The UK's

ENTREPRENEURS

FINANCIAL TIMES **SPECIAL REPORT** | Tuesday October 4 2011

Video
Ivan Massow debates the issues facing UK entrepreneurs with Phil Cameron and Alex Jackman

www.ft.com/UK-entrepreneurs

www.ft.com/uk-entrepreneurs | twitter.com/ftreports

Downturn plus dole can lead to success

Jonathan Moules finds that a recession can be the best time to start a business, but not all entrepreneurs are created equal

Tom Valentine: launching in a recession 'imposed the discipline of building a business with a sustainable model at its core' Rosie Hallam

It is the best of times and it is the worst of times to be an entrepreneur.

In the UK, start-up activity has always seen an uptick as the economy has moved into recovery, since at least 1973, according to David Storey, professor of enterprise at the University of Sussex, who has been researching the small business sector for many years.

"In essence, it tells us that self-employment will rise with a lag after a period of unemployment," he explains.

There is nothing like the depressing reality of the dole, it seems, to push people to attempt that business idea they never got round to when they had a salaried job.

Many of those fail – up to 60 per cent, according to Mr Storey. But those who survive will also create a large number of new jobs.

Hamish Stevenson, founder and chief executive of Fast Track, the business tracking service, has been following the fastest-growing companies since 1997. He says there are about 1,750 private companies in the UK with operating profits greater than £3m. They have combined profits of £27bn, employ more than 1.6m people and have added more than 130,000 jobs in their most recent year.

"Knowing many of these entrepreneurs over the years, they certainly have the fire in the belly and the track record to overcome challenges and exploit opportunities," he says.

Entrepreneurship is often counter-cyclical and thrives during downturns, according to Alex Macpherson, partner at Octopus Ventures, a private equity firm. "If a business can launch, test their revenue model and win customer traction in these circumstances, they are well set for rapid growth in more benign conditions," he says.

One example of this is Tom Valentine, managing director at Secret Escapes, an online travel club offering discounts of up to 70 per cent on luxury hotels and holidays, which has attracted 500,000 members since it launched in February.

Mr Valentine claims launching in a downturn had significant benefits. "As a discount site, our message suited the times, we had to compete less with banks for technical talent and, most importantly, it imposed the discipline of building a business with a sustainable financial model at its core," he says.

Hugh Robertson, founding partner and chief executive of RPM, a marketing agency, echoes this sentiment: "As an entrepreneurial business we can't afford to ever be complacent or stop reviewing the market, and this is what has put us in a strong position to grow, not just in the recovery, but throughout the recession as well."

The recession has been a time to restructure the business to make it stronger, he says.

At the end of 2009, RPM created a new layer of management and formed two new teams to better meet its client demands. Mr Robertson claims that sales have almost doubled since. "Independent or entrepreneurial businesses are much better structured in their ability to adapt to these changes in the market and global economy," he says.

The problem with asking founders to gauge the preparedness of entrepreneurs is that they tend to be more bullish by nature, especially about their own prospects. There are also reasons to fear that this recession will be much tougher for entrepreneurs in the UK.

First, all recessions are different, and the prospects for entrepreneurs are hard to predict. What is known, is that the kinds of people being made redundant this time around are different. These people may well not be best suited to creating new businesses.

During the recession in the early 1980s, for instance, many of those being made redundant were private sector workers from industry. This was then followed by a significant increase in self-employment, rising to a postwar high for the UK during the early 1990s.

The rise in unemployment at the moment, however, is being driven by public sector cuts, putting people on the dole who may be less willing and able to turn their hand to entrepreneurial activity.

Further bad news for existing entrepreneurial ventures is that some of the key factors that helped them to prosper in the past, such as a swift economic recovery and access to reasonably priced debt finance, have yet to materialise.

Inside this issue

More on FT.com

Interview We talk to Paul Rose, chief executive of Rixonway Kitchens

Interactive How to cut through the red tape; and enterprise zones and tax breaks in England and Wales

Confidence, not caution, is the key to fast recovery

Guest Column
RENÉ CARAYOL

For many small or medium-sized enterprises, it is starting to feel like late 2007 all over again.

Large companies are taking their time paying smaller companies and are cutting back on anything and everything, from marketing and information technology to training and recruitment. These are early indicators of a serious downturn.

The main difference between now and four years ago is that there is no run on liquidity for the banks. Therefore, this will not be another credit crunch, but it will be another period of uncertainty brought about by falling confidence across the markets.

The economic problems in the eurozone, particularly in Greece, have heightened the fear factor, especially within large corporations.

As those at the top of the business food chain start to panic, SMEs suffer beneath them; many rely on commercial relationships with large companies as the mainstay of their businesses. And with 70 per cent of us working for an SME, it does not take long for the economic shockwaves to be felt far and wide.

Recessions hit poorly run SMEs hard. Those businesses that may have moved into new territories during times of prosperity without having done proper research, or perhaps made expensive hires with no real understanding of the return on these significant investments, are particularly vulnerable.

When revenues are high and budgets are full, it is easy to brush mistakes under the carpet. But they can come back to haunt businesses when times are hard.

Recessions are kinder to well-managed SMEs. These businesses can pick up the pieces of their failed competitors, and they reap the rewards of having restructured at the early signs of a downturn.

The best-run SMEs tend to have the agility and leadership to adapt their necessarily defensive mindset to a more confident approach that ensures opportunities are grasped at the first signs of recovery.

Medium-sized and small companies are the lifeblood of our economy

This is vital, as SMEs tend to get the recoveries they deserve.

A friend of mine acquired a small, branded shoe business in 2005, which had its manufacturing base and business offices in the West Country and its sales operation and stores in London.

He quickly identified an opportunity to close down the expensive manufacturing operation in the UK, and picked up spare capacity in a high-quality shoe factory in Italy, halving production costs.

He was able to recruit the services of two freelance shoe designers, well known to him, who also worked for certain large fashion houses. He moved the offices to above one of the stores in London and completely closed down the West Country part of the company. This drastic, but necessary, restructuring rejuvenated a failing business.

Everything was moving in the right direction, but he had borrowed and invested significantly to deliver this business turnround.

By the beginning of 2008, the recession had hit the branded area of footwear hard. No one needs to buy high-end shoes in a downturn. The banks were no longer supportive and his business shrank as he continued to limp along, desperately managing his cash flow.

With financial support from his fellow directors and an angel investor, the business made it through until early 2010, when the banks eventually returned with fresh credit facilities. Given how well the company had managed through the downturn, and the painful lessons it had learnt, it received offers from four banks for new facilities. It will now adopt a multi-banking approach and has set up agreements with three banks in order to spread future risk.

SMEs and consumers share the same mindset currently: they are remaining cautious. This may seem sensible for businesses, especially regarding investment, growth, recruitment and marketing, for example, and so on, but it also makes for a constrained economy. We are living in a vicious cycle that will only be broken when the economy, and especially the banks, regain their confidence.

Forward-thinking SMEs have a key role to play in a return to a stable and healthy marketplace. It is a lack of confidence that has killed so many businesses. This is the main lesson for SMEs.

And it is time we took the banks off our hate lists. By "shafting" the banks, they will only "shaft" SMEs. Banks are the lifeblood of the SME sector and the SME sector is the lifeblood of our economy.

The author is a writer and broadcaster on business and entrepreneurship

Out of the den: James Caan describes himself as someone who has been 'moderately successful in business' Ben Stansall

'If you have a compelling project, the money is out there'

Q&A

James Caan, the venture capitalist, entrepreneur and former TV 'dragon', talks to **Mehreen Khan**

What do you think are the prospects for start-up businesses in the UK, given the uncertain economic outlook?
The climate is challenging because banks are not lending and people are tentative to deploy capital when things are so difficult. But if you still have a compelling investment project, the money is out there, it is just a matter of convincing investors you are worth it.

The current volume of investment is around £2bn a month, so I expect roughly £20bn to be available in the small and medium-sized enterprise sector this year. Clearly, there is still some money there.

You went to Harvard Business School quite late in life. How necessary is higher education for budding entrepreneurs?
My own experience has been that business is not easy at the best of times. Today, there are so many facets you need to master to be successful. The more you understand, the more prepared you are to make better decisions.

Harvard gave me a stronger understanding of international business and trade that I had not experienced before. I went at a point when I had just sold a business, had something of a gap, and I utilised that time to gain a different understanding of business. The decision seemed weird to some people, especially after I had been so successful. "What could higher education teach me?" they asked.

But you never stop learning. If you are not keeping abreast of changing dynamics, it puts you in a weaker position as a business person.

What do you consider your biggest success and failure in business?
Success was the formation of my foundation. I wish I had done it sooner. It is a place where I have an outlet for my success, where I can utilise the proceeds of my businesses in an environment to build schools, villages, help the homeless and be a patron of cancer research.

It is the best job in the world. I have a platform to create capital on the one hand, and then an opportunity to deploy that success in areas where I gain far more satisfaction than I do in business.

My biggest failure was a few years ago, when I invested in a sandwich chain called Benjys. It had 100 outlets and employed 600 people. I thought my expertise could be useful but I failed conclusively and lost all my money – millions; I cannot remember how much.

In terms of your investment portfolio, is there any sector that you would still like to make your mark on or regret missing out on?
The sector that I am starting to focus on more and more is social enterprise, where you have businesses that are real, but that contribute to society because they want to make a difference. It is quite an exciting sector, which plays to my strengths because it is involved with building an enterprise.

There have been a number of times when I did not buy certain shares, and then they went on to triple in value. But that is part of the journey all entrepreneurs take.

Which brand or company do you most admire?
Google. Its impact on our society and the business world is remarkable. They have created a model based on a very simple idea that is now worth hundreds of billions. Not only is Google a service that we cannot live without, but it is hugely commercially successful, too.

What do you keep next to your bedside table?
My iPad. I want to know how markets are trading before I go to bed because most of my trades are global, and the iPad is the best thing for it. My wife does not think it is so great but, luckily for me, she usually dozes off by the time I go to bed.

How would you like to be remembered?
I have been moderately successful in business, and in the past seven years, I set up the James Caan Foundation. If I were remembered, I would like it to be as someone who used his skills in business to benefit those who were less fortunate.

I am also involved with the Prince's Trust [the UK charity] in giving young people loans to set up their own businesses, mentoring them and helping them come back into society with integrity. That is something really invaluable.

CV James Caan

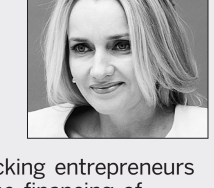
Born: 1960 in Lahore, Pakistan; moved to London in the early 1960s.
Education: Left school at 16 and joined a recruitment company.
Business career: Founded Alexander Mann, a recruitment group, in the 1980s. Sold it to a private equity firm in 2002. In the 1990s, co-founded Humana International, the executive headhunter, with Doug Bugie. Studied at Harvard Business School, graduating in 2003. In 2004, founded Hamilton Bradshaw, a private equity firm. Joined the BBC television series *Dragons' Den* in 2007, leaving in 2011.
Charity work and awards: Charities include the James Caan Foundation, which promotes entrepreneurship and education. Awards include the BT Enterprise of the Year award in 2001.

Compiled by Rebeka Shaid

Words from the top
Lack of demand

'The absence of demand is a much bigger issue for SMEs than access to bank lending. Consumer confidence and discretionary spending capacity is low at the moment, impacting traditional small entrepreneurial businesses'
Andrew Owens, founder, Greenenergy International

Words from the top
Next generation



'Young companies are best funded by successful entrepreneurs who then invest in the next generation. This model of entrepreneurs backing entrepreneurs is the future of the financing of entrepreneurship'
Julie Meyer, chief executive, Ariadne Capital

Small businesses must look beyond the banks for funding options

Finance

Unattractive terms from traditional lenders mean entrepreneurs need to explore alternatives, writes **Jonathan Moules**

The question of access to funding has not been easy to address for some time. Since the banking crisis, triggered by the collapse of Lehman Brothers, the US bank, in September 2008, the situation has changed for the better, but getting working capital remains complicated.

Bank lending to small businesses continues to decline; even the British Banking Association admits this in its market analysis. Those with strong business models are being offered money, but the terms attached are often restrictive or expensive. Overdraft facilities are either being reduced or withdrawn, so good companies are looking elsewhere for finance.

One example is Owens Road Services, a 40-year-old haulage business based in Llanelli, south Wales. Its core customer base had been heavy industry, which has been suffering in recent years, so Owens spent about £750,000 opening four new sites along the M4 motorway to help it expand into consumer goods distribution. The strategy worked: half of Owens' revenue now stems from this new venture.

Its bank, HSBC, had already pushed Owens to move from an overdraft to invoice discounting to fund the expansion. However, the bank was being increasingly restrictive in the terms it offered, so the company switched to Centric Commercial Finance, a specialist invoice discounting provider.

"All of the banks had decided that the best way to lend was through invoice discounting," says Robert Williams, the company secretary. "It was really the narrow view that the banks were taking."

This is proving to be a good time for alternative providers of finance, such as Centric, which supplies asset-based lending as well as invoice discounting. New business models for lending have also sprung up, with many companies using the internet to create ways of raising funds. Online marketplaces for debt, including peer-to-peer lenders such as Funding Circle, claim to be enjoying significant growth.

"Crowdfunding" is a concept that arrived in the UK this year. Instead of one large investor putting money into a business, larger numbers of smaller investors contribute as little as £10 each to raise the required capital. The first UK-based crowdfunding website is Crowd Cube, which has so far financed one company to the tune of £75,000.

Alternative debt providers broaden the range of choices available. But these lenders are still niche players, and only a small part of the solution.

Equity finance from wealthy individuals is an option that is increasingly available. It is encouraged through tax breaks, such as the Enterprise Investment Scheme. Syndications or investment clubs have allowed these business angels to do bigger deals (£1m or more) and provide more rounds of financing for each investee company.

This is also providing just a relatively small amount of capital, however, partly because most small business owners in the UK still seem to prefer debt finance.

The total size of a funding round raised through angel networks and syndicates in 2008-09 was typically below £500,000, according to the Department for Business. In most deals business angels contribute less than £200,000.

Henry Ejdelbaum, managing director of ASC Finance for Business, a commercial finance broker, says the problem for many businesses in need of working capital is that the supply of finance has increased in quantitative but not qualitative terms. "We have seen borrowers becoming more constructive and realistic," Mr Edjelbaum says. "If you have realistic expectations you can get funding."

Kirsty McGregor, executive team chairwoman at the Corporate Finance Network, a group of business advisers drawn from accountancy firms, says the key to getting finance is having credible information to provide to the bank. "Make sure you produce regular management accounts and projections, so you can test your assumptions about the market," she says.

Part of the problem for newer companies, launched on money either saved or borrowed from friends and family, is that they only go to a bank when they need the cash, Ms McGregor says. "You have to be careful about spending all your money when you are a start-up and then only going to the bank when you are growing," she says. "The bank will look at your net worth and say no because you are asking the bank to take all the risk."

In a world of centralised credit committees and branch managers who move jobs and locations every few years, banking relationships are no longer what they used to be.

The difficult truth, however, is that business owners have to maintain regular contact with their banks, because that is how you get a loan. As Ms McGregor says: "Everybody used to think you had loyalty from your bank, but that went out of the window in the 1970s."

She adds: "Things have gone back a little bit, but it is not so much bank loyalty to the customer; it is that banks are looking for businesses to be loyal to them."

Contributors

Liz Bolshaw
FT contributor

Andrew Bounds
Enterprise Editor

René Carayol
Writer and broadcaster on business and entrepreneurship

Mehreen Khan
FT contributor

Rebeka Shaid
FT contributor

Jonathan Moules
Enterprise correspondent

Michael Skapinker
Special Reports Editor

Hugo Greenhalgh/Paul Solman
Editors

Steven Bird
Designer

Lindsay Cameron
Picture editor

Jearelle Wolhuter
Sub-editor

Siobhan Cassidy
Production editor

Mastering the arcane art of the black swan

Interview

Stephen Catlin tells **Liz Bolshaw** about his almost accidental success in insurance

Stephen Catlin: 'I am more ambitious today than I was even 10 years ago' Charlie Bibby

When I started the business 27 years ago … I wanted to make sure my family and I were financially secure, and that was the extent of my ambition," says Stephen Catlin about the motivation behind his independent, Lloyd's of London-listed insurance group and FTSE 250 company.

"If you said to me then, you are going to be running a company that has a market capitalisation of £1.5bn, writing $4.5bn in premiums, I'd have said, 'You are completely mad'."

Or very prescient: Mr Catlin is the overall winner of this year's Ernst & Young UK Entrepreneur of the Year awards.

In the past 10 years, Catlin Group has grown from 92 employees to 1,800. It has diversified the focus of its business from 97 per cent London-based to 50 per cent, and from a company with two international offices to 54 offices in 22 countries. No wonder its founder and chief executive says: "I am more ambitious today than I was even 10 years ago."

But while emerging markets present opportunities, Mr Catlin's attitude to growth is cautious. "If you're not very careful, you can lose a lot of money very quickly," he says.

Nevertheless, he says: "I have been part of a company that has been setting up new businesses, albeit as subsidiaries of a group, for the last 10 or 15 years. I love the start-up process – it is the most exciting thing you can do."

Mr Catlin's entry into the insurance profession would have had long odds. "My father was a doctor and wanted me to go into medicine," he says. "I didn't want to do that, so we agreed on a halfway house that was dentistry, and I didn't really want to do that either. So I didn't work very hard and didn't get the grades. I landed in Lloyd's by default because I needed a job and met a guy through sailing."

It paid off: Mr Catlin, who never went to university – "I've certainly got a degree in making mistakes, I can tell you that" – is now a visiting fellow of Oxford University.

To explain what for many is the arcane art of insurance and reinsurance, Mr Catlin cites Nassim Taleb's book about improbability, *The Black Swan*. "You can never, ever predict timing or causation, but you can predict effect," he says. "That pretty much describes how we think as insurers and reinsurers. The really important thing is to understand the risks that we are taking on."

Sometimes this means employing experts in the more esoteric insurance classes in which the firm operates. "We have someone who runs our satellite account," he says. "He's a rocket scientist. Seriously. He could bore you for hours and hours about space exploration."

> 'With big disasters, the skill is foreseeing potential knock-on effects and unintended consequences'

For a Lloyd's name the risks are also personal. "I put the house in my wife's name a very long time ago," he says.

With big disasters, both natural and man-made, Mr Catlin says the skill is foreseeing potential knock-on effects and unintended consequences.

"We hadn't envisaged 9/11 any more than anyone else had, but we had thought of what might happen if two jumbos collided mid-air in downtown New York," he says.

This allowed Catlin Group to honour all claims made against the company.

However, there was a consequence to the terrorist attacks of September 11 2001 that even Mr Catlin had not forecast. The firm was running a cancellation book for the NFL American football games.

"We couldn't envisage an occasion when all games would be cancelled," he says. "It had never happened – even when John F. Kennedy [the US president] was shot. But then 9/11 came along. We lost about $10m."

Mr Catlin ascribes his success to "sheer grit and determination". He believes that a company needs a vision and that there is often a single instigator of that vision. However, it is the delivery of a successful strategy through focused implementation by a team that is key, he says.

"That process from a vision to delivery is often a 5-10-year period, and not everyone has the courage of his convictions to weather the storm on the way. That may differentiate entrepreneurs from others."

The biggest challenge during the group's 27-year history has been employing the right people, he says. "The lesson we learned ... is if you can find people who share your values, cultural, religious and racial issues go away and you are left with the normal challenges in life, which is the ability to communicate. Our key values are transparency, teamwork, accountability, integrity and dealing with dignity with people up and down the line, both internally and externally. They either have those values in the heart or they don't."

Even more testing than the hunt for the right staff is something over which he has no control – the current macroeconomic situation.

"I've seen a good deal in my career," he says, "but never before have we had to deal with so many different moving parts."

Ernst & Young UK Entrepreneur of the Year List of winners

Stephen Catlin Catlin Group
Master Entrepreneur and UK Overall Winner

Bryan Bodek Airline Services Holdings
Business Products and Services

Michelle Clothier and Sam Conniff Livity
Social Enterprise

Kevin Hard EvoEnergy
Cleantech and Renewables

David Suddens R Griggs Group
Retail and Wholesale

Mark Pearson Markco Media
Emerging Entrepreneur

Jim Walker Argent Energy (UK)
Manufacturing and Processing

Steve Oliver and Walter Gleeson Entertainment Magpie
Consumer Products and Services

Errol Damelin Wonga.com
Ecommerce and Technology

Colin Robertson Alexander Dennis
Outstanding Achievement Award

A strong work ethic is the key

Profile
Tony Banks

Ex-soldier who built a care home business talks to **Liz Bolshaw**

Tony Banks has changed. The chief executive of Balhousie Care Group, Scotland's largest privately owned care home company, may still fly his own helicopter, but he has ditched the Aston Martin DB9 – "because you can only get two people in the car and a packet of sandwiches in the boot" – for a more practical BMW X5. These days the "trappings of success" matter less.

"What I deem necessary to be considered successful is recognition, to be an industry leader, to have a seat at the table and be listened to. I want to leave a legacy," he says.

The youngest of four children, Mr Banks's father was in the Royal Air Force and both his parents were from Dundee. "We were a very working class-type family," he says.

His work ethic has run in his veins since he was a lad, "doing paper rounds, chasing chickens", and remains strong today.

"The difference between people who are successful and those who are not is that successful people are prepared to go that extra mile, to go through a bit of pain. My business is a 24/7 business," he says.

Joining the Territorial Army to supplement his student grant, Mr Banks discovered that he "enjoyed the TA more than I enjoyed the BA, so much to my parents' disgust I joined the army. I wanted the maroon beret: I wanted to join the elite and be the best."

He saw active service with 2 Para (Second Battalion, the Parachute Regiment) during the Falklands War, but it was afterwards, during a spell as a life-insurance salesman, that he acquired his taste for business. It was 1987 and "I didn't even have a suit".

He found he was good at selling and was soon pulling in £3000-£4000 per month. "All my bosses were running round in their red [Porsche] Carreras, talking on their mobile bricks," he recalls. The appeal of student life faded and he decided to do his own thing.

Selling their house in Aldershot, Mr Banks and his wife at the time, who was a trained nurse, bought their first care home in 1992. "For the first 10 or 12 years it was a lifestyle business. I was doing everything – cutting the grass, going to cash and carry, you name it," he remembers.

After a decade, he confesses he "was getting bored and when I am bored, I am dangerous".

He determined to expand and build the business. "Looking back now, I wish I had done that earlier," he says.

Balhousie now comprises 22 homes serviced by 800 staff looking after 800 residents. Turnover is expected to hit £20m this year and he has just acquired a pharmacy business, as he spends "more than £1m on drugs with chemists and we can do that ourselves".

Mr Banks is passionate about the need for social care to be properly funded. He points out that the £570 per week he receives for a resident funded by the local authority would buy him two nights in a London hotel "and there no one wipes your bum".

The importance of providing an excellent standard of care is key to Mr Banks's vision for the Balhousie brand: "No one wants to end up in a care home. It is an unfortunate, distress purchase, but going there should not be a … [jail] sentence. It should be a part of your life that you can hopefully enjoy. That is what I am trying to do."

Words from the top State of play

'I fear this downturn could result in a genuine adjustment across many nations. Of concern is whether the UK is becoming uncompetitive with oppressive tax regimes, high costs and negative sentiment towards business'
Haraldur Agustsson, managing director, Globus (Shetland)

'I'd say I was fortunate but never had it easy'

Profile
Nicko Williamson

The green taxi innovator explains to **Liz Bolshaw** ambition, not privilege, is what counts in the end

Not many 13-year-old public school boys caught reading in their dorm after lights out are found to have been devouring a business autobiography. But Nicko Williamson is no ordinary Marlborough College product: his entrepreneurial ambitions started young. He describes his schoolboy self as "rather rebellious, not good at toeing the line".

His pukka education – preparatory school, Marlborough, Bristol University – and comfortable background in rural Dorset followed a predictable trajectory to several internships at a couple of hedge funds until, aged 22, he determined to start his own business. *Losing My Virginity*, the book by Richard Branson, the British billionaire head of the Virgin Group, may have electrified his insomniac teenage years, but a chance meeting with Ivan Massow, the financial services entrepreneur, grounded that enthusiasm with practical advice.

Mr Williamson was still finishing his undergraduate dissertation when he wrote the business plan for his environmentally friendly taxi service

But "it was Ivan who suggested I should go and spend a month working at Addison Lee [the large corporate taxi service in London] to really understand the business," he says.

He took the advice, raised £200,000 from family and friends, including £50,000 of his own savings, and won a business-plan competition at London Business School that brought two MBA graduates in to mentor the start-up. Climatecars was born.

> 'I can't say the thought [of giving up] never occurred to me, but I was confident that the idea was going to work'

"During that first period when we were running out of cash, I can't say the thought [of giving up] never occurred to me," Mr Williamson says. "But I was confident that the idea was going to work, and we had a good sales pipeline. It was just a matter of cashflow."

A year from launch, he raised a further £300,000 from angel investors.

Last year, Climatecars had sales of £2.2m and is on track, according to Mr Williamson, to break through £3m this year. Ninety per cent of the business is corporate and the company's largest client, which cannot be named due to a non-disclosure agreement, is a big US investment bank.

Mr Williamson has few regrets. "There are so many mistakes in the early years, but I think I learned from all of them," he says. "I could have been better at hiring the right people – that was a skill I lacked in the early stages – but I am not sure I would really change anything."

It is tempting to ascribe some of his success to a privileged start, but such accusations are simplistic. As he puts it: "I was lucky to have connections but raising serious money is never easy. I'd say I was fortunate but never had it easy."

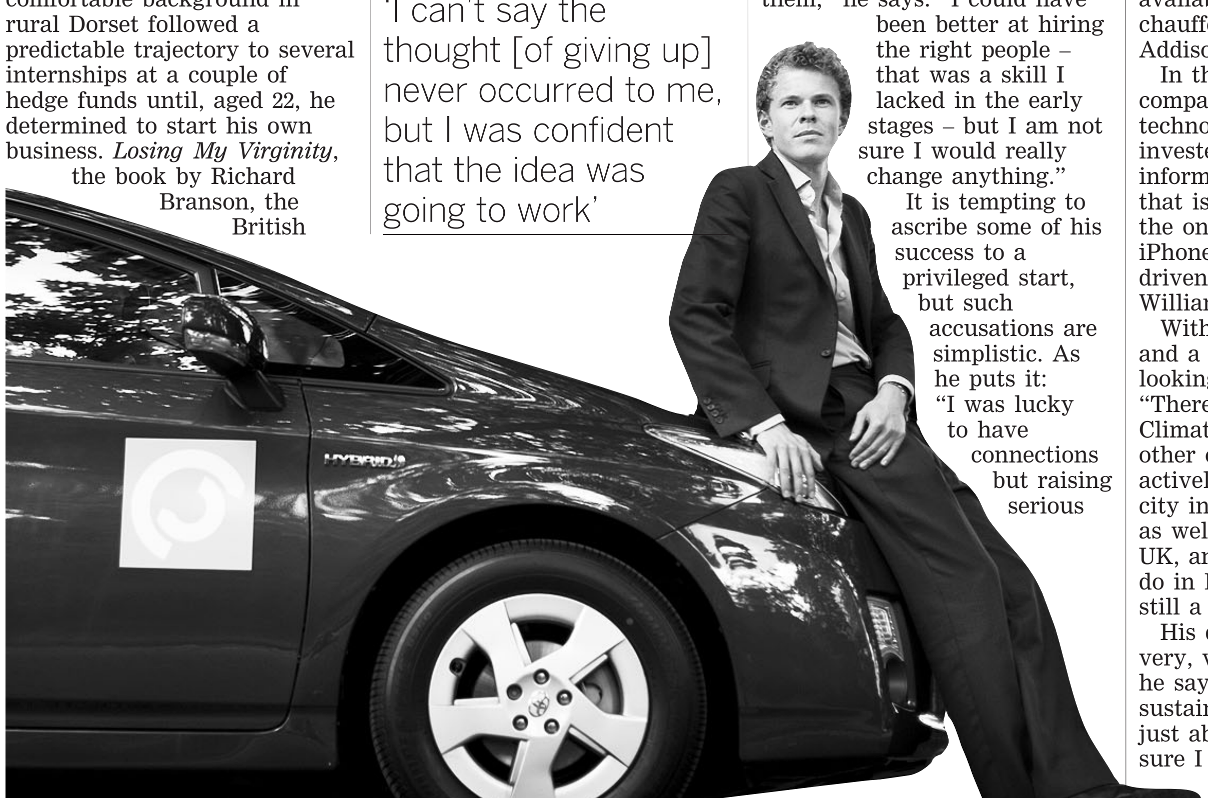


Photo: Ben Stansall

He has not taken on a business partner and clearly relishes the freedom that brings. "I do like having control and it means I can make decisions a lot faster," he says.

Apart from offering big companies green credentials, Climatecars relies on customer service. "Our cars have leather seats, mineral water, magazines and be-suited drivers," Mr Williamson says. "Apart from trying to be the greenest option available, we want to offer a chauffeur-level service at Addison Lee rates."

In the early years, the company ran on off-the-peg technology, but it has now invested in a bespoke information technology system that is driving everything from the online booking to an iPhone app. "It is a technology-driven business now," Mr Williamson says.

With the business in profit and a solid team in place, he is looking towards the horizon: "There is no reason why Climatecars isn't replicable in other cities," he says. "We are actively looking at a particular city in Europe at the moment, as well as other cities in the UK, and we have a lot more to do in London, where we are still a minnow."

His drive is palpable. "I am a very, very ambitious person," he says. "I want to build sustainable businesses. It is not just about Climatecars. I am sure I will build other businesses in my life. I don't look back, but am always focused on the next stage."

Words from the top Job creation

'During recessions new opportunities emerge and new solutions are required. Entrepreneurs create the precious jobs the UK needs right now, and should be supported in this'
Susan Aktemel, director of Impact Arts Projects

Get rich quick from online cash

Profile
Errol Damelin

Liz Bolshaw talks to the founder of the internet loan provider

"My parents were not silent movie fans and although Errol is an unusual name, it is less unusual in South Africa, but I have no idea where the inspiration came from," Errol Damelin, founder of Wonga, the online, short-term loan company, tells me over a crackly telephone line. "I like it though."

Mr Damelin, whose company is now four years old, is a serial entrepreneur. After a childhood in South Africa and three years in investment banking, he was involved in two business start-ups in Israel before founding Wonga.

The brand, from its Romany slang name to the catchy TV ads featuring three geriatric, fist-bumping puppets, is self-consciously irreverent. It aims to take the stuffiness out of banking and replace it with slick, quirky humour. It wants to demystify what is typically a socially unacceptable need for short-term cash, and make it routine – even fun. It is a disruptive player in a crowded market.

"People have and continue to have cash flow problems around the world … so we've mobilised technology to solve the problem. Data storage capabilities allow us to deliver the service much more quickly and conveniently than anyone could hope to do without technology," Mr Damelin explains.

The company, most recently backed by £73m of venture funding led by Oak Investment Partners, has not found financing a challenge. Mr Damelin says: "If there's an imbalance today, it is too much money chasing too few good ideas. Even more than that, there are too few good teams."

Critics say the very high annual percentage rate (listed as 4,214 per cent on Wonga.com) takes advantage of the poor and desperate. Mr Damelin says that is "misleading. Our business is like black cabs. It is outrageous that it costs you £12 to cross the West End at 2am, but … for some people for some of the time it is still worthwhile. The black cab's rates are totally transparent. Wonga does the same thing. If we provided the service for a year – or for a 10-year mortgage – it would be massively expensive, but one doesn't use it like that."

Average loans are £400 and paid off in 15 days. Default rates are about the same as credit cards (7 per cent) and about two-thirds of applicants are turned down.

"We're collecting about 8,000 pieces of data in milliseconds on every transaction before we decline or accept it. We don't lend to everybody all the time," he says.

Using technology to transform the "way lending was done traditionally, based upon individuals' reading of other people's risk" applies an objective measure to consumer credit, Mr Damelin argues. "Everyone gets to pay the same – we don't have differential rates."

Competition is growing, however, and an internet search reveals a slew of lookalike companies apparently offering the same service. Mr Damelin, though, is not worried. "Consumer services are always competitive and they should be. That is [testament to] the strength of the market if people try to clone and copy it. We spend very little time as a business thinking about competition."

Entrepreneurial success rests on "thinking big while being focused on execution when playing in a very big market. Too many good people focus on opportunities that are just too small. You need a vision and you need a lot of energy and endurance."

New kind of company wants to care for the community

Social enterprise

Andrew Bounds looks at turning a profit from solving social problems

Tough economic times have not stemmed the rise of social enterprise – a loose term covering mainly not-for-profit businesses that aim to improve society. Social Enterprise UK, the body promoting the sector, says 62,000 such businesses, including co-operatives, are operating in Britain.

According to Fightback Britain, a report from Social Enterprise UK and the Co-operative Bank, they are three times more likely than conventional businesses to be working in the most deprived areas (39 per cent compared with 13 per cent).

However, they often do better than their for-profit peers, with 58 per cent growing last year, compared with 28 per cent of mainstream companies. They employ approximately 800,000 people and contribute more than £24bn to the UK economy.

Peter Holbrook, chief executive of Social Enterprise UK, says: "We are seeing a new generation of social enterprises being created during these incredibly difficult economic times, in the communities where they are desperately needed."

The vast majority of these businesses have fewer than 10 staff, but Stephan Chambers, chairman of the Skoll Centre for Social Entrepreneurship at the University of Oxford's Saïd Business School, detects a new breed that aims to become global.

"My profound belief is that what we call social entrepreneurship today should be called entrepreneurship tomorrow," he says.

He says these types of businesses would be solving problems such as crime, poor education, climate change and water shortages in future, while traditional companies would just be saddled with the costs.

"The big challenges are social. The liabilities associated with social threats are not on company balance sheets but soon will be. The costs are shunted on to governments, aid agencies and the poor. That is unlikely to be successful in an increasingly connected world."

Governments should generally not get involved in enterprise, but should set rules to ensure the innovators have a chance to succeed, says Mr Chambers.

"There is always a role for government. Businesses have to be constrained by the system," he says.

Mr Holbrook says there is a danger the sector could be throttled by its bigger rivals as its public funding is cut. According to him, big corporates with a long track record and deep pockets are able to outbid younger social enterprises for government contracts.

In September, Central Surrey Health, a staff-owned service lauded by the coalition government, lost a bid to run community health services in neighbouring north and west Surrey. The preferred bidder for the five-year deal, worth about £90m per year, was Assura Medical, which is 75 per cent owned by Virgin, the UK-based group controlled by Sir Richard Branson.

> 'Many more businesses not only want to grow but also want to make a difference'

Given that the government is retrenching staff and returns from traditional investments are low, private money is seeking to back social enterprise. Emma Turner, director of client philanthropy at Barclays Wealth, the wealth manager, says clients increase their donations in difficult times, but some are turning to social enterprises rather than charities to solve deep-seated problems.

Andrew Haigh, head of entrepreneurs at Coutts, the private bank, says many of his clients are looking to invest in social enterprise. However, there needs to be a system for measuring the "social return". There is also an appetite for receiving a small financial return, allowing money to be "recycled" into other projects.

RBS, the bank, has been backing community development finance institutions, small funds that channel money to social enterprises who struggle to get bank finance. It recently opened a microfinance fund for them to tap into.

Thom Kenrick, the community investment manager, explains that CDFIs help businesses to grow in their own communities. "If our communities prosper, our business prospers," he says.

Mr Chambers of the Skoll Centre says: "There is a wall of investment cash available to improve the efficiency of our uses of energy."

Duncan Cheatle, an entrepreneur who also runs Thanksto.com, a website allowing people to thank everyone from their inspirational teacher to the bus driver that returned their lost wallet, says: "There is a sea change, with many more businesses coming through that not only want to grow but also want to make a difference." For one thing, it helps to attract motivated staff, he adds.

Mr Chambers agrees. The profile of those attending his course has changed over the past few years, from charity delegates to more conventional MBA students. The divide between those who want to make money and those who want to do good is shrinking.

"There is a mainstreaming of social entrepreneurship. Most people didn't know what it was eight years ago, 100 per cent now know what it is. They want business to make the world a better place. They see no distinction between doing well and doing good," he says.

Minister: UK red tape is strangling business

On the train: business minister Mark Prisk addresses entrepreneurs en route to this year's Made festival

Andrew Bounds reports on this year's Made festival for entrepreneurs

Mark Prisk, business minister in the Conservative-Liberal Democrat coalition government, likes to quote Ronald Reagan, the late US president, as saying the scariest words in the English language were "Hello, I am from the government and I am here to help."

The familiar refrain raised a laugh from the audience at September's Made festival in Sheffield, attended by several hundred entrepreneurs and more than 2,000 people hoping to learn from them.

Mr Prisk, a Conservative member of parliament who ran a property consultancy before entering politics, believes the best thing the public sector can do for the private sector is get out of its way.

"We cannot let thousands of flowers bloom if I trample all over them."

However, he then went on to list five things the government was doing to help. They range from tax reform – incentives to invest in start-ups – to a mentoring scheme. The tax system is too complicated, he admitted. "We want to make this country one of the best places to start and to grow your enterprise, not just for the sake of the economy but for communities."

He claimed the government had scrapped legislation that would have cost small and medium-sized businesses £350m. "There are 21,000 bits of red tape and regulation on the statute book. We are working to strip that away."

The coalition has adopted a "one-in, one-out" strategy under which it must first repeal a regulation before introducing a new one. However, the effects have yet to be seen.

Mr Prisk said replacing government-paid advisers with voluntary mentors would transform business support. The government is recruiting the first 10,000 and hopes to increase that to 40,000.

"These are people with business experience," he said. "A little grey hair makes a lot of difference."

However, on the most controversial point – the temporary 50 per cent top rate of income tax brought in by the previous Labour government and continued by the coalition – he was silent.

Most entrepreneurs want to see it cut back to 40 per cent. A Treasury study reporting this year is likely to find it raises little, if any, revenue, as it can be circumvented. But the Lib Dem partners in the coalition believe it is necessary to show that all sectors of society are sharing the pain as austerity measures start to bite.

Some question how much regulation can be cut, given the constraints imposed by the European Union, whose demands can be seen to be responsible for 80 per cent of UK legislation.

Duncan Cheatle, a co-founder of StartUp Britain, a private sector campaign to encourage enterprise, said the government's best intentions could be thwarted by Brussels.

He said the biggest bugbear among members of his Supper Club networking group was employment law, which they view as favouring employees. "Employment tribunals are a more important issue than cash flow," he said. "I have seen businesses give up because of this. The costs of fighting are so great that most companies agree to settle," he said.

The government is reviewing the system, believing it is too easy for staff dismissed for incompetence to claim they were victimised. Mr Prisk said it would enact measures to target vexatious and repeat claimants.

However, the Labour government did do much to encourage entrepreneurship, according to Stuart Watson, a partner at Ernst & Young, the professional services firm. "There is a rise in entrepreneurship," he said, with some credit due to Gordon Brown, the former prime minister, and Sir Ronald Cohen, a veteran of the venture capital industry, for bringing its techniques to government and creating a range of tax-friendly structures for investors. But he said the UK faced a constant battle.

"Entrepreneurs have to compete on the world stage; governments have to compete on the world stage.

"Entrepreneurs create businesses and jobs and disrupt things. You have got to encourage people like that to live in your country. That is a mixture of local government making it an interesting and vibrant place to live, good transport links [and] research-led universities. Is it the kind of place young, thrusting people want to live?" he said.

Governments need to keep taxes low, and invest in a fast and widespread broadband network. However, Britain's private providers have baulked at funding this.

Mr Watson also questioned the effectiveness of public sector venture capital funds, aimed at bridging the "equity gap" of up to £5m where start-ups find it hard to attract investors to help them grow. "The problem with these funds is they can only fund you so far. If they can only go up to £2m, who is coming in the second and third round? You can't find them," he said.

With funding still a big issue some have called for radical action by government.

Richard Lambert, the former editor of the Financial Times and ex-director general of the CBI, the employers' organisation, has urged the government to stimulate lending to small business by reducing the capital requirement set aside as provision against such loans. He has also suggested that the Bank of England could invest in bundles of small business loans.

However, such bold ideas are unlikely to be adopted by a government committed to Ronald Reagan's dictum.

View from the FSB

Regulation hinders growth

A third of entrepreneurs have said that regulation is the single biggest obstacle to growth. The Global Competitiveness Report from the World Economic Forum, the international business conference, still ranks the UK 89th out of 139 countries for the burden it places on business.

Government must make microfirms exempt from new regulations in the EU where possible; reduce the flow of new regulation in the UK as well as tackle the existing stock, and ensure inspection regimes are proportionate and risk-based.

John Walker, national chairman of the Federation of Small Businesses

Ernst & Young Entrepreneur of the Year

The Ernst & Young Entrepreneur of the Year awards programme celebrates entrepreneurs – recognising that entrepreneurship and innovation drives the growth of the broader economy and plays an important role in job and wealth creation, writes **Steve Varley**.

This year's UK finalists are responsible for combined annual revenue of £7bn and have achieved employment growth of 20 per cent in the past year. Some of them are growing their businesses cross-border through exports and overseas investment.

The awards programme was founded by E&Y to help entrepreneurs achieve their potential. Over the years, it has spotlighted more than 1,700 finalists, with past UK and Ireland winners including Charles Dunstone (Carphone Warehouse), Aidan Heavey (Tullow Oil), Tim Richards (Vue Entertainment), Michael Spencer (Icap) and Ayman Asfari (Petrofac).

In the UK, there are three regional rounds. Here the entrepreneurs are evaluated by an independent judging panel. Each regional winner goes through to the national contest where they are re-evaluated as they compete for the title of Overall UK Entrepreneur Of The Year.

The judges are recognised industry leaders, many of whom are past winners, so they understand the challenges the participants face. This year, our 2008 winner, Richard Harpin, founder of Homeserve, the home repairs insurance company, chaired the judging panel.

At each step of the process – from regional to national and then global – judges receive a detailed history of the finalists and conduct formal interviews with them.

Finalists are rated on seven criteria:

- Entrepreneurial spirit
- Financial performance
- Individual and/or corporate social responsibility
- Innovation
- Leading and building teams
- National or global impact
- Strategic direction

The overall winners from both the UK and Ireland then go on to the Ernst & Young World Entrepreneur Of The Year awards in Monte Carlo. In 2010, UK winner Michael Spencer went on to take the worldwide title.

However, this is more than an awards programme. The entrepreneurs build valuable networks, raise their profile – the Irish programme produces a television series shown on RTE, the state broadcaster – and, as alumni, are invited to world-class events. These include E&Y's Strategic Growth Forum in Palm Springs, US, Entrepreneur Of The Year Retreat in Cape Town, South Africa, and annual Irish chief executive retreat.

This year, the programme celebrates its 25th year of running in 140 cities in 50 countries.

The writer is UK and Ireland managing partner at Ernst & Young