

MID-SIZED BUSINESSES IN SCOTLAND 2010-17

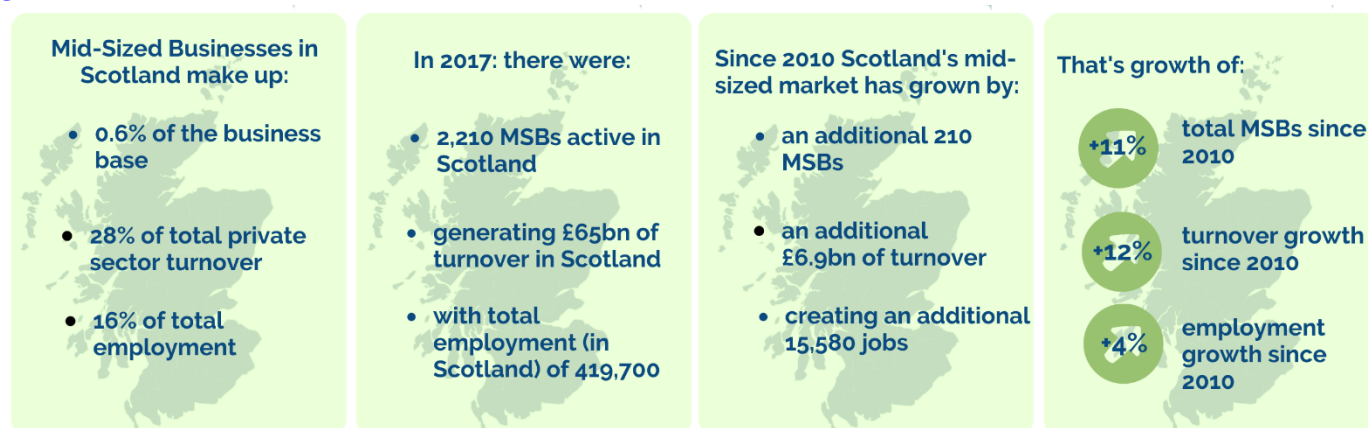
Dr. Paul Hopkins, SE Economic Research Team
February 2018

Evidence demonstrates mid-sized businesses (MSBs) are not only more productive, but have performed better in recent years than both small and large businesses. Often seen as the engine room of any economy, within Germany MSBs are given concentrated support to secure their continued growth, yet in the rest of the Western world, they are often overlooked within policy-making as focus is put onto developing early stage companies and supporting large employers.

Increasing the numbers and size of Scotland's mid-market is therefore critical to achieving sustained economic growth.

There are several definitions of MSBs used across existing research, but the most common is businesses with a turnover of between £25m and £500m. This research note uses Scottish Government data to consider the changes in Scotland's mid-market since 2010. The data relates solely to *activity* within Scotland.

OVERVIEW¹



KEY HEADLINES

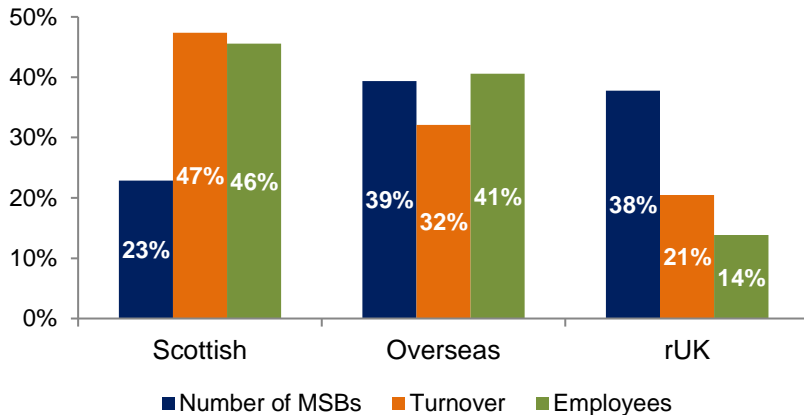
- Whilst only being 0.6% of the total business base, MSBs generate 28% of private industry turnover and employ 16% of the current workforce.
- Growth in Scotland's MSBs has been primarily driven by overseas owned MSBs, which as a share of the total number, turnover and employment has increased since 2010.
- The growth seen in Scotland's MSBs and mid-market in 2010-17 has, manufacturing aside, been driven by traditionally low productivity industries the public sector does not support (though there are indications these industries may have improved their productivity).
- Evidence suggests Scottish-owned MSBs are becoming smaller, which corroborates other [evidence](#) that suggests high-growth firms (HGFs) are also decreasing in size.
- Scottish-owned MSBs have grown in number and their total turnover but seen a decline of over 6,000 in employment. This may suggest a focus amongst the Scottish MSB base on productivity.
- The focus for economic growth should be on stimulating more high-growth firms through creating the right conditions for business growth and entrepreneurship; allowing the creation of more Scottish-owned MSBs through the Scaling service which has [demonstrated](#) its ability to transform high-growth and high-growth potential firms into scaling MSBs.
- Further investigation into elements of Scotland's mid-market and its trends may help understand the nature of growth, challenges existing and potential MSBs face (and may face) and lessons to help accelerate the growth in Scotland's mid-market.

¹ Sources: Scottish Government MSB data, [ONS Labour Market Statistics Dec 2017](#), [Businesses in Scotland \(Nov 2017\)](#), [Scottish Annual Business Statistics 2015](#).

SCOTLAND MID-MARKET TRENDS 2010-17

- There are 2,210 MSBs active in Scotland in 2017, an increase of 12% (+210) since 2010.
- The peak number of MSBs in Scotland was in 2016, with 2,250.
- MSBs generate £65bn of total turnover in Scotland, an increase of 12% since 2010; and 28% of all private industry turnover in Scotland.
- However, in 2016 the turnover fell £2.6bn from £67.6bn - the first decline in turnover in the period.
- The total employment of MSBs in Scotland is 419,700 – 16% of all of those in employment in Scotland.
- The employment levels amongst MSBs has been in decline with total MSB employment down 14,190 (3%) in 2017 compared to its highest levels of 433,890 in 2015.

MSBs in Scotland (2017). By nation of ownership.

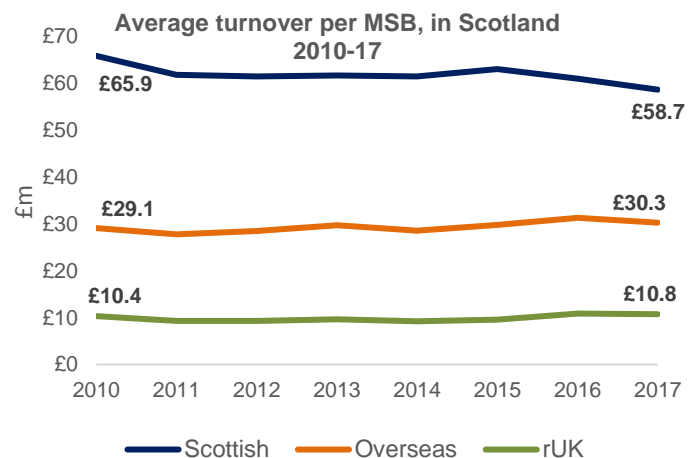
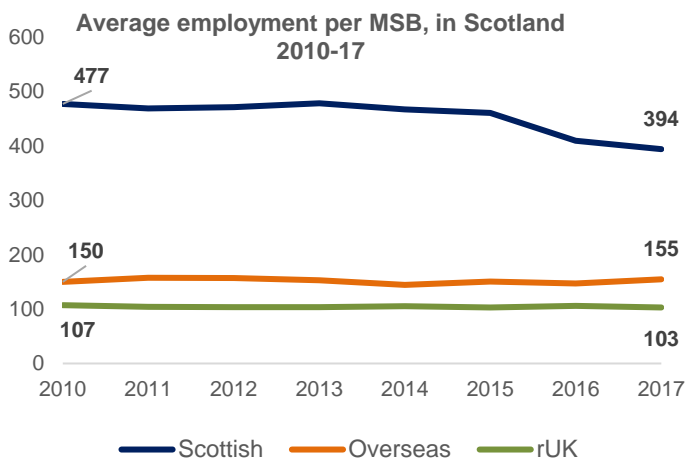


	% change 2010-17		
	Scotland	Overseas	rUK
total number	+1%	+3%	-5%
turnover	-3%	+5%	-1%
employment	-4%	+5%	-2%

Despite increasing in number, Scottish MSBs have consistently become smaller (on average) since 2010, and this has accelerated since 2015.

- Scottish-owned MSBs make up 23% of the market, accounting for around half of all turnover and employment in Scotland.
- Since 2010 Scottish MSBs' share of the overall total has increased, but their share of turnover and employment has declined.
- Overseas owned MSBs' footprint has increased in every measure.
- 78% of the total turnover growth amongst the mid-market came from overseas owned MSBs despite only accounting for 39% of the total number of companies.
- Scottish-owned MSBs have grown in total and in turnover, but declined overall in employment.

% growth in MSBs (2010-17)	Scotland	Overseas	Rest of UK
Total number of MSBs	+17%	+21%	-2%
Turnover	+5%	+26%	+2%
Employment	-3%	+25%	-5%
% of total MSB turnover growth	+19%	+78%	+3%



INDUSTRY

MSB performance in Scotland (2017)	Total number of MSBs	% of MSBs	% change since 2010	% of MSB turnover	% change since 2010	% of MSB employment	% change since 2010
Wholesale & Retail	615	28%	-2%	22%	-1%	14%	-1%
Manufacturing	315	14%	-1%	25%	+2%	16%	+1%
Administrative & Support	245	11%	No change	8%	No change	14%	-1%
Accommodation, Info/Comms, Real Estate	225	10%	No change	7%	+1%	13%	+1%
Professional, Scientific, Technical	210	10%	+1%	7%	-1%	6%	-3%
Transportation & Storage	180	8%	No change	7%	No change	7%	No change
Construction	160	7%	-1%	8%	-1%	7%	No change
Primary Industries	100	5%	+1%	11%	No change	5%	No change
Education, Health & Social Work	85	4%	+1%	3%	No change	15%	+2%
Arts, Entertainment & Recreation	70	4%	-1%	2%	No change	3%	No change

- Wholesale and Retail is the industry which has the greatest number of MSBs operating within Scotland.
- Despite this, it is Manufacturing MSBs which have shown the most significant growth in turnover.
- Manufacturing MSBs has grown their total turnover by 23% since 2010 and employment by 9% but the overall percentage share of Scotland's total mid-market has declined to 14%.
- It suggests existing manufacturing MSBs have grown rather than new manufacturing MSBs emerging.
- The only other industry which has increased its mid-market share has been Education, Health & Social Work, driven by a +15% growth in its employment (+2% share of all MSB employment).

TURNOVER

Turnover change in MSB (2010-17) by industry	Total turnover 2017 (£m)	% change	Turnover growth 2010-17 (£m)	% of total growth
Manufacturing	£16bn	+23%	£3bn	+44%
Wholesale & Retail	£14.5bn	+7%	£908m	+13%
Primary Industries	£7bn	+9%	£599m	+9%
Construction	£5.5bn	+4%	£200m	+3%
Administrative & Support	£5bn	+17%	£718m	+10%
Transportation & Storage	£4.7bn	+12%	£500m	+7%
Professional, Scientific, Technical	£4.6bn	-7%	-£324m	-5%
Accommodation, Info/Comms, Real Estate	£4.4bn	+22%	£816m	+12%
Education, Health & Social Work	£2bn	+22%	£361m	+5%
Arts, Entertainment & Recreation	£1bn	+13%	£123m	+2%

EMPLOYMENT

Employment change in MSB (2010-17) by industry	Employment 2017	% change	Employment growth 2010-17	% of total growth
Manufacturing	66,200	+9%	6,290	+41%
Education, Health & Social Work	61,930	+15%	4,370	+52%
Administrative & Support	60,250	+1%	420	+3%
Wholesale & Retail	59,460	-3%	-2,150	-14%
Accommodation, Info/Comms, Real Estate	54,280	+15%	7,170	+46%
Construction	28,240	+6%	1,540	+10%
Transportation & Storage	27,360	-3%	-840	-5%
Professional, Scientific, Technical	25,960	-30%	-11,110	-72%
Primary Industries	21,490	+9%	1,690	+11%
Arts, Entertainment & Recreation	14,540	+44%	4,410	+28%

- Analysis of the industry dimensions for turnover and employment growth (individually and together) suggests that much of the growth seen in Scotland's MSBs and mid-market between 2010 and 2017 has, manufacturing and to a lesser degree construction, aside, been driven by traditionally low productivity industries that the public sector does not support.
- These are Education, Health & Social Work; Accommodation, Information/Communications & Real Estate; and Arts, Entertainment & Recreation.
- These industries (Manufacturing and Accommodation, Information/Communications & Real Estate aside) have grown their presence in the mid-market on the back of employment growth rather than turnover growth.
- It suggests much of the growth in MSBs within Scotland has not been due to productivity gains.
- In contrast to the growth in these industries, the two main industries in Scotland's mid-market – Wholesale & Retail, and Manufacturing do appear to have grown through increasing productivity.
- On average, manufacturing companies have become smaller both in terms of employment and turnover, yet overall turnover in the industry has increased.











NATION OF OWNERSHIP

Total change (2010-17)	Number of MSBs			MSB turnover (£000m)			MSB employment		
	Scottish	Overseas	rUK	Scottish	Overseas	rUK	Scottish	Overseas	rUK
Wholesale & Retail	+5	+20	+5	+£1,085m	+£67m	-£244m	-1,080	+2,010	-3,080
Manufacturing	+5	+20	0	+£471m	+£2,661m	-£113m	+1,510	+6,200	-1,420
Administrative & Support	+10	+20	0	+£852m	+£60m	-£194m	-2,210	+7,890	-5,260
Accommodation, Info/Comms, Real Estate	+15	+10	0	+£48m	+£628m	+£140m	+2,720	+2,600	+1,850
Professional, Scientific, Technical	+10	+30	-15	-£447m	+£8m	+£115m	-8,280	-1,900	-930
Transportation & Storage	0	+25	-15	-£399m	+£1,044m	-£145m	-6,450	+5,630	-20
Construction	+10	0	0	+£232m	-£37m	+£5m	+1,840	+640	-940
Primary Industries	+5	+15	+10	-£717m	£815m	+£501m	-2,290	+3,570	+410
Education, Health & Social Work	+5	+5	+10	+£217m	+£9m	+£135m	+4,370	-490	+4,220
Arts, Entertainment & Recreation	+5	+5	-10	-£36m	+£150m	+£9m	+3,620	+630	+160

- Whilst manufacturing has shown the greatest level of growth, this has been overwhelmingly driven by foreign-owned MSBs. Scottish manufacturing MSBs have grown also, but failed to match the growth rate seen in the foreign-owned manufacturing mid-market.
- The industries in which Scottish owned MSBs have seen the most significant growth are not in industries traditionally supported by the public sector. But growth in number of MSBs and total turnover combined with a decrease in overall employment suggests these sectors may have increased productivity.
- However, there are indications that Scottish-owned MSBs in Wholesale & Retail, Manufacturing and Administrative & Support industries may have become more productive (increased average turnover size with a fall in average employment).
- More broadly, Scottish owned MSBs appear (like its [High-Growth Firms](#)) to be getting smaller. This pattern is one replicated in the evidence around [HGFs elsewhere in the UK \(by region\)](#) and amongst the rUK MSBs within Scotland.
- Growth in Scotland amongst MSBs owned from within the rest of the UK has almost exclusively been in service industries such as Accommodation, Information/Communications, Real Estate; Professional, Scientific, Technical; Primary; and Education, Health & Social Care.

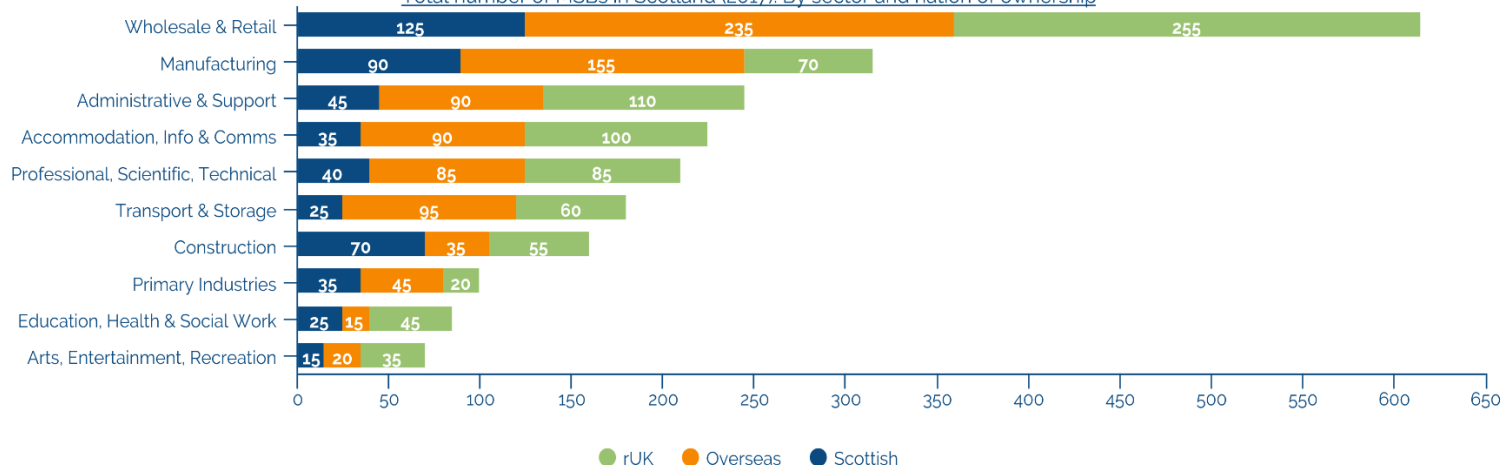
AVERAGE COMPANY SIZE AND CHANGE SINCE 2010.

Average company employment and turnover. By nation of ownership and change in average MSB from 2010-17.

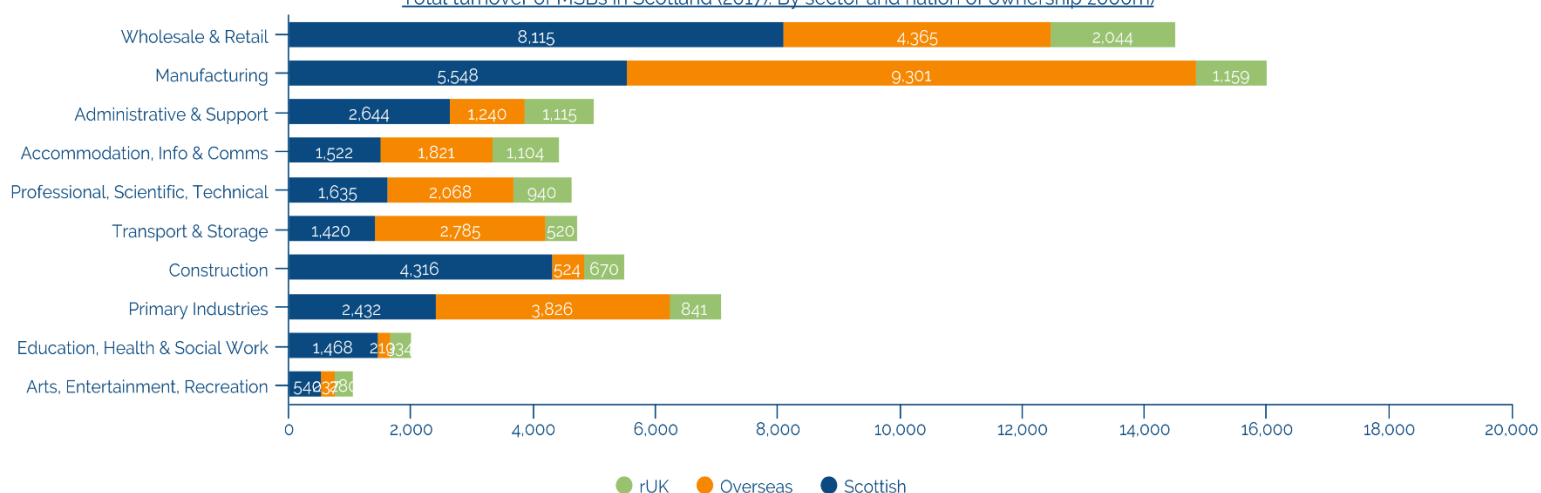
	Scottish owned	Overseas owned	rUK owned
Wholesale & Retail 	125 companies (+5) £64.9m (+£6.3m) 225 employees (-18)	235 companies (+20) £18.6m (-£1.4m) 72 employees (+2)	255 companies (+5) £8m (-£1.2m) 57 employees (-13)
Manufacturing 	90 companies (+5) £61.6m (+£1.9m) 310 employees (n/c)	155 companies (+20) £60m (+£10.8m) 211 employees (+14)	70 companies (n/c) £16.6m (-£1.6m) 79 employees (-20)
Administrative & Support 	45 companies (+10) £58.8m (+£7.6m) 483 employees (-201)	90 companies (+20) £13.8m (-£3.1m) 203 employees (+54)	110 companies (n/c) £10.1m (-£1.8m) 184 employees (-48)
Accommodation, Info/Comms, Real Estate 	35 companies (+15) £43.5m (-£30.2m) 586 employees (-303)	90 companies (+10) £20.2m (+£5.3m) 223 employees (+5)	100 companies (n/c) £11m (+£1.6m) 137 employees (+18)
Professional, Scientific, Technical 	40 companies (+10) £40.9m (-£28.5m) 240 employees (-356)	85 companies (+30) £24.3m (-£13.2m) 120 employees (-99)	85 companies (-15) £11.1m (+£2.8m) 73 employees (+2)
Transport & Storage 	25 companies (n/c) £56.8m (-£16m) 433 employees (-258)	95 companies (+25) £29.3m (+£4.4m) 134 employees (+33)	60 companies (-15) £8.7m (-£0.2m) 64 employees (+13)
Construction 	70 companies (+10) £61.7m (-£6.4m) 278 employees (-16)	35 companies (n/c) £15m (-£1m) 133 employees (+18)	55 companies (n/c) £16.6m (-£1.6m) 75 employees (-17)
Primary Industries 	35 companies (+5) £69.5m (-£35.5m) 221 employees (-113)	45 companies (+15) £85m (-£15.4m) 254 employees (-9)	20 companies (+10) £42.1m (+£8.1m) 115 employees (-74)
Education, Health & Social Work 	25 companies (+5) £58.7m (-£3.9m) 1800 employees (-231)	15 companies (+5) £14m (-£6.1m) 363 employees (-230)	45 companies (+10) £7.4m (+£1.7m) 256 employees (+48)
Arts, Entertainment, Recreation 	15 companies (+5) £36m (-£21.6m) 537 employees (+93)	20 companies (+5) £11.9m (+£6.1m) 114 employees (+4)	35 companies (-10) £8m (+£2m) 120 employees (+30)

TRENDS IN SCOTLAND'S MID-MARKET - IN CHARTS

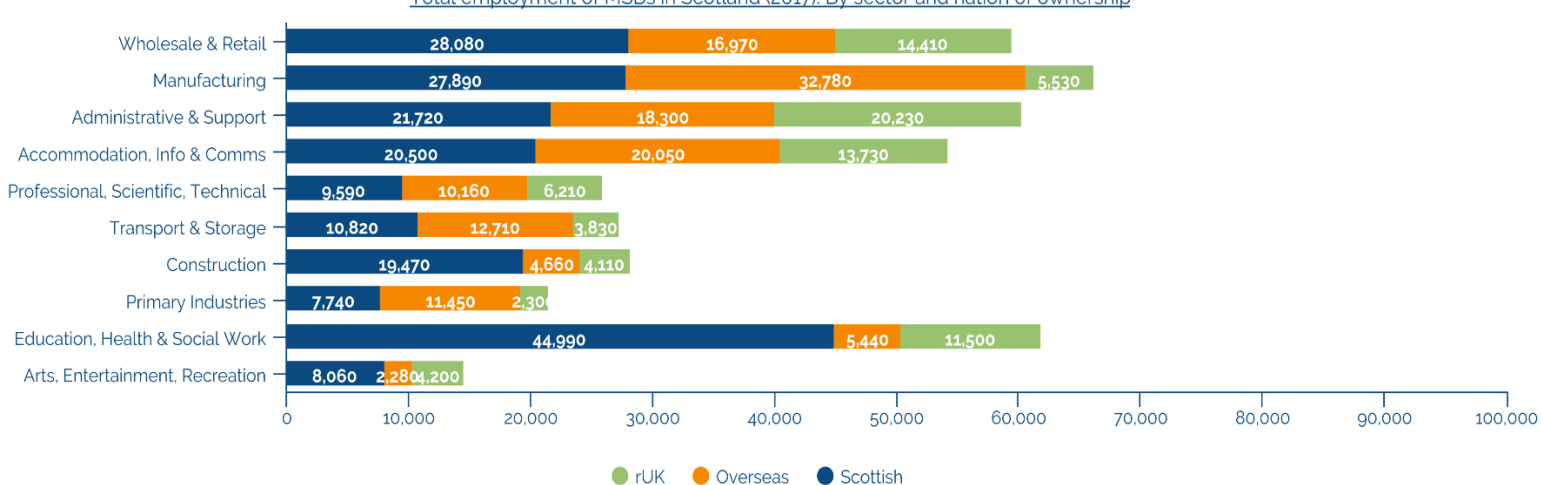
Total number of MSBs in Scotland (2017). By sector and nation of ownership

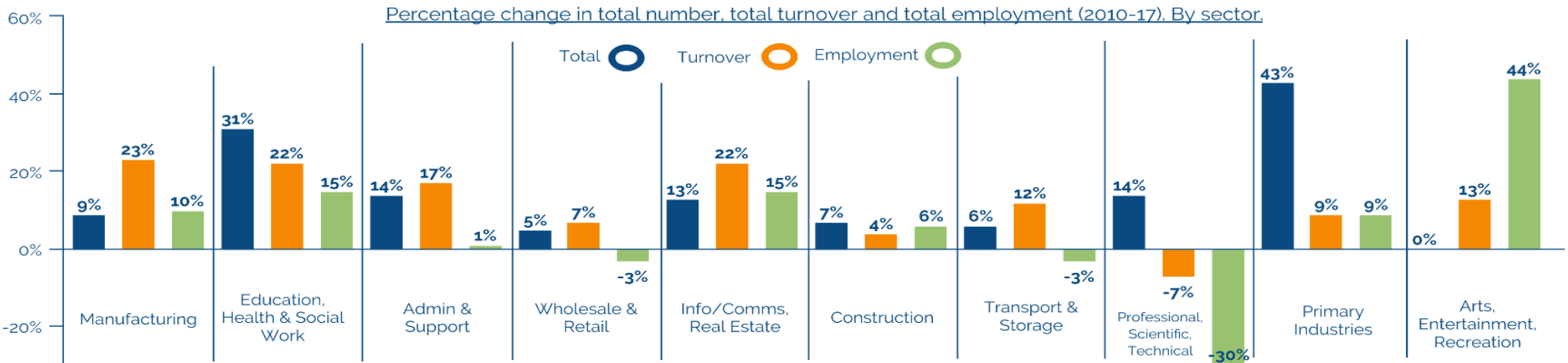


Total turnover of MSBs in Scotland (2017). By sector and nation of ownership £000m

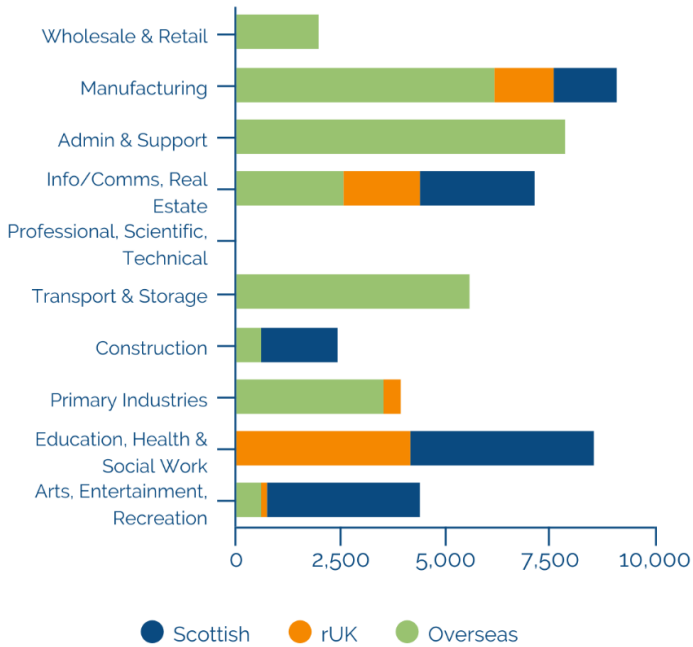


Total employment of MSBs in Scotland (2017). By sector and nation of ownership

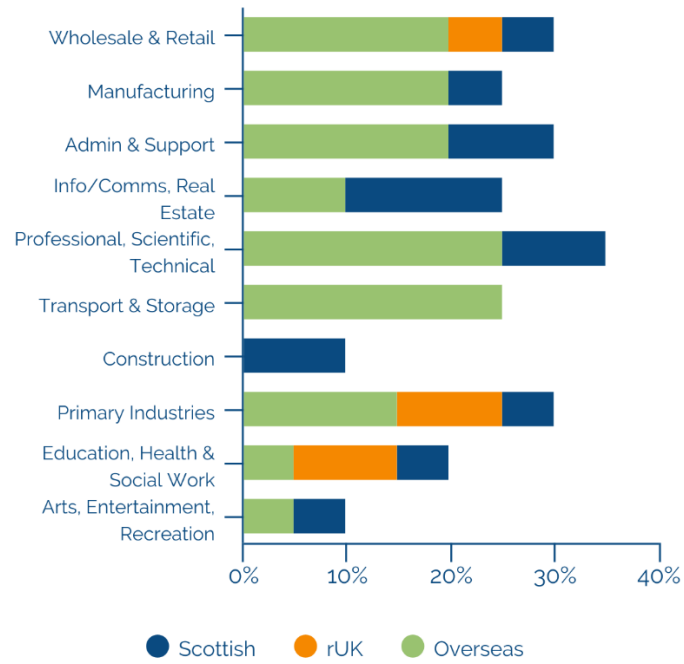




Growth in MSB employment by sector and nation of ownership (2010-17)



Growth in total number of MSBs by sector and nation of ownership (2010-17)



Growth in MSB turnover by sector and nation of ownership (2010-17)

