



Rakuten  
**FUTURE  
FORUM**



**UNLEASHING  
ENTREPRENEURS ONLINE**

**HOW EASY IS IT TO  
START A **SUCCESSFUL**  
DIGITAL BUSINESS?**

## THE STATUS QUO

One of the fascinating elements of entrepreneurs is that they come in all shapes, sizes, ages and can be from any part of the country. However, one universality is that since the 2008 economic crash, there has been a remarkable rise in their number within the UK. The pace at which this sector is growing shows no signs of abating. Official 2015 Government figures<sup>1</sup> show that the number of private sector businesses in the UK has hit a new record of 5.4 million, with over 900,000 more businesses now than in 2010. StartUp Britain, a government-backed national enterprise campaign echoes these findings, claiming that 581,000 new companies were created<sup>2</sup> last year and more than 600,000 predicted for 2015. London alone has experienced an explosion of entrepreneurship, recording over 20% growth between 2014 and 2015<sup>3</sup> in new firms and companies.

One of the primary areas of this growth is the boom in online businesses. In 2012, the UK was billed as the most internet-based major economy<sup>4</sup> in the world, and the following year, it was found that UK online businesses were growing 50 times faster<sup>5</sup> than the actual economy. With every £1 in £5 now spent online, combined with the improving trends in smartphone<sup>6</sup> and digital device<sup>7</sup> ownership and online access<sup>8</sup>, there has never been a better time for online based business entrepreneurship to flourish and develop.

Rakuten, one of the world's leading Internet services companies, wanted to find out more about this growing phenomenon in the UK. The company commissioned a comprehensive study to discover the key reasons and opportunities behind people's decisions to start digital businesses, but also to shed light on the barriers and challenges facing those budding entrepreneurs looking to follow suit.

### THE STUDY:

**THE STUDY GATHERED RESPONSES FROM 300 ENTREPRENEURS WHO HAVE STARTED THEIR OWN DIGITAL ENTERPRISE. THE RESPONDENTS REPRESENTED A CROSS SECTION OF DIFFERENT SECTORS, FROM CONSTRUCTION AND RETAIL TO COMPUTING AND MEDIA.**

<sup>1</sup>Gov.uk, 14 October 2015. <sup>2</sup>The Telegraph, 23 June 2015. <sup>3</sup>Real Business, 3 August 2015 <sup>4</sup>BBC, 19 March 2012. <sup>5</sup>Information Age, 22 April 2013. <sup>6</sup>ITProPortal, 26 February 2015. <sup>7</sup>Statista, 2014. <sup>8</sup>OfCom Infrastructure Report, 2014.

## RESULTS



45% of respondents feel that negative perceptions around small businesses is the #1 **barrier to finding funding**



Two out of three small businesses are **actively targeting** new markets but technology is holding them back - adapting websites with new languages and payments options are amongst key challenges



"**Digital poverty**" a lack of technological capabilities to **keep up with the changing online environment** was the most common reason for business failure after funding issues



90% feel that the **government should do more** to support digital entrepreneurs



65% of entrepreneurs would **consider crowdsourced** funding for their businesses. **Would you?**

### THE RESULTS:

## BARRIERS TO SUCCESS :

Perhaps most interesting was the fact that a lack of technical capability and knowledge was one of the main reasons given for the failure of digital businesses, with well over a third of respondents citing this as a main reason behind failure. This is surprising, given the natural assumption that a business looking to launch online would have the expertise and knowledge to do so. Looking at wider society, this skills shortage can be attributed to a number of factors: ranging from a lack of focus on digital education and limited awareness about its importance through to insufficient understanding of IT and what it means for the business and the bottom line.

## RESULTS

### COSTLY GAPS IN DIGITAL KNOWLEDGE

The shortage of digital skills, or “digital poverty”, has a major impact on growth as well: two thirds of those entrepreneurs interviewed claimed that they were actively seeking new markets, but again, technology was the main thing holding them back. Adapting websites with new languages and integrating multiple payments options were cited amongst the key challenges in this area.

Careers support and education for young people interested in pursuing any kind of entrepreneurial careers is one answer to this problem. This emphasis on young people is particularly relevant to online businesses: social integration was cited as one of the key elements of digital innovation that was the most helpful to a digital business, with more

than 1 in 3 agreeing. With technology and social media now a key part of most people’s lives, it makes sense for entrepreneurs to fully understand the concepts and be comfortable with them, so that young people can hone that knowledge into a skill that can be used in business.



50% OF RESPONDENTS FEEL THAT A PERCEPTION STILL EXISTS OF DIGITAL BUSINESSES BEING AT LARGER RISK OF FAILURE THAN TRADITIONAL BRICKS AND MORTAR COMPANIES.



### PROBLEMS OF PERCEPTION

The research found that despite the increase in entrepreneurs setting up their own digital businesses, these small businesses and start-ups suffer from a negative perception problem. In fact, this was found to be the second biggest barrier to finding funding, according to the research, just behind the task of connecting with investors.

50% of respondents feel that a perception still exists of digital businesses being at larger risk of failure than traditional bricks and mortar companies. These may be a result of the perceived barriers to success<sup>9</sup> and potential hazards<sup>10</sup>, ultimately, despite the positive

reporting of these enterprises and their growing status, it appears that these have not been matched by an attitude change in the eyes of many potential customers and investors.

<sup>9</sup>The Telegraph, 23 June 2015

<sup>10</sup>Kiplinger's Retirement Report, December 2013

## RESULTS

### THE FINANCIAL DILEMMA

For digital entrepreneurs, a lack of funding and finance are, like in many traditional businesses, still the main reason for these businesses failing: 46% cited a lack of finances as the biggest reason for business failure and 54% claimed that a lack of funding was the biggest challenge they faced when initially starting their business. It was unsurprising, therefore, that 90% of respondents felt that the government should do more to support online entrepreneurs and 65% would consider crowdsourced funding for their businesses, given that nearly 40% said that connecting with investors was the biggest barrier they had faced in finding funding for their company.



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90% feel that the **government should do more** to support digital entrepreneurs



66% of entrepreneurs would **consider crowdsourced** funding for their businesses.



54% claimed that a **lack of funding** was the biggest challenge they faced when initially starting their business.



40% said that **connecting with investors** was the biggest barrier they had faced in finding funding for their company

**“THE ONLINE EXPLOSION MAY HAVE REMOVED MANY OF THE TRADITIONAL BARRIERS TO ENTRY FOR START-UPS, BUT IT’S CLEAR THEY STILL NEED SOLID ADVICE AND THE RIGHT CAPITAL PARTNERS TO GET THEIR IDEAS OFF THE GROUND”**

observed Oskar Miel, Managing Partner of Rakuten FinTech Fund.

## CONCLUSION

Research has shown that digital poverty in its tech sector could cost the UK as much as £2 billion per year<sup>11</sup>. In addition, 49% of small companies<sup>12</sup> are already apparently suffering from gaps between the skills they possess and the skills they need to succeed. It is not farfetched to believe that these issues will have a particular effect on new digital start-ups, so it is imperative that these fledgling enterprises are fully aware of the challenges in their sector and are equipped to deal with them. To put in bluntly, it's all very well making the decision to go solo and launching an online business, but unless you have the necessary digital knowledge, then you are already setting yourself up for failure. Ideas and concepts are not enough, would-be entrepreneurs need a solid grasp of the online world.

Regarding the need for finance and capital, crowdfunding is definitely being seen as a credible alternative to the established banking model. Peer-to-peer lending to small and medium-sized enterprises is one of the key areas in the booming world of fintech and these platforms are receiving huge support from policymakers: not only courtesy of a string of tax breaks, including the forthcoming eligibility of peer-to-peer finance for individual savings account (ISA) investors, but also thanks to direct government finance being made available on

several sites. Access to this new source of capital is one that should be on the mind of every potential new online business.

In summary, the current UK economic climate means that there has never been a better time to be an online entrepreneur, but the same traditional lessons for business success still apply; internal knowledge and skills to succeed in your sector and the need for proper financing and capital to get the business off the ground.

<sup>11</sup> The Guardian, 18 August 2014

<sup>12</sup> Tech Partnership, 1 May 2015

### TOP TIPS

- “Going online” is not enough, make sure you UNDERSTAND online - avoid digital poverty!
- When looking for financing, spread your net wide
- Be prepared to counter perceptions of “online” businesses

# UNLEASHING ENTREPRENEURS ONLINE

## OTHER RESOURCES FOR ENTREPRENEURS STARTING OUT:

**Great Business** - Official advice from the UK Government on providing support, advice and inspiration for growing a business

**National Enterprise Network** - Representing the enterprise support sector in England

**Business Wales** - The Welsh Government's Business Wales service supports new and established businesses in Wales.

**Business Gateway** - Publicly funded service contributing to the economic wellbeing of Scotland by providing access to free business support service

**Small Business UK** - offers free online advice in the form of news articles, guides, tips and features that can point you in the right direction to start and run your own small business.

**Startups.co.uk** - The UK's No.1 service for starting a business

## ABOUT UNLEASHING ENTREPRENEURS ONLINE

Rakuten commissioned research house OnePoll in October 2015 to interview the owners of 300 online businesses asking them about the challenges they had faced when starting up their business and in its first year.

## ABOUT RAKUTEN, INC

Rakuten, Inc. (TOKYO: 4755) is one of the world's leading Internet services companies, offering a wide variety of services for consumers and businesses with a focus on e-commerce, finance, and digital content. Since 2012, Rakuten has been ranked among the world's 'Top 20 Most Innovative Companies' in Forbes magazine's annual list. Rakuten is expanding worldwide and currently operates throughout Asia, Europe, the Americas and Oceania. Founded in 1997, Rakuten is headquartered in Tokyo, with over 12,000 employees worldwide.

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