

## Are high growth small businesses getting the support they need?

Britain is facing two major economic challenges: the productivity puzzle, and Brexit.

The UK's productivity has stalled for over a decade now, with scant sign of recovery. Meanwhile, Brexit puts the nation in a position of pronounced economic uncertainty.

It's clear that there are no easy solutions. But part of the answer could lie in exploring high growth small businesses (HGSBs) – an under-reported but highly valuable segment of the UK economy.

HGSBs significantly punch above their weight in economic contribution. Despite comprising only 2.9% of registered businesses, HGSBs were responsible for £113 billion in Gross Value Added (GVA) in 2016/17 – almost 8% of total economy-wide GVA.

The UK has always been viewed as a favourable environment for entrepreneurs, small companies and innovators. The question is – as the nation grapples with these major economic challenges, could more be done to support this special segment of our economy?

That's the question that underpins a recent report from Octopus Group, to which we contributed analysis on just why HGSBs are so special.

### What is a high growth small business?

High growth small businesses are those with turnover between £1 million and £20 million who have enjoyed turnover growth of 20% or more on average over three years. New firms less than three years old that have already hit these turnover thresholds are also included in the definition.

Intuitively, it's reasonable to assume HGSBs would predominantly feature in high-profile sectors like finance, tech, and pharmaceuticals. Our analysis showed that the UK is replete with HGSBs in these key sectors.

However, although HGSBs are the wellsprings of innovation you might expect, the top three sectors for HGSB presence in the UK are actually construction (20.2% of all HGSBs), wholesale and retail (18.8%), and administrative and support services (12%).

### Why are HGSBs so special?

High growth small businesses are unique in the British business landscape. Viewed from the perspective of two hot button policy issues – the productivity puzzle and the 'levelling up' debate – these special characteristics demand closer attention.

## The productivity puzzle

HGSBs have been the engine of recent business growth. High growth small businesses are 24% more productive than their slower-growing counterparts when we define productivity as turnover per worker. If we look at GVA per worker, the difference is even bigger: HGSBs are 41% more productive.

HGSBs accounted for 84% of the net employment growth between 2015/16 and 2016/17, employing an extra 1.9 million workers in the period.

## Levelling up

A related policy concern is the regional imbalance in the UK economy. The Johnson government has alighted on the term ‘levelling up’ to describe efforts to boost the economy outside of London and the South East.

HGSBs could be a key plank in these efforts. They make up a bigger share of business activity outside London – accounting for 7% of GVA in the capital, but between 8 and 12% of GVA in other regions.

In short, HGSBs buck national trends – contributing more in productivity than their peers, spread relatively evenly across the country – with benefits to the wider economy that more than belies their size.

## What support do they need?

HGSBs are not like other small businesses. Their needs are unique. Their problems are their own. And the solutions must be tailored to fit.

The potential for reward in supporting this small but mighty sector is high and concentrated in areas of acute importance for the nation.

The wider Octopus report – drawing not only on Frontier’s analysis but also evidence from a survey and case studies – found some areas of policy worth reviewing. Over a third of the HGSBs surveyed cited business rates as the area of the tax system in need of most urgent reform. Elsewhere in the report, HGSBs complain of the bureaucracy required to obtain what relief there is, representing a significant drain on resources.

But simply tweaking the tax system may not be enough. The full Octopus report examines the problems facing HGSBs – and potential policy solutions – from a number of angles, including premises, talent, funding, and Brexit.

To read the full Octopus High Growth Small Business Report 2019 – including our complete analysis of HGSB characteristics – visit [https://octopusgroup.com/wp-content/uploads/sites/2/2020/02/Octopus\\_HGSB-Report\\_2019\\_FINAL.pdf](https://octopusgroup.com/wp-content/uploads/sites/2/2020/02/Octopus_HGSB-Report_2019_FINAL.pdf)

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