
Small Business Survey Scotland 2015
Topic Report: Home-based Businesses

Office of the Chief Economic Adviser



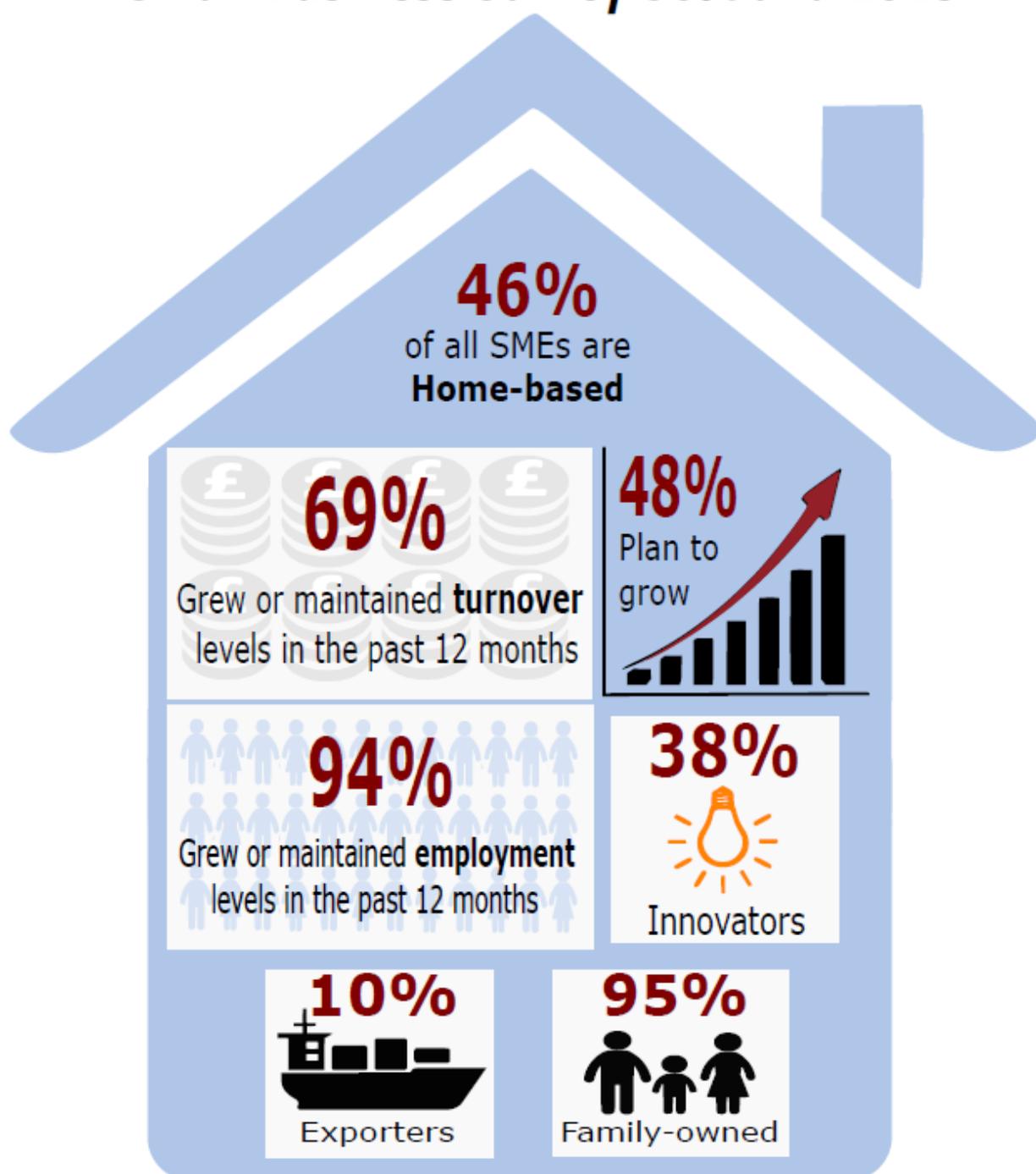
Summary

- 1,095 Small and Medium-sized Enterprises (SMEs) in Scotland took part in the Longitudinal Small Business Survey (LSBS) in 2015. 46 per cent were home-based, while 54 per cent¹ had separate business premises.
- A higher proportion of sole traders were home-based compared to SMEs with employees.
- Home-based businesses were more likely to be family-owned than SMEs with separate business premises.
- The proportion of SMEs that exported *outwith the UK* was broadly the same for home-based SMEs and SMEs with separate business premises.
- Home-based SMEs were less likely to be majority-led by women than SMEs with separate business premises.
- Home-based SMEs were marginally less likely to be innovators than SMEs with separate business premises.
- A lower proportion of home-based SMEs had their own website than SMEs with separate business premises.
- A marginally higher proportion of home-based SMEs were aware of business support organisations than SMEs with separate premises.
- A slightly lower proportion of home-based SMEs applied for finance than SMEs with separate business premises.
- The proportion of SMEs reporting employment growth over the past 12 months was lower for home-based SMEs than for SMEs with separate business premises. However, a marginally higher proportion of home-based SMEs reported turnover growth, compared to SMEs with separate business premises.
- Home-based SMEs appeared to be less optimistic regarding employment growth over the coming year than SMEs with separate business premises.
- A marginally lower proportion of home-based SMEs planned on growing their sales over the next three years than SMEs with separate business premises.
- Competition in the market was the most commonly reported major obstacle to business success for home-based SMEs (39 per cent), followed by regulations/red tape (37 per cent).

¹ Weighted percentages.

Home-based Businesses

Small Business Survey Scotland 2015



Introduction

- 1.1 To accompany the main [Small Business Survey Scotland 2015 report](#), a number of short topic reports have been prepared examining particular aspects of interest.
- 1.2 This short report draws on data from the 2015 Longitudinal Small Business Survey (LSBS) to examine the main findings for small and medium-sized enterprises (SMEs) that are home-based² and for SMEs that have separate business premises. It outlines key characteristics of these businesses and provides a picture of their perceptions on issues including innovation, business support, access to finance and obstacles to business success.
- 1.3 Unlike the main Small Business Survey Scotland 2015 report, which reports findings on SMEs *with employees only*, this report focuses on **all SMEs (SMEs with zero employees and SMEs with employees)** surveyed in Scotland³. Therefore, comparisons with findings from the main report are not possible. In addition, due to changes in the way the question on home-based businesses was asked in the 2015 questionnaire and changes in the composition of the sample of respondents⁴, findings for home-based businesses in 2015 are not comparable with findings from 2014.
- 1.4 In 2015, 1,095⁵ SMEs in Scotland took part in the Longitudinal Small Business Survey (LSBS). Of those 1,095 SMEs, 46 per cent were home-based SMEs and 54 per cent⁶ were SMEs with separate business premises.

Figure 1: SMEs categorisation by type of premises: home-based SMEs and SMEs with separate business premises

Excludes refused, 1

	Zero employees	Micro (1-9 employees)	Small (10-49 employees)	Medium (50-249 employees)	All
Home-based SMEs	151	72	39	10	272
SMEs with separate business premises	123	237	273	189	822
All	275	309	312	199	1,095

² Home-based SMEs are defined as business that do not have separate business premises to the owner's or someone else's home address. Respondents were asked: "Does your business have separate business premises to your or someone else's home address? i.e. your business is based somewhere else other than at your or someone else's home".

³ SMEs with zero employees are included in the home-based analysis as a high proportion of home-based businesses are SMEs with zero employees.

⁴ A higher number of SMEs with zero employees took part in the survey in 2015 compared to 2014. In 2014, 1,005 SMEs were surveyed in Scotland, of which 152 were SMEs with zero employees. In 2015, 1,095 SMEs were surveyed in Scotland, of which 275 were SMEs with zero employees.

⁵ Of those 1,095 SMEs, 820 were SMEs *with employees* and 275 were *sole traders* (registered and unregistered).

⁶ Weighted percentages. This analysis uses the standard Small Business Survey weights, which weight responses by legal status, size band, sector and nation.



Business Demographics

Proportion of home-based SMEs

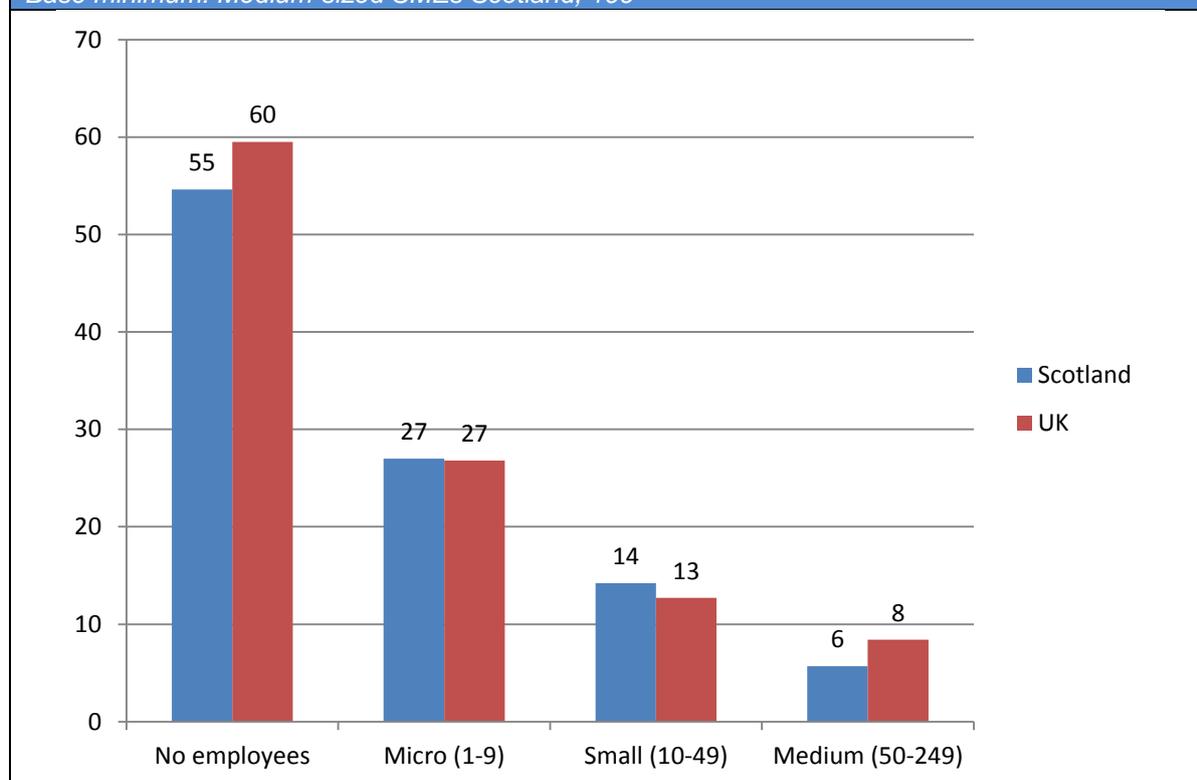
2.1 In 2015, 46 per cent of *all* SMEs were home-based, compared to 51 per cent in the UK as a whole.

Size

2.2 Businesses with fewer employees were more likely to be home-based. As shown in Figure 2 below, 55 per cent of SMEs with zero employees in Scotland were home-based (60 per cent in the UK as a whole), compared to just six per cent for medium-sized businesses (eight per cent in the UK as a whole).

Figure 2: Proportion of SMEs that are home-based by size (%)

Base minimum: Medium-sized SMEs Scotland, 199



Sectors

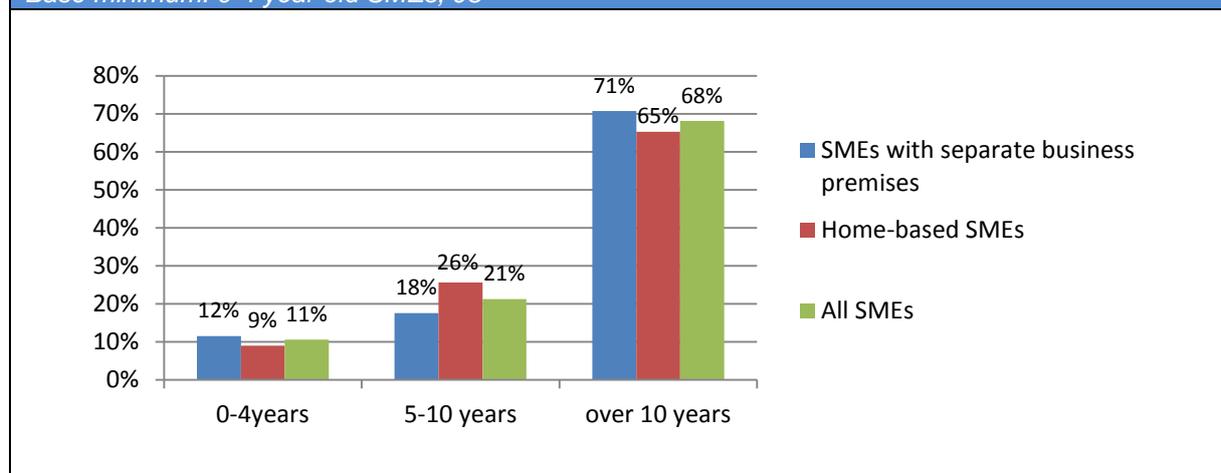
2.3 Home-based SMEs appeared across all sectors (Figure 3). However, the sectors in which home-based SMEs were more common were Construction (21 per cent of home-based SMEs), Other services (19 per cent) and Business Services (18 per cent).

Figure 3: Home-based SMEs by sector*Base minimum: Home-based SMEs in Information/Communication, 10*

	% of home-based SMEs
ABDE-Primary ⁷	10%
C-Manufacturing	5%
F-Construction	21%
GHI Transport/Retail/Distribution ⁸	13%
J-Information/Communication	5%
KLM-Business Services ⁹	18%
N-Administrative Services	9%
PQRS-Other services ¹⁰	19%
All	100%

Age

- 2.4 In line with the findings for all SMEs, most (65 per cent) home-based businesses were over 10 years old. Compared to SMEs with separate business premises, a marginally higher proportion of home-based SMEs were aged 5-10 years and a marginally lower proportion were over 10 years old (Figure 4).

Figure 4: Home-based SMEs by age (%)*Base minimum: 0-4 year old SMEs, 98*

⁷ Agriculture, Forestry and Fishing (A); Mining and Quarrying (B); Electricity, gas, steam and air conditioning supply (D); and Water supply, sewerage, waste management and remediation activities (E).

⁸ Wholesale and retail trade (G); repair of motor vehicles and motorcycles (H); Transportation and storage; and Accommodation and food service activities (I).

⁹ Financial and insurance activities (K); Real estate activities (L); and Professional, scientific and technical activities (M).

¹⁰ Education (P); Human health and social work activities (Q); Arts, entertainment and recreation (R); and Other service activities (S).



Ownership

- 2.5 85 per cent of all SMEs were family-owned in 2015. Home-based SMEs were more likely to be family-owned than SMEs with separate business premises. 95 per cent of home-based SMEs were family-owned compared to 76 per cent of SMEs that had separate business premises.

Exporters

- 2.6 In 2015, 10 per cent of all SMEs reported that they exported goods or services *outside of the UK*. The proportion of exporters is very similar for home-based SMEs (10 per cent) and SMEs with separate premises (11 per cent).

Women-led businesses

- 2.7 Majority-led by women businesses are defined as businesses controlled by a single woman or having a management team composed of a majority of women.
- 2.8 21 per cent of all SMEs in Scotland were majority-led by women. Home-based SMEs were less likely to be majority-led by women (15 per cent of home-based SMEs were majority led by women in 2015) than SMEs that have separate premises (27 per cent).

Innovators

- 2.9 In 2015, 40 per cent of all SMEs in Scotland had introduced new or significantly improved goods and/or services (i.e. innovators) over the past three years. Home-based SMEs were marginally less likely to be innovators, at 38 per cent, than SMEs with separate business premises, at 41 per cent.

Website

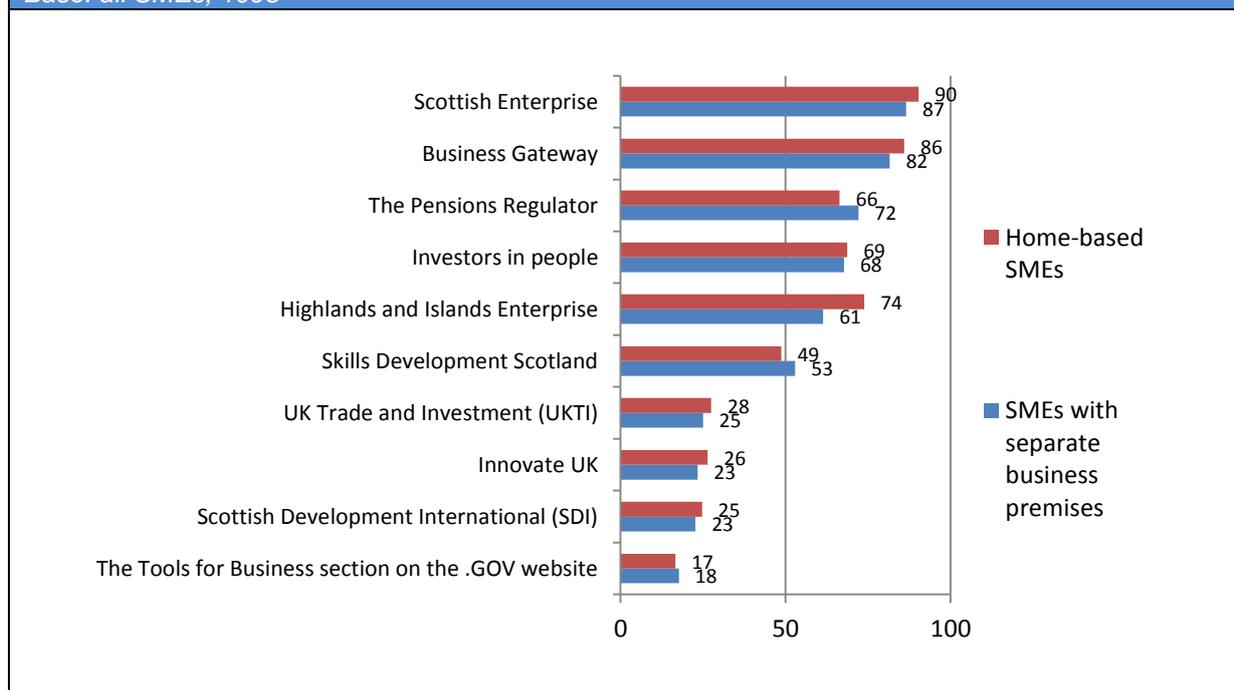
- 2.10 60 per cent of all SMEs had their own webpage in 2015. A lower proportion of home-based SMEs (56 per cent) had a website than SMEs with separate business premises (64 per cent).

Awareness of business support

- 2.11 In 2015, almost all (97 per cent) SMEs in Scotland were aware of business support providers. A marginally higher proportion of home-based SMEs were aware of business support organisations (98 per cent) than SMEs with separate premises (96 per cent).
- 2.12 Figure 5 below shows the business support organisations that home-based SMEs and SMEs with separate business premises were most aware of in 2015.

Figure 5: Awareness of business support organisations: Top 10 responses (%)

Base: all SMEs, 1095



2.13 Compared to SMEs with separate business premises, home-based SMEs were more aware of business support organisations including Scottish Enterprise, Business Gateway and Highlands and Islands Enterprise. However, SMEs with separate business premises appeared to be more aware than home-based SMEs of The Pensions Regulator and of Skills Development Scotland.



Access to finance

Demand for finance

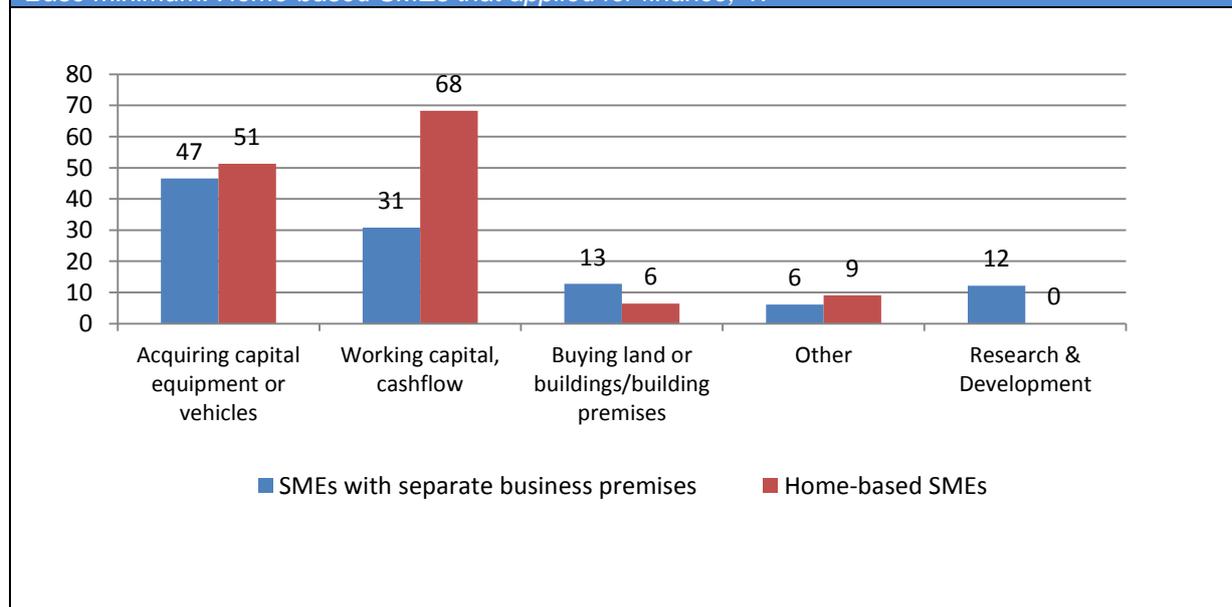
3.1 In 2015, 14 per cent of all SMEs in Scotland had applied for finance in the previous 12 months. A lower proportion of home-based SMEs, at 13 per cent, applied for finance than SMEs with separate business premises, at 16 per cent.

Reasons for seeking finance

3.2 Across all SMEs, the most common reason for applying for finance was for acquiring capital equipment or vehicles (49 per cent of all SMEs). A slightly higher proportion of home-based SMEs (51 per cent) cited this as their reason for applying for finance than SMEs with separate business premises (47 per cent). Home-based SMEs were also more likely (68 per cent) to cite working capital/cash flow as a reason for seeking finance compared to SMEs with separate premises (31 per cent) (Figure 6). None of the home-based businesses surveyed cited research and development as a reason for seeking finance, compared to 12 per cent of SMEs with separate premises that did so.

Figure 6: Reason for applying for finance: Top 5 responses (%)

Base minimum: Home-based SMEs that applied for finance, 47



Type of finance sought

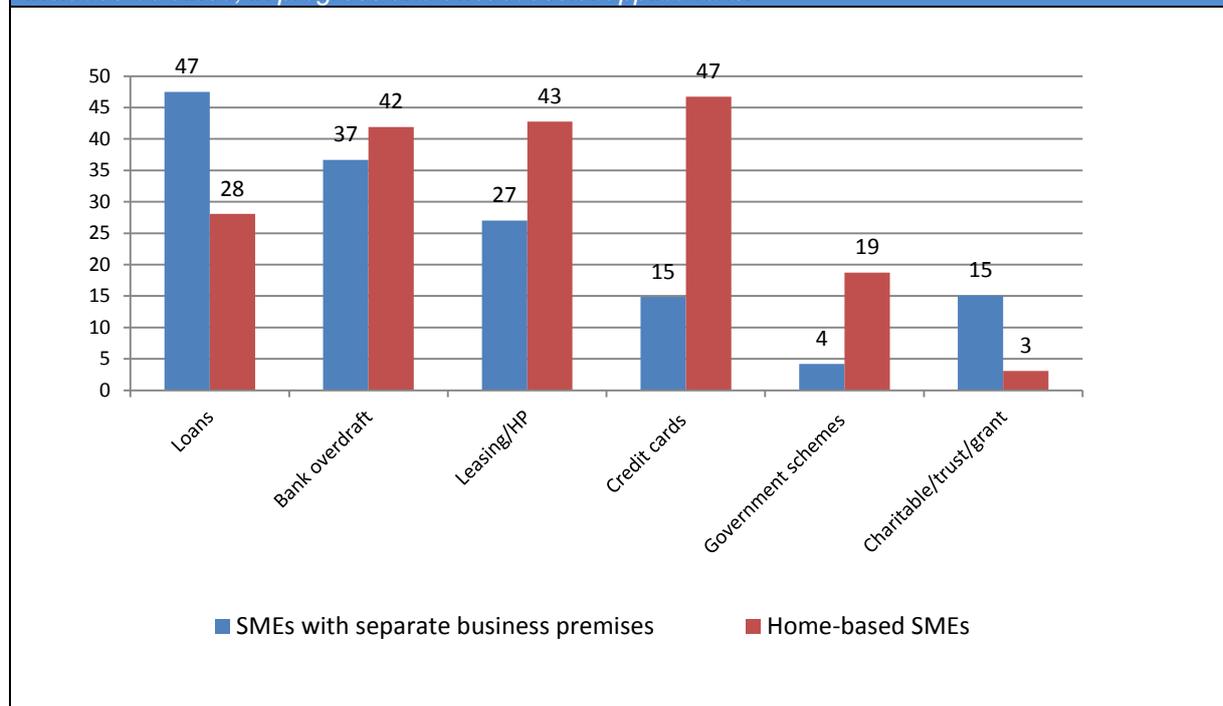
3.3 In 2015, the most common types of finance applied for across all SMEs were loans and bank overdraft, both cited by 39 per cent of all SMEs. Figure 7 shows that a higher proportion of home-based SMEs sought finance from bank overdraft (42 per cent), leasing/HP (43 per cent), credit cards (47 per cent) and a Government scheme (19 per cent) compared to SMEs with

separate business premises (37 per cent, 27 per cent, 15 per cent and four per cent respectively). In contrast, a higher proportion of SMEs with separate business premises applied for finance from loans (47 per cent) and charitable/trust/grants (15 per cent) than home-based SMEs (28 per cent and three per cent respectively).

Figure 7: Type of finance sought: Top 6 responses (%)

Base minimum: Home-based SMEs that applied for finance, 47

Includes obtained, in progress and unsuccessful applications.



Supply of finance

3.4 Regarding the final outcome of applications for finance, 81 per cent of all SMEs that applied for finance obtained at least some of the finance sought, while six per cent did not obtain any. Home-based SMEs were more likely to obtain at least some the finance they sought (85 per cent of SMEs that applied) than SMEs with separate business premises (79 per cent of SMEs that applied). In addition, only four per cent of home-based SMEs did not obtain any, compared to eight per cent of SMEs with separate business premises.

Future intentions

3.5 53 per cent of SMEs in Scotland reported that they were not at all likely to approach external finance providers over the next three years, whilst around 20 per cent said that it was fairly or very likely that they would approach external finance providers. SMEs with separate business premises and home-based SMEs appeared to be broadly aligned in their future intentions on approaching external finance (Figure 8).



Figure 8: Likelihood of approaching external finance in the next three years (%)

	SMEs with separate business premises	Home-based SMEs	All
Very likely	11	8	10
Fairly likely	8	11	10
Not very likely	26	28	27
Not at all likely	53	52	53
Don't know	1	0	1



Business Performance and Outlook

Changes to employment

- 4.1 Across all SMEs, 87 per cent maintained the same employment levels over the past 12 months, six per cent reported employment growth while seven per cent reported having fewer employees in 2015 than they did in 2014. Compared to SMEs with separate business premises, a higher proportion of home-based SMEs reported that they employed the same number of staff compared to 12 months previously (91 per cent) and a lower proportion (three per cent) reported that they employed more people now.

	Employ more people now	Employ the same number	Employ fewer people now	Net balance (% points)
SMEs with separate premises	8	83	9	-1
Home-based SMEs	3	91	6	-3
All	6	87	7	-2

- 4.2 Figure 9 above shows the net balance of employment growth by SMEs with separate business premises and home-based SMEs. The net balance is described as the overall proportion of SMEs that increased employment, minus the proportion of SMEs that decreased employment, compared to 12 months previously. Negative figures indicate that more SMEs decreased employment levels than increased, in the last 12 months. Home-based SMEs registered a poorer negative net balance (-3) than SMEs with separate business premises (-1).
- 4.3 In 2015, 16 per cent of SMEs in Scotland stated that they expected to employ more people in one year's time, three per cent expected to reduce the number of employees, while the majority of firms (80 per cent) expected to retain existing staff levels over the coming year. Home-based SMEs appeared to be less optimistic regarding employment growth than SMEs with separate business premises: 12 per cent of home-based SMEs expected employment growth compared to 19 per cent of SMEs with separate business premises. In addition, a greater proportion of home-based SMEs (85 per cent) expected to employ the same numbers over the coming year compared to SMEs with separate business premises (76 per cent) (Figure 10).

	Employ more than currently	Employ the same numbers	Employ fewer than currently
SMEs with separate premises	19	76	4
Home-based SMEs	12	85	2
All	16	80	3

¹¹ Figures may not sum due to rounding.

Changes to turnover

- 4.4 44 per cent of all SMEs experienced no change to turnover over the past 12 months, 26 per cent reported an increase and 26 per cent reported a decrease. Home-based SMEs were marginally more likely than SMEs with separate business premises to report turnover growth (27 per cent vs. 24 per cent). However, home-based SMEs were also more likely to report a decrease in turnover than SMEs with separate premises (28 per cent vs. 24 per cent) and a lower proportion were more likely to report no change (42 per cent vs. 46 per cent) (Figure 11).

Figure 11: Changes to turnover compared to 12 months previously (%)				
<i>Don't know/Refused not displayed</i>				
	Increase in turnover	No change to turnover	Decrease in turnover	Net balance (% points)
SMEs with separate premises	24	46	24	1
Home-based SMEs	27	42	28	-1
All	26	44	26	0

- 4.5 Figure 10 above shows the net balance of turnover growth by home-based SMEs and SMEs with separate business premises. The net balance is described as the overall proportion of SMEs that experienced an increase in turnover, minus the proportion of SMEs that experienced a reduction in turnover, compared to 12 months previously. Positive figures indicate that more SMEs reported an increase in turnover than a reduction, in the last 12 months and vice versa. Home-based SMEs registered a small negative net balance (-1) whereas SMEs with separate business premises registered a modest positive net balance (+1).
- 4.6 In 2015, 47 per cent of all SMEs expected to maintain existing turnover levels over the next 12 months, 32 per cent anticipated turnover growth and 15 per cent expected turnover to decrease. Home-based SMEs and SMEs with separate business premises were equally optimistic about turnover growth: the proportion of SMEs expecting turnover to be higher in a year time is the same for both home-based SMEs and SMEs with separate premises, at 32 per cent. However, a higher proportion of home-based SMEs anticipated a turnover reduction (18 per cent) than SMEs with separate business premises (13 per cent) (Figure 12).

Figure 12: Turnover expectation in the next 12 months (%)			
<i>Don't know/Refused not displayed</i>			
	Increase in turnover	No change to turnover	Decrease in turnover
SMEs with separate premises	32	48	13
Home-based SMEs	32	45	18
All	32	47	15

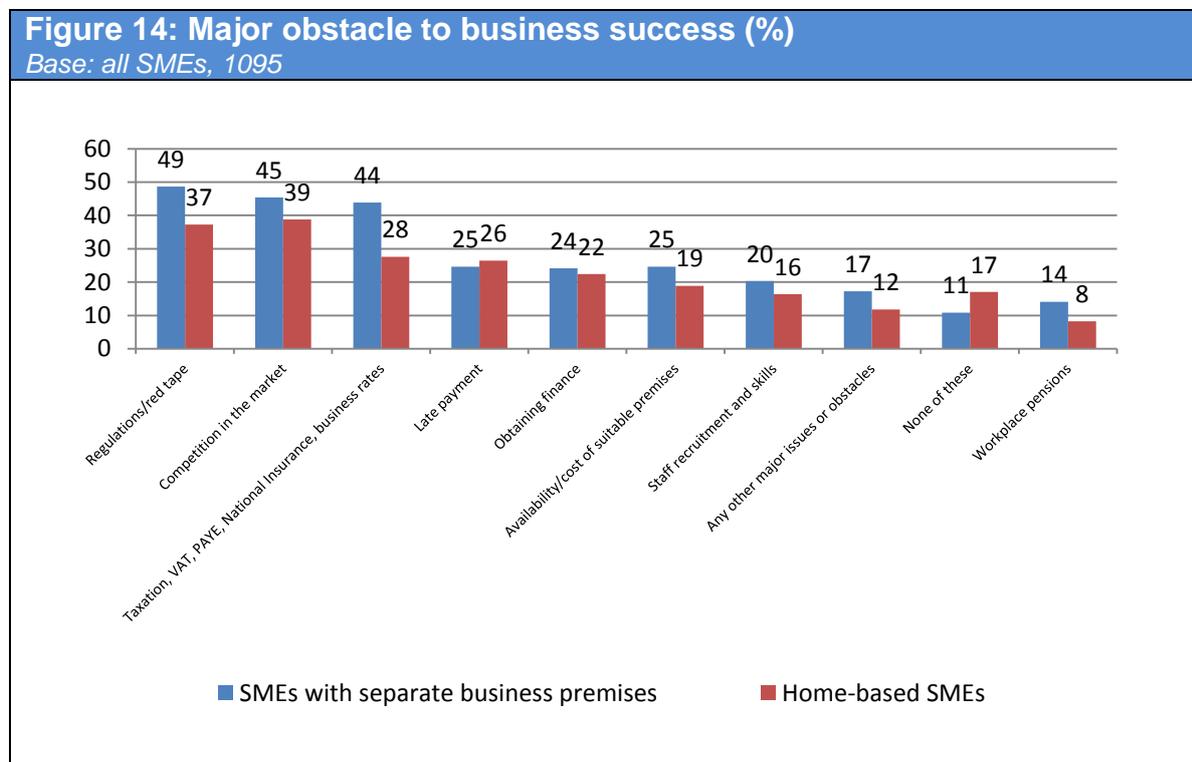


Future intentions

- 4.7 Half (50 per cent) of all SMEs planned on growing their sales over the next three years. A marginally higher proportion of SMEs with separate business premises planned on growing their sales, at 52 per cent, than home-based SMEs, at 48 per cent.
- 4.8 The most frequently cited activity that SMEs would undertake in order to increase growth in the next three years was to increase the skills of the workforce, reported by 53 per cent of all SMEs. This proportion is very similar for both home-based SMEs and SMEs with separate premises. Home-based SMEs were less likely to develop and launch new products/services or introduce new working practices to increase growth compared to SMEs with separate business premises (Figure 13).

Figure 13: Most cited activity to increase growth (%)			
	SMEs with separate business premises	Home-based SMEs	All
Increase the skills of the workforce	54	53	53
Develop and launch new products/services	43	38	41
Introduce new working practices	40	32	36
Capital investment (in premises, machinery etc.)	33	36	35

Obstacles to success



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- 4.9 As shown in Figure 14 above, competition in the market was the most commonly reported major obstacle to business success for home-based SMEs (39 per cent), followed by regulations/red tape (37 per cent). These obstacles were also the most commonly reported by SMEs with separate business premises, although regulations/red tape was cited but a slightly higher proportion of these SMEs than the proportion that cited competition in the market (49 per cent and 45 per cent respectively).



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