Business start-up and self employment study

Executive Summary

March 2021

Background

The COVID-19 pandemic has had significant and varied impacts on the North East Local Enterprise Partnership (LEP) area's economy.

Anecdotal evidence emerging in 2020 included that the business start-up and self-employment sectors were particularly sensitive to the impacts of the pandemic and the range of restrictions put in place by the UK Government to address infection levels.

The North East LEP commissioned New Skills Consulting and Ortus Economic Research to investigate the scale and nature of the impacts experienced by people starting up in business and the self-employed.

Aims and objectives

The aim of the study is to understand the impact of COVID-19 on business start-up and self-employment in the North East LEP area, both in terms of the impact on people currently in self-employment and the prospects of those who choose to start a business as an option for the future.

The following research questions have been addressed:

1. What are the patterns of start-up and self-employment in the North East LEP area and how is the pandemic driving changes in these patterns?
2. In terms of support, what are the drivers of start-up and self-employment enquiries? What support are self-employed individuals looking for?
3. For those who are looking to start a business, what are their key motivators, why are they taking the step to become self-employed, and what support are they seeking?
4. Looking forward, what are the implications for policy makers in terms of living standards and encouraging the sustainability and growth of these new businesses?

This summary presents the evidence gathered against each of these questions in turn.

The approach

The research was approached in three main ways:

1. **Data analysis.** An analysis of available and relevant secondary quantitative data sources
2. **Desk research**. A review of existing data and research studies, surveys, and projects from relevant sector and representative bodies
3. **Consultation.** A programme of consultation with a range of sector support organisations, businesses and other stakeholders to investigate the research questions outlined above.

Definitions to note

This report uses a number of terms which have specific meaning. Definitions are as follows:

- **Self-employment.** This is the state of working for one's self and on one's own account rather than for an employer. Self-employed people earn income by contracting directly with their customer. They do not necessarily work alone and may employ other people
- **Start-up.** A newly established business entity, regardless of the legal form it takes
- **Entrepreneurship.** The act of setting up a business or businesses and taking associated risks (often financial) in pursuit of profit or other beneficial outcomes.

Findings

Patterns of start-up and self-employment

Evidence from the Centre for Entrepreneurs and direct from Companies House indicates that rates of business formation of limited companies have increased between 2019 and 2020. By contrast, the number of people in self-employment in England has been declining both nationally and regionally, for example:

- ONS data indicates that the number of people in self-employment in England has fallen by over 420,000 between the end of 2019 and Autumn 2020
- The number of self-employed people in the North East region (North East LEP and Tees Valley LEP) has fallen by 9,400 people (8%) between 2018/19 and 2019/20[1]. It is not clear from the data whether this decline is driven by the pandemic and associated impacts.

There are signs, however, that a growth in the number of people starting a business may be imminent. Notable evidence includes:

- Some of the major labour market impacts arising from the pandemic, such as redundancies (which are known to be a driver of self-employment and business start-up) are yet to come.
- Enterprise agencies are receiving a high number of enquiries and are anticipating growth.
- It is also believed that the increase in the number of people working from home and on furlough may also drive future self-employment and business start-up.

It is important to recognise that regional data can lag behind national data. Ongoing monitoring of the relevant data sources will be important to understanding COVID-19 impacts.

Findings

Enquiries and demand for support

Demand for start-up support services delivered by Enterprise Agencies has fluctuated considerably across the pandemic time period. They were significantly down in the early weeks, began to recover over the summer and are now back to pre-pandemic levels. Data from NEEAL shows that in April 2020, the number of new start-up beneficiaries engaged fell by 83% compared to March. By the end of the year, the qualitative evidence indicates that enquiry levels had returned to pre-pandemic levels. Enterprise agencies also report that there is now pent-up demand – i.e. a high volume of enquiries from potential businesses waiting for the right economic conditions to materialise. This could mean a significant surge in demand for start-up support in the near future, and a rise in the number of self-employed and start-up businesses.

Motivation

Key motivations behind seeking start-up support from Enterprise Agencies include:

- People made redundant seeking an alternative way to earn an income, particularly in sectors where a full recovery is not expected for some time
- People made redundant who are treating it as an opportunity to take forward a business idea that they have had for some time but have not been in a position to act upon
- People on furlough that have taken the opportunity afforded by the cessation of their day job to develop a new or existing idea
- People who were unemployed prior to the pandemic, or made redundant during the pandemic, who need to make an income but have been unable to find a job in a rapidly shrinking labour market
- Some unemployed people are being encouraged / guided by Jobcentre Plus to consider self-employment and to approach Enterprise Agencies for support.
- Those seeking to restart a business that has been interrupted by the pandemic.

A notable change in demand for Enterprise Agency services is an increase in the number of people from higher skills and occupational backgrounds seeking to enter self-employment or start a business. Along with those seeking to restart businesses, this increase is leading to a change in the types of support being sought, set out in below

Findings

Support needs

These differ considerably depending on the customer segment:

- For the professional/managerial level entrepreneurs, support is often much more specialised (e.g. a technology or market segment)
- For necessity entrepreneurs, support is better aligned to the current Enterprise Agency offer and is much more general in nature and at a more basic level
- For re-start businesses, support needs include adapting business models, digital adoption, and skills development.

Based on the evidence of support need outlined above, there is a need to evolve support models (e.g. digital delivery) and content to provide the services that are in demand and to do so in a way that is effective in current conditions (i.e. a hybrid model of digital and face-to-face delivery).

In summary, the types of supported needed in future include:

- Re-start support to help businesses to re-invent, re-open, and grow
- Skills support, helping owner managers to adapt to new ways of working and changing customer behaviour
- Supporting digital transformation of businesses including support via subsidised IT equipment and access to digital skills training
- Specialist support focused on the needs of specific customer segments (professional entrepreneurs, necessity entrepreneurs, sector specialist support)
- Support young, tech-savvy start-ups to broaden their marketing reach (beyond the default Twitter/Instagram account)
- Provision of a combination of advice and financial support (flexible grants and loans)
- Overall, the support system needs to operate on a bigger scale, to meet the scale of the need and opportunity as we move out of the pandemic.