

JUNE 2023



U N D E R S T A N D I N G
B U S I N E S S



Diffley
Partnership

56°
NORTH



CONTENTS

OUR VISION	1
INTRODUCTION	2
5 KEY TAKEAWAYS	3
BACKGROUND	4
ECONOMIC OUTLOOK	5
PROFITABILITY AND TURNOVER	6
RECRUITMENT	7
PRICING	8
CONCERNS	9
TECHNICAL DETAILS	10
FIND OUT MORE	10



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 new 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 –
June 2023*

Understanding Business is a new, regular, authoritative tracker of business sentiment across Scotland. The aim of this survey is to deliver key indicators at regular intervals; identifying emerging concerns and priorities among Scotland's business community and, above all, capturing views on the desired future business environment in Scotland.

In this first edition, we find that businesses reflect on operating in a more challenging environment than 12 months ago, and are preparing for another challenging 12 months ahead.

The challenges are laid bare in the findings of this report, with limited expectations of growth among respondents and expectations of declines in profitability with rising prices. Contributing factors include rising costs for materials, utilities, and staff.



For those businesses looking to recruit, we also find a challenging labour market, with respondents reporting a lack of applicants and struggling to find candidates of the required skill level when seeking new staff.

Overall, the tough business environment looks set to continue. Businesses will be looking to political leaders to set out an ambitious agenda for support, and a vision to tackle the skills gap in order to jump start the economy and create the conditions for business growth in Scotland.

5 KEY TAKEAWAYS

This first 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 **A VAST MAJORITY OF BUSINESSES THINK THAT ECONOMIC CONDITIONS HAVE WORSENERD IN THE LAST YEAR**

Nearly seven in ten of those surveyed said that current general economic conditions are worse than 12 months ago (69%), while only 13% believe that economic conditions have improved since then.

02 **AROUND HALF OF BUSINESSES SURVEYED BELIEVE THAT ECONOMIC CONDITIONS WILL WORSENERD IN THE NEXT YEAR**

Forecasting 12 months into the future, stark pessimism remains: about half (49%) of businesses surveyed believe that economic conditions will continue to deteriorate, while a third (33%) expect the economy to remain in its current depleted state.

03 **MORE THAN FOUR IN TEN BUSINESSES SURVEYED EXPECT PROFITS TO FALL IN THE NEXT YEAR**

Scottish businesses surveyed are sceptical about changes in their profitability over the next year: only one in five (21%) report that they believe their profitability will increase in the next 12 months while 41% expect their profitability to decrease. Around a third (34%) expect their turnover to increase.

04 **BUSINESSES CITE INCREASED COSTS IN TERMS OF STAFF, UTILITIES AND GOODS AS CONCERNS**

Facing rising input costs across the board – from raw materials and staffing to utilities and fuel – two-thirds (66%) of those surveyed expect the price of their goods or services to increase in the next three months, further cutting into profit margins.

05 **FIRMS SAY LACK OF SKILLED APPLICANTS IS A KEY ISSUE WHEN IT COMES TO GROWTH**

While one in every two respondents (54%) states that they attempted to recruit in the last three months, a majority of those express difficulties in this process. Seven in ten (70%) of those that attempted recruitment cite a lack of applicants as a significant difficulty, and two-thirds (66%) say that applicants lacked the required skill and experience for the positions.

BACKGROUND

This is the first Understanding Business report—an independent survey regularly tracking business sentiment across Scotland delivering key indicators. It is hoped that this report will help identify the highest priorities for Scotland’s business community and, perhaps more importantly, help those tasked with supporting Scotland’s economic growth better understand what those involved believe the desired future business environment should look like.

The survey will not offer solutions or suggest political outcomes but focus on the future of the business environment in Scotland, examining current attitudes and perceptions, measuring priorities for change and capturing the views of business leaders on what they believe will help Scotland grow and thrive. Running every quarter, the survey will invite respondents to reflect on the most recent period and look forward to the coming months and years.

In this first edition of Understanding Business, responses were received from representatives at businesses from across Scotland. Individuals were invited to complete the survey via an online link.

The survey has representation across businesses of all sizes and from each local authority area in the country. Furthermore, businesses from the full range of industries across Scotland took part in the survey.

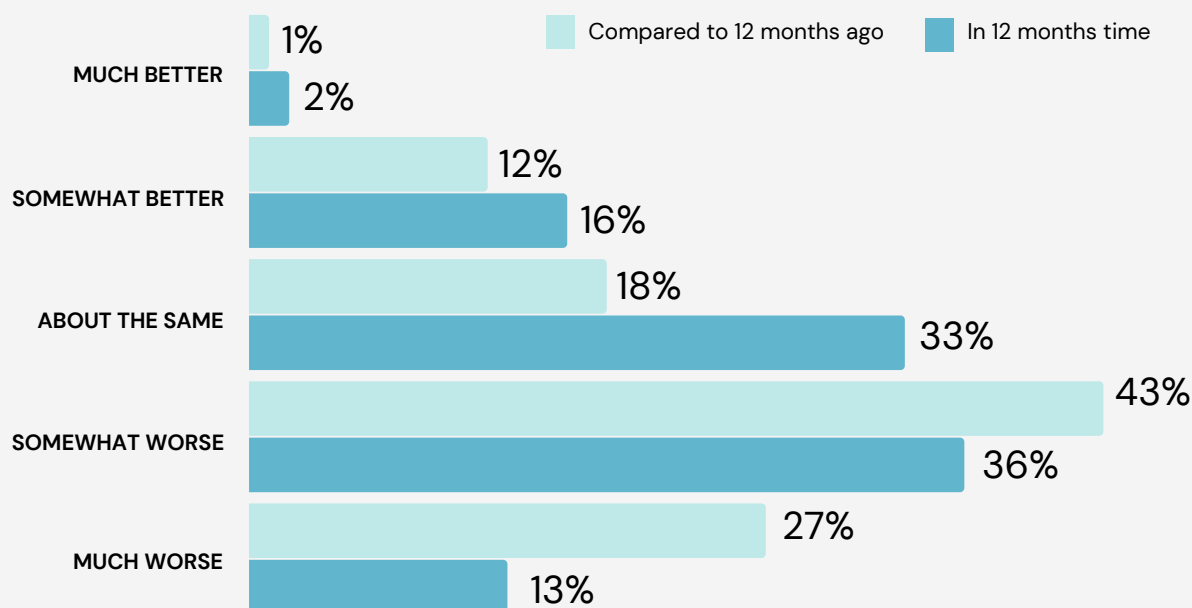
Economic Outlook

Businesses surveyed on current economic conditions are largely pessimistic.

When reflecting on the previous 12 months, a majority (69%) believe that economic conditions are worse than they were 12 months ago (excluding 'don't knows').

Only 13% of businesses surveyed believe that economic conditions are better than a year ago while almost one in five (18%) state that general economic conditions are about the same as they were 12 months ago.

Proportions of respondents reporting perceived changes and predictions for the general economy



In this context of a general feeling that economic conditions have worsened over the last year, the figures looking forward to the next 12 months make stark reading. Around half (49%) of respondents believe that economic conditions will be worse in 12 months' time and a third (33%) that they will be about the same, indicating a high degree of pessimism that things will remain tough for businesses over the

next 12 months.

However, just less than a fifth (18%) think that there will be at least some improvement in general economic conditions over the next 12 months – a figure that will be watched with great interest in coming Understanding Business reports as government and opposition parties set out their offer to business.

Profitability & Turnover

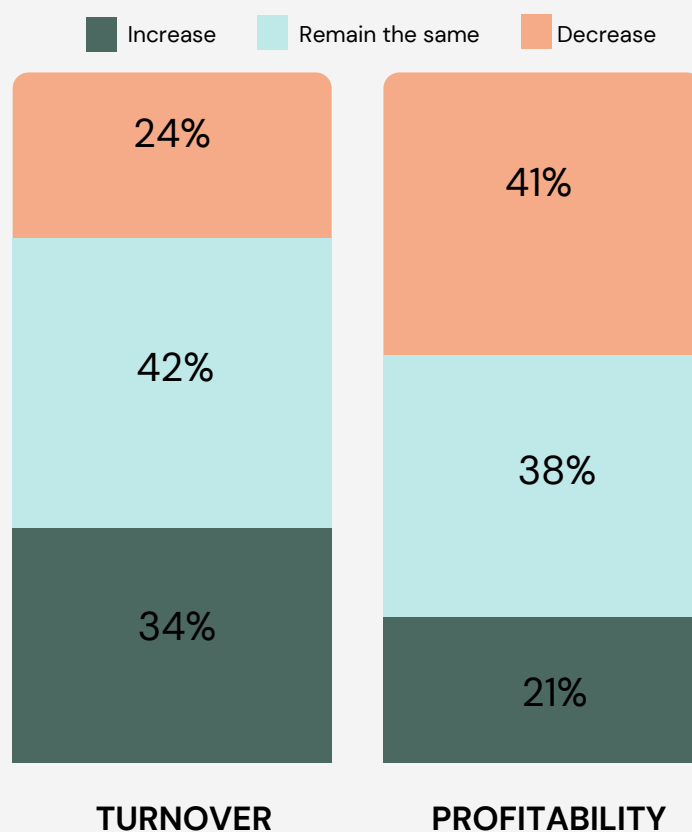
Businesses surveyed were asked to consider whether they thought that their profitability and turnover would increase or decrease over the next 12 months.



Proportion of respondents projecting increases/decreases

Around a third (34%) think turnover will increase in the next 12 months while only around a fifth (21%) report that they expect their profitability to increase.

Indeed, four in ten (41%) report that they expect their profitability to fall in the next 12 months, while a similar proportion (38%) think that profitability will remain the same. In terms of turnover, around one in four (24%) are of the view that their turnover will decrease in 12 months while 42% believe that it will remain the same.

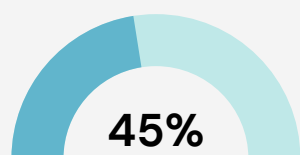


Recruitment

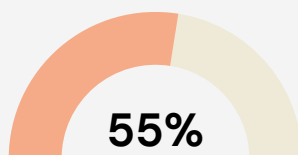
Around two-thirds (63%) of respondents report that their workforce size has remained the same over the past three months (excluding don't knows). In terms of changing workforce size, 18% report an increase in their workforce size and 18% report a decrease.

Looking ahead to the next three months, two-thirds (65%) report that their workforce size is set to remain the same while more than one in five (23%) plan to increase the size of their workforce. The remaining 12% report that they expect their workforce size to decrease in the next three months.

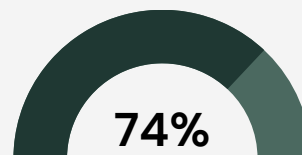
Over one in two (54%) businesses surveyed have attempted to recruit in the last three months.



were to replace existing roles only and 17% for new roles only



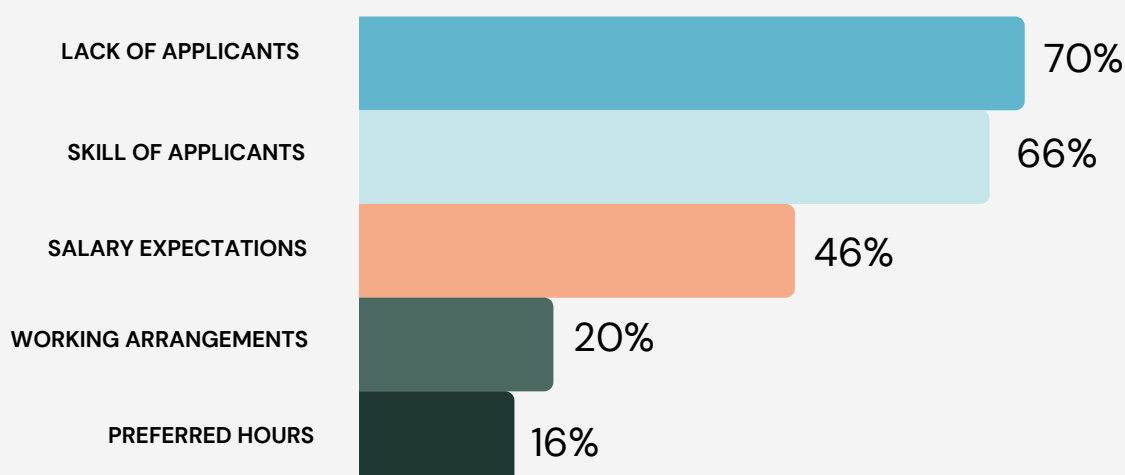
were for full-time roles only and 8% for part-time jobs only



were for permanent jobs only and 6% for temporary jobs only

Among those who have attempted to recruit staff, seven in ten (70%) cite a lack of applicants as a difficulty that they experienced during recruitment while two thirds (66%) state that they found that applicants are not of the required skills or experience for the roles that they were recruiting. These findings highlight the skills gap that employers are facing when attempting to recruit both in terms of the skill level of the applicants and the available pool of applicants.

Proportion of recruiting businesses that experienced the following challenges



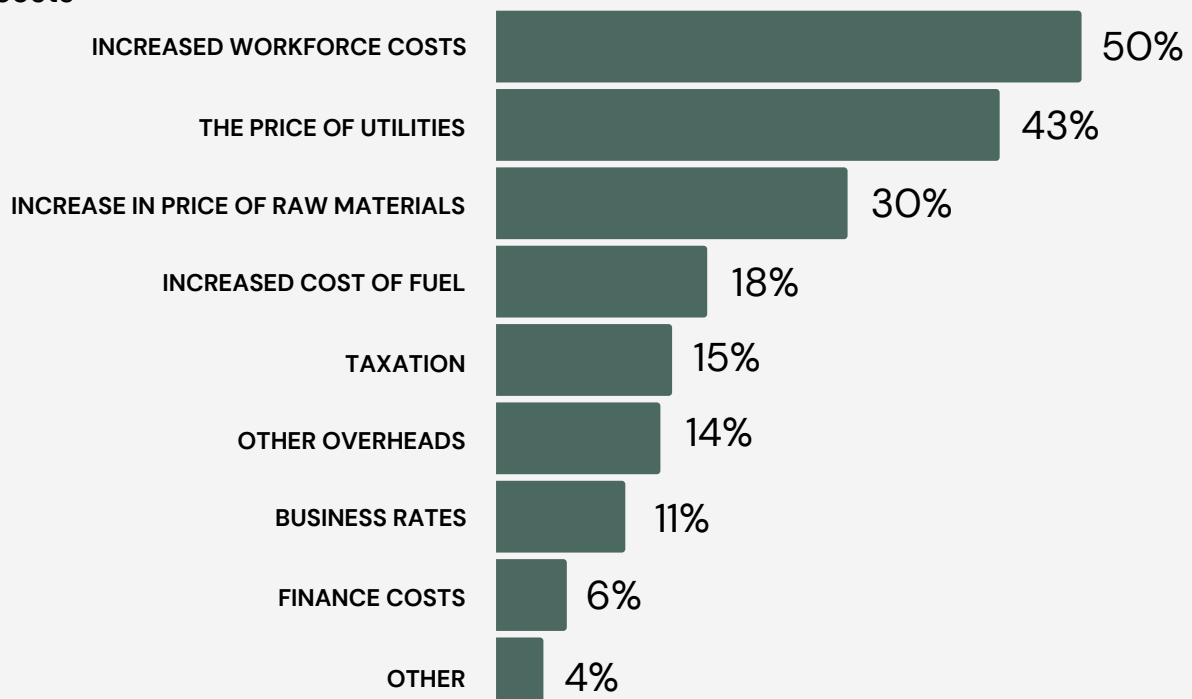


Pricing

Two-thirds (66%) of respondents, excluding don't knows, expect the price of their goods or services to increase in the next three months. Three in ten (31%) expect them to remain the same and 2% expect their prices to decrease.

Respondents were asked to select the two most important factors that may lead to price increases. Half of respondents (50%) report increased workforce costs while four in ten (43%) report the price of utilities. Other factors that are deemed as important by a significant proportion of respondents are increases in the price of raw materials (30%), the increased cost of fuel (18%), taxation (15%) and other overheads (14%).

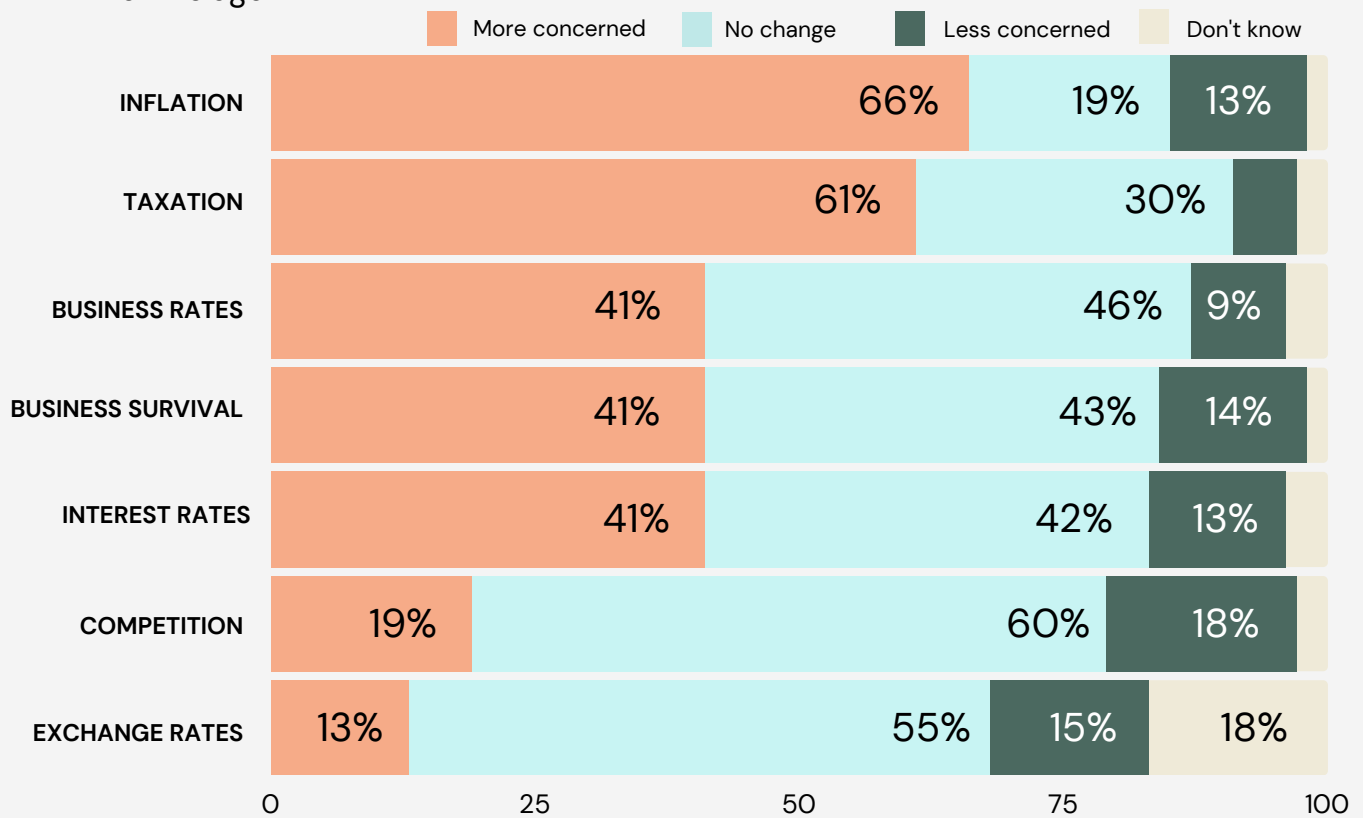
Proportion of respondents citing the following as an important pressure to increase costs



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

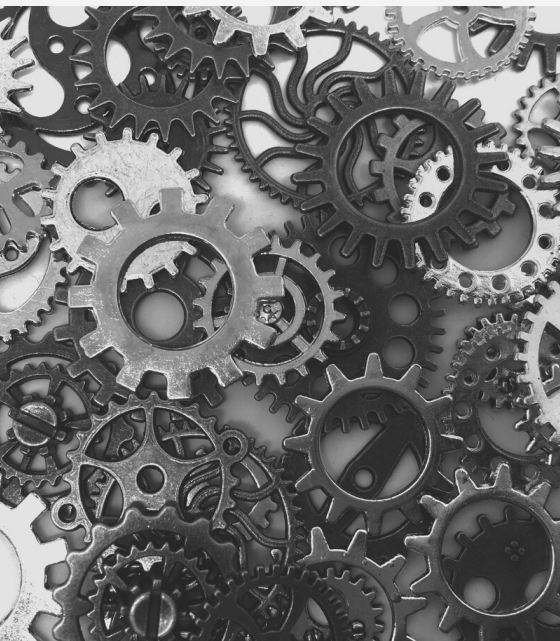


Two-thirds of respondents (66%) say that they are more concerned about inflation than they were three months ago while six in ten (61%) are more concerned about taxation.

Four in ten respondents (41%) report being more concerned about business survival while 43% report no change. Furthermore, 41% of respondents report being more concerned about interest rates and business rates, while 42% and

46% respectively report no change.

The majority of respondents report no change in their level of concern in relation to competition (60%) and exchange rates (55%). Around a fifth (19%) are more concerned about competition while 18% were less concerned. For exchange rates, 13% report being more concerned while 15% are less concerned.



TECHNICAL DETAILS

The survey was designed by Diffley Partnership and 56° North. Invitations were issued online and fieldwork was conducted from March to May 2023. A total of 505 responses were received from representatives from 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 waves of Understanding Business, email us at info@diffleypartnership.co.uk

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