



THE START-UP LOW DOWN: HOW START-UPS ARE CHANGING BRITAIN



CONTENTS

EXECUTIVE
P4. SUMMARY

START-UP
P5. SURVIVAL RATES

SECTORAL
P12. BREAKDOWNS

REGIONAL
P17. BREAKDOWNS

ECONOMIC IMPACT
P21. OF START-UPS

OBSTACLES FACING
P26. START-UPS

EXECUTIVE SUMMARY

THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016



Virgin StartUp launched three years ago to give budding entrepreneurs the funding, information and support they need to get their business ideas off the ground. The Start-up Low Down report takes the pulse of the start-up community and shows how start-ups are transforming Britain. The report has found that over a third (40% or 1m) of all active enterprises in the UK are start-ups and they are now worth £196bn to the UK economy (or 10% of GDP) with an employee footprint of over 3.4m people. This research marks the start of a series of reports looking at what's needed to help the start-up community survive and thrive in the future.

Start-ups are on the rise

- We estimate that there are 1.2 million start-up businesses in the UK in 2016
- The annual number of businesses born in 2009 sat at 236,000 with steady growth up to 2012 when 269,000 businesses were created
- 2013 was the year of the turn around. As a 29% increase in the number of start-ups was recorded and 346,000 businesses were born. Businesses benefited from new initiatives such as crowdfunding and Start-Up Loans
- As of 2014, start-ups constitute 40% of all active businesses in the UK*
- It's estimated there will be 366,000 new businesses in 2016 – a 55% increase on 2009 when 236,000 new businesses were formed

Breakdown by sector

- The information/communication sector, also known as the “Flat White Economy”, has seen the largest growth in the annual number of start-ups, close to 80% since 2009. Showing the growing importance and demand for digital technologies and services in the UK and elsewhere
- The survival rate for start-ups after three years varies from 68% in education/health down to just 55% in the business services sector, which is currently struggling with a challenging environment in terms of sluggish demand and in more recent times cost pressures such as the National Living Wage
- The South West of England has the highest 3-year survival rate (63%). South West England has the highest proportion of businesses (23.5%) who are designated high growth, indicating the area is good for nurturing growth

*Start-ups are here defined as any “active enterprise”, that is, an enterprise with either turnover or employees, that has existed for 3 years or fewer.

For the section on start-ups' employment and value-added “footprints”, we restrict analysis to those start-ups that have employees.

Capital Gains

- London is the centre of start-up activity, with 64% more births there than in the second region for start-ups. Entrepreneurs choose the Capital because of its current access to Europe, vibrant funding market and broad talent pools
- London is also responsible for the highest number of start-up closures. The lowest survival rate for start-ups is in Northern Ireland, where only 55% of firms survive three years, but London is very close at 56%
- Although the Capital has had a relatively strong economy in recent years, companies also face the highest wage and property costs in the country, leaving little room for poor performing businesses to “hang on”

Start-up Footprint

- There are an estimated 589,000 start-ups with employees in the UK in 2016. The direct employment footprint of these firms is 3.4 million
- Start-ups with employees are estimated to contribute £196bn directly to economic output as measured by gross value added (GVA) in 2016
- Of all active enterprises, 40% were started within the last three years. Defined this way, there were 1 million start-ups in the UK in 2014

START-UP SURVIVAL RATES



GREATER THAN 50% RISE IN START-UP BIRTHS SINCE 2009

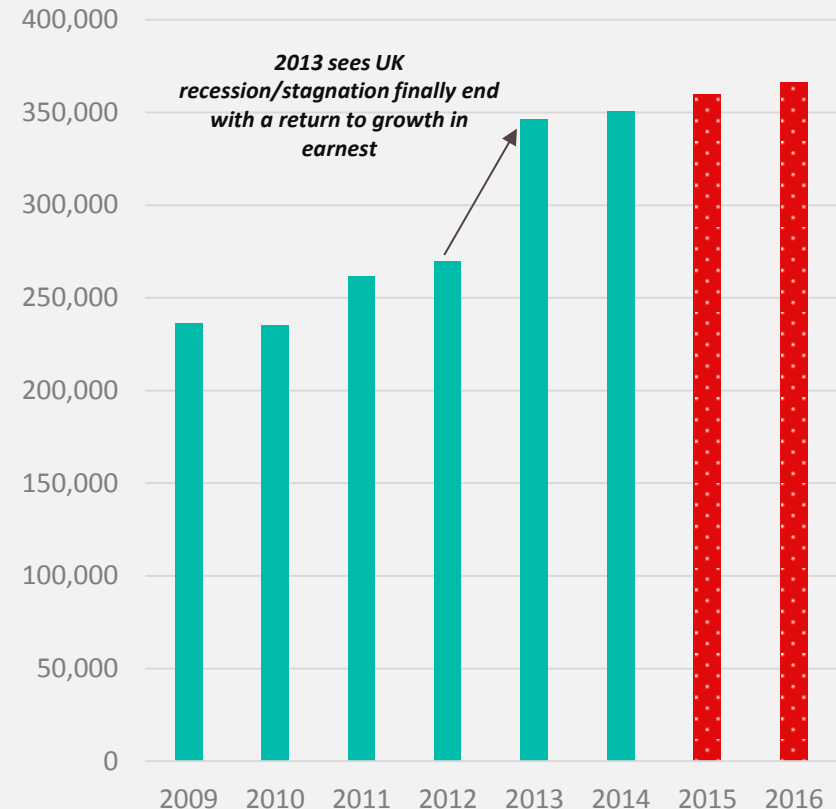


THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016

- 2009 was the worst year of the deepest recession in modern history. Despite that, 236,000 businesses were started.
- By 2014 (the latest year of official data), with the recovery underway, that figure had risen 49% to 351,000. The number of business closures fell by 11% over the same period.
- The number of start-up births increased by 29% between 2012 and 2013. Attributed to a number of factors including:
 - The end of growth stagnation following the recession
 - Improved access to finance
 - Businesses also benefited from new initiatives such as crowdfunding and Start Up Loans.¹
- We estimate that the number of business start-ups stood at 366,000 in 2016. To get this estimate we draw on more recent data on the total number of businesses in the Department for Business, Energy & Industrial Strategy “business population estimates”.
- Part of the growth in start-ups can be explained by the Start Up Loans Company (SULC). The SULC was established in September 2012, with a mission to help new and early stage UK businesses access affordable finance and mentoring support. It is not-for-profit and government-backed.
- According to the SULC’s 2015-16 annual report, it has provided over 40,000 loans totalling £250m, with 28 businesses backed per day.

1. Lord Young, the Report on Small Firms 2010-2015

TOTAL BIRTHS OF START-UP BUSINESSES IN THE UK, 2009-2014



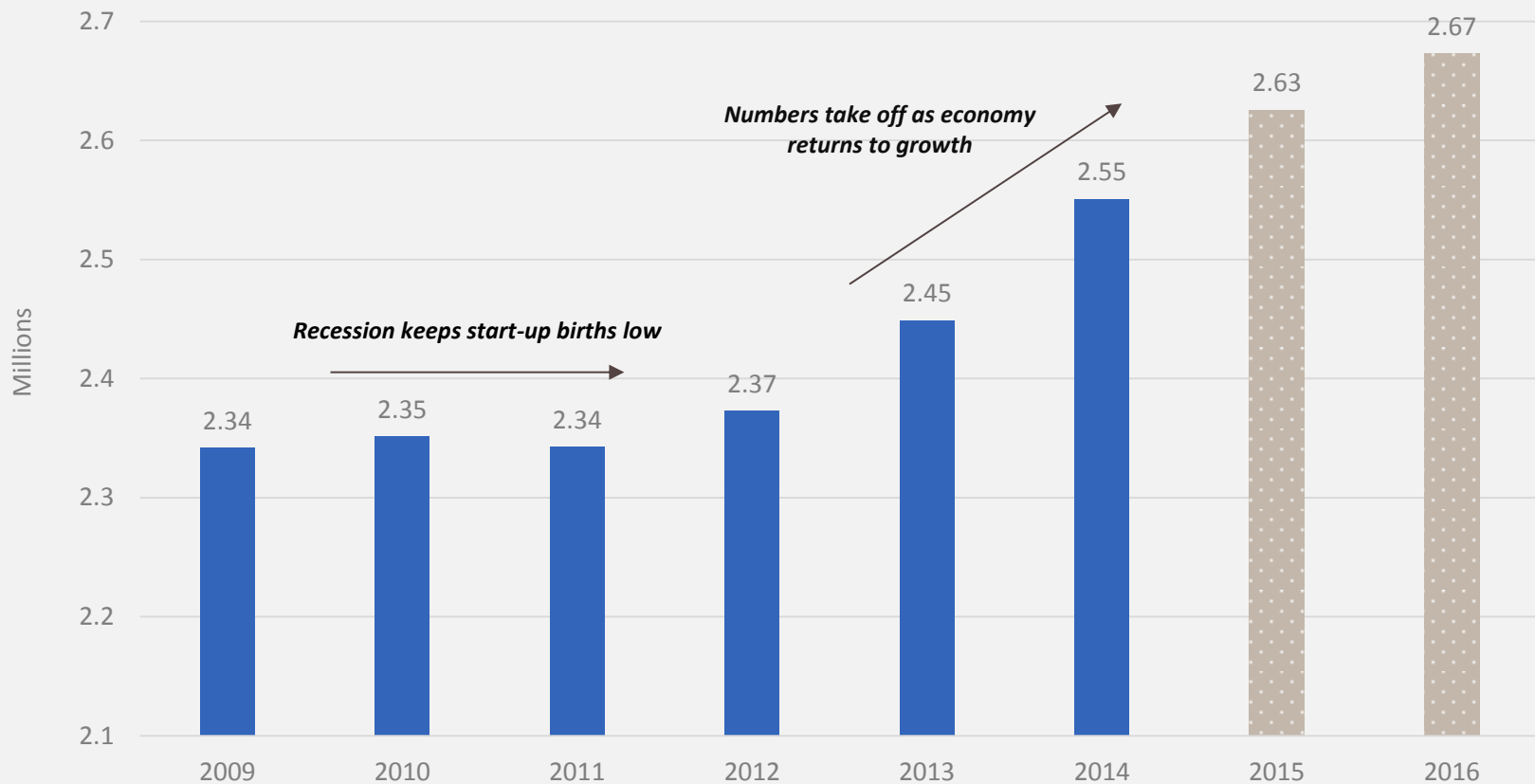
Source: Office for National Statistics, Cebr analysis

START-UPS HAVE DRASTICALLY INCREASED THE NUMBER OF BUSINESSES IN THE UK – SUPPORTING ECONOMIC GROWTH AND JOB CREATION

THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016



NUMBER OF ACTIVE BUSINESSES IN THE UK, MILLIONS



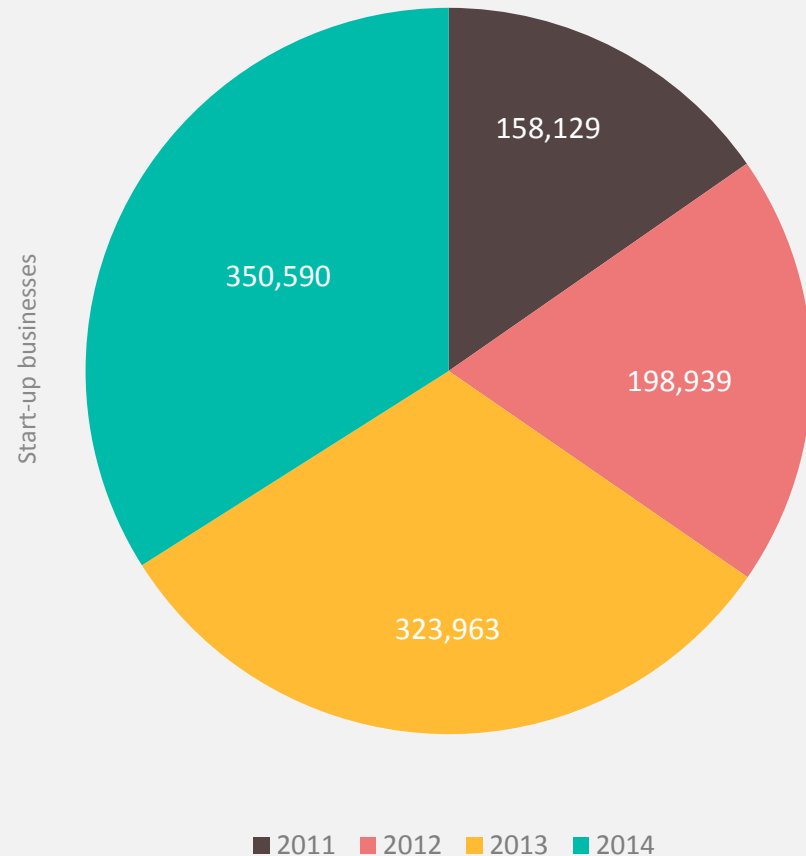
Source: Office for National Statistics, Cebr analysis

THE UK HAS OVER 1 MILLION START-UPS

- Of all active enterprises, 40% were started within the last three years. Defined this way, there were 1.0 million start-ups in the UK in 2014 (the latest year for which official data exists). We estimate this stands at 1.2 million in 2016, reflecting consistently strong annual business creation over the preceding three years (see page 5).
- Over a third (34%) of the start-ups in 2014 were less than a year old, which in part can be attributed to a surge in self-employment which took place in that year, which is graphed on page 9 of this report.
- The data here and on page 10 shows since the introduction of further support for start-up companies in 2012 (through schemes such as SULCo and regional growth funds) start-ups have been given a better chance of surviving. With guidance and mentorship on offer through these schemes it helps support entrepreneurs in their early days.

Source: Office for National Statistics, Cebr analysis. Estimate derived from latest (2014) data

START-UP BUSINESSES SURVIVING AS OF 2014, BY DATE FOUNDED

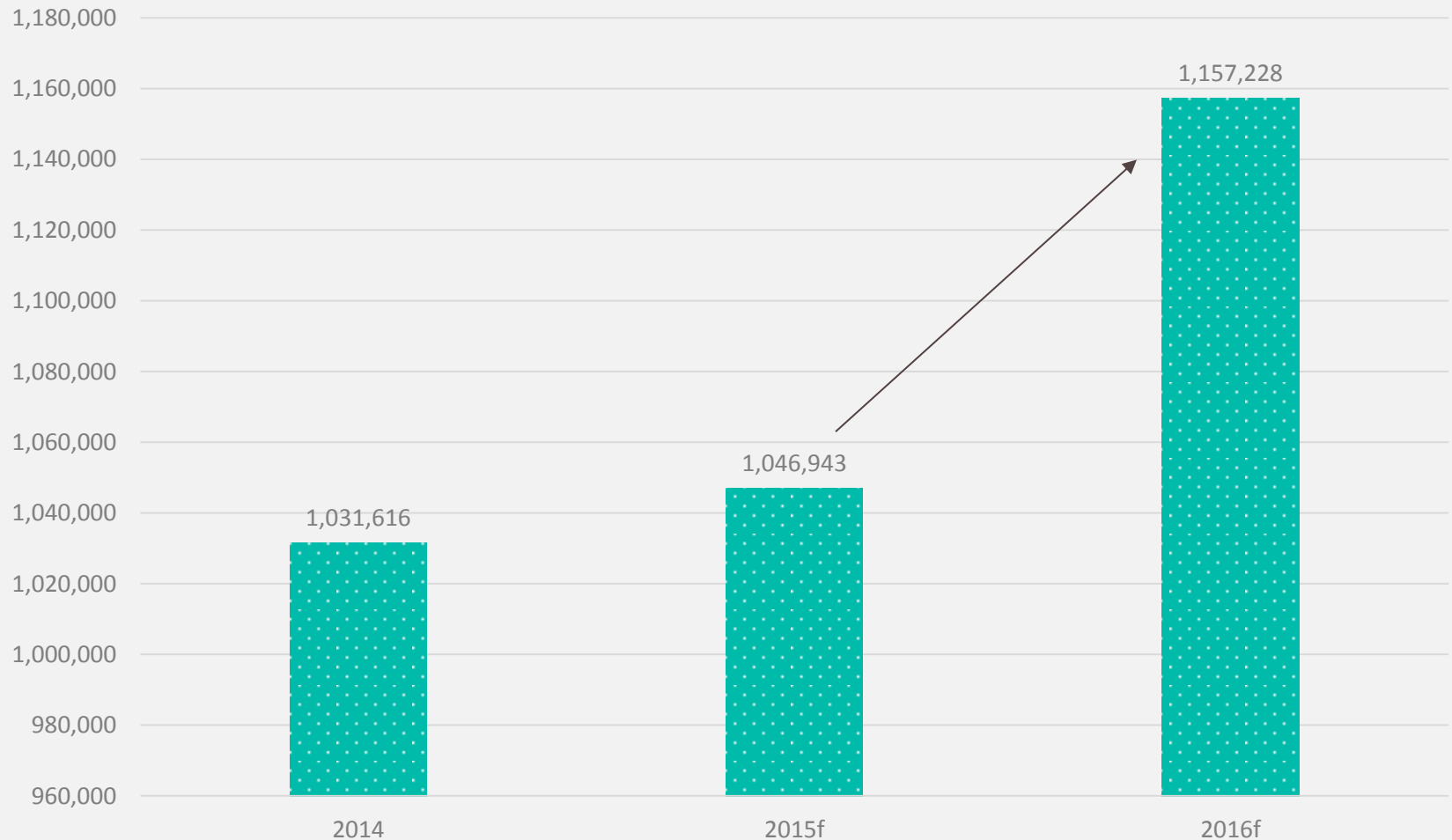


WE ESTIMATE THERE ARE 1.2 MILLION START-UPS IN THE UK IN 2016

THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016



NUMBER OF START-UP BUSINESSES IN THE UK

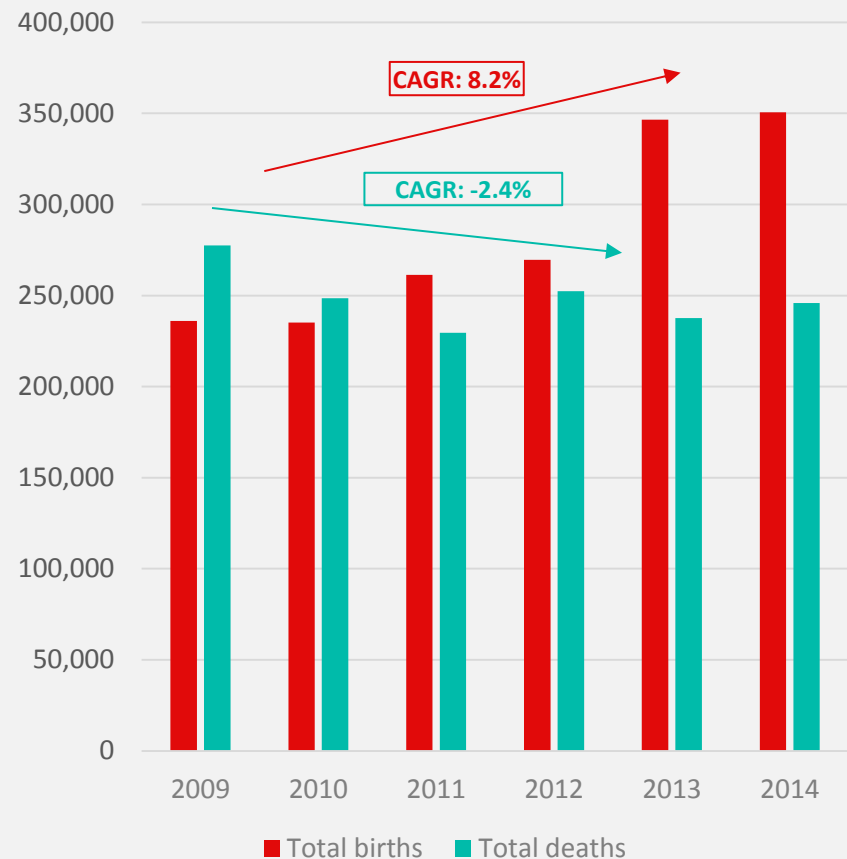


COMPARISON OF START-UP BIRTHS AND CLOSURES

- Births and closures of businesses have trended in opposite directions since 2009, births climbing and closures falling.
- This implies swift growth in the survival rate and in the total number of businesses.
- As stated elsewhere in the report, improving economic conditions following the recession and the introduction of more options in the alternative finance sector have contributed to this pattern.
- With pension reforms encouraging people to work longer into retirement, we've also seen a rise of entrepreneurs over the age of 50 which have contributed to growth in recent years. ONS (Office for National Statistics) states self-employment amongst the over-50s is at an all time high and up 36% on 10 years ago.

Source: Office for National Statistics, Cebr analysis.

START-UP BIRTHS AND CLOSURES BY YEAR, 2009-2014

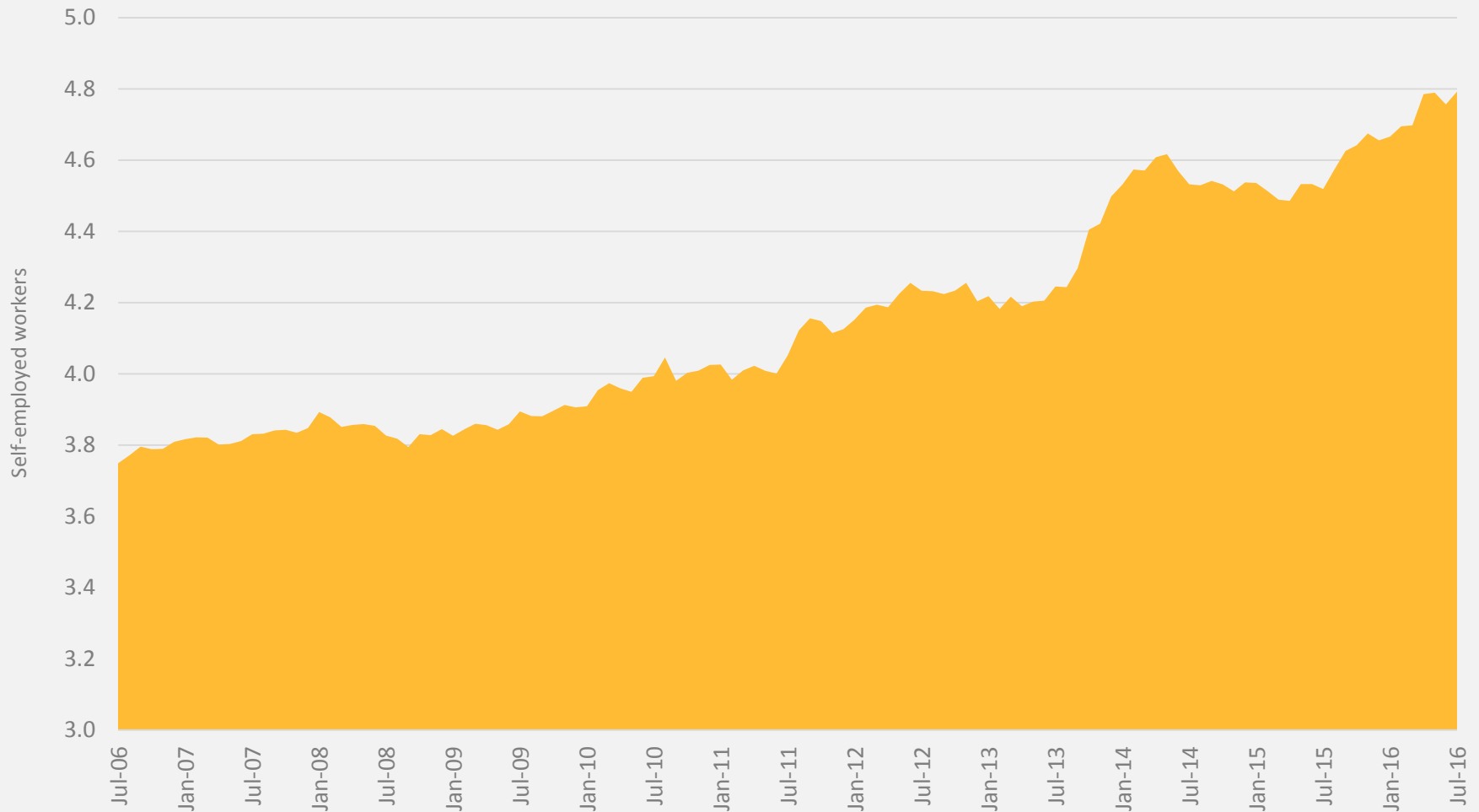


THE NUMBER OF SELF-EMPLOYED WORKERS HAS SOARED

THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016



NUMBER OF SELF-EMPLOYED WORKERS IN THE UK - MILLIONS



SECTORAL BREAKDOWN

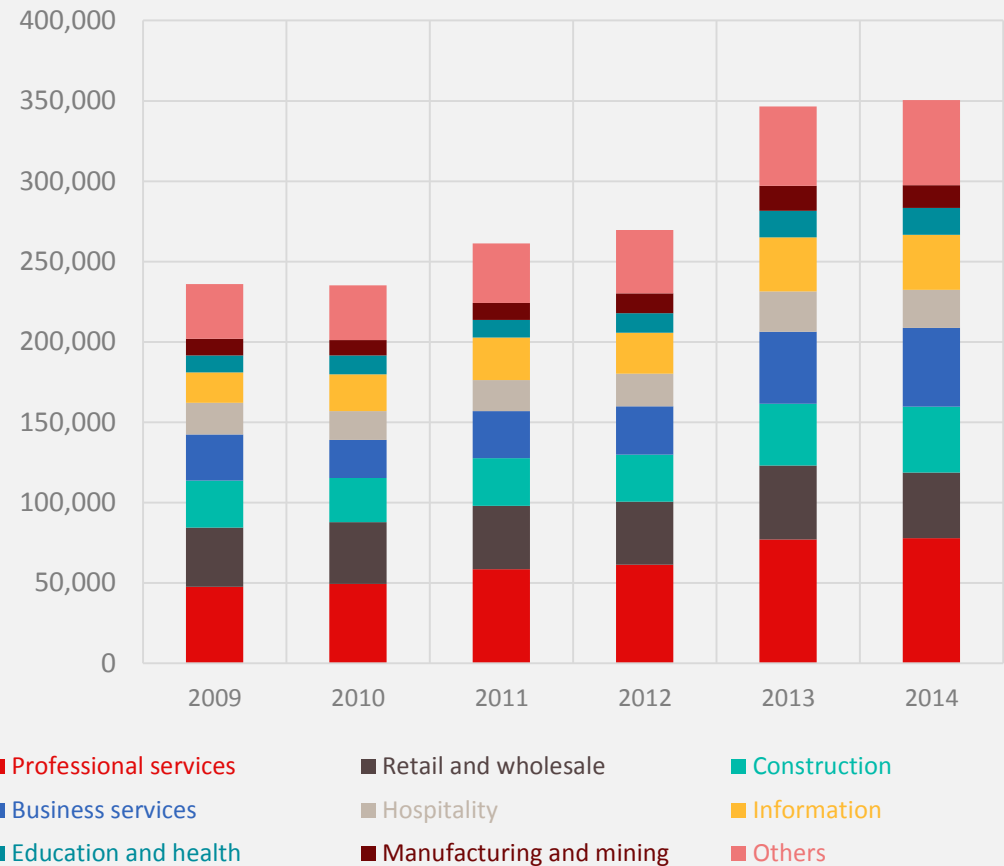


GREATEST NUMBER OF START-UPS ARE PROFESSIONAL SERVICES FIRMS

- Start-ups have a diverse profile across a number of economic sectors, although professional/business services*, retail and construction comprise more than half of starts.
- The strong prominence of service sector start-ups, compared to manufacturing, is unsurprising given that the services sector accounts for about three quarters of economic activity in the UK.
- In line with the data shown here, the Start Up Loans Company also indicate Retail and professional services firms are the two most common recipients of Start Up Loans Company funding. With each accounting for 21% of total funding according to the Start Up Loans Company's 2015-16 annual report.
- The construction sector has long been associated with entrepreneurialism, following the rise of "white van man" in the 1980s. Data from the Department for Business, Energy & Industrial Strategy show that 63% of turnover in the construction sector is generated by small businesses with fewer than 50 employees in 2016, about double the 33% seen for the UK as a whole.
- Information/ communication, though often seen as a sector intensive in start-ups, is not one of the top sectors in terms of absolute new business numbers. However, the number of start-ups in the sector has increased dramatically in recent years, as shown on page 14.

*such as legal, accounting and administrative services

NUMBER OF START-UP BUSINESSES IN THE UK



Source: Office for National Statistics, Cebr analysis

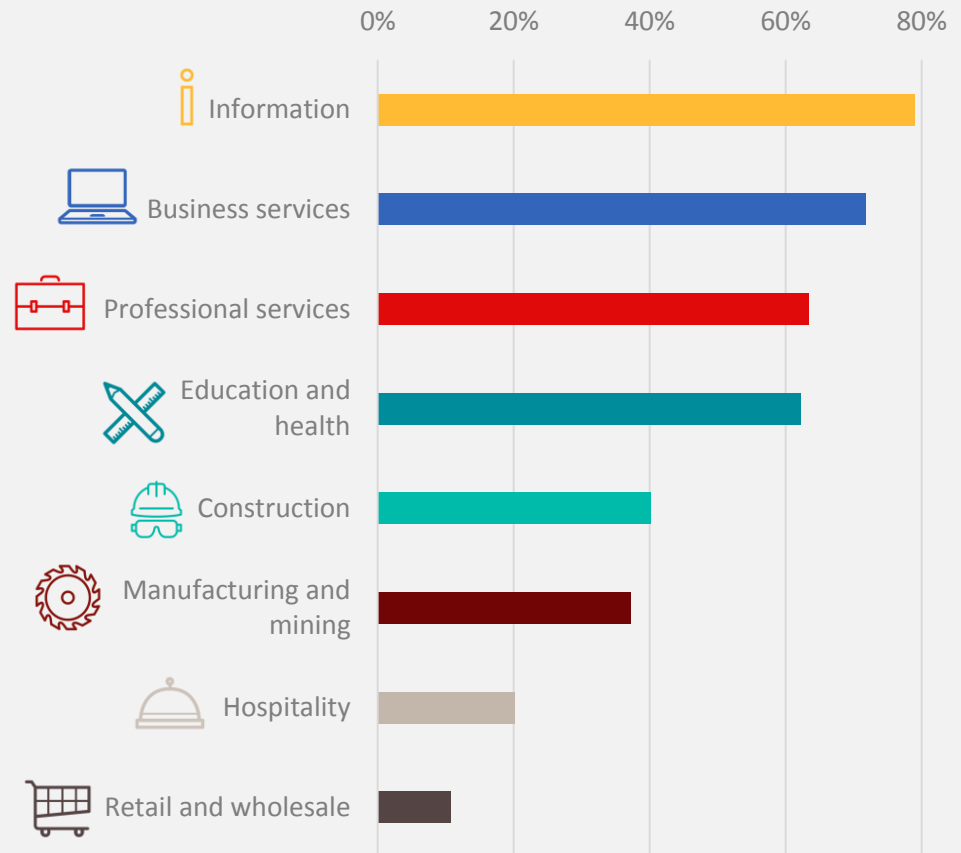
TECH SECTOR SEES STRONGEST GROWTH IN START-UPS

THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016



- The information/ communication sector, also known as the “Flat White Economy” has seen the largest growth in the annual number of start-ups, at close to 80% since 2009. This reflects the growing importance and demand for digital technologies and services in the UK and elsewhere.
- Business services and professional services follow, reflecting fairly solid demand for these services following the UK’s emergence from the financial crisis.
- Hospitality and retail have seen the lowest growth in start-ups. Although falling unemployment and low inflation in recent years have boosted household spending power, supporting these sectors, they are facing numerous pressures. The retail environment has been fiercely competitive in recent years, with price deflation that has eroded profit margins across the sector. In addition, the rise of online shopping has curtailed growth in traditional “bricks & mortar” retail. More recently the National Living Wage has created new cost pressures for firms in the retail and hospitality sectors.

TOTAL BIRTHS OF START-UP BUSINESSES BY SECTOR, PERCENTAGE GROWTH, 2009-2014

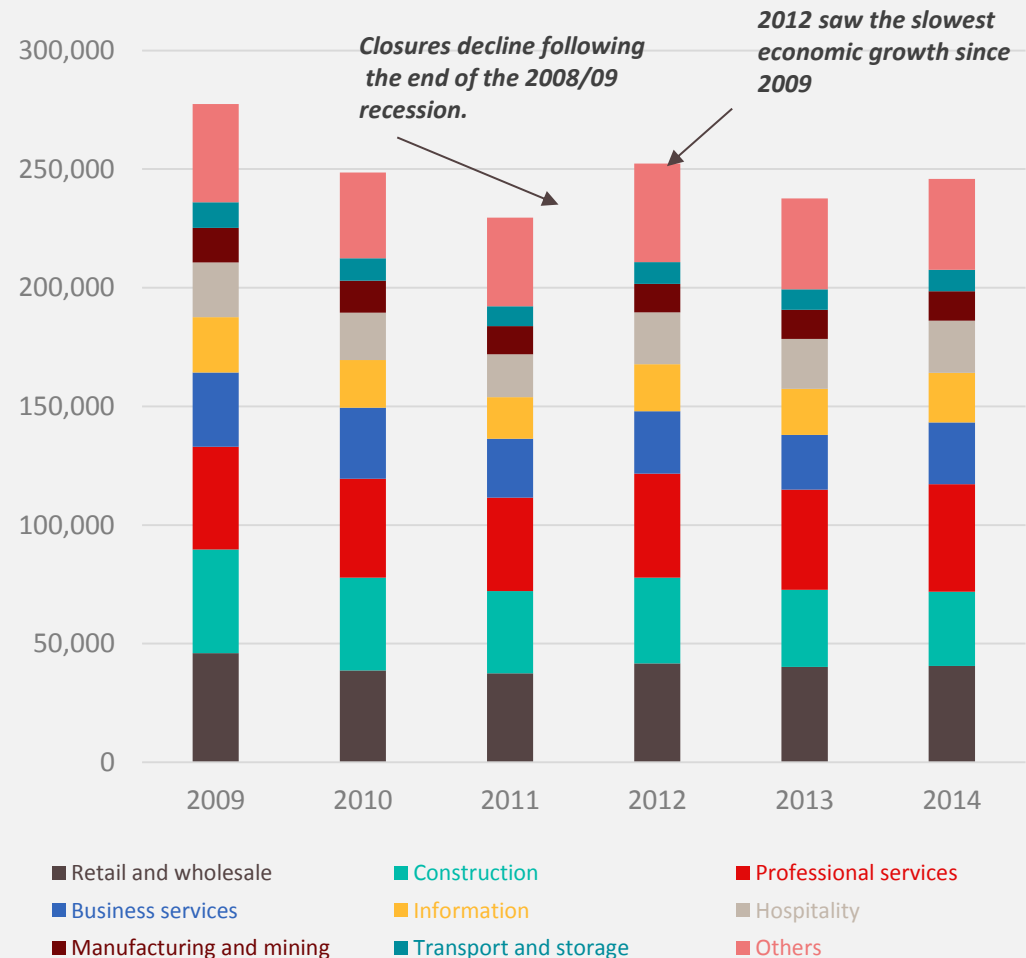


Source: Office for National Statistics, Cebr analysis

BUSINESS CLOSURES HAVE DECLINED SINCE 2009

- There was a spike in business failures in 2012 as the Eurozone debt crisis and austerity almost tipped the UK into recession for the second time.
- Total business failure numbers are notably lower than during the financial crisis, reflecting improved economic performance across the UK.
- Annual business closures have fallen the most in the construction sector, with a decline of 28% between 2009 and 2014. The construction sector was one of the worst hit by the financial crisis, with economic output declining by 2.6% and 13.2% in 2008 and 2009 respectively (in contrast, UK GDP declined at much more modest rates of 0.6% and 4.3%). It has subsequently benefited from the improving overall economy as well as a recovery in the commercial and residential real estate markets.

TOTAL CLOSURES OF BUSINESSES IN THE UK, 2009-2014



Source: Office for National Statistics, Cebr analysis

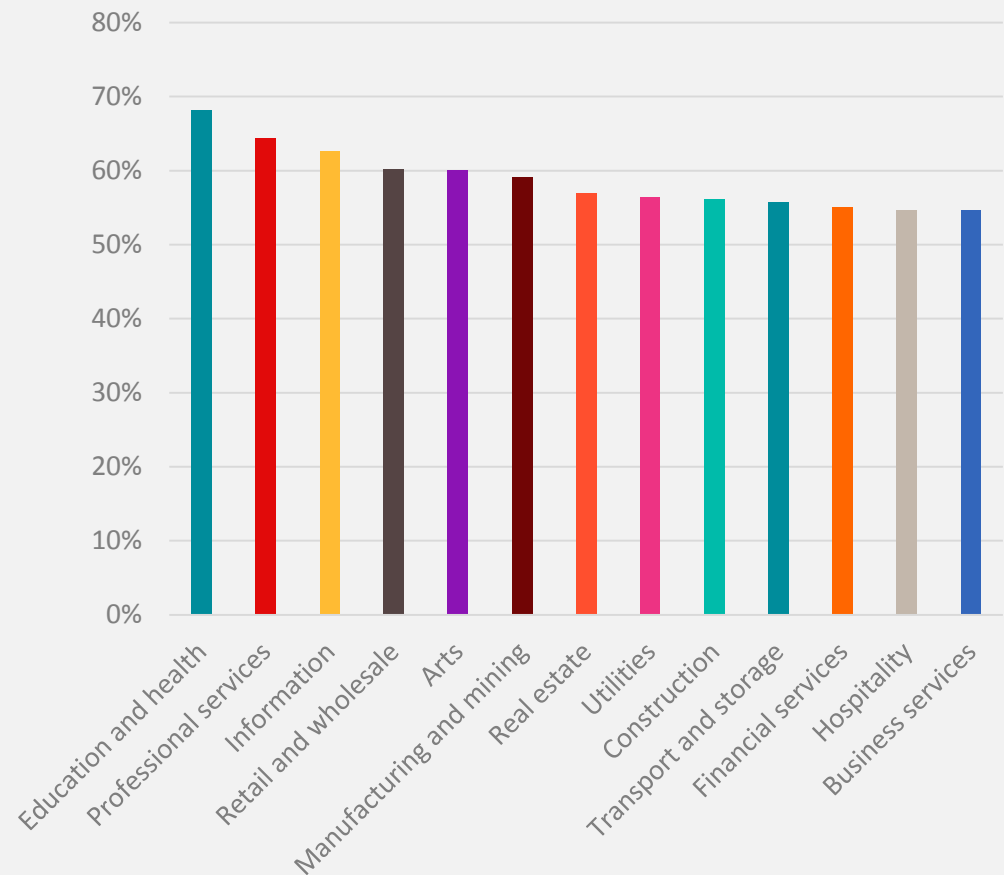
LOWEST SURVIVAL RATE IN THE HOSPITALITY INDUSTRY

- Start-ups in the education and health sector have the highest survival rates, followed by professional services.
- Relatively high survival rates in education and health may reflect an increasingly more socially and health conscious consumer. An area which these two sectors lend themselves to and one which is growing.
 - Since 2010 there has been an increase in the number of social enterprises and they now account for nearly 6% of all small firms. The UK's social enterprise market is now worth over £200m⁽¹⁾
 - These two sectors also operate with higher margins which helps increase their likelihood of survival
- The lowest survival rates are within hospitality, where only a third of firms survive for half a decade. The hospitality sector has faced a range of structural challenges in recent years, such as an ongoing struggle to encourage British households to holiday in the UK rather than take advantage of cheap flights to overseas.
- Looking forward, the current weakness of the pound could potentially lead to increased interest in "staycations", helping the hospitality sector. However, the National Living Wage is set to increase further over the coming years, which means that many businesses will find themselves running to stand still when it comes to profit margins.

Source: Office for National Statistics, Cebr analysis

⁽¹⁾ Lord Young Report

3-YEAR SURVIVAL RATES OF START-UP BUSINESSES IN THE UK BY SECTOR, 2009-2014





REGIONAL BREAKDOWN

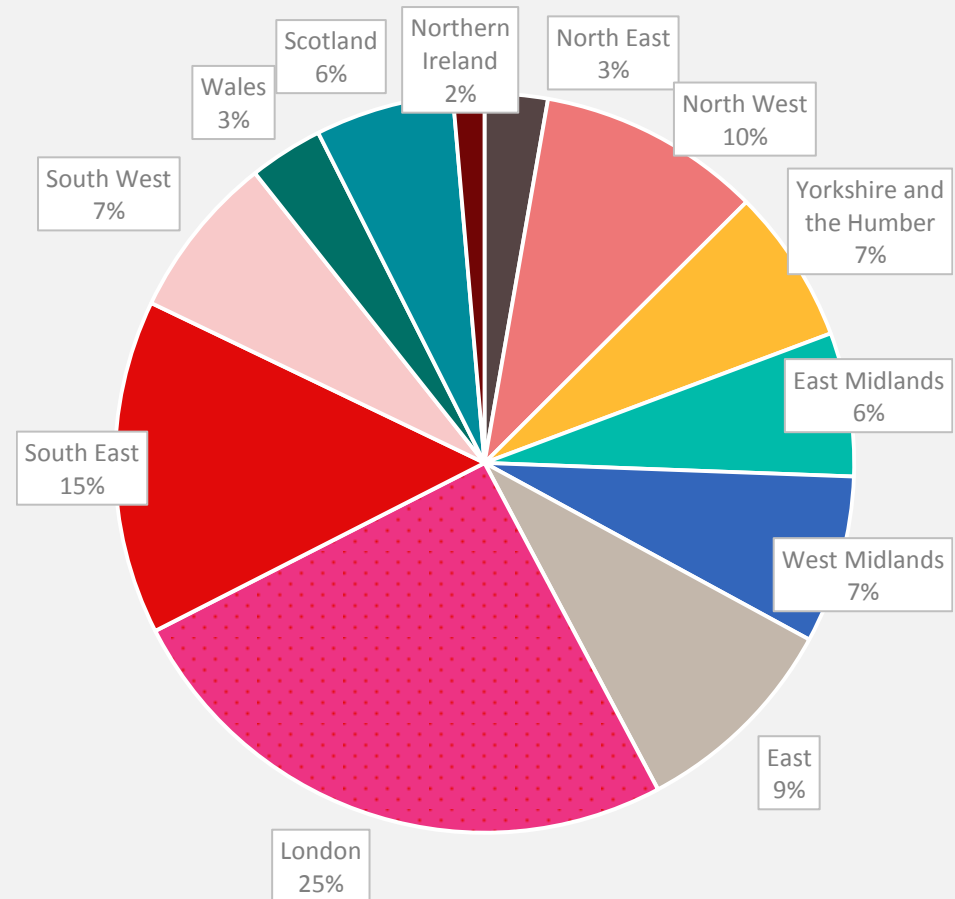
LONDON CENTRE OF START-UP ACTIVITY...



THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016

- London is the centre of start-up activity in the UK. There are 64% more start-ups here than in the next most active area, the South East. This is perhaps unsurprising given that the capital's economy has performed much stronger than the rest of the UK in recent years.
- The top three regions – London, the South East and the North West of England – account for half (49.7%) of start-ups nationwide. This correlates with their status as the largest regions in terms of economic output and population.
- London has seen rapid growth in business births since the financial crisis. The number of annual business births expanded by about 75% between 2009 and 2014.
- Entrepreneurs choose London for a number of reasons including; access to Europe, connectivity (access to legal advice, investors and accounting services), vibrant funding market and broad talent pools. Meaning the Capital has become a hub for new and old business alike.
- Though the capital's financial services industry was hit by the global financial crisis, London's economy has evolved and is becoming increasingly oriented around other parts of the services sector – most notably the digital and creative industries that comprise the “flat white economy”. As we showed earlier, there has been a particularly strong increase in the number of start-ups in this sector.

TOTAL BIRTHS OF START-UP BUSINESSES IN THE UK BY REGION, 2014



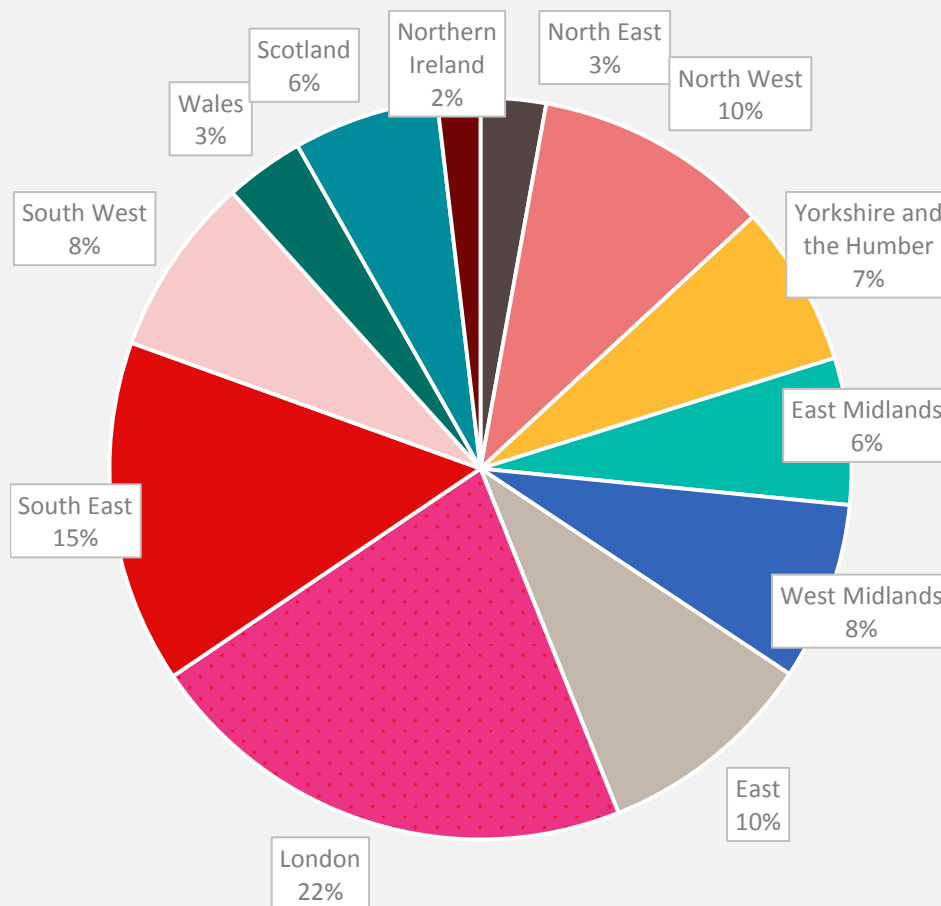
Source: Office for National Statistics, Cebr analysis

...AND ALSO OF CLOSURES

THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016



TOTAL CLOSURES OF BUSINESSES IN THE UK BY REGION, 2014



Source: Office for National Statistics, Cebr analysis

- The pattern of business closures exhibits a similar pattern geographically, to that of births.
- London's relatively high share of business closures (22%) is perhaps unsurprising given the fact that so many active businesses in the UK are based in the Capital (20% of the total).
- However, high business closure numbers in London may also reflect a number of specific business challenges in the Capital, as we discuss on the next page. Of entrepreneurs surveyed by the London Chamber of Commerce and Industry, only 20% reported that current growth opportunities in London are "(very) good".⁽¹⁾

⁽¹⁾London Chambers – The Entrepreneurship Report

SOUTH WEST HAS HIGHEST SURVIVAL RATE

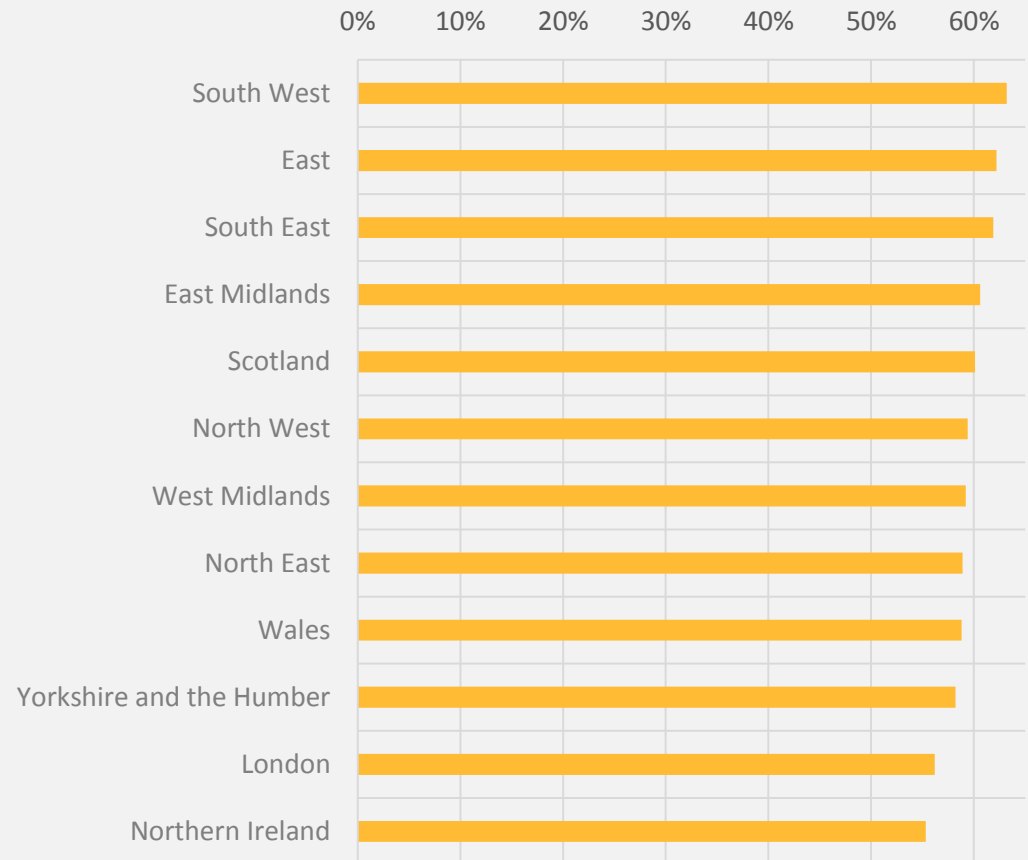
THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016



- The South West and East of England regions have the highest 3-year survival rates at 63% and 62% respectively. At 23.5%, South West England also has the highest proportion of businesses designated as high-growth, indicating the area is good for nurturing growth. A regional government growth fund of £8.7m helps some of these firms, as well as a high-tech cluster around Bristol and Bath.¹
- In other respects, the table has a fairly close relationship with GDP per capita. Southern and Eastern-English regions are towards the top, the Midlands and Scotland in the middle, and Northern-English regions, Wales and Northern Ireland towards the lower end.
- London start-ups have the second-lowest chance of surviving three years. Although the Capital has a dynamic and entrepreneurial economy and is the most prosperous part of the UK, businesses also face a number of challenges. For example, wage bills and commercial property costs are much higher than the rest of the country, meaning businesses have to perform relatively strongly to survive.

¹ Barclays and BGF Entrepreneurs Index, Volume 7, 2011

THREE-YEAR SURVIVAL RATES OF START-UP BUSINESSES IN THE UK BY REGION, 2009-2014





ECONOMIC IMPACT

3.2 MILLION EMPLOYEES IN START-UPS IN 2016

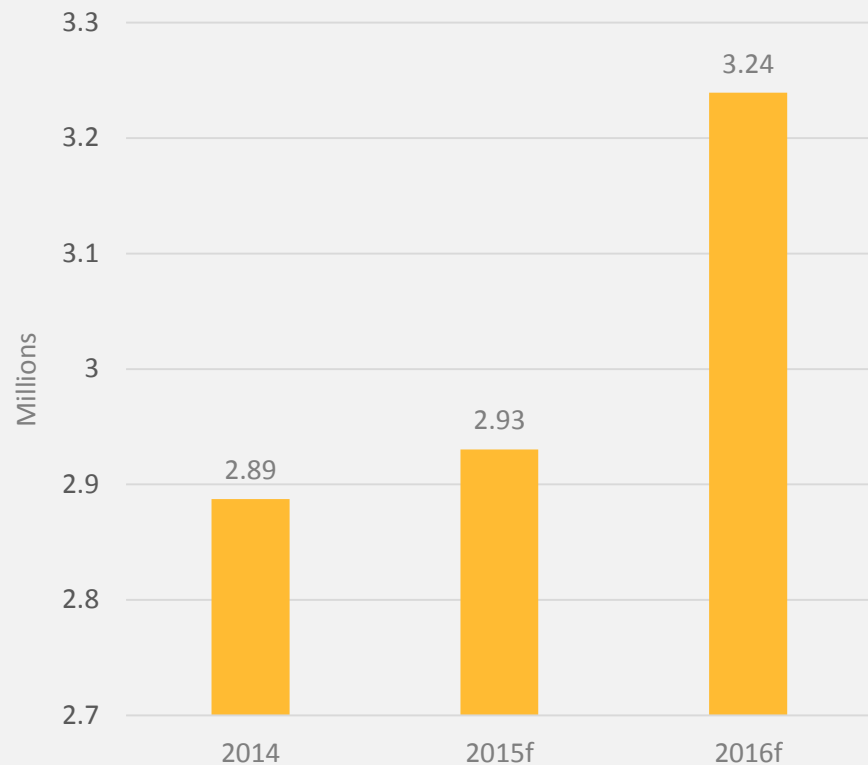


THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016

- We have calculated the economic impact of start-up businesses in the UK, in terms of economic output and supporting job creation.
- This section focuses only on start-ups with employees, of which data show there were around 525,000 in the UK in 2014. We estimate that stands at 589,000 in 2016.
- The average start-up has 5.5 employees, and so the 589,000 firms here classed as start-ups in 2016 have an employment footprint of 3.2 million.
- This is 12% of total employment (excl. self-employment) in the UK.

Source: Office for National Statistics, Cebr analysis

EMPLOYMENT FOOTPRINT OF START-UPS, MILLIONS



START-UPS RESPONSIBLE FOR £196BN IN ECONOMIC OUTPUT IN 2016

THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016

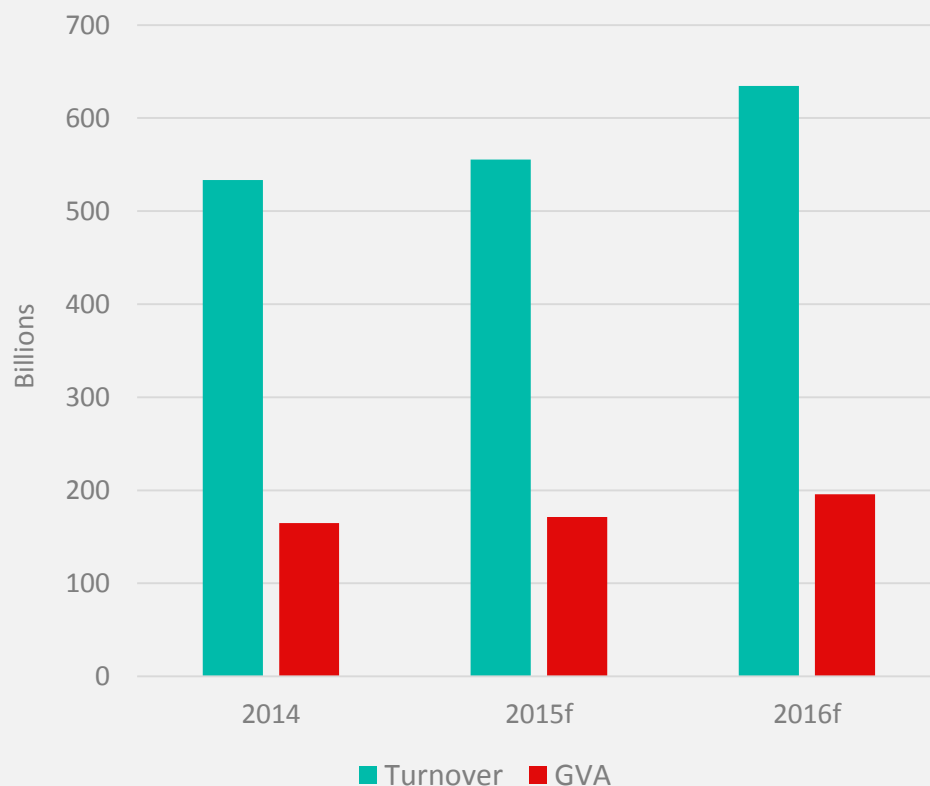


- The aggregate turnover of start-up businesses is estimated at about £630bn in 2016. This is up from £534bn in 2014.
- Turnover is greater than economic value created.* This translates to about £196bn in gross value added (GVA), the most widely used measure of economic output when looking at regions and businesses. This indicates start-ups produced around 10% of total UK GDP in 2016.
- The estimated GVA contribution of start-ups in 2016 is up from £165bn in 2014.

*Turnover of all firms in the economy is much greater than total GDP. Turnover is total flows in and out of businesses, including all the inputs produced by other firms, so it double or triple-counts many items. Value added isolates the actual new work done.

Source: Office for National Statistics, Cebr analysis

START-UP FIRMS WITH EMPLOYEES: TURNOVER AND GROSS VALUE ADDED, £BN



START-UPS WERE RESPONSIBLE FOR AN ADDITIONAL £206BN IN INDIRECT AND INDUCED IMPACTS IN 2014

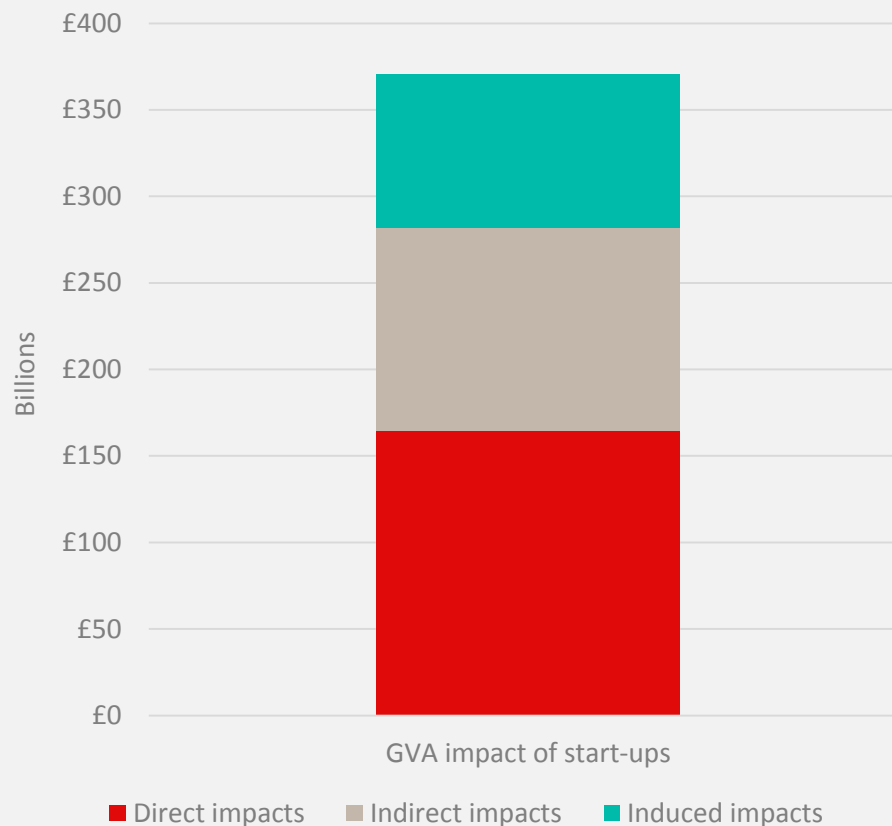
THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016



- Direct impact of start-up activities are not the whole story in terms of economic impact.
- There are additional impacts along start ups' supply chains and the spending that their employees undertake. We can model these impacts for 2014 using the latest ONS input-output tables, which provide detailed supply chain data for that year.
- Altogether, these factors increase start-ups economic impact from £165bn to £370bn in 2014. £117bn of this is indirect impacts, meaning economic activity stimulated along the supply chains of start-ups. £89bn is induced impacts, derived from employees' spending.

Source: Office for National Statistics, Cebr analysis

START-UP FIRMS: DIRECT, INDUCED AND INDIRECT GROSS VALUE ADDED, £, 2014

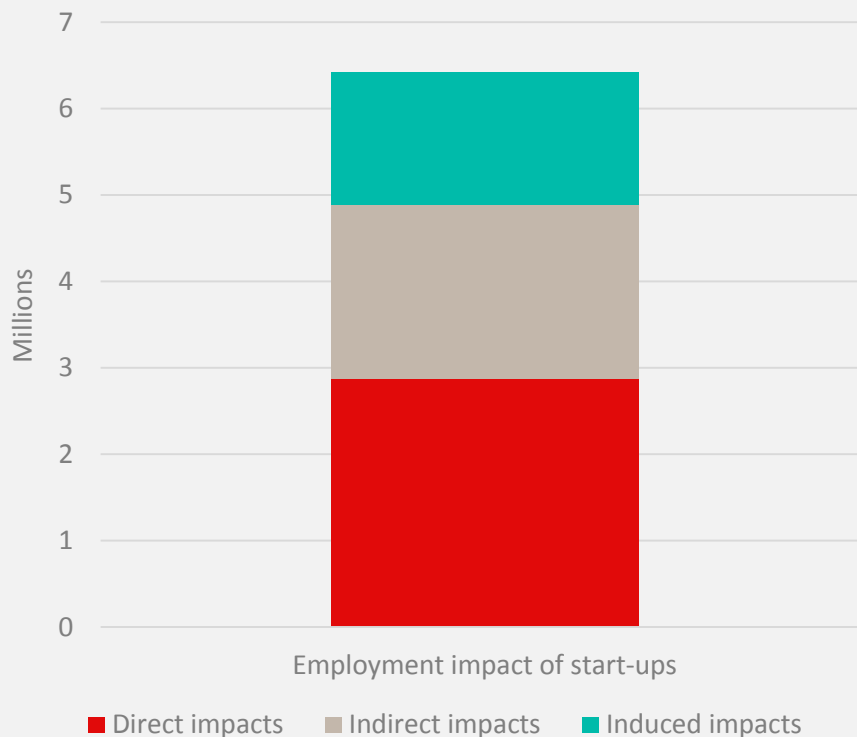


WIDER EMPLOYMENT IMPACTS RAN TO 3.5 MILLION IN 2014

THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016



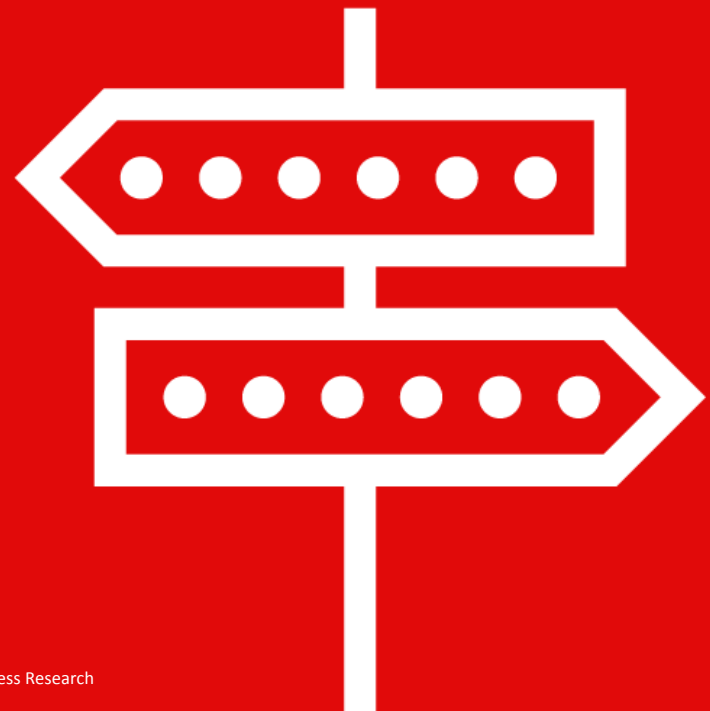
START-UP FIRMS: DIRECT, INDUCED AND INDIRECT EMPLOYMENT, 2014



- A similar multiplier effect applies to the employment start-ups create. This magnifies their impact beyond the 2.9 million employees they hire directly.
- The employment indirectly created along the supply chains of start-ups was 2 million in 2014.
- The employment created through employees' spending (the induced impact) was 1.5 million in 2014.
- Combined with the direct employment impact of start-ups, this pushes the total employment impact to 6.4 million.

Source: Office for National Statistics, Cebr analysis

OBSTACLES FACING START-UPS



OVERALL ECONOMIC CONDITIONS MOST IMPORTANT OBSTACLE

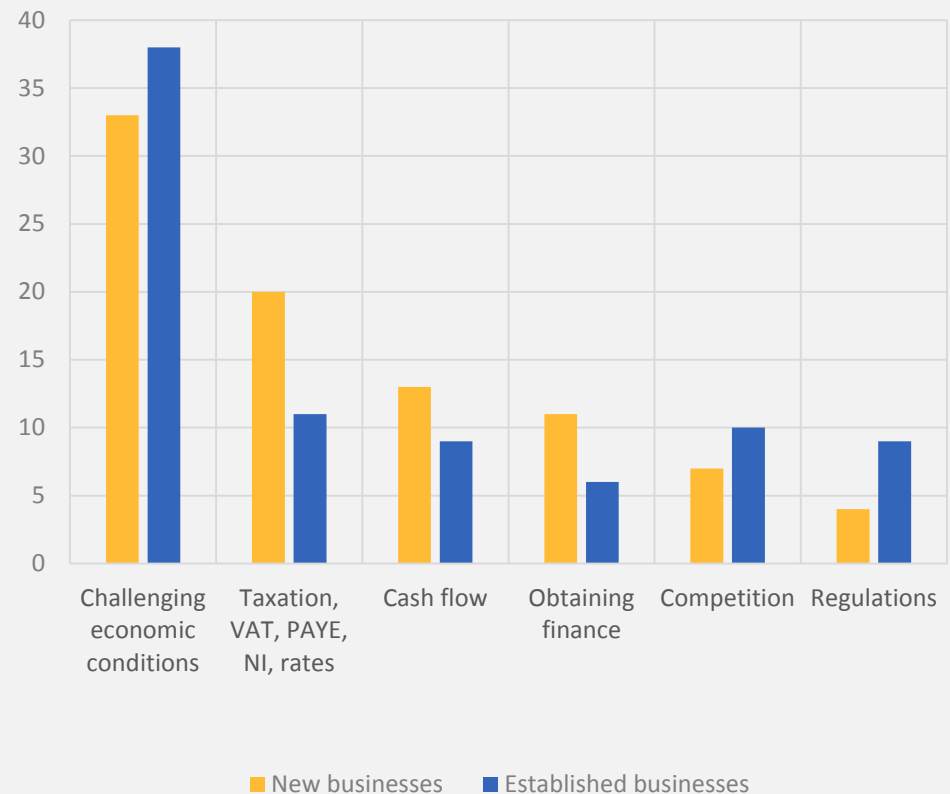
THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016



- Start-ups listed challenging economic conditions in general as their main obstacle to growth. This tallies with the observed trend of start-up births increasing during periods of growth and stagnating when the wider economy does so. The prevailing economic environment has a significant impact on demand for goods and services, as well as the cost pressures faced by businesses, so this is not surprising.
- Taxes, cash flow and finance are also worries. In obtaining finance, new smaller firms find collateral especially difficult to provide. Peer-to-peer lending, and other forms of alternative finance, are helping to fill this gap.
- Unlike the other obstacles on the graph opposite, competition and regulations are cited as barriers by a greater share of established rather than new businesses. This probably reflects the fact that these are challenges that become more pressing issues for larger businesses that have overcome issues such as cash flow problems and difficulty accessing capital.

Source: Department for Business, Innovation and Skills
Small Business Survey 2012

START-UP FIRMS: DIRECT, INDUCED AND INDIRECT EMPLOYMENT, 2014



ACCESS TO FINANCE HAS BECOME LESS OF A CHALLENGE

THE START-UP LOW DOWN:
HOW START-UPS ARE CHANGING BRITAIN
NOVEMBER 2016

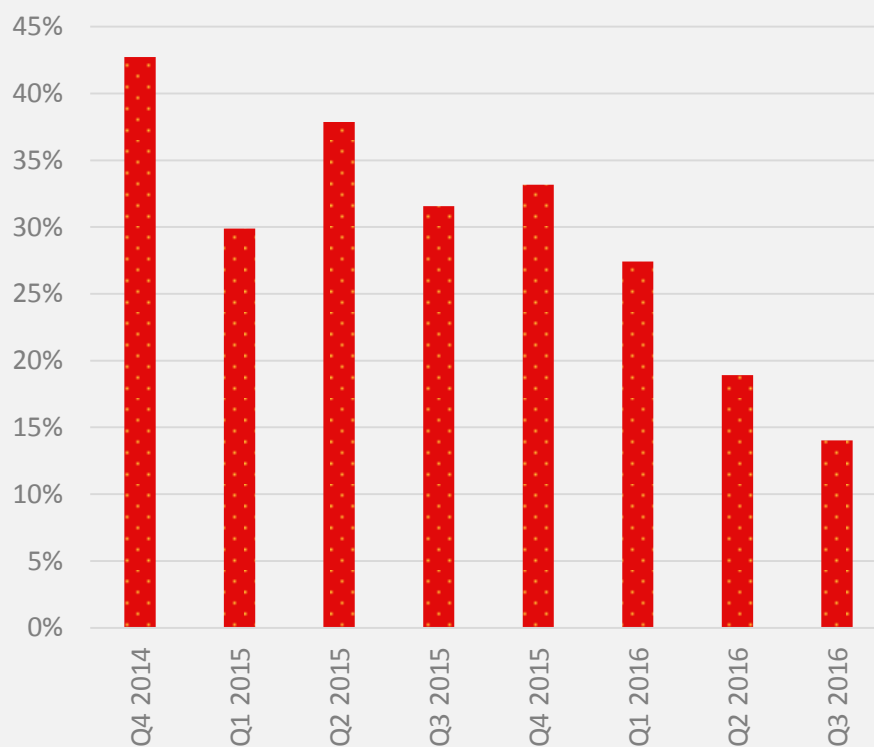


- According to the 2012 Department for Business, Innovation and Skills Small Business Survey, which examined differences between new and established businesses, 41% of new firms were unable to obtain finance. This compared with 31% of established businesses.
- Credit conditions have improved significantly for small businesses in recent years. According to the Q3 2016 Federation of Small Businesses Small Business Index, just 14% of companies that applied for credit were unsuccessful. This is sharply down from 43% at the end of 2014.
- At the same time, alternative sources of finance have become more widely available. £1.3bn of peer to peer and crowdfunding finance transactions occurred in the first half of 2014.¹ This was followed by 84% growth in the online alternative finance sector in 2015, facilitating £3.2 billion reaching firms.
- While it is likely that access to finance remains more of a challenge for new rather than established firms, the size of the problem has diminished dramatically.

1. Lord Young, the Report on Small Firms 2010-2015

2. Nesta, Pushing boundaries: the 2015 UK alternative finance industry report, February 2016

% OF SMALL BUSINESS CREDIT APPLICATIONS THAT ARE UNSUCCESSFUL





CONTACT

Media Enquiries
ANDREW DEVOY
Media Officer
Andrew.devoy@virgin.com
07590 442936



Data Enquiries
ALASDAIR CAVALLA
Senior Economist
acavalla@cebr.com
020 7324 2865