
Small Business Survey Scotland 2014

Topic Report: Home-based Businesses

Office of the Chief Economic Adviser

Introduction

Businesses that are run and operated from homes are becoming increasingly prevalent, as more people become self-employed or freelance. This note draws on data from the Small Business Survey (SBS) a representative survey of around 1,000 Small and Medium Enterprises (SMEs) in Scotland¹. These results are contrasted with findings from other published research reports.

Key Findings

- 68 per cent of all SMEs in Scotland and 43 per cent of SME employers are home-based
- The proportion of home-based businesses increased substantially between 2012 and 2014
- Most home-based businesses are sole-traders but over half of very small micros and a third of larger micros are home-based
- The highest proportion of home-based businesses are in the construction sector, followed by the professional, scientific & technical and education sectors
- A lower proportion of home-based businesses intend to grow in the next few years and were less likely to have grown in the past year than other businesses. 80 per cent of home-based sole-traders do not intend to take on any staff
- Owners and managers of home-based businesses were more likely to work part-time in the business and identify with the statement “the business is important, but I don’t let it dominate my life”

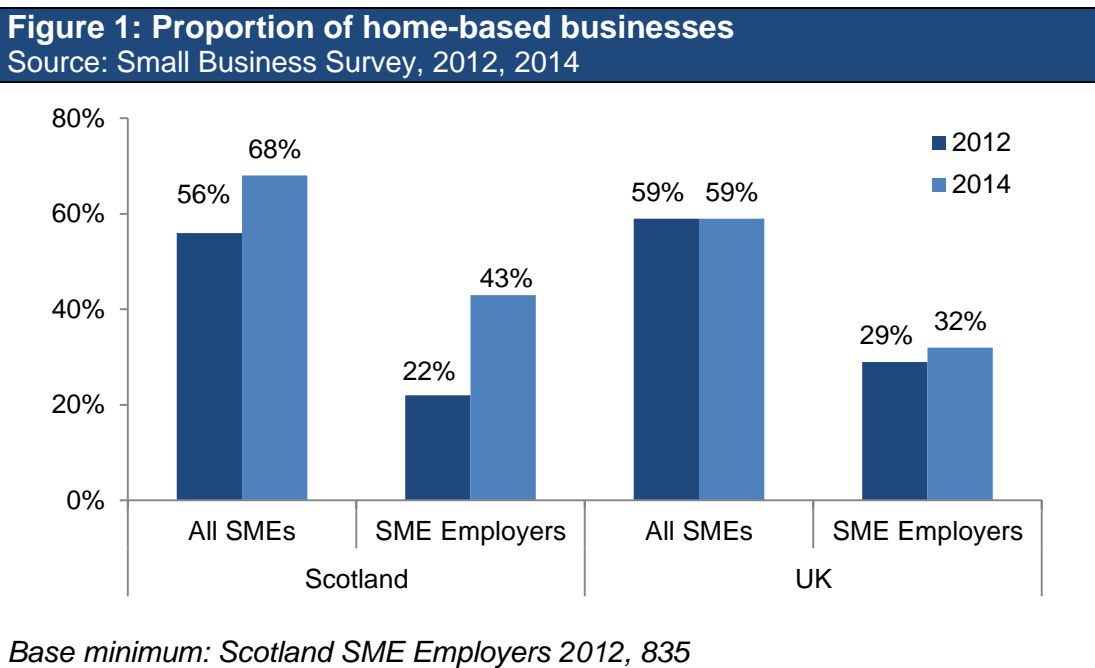
¹ Respondents to the SBS are asked: “Does your business have separate premises to your, or someone else’s, home address?” This is used as the basis for classifying businesses as home-based

Proportion of home-based businesses

According to the SBS, in 2014, 68 per cent of all SMEs and 43 per cent of SME employers were home-based businesses. Both of these proportions are around 10 percentage points higher than the proportion of businesses in the UK that are home-based.

This is also higher than the proportion of businesses the Federation of Small Businesses (FSB) in Scotland² reports as being home-based (39 per cent), although they note that 19 per cent of businesses grew out of homes.

Since 2012³, the proportion of home-based businesses has increased markedly in Scotland for all SMEs and SME employers, despite staying relatively constant in the UK as a whole.



² <http://www.fsb.org.uk/policy/rpu/scotland/assets/home%20truths%20-%20final.pdf>

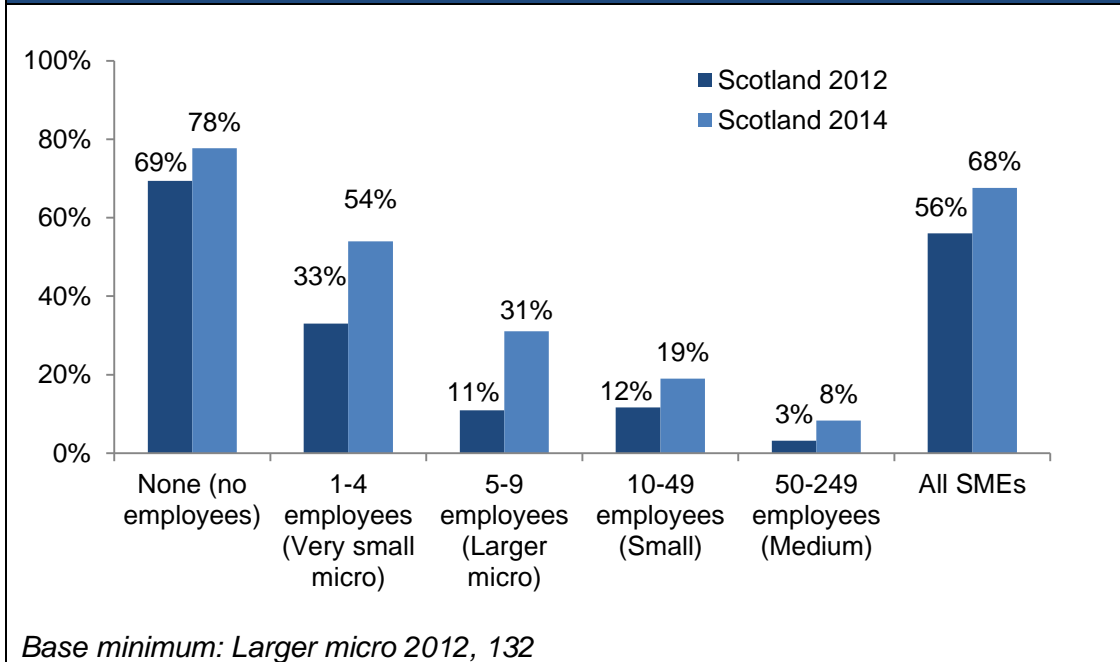
³ In 2012 the question was framed as: "Is your main business or work premises also your home?"

Size

The Small Business Survey reports that 78 per cent of sole-traders in Scotland are home-based businesses, and the proportion of home-based businesses decreases as the number of employees increase (Figure 2). However, each size band has seen an increase in the proportion of home-based businesses since 2012.

Figure 2: Home-based businesses by size

Source: Small Business Survey, 2012, 2014



Since, the vast majority of SMEs have no employees, they account for 82 per cent of all home-based businesses and 14 per cent are very small micros, with larger businesses accounting for fewer than 5 per cent of home-based businesses.

Sectors

The first column of the table below (Figure 3) shows that although home-based-businesses appear in almost all sectors, the most common sectors are:

- Construction (including, plumbing, electrical, joinery, glazing etc.)
- Professional, scientific and technical (e.g. legal and accountancy services, management consultancy)
- Education (including child-minding, tutoring and driving schools)

Figure 3: Home-based businesses by sector⁴
 Source: Small Business Survey, 2014

	% of all HBB	% in sector which are HBB
Construction	23	88
Professional, Scientific & Technical	16	64
Education	11	98
Agriculture & Mining	9	77
Wholesale & Retail	8	42
Information & Communication	6	85
Accommodation & Food Services	5	58

Base minimum: Education, 24

Within sectors, 98 per cent of private sector SMEs in the Education sector are home-based, 88 per cent of Construction business and 85 per cent of Information and Communication businesses.

Box 1: Sector by size

There are some differences between sole-traders and micro-firms (1-9 employees) respect to the sectors that home-based businesses are most prevalent in.

25 per cent of home-based sole-traders work in the construction sector, compared with 16 per cent of micro home-based businesses. In addition, 13 per cent of home-based sole-traders are in the education sector, while almost no micro firms are.

In contrast 14 per cent of micro home-based businesses operate in the accommodation and food services sector, compared to 3 per cent of home-based sole-traders.

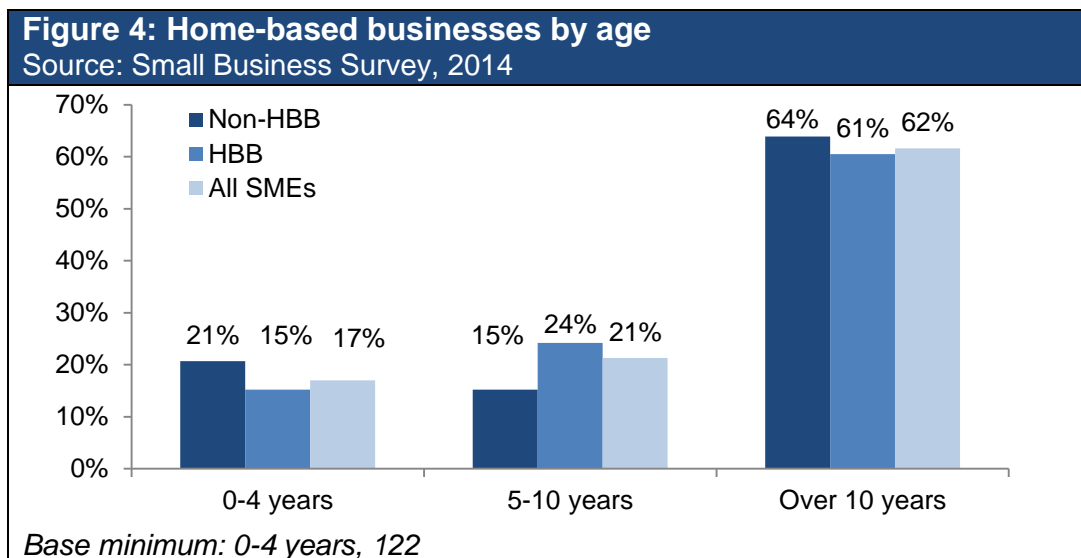
⁴ Table displays sectors which account for greater than 5 per cent of home-based businesses

In contrast, a report by Enterprise Nation⁵ finds that a third of home-based businesses in the UK are in the creative sector (although it is not clear which industries this encompasses). This may be a function of the fact that their survey sample is based on members of Enterprise Nation and relies on businesses choosing to complete an online questionnaire, whereas the Small Business Survey is a representative sample of Scotland’s business stock.

The FSB report finds a high proportion of home-based businesses are in the tourism sector. The results may differ from those of the Small Business Survey because the FSB sample is drawn from FSB members, which may be less likely to include sole-traders. In turn most businesses in the tourism sector are likely to employ at least one person.

Age

The SBS finds that most home-based businesses are over 10 years old (61 per cent, Figure 4). This percentage does not differ from that of the overall population, reflecting the fact that most Scottish SMEs have been established for some time.



The Enterprise Nation report suggests that almost half of home-based businesses were started during the recession (2008 - 2013) and concludes that this is a result of creative destruction spurring on entrepreneurial thinking and efficiency. The Small Business Survey does show that a greater proportion of home-based businesses are between 5-10 years old than businesses with separate premises, which lends some support to this theory.

⁵ https://en-production-assets.s3.amazonaws.com/2014/10/22/08/47/31/599/Home_Business_Survey.pdf

Growth

SMEs surveyed as part of the SBS are asked whether they intend to grow their business over the next 2-3 years. A slightly lower proportion of home-based businesses indicated that they aimed to grow their business (46 per cent vs. 52 per cent of all SMEs).

This is likely to be because of the higher proportion of sole-trader and small businesses which are home-based. Only 42 per cent of home-based sole-traders intend to grow, compared with 63 per cent of very small micros.

Figure 5: Proportion of SMEs intending to grow
Source: Small Business Survey, 2014

	None (no employees)	1-4 employees (Very small micro)	5-9 employees (Larger micro)	All Sizes
HBB	42%	63%	52%	46%
Non-HBB	62%	62%	72%	65%
All SMEs	47%	62%	66%	52%

Base minimum: Non-growth firms, 319

This contrasts with the Enterprise Nation report which reports that 85 per cent of home-based businesses expect to grow over the next 12 months. However, this includes 20 per cent of businesses which responded that they expected growth in the region of 1-5 per cent.

Assessing past performance, 77 per cent of home-based SMEs indicated that they had experienced no growth in the past year, compared to 58 per cent of SMEs with separate business premises.

Employment Growth

22 per cent of home-based businesses expected to increase employment over the next 12 months, compared to 37 per cent of SMEs with separate premises. 77 per cent of home-based businesses indicate that the number of employees would remain about the same.

There are no significant differences in the answers to this question according to firm size, with between 65 and 80 per cent of home-based businesses indicating that they did not intend to take on more staff. This was highest for sole-traders 79 per cent, suggesting that the vast majority are happy to remain small-scale ventures.

Turnover Growth

When asked about expectation of turnover growth, results were almost identical for both home-based businesses and SMEs with separate premises. Just over a third (36 per cent) anticipate an increase in turnover over the next 12 months. 40 per cent expect turnover to remain the same and 17 per cent expect turnover to decrease.

Exporting

Overall, 9 per cent of all SMEs sell goods and services outside of the UK. Home-based businesses are no more or less likely to sell goods and services outside the UK than all businesses.

However, while 41 per cent of all SMEs sell goods and services to the rest of the UK, a slightly higher proportion of home-based businesses do (46 per cent).

The FSB reports that 43 per cent of home-based businesses sell goods and services to overseas customers. However, excluding tourism businesses (which are over represented in their sample), this falls to 29 per cent. This is still significantly higher than the proportion reporting selling internationally in the Small Business Survey, but the proportion they report for non-home-based businesses is also significantly higher than that reported by the SBS (37 per cent vs. 10%) suggesting that this may reflect a difference in the way the question was phrased.

Obstacles

The SBS asks businesses to highlight any obstacles to the success of their business. 51 per cent of home-based businesses mention the economy as an obstacle, 43 per cent mention competition in the market and 42 per cent mention not being able to raise prices. However, these percentages do not differ from those of businesses with separate premises.

Interestingly, only 10 per cent indicate that the availability of suitable premises is a problem, compared with 23 per cent of SMES with separate premises, suggesting that most home-based businesses are content being based at home and are not forced to do so because they can't find suitable premises.

20 per cent of home-based businesses noted that the economy was the **main** obstacle to the success of the business. This did not differ from the percentage of

SMEs with separate premises citing this as the main obstacle. 19 per cent of home-based businesses indicated that there was no main obstacle.

Advice

Home-based businesses have the same level of awareness of the Scottish business advisory organisations that exist as SMEs with separate premises.

Figure 6: Awareness of business support organisations		
Source: Small Business Survey, 2014		
	Home-based Businesses	Other Businesses
Business Gateway	78%	84%
SE/HIE	80%	72%
SDI	25%	25%
SDS	50%	44%

Base minimum: Home-based business, 332

32 per cent of home-based businesses sought advice in the last 12 months, similar to the proportion of SMEs with separate premises (36 per cent). The most common reasons for seeking advice are business growth (23 per cent), followed by tax advice (20 per cent) and regulations (17 per cent).

Owner Demographics

- The owners of home-based businesses are more likely to work part-time in the business than the owners of SMEs with separate premises (20 per cent vs. 9 per cent). Similar results were found in the FSB survey.
- 12 per cent of the owners of home-based business are from a minority ethnic background compared with only 4 per cent of owners/managers of SMEs with separate premises.
- 31 per cent of home-based business owners are aged between 55-64. Although this largely reflects the general age profile of Scottish business owners, only 22 per cent of SMEs with separate premises were in this age group. In contrast only 5 per cent of home-based business owners were under 25, compared with 15 per cent of SMEs with separate premises.
- There are no gender differences between home-based business owners/managers and SMEs with separate premises (just over 20 per cent of all types of SMEs are women-led).

- SBS respondents were asked which of a series of statements they most identified with. 42 per cent of home-based business owners identified with the statement “the business is important, but I don’t let it dominate my life”. This was compared to 33 per cent of SMEs with separate premises. Moreover, a lower proportion of home-based business owners identified with the statement “I am very driven, the business dominates my life”. This supports the finding that home-based business owners are more likely to work part-time in the business.

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