

Recession and cost-of-living crises: A perfect time to start a business?

The COVID-19 pandemic, the fallout of Brexit, supply chain disruptions, spiralling inflation, geopolitical conflicts, rising fuel and energy prices, and a cost-of-living crisis are just some of the contributors to the UK's widely documented economic downturn. Amidst all this external turmoil and uncertainty, the nation officially entered a recession, with the economy contracting since early 2022.

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For many business owners and entrepreneurs, it's easy to view this economic stagnation with pessimism and gloom. It's no secret that businesses are struggling, unemployment rates are rising, and consumers are tightening their belts in an attempt to preserve more of their hard-earned money.

However, despite all of this, ambitious entrepreneurs with a clear vision can see this as more of an opportunity than a risk. Recessions and tough financial times can present golden opportunities to launch a new venture or pursue a new project, which, for some navigating these rocky waters, could be the perfect move.

A snapshot of the UK economy

The Office for National Statistics (ONS) published fresh data on the UK's labour market, GDP, inflation, and economic growth. When assessing the

data retrospectively and objectively, there are several clear insights into the state of the UK economy. The UK unemployment rate (estimated at 4.3% in January-March 2024) increased in the latest quarter, while the employment rate (estimated at 74.5% during the same quarter) decreased below estimates.

UK economic inactivity rates for people aged 16 to 64 increased beyond initial expectations of 22.1%. Annual growth in regular earnings (minus bonuses) was 6% and annual growth in employees' average total earnings (including bonuses) was 5.7%. Meanwhile, the Consumer Price Index (CPIH), including owner-occupier housing costs, rose by 3% in the 12 months to April 2024, down from 3.8% in the 12 months to March. Looking at this monthly, CPIH rose by 0.5% in April 2024 compared to a 1.2% rise a year prior.

Data suggests that the economy has increased in the latest quarter following two consecutive quarters of negative growth and contracting output (the criteria for a 'technical' recession). Monthly real GDP is estimated to have grown by 0.4% in March 2024, following growth of 0.2% in February. This points to quarterly growth of 0.6% in Q1 2024 following declines of 0.3% in Q4 2023 and 0.1% in Q3 2023. Therefore, while GDP estimates and revisions point to some clear progress, it would be naive to suggest that the UK is 'out of the woods'.

A recession may seem like the worst possible time to start a new business but less competition, a thirst for innovation, and smart financial decisions can provide opportunities that don't come around as often during economic prosperity.

Why starting a business during a recession

could work

Starting a new business can be an exciting and stressful endeavour, and with established businesses struggling, it's easy to feel daunted by such a prospect. However, a stagnant market can open the playing field for entrepreneurs to take risks.

If you have a business idea and you're thinking of *forming a company* that generates a return in a recession where everyday prices are high, it pays off to do your research and consult with professionals. Doing so can reap incredible rewards for your ambitious decision-making, including the following.

A surprising number of iconic brands were founded during previous recessions and tough times, including Microsoft, Uber, Airbnb, Venmo, Instagram, and more. Closer to home, UK success stories of businesses born during a recession include (but are not limited to) Poundland, Wilko, JD Sports, and others. If these thriving businesses can start during economic downturns, then who's to suggest your idea won't pay off?

- Lower overhead costs

A major advantage that startups and new businesses have over established enterprises is reduced overhead costs. Businesses often struggle during a recession as their overheads (including suppliers, business office leases, employee salaries, and so on) increase while their profits plateau or dip.

Cutting these costs quickly and decisively is challenging without making substantial sacrifices such as redundancies, but as a startup, you can stay more agile. With fewer costs and overheads to balance, you have the flexibility to operate at a lower overhead, potentially offering better-

priced services or products than your competitors.

- Reduced competition

It's no secret that recessions are harsh on businesses, with many struggling to stay afloat and being forced to scale back their operations or, in the worst case, shut down entirely.

While it's brutal for established businesses to have to deal with this situation, it presents an opportunity for new startups to enter the market when there are fewer enterprises to compete with. This market attrition reduces competition and creates openings for new, agile startups to establish themselves in their sector(s) *and scale* without being immediately overshadowed by proven, industry-leading players.

- Increased marketing opportunities

Marketing and advertising budgets are often the first expenses that many businesses cut back on when a recession hits. This frees up valuable budget to preserve on other critical business overheads. As a startup, with competitors reducing their marketing spend, you have a tremendous opportunity to get your message out there for a cost-effective price.

You can take advantage of this by:

- Exploring cost-effective paid advertising options in spaces vacated by bigger brands scaling back.
- Leveraging digital marketing channels like *social media*, content, email marketing campaigns, and more to promote your brand.
- Implementing in-person marketing strategies by attending expos,

trade shows, networking meetings, and leveraging word-of-mouth referrals cost-effectively.

As such, building brand awareness becomes comparatively easier when the advertising playing field is levelled.

- Availability of funding

Startups often struggle to secure funding but, in a twist of irony, opportunities can open up when the economy is struggling.

While banks and investors are more cautious with their money, certain low-risk business models become more attractive to them. For example, if you provide essential products or services that prove to be recession-proof, investors *may be willing* to fund your venture. If you can display evidence of how these can capitalise on trends triggered by a recession, you can expect investors to be more receptive.

In addition to private funding, governments tend to become more open to grants, loans, and other *financial initiatives* to incentivise entrepreneurship and stimulate economic recovery through small business growth.

- Access to in-demand talent

Unemployment rates often increase when the economy is in recession. Businesses are often forced into widespread layoffs, redundancies, hiring freezes, and downsizing of their teams to save money and ensure their long-term survival. This creates a broad talent pool of skilled professionals actively seeking new opportunities.

New businesses can then potentially hire experienced workers who are a good professional and cultural fit to take their company to the next level. Experienced individuals who lost jobs at larger companies may be willing to accept lower salaries temporarily and thus, you may be best positioned to hire better talent than if you were hiring during an economic boom period.

- Time to plan and prepare

Established businesses often get caught off-guard by a recession, leaving them with limited time to prepare their organisations accordingly. While recessions can be predicted, they often evoke reactionary responses and rushed preparation.

As a new business, you have far more time to plan your business model from the ground up and make it inherently more resilient to economic turbulence. As a guide, you can:

- Conduct thorough market research to assess your product or service demand
- Optimise your pricing model and cash flow for long-term stability
- Secure the right partnerships, investors
- Recruit the right balance of remote, freelance and in-house staff
- Identify gaps in the market left by established firms

Laying this vital groundwork allows you to be in the best possible position to survive a downturn and thrive once the economy begins recovering.

While the UK economy could ultimately stabilise by the end of 2024, the perks of starting a new business while competition is lessened are evident. Even when prices remain relatively high for the average consumer, your presence in a crowded market by offering the right

message and products or services (at an attractive and sustainable price) could be wholeheartedly welcomed.

Maddyness UK offers advice, resources and information to grow your business, with practical sheets and tools for novices, entrepreneurs and experts.

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