

A Fast Track Decade:

Analysing 10 years of high performance



Foreword

Even against an ever-growing gauntlet of challenges, obstacles and threats, growth is on the agenda for the country's small and medium sized enterprises. But growth isn't always easy. Particularly for the M of SMEs, the medium enterprises. Breaking out of the small business infrastructure and mindset is a real challenge and achieving sustainable growth can be very hard to do.

In this report, we examine the fortunes and performance of the UK's fastest growing companies since 2001, to understand what constitutes long-term success in today's complex economic environment.

At SAP, when it comes to the small and medium enterprise, we believe that operational complexity should never stand in the way of growth. Our approach is that by thinking bigger, SMEs can grow faster and more sustainably – bringing in the processes and structure they need to make that leap faster and with less disruption.

In today's world, growth takes more than just ambition. We give SMEs everything that they need to grow intelligently in three key ways:

1. We help smaller businesses think big, providing specialist advice grounded in the experience of having tackled these problems time and time again
2. We help SMEs make better decisions faster, whoever and wherever they are with grown-up solutions at a scaled down cost
3. Every SME is different, which is why we offer a flexible way of taking the complexity out of a business

John Antunes *Director of SME and Channels, SAP UK and Ireland*



Executive summary

Since 1996, the Times Fast track 100 has published an annual supplement that focuses on small and medium sized businesses that have excelled in their first phase of commercial growth. All businesses featured in the Fast Track have experienced rapid growth and also demonstrate high levels of competency in their specific market sectors or professional disciplines.

Using this sample as the basis for further analysis, SAP commissioned a review of Fast Track company performance over the past 10 years to answer two questions: What happens to really successful start-ups over time, and what makes already successful businesses exceptional. In essence what makes the best of the best?

The research required that all businesses noted in the Fast Track 100 from 2000 – 2009 were investigated against publicly available financial information from 2010/11 to evaluate their growth history. Some 750 records have been tracked to deliver a unique insight into mid-size Britain's corporate A-List. From this starting point, the top 20 businesses (by growth to 2010/11) in each year were looked at in detail to evaluate how well they demonstrated excellence against a set of company attributes, such as innovation, management and flexibility.

Key Stats

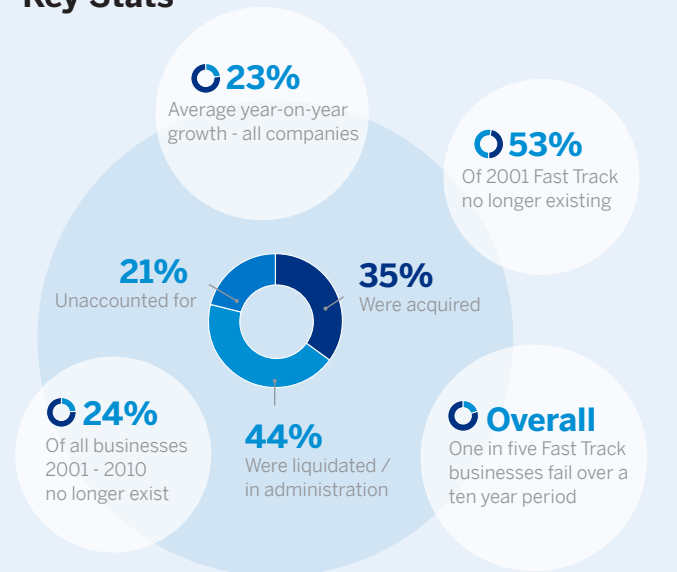


Fig 1:Key Statistics

Research methodology

The research was conducted online in May and June 2010, among IT decision makers in companies of 50 employees or more. Respondents were screened for budget and strategy visibility, and those with system-specific or administrative roles were excluded.

Interviews were conducted in the UK (200 respondents), and the United States (302 respondents.) The survey was conducted by Loudhouse Research, an independent consultancy headquartered in the UK.

Where are they now?

1 in 4 of the business from the past 10 years Fast Track 100 no longer exists
Of those, 35% have been acquired and 44% have been liquidated or are in administration

Only 47% of the 100 businesses in the 2000-2001 Fast Track are still in existence

Overall, 1 in 5 businesses fail over ten years

The average annual growth of Fast Track 100 businesses over time is 23%

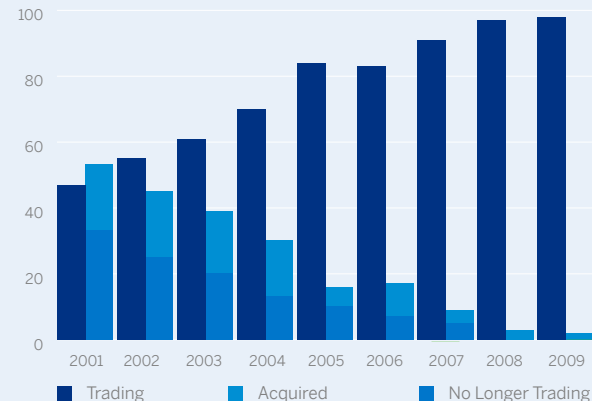
Trends over time – performance pressures

- Average growth rate of businesses from 2001-1005 is 29.2%
- Average growth rate of businesses from 2006 to date is 25.5%
- Typical growth rates of businesses over time faces downward pressure.
High growth companies are growing slower

Sector Trends

- Whilst seven manufacturing businesses were in the 2000-2001 Fast Track, 2008 saw only two, with zero the following year
- 22 IT / Telco businesses featured in the 2000-2001 entries, whilst the highest presence since 2005 has been only four entries
- Retail has endured, helped by online retailers with 13 retailers in 2000/2001 and 21 retailers in 2009/2010. Retail peaked in 2005 with 26 (over 1 in 4) entries
- Financial services entries peaked in 2007 with 15, down to 6 in 2009/10
- Mirroring the wider economic picture, sectors such as engineering, distribution and building / property have all struggled to make the Fast Track post 2007

A nation of recruiters



In 2009/10 one in five of the Fast Track 100 were recruitment businesses, significantly skewing this sectors' presence against its contribution to the general SME landscape overall. However, this recruitment 'boom' underlines some of the attributes that enable businesses to 'think bigger and grow faster' as SMEs in the UK today. Recruitment businesses are:

- Reliant on low infrastructure needs
- Employers of high levels of flexible 'knowledge workers'
- Distinguished by Industry specialism's that can adapt to changing sector needs
- Able Benefit from employment peaks
- Able to respond to key outsourcing trends
- Able to scale up and down very quickly
- Owners of 'virtual' contact networks that are easily transferable

The macro and the micro trends

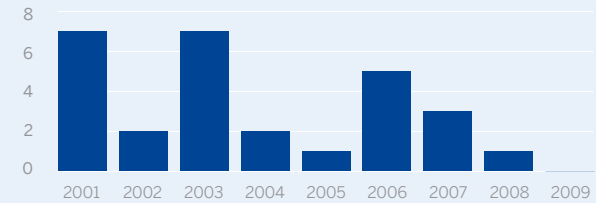
Sector shifts in high performing businesses over time can be justified and explained by macro-economic changes in the UK, but that is not the whole picture. Whilst the presence of manufacturing businesses over the past 10 years as 'high performers' has diminished as the sector overall has struggled, other boom sectors such as technology have equally struggled to maintain a presence in the premier league.

The retail sector, despite struggling in a post-recession economy since 2008, has been an enduring element of what constitutes a high growth business in the UK SME space. Whilst very small businesses and the larger high street brands are exposed to the perils of consumer confidence, it would appear that high growth mid-market businesses can exercise flexibility through independence whilst also having a stability that is absent from many retailers at the 'very small' end of the market.

The past ten years have been defined by two significant commercial peaks and subsequent troughs, the more recent (2008) being of historical proportions. It is interesting to see the way this affects the shape of high growth businesses over time. The tech boom of the late 1990's and early 2000s, epitomised by the dot com explosion and the widespread adoption of mobile telephony across the UK saw many businesses seizing growth opportunities in technology. Moreover, the credit boom of the mid 2000s, which fuelled finance and property bubbles until the collapse of 2007/8, saw the Fast Track littered with property, building and finance businesses during that time. Retail also performed very strongly as credit flows continued, uninterrupted.

However, high growth businesses are not solely the product of the sectors they represent. In order to understand the attributes that drive highly successful businesses, a more detailed analysis was undertaken.

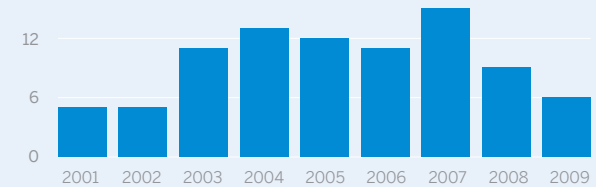
Manufacturing



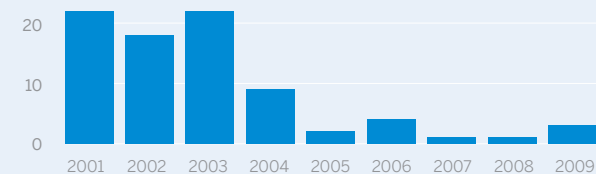
Retail



Financial



IT



High Growth Attributes

The 20 highest performing businesses from each year of the fast track (based on performance at the time of inclusion, to date) were looked at in detail to ascertain what characteristics of their businesses prevailed. They were then grouped under five key heading; Innovation, Niche, Management, Timing, Flexibility and assigned a series of *scores. At an aggregate level, these attributes were then evaluated at three key phases of the past 10 years. It is important to understand that all the attributes discussed are present to a high degree amongst high performing businesses, but there are dynamic changes.

As shown in the chart, some notable patterns appear. For example, in the economic peak of 2006, companies with 'Timing' and 'Management' strengths prevail, whilst in the post-recession period, innovation and market niches are more likely characteristics of high growth businesses. Whilst these should be seen as more subtle trends than 'tectonic' changes, it does show that the nature of a business is a factor in how it performs. Most important, perhaps, is the enduring presence of flexibility as a company attribute that is consistently present in high growth business over time.

*Methodology

Analysis of TFT100 business attributes was undertaken by Loudhouse research in June 2011. The research took the top 20 performing businesses for each of the past 10 years of the TFT 100 and established key attributes present in each business year:

- Management (strength of management)
- Innovation (Innovative product / solution / business model)
- Niche (occupying market niche)
- Timing (Timely arrival to market / hot sector / new industry)
- Flexibility (of structure / product or services / workforce)

Each of these attributes is assigned a score against a set of semantic differential statements to create a scorecard for each business. At an aggregate level, each year shows which attributes are more/ less prevalent over time. For the research report the years 2000-2001, 2005-2006, 2009-2010 were selected as start, mid-point and end years in the decade

In summary

Flexibility is a route to high growth that, particularly in a challenging economic climate, gives SMBs the chance to express an innate strength; being adaptable and agile in response to change. The ability to be flexible manifests in many different ways and is not simply about being 'light' on infrastructure. Whilst service sector businesses may not suffer the 'bulk' of manufacturers or logistics companies, at an industry level flexibility is a relative term.

Funding and the nature of SMB ownership are also critical components of commercial success. Sufficient credit lines to enable high growth are, of course, essential. However, too much leverage has caused the demise of many SMBs that experience pockets of unsustainable growth in the market. The past few years have seen a marked drop in the numbers of companies looking to access particularly debt-based finance through banks.

The *COGS study shows that only 15% of the growth oriented entrepreneurial sector are looking for finance at the moment pointing to a slump in demand for growth finance. Yet entrepreneurs who have managed their debt carefully have come through the downturn in a stronger position: rejection rates for accessing finance are lower than average and they do not see access to finance as a barrier to growth.

There are a number of trends addressing infrastructure that underline the thirst for flexible business models from SMBs.



Workforce Flexibility

Staff costs are often an organisations biggest investment and the ability to hire employees and enhance employee productivity are key to maximising a return of investment from an employee base. Flexible working models can prove attractive to employees, as well as offering choice regarding employee benefits and perks. For the employer, the ability to employ on contracts and using temporary resources help to mitigate risk in overheads and allow for flexible resource planning.

Technology Services

The shift in how companies use technology in 2011 is summarised by one word: cloud. Whilst it is a strategic decision for larger organisations to relinquish control of IT estates to service-based IT providers, the picture is very different for SMBs. The opportunity to 'pay-as-you-go' with IT and minimize capital outlay on technology infrastructure removes a major headache for SMBs. The ability to have IT delivered as a service also reduces a reliance on highly skilled IT professionals on site.

Supple Infrastructure

High growth businesses seek to avoid bulk at all costs. Physical infrastructure can be made supple through informed decision on contractual agreements surrounding real estate, outsourcing of non-core operational skills that support the business and flexible agreements with suppliers and service providers to ensure that operational costs are both manageable and scalable.

** Delta Economics 2011 Challenges and Opportunities for Growth and Sustainability*
<http://www.deltaeconomics.com/COGS/>

