

## Startups Are Finding the Sweet Spot in a Downturn

It's counter-intuitive for people to start new businesses in an economic downturn, but startups are prying open new market opportunities that coronavirus pandemic lockdowns have created. New business applications, which is the Census Bureau's tracker for startups, grew 38% in the week ending Oct. 24, compared with the same week a year ago. The increase is in line with an upward trend seen since late May. In fact, Census data shows a new high for that week since 2007. New business formations rose highest in Louisiana, which was up 77% over the same week last year, followed by Georgia, Nevada and Florida.

It is not immediately clear if those numbers are triggered by the government's economic stimulus programs contained in the \$2.2 trillion CARES Act of March, which built on measures by the Federal Reserve and two bills covering health care and paid leave. Notable among its features is the Paycheck Protection Program, or PPP, which gives out loans to help small businesses continue paying wages. The size of the program has grown from its original \$320 billion to \$670 billion, and efforts are underway to convert the loans into grants.

Even so, the startup boom is unexpected, if you ask Wharton management professor Ethan Mollick.

"A lot of the stimulus was aimed at supporting existing businesses rather than encouraging new startup growth," Mollick said in a recent interview on the Wharton Business Daily radio show that airs on SiriusXM (Listen to the full podcast here). "So, I would have thought that might have pushed in the other direction." The startups or new businesses include both high-growth businesses that are funded by venture capitalists, sole proprietorships and mom-and-pop establishments.

### The Boom, Explained

The drivers of those new business formations are mixed. "In a normal recession, we see that business starts to drop," but it's different with the pandemic-induced lockdowns, Mollick said. Most people have been confined to their homes for long periods, and many would have thought of starting a side business, he noted. "People might have been moonlighting because of the disruption of the regular work, and maybe they're ready to launch something. It's also possible that people are being forced to start new businesses as their work shut down."

For some others, the present times may be just right to act on a business idea they've had or unleash some latent creativity that hasn't found a vent as yet. Those possibilities match some research by Mollick and his colleagues where they looked at the effect of winter breaks on launching new crowdfunding startups. "We find that during college breaks, the number of startups launched goes way up because college students have idle time to launch companies," he said. "What's surprised us the most is that the boom has been so quick."

### Rising from the Dumps

The current rush of new business formations is also running counter to the trend of low or negative growth rates over the past dozen years or so. For instance, new business applications fell 24% in 2008, 4% in 2011 and 6% in 2014, and grew just under 1% last year, Census data showed. One explanation for that is that large companies have been accounting for an increasingly larger share of the economy, said Mollick.

The long-term entrepreneurial ecosystem in the U.S. has been declining in recent years, Mollick noted. "Small businesses are responsible for most job growth in the U.S. and for huge amounts of innovation — and they were stagnating. This definitely shook things up. We just don't know in what way at this stage."

Some windows opened for small enterprises as the pandemic disrupted the businesses of large companies. "As we disrupt large companies, that creates opportunities for startups to move in nimbly and to take and create new markets," he added. One example of that is startups springing up to offer remote work solutions. "So, there's a chance for real disruption that might result in real innovation and a more dynamic underlying economy."

### Will They Succeed?

It may be boom time for startups, but how many will succeed? Mollick offered a data point: "Once a startup is underway, it's survival rate is close to 50% in five years, but much higher if you consider the earlier stages of a company as well. [However], if the economy drops, startup failure rates will increase." On the plus side, "startups can thrive on uncertainty because they can change direction and learn from the market more quickly," he added.

Some historical trends are not helpful. "Typically, if you launch a company during a recession, your company does worse in the long term," Mollick said. "There are exceptions to the rule, like Google, but most companies launched during a recession do worse than companies launched during good times. So, are these companies marked from birth by coronavirus?"

How sustainable the small-business boom can be will depend on government policies in dealing with a second or third wave of the pandemic and the resulting economic fallout, said Mollick. While uncertainty over all that looms large, "the good news is that the damage to the entrepreneurial ecosystem is much less than we thought, and it actually seems to be providing opportunities."

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*Article continues at link below*

Region	October 2019	September 2020	October 2020	Percentage Point Change	
				1 month	12 months
San José–Sunnyvale MSA	2.4%	7.0%	6.0%	- 1.0	+ 3.6
San Francisco MD	2.0%	7.7%	6.5%	- 1.2	+ 4.5
California	3.7%	10.7%	9.0%	- 1.7	+ 5.3
United States	3.3%	7.7%	6.6%	- 1.1	+ 3.3

Sector — October 2020	San Jose MSA	San Francisco MD	Combined Region	Percentage Change (Combined Region)	
				1 month	12 months
<b>Total Nonfarm</b>	<b>1,153,900</b>	<b>1,193,500</b>	<b>2,347,400</b>	<b>+ 1.7%</b>	<b>- 7.7%</b>
Construction	53,200	44,100	97,300	+ 1.6%	- 2.7%
Manufacturing	172,600	39,200	211,800	+ 0.6%	- 5.2%
Retail Trade	82,700	77,000	159,700	+ 2.1%	- 5.6%
Information	103,900	100,100	204,000	- 0.4%	- 10.7%
Professional & Business Services	243,900	297,700	541,600	+ 1.3%	- 1.4%
Educational Services	46,800	33,100	79,900	+ 3.3%	- 8.8%
Health Care & Social Assistance	129,300	115,500	244,800	+ 0.6%	- 2.8%
Leisure & Hospitality	106,700	149,600	256,300	+ 7.5%	- 29.4%
Government	98,700	132,200	230,900	+ 1.7%	- 6.6%

Note: San José MSA (San José–Sunnyvale–Santa Clara Metropolitan Statistical Area) = Santa Clara and San Benito Counties  
 San Francisco MD (San Francisco–Redwood City–South San Francisco Metropolitan Division) = San Mateo and San Francisco Counties

Source: California Employment Development Department, LMID

Jurisdiction	Labor Force			Unemployment			Unemployment Rate		
	October 2019	October 2020	Change	October 2019	October 2020	Change	October 2019	October 2020	Change
• San Mateo County	465,300	454,700	- 2.3%	8,900	27,100	+ 204.5%	1.9%	6.0%	+ 4.1
• Santa Clara County	1,059,100	1,064,600	+ 0.5%	25,000	62,900	+ 151.6%	2.4%	5.9%	+ 3.5
Cupertino	30,000	29,600	- 1.3%	700	1,200	+ 71.4%	2.4%	4.2%	+ 1.8
Los Altos	14,900	14,700	- 1.3%	400	500	+ 25.0%	2.4%	3.7%	+ 1.3
Milpitas	43,400	43,900	- 1.2%	1,100	2,900	+ 163.6%	2.6%	6.6%	+ 4.0
Mountain View	53,200	52,500	- 1.3%	900	1,800	+ 100.0%	1.7%	3.4%	+ 1.7
Palo Alto	36,000	35,500	- 1.4%	700	1,200	+ 71.4%	1.9%	3.5%	+ 1.6
Santa Clara	72,300	72,200	- 0.1%	1,600	3,700	+ 131.3%	2.2%	5.2%	+ 3.0
Sunnyvale	885,00	88,200	- 0.3%	1,700	4,200	+ 147.1%	1.9%	4.7%	+ 2.8
<b>NOVA Region</b>	<b>803,600</b>	<b>791,300</b>	<b>- 1.5%</b>	<b>16,000</b>	<b>42,600</b>	<b>+ 166.3%</b>	<b>2.0%</b>	<b>5.4%</b>	<b>+ 3.4</b>

Note: NOVA Region consists of seven cities in Northern Santa Clara County and the entirety of San Mateo County

Source: California Employment Development Department, LMID

July 2020 Layoff Events			WARN SUMMARY	
Company	Location	# Affected	Events YTD <sup>†</sup> :	106
Alaska Airlines	Burlingame	4	Individuals Affected YTD:	6,090
Corium	Menlo Park	19	Individuals Previous YTD <sup>‡</sup> :	3,139
Flying Food Group	South San Francisco	145		
HMSHost	South San Francisco	164		
Marriott International	Santa Clara	98		
Marvell Semiconductor	Santa Clara	52		
Norton LifeLock	Mountain View	12		
Service King Paint & Body	Multiple locations	34		
Sky Chefs	Burlingame	248		
VMware	Palo Alto	148		
<b>Total</b>		<b>924</b>		

WARN SUMMARY

Events YTD<sup>†</sup>: 106  
 Individuals Affected YTD: 6,090  
 Individuals Previous YTD<sup>‡</sup>: 3,139

\* **WARN: Worker Adjustment and Retraining Notification** (notice of mass layoff or closure)  
<sup>†</sup> **YTD: Year to Date** (Program year: July 1–Present)  
<sup>‡</sup> **Previous YTD:** (Same date range as YTD, one year prior)

Note: Layoff data are preliminary and should be considered an estimate of monthly regional activity

Source: California EDD, CalJOBS: WARN Database