



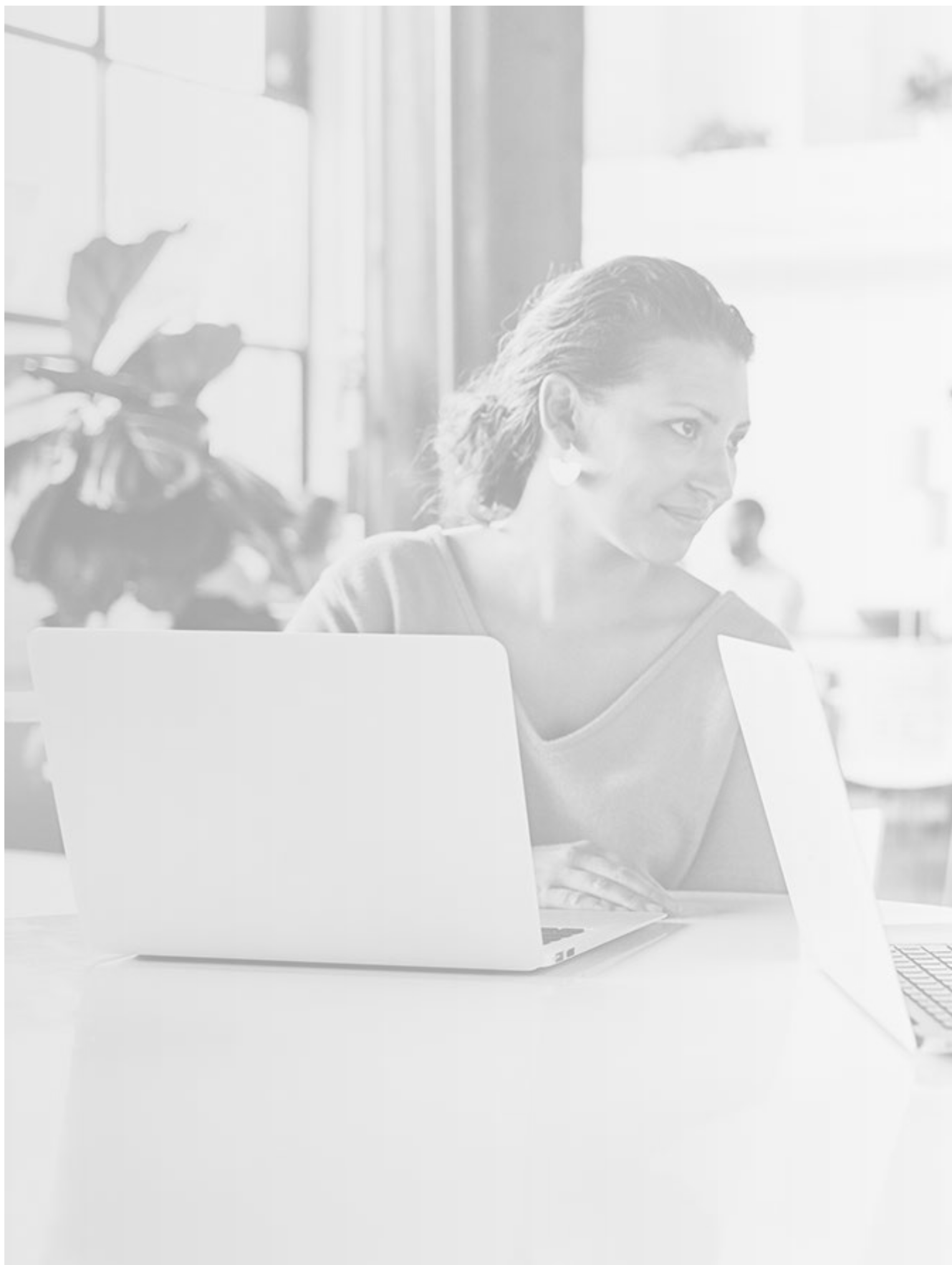
Generation Covid

How the pandemic shaped the start-up landscape

July 2022

Commissioned by





Contents

Foreword NatWest	4
Foreword CBI Economics	6
Executive summary	8
Chapters	10
1. The importance of young businesses to the economy	10
2. Starting up in a pandemic	14
3. A role for money and banking	18
4. Unique business challenges	24
5. Opportunities for growth and the road ahead	30
Concluding remarks	36
Appendices	38
1. Survey methodology	38
2. Interview methodology	40
References	42
Contributors	44



Foreword NatWest

A thriving economy is dependent on a flourishing entrepreneurial culture and I'm delighted that NatWest has been able to support this important research focusing on those very young businesses born shortly before or during the pandemic. Understanding who they are, what drives them and the challenges they face is key to being able to provide the right targeted support which we know can make a real difference to businesses at all stages on their journey.

As we come out of the pandemic, and despite rising inflation and the cost of living crisis, now is a great time to start a new business and become an entrepreneur. There's more support than ever in terms of access to grants and funding, networking and mentoring and angel investment. And as the biggest lender to businesses, we are determined to play our part.

Our network of 14 Enterprise Hubs is the largest of its kind across the UK and provides not only training and physical workspaces, but also coaching and access to peers and sector specialists. We know that start-ups are having to do several jobs at once - the CEO, Finance Director and HR Manager and the bank's accelerator programme is designed to help them be all those things whilst supporting them in running their business. Over the past four years the programme has supported more than 3,500 individuals and businesses, helping them achieve an average turnover of £301,521 and to raise £198m in total investments. These hubs work in conjunction with our wider ambitions for the future economy - looking at today's cohort 39% of places are devoted to sustainability focused business, 47% have gone to female entrepreneurs, over 20% to ethnic minority businesses and 75% are outside London and the South East.

What this research highlights, is that whilst allocating funding to the growth economy is essential, growing businesses need access to the right kind of financing - what is right for one start-up isn't necessarily right for the next. These businesses are vital to the recovery of the UK's economy and continued collaborative working with all parts of the entrepreneurial ecosystem, including other financial institutions and lenders, is crucial if we are to get these funding structures right for entrepreneurs and start-ups.

This report helps shine a light on the resilience and determination shown by businesses started during the pandemic - 89% of which have survived their first year. They are an inspiration and deserve our support. We've committed to focus on supporting 35,000 new businesses through our enterprise programmes this year, of which 60% will be female-led, 20% ethnic minority led, and 75% outside of London and the South East.

This is a team sport not an individual one and regional support, collaboration, and partnership are key. We need to all work together to give start-ups the support they need to not just merely survive, but also to thrive.



Alison Rose
CEO NatWest Group



Foreword CBI Economics

Businesses across the UK are grappling with huge issues, be that digital transformation, new ways of working or the climate imperative. These create both problems and opportunities, yet, for a generation of leaders who have steered businesses through a global pandemic, we've good reason to expect them to be up for the challenge.

Pandemic-born businesses, start-ups created in 2020 onwards, will become case studies that MBA students study for years to come. These businesses, led by ambitious, resilient entrepreneurs, have innovated in so many ways, and at such speed, that they give me great sense of optimism. It's crucial we give these leaders the support they need to grow and succeed.

Of course, it's hard to talk about growth in an environment littered with headwinds. Businesses, big and small, young and old, are under intense pressure. Rising energy prices, supply chain disruptions, an uncertain economic outlook and subsequent cost-of-living crisis mean we've some tough months, and possibly years, ahead. For start-ups, who can count their experience in months, not years, that environment is even tougher. That said, even if the cost of doing business is rising, the cost of starting a business shouldn't. The UK needs the ideas and ingenuity of entrepreneurs to help us grow.

Research from CBI Economics has set out the challenges and needs of this new generation of 'Covid businesses'. If these businesses are to keep trading – and most intend to – it's essential they have short-term support so they can thrive in the long-term.

Tony Danker

Tony Danker

Director-General CBI





Executive Summary

The Covid-19 pandemic has been one of the most significant events of the last 70 years, eliciting a global response, and a seismic shift in the business community.

For businesses that began life in the pandemic, their founders often faced a 'now or never' moment. Many used the pandemic as a pause button to reassess their priorities and focus on new opportunities; others were forced into a rethink through redundancy. Starting a business in any climate is challenging, but pandemic-born businesses faced unique hurdles, including many banks being closed to new customers, and support programmes, such as accelerators, being paused or switched to online.

CBI Economics and NatWest have partnered on this report to better understand these unique, young businesses. Having launched in the last two years, little research has been done to understand the challenges these new businesses faced and what extra support is needed for them to thrive. Analysis by CBI Economics found that if each of these new pandemic-born businesses were able to succeed, more than £20.4bn could be added to the UK economy. These 'Generation Covid' businesses are also keen to see their business through, with 80% planning to continue trading, reflecting the strength of ambition amongst this cohort.



£20.4bn

Additional benefit could be added to the UK economy



20%

More likely to use sustainable materials and suppliers



4 in 5

Pandemic-born businesses plan to keep trading

Although these businesses have great ambitions for growth and innovation, the current economic landscape could jeopardise their success. An increase in the cost of materials or delays across their supply chains could stall the growth of their business operations or the delivery of new products.

Fostering a culture of growth and innovation in this new cohort of pandemic-born businesses will be key to the UK's success on the world stage, and a post-pandemic recovery.



The importance of young businesses to the economy

Young businesses are crucial for innovation and economic growth

New businesses make an important contribution to economic growth, productivity and employment.¹ A steady rate of business creation and closure (i.e. churn) is necessary for an economy to grow and is a driver of long-run prosperity. It's through this reallocation of jobs and businesses that the economy is able to make technological progress.²

Research points to the importance of young firms in driving growth and productivity in the economy. Growing evidence finds that the job creating ability of small firms in the U.S. is better attributed to start-ups and younger firms that are small than to those which are small but have been in business for a longer period. A modest proportion of young businesses grow rapidly and account for the long-lasting contribution of start-ups to job growth. High growth firms are disproportionately young and make large contributions to output and productivity growth, often creating more jobs than they destroy.³

The UK is a hub for entrepreneurship. Prior to the pandemic, the UK had a start-up rate - the number of new businesses created as a share of total firms - of 13%, several percentage points higher than its counterparts in the U.S. (8%) and Germany (11%).^{4,5,6} This illustrates the ease of setting up a business in the UK as well as its attractiveness to entrepreneurs and new ideas. In addition, not only is the UK known for its high rate of business births, but the success and survival of these firms is also well established. In 2018, the one-year survival rate for new business was 89% - approximately nine percentage points higher than the EU average.^{8,9}



The pandemic fuelled a 22% increase in business start-ups

Businesses born shortly before or during the pandemic have faced an unprecedented challenge that their pre-pandemic counterparts did not have. For instance, many local authorities pivoted their services to respond to the pressures of Covid-19 and many banks were closed to new business customers, making navigating the business landscape unusually unclear and uncertain.

Despite this, the financial year 2020/21 saw the highest number of incorporations on record. Totalling 810,316 company incorporations in 2020/21, this increase of 22% represents unprecedented growth in the UK start-up landscape.¹⁰ CBI Economics analysis shows that if each of these new pandemic-born businesses were able to grow and succeed, more than £20.4bn could be added to the UK economy in the years ahead. These 'pandemic-born businesses' are a unique subset of the wider small and medium enterprise (SME) pool with specific requirements.

Company incorporations often fluctuated with government lockdown measures enacted in response to the coronavirus pandemic. Business registrations fell sharply during the first national lockdown, then surged in the months that followed - offsetting the initial decline in business incorporations.¹¹ The majority of these new businesses were established in sectors that were able to continue operating during the UK's various restrictions, such as online retail and pet care.¹²



Very little is known about young, pandemic-born businesses

Until now, little research had been done into how these businesses think, operate, or navigate the UK's business landscape. CBI Economics studied these new companies – those that had been created between 2020 and 2022 – with the aim of understanding what spurred this increase in entrepreneurship and what support they may need to succeed and grow in the years ahead.

CBI Economics surveyed over 500 young businesses, across all the regions and nations of the UK, to examine the challenges they faced during the height of the pandemic and what lessons can be learnt from these potential engines of UK growth. Through one-to-one interviews, ranging from bakers in Wales to scientists in Newcastle, CBI Economics was able to understand their stories and experiences further.

Entrepreneurship and new ideas will be key for the UK to pursue a growing and prosperous economy. Innovative, fast-growing firms currently account for less than 1% of UK companies but add £1tn to the UK economy.¹³ They are responsible for most of the net employment growth and output growth.¹⁴

Fostering a culture of growth and innovation in this new cohort of pandemic-born businesses will be key to the UK's success on the world stage.



Spotlight: Indiecom

Indiecom is a telecommunications platform based in Northern Ireland

Indiecom is a multi-purpose platform that allows telecommunications customers to understand the performance of their mobile network. It enables customers to test and map 4G infrastructure.

The company started in 2021 through an accelerator programme in Northern Ireland, bringing together three individuals, who went on to co-found and develop this business.

For co-founder Conor Morrow, aged 23, the idea of starting a business was a direct result of the pandemic where he had time to reflect on his job at the time and lack of motivation. He saw this as an opportunity to work on something different and exciting. The start-up ecosystem in Northern Ireland has made the team feel supported along this journey.

Indiecom has received over £70,000 in funding through various schemes in Northern Ireland, including significant support from Ulster Bank. While the financial support has been valuable, the business coaching has been the real support tool – signposting opportunities and ways to grow. Conor and his co-founders Andrew Durkin and Garrett Allen, are working part-time on the business at the moment.

Conor Morrow

Co-founder, Indiecom

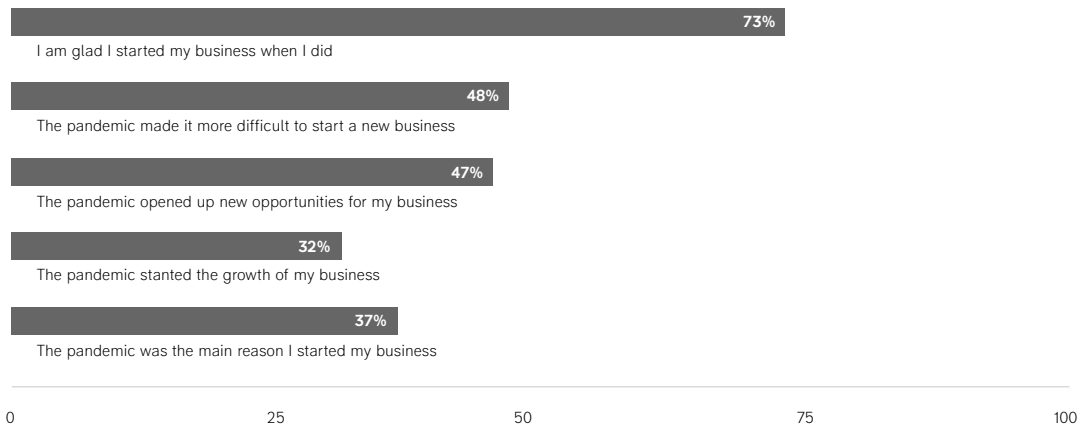


Starting up during a pandemic

Three in four founders were happy they started their business when they did

Starting a business is no small feat, even before attempting to start one when huge parts of the economy have been shut down. However, 73% of business owners who started during the pandemic stated that they were glad they started their business when they did, as shown in Exhibit 1. What's more, 37% stated that the pandemic was the main reason they started their business in the first place

Exhibit 1 Pandemic-born businesses were glad they started when they did



Sources: CBI Economics. Share of businesses who 'agree' or 'strongly agree' with each statement. n=350, sample only includes businesses that started from 2020 onwards.

CBI Economics interviewed a range of business leaders, some of whom had experience in setting up businesses in the past, alongside others who were starting up for the first time. The survey was open to responses for six weeks in between 11 April and 20 May 2022. All survey respondents were asked to declare the year they launched their business, and this year was taken forward to determine pandemic-born and pre-pandemic businesses. The oldest of the businesses surveyed was at most two years and five months old and included those who had launched their business in early 2020 through to those who had started in 2022. Full details of the survey methodology is available in **Appendix 1**. Among them were individuals who were motivated to start their businesses because of the lockdowns and they suggested a few reasons for this:

- 1. An existing appetite to start a business.** The lockdowns were seen as an opportunity to focus their energy into an existing passion. They saw benefits in dedicating time to establishing their business during lockdown with fewer commitments and distractions. There was a feeling for some that what was once freelance work or a 'side hustle' could become a main job and enterprise.

2. **A 'now or never mentality'**, a feeling that the pandemic was the one opportunity they had to work on this idea and would not get the time to do it otherwise.
3. **Fear of redundancy and creating security.** One interviewee felt that starting a business would help to create secure work with an existing contact-base, where they were at risk of losing their current job.
4. **Reflection on their existing job and looking for interesting work.** During the pandemic, individuals realised they weren't satisfied with their job and began looking for something exciting and different.

A long-standing desire to run a business

These findings indicate that starting a business during the pandemic was a proactive choice made by many with a long-standing itch to run a business. Pandemic-born businesses were more likely to be run on a part-time basis (32%) than their pre-pandemic counterparts (24%), demonstrating that for many new founders, they may have used the time during the various lockdowns to juggle both a job and a business.

One other key finding from the survey and subsequent interviews was that some new businesses did not appear as new business registrations in the data but when founders began to operate. Some interviewees mentioned that while they may have registered their business before 2020, the pandemic marked a clear transition to focusing on their business. This implies that while company registrations increased during the pandemic, new business activity may still have been underrepresented.



Spotlight: Pamsmixx by pamcakes

Pamsmixx by pamcakes is a family-run bakery specialising in Filipino cakes, based in Wales.

Working as nurses during the pandemic took its toll on Christopher and his wife, negatively impacting their mental health. They left their jobs and started their home bakery in October 2020. As former business-owners in the Philippines, the couple had some experience running a business they could utilise, but they attribute most of their success to social media.

Demand was high for their bakes from households and individuals, during the various lockdowns, and they received the majority of their orders through Facebook or Instagram. However, they have struggled to maintain customer demand as restrictions eased and consumers replace online deliveries for eating out in cafes and restaurants.

In response to changing consumer preferences, they have also expanded their product offering. Pamsmixx by pamcakes is looking for a retail space to attract more customers and adjust to a changing economic landscape. They received training and support from Business Wales which helped them to transition from working as employees in the NHS to employers and managing a business. They were also supported by Business in Focus in their application for a Start Up Loan with the British Business Bank.

Christopher Picondo

Co-founder, Pamsmixx by pamcakes



Starting a business was a positive distraction from the pandemic

Running a business had an unexpectedly positive impact on the wellbeing of some founders. Several interviewees spoke of how starting a business was an outlet that supported their mental wellbeing, at times by giving them a project to focus on or through the satisfaction of securing new clients. This demonstrates that, while there can be challenging effects on mental health from running a business, they can be counterbalanced by the feeling of reward. One interviewee mentioned that their bank would call them during the pandemic to ask how they were and if they needed any support, providing them with additional reassurance.

This is not to say that the pandemic did not also create an isolating environment. One interviewee stated that working from home in lockdown increased a feeling of loneliness and made it difficult to maintain a healthy work-life balance, creating a situation where they were working from when they woke up until they went to sleep. Many others acknowledge the worry about Covid-19 and the impact on their personal life. Yet the distraction of managing their business alleviated some of those pressures. Another interviewee surmised that *"The stress [of running a business] is overcome by the excitement of winning an order and knowing that all the profit in that order is yours to keep, which is great."*

The motivations for setting up a business during the pandemic varied, from a latent desire to execute a long-standing business idea to the opportunity to try something new. Founders emerged from all walks of life, from front-line workers in the NHS, to serial entrepreneurs pivoting their businesses in response to the pandemic. However, these businesses share common themes of resilience, ingenuity, and leadership – building new products and services in unprecedented times.



A role for money and banking

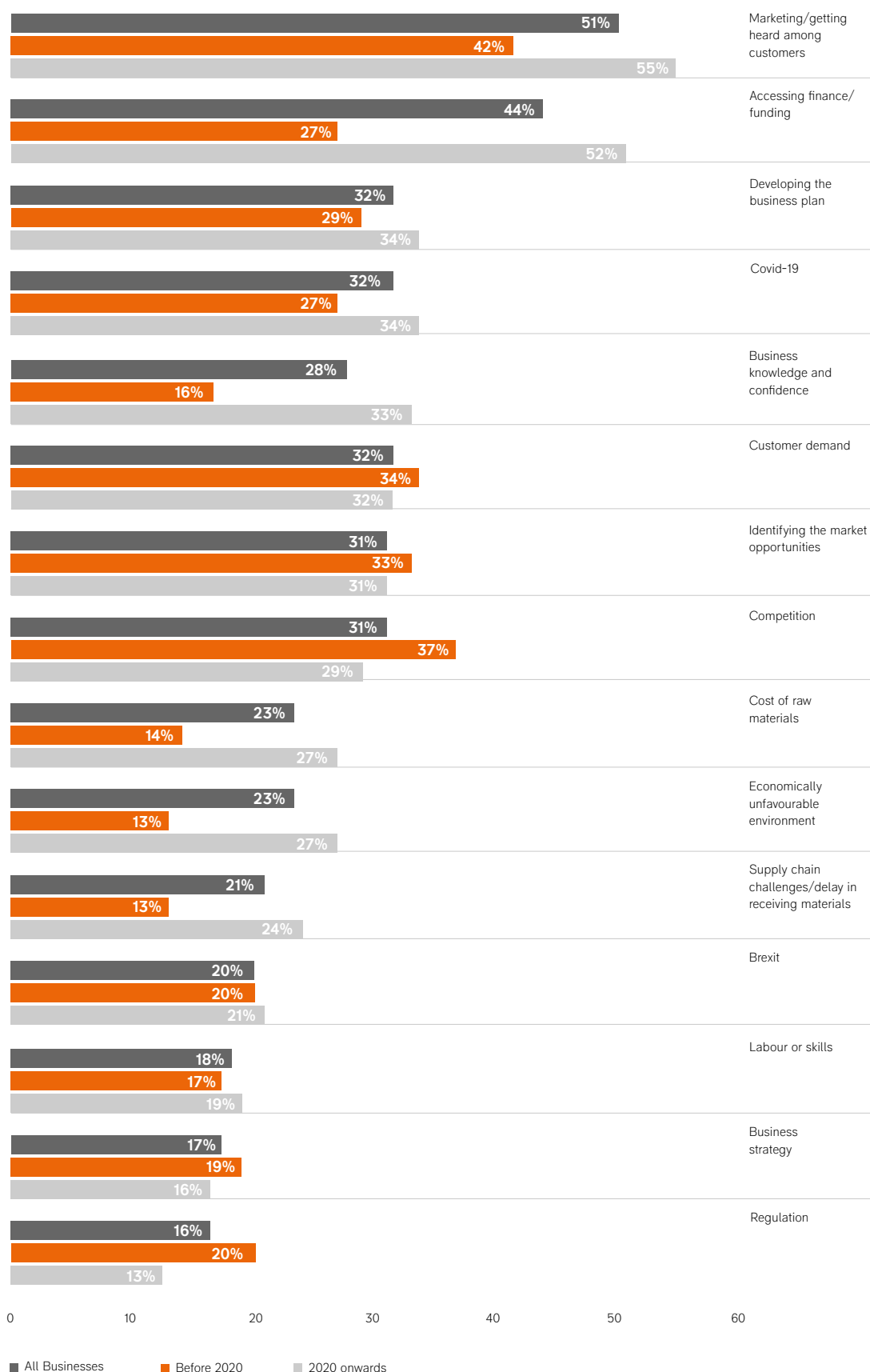
Access to finance for start-ups

It is hardly surprising that businesses which started during the pandemic were more likely to struggle to get the finance they needed to thrive. The survey data collected by CBI Economics show the striking impact poor access to finance had: over half of survey respondents who began their business after 2020 noted this as a key challenge. This compares to only 27% of respondents who started before 2020, as shown in **Exhibit 2**. These figures indicate that the pandemic saw around double the number of businesses not getting the finance they needed to sustain or grow their enterprise.



Exhibit 2 The challenges faced by founders starting up

What challenges did you face when you started your business?



Sources: CBI Economics. Respondents, n=508

The pandemic limited founders' finance options

Start-ups faced steep challenges in accessing several kinds of finance. Bank loans were a prominent and widespread example, but interviewees cited local grants, overdrafts, sector-based grants, and start-up loans as all being difficult to secure.

With banks closed and lending limited, many founders initially sought grants to fund their business. However, the pandemic shut down a lot of local support and founders had to look outside traditional institutions in order to access money. One founder used a mixture of the Department of International Trade, foreign embassies and the British Business Bank to access the funding they needed. Another found out about a grant through a local newsletter. These examples showcase the variety of routes for businesses to access support during the height of the pandemic.

A shift towards low-risk financing options meant pandemic-born founders were also more likely to use their own savings or loans from family and friends. "Bootstrapping" – the practice of starting a business using personal savings – is common for many young businesses, and 62% of all businesses surveyed reported doing so. There is evidence that during the pandemic, more founders were reliant on this form of fundraising as 28% of pandemic-born founders said they received a loan from a friend or relative to fund their business compared to 17% of pre-2020 businesses.



What are the implications of the move towards self-funding for pandemic businesses?

The move towards more personal funding options was an unavoidable consequence of many traditional lending streams being cut off to new businesses. However, with the pandemic largely over, attitudes towards lending have remained sceptical. Many pandemic start-ups feel that the banks are still not investing enough in high-risk sectors like hospitality and tourism. Others feel that they do not need funding to grow the business, having survived so long without it.

It is worth mentioning that most founders who did access funding, either through traditional lending or through grant schemes, had a positive experience, highlighting the extra support they received alongside the money itself as a key benefit. While ease of access to money should not be underestimated, for start-ups the additional support meant that founders felt they had a guiding voice. One co-founder who received funding through an accelerator noted that her advisors 'felt like an extension of the team'.

This reticence towards externally accessed finance risks hampering long-term growth. Without the proper support in place, founders may struggle more to grow their business beyond the initial start-up stage. Bootstrapping is often a practical and less risky way to test the viability of a business idea, but falls short as a business begins to scale. It is therefore vital that founders understand the different options available to them and are able to make informed decisions about the best source of funding. Relying on search engines can only take businesses so far, and highlights that there is more to be done by the wider start-up support ecosystem to guide founders to the right resources. As the economy reopens, lenders must proactively approach "Generation Covid" to ensure that there is not a missed generation of businesses able to successfully scale.

Founders' banking needs have changed post-pandemic

During the pandemic many high street banks were forced to close their physical doors to new businesses trying to open a business bank account. Therefore, given the scope of this study, it makes sense that an overwhelming number of respondents opened bank accounts with online only banks. Yet the case studies reveal a more complex story behind why start-ups choose a particular bank account when setting up their business. While access played a role, there is a perception among many pandemic start-ups that high street banks are not as agile, flexible or technology focussed as online challenger banks. Often this perception is misaligned with the bank's actual offering. For example, one interviewee said 'I would much rather have a bigger bank where I can speak to an experienced human who can analyse my business with me' but felt that traditional banks would not offer her cashflow forecasting - a feature that NatWest, HSBC, Barclays and many others do in fact offer.

Spotlight: Skanus Hospitality

Skanus Hospitality is a gastropub based in Fife, Scotland.

David Nolan, the Director of Skanus Hospitality, established his business in 2020. David's wife had always been keen to start her own business and had experience in the hospitality trade. When a venue became available, David and his wife invested in the property, taking the time during lockdown to get the pub ready for visitors.

David found consumer confidence one of the hardest challenges to overcome during the pandemic, since their location meant an older clientele, who were still fearful of being in busy confined spaces.

Since the end of restrictions, business has been picking up, and David and his wife have looked at investment for expanding and diversifying the business. Despite being a profitable business, securing investment has been difficult due to the sector they operate in, and prevents growing the business at scale. He notes there is a chicken and egg situation where "banks want multiple years of trading figures to have confidence, but when there's an opportunity to be grasped at we can't wait years to realise that growth". Nonetheless, Skanus Hospitality were supported by Transmit Startups in their application for a Start Up Loan with the British Business Bank.

For David, the cost of living crisis now is more of a challenge than the pandemic. The pandemic had its own problems in terms of footfall and income because of the lockdown restrictions and the nervousness it caused, but it feels they are facing a new battle.



Despite many of the traditional banks now offering online platforms, as well as additional support through accelerators, online hubs and access to an overdraft, there is more to be done by banks on raising awareness of these features among the start-up community, especially around their technology offering.

Similarly, when it came to scaling their businesses, many start-ups felt that banks, both traditional and online only banks, were not keeping up with the needs of the business. This was due to a perceived lack of simplicity, as well as access to additional finance options, and extra support such as financial guidance or an adaptable banking offering.

What can banks do to make the process easier?

In both the survey results and the interview case studies, pandemic-born businesses were less likely than their pre-pandemic counterparts to know all the options available to them. Three quarters of survey (75%) respondents relied on search engines for support rather than more formal channels such as bank loans or investors. With banks closed to new business, and local authorities responding to Covid-19 pressure, founders have relied on technology to fill in the gaps of formal support structures. The result has meant a change in consumer appetite, including what they look for when opening a business bank account. Some of the key areas where start-ups felt improvement could be made to their banking journey included:

- **Simplicity.** For founders, being able to set up a business bank account quickly and easily was a key priority. While start-ups appreciated human support further into their business development, many wanted the initial contact with banks to be digital and not in person.
- **Greater linking up of technology.** Many founders noted the importance of an ease in linking up several apps which support their business. There was a perception that online banks would be better at this than traditional banks. Therefore, traditional banks need to make sure they are promoting the connectivity between their online offering and other technology offerings, such as accountancy software and stock software.
- **Software access.** Many banks offer additional benefits and value when you open a business banking account. For example, NatWest offers free accounting software from FreeAgent as part of opening an account with them. NatWest also has an accelerator programme for both customers and non-customers that supports entrepreneurs as they start and grow a business. These support offerings are not always known or seen as being part of opening a business bank account. The necessity of accessing cashflow forecasting tools was raised by founders several times and was a key driver of reluctance among founders to move to high street banks, despite lack of overdraft and loan facilities from online banks.

Unique business challenges

Why start-ups in general face challenges

The phrase 'you don't know what you don't know' is a common one when speaking to start-ups. The complex funding landscape, coupled with the fact that start-ups are having to be several job roles at once – the CEO, Finance Director, HR Manager – means that starting and running a new business is much harder than working in a job. As one start-up put it 'we are trained to be employees'.

Entrepreneurship has historically rarely been taught in schools, and often start-ups are not starting a business out of a desire to be their own boss, but to solve a problem.^{15,16} Doing this without the awareness of how to get started can hold founders back from getting past the beginning stages. Positively, technology has been an impressive driver in enabling people to start a business. E-commerce platforms like Shopify and Squarespace allow for a website to be built in hours. Buying domain names that come with personal email address is equally straightforward to do and is no longer the purview of the 'tech savvy'.

The gap, as the pandemic survey participants will attest to, is in funding a business. As an example, searching online for 'grants for starting a business' will present the individuals with pages of websites promising to find them a grant. Companies like Swoop act as brokers and match start-ups with applicable grants.¹⁷ This can save time but does not necessarily address the difficulty start-ups face writing applications and having to compete with thousands of other applicants.



At the time of writing, there is no one-stop-shop for a start-up's needs. However, many individual organisations offer useful support systems. A few examples include the British Library business and IP Centre, whose support includes access to research experts and free intellectual property advice. Enterprise Nation, Small Business Britain, and Digital Boost all offer free advice, support and events to founders just starting out. Universities have long been in this space and the number of university spin outs is growing yearly. Finally larger corporates have begun to grow their own clients through accelerators, incubators, online hubs and mentoring.

With so much support available, it can be overwhelming for many start-ups unsure of where to begin. Evolving the eco-system of business support is vital if we are to maintain the UK's position as a leader in business incorporations and growth.

What is distinct about the challenges pandemic-born businesses experience

There have been a lot of assumptions made about businesses born during the pandemic, such as their likely embrace of technology, awareness of sustainability as well as potentially higher resilience to external changes. The data coupled with the interviews have largely backed up these ideas. While starting a business in any conditions is challenging, pandemic born businesses have had unique hurdles to overcome. The survey data revealed the biggest challenges that founders faced was lack of business knowledge as well as access to finance. Below are some additional constraints that affected this cohort of start up businesses.

- **Constraints in operating model and reliance on remote working.** Businesses needed to rely much more heavily on digital tools, such as online services and payments and cashless transactions.
- **Innovative engagement.** Founders were largely unable to establish face-to-face relationships with customers and suppliers, instead having to find alternative ways to build their networks. This included novel activities, such as online whiskey tasting, or personal training via video calls.
- **Volatile market conditions.** The pandemic had an unpredictable and dramatic impact on economic trends. Until the COVID-19 vaccine rollout enabled lockdown measure to ease and consumer activity to resume, businesses faced a greatly dampened economic environment with little indication of how long it would last.
- **Innovation challenges.** Pandemic conditions affected the ability of businesses to innovate with new products. This is particularly true of innovations that involved regulatory or manufacturing inspection. such as testing new products that required physical inspection
- **Supply chain disruption.** Some founders had to use UK companies for their supply chain and manufacturing. This meant that some founders were not always able to seek out the lowest priced goods, impacting cash flow early in the business life span.

Spotlight: Little Bandits

Little Bandits create dairy-free yoghurts for kids, based in the South East.

Little Bandits makes fruity and delicious dairy free yogurts for kids and families. The motivation of the business came when Jessica Harris, the founder, realised her son had a dairy allergy and upon further research became aware of how common it was in the UK. The idea to develop a product for kids with allergies began many months before the pandemic but they finally launched mid 2020.

Their manufacturing and delivery suddenly become very challenging as the UK went into its first nationwide lockdown just as their product has due to be launched into supermarkets such as Asda. The factory was impacted as the owner was shielding and as a consequence the founders couldn't visit the factory to oversee first production which unfortunately led to early some quality issues. Whilst these were resolved quickly, it was made more challenging by not being on site.

Now the cost-of-living crisis is hitting start-ups like Little Bandits, meaning businesses like theirs need to reflect, make economies where possible or pivot to survive.

Jessica Harris

Founder, Little Bandits



How have businesses overcome these issues?

Business have shown incredible resilience over the course of the pandemic, from pivoting their business model and diversifying their income streams, to starting again from scratch. This resilience of the UK start-up landscape is admirable.

Many pandemic businesses which were interviewed as part of this project felt that the pandemic was all they had ever known, so it was difficult to compare how their business might have fared had they started pre-pandemic. Many saw opportunities where others saw problems, such as a book editor who noticed people had more spare time 'to write that book they had always wanted to write'. They continued to adapt their services and eventually moved into products, which was a pivot from their original business idea.

Founders have demonstrated an incredible ability to adapt to market changes. The pandemic was unprecedented, and as many hoped, a temporary situation. This has not always had positive results for founders. For example, where one founder started a cake business as people were ordering more luxury food to their house, they soon noticed a drop off once bars and restaurants were allowed to open. Lockdowns and differing regional advice meant businesses were created on fluctuating market conditions. Founders have had to adapt, pivot and diversify their business model continually throughout the pandemic and beyond. The challenge founders are facing today, with increasing cost pressures, disruption and inflation, is arguably harder to overcome.

The cost of doing business

The cost of doing business increased considerably during the pandemic giving founders pause for reflection in future investment. Producer input prices grew by 19% in the year to April 2022, the highest rate of growth since records began.¹⁸ Initially, government lockdown restrictions caused uncertainty and sharp pivots in customer demand, and disruptions to production and supply chains, which in turn added pressure to businesses as they raced to access sufficient materials and produce stock to meet consumer needs. The global supply chain disruption has continued to persist following recent lockdowns in critical exporter countries such as China, exacerbated by the war in Ukraine – a key global producer of several crucial commodities.

Tellingly, while these are global challenges faced across sectors, pandemic-born businesses feel these pressures more acutely. New businesses are almost twice as likely as their older counterparts to report the cost of raw materials as a barrier to business growth (29% against 15%). This is despite both groups being equally as likely (19% and 17%) to consider supply chain challenges or delays in receiving raw materials as an obstacle to the growth of their business. Interviewees across manufacturing, construction and the life sciences share stories of how the rising cost of materials, particularly for imported components, have added delays to their business operations, the consequences of which they are still experiencing.

Spotlight: Footprint Design

Footprint Design is an architectural practice operating across the North West.

Footprint Design is a young design practice offering a wide range of services from architectural, graphic design and typography. The business has a broad portfolio of work including projects in residential properties, urban design and community buildings.

Ali Siddique started the business in 2020, driven by both a feeling of job insecurity in his existing job and an increased motivation to turn freelance work into a professional business.

Marketing has been a challenge, and Ali has found it difficult to promote the business during the pandemic, especially with a lack of networking opportunities. Despite this, the business has had a steady flow of clients and projects, without support from banks or growth hubs.

"Within the industry, the cost of materials were going through the roof. Councils were under-resourced and had a backlog of planning applications. The challenges we were facing then, we're still suffering now."

As a business operating in the construction industry, the ongoing supply chain disruption and rising cost of materials have been the greatest challenge to their business.

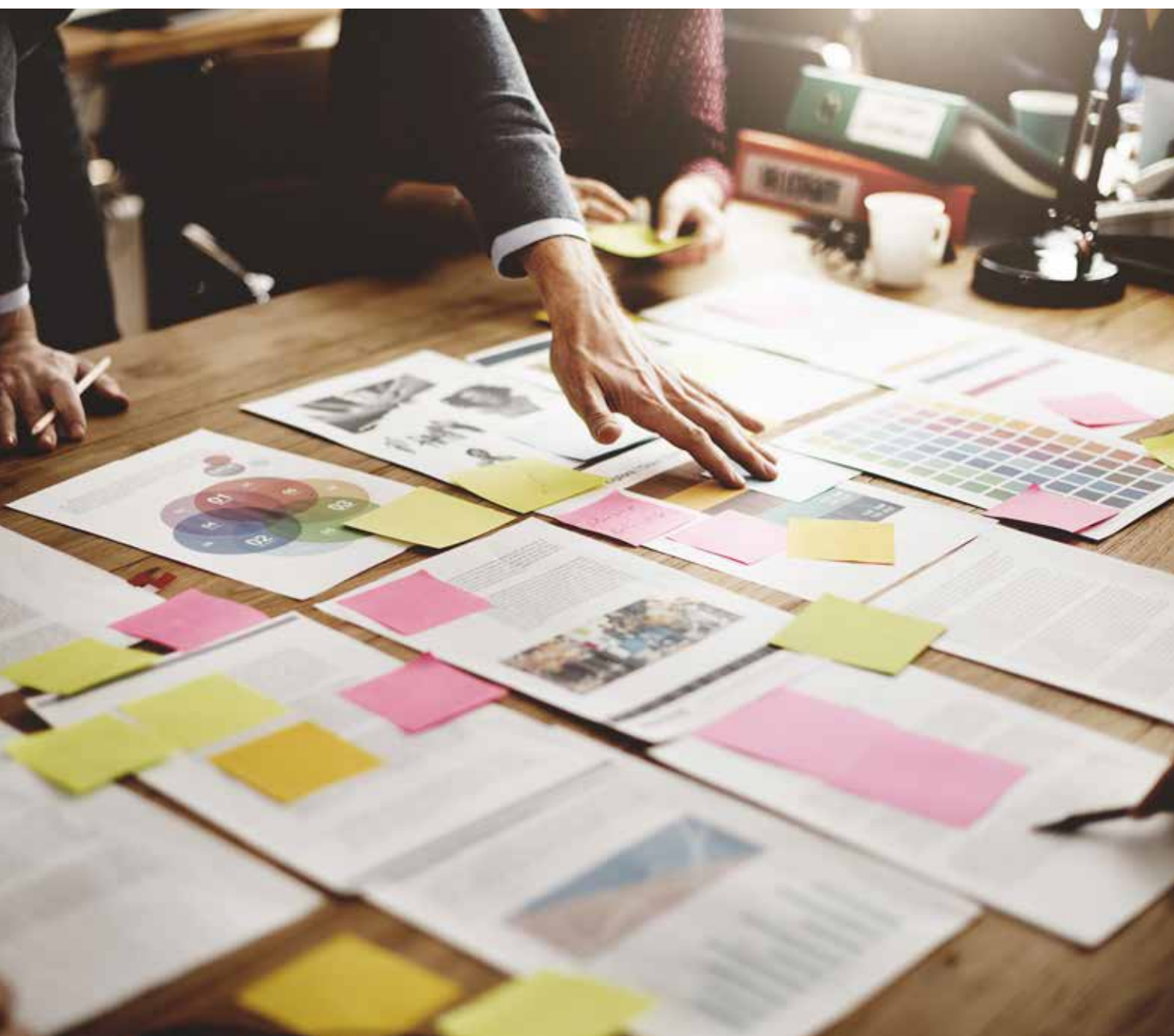
Ali Siddique
Co-founder,
Footprint Design



A supportive ecosystem is vital in the months ahead

At the time of writing, the cost of doing business is unlikely to improve. Founders will have to decide if their businesses can stay viable against a backdrop of cost increases for raw materials, labour, energy and transport, and with the additional expense and admin burden of a post-Brexit business landscape.

The good news is that this cohort of businesses are some of the most resilient. Founders of pandemic-born businesses have adopted a growth mindset and pivoting has been the norm rather than the exception. For the entrepreneurial support community, increasing awareness of their services, and greater collaboration between networks will be key. The support ecosystem is not a one-stop-shop, but once a founder has tapped into this support network, their businesses are much more likely to thrive and scale than if they went it alone.



Opportunities for growth and the road ahead

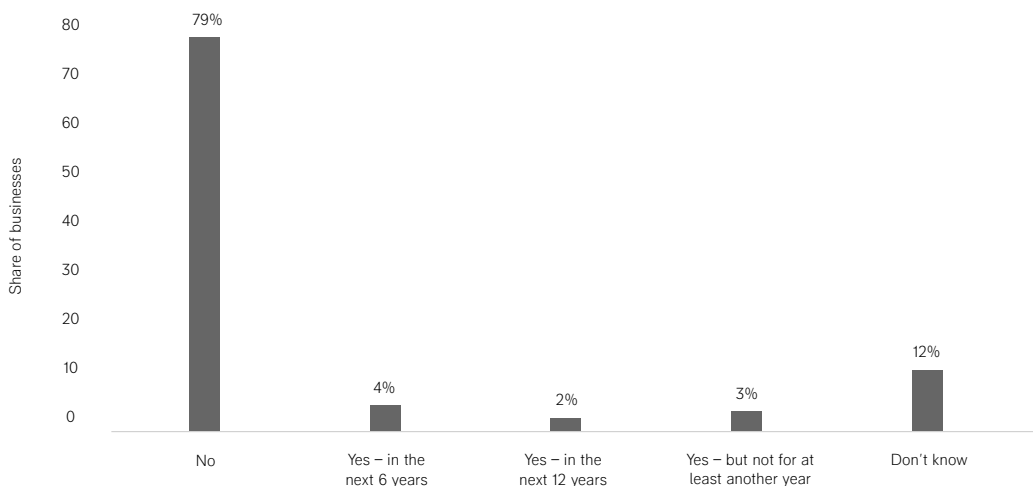
Opportunity for growth post-pandemic

The founders that started a business during the pandemic have displayed clear qualities of leadership, resilience, and perseverance. A group of entrepreneurs that can survive and manage a business during unprecedented change, have the potential to be hugely successful during times of stability. For this reason, it is vitally important that these pandemic-born businesses grow and succeed. They are the employers of the future and the creators of new products and innovations, all of which benefit the wider economy.

Four in five pandemic-born businesses plan to keep trading

Promisingly, the vast majority of pandemic-born businesses have clear ambitions to keep trading. Almost 80% have no plans to wind down or sell their business while 12% remain undecided, as shown in **Exhibit 3**. The strength of ambition indicates that this surge in company registrations brings with it opportunities for new innovations and products.

Exhibit 3 The majority of businesses don't have plans to wind down their business



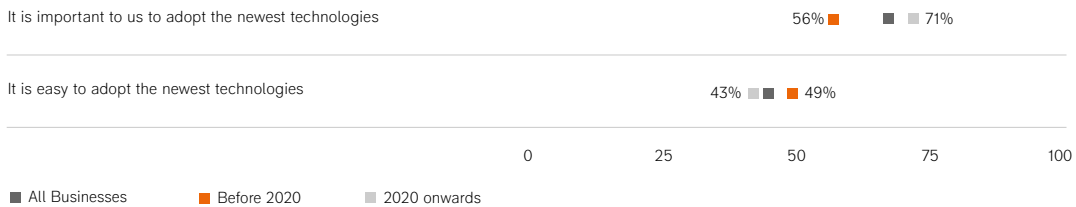
Sources: CBI Economics. Share of businesses who 'agree' or 'strongly agree' with each statement. n=350, sample only includes businesses that started from 2020 onwards.

The power of technology

Young businesses bring productivity gains through innovation. This could be through the adoption of new technologies or the development of better products or services. For instance, pandemic-born businesses are 15% more likely than their pre-pandemic counterparts to believe that it is important to adopt the newest technologies, as shown in **Exhibit 4**. There is little difference across white and BAME entrepreneurs where 70% BAME founders believe it is important to adopt the newest technologies, compared to 65% of white founders. However, when it comes to ease of implementing these new modes of work, 52% of BAME founders find it easy to do so relative to 43% of white entrepreneurs.

Exhibit 4 New technology is important to pandemic-born businesses

% Agree / Strongly agree



Sources: CBI Economics.



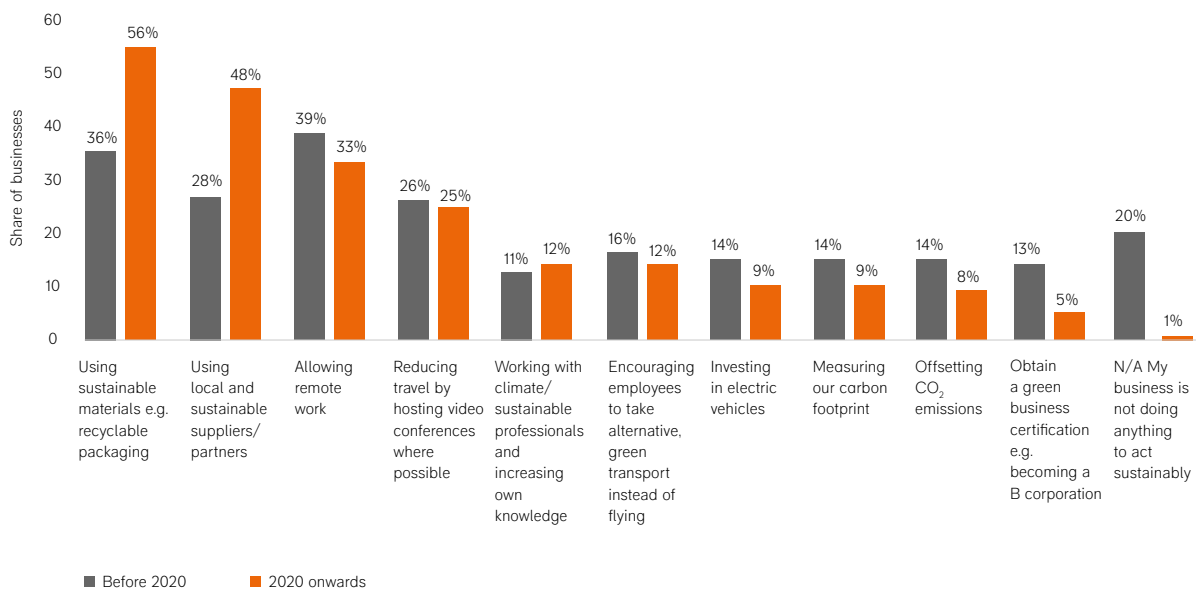
For pandemic-born businesses, the role of technology can be central to their existence. Interviewees reiterated their surprise at the reach of their businesses through social media platforms, and the resulting increase in demand for their products or services. It was a powerful tool that enabled them to kickstart their business, as well as develop their services. For instance, one business moved from sales through Facebook and Instagram to creating their own website and providing a Click and Collect offering. This is an example of how innovative businesses through the pandemic have been able to utilise technology to grow their enterprise

Sustainability and new businesses

A similar trend is clear for sustainability: pandemic-born businesses are more likely to believe it is important to minimise the business impact on the environment but find it harder than their older counterparts to do so. Therefore, while there is a greater feeling of responsibility to ensure their business has little impact on the environment, in practice this is hard to do. One interviewee stated that the cost of researching or developing sustainable products to use within their business is too high and they rely on businesses further up in their supply chain to lead so they can follow.

Still, young businesses are proactively considering the environment in their business activities. Pandemic-born businesses are 20% more likely to use both sustainable materials and suppliers, as shown in **Exhibit 5**, indicating the areas in which founders find it easiest to begin their journey toward a climate-conscious business.

Exhibit 5 Acting sustainably



Sources: CBI Economics. Respondents, n=342. In response to the question: What are you doing as part of your business to act sustainably?

Spotlight: The Book Shelf

The Book Shelf is a Birmingham-based company that helps with publishing and self-publishing.

The Book Shelf helps authors create books through editing, design, marketing and coaching. The founder, Ameesha Smith-Green, began working in the industry as a freelancer before going on to start her own business.

"Everything we do as a business is trying to encourage authors to be more sustainable. We encourage ebooks and print on demand rather than book printing.. We're also working towards B Corp certification, and we've set up a partnership with the Rainforest Trust."

The pandemic created a lot of anxiety in publishing as much of the work initially dried up. Ameesha was worried about lack of work and her finances. However, things reversed rapidly and she was soon turning clients away. The publishing industry did very well out of the pandemic as people had more time to read and to write, so she was able to increase her client base and demand for her services.

As a NatWest business banking customer, she received regular calls checking on her wellbeing and whether she needed any extra support during the pandemic. This engagement from NatWest meant she felt more supported throughout the pandemic and as she reflected on the next steps for her business.

Ameesha was also able to access support through Coventry University and has since taken on three young employees, as part of the government's Kickstart scheme.

Ameesha Smith-Green
Founder, The Book Shelf



Yet there is a long way to go. **Exhibit 5** also shows that costly initiatives such as investing in electric vehicles, offsetting CO₂ emissions or gaining a green business certification are substantially less likely to be carried out by pandemic-born businesses. This could be due to external factors such as the pandemic, when, for example, much of the aviation sector was inaccessible therefore reducing the need for carbon offsets, or because these businesses are too young to purchase, e.g. a company car. Nonetheless, ensuring this new wave of businesses can act in alignment with their beliefs – that business must minimise its impact on the environment – must be made easier.

Lijia Zhang

Co-founder, VirtCam

Spotlight: VirtCam

VirtCam is a software company with a focus on virtual reality, based in Cambridge.

Lijia Zhang, co-founder of VirtCam, had been running a successful educational business for five years, when the pandemic hit. This meant that their residential summer school programme could not



continue. Lijia and her business partner transformed the business into a virtual reality online campus where customers can experience Cambridge in the comfort of their own homes.

With no technology background, VirtCam was a steep learning curve for the two founders. Challenges including finding contractors such as software developers and creating a new business model that enabled the company to grow at pace.

VirtCam accessed a British Business Bank Start Up Loan to help fund the business, through the support of Virgin StartUp. They found the experience incredibly helpful due to the extra support, such as mentoring, that came with the loan. They also used support from the Department for International Trade and the embassies in Paris and Madrid.

The opportunities that lie ahead for pandemic-born business are numerous. They have a clear motivation to build and grow their business in the months ahead, paving the way for new innovations and jobs. They are more likely to support the adoption of new technologies than their pre-pandemic counterparts and recognise the need to minimise their business impact on the environment. Taken together, these new businesses illustrate a cohort of ambitious, innovative, and climate-conscious entrepreneurs that can positively benefit the UK business landscape.



Concluding remarks

Businesses born during the pandemic have shown resilience and determination in a business landscape unlike any that their predecessors have faced. As many critical services such as banks and growth hubs became unavailable during the height of the Covid-19 pandemic, this diverse group of entrepreneurs had to grow and thrive in the most unlikely environments.

This report shows that pandemic-born businesses are more likely to feel like a role model to other entrepreneurs, recognise the importance of adopting new technology and understand the need to minimise their impact on the environment than their pre-pandemic counterparts. Taken together, these characteristics signal the huge potential this nascent cohort of start-ups could have on the future of the UK business landscape. Tech-friendly businesses may be more innovative and positive attitudes to sustainability could support the UK's net zero ambitions.

However, without proper support, these businesses may not survive and scale. The challenges pandemic-born businesses faced during the pandemic such as rising costs and regulatory uncertainty, have intensified. For example, the cost of materials is an acute concern for this group of young businesses – putting at risk their prospects of survival as well as the opportunities for growth.

Interviewees and survey respondents shared examples of innovation and ingenuity to keep trading during the pandemic. However, a precarious economic landscape risks losing these future business leaders. Positively, the majority of pandemic-born businesses have high ambitions and intend to grow their business over the coming year. The support they need through this ecosystem to thrive will be key to ensuring the ambitions of Generation Covid materialise into business success.



Appendix 1: Survey methodology

The survey was open to responses for six weeks in between 11 April and 20 May 2022 and, was designed by both CBI Economics and NatWest, in SurveyMonkey, and garnered responses from 543 senior representatives of businesses across the UK. This includes both businesses that were started during the pandemic (n=378) and those that were started before it (n=165). This latter group provides a useful comparison group, allowing for a better understanding of how pandemic-born business surveyed differ from those started before the pandemic.

The survey was sent to various stakeholders who distributed it to SMEs in their networks, including the British Business Bank, regional universities and NatWest. The survey was also sent to Opinium's SME business panel. The data was then combined and processed. **Exhibit 6** illustrates the regional spread of all respondents cross the UK's regions and nations. All results are unweighted.

Exhibit 6: Share of survey respondents across the UK regions and nations



Overall, 86% of businesses surveyed had fewer than 10 employees (93% for those started during the pandemic). Firms were spread across sectors of the economy and geographically across the country in a way that is broadly comparable to the wider UK business population. Just over half (55%) of business founders surveyed identified as male, compared to 44% female. Roughly eight in ten (81%) of founders surveyed were white.



Appendix 2: Interview methodology

In the survey of young businesses, respondents were asked a final question if they would like to be interviewed as part of the research. Over 180 businesses responded positively to being interviewed.

Respondents were spread across the regions and nations, with the vast majority based in England. The gender split was fairly balanced, where 53% of the respondents identified as male and 45% as female. The overwhelming majority were from a white background (78%) and the remaining 22% came from a variety of ethnicities.

An effort was made to ensure a diverse range of voices was heard. In total, 59 businesses were approached for interview and of these 21 businesses responded positively and were interviewed. The gender balance of those interested was as follows: 62% identified as male and 38% as female. With regards to ethnic diversity, 62% identified as white - below the share of respondents in the survey who agreed to be interviewed (78%). A summary of the diversity of interviewees is shown in **Table 1**.

Table 1 Ethnic diversity of interviewees

Ethnicity	Share
White	62%
Mixed / Multiple ethnic groups	14%
Asian / Asian British	19%
Black / African / Caribbean / Black British	5%

Representation from all of the English regions and UK nations was sought. Multiple entrepreneurs from each region were invited for interview. However, final interviewees were ultimately from all regions except the East Midlands and South West. A full breakdown is shown in **Table 2**.

Table 2 Regional variation for interviewees

Regions	Share
London	14%
West Midlands	14%
North West	10%
South East	10%
Wales	10%
Yorkshire and The Humber	10%
East of England	5%
North East	5%
Northern Ireland	5%
Scotland	5%



References

1. Bartelsman, E.J. and Doms, M. "Understanding Productivity: Lessons from Longitudinal Microdata." *Journal of Economic Literature*, 2000,38(3), pp. 569-94
2. Caballero R.J. (2010) *Creative Destruction*. In: Durlauf S.N., Blume L.E. (eds) *Economic Growth*. The New Palgrave Economics Collection. Palgrave Macmillan, London.
3. Ibid.
4. ONS (2020) *Business demography*
5. Census Bureau (2021) *2018 Business Dynamics Statistics Data Tables*
6. Eurostat (2020) *Business demography statistics*
7. The UK ranks 8th in the World Bank's Ease of Doing Business global rankings. World Bank. (2020). *Doing Business 2020*. Washington, DC: World Bank. DOI:10.1596/978-1-4648-1440-2. License: Creative Commons Attribution CC BY 3.0 IGO
8. ONS (2020) *Business demography*
9. Eurostat (2020) *Business demography statistics*
10. Companies House (2021) *Companies register activities: 2020 to 2021*
11. Galanakis, Y. and Savagar, A.(2021).What has been happening to firm creation by UK region and sector?. *Economics Observatory*.
12. Ibid.
13. Scaleup Institute (2021) *Scaleups: energising the economy*
14. Ibid.
15. In May 2020 NatWest launched Dream Bigger, free online education sessions for 16-18 year olds designed to help inspire the next generation of entrepreneurs
16. CBI Economics (2022) *Paving the way to financial wellbeing: How government and industry can collaborate to improve the nation's financial literacy*
17. <https://swoopfunding.com/>
18. ONS (2022) *Producer input price inflation, UK: April 2022*



Contributors

CBI Economics and NatWest would like to thank all those who supported this project by sharing the survey with their network.



CBI Economics

This report was produced by CBI Economics and commissioned by NatWest.

Want to find out more about this report or CBI Economics services? Get in touch:

cbieconomics@cbi.org.uk

cbi.org.uk/what-we-do/economic-analysis/

cbi.org.uk

July 2022
© Copyright CBI 2022
The content may not be copied,
distributed, reported or dealt
with in whole or in part without
prior consent of the CBI.

Product code: 12754