



Building our Industrial Strategy Green Paper

A response by Sage

April 2017

1. Does this document identify the right areas of focus: extending our strengths; closing the gaps; and making the UK one of the most competitive places to start or grow a business?

Sage is the UK's largest tech company delivering a world of invisible admin for businesses globally. Today we help business builders with the most intelligent and flexible cloud-enabled software, support and advice to manage everything from money to people tackling the barriers that hold them back, unshackling them from cumbersome admin and making them more productive. We do this using technology to understand, learn and carry out key business tasks and automate processes so our customers can focus on exporting and scaling up and making a significant contribution to the UK economy.

Proudly headquartered in the North East of England, as Newcastle's biggest employer we will champion an agenda to develop a modern Industrial Strategy that supports entrepreneurs and growing enterprises across the UK.

Key facts about Sage

- £1.6bn revenue including 70% recurring revenue from subscription software
- 3m customers across 23 markets
- 53% employees paid by Sage software in UK
- Market cap of c. £7bn
- Our 9 top counties provide 95% of revenue: UK & Ireland, France, Spain, Germany, South Africa, Brazil, Australia, USA and Canada
- Organic growth of 6.1% in FY16 - Transformation phase and investment in the latest tech innovation including Chatbots, AI/Machine learning/collective intelligence and payments

Sage is committed to supporting the ambition of the Industrial Strategy "to deliver a stronger economy and a fairer society" where wealth and opportunity reach across every community. As members of the Government's Scale-up Taskforce we look forward to leading work to support small and medium sized businesses (SMBs) in securing access to new markets.

In our view, addressing the challenges identified in the Green Paper is key to the future growth and success of our customers, the 'business builders' as Sage refers to them that make up 99% of all businesses and create two thirds of all new jobs. Government, business and the third sector must work together to create an ambitious agenda to make the UK the most competitive place to start and grow a business to address inequalities and create a stronger, more productive economy.

The strategy identifies fundamental structural weaknesses that need collectively addressing:

- The UK has 12 of the 20 poorest regions in Europe despite having the most prosperous in northern Europe central London
- Barriers that hold back growth, especially amongst SMBs, include a lack of finance, slow adoption of digital processes and difficulty accessing skills
- Low productivity levels and output below workers in France, Germany and the United States



- Lack of focused support and the need to marry our start-up culture with the right support and investment to facilitate the growth of businesses and social enterprises
- Low levels of UK businesses taking advantage of the opportunities presented by overseas markets, with around 15% of businesses exporting

We agree that the UK is in a strong position for growth but realising this potential across the UK requires a plan to address the underlying structural weaknesses.

In our view the failure of many early stage businesses to adopt digital processes deserves more attention in this Strategy and seen as a key barrier to growth as part of the Scale-up Taskforce. Despite the rapid growth, relatively high wage jobs, productivity tools and Gross Value Added tech and digital are bringing to our economy, too many UK businesses are missing out. As the Government's Digital Strategy¹, March 2017, points out fewer than 20% of UK enterprises use software to share information across the organisation, compared to 40% in France and more than 55% in Germany and only 22% of SMEs in the UK use any form of e-commerce.

The Industrial Strategy should be delivered hand in hand with the Digital Strategy and push for a step change in adoption of digital to tackle our underlying lack of productivity. One key programme for this will be Making Tax Digital which, starting in April 2018, will require all businesses to submit quarterly updates using digital software to HMRC. The Government and software industry must work together to address the negative perceptions of going digital which have so far dominated discussions where digital innovation and automation of business processes are regarded as a net cost to business rather than benefit.

According to new research released this month by Sage/IDC² more than half (56%) of small businesses have yet to adopt digital technologies, preferring to maintain their business with traditional methods.

But almost a third of small business who do commit to technology show significantly improved growth compared to those who do not. 25% of what IDC would describe as tech-savvy small businesses reported growth of more than 10% compared to last year. This compares to just 11% of the small businesses that had not adopted digital technologies experiencing 10%+ growth.

When asked about their top 3 most challenging activities, small businesses are most concerned with acquiring customers, managing finances, and innovation. Digital tools will be key to cutting the time taken to focus on these critical tasks, where advances in data analytics are improving forecasting and increasing use of AI technologies are cutting admin time. Third parties such as Forrester³ evaluate the advantages from using software products showing a clear positive impact on productivity including:

- Saving over 6 hours each week with paperless, accessible anywhere automated backups and cloud storage
- 20% faster cycle time from order to shipment
- 18% improved complete and on-time shipments
- Bank feeds to cut re-keying payments and speed up reconciliation routines.

¹ <https://www.gov.uk/government/publications/uk-digital-strategy>

² based on 1,053 interviews with small business owners < 10 employees across the US, Canada, the United Kingdom, France, Germany, and Spain.

³ <http://www.sagex3.com/forrester-tei>



- Business performance dashboards giving a 360 degree views of customers, key financial insights, VAT, stock and order processing
2. Are the ten pillars suggested the right ones to tackle low productivity and unbalanced growth? If not, which areas are missing?

The 10 pillars do identify key areas of focus but as mentioned above they need to be underpinned by an ambitious strategy based on accountable missions and outcomes to deliver the step change needed. We need these to be much more closely aligned with the aspirations set out in the Digital Strategy. For example, tangible goals like a proportion of small businesses adopting digital technology, a roadmap to make the UK to take the lead in developing the 4th Industrial Revolution, a much higher percentage of students take computer science GCSE or increasing the UK's world ranking for productivity.

- ~~3. Are the right central government and local institutions in place to deliver an effective industrial strategy? If not, how should they be reformed? Are the types of measures to strengthen local institutions set out here and below the right ones?~~
4. Are there important lessons we can learn from the industrial policies of other countries which are not reflected in these ten pillars?

The Government cannot afford to take its foot off the pedal or channel all support towards one segment of the business community, such as high growth scale-ups. Across the 23 markets Sage operates in Governments are running significant funding and support programmes to champion SMB growth.

Recent examples include:

Malaysia

The Malaysian Budget 2017 allocated RM75 million (£14m) to programmes under the SME Master Plan and RM15 (£2.7bn) billion to schemes under the Syarikat Jaminan Pembiayaan Perniagaan (SJPP), a Ministry of Finance-led initiative to nurture business growth.

Spain

The Spanish Government has introduced a new 606m euro industrial competitiveness programme. In the Spanish Institute for Foreign Trade, an agency of the Spanish Ministry for Industry, it is offering a new SMB export promotion programme, co-financing 50% of 10,000 € to support:

- Prospecting expenses
- External promotion
- People recruitment

This includes up to 45 hours of personalized advice by experts and support with advertising, participation in trade fairs, intellectual property protection and partnering.

Australia



When it unveiled its Ten Year Enterprise Tax Plan in the 2016 federal budget, the government promised to “put small business first” by extending the turnover threshold for a number of tax benefits. A Government tax change shifts the definition of small business to \$10 million turnover which gave more SMBs access to \$20,000 instant asset write-off and other concessions

France

- A new private sector fund, set up by AXA and NextStageAM, will allow individuals to invest their savings in equities in small and medium-sized unlisted companies. Funds for SMBs would be included in life insurance contracts with a favorable fiscal framework in place to support it.
- Student-entrepreneur status where students and young graduates who wish to set up their business can take advantage of a special status which means they can continue to benefit from student welfare, access microcredits and training to enable them to start a business whilst staying in education.

We believe significant targeted investment in a small business export programme would send a clear signal to the small business community at large about the opportunities that lie ahead to expand their business into new markets.

5. What should be the priority areas for science, research and innovation investment?
6. Which challenge areas should the Industrial Challenge Strategy Fund focus on to drive maximum economic impact?

In answer to 5 & 6, digital innovation and future technologies should be treated as a high priority area. We welcome commitment to build on our strengths in research and innovation in robotics and the Budget announcement of £270m to invest in disruptive technologies including robotics, biotech and driverless vehicle systems.

Putting the UK at the forefront of the 4th Industrial Revolution technologies will deliver the higher value jobs and wider productivity benefits across the economy that we need. The Tech Nation 2017⁴ report highlights how technology is already delivering highly unrivalled inward investment in the UK of £6.8billion, 50% higher than any other European country. The turnover of digital tech businesses reached £170 billion, an increase of £30billion in just five years and the digital sector is creating jobs twice as fast as the non-digital sector.

The size of the prize is huge and we would urge the government to go further and faster to maintain this momentum, with additional funding in other future technologies such as data science, blockchain. A new era of invisible accounting, financial transparency, front office automation, big data and machine learning is advancing more rapidly than many would have predicted, enabled by cloud technologies. Investing in real world applications of these technologies across sectors, especially the public sector, as well as getting the policy frameworks right so as not to stifle innovation are both key to creating the right market conditions for continued growth.

7. What else can the UK do to create an environment that supports the commercialisation of ideas?

⁴ <http://technation.techcityuk.com/>



We are disappointed about the lack of reference to the wider social challenges that in our view could be the most significant barriers to benefits being felt across the UK. There is no reference to the AI review that was announced in the Digital Strategy and which Sage will be contributing to. We need a clear roadmap for implementing AI and an ethical framework that will create the trust and confidence needed to embrace innovation.

Likewise, on data science and analytics, the potential productivity gains are huge, but the UK must move quickly to ensuring that, post-Brexit, we have a regulatory framework that not only encourages innovation but wins the hearts and minds of small businesses and consumers and positions us to share data across borders.

~~8. How can we best support the next generation of research leaders and entrepreneurs?~~

9. How can we best support research and innovation strengths in local areas?

Excellent signposting will be key so that research and innovation strengths are promoted by LEPs in a way that is accessible, current and relevant to a diverse audience. The Government's Science and Innovation Audits need to be transformed into consumer-friendly, searchable online resources that are a tool used by LEPs to attract inward investment. If aggregated at the national level they would create opportunities for overseas investors, entrepreneurs or other researchers to collaborate and engage in the UK's R&D strengths.

10. What more can we do to improve basic skills? How can we make a success of the new transition year? Should we change the way that those resitting basic qualifications study, to focus more on basic skills excellence?

We welcome plans to build a new system of technical education to benefit the half of young people who do not go to university and mention of increasing levels of attainment of the most basic skills in schools. Sage recognises the huge value that apprentices can bring to an organisation, and the opportunities the apprenticeship programme creates for young people that want to continue their education in the workplace. We have a significant apprenticeship programme in Newcastle, Manchester and London, currently training 65 apprentices in a wide range of skills across our organisation.

Following the launch of the accounting industry's first chatbot, Sage has announced a programme designed to future-proof the skills needed as the UK takes the lead in the global Bots and Artificial Intelligence (AI) movement. Sage will establish a 'BotCamp' for over one hundred school-leavers and millennials, aged 16-25, giving them the opportunity to be at the leading edge of the technology industry. This programme is designed to be inclusive, and provide accessible technology skills that will help people to embrace, not fear, the 4th industrial revolution.

Reskilling adults will be key in the age of the 4th Industrial Revolution. Sage has partnered with Amazon Web Services (AWS) re: Start Programme, offering 1000 military veterans over the next three years the opportunity to attend a full time, four-week course to gain skills in: Syntax; the inner workings of the Java programming language; general IT knowledge including networking and cloud computing; and the delivery of core AWS Services.

However, the strategy as it stands does not go far enough by any stretch to address the skills deficits that businesses face today and a joined-up approach between DCMS, BEIS and DfE could address this shortfall head on. Sage's Customer Panel (March 2017) cited staff recruitment and skills as **the**



most significant barrier to growth (27%) for SMBs with finding new customers and competition in the market coming joint second (23%). The lack of digital skills is our most critical shortage. Recent research from [Coadec](#) shows that UK tech sector is at risk of a talent shortage of 800,000 workers by 2020 which in turn will exacerbate low use of digital amongst the SMB community.

The shortage looks set to get worse for future generations and with continued relative lack of women with the digital skills which every business needs. Currently computing GCSE represents just 1.1% of the total number of students taking GCSEs and there are 4 boys to every 1 girl taking the qualification. With numbers taking computing at A-Level in decline a vast majority of young people today will enter the workplace having received no digital education. Without a clear plan for turning around the digital education across all education institutions we face a new era of inequality where many wishing to start or grow their business could be held back by lack of digital skills.

To start to address the shortfall, computer science should become mandatory at GCSE level. Also, to inspire a wider group of students to put themselves forward for tech education the GCSE course should be constantly updated including a wide range of modules such as web development and digital marketing that will equip business leaders of the future.

~~11. Do you agree with the different elements of the vision for the new technical education system set out here? Are there further lessons from other countries' systems?~~

~~12. How can we make the application process for further education colleges and apprenticeships clearer and simpler, drawing lessons from the higher education sector?~~

13. What skills shortages do we have or expect to have, in particular sectors or local areas, and how can we link the skills needs of industry to skills provision by educational institutions in local areas?

See Q10. Educational institutions should have a proactive programme of engaging with local employers to promote student access to work placements and careers opportunities.

14. How can we enable and encourage people to retrain and upskill throughout their working lives, particularly in places where industries are changing or declining? Are there particular sectors where this could be appropriate?

See Q10

~~15. Are there further actions we could take to support private investment in infrastructure?~~

~~16. How can local infrastructure needs be incorporated within national UK infrastructure policy most effectively?~~

~~17. What further actions can we take to improve the performance of infrastructure towards international benchmarks? How can government work with industry to ensure we have the skills and supply chain needed to deliver strategic infrastructure in the UK?~~

~~18. What are the most important causes of lower rates of fixed capital investment in the UK compared to other countries, and how can they be addressed?~~

~~19. What are the most important factors which constrain quoted companies and fund managers from making longer term investment decisions, and how can we best address these factors?~~

~~20. Given public sector investment already accounts for a large share of equity deals in some regions, how can we best catalyse uptake of equity capital outside the South East?~~



~~21. How can we drive the adoption of new funding opportunities like crowdfunding across the country?~~

22. What are the barriers faced by those businesses that have the potential to scale-up and achieve greater growth, and how can we address these barriers? Where are the outstanding examples of business networks for fast growing firms which we could learn from or spread?

Supporting the wider SMB sector will be fundamental to achieving the goals set out in this document to:

- build on our strengths and extend excellence into the future;
- close the gap between the UK's most productive companies, industries, places and people and the rest; and
- make the UK one of the most competitive places to start or grow a business.

The strategy is in danger in our view of paying too much attention to scale-ups that fit the OECD definition (20% growth three years consecutively) and as important as they are, this risks us missing the opportunity to support the wider SMB community which employs 15.7 million people across the UK; 60% of all private sector employment.

A majority of business builders may not fit the scale-up category but are nonetheless are ambitious for success. Our most recent Sage customer panel illustrates this. 4 out of 5 customers said growth is important to their business, with 18% planning for growth of between 10-20%. Significantly though a substantial 29% want to grow their business by 5-10% and 17% are planning for 0-5% growth. Small businesses are not just the engines of growth, they are the nation's innovators. One half of our customer panel say they have introduced new or significantly improved goods or services in the last 3 years, 24% of which were brand new to the market.

The Industrial Strategy must create the right conditions to help all entrepreneurs and business builders realise their growth ambitions and inspire more that they have the tools and means to start and grow a successful business. Combined with productivity improvements, the benefits to the wider economy and workforce as a whole would be significant.

Bearing in mind the global competition our businesses face, making the UK the best place to start and grow a business will in our view require a more ambitious framework than the one set out in this Green Paper. As a member of the Government's Scale-up Taskforce we will be working with others to develop a strategy that will help all businesses achieve their growth ambitions and to access new markets.

We plan to work with other members of the Taskforce on this in the coming months and have already set out our views for how we can improve Access to Markets for scale-ups:

1. Access to public sector procurement



- Reviewing government progress in meeting the recommendations of the National Audit Office “Government’s spending with SMEs”⁵ report, March 2016, and schemes such as ‘Open for Business’ to reach more SMEs as potential suppliers
- Focus on the strategic vertical markets identified in the Industrial Strategy

2. Access to technology and digital innovation

- Exploring the causes and business impact of the digital deficit of small firms on productivity; growth and exports
- Reviewing how well digital advice / support is targeted at SMB business leaders
- Exploring potential incentives to encourage SMB investment in digital tech
- Collaborating for a more positive narrative around digital amongst small business
- Working on sector proposals to tackle the digital skills deficit and lack of women taking tech qualifications.

3. Access to new markets and exporting

- Reaching out to other governments around the world to explore innovative ways governments are boosting exporting
- Working with government and private sector companies to launch a co-branded guide and campaign to promote exporting that looks at digital marketing, e commerce, grants, compliance and finance. This will help broaden the reach of support as currently only 15% of businesses are aware of the Exporting is Great campaign.
- Reviewing HMRC data to see if we can get more insights around exporting activity to provide targeted support
- Identifying the levers that help SMBs scale-up to export and case studies

Other members of the Taskforce will be addressing other significant contributors to growth including access to finance and leadership skills.

Ultimately the Industrial Strategy should create a blueprint for every region; a commitment to supporting all small businesses in reaching their growth ambition backed by a new regional funding programme. We need to set the bar high for excellent support across every community that includes:

- A more targeted approach, streamlining support and making better use of government data to ensure businesses get the best advice at the right time.
- A digital czar in every devolved region held accountable for attracting tech investment, driving digital growth and tackling the digital divide
- A digital skills programme that applies to everyone in part or full time education to equip all businesses to embrace digital
- Guaranteed low cost start-up hubs for all start-ups with high speed digital connectivity in every town and city across the UK
- A local business rates investment programme to deliver the infrastructure businesses need such as low cost waste collection, security and lighting.

⁵ <https://www.nao.org.uk/report/governments-spending-with-small-and-medium-sized-enterprises/>



- A guide to exporting pulling together advice from private sector and government and a commitment to increase SMB participation at trade fairs and include 50% SMBs on trade missions

23. Are there further steps that the Government can take to support innovation through public procurement?

See Q22

24. What further steps can be taken to use public procurement to drive the industrial strategy in areas where government is the main client, such as healthcare and defence? Do we have the right institutions and policies in place in these sectors to exploit government's purchasing power to drive economic growth?

See Q22

25. What can the Government do to improve our support for firms wanting to start exporting? What can the Government do to improve support for firms in increasing their exports?

See Q22

~~26. What can we learn from other countries to improve our support for inward investment and how we measure its success? Should we put more emphasis on measuring the impact of Foreign Direct Investment (FDI) on growth?~~

~~27. What are the most important steps the Government should take to limit energy costs over the long-term?~~

~~28. How can we move towards a position in which energy is supplied by competitive markets without the requirement for on-going subsidy?~~

~~29. How can the Government, business and researchers work together to develop the competitive opportunities from innovation in energy and our existing industrial strengths?~~

~~30. How can the Government support businesses in realising cost savings through greater resource and energy efficiency?~~

31. How can the Government and industry help sectors come together to identify the opportunities for a 'sector deal' to address – especially where industries are fragmented or not well defined?

A sector deal for the tech sector would be welcome even though digital innovation impacts every corner of our economy and cannot be siloed. This should be done in collaboration with techUK and CoadeC and would provide a focus for ensuring the aspirations of the Digital Strategy do not get lost in this wider Industrial Strategy. The urgent digital skills deficit, ensuring we have the ethical and policy framework in place for the 4th Industrial Revolution and to tackle inequality of digital adoption amongst the small business community would in our view benefit from a specific sector deal.

~~32. How can the Government ensure that 'sector deals' promote competition and incorporate the interests of new entrants?~~

~~33. How can the Government and industry collaborate to enable growth in new sectors of the future that emerge around new technologies and new business models?~~



34. Do you agree the principles set out above are the right ones? If not what is missing?

35. What are the most important new approaches to raising skill levels in areas where they are lower? Where could investments in connectivity or innovation do most to help encourage growth across the country?

36. Recognising the need for local initiative and leadership, how should we best work with local areas to create and strengthen key local institutions?

37. What are the most important institutions which we need to upgrade or support to back growth in particular areas?

There is no one institution but linking business, the third sector, academia and government effectively is key and we believe this works better under strong local leadership. Ambitious devolution deals and elected Mayors across the UK will drive inward investment and a strategy to directly support the local SMB community and we hope that the North Tyneside devolution deal will soon start this momentum in the North East. Central government has a role to play supporting local leaders in securing these deals.

38. Are there institutions missing in certain areas which we could help create or strengthen to support local growth?

See Q37