



SPICe Briefing

Pàipear-ullachaidh SPICe

Scotland's Business Base - Facts and Figures

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GDP and employment have long been recognised as the major indicators of economic success. Yet, a key driver of these indicators, the business base, is often overlooked. To leverage economic success, it is important to understand the trends and characteristics related to Scotland's business base. This paper brings together and explores a range of data on Scotland's business base. It sets out a variety of evidence to aid understanding on all aspects of Scottish business stock, such as: industry sectors, size, ownership, manufacturing, survival rates, internationalisation, current challenges, etc.



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Executive Summary

This paper explores a range of information and data on Scotland's business base. It sets out a range of evidence to aid understanding on all facets of Scottish business stock. To leverage economic success, it is important to understand the trends and characteristics related to the business base, as businesses are the key drivers of GDP and employment.

Scotland's business count has shown an upward trend and is at its second highest stock figure in the series since 2000. Although the growth rate of the UK's business base has generally surpassed that of Scotland.

There were 350,410 private sector businesses (registered and unregistered, and excluding central and local government) operating in Scotland in 2016 - a fall from 2015 but the 2016 business count is still relatively high (with it being the second highest stock figure in the series back to 2000). This represented 6.4% of the UK's total private sector business base of 5.49 million enterprises. Scotland's business stock share lags behind relative to Scotland's UK population (16+) share of 8.4%.

Since 2000 the growth rate of the UK's business base has generally surpassed that of Scotland. Between 2001 and 2004, Scotland out performed the UK. However, this was followed by a period of under-performance relative to the UK from 2006 to 2011. The years 2012 and 2013 saw an uplift in Scotland's performance. The last three years (2014 to 2016) have seen a changeable Scottish business growth rate, in contrast to sustained growth at a UK level. In 2016, the gap between Scotland's business base growth rate relative to the UK was the largest it has been since the data series began. Scotland has a comparatively low business density rate relative to the UK average and other regions of the UK. The number of businesses (registered & unregistered) in Scotland per 10,000 resident adults was 728 in 2016.

The performance of business stock varied by sector, with Growth Sectors growing at a much more accelerated rate than other sectors. The sector structure of the economy has changed subtly.

Scotland's two largest industry sectors were '*Professional, Scientific & Technical Activities*' (53,240 enterprises) and '*Construction*' (43,250 enterprises). Together, these sectors made up 28% of all private sector enterprises in Scotland's economy. Over the year to 2016, the number of enterprises in Scotland decreased by 3%. However, relative performance by broad industry sector was more mixed. For example, the '*Information and Communication*' sector demonstrated the largest growth in enterprise numbers in the year to 2016, growing

from 15,200 to 18,520 (22%). Whereas over the same period, both the '*Motor trade...*' and '*Wholesale trade*' sectors witnessed the largest decline in enterprise numbers, at 28% and 21% respectively (although worth noting these sectors have smaller bases relative to other sectors).

There have been subtle changes in the structure of the economy. *Agriculture, forestry & fishing* has steadily declined from 11% of businesses in 2000 to just 6% in 2016. *Construction*, while still one of the largest sector, has decreased slightly. Likewise both *retail* related businesses and *accommodation & food serving* related businesses have downward trends. The most recent 2010 to 2016 comparison shows the structure of the economy's business base is moving towards service orientated activities. This reflects trends in developed economies.

Growth Sectors represented 46% of all registered enterprises and 37% of employment in all registered enterprises across Scotland. In terms of volume of businesses, Financial and Business Services was the largest growth sector (28,305 enterprises) and Life Sciences the smallest (535 enterprises). The volume of businesses, in those sectors classed as Growth Sectors, have grown at a much more accelerated rate than the Scottish rate for all businesses (see [Figure 8](#)). Since 2008 the number of growth sector businesses in the economy grew by 26%, compared to 13% for all registered Scottish businesses.

The majority of Scottish enterprises have no employees. Yet Scotland has a different business stock make-up to the UK as a whole, with a higher rate of medium and large businesses.

The majority (69.4%) of Scotland's 350,410 private sector enterprises (registered and unregistered) were enterprises with no employees and accounted for 13% of employment. Small enterprises (1-49 employees) represented 29% of business stock and 29% total employment. Scotland's 3,920 medium-sized (50 to 249 employees) enterprises made-up 1.1% of business stock and 13% of total employment in Scotland. There were 2,365 large (250 or more employees) enterprises, which accounted for 0.6% of enterprises and 45% of employment.

There were differences in the business stock make-up of Scotland compared to the UK as a whole. Scotland had a lower rate of businesses which do not employ others but a higher rate of medium and large businesses compared to the UK as a whole. Large businesses account for a higher share of Scotland's private sector employment (45%), compared to the UK as a whole (40%).

Scotland had the fourth lowest enterprise birth rate and fifth highest enterprise death rate of the 12 UK regions.

Scotland had 21,725 business births in 2015, resulting in a birth rate of 12.6% (a slight increase on the previous year). The number of Scottish business deaths increased by 4%

from 15,630 to 16,315 between 2014 and 2015, given a death rate of 9.4%. Encouragingly the gap has widened between business births and deaths since 2013, although at a diminishing rate (see [Figure 11](#)). In 2013, businesses were born at a rate which was 4.1 percentage points higher than the death rate, by 2015 this gap had fallen to 3.2 percentage points (comparatively an under-performance relative to the UK gap of 4.9 percentage points for 2015).

Across the UK regions, London had the highest business birth rate at 18.6% and Northern Ireland had the lowest birth rate, at 9.7%. Scotland had the fourth lowest birth rate of the 12 UK regions - at 12.6% - below the UK average of 14.3%. Scotland's business death rate of 9.4% -matched the UK average. The region with the highest business death rate was London at 10.5%, followed by the North West, at 9.9%. Northern Ireland had the lowest death rate, at 7.1%. Scotland had the fifth highest death rate of the 12 UK regions.

Generally, Scotland's business survival rates were slightly above the UK average across the 1-year to 5-year survival rates. The Scotland 5-year survival rate for businesses born in 2010 and still active in 2015 was 41.4% - this matched the UK average. Scotland was ranked fifth out of the UK's 12 regions for 5-year survival rates and seventh for the most recent 1-year survival rate (see [Figure 13](#)).

Large businesses made-up 0.6% of the business base and generated 60% of all turnover. Scotland's average GVA per enterprise was £731,400 (above the UK average).

Total private sector turnover generated by Scotland's 350,410 businesses was £276.1 billion (2016). The majority (98%) of turnover was from registered enterprises. The relationship between business size and turnover was inverse in nature. Small businesses represented 98% of the business base but just 27% of turnover, whereas large businesses made-up 0.6% of the business base generating 60% of all turnover.

Scotland's GVA was £127.5 billion in 2015, representing 7.6% of total UK GVA. In 2015, GVA per head of population was £23,700, an increase of 1.8% on the previous year. Scotland's average GVA per enterprise was £731,400 (above the UK average of £680,300). The '*mining and quarrying*' and '*electricity, gas, steam and air-conditioning supply*' sectors were the highest earning sectors, in terms of GVA per enterprise in Scotland (see [Table 8](#)).

Scotland's business investment totalled £11.3 billion in 2016. Scotland's share of business investment represented 6% of total UK investment. Scotland's 2016 total represented a decline of 8% on the previous year.

Indigenous enterprises made-up 97% of business stock, the remaining 3% of non-Scottish owned

enterprises contributed 35% of employment and 54% of turnover.

The majority of Scotland's private sector enterprises were Scotland-owned (97%). These indigenous enterprises contributed 66% of employment and 46% of turnover. Total non-Scottish owned enterprises (RUK-owned and Abroad-owned) represented 3% of enterprises, and accounted for 35% of employment and 54% of turnover.

Most sectors were in line with national average for Scottish ownership. The main variations were *financial and insurance activities* (11% non-Scottish owned), *manufacturing* (6% non-Scottish owned), *transport & storage* (6% non-Scottish owned), and *wholesale & retail trade* (5% non-Scottish owned). However, when the share of employment by industry sector was examined by ownership, much more disparity was evident, particularly in primary industries and manufacturing.

Abroad-owned enterprises represented 2,305 of Scottish registered (1%) enterprises . Of these the largest proportions originated from the European Union (EU) and the USA:

- 1,000 were EU Abroad-owned (43%) enterprises operating in Scotland – employing 127,110 people and generating a turnover of £36 billion (13% of all turnover from registered businesses in Scotland or 39% of all turnover from abroad-owned registered businesses in Scotland)
- 550 were USA Abroad-owned (24%) enterprises operating in Scotland – employing 102,810 people and generating a turnover of £34 billion (12% of all turnover from registered businesses in Scotland or 37% of all turnover from abroad-owned registered businesses in Scotland).

It is estimated 7%-16% of Scottish businesses are involved in international trade activity. Scotland had the third fastest growth rate for exporting businesses in Great Britain.

There are information deficiencies around trade data. One source shows that there were 17,300 non-financial businesses trading internationally (exporting and/or importing) in 2015, representing approximately 10% of Scotland's business population in that period. Focusing specifically on exporting, these 11,500 businesses represented 7% of the business base. Related data from the [Small Business Survey Scotland](#) found that the proportion of SMEs that stated they exported goods or services outside of the UK in 2016 was 16%. Thus, it can be estimated that 7-16% of Scotland's business base were involved in international trade activity.

In the four years to 2015, the number of businesses importing increased by 28% and those exporting by 24%. Scotland had the third fastest growth rate for exporting businesses, after Wales (27%) and East Midlands (26%) (see [Table 9](#)). Scotland's exporting firms represent 5% of all exporting firms in Great Britain.

The majority (57%) of Scotland's export value (£45 billion) was generated by large enterprises. Medium sized enterprises accounted for 25% of all exports and this proportion has increased in recent years, growing by 27% between 2011 and 2015.

There has been a moderate decline in the number of manufacturing enterprises in Scotland, since 2000. Despite this manufacturing employment numbers have declined significantly.

Manufacturing represented 5% of Scotland's business base. These businesses contributed 9% of Scottish employment and 14% of the economy's turnover. Scotland's largest proportion (20%) of manufacturing enterprises were clustered around *fabrication and metal product production*. This was followed by *repair and installation of machinery and equipment* (12%) and *wood related manufacturing* (11%) rounded out the top three.

There has been a relatively moderate decline in the number of manufacturing enterprises in Scotland, since 2000. Despite this relatively moderate decline in enterprise numbers, the same cannot be said for manufacturing employment numbers. The ten year period to 2011 witnessed a significant decline in manufacturing employment, followed by a relatively flat period with minor growth. The most recent 2016 manufacturing employment data again saw a slight dip in numbers - it remains to be seen whether this will be a continued trend or a one off adjustment.

Manufacturing exports have grown at a slower rate relative to total exports and service exports. The value of manufacturing exports declined in the early 2000's but since 2007 have generally shown a moderate upward trend.

Edinburgh had the highest share of business stock and Na h-Eileanan Siar the lowest. Every constituency has seen business stock increase since 2010.

City of Edinburgh (10.4% of all registered Scottish businesses) was the local authority with the highest share of business stock. On the other end of the scale Na h-Eileanan Siar (0.7%) had the lowest number of enterprises.

The six year growth rate for local authority business stock was positive in all but three local authorities: Dumfries and Galloway saw business stock decrease by 1%; and there was zero percent growth in Argyll & Bute and the Orkney Islands were stock rates plateaued. Edinburgh (21% increase in enterprises), Aberdeen (20%), East Renfrewshire (18%), and North Lanarkshire (17%) had the highest stock growth rates over the six years.

The Orkney Islands have the highest business density ratio in Scotland. Many of the areas with high ranking business density rates were rural. West Dunbartonshire had the lowest

business density rate. A characteristic of the lower ranking areas was that many contained commuter towns and villages, or were within city suburbs.

The top five constituencies for business stock in 2016 were: Edinburgh Central (4.1% of registered Scottish enterprises), Glasgow Kelvin (3.9%), Aberdeenshire West (2.7%), Aberdeen Central (2.5%), and Aberdeenshire East (2.4%). In contrast, the areas with the lowest volume of business stock were: Glasgow Provan (0.6%), Na h-Eileanan an Iar (0.7%), Glasgow Pollock (0.7%), Cunninghame South (0.7%), and Glasgow Maryhill and Springburn (0.7%).

Every constituency has seen business stock increase since 2010. Some more rural constituencies have had relatively moderate growth (e.g. Ettrick, Roxburgh and Berwickshire (4%), Galloway and West Dumfries (5%)), whilst urban areas, particularly cities, have seen significant growth (e.g. Aberdeen South and North Kincardine (31%), Glasgow Provan (43%)).

Challenges for the business base include subdued investment, constrained by falling real income, weaker consumer outlook, currency depreciation and uncertainty about future relationships with the EU.

Regulations and red tape were the most commonly reported obstacles to business success, with 45% of SMEs reporting this as the key issue. Other challenges highlighted were 'competition in the market' (42%) and taxation, VAT, PAYE, National Insurance, business rates (38%). Approximately one in five businesses stated that the UK exit from the EU was an obstacle and 18% saw the National Living Wage as a barrier to success. Just one in ten SMEs stated that they had no issues.

Evidence shows that profit margins for SMEs were decreasing. A driver of falling profit margins was the weakened rate of sterling, which has been depreciating since the June 2016 referendum vote to leave the European Union. This has led to higher prices for imported goods and services.

Falling real income will impact the business base, especially as consumer demand derives around three quarters of Scotland's economic growth. The retail sector is perhaps most exposed to pressures on household budgets. And already retail businesses are reporting a fall in revenues and profits. Supply chain price rise pressures will also compound the issue.

With consumers under pressure and many large public sector funded infrastructure projects near completion, this means stronger growth will require higher levels of businesses investment. However, business investment has been subdued, constrained by the weaker consumer outlook and uncertainty about the UK's future trading relationship with the EU.

Evidence suggests that the low unemployment rate may be impacting on businesses' ability to recruit the talent they need. Recruitment difficulties are growing across almost all sectors of the economy. Businesses have increased their investment in staff training,

possibly to improve the skills of existing staff or to bring new recruits up to speed, who may not have all the skills that the business needs".

Furthermore, it is important to recognise the regional split in business performance. Evidence from the [Scottish Business Monitor](#) shows that *"businesses in all regions of Scotland – outside of the North East – reported growth in the total volume of business over the quarter. Conditions in the North East remained negative, but the situation has improved over the quarter"*.

Introduction

The two major indicators of economic success have often been viewed as GDP and employment. Yet, the key driver of these indicators, the business base of the economy in question, is often overlooked. Thus, to leverage economic success, it is important to understand the trends and characteristics related to a country's business base.

This paper brings together and explores a range of information and data on Scotland's business base. It sets out to understand, evidence, and communicate on all facets of Scottish business stock. This includes:

- looking at **trends over time** in total business stock
- understanding the **contribution of different industry sectors** to the business base
- exploring businesses by **size, employment and legal status**
- analysing the **birth, death, and survival rates** of Scottish business stock
- looking at the characteristics of **GVA, turnover, and investment** amongst the business base
- examining trends in Scotland's business **ownership**
- evaluating data related to the role of businesses in **internationalisation**
- enhancing understanding of **manufacturing** in the business base
- considering **current challenges** for the business base
- and understanding the business base by **different geographical levels** (local authority, parliamentary constituency, urban and rural).

Useful definitions

Data and information used in this paper's analysis focus on **private sector enterprises** rather than *local units* (unless otherwise stated).

- An *enterprise* can be defined as the smallest combination of legal units (generally based on VAT and/or PAYE records) that is an organisational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. An enterprise carries out one or more activities at one or more locations. An enterprise may be a sole legal unit.
- A *local unit* (or business site) is an enterprise or part thereof (e.g. a workshop, factory, warehouse, office, mine or depot) situated in a geographically identified place.
- *Private sector* is defined as including the following enterprise types: companies (including building societies), sole proprietors, partnerships, public corporations/nationalised bodies, and non-profit making bodies and mutual associations. **Central and local government are excluded from the analysis. However, it is worth noting, if included central and local government would represent 0.1% of**

business organisations, and provide over a fifth (21%) of employment in Scotland.

[Scottish Government](#)¹ state that "*the figures for unregistered enterprises are estimated primarily using data from a sample survey (Labour Force Survey), which is subject to sampling error – this should be considered when making year on year comparisons between the number of unregistered enterprises*".

Please note, while the data and information sources used in this briefing paper are considered to be true and correct at the date of publication, changes to circumstances after the time of publication may impact on the accuracy of the data, such as annual updates to data sources.

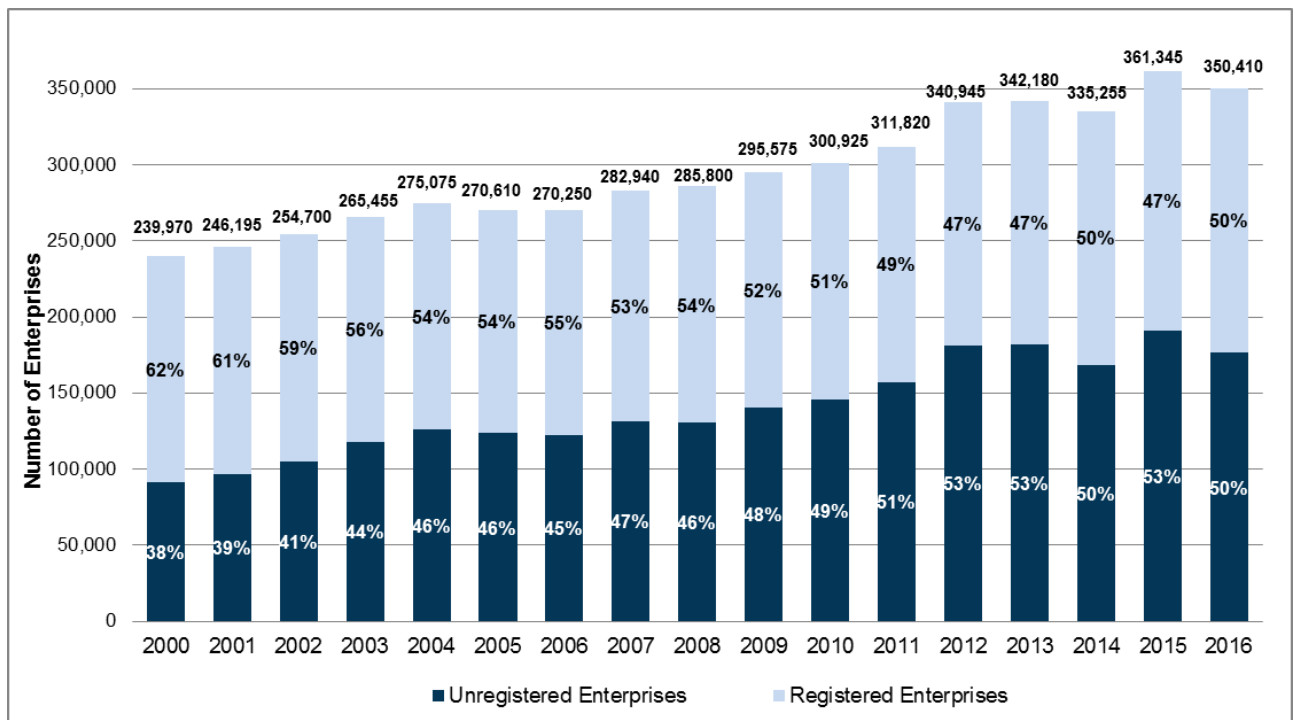
Total volume and trends over time

Total business base volume

There were 350,410 private sector businesses (data excludes central and local government) operating in Scotland as at March 2016 - a fall from 2015 but the 2016 business count is still relatively high (with it being the second highest stock figure in the series back to 2000).¹

- Unregistered businesses [unregistered enterprises are sole proprietorships and partnerships that are not large enough to be VAT registered (have an annual turnover below the VAT threshold, £82,000 as at March 2016) and are not PAYE registered (i.e. do not employ others)] accounted for approximately 176,400 enterprises (50% of the total) - the decrease in Scotland's business base over the latest year is driven by a fall in the number of unregistered businesses that fell by 14,590 (-7.6%).
- The number of VAT/PAYE registered businesses has increased - up by 3,660 (+2.1%) from 170,335 in 2015 to 173,995 in 2016 – the highest figure since the time series began (in 2000).

Figure 1: Number of enterprises (registered and unregistered) in Scotland 2000-2016



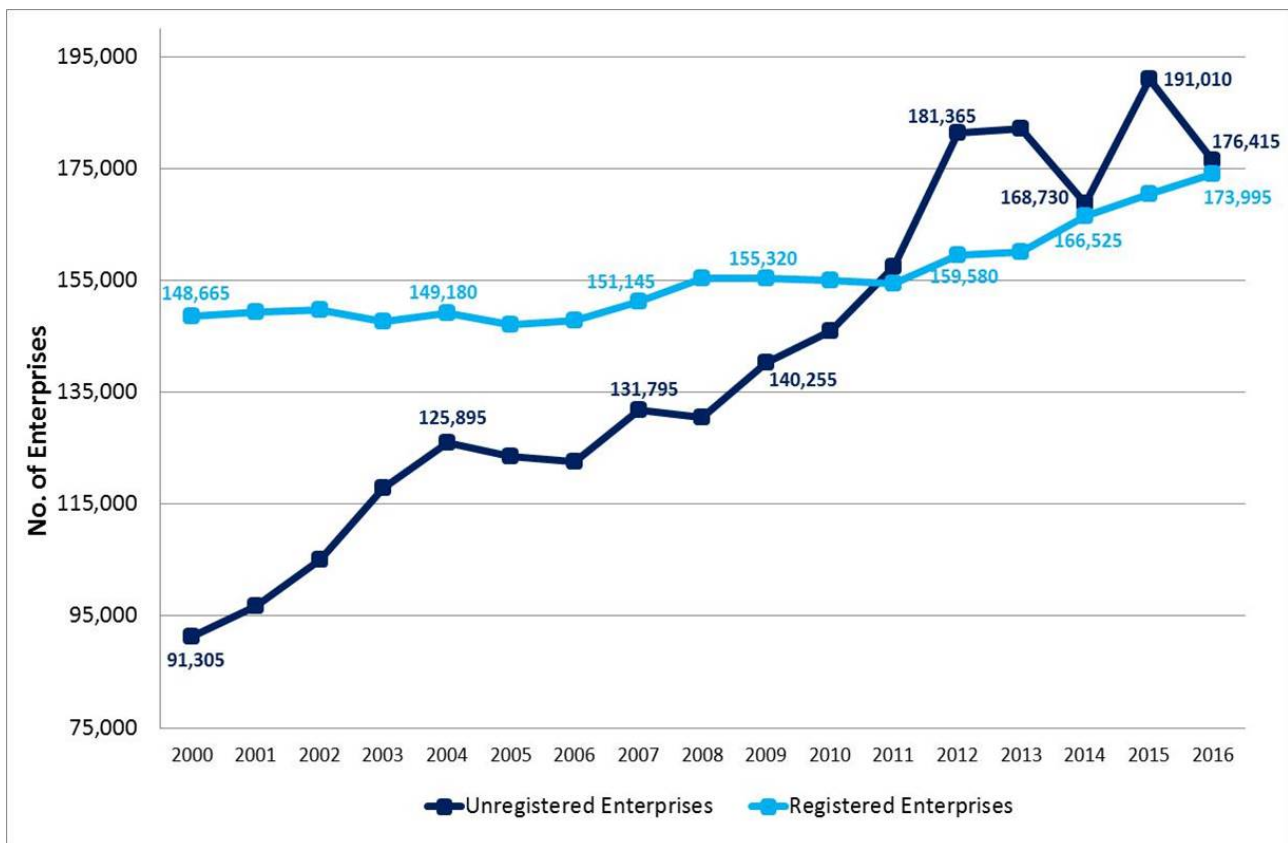
Source: Scottish Government, 2016¹

Business base trends over time

Unregistered and registered enterprises have shown differing growth trends overtime (see [Figure 2](#)).

- Over 2000 to 2004, unregistered enterprises had a period of sustained growth. In the two years that followed (2005 & 2006) there was a moderate decline in numbers. Over the seven years, 2007 to 2013, there was a general trend of high growth with an additional 50,335 unregistered enterprises created in Scotland . The most recent three years of data for unregistered enterprises have demonstrated a mixed and sporadic performance: the year to 2014 saw a fall of 7%; in 2015 numbers peaked at 191,010 (approximately 100,000 unregistered enterprises more than 15 years earlier); and the year to 2016 witnessed a 8% decrease.
- The number of registered enterprises remained relatively stable over the years 2000 to 2006 (averaging 148,000). This was followed by a period of moderate growth between 2007 and 2010. There was a minor dip in numbers in the year to 2011 (decrease of 700 enterprises). There has been consistent growth, over the most recent five year period (2012 to 2016), with an additional 14,400 registered enterprises in Scotland.

Figure 2: Number of enterprises in Scotland 2000 to 2016 - growth trends



Source: Scottish Government, 2016¹

Business base performance relative to the UK

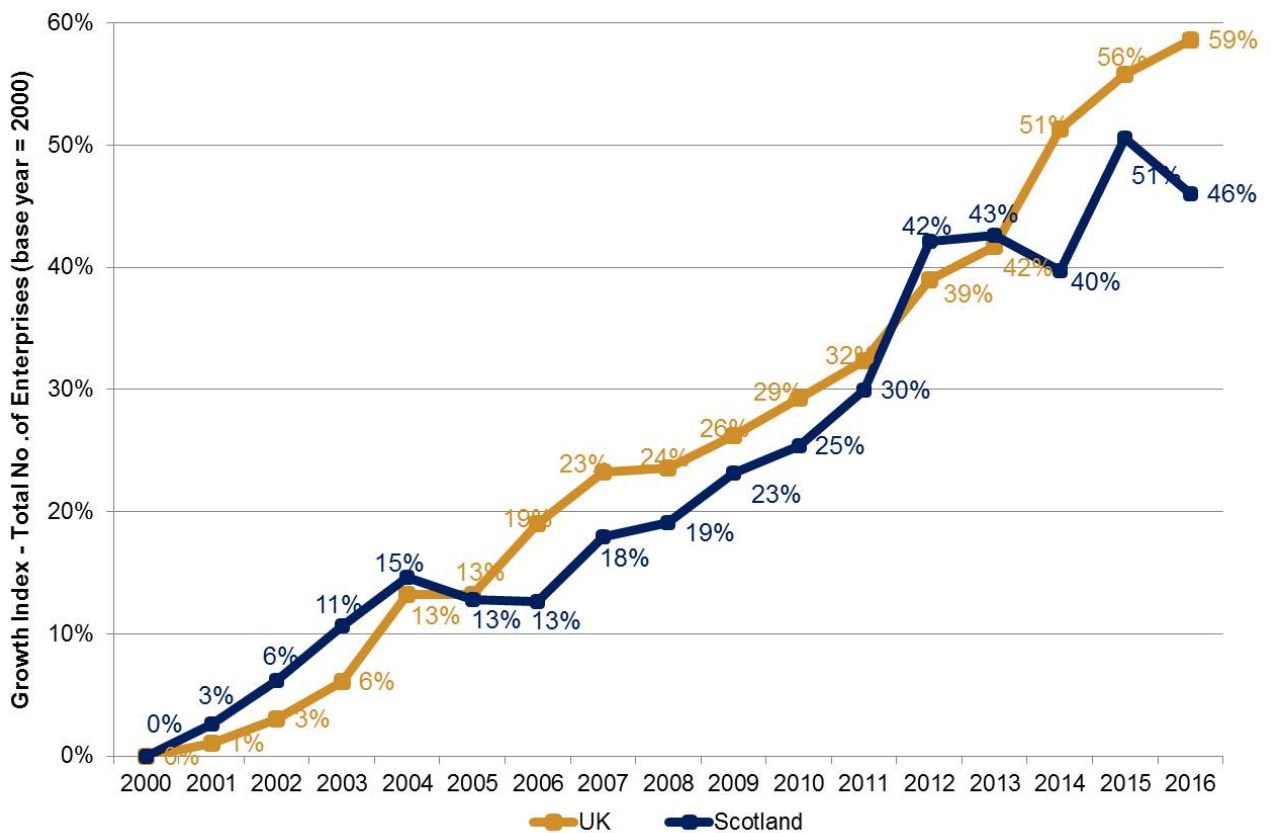
In 2016, Scotland represented 6.4% of the UK's total private sector business base of 5.49 million enterprises (registered and unregistered).

- This represented an under-performance relative to Scotland's UK population (16+) share of 8.4%.

- The most recent data show that for the UK as a whole, the total number of businesses increased by 1.8% between the start of 2015 and start of 2016. This compares to a decrease of 3.0% for Scotland between March 2015 and March 2016.

Since 2000 (see [Figure 3](#)) the growth rate of the UK's business base has generally surpassed that of Scotland. Between 2001 and 2004, Scotland out performed the UK. However, this was followed by a period of under-performance relative to the UK from 2006 to 2011. The years 2012 and 2013 saw an uplift in Scotland's performance. The last three years (2014 to 2016) have seen a changeable Scottish business growth rate, in contrast to sustained growth at a UK level. In 2016, the gap between Scotland's business base growth rate relative to the UK was the largest it has been since the data series began.

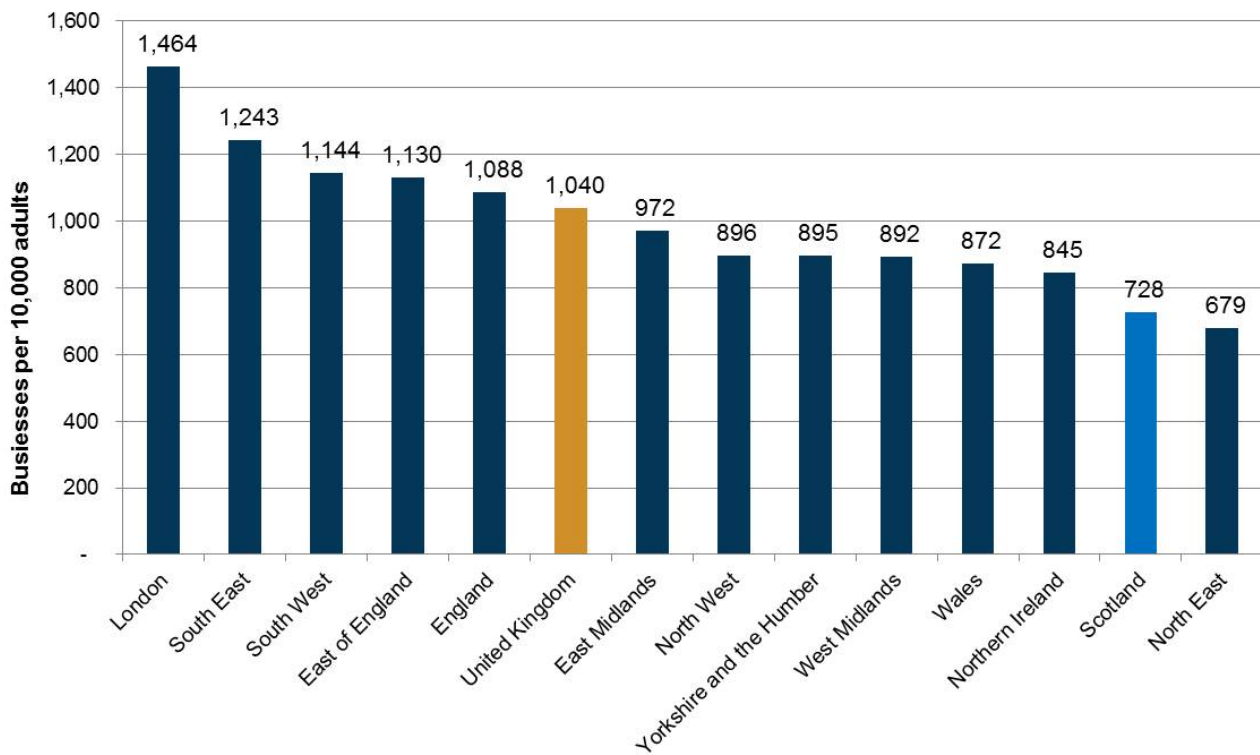
Figure 3: Business base growth UK & Scotland index 2000 to 2016 (base year = 2000)



Source: Scottish Government, 2016¹ and Department for Business, Energy & Industrial Strategy, 2016²

Scotland has a comparatively low business density rate relative to the UK average and other regions of the UK (see [Figure 4](#)). The number of businesses (registered & unregistered) in Scotland per 10,000 resident adults was 728 in 2016. This was significantly below the business density rates in London, South East, South West, and East of England. The North East was the only region with a business density rate lower than Scotland.

Figure 4: Number of businesses (registered and unregistered) per 10,000 resident adults (aged 16 and over), by UK region / country, 2016



Source: Department for Business, Energy & Industrial Strategy, 2016²

Business base by sector

Sector overview

As at March 2016, the two largest industry sectors, in terms of enterprise numbers, were 'Professional, Scientific & Technical Activities' (53,240 enterprises) and *Construction* (43,250 enterprises). Together, these sectors made up 28% of all private sector enterprises in Scotland's economy ¹.

Table 1: Number of enterprises in Scotland by sector 2016 (registered and unregistered)

Industry	Total	% of Total	% Change 2015 to 2016
Agriculture, Forestry and Fishing	19,585	6%	-9%
Mining and quarrying, utilities	3,285	1%	-3%
Manufacturing	18,355	5%	5%
Construction	43,250	12%	-10%
Motor trade incl. vehicle repairs	6,455	2%	-28%
Wholesale trade	6,490	2%	-21%
Retail trade incl. fuel sales	22,105	6%	8%
Transportation and storage	20,250	6%	4%
Accommodation and food service activities	17,740	5%	-7%
Information and communication	18,520	5%	22%
Financial and insurance activities	3,685	1%	1%
Real estate activities	6,840	2%	4%
Professional, scientific and technical activities	53,240	15%	0%
Administrative and support service activities	24,970	7%	-5%
Education	16,130	5%	-13%
Human health and social work activities	25,040	7%	-7%
Arts, entertainment and recreation	16,515	5%	-5%
Other service activities	27,960	8%	4%
Total	350,410	100%	-3%

Source: Scottish Government, 2016¹ Note: Figures rounded to the nearest five. Totals may not equal the sum of the constituent parts due to rounding.

In total, over the year to 2016, the number of enterprises in Scotland decreased by 3%. However, relative performance by broad industry sector was more mixed.

- The '*Information and Communication*' sector demonstrated the largest growth in enterprise numbers in the year to 2016, growing from 15,200 to 18,520 (22%). Other notable sectors for growth were '*Retail trade...*' at 8% and '*Manufacturing*' at 5%.
- In the year to 2016, both the '*Motor trade...*' and '*Wholesale trade*' sectors witnessed the largest decline in enterprise numbers, at 28% and 21% respectively (although worth noting these sectors have smaller bases relative to other sectors). '*Education*', '*Construction*', and '*Agriculture...*' also had noteworthy decreases in enterprise stock, with falls of 13%, 10% and 9% respectively.

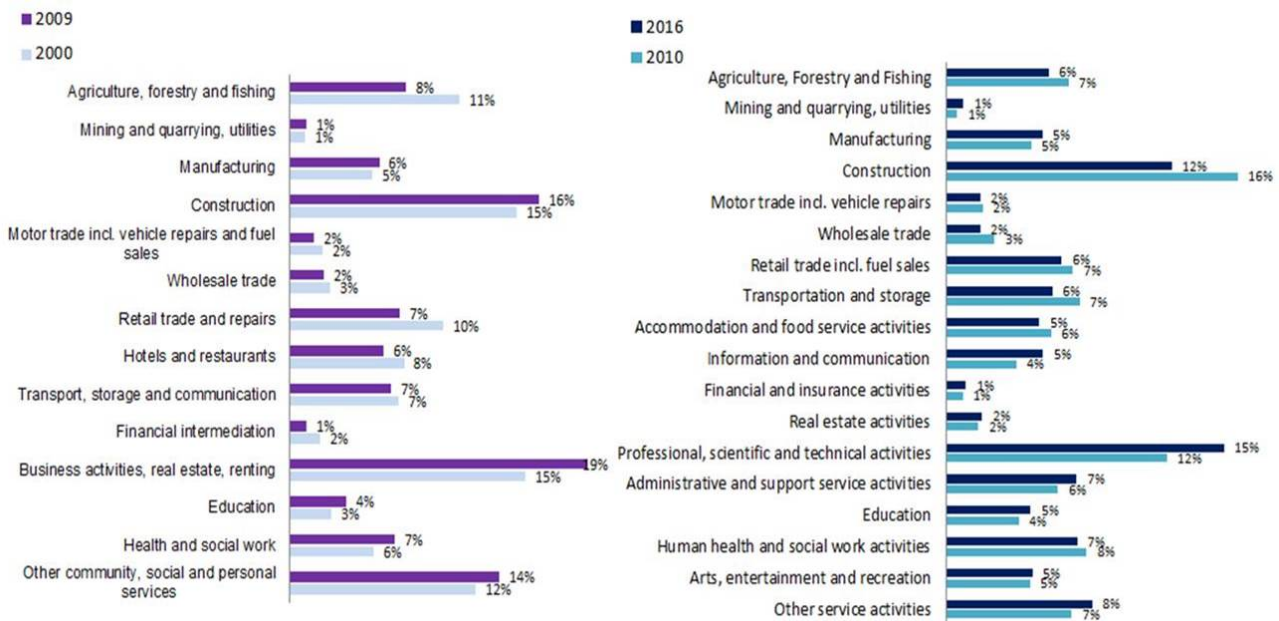
Sector changes over time

There was a change in data capture methodology in 2010 for sector data. This means it is not possible to create a directly comparable time series for 2000 to 2016 of the economy's business base structure by sector. Instead, the available data periods need to be interrogated separately, as illustrated in Figure 5. These data periods are not directly comparable, but do provide a useful proxy of the direction of change. There have been subtle changes in the structure of the economy:

- *agriculture, forestry & fishing* has steadily declined from 11% of businesses in 2000 to just 6% in 2016
- the proportion of *manufacturing* firms in the economy has held constant
- *construction*, while still one of the largest sectors, has decreased slightly. Likewise both *retail* related businesses and *accommodation & food serving* related businesses have downward trends.

The most recent 2010 to 2016 comparison shows the structure of the economy's business base is moving towards service orientated activities. This reflects global trends in developed economies.

Figure 5: Sector structure of business base 2000-2009 and 2010-2016



Source: Scottish Government, 2016¹ Note: 2000 to 2009 data collected in line with Standard Industrial Classification (SIC) codes 2003 and from 2010 onwards collected in accordance with SIC codes 2007.

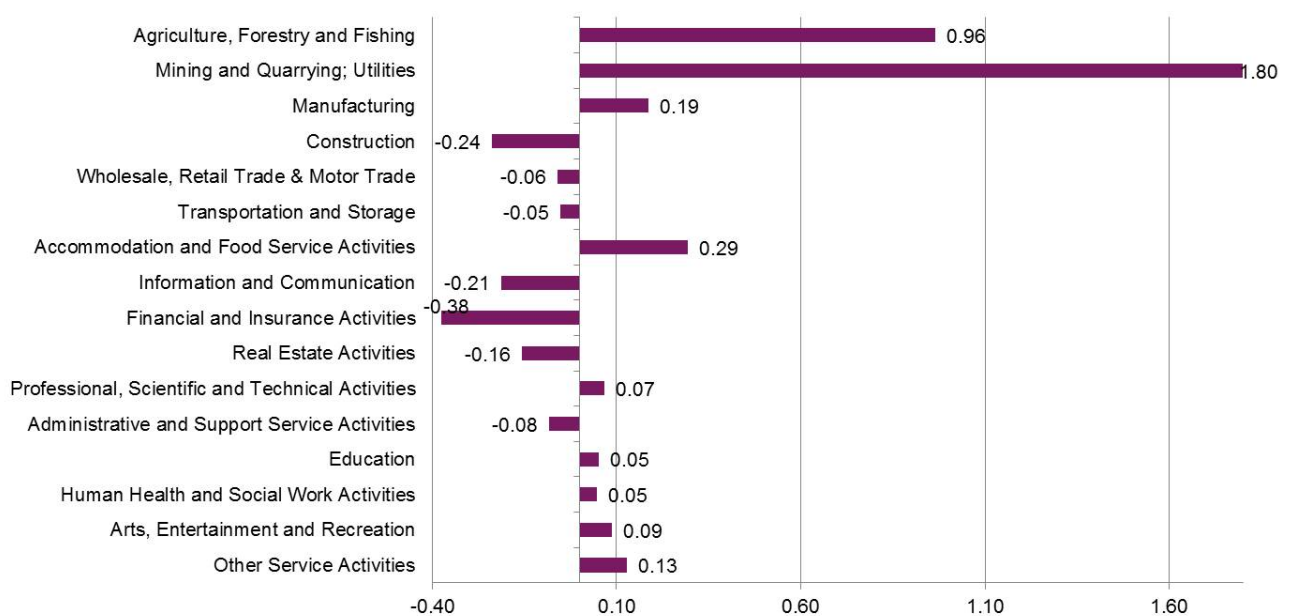
Sector intensity

Figure 6 quantifies how concentrated a particular industry is in Scotland, as compared to the UK average as a whole. It reveals what makes the Scottish economy “unique” in comparison to the UK. A score greater than zero indicates specialisation in a sector (the

higher the score the greater the level of specialisation) and a negative score shows a lower intensity of a sector in Scotland relative to the UK.

- Scotland had a significantly high specialisation and intensity in '*mining, quarrying, utilities*' reflecting the oil and gas industry in the North East. Scotland's economy also had a high specialisation in '*agriculture, forestry, & fishing*' relative to the UK, which is to be expected given Scotland's landscape characteristics.
- Other areas of intensity, though more minor in the extent of the specialisation, were '*accommodation & food serving activities*', '*manufacturing*', and '*other service activities*'.
- There were four sectors, in particular, that were relatively less intense in Scotland's business base compared to the UK economy. These were '*financial & insurance*', '*construction*', '*information & communication*', and '*real estate activities*'.

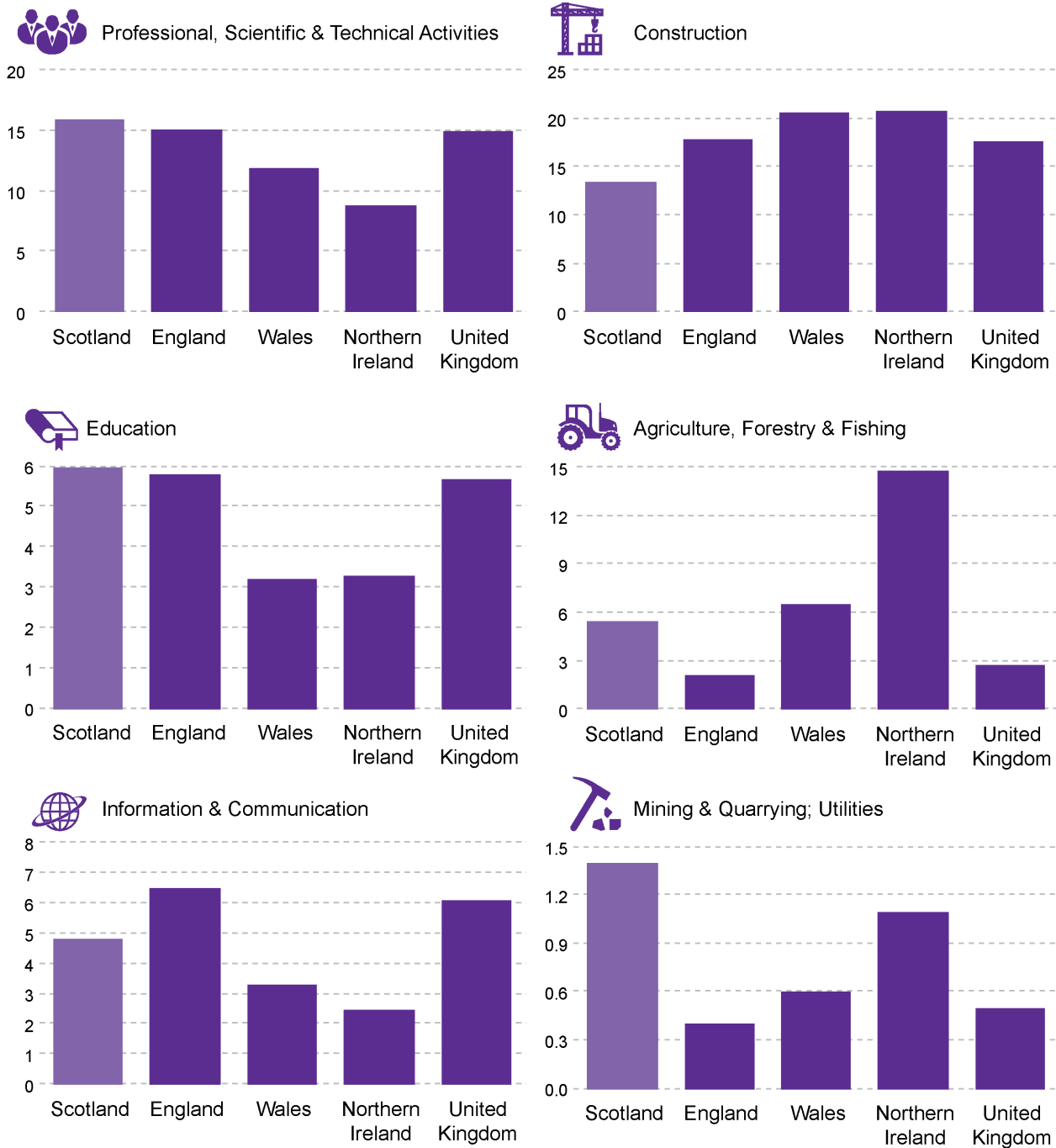
Figure 6: Scotland industry intensity relative to UK average (2016)



Source: Department for Business, Energy & Industrial Strategy, 2016²

Figure 7 shows the business make-up of selected sectors of the nations of the UK (and the UK average). Again here the significantly high specialisation in '*mining, quarrying, utilities*' is striking, reflecting the oil and gas industry in the North East. The high proportion of '*professional, scientific, and technical activities*' in Scotland's business stock is clear. Also notable is that despite the high specialisation in '*agriculture, forestry, & fishing*' relative to the UK average, the proportion of '*agriculture, forestry, & fishing*' in Scotland is lower than Northern Ireland and Wales.

Figure 7: Business base by selected sector (2016) - Scotland, UK, England, Wales, & Northern Ireland



Source: Department for Business, Energy & Industrial Strategy, 2016²

Growth sectors

[Scotland's Economic Strategy](#)³, according to the Scottish Government, sets out a framework which establishes an economic environment that provides an opportunity for all companies - large or small, Scottish or international, new or old, or social enterprises - to be successful.

The Strategy recognises that certain sectors of the economy offer particular opportunities for growth - in all or part of that sector - due to existing comparative advantages or through the potential to capitalise on Scotland's unique natural assets. These are sectors where Scotland typically has distinctive capabilities and businesses with the potential to be internationally successful. The Strategy identifies six growth sectors:

- Food & Drink (including agriculture & fisheries)
- Creative Industries (including digital)
- Sustainable Tourism
- Energy (including renewables)
- Financial & Business Services
- Life Sciences.

Growth sector contribution to business base

In 2016, there were 79,665 growth sector businesses in Scotland (registered enterprises - [Growth Sector Database](#)⁴ captures registered enterprises only). This represented 46% of all registered enterprises and 37% of all employment (in registered enterprises) in Scotland. In terms of volume of businesses, Financial and Business Services was the largest growth sector (28,305 enterprises) and Life Sciences the smallest (535 enterprises).

The proportion of growth sector businesses in the economy was relatively higher than the proportion of employment provided by growth sector businesses. This was due to the micro and small nature of many growth sector firms - 48% of growth sector firms had no employees and 50% were classed small (1-49 employees).

Table 2: Growth sector contribution - enterprises and employment

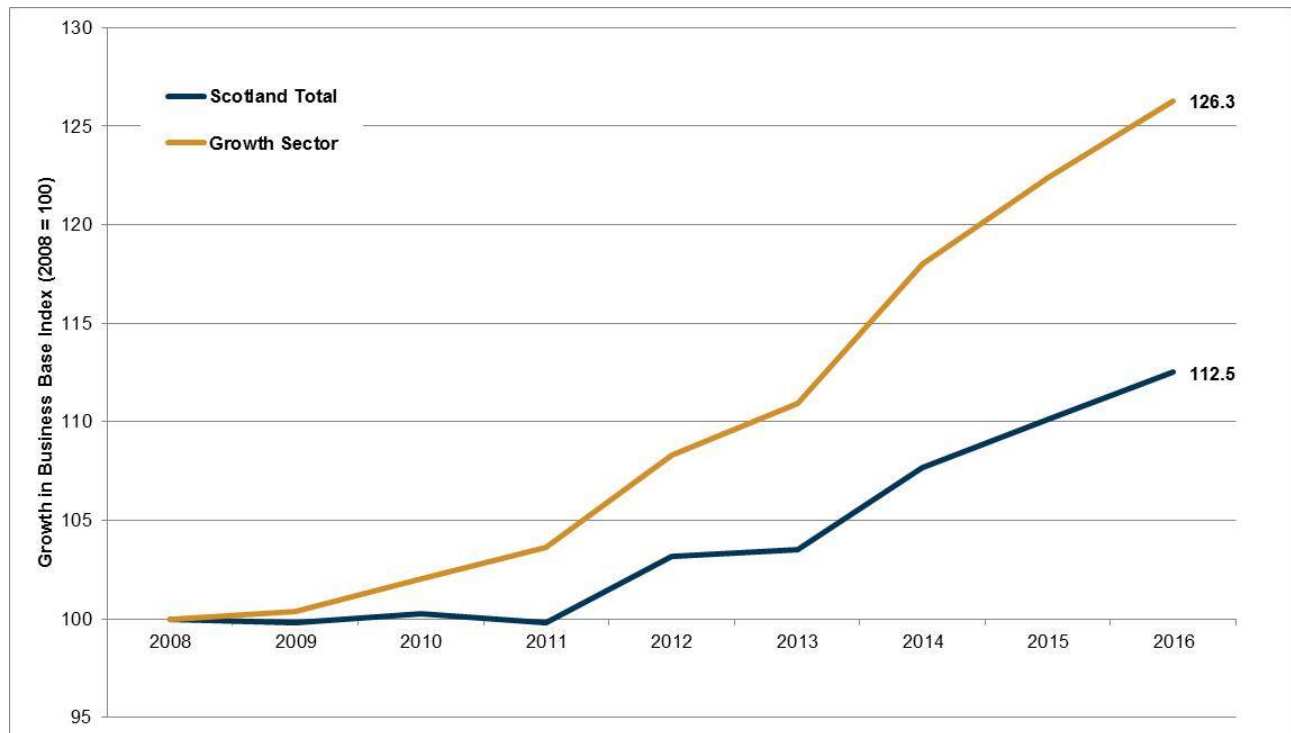
	No. of Enterprises (2016)	% of all Scottish Registered Enterprises (2016)	% Total Scottish Registered Employment (2015)	Enterprise % change: 2008 to 2016
Food and Drink	17,320	10%	6%	-2%
Financial and Business Services	28,305	16%	11%	40%
Life Sciences	535	0.3%	1%	22%
Energy (including Renewables)	3,995	2%	4%	244%
Sustainable Tourism (Tourism related Industries)	14,090	8%	11%	6%
Creative Industries (including Digital)	15,420	9%	4%	50%
All	79,665	46%	37%	26%

Source: Scottish Government, 2017⁴ Totals may not equal the sum of the constituent parts due to rounding.

The volume of businesses, in those sectors classed as growth sectors, have grown at a much more accelerated rate than the Scottish rate for all businesses (see [Figure 8](#)). Since 2008 the number of growth sector businesses in the economy grew by 26%, compared to 13% for all registered Scottish businesses. Apart from Food and Drink, the other five

sectors classed as growth sectors have all increased their business base size since 2008 - in particular this growth was driven by Finance (additional 8,070 businesses) and Creative Industries/Digital (5,145 additional businesses).

Figure 8: Business base growth index (2008=100) - 2008 to 2016



Source: Scottish Government, 2017⁴ Registered enterprises only - those registered for VAT and/or PAYE.

Business base by size, employment and legal status

Size and employment structure

The [Scottish Government Businesses in Scotland](#) publication showed that of the 350,410 private sector enterprises operating in Scotland in 2016:

- enterprises with no employees – that is sole proprietors or partnerships comprising only the owner-managers or companies comprising only the employee director – accounted for 69.4% of all private sector enterprises in Scotland and 13% of employment
- 100,885 (29%) were small (1-49 employees) representing 29% of total employment
- 3,920 (1.1%) were medium-sized (50 to 249 employees) and represented 13% of total employment in Scotland
- 2,365 (0.6%) were large (250 or more employees) and accounted for 45% of employment.

Table 3: Enterprises in Scotland by employee sizeband and Scottish employment 2016 (registered and unregistered)

Employee Sizeband	No. of Enterprises	% of Total Enterprises	Enterprises change 2015-2016	Total Scottish Employment	% of Total Employment	Employment change 2015-2016
0	243,245	69.4%	-4%	270,510	13%	-5%
1 - 4	64,985	18.5%	1%	178,570	8%	0%
5 - 9	19,520	5.6%	-5%	136,150	6%	-5%
10 - 19	11,275	3.2%	-1%	155,710	7%	-1%
20 - 49	5,105	1.5%	1%	146,280	7%	1%
50 - 99	2,235	0.6%	2%	119,580	6%	3%
100 - 199	1,320	0.4%	-1%	109,370	5%	-1%
200 - 249	365	0.1%	7%	39,340	2%	3%
250 - 499	805	0.2%	3%	116,210	5%	0%
500+	1,560	0.4%	3%	842,800	40%	3%
Total	350,410	100%	-3%	2,114,510	100%	0%

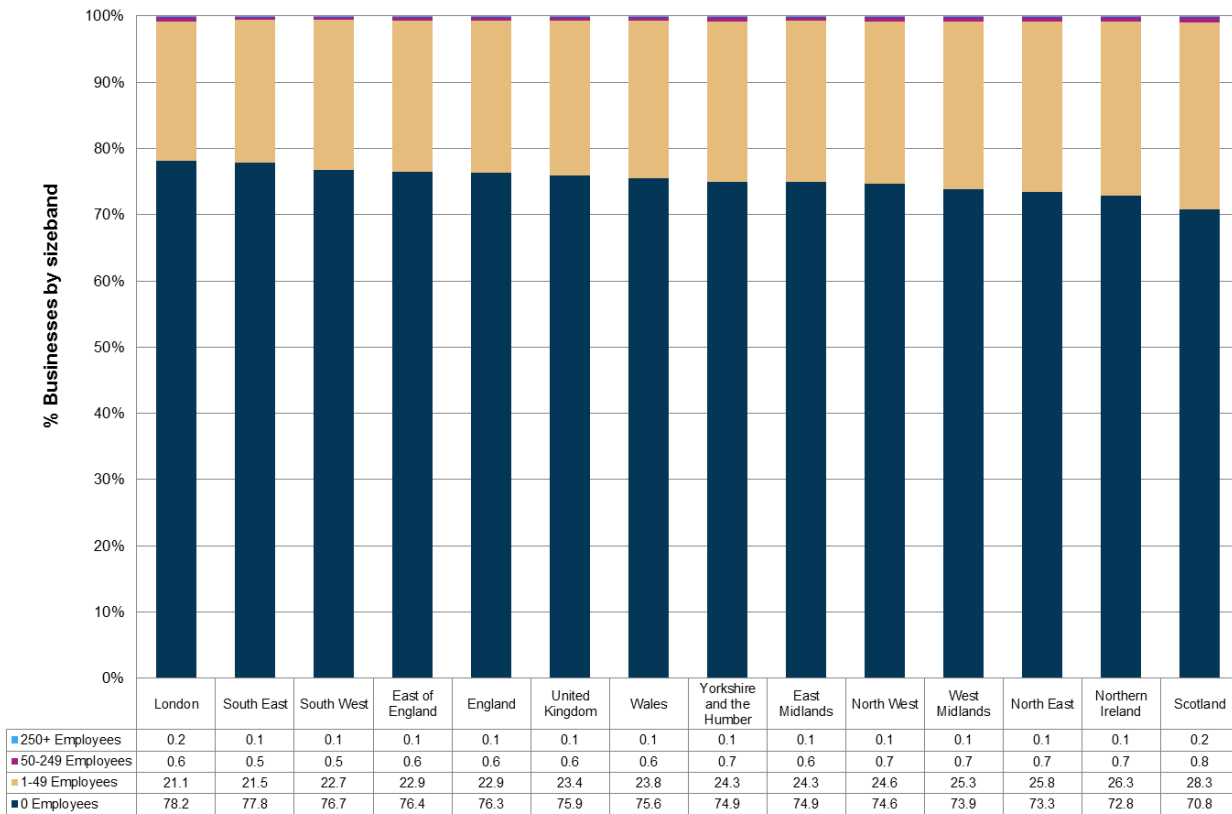
Source: Scottish Government, 2016¹ Note: Figures rounded to the nearest five. Totals may not equal the sum of the constituent parts due to rounding.

The [Scottish Government Businesses in Scotland](#) publication noted that:

“ Scotland has a different business stock make-up compared to the UK as a whole.....
Scotland has a lower rate of businesses that do not employ others but a higher rate of medium and large businesses compared to the UK as a whole. Large businesses account for a higher share of Scotland's private sector employment (45%), compared to the UK as a whole (40%). ”

Notable is the contrast, in the proportion of small businesses (1-49 employees) in Scotland relative to other UK regions (see [Figure 9](#)). This category made-up 29% of Scotland's business base - equivalent rates in other regions include London (21%), Wales (24%), North West (25%), North East (26%). This illustrates the unique nature of the make-up of Scottish business stock.

Figure 9: Regional business size summary 2016

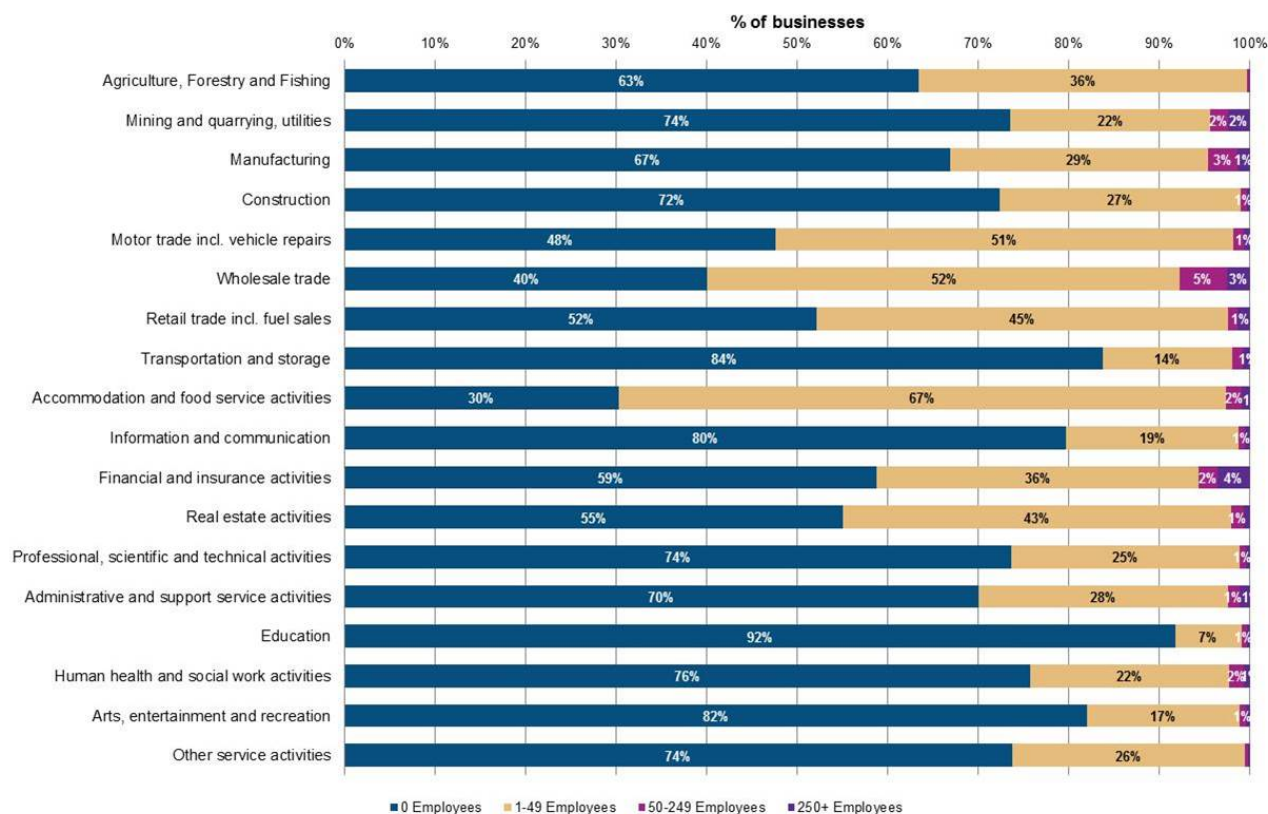


Source: Department for Business, Energy & Industrial Strategy, 2016²

Sectors by size

The sector make-up of Scotland's business stock varies significantly by size (see [Figure 10](#)).

- The sectors with the largest proportionate of enterprises with no employees were 'education' (92%) and 'transportation & storage' (84%). On the other end of the spectrum 'accommodation & food serving activities' (30%) and 'wholesale trade' (40%) had the fewest number of businesses with no employees.
- The highest proportion of large enterprises (250+ employees) were in the 'finance..' (4%), 'wholesale trade' (3%), and 'mining & quarrying..' (2%). There were very few large enterprises in 'agriculture, forestry ...' (0.1%, 15 enterprises), 'motor-trade' (0.7%, 45 enterprises), and 'real estate' (0.7%, 45 enterprises).

Figure 10: Business base - sectors by sizeband 2016

Source: Scottish Government, 2016¹

Legal status

Table 4: Enterprises by legal status 2016

	Number of enterprises	% of enterprises	2010 to 2016 % change enterprises	Total Scottish employment	% employment	2010 to 2016 % change employment
Companies (incl. Building Societies)	108,150	30.8%	40.5%	1,490,510	70.5%	13.1%
Sole proprietors	36,975	10.5%	-15.9%	106,470	5.0%	-15.0%
Partnerships	21,180	6.0%	-19.5%	123,210	5.8%	-21.1%
Public Corporation/nationalised body	35	0.0%	-46.2%	20,660	1.0%	-70.7%
Non-profit making bodies and mutual associations	7,660	2.2%	-0.8%	178,390	8.4%	5.4%
Unregistered enterprises	176,420	50.3%	20.9%	195,280	9.2%	21.4%
Total	350,410		16.4%	2,114,520		4.0%

Source: Scottish Government, 2016¹ Totals may not equal the sum of the constituent parts due to rounding. Central & Local Government are excluded.

Not including unregistered enterprises, companies made-up the majority of registered enterprises (31%) in 2016. There has been sustained high growth in the number of companies over the last six years - growing by 41% (31,150 additional enterprises). Recent years have witnessed a declining number of partnerships and sole proprietors in

the business base. Companies contributed the majority (71%) of Scotland's private sector employment base.

Birth, death and survival rates

Birth and death rates are calculated based on the concept of active businesses in a reference year. These are defined as businesses that had either turnover or employment at any time during the reference period.

- New business registrations are referred to as business births and the birth rate is calculated using the number of births as a proportion of the active businesses.
- Businesses that have ceased to trade (identified through de-registration of the administrative units, that is, VAT and Pay As You Earn (PAYE)) are referred to as business deaths and the death rate is calculated using the number of deaths as a proportion of the active businesses.

Business births and deaths

The number of Scottish business births increased by 2% between 2014 and 2015 to 21,725, resulting in a birth rate of 12.6%. The 21,725 business births in 2015 were the highest recorded since comparable records began. The number of Scottish business deaths increased by 4% from 15,630 to 16,315 between 2014 and 2015, a death rate of 9.4% compared with a rate of 9.3% in 2014.

Table 5: Scotland's business birth and death rates - 2010 to 2015

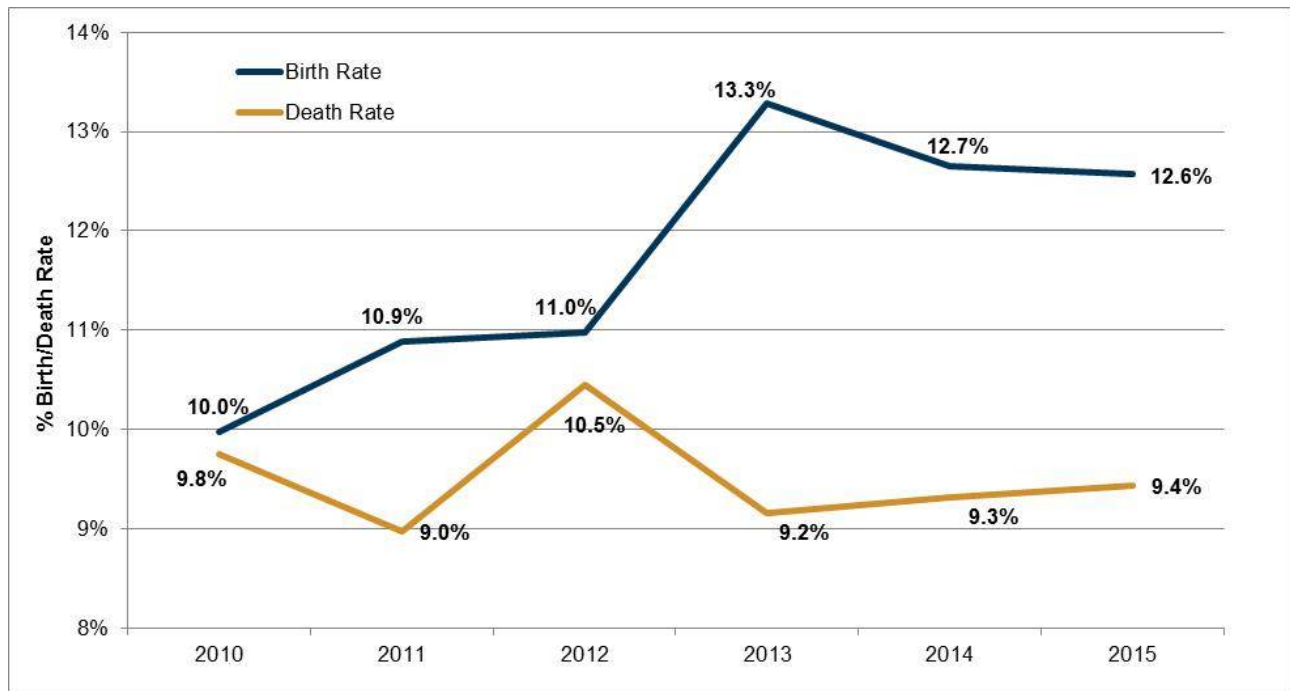
	Active Count	Birth Count	Birth Rate	Death Count	Death Rate
2010	155,695	15,530	10.0%	15,185	9.8%
2011	155,655	16,940	10.9%	13,970	9.0%
2012	158,320	17,385	11.0%	16,545	10.5%
2013	162,230	21,540	13.3%	14,850	9.2%
2014	167,860	21,235	12.7%	15,630	9.3%
2015	172,890	21,725	12.6%	16,315	9.4%

Source: Office of National Statistics (ONS), 2016⁵

Promisingly the gap has widened between business births and deaths, since 2013, although at a diminishing rate (see [Figure 11](#)). In 2013, businesses were born at a rate which was 4.1 percentage points higher than the death rate, by 2015 this gap had fallen to 3.2 percentage points (comparatively an under-performance relative to the UK gap of 4.9 percentage points for 2015).

The narrow gap between birth and death rates over the 2010 to 2012 period, reflected the lag effect of the economic downturn of 2008 and 2009. The gap from 2013 onwards reflected a turnaround with strengthened economic indicators.

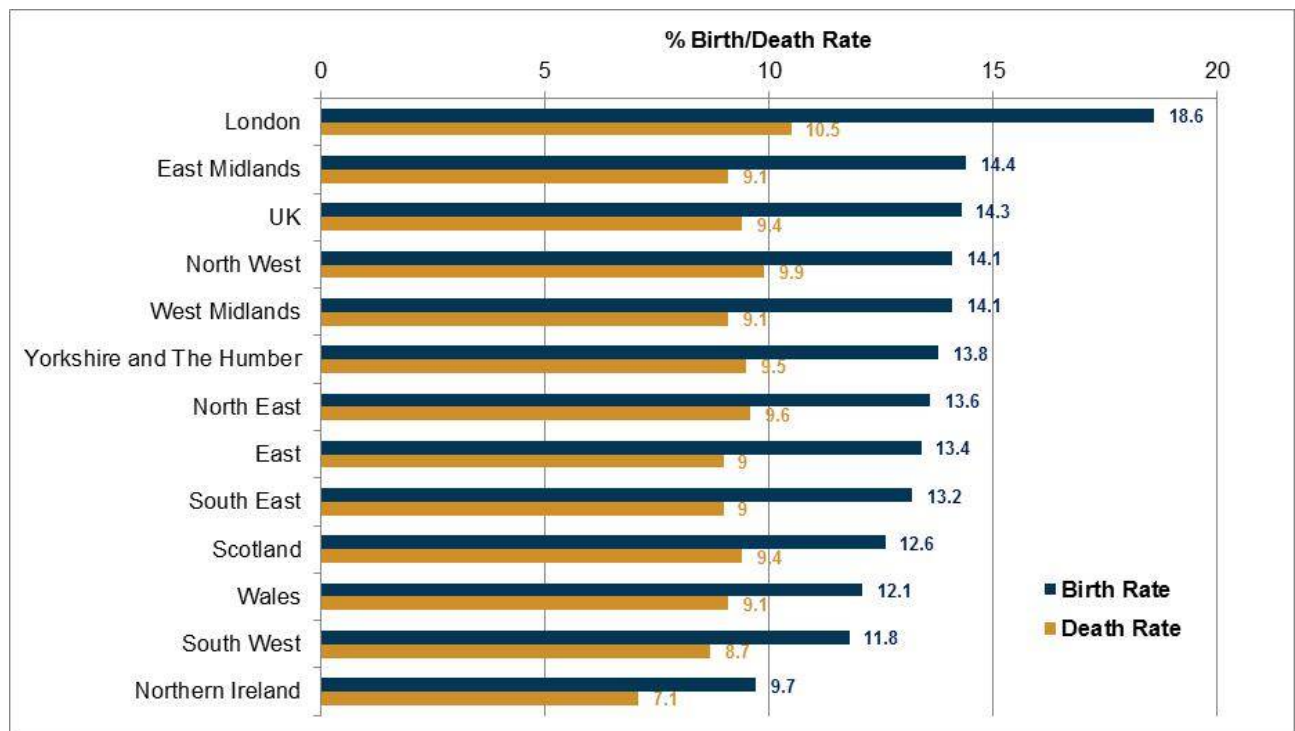
Figure 11: Scotland birth and death rate trends - 2010 to 2015



Source: Office of National Statistics (ONS), 2016⁵

Across the UK regions (see [Figure 12](#)), London had the highest business birth rate at 18.6%, followed by the East Midlands (14.4%) and North West and West Midlands (14.1%). Northern Ireland had the lowest birth rate, at 9.7%. Scotland had the fourth lowest birth rate of the 12 UK regions - at 12.6% - below the UK average of 14.3%.

The region with the highest business death rate was London at 10.5%, followed by the North West, at 9.9%. Northern Ireland had the lowest death rate, at 7.1%. Scotland had a business death rate of 9.4% - this matched the UK average. Scotland had the fifth highest death rate of the 12 UK regions.

Figure 12: Business birth and death rates by UK average and regions 2015

Source: Office of National Statistics (ONS), 2016⁵

Survival rates

The 1-year business survival rate in Scotland increased in 2011 and has been relatively stable over the years to 2014. Generally, Scotland's business survival rates were slightly above the UK average. The Scotland 5-year survival rate for businesses born in 2010 and still active in 2015 was 41.4% - this matched the UK average.

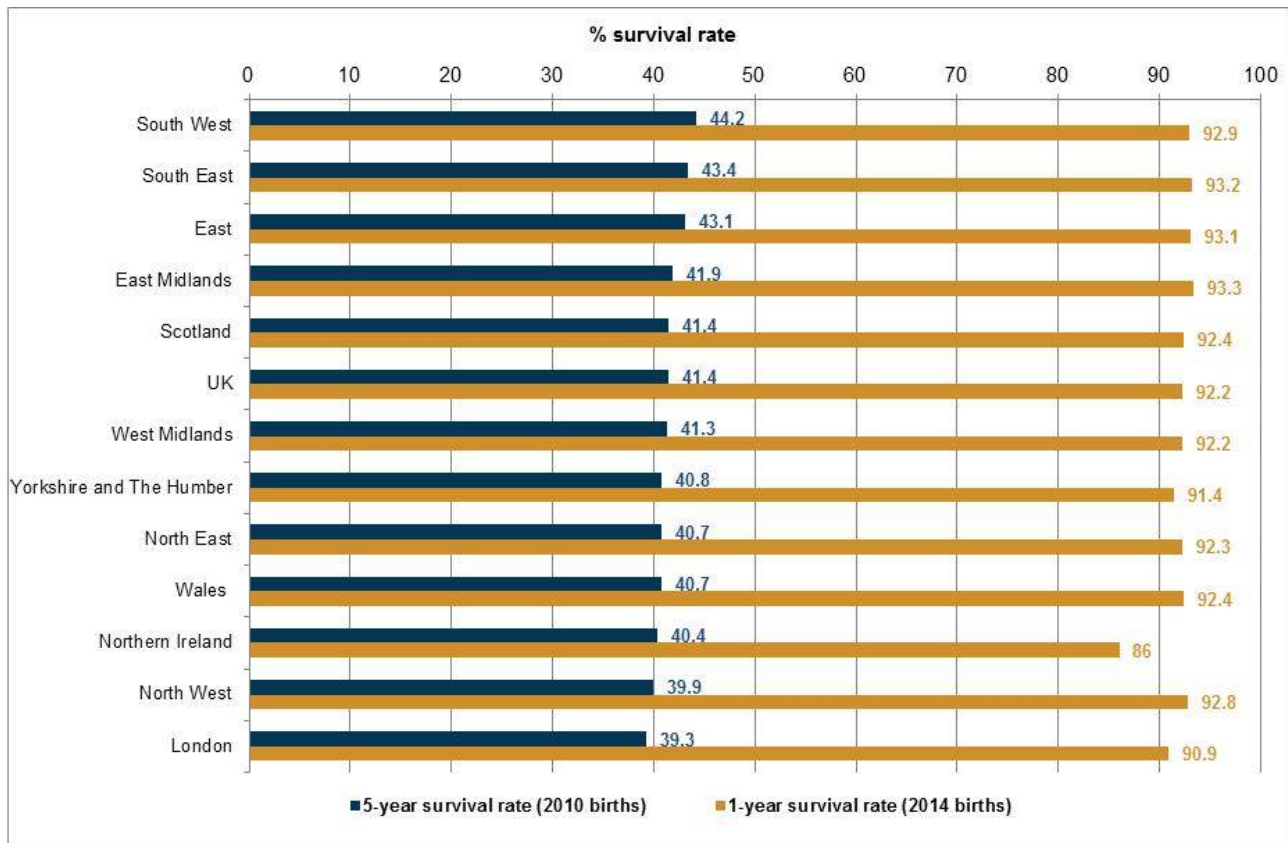
Table 6: Survival rates of businesses born between 2010 and 2014, Scotland

	Births 2010	Births 2011	Births 2012	Births 2013	Births 2014
1-year survival	86.7	93.1	91.2	93.5	92.2
2-year survival	72.5	75.6	73.8	75.0	:
3-year survival	57.1	60.5	59.4	:	:
4-year survival	48.1	51.0	:	:	:
5-year survival	41.4	:	:	:	:

Source: Office of National Statistics (ONS), 2016⁵

The highest 5-year survival rate, by region, was in the South West, at 44.2%, while the lowest was in London, at 39.3%. Scotland was ranked fifth out of the UK's 12 regions for 5-year survival rates and seventh for the most recent 1-year survival rate (see [Figure 13](#)).

Figure 13: Survival rates by UK average and regions



Source: Office of National Statistics (ONS), 2016⁵

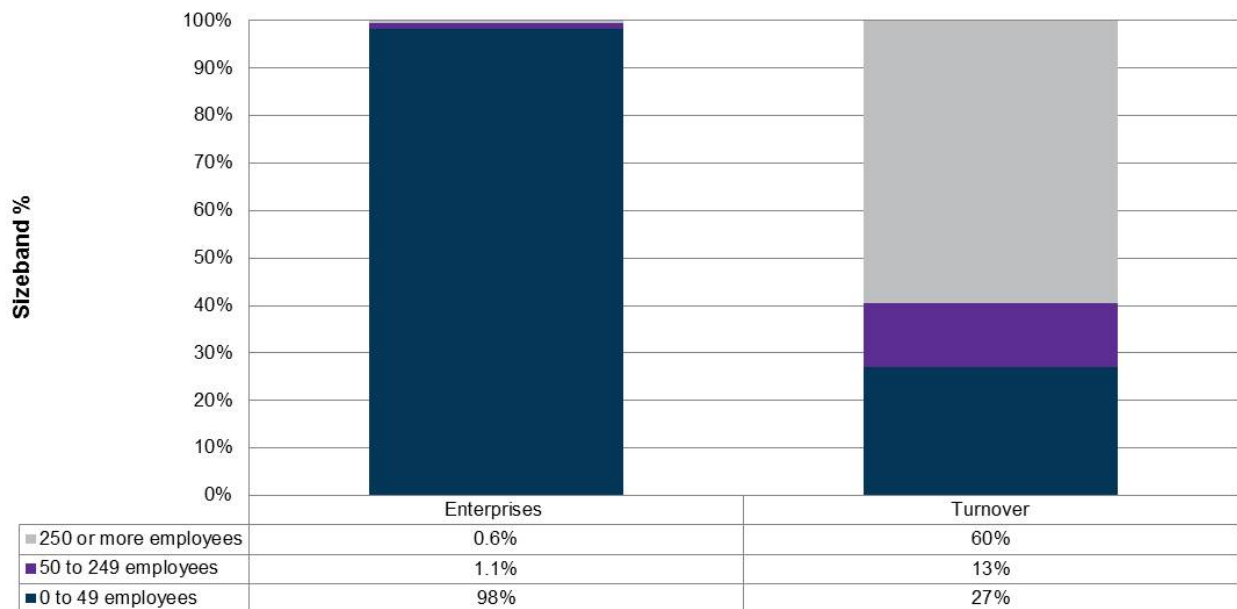
Turnover, GVA, and investment

Business turnover profile

Total private sector turnover generated by Scotland's 350,410 businesses (registered and unregistered) was £276.1 billion (2016). The majority (98%) of turnover was from registered enterprises.

The relationship between business size and turnover was inverse in nature (see [Figure 14](#)) - small businesses represented 98% of the business base but just 27% of turnover, whereas large businesses made-up 0.6% of the business base generating 60% of all turnover.

Figure 14: Businesses by sizeband and turnover (registered and unregistered) 2016



Source: Scottish Government, 2016¹ Totals may not equal the sum of the constituent parts due to rounding.

Average business turnover in Scotland was £658,100. Of the UK regions London had the highest business turnover ratio, followed by the South East and West Midlands (see [Table 7](#)). Scotland was ranked fourth highest of the regions.

Table 7: Average annual turnover per business 2016 - UK, regions, and nations

Region	Average turnover ratio per business
United Kingdom	£702,300
North East	£492,100
North West	£560,100
Yorkshire and the Humber	£577,600
East Midlands	£603,800
West Midlands	£733,400
East of England	£644,300
London	£1,149,600
South East	£738,300
South West	£387,000
England	£725,600
Wales	£384,400
Scotland	£658,100
Northern Ireland	£478,700

Source: Department for Business, Energy & Industrial Strategy, 2016²

GVA and the business base

Gross Value Added (GVA) is a measure of the increase in the value of the economy due to the production of goods and services. It is measured at current basic prices, which include the effect of inflation, excluding taxes (less subsidies) on products (for example, Value Added Tax). GVA plus taxes (less subsidies) on products is equivalent to Gross Domestic Product (GDP).

Scotland's GVA, excluding any share of UK extra-regio activity, was £127.5 billion in 2015, representing 7.6% of total UK GVA⁶. In 2015, GVA per head of population was £23,700, an increase of 1.8% on the previous year. Scotland's average GVA per enterprise was £731,400 (above the UK average of £680,300). [Table 8](#) shows that '*mining and quarrying*' and '*electricity, gas, steam and air-conditioning supply*' were the highest earning sectors in terms of GVA per enterprise in Scotland, reflecting importance of oil and gas sector.

Table 8: Average GVA per enterprise (current basic prices) - Scotland and UK (2015)

	Scotland - Average GVA per enterprise	UK - Average GVA per enterprise
Agriculture, forestry and fishing	£92,400	£73,700
Mining and quarrying	£7,261,800	£14,122,500
Manufacturing	£1,577,500	£1,251,200
Electricity, gas, steam and air-conditioning supply	£5,519,000	£6,953,500
Water supply; sewerage and waste management	£3,347,900	£2,331,900
Construction	£427,300	£358,400
Wholesale and retail trade; repair of motor vehicles	£567,600	£495,100
Transportation and storage	£1,043,300	£933,700
Accommodation and food service activities	£330,900	£339,100
Information and communication	£477,600	£562,800
Financial and insurance activities	£3,728,900	£2,447,900
Real estate activities	£2,353,500	£2,453,600
Professional, scientific and technical activities	£241,400	£286,300
Administrative and support service activities	£429,900	£413,900
Education	£4,153,600	£2,425,200
Human health and social work activities	£1,917,900	£1,237,100
Arts, entertainment and recreation	£498,100	£378,000
Other service activities	£293,800	£339,300
All industry average	£731,400	£680,300

Source: Office of National Statistics (ONS), 2016⁶, Scottish Government, 2016¹, and Office of National Statistics (ONS) Nomis, 2016⁷

Investment

Business investment is net capital expenditureⁱ by private and public corporations. These include investments in transport equipment, information and communication technology (ICT) equipment, other machinery and equipment, cultivated assets, intellectual property products (IPP, which includes investment in software, research and development, artistic originals and mineral exploration), and other buildings and structures. Business investment is a component of gross fixed capital formation (GFCFⁱⁱ).

Business investment does not include investment by central or local government, investment in dwellings, or the costs associated with the transfer of non-produced assets (such as land).

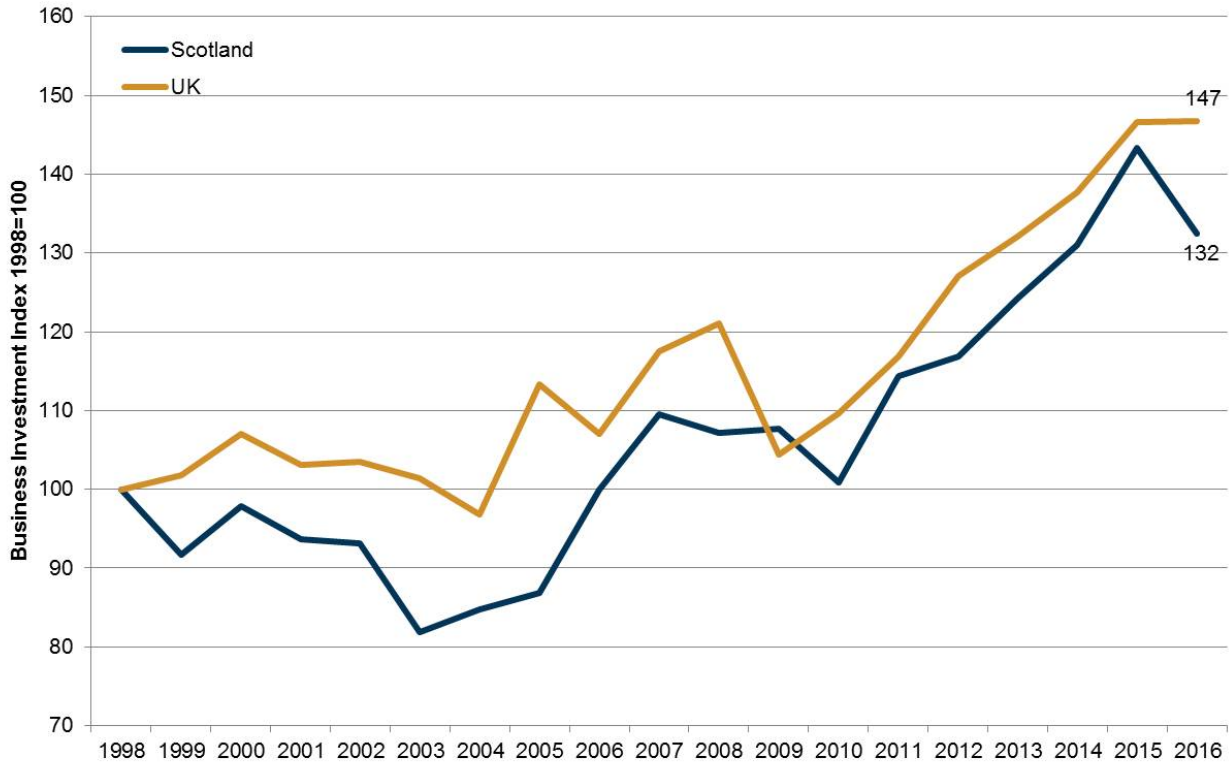
Scotland's business investment totalled £11.3 billion in 2016. Scotland's share of business investment represented 6% of total UK investment. Scotland's 2016 total represented a

i Net capital expenditure is the value of acquisitions (purchases) less disposals (sales) of fixed capital assets and is valued without adjusting for depreciation. It helps give a sense of how much money a company is spending on capital items such as property, plants and equipment.

ii Gross fixed capital formation is defined as the acquisition (including purchases of new or second-hand assets) and creation of assets by producers for their own use, minus disposals of produced fixed assets.

decline of 8% on the previous year. This decrease brought to a halt a sustained period of growth witnessed between 2010 to 2015 (see [Figure 15](#)). This is in contrast to the UK level, where business investment continues to grow (although very moderately over the year to 2016), expanding on the growth period started in 2009. Prior to 2010, investment at both a Scotland and UK level was relatively volatile.

Figure 15: Business investment element of gross fixed capital formation index: 1998 -2016 (current prices)



Source: Office of National Statistics (ONS), 2017⁸ and Scottish Government, 2017⁹ Note Scotland business investment data is classed as experimental as it is a new release.

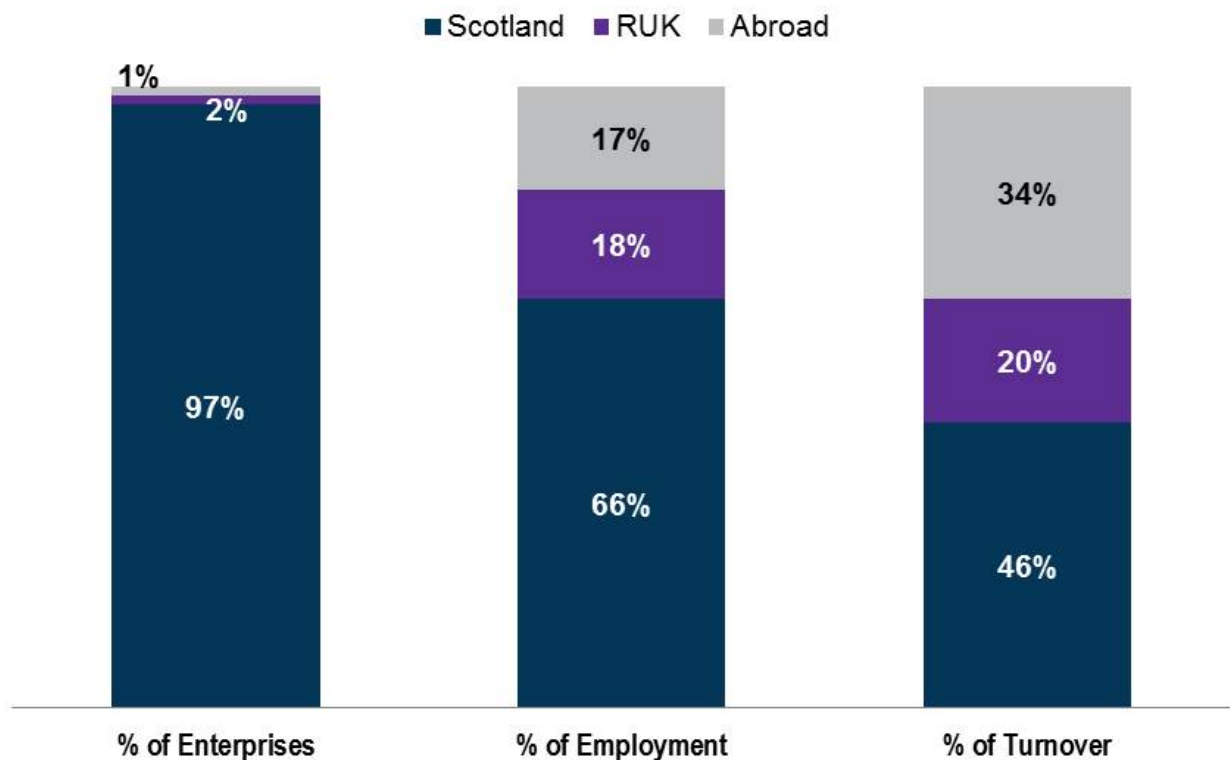
Companies by ownership

Information on the ownership of enterprises operating in Scotland is only available for the 173,995 enterprises registered for VAT and/or PAYE. Within the Scottish Government's 'Businesses in Scotland' publication, enterprises can be either 'Scotland based', 'Rest of the UK (RUK) based' or 'Abroad-owned'. For example, 'Scotland based' businesses are enterprises that are UK-owned and that have their registered office in Scotland.

Ownership overview

The majority of Scotland's private sector enterprises were Scotland-owned (97%). These indigenous enterprises contributed 66% of employment and 46% of turnover. Total non-Scottish owned enterprises (RUK-owned and Abroad-owned) represented 3% of enterprises, and accounted for 35% of employment and 54% of turnover.

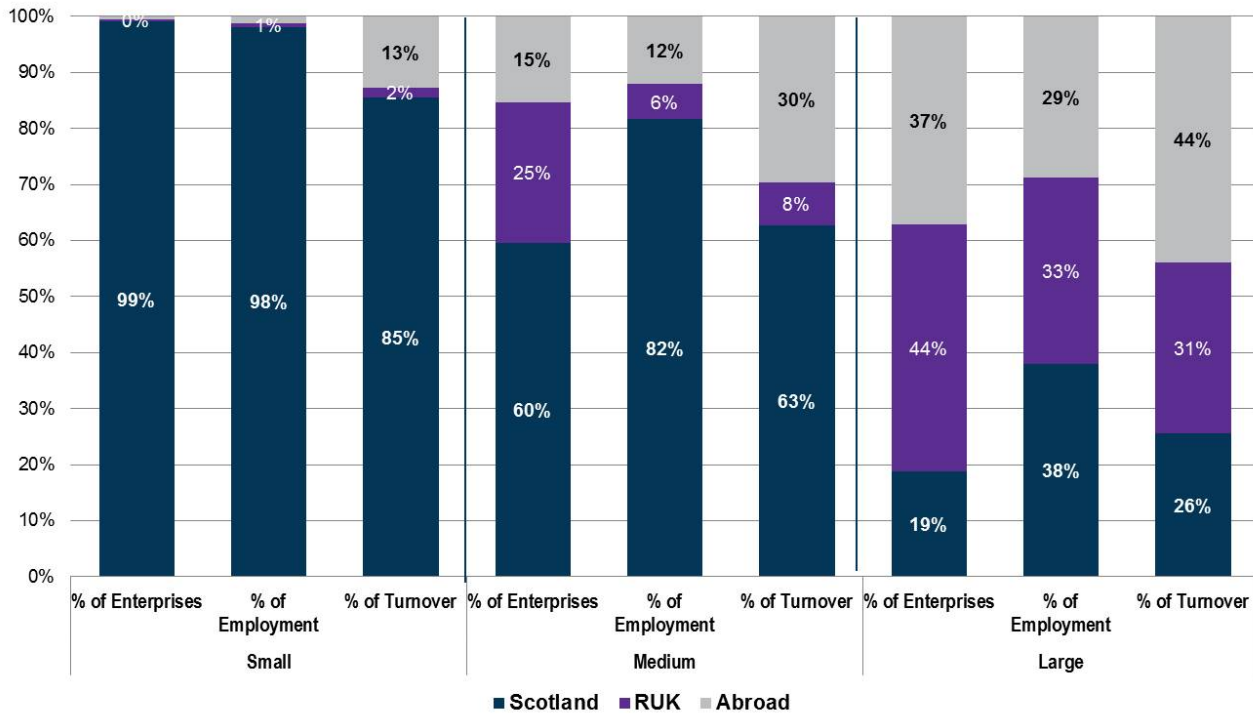
Figure 16: Enterprises, employment, and turnover by country of ownership (2016)



Source: Scottish Government, 2016¹

Figure 17 examines ownership by size. The metrics (enterprises, employment, turnover) related to small enterprises (0-49 employees) were very much dominated by indigenous Scottish-owned firms. Whereas large enterprises (250+ employees) were more likely to be non-Scottish owned (RUK-owned and Abroad-owned) - these represented 81% of large enterprises, accounting for 62% of employment and 75% of turnover in large enterprises.

Figure 17: Enterprises, employment, turnover by country of ownership and size-band (2016)

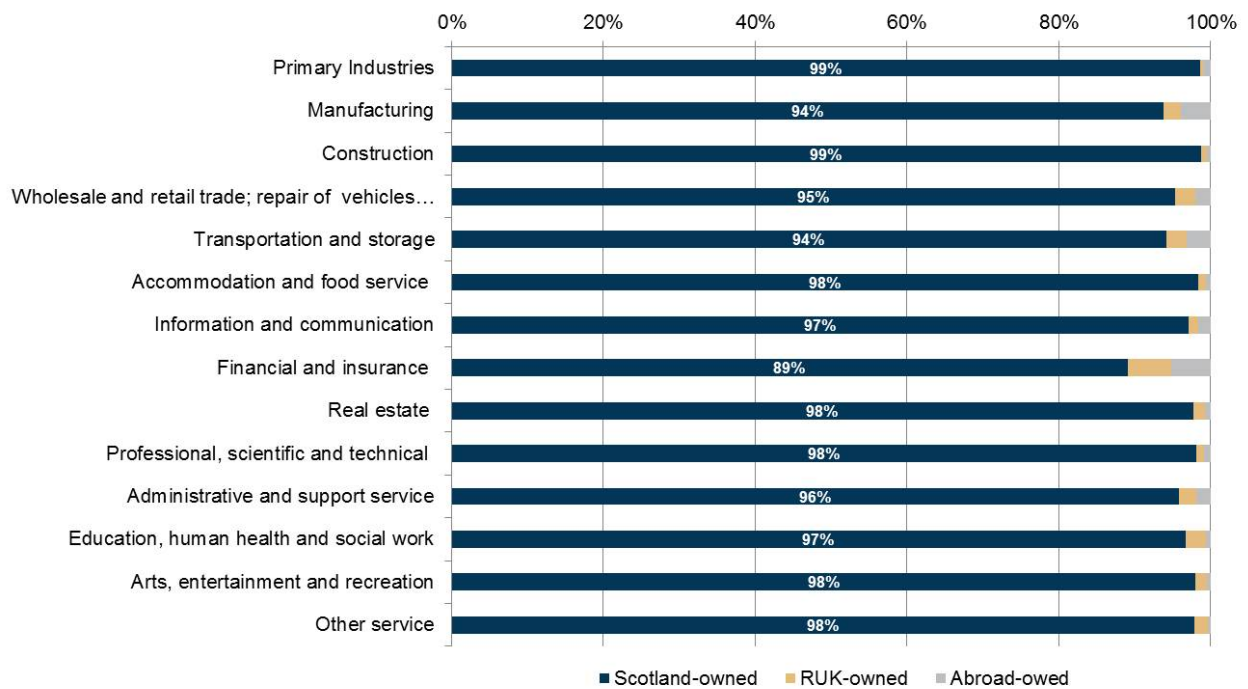


Source: Scottish Government, 2016¹

Ownership by sector

The majority of industry sectors were in line with the overall Scottish average, where 97% of firms are Scottish owned (see [Figure 18](#)). The main areas of variation were *financial and insurance activities* (11% non-Scottish owned), *manufacturing* (6% non-Scottish owned), *transport & storage* (6% non-Scottish owned), and *wholesale & retail trade* (5% non-Scottish owned). However, when share of employment by industry sector is examined by ownership, much more disparity is evident ([Figure 19](#)).

Figure 18: Registered enterprises (% of enterprises) - country of ownership by sector (2016)



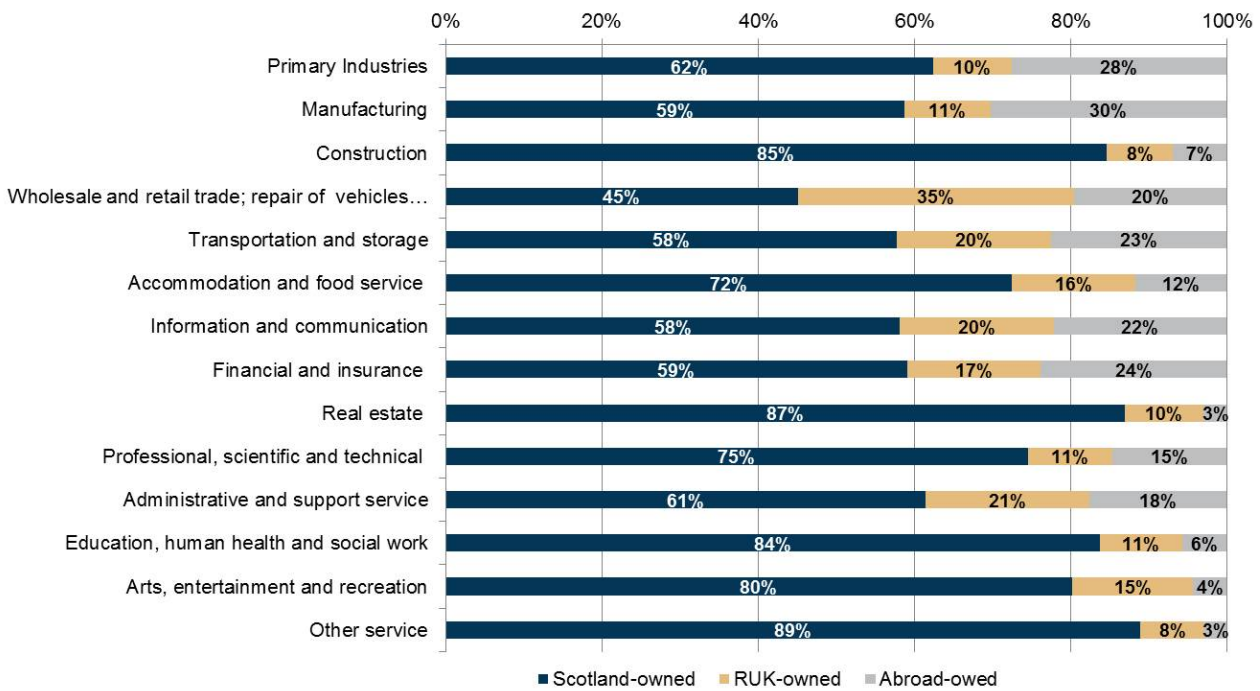
Source: Scottish Government, 2016¹

The share of employment provided by Abroad-owned enterprises was significantly greater than the proportion of Abroad-owned enterprise (see [Figure 19](#)).

- Only 1% of *primary industry* enterprises were Abroad-owned, yet these provided 28% of employment in the sector.
- Four percent of *manufacturing* enterprises were Abroad-owned, providing 30% of employment in the sector.
- *Wholesale and retail* (20%), *transport and storage* (23%), *finance and insurance* (24%) all had high shares of employment provided by Abroad-owned enterprises, relative to their total share of Abroad-owned firms.

The industry sectors *other service activities* (89%), *real estate activities* (87%), and *construction* (85%) all provided a high share of Scottish-owned employment.

Figure 19: Percentage of employment in registered enterprises by country of ownership and sector (2016)



Source: Scottish Government, 2016¹

Abroad-owned insights

Figure 16 showed that 1% of all registered enterprises in Scotland were Abroad-owned. This represented 2,305 of Scottish registered enterprises. Of these the largest proportions originated from the European Union (EU) and USA:

- 1,000 were EU Abroad-owned (43%) enterprises operating in Scotland – employing 127,110 people and generating a turnover of £36 billion (13% of all turnover from registered businesses in Scotland or 39% of all turnover from abroad-owned registered businesses in Scotland)
- 550 were USA Abroad-owned (24%) enterprises operating in Scotland – employing 102,810 people and generating a turnover of £34 billion (12% of all turnover from registered businesses in Scotland or 37% of all turnover from abroad-owned registered businesses in Scotland).

The remainder of Abroad-owned enterprises originated from a multitude of geographies, including Japan (85 enterprises), Australia (50), Canada (45), and Cayman Islands (40) to name but a few¹.

Business base and internationalisation

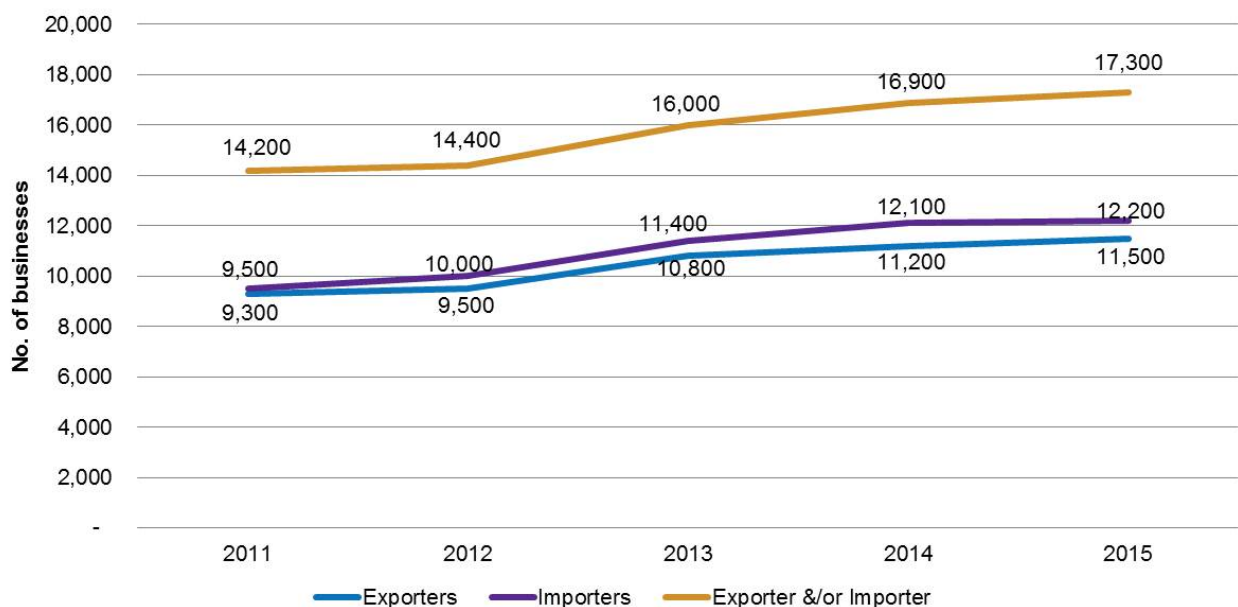
There is no comprehensive dataset available that captures the internationalisation activity of the entire business base. This chapter highlights the data which are available, providing a good indicator of trends in internationalisation activity.

Trading internationally

ONS Annual Business Survey ¹⁰ data showed an increase in the number of registered businesses in Scotland's non-financial business economy trading internationally, from 16,900 in 2014 to 17,300 in 2015 (2% increase).

In this instance, *international trade is defined as the import and/or export of goods and/or services*. These estimates cover the non-financial business economy in Scotland and exclude the following sectors: *public administration and defence; public sector health and education; finance; animal and crop production; and household services*. Thus, these counts under-estimate the number of businesses trading internationally due to sector coverage but are the best available indicators.

Figure 20: No. of non-financial businesses trading internationally 2011-2015



Source: Office of National Statistics (ONS), 2016¹¹

The 17,300 businesses trading internationally in 2015, represented approximately 10% of Scotland's registered business population in that period. Focusing on exporting, these 11,500 businesses represented 7% of the business base. Related data from the [Small Business Survey Scotland](#) ¹² found that the proportion of SMEs that stated they exported goods or services outside of the UK in 2016 was 16%. Thus, it can be estimated that 7%-16% of Scotland's business base are involved in export activity.

Furthermore, [ONS Annual Business Survey](#) data showed that in the four years to 2015, the number of businesses importing increased by 28% and those exporting by 24%. Scotland had the third fastest growth rate for exporting businesses, after Wales (27%) and

East Midlands (26%) (see [Table 9](#)). Scotland's exporting firms represented 5% of all exporting firms in Great Britain. This was an under-performance relative to Scotland's working age population share of 9% (although it should be noted that the structure of Scotland's underlying business base is different). Both London and the South East significantly over-performed, in terms of the share of exporting firms, relative to population share.

Table 9: Non-financial business economy - exporting growth and percentage share by region

	% change in no. exporting firms 2011 to 2015	% of total GB exporters	% of total GB population (16+) - 2015
North East	5%	2%	4%
North West	15%	8%	11%
Yorkshire and The Humber	10%	6%	9%
East Midlands	26%	7%	7%
West Midlands	-4%	7%	9%
East of England	7%	11%	10%
London	18%	23%	13%
South East	12%	20%	14%
South West	18%	9%	9%
Wales	27%	2%	5%
Scotland	24%	5%	9%

Source: Office of National Statistics (ONS), 2016¹¹ Note data does not include Northern Ireland.

Exporting insights

[Scottish Export Statistics](#) ¹³ show that total international and rest of the UK exports in 2015 (excluding oil and gas) were estimated at £78.6 billion, up £3.1 billion (4.1%) in the year. Exports to the rest of the UK accounted for 63% of this total, EU exports accounted for 16% and non-EU exports 21%.

Exports by sector

In the most recent Scottish Government [data](#) ¹³, the largest export industry was the *manufacture of food and beverages* with exports worth £8.9 billion, 11% of all exports. The second largest industry was *financial & insurance* (£8.8 billion), followed by *wholesale and retail trade* (10.6% of all exports). *Professional, scientific and technical activities* (£8 billion, 10% of all exports), *utilities* (8% of all exports), and *mining and quarrying* (7% of all exports) complete the top 6 exporting industry sectors ([Table 10](#)). These sectors accounted for 58% of all exports.

Table 10: Top 6 export sectors (total rest of the UK and international) 2015

	Value of International Exports (£, million) - (% of total international exports) 2015	Value of Rest of UK and Exports (£, million) - (% of total Rest of UK exports) 2015	% of All Exports (Total Rest of the UK and International) 2015
Manufacture of food & beverages	4,835 (16.8%)	4,075 (8.2%)	11.3%
Financial & Insurance	1,270 (4.4%)	7,550 (15.1%)	11.2%
Wholesale & retail trade	1,640 (5.7%)	6,660 (13.4%)	10.6%
Professional, scientific and technical	3,510 (12.2%)	4,400 (8.8%)	10.1%
Utilities	295 (1.0%)	5,785 (11.6%)	7.7%
Mining & Quarrying	2,135 (7.4%)	3,140 (6.3%)	6.7%

Source: Scottish Government, 2017¹³

Please note these top 6 sectors are based on all exports (international and rest of UK) - the order of sectors will differ, if focusing on international only or rest of UK exports only. For example *financial & insurance* comprise 15% of rest of UK exports but only 4% of international exports.

Exports by company size

The majority (57%) of Scotland's export value (£45 billion) was generated by large enterprises. Medium sized enterprises accounted for 25% of all exports and this proportion has increased in recent years, growing by 27% between 2011 and 2015.

Table 11: Exports (total rest of the UK and international) by company size, 2015

	Total Export value (£, millions)	% of total export value	2011-2015 % change in value
Small (<50 employees)	14,175	18%	10%
Medium (50-249 employees)	19,295	25%	27%
Large (250+ employees)	45,100	57%	5%

Source: Scottish Government, 2017¹³

SPICe briefing [SB 17-14](#) provides more information on Scotland's exports.

Manufacturing in the business base

Manufacturing has long been held as a sector that provides strength and stability to national economies, owing to its contribution to exports, productivity, and ability to create jobs (both skilled and semi-skilled). Manufacturing is no longer what it was in its mid twentieth century peak, nonetheless it is still of strategic importance for many economies.

Scotland has a proud manufacturing heritage as acknowledged in the recent strategy document '[A Manufacturing Future for Scotland](#)', which recognises manufacturing is continually evolving, increasingly IT driven, and encompasses a wide variety of activities across a range of industrial and service sectors.

Manufacturing sub-sectors

As demonstrated previously in [Table 1](#), in 2016 manufacturing represented 5% (18,355 enterprises registered and unregistered) of Scotland's business base. These businesses contributed 9% of Scottish employment and 14% of the economy's turnover.

Detail by manufacturing sub-sector, which is only available for registered enterprises, is shown in [Table 12](#). Scotland's largest proportion (20%) of manufacturing enterprises were clustered around *fabrication and metal product production*. This was followed by *repair and installation of machinery and equipment* (12%) and *wood related manufacturing* (11%) rounded out the top three.

- Food product manufacturing, despite been only the fourth largest manufacturing sector in terms of enterprise numbers, was the largest contributor to manufacturing employment. It provided 19% of all manufacturing employment and 15% of all manufacturing turnover.
- Beverage manufacturing was the largest contributor (17%) to manufacturing turnover, even though it made-up only 2% of business stock in the wider manufacturing sector. And 7% of employment.

Table 12: Scotland's manufacturing sub-sectors 2016 - enterprises, employment, and turnover

	% of total manufacturing enterprises	% of total manufacturing employment	% of total manufacturing turnover
Manufacture of Fabricated and Metal Products	20%	12%	7%
Repair and Installation of Machinery and Equipment	12%	8%	10%
Manufacture of Wood and of Products of Wood and Cork	11%	4%	3%
Manufacture of Food Products	8%	19%	15%
Other Manufacturing	7%	3%	1%
Printing and Reproduction of Recorded Media	6%	2%	1%
Manufacture of Machinery and Equipment Not Elsewhere Classified	6%	8%	8%
Manufacture of Computer, Electronic and Optical Products	4%	5%	4%
Manufacture of Textiles	3%	3%	1%
Manufacture of Other Non-Metallic Mineral Products	3%	3%	2%
Manufacture of Rubber and Plastic Products	3%	5%	4%
Manufacture of Furniture	3%	1%	1%
Manufacture of Wearing Apparel	2%	2%	1%
Manufacture of Beverages	2%	7%	17%
Manufacture of Chemicals and Chemical Products	2%	3%	8%
Manufacture of Other Transport Equipment	2%	6%	7%
Manufacture of Electrical Equipment	2%	2%	2%
Manufacture of Basic Metals	1%	1%	2%
Manufacture of Motor Vehicles, Trailers and Semi-Trailers	1%	2%	2%
Manufacture of Paper and Paper Products	1%	2%	2%
Manufacture of Basic Pharmaceutical Products and Pharmaceutical Preparations	0.3%	2%	2%
Manufacture of Leather and Related Products	0.3%	0.4%	Not available
Manufacture of Coke and Refined Petroleum	0.1%	0.6%	Not available
Total Manufacturing	9,040 enterprises	182,000 employment	£37,556 million

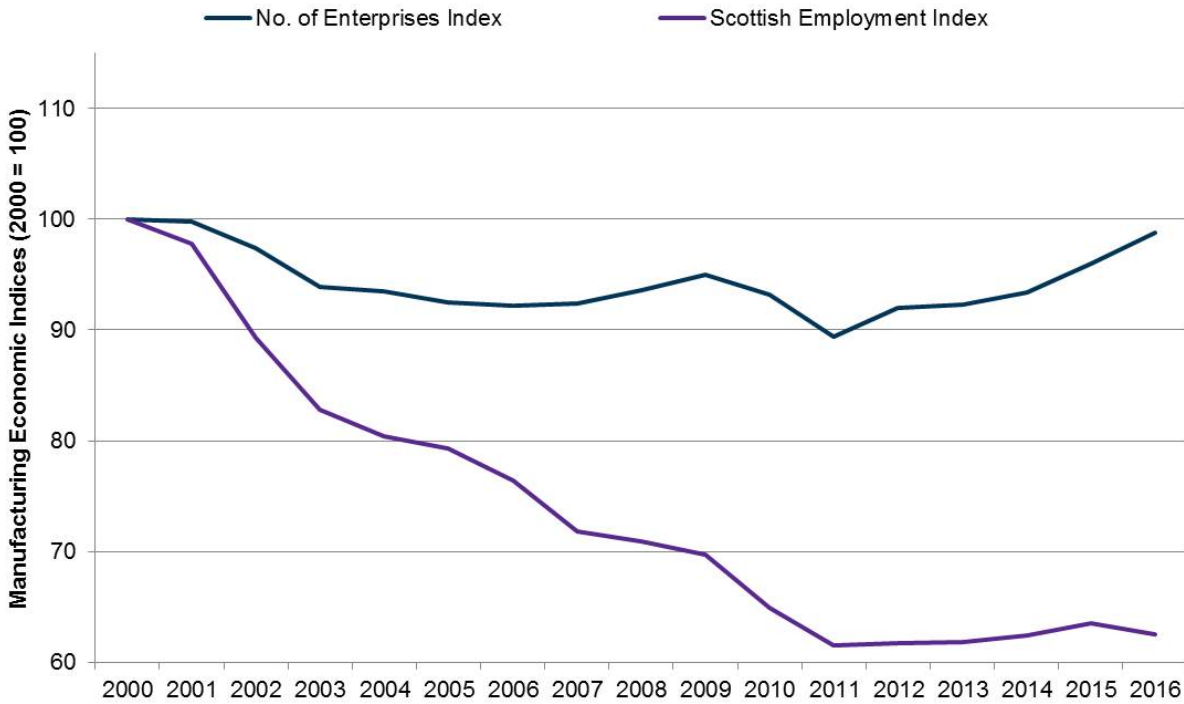
Source: Scottish Government, 2016¹ *Note: Data only refers to the registered enterprises. Unregistered are sole traders and partnerships who are not registered for PAYE or VAT. Totals may not equal the sum of the constituent parts due to rounding.*

Manufacturing over time

Figure 21 shows that there has been a relatively moderate decline in the number of manufacturing enterprises in Scotland. The early 2000s saw a steep fall, which plateaued over the period 2003 to 2008. This was followed by another period of decline during the financial crisis of the late 2000s. However, from 2012 onwards the number of manufacturing enterprises has been on an upward trajectory. As of 2016 manufacturing enterprises numbers were almost back at 2000 levels.

Despite this relatively moderate decline in enterprise numbers, the same cannot be said for manufacturing employment numbers. The ten year period to 2011 witnessed a significant decline in manufacturing employment, followed by a relatively flat period with minor growth. The most recent 2016 data again saw a slight dip in numbers - it remains to be seen whether this will be a continued trend or a one off adjustment.

Figure 21: Manufacturing enterprise and employment indices - 2000 to 2016



Source: Scottish Government, 2016¹ Note: Data only refers to the registered enterprises. Data prior to 2010 have been adjusted to reflect methodological changes and are therefore consistent.

Size of manufacturing enterprises

Manufacturing enterprises tend to be larger than the all sector Scottish average, particularly registered enterprises. Seven percent of registered manufacturing enterprises fall within the 50-249 employees sizeband, in contrast to a national average of two percent.

Figure 22: Manufacturing enterprises by sizeband 2016

Source: Scottish Government, 2016¹

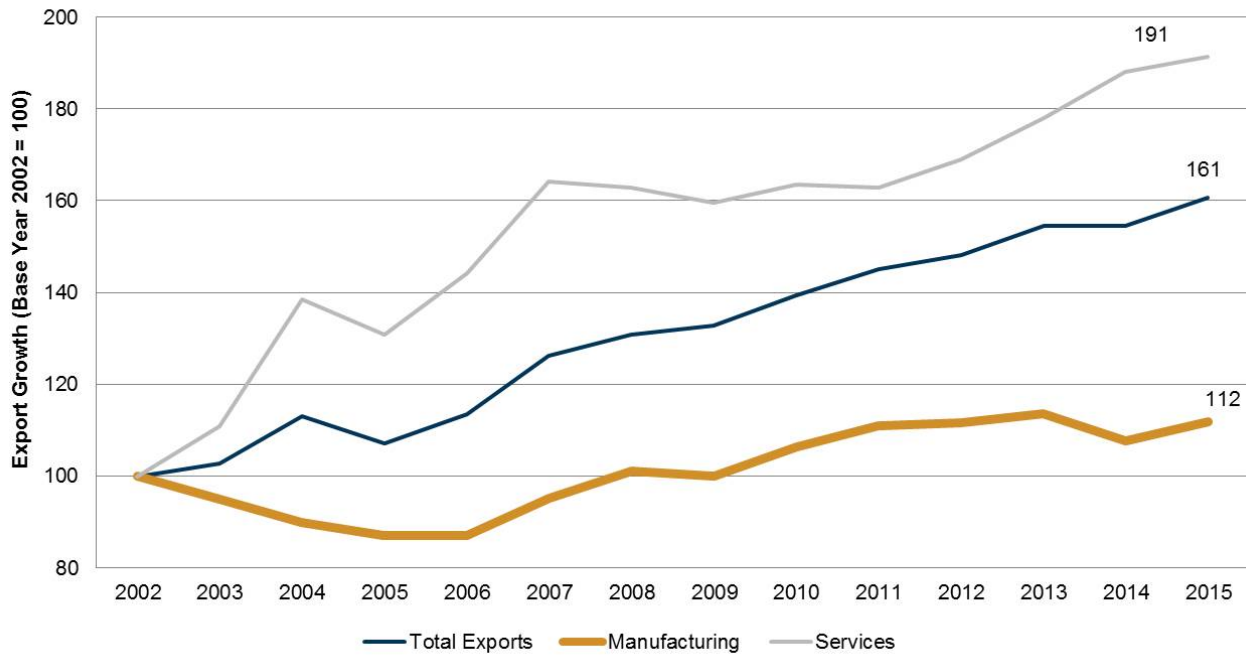
Manufacturing exports

The combined value of international and rest of UK exports in 2015 (excluding oil and gas) was estimated at £78.6 billion. Of this total, £38.5 billion was attributable to service sector companies (49%) and £26.4 billion to the manufacturing sector (34%). The other £13.7 billion (17%) was from sectors classed as 'other'. SPICe briefing [SB 17-14](#) provides more information on Scotland's exports.

- Just under a quarter (23%) of exports to the rest of the UK were from manufacturing sectors, whereas they made up over half (52%) of international exports.
- "Food products, beverages and tobacco products" were the most valuable exports in 2015, worth £8.9 billion and accounting for 34% of total manufacturing exports.
- Manufacturing accounted for 61% of exports to the EU with "Coke, refined petroleum and chemical products" the most valuable export to the EU.

[Figure 23](#) shows that manufacturing exports have grown at a slower rate relative to total exports and service exports. The value of manufacturing exports declined in the early 2000's but since 2007 have generally shown a moderate upward trend.

Figure 23: Manufacturing export growth (relative to services and total exports) 2002 - 2015 (combined international and rest of UK export value)



Source: Scottish Government, 2017¹³

Business base by local geography

This section provides an overview of Scotland's business base by local authority, parliamentary constituency, and urban-rural split. The data source used begins in 2010, thus this analysis has focussed on 1-year and 6-year growth rates.

Volume and trends by local authority

[Table 13](#) provides a breakdown of the business base by local authority.

- The top five local authority areas for business volumes in descending order were: City of Edinburgh (10.4% of all registered Scottish businesses), Glasgow City (10.2%), Aberdeenshire (7.8%), Highland (6.2%), and Aberdeen City (5.4%).
- On the other end of the scale Na h-Eileanan Siar (0.7%) had the lowest number of enterprises, followed by Clackmannanshire (0.7%), Orkney Islands (0.8%), Shetland Islands (0.8%) and Inverclyde (1%).
- However, when business volumes are viewed as a ratio of adult population in an area – illustrating business density in an area – the top five picture is quite different (again in descending order): Orkney Islands, Shetland Islands, Aberdeenshire, Highland, and Scottish Borders. For more detail see [Business Density Section](#).

Between 2015 and 2016, the majority of local authority areas saw an increase in the number of registered enterprises. However, five of Scotland's 32 local authority areas experienced a falling registered business count between 2015 and 2016 – Aberdeen City (down 155 businesses), Argyll and Bute (-10), Dumfries and Galloway (-65), Na h-Eileanan Siar (-10) and the Orkney Islands (-25). The City of Edinburgh local authority area experienced the greatest increase, with a rise of 835 enterprises between 2015 and 2016 – followed by Glasgow City local authority area with an increase of 740 enterprises.

The six year growth rate for local authority business stock was positive in all but three local authorities:

- Dumfries and Galloway saw business stock decrease by 1%
- there was zero percent growth in Argyll & Bute and Orkney Islands, where stock rates plateaued
- Edinburgh (21%), Aberdeen (20%), East Renfrewshire (18%), and North Lanarkshire (17%) had the highest stock growth rates over the six years.

Table 13: Scotland's business base (registered) by local authority 2016

	No. Registered Enterprises	% of Scottish Total	One-Year Change (2015-2016)	Six-Year Change (2010-2016)
Aberdeen City	10,040	5%	-2%	20%
Aberdeenshire	14,485	8%	0%	13%
Angus	4,155	2%	1%	9%
Argyll and Bute	4,070	2%	0%	0%
City of Edinburgh	19,285	10%	5%	21%
Clackmannanshire	1,285	1%	2%	9%
Dumfries and Galloway	6,705	4%	-1%	-1%
Dundee City	3,760	2%	1%	10%
East Ayrshire	3,405	2%	1%	9%
East Dunbartonshire	3,160	2%	4%	16%
East Lothian	3,260	2%	4%	15%
East Renfrewshire	2,730	1%	3%	18%
Falkirk	4,195	2%	3%	14%
Fife	9,760	5%	2%	10%
Glasgow City	18,910	10%	4%	15%
Highland	11,485	6%	1%	7%
Inverclyde	1,860	1%	4%	10%
Midlothian	2,495	1%	3%	15%
Moray	3,485	2%	2%	6%
Na h-Eileanan Siar	1,230	1%	-1%	8%
North Ayrshire	3,480	2%	1%	8%
North Lanarkshire	7,910	4%	4%	17%
Orkney Islands	1,530	1%	-2%	0%
Perth and Kinross	6,485	3%	0%	4%
Renfrewshire	5,015	3%	3%	9%
Scottish Borders	5,330	3%	0%	3%
Shetland Islands	1,530	1%	3%	13%
South Ayrshire	3,885	2%	3%	5%
South Lanarkshire	9,285	5%	3%	11%
Stirling	4,275	2%	2%	8%
West Dunbartonshire	2,040	1%	5%	14%
West Lothian	5,065	3%	4%	14%
Scotland	173,995	100%	2%	12%

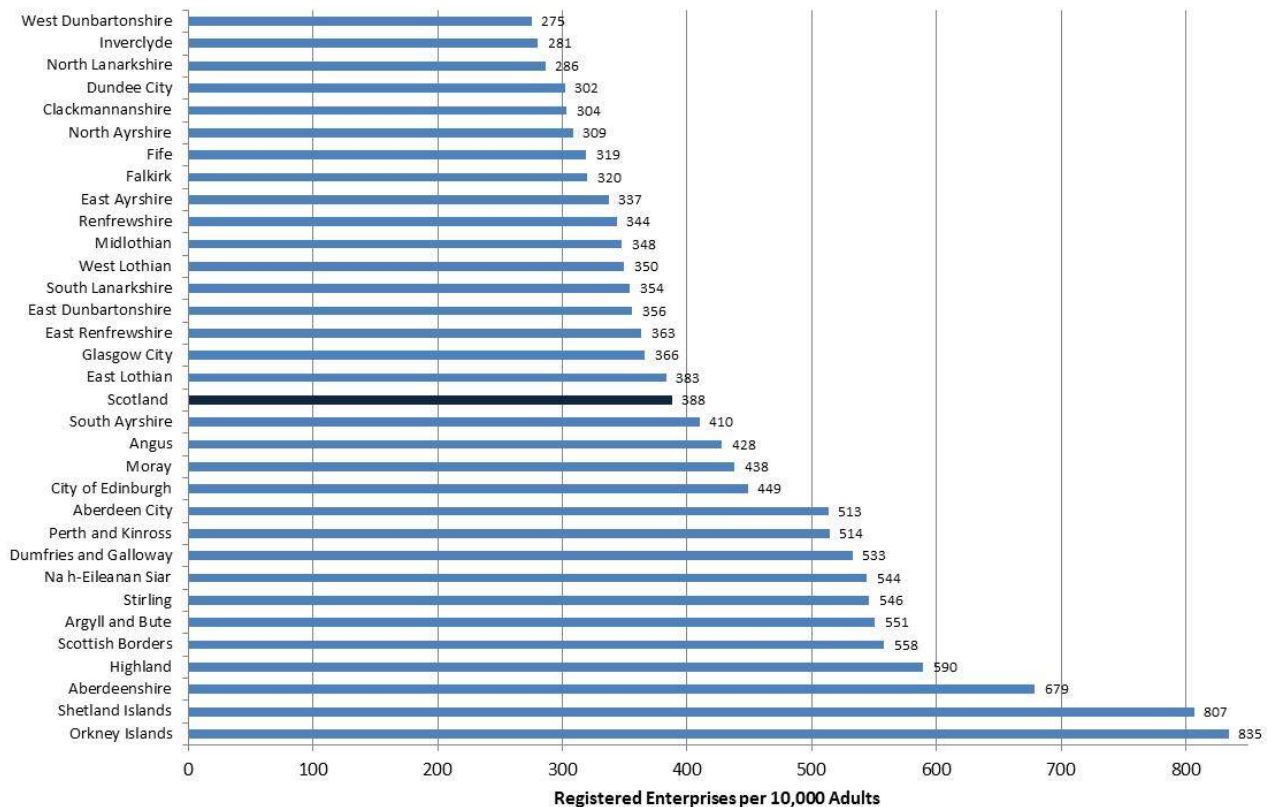
Source: Scottish Government, 2016¹ Note: Data only refers to the registered enterprises. Unregistered are sole traders and partnerships who are not registered for PAYE or VAT. Totals may not equal the sum of the constituent parts due to rounding.

Local authority business density

The average number of businesses (registered) in Scotland per 10,000 resident adults was 388 in 2016.

- The Orkney Islands have the highest business density ratio in Scotland. Many of the areas with high ranking business density rates were rural.
- West Dunbartonshire had the lowest business density rate. A characteristic of the lower ranking areas was that many contained commuter towns and villages, or were within city suburbs.

Figure 24: Number of businesses (registered) per 10,000 resident adults (aged 16 and over), by local authority, 2016



Source: Scottish Government, 2016¹ and National Records of Scotland, 2017¹⁴

Sector highlights by local authority

The share of Growth Sector and *manufacturing* enterprises varies by local authority, as demonstrated in [Table 14](#).

- Edinburgh, Glasgow, East Dunbartonshire, and East Renfrewshire had a relatively high proportion of *creative industry* enterprises.
- There was a cluster of *energy* enterprises in Aberdeen City, Aberdeenshire, and Angus.
- Aberdeen City, Edinburgh, East Renfrewshire, Aberdeenshire, and East Dunbartonshire all had a relatively high share of *financial and business services*. The high proportions in Aberdeen City and Aberdeenshire reflect support services to the oil and gas sector.

- There was a high intensity of *food and drink* business stock in the Orkney Islands, Shetland Islands, Dumfries and Galloway, Scottish Borders, Aberdeenshire, and Argyll & Bute.
- Mid Lothian had the highest proportion of *life sciences* enterprises but generally this sector had a very small presence across the business stock of local authorities.
- *Manufacturing* activity was clustered around Clackmannanshire, North Lanarkshire, Renfrewshire, West Dunbartonshire, and Fife.
- Argyll & Bute had the highest proportion of *tourism* enterprises. Dundee, Highland, North Ayrshire, and West Dunbartonshire also had a relatively high share of *tourism* businesses.

Table 14: Growth sectors and manufacturing as a proportion of total local authority enterprises (2016)

	Creative Industries* as % LA Enterprises	Energy* as % LA Enterprises	Financial & Business Services* as % LA Enterprises	Food & Drink* as % LA Enterprises	Life Sciences* as % LA Enterprises	Manufacturing as % LA Enterprises	Tourism* % LA Enterprises
Aberdeen City	9%	8%	28%	1%	0.3%	5%	5%
Aberdeenshire	6%	6%	20%	21%	0.2%	5%	4%
Angus	5%	5%	13%	16%	0.1%	6%	7%
Argyll and Bute	4%	2%	9%	20%	0.1%	5%	13%
City of Edinburgh	16%	1%	24%	1%	0.5%	3%	9%
Clackmannanshire	7%	1%	15%	4%	0.4%	7%	9%
Dumfries and Galloway	3%	1%	7%	30%	0.1%	5%	9%
Dundee City	7%	2%	13%	1%	0.5%	6%	10%
East Ayrshire	5%	1%	11%	14%	0.3%	6%	8%
East Dunbartonshire	13%	2%	19%	2%	0.2%	5%	5%
East Lothian	10%	1%	16%	10%	0.5%	4%	8%
East Renfrewshire	12%	1%	21%	3%	0.0%	4%	5%
Falkirk	9%	2%	16%	3%	0.1%	6%	7%
Fife	8%	2%	15%	7%	0.4%	7%	9%
Glasgow City	13%	1%	18%	1%	0.3%	5%	9%
Highland	4%	2%	10%	18%	0.2%	5%	10%
Inverclyde	8%	2%	17%	2%	0.3%	5%	8%
Midlothian	9%	1%	15%	5%	1.2%	6%	7%
Moray	4%	3%	10%	18%	0.1%	5%	8%
Na h-Eileanan Siar	6%	3%	8%	26%	0.0%	7%	9%
North Ayrshire	6%	2%	13%	7%	0.3%	6%	10%
North Lanarkshire	7%	1%	13%	2%	0.4%	7%	8%
Orkney Islands	2%	3%	5%	45%	0.7%	3%	6%
Perth and Kinross	6%	2%	13%	14%	0.2%	5%	9%
Renfrewshire	8%	1%	15%	3%	0.4%	7%	7%
Scottish Borders	6%	1%	11%	22%	0.2%	5%	8%
Shetland Islands	3%	2%	8%	40%	0.0%	5%	6%
South Ayrshire	6%	1%	12%	11%	0.3%	5%	9%
South Lanarkshire	8%	1%	14%	7%	0.2%	7%	7%
Stirling	9%	1%	16%	9%	0.5%	4%	9%
West Dunbartonshire	7%	1%	12%	3%	0.2%	7%	10%
West Lothian	10%	1%	16%	3%	0.5%	6%	7%

Source: Scottish Government, 2016¹ and Scottish Government, 2017⁴ * signifies Growth Sector definition.

Business base by constituency

Table 15 provides a breakdown of the business base by parliamentary constituency.

- The top five constituencies for business stock in 2016 were: Edinburgh Central (4.1% of registered Scottish enterprises), Glasgow Kelvin (3.9%), Aberdeenshire West (2.7%), Aberdeen Central (2.5%), and Aberdeenshire East (2.4%). In contrast, the areas with the lowest volume of business stock were: Glasgow Provan (0.6%), Na h-Eileanan an Iar (0.7%), Glasgow Pollock (0.7%), Cunninghame South (0.7%), and Glasgow Maryhill and Springburn (0.7%).
- In the year to 2016, there was mixed performance in terms of business stock growth across constituencies. A small number of areas witnessed a moderate decline in business stock (e.g. Angus North and Mearns 4% decline). However, the majority of areas experienced growth - notable increases were recorded in Edinburgh Pentlands (17%), Edinburgh Eastern (11%), and Hamilton, Larkhall and Stonehouse (10%).
- Every constituency has seen business stock increase since 2010. Some more rural constituencies have had relatively moderate growth (e.g. Ettrick, Roxburgh and Berwickshire (4%), Galloway and West Dumfries (5%)), whilst urban areas, particularly cities, have seen significant growth (e.g. Aberdeen South and North Kincardine (31%), Glasgow Provan (43%)).

Table 15: Business base (registered) by parliamentary constituency 2016

Scottish Parliamentary Constituency	No. of Registered Enterprises	% of Scottish Total	One-Year Change (2015-2016)	Six-Year Change (2010-2016)
Aberdeen Central	4,260	2.5%	-2%	25%
Aberdeen Donside	2,290	1.3%	-1%	28%
Aberdeen South and North Kincardine	3,295	1.9%	-2%	31%
Aberdeenshire East	4,205	2.4%	0%	17%
Aberdeenshire West	4,720	2.7%	-2%	15%
Airdrie and Shotts	1,495	0.9%	2%	17%
Almond Valley	2,005	1.2%	6%	30%
Angus North and Mearns	3,145	1.8%	-4%	15%
Angus South	2,250	1.3%	5%	22%
Argyll and Bute	3,105	1.8%	-1%	5%
Ayr	2,200	1.3%	4%	14%
Banffshire and Buchan Coast	3,465	2.0%	4%	15%
Caithness, Sutherland and Ross	3,885	2.3%	1%	16%
Carrick, Cumnock and Doon Valley	2,240	1.3%	2%	14%
Clackmannanshire and Dunblane	1,760	1.0%	-1%	17%
Clydebank and Milngavie	1,735	1.0%	3%	28%
Clydesdale	2,655	1.5%	4%	12%
Coatbridge and Chryston	1,430	0.8%	1%	24%
Cowdenbeath	1,600	0.9%	6%	28%
Cumbernauld and Kilsyth	1,490	0.9%	9%	30%
Cunninghame North	1,950	1.1%	2%	18%
Cunninghame South	1,235	0.7%	0%	14%
Dumbarton	1,630	0.9%	3%	11%
Dumfriesshire	3,250	1.9%	-2%	5%
Dundee City East	1,470	0.9%	4%	24%
Dundee City West	1,755	1.0%	-2%	16%
Dunfermline	1,945	1.1%	3%	28%
East Kilbride	1,830	1.1%	4%	27%
East Lothian	2,505	1.5%	4%	22%
Eastwood	2,115	1.2%	5%	29%
Edinburgh Central	7,065	4.1%	4%	22%
Edinburgh Eastern	1,550	0.9%	11%	40%
Edinburgh Northern and Leith	3,200	1.9%	7%	37%
Edinburgh Pentlands	1,645	1.0%	17%	48%
Edinburgh Southern	2,415	1.4%	1%	27%
Edinburgh Western	2,195	1.3%	-4%	30%
Ettrick, Roxburgh and Berwickshire	3,125	1.8%	-2%	4%
Falkirk East	1,700	1.0%	0%	21%
Falkirk West	2,020	1.2%	5%	26%
Galloway and West Dumfries	3,045	1.8%	0%	5%
Glasgow Anniesland	1,280	0.7%	9%	35%

Scottish Parliamentary Constituency	No. of Registered Enterprises	% of Scottish Total	One-Year Change (2015-2016)	Six-Year Change (2010-2016)
Glasgow Cathcart	1,345	0.8%	1%	23%
Glasgow Kelvin	6,715	3.9%	3%	16%
Glasgow Maryhill and Springburn	1,265	0.7%	6%	30%
Glasgow Pollok	1,190	0.7%	5%	29%
Glasgow Provan	1,035	0.6%	0%	43%
Glasgow Shettleston	1,955	1.1%	7%	23%
Glasgow Southside	2,505	1.5%	4%	26%
Greenock and Inverclyde	1,355	0.8%	2%	14%
Hamilton, Larkhall and Stonehouse	1,890	1.1%	10%	30%
Inverness and Nairn	3,055	1.8%	2%	14%
Kilmarnock and Irvine Valley	2,180	1.3%	2%	17%
Kirkcaldy	1,635	1.0%	-1%	16%
Linlithgow	2,450	1.4%	4%	18%
Mid Fife and Glenrothes	1,595	0.9%	1%	14%
Midlothian North and Musselburgh	2,145	1.2%	2%	21%
Midlothian South, Tweeddale and Lauderdale	2,595	1.5%	4%	22%
Moray	2,630	1.5%	2%	13%
Motherwell and Wishaw	1,590	0.9%	5%	31%
Na h-Eileanan an Iar	1,165	0.7%	-1%	14%
North East Fife	2,435	1.4%	3%	13%
Orkney Islands	1,465	0.9%	-1%	4%
Paisley	1,810	1.1%	0%	10%
Perthshire North	3,265	1.9%	2%	12%
Perthshire South and Kinrossshire	2,770	1.6%	-1%	9%
Renfrewshire North and West	1,990	1.2%	3%	22%
Renfrewshire South	1,460	0.8%	9%	25%
Rutherglen	1,650	1.0%	2%	21%
Shetland Islands	1,450	0.8%	3%	17%
Skye, Lochaber and Badenoch	3,900	2.3%	1%	9%
Stirling	3,270	1.9%	4%	15%
Strathkelvin and Bearsden	2,120	1.2%	9%	30%
Uddingston and Bellshill	1,855	1.1%	-2%	21%

Source: Office of National Statistics (ONS) Nomis, 2016⁷

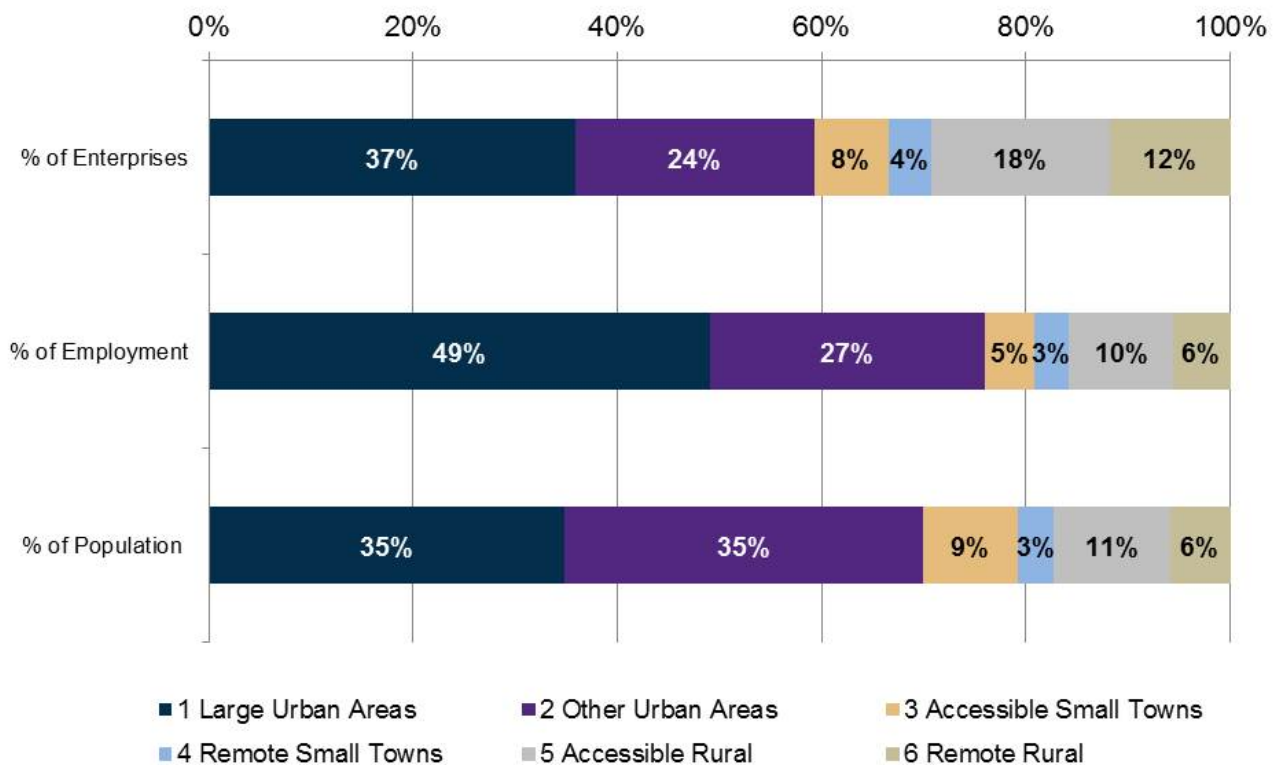
Urban-rural dimension

Analysis using the [Scottish Government's six fold Urban Rural Classification](#) illustrated the regional distribution of Scottish business stock.

- Large urban areas have the highest proportion of enterprises (37%), which is relatively in line with population share (35%).

- Rural areas over perform in terms of the ratio of enterprises (30%) to population (17%). Though employment in rural areas was in line with population.

Figure 25: Enterprises, employment, and population by urban rural split (2016)



Source: Scottish Government, 2016¹ and National Records of Scotland, 2016¹⁵

In terms of size and sector, the [Businesses in Scotland](#) publication stated the following:

“ SMEs account for a larger share of private sector employment in rural areas, compared to urban areas. As at March 2016, SMEs accounted for 79.3% of private sector employment in remote rural areas compared to 69.2% in accessible rural areas and 45.8% in the rest of Scotland. In remote rural areas, the ‘Agriculture, Forestry & Fishing’ industrial sector had the largest share of private sector employment (18.0%), in accessible rural areas the Manufacturing sector was largest (16.1%) and in the rest of Scotland, the ‘Wholesale, Retail and Repair’ sector was largest (20.2%).”

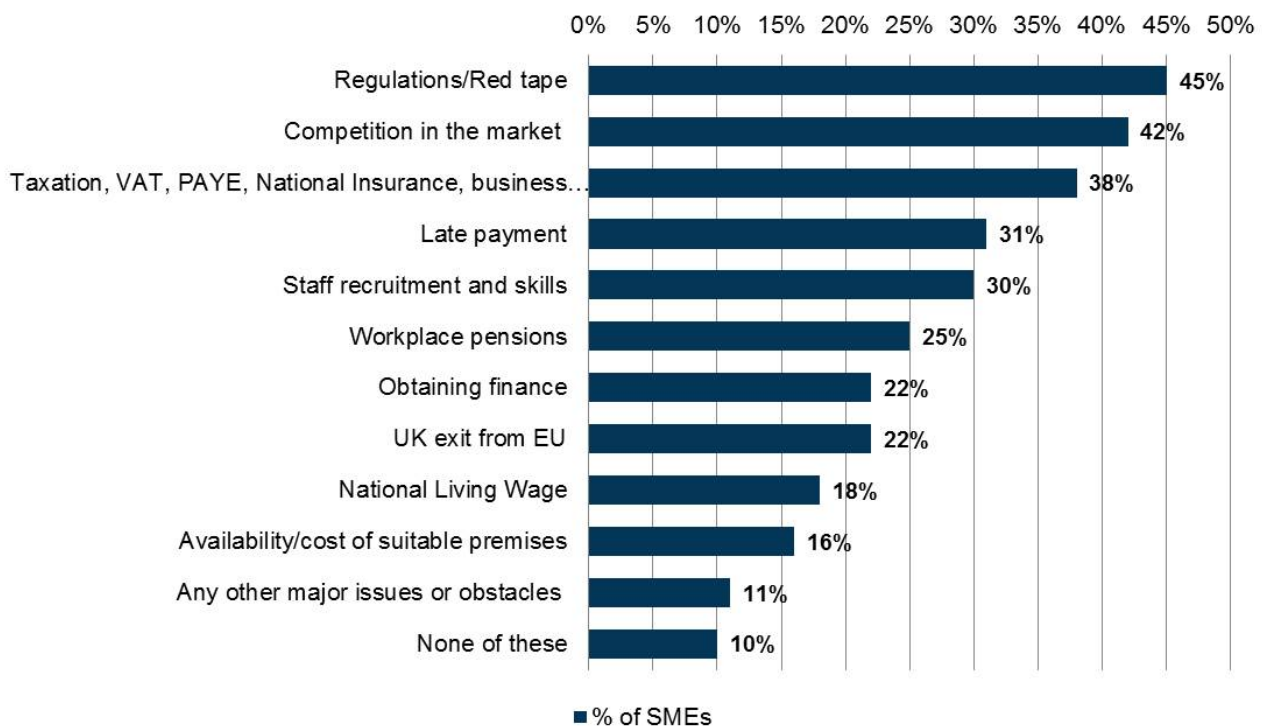
Key challenges for Scotland's business base

This chapter provides a summary of a range of recent research studies with Scotland's business base, specifically highlighting challenges that were identified.

Challenges - view from SMEs

SMEs make up 99% of Scotland's business base (registered and unregistered). Thus, it is important to understand their specific needs. Results from the Scottish Government's [Small Business Survey](#) highlight the main issues faced by SMEs. **Figure 26** demonstrates that **regulation/red tape was the most commonly reported major obstacles to business success**, with 45% of SMEs reporting this as a key issue. This was followed by 'competition in the market' (42%) and taxation, VAT, PAYE, National Insurance, business rates (38%). Approximately one in five businesses stated that the UK exit from the EU was an obstacle and 18% saw the National Living Wage as a barrier to success. Just one in ten SMEs had no issues.

Figure 26: Major obstacles to the success of the business: top 10 answers



Source: Scottish Government, 2017¹² Base: All SMEs (779)

Other points of note from the [Small Business Survey](#) :

- The most common reason (21% of SMEs) for seeking advice was tax/National Insurance law and payments
- **Sixteen percent of SMEs had sought external finance in the last 12 months** (compared to 13% for UK as a whole). The most common reason for applying for finance was for acquiring working capital/cash flow (65% of SMEs).

The Federation of Small Businesses [Small Business Index](#) ¹⁶ found that **increased fuel costs** and the state of foreign economies had become a concern for small business owners. The Index also highlighted that **profit margins for SMEs were decreasing** (Q2 2017). A driver of falling profit margins was the weakened rate of sterling, which has been depreciating since the June 2016 referendum vote to leave the European Union. This has led to higher prices for imported goods and services. Although it should also be noted that the Index highlighted that the weaker currency may boost Scottish exports by improving price competitiveness in overseas markets.

The Federation of Small Businesses [Small Business Index](#) showed that **business confidence levels were subdued** but despite this *"smaller businesses continue to create jobs. While low unemployment is welcome, job creation without profit growth points to declining productivity in the Scottish workforce. This is likely to translate into weak pay growth for employees"*.

Wider economy challenges for businesses

Falling real incomes and rising recruitment problems were highlighted as threats to business success in the Scottish Chambers of Commerce's [Quarterly Economic Indicator](#) ¹⁷.

- **Falling real income** - *"Consumer demand derives around three quarters of Scotland's economic growth, so unless the recent falls in real earnings are reversed, there is a risk that the impact could spread to the wider economy. The retail sector is perhaps most exposed to pressures on household budgets. It is therefore worrying that almost half of retail respondents are reporting a fall in revenues and profits. Supply chain price rise pressures will compound that issue"*.
- **Recruitment issues** - evidence suggests that the "low unemployment rate may be impacting on businesses' ability to recruit the talent they need. **Recruitment difficulties are growing across almost all sectors of the economy** and we are seeing businesses increase their investment in staff training, possibly to improve the skills of existing staff or to bring new recruits up to speed, who may not have all the skills that the business needs".

The impact of the **weak pound** on Scottish businesses appears in a number of the research studies highlighted in this chapter. The [Scottish Business Monitor](#) ¹⁸ noted that it is *"having both positive and negative effects. Some sectors, particularly **tourism are continuing to experience decent growth** in turnover. A competitive pound makes Scotland an attractive place for overseas visitors and for Scottish/UK holidaymakers. But for many, the **weak pound is putting pressure on in terms of rising costs**, 56% of all businesses stated that costs rose over the last quarter"*.

In terms of the business base, it also important to recognise the **regional split in business performance**. Evidence from the [Scottish Business Monitor](#) shows that *"businesses in all regions of Scotland – outside of the North East – reported growth in the total volume of business over the quarter. **Conditions in the North East remained negative**, but the situation has improved over the quarter"*.

The most recent [Bank of Scotland PMI](#) ¹⁹ shows solid expansions in new business and employment. New orders received by Scottish private sector firms grew at the fastest rate since December 2014. Furthermore, the pace of expansion was above the series' historical average. However, "**input price inflation remained sharp, with the latest survey signalling a fractional acceleration in the rate of inflation. Furthermore, average cost burdens faced by Scottish private sector firms continue to increase at a faster pace than the series' long-run average. Panellists pointed towards the exchange rate and wage inflation as key factors behind the rise**".

The [EY Scottish Item Club](#) ²⁰ emphasised the need for **business investment**. It stated "*the ending of the outsized contribution to GDP growth from construction as many of the big ticket public sector funded infrastructure projects near completion. **With consumers also under pressure, means stronger growth will require higher levels of businesses investment***". However, business investment has been subdued, constrained by the weaker consumer outlook and **uncertainty about the UK's future trading relationship with the EU**.

Furthermore, Scottish businesses need to contend with **changing global perceptions of Scotland**. The [EY Attractiveness Survey](#) ²¹ suggested that the "*EU Referendum vote and its aftermath may be having an influence on global perceptions of Scotland and the UK's long-term attractiveness and we could have reached a tipping point*".

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