

# Start-ups and scale-ups in UK technology sectors

Read our policy brief here:



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Start-ups are crucial to fulfilling the UK's Modern Industrial Strategy 2025, contributing in three ways: innovation, job creation, and market competition. In this policy brief, we examine the strengths and weaknesses of the UK's start-up ecosystem.

## Ecosystem Building



## Funding



## Exits and Scaling Up

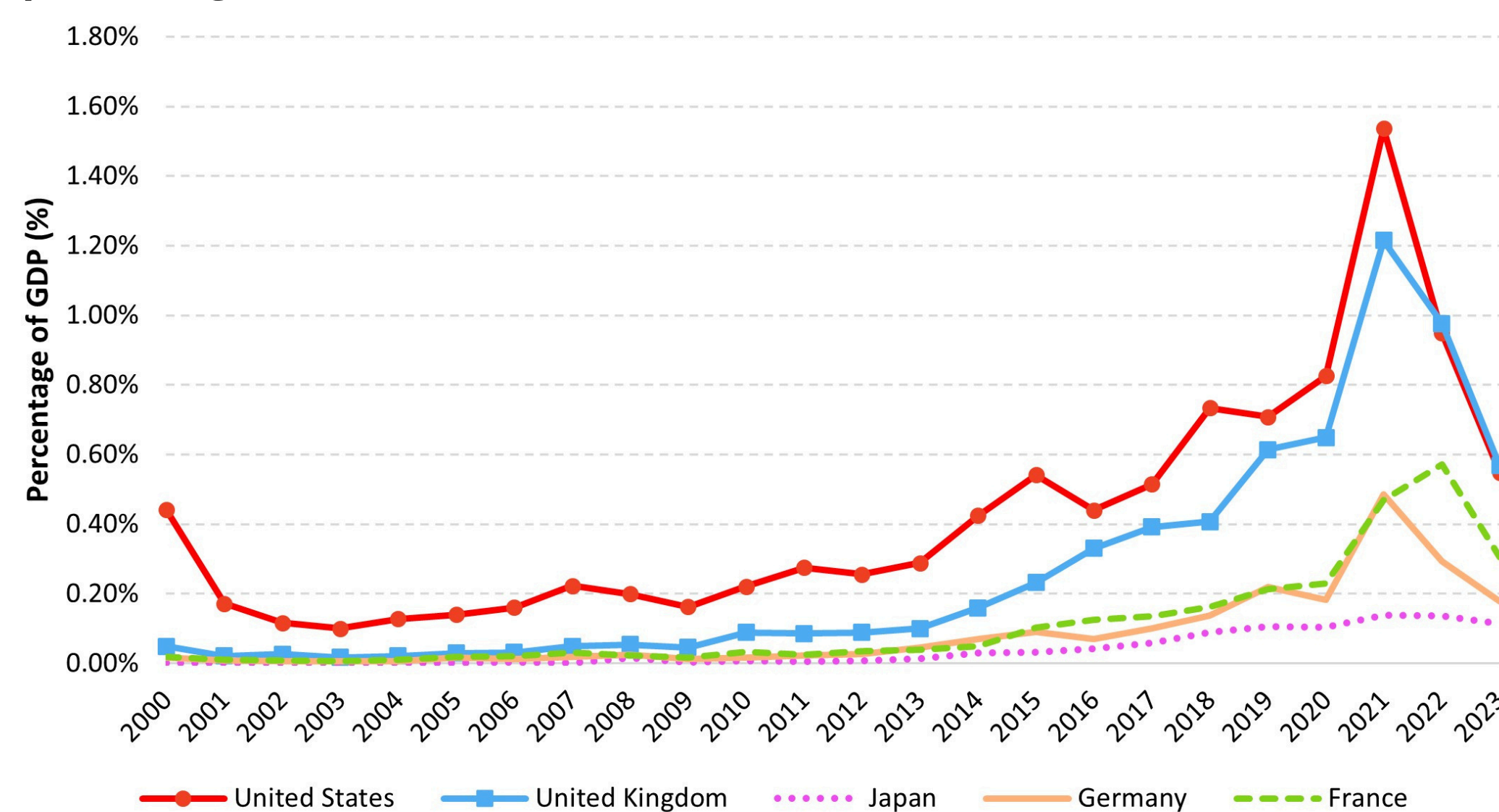
Three critical factors for a healthy ecosystem of start-ups:

- **ACCESS TO MARKETS**  
62% of scale-up CEOs identify market access as their top challenge (ScaleUp Institute, 2024). Given **the UK's relatively small domestic market**, high tech firms often have the need or incentive to **internationalise early**.
- **ACCESS TO TALENT**  
Over half of UK start-up executives find it difficult to recruit skilled talent (Tech Nation, 2024). **Top barriers include the high cost of living, competition with Big Tech, and restrictive immigration rules.**
- **KNOWLEDGE CLUSTERS AND NETWORKS**  
Geographic proximity in hubs like the "Golden Triangle" (London, Oxford, Cambridge) remains essential for the **transmission of "tacit knowledge", social-network-driven opportunities and recruitment.**  
★ We discuss the question "Why haven't we produced a Google or Microsoft?".

- UK Venture Capital (VC) investment reached \$16.4bn in 2024 — the 3rd largest globally, behind only the US (\$191.5bn) and China (\$38.4bn). **Measured as a share of GDP, the UK (0.57%) is near parity with the US (0.55%) in 2023.**  
★ We suggest four potential factors explaining the US-UK gap in VC funding: market size; capital allocation; risk attitude; and cost of failure.
- **SOURCE OF FUNDING**  
Since 2021, US investors (\$6bn in 2024) have started to overtake domestic UK investors (\$5.2bn) as the largest source of VC funding. Foreign-sourced capital **may raise geopolitical exposure risks** and **may accelerate foreign acquisitions.**
- **LATE STAGE GAP**  
While the UK is competitive in early-stage funding, it lags behind the US in **late-stage "patient capital"**. Without suitable alternative financing for growth, high-potential companies might fail or relocate out of the UK.  
★ Further scope: funding by sectors and performance of VC funds.

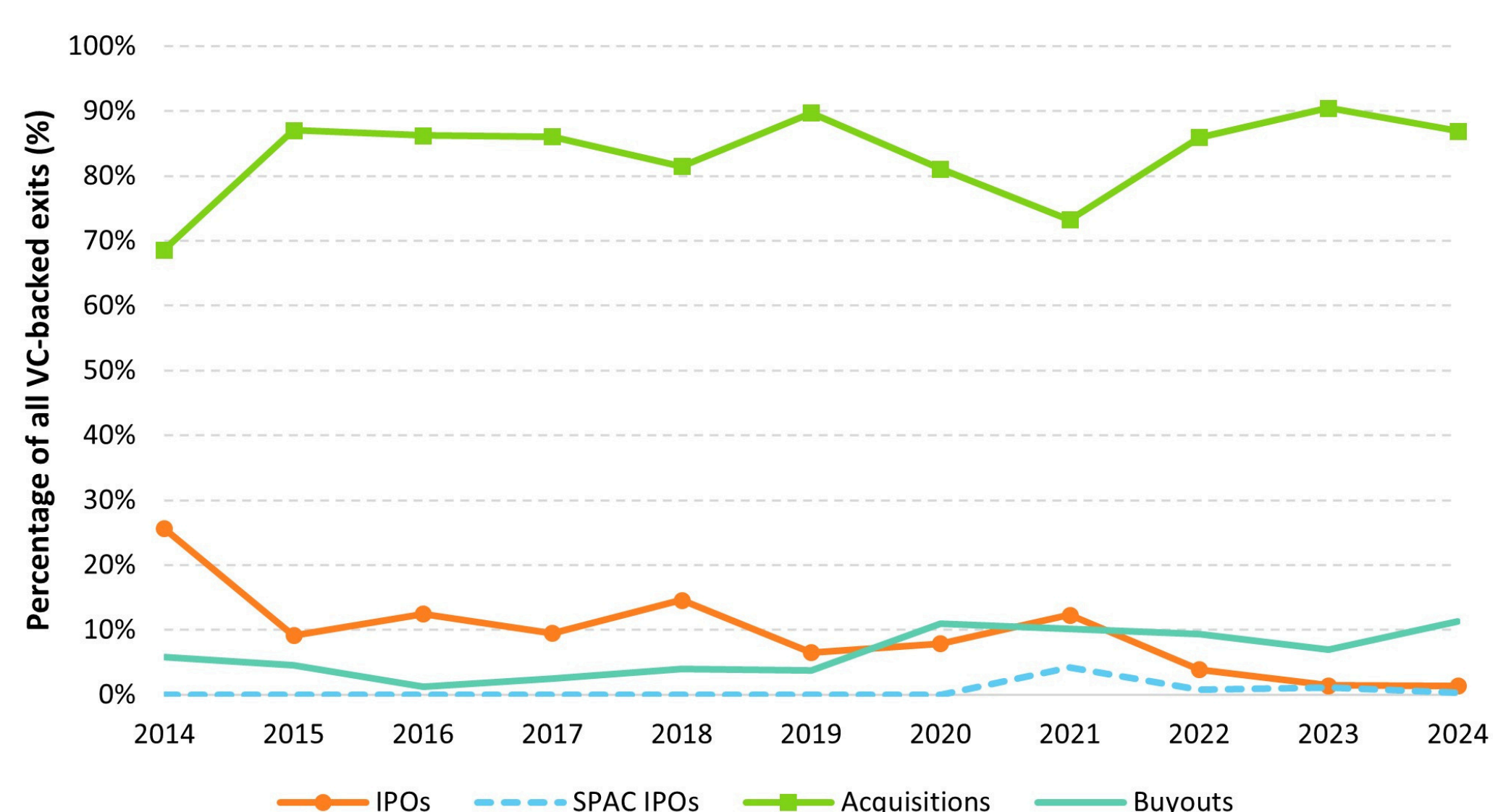
- Exits are the primary way for start-up investors and founders to monetise their ventures and realise returns.
- **IPO DECLINE**  
IPO exits fell by 87% for UK VC-backed tech companies over 2014–2024. In 2024, **IPOs comprised just 1.4% of UK VC-backed exits.** This is **not unique to the UK** and is **observed in many major economies.**  
★ We discuss three common explanations: stringent listing regulations; the rise of private equity; and macroeconomic conditions.
- **DOMINANCE OF ACQUISITIONS**  
**Acquisitions account for 87% of all VC-backed UK tech exits in 2024**, compared to 86% in the US, 95% in France, and 92% in Germany.  
US and EU entities drove 37% and 32% of inward acquisitions worth £1 million or more (ONS, 2024).  
★ Important consideration: how do acquisitions of start-ups influence innovation?

Total Venture Capital (VC) investments in tech companies as a percentage of GDP in selected countries, from 2000 to 2023



Source: Authors' calculations

Exit routes undertaken by VC-backed tech companies in the UK, as a share of all VC-backed exits



Source: Authors' calculations

## Policy Actions & Future Research

1. Addressing demand-side challenges
2. Enhancing international market access
3. Reviewing immigration policy to improve talent access
4. Aligning access to higher education with Industrial Strategy goals
5. Developing specialised clusters of knowledge
6. Increasing support and funding for start-ups and scale-ups
7. Exploring the cost of failure related to Employment Protection Law in the UK
8. Understanding the impact of start-up acquisitions on innovation in key tech sectors

## Blog: Is competition always the hero?

Much of our life involves constant competition with other humans – from school admissions to job applications – while economists celebrate competition between businesses for giving us better, more diverse choices. But is competition always the hero?

Using examples from SHEIN, Palantir, Samsung, Boeing and more, I suggest market competition can

- encourage product homogenisation and create waste via 'herding'
- nudge us to ignore non-monetary considerations
- present trade-offs in policy

