2014), Scale-Up Challenge: An Impact Report by Deloitte
6 Sherry Coutu (2014), The Scale-Up Report on UK Economic Growth, p.23
7 Sherry Coutu (2014), The Scale-Up Report on UK Economic Growth, p. 47

Foreword

Most people probably think it is easy to run a business, but there is a lot more to making money than sitting behind a posh desk and making decisions. The success story predicted in this report for Britain's growth companies will only come about through dedication, leadership and a necessary sprinkling of good fortune along the way.

The company success stories that drive our economy are written by businesses large and small whose talent and determination inspire their colleagues to beat targets year after year. Some entrepreneurs go beyond the workplace and share the fruits of their business success with the community. These are the leaders who demonstrate that it is time for more companies to realise that you can do good and do good business at the same time.

“You can do good and do good business at the same time.”

Every organisation, even the most successful, must worry about the lack of respect business gets from wider society. Wealth creation is demonised, entrepreneurs accused of widening the gap between rich and poor. Despite toeing the line on endless policies on HR, health and safety and the environment, they are seen as selfish fat cats. This could very well lead to higher taxes and more government control. It isn't too late to change public perception, but to do so chief executives need to become courageous entrepreneurs.

The real evil of the last 50 years has been how procedure and statutory box-ticking have been prioritised. This obsession with process ignores initiative and prevents delegation. Social workers, teachers, nurses and even my cobblers should be trusted with the freedom to do their job the way they know best. We shouldn't be telling them what to do every step along the way.

Successive governments believe organisations should follow 'best practice': stick to the rules and success is guaranteed. Life isn't like that. We need standards to ensure that every workplace is safe but we need to entrust our entrepreneurs with the freedom to trust their people. Success is created by a great team, not by rules.

Business leaders are in a privileged position; they touch more people's lives than teachers, churches or social services. Most companies have a corporate social responsibility policy and tick the 'do good box' by reducing their carbon footprint or linking with a worthy charity. But I'm thinking of something more fundamental, a company culture based on kindness that puts people first.

“Charity begins at home. Managers should see their workforce as an extended family.”

This doesn't mean you should hang on to poor performers – you can't create a great team without saying farewell to the passengers.

A truly caring company goes further than looking after its family of colleagues, it also cares about a cause in the community. Anita Roddick, of Body Shop, created a business culture around campaigning for animal rights. Before Anita, Lord Leverhulme and the Cadbury family spread the care they showed for colleagues into the community with their model towns,

When we at Timpson began employing people who were out of prison, I was worried that our customers would disapprove. I couldn't have been more wrong. It is now one of the main reasons people admire our business. The challenge is clear: we need government to leave businesses alone, but first we need to gain the respect of the public. We will gain that trust through love and kindness. There aren't enough givers in this world: it is time for more companies to realise that you can do good and do good business at the same time.

Sir John Timpson
Chairman and owner of Timpson

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About ECI – building successful businesses

ECI is the UK's leading growth-focused private equity firm. We invest in management buyouts and buyins for majority or minority equity investments in medium sized UK growth companies within the business & financial services, consumer, TMT, industrials, and healthcare sectors. For more than 41 years we've invested across these sectors, gaining a wealth of experience in supporting high growth businesses with a deal size of £20m to £150m.

For the second year running the survey has been supported by The Supper Club, an exclusive membership community of inspirational founders and CEOs of high growth businesses, whose mission is to inspire an entrepreneurial mindset in all leaders. Members' businesses range from £1m to £100m in sales, with an average turnover of £18m and average growth of 34% year on year. The Supper Club supports members through all stages of the entrepreneurial lifecycle, from scale to sale and beyond.

255
investments over 41 years

£11bn
total enterprise value of exits

Executive summary

Now in its eighth year, the ECI Growth Survey is an opportunity to listen to and learn from the UK's growth businesses. The economy remains heavily reliant on these companies as job and wealth creators. This year's survey covers a wide range of challenges and opportunities, from Brexit to skills shortages, facing these companies and we have found them to be remarkably resilient and optimistic in the face of significant levels of uncertainty. Understanding what underpins this dynamism and drive is equally important, so this year we have paid special attention to company culture. The results of the survey send a clear message: financial success and a strong culture are not mutually exclusive – they go hand in hand.

"The results of the survey send a clear message: financial success and a strong culture are not mutually exclusive – they go hand in hand."

A strong company culture, in our experience, is one of the key ingredients in building a successful business, and as you will see in this report, leaders of UK growth businesses overwhelmingly agree. Furthermore, the responses demonstrate significant levels of investment behind driving employee engagement. Culture is not a nebulous concept for the UK's most ambitious businesses, but something that they bring into the workplace in tangible ways and work hard to maintain.

In a world where change is a given – where markets are evolving rapidly, technology can be disruptive, and the workforce is increasingly mobile – culture can be a differentiator and source of competitive advantage.

Culture is often cited as a key tool in attracting and retaining talent. It is clear that engaged employees are more likely to remain loyal, and that their advocacy for the business will be a key factor in enticing new hires to join. By ensuring a happy and engaged workforce, businesses can also reduce disruptive and costly employee turnover. Equally important, culture plays a vital role in driving overall performance and productivity. Through fostering a strong culture, business leaders can help inspire their employees to perform to the best of their abilities and earn the right to capture discretionary effort, where employees are willing to go the extra mile. Particularly at times when businesses are stretched beyond business as usual – navigating Brexit, preparing for General Data Protection Regulation, implementing new technologies – this 'extra 10%' can make all the difference.

"Some 85% of growth companies believe their culture is essential to their success."

The best entrepreneurs and leaders work very hard to build great company cultures. They take the tough decisions to put the people in their company first. They are unwilling to sacrifice cultural values for short-term success. They know that maintaining a strong company culture will drive longer term results, and with it strong financial returns.

"A strong company culture will drive longer term results, and with it strong financial returns."

It can be a challenge to maintain culture in a successful and rapidly growing company, but the reward is worth the effort.

We expect that this generation of growth businesses will inspire the next – and the wider UK PLC – to invest more confidently behind human capital.

Caroline Dent
ECI Commercial Team
Partner

Key findings

From the 2017 Growth Survey

Biggest priority

67%

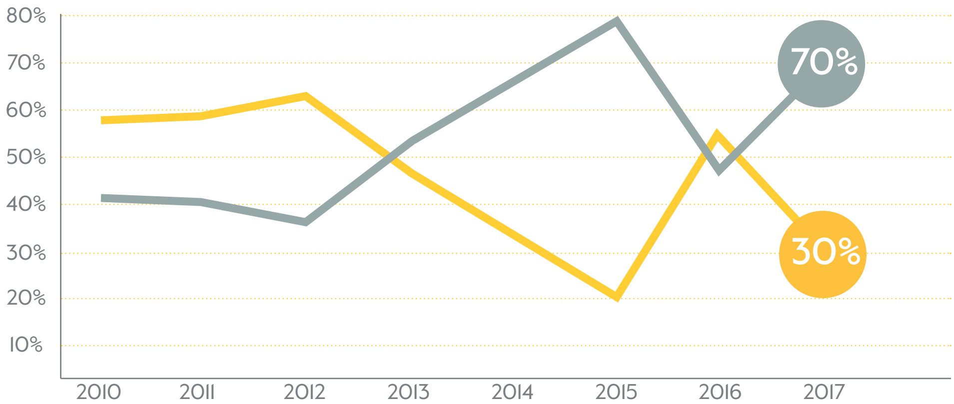
say access to the single market and free movement of people should be the biggest priority for the government

Brexit

45%

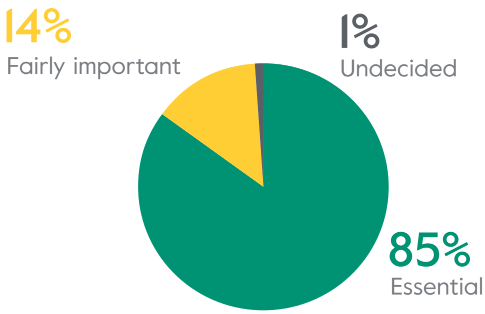
expect no opportunities from Brexit

Ease of access to finance

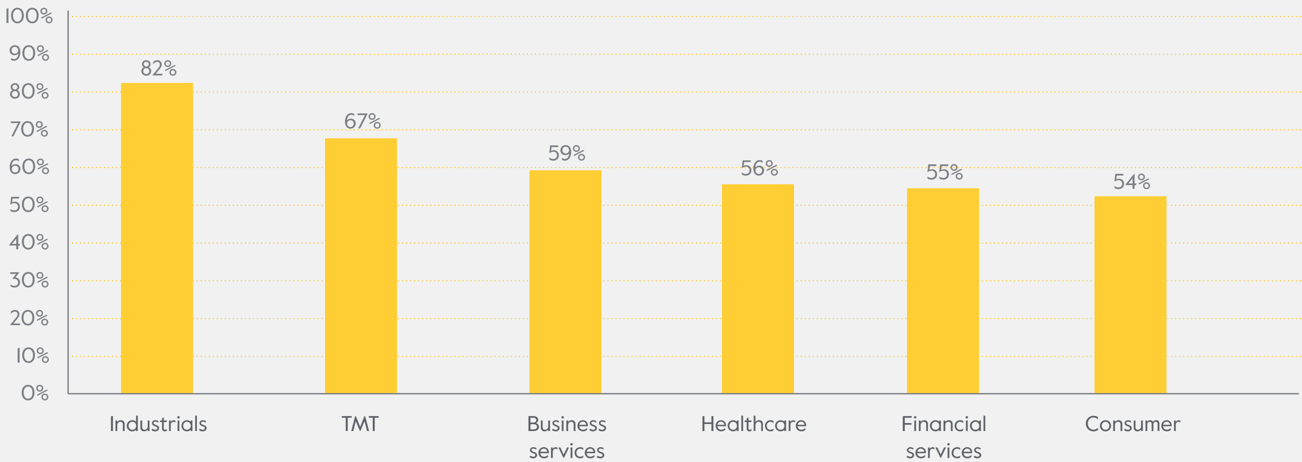


Importance of culture

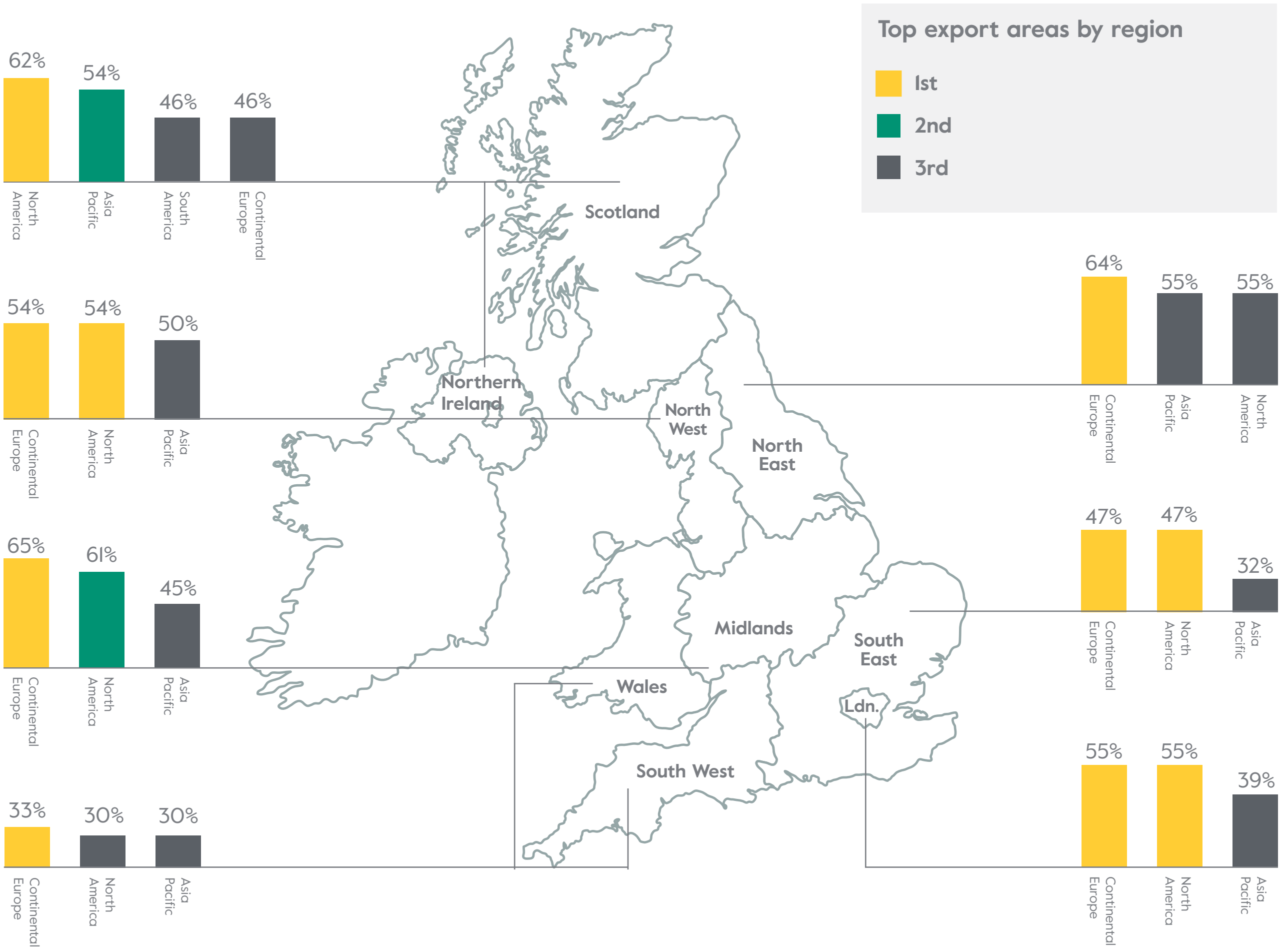
"How important are culture and employee engagement to the growth of your organisation?"



Which sectors are experiencing the biggest skills shortages?

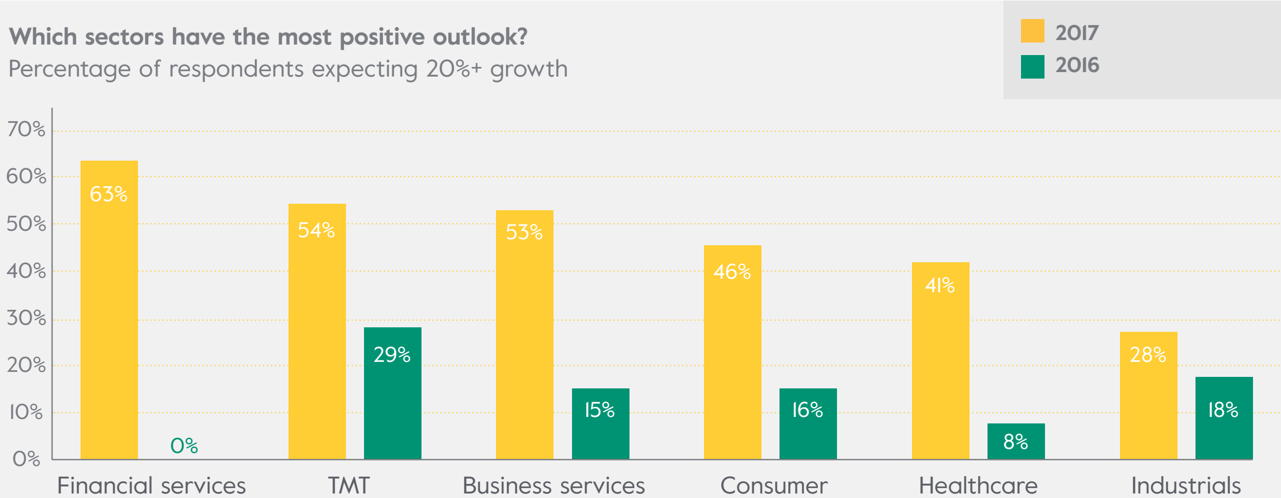


Where are UK growth companies planning to export? Regional breakdown



Which sectors have the most positive outlook?

Percentage of respondents expecting 20%+ growth



Growth expectations

87%
anticipate domestic organic growth over the next 12 months

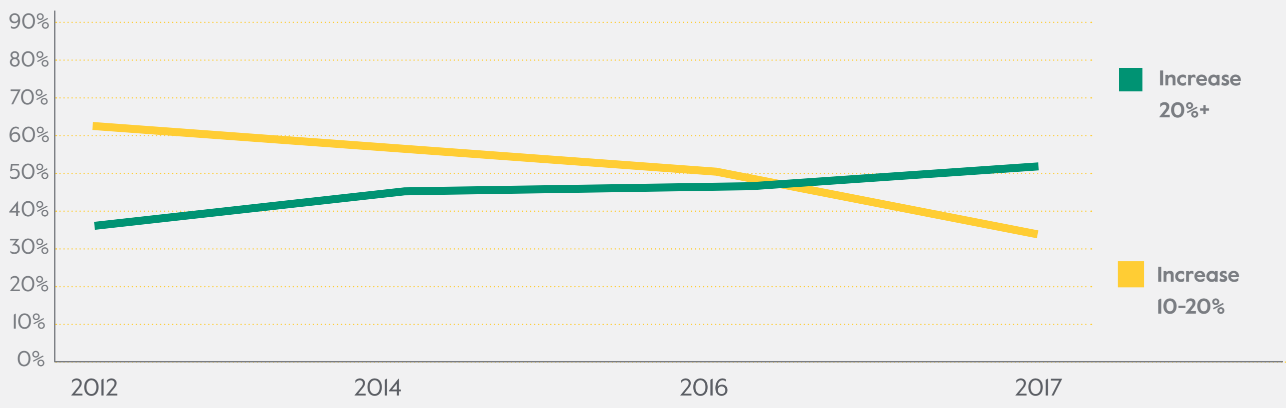
50%
expect 20%+ increase in revenue over the next 12 months

It is perhaps not surprising that among the 346 "growth" companies surveyed for this report, most expect to expand over the coming year. However, the bullish ambitions of this year's cohort of entrepreneurial firms took even the researchers by surprise. Half of respondents are forecasting growth rates of 20% or more, the highest growth expectations ever recorded in the history of our survey. Last year, just 17% of businesses expected to expand at this rate.
This newfound optimism is consistent across the board; all of the sectors represented by the survey express confidence, and 80% of the business owners polled expect an increase in revenues of at least 10% or more, compared with just 44% last year. The financial services sector is the most optimistic this year with 63% expecting a 20% or more increase in revenues.

These growth expectations are in marked contrast with the UK's sluggish economic growth forecasts. The International Monetary Fund recently said that it expects the UK economy to grow just 1.5% in 2018 and has just reduced its 2017 estimate from 2% to 1.7%.
The buoyant mood of Britain's growth companies may be out of sync with the wider economy but it is not unreasonable. These firms are winning new clients and growing despite the wider uncertainty. Some 96% of survey respondents anticipate domestic or international organic growth over the next 12 months.

Exports have become a key focus for the majority of these firms, with 72% of businesses expressing a willingness to expand overseas. The boss of a leading travel operator, who contributed to the latest poll, noted that growth expectations are up because of a "successful entry into international markets". Crucially, many of these firms are looking beyond the European Union in a bid to avoid possible trade barriers that may arise with the bloc. A large number of these firms'

Growth expectations: percentage of respondents expecting an increase in revenues



export efforts are now being directed towards North America.

The weakness of the pound, which remains more than 10% down against the dollar compared with its value before the referendum vote, is also driving growth. “The lower exchange rate is hugely favourable,” comments one UK holiday resort.

Not only are British products and services significantly more attractive to export markets, entrepreneurs have been strategically investing in the long-term future of their businesses. “New investments in technology have played out into increased momentum in the business,” comments a leading online marketplace. “We have been investing more and can see the return starting to pay off,” says a broadband provider.

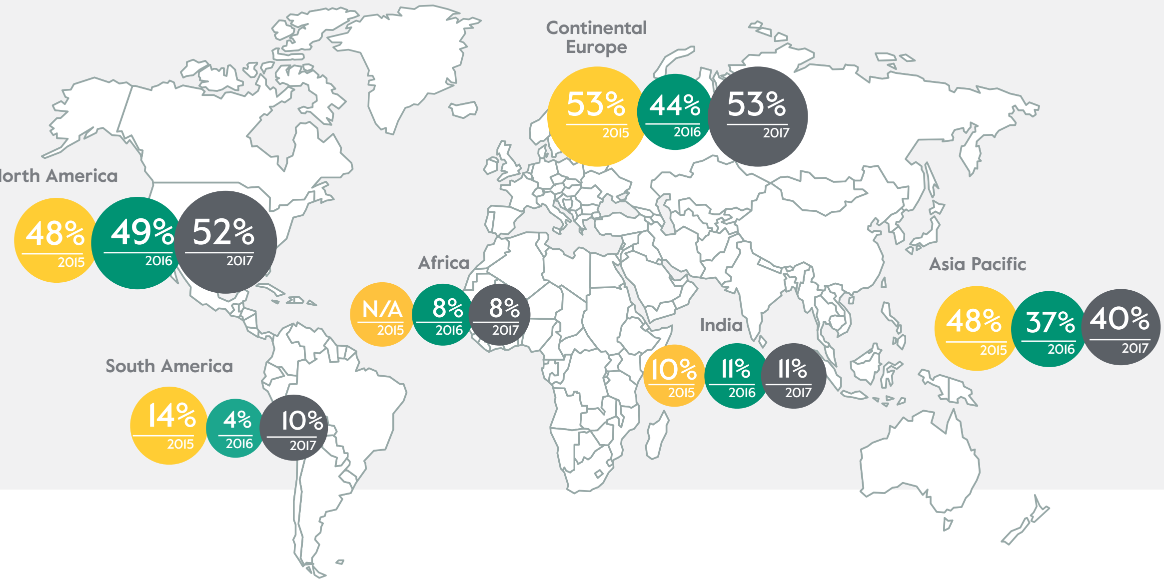
The uncertainty of Brexit has also created opportunities for bold firms. While big banks may be battening down the hatches, entrepreneurs from the financial services sector are expressing the highest growth expectations this year, as they make plans to steal the big boys’ lunch. However, a word of warning from the technology, media and telecoms sector (the second most positive in growth expectations) where 55% see no opportunities arising from Brexit.

> **“Some 72% of growth companies want to export versus a national average of 11%.”**

The appetite for funding among growing firms can be a real barometer of business confidence. During the recession, the majority of respondents said that finance was difficult to access. This year, 87% will be using their internal cash flows to expand. However, this is not because they can’t access external capital – half of this year’s respondents say that they expect to be able to raise private equity and 57% are confident they can secure bank debt.

Overall, this year’s survey paints a picture of overwhelming optimism. Growth companies are taking advantage of the business benefits presented by a weak pound, and seeking out opportunities beyond Europe to dodge any possible fallout from the upcoming Brexit negotiations. Cash is king, and these firms have it in ample supply, growing within their means. Entrepreneurs always turn economic adversity into opportunity, and for these fast growth firms, the gloom is already lifting.

Most attractive regions for export growth



Challenges

There is one word on everyone's lips, and that's Brexit. Whether it's seen as a barrier to growth, or a bullet that's been dodged because of a quirk of business model or industry, Britain's divorce from the European Union comes up again and again in this year's research. It's a year and a half on from the referendum vote, and a year on from our last survey, which took Brexit as its theme, and very little has changed. With 346 respondents to this year's survey, "Brexit" is referenced 232 times in their answers.

Barriers faced by exporters

41%

EU renegotiation

38%

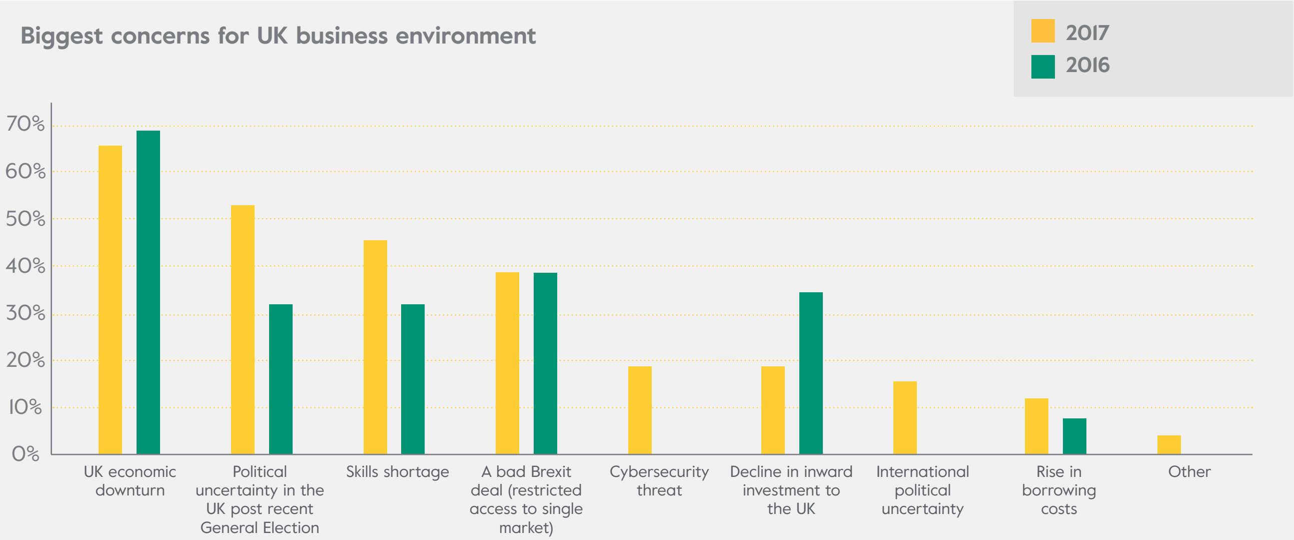
Overseas regulation

> **"There has been an increase in concern over UK political uncertainty to 52% from 32% last year."**

"Our growth expectation has reduced due to a slowing of trade which we have put down to consumer nervousness following the Brexit referendum," says one respondent. "We had a slower start to 2017 due to market conditions and Brexit uncertainty," comments another. The mood music from this year's cohort is this: in the short term, the weak pound has proven a boost for exporting businesses but the ongoing uncertainty is a real worry.

According to our findings, 39% of business owners are anxious that reduced access to the single market could hit sales, which is the same percentage as last year. Unsurprisingly, it is the consumer sector, selling

Biggest concerns for UK business environment



its goods and services to the man on the street, that is most fearful of Brexit fallout: almost half of sector bosses put this as their greatest concern. And a quarter of respondents (26%) are worried that EU trade negotiations will go against them, our survey reveals, up from 20% last year.

> **“Some 65% of respondents are worried about a recession.”**

For many company bosses, the biggest concern in the coming year is the health of the UK economy. Some 65% are worried about a recession, a similar number to our 2016 figures. Regionally, London firms are among the least concerned about the prospect of a downturn, while the North East is the most fearful.

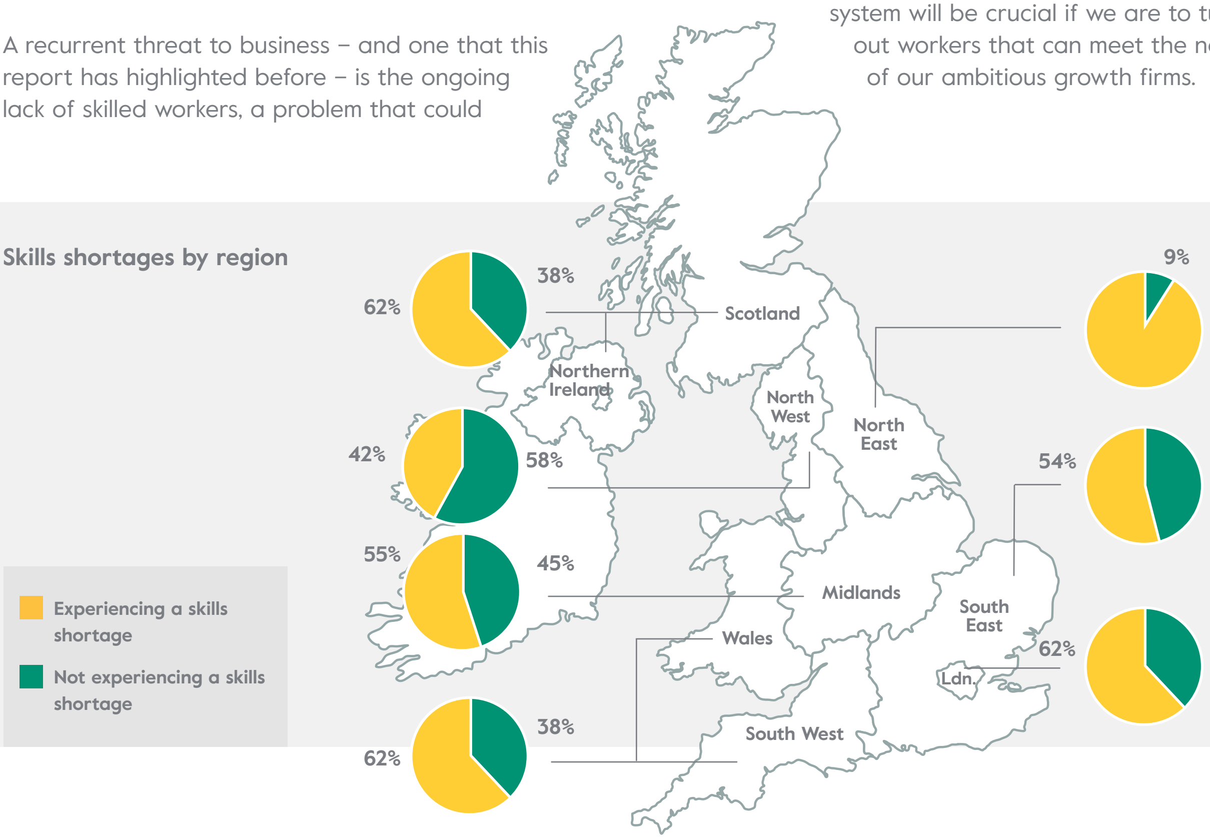
Financial services is one of the only sectors that did not rate a UK economic downturn as its top concern, reflecting the international scope of many of these firms. Consequently, financial services is also the sector most concerned with international political instability. Overall, just 15% of respondents cited international politics, such as the rise of Trump, as a business concern.

A recurrent threat to business – and one that this report has highlighted before – is the ongoing lack of skilled workers, a problem that could be intensified by the coming block on free movement of EU migrants. Some 45% of respondents say that a skills shortage is their greatest concern, and of those, the majority blame the UK education system for the problem. One hospitality firm says that the negative perception of his industry in the schools system is putting off young people. An energy entrepreneur warns that a lack of engineering skills is proving a challenge. “Written English is frequently grammatically poor, even among graduates,” comments Tristram Mayhew, founder of zip-line experience business Go Ape.

But it is the industrial and tech sectors that are really feeling the skills pinch, according to our data. Regionally, firms in the North East seem to be the most affected. Respondents in London, Scotland and the South West also report serious skills shortages.

The message to government is clear: Britain’s entrepreneurs need clarity on the terms of Brexit sooner rather than later, and reassurance that the UK economy will come through the uncertainty unscathed. Once it does, public investment in our schools system will be crucial if we are to turn out workers that can meet the needs of our ambitious growth firms.

Skills shortages by region



Culture

The UK's 5.4m small and medium sized businesses could learn much from the small cohort of fast growth firms – the likes of which are featured in this report. According to recent research by innovation charity Nesta[1], Britain's fast growth firms – or "gazelles" as they are now known – punch way above their weight in terms of productivity and job creation. These companies, which represent just 6% of the total business population, generated half of the UK's employment growth between 2002 and 2008.

85%
believe a strong company culture is essential to growth

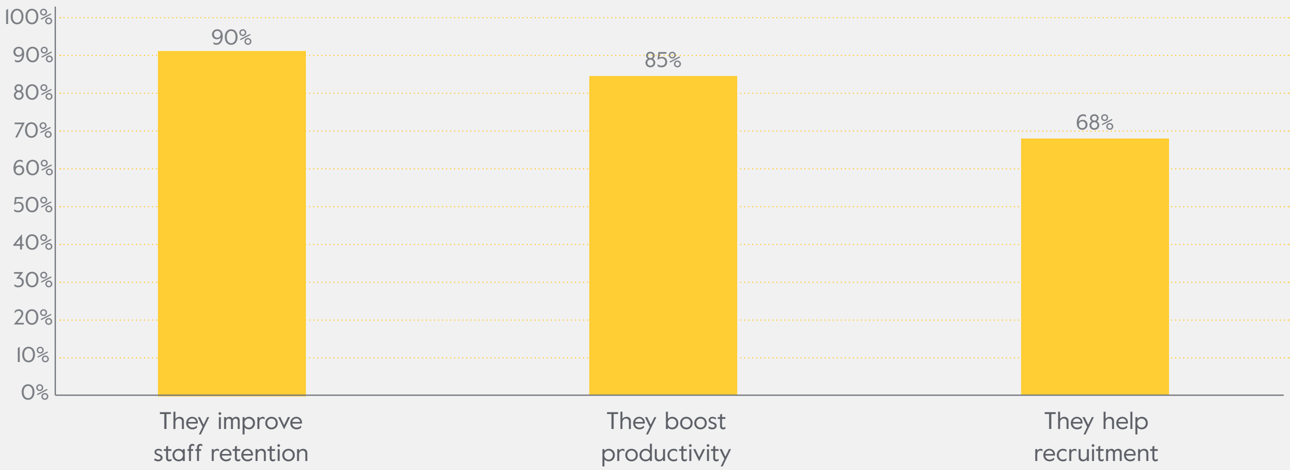
How can other firms mimic the success of these vital ventures? What are these companies doing right? An overwhelming 99% of respondents cite the importance of company culture and employee engagement. Some 85% go as far as to say that these two factors are "essential" to the success of their organisations.

"You can do good and do good business."
Sir John Timpson, Chairman and owner of Timpson

90%
believe a strong company culture improves staff retention

Researchers analysing the growth drivers behind great businesses have often overlooked company culture. Much of business value lies in intangibles but culture is perhaps the most elusive, because it concerns the feelings and motivations of its people, and how the effect of these in turn, make its customers and suppliers feel. This makes it extremely hard to measure and

Why are a strong company culture and employee engagement important to growth companies?



1 Nesta (2013), High-Growth Firms and Productivity - Evidence from the United Kingdom

qualify. In addition, culture is just one of the things that these firms do right – they are also big exporters and tend to invest in their own success. Why focus on culture and not on these other strengths? Because insights on culture could be more beneficial – and the most relevant – to other entrepreneurs. When it comes to culture, these entrepreneurs are focused on the three Fs: family, fun and flexibility.

“When it comes to culture, these entrepreneurs are focused on the three Fs: family, fun and flexibility.”

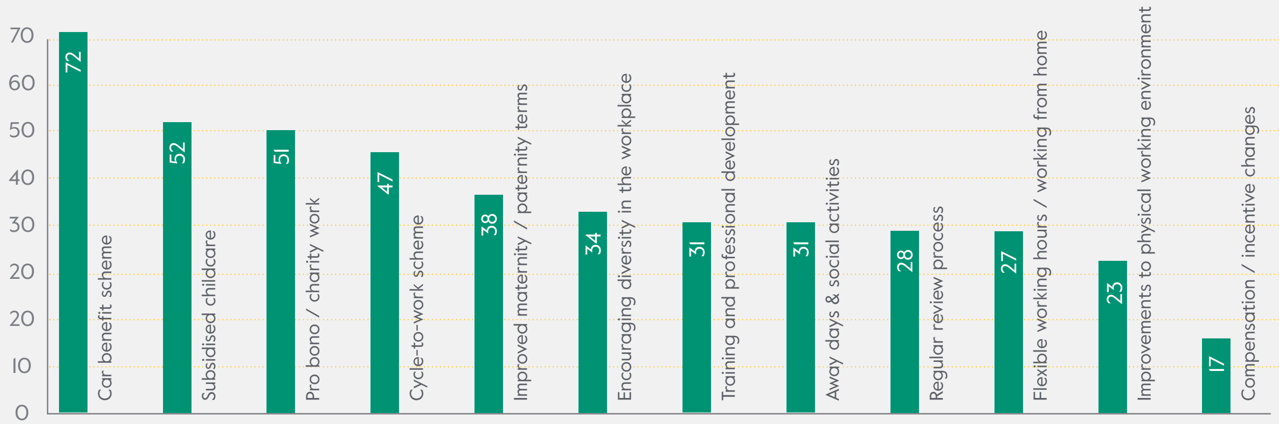
This report has tried to crack the culture conundrum by finding out what makes a great company ethos and revealing the secrets to a happy workforce. The answer isn't a ping pong table or free beer on Fridays. We found that a regular review process and a focus on training and development are seen as crucial drivers of success by fast growth firms. Regular meetings where managers can talk to staff about their progress and resolve issues are cited by 68% of business owners as key to motivating and retaining employees. Some 75% place professional development at the heart of their employee engagement strategy. Services businesses, both financial and other business services, put especially high value on the effect that company culture has on productivity, as people are the lifeblood of these organisations.

Away days and social activities boost morale at 85% of the companies surveyed. Flexible working hours and the ability to work from home are currently offered by 87%. And improved parental leave and subsidised childcare are the top two measures that business owners believe could improve staff engagement right now. Improving diversity and creating a great working environment complete the top five measures for keeping staff engaged. Interestingly, financial incentives came in at number 7 on the list.

Unemployment in the UK is at its lowest level since 1975. Yet, as highlighted earlier in this report, skills shortages remain a real issue for leaders of fast growth firms. This has made staff retention their number one priority. Some 90% of respondents believe that a strong company culture improves staff retention. There are other benefits too: 85% say that it boosts productivity, and 68% claim that it helps them to recruit great people.

Culture may be hard to define, but it is a vital part of the DNA of successful companies. It should be high on every entrepreneur's agenda.

What measures are you considering implementing to improve culture and employee engagement? (Number of respondents)



Case study
Audio Network

Music licensing firm Audio Network still acts like a start-up, according to co-founder Robert Hurst, with creativity and innovation at its heart.

"We're still the same little business," says Audio Network boss Robert Hurst. "Even 17 years after we launched we still feel like a start-up." The London-based firm owns a vast library of music, which it licenses to customers including the BBC, HBO and ASOS. Maintaining a start-up culture has helped Audio Network to become a global player in a competitive market, according to Hurst. "This is a fun, dynamic sector and, as we grow, we have to make sure the back office people don't destroy that creativity." Audio Network only employs people with a real passion for music, he says. "The company culture comes from my co-founder Andrew Sunnucks and me.

We are a music company first and foremost – creativity and innovation are part of everything we do. Most of our employees are musicians themselves, allowing them to utilise their publishing or business skills and passion for music to fully complement the talents of our composers for crafting great music." Today, Audio Network licenses more than 130,000 tracks, working with 1,000 composers. The £25m turnover business is a true growth champion, forecasting a 25% rise in revenue this year. The sales rise will come from a mixture of domestic and international growth, Hurst says. "We can now support the BBC all around the world if it is working on something urgent."

"We are a music company first and foremost – creativity and innovation are part of everything we do."

Robert Hurst, co-founder

Case study
Fentimans

At botanical brewer Fentimans, a pinch of personality and a sprinkle of dissent have helped the drinks firm thrive in a competitive industry.

Victorian botanical drinks brand Fentimans was reborn in 1995 after Eldon Robson, the great-grandson of founder Thomas Fentiman, found an old recipe for ginger beer. Robson had dreamt of bringing back the Fentimans brand since he was a small boy. “Grandfather Fentiman used to take me to the Bensham factory and I would bounce on sugar sacks and play with the ginger grinder. It’s great to be able to draw on that heritage as a business.”

Today, Fentimans’ products are a firm favourite with customers at home and abroad, and Robson is forecasting a turnover of £70m by 2020.

“By 2020, 56% of the business will be export, presently selling to 65 countries, rising to 72 by 2020.”

The business may have its roots in tradition but Robson has given it a modern twist. “We invest heavily in R&D and we’ve just brought out a range of syrups, which was quite a bold thing to do,” he says. “Right now, we’re looking at changing all our packaging. We’re becoming more contemporary and stylish.”

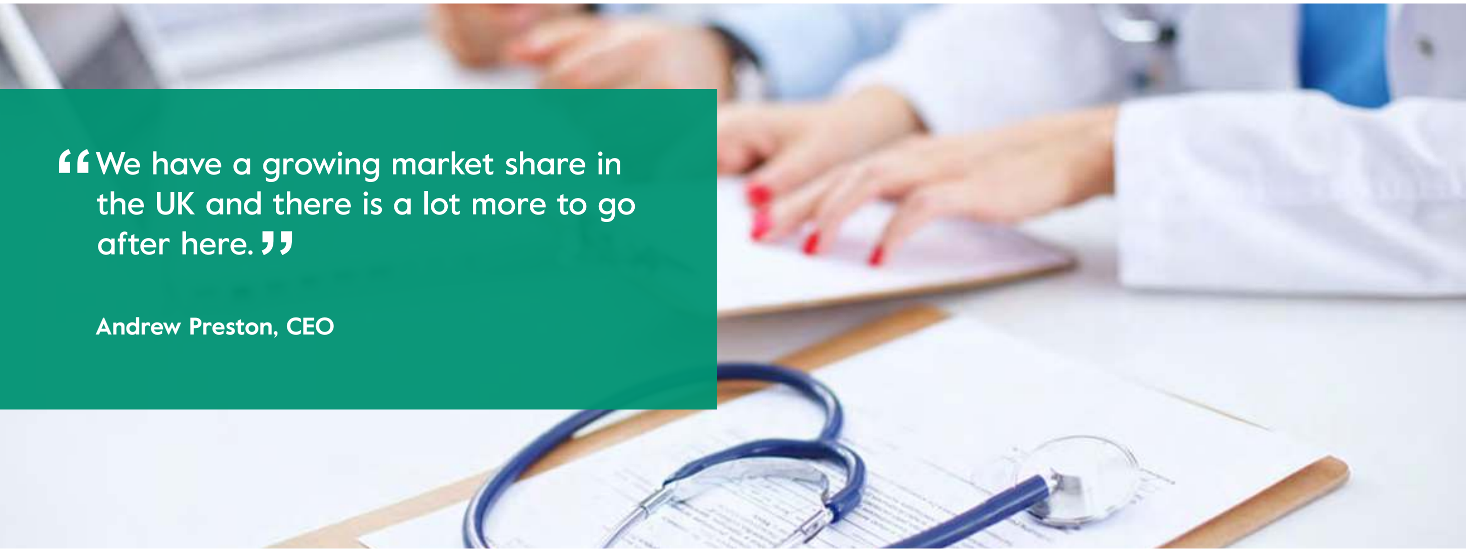
> “The main flow of the tap will be exports.”
>
> **Eldon Robson, CEO**

Case study
de Poel

Technology helps this recruitment specialist to offer its customers a top-notch service, while its standardised margins deliver savings of, on average, up to 10%. Little wonder it has so many household names on its books.

Knutsford-based recruitment outsourcing firm de Poel helps its blue chip and public sector clients to manage their temporary staffing needs. Founded in 2001, the company acts as a middle man between thousands of recruitment agencies and the end customer, ensuring a commercially fair, flat rate is charged for the provision of workers. The company claims this saves organisations, on average, up to 10% on their temporary staffing costs.

Andrew Preston, who executed a management buyout last year, now leads the business. Under his stewardship, the firm has moved towards a more diversified client base, and now turns over £775m. "We're the largest independent vendor in this industry," says Preston. "And we're still growing." The firm is forecasting significant growth each year until 2020. Unlike many of the entrepreneurs featured in this report, de Poel is focused purely on the UK market. Preston explains: "We have a growing market share in the UK and there is a lot more to go after here." The business relies on technology to give it the edge in a competitive market, providing electronic timesheets and invoicing to its customers. This also helps it keep its own staff levels lean: it employs just 150 people.



"We have a growing market share in the UK and there is a lot more to go after here."

Andrew Preston, CEO

Case study
Great Rail Journeys

Yorkshire's longstanding love affair with trains has helped Great Rail Journeys to become the UK's most popular railway tours business.

Holidaymakers seeking a first-class rail tour to some of the world's most spectacular landscapes – in destinations such as Italy, Scotland, Switzerland and the US – turn to Great Rail Journeys for a stress-free, quality experience. The business offers escorted tours to 60 countries around the world, specialising in catering to the "grey pound", or over-50s market.

The 40-year-old business has been focused on the UK consumer since inception, but last year CEO Peter Liney decided to cast his net wider. "We're now targeting customers all over the world, and we're winning lots of business in America and Australia." This diversification has helped the business counter the temporary softening of demand caused by terrorist attacks in Paris and Brussels, two key European rail hubs. Yet Great Rail Journeys still has 55,000 customers booking each year, and boasts "strong growth" forecasts for 2017, according to Liney.

The fast growing business, which has been based in York since inception, has benefited from the region's longstanding association with the rail industry.

"We're now targeting customers all over the world, and we're winning lots of business in America and Australia."

Peter Liney, CEO

Case study
Flat Iron

A cut above the rest: the fast growing steak specialist that serves up a great experience every time.

"The culture at Flat Iron is hugely important to our success," says Charlie Carroll, founder of the fast growing steak restaurant chain. "Some businesses make customers feel like they're doing them a favour by seating and serving them. We look after guests like they are old friends coming over for dinner."

Flat Iron, which launched in 2012, now has five eateries across London. The business specialises in sourcing unusual cuts of meat – such as the flat iron, which comes from the shoulder of the animal and was the inspiration for the name of the business. These cuts are much harder to butcher, but allow Flat Iron to offer a high-quality piece of meat for an affordable price.

"We want to drive an emotional response, and that takes staff who are naturally hospitable and welcoming," says Carroll.

Workers are hired "for attitude" first, he reveals, because that's the one thing you can't train people to change. "We see the culture of the business as attracting that kind of person," Carroll says. "You can't make someone a grafter; it's innate. But those people ultimately drive how busy we are and the overall success of the business." The 33-year-old entrepreneur plans to have a total of 10 restaurants within three years.

"The culture at Flat Iron is hugely important to our success."

Charlie Carroll, founder

building
successful
businesses

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