

KfW Start-up Monitor 2014

Revival in start-up activity – impulse from the sideline

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- **Increase in new entrepreneurs in Germany – boom in sideline, low in full-time entrepreneurs:** in 2013 the number of new entrepreneurs rose by 93,000 to 868,000 (+12 % compared to 2012). This increase is attributable to the significant rise in sideline entrepreneurs (+102,000 to 562,000). The number of full-time entrepreneurs, by contrast, fell to a historical low (-9,000 to 306,000). There are two roots to this development: the tangible improvement in domestic demand and the encouraging labour market situation in 2013. **2014 should see another modest increase in start-up activity, driven again by sideline entrepreneurs.**
- **The gross employment effect of start-up activity has risen – new entrepreneurs are employing more people:** roughly 419,000 full-time equivalent jobs were created by new entrepreneurs in 2013 (+9 % compared to 2012). Of this total, 216,000 jobs were held by the new full-time entrepreneurs themselves, and around 203,000 jobs were created for employees.
- **Berlin alone at the top – three city-states no longer reign conjoined:** between 2011 and 2013 the ranking of federal states in terms of entrepreneurship changed quite considerably compared to the previous period. However, the overall pattern (city-states, western German states, eastern German states) is still discernible, with Berlin leading the way as before.
- **Another increase in new entrepreneurs starting due to specific business idea – entrepreneurs test new ideas in sidelines:** more than half of new entrepreneurs in 2013 implemented their start-up project based on a specific business idea. This is the second marked increase in the ratio of opportunity entrepreneurs in succession (2013: 53 %; 2012: 47 %, 2011: 35 %). Sideline entrepreneurs in particular were full of ideas in 2013.
- **Sideline entrepreneurship as a route into working life – not for seven years has there been so many new entrepreneurs who were previously "inactive":** half of all new entrepreneurs were in paid employment before becoming self-employed. Nonetheless, roughly one in every four entrepreneurs in 2013 was neither working nor jobless – the number of people now "economically active" among the population has risen, especially among sideline entrepreneurs (2013: 35 %; 2012: 27 %).
- **Women catching up – women and men now launch sideline businesses just as frequently:** in 2013 roughly 43 % of newly self-employed people were women. This is the highest ratio ever measured. Women and men are represented equally among sideline entrepreneurs for the second time since 2007. Among full-time entrepreneurs women account for one in every three.
- **More full-time solo entrepreneurs are taking on staff:** solo entrepreneurs, i. e. those without an entrepreneurial partner, are the rule; 77 % of new entrepreneurs launched their business alone in 2013. But full-time solo entrepreneurs are increasingly taking on staff. Until 2007 one in every five full-time entrepreneurs set out alone, but with staff, while in 2013 a total of 27 % of solo full-time entrepreneurs are also employers.
- **Trend towards more innovative new entrepreneurs continues – sideline entrepreneurs move in same direction:** the ratio of new entrepreneurs with novelties on the transregional market has almost tripled since 2009, and in 2013 is higher than ever before at 11 %.
- **New entrepreneurs invest start-up capital of almost EUR 10 billion and make more use of external financing – focus on funding investments:** the funds invested by new entrepreneurs in 2013 come to just under EUR 10 billion. The ratio of external finance rose from 31 % in 2009 to 52 % in 2013. Roughly 90 % of the funds were used for investments rather than for financing working capital.

Brisk start-up activity is crucial for an economy. The activities of new entrepreneurs challenge established providers, and put them under constant pressure to leverage efficiency potential. New entrepreneurs create jobs for themselves and often for others. New entrepreneurs also contribute to the technological renewal of a country and therefore to improving its competitiveness. They develop new ideas and turn technological innovations into marketable products. This is not easy and success is relatively rare – but becomes more likely the more we see innovative entrepreneurs daring to take the first step.

In light of this situation, the very much flagging start-up activity since the turn of the millennium constitutes an obstacle to growth. Following a period of steadily declining new entrepreneur figures, start-up activity stabilised again in 2008, and has since progressed without any discernible trend. Start-up activity bottomed out in 2012, and so the pick-up in 2013 is a pleasing contrast to the previous trend.

A return to more new entrepreneurs in Germany

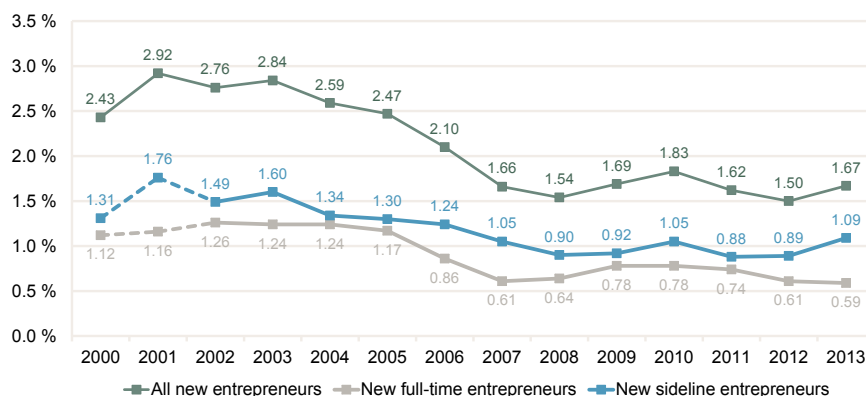
In 2013 a total of 868,000 people became self-employed (see table). This amounts to 93,000 more people than in 2012, with the entrepreneurship rate rising from 1.50% to 1.67% (figure 1). That said, this growth is solely attributable to the rising number of sideline entrepreneurs, while the number of full-time entrepreneurs sank to an all-time low. Consequently, the full-time entrepreneur share among start-ups is also lower than ever before, at 35%.

There are two factors significantly influencing start-up activity at a macroeconomic level:

(1) **The economy.** Economic pick-ups are a "pull factor" for start-up activity. In 2013, real gross domestic product rose by 0.4%.¹ This sluggish growth can be attributed to flagging exports (-0.3%). Domestic demand, by contrast, rose by 0.7%. The pull effect of economic development on start-up activity was thus positive, but low. Start-up activity for sideline entrepreneurs

Figure 1: Entrepreneurship rates in Germany 2000–2013

(share of new entrepreneurs in the population aged 18 to 64 years)



Note: for the years 2000 and 2001 the entrepreneurship rates are based on survey questions that diverge both from one another and from the questions in the following years. Therefore, the rates in these years can be compared only to a limited extent with one another and with the entrepreneurship rates of the following years.

Source: KfW Start-up Monitor

always reacts somewhat more dynamically to the economic pull effect than in the case of full-time entrepreneurs.

(2) **The labour market.** Weak labour market developments act as a "push factor" for start-up activity. However, the labour market situation was positive throughout 2013. The unemployment rate fell by another 0.1 percentage points.² This means the pressure from the labour market on job-seekers to become self-employed, for lack of any alternatives, also eased slightly again. There was consequently no push effect from the labour market on start-up activity – and instead the labour market absorbed potential new entrepreneurs. Start-up activity for full-time entrepreneurs always reacts somewhat more dynamically to labour market pressure than in the case of sideline entrepreneurs.

These overall economic factors resulted in differing developments in start-up activity in 2013 for both full-time and

sideline entrepreneurs: as expected, the pressure to become self-employed full time remained low on account of the consistently good labour market conditions. What is impressive, however, is just how positively the start-up activity by sideline entrepreneurs reacted to domestic demand, which rose sharply despite the sluggish economic developments overall.

Start-up activity expected to continue revival in 2014

The course is set for a continued revival of start-up activity in the current year: according to our forecasts, economic growth will visibly rise in 2014 compared to 2013.³ While there is not likely to be any major change on the labour market, once more we expect a moderate improvement in the unemployment rate. Since the pick-up in economic activity is likely to provide increasing stimulus, this will be crucial and presumably serve to boost start-up activity – again mostly for sideline entrepreneurs.

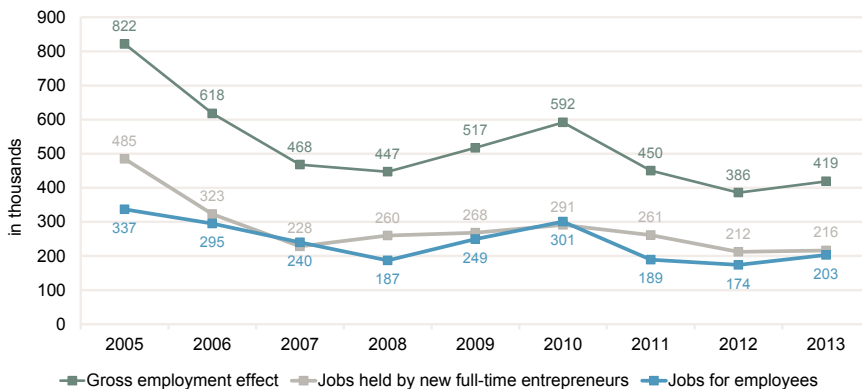
Table: Numbers of new entrepreneurs

New entrepreneurs...	2011	2012	2013
... in total	835,000	775,000	868,000
... in full-time	381,000	315,000	306,000
... in sideline	454,000	460,000	562,000
... are women	348,000	300,000	376,000
... are men	487,000	475,000	492,000
... due to specific business idea	292,000	361,000	462,000
... due to lacking employment alternatives	290,000	236,000	259,000

Source: KfW Start-up Monitor

Figure 2: New entrepreneurs increase employment

(number of people)



Note: Outliers were taken out for calculation of gross employment effect.

Source: KfW Start-up Monitor

New start-up projects more appealing

In 2013 more than three quarters of new entrepreneurs established new businesses, while 6% took on an existing enterprise and 20% acquired a participation in an existing enterprise (figure 3).

The fundamental question here is why only relatively few new entrepreneurs are willing to take on an existing company. Since established companies repeatedly have to cope with the challenges posed by new companies they are frequently more efficient, while the capital accumulated over the years generally makes them more productive than their challengers. This means it would often be simpler and more economically efficient for new entrepreneurs to acquire an existing enterprise and take it forward based on their ideas, as opposed to building up a new one. This scenario also requires fewer economic resources.⁴ However, building something new from scratch may simply be the

main incentive for many new entrepreneurs.

The trend in the share of takeovers by newly self-employed persons suggests that takeovers are rather considered an option for becoming self-employed in times of market uncertainty. For example, between 2001 and 2004 after the new economy bubble burst, or between 2009 and 2012 following the financial crisis. It is also possible that more entrepreneurs are willing to hand their businesses over to successors at these times. As regards rational use of economic resources, it would make sense to have a higher proportion of takeovers. This is why www.next-change.org (only in german available) provides an efficient platform for business owners looking for a buyer and new entrepreneurs to meet.

New entrepreneurs continue to create more jobs

New entrepreneurs create jobs for themselves, but often for others too. However, they generally find it difficult to recruit employees when labour market conditions are good. This is because when jobseekers are spoilt for choice, they frequently opt for established employers, who can often offer greater job security and better salaries.⁵

Yet this does not seem to be much of a problem just now. In 2013 the direct gross employment effect, i.e. the total number of jobs created by new entrepreneurs with new businesses at the time of establishment, amounted to

roughly 419,000 full-time equivalent jobs (Figure 2). Of this total, 216,000 jobs were held by the new full-time entrepreneurs themselves, and 203,000 full-time equivalent jobs were created for employees.¹

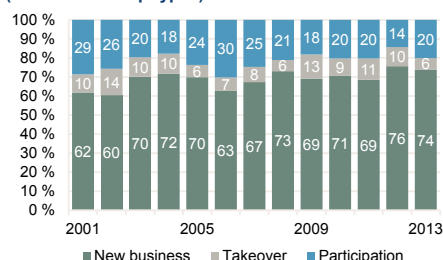
Compared to 2012, the contribution to creating jobs rose by almost 9% (+33,000). At the same time, the number of new entrepreneurs with new businesses remained practically unchanged (figure 3). Thus, despite all the difficulties, the increase is largely due to the significantly higher number of employees (up 29,000) and benefits the labour market almost in its entirety.

While the overall share of new entrepreneurs employing people fell, this was more than compensated for by the number of people hired. New full-time entrepreneurs with new businesses employed 49,000 more people than in the previous year. The significant increase in sideline start-up activity did not contribute to the higher employment effect. The ratio of new ventures fell on the one hand, while on the other they not only employed people more rarely, but also fewer of them (-20,000).

New entrepreneurs offering services made the largest contribution to increasing gross employment because the majority of new entrepreneurs launched their activities in the services sector. In 2013, more than 60% offered personal or economic services (split roughly equally) and 16% provided commercial services (figure 4). If the sectoral structure of start-up activity changes over time, this is mostly due to fluctuations in the ratios of these three sectors.

Figure 3: Takeovers increasingly rare

(ratios of start-up types)



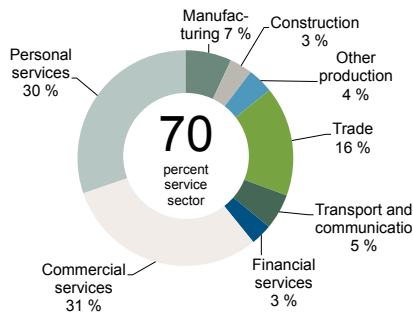
Note: a self-employment start-up can involve starting a new company, taking over an existing company or acquiring a participation in an existing company.

Source: KfW Start-up Monitor

¹ Jobs held by new sideline entrepreneurs were not counted here.

Figure 4: Services dominate

(sector ratios)



Note: The sector classification is based on project descriptions by the new entrepreneurs applied at the Classification of Economic Sectors, Edition 2008 (WZ 2008) of the Federal Statistical Office.

Source: KfW Start-up Monitor

Berlin remains capital of start-ups

On average over the years since 2007, the city-states have led the start-up activity ranking of federal states.⁶ City-states are agglomerations, which means a lot of people and short distances. This is particularly beneficial for services. Since being self-employed is a more common form of employment in services than it is in industry, city-states benefit twice over.

The city-states are followed by western German states, which also benefit from agglomerations in terms of their start-up activity. The agglomeration effects such as short distances between business partners as well as larger sales and procurement markets play a significant role here. In terms of economic structure, however, industrial federal states in

which a greater proportion of people are employed in large enterprises fare worse with respect to start-up activity than others. This is because the opportunity cost of moving into self-employment (i. e. giving up on a well-paid job) is relatively high, and so many opt for the job over self-employment.

The absence of or less-developed agglomerations are one of the main reasons for the weak start-up activity in eastern German states. The lower average purchasing power there means that sideline start-up activity in particular is noticeably weaker than in western federal states in Germany.

During the period observed, however, there were some changes in the ranking of federal states (figure 5). While the start-up activity of the three city-states was by far the highest between 2008 and 2010, the union of this trio was broken in 2011–2013. There were noticeable drops in start-up activity in both Hamburg and in Bremen, even though Hamburg managed to hang on to second place in the ranking. Bremen dropped behind Rhineland-Palatinate and Hesse, two states where start-up was on the rise. The ratio of new full-time entrepreneurs rose in Hesse to the same extent it fell in Bremen. Berlin was the only federal state in the former trio to register an increase in the entrepreneurship rate – driven primarily by sideline entrepreneurs.

Developments in the push and pull

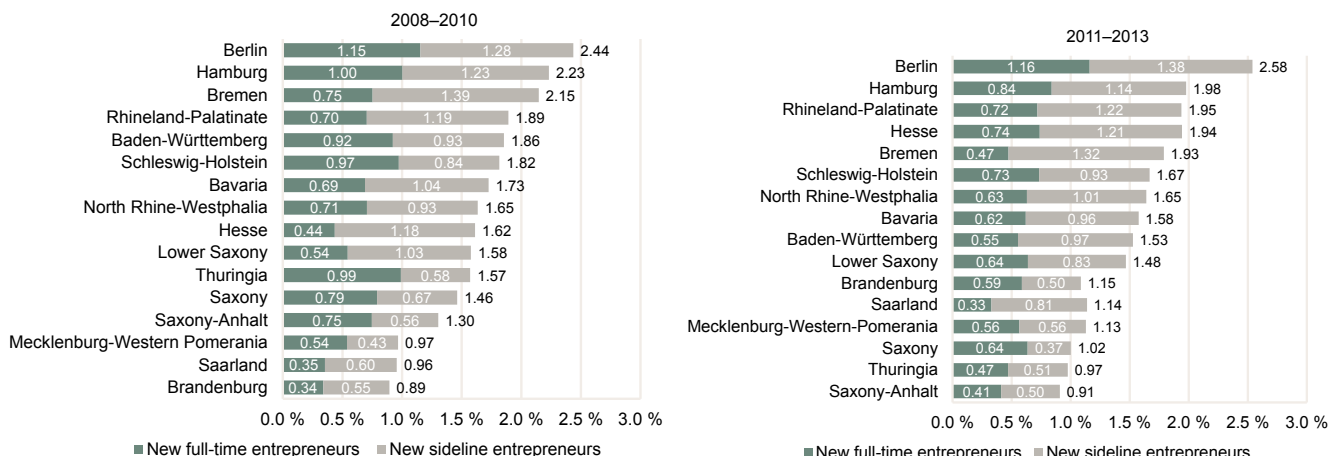
factors in the regions as well as their different impacts on regional start-up activity were instrumental for the changes in the federal state rankings. The federal states likely to have lost ground are those with a high proportion of large enterprises in sectors that benefited from the encouraging economic trends and with labour markets performing better than the average, because these factors weaken start-up activity. On the other hand, an increase in employment is likely to have had a positive impact on regional purchasing power, thereby opening up potential for additional income as sideline entrepreneurs.

Yet more new entrepreneurs starting due to specific business ideas

The share of new entrepreneurs citing the specific implementation of a business idea as the reason for becoming self-employed rose for the second year in succession. In 2013 more than half of new entrepreneurs started for implementing a specific business idea (figure 6, on left). Consequently, the number of new entrepreneurs driven by ideas rose at an above-average rate to 462,000 (see table). The proportion of new entrepreneurs moving into self-employment for lack of other alternatives, however, remained unchanged in 2013 at 30%. Yet the higher volume of start-up activity still pushed their number up to 259,000.

Figure 5: Entrepreneurship rates by federal state – union of city states is broken

(share of entrepreneurs in population aged 18 to 64 years by federal state)



Note: The total entrepreneurship rate is calculated based on the total full-time and sideline entrepreneurship rates. As observation numbers are low in certain states and years we can only present regional start-up activity based on aggregated survey years.

Source: KfW Start-up Monitor

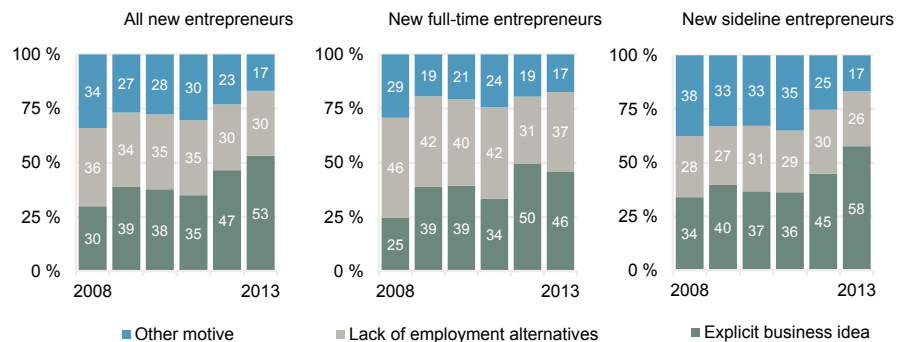
If new entrepreneurs start for implementing a specific business idea it does not have to be unique, let alone promising. That said, it is encouraging that the share of new entrepreneurs starting due to specific business ideas is rising because their contribution to the economy tends to be greater than other founders. They bring novel products and services to the market, or employ people more frequently for example.

Having a specific business idea is increasingly becoming a reason to move into self-employment, particularly for sideline entrepreneurs. This share has risen twice in succession, from 36% in 2011 to its current level of 58%. In the last two years, sideline entrepreneurs have increasingly considered their self-employment as an opportunity to implement a business idea and generate income from it. The share of sideline entrepreneurs who were neither employed nor jobless prior to their self-employment (inactiveⁱⁱ, figure 7, on right) has risen simultaneously. These are often school pupils, students, people previously working as housewives / husbands or pensioners. This development can be seen as the manifestation of a greater inclination among the population to be employed,⁷ coupled with the willingness to try out specific business ideas in self-employed sideline enterprises. Against the background of demographic trends and the expected lack of skilled professionals in future as a result, the increase in the participation rate is a welcome sight at any rate.

The share of those previously economically inactive is roughly twice as high with sideline entrepreneurs as with full-time entrepreneurs. Inactive people thus prefer to move into self-employment as a sideline rather than start a full-time enterprise. This is probably due to the shorter time requirements with sideline start-ups, which therefore offer greater flexibility. New full-time entrepreneurs work on average 48 hours per week, while new sideline entrepreneurs work on average 13 hours per week.⁸

Figure 6: New entrepreneurs having more ideas

(shares of new entrepreneurs based on reason for start-up)



Note: self-classification of respondents

Source: KfW Start-up Monitor

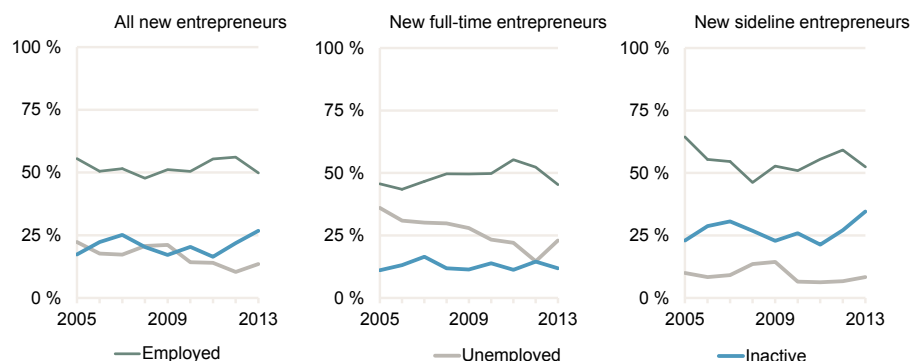
In contrast to sideline entrepreneurs, a significant proportion of full-time entrepreneurs are generally founders who move into self-employment from unemployment. The majority become self-employed because there are no employment alternatives; most of them would favour dependent employment. In the context of rising demand for labour in recent years, the proportion of new entrepreneurs who were previously unemployed was consistently smaller. It fell almost constantly from 36% in 2005 to 22% in 2011 (figure 7, in centre). In 2012 this proportion then fell sharply again to 14%. This can be attributed to the restructuring of the conditions for the self-employment grant of the German Federal Labour Office (BA) as of 28 December 2011.⁹ Changing this start-up grant for the unemployed from a partially statutory benefit into a completely discretionary benefit meant that the Federal Labour Office awarded

the self-employment grant to 85% fewer unemployed people in 2012 than in the previous year. In 2013 the proportion of full-time entrepreneurs who were formerly jobless jumped to 23%, and therefore back to its previous level again. There were three main reasons for this:

- The Federal Labour Office widened its scope of discretion again somewhat, as a result of which the number of self-employment grants awarded in 2013 increased by 36%.
- The participation rate of the population rose, triggering a sharp increase in labour force potential.¹⁰ As previously mentioned, some of these people previously not active on the labour market became self-employed, while others likely registered as unemployed first and only then switched into self-employment, which in certain cases was possibly to at least have a

Figure 7: Majority of new entrepreneurs in paid employment before self-employment

(share of new entrepreneurs according to labour market status before start-up)



Note: People who are neither employed nor unemployed are mostly inactiveⁱⁱ, and were therefore not available for the labour market prior to the self-employment. Self-classification of respondents

Source: KfW Start-up Monitor

ⁱⁱ Inactive people are defined as "neither employed nor unemployed". There are two different definitions for being unemployed, however,, they lead to groups of roughly similar size.

chance of a self-employment grant.ⁱⁱⁱ

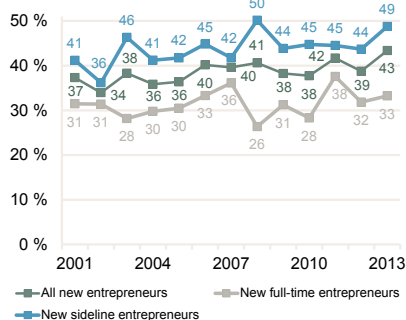
- The shock triggered by the changed conditions will likely have eased in the meantime with many unemployed people wanting to become self-employed. They will have adapted their start-up plans to the new circumstances and ventured into self-employment even without the self-employment grant.

Women more strongly represented than ever before

In 2013 some 43% of all start-up projects were launched by women (figure 8). This is a new record achieved primarily thanks to self-employed sideline start-ups, where women and men are now equally represented (49 vs. 51% compared to 44 vs. 56% in 2012). In terms of new full-time entrepreneurs, however, only one in every three start-up projects is implemented by a woman. Women have been under-represented among new full-time entrepreneurs compared to sideline entrepreneurs for many years. This is probably connected

Figure 8: Female participation rising

(share of new self-employed start-ups launched by women)

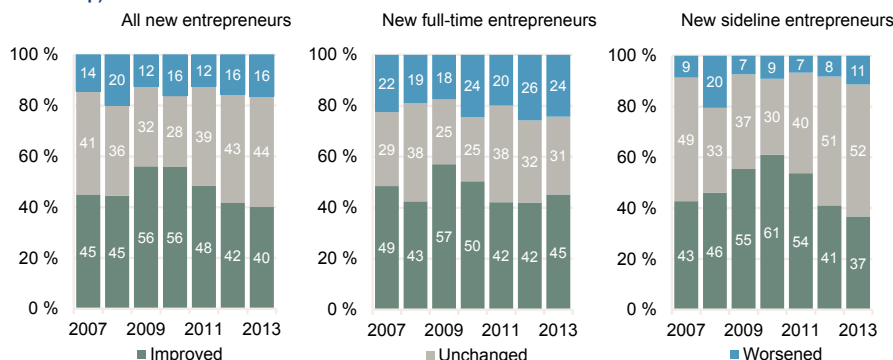


Source: KfW Start-up Monitor

ⁱⁱⁱ The chances of a self-employment grant in this context, however, were probably low. Partly because people registered as unemployed are subject to the "employability-takes-precedence" criterion – i. e. unemployed people who are employable on the labour market should not receive a grant – and partly because they have to adhere to certain deadlines. They must still have a residual unemployment benefit entitlement period of at least 150 days and in the two years prior to registering as unemployed they must have been employed and subject to social security contributions for at least twelve months (eligibility period). Since the length of the entitlement to unemployment benefit depends on how long the person was employed and paying social security contributions in the previous five years, the 150-day limit can be crossed rather quickly. Consequently, the maximum entitlement period to unemployment benefit following twelve months of employment paying social security contributions is six months.

Figure 9: New start-ups generally pay off – one risk remains

(Share of new entrepreneurs with improved, unchanged or worsened net household income compared to before start-up)



Note: Only founders whose start-up project was still running at the time of the survey were included. When classifying the founders into full-time and sideline entrepreneurs the date of the survey applies, not the date of the start-up launch.

Source: KfW Start-up Monitor

to achieving a work-life balance – a conflict of interests that still affects women more than men.

That said, in recent years there has been a growing trend of women getting involved in both new full-time and sideline start-ups. There are possibly two trends taking shape here. Firstly, the participation rate of women has risen much more strongly than that of men. This means their proportion among all the people available to the labour market has grown too. Secondly, the share of women to have followed through with their desire to work has also risen – be it in the form of dependent or self-employment.^{iv}

New full-time entrepreneurs face greater income risk

After moving into self-employment, a large proportion of new entrepreneurs have the same or higher net disposable income in their household than before the start-up (84%, figure 9).^v So in

recent years, only about one in every six new entrepreneurs had to make do with a lower net household income.

There tend to be more new full-time entrepreneurs with lower incomes than is the case for new sideline entrepreneurs (2013: 24 vs. 11%). This is because self-employed sideline start-ups are often used as a means of earning additional income, without anything changing in the ongoing earnings situation of the household. By contrast, full-time entrepreneurs more frequently give their previous source of income up, and first of all they need to be able to compensate for this lost income.

What is striking is that in 2009, 2010 and 2011 the share of new entrepreneurs that had a higher household income after becoming self-employed was disproportionately high – especially for sideline entrepreneurs. But this phenomenon is evident most clearly in households with more than two adults. Consequently, it is likely that people other than the sideline entrepreneur played a crucial role in the higher household income during this period.

^{iv} Between 2001 and 2012 the labour force participation rate (share of working force, i. e. sum of those employed and inactive, aged between 15 and 64, relative to the population of the same age) rose from 64.9 to 71.6% for women, and from 80.1 to 82.2% for men. Over the same period, the employment rate (share of those employed in labour force) increased from 58.8 to 67.6% for women, and from 72.7 to 77.1% for men. Source: Federal Labour Office (2013), Labour market reporting: Labour market in Germany, men and women on the labour market in 2012, Nuremberg 2013.

^v This analysis is based on the following question: "If you compare your current total net household income, i.e. including all members of the household, with the income you had before moving into self-employment: has your financial situation improved, worsened or remained the same?"

Increasing number of new solo full-time entrepreneurs start with staff

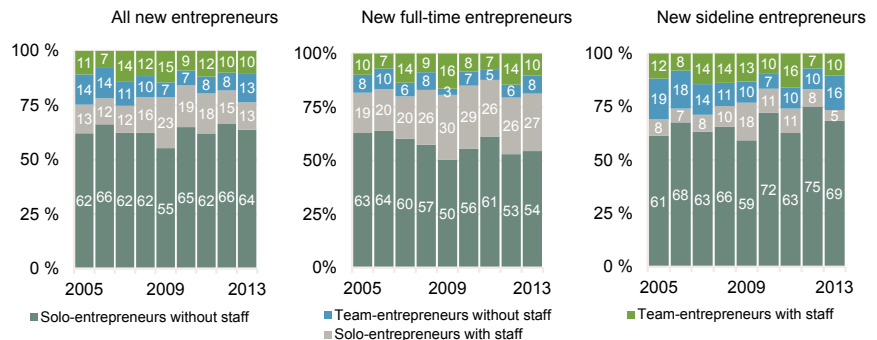
Start-up activity is dominated by solo entrepreneurs. By far the largest portion of self-employed start-up entrepreneurs have no partner to support them (2013: 77%) nor any staff (64%). This is not a new trend, but a fairly stable pattern for start-ups: since the KfW Start-up Monitor surveys this information, these proportions have fluctuated only slightly (figure 10).

The share of solo entrepreneurs is generally somewhat higher for full-time start-ups than for sideline businesses (2013: 81 vs. 74%). This is remarkable because teams of entrepreneurs are more likely with larger start-ups and therefore among full-time entrepreneurs. The greatest strength with team start-ups is the greater resource potential – both in terms of capital but also with respect to manpower. The workload and the responsibility can thus be spread around in a team of entrepreneurs. This is probably the reason why new sideline entrepreneurs rely more frequently on a partner.

Measured based on solo founders without staff, the ratio is higher among sideline entrepreneurs (2013: 69 vs. 54% for full-time entrepreneurs). This shows that self-employment for new sideline entrepreneurs is often about earning some additional income for themselves, and not about building up a company. In 2013, some 81% of new sideline entrepreneurs were small

Figure 10: Most new entrepreneurs start alone

(share of new entrepreneurs starting alone or as part of a team)



Source: KfW Start-up Monitor

businesses within the meaning of the VAT Act (2012: 72%).^{vi} However, the range of revenues is fairly broad. The average monthly revenue of new sideline entrepreneurs amounts to approximately EUR 3,000 (2012: EUR 2,000). Full-time entrepreneurs transact roughly EUR 14,500 per month (2012: EUR 12,400). For the latter category, three quarters of them exceed the revenue threshold for small businesses (2012: 71%).

What is pleasing is that the proportion of new full-time entrepreneurs starting alone, and who also employ staff, has risen noticeably since 2007. Thus, an increasing number of full-time solo entrepreneurs are also employers, which enhances their economic importance because they focus not only on their own livelihood but also on the livelihoods of others.

Trend towards new offerings still intact

A steadily increasing proportion of self-employed start-ups are launched by founders who have the declared intention of putting new products and services onto the market that previously were not offered in Germany or even around the world. Since hitting rock bottom in 2009, this figure almost tripled from 4 to 11% in 2013 (figure 11). In spite of this trend, new entrepreneurs with market novelties are still rather rare. It is not clear in this context whether it is

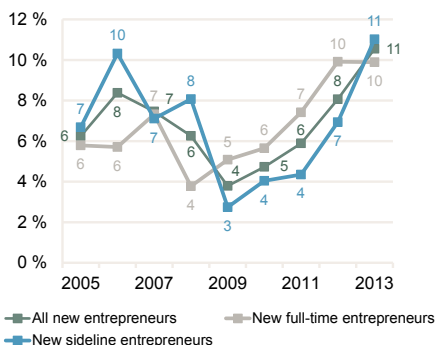
more the full-time or the sideline entrepreneurs that offer new products and services. Until 2008 the corresponding proportion of new sideline entrepreneurs was higher, but then the situation changed and full-time entrepreneurs launched new offerings onto the market more frequently.

Many of the market novelties offered by new entrepreneurs are only partially innovations that trigger a "creative destruction" a la Schumpeter and enhance the international competitiveness of the Germany economy. Examples in this context are innovative business concepts and retail offerings. One prime example recently is "Bubble Tea". A few years ago, Bubble Tea was a novel product across Germany, offered in new, independent shops on the German market. However, this makes a limited contribution to technological progress.

What is more, it is unclear to what extent the new entrepreneurs actually have a comprehensive overview of the market and correctly classify their product as "new". Only pioneering entrepreneurs who really are the first to offer a product or service should be able to credit themselves with a market novelty. But since there is often no market overview, new offerings may be counted multiple.

Figure 11: More entrepreneurs starting with new offerings

(share of new entrepreneurs with market novelties for Germany or the world)



Note: Transregional market novelties are products and services that are new in either Germany or throughout the world. Self-classification of respondents.

Source: KfW Start-up Monitor

^{vi} In accordance with Section 19 of the German VAT Act, businesses with low revenues (less than EUR 17,500 p. a.) can forego the disclosure and payment of value added tax, but are then not permitted to deduct any input tax from invoices issued by other companies.

In spite of these limitations, the trend in the share of new entrepreneurs with market novelties is a benchmark for the level of innovation in start-up activity, because the measurement method remains the same over time. Against this background, it is very pleasing to see innovative new entrepreneurs becoming more significant within start-up activity.

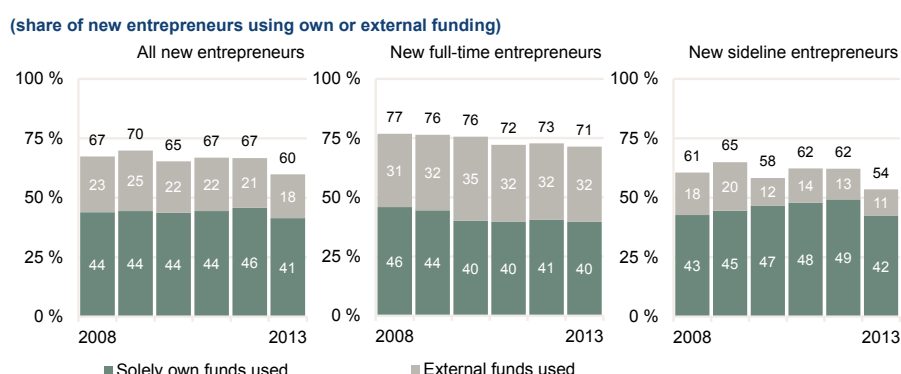
New entrepreneurs use external financing somewhat less frequently

Most new entrepreneurs require resources to implement their start-up project. They contribute equipment or use financing for investments or to pay for running costs that cannot be covered with revenues. Only one in every ten new entrepreneurs is able to get by without such input.

In previous years, the share of new entrepreneurs using financing to launch their start-up project was relatively stable at two thirds (figure 12). Of these entrepreneurs, roughly two-thirds relied solely on their own funds – i. e. around one in every five new entrepreneurs. In 2013 the share of new entrepreneurs deploying financial resources stood at 60%, and therefore slightly below the normal rate.

The situation is different with full-time entrepreneurs: more than 70% of new entrepreneurs use financing, whereby three out of these seven also rely on external funding. So money, especially from external sources, is more important here. For sideline entrepreneurs, the share of those using financing has

Figure 12: Two-thirds of all new entrepreneurs use financing – and two-thirds of this number only use their own funds



Note: differences due to rounding.

Source: KfW Start-up Monitor

fluctuated around 60% in recent years (2013: 54%). In this context, roughly one in every three sideline entrepreneurs used external financing until 2009, but thereafter only one in every five.

Start-ups have never been so well funded

The financing used by new entrepreneurs in 2013 came to just under EUR 10 billion (figure 13). This breaks down to EUR 11,200 for each entrepreneur on average (2012: EUR 10,900). With a sum of EUR 22,500 (2012: EUR 16,700), new full-time entrepreneurs had roughly twice as much, while new sideline entrepreneurs had less than half at EUR 4,900 (2012: EUR 6,900). The overall volume of investment has risen constantly in the last three years. The highest figure to date was observed in 2010, shortly after the lowest financing amount was registered in 2009 at EUR 6 billion.

share pertaining to full-time entrepreneurs in the total volume has risen steadily in recent years. It increased from just under 50% (EUR 3.1 billion) in 2008 to more than 70% (EUR 7 billion) in 2013. The greater portion of financing pertaining to new full-time entrepreneurs is likely attributable to the altered structure of full-time entrepreneurs. Fewer entrepreneurs who were previously unemployed, more entrepreneurs with specific business ideas, more (solo) entrepreneurs with staff and more innovative entrepreneurs - these are all factors that go hand in hand with a higher demand for financing. Given the right demand, the low interest rates in recent years should provide an additional incentive for increasing the use of external capital. However, this entails the risk of interest-rate changes if the terms of the different funding do not match.

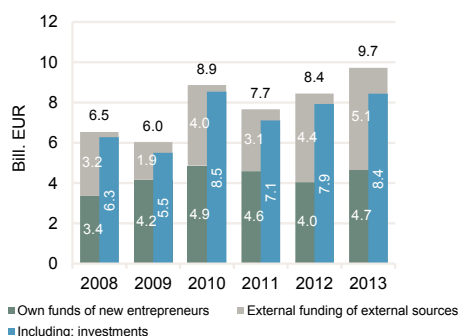
Start-up entrepreneurs use the majority of financing for investments. The investment rate is normally well over 90%. In 2013 it fell below this level for the first time to 87%. New entrepreneurs used EUR 8.4 billion of the EUR 9.7 billion financing for investments as part of their start-up projects.

Fewer entrepreneurs with financing difficulties

The vast majority of new entrepreneurs (2013: 83%) had no financing difficulties in implementing their start-up project. These are partly the entrepreneurs that required no financing for their start-up project, and partly those who were able

Figure 13: New entrepreneurs invest almost EUR 10 billion

(Capital invested by new entrepreneurs in given years)



Note: differences due to rounding.

Source: KfW Start-up Monitor

to finance the project smoothly with their own or external funds.

Only 17% of new entrepreneurs reported financing difficulties in 2013 (figure 14). This means it was clearly somewhat easier for new entrepreneurs to obtain financing, after the share of new entrepreneurs with financing difficulties doubled between 2009 (10%) to 2012 (20%).

Obtaining financing is a challenge for new entrepreneurs. Lenders such as banks and savings banks must first be convinced to fund a start-up project. However, new entrepreneurs often find it difficult to provide sufficient information about their start-up project – especially

when they want to start with innovative business models or products. What is more, new entrepreneurs are generally in need of a relatively small loan. In light of the fixed costs (for loan approvals and administration for example), the cost/income ratio of banks for such a loan is rather poor. Both factors – the normally weak supply of information and the poor cost/income ratio – push the interest rate up and make it harder for new entrepreneurs to gain access to capital. This means even promising start-up projects can be left by the wayside.

How should we interpret this development in the share of new entrepreneurs with financing difficulties? The financial crisis caused major distortions on the banking market that pulled the reins in on lending in 2009. This situation eased gradually only in the following years. Such a scenario would theoretically forecast a high share of new entrepreneurs with financing difficulties in 2009, before the figure subsequently falls – i. e. exactly the opposite of what happened.

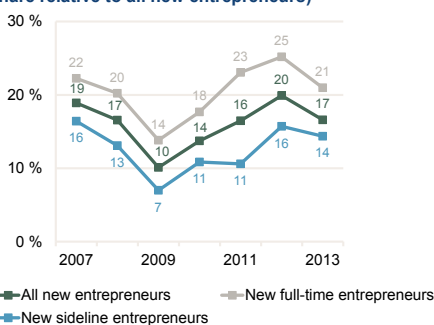
The change in the financing behaviour of new entrepreneurs explains the actual development. We can assume that new entrepreneurs adapted to the overall economic circumstances in 2009 and deliberately launched smaller projects

– after all, there was a significant slump in economic activity. While the new entrepreneurs still needed the help of external financiers for their smaller projects just as frequently as before, the amounts required were lower. As economic optimism returned, the volumes also increased again – with a concomitant impact on the effort required from new entrepreneurs to convince investors of their projects. This greater need for persuasion is most probably reflected in the financing difficulties of the new entrepreneurs. Financing difficulties do not ultimately mean that external financing efforts have failed. Financing problems arise much more frequently for new entrepreneurs who use external funding than for entrepreneurs who require no capital or use only their own funds.

Nonetheless, the KfW Group and the promotional institutions of the federal state banks and savings banks offer financing solutions to tackle the difficulties encountered by new entrepreneurs with external financing. This means banks can shift a considerable part of their risk when lending to new entrepreneurs, which is of particular benefit to innovative start-up projects where the credit risk is hard to assess. ■

Figure 14: New entrepreneurs have fewer financing difficulties

(share relative to all new entrepreneurs)



Note: self-classification of respondents.

Source: KfW Start-up Monitor

Quick note on the Start-up Monitor

The KfW Start-up Monitor survey has been conducted since 2000. This survey on self-employed start-ups in Germany collects information on new entrepreneurs and their start-up projects as well as on a control group of non-entrepreneurs. New entrepreneurs are defined as people who have entered commercial or freelance self-employment within the last 12 months before the time of the survey, regardless of whether full-time or as a sideline. A self-employed start-up can involve starting a new company, taking over an existing company or acquiring a participation in an existing company.

The present publication "Revival in start-up activity – boosted by new sideline entrepreneurs" on the KfW Start-up Monitor 2014 presents some of the results in more detail. The accompanying publication of tables and methodology provides further information on the structure of start-up activity that was taken from the most recent survey and the two prior surveys.

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⁶ Metzger, G. and K. Ullrich (2013): KfW Start-up Monitor 2013, Start-up activity hits rock bottom – no revival in sight, KfW Group, Frankfurt.

⁷ Federal Employment Agency (2014), Der Arbeits- und Ausbildungsmarkt in Deutschland – Monatsbericht, Dezember und Jahr 2013, Nuremberg 2014.

⁸ Metzger, G. and K. Ullrich (2013): KfW Start-up Monitor 2013, Start-up activity hits rock bottom – no revival in sight, KfW Group, Frankfurt.

⁹ Metzger, G. and K. Ullrich (2013): KfW Start-up Monitor 2013, Start-up activity hits rock bottom – no revival in sight, KfW Group, Frankfurt.

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