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**Business growth continues to falter as just 2% of UK start-ups reach £1m turnover since 2020**

Small business growth in the UK has continued to decline since the pandemic, and urgent action is needed if the Government is to meet its ambitions to boost growth, a new report by the Enterprise Research Centre (ERC) reveals.

According to the ERC’s latest *State of Small Business Britain* report, there are 400,000 more established SMEs in the UK since 2010, but the proportion registering any employment growth fell from 20% to 13% between 2020 and 2023.

Although the UK produces a healthy number of start-ups each year, most do not survive longer term. Only 47% of the 325,811 start-ups registered in 2020 survived for 3 years. The 10-year survival rate for start-ups is just 10%.

The analysis also shows that only a minority of these start-ups experience high growth. Just 2% of surviving start-ups registered in 2020 managed to achieve £1m turnover after 3 years, an oft-cited ambition of many new entrepreneurs. Having got to a £1m turnover, only 7% of established firms over 3 years of age then ‘step up’ and continue on a growth trajectory to record more than a £3m turnover.

The report also warns that there has been a marked decline in the support environment for small businesses due to a lack of consistent investment over time.

The scale of the challenge was revealed in the ERC’s annual *State of Small Business Britain* report.

Stephen Roper, Director of the ERC and Professor of Enterprise at Warwick Business School, said: “Small businesses are the engines of the UK economy, making up more than 99 per cent of businesses in the UK.

“But they have faced tough times in recent years, dealing with multiple challenges including substantial cost rises, a global pandemic and continuing economic uncertainty.

“Although many small businesses have shown remarkable resilience, these conditions have undoubtedly had an impact on business behaviour, and the evidence shows some concerning trends.

“One worrying trend is a marked decline in innovation activity. Given the important role innovation plays in business growth, it is crucial that this is addressed.

“But we know that innovation requires investment, and that if we want small businesses to invest, we need to raise business confidence.”

Other key trends highlighted in the report include:

* Top concerns for SMEs last year included the cost of labour and materials, wider economic uncertainty, and increased competition.
* According to official data, 36% of firms were innovating in 2020-2022 compared to 45% in 2018-2020.
* The after-effects of the pandemic and business costs were the most commonly cited barriers to innovation.
* Employee mental health continues to have a marked impact, but smaller businesses are significantly less likely to take action to address it.
* Expert ratings of the UK’s entrepreneurial environment collected as part of the Global Entrepreneurship Monitor Survey have slipped from being rated ‘sufficient’ to ‘less than sufficient’.

Mark Hart, Deputy Director of the ERC and Professor of Entrepreneurship and Enterprise Policy at Warwick Business School, said: “A lack of sustained growth amongst SMEs in the UK remains a key problem that the Government’s forthcoming Small Business Strategy and the associated Business Growth Service (BGS) must address.

“It is vital that the foundation of this new service is informed by robust research evidence as well as by insights from the experiences of small business leaders themselves.

“The UK has a diverse population of small businesses, and support needs to be focused on enabling more of them to be able to tackle the issues they face at different points of the business lifecycle.

“We know that episodes of growth can occur at many points of the business journey, and certainly do not just begin when a business reaches 10 employees. As a consequence, the eligibility for many current growth programmes needs careful consideration.

“Going forward we need a system of business support that better serves the realities of the UK business population, which means bringing the needs of micro-enterprises to the fore.”

**NOTES TO EDITORS**

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The Enterprise Research Centre (ERC) is the UK’s leading independent research institute on productivity and innovation in small and medium-sized enterprises (SMEs).

It is funded by the Economic and Social Research Council (ESRC), the Department for Business and Trade, the Department for Science, Innovation and Technology, Innovate UK, The Intellectual Property Office (IPO), and the British Business Bank (BBB). Its research helps to shape better policies and practices that enable SMEs to thrive.

The Centre is based at Warwick Business School and is led by Professor Stephen Roper, Professor Mark Hart, and Dr Vicki Belt.

*The State of Small Business Britain* report is the ERC’s annual review of trends and issues affecting small businesses in the UK. It draws together the Centre’s research to give a picture of the current landscape for the UK’s small businesses.