

# What works for microbusinesses

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**LONDON**ASSEMBLY

Holding the Mayor to account  
and investigating issues that  
matter to Londoners

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The Economy Committee scrutinises the work of the Mayor relating to economic development, wealth creation, social development, culture, sport and tourism in London, including the Mayor's role as chair of the London Economic Action Partnership.

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# Susan Hall AM

## Chairman of the Economy Committee



Microbusinesses are a vital part of London's economy. They drive economic growth, create jobs and help shape local communities.

As a microbusiness owner myself, I know how rewarding it is to run a business in London, but also how challenging. Managing cash-flow to ensure our staff are paid on time, dealing with increasing rates and rents, navigating legal and regulatory frameworks - these are just some of the issues we face.

Not all microbusinesses want to grow exponentially. We heard from many businesses that their concerns right now in London are how to survive: Can I afford to stay where I am? Can I afford the staff? How do I plan for the long term?

With this investigation we want to ensure that microbusinesses' voices are heard and the right support and advice is available in London for entrepreneurs. It is widely acknowledged that to help businesses survive

and grow, they need to have access to the right advice at the right time.

I would like to thank everyone that has contributed to this investigation. I would particularly like to thank the East End Trades Guild director and members for speaking to us about their experiences of running a microbusiness in London right now. Their passion is as palpable as their concerns.

This short report identifies the main concerns faced by microbusinesses in London. We aim to redirect the Mayor's efforts to provide the right support to microbusinesses in London and so support the dynamism of this vital part of the economy.

## The role of the Mayor and the LEAP in supporting SMEs

In his 2016 manifesto, the Mayor promised Londoners to be the most pro-business Mayor, to support small business and to protect business space.

The Mayor seeks to support small and medium-sized enterprises (SMEs) through various policies such as the Economic Development Strategy and programmes led by the London Economic Action Partnership (LEAP). The LEAP is the main delivery body for economic development in London and advises the Mayor on action to support and promote London's economy.

The Mayor's draft Economic Development Strategy was published in December 2017 and commits to supporting start-ups and small businesses by promoting access to affordable workspace, finance and business support.<sup>1</sup>

Business support to SMEs is offered mainly through the London Growth Hub, an online portal, funded by central government and delivered by the LEAP.

The challenges faced by a microbusiness (zero to nine employees) can differ considerably from those faced by small and medium-sized companies (ten to 249 employees).

Our investigation looked at the concerns that microbusinesses in London have and whether they have adequate access to support. For example, many microbusinesses we spoke to are struggling to attract new customers on the high street and find London a high cost place to do business, which means it is difficult to make ends meet.

However, microbusinesses felt that a lot of government, council and GLA initiatives were great for start-ups but irrelevant for established businesses who struggle to survive. We heard repeatedly from stakeholders and microbusinesses that they either don't know about the Growth Hub or that the offer is not well suited to microbusinesses.

We will bring these concerns to the Mayor and Deputy Mayor for Business.

# There are 1 million microbusinesses across London and they:

**Make up 96 per cent of companies in London.**

**Generate £277.3 billion of turnover last year.**

**Produce 27 per cent of all London turnover.**

**Created 282,000 jobs in the last five years.**

**Are the fastest growing type of business in London.**

Reference: ONS 2017 Business Population Estimates



## Microbusiness survey: what business owners said

Over the summer months we ran a survey of microbusiness owners in London. Over 150 microbusinesses told us what the top concerns were, how easy they find it to access business support in London, what support they want and how they want to access it.

Our survey of microbusinesses in London found that the top three immediate challenges throughout their business journeys were:

- attracting new customers and/or expanding into new markets (a concern for 59 per cent of the microbusiness owners who responded to the survey)
- the cost of doing business in London (58 per cent)
- dealing with income volatility (44 per cent)

Looking to the future, microbusinesses also raised concerns about whether they would be able find suitable workspace or retail space (38 per cent).

In the business journey diagram, we set out the main concerns businesses reported at four stages of development, distinguishing between immediate concerns and long-term challenges as microbusinesses look to start-up, survive and then develop and grow.

# Survey results

**Microbusinesses say they are finding it hard to access business support.**

Twice as many businesses find it difficult or very difficult than those that find it easy or very easy.

**Microbusinesses want to learn from other businesses, not outsiders.**

The three most helpful ways businesses find support are from other businesses, be it direct, or through co-working events or trade associations.

**The most popular way of receiving support is one to one sessions.**

**Most microbusinesses haven't heard of the London Growth Hub.**

Almost two thirds of the firms that responded to our survey haven't heard of the London Growth Hub.

Some of those who have heard about the London Growth Hub find it difficult to access support.

**New businesses want face to face contact and tailored support, whilst established businesses are happier to receive online support, or group events such as workshops.**

**Marketing knowledge is highly sought out by lower income businesses, whereas high income businesses tend to want specific legal or regulatory support.**

# Business journey

Firms were asked to self-identify where on the journey of a microbusiness they saw themselves. Figures refer to the percentage of companies that reported concerns at that stage of their journey.

Stage 1

## Start-ups

### Short term:

acquiring new customers and/or expanding to new markets (68%), cost of doing business (59%), dealing with income volatility (49%).

### Long term:

cost of doing business in London (65%), recruiting or retaining appropriate workforce (54%), finding suitable workspace or retail space (41%), acquiring new customers (41%) and developing new management and leadership skills (41%).

Stage 2

## As they become established

### Short term:

cost of doing business (58%), acquiring new customers and/or expanding to new markets (48%), recruiting or retaining appropriate workforce (42%).

### Long term:

cost of doing business in London (68%), finding suitable workspace or retail space (44%), acquiring new customers (42%).

Stage 3

## As they flourish

### Short term:

cost of doing business (57%), acquiring new customers and/or expanding to new markets (53%), dealing with income volatility (47%).

### Long term:

cost of doing business in London (70%), acquiring new customers (40%), dealing with income volatility (37%).

Stage 4

## Under pressure

### Short term:

acquiring new customers and/or expanding to new markets (67%), cost of doing business in London (57%), dealing with income volatility (51%).

### Long term:

Recruiting or retaining appropriate workforce (71%), cost of doing business in London (64%), planning my career (50%).

## Vox pop – what we heard

We spoke to a range of businesses across London to hear about their hopes and fears for the future of their business. This is what they told us.

### Stage 1 – start-up

**Dealing with income volatility** is an immediate concern for microbusiness owners who recently started a business. Income volatility, from late payments for instance, can hold back microbusinesses from becoming a sustainable business and impedes their ability to plan for the future.<sup>2</sup>

Microbusinesses also worry about how to **develop management or leadership skills** in order to make the best decisions for the success of their business. Workshops to develop management skills are available, but Lorna Bladen from Enterprise Nation explained that those are not a priority for business owners:

“unfortunately, because they are entrepreneurs, at the end of the day, they are just out [there] selling, selling and just do not have time [to come along]”.<sup>3</sup>

Claire Burke from Guardian Business 2 Business, told us that there is a growing awareness that good management skills are essential for running a successful business.<sup>4</sup> Evaluation programmes, such as the ones run

by the British Library or 10,000 Small Businesses by Goldman Sachs, have shown the positive and long-term impact of management programmes for a sustainable business.

## Stage 2 – becoming established

**Finding a suitable workspace or retail space** becomes a major concern as microbusinesses start to grow. We heard that rents are increasingly unaffordable and finding the right kind of space is difficult, especially in London’s new builds: “those glass towers that are going up everywhere do not suit most micro and small businesses.”<sup>5</sup>

Finding a workspace is also a challenge for home-based and self-employed businesses, as they need to secure affordable workspace to make or sell goods.<sup>6</sup> We heard that microbusinesses need access to selling space and to attract in customers to view their product and to establish a relationship with them.

Incentives are needed for landlords to open up commercial space for short-term lets while waiting to sign-up big brands on longer-term leases or convert the space to residential and resell it for a premium.<sup>7</sup>

We heard that microbusinesses feel disempowered against commercial landlords who have much more

market knowledge and use this information to treat small business tenants unfairly.<sup>8</sup>

Many organisations have called for an open database of commercial rent costs across London.<sup>9</sup> Others would like to see a concept of ‘public purpose’ or ‘social value’ adopted in the planning system to financially disincentivise empty space and officially valorise microbusinesses’ contribution to the local community and economy.

Co-working space is a great option for microbusinesses as it provides a flexible and more affordable work space. It can also provide access to a network of businesses and so encourage best practice among business owners. Both are highly valued by microbusinesses,<sup>10</sup> and can be vital if start-ups are going to survive their first year in business and become established.<sup>11</sup>

**Acquiring new customers and having the ability to expand to new markets** is a vital part of a long-term growth strategy. As competition grows and demand changes, businesses must reinvent themselves to survive and stay relevant.

The two 70-year-old owners of the 40-year-old textile business Crescent Trading in East London told us how they changed their business model fundamentally three times to respond to market changes or other external factors beyond their control.<sup>12</sup> From initially selling

fabrics in large quantities to big manufacturers all over the UK, the business adapted its offer in the 1990s to fit the demand of small businesses based in the area. More recently, a road closure sign dropped their sales volume by 70 per cent. To generate the missing turnover, the owners are working twice as hard and went looking for customers across the country again.

Initiatives exist to help microbusinesses grow. Wandsworth Council has launched a programme called 'Supply Nine Elms' to help SMEs respond to local procurement demands and win new contracts.<sup>13</sup> Etsy makes it possible for sellers to sell their products abroad from day one by providing practical advice such as information on international shipping labels, setting shipping costs and prices and invoicing.<sup>14</sup>

**Getting finance** is also high on microbusinesses list of concerns. And while solutions exist to help companies raise capital in a new way (for instance, Kickstarter Crowd Fund or Funding Circle, or the government backed Start-Up Loan or GLA's Growth Hub funding) and help to deal with cash-flow management issues (for instance, Market Invoice) many microbusinesses felt that these financial resources were mostly targeting high growth businesses.

### Stage 3 – flourishing

As microbusinesses become established and flourish they need help **developing a standout online and social media presence**. While many businesses are confident with digital, some business owners do not know how to use social media to reach potential customers and interact with existing customers. That digital capability challenge is largely missing from existing business support and advice services.

We also heard that the London Growth Hub’s way of communicating solely online necessarily means that those microbusinesses in London who are not digitally savvy are missing out on the support offered by the platform.<sup>15</sup>

### Stage 4 – under pressure

**London’s high operating costs** are seriously threatening microbusinesses ability to survive and grow.

Businesses in east London that we heard from highlighted fast rising rents and business rates. Some microbusinesses, which settled in the railway arches on the Kingsland Viaduct, have faced a £5,000 rent increase every year since they settled there.<sup>16</sup>

Other businesses explained that business rates increased by 30 per cent in the last few years, alongside



all other costs such as parking permits and pavement display licences.

Microbusinesses on Berwick Street W1 had, in real terms, a 110 per cent business rates increase leaving them with no other choice than to let staff go and work 16 hours a day to survive.<sup>17</sup> For the owner of Sohost, the 2017 business rates revaluation and is simply “wiping out independent businesses” and threatening the West End’s local identity.

As a consequence, microbusinesses see their profit margins reducing to such an extent that it threatens their existence. We found that microbusinesses spent on average 53 per cent of their turnover on rents, salaries and other overhead costs, with some spending up to 90 per cent of their turnover on those costs.<sup>18</sup>

**Integrating or adapting to new technology** is a new challenge many microbusiness owner struggle with. Newhams Stationery, an independent stationery shop in East London, for instance, is facing direct competition from Amazon:

“retail pricing doesn’t exist anymore, prices are now more likely to be influenced by how much things cost on Amazon.”<sup>19</sup>

To maintain their sales volume and stay relevant and competitive, the owners are now are reducing

investment in retail trade and concentrating on local-based commercial clients, with an outlook of not needing a bricks and mortar store on the high street in the future.

Other microbusinesses were less affected by the online market because they rely heavily on a local community and local traders. Gardners' Bags, Spitalfields oldest family business, in the Brick Lane area, has been serving local shops with all kinds of bags for four generations.<sup>20</sup>

But technology also opens new opportunities for businesses. It has made it easier to set up and run a business. Etsy has enabled sellers and buyers to connect directly through a low-risk digital market place. As such, a high number of microbusinesses on Etsy are first time entrepreneurs.<sup>21</sup>

## Profile of survey respondents

Our survey does not purport to be a representative sample of London's one million microbusinesses. Instead it provides a snapshot of the fears and hopes of nearly 200 microbusinesses from across London from a range of different sectors. In our survey, we had the most responses from the creative sector, the retail sector and professional services, but we also had responses from microbusinesses such as local garages, beauty salons and a doggy day-care centre.

Of the 166 microbusinesses that responded to the survey, 43 per cent are in the early stages of business, while 57 per cent saw themselves as well established.

Of our microbusinesses 40 per cent are renting property, 38 per cent working from home, with the rest owning a space or renting in a co-working environment.

Of the microbusinesses we spoke to, 29 had a turnover for the tax year ending April 2018 of under £10,000; 42 businesses between £10,000 and £49,999; 29 businesses between £50,000 and £99,999; and 54 businesses had a turnover of above £100,000. The rest preferred not to say.

## Our approach

The Economy Committee held a series of meetings which have helped inform this report. This included:

A public meeting on the 23 May 2018 to establish the challenges faced by microbusinesses in London. Guests included:

- Sue Terpilowski OBE, London Policy Chair, Federation of Small Businesses
- Claire Burke, Guardian Small Business Network Editor
- Lorna Bladen, Head of Campaigns, Enterprise Nation
- Johnny Martin, Managing Partner, The Numbers Coach
- Jemma Ahmed, Director, Global Insights, Etsy

During June and July 2018, the Economy Committee heard from nearly 200 microbusinesses on their challenges via an online survey, written submissions, a roundtable with microbusinesses led by Krissie Nicolson, Director of the East End Trades Guild, and a site visit to members of the East End Trades Guild.

## References

- <sup>1</sup> [The Economy Committee response](#) to the Mayor's draft Economic Development Strategy for London.
- <sup>2</sup> Meeting of the Economy Committee, [23 May 2018](#).
- <sup>3</sup> Meeting of the Economy Committee, [23 May 2018](#).
- <sup>4</sup> Meeting of the Economy Committee, [23 May 2018](#).
- <sup>5</sup> Sue Terpilowski, Meeting of the Economy Committee, [23 May 2018](#).
- <sup>6</sup> Written submission from Etsy.
- <sup>7</sup> Lorna Bladen, Meeting of the Economy Committee, [23 May 2018](#).
- <sup>8</sup> Economy Committee roundtable and site visit, 10 July 2018.
- <sup>9</sup> See for instance EETG and the New Economic Foundation's [Small Business Manifesto](#), also [work by the FSB](#) and written comments from Sohost.
- <sup>10</sup> In our survey, microbusiness owners said that the most useful source for business support and advice was 'other microbusiness owners' (56 per cent of responses).

- <sup>11</sup> Written submission from Camden Town Unlimited and Euston Town.
- <sup>12</sup> Economy Committee roundtable and site visit, 10 July 2018.
- <sup>13</sup> Information provided by Wandsworth Council. More details [here](#).
- <sup>14</sup> Written submission from Etsy. Example of information provided is available [here](#).
- <sup>15</sup> Economy Committee roundtable and site visit, 10 July 2018. Also, written submission from Croydon Council.
- <sup>16</sup> Economy Committee roundtable and site visit, 10 July 2018.
- <sup>17</sup> Written submission from Sohost.
- <sup>18</sup> Economy Committee online survey, June – July 2018.
- <sup>19</sup> Economy Committee roundtable and site visit, 10 July 2018.
- <sup>20</sup> Economy Committee roundtable and site visit, 10 July 2018.
- <sup>21</sup> Meeting of the Economy Committee, [23 May 2018](#).





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