

Businesses Leading Britain 2013



Key points

- Deloitte's 1,000 BLB have provided a cornerstone for the economic turnaround growing revenues by £45 billion and employment by 200,000 over the last four years. This ambitious cohort of companies now accounts for 8.7 per cent of UK GDP.
- The hallmarks of success of these businesses point to three rules for growth: a focus on niche markets, a leader who is visionary and an export-led growth strategy.
- Government and businesses need to work together to create an environment that is conducive to success. By setting out a clear agenda both parties can provide the most appropriate and targeted financial and professional support.

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Foreword

I am delighted to introduce our latest **UK Futures** report, *Businesses Leading Britain*. This report identifies the fastest growing 1,000 UK companies with revenues between £30 million and £1 billion. Collectively, these ambitious businesses have increased revenues by £45 billion in the past four years and increased employment on average by 25 per cent – helping create a platform for the economic turnaround we are now seeing. Indeed, according to our analysis the Leading 50 businesses deliver an exceptional performance, achieving a growth rate 73 times faster than the national average, despite the economic downturn.

Businesses Leading Britain are at the core of UK growth as they are equipped with both the flexibility and long-term aspirations critical for our continued economic revival. Understanding how these 1,000 companies have achieved such an impressive performance can provide valuable insights for the wider economy. In our conversations with chief executives from across these businesses, we identified three rules for growth: operate in a niche market, have a strong visionary leader at the heart of the business and have the ability to exploit export opportunities.

Through the **UK Futures** programme Deloitte continues to provide invaluable insight to help British businesses truly harness the opportunities available to them. This report provides a strong mandate for action from government and business. By setting out a clear agenda, both parties can provide the most appropriate and targeted financial and professional support medium-sized companies need as they strive to create a new era of sustainable growth for the entire British economy.



David Sproul
Senior Partner and Chief Executive

Introduction

The UK economy has recently shown some welcome signs of life. Five years after the financial crisis, expansion and international competitiveness are the new focal points for British business. Growth and job creation in the United Kingdom are heavily reliant on the success of medium-sized businesses, a segment that accounts for just over 300,000 businesses in the United Kingdom. These businesses are very much a bellwether of the UK economy.

Indeed, Deloitte LLP research shows that the gloomy economic conditions of the past five years have not affected all medium-sized businesses – an important cohort that has been able to grow and outperform even in the most difficult economic circumstances. In which regions are these companies based? What are the secrets behind their growth? And, in what ways might government and business further strengthen their growth?

To answer these questions Deloitte has identified a cohort of 1,000 firms that have been leading the way for home-grown economic growth, with the Leading 50 businesses achieving 73 times faster growth than the national average between 2009 and 2012.

The 1,000 Businesses Leading Britain (1,000BLB) have over the last four years made tremendous strides in helping to counter recessionary trends and rebalance the UK economy. Our research shows encouraging news on three fronts:

1. The 1,000BLB make a significant contribution to the UK economy. In 2012 they had total revenues of £131 billion or 8.7 per cent of GDP. Of the £131 billion, £71 billion was made up by a mere 166 firms, those with revenues over £200 million

2. All regions across the United Kingdom host the 1,000BLB. Clusters can be seen around the major UK metropolitan areas, as shown in Figure 3. However, there are also pockets of growth elsewhere – Northern Ireland for instance hosts four of the Leading 50 businesses. Over the last four years most UK regions have seen a decline in employment, with London and the East Midlands being the only exceptions. In contrast the 1,000BLB have created employment growth in every region across the United Kingdom. The Leading 50 firms registered a 54 per cent growth in jobs, while the 1,000BLB averaged around 25 per cent

3. Much has been made of the need to rebalance the economy, to become less dependent on the financial services (FS) sector. Our research shows that consumer business (CB), business and professional services (B&PS) and manufacturing (MFG) account for nearly two in three firms in the 1,000BLB.

The hallmarks of success of these medium-sized businesses point to three rules for growth: a focus on niche markets, a leader who is visionary about the business and an export-led growth strategy.

Our work provides a strong mandate for action from government and business. We encourage government to simplify and consolidate support for medium-sized businesses and to highlight the success of these firms – to inspire a nation. Business can play its part, too, by mentoring and supporting the Chief Executive Officers (CEOs) of businesses that have the potential to lead Britain's growth.

Methodology

The database used to compile the list of the 1,000 Businesses Leading Britain (1,000BLB) was provided by BvD Mint UK.

A list of 3,825 companies was selected from the database according to the following criteria:

- operating revenues of between £30 million to £1 billion in the most recent available financial year
- a minimum of ten employees in the most recent available financial year
- not the controlled subsidiary of another company in the list.

Companies that fulfilled the following criteria were then excluded from the list if they had:

- not filed operating revenue figures for the financial year 2011-12 as of 1 August 2013

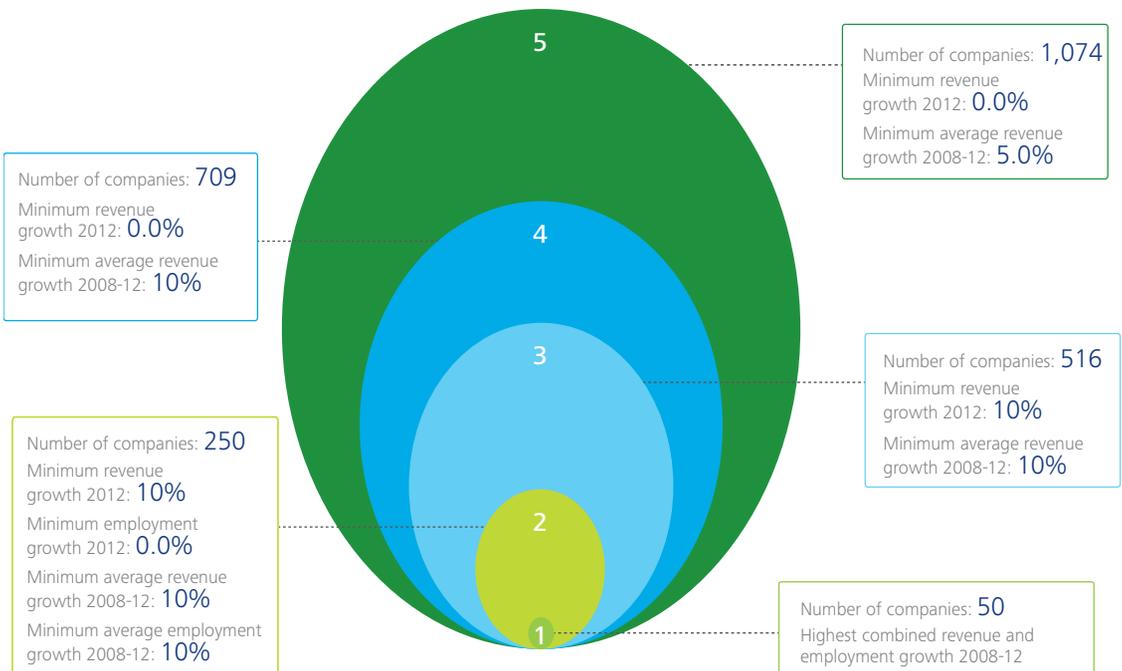
- fewer than four years of filed operating revenue data between 2008 and 2012
- registered as a charity or public sector entity
- no revenue generating operations in the United Kingdom.

The data was then 'funnelled' using increasingly stringent criteria as shown in Figure 1 above.

Notes

1. Average growth rates for employment and operating revenue during the period 2008-12 were calculated on the basis of an arithmetical average of each of the four tax years
2. Benchmark UK figures used in comparisons were sourced from the Office for National Statistics and for the Department for Business, Innovation and Skills, accurate from 28 August 2013
3. Information on whether companies are listed in the United Kingdom or overseas was drawn from BvD Mint UK, as of 1 July 2013
4. Company locations were drawn from company websites, using the head office address where possible.

Figure 1. Methodology – division criteria



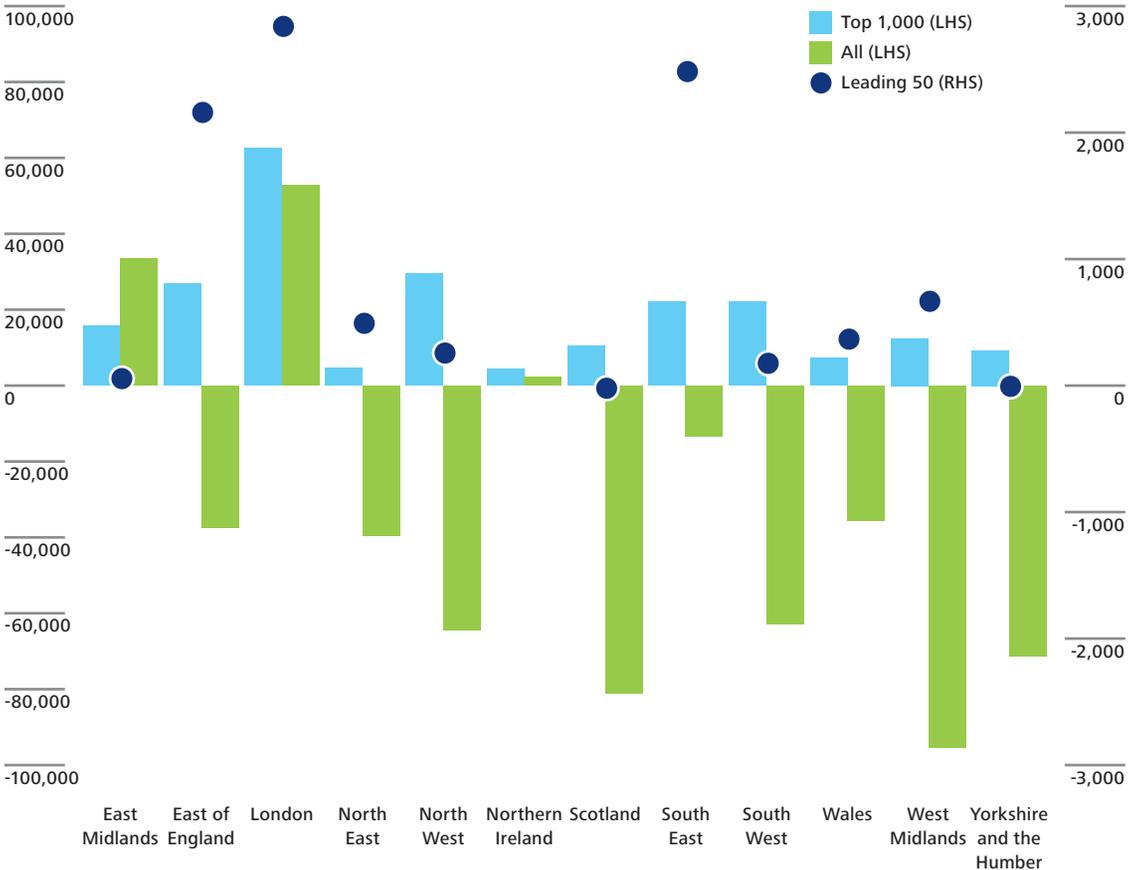
Drivers of jobs and growth

The new currency of economies across the western world is jobs and growth. Since the financial crisis government policy has focused on supporting the competitive position of businesses as a means of boosting employment. Much attention has been paid to medium-sized businesses and their ability to generate employment and create wealth. The German Mittlestand model is held up as best practice, with a significant part of the German economic success story linked to medium-sized, often family-owned businesses.

The 1,000BLB have been an engine of economic growth for the United Kingdom and illustrate best practice in how the rest of the economy could achieve high levels of growth and employment. In 2012 the 1,000BLB had total revenues of £131 billion, or 8.7 per cent of GDP. However, size does matter. A mere 166 firms in the 1,000BLB had revenues over £200 million – accounting for around £71 billion, or the equivalent of 4.7 per cent of GDP. Over the last four years 1,000BLB have increased their combined revenues by £45.5 billion.

Figure 2. Employment change per region (2008 vs. 2012)

Employment growth

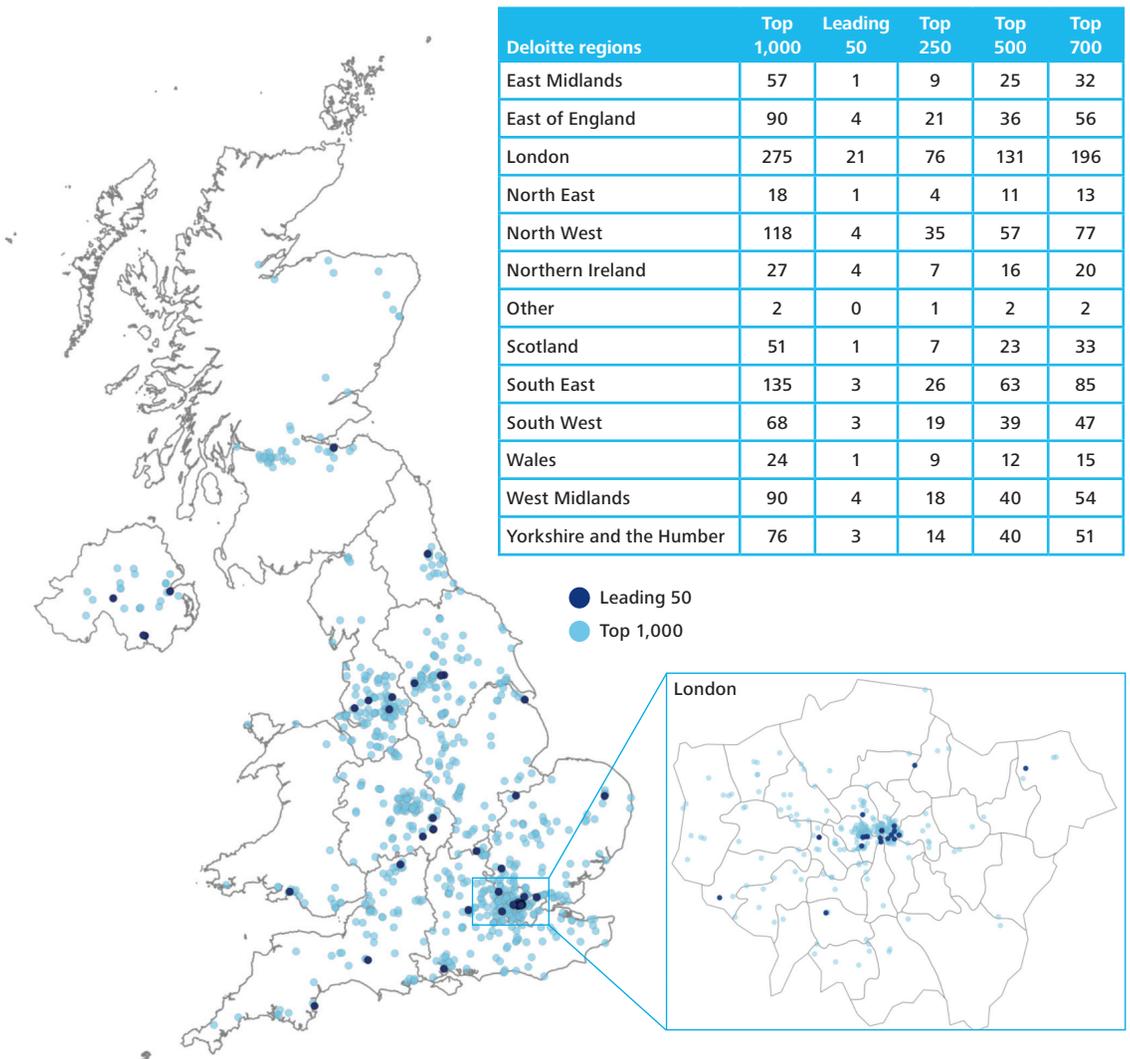


Source: Deloitte analysis, 2013

During the same period most UK regions have seen a decline in employment, with London and the East Midlands being the only exceptions. In contrast the 1,000BLB have created employment growth in every region across the United Kingdom. The Leading 50 firms registered a 54 per cent growth in jobs, with the average

for the 1,000BLB at around 25 per cent. Figure 2 highlights these trends and shows employment growth of nearly 60,000 in the 1,000BLB in London alone. The North West and the East of England both also show strong job growth, with around a 30,000 increase in the last four years among the 1,000BLB.

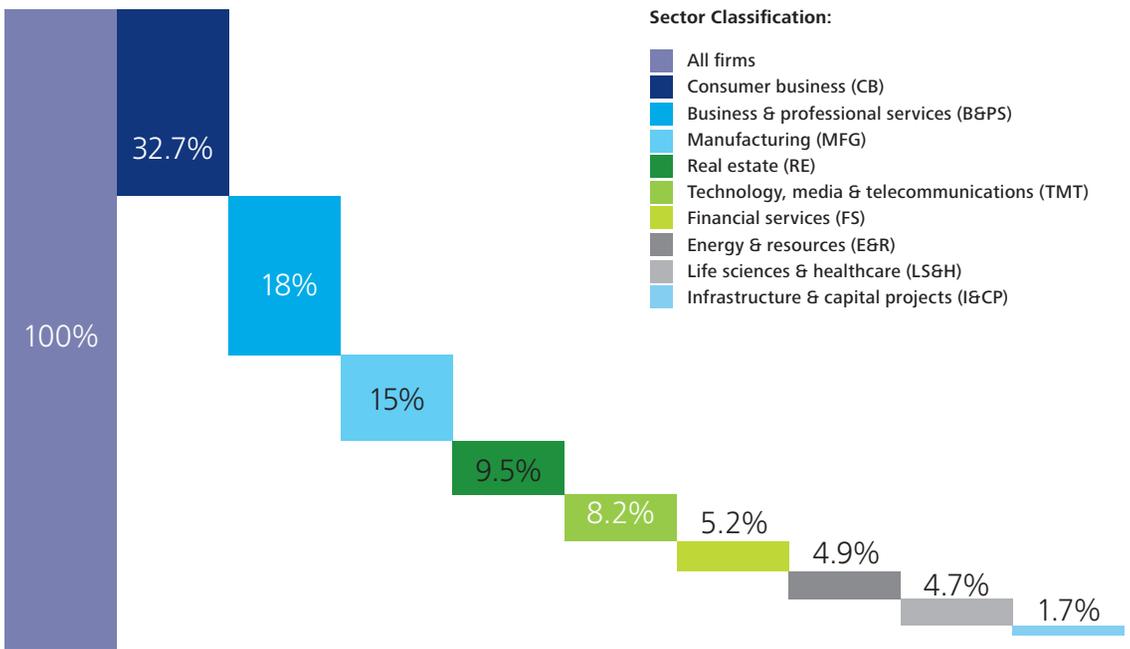
Figure 3. The United Kingdom and the 1,000BLB



The 1,000BLB firms are located across all regions in the United Kingdom. Figure 3 shows the geographical location of the headquarters of 1,000BLB firms and highlights clusters around major metropolitan areas. However, there are also pockets of growth elsewhere – Northern Ireland for instance hosts four of the Leading 50 firms. London dominates overall with 27 per cent of the 1,000BLB and 42 per cent of the Leading 50. Across the rest of the United Kingdom, the South East and North West stand out, with 135 and 118 leading firms respectively – showing no distinct North/South divide in terms of the 1,000BLB.

There are also encouraging signs from the 1,000BLB in terms of success in the rebalancing of the UK economy. Figure 4 shows the distribution of 1,000BLB across sectors. Around two-thirds of the companies identified are operating within the consumer business, business and professional services, and manufacturing sectors. These businesses, if they carve out the right niche, have the potential to export their goods and services and build an important counterweight to the financial services sector.

Figure 4. Percentage of companies 1,000BLB by sector



Source: Deloitte analysis, 2013

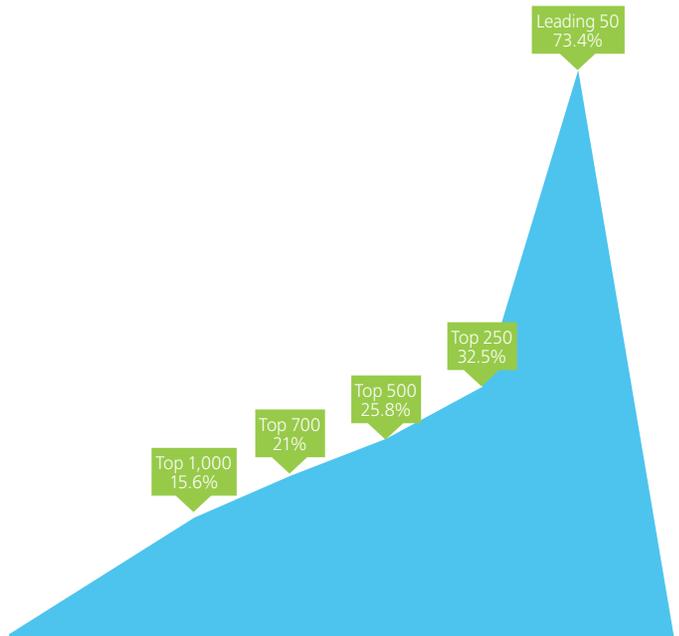
The Leading 50

The Leading 50 identified have experienced extremely rapid growth, warranting particular attention and analysis. Distilling the best practices around what makes these businesses tick could be hugely important in recreating similar levels of growth in other companies – for the 1,000BLB and beyond.

When analysing data such as that found for the 1,000BLB one would expect to see the top five or ten per cent outperform. What is striking is the pace of the growth among the Leading 50, as shown in Figure 5. The average revenue growth of the Leading 50 over the last four years has been 73 times greater than the national average. Across the rest of the 1,000BLB growth rates are reasonably homogenous – between 15 and 32 times the national average.

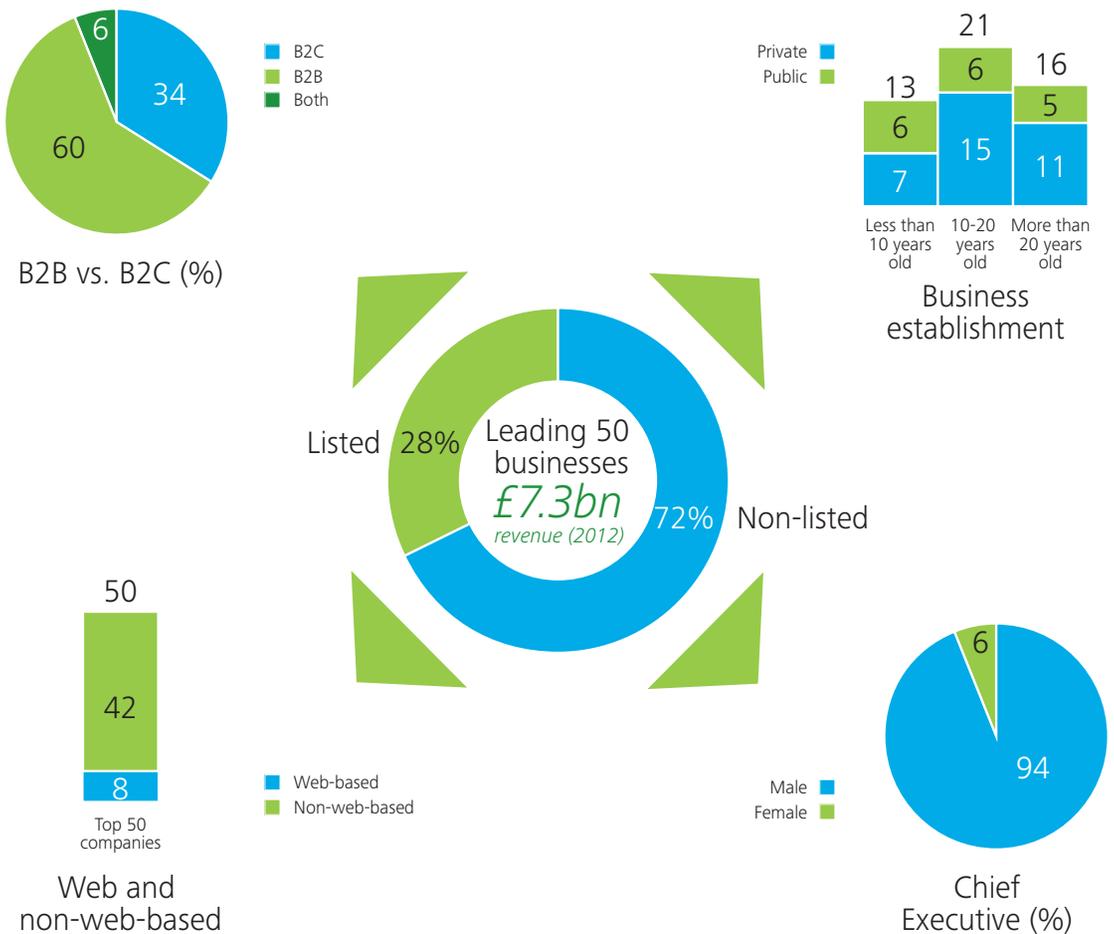
One indicator which may explain the pace of growth among the Leading 50 is the relative youth of these companies. Britain, as is the case with many European countries, has not produced global (digital) giants in the same way as the United States over the last 30 years. Think Google, Amazon, Apple and Microsoft. During this time there have been few new domestic entrants to the FTSE 100 beyond Easyjet, Vodafone and ARM Holdings. Figure 6 shows that nearly 70 per cent of the Leading 50 are less than 20 years old. While these young, vibrant businesses are role models for future success, they also unfortunately demonstrate traditional leadership trends, with just six per cent of the 50 having female CEOs.

Figure 5. Percentage revenue growth distribution 2009-12 compared to the rest of the United Kingdom



Source: Deloitte analysis, 2013

Figure 6. Overall analysis of the Leading 50



Source: Deloitte analysis, 2013

London is clearly a hotbed for the Leading 50, with 21 out of the 50 located in the capital (see Figure 3). However, as noted earlier, there are also important clusters of firms located around the country. Northern Ireland clearly stands out with four in the Leading 50, alongside the North West, the West Midlands and the East of England.

When the Leading 50 are analysed separately, the distribution by sector

differs. Nearly one in four of the Leading 50 are in the business and professional services sector. Such a strong presence in the knowledge economy demonstrates Britain's strength and depth in this area. Following closely behind are consumer business and TMT. London has become synonymous with media, creative and technology firms in recent years. Our research suggests these young saplings are branching into full-grown businesses.

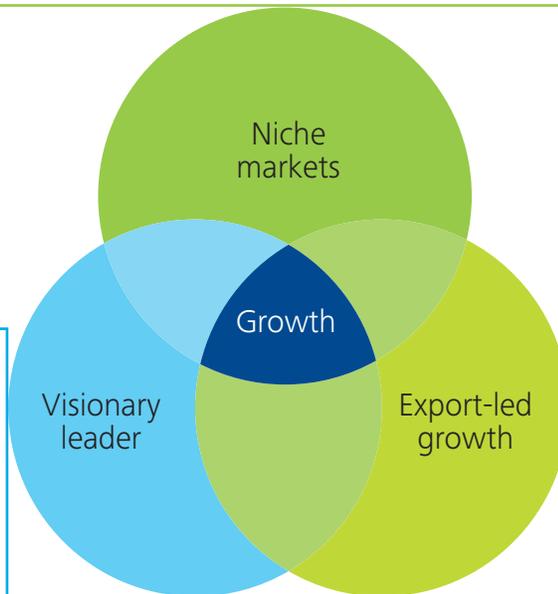
Three rules for growth

Throughout the economic downturn a common question in government circles has been “what makes businesses grow”? Understanding this has become the holy grail of economic policy. Given the bellwether status of medium-sized businesses, understanding how the 1,000BLB have achieved such impressive growth can provide valuable insights for the wider economy. Discussions with CEOs from across the 1,000BLB have identified three rules for growth.

Figure 7. Three rules for growth

Niche markets

Many of the 1,000BLB operate in the business-to-business (B2B) sector in markets that are rarely household names. Analysis of the Leading 50 shows 60 per cent are B2B companies in such niche markets. Recently, we have held discussions with CEOs from 1,000BLB firms operating in businesses such as nitrogen generation, computer security, hacking protection, adhesive tapes, and filters for the automotive and medical sectors. None is a household name, but all are hugely successful in their niche. These businesses have been able to stand out as they have capitalised on the development of intellectual property, putting them at the forefront both at home and in foreign markets.



Source: Deloitte analysis, 2013

Visionary leader

Many CEOs of Businesses Leading Britain are visionary individuals who are at the heart of the business. They do not seek the limelight. They excel at hiring and retaining people with the right skills and understand that a long-term vision needs to drive the business growth strategy. As one BLB CEO with joint headquarters in the United States, commented: “the travel is still like a holiday to me, I relish the opportunity to build an international company so much”.

Export-led growth

Being able to spot export opportunities is key to the success of the 1,000BLB. Many of their CEOs spend weeks or even months abroad seeking out the right opportunities. Medium-sized businesses have a significant role to play in helping the United Kingdom improve its export performance. Over the last decade the UK’s share of exports has fallen from 5.2 per cent to 4.0 per cent.¹ Evidence suggests that companies tend to go to mature markets such as the United States and continental Europe – as a way of ‘dipping their toe in the water’. An eye care specialist described how entering the market and establishing a manufacturing base in central Europe was the key to doubling turnover from £50 million to £100 million over a five-year period. Another BLB in the mining sector has built strong business relationships with the world’s top 10 mining companies. Based on these relationships it has now established manufacturing capabilities in India, South Africa and North America, and grown to over £700 million in revenues.

A call to action

The 1,000BLB are a credit to the UK economy. The contribution they have made during the difficult economic times of the last five years has helped to maintain a growth dynamic across the country. In addition, they provide a significant part of the answer to how Britain can grow and refocus its economy, concentrating on being more competitive rather than on crisis management.

As highlighted in this report, the 1,000BLB provide a model which can be used to restore the UK's position in the global economy, with value-adding knowledge and technology-based industries leading the way. The 'youth' of many of these businesses, especially in the Leading 50, is also encouraging as they can act as role models.

The 1,000BLB provide a strong mandate for action from government and business. By setting out a clear agenda both parties can provide the most appropriate and targeted financial and professional support.

In our view, future support for BLBs and other medium-sized companies should be broadly structured across the three themes.



Ambition and culture

The world has changed dramatically since 2008 with the pace of globalisation increasing rapidly. Many countries around the world are attempting to raise living standards through building strong dynamic economies. This means more companies from more countries are attempting to sell a wider variety of goods and services. Competition has intensified significantly and British businesses are well aware of this.

As the 1,000BLB show, there are home-grown businesses who are winning in this new environment. Government should raise the expectations of all businesses by communicating the great successes achieved by the 1,000 Businesses Leading Britain. Policymakers can stimulate growth by shaping the environment in a way that is conducive to business success. The London 2012 Olympic Games showcased the best of Britain. Indeed, our research shows that consumers in major markets such as India and China would prefer to buy British goods – largely because of the cachet of British brands.

The government can promote and support those companies showing ambition. One way would be to reserve 50 places in each New Year Honours list for leaders of small and medium-sized businesses giving greater visibility to their success stories.



Consolidate and target

Many smaller businesses struggle to navigate the 'alphabet soup' of initiatives offered by government.² Our own Entrepreneurship report asked business leaders if they were aware of government tax and lending schemes directed towards incentivising growth; 25 per cent said they were not.³

Government needs to consolidate its activities to simplify the process for those businesses that have the potential to join the companies leading Britain back towards the centre of the global economy. According to Government estimates, there are around 700 schemes and initiatives to support small and medium-sized businesses. However, few businesses are in the position to monitor so many initiatives. Equally, few will be in a position to utilise the support when required.

The Regional Growth Fund provides an example of how government support might be restructured. Funds are currently disbursed to firms in £1 million tranches to support expansion and investment. We propose consolidating assistance around key areas (financing, tax, employment and exports) to support businesses at certain stages of their development. A key challenge would be to review the best measure of a firm's development. Currently employment is used as the metric, but within our Leading 50 a business with only 52 employees had a turnover of £560 million in 2012.

Mentor and implement

In our experience of working with medium-sized businesses we understand that there is a need to build capability to facilitate growth. Many CEOs have the vision and passion to create a business, but moving from having £30 million in revenue to £200 million requires a huge management shift. No longer can one individual manage all aspects of the business. Therefore UK-based big businesses need to play a role in mentoring and guiding these smaller businesses.

Earlier in this report, we highlighted the case of a BLB which operates in the mining sector. This company skilfully built relationships with mining majors around the world and subsequently adapted their business strategy to generate more demand. Our challenge to big businesses is to do even more to support and mentor smaller businesses. They are a key part of the business 'ecosystem', and too often when they fail, they leave a gaping and expensive hole in the supply chain. For example, a drinks manufacturer which benefited greatly from growing demand in emerging markets had to halt production because a bottling supplier lacked experience and thought it was too risky to invest in the extra capacity required to respond to the increased demand. As a result, the big business took the lead in filling a potentially expensive hole in their supply chain.

At Deloitte we have established the CEO Growth Escalator which prepares CEOs from ambitious UK businesses during a two-day event. The focus of the programme is to guide and mentor CEOs on how to expand into new growth markets – both mature and developing. Above all, the event enables CEOs to network and create a community of Businesses Leading Britain.

Notes

1. "Trade and Development Report 2013 – Adjusting to the changing dynamics of the world economy", United Nations Conference on Trade and Development, September 2013. See also: http://unctad.org/en/PublicationsLibrary/tdr2013_en.pdf
2. "Boosting finance options for business", Department for Business, Innovation and Skills. HM Treasury, December 2012. See also: <https://www.gov.uk/government/policies/making-it-easier-to-set-up-and-grow-a-business--6>
3. "Entrepreneurship UK: entering a brave world", Deloitte LLP, October 2013. See also: <http://www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/Market%20insights/Entrepreneurial%20Business/uk-insights-pm-private-companies-and-entrepreneurship-uk-2012-2013.pdf>

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