



Below the radar

Unlocking the "nano" potential in
the UK's Creative Industries

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Introduction

In this document, Creative United sets out the economic case for recognising “nano” enterprises as a separate category of business, as well as the need for increased investment in sector-specific business support for the many thousands of creative enterprises which fall within this dominant segment of the UK’s creative industries.

Nano businesses are the coral reef of our creative ecosystem. Their survival is fragile, but with the right conditions they will flourish and grow.

While some enterprises may evolve into much larger entities, the vast majority of those that make up this uniquely varied and essential layer of the creative economy will remain closer to the seabed.

This provides the micro-structures and climate within which they are most likely to thrive.

While we welcome the investment and targeted interventions set out in the government’s Creative Industries Sector Plan, we are concerned that the continued emphasis on “high-growth potential” is overshadowing the importance of supporting the livelihoods of freelance creatives and those trading as nano enterprises.

This is something we believe should be addressed as a matter of urgency. Both through investment in sector-specific support and a reduction in regulatory burdens faced by the smallest entities, rather than super-charging opportunities only for those that have the appetite and capacity to scale.

We hope that this paper will provide food for thought for policy makers, funders and investors by looking again at the make-up of the UK's creative sector, as well as for the creative community itself and in how it is both perceived and represented at a governmental level.

Our objective is to find new ways of defining and expressing the economic value and growth potential of creative nano enterprises and, through this, an understanding of the economic climate and conditions within which they

have the greatest opportunity to flourish and grow as a vital part of our creative ecosystem.

If you have any thoughts or comments on the themes addressed in this document, please get in touch. We are open to discussion and would love to hear from you.



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Below the radar: unlocking the "nano" potential in the UK's creative industries

by **Susie Warran-Smith CBE DL**

Executive Summary

In June 2025, the government published its Sector Plan for the Creative Industries, providing a long overdue and very welcome focus on the economic value and significant growth potential that exists within our sector.

The plan identifies a number of priority areas including tech-led research and innovation, support for start-up and scale-up businesses, and a creative careers development service.

While these are undoubtedly important areas to focus on, what the plan fails to recognise is the business support needs and untapped potential of the significant community of micro enterprises which dominate our sector.

This paper sets out the key characteristics, vulnerabilities and growth opportunities of nano enterprises, and the economic argument for supporting this particular category of business, alongside the large and diverse community of creative freelancers and sole traders that underpin the UK's creative economy.

Our business case includes:

- New UK evidence on what Creative United terms "nano" employers. That is businesses with 1 to 4 employees on PAYE, turnover between the VAT threshold and £500,000, and balance sheets under £250,000. Around 272,000 exist, including an estimated 33,000 to 40,000 creative nanos.

- Programme data on barriers faced by 1 to 10 employee creative firms (“micro”) that participated in Re:Create (2021 to 2025), a business support programme designed and delivered by Creative United in partnership with three London Borough councils.
- International evidence from Canada, the United States, New Zealand and Japan, which all treat very small employers as a distinct category in statistics and/or policy.

The evidence leads to four key observations:

 Nano employers are not a niche; they are a **dominant class of employer firm** in advanced economies.

 Nano firms are structurally precarious. Longitudinal research shows UK firms with fewer than five employees face a persistent **1-in-10 annual risk of closure**, regardless of age.



The survivability of very small firms changes sharply at five employees.

Those that cross the “5-job line”, statistically, reduce their risk of business failure by half, enabling longer term and sustainable careers for those that work within them, maximising their contribution to the UK creative economy.



Targeted support to move UK nanos over the 5-job line has a quantifiable upside.

If 10 percent of the UK’s 272,000 nanos crossed the 5-job line within three years, the evidence suggests 70,000 to 80,000 new jobs, c.13,000 jobs preserved, £2.2 billion to £2.9 billion in extra payroll, and £660 million to £1 billion per year in additional Income Tax and National Insurance receipts. **Close to 15 percent of this growth could be driven by creative enterprises.**

We welcome the government’s commitment to investing in the Creative sector as one of eight priority growth areas within its Industrial Strategy. However, without a clear policy framework and targeted investment plan that focuses on strengthening the survival rates and growth potential of nano enterprises, the UK will continue to lose fragile small creative firms, jobs, and tax revenue.

This is not only a missed opportunity but also risks undermining the health of the creative ecosystem as a whole.

1. Evidence base and methods

1.1 Firm-level evidence: UK nano businesses

Creative United’s UK nano analysis draws on:

- HMRC VAT and PAYE data (2023/24) and ONS/DBEIS size-band distributions to estimate the number of firms.

- Creative industries business counts.
- The 1998 firm birth cohort study by Anyadike-Danes and Hart, tracking 239,000 firms over 15 years.
- Analysis of 131 Creative United Re:Create programme applications (2021–2025) for businesses with 1 to 10 employees, using AI text clustering to extract common barriers and trends over time.

1.2 International comparators

International figures are drawn from summaries of:

- Innovation, Science and Economic Development Canada – Key Small Business Statistics 2024;
- Statistics Canada – Business Conditions Survey (March 2023);
- US Census Bureau – County Business Patterns 2022;

- SEAAZ and Statistics New Zealand;
- Meiji University and the Statistics Bureau of Japan.

These identify and provide scale and fragility indicators for very small employers (1 to 4 or 1 to 5 employees) across several advanced economies.

2. Findings from nano business evidence

2.1 Defining and counting UK nano businesses

Nano businesses are defined here as:

- 1 to 4 employees on PAYE, including salaried owner-managers;
- Turnover between the VAT threshold (£90k) and £500k;

- Balance sheet under £250k;
- Trading in the UK.

Using HMRC VAT data and DBEIS size bands suggests around 272,000 such firms, fully in the tax net (VAT, PAYE, Corporation Tax) yet operating at the smallest employing scale.

Creative Industries account for approximately 10 to 15 percent of nanos (33,000 to 40,000 firms), meaning creative nanos are over-represented among the smallest employers.

In full-time equivalent terms, many "four-employee" nanos are closer to 2 to 2.5 jobs, typically one underpaid founder plus a set of part-time staff. Yet they are treated like robust employers in regulatory terms.

2.2 The 5-job line and job-creation potential

The 1998 study by Anyadike-Danes and Hart shows that:

- By age 15, nine in ten firms have ceased trading;
- Firms with fewer than five employees face an ongoing circa 10 percent annual chance of closure, regardless of age;
- Firms that have grown to 5+ employees are around half as likely to die in the following year (c.4.7 percent hazard rate), with survival odds similar to those of 50-employee firms.

This 5-job line is not a gentle slope; it is a structural break. Below it, firms live permanently on the edge; above it, they behave like SMEs with staying power.

Using that evidence, moving 10 percent of nanos (27,000 firms) over the line within three years would:

- Create 70,000–80,000 additional jobs as firms ramp from 2.5 FTEs to 6 to 7 roles;
- Preserve around 13,000 jobs via improved survival;
- Inject £2.2 to £2.9 billion in extra payroll;
- Deliver £660 million to £1 billion per year in additional tax receipts.

2.3 Barriers faced by creative nanos (Creative United Re:Create data, 2021-2025)

Analysis of 131 Re:Create programme applicants that reported 1 to 10 employees (26 percent of 505 applications, with 25 percent of these in the 1 to 3 employee band, i.e. 33 nanos) shows:

-  Marketing and visibility as the single most persistent barrier;
-  Financial constraints - limited cash flow, high costs, and dependence on unstable income sources;
-  Solo working and capacity - founders handling creative work, admin and strategy alone;
-  Confidence and mental health – self-doubt, isolation, neurodivergence;
-  Business skills and strategy - gaps in financial management, planning and scaling;

 Sector-specific challenges - low perceived value of creative work, limited venues and funding.

Over time, concerns have shifted from Covid survival (2021 programme cohort) towards growth, social impact and systemic inequalities (programme cohorts 2023-2025).

3. International context: nanos as the norm, not the exception

International data confirms that very small employers are not a UK curiosity; they are standard across advanced economies.

3.1 Canada

Micro enterprises with 1 to 4 employees account for 59.2 percent of all Canadian businesses; including 5 to 9 employee firms takes this figure up to 77.3 percent. (ISED, 2024).

Businesses with 1 to 99 employees comprise 98 percent of all employer businesses and employ around 63 percent of Canadian workers. (Statistics Canada, March 2023).

In other words, if you are on a payroll in Canada, there is roughly a two-in-three chance you work for a “small” employer (1 to 99 staff), and more than half of all employer firms are effectively nanos in the 1 to 4 range. Yet, when Statistics Canada surveyed businesses, firms with 1 to 19 employees consistently report:

- Greater expectations of declining profitability;
- Higher sensitivity to cost pressures;
- Less ability and confidence to hire than larger small firms (20 to 99 employees).

This supports the UK 5-job line story: the smallest employers are both numerically dominant and structurally more fragile.

3.2 United States

US Census Bureau's *County Business Patterns 2022* reports that more than half of all employer firms (around 56 percent) have fewer than five employees – about 3.4 million businesses. US statistical systems (Census, BLS, SUSB) routinely break out the 1 to 4 employee band, treating it as an important unit of analysis.

3.3 New Zealand

In New Zealand, firms with 1 to 5 employees are already treated as a discrete category in government statistics and policy guidance. They are explicitly recognised as having lower compliance burdens than larger small businesses. (SEANZ, drawing on *Statistics New Zealand*).

There is no special tax rate for firms with 1 to 5 employees, but the recognition is built into how policy is framed.

If New Zealand can do this without a formal nano tier, the UK, with far more detailed HMRC data, could go further: define 1 to 4 employee firms as nanos, use the observed 5-job survival cliff as the justification, and design tailored support.

3.4 Japan

Japanese evidence reinforces how structurally important tiny employers are. Companies with four or fewer employees account for roughly 60 percent of manufacturing businesses and 70 percent of construction businesses, based on the 2014 *Economic Census for Business Frame*.

This international picture underlines two points:

- Nanos are everywhere and they are the backbone of employer populations;

- Within "small business", nanos are more fragile, more pessimistic and more exposed to shocks than larger small firms.

The UK's failure to recognise them explicitly is increasingly out of step with peer nations.

Nano-specific issues and productivity challenges can be summarised as follows:

- Disproportionate regulatory burden (VAT returns, payroll, auto-enrolment, business rates, health and safety) on tiny teams, often handled personally by the founder at midnight - a structural reason for "low productivity" in nanos.
- Lack of capacity and knowledge required to optimally manage finance, marketing, HR, policies and procedures, the "three Ms": Money, Marketing and Methodologies.

4. Policy implications and recommendations

- **Recognise nano businesses in UK definitions.** Create and report on a nano business category: 1 to 4 employees, turnover <£500k, balance sheet <£250k.
- **Invest in business support for nano enterprises.** Prioritise sustainability and growth of nano enterprises within the Sector Plan for the Creative Industries, with a clear objective: to increase the proportion of nanos crossing the 5-job line and staying there.
- **Prioritise delivery of sector-specific business support by organisations with real small-business experience** and practitioners who have "lived it".
- **Address shared, cross-cutting issues around regulation, fair pay and work standards for nanos, freelancers and sole-traders in the Creative Sector** recognising the particular business challenges and vulnerabilities they face when compared to those employed within larger firms.

Conclusion

Creative United's nano analysis, aligned with international evidence, shows that the smallest employers are particularly fragile until they cross the 5-job line, despite already carrying the full weight of the tax and regulatory system.

Other advanced economies recognise 1 to 4 or 1 to 5 employee firms as a distinct, central part of their business populations. Canada, the US, New Zealand and Japan all track these firms explicitly, and Canadian survey data confirms they are the least optimistic and most exposed part of the small-business spectrum.

A Freelance Champion is a welcome step. But without a matching nano agenda, government will continue to focus energy into symptoms and ignore the structural fault line under our smallest employers.

Recognising nanos formally and treating them as the backbone they actually are is one of the simplest, most measurable growth levers available to the UK.

References and Useful Links:

UK Sector Plan for the Creative Industries:

<https://www.gov.uk/government/publications/creative-industries-sector-plan>

Creative United Re:Create Business Support Programme:

<https://www.creativeunited.org.uk/services/recreate/>

1998 Firm Birth Cohort Study by Anyadike-Danes et al:

https://www.enterpriseresearch.ac.uk/wp-content/uploads/2018/02/Anyadike-Danes_et_al-2018-Journal_of_Evolutionary_Economics.pdf

ISED Canada:

<https://ised-isde.canada.ca/site/sme-research-statistics/en/key-small-business-statistics/key-small-business-statistics-2024>

Statistics Canada – Business Conditions Survey (March 2023);

https://www150.statcan.gc.ca/n1/en/catalogue/11-627-M2023015?utm_

US Census Bureau: County Business Patterns 2022:

<https://www.census.gov/data/datasets/2022/econ/cbp/2022-cbp.html>

SEAANZ:

<https://seanz.org/>

Statistics New Zealand:

<https://www.stats.govt.nz/>

Meiji University:

<https://www.meiji.ac.jp/cip/english/>

Statistics Bureau of Japan:

<https://www.stat.go.jp/english/>

Creative United is an entrepreneurial Community Interest Company with a mission to support creative livelihoods.

We work with partners across the public and private sectors to design and deliver programmes that enable economic growth and social impact.

Our vision is for artists, creative enterprises and cultural organisations to have access to the skills, advice and services they need to achieve their ambitions for growth and impact within their communities.

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