The UK's Entrepreneurs

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Growth of start-ups accelerates

Big increase means small business provides half the UK's new jobs, writes *Jonathan Moules*

The number of British companies hit a record high of 4.8m in 2013, a sixfold increase on the number of enterprises counted by the Bolton Report of 1971. The upward trend shows no signs of abating.

According to StartUp Britain, a group set up by several ambitious UK-based founders to promote entrepreneurship, and itself a sign of the change in British culture, more than 380,000 businesses were started in the UK in the past 12 months.

The coalition government has made several policy initiatives to foster this growth both through tax breaks for investors, such as the extension of the Enterprise Investment Scheme (EIS), and changes to the visa programme to make it easier for company founders to gain British citizenship.

This builds on moves by the previous Labour administration to reduce the capital gains tax burden on founders selling a business.

"The government, both current and previous, have done a great job of invigorating that early-stage entrepreneurial activity," says Bruce Macfarlane, a partner at MMC Ventures, a venture capital fund.

"My American and European friends all comment on how effective the EIS scheme is and how they wish they had something similar."

Entrepreneurship is changing society. About 6 per cent of the business population are responsible for creating almost half the new jobs in the UK as well as disrupting markets and innovating, according to Nesta, the national foundation for innovation.

These so-called "gazelle" businesses get a great deal of support in the early stages, but find it hard to raise funds from domestic sources when they need to expand, Mr Macfarlane says.

"There are very few sources of £10m-plus cheques in the UK for that kind of growth capital," he says.

"That funding is coming from US VCs and family offices who see a big opportunity here."

Going it alone: about 6 per cent of people working in business are responsible for creating almost half the UK's new jobs
Reuters

One of those in the thick of the revival is Patrick Eve, managing director of TranslateMedia, a language services business based in west London and with offices in Hong Kong, New York, Paris and Munich.

"Attitudes towards risk and failure in the UK appear to be changing, particularly in the technology sector," he says. "Perhaps this is as a result of companies like ARM, Spotify, Huddle and Shazam proving UK tech businesses can become global successes."

Another founder enjoying the positive attitude is Caspar Craven, an accountant who, in 2008, co-founded Trovus, a consultancy giving strategic advice based on the analysis of customer data for blue-chip businesses including 3M, Cisco and IBM.

"Entrepreneurs are the rock stars of the decade," Mr Craven says. People these days, he adds, feel far more certain of making an impact through being an entrepreneur than by working in a large company.

This is not to say that the growth in entrepreneurship is all a result of positive changes in British society.

One reason many professionals set up on their own is they have been made redundant from a salaried post and are struggling to find another job.

A 2011 study by the University of Michigan's National Poverty Center found that high unemployment rates were consistent with higher numbers of start-ups being launched in certain areas of California, particularly sole proprietorships, and other businesses that never grew beyond one person.

UK entrepreneurship is gathering momentum but this is at least in part because of the collapse of many of the old certainties of the workplace brought about by the banking crisis and the subsequent economic malaise.

What ambitious entrepreneurs believe is that they can provide a way out of these problems.

Inside »

Time to begin a huge push for enterprise

Guest Column
JOHN BIRD

Is there a direct relationship between the number of young people who volunteer for television talent shows, such as the *Apprentice* or *Dragons' Den* and those who go on to found their own business?

More and more young people want to have a much bigger say in their future and are becoming entrepreneurs, seeking financing and encouragement from investors and mentors. The number is growing, fuelled by the uncertainty of the jobs market and the need to take risks.

In my early 20s, I was obsessed with taking risks in business. I wanted to be a publisher, so I launched art magazines on a shoestring, published books and built up my own business. I funded my passions by being a jobbing printer, printing everything from record labels to menus, and loved the freedom that my wafer-thin profits gave me to take risks.

Was there government support? If there were grants on offer, it was so complicated to apply for them that I simply muddled on, eventually turning the risks I took into a decent business.

It was Gordon Roddick, who with Anita started the Body Shop in 1976, who changed my entrepreneurialism radically by giving me enough money to launch The Big Issue. Gordon had seen a street paper in New York in 1990 and suggested I start one for homeless people in London.

He was my mentor, guiding me from being someone who was used to doing things on a shoe-string budget to maturity as a true businessman. Considering I was a former homeless offender, you can see what kind of risk he was taking.

Business needs to support our young innovators. What government needs to do is create tax incentives to allow businesses themselves to become hubs of creation. Well-established companies should be supporting new blood and identifying the enterprises of tomorrow.

This does happen. Large companies, through their innovation and corporate social responsibility programmes, encourage the growth of start-ups and small and medium-sized enterprises. Countless other companies see the advantages, and the business community at large is starting to promote innovation and the next generation of businesses.

Could the government do more? Certainly. One area where it could really help is in education. Why not

'Enterprise and entrepreneurialism should be taught in schools'

have enterprise and entrepreneurialism taught in schools? It is likely to be much more useful than some other subjects taught.

The government should embark on a huge push to bring enterprise and entrepreneurialism to colleges and universities. You cannot leave such an important development to underfunded entrepreneurs. It would be much better to show today's youth that, in a modern, swift-moving economy, we are going to need more people to create their own jobs as well as launch businesses to provide jobs for those who do not want to take on that risk.

I think there are too many people who want to start their own charity. I meet many people whose ambition is to get someone else to fund them so that they can do their "good deeds". Instead, why do they not start social enterprises and go into business so that they can make their own money to give away?

If entrepreneurialism was a part of the school curriculum, with business people providing some of the tuition, we might be able to unlock the skills and talents of so many young people.

It is not just the young who are being overlooked. Many people out there have turned to crime when their skills could have been harnessed and channelled into legitimate business for the benefit and enrichment of us all.

Some young people may want to apply to show off their skills on a talent show at some point in the future. Many more will want to launch their own business. We need to encourage entrepreneurialism in this country – and we need to do it now.

John Bird co-founded The Big Issue in 1991 and remains Editor-in-Chief. He is the author of The Necessity of Poverty (Quartet, £7.99)

Concern as capital follows gender divide

Women in business

Need for financial literacy widens gap, writes *Liz Bolshaw*

The number of female entrepreneurs makes for depressing reading. In fact, for all the support networks and encouraging words, women entrepreneurs continue to be a rare feature of the business landscape.

According to Dow Jones VentureSource, just 6 per cent of venture capital invested in the UK in 2012 went to companies run by women.

"Early-stage biotech companies in the UK that are raising capital are down to the lowest levels since 1995 – down 41 per cent," says Sharon Vosmek, chief executive of Astia, an international accelerator programme for technology-focused women.

"While some of the most exciting science is coming out of research labs in Cambridge, Oxford and Imperial College, London, it is US entrepreneurs that are taking that science to market. This is a major call to action for the UK," she says.

Research by the Kauffman Foundation shows that on average women-led businesses raise a fraction of the capital raised by their male counterparts. "The news in the US is dismal," agrees Ms Vosmek. "It's just a little less dismal than the UK."

The Global Entrepreneurship and Development Institute's Gedi index for entrepreneurship collates information from other studies, such as the World Economic Forum, Global Entrepreneurship Monitor and the World Bank.

Ruta Aidis, director of gender at Gedi and a senior fellow at George Mason University, Virginia, says: "In the UK, the opportunity recognition among women is quite low, and, more striking still, the ratio of male:female start-ups is much lower than in other developed countries."

In the UK, 45 women start a business for every 100 men; in Australia, it is 85 and, in the US, 71.

"Many of the key questions", says Ms Aidis, "are impossible to answer because we just don't have the data, for example, on social norms. One question, 'Do you agree that men are better business executives than women?' elicited a positive response across countries," she says.

Ms Vosmek remains optimistic despite the onslaught of dispiriting data. "The good news is that the UK percentage of venture deals and venture dollars that are invested in women founders and chief executives is identical to the US," she says, referring to data collected by her company. "The UK doesn't lag behind for high-growth businesses."

Not only that, but last year's data show a dramatic growth in women-led businesses gaining investment in Europe. "The corporate venture arm of Telefónica, the telecoms company, reports 20 per cent of their investee firms had women as part of the founding team," Ms Vosmek says.

But the numbers remain low. "Our UK companies are raising less capital than their US counterparts," admits Ms Vosmek. "I don't think it's lack of ambition, but [of] financial literacy."

Lara Morgan agrees. She founded Pacific Direct, a company manufacturing and selling brand-licensed toiletries to the hotel industry, and sold it in 2008 for approximately £20m.

"Banks should help their entrepreneur clients by teaching them financial literacy. People in the UK, especially women, don't understand the terminology of finance or how lending and private equity works. Banks are well-positioned to do something about that."

Not all successful entrepreneurs, of either gender, seek external funding.

Tamara Littleton, founder of eModeration, the social media management agency, started the business with £10,000 from her mother and a credit card. "Exactly the way you shouldn't do it," she says. "I've never had to go out to get funding. I've doubled turnover every year since about 2004, and keep investing profits back into the company."

The company's turnover is about £8m, with 60 per cent of the business and its staff in the US. Ms Littleton has had 10 offers for eModeration but has never been tempted to sell. "There just feels so much more to come," she says. "I've never had an exit plan. I just wanted to build a company and keep doing it."

Women-only support networks can be useful for facilitating new start-ups from female entrepreneurs, but they are not without their critics. Ms Morgan, who now runs Company Shortcuts, a sales and leadership training provider, says it is crucial for women to network with the men.

"You need to get in where the action is," she says.

City clusters thrive as barriers to entry come down

Hotspots Several British cities have become sites for businesses and centres acting as start-up incubators, writes *Jonathan Moules*

Watch this space: Richard Moross, Moo.com founder
Charlie Bibby

A decade ago, Cambridge was the only start-up cluster of a sufficient scale in the UK to prompt any interest among venture capitalists beyond this small island's borders. Today, the UK has a host of city clusters, from Aberdeen and Edinburgh in the north to Bristol and Oxford in more southern parts.

Cambridge is no longer the largest hotspot, having been eclipsed by London several years ago.

The capital boasts the largest collection of tech start-ups and venture capitalists outside the US and is a centre of gravity for Europe's entrepreneurs.

Shoreditch alone hosted 15,720 new businesses in the 12 months to March 31, according to research by accountancy group UHY Hacker Young.

Growth is happening in other cities, if at a smaller rate.

In Liverpool, a former industrial area on the edge of the city centre now referred to as the Baltic Triangle has witnessed the setting up of dozens of gaming and music businesses.

Not far away in Manchester, the city's chief executive Sir Howard Bernstein has fostered a similar flourishing of entrepreneurial talent.

Such clusters have arisen in part because of the lower cost of starting companies today, says Jamie Coleman, managing director of Edinburgh's TechCube, which provides a home and mentoring support for several ambitious start-ups.

"The entrepreneurial culture has always existed," he says. "It is just that the barriers to entry were higher. It is now cheap to start, certainly in software."

Another factor has been city leadership, according to Michael Hayman, a co-founder of the StartUp Britain initiative to nurture a more entrepreneurial society. He served on the finance commission looking into the future of cities on behalf of Westminster, Manchester and Birmingham.

"Manchester has proved that the 'build it and they will come' message rings true," Mr Hayman says. "Its Media City stands out as just one of a series of major builds that has helped to fuel a very strong sector cluster."

Elected mayors in places like Liverpool and Bristol have played a part in building their cities' confidence, he adds. "Liverpool has been particularly successful in creating a 'can do' message for business through major events and this has been fundamental in the creation of a pro-business identity."

The key ingredients that have led to the growth in UK clusters are education, research and access to capital, according to Philip Letts, founder and chief executive of Blur Group, the Aim-listed technology company.

He notes that the UK is actually a lot more like the US than many may appreciate in its creation of multiple clusters. "If you look at the west coast in the US, you can see that there are actually a number of clusters there – Vancouver, Seattle, Silicon Valley, San Francisco and so on," Mr Letts explains.

"The UK is obviously a much smaller space and, as long as our spaces don't geographically cluster, which they don't, then we're fine."

The UK's city clusters, like their counterparts in the US and across Europe, exist because they offer homes to different types of businesses, TechCube's Mr Coleman notes.

He believes that they should not, and do not, stand alone. "Interconnected cities [are] acting as nodes of innovation," he says.

"Different local strengths and weaknesses are reflected in the sorts of companies we build."

Richard Moross, founder of online stationery business Moo.com, helped foster the Shoreditch community by letting ambitious founders share his company's office space when setting up their own ventures.

'London beats the socks off Berlin or San Francisco; we see our real rival as New York'

It was one of these tenants, Matt Biddulph, co-founder of travel website Dopplr, who jokingly nicknamed the area Silicon Roundabout, a moniker that has lasted beyond the UK government's attempt to rebrand the neighbourhood as Tech City.

Mr Moross notes that the growth of start-up centres is a good thing for job creation and innovation.

"It would be sad if London was the only place where exciting new technology stuff was going on," he says. "I think the competition is good."

Mr Moross agrees with Mr Coleman that companies benefit by networking with their peers in other city clusters. However, he does not see a need to network with his counterparts in other UK cities. "To be perfectly honest I haven't spent any time in any British clusters outside London," he says. "But we have certainly done a lot of that with cities in America."

There is a logic to this for Moo.com, Mr Moross notes, because 60 per cent of its sales are to the US. Only 20 per cent of its sales are in the UK and most of these are in London.

"We should be thinking about what is best for the UK as a rival to the rest of the world," he says.

In that case, government policy should focus on making the most successful city cluster as big as possible so that it can compete on a global stage with the likes of San Francisco, New York, Boston, Berlin and Tel Aviv, Mr Moross adds.

"London beats the socks off Berlin or San Francisco," he claims. "We see our real rival as New York."

"The UK has an amazing trump card in Europe because you can get on a plane and be in 20 different countries in a couple of hours.

"But if you start to talk about the UK as a multiple cluster environment, you start to lose some of that power."

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'Entre-tainment' plays role in making business more popular

Media

Television's power to boost the status of entrepreneurs is clear, writes *Andrew Bounds*

Britain now has more businesses than viewers of *Dragons' Den*, the television show in which would-be entrepreneurs pitch for investment from wealthy business people.

With a record 4.8m companies registered in the UK, has a nation been galvanised to rise from its sofas to create child-friendly suitcases and shopping apps?

The surge of interest in business shows is undoubted – *Dragons' Den* attracts about 3m viewers while *The Apprentice*, in which candidates vie for investment from Lord Sugar, the Amstrad founder, pulls in approximately 5m.

Other programmes include *Peter Jones meets . . .* featuring the eponymous dragon on visits to successful companies, and *Secret Millionaire*, in which a wealthy individual lives in a poor community undercover and chooses good causes to donate to.

Luke Johnson, a veteran entrepreneur and chairman of StartUp Britain, a lobby campaign promoting enterprise, says the shows are not perfect.

But, he adds: "I think there has been a cultural shift. Many more graduates see working for themselves as a career choice. There are also a lot more women interested. When I give talks at events half the audience are women. That would have been unthinkable even five years ago."

Doug Richard, one of the original dragons, is more sceptical. He runs School for Startups, which helps people turn ideas into businesses.

"There's no denying that TV has helped a wider audience engage with entrepreneurship, but it has also cultivated a number of myths that distort the realities of starting a business," Mr Richard says.

"For all that TV has demonstrated that entrepreneurs come in all shapes and sizes, programmes like *The Apprentice* and *Dragons' Den* suggest that it's angel investing or nothing, while neglecting to mention the full range of funding options available for start-ups. And the battle doesn't end when initial funding has been secured."

A paper in the International Small Business Journal this year found that viewers did feel that television had taught them about the process of setting up a business, including how to pitch for investment. Yet, the study noted, they were given a skewed view of life as a businessperson. The survey of 960 students at Newcastle University coined the term "entre-tainment". It found: "Entre-tainment plays a significant role in shaping attitudes and intentions towards entrepreneurship."

Janine Swail, lecturer in entrepreneurship and innovation at Nottingham university's business school, and one of the authors, says: "We are talking about an ideology that our government is promoting, that our success is down to ourselves."

Co-author Simon Down, professor of management at Anglia Ruskin university adds: "We need to avoid producing a group of would-be entrepreneurs who may well be surprised when they're faced with the mundane realities of everyday business ownership."

Piers Linney, who has just floated his cloud service provider Outsourcery and joined *Dragons' Den*, says viewers should not be deceived.

"It is entertainment. There is a lot of due diligence that goes on afterwards. But me going through someone's numbers line by line would not make great TV."

The power of television to boost the status of entrepreneurs is evident. Peter Jones, one of the original dragons still in the TV den, has become a national figure in a way that few entrepreneurs have apart from Sir Richard Branson, the Virgin founder, and Lord Sugar.

Original dragon: Doug Richard
Steve Sills

He has more than 800,000 Twitter followers and set up a string of academies teaching entrepreneurship.

It is a far cry from the days when shows featured entrepreneurs bending the rules to get rich, such as Arthur Daley in *Minder*, "Del Boy" Trotter in *Only Fools and Horses* and Mike Baldwin, the factory owner in *Coronation Street*.

Several cities host "festivals" promoting enterprise, hailing the business people speaking at them as rock'n'roll stars. Others are not convinced this is wholly positive.

Matt Riley, chief executive of telecoms company Daisy, lasted just two series judging finalists on *The Apprentice*, before deciding he could not sacrifice the time.

"I want to be seen as a really serious entrepreneur," he says. "You can do a bit of the television stuff, but you've got to prove

The UK's Entrepreneurs

R&R founder's sensible hours put the stresses of life on ice

Balance UK Entrepreneur of the Year winner has earned his just deserts by keeping an open mind and his evenings free, writes *Liz Bolshaw*

James Lambert arrives early to work – at his desk every day at 7.30am – but he is "never in the office after 5.30pm, because there are other things I like to do with my evenings", he says. It is an approach that has paid off. He has built a €750m-turnover ice cream business – Europe's largest own-label ice cream manufacturer – with factories across Europe and headquarters in Northallerton, Yorkshire.

Mr Lambert, the overall winner of this year's EY UK Entrepreneur of the Year awards, started what was to become R&R Ice Cream following a "tip-off". He was working with HerdWise, a dairy cattle-breeding company, when he heard that there was £40,000 of ice cream manufacturing equipment for sale on Teeside. "I knew nothing about making ice cream," he says. "We just went for it."

In 1987, the company was making own-label tub ice cream for the supermarket Morrison's. It completed a reverse takeover of the listed Treats Group in 1997 that took the company public. More acquisitions followed and continue to be central to R&R's strategy of consolidating the fragmented ice cream market.

The group acquired Nestlé's ice cream division in 2001, Kelly's of Cornwall in 2008, Rolland in France in 2010 and the makers of Cadbury's ice cream this year. Today, its ice cream can be found in supermarket freezers across Europe. The company makes a range of branded products including Thornton's, Kit Kat, Aero and Fab.

A focus on growth is a theme to which Lambert returns again and again. "Ensuring the business is cash generative is the number one priority – more important than profit, because without [cash] you can't grow," he says.

Mr Lambert sees risk in terms of failure to move forward rather than making wrong turns. "The biggest risk is no growth – just look at the government. People want security and they know that doesn't come from a social security system," he says.

The company's main manufacturing plant is at Leeming Bar. "We're spending £20m in the UK over two years," he says. "That's an investment in innovation. Quality and innovation is what [capital expenditure] can buy."

He believes it is central to attracting the right talent. "A group of young people is always outward-looking. Everybody wants to grow, to be part of something successful. We have a culture of continuous change.

In the lolly: overall winner James Lambert, chairman, R&R Ice Cream

People who find it uncomfortable get off the bus," he says.

Economies of scale and improved processes have brought significant benefits to R&R. Mr Lambert has shut down smaller, older factories while building the Leeming Bar plant. It produces 7,500 litres of ice cream per hour. These efficiencies have been central to R&R's continued growth, he argues, particularly since "the price of processed food has not risen in 25 years".

Mr Lambert recently stepped down as chief executive in favour of European chief executive Ibrahim Najafi. He continues as chairman. The move coincided with an acquisition in the business by PAI Partners, the French private equity house, which bought out previous equity partners Oaktree Capital Management. "We want to keep the business private for another four or five years, then consider a stock market float," he says. This year, Mr Lambert was awarded the OBE in recognition of his work.

Successful entrepreneurs share certain qualities, he says. "An entrepreneur has a strong personality. Very quietly you knock the doors down. Others see a wall where we see an opportunity," he explains. Entrepreneurs are also, he adds, "inherently optimistic. They are good lateral thinkers."

In terms of location, Mr Lambert says entrepreneurs do not see boundaries and will go where the opportunities are. "Is the UK a better place to start a business than France? Absolutely. But the US is the best place – it's in a different league," he says.

He is not a big fan of government incentives. "We have never applied for a government grant. The thought of filling in all those forms would drive any human being to distraction."

Government can help, he says, by ensuring that there is a flow of "cheap money for a long period of time; that the education system is geared towards producing engineers and mathematicians; that the taxation system is benign".

He "detests" the anti-immigration policies voiced by the UK Independence Party. "I'm very positive about immigration," he says. "People who come to this country, often after a horrid journey here, have lots of ideas and a lot of energy to contribute."

R&R's senior management comprises a range of different nationalities from Iraqis to Greeks. Mr Lambert is proud of the UK's history and its "accommodating culture", arguing that this has helped build its entrepreneurial base.

For all his 28 years running R&R, Mr Lambert thinks his most valuable lessons have been learnt from having children. "You soon learn that 'no' is a temporary two-letter word," he says. "The other thing you learn is: 'You only have to ask'."

EY UK Entrepreneur of the Year
Winners of 2013

James Lambert
R&R Ice Cream
Business and consumer products and Overall Winner

Alan McLeish
QTS
Business and consumer services

José Neves
Farfetch
Emerging entrepreneur

Lloyd Dorfman
Travelex
International and Master entrepreneur

Simon Howie
Simon Howie Group
Manufacturing and services

David Lamont
Proserv
Private equity-backed business

Alex Chesterman
Zoopla Property Group
Retail and marketplace

Carl Hodson and **Duncan Skinner**
Glencraft
Social enterprise

Bill Collis
The Foundry
Technology

Steve Bennett
The Genuine Gemstone Company
Turnaround entrepreneur

Warren East and **Mike Muller**
ARM
Global achievement

Research and flair are the parents of luck

Alex Chesterman
CEO of Zoopla

Innovating can mean doing what someone else does but better, writes *Jonathan Moules*

It is not surprising that the UK, a nation obsessed with house prices and home ownership, should be the birthplace of Zoopla, enabling nosy neighbours to see how much a home in their street will cost at the click of a mouse.

What is striking is how in just five years founder and chief executive Alex Chesterman has developed this London-based online business into one of the UK's most successful start-ups of recent years.

Since its launch in 2008, Zoopla has grown rapidly both through organic growth and 10 acquisitions to become the second-largest player in the market after Rightmove.

In 2012, Mr Chesterman oversaw a merger with Daily Mail group's online property brands to form Zoopla Property Group and putting him in control of Zoopla.co.uk and PrimeLocation.com.

He is now considering a stock market listing that could value Zoopla at up to £1.3bn, or 50 times this year's earnings before interest, tax, amortisation and depreciation.

Mr Chesterman claims he was lucky in the timing of launch, just as the world economy collapsed due to the banking crisis. Yet the idea that success was just about being in the right place at the right time, is undermined by the fact it was his second big hit. In 2003, he co-founded ScreenSelect, the DVD rental service which turned into Lovefilm and was acquired by Amazon in 2011 for just under £200m.

Lovefilm was inspired by the success of Netflix in the US. Mr Chesterman admits he "poked at" the Netflix business model, starting with the reasons why this would not work in the UK in order to discover whether it was viable in this market.

"One of the quick conclusions we came to was that it would actually work far better in the UK because in those days it was a purely DVD-by-post business and, in the US, Netflix ended up having to have 30-40 different warehouses across the country in order to service next-day delivery because the US Postal Service couldn't do next day.

"In the UK, you can do next-day delivery to the entire country from one location. It means you only need one inventory."

For Zoopla, the inspiration was Zillow, an online property database founded by Rich Barton and Lloyd Frink, former Microsoft executives.

The link between Lovefilm and Zoopla was their attempt to solve frustrations facing consumers – whether it be trying to rent a film for the evening or buy a house – through the efficiencies of an online service.

"If you're looking for a property in a particular geography within a certain price range, you want to go to one place to find it; not to 25 different websites," Mr Chesterman notes. "You want to be able to see what comparable pricing is, what current market values are, what average values are in the area, what price per square foot is for that property type, how far the local schools are, how far it is to the nearest train stations, all of that information.

"If you could put all that in one place, [I felt] it would save consumers both time and money, but it would also just make them more confident and empower them through information."

Zoopla decided to solve the problem of providing automated valuations of every home in the UK by building very complex proprietary algorithms.

"We spent a lot of time and a lot of energy into building what I think is one of the best automated valuation models around."

The future looks bright, although Mr Chesterman thinks the journey has only just begun.

"It's still very early days for us. We've got a lot that we want to achieve and a lot more innovation we want to do and there's a lot of opportunities for us to continue to grow.

"We still think of ourselves as an early-stage start-up business."

Peer-to-peer lending fills gap left by wary banks

Funding

Savers looking for returns are financing business loans, says *Andrew Bounds*

Six months ago, Gavin Armstrong, a civil engineer, asked his bank for an overdraft to set up his own business. It was a smart move: he has now made more than £1m in revenue and employs 26 people working on the drainage for the widening of the A11 in East Anglia.

But that was not achieved thanks to the bank, but is down to 30 individuals who decided to back his plans. A friend had referred him to rebuildingsociety.com, a peer-to-peer lending site that matches people with ideas to those with money to spare.

"I had never heard of it; I was a bit dubious," he admits.

Mr Armstrong, 44, who had 17 years' experience in construction but had taken a break to run a pub and nightclub, listed his reasons for wanting £50,000 and details about himself on the website.

He answered questions and waited. "Once the first person backed me it took just 10 days. I was sent a list of the lenders; some invested £10, others invested thousands. All these different people investing even though they don't know me. It is a great idea."

He borrowed the money over a year at 19 per cent interest but had to sign a debenture before people would commit.

"I would recommend it to other business people," he says. "It is so quick and easy, [and] a very good idea for people who need a lifeline."

Banks remain wary of the construction sector because of the losses it made during the credit crunch when building virtually ceased.

Yet that reluctance by the banks – net lending to business has been falling for several years – has opened up a new market. With interest rates so low, savers searching for returns are being matched directly with borrowers.

Since it began in 2005, the peer-to-peer lending industry has lent more than £600m. In the first half of this year it lent more than twice as much as the year before.

Funding Circle, one of the largest peer-to-peer lenders, arranged more than £50m in loans between January and June.

According to a report by the Open Data Institute, the market will be worth £1bn by 2016.

Sites are springing up almost weekly. Daniel Rajkumar, a computer science graduate, set up rebuildingsociety.com in 2011 in Leeds. It grew slowly but has lent more than £2m to 15 companies and has almost 5,000 users. The typical interest rate is 13 per cent, which goes to the lenders, while the borrower pays an additional arrangement fee of between 1.9-4.9 per cent, depending on the length of the loan.

"The rates will slowly decline as we get more lenders and more competition among lenders," says Mr Rajkumar.

"People are really starting to understand it."

It also can work for people seeking better returns for their capital. Suleman Akhtar, 49, a businessman from London, uses several peer-to-peer sites and has lent about £100,000. He says the key was to spread risk and his biggest single investment is £2,000.

"I am getting pretty much zero in the bank. I want to help British institutions and companies," he adds.

As a qualified accountant he does his own due diligence. But he says many do not and are often caught up in heated online auctions for popular loans, which can be filled in minutes on the larger sites.

"A lot of people doing this don't have a clue what they are doing. You just hope they are not putting in too much," he says.

Jenny Holloway
Fashion Enter

The government does not support entrepreneurial Britain as it used to. From 2001-06, I worked with the London Development Agency and funding was available to help start up businesses in fashion. That has now stopped and the government needs to step up to support the growth companies of tomorrow.

Bright idea proves a tonic to drinks industry

Fever-Tree

The premium mixer for premium gins has created a new sector, writes *Liz Bolshaw*

There is palpable excitement in the air as the founders of Fever-Tree, Charles Rolls and Tim Warrillow, celebrate a £48m capital replacement deal by LDC, the private equity arm of Lloyds Banking Group, just eight years after they founded the company.

Mr Rolls and Mr Warrillow not only started a new enterprise when they launched their premium mixers company, they created a new sector. The concept of an expensive mixer to accompany a premium spirit brand seems obvious today, but a decade ago the only options for the "T" in a premium G&T were overpowering synthetic waters flavoured with chemical additives.

Mr Rolls was well aware of the paucity of suitable tonic waters from his time as managing director of Plymouth Gin – a brand he had spent four years restoring to its former glory before it was sold to Absolut Vodka. Mr Warrillow, then working in an advertising agency, had started researching opportunities in the drinks market, when the two came up with the idea.

"We did some research [into the market] but a lot of this is driven by the fact that people are drinking less quantity but better quality," says Mr Rolls. "This had happened in beer, in wine, in whisky. This convinced us that there was a market but we didn't know how big a market."

There followed a worldwide search for the finest ingredients to create an artisanal tonic water good enough to enhance the very best gins. Core to the product would be the top grade of quinine that comes from the bark of the *Cinchona ledgeriana* or fever tree.

"There was one remaining plantation of the highest-quality quinine which unfortunately was in the eastern Congo – in the most inhospitable part of the eastern Congo," recalls Mr Warrillow. "But that is where we source our quinine from."

Today, the company works directly with spirits producers. "While Gordon's gin will be paired with Schweppes, Tanqueray needs a premium tonic and Fever-Tree is perfect. We are working with Bombay Sapphire, with Bacardi, with Hendricks among others," says Mr Rolls. "It's a good symbiotic relationship." Bottling is in Shepton Mallet in Somerset but the company's products are now sold in more than 40 countries worldwide. Two-thirds of the business is from export sales. "We are on target for about £26m turnover this year," he says. "And broadly-speaking we can double it in three years' time."

Looking back at his experience at Plymouth Gin, he says successful entrepreneurs must "keep grinding ahead. Many people have good ideas, but what separates people who have good ideas from [successful entrepreneurs] is [the ability] to put their hands up, roll up their sleeves and really drive the business," says Mr Rolls.

"You have also got to get people to believe in you, to believe in your idea," adds Mr Warrillow. "At the start, no one had stopped to think about tonic water – it was a long-forgotten category . . . With no track record and little business, you've got to persuade good people to take a punt on you."

Charles Rolls: 'Less quantity, more quality'

Duo saw light in digital space

We Are Social

Inspired moment led to opportunity in social media, reports *Liz Bolshaw*

Robin Grant, born in south London, and Nathan McDonald, an Australian from Sydney, were both working as executives at TBWA, a subsidiary of advertising agency, Omnicom, when they had their light-bulb moment. "We were both in the digital space but saw an opportunity in social media," says Mr Grant.

We Are Social now has offices in eight countries and employs approximately 350 people. Total group revenues have grown from £400,000 in the first year of trading in 2009 to £23m in the year ended June 2013. The agency is on course, says Mr McDonald, to reach about £35m by the end of their current financial year.

"We didn't need a lot of capital to start the business," Mr McDonald explains. "We just needed the rent paid, food in the fridge and money to buy a couple of laptops and lattes to sit in WiFi cafés. There wasn't a lot of capital [needed] other than salary sacrifice." Even after they won their first client – Skype – they squatted in a corner of the London offices of the Microsoft-owned internet phone service to keep the overheads low.

From early on the founders invested in their brand, which, says Mr Grant, "helped put us at the top of the market. From there we were able to attract the best to create this virtuous circle in which we do the best work we can, to attract the best people and attract the best clients."

Judging by the rolling credits on the company's website, this is no idle boast. This year alone, We Are Social has been recognised in PRWeek's Digital Top 50, the Webby Awards, the Shorty Awards, Campaign magazine's Connected Campaign, FWA Site of the Day, the EMEA Sabre Awards and more.

An early big win for We Are Social was the launch of Unilever's Marmite XO, the extra-strong version of the popular British spread, in late 2009. "The client was a real believer in social media and already had a big fanbase on Facebook," recalls Mr McDonald, "but to launch a product without any paid media was still a big step. We had a four-to-five-month programme and we managed to influence the packaging, everything".

Unilever is joined on the company's client roster by international brands such as Cisco, Jaguar, Donna Karan, The Guardian, Red Bull, Heineken, Lavazza, Lenovo, Louis Vuitton, Adidas and ING Direct.

The duo distinguish what they do from traditional marketing by making it a "conversation", rather than the one-way channel of old-style ad campaigns.

Pop-ups here to stay as line blurs between internet and high street

Retail Flexible way to provide shop space can show off budding talent, writes *Gill Plimmer*

Britain's high streets are in the midst of a revolution. Shops are closing at the rate of 18 a day and in many cases are not being replaced. Boarded-up shop windows and dilapidated store signs have become commonplace.

But there are signs of life. While shoe stores, clothing shops and newsagents are closing, service suppliers such as coffee shops, hairdressers and nailbars are stepping in to fill some of the gaps.

Many of these begin as pop-up shops – temporary stores that pay a token fee or nothing – for space. Although they have been around for the past 13 years, they gained traction during the recession, with labels such as J Crew (see box) and Thom Browne using them to promote their fashion brands.

This has raised hopes that temporary stores could breathe life into Britain's dying high streets. Mary Portas, the celebrity retail consultant tasked by the government with rescuing the high street, has embraced the concept. In May 2012, 12 towns, including Stockton-on-Tees and Croydon, were allocated £100,000 to invest in schemes, including pop-ups.

But most analysts think that temporary stores are only part of the solution for Britain's ailing high streets.

Mark Hudson, partner at PwC, says: "Pop-up shops add a degree of interest and energy to the high street but they are, by their very nature, temporary and unless you're going to have lots appearing on a regular basis they are not going to attract people on the routine basis that high streets need.

"In the end, people need to engage emotionally with the high street and go there for social as well as shopping reasons and pop-ups are not going to deliver that," he says.

Darren Yates, partner at Knight Frank estate agents, agrees the problems of the British high street are too deep to be solved by the opening of pop-ups. He says part of the trouble is that the building boom of 2007 created too much retail space, leaving older locations obsolete.

"Pop-ups alone are not going to keep the lights on in the high street," says Mr Yates. "In weaker parts of England, the high street is pretty much gone and I don't think it's down to the internet or supermarkets.

"At the peak of the market in 2007, we had a lot of new schemes going in. Now that pitch that used to be prime is largely empty and the retailer has gone to the new shopping centre. There was just too much development at the peak of the market."

He adds that where 20 or 25 years ago retailers needed stores in 500 or 600 locations to get national coverage, now they can do it in just 200 stores.

"A lot of the old-fashioned high street stores are too small and of poor quality, and they need a lot of capital expenditure. Retailers would rather focus their efforts on larger better-quality stores in fewer locations."

But even if they cannot save the high street, the trend towards pop-ups is likely to continue.

An online marketplace, wearepopup.com, has recently been launched, with investment from the former backers of lastminute.com and Lovefilm. The website acts as a search engine, helping landlords find tenants looking for short-term rentals in otherwise empty stores.

Nicholas Russell, chief executive at We Are Pop Up, says pop-ups can have a valuable role to play in reversing the high street's demise, filling shops and showcasing local talent.

Small businesses are able to launch new ideas in a "stripped down, faster and more efficient way", while larger businesses can generate a buzz about a product with much lower risk, says Mr Russell.

He points to the thinning line between online and offline commerce.

For example, Moo.com, the online business card printer, used We Are Pop Up to set up a store earlier this year.

"The line between online and offline commerce has disappeared, challenging the real estate industry to change how they think about letting space," he says

On average, leases secured through We Are Pop Up last about two months, but some users have ended up staying. Perhaps the most successful pop-ups will become permanent.

Topsy-turvy: pop-up shops such as this one selling Alice in Wonderland plates offer high streets a new lease of life

King's Cross Temporary outlets help transformation

Congested and dirty, the area surrounding London's King's Cross railway station used to be a byword for urban decay. But no longer.

Although the final stage of the £550m redevelopment of the Victorian station and its forecourt was completed in September and The Guardian newspaper and Central St Martin's School of Art have already moved into the area, work will continue until 2020, when visitors should encounter a bustling district of art galleries, shops and offices, including Google's landmark new UK headquarters.

In the meantime, there are pop-up shops, which Nick Searl, partner at Argent and part of the King's Cross Central Limited Partnership, is hoping will catalyse the transformation of the area from a grungy thoroughfare to a destination in its own right.

"We are still a large building site," he says, "but we're creating an experience anyway. We've picked an area of London that has a challenging history and we are trying to create a sense of proper place and destination."

In May, J Crew, the outfitter loved by US First Lady Michelle Obama, opened a pop-up outlet for two days. Now there is Kerb, a village of food trucks and stalls, which sets up for one or two days.

There is also a restaurant called Shrimpy's, set to run for three years on the site of an old BP petrol station.

Mr Searl says: "The place is transforming anyway, but because it's early into its evolution, we haven't the established shops," he says. "The pop-ups generate good publicity and that attracts Londoners to come and enjoy the area." **GP**

Entrants Offering economic boost

The EY Entrepreneur of the Year awards, now in their 27th year globally, celebrate and commend entrepreneurial companies and offer them unrivalled networking, mentoring and recognition, **writes Steve Varley**.

The standard of the 2013 finalists was very encouraging. Between them, they contributed more than £5bn to the UK economy in 2012, growing at an average of 12 per cent and collectively employing more than 54,000 people.

The independent panel of judges for the Entrepreneur of the Year programme – which was chaired at the UK level this year by Sir Nigel Rudd, chairman of Invensys, the global technology group – said they understood the importance of supporting these vibrant businesses.

The entrants, the judges said, had demonstrated a willingness to take risks, seize opportunities and exemplified the entrepreneurial spirit that is driving the increasing flow of good news and confidence in the economy.

Within a couple of days of the judges meeting in early September, two finalists demonstrated this confidence by indicating that they were in the advanced stages of planning initial public offerings in London.

Entrepreneurs say they are excited about the future – they can see growth in the UK and abroad and there are encouraging signs that the capital markets are reopening to support their funding needs.

Entrepreneurs are at the heart of any economy, and EY is proud to recognise their accomplishments with the EY Entrepreneur of the Year awards.

Steve Varley is chairman and managing partner, UK & Ireland at EY

Academics work with industry to convert knowledge into products

Universities

Intellectual property is big business but finding funds is key, writes *Adam Palin*

The Nobel Prize-winning discovery of graphene at the University of Manchester was a UK research triumph. The "wonder material", a single atom layer of carbon, has manifold potential applications, ranging from stronger touch screens to faster computer chips.

Since its isolation in 2004 there has been a flurry of graphene-related patents filed, yet UK applicants account for only a negligible share. Many saw this as a missed opportunity for the country's universities to capitalise on world-leading research.

"It's quite well accepted that the UK punches well above its weight in research but is not similarly excellent at commercialising it," says Greg Smith, chief financial officer at IP Group, a specialist in the commercialisation of intellectual property.

But Nathan Hill, business development and strategy director at the National Graphene Institute, disputes claims that the low number of graphene-related patents represents a failure to turn research into products. "Our emphasis is on a small number of high-quality patents . . . not engaging in the land grab that's been under way," he says.

The Manchester-based NGI, supported by £38m of government funding, acts as a conduit between UK academics and industry.

Given scarce direct government funding for intellectual property commercialisation, many universities have developed their own partnerships with the private sector.

IP Group partners with 12 UK universities, with which it has launched more than 100 spin-out companies since 2000. One of the FTSE 250 company's successes is Retroscreen Virology, a healthcare spin-out from Queen Mary University of London, whose market capitalisation is almost £200m.

In return for providing commercial and financial support, IP receives a large minority stake in each company. "It takes a particular skillset to take a Eureka moment to product success," says Mr Smith. "It therefore makes sense for universities to have a specialist partner."

The company also worked with University of Leeds academics to develop their nylon bead cleaning technology into the spin-out business Xeros via patent protection, product development and the establishment of a management structure. Having raised £15m, Xeros is rolling out its water-efficient commercial washing machines this year, he says.

Imperial Innovations, a spin-out from Imperial College, has technology commercialisation rights over intellectual property developed at the London university. The listed company, which focuses on healthcare, also collaborates with Oxford, Cambridge and University College London on a non-exclusive basis.

However, good science alone is not sufficient for success. Spin-outs need both high-calibre management and "continuity and patience of funding", says Russ Cummings, chief executive, who adds that "deep pockets" are paramount to a long-term commercialisation relationship. Imperial has invested the bulk of a £140m fundraising in 2011 in company research and development.

Cambridge and Oxford are two universities that have the financial weight to throw behind the commercialisation of their research.

Isis Innovation, the latter's technology transfer company, directly invests in promising technology. "Quite often the value of intellectual property is not apparent to industry partners [so] we may invest to take it further," says Tom Hockaday, managing director. Oxford's chemistry department nonetheless has a long-term partnership with IP Group, which has invested in spin-outs including Oxford Nanopore, a DNA technology company.

> 'The UK punches above its weight in research but is not similarly excellent at commercialising it'

Tony Raven, chief executive of Cambridge Enterprise, the university's commercialisation arm, cites Astex Pharmaceuticals to illustrate the power of university investment in spin-outs. The drug discovery company, acquired for $886m last month, received £250,000 in early funding from Cambridge in 1999.

Mr Raven says the timescale involved in the development of science and technology is "often beyond the investment patience of the venture capital industry".

A lack of competition among risk capital providers has contributed to holding back technology spin-outs in the UK, adds David McBeth, director of research and knowledge exchange services at the University of Strathclyde. "The flow of money in the UK is not as quick [as in Silicon Valley or Boston]," he says.

The capacity of investor networks to generate a virtuous cycle of reinvestment in start-ups makes them prized by universities and commercialisation partners. Though many institutions have long been nurturing investor communities, networks of angel investors are arguably most mature at Oxbridge. Mr Raven estimates that for every pound invested by Cambridge, six pounds flow from angel investors, such as Cambridge Angels and Cambridge Capital Group.

Given their social mission, however, universities are not simply concerned about returns on their investment. "Technology transfer is not about trying to plug deficits in university funding," says Clive Rowland, chief executive of UMIP, which manages the University of Manchester's intellectual property commercialisation. "Our focus is to improve the economy by transferring knowledge."

Maximising knowledge transfer for public benefit is the goal of the Easy Access Initiative, a collaboration initiated by Bristol, Glasgow and King's College London that involves 18 universities.

Only 5 per cent of intellectual property gets commercialised, says Neil Bowering, head of knowledge exchange at Glasgow. Through this initiative, universities share knowhow with companies for free. By removing barriers to knowledge, industry and universities can develop long-term collaborations, he says. It is hoped that closer partnerships with business can help convert university knowledge into future products.

Majid Hussain
Accrol Papers

While there are myriad grant schemes and mentoring assistance available for growth businesses, even more could be done to encourage entrepreneurship in the UK. For example, the planning rules could be simplified – there is still too much bureaucracy to overcome.