helm

The scale-up state of play report

December 2022

Introduction

This has been an uncertain year for many in the UK. The economy has been rocked by a series of unforeseen and unexpected upheavals. At the start of the year, as we emerged out of the worst of the pandemic, there was plenty of optimism around. The only potential cloud on the horizon was the threat of some Covid-induced, supply-side inflation. At the time it was expected to peak in the spring, comfortably in lower single figures, and then start to fall back. So much for forecasts.

What strikes me reading the results from this year's Helm member survey is the sheer resilience of the scale-up economy our members represent. In the face of an unexpected war in Europe, the residual side effects of Covid, political upheaval and spooked financial markets, VC funding has become harder to secure and inflation has hit a 40-year high. And yet, Helm members' growth expectations remain buoyant. In fact, they seem more resilient and positive than last year.

It's possible that last year's numbers were supressed by lingering Covid uncertainty, with some members more worried about their prospects for 2022 than they might have been. But in the face of 2022's rollercoaster of events, it is uplifting to see how their resilience has allowed them to bounce back and look to next year with a more positive perspective. This year, members are more bullish and confident about plans for growth than in 2021. There remain challenges and threats ahead, notably in the area of talent and people management, but they don't appear to be enough to dampen Helm members' expectations.

There has been a dip in expected exit activity, but that may be a reflection of financial markets. No one wants to sell at the bottom of a market, so it seems fair that members who may have had plans to sell are putting them on ice and delaying for a year or two.

It remains a testing environment for everyone running a business, and scale-up founders have to face challenges they aren't always equipped to deal with. It's at times like this that the support of a community of like-minded individuals proves its worth.

I'd like to take this opportunity to thank all the Helm members who contributed to this survey and who continue to contribute to our community. Together we are stronger and as a community we will continue to thrive as we head into whatever 2023 has to offer.

– Andreas Adamides, CEO, Helm

About Helm

- Helm has been supporting founders with growth for almost 20 years
- The average member company has a revenue of £20m
- The average member company has a headcount of 27 staff

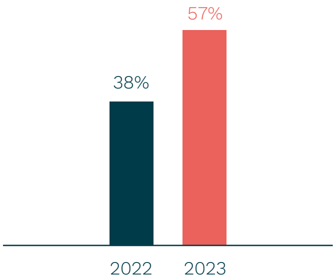
How Helm helps

When asked if their business had grown since joining Helm and by how much, members reported **having grown on average by 80%** since joining the community.

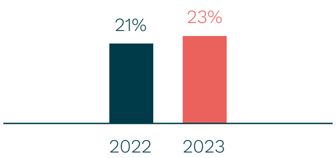
Executive Summary

Projected growth 2023 v 2022

Average projected growth (turnover):

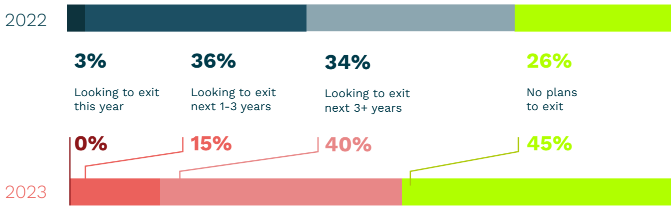


Average projected growth (headcount):



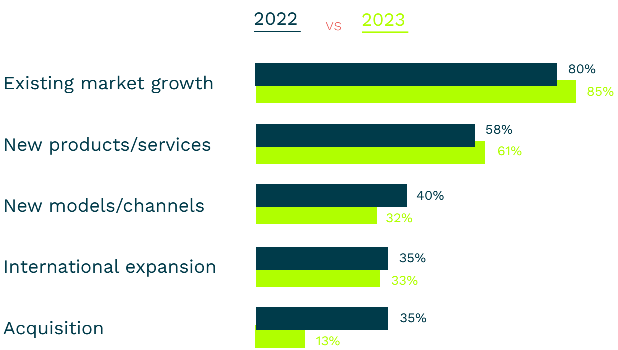
Exit plans

We asked members what their exit plans were. We have compared this stat with what members had answered last year.



Methods of growth

How are you looking to grow next year, compared to 2022 prediction.

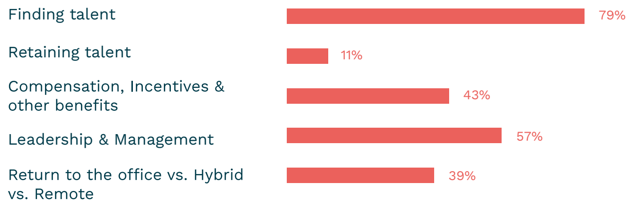


Challenges

We asked members what challenges they are currently facing. This is what current members have said

People Challenges

For those members that indicated they are having people challenges, these are the themes.



Key findings

- Growth expectations for 2023 are higher than they were for 2022
- Covid played a part last year, with war and the cost-of-living crisis affecting this year
- Headcount growth is expected to be lower than revenue growth in 2023
- This may reflect the fact that finding talent is one of the key challenges for founders
- Growth is expected to come primarily from existing markets, but growth through M&A is also up compared to 2022. This may reflect lower valuations for target companies
- They may be buying, but fewer members are looking to sell, with fewer exits planned for 2023, as founders look to exit over the next 3-5 years

Projected growth plans

Business founders who join Helm want to scale their business. To join they have to have reached the £1m mark in annual revenue. This inevitably means the business has already gone through changes and will be a different outfit from the way it was in its very early days.

Lots of our members have raised funding, or are in the process of doing so, and many have also appointed a senior leadership team (to allow them to step back from day-to-day operations). They may have already launched a secondary product or service line, or have implemented a growth framework, such as the Entrepreneurial Operating System (EOS).

Whatever they have already done and achieved, they recognise that there is a lot more they still need and want to do. This where being part of the Helm community comes into its own. The ability to share ideas and insights, tips, contacts and suggestions with fellow founders proves a useful tool to boost their growth. Members tell us all the time how much they value both the wisdom of fellow members and the ability to help each other.

Projected business growth

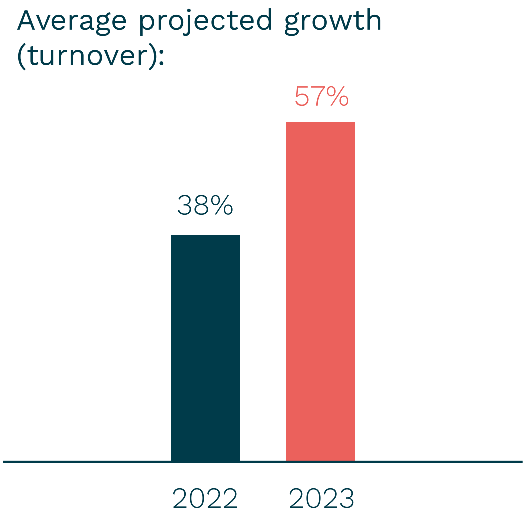
For all the doom and gloom in the global economy and financial markets, Helm members remain resolutely positive and upbeat, decisively more so than when we asked them last year.

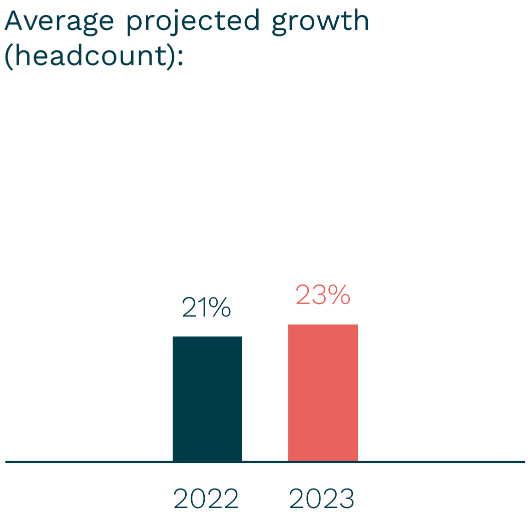
Helm member, investor and tech founder, Fiona Hudson-Kelly, points out that this time last year we were still in the grip of Covid uncertainty. “While things were picking back up at this point, there was still a lot of concern whether we’d go back into lockdown,” she says. For members in some sectors, Covid-19 was a “near-death experience” and so it’s natural it would have had a chilling effect on confidence, with the prospect of more shut downs still in the air when we asked members in 2021.

The impact of Covid-19 uncertainty on last year’s findings is hard to calculate, but it was clearly a factor when we asked members to predict growth for 2022. Now, after a year of political chaos in the UK and impact of the ongoing war in Ukraine, recession, rising inflation and higher interest rates when asked to predict their growth next year, **members’ average projected growth rate was 57%**. This compares to 38% when we asked in 2021.

Perhaps as an indicator of the increasing use of automation, a reflection of the need to get better productivity out of their existing team, or a realistic assessment of the difficulty they will face in finding and recruiting talent, the difference in predicted headcount growth rate this year compared to last years is significantly less noticeable.

When asked to project growth rate in headcount for 2023, members offered an average projected growth of 23%, compared to 21% last year.





So what?

The lingering clouds of the pandemic loomed over the 2021 survey, and when members were asked to predict 2022 growth they were reflecting on another year of lockdowns, upheaval and uncertainty. While the crisis of the pandemic has passed for now, it has been replaced by a rolling series of new ones. No wonder Collins Dictionary chose “permacrisis” as the word of 2022.

And yet, something in the nature of these crises, from recession to inflation and high interest rates and even – to a lesser extent – war, is at familiar to founders. With the exception of a war in Europe, many founders have witnessed or experienced such political and economic upheavals before.

The dramatic threat of complete shutdown and the existential threat Covid represented had a far more chilling effect on business confidence than more manageable problems of supply chain logistics, political party leadership contests and a potential recession.

In fact, some of our more entrepreneurial members claim to see opportunity in recession and uncertainty. Having sat through two years of the pandemic, many also speak of having reached a point when they simply refuse to give in anymore. It is time, many feel, to just get back to life as normal and to get back to running their business in that manner, too.

Our members are more optimistic for 2023, even as the economy and big tech in particular experiences a downturn, with announcements of major layoffs an almost weekly occurrence at the moment. No wonder *Y combinator is warning start-up founders to plan for the worst*.

When it comes to headcount growth, there is small rise of 2% on last year. This suggests founders recognise the risks of potentially over-expanding headcount and the costs that come with rectifying such mistakes. They are being careful not to make the same mistakes we have seen within VC-backed tech firms, especially with fintech firms such as Klarna and Pleo, when it comes to over hiring, and then having to make redundancies.

Most economic forecasts for next year suggest inflation and the cost-of-doing-business will remain high. The energy crisis is unlikely to resolve quickly and government support for business energy costs will end in the spring. With inflation at a 40-year high, founders are aware of the extra vulnerability this brings, not to mention the risks of recession. It is great to see members so optimistic on business growth, even as they remain realistic when it comes to headcount.

Methods of growth

Members are optimistic that they will be growing and scaling their business through 2023. But there are many different routes and methods to grow a business.

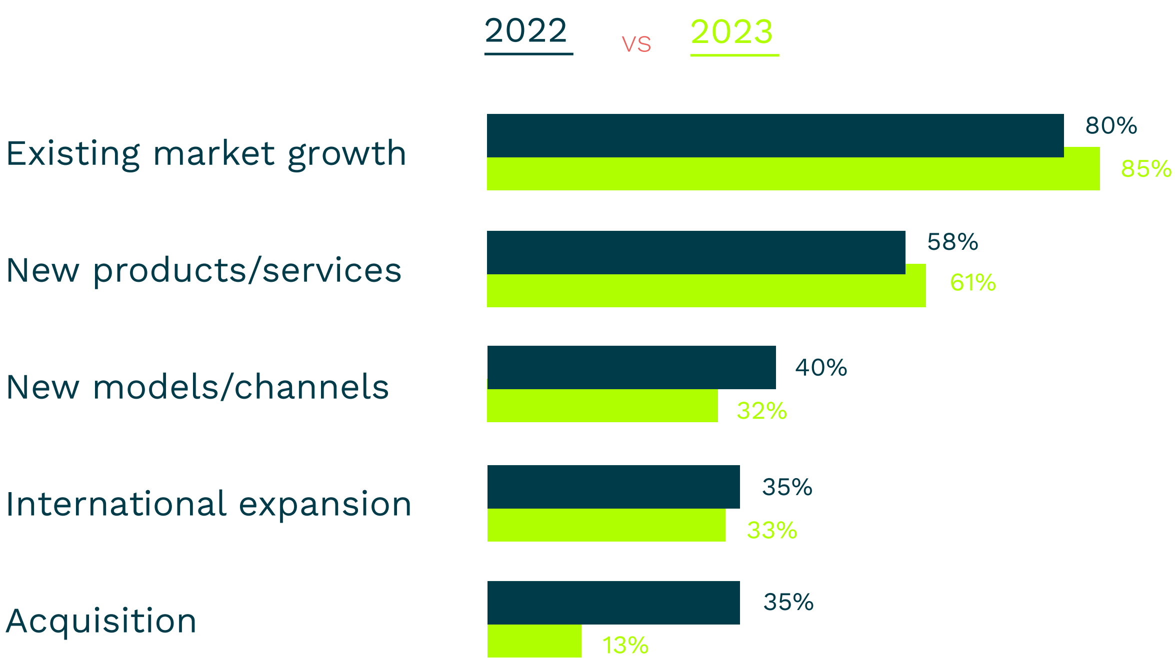
Helm members operate across a wide range of industries and run businesses at all stages of the business life cycle, so it's not surprising to find a wide spread of opinion in terms of the most likely method of expansion. The pattern is broadly similar to last year, with the most popular route for growth for Helm members being growth in their existing market. **This is down slightly at 80% this year, compared to 85% last year**. The slight drop may be a further indicator (if any were needed) that members are seeing the UK economy take a slight dip.

Perhaps the most surprising shift, and **a possible sign that M&A deal volume may pick up** again next year (after a disappointing 2022, compared to a bumper 2021), is the fact that **35% expect to grow by acquisition next year, a figure that has leapt up from just 13% last year**. It may be that the cooling of the market in 2022 has taken some heat out of prices and made more members feel an acquisition may be more affordable now.

As a collection of innovators and entrepreneurs, it is not surprising to find new product development rank highly again as a means of growth, with **58% expecting to develop new products or services this year**, compared to 61% last year.

The acceleration of technological change is perhaps reflected in **the expectation of 40% of members that new models and channels will feed growth this year, up from 32% last year**. And while the global economy is also experiencing uncertainty, the importance of global trade is made clear as 35% of members expect to grow through international expansion, up from 33% last year.

How are you looking to grow next year, compared to 2022 prediction.



Exit plans

People found businesses for lots of reasons. For some it starts with having spotted an opportunity to provide a product or service no one else is currently offering, often something they themselves need. For others, it may be their only option – working for someone as an employee not having worked out (lots of successful founders talk about time served as unsuccessful employees). Equally, when it comes to the other end of their journey, founders take many different routes to exit the business.

Some focus on building a legacy through passing a business on to their children, others want to see the business keep scaling and know that external investment is only way to help them achieve that. Yet more reach a point when they know they have taken a business as far as they can and see it is time to sell to someone else. And for lots of founders, an exit through some kind of sale event is the best chance they'll have to be rewarded financially for the risks and hard work of many years.

This year, as last, we asked Helm members about their exit plans for 2023. The response last year was low, but this year was even more muted. It's possible that members are looking at the uncertainty in the market and considering that now is not the best time to sell. It is also possible that this result could be connected to members' growth plans for 2023. If they perceive that they can grow revenue without adding headcount (see section on projected growth above), they see there is a good chance to improve profitability in the next few years. This will have a huge impact on the value they get when they eventually do sell.

As Fiona Hudson-Kelly, who recently sold her business, explains: "There are two factors that influence when it is the right time to exit. The first is because the founder or founders have a number in mind. That is generally based on a multiple of EBITDA. That means they're going to be working to a target EBITDA. The second is opportunity and market conditions."

With members' high expected growth for 2023, and the lack of anticipated extra headcount, it is likely valuations would be much higher after a year of such profitable growth. Hudson-Kelly is clear that the market factors also play a part and says valuations right now are lower than they have been.

"A year ago, as an investor, it was a frustrating landscape in terms of realism of valuations. They were often based on lots of smoke and mirrors. Now we've seen a cooling in the early-stage funding available, that has made some founders realise that their valuations were a bit unrealistic. The market isn't completely depressed, it has just recalibrated. This is probably what would always happen. These things are cyclical. We've seen big tech company valuations decline, and a bit more of a focus on revenue and profit, which is good for investors.

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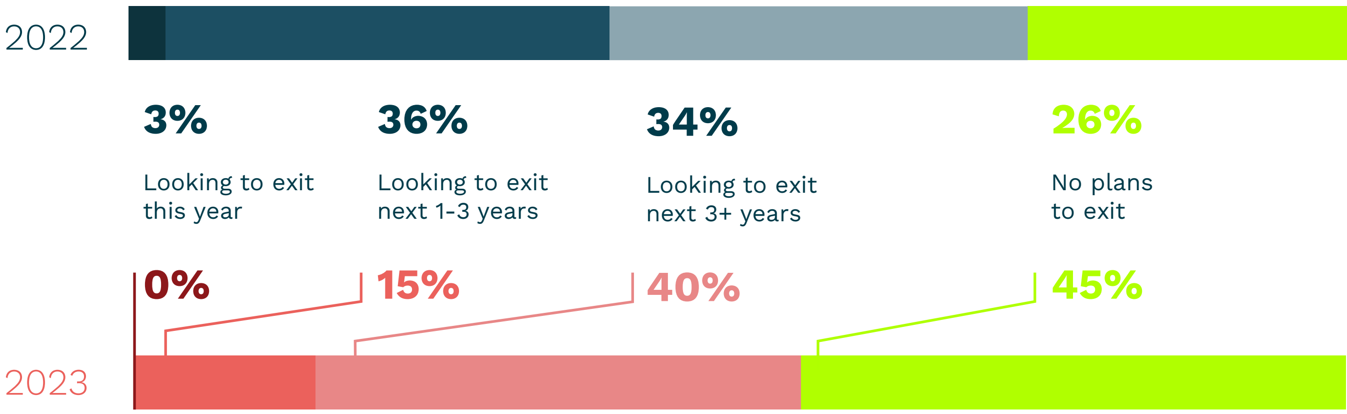


So what?

As the economy dips into recession, founders are naturally taking a more conservative look at their exit plans, extending the time horizon within which they want to sell. More members have no exit plans or are looking to a later exit date.

It is unlikely that 2023 will be a year of major exits, as more founder focus on getting back to growth and especially look to grow profitably with only limited extra headcount employed.

With the recession predicted by the Bank of England, the government and several independent forecasters, to be one of the longest on record, it is likely we might see a significant uptick in exit activity from 2026 onwards. But this, like so much else, is dependent on the economic picture over the longer term.

Challenges

Helm members are all founders of established businesses. They have passed the initial start-up phase, when the main challenges are focused on launch, with issues such as finding the right market fit, building a minimum viable product or keeping things afloat through the often-choppy waters of the early stages of any business.

Our members run UK scale-ups and we wanted this year to explore the challenges that they are facing. As already highlighted, these are challenging and uncertain times and it wasn't clear what are the key issues keeping members awake at night.

With regular reports of a tight labour market, and a difficulty in recruiting talent, it was perhaps no surprise that people challenges topped the list of responses. Along with the inevitable challenge of sales – an inherent feature of many scale-ups is that they can't ever seem to grow fast enough.

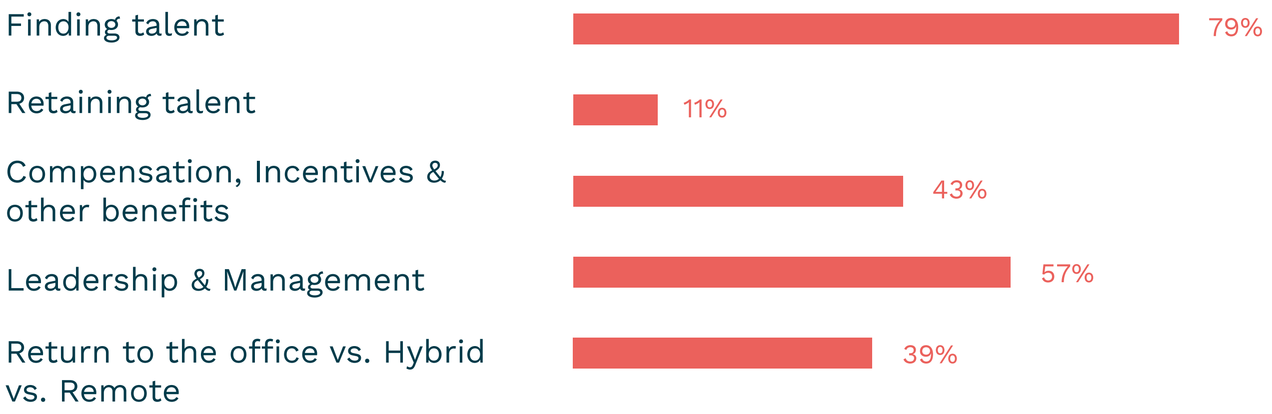
These are not entirely separate responses, since we frequently hear from members that getting reliable senior sales and marketing staff can be tricky at the moment, while members also regularly seek assistance with navigating the ever-complex world of digital sales and marketing.

As the channels shift and change – from in-person to email to social and back – so the major gripes and problems remain similar. How can I achieve a better return on marketing spend? How can I convert a higher proportion of engaged audience into active customers and how can I turn new customers into loyal advocates?

We asked members what challenges they are currently facing.
This is what current members have said

For the 60% who selected "people" as their main challenges we then dug a little deeper and asked them to be more specific, selecting as many people challenges from a prompted list. Here the results were a little more surprising, notably for the low number of members who felt that retention of talent was a challenge. This again possibly reflects the fact that our members run high-growth scale-ups where there are always new opportunities opening up. Retaining talent in a high-growth, positive environment is easier than when things are hard and business is stable or sluggish.

For those members that indicated they are having people challenges, these are the themes.



Leon Milns is one of the co-founders of digital marketing recruitment company We Are Adam. He says that there is no surprise that people challenges would be the top issue facing Helm members.

“This is what we are hearing time and again from clients, prospects and the wider market. It’s no surprise finding talent remains such a huge challenge for business leaders, there is a shortage of good people across all roles and all industries. Business leaders have to work hard to make their business stand out and be different, to make it the chosen destination for the best candidates.“

But Milns is surprised to see retention score so low. “Retention is vital for good businesses. They have to do all they can to keep star performers. Maybe having grown the business, the key to retention is less of a mystery to members and thus it’s less of a challenge. Helm members know they have to match their talk on culture with delivery, that they need to offer flexible working and rewarding work with clear career development opportunities.”

When it comes to being an attractive place for prospective employees, Milns says the desire for flexible working has shot up the requirement list since the pandemic. But he says people also want to see an authentic culture and to believe in the leadership and vision of the organisation. “They want to see the leaders have a vision and to be able to see how they will contribute to the organisation’s success.”

Milns adds that seeing “Leadership and management” score highly as a people challenge could well be about this need to lay out a clear and meaningful vision from the top. But it could also relate to the challenge of finding people able to step up into positions of management and leadership, allowing founders and CEOs to step back and focus on future growth. “The question is are we setting up businesses that allow employees the opportunity and space to make decisions, fail and learn? As long as this happens in a supportive, learning environment and the failure can be fast and limited, it can be very positive.”

Conclusion

There is no question that all business owners face a tough couple of years, but this doesn't mean that scale-up founders won't be looking to do all they can to continue their expansion and growth journey.

While people resources and a lack of available, affordable talent remains a major challenge, it will be interesting to see if this is one area where a slight economic downturn presents opportunities. As large companies begin to shed employees in large numbers in order to hit financial targets needed to keep investors happy, so that talent pool may become available to smaller, fast-growth companies. And if the market tips back slightly in favour of employers, rather than being so tilted towards employees, maybe financial demands will also dip enough to make recruitment easier.

Whatever happens in the economy, fast-growth scale-ups of the kind founded by the members of Helm will continue to thrive. Even if some don't quite realise their own optimist growth forecasts, they'll have put themselves in a great place to really take off once the economy does pick back up.

While it is difficult to predict the details of how inflation and interest will move and when, it is clear that both are likely to drop back - even if not right back to the historic lows of the last decade. But here, as elsewhere, Helm members see reasons for optimism and opportunity. By being part of the Helm community, by being able to draw on the support of one another and being able to offer back help to other members when they need it, our members put themselves in the best possible position to thrive when the recession ends and a new dawn arrives.