

# Why are we so obsessed with tech unicorns? A bigger opportunity lies elsewhere

The UK has produced 105 unicorns, with 20 reaching a \$1B+ valuation in the last 6 months according to Tech Nation and Dealroom. On top of this, VC investment in UK startups almost tripled at \$18B in the first half of 2021 compared to the same period last year.

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The government rightly celebrates this. The newly appointed culture minister Nadine Dorries praised the UK's thriving startup scene at London Tech Week in September and announced that it was now time to "go big" and begin "paving the way for a new generation of British tech titans."

The UK should be proud of the unicorns it has produced. Particularly as the total is now more than Germany, France and Sweden combined. There is, however, a problem with our *unicorn obsession*: it is holding us back from investing in and scaling the other 99% of small tech businesses which are often overlooked by investors who are all chasing the next Revolut, Cazoo or Deliveroo.

*The UK is 3<sup>rd</sup> in the world for startups, but only 13<sup>th</sup> for scale-ups which suggests a lot of worthwhile startups are stumbling at the crucial point where they need to scale.*

If given the right funding and support at this stage, they could grow to become profitable, sustainable businesses. Some could even become the “tech titans” the UK strives to create. Together, they could employ more people and contribute more to the economy than a hypergrowth unicorn.

But to reap the benefits of successful scale-ups, we need to first address two issues that are hampering their growth.

## The Scale-up funding gap

First, the scale-up funding gap. Many small businesses looking to scale struggle to attract funding because they fall into the gap between venture capital (VC) and private equity (PE).

VC investors are after early-stage startups which are hypergrowth (well over 100% per annum). They operate a “hits”-based model where they invest in 20-30 companies that have potential to reach unicorn status, and closely monitor their performance. Those that veer off that trajectory lose the investor’s interest and funds dry up.

At the other end of the spectrum, we have PE investors. They look for mature and profitable businesses that can be acquired with leverage.

Emerging businesses with revenues of £1-£10M, growing at 10%-50% per annum and reinvesting all their profits to fund growth, struggle to raise money from either the PE or VC community and are left to either plateau into a lifestyle business or fail completely, leaving a huge amount of both social and economic benefit behind.

## An evident skills gap

The second challenge for small businesses who want to scale is the skills gap. Unicorns solve the skills gap by using some of the tens or hundreds of millions

they raise to hire an all-star c-suite, but the other 99% can't afford to do this.

Founders are typically subject matter experts who know their product and market inside out but have never had to face the challenges of scaling a business before. 83% of founders are doing it for the first time according to research by Crunchbase. They don't have the experience or skills to add the systems, processes, and governance they need to change gear. The business needs to shift from the founder pulling all the levers to being run by a well-rounded management team.

The most acute skills gap lies in sales and marketing. A survey of financial advisors conducted by ScaleUp Capital found that 63% cited a skills gap in sales & marketing as a major factor in a business' failure to obtain investment and support. Customer acquisition and retention is a science, but often this is where smaller businesses fail. It is one thing for a founder or CEO to drive sales through passion. It is quite another thing for an experienced sales team to drive scale.

The good news is that, unlike shooting for unicorn status which requires stardust, scaling a medium-growth rate business is a science and a process that can be taught and learned, like anything else.

## Looking beyond unicorns

The UK is indeed a laggard when it comes to producing tech giants like Facebook, Amazon and Google in the US or Alibaba, Huawei and Tencent in China. The government is right to want to create similarly successful companies in the UK, but focusing all our efforts on chasing unicorns is not the solution. Many small businesses have huge potential – it may just take 20 years rather than 5-10 for some of them to fulfil it. The government has thankfully recognised the value of small businesses and provided financial support and launched schemes like Help To Grow in response. Now the investment community needs to step up and devote more time and money to scaling medium-growth small businesses with strong long-term outlooks.

*The UK is a great place to startup. Let's make it a great place to scale-up too.*

Simon Philips is CEO of ScaleUp Capital

