

# Entrepreneurial Hotspots of the UK

Insight into the effects

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# Introduction

Welcome to the inaugural Entrepreneurial Hotspots of the UK.

The phrase 'a nation of shopkeepers' is often mistakenly attributed to Napoleon Bonaparte when describing the preparedness of Britain to fight a war against the French.

In fact, deeper research reveals it was originally used by Scottish economist Adam Smith in his seminal 1776 work *Wealth of Nations*, a study of the virtues of free trade.

Smith's point was that the government of Britain was exceptional because it was "influenced by shopkeepers", by which he meant small and medium-sized traders and businesses. He compared the British approach to other traditions where the aristocracy, armed forces, Church or very wealthy were the power brokers.

It's true that people of all political persuasions claim to be on the side of business and that every regional champion promotes its ability to attract, retain and support new businesses. But what's the truth?

We were encouraged to put this piece of research together following the publication of a regional trial we undertook in Greater Manchester in 2018. We discovered that the Bury district of Greater Manchester had nearly twice the rate of start-up companies than any other district. It was of great interest to the media locally and also to local politicians.

Please remember that we've only scratched the surface of what's possible with data-driven insights in this report.

We hope it is a good starting point to open up debate about where the best places in Britain are to do business and the importance of data-driven insights.

Despite the uncertainty of Brexit and the prevarications of elected members of parliament, British-based business owners are remarkably focused and stoic about their future prospects. That's not to say there are some sectors which polar opposites in terms of their financial position. We explore some of those 'hotspots' and 'coldspots' in the report.

We were inspired by what we saw and heard when producing this report. We hope you are too.



A stylized, handwritten signature in white ink, appearing to read 'M Halstead'.

**Mark Halstead**

Managing Director, Red Flag Alert

# Methodology

Red Flag Alert analyses more than five million companies across the UK on a daily basis. It is used by some of the UK's leading companies to monitor their own financial position and that of their customers, clients and competitors.

We have used three publicly available data sources to produce this report, as well as Red Flag Alert.

- Companies House (for company records)
- Office of National Statistics (for population data)
- Parliament records have been used to attribute MPs to their political party and constituency.

Red Flag Alert has enabled easy identification of those business sectors (and specific companies) under most significant financial distress – and to identify sectors and companies displaying the fastest rate of growth.

## London's role as a hub



### International

London is the centre of operations for almost **two out of every three** Fortune 500 companies and the European hub for one out of every three large global conglomerates. Several well-known businesses such as HSBC, Barclays Bank, Virgin, BBC and many others have their headquarters at London. The London Stock Exchange is the largest in the world, and accounts for about 32% of all global transactions. This acts a significant magnet for entrepreneurs.



### Investment

The City of London is sitting pretty at the top of the table with more than **23,000** new company incorporations in 2018. The extraordinary volume of corporate transactions requiring new companies as part of the structure of a deal goes some way to explain this result. Despite the major efforts and successes of other cities in the UK to attract international start-up companies, London leads the pack as a choice for a new head office.



### Capital

London has a GDP of over **£565 billion**, which is about **17%** of the UK's total GDP. The service sector in London employs **3.2 million people**, which is about **85%** of all available jobs in London's service industries. From this, the financial sector alone employs about 1.25 million people, or about one in every three jobs available.\*



### Tech sector

The very real – and perceived – status of London-based tech companies being able to more readily attract funding, investment, clients, assets and talented people make it a top choice for start-up companies in the tech sector.



### HQ

London is the **only** place in the United Kingdom where the number of new company start-ups per 1,000 of the population exceeds 200. Of the top 20 start-up locations in the United Kingdom, **more than 75% are in London**.

## Top Ten Start-Up Constituencies in London

| Ranking | Constituency                   | Political Party | Population | Incorporations 2018 | Incorporations Per 000 People |
|---------|--------------------------------|-----------------|------------|---------------------|-------------------------------|
| 1       | Cities of London & Westminster | CON             | 60,377     | 23,546              | 389.98                        |
| 2       | Holborn & St Pancras           | LAB             | 84,776     | 21,893              | 258.25                        |
| 3       | Islington South & Finsbury     | LAB             | 65,575     | 16,425              | 250.48                        |
| 4       | Hackney South & Shoreditch     | LAB             | 77,650     | 18,372              | 236.60                        |
| 5       | East Ham                       | LAB             | 81,687     | 6,840               | 83.73                         |
| 6       | Finchley & Golders Green       | CON             | 74,611     | 4,635               | 62.12                         |
| 7       | Enfield Southgate              | LAB             | 64,067     | 2,828               | 44.14                         |
| 8       | Ilford South                   | LAB             | 85,917     | 3,702               | 43.09                         |
| 9       | Kensington                     | LAB             | 60,460     | 2,580               | 42.67                         |
| 10      | Harrow West                    | LAB             | 68,809     | 2,912               | 42.32                         |

## Top Ten Start-Up Constituencies outside London

| Ranking | Constituency            | Political Party | Population | Incorporations 2018 | Incorporations Per 000 People |
|---------|-------------------------|-----------------|------------|---------------------|-------------------------------|
| 1       | Birmingham, Ladywood    | LAB             | 64,897     | 8,755               | 134.91                        |
| 2       | Warrington South        | LAB             | 83,127     | 5,339               | 64.23                         |
| 3       | Glasgow Central         | SNP             | 62,865     | 3,460               | 55.04                         |
| 4       | Bromsgrove              | CON             | 71,892     | 3,572               | 49.69                         |
| 5       | Manchester Central      | LAB             | 87,979     | 4,073               | 46.30                         |
| 6       | Bournemouth West        | CON             | 71,563     | 3,130               | 43.74                         |
| 7       | Liverpool, Riverside    | LAB             | 69,065     | 2,408               | 34.87                         |
| 8       | Edinburgh North & Leith | SNP             | 74,238     | 2,461               | 33.15                         |
| 9       | Brighton, Pavilion      | GREEN           | 70,240     | 2,230               | 31.75                         |
| 10      | Altrincham & Sale West  | CON             | 71,604     | 2,247               | 31.38                         |

## Case Studies

### SPRIGG – Glasgow

SPRIGG is a start-up boutique delicatessen, which serves “unreal coffee and fresh food in the heart of Glasgow”.

The business is on target to exceed its first-year target revenues of £300,000 and currently employs nine people. Founder Tom McDermott already has options to scale the brand to other locations, but he says patience is key to ensuring the next stage in growth is manageable:

“Location is crucial for all businesses, but none more so than in the food business. We invested in creating a unique brand identity, using specialist architects and designers to bring something new and unique to Glasgow. People can see that we’re not just a run of the mill coffee shop or sandwich bar. We only use the finest fresh ingredients and we serve it in style in a modern and creative ambiance.



“Glasgow has been hugely supportive since we launched in May 2018 and I strongly feel that we have all the support we need to see our business thrive right here in the city. Glasgow will always be our HQ. People are important and we’re redefining what hospitality staff can expect. We pay above the UK living wage, we don’t have zero-hour contracts, we profit share, we always make pension contributions and we guarantee breaks. Our staff are all local residents who also have a say in everything we do, and we support them professionally and personally in any way we can.”

See [www.sprigg.co.uk](http://www.sprigg.co.uk)

### Centre VR – Bournemouth

Colin Parnell is the founder of Bournemouth-based startup Centre VR.

The company specialises in providing virtual reality (VR) experiences. From a standing start, in August 2018 the business secured a 1,000 sq ft single unit to base seven high-end VR headsets to offer games and experiences to the public in Bournemouth and the surrounding area. Soon after, the company was forced to expand due to overwhelming demand and now also occupies a 7,000 sq ft space with 31 headsets and room for even more in the future. The company now employs 18 people.

#### Colin explains:

“The new, bigger space is perfect for class sizes and the business secure plenty of repeat bookings from teachers keen for pupils to experience events in VR that they would never ordinarily experience - such as the sinking of the Titanic or a World War II bombing raid.

“I was born and bred in Bournemouth but that’s not the main reason I launched the business here. Bournemouth is a forward-thinking town with a very high-skilled population. It was one of the first places in the UK to get fast internet speeds and that brought a good volume of tech startups and entrepreneurs starting up new companies. It’s good good transport links and big businesses are attracted to the area as well as small ones.

“So far, our business is well ahead of our own expectations and interest is strong not just from consumers but businesses and organisations too. Virtual Reality is here to stay and it will become an increasingly important area of education and leisure for many people.”



**“So far, our business is well ahead of our own expectations”**



## Case Studies

# DriveWorks – Warrington



80% of this Warrington-based software company's revenue is generated from software sales to companies outside the UK.

This entrepreneurial owner-managed software company says its Warrington location has helped. DriveWorks was recently recognized for its business success with two Queen Awards; one for International Trade, the other for Innovation.

DriveWorks software is used to create custom configurators used by engineers, sales teams, distributors and customers to design, engineer and configure to order no matter where they are. The software automates the creation of sales quotes, manufacturing CAD models, data, and drawings and presents them online in 3D.

**Maria Sarkar of DriveWorks explains:**

"We're well connected to great transport links in Warrington and there are several outstanding universities to recruit from. It's an ideal place for a healthy work life balance and we are smart users of technology.

"We identified that manufacturing companies struggle to compete on a global stage. Sales and Engineering teams need to be able to communicate and collaborate more closely. One way that companies can be more competitive is to add value and provide custom options.

"However, salespeople are known for selling products that can't be manufactured and engineers are not always available to discuss technical questions. Added to which, the cost of having engineers prepare custom design for enquiries is very expensive. The answer was to develop a software platform that would meet the needs of both Engineering and Sales."



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## Politics

The politics of the United Kingdom's top 50 'entrepreneurial constituencies' make interesting reading for business owners and policymakers.

### 64% LABOUR

- ▶ **Average number of start-ups per 1,000 people: 59**
- ▶ **32 constituencies are in the top 50**

### 28% CONSERVATIVE

- ▶ **Average number of start-ups per 1,000 people: 61**
- ▶ **14 constituencies are in the top 50**

### 4% SNP

- ▶ **Average number of start-ups per 1,000 people: 44**
- ▶ **2 constituencies are in the top 50**

### 2% GREEN

- ▶ **Average number of start-ups per 1,000 people: 32**
- ▶ **1 constituency is in the top 50**

### 2% INDEPENDENT

- ▶ **Average number of start-ups per 1,000 people: 30**
- ▶ **1 constituency is in the top 50**

As we enter the second half of 2019 under new leadership and pursue a still to be decided Brexit policy, we will continue to provide updates on the volume of start-ups during this important phase in the economy.

The key questions **Red Flag Alert** will answer with certainty is: **Will Brexit deliver more – or less – successful start-ups, where will they be, and in what sector will they operate?**



# Data-driven Insights

Businesses that make use of data as a central feature of their marketing do well. Each of the entrepreneurs we spoke to already understands this. They all had a good grasp of their existing financial position, where they are going and where they want to be.

## Knowledge is power... and profit

As a small enterprise it's obviously important to not let your first clients or customers down, or the business could be killed before it has even got off the ground. One risk factor for SMEs generally is a lack of knowledge about the financial position of their suppliers or customers. Having knowledge of your supply chain will give you advance warning of any changes or derisk procedures you need to make in your business.

Real-time data is critical for business in 2019. All too often old data is relied on to make important business decisions. We've never lived in a time when accurate data is easy to secure as now, but there are still many firms who rely on old information. In 2019, knowledge is not only power but profit too.

The volume of data, largely driven by the Internet of Things (IoT), has grown exponentially over recent years, but new tools have been created for turning this flood of raw data into insights and eventually into action.

## Artificial Intelligence and Machine Learning

Machine learning – a term that encompasses a range of algorithmic approaches from statistical methods – is now at the forefront of business analytics. Improved software and hardware make it all the more powerful and accessible for the modern British business.

Red Flag Alert is built on delivering up-to-date information on every UK business and enriching it with our own financial health algorithm. The information we provide has been utilised in thousands of different ways.

Almost any business or department can use our data to enhance their operations:

- Marketing
- Credit Risk
- Debt Management
- Suppliers and Risk Management
- Business Development and Strategy
- MDM

## Five-step Data Model

However, it's worth remembering that data is useless unless you are able to get meaningful insights from it – and then actually do something with those insights.

This five-step model neatly summarises the process of using data to make a positive impact on your business.



## Growth Sectors

Tech is by far and away the rising star of the economy. The UK **fintech** sector alone generates revenue of **£6.6bn per year**. An incredible **\$3.3bn** of venture capital, private equity and corporate venture capital was invested in fintech in the UK in 2018.\*

We now estimate there to be more than 1,500 specialist fintech firms in the UK and we predict this will more than double by 2030. The rate of funded start-ups in this space is phenomenal. A growing support network of professionals, funders and investors is helping to fuel these ambitious start-ups.

### People and Skills

**There are 76,500** people currently working in fintech UK-wide, a number that is set to grow to **105,500** by 2030 according to an Innovate Finance/WPI Economics joint report in 2018\*. Access to people is a key issue.

Key questions for business and policymakers include the digital capability of the UK workforce.

As large digital conglomerates like Amazon and Google continue to expand their presence around the world and offer high salaries to skilled people – **is a digital skills gap in the UK looming large?**

Do we really have enough educational offerings to assist young people to make a career in tech? In the short term, we predict that SMEs will feel the digital skills gap harder than most because they will find it more challenging to fill their vacancies.

Put simply: is there is a real risk of a 'brain drain' in the digital sector as countries outside the UK continue to swell their requirements for tech experts?

**We will continue to monitor.**

## Risk Sectors

At the time of publication of this research, the number of businesses in significant distress stands at 484,000 – **14% of all economically active UK businesses**.

The number of businesses in 'critical' financial distress has increased by **17%** in 12 months.

### Property

For the second quarter running the hardest hit sector was property, which saw a 13% year-on-year increase in the number of companies in significant financial distress rising to 48,182 (Q1 2019) from 42,512 (Q1 2018). Within this sector, companies involved in buying, selling and letting took much of the hit with a 16% increase in significant distress to 36,018 (Q1 2019) compared to the same period last year – 30,947 (Q1 2018).

### Construction

Often considered the bellwether of the UK economy, construction is suffering. Compared to the same quarter last year there are now 10% more companies involved in the development of building projects in significant financial distress – 13,018 (Q1 2019) vs 11,813 (Q1 2018).

This negative trend has also affected other construction sub-sectors with a 5% increase in significant financial distress for those companies involved in the construction of commercial buildings – 2,451 (Q1 2019) vs 2,328 (Q1 2018). This trend is replicated in companies involved in the construction of domestic buildings, where significant financial distress has also increased by 5% to 6,209 (Q1 2019) from 5,919 (Q1 2018).

## Leisure Sector

Deterioration in financial performance has also been felt by the Hotels & Accommodation and Leisure & Cultural sectors with a 9% and 4% respective year-on-year increase of businesses in significant financial distress. Both sectors rely heavily on migrant workers and with net EU migration to the UK falling to its lowest level since 2009, these businesses are having to deal with a perfect storm of a reduced labour supply and increasing costs due to the recent 5% increase in the national living wage.

Many UK businesses are currently in limbo and deferring major investment decisions. This combined with consumers holding back on big ticket purchases has resulted in increasing significant distress across many sectors.

During our research we have heard from businesses that Brexit uncertainty has been a hindrance to business growth and investment. There have already been a number of high-profile firms announcing their decision to invest in other countries, which not only impacts regional economies, but also the SME supply chain.

# Summary of Findings

Entrepreneurs thrive in **every** town and city across the United Kingdom. However, it's clear that there are more favourable places for them to do business than others.

Major cities generally offer a mixture of entrepreneurial environment, peer networks and easier access to professional services.

Other popular business locations are easily accessible commuter belts such as **Altrincham and Sale West, Bromsgrove and Warrington South** – all of whom appear in our top five. These areas are striking for their ability to create an environment which is not only good for business but also good for living with highly rated schools, good transport infrastructure and green spaces.


**Bournemouth West** is an excellent example of young digital entrepreneurs demanding a work-life balance and a desire to escape the city. The entrepreneurs we spoke to here often spoke of the importance of the attractive physical environment. Even the climate was cited as a major positive factor in their choice of location. The area offers a strong culture of enterprise and innovation across key 'hot sectors' we've identified such as Creative & Digital Industries and Financial Services, Cyber Security and life sciences.

**Brighton Pavilion** is also a good example of this where entrepreneurs who might have previously located their business in London are being attracted to coastal towns, which are perceived not only as sunnier and more relaxed but also more supportive of digital and start-up culture enabling them to do business with companies all over the globe.

Many entrepreneurs we spoke to often choose not to live in the same city as their business but commute from another location. Nearly **all** of them started their business working from home. Many of them have now moved into formal office space, premises or industrial parks – in less than a year.

It's not all rosy in the garden, though. Our research proves that nearly **half a million businesses are experiencing significant financial distress right now**. The **17%** hike in the number of critically distressed companies is a worrying sign.

In 2020, it will pay dividends for SMEs to have a better all-round knowledge of their own – and their suppliers and customers' financial position. Some of the distressed start-ups we spoke to cited major client or customer losses due to insolvency as a key reason for failure. Spotting the warning signs early will be more crucial than ever before.



MPs and local government officials  
can get specific data for their local  
constituency by emailing:

**hotspots@redflagalert.com**



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[www.redflagalert.com](http://www.redflagalert.com)

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