



SME 2013

SMALL AND MEDIUM-SIZED ENTERPRISES PERFORMANCE REPORT



OVERVIEW OF THE 2013 EDITION

SINCE 2005, AT THE REQUEST OF THE FRENCH GOVERNMENT, THE SME OBSERVATORY HAS PUBLISHED AN ANNUAL REPORT ON HOW SMES ARE FARING, A REPORT THAT HAS NOW BEEN EXTENDED TO INTERMEDIATE-SIZED ENTERPRISES. THIS AUTHORITATIVE GUIDE HAS BEEN DESIGNED COLLABORATIVELY BY HIGH-RANKING PUBLIC AND PRIVATE SECTOR CONTRIBUTORS, AND GATHERS TOGETHER DATA FROM MANY SOURCES TO DESCRIBE THE ACTIVITY OF THESE BUSINESSES. BY PREPARING AN ANNUAL REPORT IN THIS WAY, IT CAN COMPARE THEIR DEVELOPMENT YEAR AFTER YEAR.

THIS EDITION IS STRUCTURED INTO FOUR MAIN TOPICS

The 2013 edition covers four main topics. The first, focusing on the main developments, covers the demographics of SMEs and intermediate-sized enterprises and their importance in the economy as a whole. The second covers the financial problems specific to businesses of this type. After that – a new feature for 2013 – is a chapter devoted entirely to research and innovation. To conclude, this year's Viewpoint focuses on economic dynamics at the regional level and describes the new regional strategies being formulated.

A DIGITAL VERSION WITH ADDITIONAL ANALYSES

For the second year in a row, the Observatory has tried to give an additional dimension to this publication with a digital version. Not only does it contain hundreds of additional analyses and many data, but it is also interactive.

GENERAL DEVELOPMENTS IN SMES AND INTERMEDIATE-SIZED ENTERPRISES IN FRANCE

The slight recession observed at the end of 2012, which extended into the beginning of 2013, was felt by most businesses. Micro-enterprises and SMEs in particular saw a fall-off in their activity, which led them to anticipate a shrinkage in the number of people employed caused by a deteriorating financial situation. The slowdown in business was less marked in SMEs and intermediate-sized enterprises with international exposure, which were underpinned by a positive outlook for external growth that left them with a largely intact investment capacity.

BUSINESS START-UPS REMAIN STABLE THANKS TO THE FRENCH "AUTO-ENTREPRENEUR" SIMPLIFIED STATUS

Because of the large number of "auto-entrepreneur" businesses, most business start-ups (95%) have no employees. The average for businesses with employees



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The number of business start-ups stabilised at 550,000 in 2012, but it held up only because of the continuing strong attraction of the “auto-entrepreneur” regime for sole traders (up 5%).

There was a marked drop in the set-up of real estate businesses (down 11%), while information and communication were amongst the most vibrant sectors (up 7%). The proportion of women setting up one-person businesses is gradually increasing, to stand at 38%, 4 percentage points higher than ten years ago.

92,000 EMPLOYEE-STATUS JOBS WERE LOST IN 2012

Micro-enterprises and SMEs account for almost half of jobs and intermediate-sized enterprises almost one quarter.

In 2012, both eliminated jobs, and although employee numbers are holding up in industry, construction – in which SMEs are disproportionately represented – is struggling. Overall, the number of jobs fell by 0.6%. This is probably not unrelated to the fact that on initiating insolvency proceedings, the courts allowed 57% of SMEs and intermediate-sized enterprises – which provide the majority of jobs – to go into administration rather than liquidation, which is 26 percentage points higher than the average for all enterprises.

SMEs ARE STILL MAJOR BENEFICIARIES OF PUBLIC PROCUREMENT CONTRACTS

Standing at around €100 billion in 2011, public contracts were very attractive for a segment of robust SME and intermediate-sized enterprises, those with a much higher value added and workforce than the average for their sector.

They won 43% of the total of central government contracts and 63% of local authority contracts. Local authorities, however, award almost two thirds of their contracts in terms of numbers to SMEs, including 41% to local SMEs, which thereby benefit from local decision-making.

INSOLVENCIES REMAIN HIGH

The business failure rate went up in 2012, without however hitting the 2009 crisis level. SMEs and intermediate-sized enterprises are at very high risk of failure in almost all regions, except in Brittany and Franche-Comté, where failures are down compared to 2011. The construction industry is the worst affected with 29% of failures.

The discontinuance of code 040 in the Bank of France Fiben data system (flagging up that a manager had been involved in a failed business in the last three years) is part of a widespread wish not to stigmatise failure. The increase in the number of court-ratified business rescue plans, instead of liquidations, is part of the same trend.

A DETERIORATING FINANCIAL SITUATION

MARGIN RATES PLUMMET AND INVESTMENT DIPS

All SMEs are affected by the drop in business, which is pushing down their profitability and significantly cutting their capacity to retain cash. The work being done on improving productivity is not enough to offset the increase in costs, which is reflected in value added. Even though some SMEs are still boosted by exports, exports are stabilising at a little under 10% of their sales, or half the average for business as a whole.

Because they are very cautious about business prospects, company heads have cut back on investment in all industries. The level of debt has stabilised as a result. Overall, the disparities between industries have widened: construction, transport and commerce have seen the biggest falls in business, while the manufacturing industry has seen a dip in exports.

CASH POSITIONS ARE, AT BEST, STABILISING

Under the combined pressure of building stocks and the shrinkage in the amount of credit that companies grant to each other, there has been an increase in working capital requirement. Cash positions have stabilised, on average, but the wide disparity in the data gives a very mixed picture. Less solvent SMEs are being even further undermined and the number of SMEs with negative free cash flow is on the increase, after falling over the last two years.

As a result, and although there is a contraction in bank indebtedness (not, it would seem, because of a shortage in the supply of lending, but instead because of weak demand), working capital loans are on the increase in spite of a higher rejection rate.

FUNDS RAISED WITH THE HELP OF GOVERNMENT INCENTIVES

SME equity improved moderately, mainly through capitalising profits. The proportion of outside shareholders was still very small, although there is keen demand for medium-sized investment tickets.



63%

of the amounts of local authority contracts were won by SMEs.

The French venture capital industry, which is the European leader by number of companies, is still at a low level by volume invested: the €6.1 billion injected into businesses in 2012 represents only two thirds of the amount invested in 2011.

The volume of funds raised is also down by 22%. This is the result of a sharp decline in the funds raised from banks and insurance companies, down 78% since 2008. This is only partly offset by private individuals (around 25% of the total) and by the public sector, which is playing its contra-cyclical role to the full. As part of the latter, in 2012 Bpifrance hit a historic peak for the last decade, raising €2.2 billion. France, therefore, retains a momentum in raising funds that is higher than the European average, particularly for funds of less than €200 million.

Funds raised by French FCPI innovation mutual funds [*fonds communs de placement dans l'innovation*] have been falling steadily since 2007 although the level of investment is holding up nicely, and is well above the tax requirement of at least 60% being invested in the negotiable securities of innovative enterprises. Reinvestment accounts for over two thirds of the amounts involved, illustrating the determination of FCPI mutual funds to support SMEs in the long term.

CHANGE IN HOW THE ECONOMY IS FINANCED AND A PROFUSION OF INITIATIVES

Although SME and intermediate-sized company flotations on Alternext and Euronext compartments B and C have slumped by almost 50%, alternative sources of finance, such as bond borrowings, have seen unprecedented expansion. Investment funds, Micado for example, followed by other initiatives by banks and insurance companies, have funded 22 "major" SMEs and intermediate-sized enterprises through bond issues. The launch of EnterNext, a stock exchange for SMEs and intermediate-sized enterprises, the announcement of the PEA-PME¹ tax efficient employee savings plan for SMEs, and the introduction of the legislative framework for crowdfunding, bear witness to the government's awareness of the need to provide SMEs with a stream of diversified funding throughout their life cycles.

INTERNATIONAL COMPARISON OF SME FUNDING

With the second edition of its scoreboard of SME access to funding, now expanded to 25 countries, the OECD gives a fuller evaluation of the period from 2007 to 2011, the main feature of which is a deterioration in the economy.

Despite looser monetary policy, the conditions for accessing credit, on which SMEs rely heavily, have become

much tighter. Funding by means of equity has also been affected, although there is a wide divergence in risk capital growth rates – for example an 80% increase in Denmark against an 80% fall in Portugal.

Business failures are on the increase in most countries, requiring further temporary support measures for the most vulnerable. Loan guarantee systems are generally the most commonly used methods.

The first shoots of recovery in 2010 were crushed by the sovereign debt crisis in summer 2011, which affected interest rates to the extent that the overall picture became very gloomy. Moreover, the tightening of credit and the introduction of the Basel III requirements will hardly be favourable for SMEs, or for funding innovation.

It is precisely to combat this risk that the Horizon 2020 and Cosme programmes were set up by the European Union. They comprise a series of measures to stimulate high-growth and innovative SMEs, additional to the aid provided by new risk finance instruments, particularly the Risk-Sharing Instrument (RSI). This guarantee system, to which Bpifrance and other financial intermediaries have access through the resources of the European Investment Bank (EIB), helps make loans available to SMEs with fewer than 499 employees. Thanks to this pilot scheme, many research, development and innovation (RDI) projects are finding it easier to attract finance.

CO-OPERATIVE INNOVATION AND INTERNATIONALISATION, CRUCIAL SOURCES OF GROWTH

SMEs ARE DRIVING THE GROWTH IN R&D SPENDING...

At €18 billion in 2011, the R&D work done by SMEs and intermediate-sized enterprises accounts for two thirds of corporate in-house R&D expenditure. SMEs play a decisive role in its expansion: they alone contributed two thirds of its growth from 2008-2010 (3.2% of a total 4.5%).

Since its reform in 2008, French CIR R&D tax credits have become the main government finance incentive for R&D. SMEs are the main beneficiaries of these tax credits in terms of numbers (88%), but account for only 31% of the €5.2 billion in credits allowed in 2011.

Competitiveness clusters still play an important role in attracting SMEs: 8 new members out of 10 are in fact SMEs. In these clusters they find networking platforms that help them build partnerships and expand internationally.

In 2012, intermediate-sized enterprises stood out for their great dynamism in intellectual property, at a time when the number of patents filed by SMEs was at a standstill. More of them also applied for foreign extensions, a circumstance that is coherent with their determination to expand internationally.



Loan guarantee systems are generally the methods most commonly used by OECD Member States to support their SMEs.

1. French Equity Savings Plan.



At a steady rate, 550 new companies benefit each year from the JEI [*jeune entreprise innovante*] young innovative company tax status, which in particular helps reduce the cost of RDI personnel, who are usually very highly qualified.

... BUT ARE CLOSE TO THE EUROPEAN AVERAGE IN THEIR INNOVATION CAPACITY

Although they are still holding back on investing in tangible assets, French SMEs retain a sustained innovation dynamic, comparable to the European average. They set themselves apart by an attraction to organisational innovations and active cooperation with their suppliers, more so than with customers.

Boosted by widely available government incentives, like elsewhere in Europe, French SMEs are introducing more new products than their European counterparts thanks to R&D work carried out mostly in-house.

That said, the principle of the innovation ecosystem, based on exchanging ideas, cooperation between everyone involved and the quality of support, both industry-wide support and individualised support, is recognised as a determining factor in the growth trajectories of micro-enterprises, SMEs and intermediate-sized enterprises.



The exporter-SME pool turned more to areas outside Europe in 2012, particularly the American and Asian markets.

THE NUMBER OF EXPORTER SMES IS ON THE INCREASE

Companies with less than 20 employees contributed significantly to the growth in the number of exporter SMEs in 2012, while the number of exporters with over 250 employees has remained stable. With a high turnover rate (one quarter each year), the exporter-SME pool turned to areas outside Europe in 2012, particularly the American and Asian markets, mainly thanks to pharmaceutical products and aeronautical industry goods.

CHANGING TERRITORIAL DYNAMICS

The crisis has accentuated regional disparities. It has also been an opportunity for confirming that the real economy, which is largely determined by micro-economic

factors connected with geographical location, is the decisive factor in business competitiveness. Regarding SMEs, it has also confirmed the long-recognised divide between Northern and Southern France, and its correlation with where the manufacturing industry is located. This being the case, regional competitive advantage can and should be influenced positively by proactive public policies.

This is why the concept of smart specialisation has gradually emerged in Europe as being appropriate and suitable for shaping, in conjunction with all parties involved, a regional high value-added strategic framework for growth founded on innovation.

This European framework will be mandatory as of 2014 for the Member States and the regions planning to invest structural funds in initiatives focused on research, innovation and the adoption of ICT.

The SME Observatory thanks all the contributors to the 2013 report :

- AFIC – Association Française des Investisseurs pour la Croissance (French Private Equity Association)
- Altares (Major French independent B2B information provider)
- Banque de France (Central Bank of France)
- Bpifrance (Financial institution resulting from the gathering of OSEO financing professions and the Strategic Investment Fund -FSI-, the FSI Regions and CDC entreprises -CDC/ Caisse des Dépôts et Consignations- activities)
- DATAR (the Interministerial Delegation for Territorial Development and Regional Attractiveness)
- European Commission -DG REGIO
- European Commission -Eurostat
- EconomiX, CNRS, University Paris Ouest Nanterre La Défense
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- INSEE (National Institute of Statistics and Economic Studies)
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