THE GROWTH ECONOMY POST COVID

The perspectives of women who lead growing businesses

BGF in partnership with Delineate
In October 2020, BGF produced a report in partnership with the historian Sir Anthony Seldon that reviewed the funding landscape for growing businesses in the UK. The report included the results of exclusive research carried out by PwC that identified 21,400 companies in the UK that are fast-growing, big enough to have outgrown early-stage funding, and yet generally too small to list on stock exchanges. These companies are “the growth economy”. On average their revenues are rising at twice the pace of GDP. They are dispersed across all nations of the UK and they are crucial employers in every region.

Building on the original report, BGF commissioned research firm Delineate to carry out a survey to understand the concerns and needs of the senior managers who lead growth economy businesses. The results of that research, which surveyed more than 500 business leaders, were published at the end of 2020. They revealed challenges relating to the Covid-19 pandemic and to Brexit, while also identifying resilience and optimism among entrepreneurs.

In this report we have homed in on a subset of that sample: the 152 women in the survey. These women are executives, board members, senior managers, owners and partners of businesses. To be eligible to take part, their business had to employ at least 20 employees and generate turnover of at least £2 million. This report examines their views.

In the following pages, we’ve also included case studies of some of the women who lead companies in the BGF portfolio. Although their businesses were not included in the research - to ensure the findings were fully independent, BGF portfolio companies were excluded - we believe their stories are valuable in showing the forms that female entrepreneurship takes in 2021. Clearly, these are difficult times for the economy, but with creativity and determination, we see a bright future for female-led businesses.

“Clearly, these are difficult times for the economy, but with creativity and determination, we see a bright future for female-led businesses.”

### ABOUT THE SAMPLE

Delineate carried out the research in October and November 2020. The sample consists of 152 female executives, board members, senior managers, owners and partners of businesses. Businesses had to have a turnover of more than £2 million and at least 20 employees.

BGF portfolio companies were excluded. The sample is derived from a larger database of 532 male and female respondents. Percentages may not add up due to rounding.

#### Location of respondents’ company

<table>
<thead>
<tr>
<th>Location</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>London &amp; the South East</td>
<td>36%</td>
</tr>
<tr>
<td>North West</td>
<td>18%</td>
</tr>
<tr>
<td>Midlands</td>
<td>14%</td>
</tr>
<tr>
<td>North East, Yorkshire &amp; Humberside</td>
<td>12%</td>
</tr>
<tr>
<td>Wales &amp; South West</td>
<td>9%</td>
</tr>
<tr>
<td>Scotland &amp; Northern Ireland</td>
<td>6%</td>
</tr>
<tr>
<td>East of England</td>
<td>5%</td>
</tr>
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</table>

#### Turnover of respondents’ company

<table>
<thead>
<tr>
<th>Turnover Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>£2-5m</td>
<td>36%</td>
</tr>
<tr>
<td>£5-10m</td>
<td>24%</td>
</tr>
<tr>
<td>£10-50m</td>
<td>22%</td>
</tr>
<tr>
<td>£50m+</td>
<td>12%</td>
</tr>
<tr>
<td>Prefer not to say</td>
<td>3%</td>
</tr>
</tbody>
</table>

#### Respondents’ company by headcount

<table>
<thead>
<tr>
<th>Headcount Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small (10-49)</td>
<td>11%</td>
</tr>
<tr>
<td>Medium (50-249)</td>
<td>64%</td>
</tr>
<tr>
<td>Large (250-499)</td>
<td>26%</td>
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</table>
A STORY OF RESILIENCE

It is clear that the Covid-19 crisis has dealt the UK a severe economic blow. At the same time as businesses have been dealing with the disruptions of the coronavirus, they have also had to manage the uncertainty relating to Brexit.

Fig.1 (below) shows that two-thirds of respondents (67%) feel that Covid-19 has created significant barriers to growth for their business, while 63% predict that Brexit will create significant barriers for them.

Of course, not everyone has suffered in the pandemic, and many businesses see growth opportunities related to Brexit; however, the evidence from our survey confirms what many feel - the year 2020 was extremely challenging, and the start of 2021 is too.

Fig.2 shows why female business leaders are concerned. Forty-four percent said their firm’s revenues had fallen during the pandemic compared with only 13% who said revenues had gone up.

All this would appear to add up to a rather gloomy picture. However, what our survey also identified was a strong sense of resilience among women who work at growth economy companies. Despite the challenges of Covid-19 and Brexit, 72% of respondents said they were still motivated to grow their business in the next 12 months (see fig.3).

“Despite the challenges of Covid-19 and Brexit, 72% of respondents said they were still motivated to grow their business in the next 12 months.”

Fig.4, which asked about respondents’ plans for 2021 in more detail, revealed a slightly more complex picture, with 18% of respondents saying they intended to de-risk part of their equity shareholding next year and 5% saying they intended to sell the business. Nevertheless, a clear majority reiterated their commitment to growth and only 15% said they had no hope or intention to grow the business next year.
Further evidence of a resilient mindset among growth economy companies was revealed when respondents were quizzed about their most promising business opportunities next year.

Female business leaders in our survey were most likely to say that market growth was the greatest business opportunity of 2021 (fig.5). A close second was ‘entering new sector/s in the UK’, which attracted slightly more than a quarter of responses. International growth was the third most popular response, followed by bolt-on acquisitions and ‘taking share from competitors’.

The spread of answers indicates that female business leaders are targeting a range of methods as they seek to expand.

Clare Roberts, Kids Planet

After having her first child, Clare Roberts (right) struggled to find a nursery provider flexible enough to accommodate her busy working schedule. To address the problem, she founded Kids Planet and began to acquire sites in the North West of England. Thanks to a total investment of £26 million from BGF, the company has expanded its network to 52 sites across the North West and the Midlands. In 2020, its acquisition of nursery provider Kids Allowed turned it into the UK’s third largest nursery group.
OBSTACLES AND ADAPTATIONS

Despite a resilient attitude, there are clear obstacles ahead. When asked about the factors that were stopping their businesses from growing, the two most popular answers were “there is too much operational risk in the sector in which my business operates” and “there is not enough demand for our products and services” (fig.6).

Both responses seem likely to be related to the Covid-19 pandemic, which has caused havoc across various parts of the economy. Businesses in the hospitality sector, for example, have been struck by a severe fall in demand for their services.

Another finding was that 16% of respondents said there was too much debt on their balance sheet to deliver a sustainable profit. The pandemic has forced many businesses to resort to borrowing and there is a serious risk that the cost of servicing these debts will constrain business expansion in the years ahead. BGF has written before that growing businesses need more funding options than only debt. In the following pages, we will explore the availability of equity finance for growth economy companies, and attitudes towards it.

However, businesses have not been idle during the pandemic. In fact, part of the resilience shown by growth economy companies stems from their adaptability, which has taken various forms. The most popular adaptation declared by respondents was investment in digital infrastructure (fig.7). Although these investments were, to an extent, forced on management teams, the upgraded systems will be a positive legacy of the virus.

Online collaboration tools, cloud computing and other digital investments ought to pay dividends in the years ahead.

“The pandemic has forced many businesses to resort to borrowing and there is a serious risk that the cost of servicing these debts will constrain business expansion in the years ahead.”

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Figure 6. What’s stopping your business from growing*?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Too much operational risk in my sector</td>
<td>27%</td>
</tr>
<tr>
<td>Not enough demand for our products/services</td>
<td>27%</td>
</tr>
<tr>
<td>Too much risk in seeking investment</td>
<td>25%</td>
</tr>
<tr>
<td>Not enough senior management to grow my business</td>
<td>18%</td>
</tr>
<tr>
<td>I am not personally motivated to grow the business</td>
<td>16%</td>
</tr>
<tr>
<td>Too much debt on the balance sheet to deliver sustainable profit</td>
<td>16%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
<tr>
<td>None of these</td>
<td>0%</td>
</tr>
</tbody>
</table>

*Respondents could select more than one response

Figure 7. Adapting during the pandemic*

<table>
<thead>
<tr>
<th>Adaptation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have or plan to invest in digital infrastructure</td>
<td>39%</td>
</tr>
<tr>
<td>We have entered new sectors</td>
<td>35%</td>
</tr>
<tr>
<td>We have created efficiencies due to a reduction in headcount</td>
<td>30%</td>
</tr>
<tr>
<td>We have changed our route to market</td>
<td>23%</td>
</tr>
<tr>
<td>We have discontinued operations in some areas of our business</td>
<td>23%</td>
</tr>
<tr>
<td>We have not made any significant changes to our business operations</td>
<td>11%</td>
</tr>
</tbody>
</table>

*Respondents could select more than one response
PERMANENT CHANGE

Given all the measures taken, it is perhaps not surprising that 64% of respondents said the pandemic had prompted them to make permanent changes to their business model (fig. 8).

Part of the willingness to make lasting changes may stem from satisfaction, among female business leaders, at the way their staff handled this difficult period. Sixty-five percent of respondents said teams had been able to work as effectively as usual during the pandemic. Of course, there were a sizeable minority who could not say the same, but on the whole, we think this result speaks again to the resilience of growth economy companies.

Slightly less than half (47%) of respondents said that morale at their organisation had been negatively affected during the pandemic. A larger proportion (54%) said their company culture had strengthened during the Covid-19 crisis.

Sarah Fatchett, 365 Response
A former operations director for Yorkshire Ambulance Service, Sarah Fatchett (right) realised there were gaps in how schools and hospitals were managing transport services. The company she founded, Wakefield-based 365 Response, has created a digital platform that supports the buying, booking and delivery of patient and home-to-school transport. In 2020, BGF invested £3 million for technology development and to hire new staff.

Figure 8. Some things change, some stay the same

<table>
<thead>
<tr>
<th>Statement</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The pandemic prompted us to make permanent changes to our business model</td>
<td>64%</td>
<td>22%</td>
<td>14%</td>
</tr>
<tr>
<td>Teams have been able to work as effectively as usual during the pandemic</td>
<td>65%</td>
<td>18%</td>
<td>17%</td>
</tr>
<tr>
<td>Morale has been negatively affected during the pandemic</td>
<td>47%</td>
<td>28%</td>
<td>25%</td>
</tr>
<tr>
<td>The company culture has strengthened during the pandemic</td>
<td>54%</td>
<td>28%</td>
<td>18%</td>
</tr>
</tbody>
</table>
The growth economy post covid

The importance of ESG

Another aspect of business that has been highlighted by the pandemic is the importance of good governance. Companies in our sample, having turnover of £2 million and upwards, are in the size bracket where questions of governance and strategy really start to count. No longer in the start-up phase, these businesses are obliged to look at their own structures of governance and put plans in place to ensure their future growth is sustainable.

Nearly three-quarters (72%) of our respondents said their company had a board (fig.9). Likewise, many of the respondents said their businesses had governance strategies (fig.10). The most widely held was a health and safety strategy and policy, which 64% of respondents said their organisation had put in place. Following that were the 44% of respondents who said their business had a diversity and inclusion (D&I) strategy.

“Our survey suggests growth economy businesses recognise the value of diversity in the workplace and are taking concrete steps to help to achieve it.”

The prevalence of D&I strategies is encouraging. In the past, D&I has tended to be associated with the efforts of large businesses to make their working environments open and welcoming to a wide range of potential employees, regardless of gender, race, sexuality and disability status. Our survey suggests growth economy businesses also recognise the value of diversity in the workplace and are taking concrete steps to help to achieve it.

Another encouraging finding was that 43% of women in the survey said their firm had an environmental, social and governance (ESG) strategy. ESG is growing in importance as a means of assessing businesses. The term encompasses a variety of different metrics, including, for example, a company’s carbon footprint, the independence and diversity of its board, whether it partakes in activities considered controversial, such as gambling and tobacco, and what labour standards are applied to the workers both within the business and across its supply chain.

“These results show the increasing importance of ESG criteria for growth economy businesses. At BGF, we are increasing our focus on ESG in our investment approach - this means rigorous assessment of the potential investee companies to establish their credentials, as well as ongoing support and specialist expertise, delivered by our Talent Network, to assist portfolio businesses in improving their ESG scores. Besides these measures, we aim to increase the proportion that BGF invests in sustainable, or ‘clean growth’, businesses to 20%, up from roughly 5% today.”

Stephen Welton, executive chairman, BGF
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Funding amid covid-19

The pandemic has complicated the environment for business funding in the UK. More than half (52%) of respondents said it was harder to access funding now than a year ago (fig.11).

When asked about the relationships with banks, our respondents had mixed experiences (fig.12). Forty-seven percent said their bank had been slower to respond than usual during the pandemic; however, more than half of respondents (55%) said their bank had been very supportive of the business during the pandemic.

Vikki Jackson-Smith, J&B Recycling

When her family’s solid fuel business faced a challenging market environment in the mid-nineties, managing director Vikki Jackson-Smith (right) pivoted the company to recycling. A £7.5 million investment by BGF allowed the firm to buy state-of-the-art automated sorting machines, acquire a third recycling site and more than triple the size of the business. The company now recycles thousands of tonnes of plastic, glass and cardboard each year.

Figure 11. It is harder to access funding now then it was a year ago

Figure 12. Relations with banks during the pandemic
When asked what sources of funding respondents had accessed during the pandemic, there was again a range of answers (fig.13). The most popular funding source was the furlough or job retention scheme, accessed by 38% of businesses in the sample. This was followed by the Coronavirus Business Interruption Loan Scheme (CBILS), accessed by 31%. Interestingly, private equity funding was accessed by a fifth of businesses.

The relative popularity of private equity as a funding source testifies to the value private equity investors provide in this marketplace, both as sources of funding and as suppliers of expertise and support as businesses undergo restructuring or expand by acquisition.

Fig.14 shows what businesses have been investing in during the pandemic. Investment in technology and digital infrastructure topped the list, followed by employee retention, sales and marketing, and training (respondents were allowed to select more than one response to this question). Despite the pressures of the pandemic, businesses have also invested in equipment, recruitment, research and development, and bolt-on acquisitions.

This finding reveals that female business leaders have been spreading investment over a variety of business functions.

There have been financial challenges, however. Fig.15 indicates the scale of the problem by showing that 52% of respondents aim to refinance their balance sheet in 2021.

“...private equity investors provide in this marketplace, both as sources of funding and as suppliers of expertise and support as businesses undergo restructuring or expand by acquisition.”
WHERE TO LOOK FOR BUSINESS FUNDING

Which funding source is the first port of call when businesses need refinancing? Banks are still the most-popular first choice, selected by nearly half of respondents (fig.16). It is notable, though, that private equity and/or venture capital was chosen by 13%, a testament to the important support that these investors provide to the growth economy.

The third most-popular answer to this question was high-net-worth (HNW) individuals and/or angel investors, while a smaller proportion of respondents said they would rely on a credit card, followed by those who opted for family or friends, capital markets such as the Alternative Investment Market (AIM) or crowdfunding.

Although crowdfunding platforms such as Seedrs and Crowdcube are a valuable innovation, and can be helpful for funding growing businesses, our research suggests they are not yet an indispensable funding source for most growth economy firms.

Belinda Youngs, Cooplands
In 2019, Belinda Youngs (right) joined 136-year-old bakery chain Cooplands as chief executive, after more than two decades’ experience in the grocery sector at companies including Morrisons and Sainsbury’s. BGF invested £8.5 million in the business in 2017, helping it expand to more than 165 stores, 12 cafes and 36 sandwich vans. A follow-up investment of £7.7 million is helping to roll-out an additional 30 stores a year in locations such as South Yorkshire.

Figure 16. Which funding provider do you turn to first to help fund business growth?
The growth economy post covid

Fig. 17 indicates a positive finding. Despite the challenges mentioned above, 59% of respondents said they were in a stable financial position to pursue growth in 2021. However, the upheavals of the pandemic, and uncertainty about Brexit, have caused businesses to focus on the question of risk and how to protect themselves from it, which helps to explain why 71% of respondents said they planned to de-risk their personal investments in the business in 2021 (fig. 18).

As mentioned, there are concerns that excess borrowing among growth economy companies risks saddling these businesses with too much debt and constraining their ability to grow. In this context, equity finance has at least one clear advantage over bank lending - there are no ongoing interest payments to service.

Fig. 19 shows the sums of money needed to have a transformative effect on the growth trajectory of businesses in the sample. The most popular choice was between £1-5 million, followed by the next bracket up, £5-10 million. In the context of the wider economy, these are not vast sums. There is plenty of capital in the private sector that could fund countless businesses with investments of this size.

Part of the challenge is connecting these investors with the recipient businesses. The other challenge is overcoming resistance on the part of potential recipients. Fig. 20 shows that a majority of respondents are reluctant to give up control of their business to obtain funding, though a larger proportion (59%) would consider equity investment. For those who expressed this concern, bringing on board an equity partner as a minority shareholder could be a sensible solution. This is BGF’s model.

Fig. 21 shows a recognition of the benefits of equity investment. The most popular choice was “access to additional business and strategy support” followed by “a strengthened balance sheet”.

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**Figure 17. Are you able to implement a growth strategy in 2021?**

- Yes, we are in a stable financial position to pursue growth: 59%
- No, we do not have the funding available to pursue growth: 36%
- I don’t know: 5%

**Figure 18. Will you de-risk your personal investment in the business in 2021?**

- Yes: 71%
- No: 19%
- I don’t know: 10%

**Figure 19. What amount of additional equity investment would transform the growth trajectory of your business?**

- Less than £1m: 7%
- £1-5m: 20%
- £5-10m: 29%
- £10-15m: 44%

**Figure 20. Attitudes towards equity investment**

- I am reluctant to give up control of my business to obtain funding:
  - Agree: 55%
  - Neutral: 26%
  - Disagree: 19%

- I would consider equity investment to drive growth in my business:
  - Agree: 59%
  - Neutral: 27%
  - Disagree: 15%

**Figure 21. Benefits of equity finance**

- Access to additional business and strategy support: 53%
- A strengthened balance sheet: 45%
- Greater opportunity for value creation: 38%
- No benefits: 13%
- Other: 3%

*Respondents could select more than one option*
CONCLUSION

This research report has revealed that growth economy companies face significant challenges relating to the Covid-19 pandemic. However, the research also underlines how resilient these companies are. The female business leaders in our survey have not sat idly and watched the disruption of the coronavirus unfold around them. They have responded by increasing their investment in digital infrastructure to enable their staff to work remotely, for example. These and other investment made during the crisis will be an enduring, positive legacy of the virus.

Of course, many firms are struggling, and our research into respondents’ expectations around growth and their funding needs revealed a mixed picture. Although some sectors, such as e-commerce, have enjoyed a growth boost during the pandemic, many others have had their business models thrown into doubt. Many firms have been kept in business thanks to emergency action from government in the form of the furlough scheme, CBILS, BBLs and the Future Fund.

There will be a large demand for refinancing of businesses in the years ahead. Some will do this to help manage their debts, others to allow business owners to de-risk their shareholdings. There will be challenges ahead. Our survey revealed that more than half (52%) of respondents said it was harder to access funding now than a year ago. Slightly less than half (47%) said their bank had been slower than usual to respond during the pandemic. In light of these concerns, growth economy companies may benefit from exploring other funding options beside bank loans and the emergency support offered by government.

At BGF, we hope that more businesses consider equity finance as a solution in the circumstances. We believe our model, in which we only take minority shareholdings, has an important role to play here.

An increase in business funding for growing businesses could help overcome the challenges created by the pandemic. With concerted, targeted action, we can ensure that female-led businesses not only survive but thrive.

About BGF

Set up in 2011, BGF is an investment partner for growing companies in every sector of the economy in the UK and Ireland. With over 170 staff in 16 offices around the UK and Ireland, BGF provides local expertise to exciting entrepreneurs and small businesses. BGF has invested £2.5 billion since 2011 in more than 400 companies, three-quarters of which are based outside London, making it the most active growth investor in the world. The BGF model has been replicated in Canada and Australia.
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