

SEPTEMBER 2024



UNDERSTANDING
BUSINESS



Diffley
Partnership

56° NORTH

The background of the page features a photograph of a coastal town built on a hillside, with a prominent church spire. In the foreground, a large dam with multiple concrete pillars spans across a body of water. The sky is overcast with grey clouds. A teal-colored rectangular overlay covers the right side of the page, containing the table of contents.

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UNDERSTANDING BUSINESS

It has never been more important to understand what businesses in Scotland are thinking, what challenges they face and their priorities for future prosperity.

Understanding Business is a quarterly survey across Scotland, measuring the outlook, perceptions and challenges for business - allowing for these to be measured over time.

This high-quality, large-scale survey is brought to you by Diffley Partnership and 56° North.

Introduction

Understanding Business – September 2024

In this edition of Understanding Business, we provide an in-depth analysis of the challenges and opportunities facing Scottish business.

Our findings reflect a complex picture. While around half of businesses report that they expect economic conditions to worsen over the next year, there is stability in profitability and turnover expectations. However, recruitment challenges remain persistent, with a shortage of skilled applicants continuing to hamper workforce growth. This ongoing issue highlights a need for investment in skills development to support long-term business expansion.

Sustainability continues to be a major theme for Scottish businesses. Support for Net Zero remains strong, backed by two-thirds of businesses. Yet, financial barriers are slowing progress. Many companies struggle with the costs of implementing greener practices and report a lack of government funding and support. These insights underline the importance of targeted interventions to help businesses achieve sustainability objectives.



Another key focus of this report is the awareness and potential impact of Great British Energy (GB Energy). While awareness of the initiative is still growing, there is optimism among businesses regarding its potential to boost job creation and reduce carbon emissions.

By highlighting the key challenges and opportunities for business, we hope this research helps to foster discussions among policymakers, business leaders, and stakeholders to enhance the resilience and competitiveness of Scottish businesses.

5 KEY TAKEAWAYS

Our sixth edition of Understanding Business brings you insights from over 500 businesses in Scotland: focusing on their outlook for the economy, prospects for their businesses and challenges they face.



01 INCREASING PESSIMISM ABOUT FUTURE ECONOMIC CONDITIONS

Businesses continue to view economic conditions negatively, with 51% stating that the economy is worse than it was a year ago. This represents a slight improvement compared to earlier in 2024, when 60% held this view, but optimism remains low. Only 19% of respondents believe conditions have improved, down from 22% in mid-2024. Around half (47%) expect economic conditions to worsen over the next year, up nine percentage points on the previous wave.

02 RECRUITMENT CHALLENGES FOCUS ON SKILLS SHORTAGES

Of those recruiting, 57% cite a lack of skills among applicants as their main challenge, remaining the top concern for the fourth consecutive wave. Salary expectations (44%) and a shortage of applicants (41%) also weigh heavily on recruitment efforts, although the proportion of businesses that report a shortage of applicants has fallen seven percentage points since June.

03 SUPPORT FOR NET ZERO FACES FINANCIAL BARRIERS

Two-thirds (65%) of businesses are supportive of Net Zero goals, demonstrating strong overall commitment to sustainability. However, financial constraints are significant, with 60% of respondents identifying costs as an important barrier. A lack of government funding (34%) and support (30%) also hinders progress, illustrating that while businesses are keen to embrace greener practices, many feel they lack the resources to do so.

04 LIMITED AWARENESS OF GREAT BRITISH (GB) ENERGY PROPOSALS

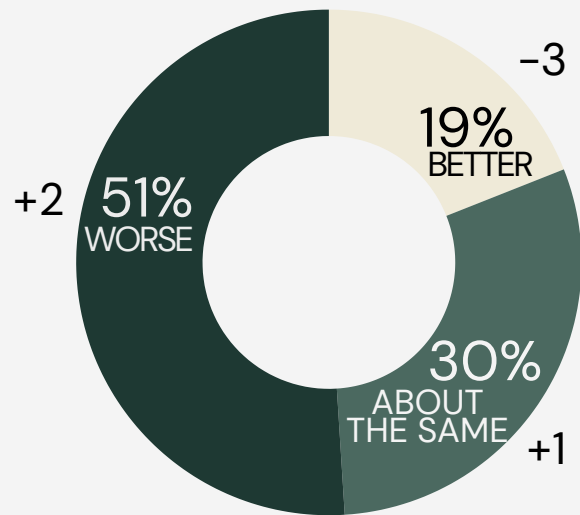
Although 55% of businesses report knowing at least a little about GB Energy proposals, detailed knowledge remains limited. Only 4% of respondents say they know a lot about the initiative, while over a quarter (28%) report they have heard of it but know almost nothing. Despite this, more than half (53%) believe that GB Energy will have a positive impact on Scottish businesses, while a small minority (12%) feel it will have a negative impact.

05 GB ENERGY EXPECTED TO DRIVE JOB CREATION AND SUSTAINABILITY

Businesses are largely optimistic about the impact of GB Energy, with 44% believing it will create jobs in Scotland. Other anticipated benefits include reducing carbon emissions (37%) and lowering household energy bills (36%). In addition, respondents expect GB Energy to contribute to improving energy security (29%) and providing opportunities for local renewable energy projects (29%), indicating broad support for the initiative's long-term goals.

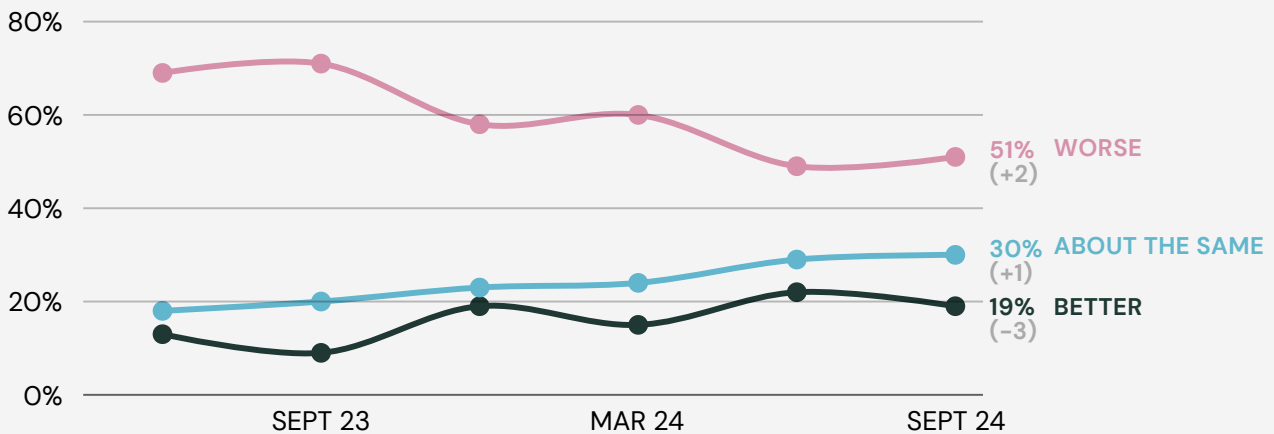
Economic Outlook

When reflecting on the previous 12 months, about half (51%) believe that economic conditions are worse now than a year ago (excluding 'don't knows'), similar to the 49% that reported worsened conditions last wave.



Economic conditions now, compared to 12 months ago

Proportions of respondents reporting perceived changes to the general economy



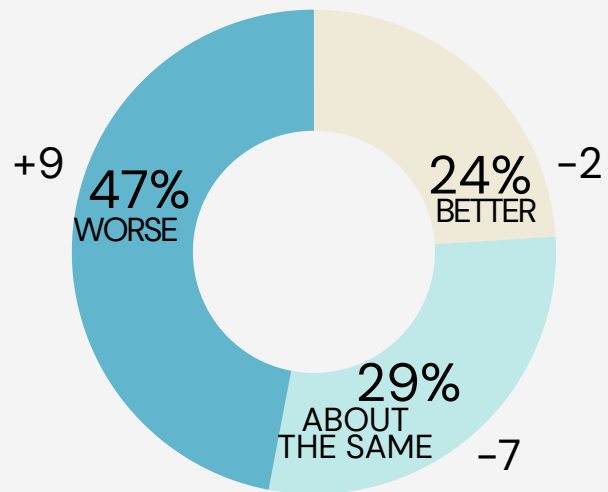
However, these values are much lower than the 71% of businesses that said conditions had "worsened" in September 2023.

Three in ten (30%) believe economic conditions are about the same as a year ago. Although similar to reports from June 2024, this is up 12 percentage points since June 2023.

Only one in five (19%) believe that economic conditions are better than twelve months ago, down three percentage points from June 2024. Throughout the series, the proportion that believe general economic conditions are better than they were a year ago has fluctuated. Current rates, however, are an improvement on early measurements.

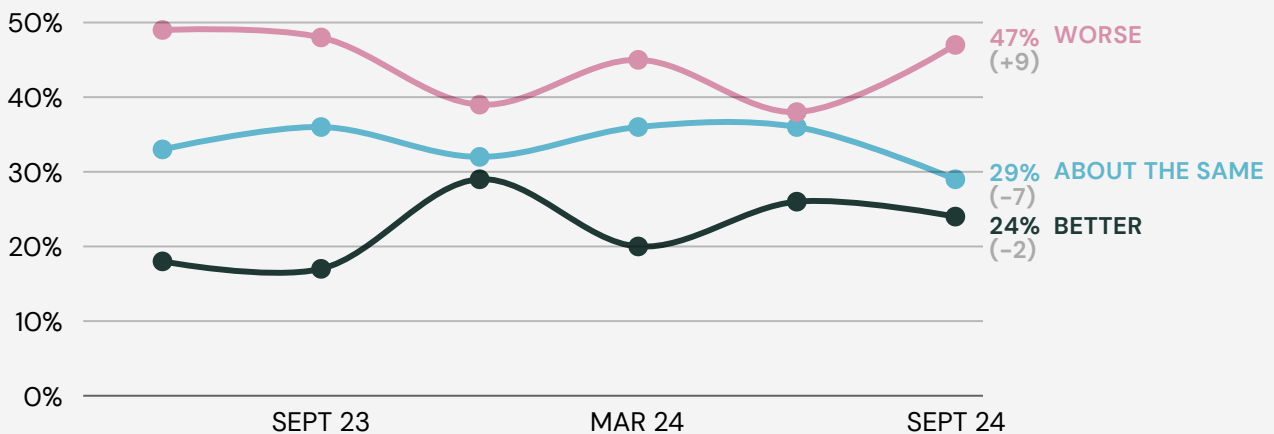
Economic Outlook

Looking forward, nearly half of respondents (47%) believe that economic conditions will be worse in 12 months' time, up a sizable nine percentage points from June.



Economic conditions in 12 months, compared to now

Proportions of respondents predicting changes to the general economy



Largely, this uptick is supported by a drop in those predicting that economic conditions will be about the same in 12 months' time. Around three in ten (29%) believe that economic conditions will be about the same, down seven percentage points from June. Only a quarter (24%) believe that conditions will improve in a years' time.

The Prime Minister's recent warning that things will get worse before they get better is clearly being heard by businesses, as many remain cautious about the economic landscape. This cautious outlook reflects the broader uncertainty businesses are navigating, aligning with the government's message about ongoing economic difficulties.



Profitability & Turnover

Businesses surveyed were asked to consider whether they thought that their profitability and turnover would increase or decrease over the next 12 months.

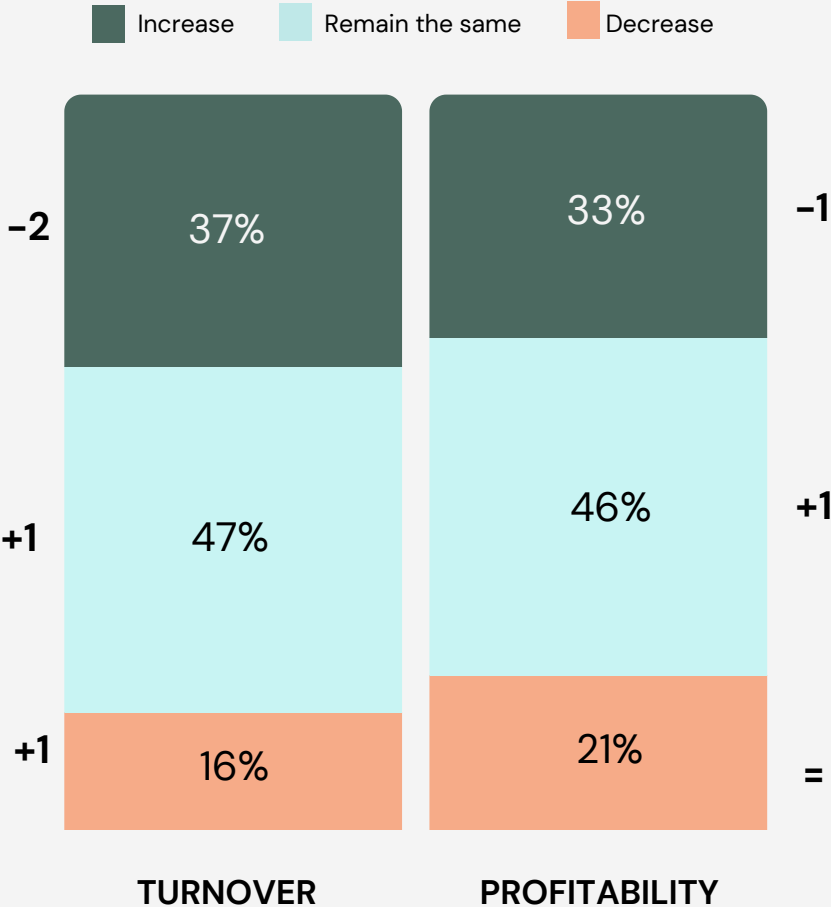
Proportion of respondents projecting increases/decreases

Profitability and turnover projections have remained relatively stable between recent survey waves.

Around four in ten (37%) respondents project their turnover will increase over the next 12 months, while 33% project an increase in profitability, similar to findings from June 2024.

The proportion who expect their profitability to increase is substantially higher than twelve months ago (27%) but lower than in December 2023 (37%).

Similarly, there has been little movement in projections for turnover and profitability to either remain the same or decrease over the last year.



Recruitment

Perceptions and projections of workforce size have also remained similar to those from June 2024.

Just under two-thirds (64%) report that their workforce size has remained the same over the past three months, down three percentage points since June. A similar proportion (66%) expect their workforce to remain the same over the next three months.

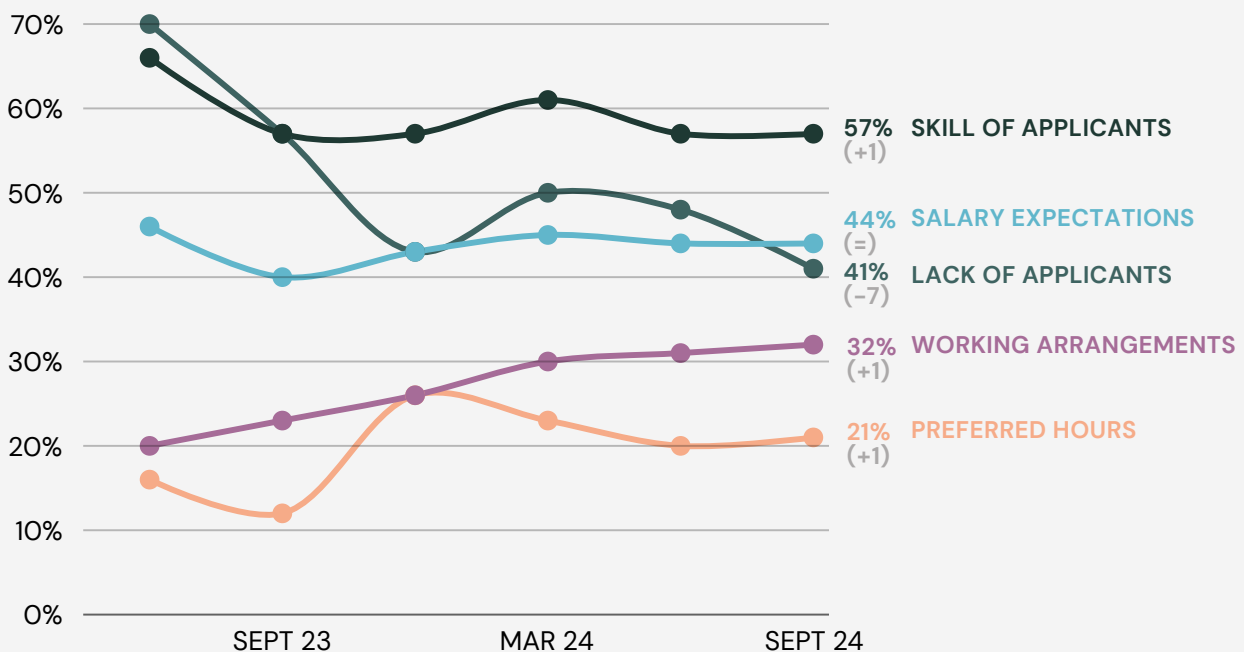
One in five report an increase in their workforce size over the past three months (20%). Just over one in five (21%) expect their workforce to increase in size over the next three months.

Less than half of businesses (47%) have attempted to recruit in the past three months. Challenges for businesses that are recruiting have remained relatively stable since this survey began in 2023.

Skill of applicants (57%) remains the foremost recruiting challenge for the fourth consecutive wave.

Notably, the proportion of recruiting businesses that have cited lack of applicants as a challenge has fallen seven percentage points to 41%, and salary expectations (44%) has now overtaken this as the second most cited challenge. Lack of applicants has fallen from 70% in the first wave of this study to its current level.

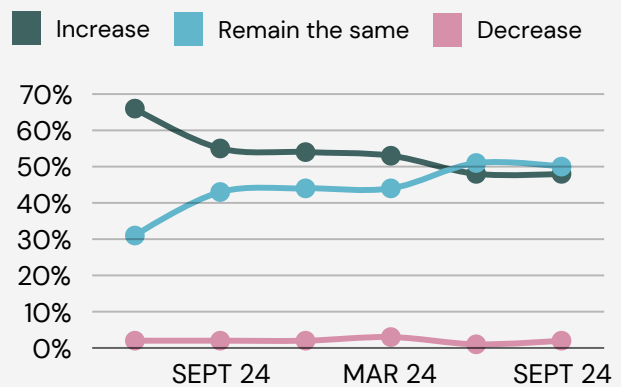
Proportion of recruiting businesses that experienced the following challenges over time



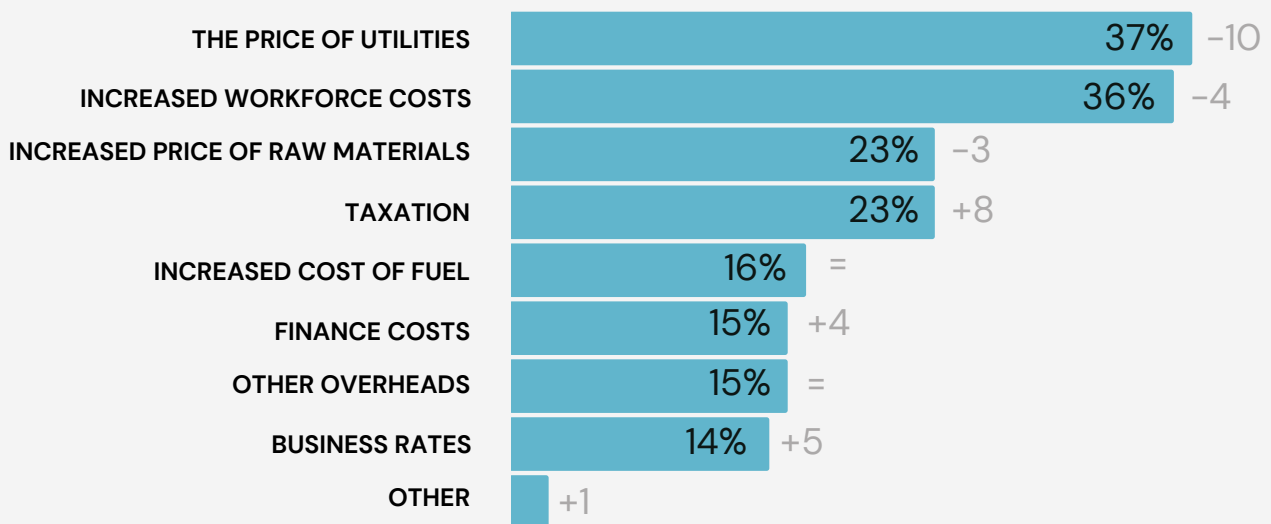
Pricing

Half of respondents (50%) expect their prices to remain the same over the next three months, excluding don't knows. This is very similar to the proportion that said the same in June (51%). Correspondingly, just under half (48%) of businesses expect their prices to increase, the same proportion reported in June but down five percentage points from March.

Proportion of respondents expecting price increases/decreases



Proportion of respondents citing the following as an important pressure to increase costs



Reflecting on the two most important drivers of price increases, 37% of businesses select the price of utilities, which is down ten percentage points from June (47%). Just over one in three (36%) select increased workforce costs, and about one in four (23%) select increases in the price of raw materials.

Some drivers of increasing costs have gone up since June. Taxation is selected by one in four respondents (23%), up eight percentage points from June. There have also been increases in the proportion selecting finance costs (15%) and business rates (14%), up four and five percentage points respectively from June.

Concerns

Respondents were asked whether they are more or less concerned about a series of issues than they were three months ago.

Proportion of respondents citing the following as a concern compared to three months ago*

More concerned No change Less concerned

TAXATION	INFLATION	INTEREST RATES	BUSINESS RATES	BUSINESS SURVIVAL	COMPETITION	EXCHANGE RATES
56% +7	45% +5	37% +4	36% +4	36% -1	24% -3	21% -1
38% =	41% +9	46% +5	53% +4	52% +7	62% +11	62% +6
5% -4	13% -13	13% -9	5% -7	11% -5	13% -9	10% -5

*'Don't know' answer option provided, but results not displayed

Concern with taxation is up notably since June. Six in ten businesses (56%) report increased concern with taxation compared to three months ago, up seven percentage points. This is the second highest proportion to say they are more concerned with this issue, behind the 61% that said they were more concerned in June 2023.

Concern with inflation, interest rates, and businesses rates has also increased considerably. Over four in ten (45%) report being more concerned with inflation than 3 months ago, up five percentage points, while a little over one in three report being more concerned with interest rates (37%) and business rates (36%) than three months ago, up four percentage points respectively.

In line with these shifts, the proportion of businesses reporting no change in their level of concern across these areas over the past three months has increased. At the same time, there has been a decrease in the number of businesses saying they are less concerned about these issues.

Government Responsiveness

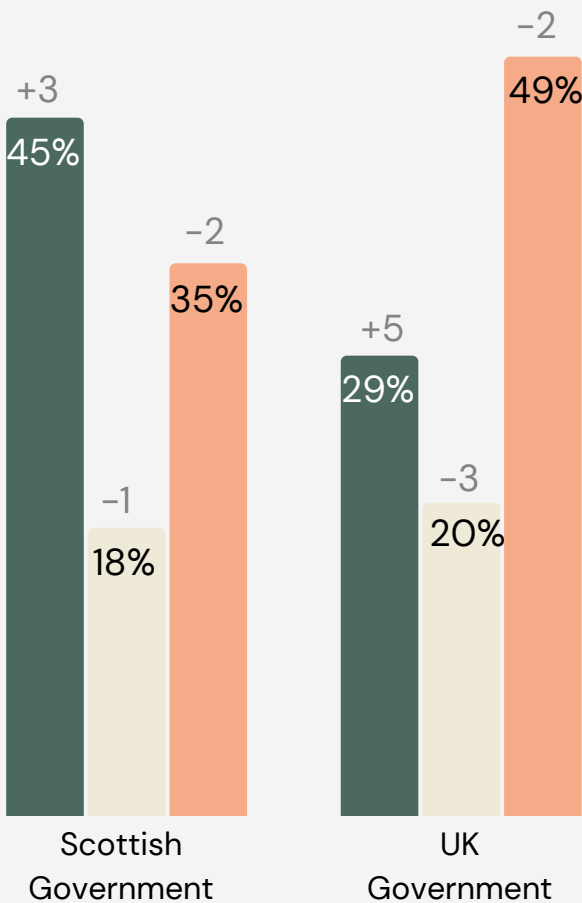
When asked if the Scottish Government is concerned with the needs of Scottish businesses, more than four in ten (45%) agree, while 35% disagree. The proportion agreeing has increased by three percentage points since June.

When asked the same about the UK Government, around half (49%) disagree. Just three in ten agree (29%), although this is up five percentage points from June.

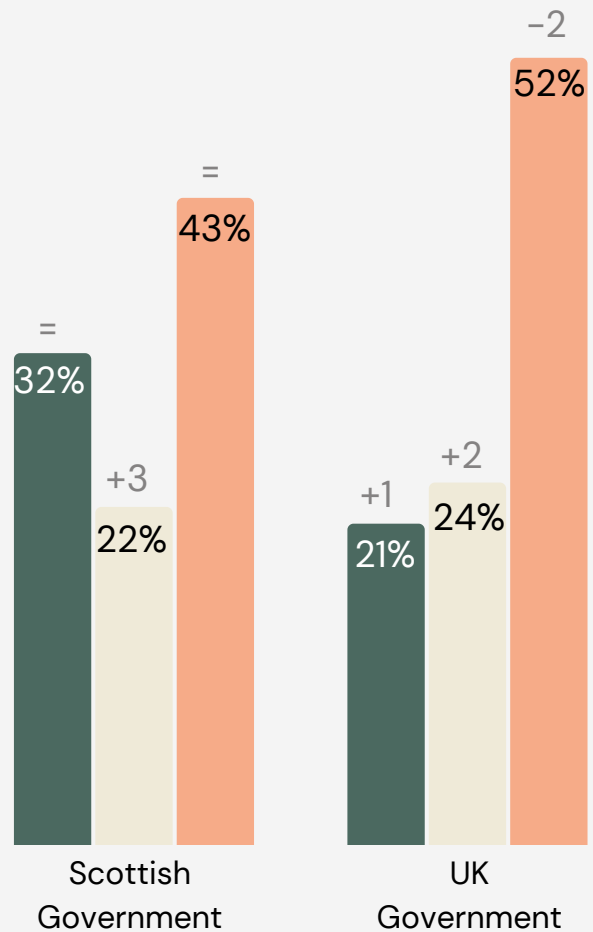
When looking at whether the Scottish Government is taking action to address business concerns, a third (32%) believe that the Scottish Government is taking action, representing no change from June.

This wave, a fifth (21%) believe that the UK Government is taking action to address business concerns in Scotland, which is about the same as in June, while more than half (52%) do not think UK Government is taking such action.

Concerned with needs of Scottish businesses



Taking action to address Scottish business concerns



Legend: Agree (dark green), Neither agree nor disagree (light yellow), Disagree (orange)



Interventions

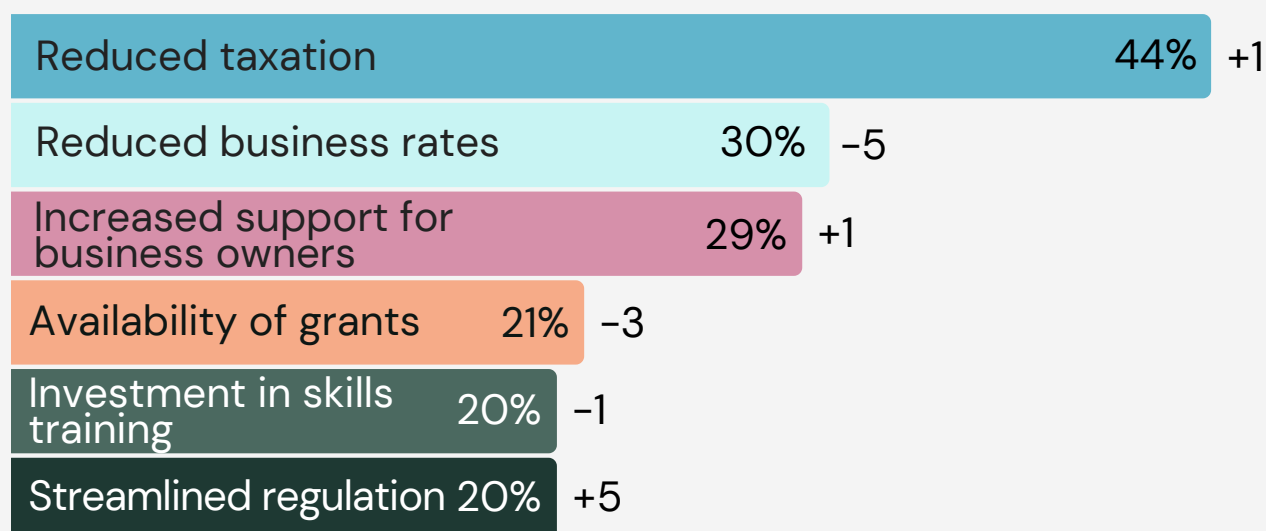
Respondents were asked to select the top three potential interventions that might be helpful to the growth of their business.

Despite little change between waves, reduced taxation remains the most commonly selected intervention for business growth; two in five (44%) businesses surveyed select this intervention.

Other top measures evidence some change. Three in ten (30%) cite reduced business rates, down five percentage points from June. Just over one in five (21%) believe that the availability of grants would be helpful for the growth of their business, down three percentage points from June.

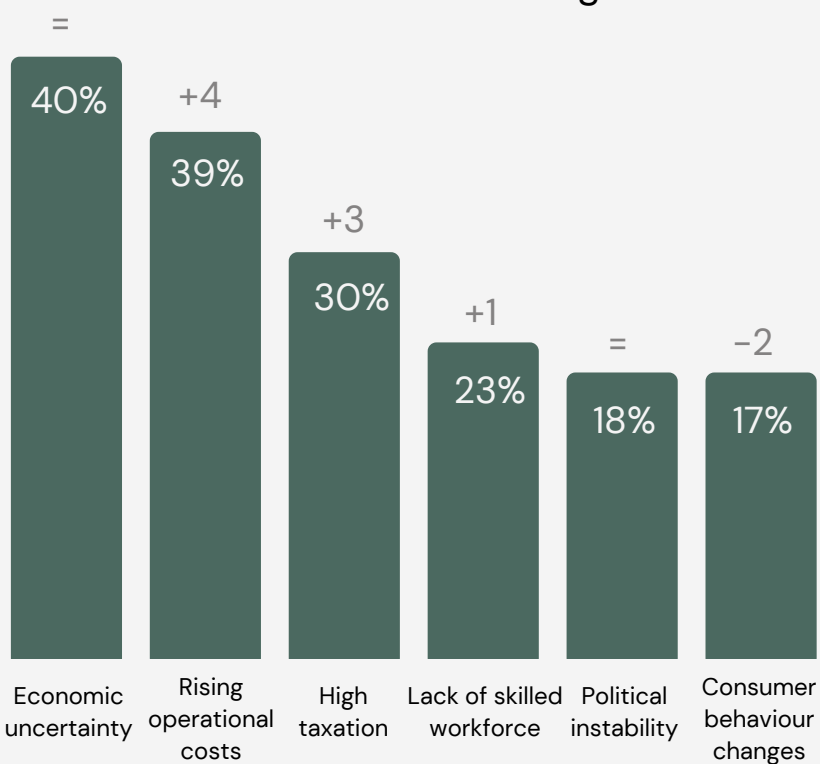
One intervention for which there is increasing support is streamlined regulatory processes, which is cited by one in five (20%), representing a five percentage point increase from June.

Proportion of respondents reporting that the following interventions would be helpful for the growth of their business



Barriers

Main barriers to business growth



Economic uncertainty remains the most commonly cited barrier to business, as two in five businesses (40%) identify it as a top concern. A similar proportion (39%) see rising operational costs as a barrier, up four percentage points from June.

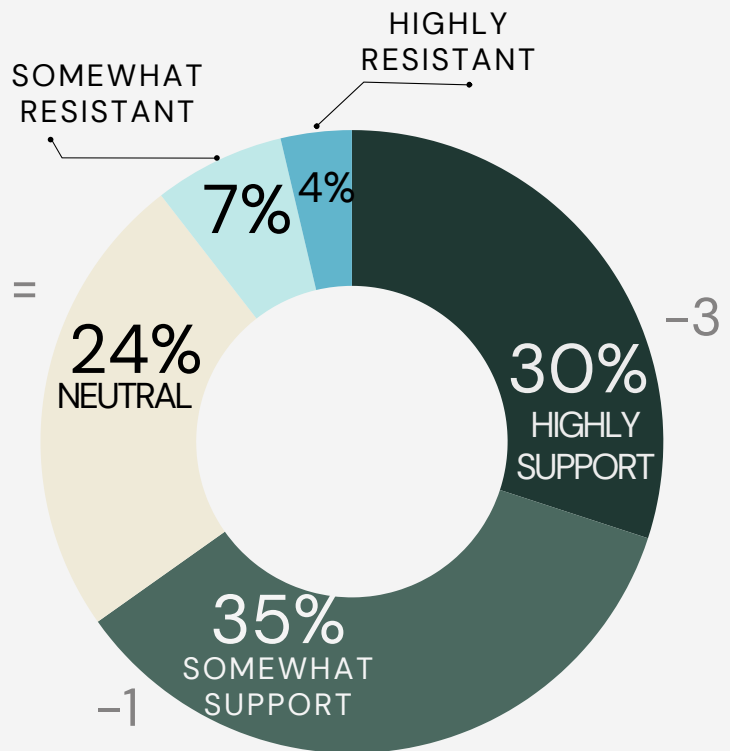
Three in ten (30%) cite high taxation as a barrier, up three percentage points from June. Around one in four identify the lack of skilled workforce (23%) as a barrier and one in five report political instability (18%). A similar proportion report changing consumer behaviour as a barrier to growth (17%).

Net Zero

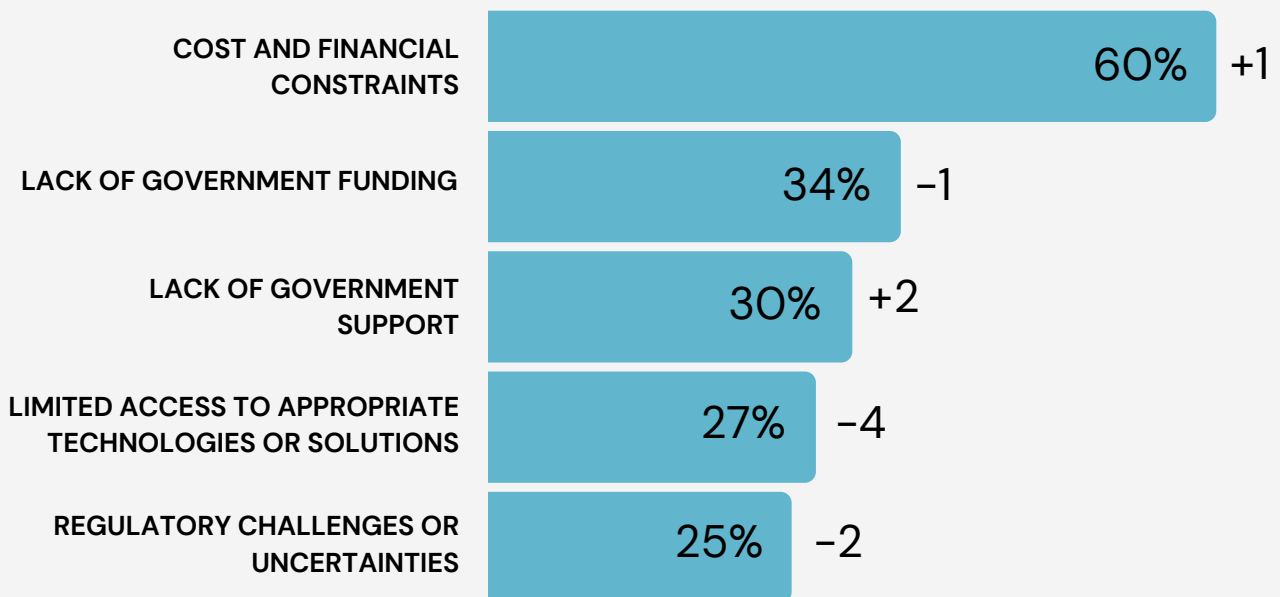
Two-thirds (65%) of businesses express support for Net Zero emissions goals, emphasising a commitment to sustainability among businesses in Scotland. This is down four percentage points from September 2023. The level of support varies depending on business size, with larger businesses more likely to report being supportive than smaller businesses.

The most significant barrier identified in moving towards Net Zero is costs and financial constraints (60%). A lack of government funding (34%) and lack of government support (30%) are also seen as significant barriers. The overall picture on barriers remains similar to when this was last measured in September 2023.

Proportion of businesses that are supportive/resistant towards achieving Net Zero goals



Proportion of respondents reporting the following as a top three barrier in moving towards Net Zero*



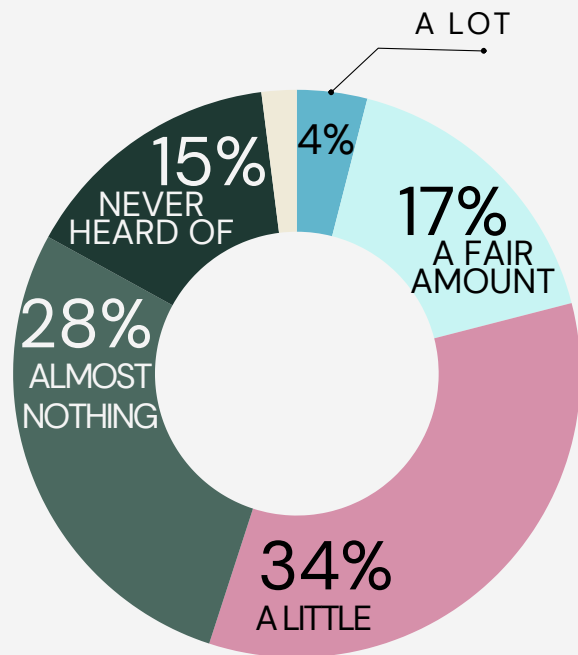
*Prior reporting included 'Not applicable' and 'None of the above' answer options

Great British Energy

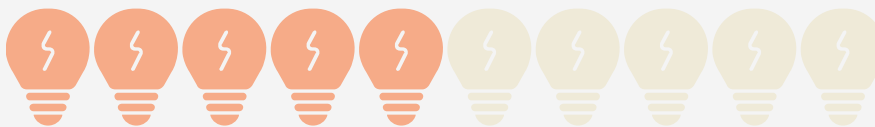
Over half of businesses (55%) feel they know at least a little about proposals for GB Energy. However, only 4% feel they know a lot, with more reporting that they know a fair amount (17%) or a little (34%). A little over one in four (28%) have heard of GB Energy but know almost nothing, while 15% have never heard of GB Energy.

When asked about details of GB Energy, almost half (47%) are aware it would be a publicly-owned, clean energy company. More than one in three (35%) are aware that its headquarters would be in Scotland and a similar proportion (32%) that it aims to reduce energy bills and create jobs. About one in four (27%) are not aware of any of the potential aspects listed.

Reported knowledge on proposals for GB Energy



Over half (53%) of businesses



think GB Energy would have a **positive** impact on Scottish businesses.

However, despite mixed knowledge on the specifics of proposals for GB Energy, more than half (53%) think that GB Energy will have a positive impact on Scottish businesses. One in four (27%) think it will neither have a positive or negative impact, while only 12% say it will be negative. One in ten (9%) say they don't know.

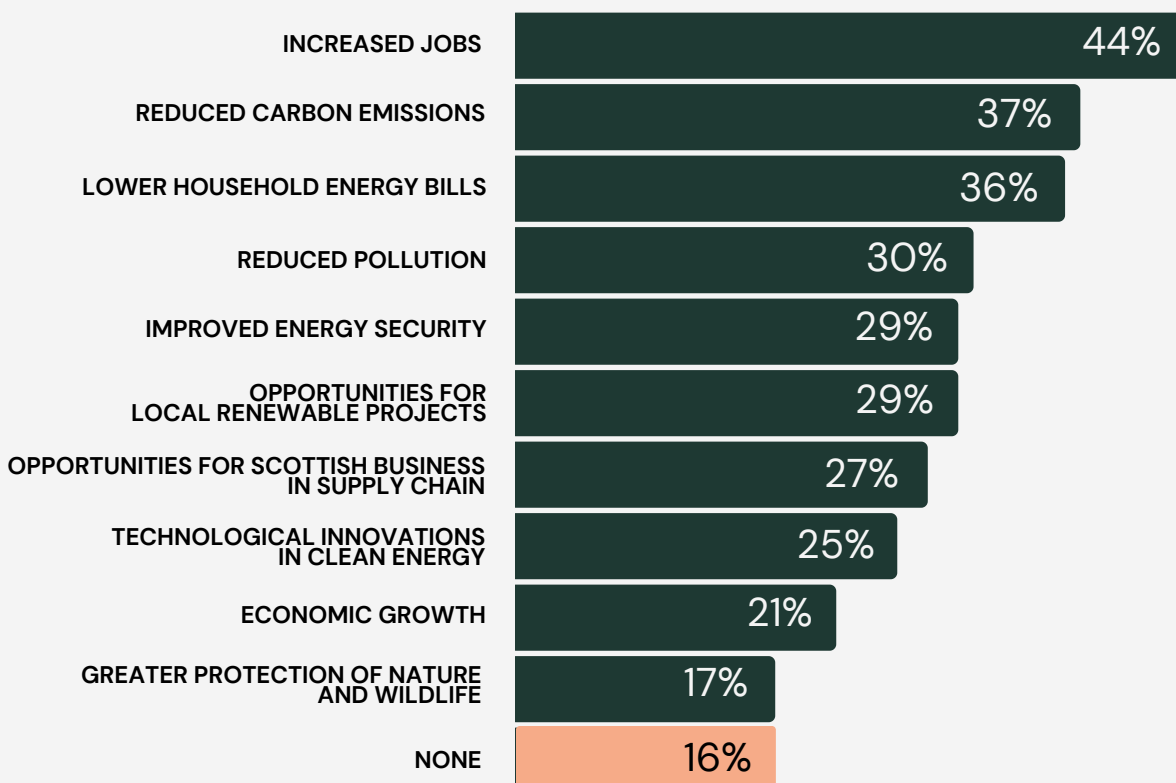


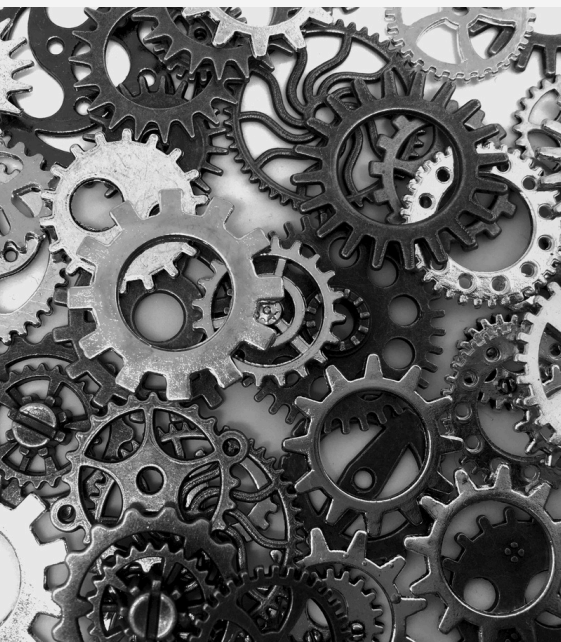
Great British Energy

More than four in ten (44%) businesses surveyed think that GB Energy could deliver more jobs in Scotland.

The next most cited potential benefits are reduced carbon emissions (37%) and lower household energy bills (36%). Improved energy security (29%), opportunities for local renewables projects (29%) and opportunities for the supply chain (27%) are also cited by more than one in four respondents.

Proportion of respondents reporting the following as a potential benefit of GB Energy in Scotland





TECHNICAL DETAILS

The survey was designed by Diffley Partnership and 56° North. Invitations were issued online and fieldwork was conducted during August and September 2024. A total of 550 responses were received from senior decision makers in businesses across Scotland.



FIND OUT MORE

To register for exclusive updates and a quarterly bulletin please sign up for our mailing list [here](#).

If you are interested in having your own questions asked and answered in future Understanding Business reports, email us at info@diffleypartnership.co.uk

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