Scaling up: the investor perspective

How innovative UK businesses can achieve sustainable growth

November 2017
Innovate UK drives productivity and growth by supporting businesses to realise the potential of new technologies, develop ideas and make them a commercial success.

In the summer of 2017 Innovate UK commissioned Ebiquity to ask leading UK innovative business leaders what they believe are the characteristics of fast-growth innovative UK businesses, and the challenges faced when securing investment for scaling up a business. Between June and September 2017 interviews were conducted with UK businesses and both UK and international investors. The aim of this report is to demonstrate how the relationship between investors and business aligns – and where it doesn’t.

Ebiquity is a leading independent marketing analytics specialist, see www.ebiquity.com for further information.
Contents

Foreword 4
Executive summary 5
Introduction 8
Research findings 10
  Defining and demystifying a scale-up 11
  Building blocks for success 13
  The right team for a scale-up 14
  Key first hires 15
Key challenges 17
  Securing investment 18
  International expansion 25
  Support networks and advice 26
We know that for small and medium-sized businesses, achieving rapid growth and scale is challenging and also that investors play a vital role in enabling this. In commissioning this research, we were keen to understand how innovators see the scale-up challenge. But we also wanted to better understand what investors in venture capital firms are looking for in innovative businesses and what they have to offer them.

What the report reveals is that investors often see growth very differently from businesses aiming to scale up. They think in terms of multiples while businesses often think more incrementally. Closing this gap in thinking is essential for companies seeking investment. So business leaders in innovative businesses should set their sights high and think globally; ambition is critical.

It is also illuminating to see how vital the ‘soft skills’ are for investors. They cited drive and passion as important capabilities for business leaders, alongside resilience and adaptability to withstand inevitable shocks. My background is in research science where decisions are usually made based on the data. So it is interesting to see that one of the main findings in this report is the importance investors place in people and relationships.

Despite the differences that emerge from these findings between business leaders and investors, one thing is very clear: it is vital that businesses and investors are thinking in the same way in terms of how the company can develop and grow.

Innovate UK is committed to helping companies scale up, offering them more than grant funding. Through our investor partnerships and investment showcases, we highlight potential and connect innovators and investors to access capital for growth.

Our new innovation loans will offer affordable and flexible funding to help innovative SMEs reach commercial success. And we are piloting a scale-up programme, through the Enterprise Europe Network and the ScaleUp Institute, with dedicated advisors providing expert advice to a selected group of high-performing, ambitious businesses.

This report highlights the differing perceptions of business leaders and investors. We hope it provides useful insight for companies to act on when seeking investment. It is these companies which will contribute so much to the UK’s economy in the future, creating new jobs, growth and wider benefits to our society.

**Dr Ruth McKernan CBE**
**Chief executive**
**Innovate UK**

---

**Innovate UK**

**Foreword**

Scale-ups are key to growing the UK economy
Executive summary
Executive summary

The people at the heart of a scale-up business are the secret of sustainable success

UK scale-up companies demonstrate enormous potential to contribute to the UK economy but lag behind their US counterparts on various measures of success.¹

This report gives new insights into what it takes for innovative UK companies to scale up successfully, by comparing the views of venture capital investors with those of UK scale-up company leaders and identifying where there are differences or similarities.

The results place the spotlight firmly on management teams in business, finding that strong management is considered the biggest success factor for scaling up and that business leaders consistently underestimate the value investors place on personal attributes such as chemistry, communications skills and resilience.

Key findings

- overall, sustainable growth was the most commonly identified core prerequisite for a scale-up by both businesses and investors
- a strong management team is the most critical factor for a successful scale-up
- investors look for drive, passion and resilience in the management team, as nothing ever quite goes to plan even with the best business models
- the leaders of scale-up businesses cite concerns about losing control as their main reason for avoiding equity investment
- scale-up leaders underestimate the value investors place on good communications and chemistry and on demonstrating adaptability and resilience
- international investors like UK innovative businesses because of the relatively advanced innovation ecosystem in the UK
- lack of market knowledge, access and contacts are cited as the top 3 barriers to international growth
- UK scale-ups would welcome more support and advice to help them scale up, secure finance and expand internationally

Conclusions

Innovative businesses and the venture capital firms that invest in them have told us that sustainability of growth is at the heart of scaling up.

While ambition and drive in strong management teams are needed to achieve high growth, adaptability and resilience are essential attributes of business leaders.

A strong partnership and alignment of interests between investors and business leaders, more than just capital, is needed to deliver growth and sustainable commercial success through innovation.
Scaling up - the investor perspective

The deal-breakers
Why equity investors turn down scale-up businesses?

1. Management team 97%
2. Return on investment 87%
3. Adaptability and resilience 87%
4. Market opportunity 85%
5. Communication 84%

Success factors
What businesses and investors say are the most important success factors for a scale-up

- Strong management team (89%)
- Skilled workforce (47%)
- Successful scale-up
- Strategy and vision (69%)
- Market demand (67%)
- Communication (84%)
- Adaptability and resilience (87%)
- Management team 97%
- Return on investment 87%
- Adaptability and resilience 87%
- Market opportunity 85%
- Communication 84%

The right team
What management qualities do investors look for?

- Ambition 96%
- Passion 98%
- Drive 99%
- Adaptability 96%
- Resilience 96%

Perception gaps
What businesses underestimate when looking for investment

- Communication 46%
- Adaptability and resilience 58%
- Chemistry 53%

Anatomy of a scale-up

Numbers at a glance
Introduction
Introduction

Research objectives and methodology

This research surveyed business leaders and investors in innovative firms. By listening to both, we wanted to identify not just those areas where they share views about what a scale-up is and the challenges that innovative scale-ups in particular face, but also to identify those areas where they have different views.

The research objectives were to understand:

- views on how to define a high-growth/scale-up business
- how sustainable growth that withstands shocks can be achieved over the long-term
- important building blocks for a successful scale-up
- key qualities of the management team of a successful scale-up
- hurdles to overcome when securing investment
- attitude toward international expansion: challenges/barriers to exporting globally

Independent research agency, Ebiquity, conducted qualitative and quantitative research with a total of 250 businesses and investors between June and September 2017.

The qualitative stage consisted of 20 in-depth telephone interviews to explore the barriers and challenges faced by businesses in scaling up.

The findings were then quantified in the subsequent stage of research – a quantitative survey of 105 investors and 125 businesses carried out by telephone and online.

Business interviewees taking part in the survey were carefully screened to ensure they met our criteria for a leader of a current or potential scale-up business:

- owner, founder, CEO, managing director or other C-suite
- small or medium-sized businesses (10–249 employees)
- annual growth of 10% or more over the last 3 years and future growth ambition of at least 10% annually over the next 5 years
- innovative business – developing or commercialising new ideas, products or technologies

The research sample represents a cross-section of UK businesses by region, industry sector and different stages of the scale-up journey.

The investor participants consisted of a total of 75 UK-based investors and a further 30 international investors located in Europe, North America and Asia who would consider or are currently investing in UK businesses.

All investors surveyed make equity investments in innovative UK scale-up businesses at early/late venture or growth stages of the investment cycle.

All research was carried out by Ebiquity in accordance with the Code of Conduct of the Market Research Society.

Quantitative survey: sample profile

All interviewees

- UK businesses
- UK investors
- International investors

Businesses by scale-up stage

- Early stage
- Mid stage
- Late stage
- Other

Investors by investment stage

- Seed/early stage
- Early venture
- Late venture
- Growth

Note: businesses were asked to self-classify scale-up stage
Note: each investor could select multiple stages
Research findings
If we are to assess, target and support scale-up companies in the UK, a fundamental first step is to identify who they are.

Great work has been done to try to identify scale-ups, using the OECD definition of a high-growth firm as a starting point: “Enterprises with average annualized growth in employees (or in turnover) greater than 20% a year over a three-year period, and with 10 or more employees at the beginning of the observation period.”

This is a commonly-used metric but does the focus on a specific level of growth in a set period capture sufficiently well the scale-up universe and the challenges those businesses face? Nearly two-thirds of this study’s respondents felt it does not.

Investors look for more ambitious turnover and employee metrics, though, as some pointed out, it depends on the starting point.

“That would be high growth for a large company but for a company that is worth barely a million or that has a small customer base that is a very low ambition.” UK investor

The consensus view was that a single numerical growth metric is too blunt an instrument.

“You can’t define a scale-up business simply by one metric. It has to be demonstrated they are winning more business but it doesn’t necessarily demonstrate that they’ve got the infrastructure to support it.” UK business

Overall, sustainable growth was the most commonly identified core prerequisite for a scale-up by both businesses and investors.

“A company could be achieving that growth but only by having vast amounts of new investment, doing it very inefficiently and not keeping up with its rivals.” UK investor

“You have to be able to pick up if business suddenly goes down instead of up. It’s easy to grow if the right mix is there – but you need to prepare a safety net. That should be added to the definition too.” UK business

Businesses made a case for taking into account more intangible aspects like ambition, credibility and resilience in the event of something going wrong.

“The metrics are a bit tame… it’s organisations which really have a very clear plan to become major companies in a relatively small period of time.” UK business

A ‘scale-up’ is not synonymous with a ‘high-growth’ firm
Views on OECD definition of a high-growth business

OECD definition “is woefully unambitious”.
UK investor

“High growth has to go hand in hand with the business being sustainable.”
UK business

Top five components of a scale-up definition

<table>
<thead>
<tr>
<th>% of all businesses and investors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Showing sustainable growth</strong></td>
<td>88%</td>
</tr>
<tr>
<td><strong>2. Commercialising products</strong></td>
<td>80%</td>
</tr>
<tr>
<td><strong>3. Growing revenue by at least 20% each year</strong></td>
<td>77%</td>
</tr>
<tr>
<td><strong>4. Expanding globally</strong></td>
<td>73%</td>
</tr>
<tr>
<td><strong>5. Demonstrating a proven business model</strong></td>
<td>71%</td>
</tr>
</tbody>
</table>

Investors want more ambition in the definition
64% of investors (versus 38% of businesses) said revenue should more than double each year

Q. Would you use any of the following to define a 'scale-up' business? Multiple answers. Base: n=105 investors and n=125 businesses. Source: Ebiquity
A strong management team was most often identified by both investors and businesses as very important for a company to scale up successfully.

The consensus among investors on this point was resounding.

“The team is always critical…”
UK investor

“If you’ve got a company with poor market traction and not a great product but an amazing team, you’ll probably be OK but you won’t be OK with the converse…” UK investor

Strategy and vision, access to finance, financial expertise and a willingness to take risks were other factors most often rated as very important, together with market demand for the product or service.

A strong management team was critical to a successful scale-up

“Being strategic is the key: the ability to look at the market, understand and respond combined with being extremely agile.” UK business

Businesses also ranked a skilled workforce as a particularly important factor, something which investors more often overlooked.

While neither group considered international growth as critical, half of investors and business leaders interviewed acknowledged that it was fairly or very important to a successful scale-up.

Most important factors for a successful scale-up

<table>
<thead>
<tr>
<th>Factor</th>
<th>% rating each factor as ‘very important’, ranked by investor responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong management team</td>
<td>96%</td>
</tr>
<tr>
<td>Market demand</td>
<td>67%</td>
</tr>
<tr>
<td>Strategy and vision</td>
<td>74%</td>
</tr>
<tr>
<td>Access to finance/financial expertise</td>
<td>58%</td>
</tr>
<tr>
<td>Willingness to take risks</td>
<td>45%</td>
</tr>
<tr>
<td>Skilled workforce</td>
<td>59%</td>
</tr>
<tr>
<td>International growth</td>
<td>20%</td>
</tr>
</tbody>
</table>

Q: How important is each of the following factors for a business to scale up successfully? (5-point scale)
Base: n=105 investors and n=125 businesses. Source: Ebiquity
The right team for scale up

The right stuff – investors look for drive, passion and resilience

So what makes for a strong scale-up management team?

Commercial, market and financial expertise is certainly important in the team and for some it was most crucial.

“Personality traits don’t matter so much if they know what they’re doing with the business: that’s what matters.” International investor

But, overall, more investors stressed personal qualities: drive, passion, resilience, ambition and adaptability.

“Building a company is very high risk and there is almost inevitably going to be a disaster along the way… and you want to know that that team will survive.” UK investor

“Tenacity and resilience are the two most important: the ability to just keep going.” UK investor

“We are looking for people who can continuously refine and fine-tune the business as they learn more…” UK investor

Businesses underestimated the need to demonstrate adaptability to investors. They also underestimated investors’ interest in seeing that management is willing to take risks.

“Tenacity and resilience are the two most important: the ability to just keep going.” UK investor

“Building a company is very high risk and there is almost inevitably going to be a disaster along the way… and you want to know that that team will survive.” UK investor

What management team qualities are investors looking for?

Investor responses

<table>
<thead>
<tr>
<th>Skill</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drive</td>
<td>99%</td>
</tr>
<tr>
<td>Passion</td>
<td>98%</td>
</tr>
<tr>
<td>Resilience</td>
<td>96%</td>
</tr>
<tr>
<td>Ambition</td>
<td>96%</td>
</tr>
<tr>
<td>Adaptability</td>
<td>96%</td>
</tr>
<tr>
<td>Vision</td>
<td>94%</td>
</tr>
<tr>
<td>Strategic mindset</td>
<td>94%</td>
</tr>
<tr>
<td>Confidence</td>
<td>94%</td>
</tr>
<tr>
<td>Commercial expertise</td>
<td>92%</td>
</tr>
<tr>
<td>Market / sector expertise</td>
<td>91%</td>
</tr>
<tr>
<td>Willingness to take risks</td>
<td>86%</td>
</tr>
<tr>
<td>Financial expertise</td>
<td>60%</td>
</tr>
</tbody>
</table>

Q. Thinking specifically of the management team of a scale-up, which of the following skills, capabilities and personal qualities are you looking for in an ideal investment opportunity? (investors)/do you think potential investors look for? (businesses).

Multiple answers. Base: n=105 investors

Drive, passion, resilience, ambition and adaptability are the core management team qualities looked for by investors (each mentioned by over 95% of investors). Financial expertise is relatively less important (60% of investors).

Only 78% of businesses think investors are looking for adaptability

Only 63% of businesses think investors are looking for willingness to take risks
Key first hire

Sales should be the key first hire when building a scale-up business

When asked to choose which role they thought should be put in place first when building a team to scale up the business, both investors and businesses most often picked sales.

Operations and technical were the second most often prioritised role by businesses, while investors emphasised finance.

“You need someone who knows how or where to go to get money... and you need to get out there and meet people to sell.” UK business

“Very often founders lack operational discipline and this needs to be introduced into the company. A lot of it is seat-of-the-pants in the early stages and when you get to a certain stage you need the financial discipline.” UK investor

Key first hire for scaling up

<table>
<thead>
<tr>
<th>% of all investors and businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sales</td>
</tr>
<tr>
<td>2. Technical</td>
</tr>
<tr>
<td>3. Finance</td>
</tr>
<tr>
<td>4. Operations</td>
</tr>
<tr>
<td>5. Marketing</td>
</tr>
<tr>
<td>6. HR</td>
</tr>
</tbody>
</table>

Interviewees were asked to name one discipline that should be put in place first when scaling up. Sales was the top answer for investors and businesses combined (39%).

Q. When it comes to scaling up a business, what expertise should be hired or put in place first? Single answer only. 5% said ‘don’t know’, does not add to 100% due to rounding.
Base: n=105 investors and n=125 businesses. Source: Ebiquity
How do you minimise risk around an investment decision?

“It’s all about the team. While some of that is based on gut feeling, the bulk of that comes down to tangible proof points. Although it’s not easy to run data and use financial metrics to measure people, particularly since some are coming straight out of university, there are markers I look out for. It’s about what they’ve done to date, who they’ve worked with, how they’ve overcome issues and past ventures they have bounced back from that shows their resilience and ambition to make something out of nothing. You do need good chemistry with the founders as you’ll be working with them in a long-term partnership, but it’s more about how the founders will deal with those inevitable painful experiences that come with growing a business.

The businesses that fare better in pitches are not so much the ones that sell their ideas or their products as the ones that sell their own, or their team’s, ability to adapt and bounce back. I have been developing a 20-year thesis that nothing works out from a company pitch; their products or services always end up taking a different direction. A strong team can build a company, but a weak team – even with a brilliantly compelling idea – wouldn’t be one for us to invest in.”

What are the key deal-breakers for any investment decision?

“One would be a single founder as we would question their ability to bring in a good team of people. The second if there is already conflict within the team – a difference of opinion on fundamental things like product or branding. And finally, a lack of ambition.”

Isomer Capital’s entrepreneurial approach accesses high-potential opportunities through limited partner investments in funds, company co-investments, and providing liquidity to firms and founders via secondary purchases.

Octopus Ventures seeks unusually talented teams intent on building businesses that can scale explosively to create or transform an industry.
Key challenges
Access to appropriate finance has been identified as one of the key challenges for UK scale-up businesses and, indeed, most (89%) of the UK scale-up leaders interviewed for this study rated access to finance as fairly or very important for scaling up.

However, 41% of the businesses we surveyed had not yet tried to obtain equity investment.

It appears that scale-up businesses – especially in the early stages – are avoiding seeking equity investment, mostly because they are concerned about losing control of their business or don’t want to give up a stake in it.

“Part of it is we are a 100% owned business at the moment and giving away some of the equity in exchange for revenue is a bit frightening.”

UK business

But for some 20% of businesses who hadn’t yet explored the equity investment route, it is lack of knowledge that is holding them back.

“The knowledge of what investors need and how we present our case is new to us and understanding who to approach. What format do they need, what is the process they will go through? How long does funding take because all this is opportunity cost and time investment.”

UK business

Fear of losing control stops businesses seeking equity investment

Access to appropriate finance has been identified as one of the key challenges for UK scale-up businesses and, indeed, most (89%) of the UK scale-up leaders interviewed for this study rated access to finance as fairly or very important for scaling up.

However, 41% of the businesses we surveyed had not yet tried to obtain equity investment.

It appears that scale-up businesses – especially in the early stages – are avoiding seeking equity investment, mostly because they are concerned about losing control of their business or don’t want to give up a stake in it.

“I don’t want to be accountable to an external party or person with no specific knowledge of my business and who has no emotional connection with the business...”

UK business

But for some 20% of businesses who hadn’t yet explored the equity investment route, it is lack of knowledge that is holding them back.

“The knowledge of what investors need and how we present our case is new to us and understanding who to approach. What format do they need, what is the process they will go through? How long does funding take because all this is opportunity cost and time investment.”

UK business

Fear of losing control stops businesses seeking equity investment

Access to appropriate finance has been identified as one of the key challenges for UK scale-up businesses and, indeed, most (89%) of the UK scale-up leaders interviewed for this study rated access to finance as fairly or very important for scaling up.

However, 41% of the businesses we surveyed had not yet tried to obtain equity investment.

It appears that scale-up businesses – especially in the early stages – are avoiding seeking equity investment, mostly because they are concerned about losing control of their business or don’t want to give up a stake in it.

“I don’t want to be accountable to an external party or person with no specific knowledge of my business and who has no emotional connection with the business...”

UK business

But for some 20% of businesses who hadn’t yet explored the equity investment route, it is lack of knowledge that is holding them back.

“The knowledge of what investors need and how we present our case is new to us and understanding who to approach. What format do they need, what is the process they will go through? How long does funding take because all this is opportunity cost and time investment.”

UK business

Reasons for not attempting to secure equity investment

<table>
<thead>
<tr>
<th>Reason</th>
<th>% of those businesses not yet attempting equity funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don't want to relinquish control</td>
<td>43%</td>
</tr>
<tr>
<td>Business has no need for it</td>
<td>39%</td>
</tr>
<tr>
<td>Don't want to give up a ‘slice’ of business</td>
<td>37%</td>
</tr>
<tr>
<td>Don't know how ...</td>
<td></td>
</tr>
<tr>
<td>to find investors with the right cultural fit</td>
<td>18%</td>
</tr>
<tr>
<td>to find potential investors</td>
<td>8%</td>
</tr>
<tr>
<td>the process works/how to pitch</td>
<td>4%</td>
</tr>
</tbody>
</table>

Q: Why have you not yet attempted to secure equity investment/venture capital? Multiple answers. Base: n=51 businesses who have not attempted to secure equity funding. Source: Ebiquity

Of those businesses not yet attempting to secure equity investment, 43% said it was because they did not want to lose control of their business.

In all 20% said that they either did not know how to find potential investors, or those with the right cultural fit or that they did not know how the process works.
Investor viewpoint:
Alex van Someren, Managing Partner at Amadeus Capital Partners

Key to investment decisions: the right DNA, instinct and chemistry

Which traits are necessary for a business to successfully secure investment?

“The ambition of the management team and its willingness to take risks are essential. These are in the DNA of a successful scale-up. Ultimately data can’t decide – for an investor, it comes down to taking an instinctive decision based on too little information! It’s more about a chemistry fit: that’s the business we are in, we take risks, and we expect our portfolio to be bold and follow suit.”

Why is expanding globally a key factor to scale-up success?

“International ambition is vital because the market opportunity in the UK will never be enough to build a globally competitive scale-up. How? I think businesses have to learn as they go. As an investment fund that prides itself on growing businesses in global markets, at Amadeus, we see the investor/management relationship as the best support for driving international growth.”

What do you think of the OECD’s scale-up definition? Can it be a barrier for businesses to access finance?

“The OECD definition serves a purpose but, how you define a scale-up is a matter of perspective. If you’ve got low turnover, say £100,000 per annum, 20% revenue growth may not be exciting. But if your company turns over £5 million per year, growing your revenue by 20% starts to look a lot more impressive. What matters is that the company is growing fast, and growth of things like number of customers or headcount are almost as desirable as revenue. However, the OECD definition is not a tool we use to filter companies we look at, we simply can’t afford to be that dogmatic.”

Amadeus Capital Partners is a global technology investor. Since 1997, the firm has backed more than 130 companies and raised over US$1bn for investment.
Our findings show that when UK businesses do go for equity finance, they are not fully grasping what it is that investors are looking for.

Scale-up business leaders felt that weak management, a weak business plan and poor return on investment were the biggest deal-breakers for investors.

“What you need is a solid business plan, it needs to be demonstrable where possible. Quite often the return on investment required after that investment is richer than an organisation is able to manage.” UK business

While they are right that these elements are important, UK scale-ups underestimate the value investors place on good communications, chemistry and resilience.

“It’s all about the people – if the people are good they can create something out of nothing and that’s probably the most important feature we’re looking for.” International investor

Investors set much greater store by these intangible aspects than businesses imagine partly because, far from wresting control away from an existing management team, they are more interested in seeing them stay in place and helping them do better.

“The investment manager has to be excited by the business and be able to see himself working with the management team, because it’s a long-term commitment…” UK investor

“An investor should never be just about money it should be ‘can we come on that journey with you, are there things we know, experience and relationships we have that could help?’” UK investor

Nearly three-quarters of investors said that they had turned down an investment opportunity on gut feeling.

“The gut feeling or instinct is very important. It sounds very emotional but very often it’s the culmination and the sum of a lot of knowledge, a lot of know-how, a lot of meetings and discussions.” International investor

Businesses did recognise the importance of the product/technology and market opportunity to the investment decision – a given for investors.

“If the need [market] isn’t there or your service isn’t the best it can be then that is a big challenge.” UK business

“Intellectual property (IP): we are technology-led so this is a given. It’s a hygiene factor.” UK investor

Businesses underestimate the importance the investor places on cultural fit and differing values which was a deal-breaker for 70% of investors.

“We need them to be people we can work with... if you can’t get along that’s a problem.” UK investor

A key misconception for businesses was that almost two-thirds believed that timescale to exit was a deal-breaker, whereas in reality just 28% of investors said that they had turned down an investment for that reason.
Securing investment - top ten deal-breakers

<table>
<thead>
<tr>
<th>Deal-breaker</th>
<th>Investors</th>
<th>Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak management team</td>
<td>78%</td>
<td>97%</td>
</tr>
<tr>
<td>Poor ROI/capital efficiency</td>
<td>75%</td>
<td>87%</td>
</tr>
<tr>
<td>Not adaptable/resilient</td>
<td>58%</td>
<td>87%</td>
</tr>
<tr>
<td>Limited market opportunity</td>
<td>69%</td>
<td>85%</td>
</tr>
<tr>
<td>Poor/slow communication</td>
<td>46%</td>
<td>84%</td>
</tr>
<tr>
<td>Poor product/technology</td>
<td>78%</td>
<td>73%</td>
</tr>
<tr>
<td>Lack of chemistry</td>
<td>53%</td>
<td>78%</td>
</tr>
<tr>
<td>Gut feeling</td>
<td>63%</td>
<td>74%</td>
</tr>
<tr>
<td>Not investment ready</td>
<td>71%</td>
<td>69%</td>
</tr>
<tr>
<td>Weak strategy/business plan</td>
<td>71%</td>
<td>75%</td>
</tr>
</tbody>
</table>

97% of investors have turned down an investment opportunity due to a weak management team. The importance of resilience, communication and chemistry is underestimated by businesses.

Investment deal-breakers most underestimated by businesses

Q. For which of the following reasons do you most often turn down investment opportunities with scale-up businesses? (investors)
Q. Which of the following reasons do you think cause investors to turn down investment opportunities with scale-up businesses? (businesses) Multiple answers.
Base: n=105 investors and n=125 businesses. Source: Ebiquity
In terms of advice for businesses preparing to pitch, investors were straightforward: the common refrain was to be clear, honest, realistic and well-prepared, showing not only that you know your business, but also the investor you are pitching to.

Some investors also emphasised the value of engaging early with them.

This contrasts with business fears that going to a funder early exposes the company’s weaknesses and could put an investor off for good.

“It is a risk if done too early as the funder may not come back when you are better prepared.” UK business

### Top tips for pitching to an investor

<table>
<thead>
<tr>
<th>Tip</th>
<th>Advice from Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Know your audience</td>
<td>“Know your audience – understand our strategy and interests. Look at our website, see where we are in the funding cycle and pitch accordingly.” International investor</td>
</tr>
<tr>
<td></td>
<td>“Investigate: ask other companies we have invested in, learn from others.” UK investor</td>
</tr>
<tr>
<td>2. Know your customer and market</td>
<td>“That everything you talk about to me demonstrates that you absolutely and fully understand your customers, that you live and breathe them, have a personal relationship with them and that the business hasn’t been developed in a vacuum.” UK investor</td>
</tr>
<tr>
<td>3. Be honest and realistic</td>
<td>“Be succinct, straightforward and honest about what is yet to be done.” UK investor</td>
</tr>
<tr>
<td></td>
<td>“We need to see a well thought-out business plan with realistic and achievable forecasts.” UK investor</td>
</tr>
<tr>
<td>4. Engage early</td>
<td>“It’s good to start building a relationship before needing to accelerate, so investors get to know the business better.” International investor</td>
</tr>
<tr>
<td></td>
<td>“Come and meet us early in terms of engagement, not just at the point where they are looking for money.” UK investor</td>
</tr>
<tr>
<td>5. Show resilience</td>
<td>“To show that they have the capacity to maintain flexibility in the case of future unknowns.” UK investor</td>
</tr>
<tr>
<td></td>
<td>“Be transparent and highlight failures as well as successes: ‘learn to fail.’” UK investor</td>
</tr>
</tbody>
</table>

Q: What one piece of advice would you give a scale-up business about pitching to you? Open question
Base: n=105 investors. Source: Ebiquity
International investors look favourably on UK scale-ups

The international investors taking part in the survey all currently invest in the UK or were open to doing so. Nearly half said they find UK scale-up businesses more appealing than those in other countries.

Two main reasons were given for this:
- the relatively advanced innovation ecosystem in the UK
- a perceived superior management team quality

“It’s a very advanced eco-system and as a UK-based company the language is English and that’s certainly helpful. It is the international language.” International investor

“Language proficiency, good business environment, logical tax and legal regulations and rules.” International investor

“They are demonstrating more marketing capacity and are good negotiators.” International investor

“There is less exit risk and less management team risk.” International investor

“It’s a melting pot of people from all over the world so you will find access to good talent.” International investor

“In the UK you see a lot of technology which is attractive to our company,” International investor

Just 3 international investors (10%) said that the UK was less attractive than other markets. A variety of reasons were mentioned including Brexit and a perception that the UK (and Europe) is not as business-friendly as the US.

“We are less comfortable with UK regulations, tax issues and tend not to go where there is red tape.” International investor

“In the UK and Europe in general there is not the full access to entrepreneurial skills in terms of legal advice, accountants and stages for capital access that we have in the US.” International investor

Attractiveness of UK scale-ups

47% of the 30 international investors we surveyed said that UK scale-ups are more attractive than those in other countries.

Q: How attractive are UK scale-ups as investment opportunities?
Base: n=30 international investors. Source: Ebiquity
Is the UK attractive to international investors?

“The UK remains an attractive market for international investors as it is a hotbed for tech start-ups. It has great depth and diversity – be that fintech, edtech or medtech, and everything in between. There are investors coming into the UK from Asia right now, looking for proprietary technology in artificial intelligence (AI), virtual reality (VR), augmented reality (AR), data analytics and machine learning – as the UK is great at developing and applying these technologies to solve real-world problems.”

Is the UK successful in scaling businesses?

“UK venture capitalists are adept at scaling businesses, but early-stage funding is a challenge when investors are more cautious than a couple of years ago.

As an international investor, my view on Brexit is that it will encourage scale-ups to think outside the box and be more ambitious by looking further afield. China, for instance, is the world’s biggest retail e-commerce market, so if consumer-focused businesses build this market into strategic plans from day one, the potential for scale is huge.

To build unicorns (start-ups valued at over US$1bn) we need companies that scale up internationally, not just in Europe.”

What role do networks play in supporting UK businesses overseas?

“We work with large corporates in Asia like insurance companies, banks and car manufacturers. They have distributors all over Asia, and channels into multiple suppliers, as well as millions of customers that scale-ups could tap into if they built and leveraged relationships with these businesses.

In terms of the government’s role in making introductions overseas, trade and investment bodies like the UK’s Department for International Trade are essential both here and in-market. They have developed robust local support and connections, critical to success overseas.”

Nest builds platforms to support the entrepreneurial journey through funding, innovation programmes and access to transformational resources.
International expansion

Market access and knowledge are the biggest barriers to pursuing international growth

Tapping into international growth is one of the most daunting hurdles for many companies seeking to scale up fast. Over 90% of the UK scale-up businesses surveyed were either already exporting or planning to within the next 12 months, with the US being the leading destination.

Many difficulties were cited by the interviewees, including funding, regulatory and fiscal issues, culture, language and Brexit.

But the main barriers are simply difficulties in accessing the market, lack of knowledge of the market and not knowing the right people.

“…expensive and risky…” UK business

“You have to know you will need to spend 5 years drinking coffee every morning with the guys you want to do business with.” UK business

Investors, from their perspective, also see a lack of the right expertise within the business holding scale-ups back and point out that this is where they can add value.

“We see part of our role to help businesses expand internationally.” UK investor

Top ten barriers to international expansion

Market access, knowing the right people and market knowledge are the top barriers to international expansion cited by businesses.

Q. In your experience what are the main barriers or challenges to UK businesses in exporting internationally? (investors)

Q. In your experience are any of the following main barriers or challenges to exporting internationally? (businesses)

Multiple answers. Base: n=105 investors and n=115 businesses who currently or intend to export internationally. Source: Ebiquity
The scale-up businesses surveyed said they could use help scaling up both internationally (61%) and in the UK (53%). Almost half (46%) would like support in securing investment.

“When an SME is growing and scaling up there is so much you need to know and find out and research and not enough budget or specially trained staff to do that. It would be so good to have a hub or a one-stop-shop to find all this stuff out.” UK business

Leaders of scale-up businesses were most likely to have accessed government agencies or support networks for advice on expanding internationally.

Interviewees cited help from the Department of International Trade, local chambers of commerce and Innovate UK as among the resources available to them for international expansion.

“A recent Innovate UK investment mission to the US was excellent: the costs were subsidised, which helps. But the main benefit was that Innovate UK has the credibility to open doors to relevant companies and investors.” UK business

Room for more support on key scale-up challenges

Access to government support networks

<table>
<thead>
<tr>
<th>Area</th>
<th>Have accessed government agencies or support networks</th>
<th>Would find this support useful</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exporting/expanding internationally</td>
<td>62%</td>
<td>61%</td>
</tr>
<tr>
<td>Scaling up your business in the UK</td>
<td>50%</td>
<td>53%</td>
</tr>
<tr>
<td>Securing investment</td>
<td>36%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Q: Have you accessed any UK government agencies or support networks to help with any of the following areas? Multiple answers
Q: In which of the following areas would you find it most useful to receive help? Multiple answers
Base: n=125 businesses. Source Ebiquity
References

3. Picture courtesy of Isomer Capital
5. Picture courtesy of Amadeus Capital Partners
6. Picture courtesy of Nest VC
Innovate UK drives productivity and growth by supporting businesses to realise the potential of new technologies, develop ideas and make them a commercial success.

Innovate UK is the trading name of the Technology Strategy Board, which is an executive non-departmental public body sponsored by the Department for Business, Energy and Industrial Strategy and incorporated by Royal Charter in England and Wales with company number RC000818.

Registered office: Polaris House, North Star Avenue, Swindon SN2 1FL

**Telephone:** 01793 361000

**Email:** support@innovateuk.gov.uk

www.innovateuk.gov.uk

Follow us

© Technology Strategy Board November 2017

17.3215.102