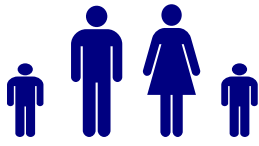

Small Business Survey Scotland 2014

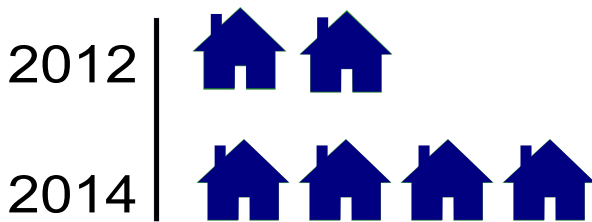
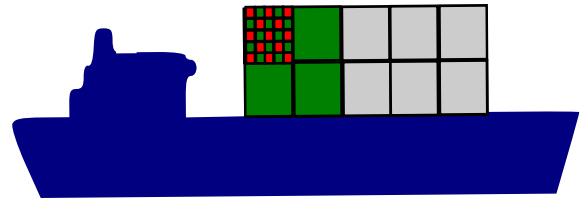
Office of the Chief Economic Adviser

Small Business Survey 2014



77% of SMEs are family-owned

4 in 10 SMEs sell goods outside Scotland
1 in 10 also sell goods outside of the UK



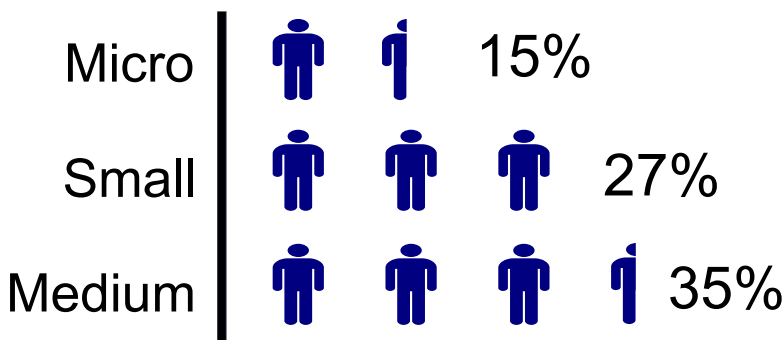
Home-based SMEs increased from 2 in 10 to 4 in 10



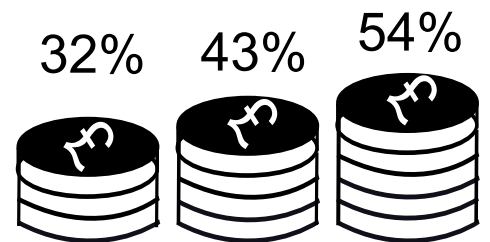
43% of SMEs are innovators - introduced a new product or service in the last 12 months



18% of SMEs applied for finance



Increased employment over last 12 months



Increased turnover in last 12 months

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1 Introduction and Key Results

Introduction

- 1.1 This publication reports on the findings for Scotland of the Small Business Survey 2014. It sets out the key characteristics and profile of small and medium-sized enterprises (SMEs), and provides insight into the perceptions of businesses on issues such as exporting, business support and obstacles.
- 1.2 As at March 2013, there were around 332,720 small and medium sized enterprises in Scotland, of which those with employees represent 31 per cent or just over 103,000¹. These businesses are central to the Scottish economy, accounting for 42 per cent of private sector employment and 34 per cent of turnover.
- 1.3 The survey was conducted during a time when the Scottish economy was steadily maintaining progress in recovering from the financial crisis. Output returned to pre-recession levels and consumers and businesses became generally more upbeat about future prospects for the economy.
- 1.4 The survey is part of a UK-wide survey commissioned by the Department for Business, Innovation and Skills. The Scottish Government boosted the size of the sample of Scottish businesses interviewed, to allow for a Scottish-specific dataset to be obtained for the purposes of analysing the profile and perceptions of small businesses that are based in Scotland.
- 1.5 Within Scotland the survey sample was stratified according to business size and sector. The achieved sample is given in Figure 1 below:

Figure 1: Sample Breakdown, Small Business Survey

	Micro (1-9)	Small (10-49)	Medium (50-249)	Total
ABDE Primary	30	11	3	44
C Manufacturing	26	50	27	103
F Construction	32	35	11	78
GHI Transport/Retail/Distribution	124	122	53	299
J Information/Communication	6	8	5	19
KLM Business Services	53	37	27	117
N Administrative Services	19	18	14	51
PQRS Other Services	50	67	25	142
Total	340	348	165	853

¹ Businesses in Scotland 2014

- 1.6 Throughout the analysis, weighting has been applied to the data by size and sector to ensure that the results are representative of the overall Scottish SME population. Some sectors are excluded from the sampling in the 2012 survey, including the public sector.
- 1.7 It should be noted that the Small Business Survey results presented in this report relate to those SMEs **with employees** only – enterprises with no employees have been excluded from the dataset on which this report was based. Previous Scottish Government Small Business Survey publications included all SMEs.
- 1.8 The headline results are presented in the report below. Where applicable, comparisons are made against results from previous Scottish data relating to 2012. A more detailed analysis of specific topics will be published in a series of short, separate bulletins. These will cover; exporting, innovation and sole-traders.

Key results

Business demographics

- 77 per cent of SMEs are **family-owned**. This is an increase on the proportion that reported being family-owned in 2012 (62 per cent).
- **Exporting** businesses accounted for 12 per cent of SMEs in 2014, lower than the 15 per cent of SMEs that were exporters 2012. In addition, 38 per cent of businesses sold goods and services to the rest of the UK.
- Around a third (32 per cent) of SMEs described themselves as **social enterprises**, however applying a more stringent definition developed by BIS, this falls to four per cent.
- 43 per cent of SMEs do not have separate business premises to their **home address**.
- SMEs with at least 50 per cent **female leadership** account for almost half (47 per cent) of businesses.
- Six per cent of SMEs were **MEG-led**, defined as being led by a member of a minority ethnic group or a management team with at least half of its members from minority ethnic groups.

Business practice

- 43 per cent of SMEs had introduced new or improved **products or services** in the last 12 months. 29 per cent of SMEs had introduced new or significantly improved **processes** in the same period.
- There was a decrease in the percentage of SMEs who had funded or arranged **training or development** for employees in the past 12 months, between the 2012 (73 per cent) and 2014 surveys (51 per cent).
- 96 per cent of SMEs reported that they used the **internet** in 2014 and 65 per cent had their own **website**.
- The majority of SMEs had not expressed an interest in or bid for **contracts advertised by the public sector** (85 per cent). Three per cent expressed an interest but did not bid and ten per cent bid for public contracts in the 12 months prior to the survey.
- The most common reason for **seeking advice** was business growth (25 per cent) replacing financial advice in 2012.

Business performance and outlook

- Two thirds (66 per cent) of SMEs reported that they had maintained employment levels over the past 12 months. Compared with 2012, a lower proportion of SMEs reported employing fewer staff than 12 months ago, (16 per cent vs. 24 per cent in 2012).
- The Construction sector was most likely to report a reduction in staffing levels, while the Other services sector was most likely to report employment growth.
- Expectations of employment growth over the next 12 months appear to be fairly optimistic, with 28 per cent of all businesses stating that they expect to take on more staff than they currently employ. Only five per cent expect to employ fewer staff, compared to 2012 when 17 per cent of SMEs did.
- 34 per cent of SMEs in Scotland experienced an increase in turnover over the past 12 months. While 18 per cent reported a fall in turnover, this was lower than in 2012 when 32 per cent did.
- The sectors in which the highest percentage of SMEs experienced an increase in turnover were information and communication (63 per cent), administrative services (61 per cent) and manufacturing (45 per cent).
- Overall, SMEs were more optimistic about changes to turnover in the next 12 months, with 44 per cent of SMEs stating that they expected to see an increase in turnover and only eight per cent expecting a decrease, lower than the 18 per cent expecting a decrease in 2012.
- 65 per cent of SMEs reported that they planned to grow their business over the next two to three years. However, only 39 per cent of these businesses said it was fairly or very likely that they would approach external finance to fund this growth.
- The greatest proportion of SMEs planned to achieve growth by increasing the skills of their workforce (65 per cent), followed by increasing the leadership capability of managers (53 per cent).
- The most commonly cited obstacle to the success of businesses was 'the economy', with 61 per cent of SMEs reporting this as an obstacle to their success, although this was lower than in 2012 (81 per cent). This was also chosen by the highest proportion of businesses as the **main obstacle to success**.

2 Business Demographics

Size

- 2.1 In the 2014 SBS, the majority (82 per cent) of SMEs were micro employers (employing fewer than 10 people), 16 per cent were small employers (with between 10 and 49 employees) and three per cent were medium sized employers (with between 50 and 249 employees). This profile is very similar to the 2012 SBS results: 83 per cent micro employers, 15 per cent small employers and 2.5 per cent medium sized employers.

Sector

- 2.2 Figure 1 provides a breakdown of SMEs in the 2014 SBS by sector:

Figure 2: SMEs by sector
Base minimum; medium, 165

	Micro 1-9 (%)	Small 10-49 (%)	Medium 50-249 (%)	Total (%)
ABDE Primary	9	4	4	8
C Manufacturing	5	9	20	6
F Construction	13	10	10	12
GHI Transport/Retail/Distribution	33	40	30	34
J Information/Communication	4	3	2	3
KLM Business services	18	12	12	17
N Administrative services	7	6	10	7
PQRS Other services	12	15	13	13

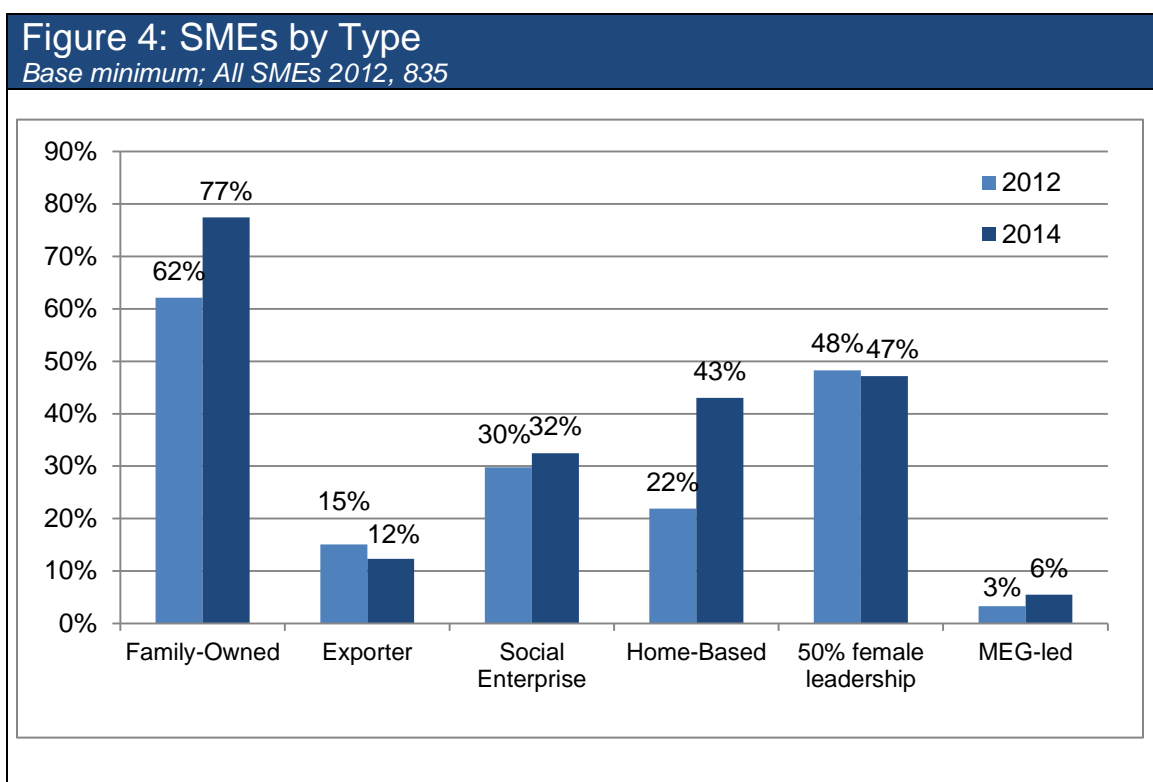
- 2.3 The largest sector, with 34 per cent of SMEs, was the Transport, retail and distribution sector. The smallest sector, with three per cent of SMEs, was the Information and communication sector.
- 2.4 SMEs in the Manufacturing sectors made up a greater proportion of medium employers than overall, while SMEs in the business services sector accounted for a larger proportion of micro firms than overall.

Age

- 2.5 64 per cent of SMEs were over ten years old (Figure 3). Larger businesses were more likely to be older, with 84 per cent of medium businesses greater than ten years old. In contrast, micro businesses were the most likely to have been trading for less than four years.

Figure 3: SMEs by age				
Base minimum; Medium SMEs, 165				
	Micro 1-9 (%)	Small 10-49 (%)	Medium 50-249 (%)	Total (%)
0-4 years	17	8	8	15
5-10 years	22	18	8	21
Over 10 years	62	74	84	64

2.6 Figure 4 below shows SMEs in 2014, by type (family-owned, exporter, social enterprise, home-based business, SMEs with 50% female leadership and MEG-led SMEs)²:



Family-owned

2.7 77 per cent of SMEs were family-owned. This figure is an increase on the proportion that reported being family-owned in 2012 (62 per cent) but similar to the proportion in 2007/08 (71 per cent). In the UK as a whole, 72 per cent of SMEs are family-owned.

² It should be noted that these groups are not mutually exclusive.

-
- 2.8 SMEs were most likely to be family-owned in the Primary and Construction sectors (both 91 per cent). SMEs in the Information and communication sector were least likely to be family-owned (43 per cent).

Exporters

- 2.9 12 per cent of SMEs responded that they sold goods or services outside of the UK compared to 19 per cent of SMEs in the UK as a whole. This figure is down from the 15 per cent of SMEs that were exporters in 2012. However, a new question added in 2014 found that 38 per cent of businesses sold good or services to the rest of the UK.
- 2.10 Most SMEs that export outside of the UK also export to the rest of the UK. The overall percentage of firms either selling goods and services abroad or in the rest of the UK is 39 per cent.
- 2.11 The likelihood of selling goods and services outside the UK was related to the sector. Manufacturing SMEs were most likely to be exporters (41 per cent) followed by those in the Information and communication sector (31 per cent). SME firms in the Construction sector and Other services sector were least likely to export.

Social enterprise

- 2.12 Around a third (32 per cent) of SMEs thought of their business as a social enterprise³, similar to the 30 per cent stating this in 2012.
- 2.13 The Department for Business, Innovation and Skills has a further definition of a social enterprise which requires businesses to not pay more than 50 per cent of profit or surplus to owners or shareholders, but also should not generate more than 25 per cent of income from grants and donations. In addition, they have to think themselves a very good fit with the statement 'a business with primarily social or environmental objectives, whose surpluses were principally reinvested for that purpose in the business or community rather than mainly being paid to shareholders and owners'. Under this definition four per cent of Scottish SMEs could be considered to be social enterprises. This compares to six per cent for Scotland in 2012.

³ A social enterprise is a business that has mainly social or environmental aims. This question was not asked to those businesses that pay more than 50% of their profits to shareholders. In 2014, 21% are not asked this question but are still included in the base population for Scotland.

Home-based businesses

2.14 43 per cent of SMEs do not have a separate business premises to their home address. This is a significant increase on the 22 per cent that reported this in the 2012 survey and higher than the proportion of SMEs in the UK as a whole (32 per cent). SMEs most likely to be based at home are in the Primary sector (e.g. agriculture) but other sectors with high proportions of home-based businesses are Information and communication (58 per cent) and Construction (53 per cent).

Women-led businesses

2.15 Almost half (47 per cent) of SMEs have at least 50 per cent female leadership. This figure is similar to the 2012 proportion.

2.16 Slightly more businesses are majority-led by women in Scotland than in the UK as a whole (21 per cent vs. 18 per cent).

Figure 5: SME leadership by gender		
<i>Base minimum: All SMEs 2012, 835</i>		
	2014 (%)	2012 (%)
Majority-led by women	21	20
Equally-led	26	28
At least 50 per cent female leadership (majority-led by women & equally led)	47	48
Women in a minority	7	9
Entirely male-led	45	42

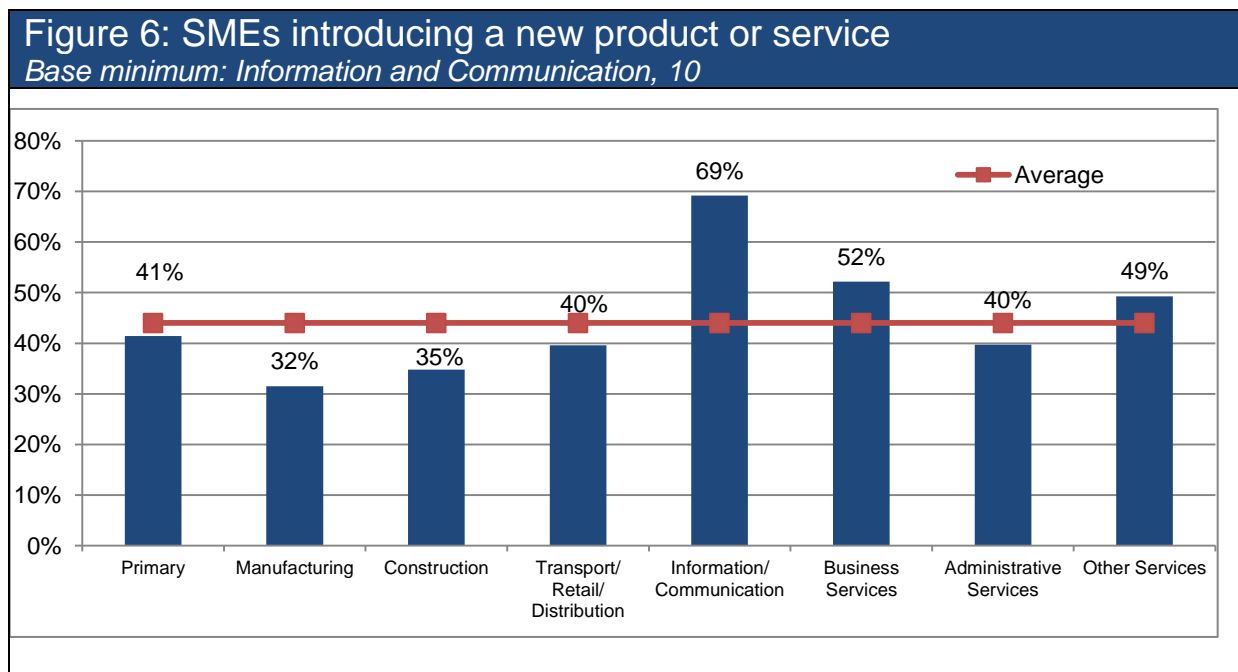
Ethnic minority-led businesses

2.17 Six per cent of SMEs were MEG-led, defined as being led by a member of a minority ethnic group or a management team with at least half of its members from minority ethnic groups. This figure has increased from three per cent in 2012 and is similar to the proportion in the UK as a whole (seven per cent).

3 Business Practice

*Innovation*⁴

- 3.1 43 per cent of SMEs had introduced new or significantly improved products or services in the past 12 months, compared to 38 per cent in the UK as a whole. Of these, 75 per cent introduced innovations that were new to the business and 24 per cent that were completely new. In 2012, a similar proportion of SMEs (44 per cent) had introduced new or significantly improved products or services in the past 12 months.
- 3.2 The sectors more likely than average to undertake product or service innovation were Information and communication and the Business and Other services sectors. SMEs in the manufacturing sector were least likely to report having introduced a new product in the past (Figure 6)



- 3.3 29 per cent of SMEs had introduced new or significantly improved processes in the past 12 months, compared to 32 per cent of SMEs in the UK. Of these, 77 per cent introduced processes that were new to the business and 20 per cent that were completely new. In 2012, more SMEs (36 per cent) had introduced new or significantly improved processes in the past 12 months. Of these, 83 per cent introduced processes that were new to the business and 17 per cent that were completely new.

⁴ In the 2014 SBS, approximately half of respondents were selected at random for this section.

Training⁵

- 3.4 There was a decrease in the percentage of SMEs who had funded or arranged training or development for employees in the past 12 months (51 per cent in 2014 vs. 73 per cent in 2012). SMEs in the UK were more likely to have arranged or funded training or development (57 per cent).

Figure 7: Training or development funded by SMEs

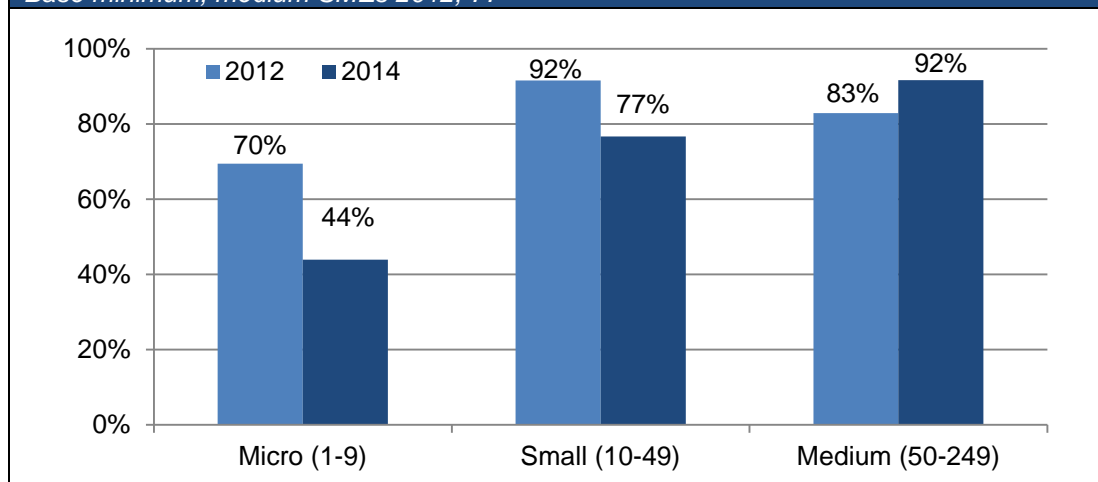
Base minimum; 2012, 344

	2012 (%)	2014 (%)
Yes	73	51
- off the job	18	12
- informal on the job	17	12
- both	38	26
No	27	49

- 3.5 Medium and small-sized employers were more likely to have funded or arranged training or development for employees in the past 12 months than the micro sized employers. The number of micro firms saying that they had funded training or development for staff decreased from 70 per cent in 2012 to 44 per cent in 2014 (Figure 8).

Figure 8: Funding or development by firm size

Base minimum; medium SMEs 2012, 77



- 3.6 Compared to the 2012 survey, there was a large reduction in the number of SMEs reporting that most of the training and development was designed to lead to a formal qualification (25 per cent in 2014 vs. 40 per cent in 2012). Those saying that only some of the training and development was designed

⁵Approximately half of respondents were selected at random for this section.

to lead to a formal qualification increased from 17 per cent in 2012 to 25 per cent in 2014.

- 3.7 Of the 51 per cent of SMEs who had funded or arranged training or development for employees in the past 12 months, 75 per cent said that managers received this training or development. This was higher than the proportion in 2012 (54 per cent).

Business Plan

- 3.8 A third of SMEs had a business plan which was kept up to date, and 10 per cent had a business plan which was not kept up to date, meaning that overall 43 per cent of SMEs had a business plan. This was slightly lower than in 2012 when 50 per cent of SMEs had a business plan, but similar to the figure for the UK as a whole. Medium businesses were more likely to have a business plan (66 per cent), with 54 per cent of small and 40 per cent of micro SMEs having one.

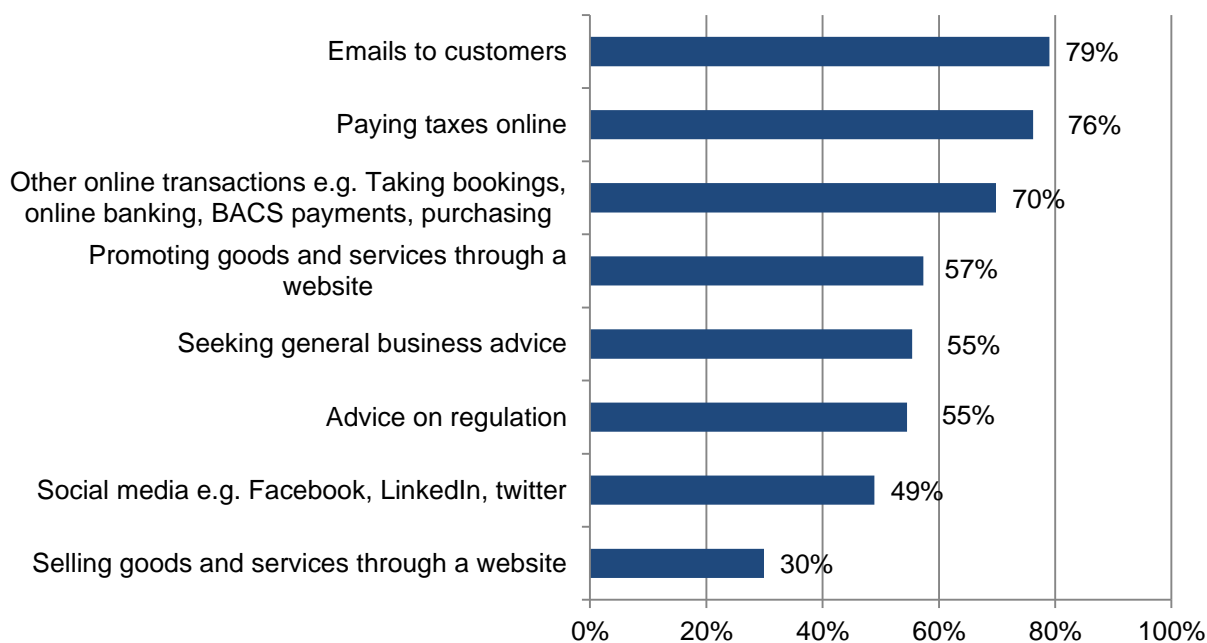
Technology⁶

3.9 96 per cent of businesses reported that they used the internet in 2014. In addition, 65 per cent of SMEs had their own website, compared to 77 per cent of SMEs in the UK as a whole. This increased with business size – 61 per cent of micro SMEs had their own website, 84 per cent of small SMEs and 93 per cent of medium SMEs.

3.10 Figure 9 below shows the activities which SMEs use the internet for. The most popular is emails to customers (79 per cent) although only 30 per cent use the internet to sell goods and services.

Figure 9: Reasons for internet use

Base minimum; All firms, 475



⁶ In the 2014 SBS, approximately half of respondents were selected at random for this section.

Public sector contracts

- 3.11 The majority of SMEs had not expressed an interest in or bid for contracts advertised by the public sector (85 per cent). Three per cent expressed an interest but did not bid and ten per cent bid for public contracts in the 12 months prior to the survey. This is lower than the 2012 figures; 5 per cent expressed an interest but did not bid and 14 per cent bid for public contracts.
- 3.12 26 per cent of SMEs had undertaken work for the public sector during the course of the 12 months prior to the survey, lower than the 32 per cent reporting doing so in 2012.
- 3.13 Where work had been done for the public sector, the most frequent customer was local authorities (47 per cent). 18 per cent had undertaken work for the Scottish Government and 12 per cent for the health service.

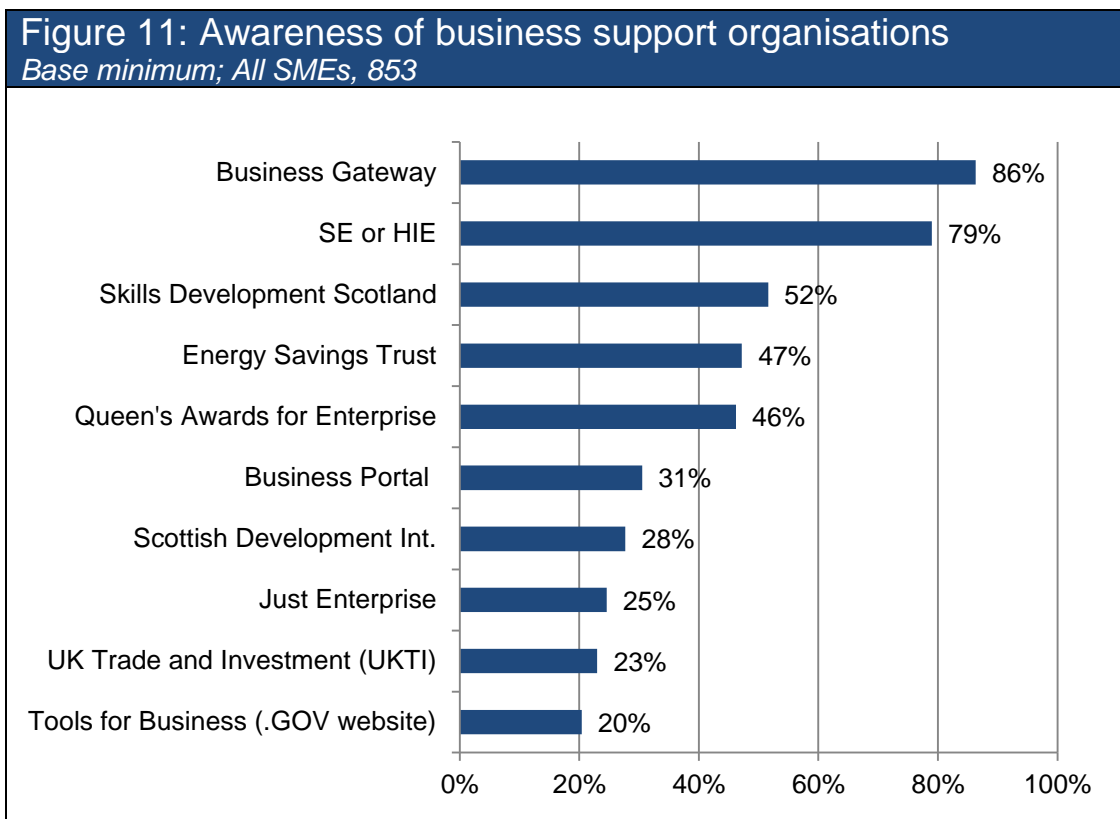
Figure 10: Main public sector customer
Base minimum; 274

	2012 (%)	2014 (%)
Ministry of Defence	1	3
UK Departments of State, including Central Government	5	2
Scottish Government	10	18
Local authorities	56	47
NHS	12	12
Higher/further education institutions	10	5
Other	6	12

- 3.14 Around a third (37 per cent) of SMEs were aware of the Public Contracts Scotland website, which is used to advertise public sector tender opportunities. In addition, 28 per cent of SMEs had used the site.

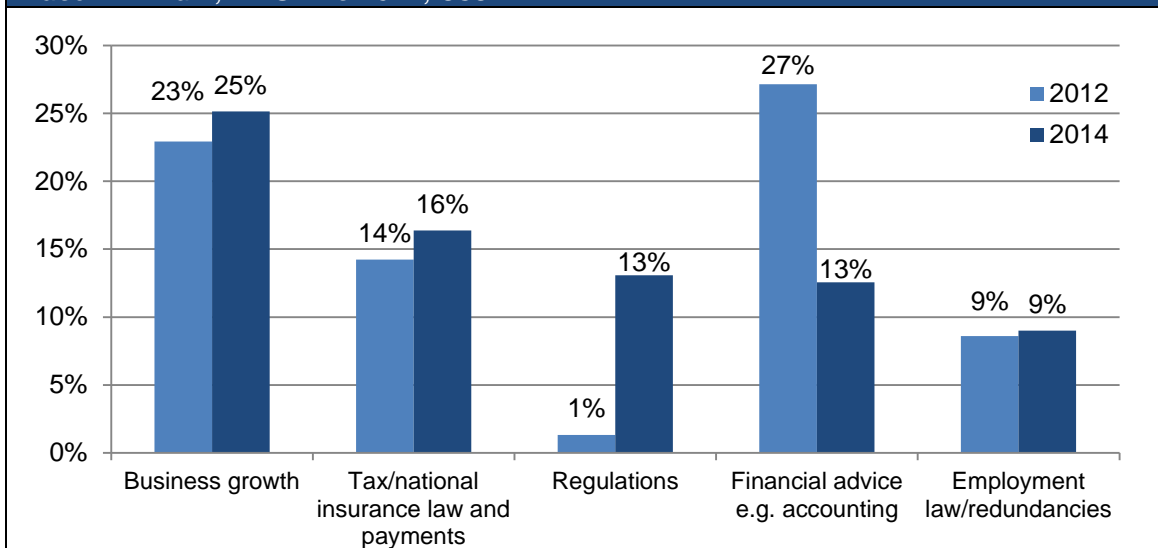
Awareness of business support

3.15 The majority (95 per cent) of SMEs were aware of business support providers. Figure 11 shows the areas of business support that SMEs were most aware of in 2014.



3.16 The most common reason for seeking advice was business growth (25 per cent). This replaces financial advice, which was the most common reason in 2012 (Figure 12). The category which has seen the largest increase in the percentage of business saying they sought advice in this area is regulations (13 per cent in 2014 vs. 1 per cent in 2012).

Figure 12: Reason for seeking advice: Top 5 responses
Base minimum; All SMEs 2012, 835



3.17 As in 2012, the most common source of advice for SMEs in 2014 was their accountant (40 per cent). Other commonly cited sources of advice are: internet search (10 per cent); consultant or general business adviser (8 per cent) and bank (7 per cent). Scottish Enterprise/Highlands and Islands Enterprise and Business Gateway were approached by 7 per cent and 6 per cent of SMEs respectively.

3.18 In the last 12 months, 11 per cent of SMEs used a business mentor – somebody with business expertise that supports the development and running of the business on a continuous basis. This was higher than in 2012, when 8 per cent of SMEs reported using a business mentor.

3.19 In addition, of those that did not use a business mentor, 20 per cent expressed an interest in using one in the future.

Access to Finance

3.20 The SME banking sector in Scotland is heavily concentrated among a small number of banks. Excluding those businesses that refused to answer or did not know, 42 per cent of those SMEs with employees banked with Royal Bank of Scotland and 30 per cent held an account with Lloyds Banking Group.

Figure 13: Main bank used by Scottish SMEs with employees (%)

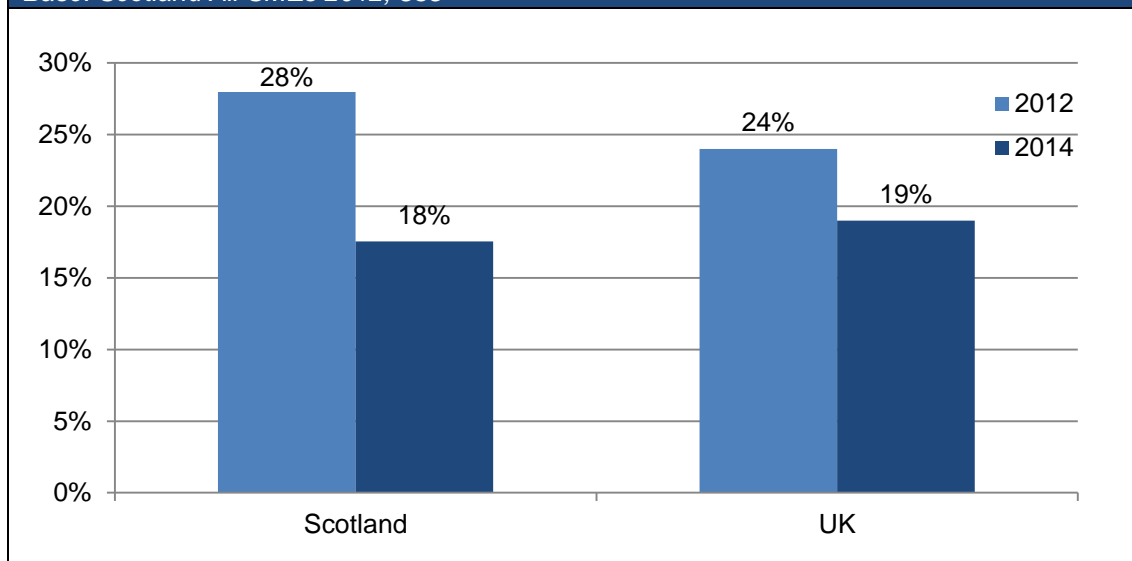
Base: All firms excluding refused and don't know, 766

RBS (RBS, NatWest)	42
Lloyds Banking Group (HBOS, Halifax, Lloyds)	27
Clydesdale	13
Santander	6
Others	13

3.21 18 per cent of SMEs had applied for finance in the last 12 months, with six per cent applying more than once (Figure 14). This is similar to the proportion of SMEs seeking finance in the UK as a whole⁷ (19 per cent) and lower than in 2012 when 28 per cent of Scottish SMEs applied for finance.

Figure 14: Proportion of SMEs seeking finance, Scotland and UK

Base: Scotland All SMEs 2012, 835



⁷ See <https://www.gov.uk/government/publications/small-business-survey-2014-businesses-with-employees>

3.22 Turning to the final outcome of applications **from all sources approached**, compared with 2012, fewer SMEs ended up obtaining no finance at all whilst a higher proportion obtained all they needed from the first source (Figure 15). There are some differences with SMEs in the UK as a whole, with 71 per cent of SMEs obtaining all the finance required and 21 per cent obtaining none.

Figure 15: Final outcome of application- all sources approached		
<i>Base: Firms that applied for finance 2014, 197. Omits still pending/don't know</i>		
	2012 (%)	2014 (%)
Obtained all needed	69	80
-From first source	61	72
-From another source	8	8
Obtained some but not all	6	1
Obtained None	23	13

4 Business Performance and Outlook

- 4.1 The survey captures opinions of businesses on their performance and outlook over the past 12 months and looking forward in terms of changes in employment patterns and turnover, obstacles and growth expectations.

Changes to employment levels

- 4.2 Whilst the majority of SMEs (66 per cent) maintained employment levels over the past 12 months, 16 per cent of businesses reported having fewer staff now than they did 12 months ago
- 4.3 17 per cent of SMEs reported employment growth. This proportion increased as the size of the business increased, with 35 per cent of medium SMEs reporting employing more people now than 12 months ago.
- 4.4 Compared with 2012, the proportion of SMEs reporting employment growth over the previous 12 months is higher (14 per cent in 2012). This is to be expected given the recovery in economic conditions. In addition, the proportion of SMEs reporting a decrease in employment is lower (24 per cent in 2012, 16 per cent in 2014). This is mainly due to a reduction in the number of micro firms reporting a reduction in staff numbers – 26 per cent in 2014 vs. 17 per cent in 2014.
- 4.5 Figure 16 below shows the net balance of employment growth by size of business, where the net balance growth is described as the overall proportion of businesses which increased employment minus the proportion of businesses which decreased employment levels compared to 12 months ago. A negative figure therefore, indicates that more businesses within that category reduced employment numbers, than increased it.

Figure 16: Numbers employed compared to 12 months previously

Base: Medium SMEs trading for more than one year, 165

Excludes don't know/unwilling to answer

	Employ more people now	Employ the same number	Employ fewer people now	Net balance
Micro (1-9)	15	68	17	-3
Small (10-49)	27	60	12	14
Medium (50-249)	35	50	15	20
Total	17	66	16	1

- 4.6 As above, the net balance of employment growth by sector shows the overall direction of employment change reported by businesses within those sectors. Overall, businesses in four sectors reported a positive balance while businesses in four sectors reported a negative balance.
- 4.7 As in 2012, the Construction sector was most likely to report a reduction in staffing levels (31 per cent stating they had fewer employees than 12

months ago). The Other services sector was most likely to report employment growth (27 per cent).

Figure 17: Numbers employed compared to 12 months previously by sector

*Base minimum; Information and Communication, 19
Excludes don't know/unwilling to answer*

	Employ more people now	Employ the same number	Employ fewer people now	Net balance
Primary	14	71	15	-1
Manufacturing	21	60	20	1
Construction	11	58	31	-21
Transport/Retail/Distribution	13	67	18	-5
Information/Communication	13	60	27	-14
Business Services	20	69	12	8
Administrative Services	24	71	5	19
Other Services	27	66	7	20
Total	17	66	16	1

4.8 Expectations of employment growth over the next 12 months appear to be optimistic with 28 per cent of all businesses stating that they expect to take on more staff than they currently employ. Two thirds (67 per cent) of SMEs expect to retain existing levels of staffing and five per cent of SMEs expect to reduce employment numbers. This compares against 2012 where 17 per cent thought they would employ fewer staff in the next 12 months.

Changes to turnover

4.9 Around a third (34 per cent) of all SMEs in Scotland experienced an increase in turnover over the past 12 months and 18 per cent reported a reduction. While the proportion reporting an increase was similar in 2012, the proportion reporting a decrease was much higher at 32 per cent.

4.10 Larger businesses were more likely to report an increase in turnover with 54 per cent of medium businesses doing so. The reduction in the proportion of businesses reporting a decrease in turnover compared to 2012 was driven by micro businesses (34 per cent 2012 vs. 19 per cent 2014).

Figure 18: Changes to turnover compared to 12 months previously

Base minimum; Medium SMEs trading for more than one year, 165.

Excludes don't know/unwilling to answer

	Increase in Turnover	No Change to Turnover	Decrease in Turnover	Net balance
Micro (1-9)	32	42	19	13
Small (10-49)	43	39	13	30
Medium (50-249)	54	29	11	44
Total	34	42	18	16

- 4.11 The sectors with the highest proportion of firms reporting an increase in turnover were Administrative services and Information and communication, with over 60 per cent of SMEs in both these sectors reporting an increase. The Transportation and Construction sectors were most likely to report a decrease in turnover over the last 12 months.

Figure 19: Changes to turnover compared to 12 months previously, by sector

Base minimum; Information and Communication, 19

Excludes don't know/unwilling to answer

	Increase in Turnover	No Change to Turnover	Decrease in Turnover	Net balance
Primary	25	48	14	12
Manufacturing	45	37	15	30
Construction	25	48	20	6
Transport/Retail/Distribution	31	39	22	9
Information/Communication	63	34	2	61
Business Services	38	44	17	21
Administrative Services	61	27	10	51
Other Services	25	46	18	7
Total	34	42	18	16

- 4.12 Overall, all sectors reported a positive net balance of expectations of turnover growth.
- 4.13 SMEs were more optimistic about future turnover growth than future employment growth with 44 per cent saying that they anticipated turnover would increase in the next 12 months. Only eight per cent of businesses expected turnover to decrease. SMEs also responded more positively to this question than they did in 2012; where 18 per cent expected turnover to decrease in the coming year.

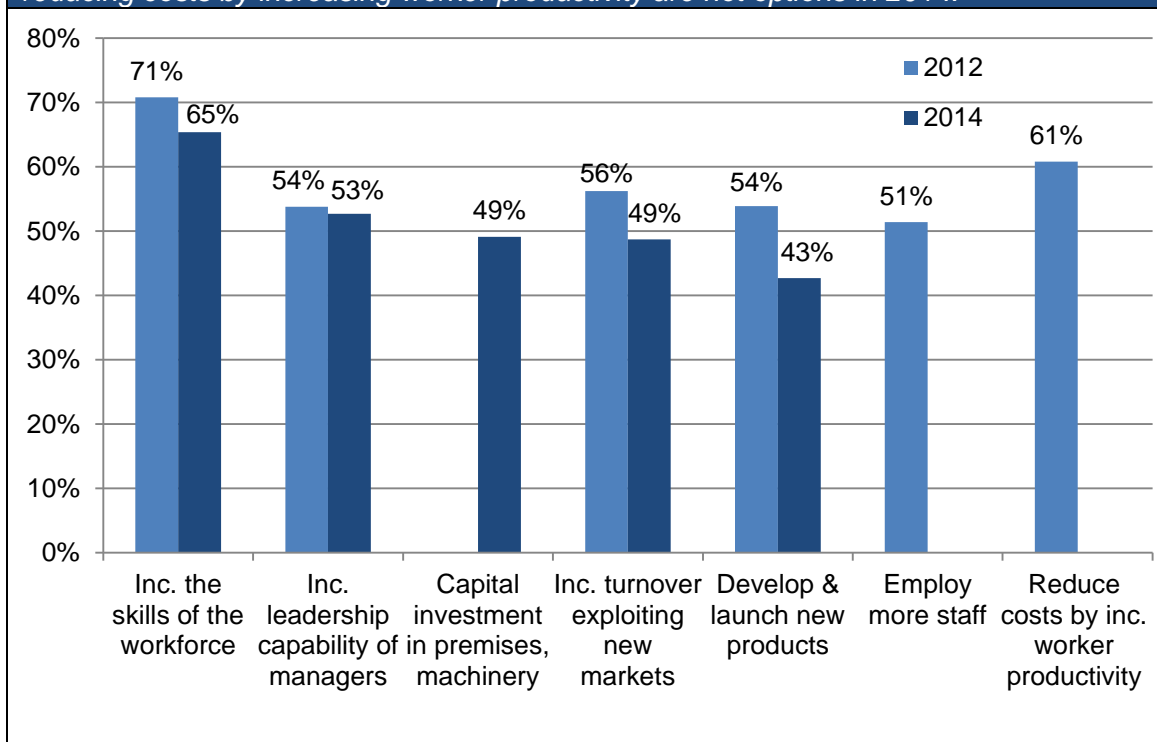
Growth ambitions

- 4.14 65 per cent of SMEs planned on growing their business over the next 2-3 years. This is similar to 2012, when 66 per cent of SMEs responded that this was one of their aims.
- 4.15 Of those SMEs which had plans to grow, 39 per cent said it was fairly or very likely that they would approach external finance providers in order to fund this growth. This low percentage reflects other evidence suggesting that most SMEs prefer to fund expansion through retained capital⁸. Four in ten (41 per cent) responded that it was not at all likely that they would approach external finance providers.
- 4.16 The most frequently cited activity aimed at increasing growth is to increase the skills of the workforce, cited by 65 per cent of firms. This is followed by increasing the leadership capability of the managers.

Figure 20: Activities undertaken to increase growth

Base minimum; All firms 2012 835

Note, capital investment is a new category in 2014, while employing more staff and reducing costs by increasing worker productivity are not options in 2014.

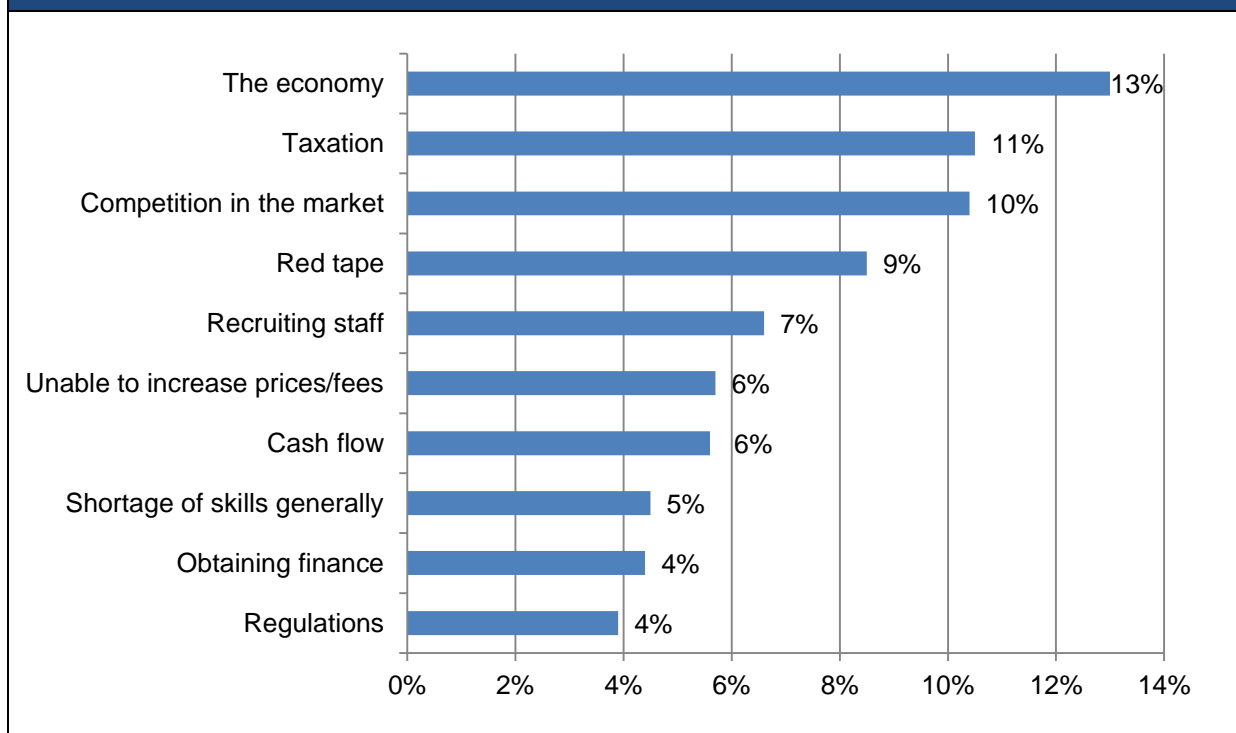


⁸ See for example “SME Journey Towards Raising Finance”: <http://british-business-bank.co.uk/wp-content/uploads/2014/12/Final-BMG-SME-Journey-Research-Report.pdf>

Obstacles to success

- 4.17 SMEs were asked which factors they considered to be an obstacle to the success of their business. Most cited a wide range of factors; the most commonly noted factor in 2014 was the economy with 61 per cent of all SMEs reporting this as an obstacle to their success. This is lower than in 2012 however, when 81 per cent of SMEs responded that the economy was an obstacle to their business's success. 50 per cent of SMEs mentioned competition in the market as an obstacle (lower than the 60 per cent of SMEs in 2012) and 53 per cent of SMEs regarded red tape as an obstacle (a new category for 2014).
- 4.18 Of those SMEs that considered the economy to be an obstacle to their success, the most frequently reported issue specifically relating to the economy was local economic conditions, which 64 per cent of SMEs said was the case. Reduction in demand for products or services was mentioned by 60 per cent of SMEs and increased costs by 48 per cent. In 2012, the main issues relating to the economy were increased energy costs (72 per cent), pressure to reduce prices (71 per cent) and reduction in demand for products and services (69 per cent).
- 4.19 38 per cent of SMEs mentioned cash flow as an obstacle to the success of their business. This was mainly to do with fluctuating income (72 per cent) and problems with late payments from both customers and other businesses (55 and 58 per cent).
- 4.20 When enterprises were asked to define which of the listed obstacles was the **biggest obstacle to success**, the greatest proportion of SMEs stated this to be the economy (13 per cent), the same as in 2012. This was followed by taxation (11 per cent) and competition in the market (ten per cent). However, 14 per cent of SMEs cited no main obstacle, higher than any single obstacle.

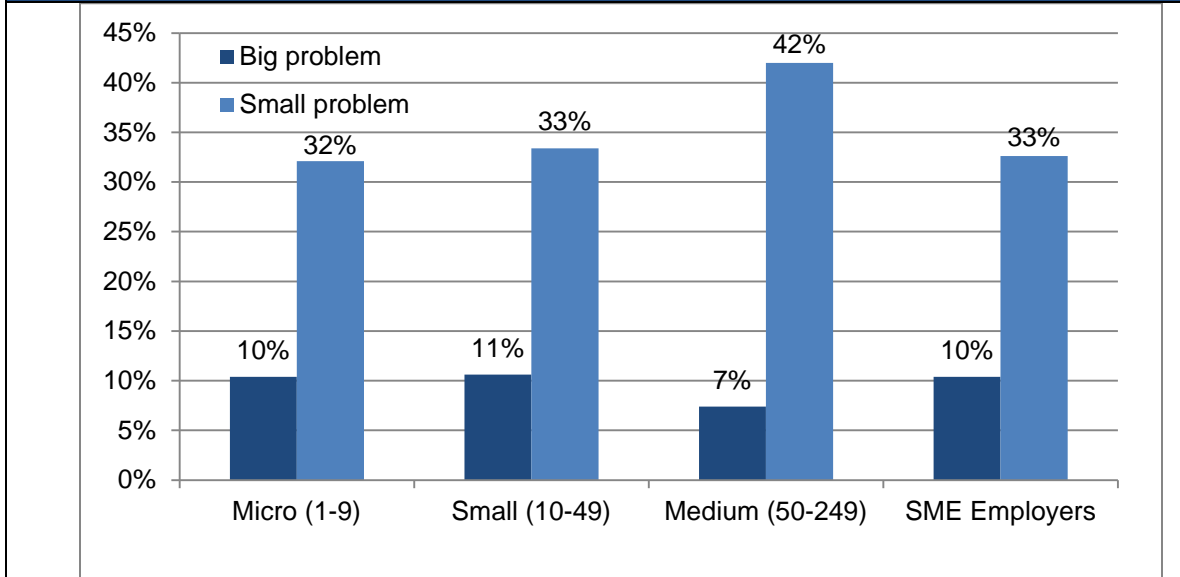
Figure 21: Obstacles to the success of the business: Top 10 responses
Base minimum; All firms 2014, 853



Late Payment

4.21 Late payment was considered to be a problem for 43 per cent of SMEs, with 10 per cent saying it is a big problem and 33 per cent considering it a small problem. This is a slightly lower proportion than in 2012, when 48 per cent considered it a problem.

4.22 Overall, medium businesses were likely to see late payment as a problem, although they were more likely to see it as a small problem than a big problem (Figure 22).

Figure 22: Problems with late payment by firm size*Base minimum; Medium firms, 165*

Small Business Survey Scotland 2014

Office of the Chief Economic Adviser
