Will you overlook a fast-growth opportunity, or oversee it?

As the UK's cohort of fast-growth companies emerge from the pandemic, this report explores attitudes to post-pandemic recovery, along with the challenges and opportunities in growing their business.

The better the question. The better the answer. The better the world works.

Building a better working world

In brief

The UK's cohort of fast-growth companies is vibrant, dynamic, innovative and inventive. As they emerge from the pandemic, fast-growth founders are prioritising expansion and are hungry to scale up, but there are challenges ahead that they and wider stakeholders need to address.

EY's survey of fast-growth companies was conducted in May 2021. It collected insights from 505 founders and leaders of companies in the UK. It asked about attitudes to post-pandemic recovery, challenges and opportunities in growing their businesses and the role of large corporates in their success.

Fast-growth companies are defined using eight criteria or triggers. These are: raising equity investment; attending an accelerator; undergoing a management buy-out or buy-in; receiving a large innovation grant; appearing on a high-growth list; spinning out of an academic institution; or scaling turnover or headcount by 10% or 20% each year over a three-year period.

78%
of fast-growth companies grew revenue during the pandemic

65%
identify that funding is the biggest constraint to growth

84%
of founders are optimistic about their growth prospects in the year ahead

31%
of fast-growth companies struggle to agree terms for working with large corporates

12%
believe their business is currently in a good position to exit

53%
of companies are planning to expand operations overseas in the next year

Contents

Strong performance during the pandemic sets up a bright future

Companies need to capitalise on recent success to accelerate their growth

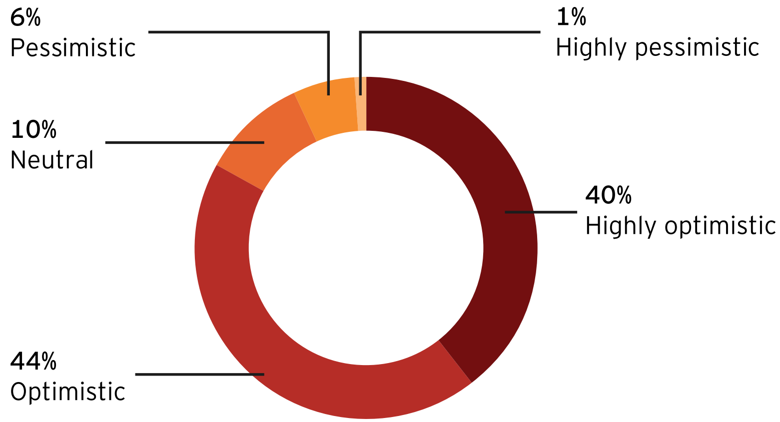
Fast-growth companies are emerging from the pandemic in a position of strength. They now have the opportunity to push on and drive their growth agendas. A total of 78% of fast-growth companies grew revenues during the pandemic and 22% grew revenues by more than 100%. During the pandemic, not all sectors fared equally with SaaS and Fintech seeing the highest growth, with 91% of companies experiencing upside to revenue and 28% upside of over 100%. The success of these sectors was driven by the rapid adoption of digital services by consumers and businesses as a result of the lockdowns and people working from home.

This success positions fast-growth companies to take advantage of the post-pandemic rebound. Levels of optimism are high, with 84% of respondents feeling positive about their company's growth prospects over the next 12 months. This confidence reflects both their digital DNA, which means not having legacies that might hold back more established companies and their agility to pivot to the new normal. Exploiting these advantages will enable them to grow market share.

Optimistic prospects for revenue growth

How do you feel about the revenue prospects of your business over the next 12 months?

% agree*



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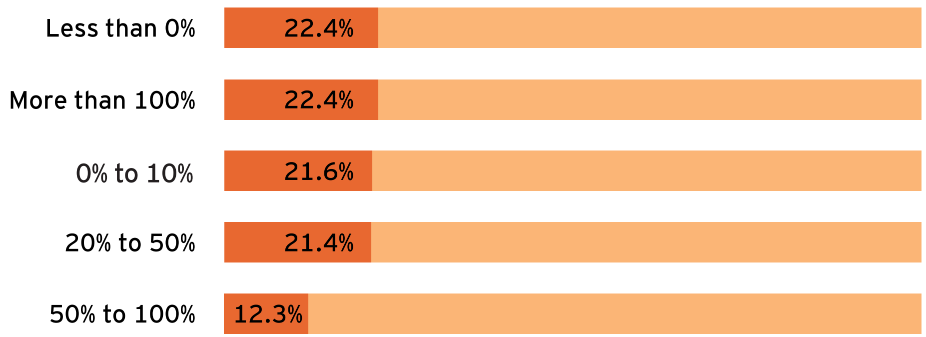
What was the revenue growth of your business in the last 12 months?



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There is a low willingness to exit and few founders are about to do so

With an unfavourable environment for exits, founders must double down on growth

Despite their relative success during the pandemic, there is a reluctance among founders to exit their businesses. Only 3% expect to exit in the next year and around a quarter (26%) within the next three years. As a consequence, the majority are likely to focus near-term efforts on building the business.

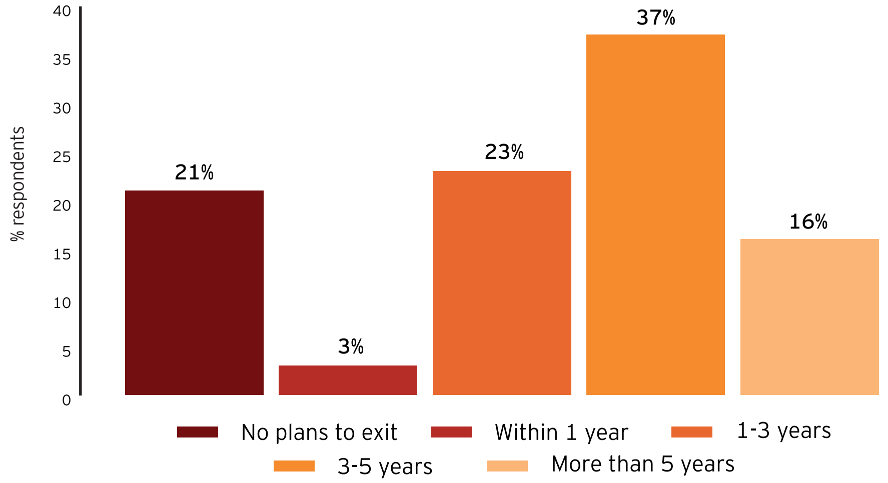
There are various reasons driving a reluctance to exit and they are both positive and negative. On one hand only 23% of respondents believe that current market conditions mean it is a good time to exit. Macroeconomic uncertainty, as well as the emergence of a new normal, where working and consumption patterns have changed, all combine to foster hesitancy.

Despite this hesitancy, investors still appear keen to target fast-growth companies. A sizeable majority (37%) of respondents agree that valuations are strong, driven no doubt by the relative success of fast-growth companies and the desire of investors and corporates to identify future options to drive growth as they themselves rebound from the pandemic.

Perhaps most telling is the stat that only 12% of fast-growth respondents believe their business is currently at a point where it makes sense to exit. In part, this may reflect perceptions that they need to rebuild first prior to exit. Alternatively, and more likely, it signals a desire to accelerate growth and build on what they have before parting with their company.

Plans to exit

When do you expect to exit?



**Figures have been rounded to the nearest whole number.*

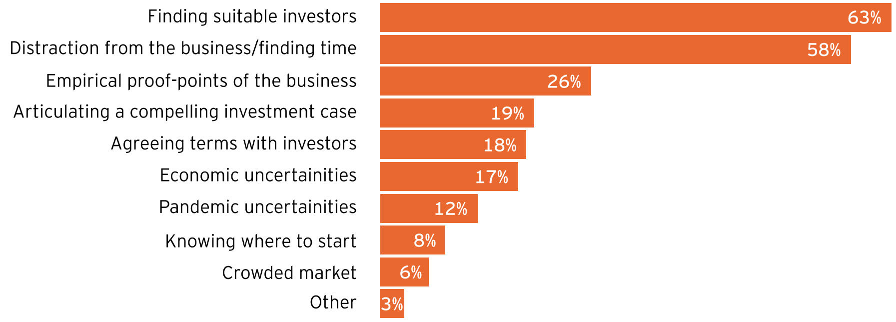
Fundraising remains a major challenge for founders

Widening the options provides more routes to financing growth

In light of the reluctance to exit and the desire to grow the business, attention naturally shifts to funding as a way to finance growth and investment. The challenge here is that 65% of respondents cite funding as representing the biggest constraint on growth and yet securing funding is a vital skill that all founders need to master. The single biggest obstacle, according to 63% of respondents, is simply finding suitable investors.

Founders need to explore the widest possible set of potential investors and funders. Currently, their horizons seem to be too narrow. While 92% are open to investors from the UK, only around half are considering investors from the US (52%) or Europe (49%) and just 12% are considering investors from Asia Pacific. In the current economic climate, founders should not be shying away from international options and should be actively looking at the alternatives.

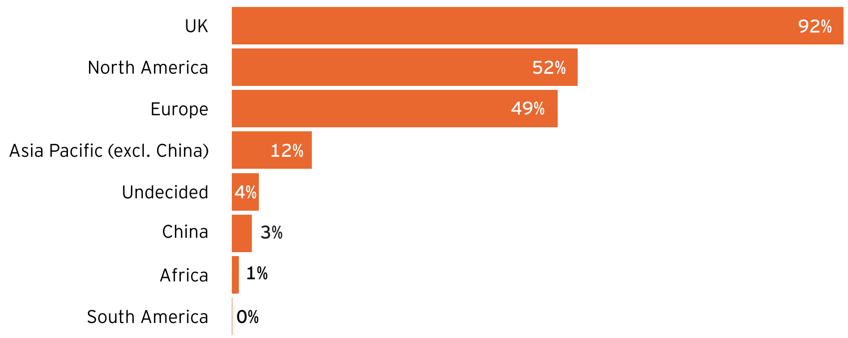
Challenges in fundraising



**Survey participants were able to select up to three options, meaning they may be represented in multiple options.*

**Figures have been rounded to the nearest whole number.*

Location of possible investors



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**Figures have been rounded to the nearest whole number.*

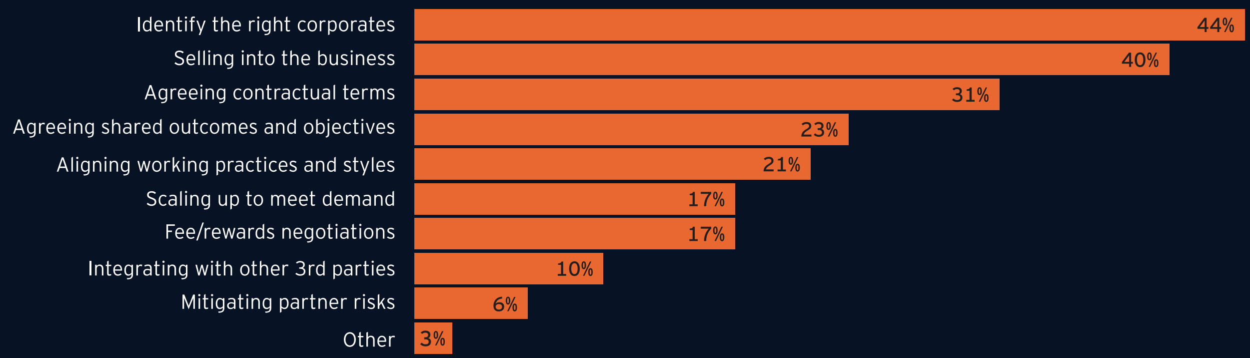
Working with large corporates is desirable but challenging

Fast-growth companies and large corporates need to learn from each other to collaborate better

Fifty seven percent of fast-growth companies want a supplier relationship with large corporates and 55% want to partner with them. They understand the advantages and indeed the imperatives of working with large corporates to drive growth. At the same time large corporates recognise the benefits that fast growth companies can bring to their own growth and innovation agendas.

Yet working together effectively continues to be a problem. The single biggest challenge, according to 44% of respondents, is finding the right corporates. Also high on the list are agreeing contractual terms (31%) and agreeing shared outcomes and objectives (23%). The challenge then is seemingly the fine print of getting the relationship started. On the one hand fast-growth companies need to invest in talent and capabilities to get contracts over the line while on the other large corporates need to ensure their procurement processes are not overly cumbersome and take into account the relative lack of scale and maturity of what could be their future partners.

The barriers to working with large corporates



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Focus on the UK shows a reluctance to build back-office overseas

Consider all international options to balance control with flexibility

Forty five percent of fast-growth companies already have some level of international operations. In addition, 43% of early-stage companies have international operations.

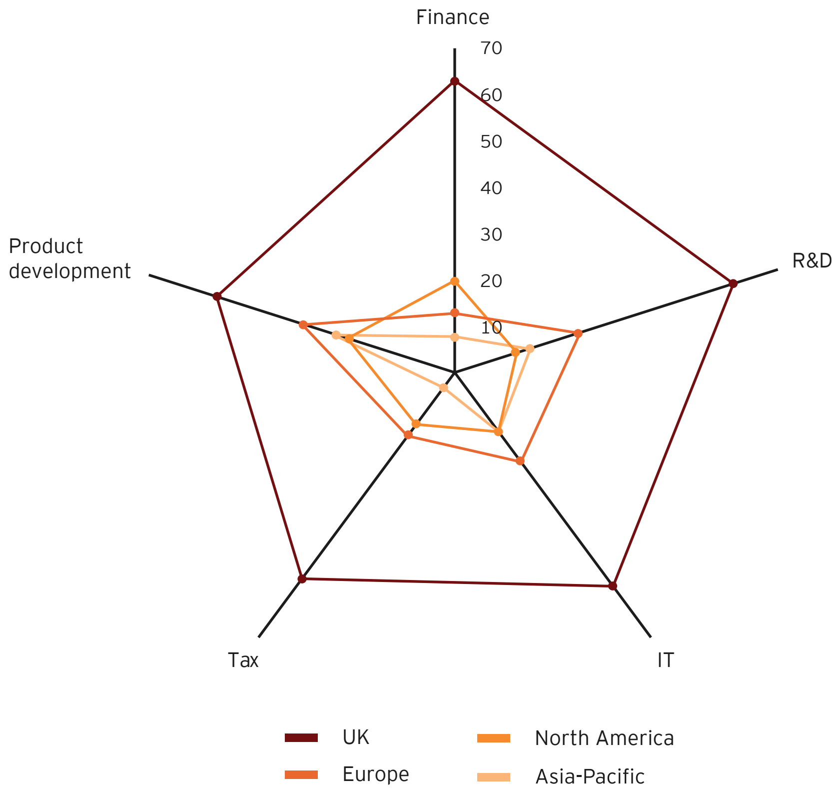
Despite the international footprint, as companies expand their activities, they will inevitably invest in their back office operations. The range of functions and services will grow in line with the business and as many as 53% of companies are planning to expand internationally over the coming year.

The preferred locations for expanding back office services is the UK, with 63% looking at this as an option moving forwards. There is a stated desire to tap into local talent and to retain control and line of sight over functions. What is revealing is the preferences, or lack thereof, for international locations. The longstanding outsourcing of back office functions to Asia Pacific is seemingly much less attractive to fast-growth companies, with Europe and North America above them in the list of preferences. By retaining closer control over the back office, not only are fast-growth companies overlooking the traditional cost advantages of Asia Pacific, but they are potentially missing out on the flexibility that such options can bring.

In conclusion, companies need to explore the full range of options for international back offices. There are a range of companies offering a wide menu of managed services options that allow companies to retain close control but also feature the ability to flex as they grow.

Preferred back office locations

In which territories does your business plan to expand operations/functions over the next 12 months?



Ensuring employee wellbeing creates healthier businesses

As companies grow, they need to focus on talent

Almost half (47%) of fast-growth companies see the recruitment of talent as a constraint on the growth of the business, but at the same time recognise that securing the right skills is critical to growth. The importance of focusing on the workforce should not be underestimated, especially in the current situation. The pandemic has had major consequences for the workforce, with 60% of fast-growth companies reporting a negative impact on employee wellbeing. This is important because wellbeing is intrinsically linked to productivity.

Just under 10% of fast-growth companies reported that the pandemic had a positive impact on employee wellbeing. Among this small group however, 79% found that it had a positive impact on employee productivity, a far higher figure than the 36% reported by all respondents in aggregate, demonstrating a clear correlation between wellbeing and productivity. Moving forward, boosting wellbeing is a clear route to boosting productivity. Fast-growth companies should be devoting time and resources to their people for the longer-term benefit of the business.

Employee wellbeing and productivity

Indicate the extent to which COVID-19 has impacted your business in the following areas (wellbeing and productivity)?

**Figures have been rounded to the nearest whole number.*

What does this mean for the future of fast-growth companies?

1
Capitalise on the post-pandemic rebound by developing a strategy that accelerates growth

Fast-growth companies have performed well and are optimistic about their post-pandemic prospects. At the same time the reluctance to exit and the desire to access funding demonstrates a commitment that augurs well for this generation of fast-growth companies.

Incumbents are unable to adapt to the changing landscape as effectively as fast-growth companies and so the latter must use their core agility to gain market share and lay the foundations of their long-term business models.

2
Explore the widest outlook to source what the business needs to grow

Founders need to look as widely as possible for the partners, funding and talent they need to enable their business to thrive. Not only should they look closer to home but also explore wider international options.

At the same time, they must also consider the nuance of the options available to them. Traditional models are in flux. It is imperative that fast-growth companies not only consider all the options but also play their part in educating stakeholders about what fast-growth companies need and how to make these relationships sustainable and successful.

3
Future business models need to be defined and implemented today

The future success of fast growth companies will be defined by how well they put in place their business models to execute their strategies. With so much management attention and resources devoted to growth, it is easy to take the eye off the fundamentals of business building.

Successful founders will spend time defining and nuancing their ideal operating model of the future. For example, they will look closely at different talent models and talent pools, figuring out what their support looks like in the long-term. They will think about the kind of partnerships to provide the foundation of their future operating model and they will invest in those relationships from day-one.

4
Fast-growth companies and large corporates need to work together to work well

The interdependencies of fast-growth companies and large corporates are clear. The former are keen to access the scale, resources, customer base and expertise of larger partners, while the latter will benefit from access to the innovation, agility and quick growth of this new generation of companies. Forming these relationships naturally comes with challenges, from finding the right partner and agreeing terms to aligning working styles and finding shared outcomes. Attention, commitment and investment are vital in all elements of these relationships, including experience and expertise, funding and resources, inclusive procurement policies, dedicated liaisons and management time.

5
Investing in the people agenda is essential to driving skills, capabilities and productivity

Although fast-growth companies are typically small in terms of headcount and may frequently rely on contingent workers, it is never too soon to think about the people agenda. Getting it right can act as a catalyst for growth while failure to do so can put a brake on the business.

Specific efforts to develop skills and capabilities, as well as making clear strides towards better wellbeing, will not only boost the health and satisfaction of the workforce but will also contribute to increased productivity. With talent shortages likely to be a constraint for a significant number of fast-growth companies, making people a priority will be critical to staying ahead.

Summary

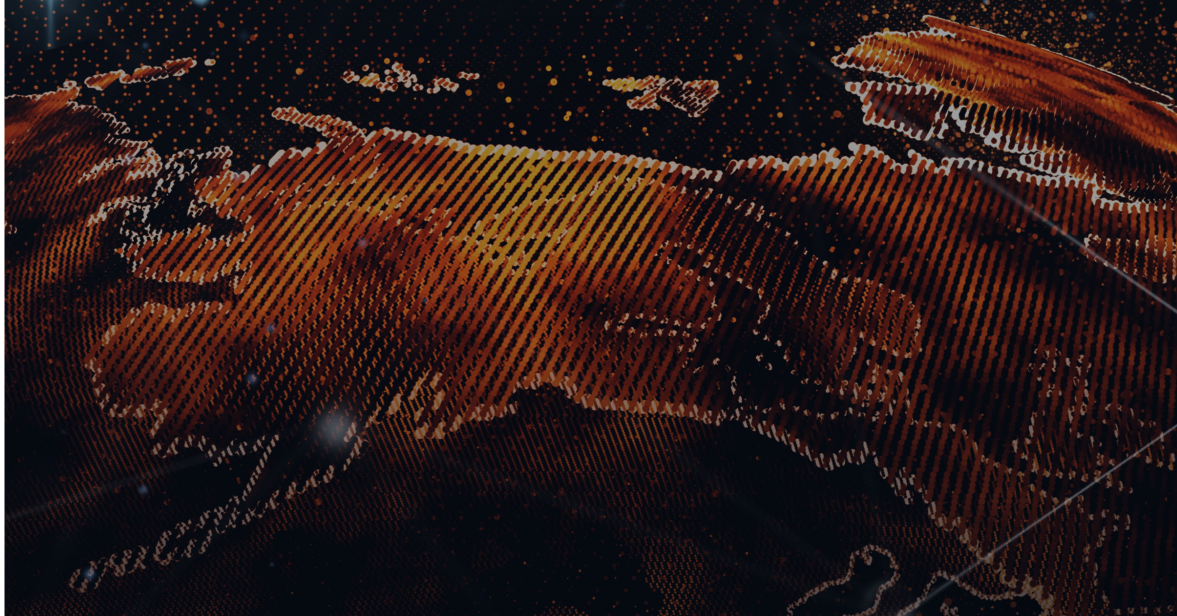
The UK's vibrant, fast-growth companies will be the engine for future innovation.

The pandemic has left fast growth founders optimistic about their future. Many of these companies are emerging from the pandemic in a position of strength. To the very core, these are digital businesses that mostly also offer technology based solutions and services. Not only were they able to adapt quickly to the pandemic but they were able to thrive. Fast growth companies were ideally placed when the pandemic shifted the world of work, leisure, entertainment and education to digital.

Now they need to exploit the inevitable, post-pandemic rebound. They face a challenge to devote sufficient time and resources to build a business today, which doesn't just deliver their long-term vision but accelerates it. They need to broaden their horizons as they make the right choices about funding, identifying the right partners and uncovering and onboarding the right talent to drive growth and build market share for years to come.

> "The UK is perfectly placed as a world leader of the digital economy. The strength and dynamism of the latest generation of fast growth companies demonstrates the UK's ability to be a truly global force. But the success of these fast growth companies depends on their ability to seize the opportunity and translate their vision and energy into the long-term execution of their strategy and operating model.

Praveen Shankar
EY UK&I Technology, Media and Telecommunications Leader



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