

# SCOTTISH **TECHNOLOGY** **INDUSTRY** SURVEY 2014




**ScotlandIS**



# SCOTTISH TECHNOLOGY INDUSTRY SURVEY 2014

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 **Please note:**  
All numbers shown on the infographics  
within denote percentages.

ScotlandIS and 9-20 recruitment would like to thank everyone who took part in this year’s Scottish Technology Industry Survey for their invaluable input, providing feedback on performance in 2013, and their forecasts for 2014.

## Introduction

Each year the Scottish Technology Industry Survey provides information on the health of the digital technologies industry. Once again the analysis breaks down the results by size of company; small, medium and large.

Included at the end of this report is an analysis of the employment and skills outlook for the year. This is a particularly important year for the industry with the impending referendum in Scotland and the report ends with a review of the potential impact this could have on businesses in the sector in Scotland.

The technology industry is one of the major contributors to the Scottish economy with a contribution in excess of £3billion or 3% of Scotland’s GVA. In terms of workforce, there are 70,000 people employed in the technology industry, which equates to one in every twenty fifth person employed in Scotland.

There are more than 1,000 workplaces in Scotland’s IT and telecoms industry providing a vast range of products and services to many sectors including: health and social work, education, construction, the energy industry and the public sector.

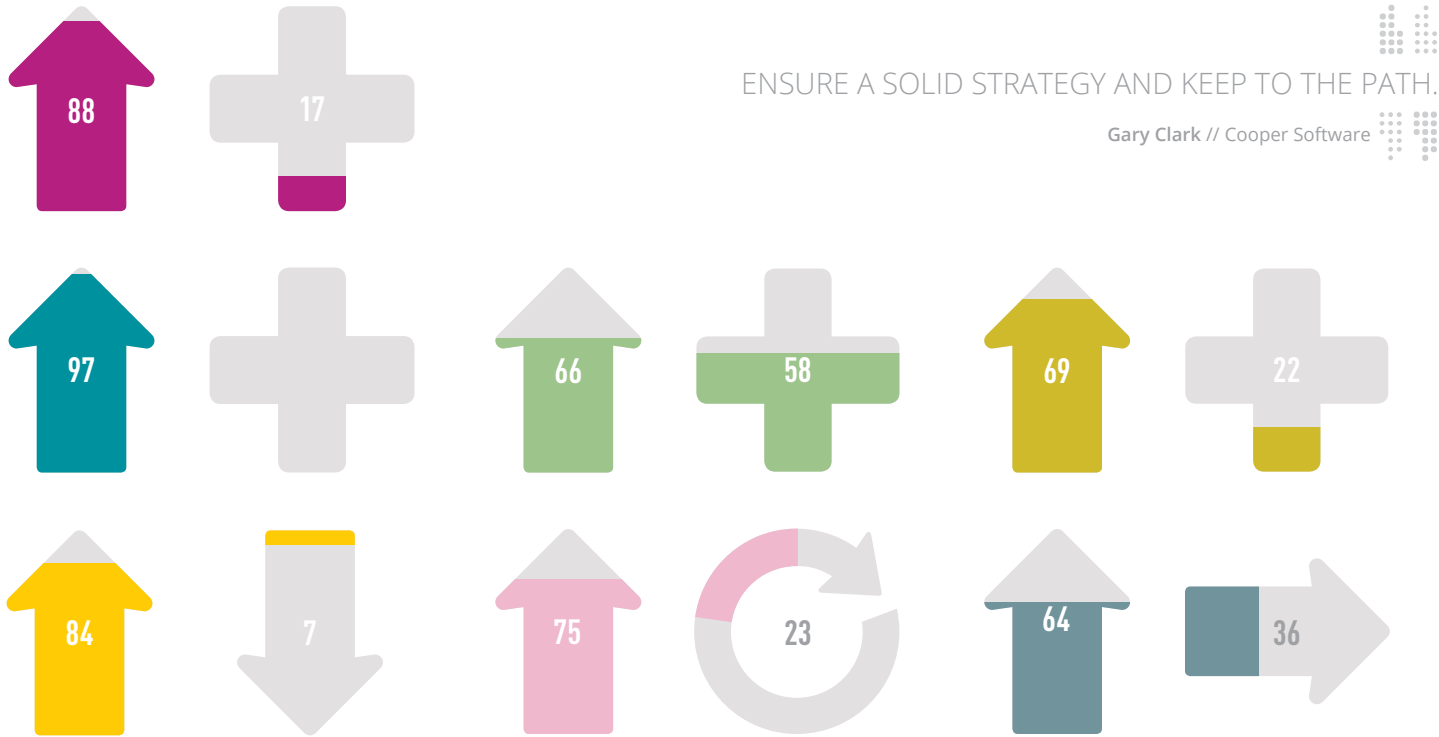
This survey was carried out by ScotlandIS in early 2014, and supported by 9-20 Recruitment with subsequent analysis and commentary provided by ‘the Research Unit’ within Aberdeen & Grampian Chamber of Commerce. ScotlandIS would like to thank all businesses that participated in the survey.

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 @scotlandis

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### Industry growth and optimism continues

- This 2014 report shows an increased level of confidence for businesses with 88% reporting being optimistic or very optimistic about the year ahead, an increase of 17% on 2013.
- Larger companies (500 to 1000 employees) are the most the most optimistic for 2014 (97%).
- 84% of businesses expect sales to increase over the next 12 months with only 7% forecasting a decrease.

### Employment growth

- The demand for graduate employment continues to rise with 66% of businesses likely to recruit graduates in 2014. This is up from 58% last year.
- 75% (2013: 70%) of respondents forecast an increase in employment over the next 12 months with 23% expecting to retain their current staffing complement.

*Note: A detailed analysis of the demand for skills and other employment factors is covered in the Employment and Skills commentary on Page 22.*

### Independence referendum impact

- 69% of businesses believe there will be no impact on their sales following the outcome of the referendum, while 22% believe there will be some decrease in sales.
- 64% of businesses would not relocate their business if there was a vote for independence, but 36% are sufficiently concerned about the implications to consider moving.

The Scottish Technology Industry Survey provides an annual health check for the digital technologies industry. This year's report provides insights on company performance in 2013 and predictions for 2014.

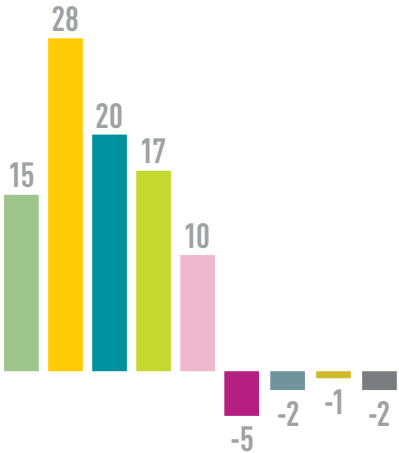


figure 1

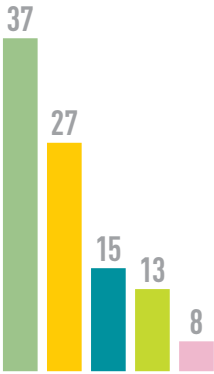


figure 2

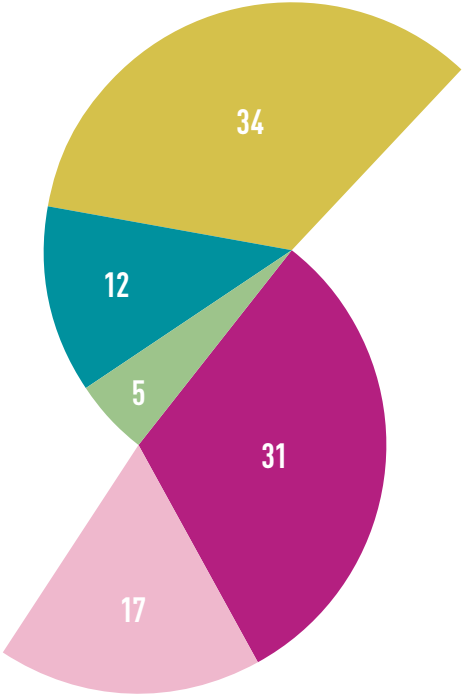
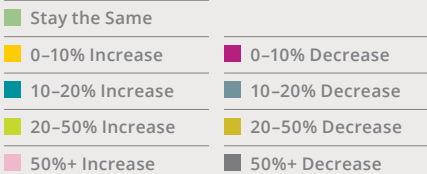


figure 3

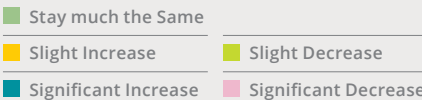
### Sales level comparison: 2013 with 2012 (%)

Responses have shown that 2013 was a strong year for the technology industry with 75% of businesses reporting increases in sales from 2012.



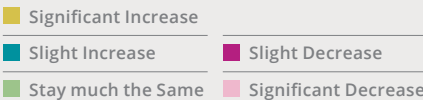
### 2013 actuals compared to budget forecasts (%)

Results show that 2013 was better than most expected at the outset of the year. In total nearly 80% of respondents stated that the outturn results were as good as or better than budgets set in late 2012 / early 2013.



### Profit margin performance 2013 (%)

It is encouraging to note that along with an increase in sales during 2013 there was an increase in profit margins for 46% of businesses. This year 5% reported their profit margins have 'stayed much the same', in last year's results this figure was 35%. The chart does show a mixed picture though with margins being squeezed in 48% of cases.







The technology sector is diverse and covers many different areas of operations. Businesses were asked what their **main** activity of business was, results are shown in *figure 7*.

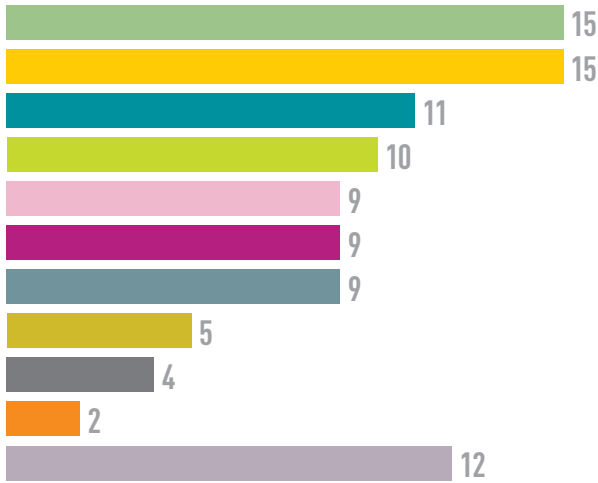


figure 7

### Main activity of business

Respondents covered a wide spread of business areas with software businesses (products, solutions and services) accounting for the largest share of responses.

The spread of businesses show little variance from 2012 with the exception of ‘services to technology’ which has decreased from 12% to 6% in 2013.

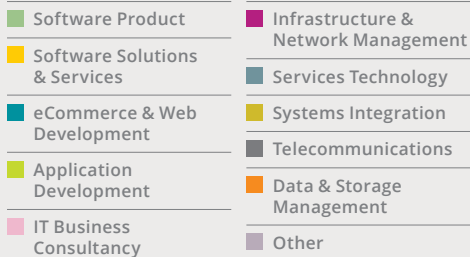


figure 8

### Headquarters Locations

With over 70,000 people employed in the technology industry in Scotland, location of businesses headquarters is widespread. Glasgow, Lanarkshire, Renfrewshire and Dunbartonshire and Edinburgh and Lothians continue to be popular locations with Aberdeen and Grampian not far behind.

Notably there is an increase in responses from businesses located outside Scotland (21%), this figure has nearly doubled from last year when only 11% of respondent’s business headquarters were located outside of Scotland. This may reflect a number of takeovers of Scottish based businesses over the last 12 months.

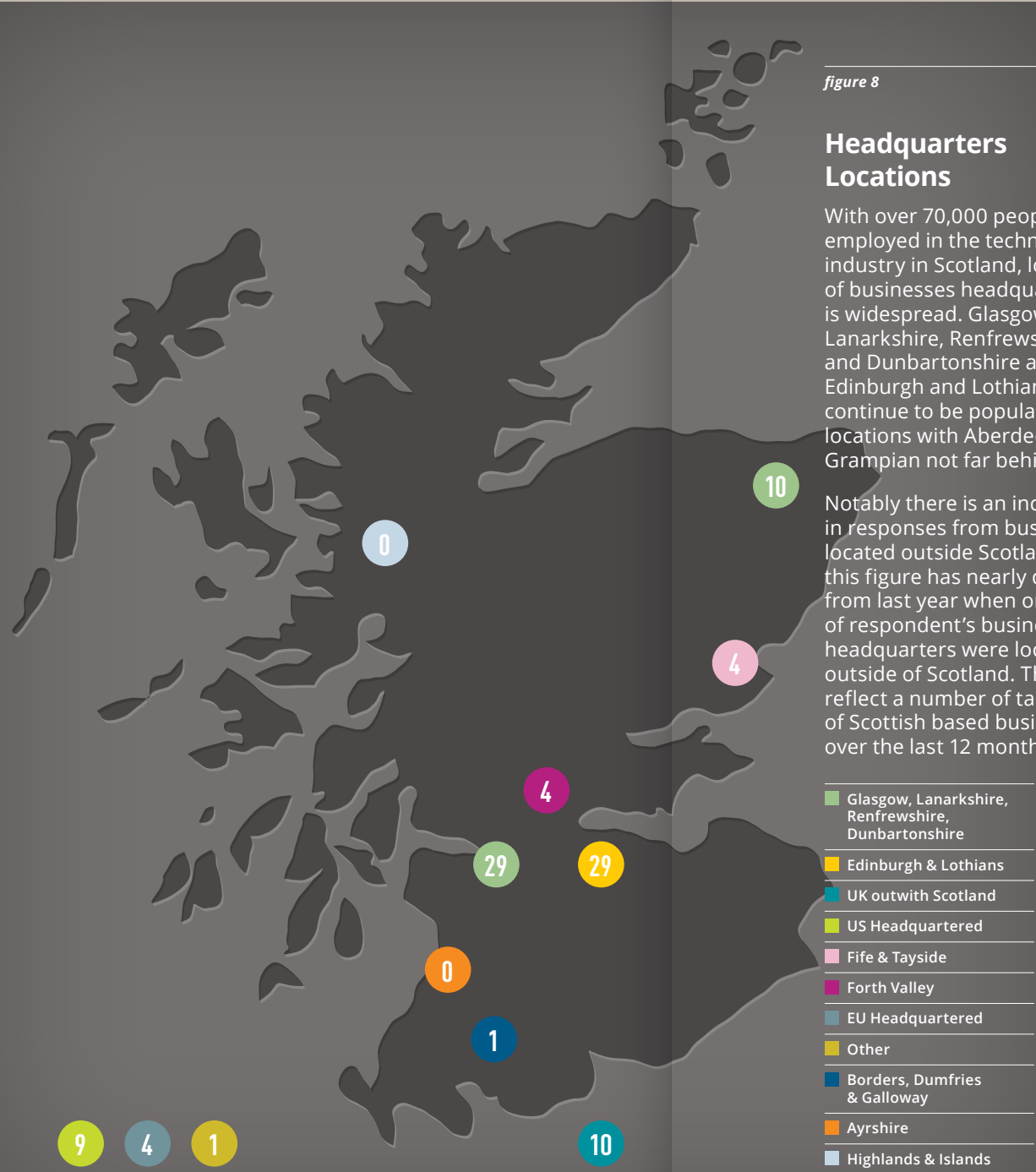


figure 9

### Sectors being supplied with services

The sectors serviced by the technology industry are diverse with the public sector (45%), professional services (45%), financial services (45%), energy utilities (46%) and IT and telecommunications (45%) all noted as main sectors. Respondents forecast that the public sector (7%) and defence (11%) are sectors which will see decreases in business during 2014.

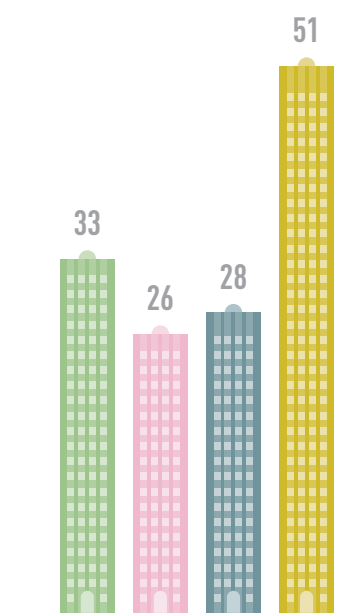
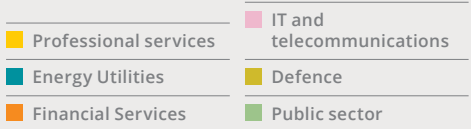
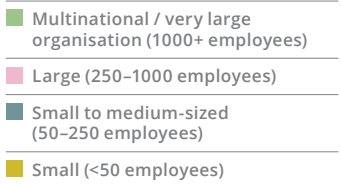


figure 10

### Size of customer base

Businesses were asked what size of client represents their main customer base. The customer base of businesses is diverse with multinational/very large organisations being the highest reported category (33%).





# Benchmark 1: Smaller Companies

1-35 Employees

Smaller companies tend to be involved in: software product (19%), eCommerce and web development (17%) and software solutions and services (13%). Compared to medium sized companies and larger companies, smaller companies are more likely to be formed in the 21st century with 67% of respondents saying their business was formed in 2000 or after.

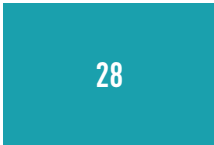


figure 11

## Main activity of business

2013 was a positive year for smaller businesses with 67% reporting an increase in sales. Fewer businesses saw their profit margins decrease and most (83%) show a high level of optimism for the next 12 months.

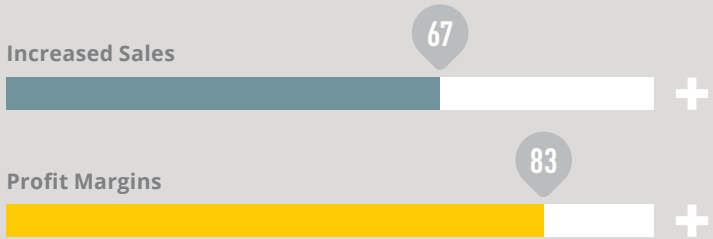


figure 12

## Export growth

Businesses who said they are already exporting has increased from 47% last year to 51% this year and those who do not currently export, but are planning to do so in the future, increased from 16% to 21%.

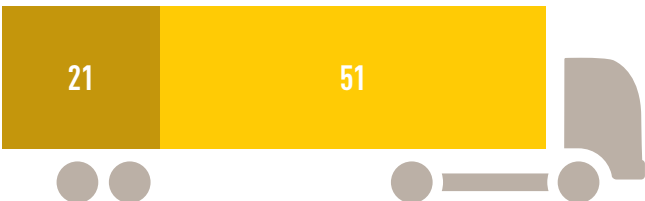


figure 13

## People and skills

70% of smaller businesses expect to recruit additional staff (2013: 66%) during 2014. Most plan to hire between one and five people. 27% expect their numbers to stay the same.

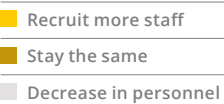


figure 14

## Looking forward to 2014

Levels of optimism are reflected in sales predicted over the next 12 months with nearly 80% forecasting increases. 62% are forecasting more than 10% growth with 18% expecting growth in single figures. 12% expect sales to remain at 2013 levels with 9% anticipating a decrease in sales.



## Sales forecasts for 2014

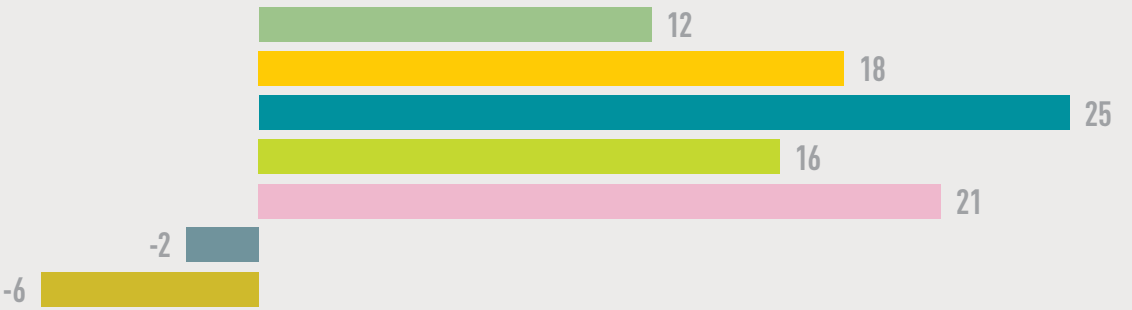
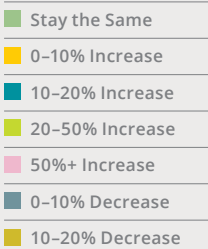


figure 15

Funding Model

39% of smaller companies reported their annual turnover is in the region of £0 – £250,000 with their main source of funding coming from founders capital and retained profits (78%). 41% reported they would be unlikely to need additional finance, but of those who did anticipate they would need additional finance, then this was most likely to come from private investments (29%) and bank funding such as an overdraft and medium term loan (13%).

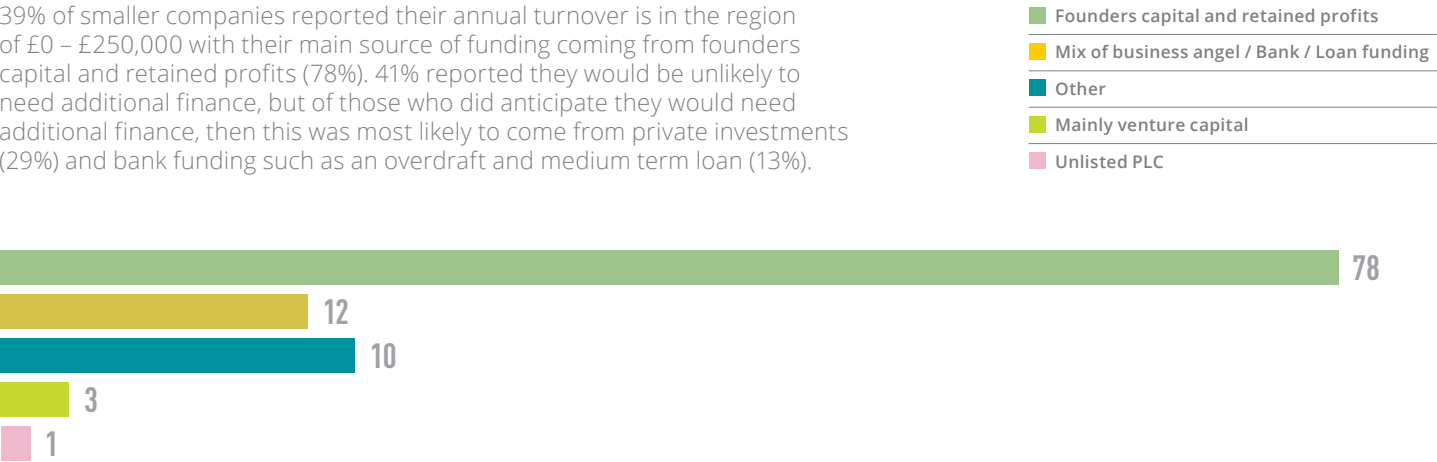
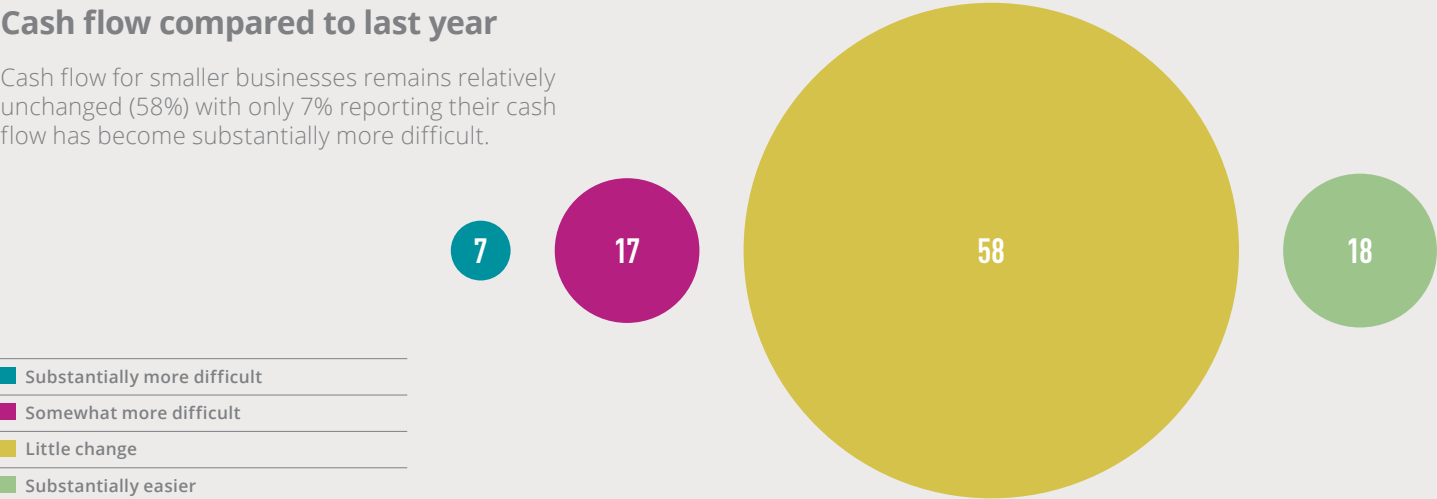


figure 16

Cash flow compared to last year

Cash flow for smaller businesses remains relatively unchanged (58%) with only 7% reporting their cash flow has become substantially more difficult.

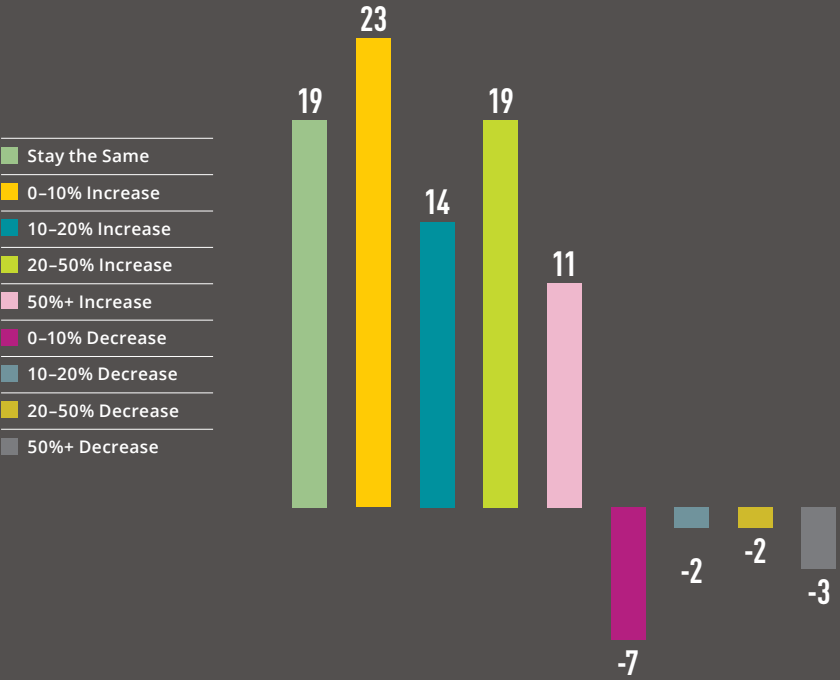


- Substantially more difficult
- Somewhat more difficult
- Little change
- Substantially easier

figure 17

2013 sales levels compared to 2012

67% of businesses reported increased sales year on year between 2012 and 2013. 2012 saw 20% of smaller companies reporting a fall in sales; this reduced to 14% in 2013 data.



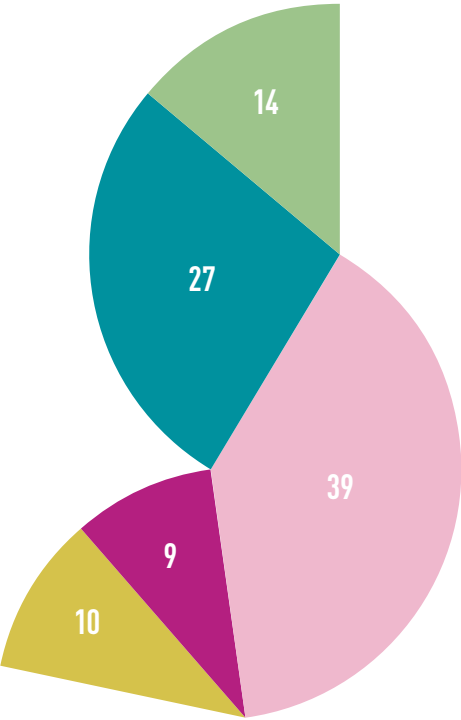
GRAB THE OPPORTUNITY – STOP TALKING ABOUT IT AND INSTEAD PLAN FOR SUCCESS. THE REST FOLLOWS.

Donald Maciver // Gael

figure 18

Actuals compared to budget

2013's actuals compared to budget differ only slightly from last year's results; 41% reporting that year end actuals were ahead of budget; 39% were close to budget, but 19% reported actuals were less than the budgets originally set.



- Increased Significantly
- Increased Slightly
- Stayed Much the Same
- Decreased Slightly
- Decreased Significantly



## Benchmark 2: Medium-sized Companies

36-500 Employees

Medium-sized companies tend to be involved in: software solutions and services (18%), software products (16%), infrastructure and network management (14%) and application development (14%). 57% said they were formed between 1988 and 1999 with 44% of companies reporting turnover in the region of £5m – £10million.



29

figure 19

### Main activity of business

84% of medium-sized companies reported increased sales in 2013 compared to their 2012 results and this increase looks set to continue in to 2014. In terms of profit margins, the results are also positive with 61% reporting an increase during 2013.

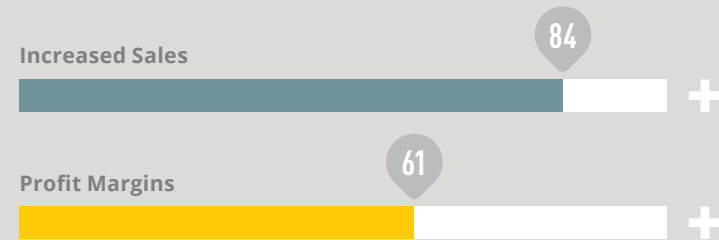


figure 20

### Export growth

57% of medium-sized companies currently export outside the UK, with a further 14% planning to do so in the near future.

■ Already exporting  
■ Planning to do so in the future  
■ Not currently exporting

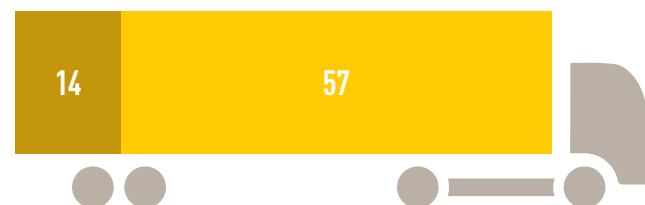


figure 21

### People and skills

87% expect to increase the number of staff they employ over the next 12 months with 41% expecting to employ between 6 and 20 new people. Medium-sized companies are most likely to recruit graduates this year, and expect to be able to access new staff from the Scottish market place.

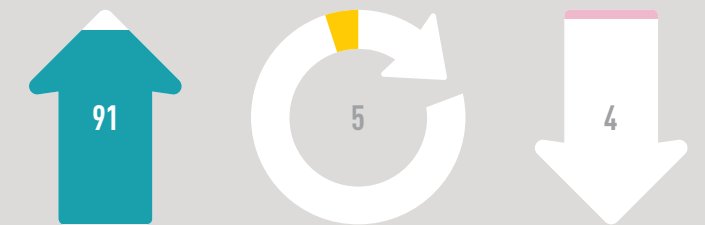
■ Recruit more staff  
■ Stay the same



figure 22

### Looking forward to 2014

Around 90% of medium-sized companies expect to increase their sales in the next twelve months with only 5% expecting to stay the same and 4% expecting a decrease.



### Sales forecasts for 2014

■ Stay the Same  
■ 0-10% Increase  
■ 10-20% Increase  
■ 20-50% Increase  
■ 50%+ Increase  
■ 0-10% Decrease

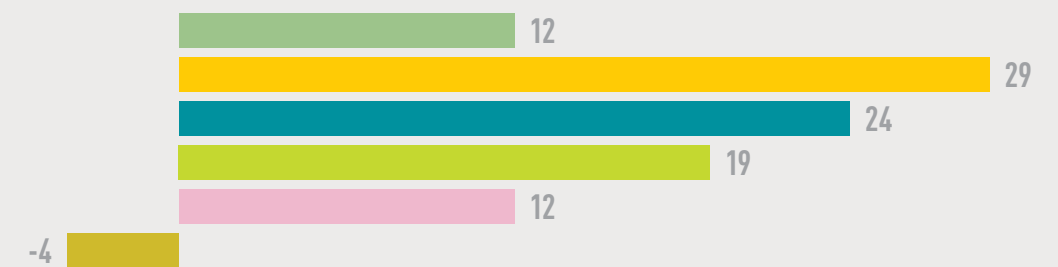




figure 23

Funding Model

Turnover for medium sized companies ranges between £1 and £10million. Funding is mainly via founders capital and retained profit (54%). If additional finance is needed to grow the company, then this is most likely to be through bank funding (20%) or private investment (16%). 55% reported they don't anticipate a need for additional finance during 2014.

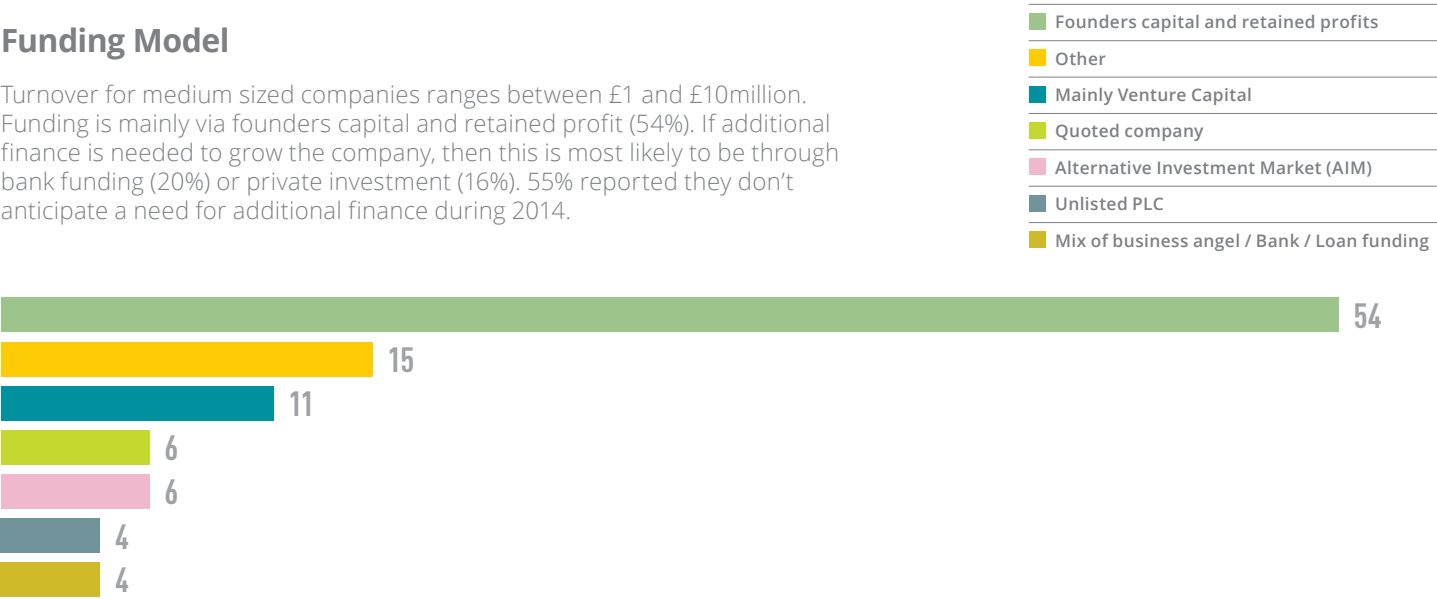


figure 24

Cash flow compared to last year

Similar to smaller business, most medium-sized businesses reported little change to their cash flow when compared to last year (61%), although one in five found cash flow substantially easier.

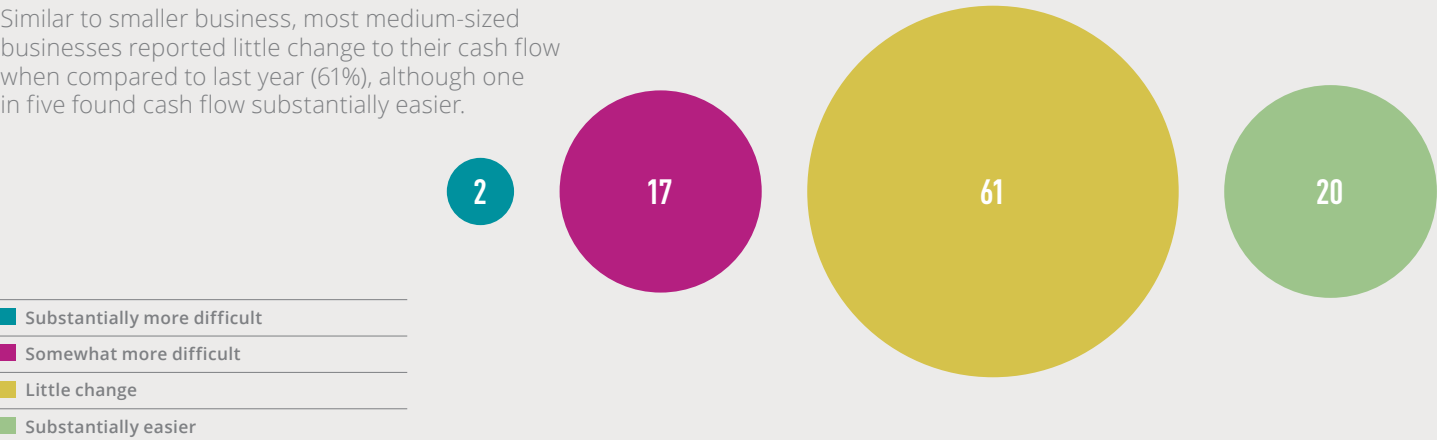


figure 25

2013 sales levels compared to 2012

Performance against budget during 2013 was varied although over 80% outperformed expectations.

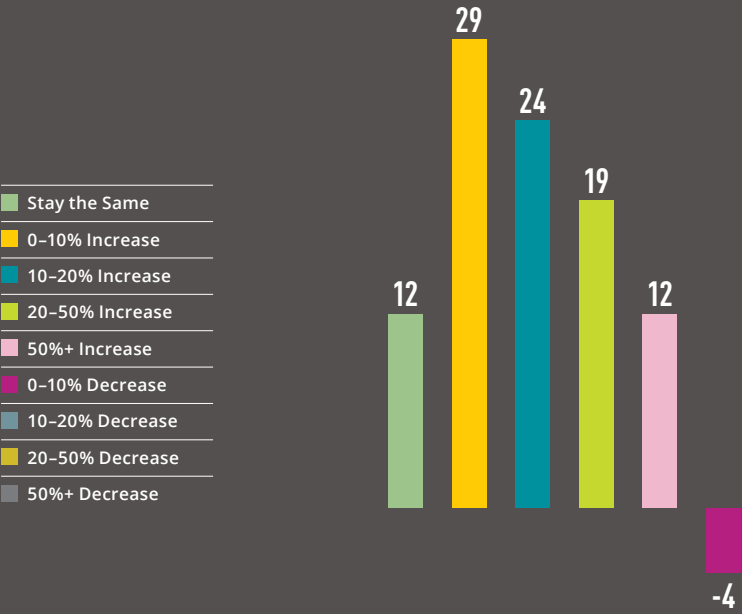
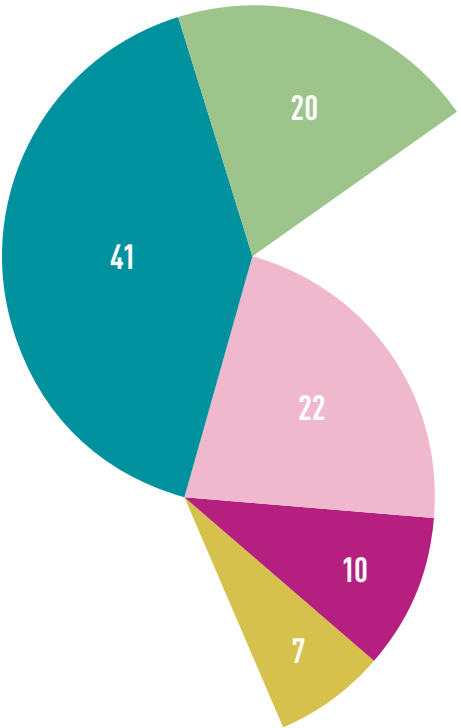


figure 26

Actuals compared to budget

Performance against budget during 2013 was varied although over 60% outperformed expectations.



TAKE MORE RISK,  
SET AMBITIOUS TARGETS.  
Scott Leiper // Lockheed Martin

- Increased Significantly
- Increased Slightly
- Stayed Much the Same
- Decreased Slightly
- Decreased Significantly



# Benchmark 3: Larger Companies

500-1000 Employees

Larger companies are more likely to be involved in systems integration and services to technology. Compared to smaller and medium sized companies, larger companies tend to be more established with 43% formed between 1983 and 1994.



figure 27

## Main activity of business

2013 was an extremely good year for larger companies. Profit margins increased (55%), sales increased in 2013 in comparison to 2012, with only 9% reporting a reduction. Nearly three quarters said they were not in need of additional finance and 80% reported little change to their cash flow.

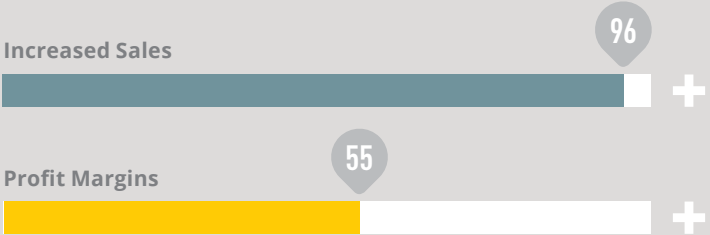


figure 28

## Export growth

82% currently export outside the UK, with a further 6% planning to do so in the near future.

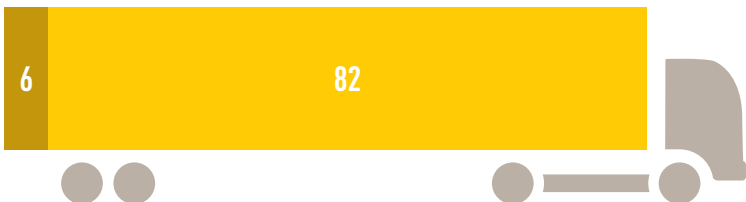


figure 29

## People and skills

This year 46% expect to increase their headcount by more than 21 people with only 4% expecting to decrease staff slightly. 21% expect to maintain current staff levels.

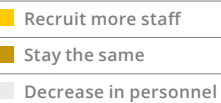


figure 30

## Looking forward to 2014

Large companies were very positive about the future with 96% anticipating an increase in sales and none expecting a decline. Large businesses are therefore more confident than they were in 2013 when 18% of larger companies anticipated a decrease in sales. Businesses have perhaps readjusted their expectations this year as only 5% actually reported a decline in sales in 2013.



## Sales forecasts for 2014

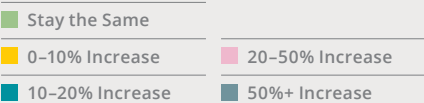


figure 31

Funding Model

Turnover for most large companies exceeds £100million+ (78%). Over half are quoted companies with 56% reporting this was their main funding model. Additional finance is not an issue for larger companies with 70% saying this was not applicable to them.

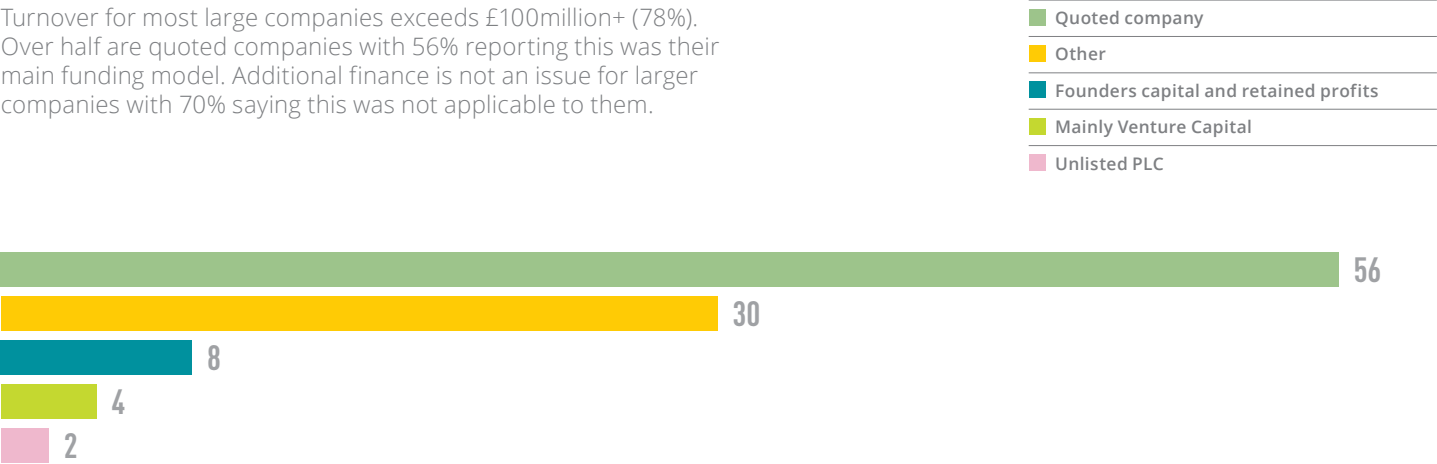


figure 32

Cash flow compared to last year

Cashflow is not a major issue for larger companies with 80% reporting little change from the previous year .

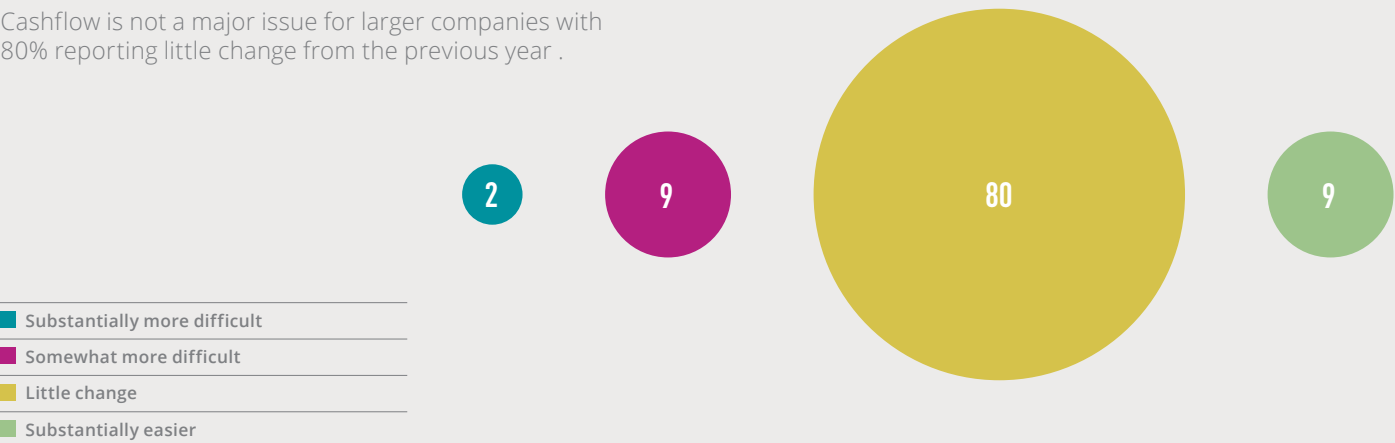


figure 33

2013 sales levels compared to 2012

Larger companies predominantly report sales growth during 2013 (86%) this is up from 65% in 2012. Only 3% saw no change in sales levels in 2013, compared to 18% in 2012. Only 9% report a decrease in sales.



THINK HARD ABOUT WHAT THE CUSTOMER NEEDS RATHER THAN WHAT YOU THINK YOU HAVE TO SELL.

Mike Upton // NCC Group

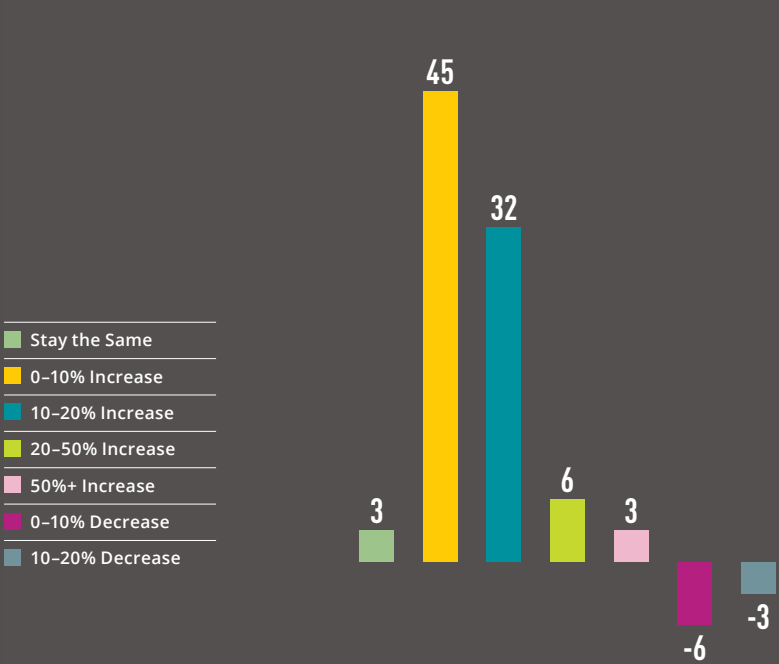
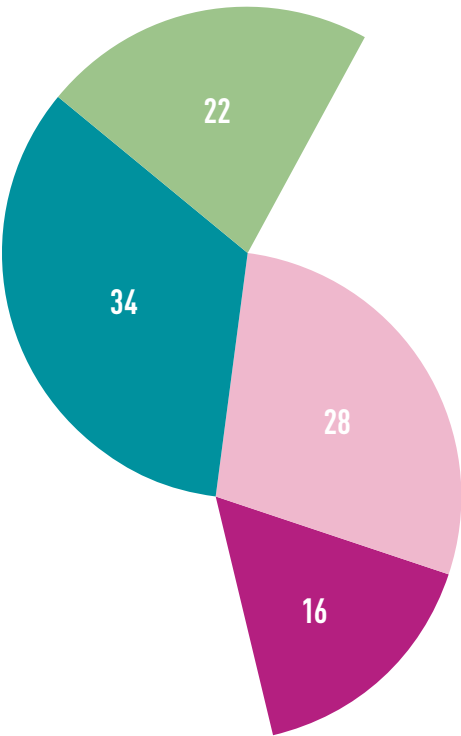


figure 34

Actuals compared to budget

56% of larger companies report having exceeded their sales forecasts for 2013 (up from 36% in 2012).



- Increased Significantly
- Increased Slightly
- Stayed Much the Same
- Decreased Slightly



figure 35

### Demand for Skills / Change in employee numbers

Forecast demand for skills in 2014 is very strong. Businesses are feeling ambitious in 2014 with 77% of businesses overall expecting to increase the number of staff they currently employ, 13% up from last year's results. Most expect to hire the main element of this additional talent from the Scottish workforce (77%) with a further 23% expecting to have to look further afield to the rest of the UK, European and global jobs markets.

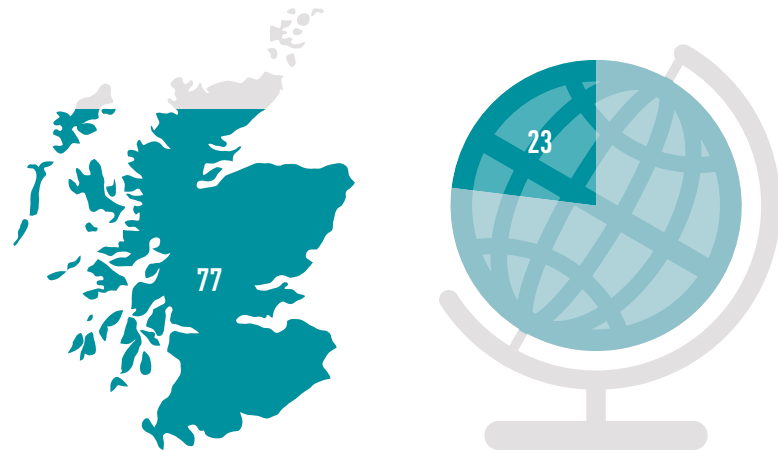


figure 36

### Demand for skills varies amongst the different sizes of business...

#### Larger Companies

For larger companies 82% are planning to hire with the greatest demand being for infrastructure support and management (87%), followed by project management skills (80%), software engineering skills (70%), commercial and business support skills (62%) and executive management (55%).

#### Medium-sized Companies

Amongst the mid-sized companies 87% plan to take on more staff; their key skills needs are commercial and business support (75%) and project management skills (74%) followed by infrastructure support and management (64%). 61% having some or a high requirement for software engineering talent, and 52% plan to recruit executive management.

#### Smaller Companies

70% of smaller companies are planning to hire with 72% having some or a high requirement for software engineering talent, followed by project management skills (60%), infrastructure support and management (52%), commercial and business support (34%) and executive management 21%.

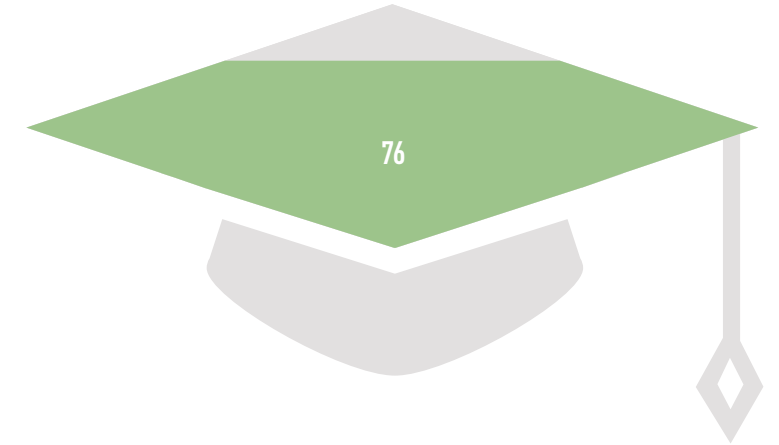
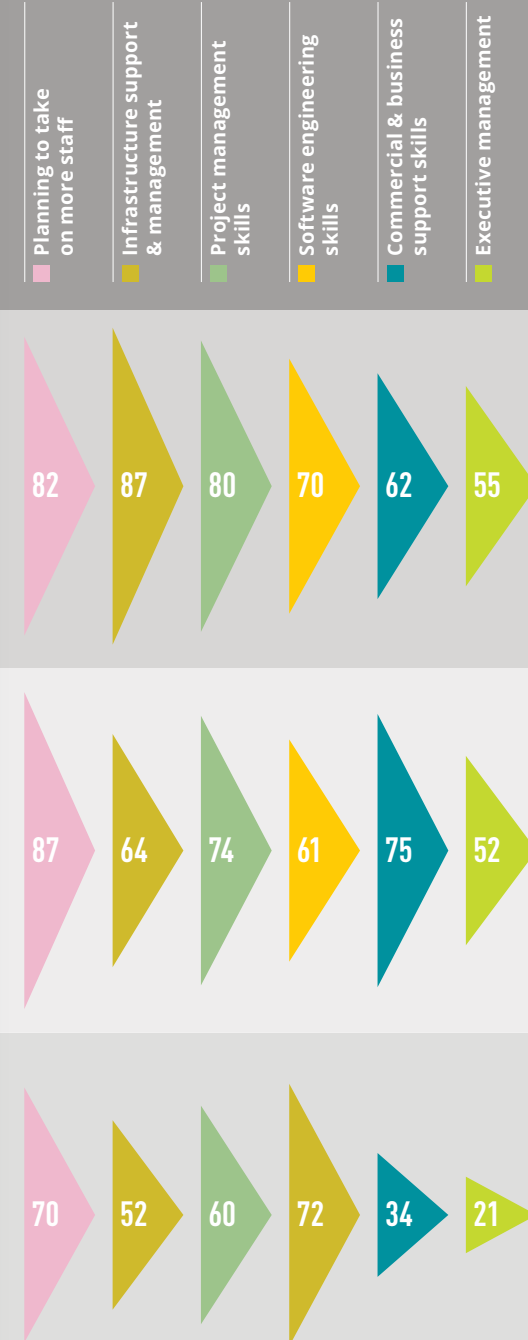


figure 37

### Graduate recruitment

With the majority of businesses looking to increase the size of the workforce over the next 12 months it is important to consider where this labour force will come from. The demand for graduates remains strong, with 76% of businesses 'likely' or 'definitely' planning to recruit at this level.

However, with little change in the overall number of graduates with the strong technical skills the industry needs, this is only serving to overheat the market.



COMPETE ON CULTURE AND VALUES.  
IF WE COMPETE ON SALARY THE RICHEST  
COMPANIES WILL GET THE BEST PEOPLE.



Brian Williamson // Jumpstart





With the independence referendum approaching, ScotlandIS was keen to understand members' views, what they see as the challenges and opportunities for their businesses and how they see the debate impacting the sector.

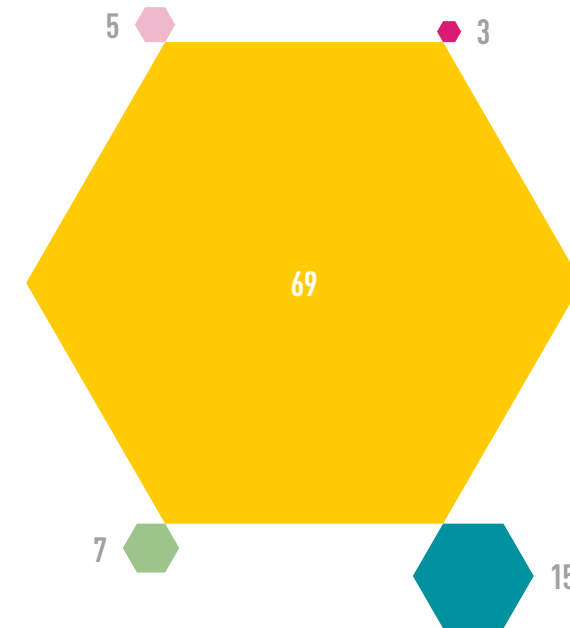


figure 38

### Sales impact

Over two thirds of businesses feel that possible outcomes of the referendum are having no impact on sales. However 22% believe it is having a negative impact; whilst 8% report a positive impact.

Businesses were asked for more detail on the possible implications of the referendum and issues surrounding currency were frequently mentioned by respondents. Those businesses that were undecided as to the possible implications felt this was due to a lack of information on what would happen to their industry.

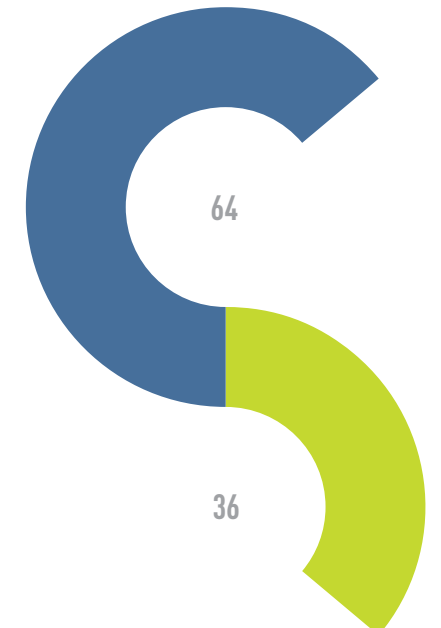
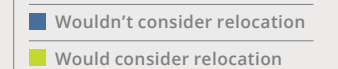
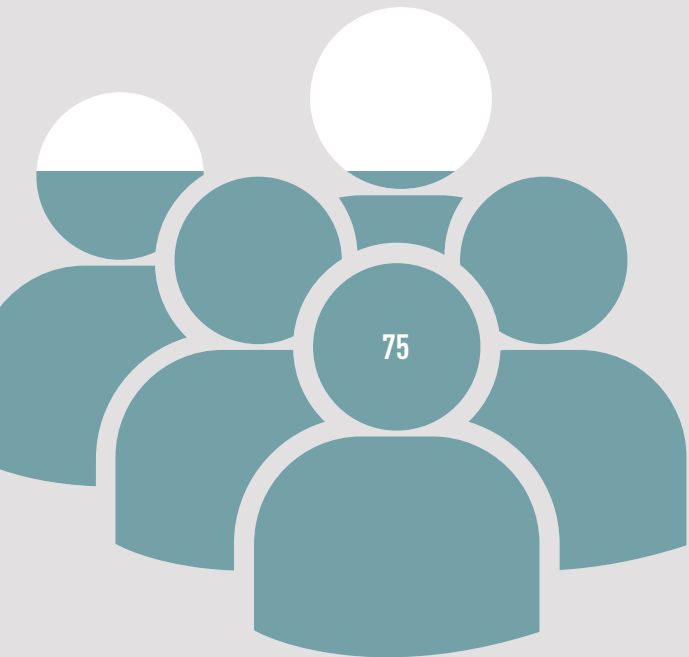
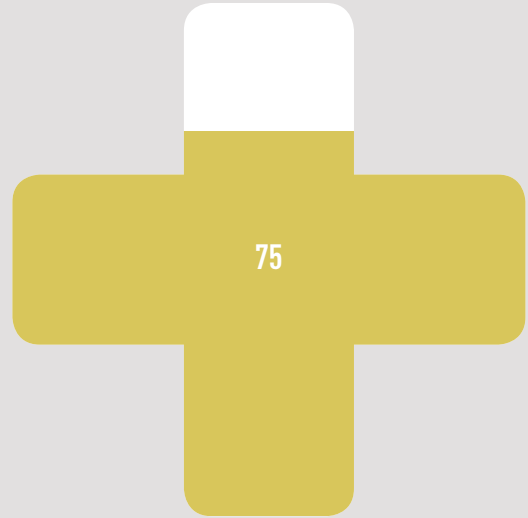


figure 39

### Relocation of business

Businesses were asked, "would a Yes vote for independence make you consider relocating your business?" As shown above, almost two thirds would not consider relocating, whilst 36% would.





SAY 'YES' TO ALL NETWORKING  
OPPORTUNITIES – YOU NEVER  
KNOW WHERE IT WILL LEAD.

Mike Newman // my1login

figure 40

The results this year are positive and it looks set to be another interesting year for the technology industry in Scotland. The positive outlook the industry had in 2013 has been realised with 75% of businesses reporting an increase in sales.

Businesses are also confident about the future of the industry with 97% expecting this increase to continue into 2014. Business confidence is also translating into an expected increase in staffing levels with 75% looking to increase employment during 2014. The technology industry is a people business and it is clear that one of the barriers to achieving future ambitious growth targets is recruitment and retention of staff with the right skills and experience.

STRIVE

"Always strive to deliver your service/products **better** than the last delivery."

Fergus Weir // Teclan

"Do not lose **faith**, build a plan, get stakeholder buy in and execute on it."

Joan Hill // Interactive Intelligence

"Be **brave**, strong-minded and honest with yourself and others."

Ricky Nicol // CommsWorld

LISTEN

"Go and get experience and expertise of how to grow rapidly and **develop** your business from the areas of the world that do this well."

Graeme Gordon // IFB

"Learn to know your customer **better**, and manage expectations internally and externally."

Paul McGlynn // EmergeAdapt

figure 41

Businesses were asked what advice they would give to fellow members. Popular themes included: taking risks, listening to customer needs, and always be prepared to adapt.

ADAPT

"Accept the **fact** that what works for you now, may not work for you in 2 years time. Always be ready to adapt."

Grant Whiteside // Ambergreen Marketing

"Always **challenge** why you do things, and change what you do if it's not making profit. Adapt or die."

Gary Ennis // NS Design



# SCOTTISH TECHNOLOGY INDUSTRY SURVEY 2014



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