The Ten Percenters

Fast Growing SMEs in Great Britain
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FOREWORD

by Peter Morgan, Partner, Deloitte & Touche

Deloitte & Touche prides itself on being a ‘Big Six’ accountant, providing services not only for the largest UK companies but for many rapidly growing SMEs (small and medium enterprises). These firms, which in the past have been ignored by almost all economic commentators, are increasingly seen as the British ‘Mittelstand’.

For much of the 1980s governments primarily equated ‘enterprise’ with the number of individuals starting a new business, but is now also seeing the ‘Mittelstand’ as vital to British competitiveness and job creation. But who are these firms? Where are they found? And what do they need to help them perform even better?

To begin to answer these questions, we asked Professor David Storey at Warwick University to investigate. His work in the past has shown that, amongst SMEs in general, a small proportion of fast-growing firms were major contributors to employment creation and competitiveness. We have asked him to put certain ‘fast growers’ under the microscope. The criteria we have used in our research have been met by 10 per cent of the population surveyed and hence we have described these companies as the “Ten Percenters”.

This report, in which Professor Storey comments on certain characteristics of the Ten Percenters, is solely the result of his initial statistical analysis of these companies.

His next step will be to examine in greater detail the factors which have contributed to the success of these businesses. This should provide useful insights both for us in our attempt to provide relevant business advice to these businesses and for other companies which seek to emulate their success.
EXECUTIVE SUMMARY

This report is about UK companies which are not subsidiaries and meet the research criteria for having grown fastest, in terms of turnover, during the past four years. As explained in the Foreword we have called them the Ten Percenters. Initial analysis revealed the following:

- **Sectoral composition**
  It is particularly noteworthy that the Ten Percenters are found across a diverse range of industry sectors. Whilst there are sectoral variations in the concentration of Ten Percenters, these are modest. Manufacture of office machinery and data processing equipment has the highest proportion of Ten Percenters at 27 per cent. The manufacture of paper products, printing and publishing has the fewest at six per cent. Wholesale distribution boasts the highest absolute number at 133 companies.

- **Company age**
  Younger companies are more than three times more likely to be Ten Percenters than older companies.

- **Sales turnover**
  A higher proportion of Ten Percenters is found among firms with a turnover of £20m-£100m than among those with lower turnover.

- **Employment size**
  A higher proportion of Ten Percenters is found among firms with under 25 employees, although an above average number is also found in those with 500 or more employees. However, it should be noted that employment information was not available for all companies within the sample.

- **Profitability**
  The Ten Percenters are most heavily concentrated among firms with the highest profit rates (pre-tax profit expressed as a percentage of turnover). Somewhat surprisingly, however, 12 per cent of Ten Percenters are loss makers.

- **Geographical distribution**
  Analysis of the location of the registered office shows that the Ten Percenters are more likely to be found in Southern England, and Central London in particular.
Section 1

INTRODUCTION

Small and medium enterprises (SMEs) are recognised by governments throughout the world as a key source of competitiveness, innovation and new jobs. In Britain, throughout the 1980s, governments sought to create a climate of ‘enterprise’ with a focus on new or start-up businesses. In the mid 1990s this has clearly changed, with much less emphasis given to start-ups. Nowadays it is recognised that there are three ‘types’ of SME.

- **Turnover Businesses:**
  About one third of businesses in operation today will not survive three years and almost 40 per cent of businesses currently trading did not exist three years ago. Short life or ‘turnover’ businesses constitute more than one third of all SMEs.

- **The Trundlers**
  Excluding the ‘turnover’ businesses, the bulk of SMEs are likely to have survived for 10 years or more. However, as they age, businesses are less likely to provide additional employment. These broadly static, but surviving, SMEs are referred to as the ‘trundlers’. They constitute well over half of SMEs.

- **Growing Businesses**
  Research has shown that, over a decade, four per cent of SMEs provided 50 per cent of new jobs created by small and medium enterprises. At a time when the large firm sector in the UK and elsewhere has been shedding jobs, and the SME sector has been gaining jobs, it is clear that growing businesses are crucial to employment in the UK. These companies, although few, are hugely important for the economy.

Government has responded to these key research findings, for example, in its creation of Business Links (BLs), which seek to focus their services upon growing businesses. In practice, BLs have a remit to focus on a wider range of businesses and also have responsibilities for those ‘with growth potential’.

Because of the interest in growing businesses, we have selected this sector for our research. Companies have been selected on the basis that they are rapidly growing. This report outlines the results of initial statistical analysis.
Section 2

DEFINITIONS

The following definitions were used to identify SME rapidly growing companies:

- A limited company or group of companies.

- Achieved growth in turnover at least equivalent to 30 per cent compound per annum over the last four financial years, taken as a whole either as an individual company or as a group of companies.

- Current turnover of between five and 100 million pounds.

- The company or group of companies is not a subsidiary of another company.

The ICC/OneSource UK Companies database for February 1996 was used for the analysis. At that time 7,203 companies were classified as limited, non-subsidiary companies with a turnover of between five and 100 million pounds and with four years of records. Of these, 708 or 9.8 per cent, had experienced turnover growth as defined above. These businesses are referred to as the Ten Percenters.
Section 3

SECTORAL COMPOSITION

The sectoral composition of the Ten Percenters is shown in Figure 1. It only includes those sectors in which there are more than 10 Ten Percenters.

It shows that there are eight sectors where more than 10 per cent of ‘eligible’ companies have experienced a cumulative growth rate in excess of 30 per cent over a four year period.

Some of the sectors might have been anticipated – such as manufacture of office machinery and data processing equipment. Business services and recreation and cultural services might also have been anticipated, but it is interesting to note that within the broad ‘business services’ category, the highest proportion of Ten Percenters is found in computing services and banking-related business services. Hotels and catering also have a comparatively high proportion of Ten Percenters.

Among the more surprising inclusions are education and businesses dealing in real estate.

Looking now at sectors with a lower than average proportion of Ten Percenters, the presence of wholesale distribution, retail distribution and construction are unsurprising. Manufacturing is heavily represented with mechanical engineering, paper product manufacturing, printing and publishing having the lowest proportion of fast growing firms as might be expected. A perhaps unexpected inclusion is electrical and electronic equipment.

The overall impression is that there is a clear difference between manufacturing and services, with the latter having significantly more Ten Percenters than the former.

“There is a clear difference between manufacturing and services, with the latter having significantly more Ten Percenters.”
Figure 1 – Sectoral Composition of Ten Percenters

<table>
<thead>
<tr>
<th>Sector</th>
<th>Ten Percenters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
</tr>
<tr>
<td>1. Manufacture of Office Machinery and Data</td>
<td>27.5</td>
</tr>
<tr>
<td>Processing Equipment</td>
<td></td>
</tr>
<tr>
<td>2. Business Services</td>
<td>21.6</td>
</tr>
<tr>
<td>3. Recreation and Cultural Services</td>
<td>20.5</td>
</tr>
<tr>
<td>4. Other Services</td>
<td>19.5</td>
</tr>
<tr>
<td>5. Education</td>
<td>19.4</td>
</tr>
<tr>
<td>6. Miscellaneous Transport Services</td>
<td>11.9</td>
</tr>
<tr>
<td>7. Owning and Dealing in Real Estate</td>
<td>11.7</td>
</tr>
<tr>
<td>8. Hotels and Catering</td>
<td>10.4</td>
</tr>
<tr>
<td>9. Wholesale Distribution</td>
<td>8.6</td>
</tr>
<tr>
<td>10. Chemicals</td>
<td>8.2</td>
</tr>
<tr>
<td>11. Footwear and Clothing</td>
<td>7.9</td>
</tr>
<tr>
<td>12. Electrical and Electronic Equipment</td>
<td>7.5</td>
</tr>
<tr>
<td>13. Construction</td>
<td>7.0</td>
</tr>
<tr>
<td>14. Retail Distribution</td>
<td>6.7</td>
</tr>
<tr>
<td>15. Mechanical Engineering</td>
<td>6.3</td>
</tr>
<tr>
<td>16. Manufacture of Paper Products, Printing</td>
<td>6.3</td>
</tr>
<tr>
<td>and Publishing</td>
<td></td>
</tr>
<tr>
<td>17. ALL OTHER SECTORS</td>
<td>8.6</td>
</tr>
</tbody>
</table>
"The sectoral diversity of the businesses is noteworthy."

Figure 1 also illustrates that very different rankings would result if the sectors were listed according to the number of Ten Percenters they contain. Using this criterion, wholesale distribution and business services would be the most important sectors.

Nevertheless, the strong impression which emerges is that Ten Percenters are found in a wide variety of sectors. While services contains a higher proportion than manufacturing, it is the sectoral diversity of the businesses, rather than their concentration which is noteworthy. The fact that the education sector has a higher than average proportion of Ten Percenters suggests fast growth businesses are not always found in the more 'glamorous' sectors.
Section 4

COMPANY AGE

Figure 2 clearly demonstrates that a higher proportion of younger companies are Ten Percenters than older companies. It shows only 3.2 per cent of companies incorporated before 1960 were classified as Ten Percenters, compared to 37.4 per cent of companies incorporated in the 1990s.

Due to the requirement that Ten Percenters should provide four years of financial information, there are comparatively few Ten Percenters, incorporated in the 1990s included in the table. However, given the previous pattern, it is likely that a high proportion of these businesses will have achieved very high rates of turnover growth.

Figure 2 – Age of Company: Year of Incorporation

<table>
<thead>
<tr>
<th>Incorporation Year</th>
<th>Ten Percenters</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre 1960</td>
<td>3.2</td>
<td>66</td>
</tr>
<tr>
<td>1960-1979</td>
<td>5.8</td>
<td>143</td>
</tr>
<tr>
<td>1980-1984</td>
<td>12.3</td>
<td>132</td>
</tr>
<tr>
<td>1984-1989</td>
<td>20.9</td>
<td>306</td>
</tr>
<tr>
<td>1990-</td>
<td>37.4</td>
<td>61</td>
</tr>
</tbody>
</table>
Section 5

SALES TURNOVER

Figure 3 shows that higher sales turnover bands contain a slightly higher percentage proportion of Ten Percenters. This may be because the smaller turnover bands have a disproportionately high number of "turnover" businesses, mentioned in the Introduction, which inflate the population of low growth companies.

<table>
<thead>
<tr>
<th>Sales Turnover</th>
<th>Ten Percenters</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>£5-10m</td>
<td>9.2</td>
<td>279</td>
</tr>
<tr>
<td>£10-20m</td>
<td>10.1</td>
<td>217</td>
</tr>
<tr>
<td>£20-50m</td>
<td>10.6</td>
<td>158</td>
</tr>
<tr>
<td>£50-100m</td>
<td>10.5</td>
<td>54</td>
</tr>
</tbody>
</table>
Figure 4 shows the current employment size distribution for 656 out of the 708 Ten Percenters.

It shows that Ten Percenters are more heavily concentrated in companies with less than 25 employees than in larger companies. The proportion of Ten Percenters then falls among firms with 25-500 employees, but rises again among those with more than 500 employees.

However, examining the numbers of businesses classified as Ten Percenters, most are concentrated in the 50-249 employee category.

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Ten Percenters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
</tr>
<tr>
<td>1-9</td>
<td>26.8</td>
</tr>
<tr>
<td>10-24</td>
<td>14.5</td>
</tr>
<tr>
<td>25-49</td>
<td>8.6</td>
</tr>
<tr>
<td>50-99</td>
<td>9.4</td>
</tr>
<tr>
<td>100-249</td>
<td>7.9</td>
</tr>
<tr>
<td>250-500</td>
<td>7.9</td>
</tr>
<tr>
<td>500+</td>
<td>10.2</td>
</tr>
</tbody>
</table>

Note: Information on employees was not available for all companies.

However it should be noted that this table does not necessarily imply that smaller (in terms of employment) companies grow faster (in terms of turnover). This is because the only companies included are those with a turnover in excess of £5m, so many with one to nine employees are not included. This serves to reduce the denominator and so 'inflate' the apparent concentration of Ten Percenters in companies with a smaller number of employees.
In Figure 5 we plot both employment size and sales turnover for the 656 growth companies. For diagrammatic purposes the number of employees is shown in logs. While there are a few anomalies – with two companies having a turnover of over £5m with only a single employee – the general pattern is clear. Growth companies are concentrated in the 10-200 employee category, and with a turnover of up to £20m.

Figure 5 – 656 Growth Companies
Section 7

PROFITABILITY

Figure 6 shows that companies with higher rates of pre-tax profits for the most recent year in which data was available are more likely to be Ten Percenters than those making lower rates or losses. Here profit rates are defined as pre-tax profit, expressed as a proportion of sales turnover. Over 12 per cent of those reporting pre-tax profit rates in excess of 10 per cent were Ten Percenters. It certainly suggests that these companies are not achieving high sales growth at the expense of profitability — ie cutting margins.

Figure 6 also shows that 9 per cent of companies reporting losses in the most recent financial year are Ten Percenters. However, the more significant and perhaps disappointing finding is that 12 per cent of our Ten Percenters are loss makers — a surprisingly high proportion bearing in mind the growth they have achieved. The causes of this will be probed in the next stage of research.

Figure 6 – Profitability Rates

<table>
<thead>
<tr>
<th>Loss/Profit</th>
<th>Ten Percenters</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss</td>
<td>9.2</td>
<td>90</td>
</tr>
<tr>
<td>Profit 0-2%</td>
<td>7.4</td>
<td>158</td>
</tr>
<tr>
<td>Profit 2-5%</td>
<td>10.3</td>
<td>192</td>
</tr>
<tr>
<td>Profit 5-9%</td>
<td>11.8</td>
<td>142</td>
</tr>
</tbody>
</table>

"Companies are not achieving high sales growth at the expense of profitability."

"Companies are not achieving high sales growth at the expense of profitability."

"Companies are not achieving high sales growth at the expense of profitability."
Section 8

GEOGRAPHICAL DISTRIBUTION
(Registered Office)

The geographical distribution of Ten Percenters is shown in Figure 7. It shows that London has the highest proportion of Ten Percenters (14.1) and also the highest absolute number (190). Indeed it is the only region to be above the national average. Despite experiencing severe recession in recent years, the South East has a higher proportion of Ten Percenters than other UK regions. Scotland also has a comparatively high proportion of Ten Percenters.

The unexpected result in the ‘league table’ is the bottom place occupied by the East Midlands, which is often regarded as a microcosm of the UK as a whole. For this reason it would have been expected to have occupied a ‘mid table’ position.

The sectoral influences discussed in Section 3 and the geographical influences discussed here are related. At the most simplistic level London and the South East have more Ten Percenters because they are the centre of ‘business services’, a sector in which Ten Percenters are heavily concentrated.

Although the South East does have a ‘favourable sectoral structure’, there are also clear regional factors at work. Hence the South East fairly consistently has more Ten Percenters in many sectors than the less prosperous parts of the UK – not solely in those sectors in which it is dominant.
## Figure 7 - Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Ten Percenters</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>%</td>
</tr>
<tr>
<td>1. London</td>
<td>14.1</td>
<td>190</td>
</tr>
<tr>
<td>2. South East (excluding London)</td>
<td>10.3</td>
<td>167</td>
</tr>
<tr>
<td>3. Scotland</td>
<td>10.2</td>
<td>55</td>
</tr>
<tr>
<td>4. South West England</td>
<td>9.8</td>
<td>50</td>
</tr>
<tr>
<td>5. North West England</td>
<td>8.6</td>
<td>61</td>
</tr>
<tr>
<td>6. Wales</td>
<td>8.6</td>
<td>15</td>
</tr>
<tr>
<td>7. West Midlands</td>
<td>8.4</td>
<td>46</td>
</tr>
<tr>
<td>8. East Anglia</td>
<td>8.4</td>
<td>40</td>
</tr>
<tr>
<td>9. Yorkshire and Humberside</td>
<td>8.0</td>
<td>50</td>
</tr>
<tr>
<td>10. North East England</td>
<td>7.6</td>
<td>14</td>
</tr>
<tr>
<td>11. East Midlands</td>
<td>4.6</td>
<td>20</td>
</tr>
</tbody>
</table>
The next step is to discuss with these companies the reasons why they have been so successful. This is intended to provide insights which will be useful to others seeking to emulate their achievements and to ourselves to enable us to understand better, and thus improve our advice to, these companies. It will also be a vehicle for the companies themselves to present their point of view about the obstacles which they face and the actions which can be taken to enable their companies to perform even better. A subsequent report will present the results of this detailed research.
Section 10

CONTACTS

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Bristol           Martin Hagen         01179 211622
Cambridge         Andy Swarbrick       01223 460222
Cardiff           John Antoniazzi      01222 481111
Crawley           Michael Berners Price 01293 510112
Dartford          Mike Moran           01322 277777
Edinburgh         David Williamson     0131 225 6834
Glasgow           Jack Nicolson        0141 204 2800
Leeds             Jonnie Oldham        01132 439021
Leicester         Peter Hipperson      01162 562200
Liverpool         Steve Wilkinson      0151 236 0941
London            Peter Morgan         0171 936 3000
Manchester        Gerry Boon           0161 228 3456
Milton Keynes     Vincent Davies       01908 666665
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