

Economy, Jobs and Fair Work Committee

Visit to Skyscanner

Thursday 8 February 2018

Gordon Lindhurst MSP, John Mason MSP, Tom Arthur MSP and Dean Lockhart MSP attended a meeting at Skyscanner as part of the Economy, Jobs and Fair Work Committee's inquiry on the performance of the Scottish economy. They met Gareth Williams, Chief Executive and Lisa Imlach, Senior Corporate Communications Manager.

Gareth Williams described the story of Skyscanner's success as a "classic tale of plugging away". Skyscanner is a low capital company which is unusual compared to others in the sector.

Skyscanner funded themselves from the outset. In 2007, Scottish Equity Partners invested £2.5m. In 2013 they received secondary investment from Sequoia Capital. In January 2016 five new partners invested £128m between them (Artemis, Baillie Gifford, Khazanah, Vitruvian Partners and Yahoo! JAPAN). In late 2016 they were acquired by Chinese travel search site Ctrip (deal valued at £1.4bn).

Gareth Williams views external funding as a shortcut but accepts that it is sometimes necessary and did accept the investment capital. Gareth Williams said that everywhere struggles with funding differentials (except in certain cities such as London, Berlin and Hong Kong). Other locations can be "entrepreneur light". Although the funding environment has improved and is not currently a bottleneck, securing funding is very hard in the real world and Skyscanner was forced to go down a "capital light" route.

Gareth Williams said that if Skyscanner were to follow the Uber model, that would be difficult to do from Edinburgh as you have to spend money to solve problems. Funding requirements depend on the sector and on timing. For example, WhatsApp employed just 40 people when it was sold to Facebook for 17 billion dollars; such companies do not have to have capital intensity.

Gareth Williams told members that a feature of the internet economy is the removal of friction, "you can have a global winner and be a global winner". By contrast, a corner newsagents is local and therefore has high friction in terms of becoming global.

Members asked how a country the size of Scotland can become a player in the internet economy. Gareth Williams told members that we need to produce our share of Skyscanners (i.e. companies worth more than 1 billion dollars); we should aim for that. It would require societal change. Gareth Williams believes that we should be teaching Spanish and Mandarin in schools instead of French and German.

Members asked how big cities in Scotland can compete. Do we need to be selective in where agencies such as Scottish Enterprise invest? Gareth Williams told members that this is potentially the case, providing that Scottish Enterprise is one of the true levers for future business activity. He gave the example of Boston, which is a hub for all things medical in the US (i.e. devices and start-ups). Such an approach of specialising in one area may make sense for Scotland.

Gareth Williams told members that the University of Edinburgh School of Informatics is a top 15 ranked computer school. Rising to the top 10 or 5 could make the central belt of Scotland more attractive. He believes that we are not good at keeping graduates in Scotland.

Members raised the difficulty companies have scaling up from start-up size. They asked what helped Skyscanner to do this. Gareth Williams told members that:

- you need people who are extremely motivated to get to the next stage;
- it takes time; Skyscanner has been in existence for 16 years – 15 years as a formal company; Gareth Williams has been CEO for 12 years);
- “insane intensity of work” for a long period of time; if it’s not compressed enough then you “run out of steam”;
- a steepness of growth is needed to encourage people to keep pressing on.

Achieving success is a journey and a struggle. It is not the valuation of the company that is an indicator of the struggle; it’s the extent to which human capital has been used to its full capacity. It is important to pass the business on to the next generation to progress it further.

What made a difference to allow Skyscanner to move from a company worth 5 million to a company worth 75 million (i.e. initial scaling up)? Gareth Williams told members that company culture mattered. He has a huge appetite to learn from Silicon Valley. Skyscanner release a new version of their software 100 times per day. Initially such an approach seemed implausible but as the internet economy grew, they saw the value in getting feedback as you develop the software by releasing it to a small percentage of users and then building it up. This approach was started by another company but has spread throughout the industry. Gareth Williams highlighted opportunities to learn from others; “just because Facebook and Google are not neighbours, doesn’t mean we can’t learn from them”. If Skyscanner had been based in Silicon Valley they would have been “chewed up and spat out” by the bigger players. Based in Edinburgh they were able to have breathing space and make mistakes and learn from them.

When asked where the bottleneck exists in leveraging a business from 5 million dollars to the next level, Gareth Williams suggested doing research with companies that sold out at the 5 million mark.

Members asked if entrepreneurship is encouraged enough in schools. Gareth Williams told members that acquiring skills in a particular sector or managerial skills was fine. People shouldn’t worry about entrepreneurial traits; it is the environment that matters. It’s more about how they express their entrepreneurial traits and the environment they find themselves in.

Members asked if Edinburgh is a safe place to start an internet business and what its selling point is. What particular ways can we market Scotland as a place to start up a business? Gareth Williams told members that success is down to time, a mix of ambition and awareness, the right funding environment and board members. If you have the users, you will get the revenue.

Members asked how to encourage more Skyscanners to emerge. Was it to do with the entrepreneurial culture and a fear of success? Gareth Williams said that if you

have more Skyscanners then more will come. He said that there is a problem with entrepreneurialism and managerialism. It is important to recognise the value of labour as well as capital. There are many varying examples of entrepreneurship (for example, a person setting up a community club is displaying these qualities). Stevens said that entrepreneurship is “setting out to achieve an outcome without regard to resources controlled”. Gareth Williams believes that managerialism is the opposite; seeking to achieve a goal with complete regard to resources controlled.

Members asked what policies Gareth Williams would change to encourage more business success. Gareth Williams stressed the importance of Spanish and Mandarin teaching in schools which are “incredibly useful in the global investment world”; and that these languages should be prioritised over French and German. He would also invest in fibre broadband to increase download capacity to let young people experience “the future of today”.

Members asked about producing internet products as opposed to manufactured products and whether Scotland should have a strong manufacturing base as in Germany. Gareth Williams said that the manufacturing economy has been replaced by the services economy. Software engineering skills are becoming more expensive even in places like China and India.

Members asked about fair work and the changing nature of jobs. Gareth Williams said that fair work is an expression of democratic will; it says that we care about everyone.