

SEPTEMBER 2023



UNDERSTANDING
BUSINESS



Diffley
Partnership

56°
NORTH



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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 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 –
September 2023*

In the second edition of *Understanding Business*, we provide a comprehensive overview of the current business outlook in Scotland, shedding light on sentiments and experiences amid ongoing economic challenges.

Over the past year, most businesses believe conditions have worsened, with limited optimism for improvement and a sense that economic conditions are likely to remain the same over the next 12 months. These findings suggest that, for many businesses, the challenging environment is seen as the new normal.

On the recruitment front, nearly half of businesses report recent recruitment efforts, though challenges persist, primarily related to a lack of suitable applicants and candidates lacking required skills.

A significant finding is widespread support for Net Zero goals among businesses– despite substantial



challenges, including cost concerns, insufficient government funding, and limited access to suitable technologies.

This report offers valuable insights into the challenges, priorities, and aspirations of businesses in Scotland today. We hope these insights can contribute to informed decision-making and meaningful discussions among businesses and policymakers.

5 KEY TAKEAWAYS

Our second 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 PERCEIVED DETERIORATION AND LIMITED OPTIMISM IN ECONOMIC OUTLOOK

Seven in ten businesses believe that economic conditions have worsened over the past year. Optimism remains scarce, with only 17% anticipating improvements in the next 12 months. Meanwhile, the proportion expecting conditions to remain unchanged has risen by three percentage points since the previous report, now standing at 36%. A significant 48% foresee further economic decline, mirroring sentiments from June 2023.

02 STRONG BACKING FOR NET ZERO DESPITE BARRIERS

Around two-thirds (68%) of businesses express support for Net Zero emissions goals, emphasising a growing commitment to sustainability. However, challenges with perceived cost (59%), a lack of government funding (36%), and limited access to appropriate technologies or solutions (31%) are identified as significant obstacles to achieving Net Zero targets. At the same time, three in four businesses (74%) fear that stopping oil and gas exploration would not help the economy.

03 STABILITY ON TURNOVER AND LESS GLOOM AROUND PROFIT EXPECTATIONS

Turnover expectations remain relatively stable since the previous report and fewer businesses anticipate decreased profits in the next 12 months (29% compared to 41% in June), as 27% foresee higher profits, and a larger share (44%) expect no change.

04 THE SKILLS GAP AND LACK OF APPLICANTS PERSIST AS RECRUITMENT CHALLENGES

Half of the surveyed businesses engaged in recruitment activities in the past three months. Recruitment challenges persist, with the primary issues being a lack of suitable applicants and candidates not meeting required skill levels. Although these challenges remain, they have lessened compared to the previous report.

05 GOVERNMENT SENTIMENT IS NEGATIVE AND A RANGE OF HELPFUL INTERVENTIONS ARE IDENTIFIED

Sentiments towards government actions and concerns differ. Generally, attitudes lean toward the negative, but businesses exhibit slightly less negative sentiment towards the Scottish Government. When thinking about potential interventions, reduced taxation (81%), lower business rates (75%), and increased support for small business owners (73%) were deemed to be the most helpful by respondents.

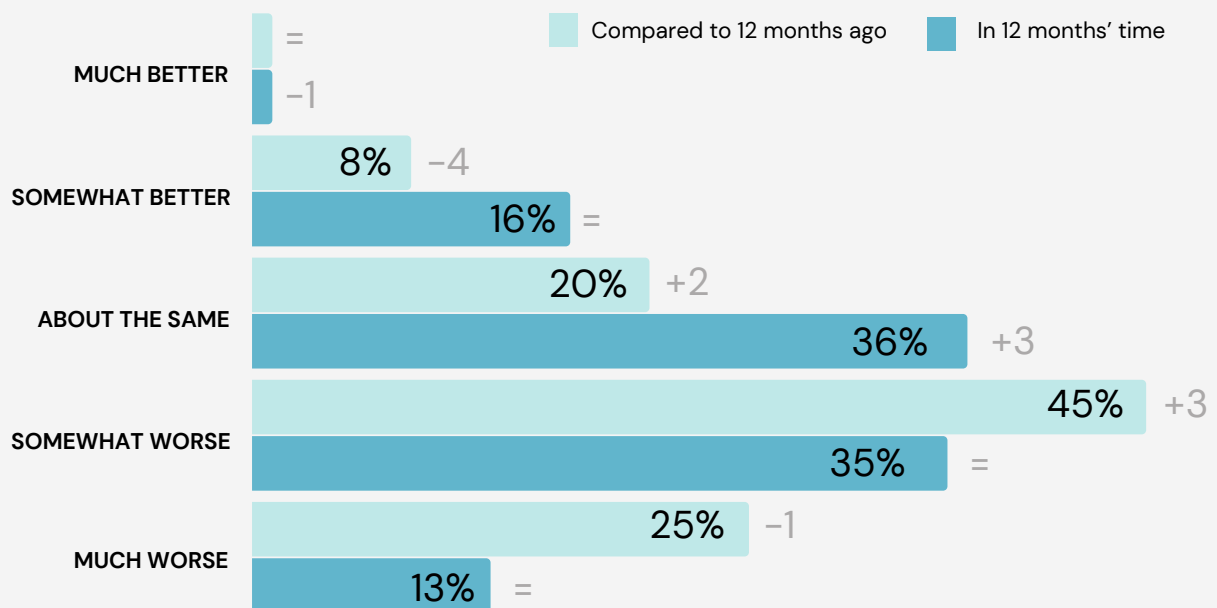
Economic Outlook

When reflecting on the previous 12 months, a majority (71%) believe that economic conditions are worse now than a year ago (excluding 'don't knows').

This assessment is similar to that found in June (69%).

Only 9% of businesses surveyed believe that economic conditions are better than a year ago, while one in five (20%) 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 the continuation of a trend from June, businesses in Scotland remain pessimistic in their economic forecast for the next 12 months. Around half (48%) of respondents believe that economic conditions will be worse in 12 months' time and over a third (36%) 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 (17%) 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

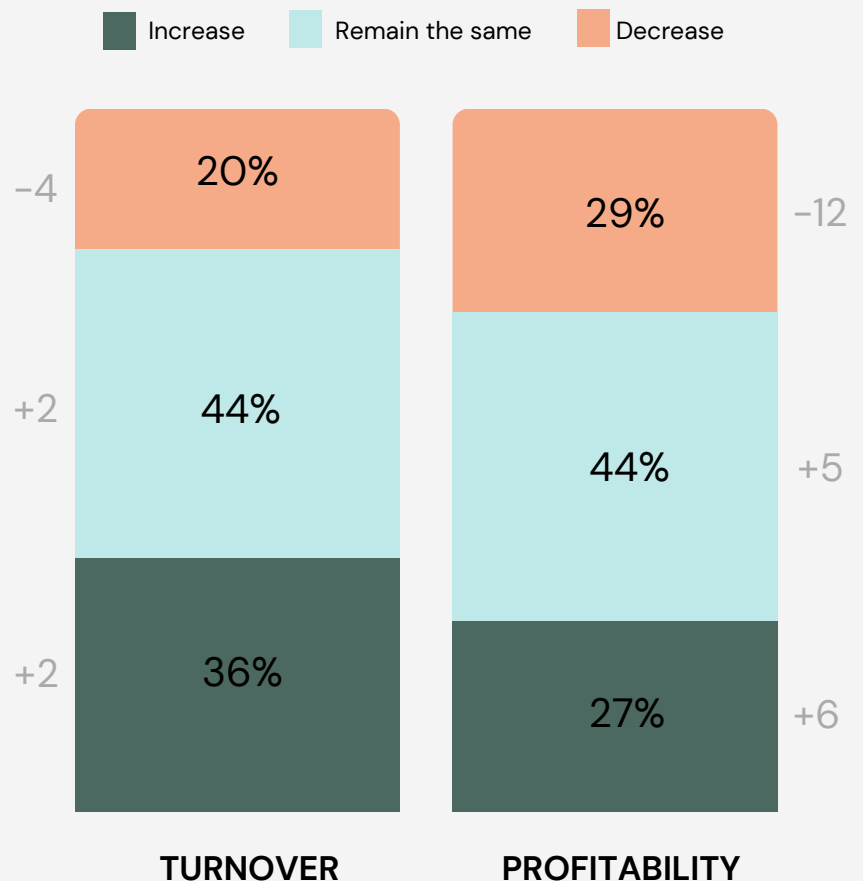
Businesses surveyed were asked to consider whether they thought that their profitability and turnover would increase or decrease over the next 12 months.

Proportion of respondents projecting increases/decreases

More than a third (36%) of businesses surveyed think that their turnover will increase in the next 12 months, a roughly similar proportion to June (34%).

There have been some changes in profitability predictions, with around three in ten (29%) predicting their profits will decrease in the next 12 months. This represents a significant reduction from the 41% found in June.

Corresponding to this decrease, there has been an increase in the proportion of respondents who believe that their profitability will increase (from 21% to 27%) and that it will remain the same (from 38% to 44%).



Recruitment

Around two-thirds (65%) 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, 17% report an increase in their workforce size and 18% report a decrease.

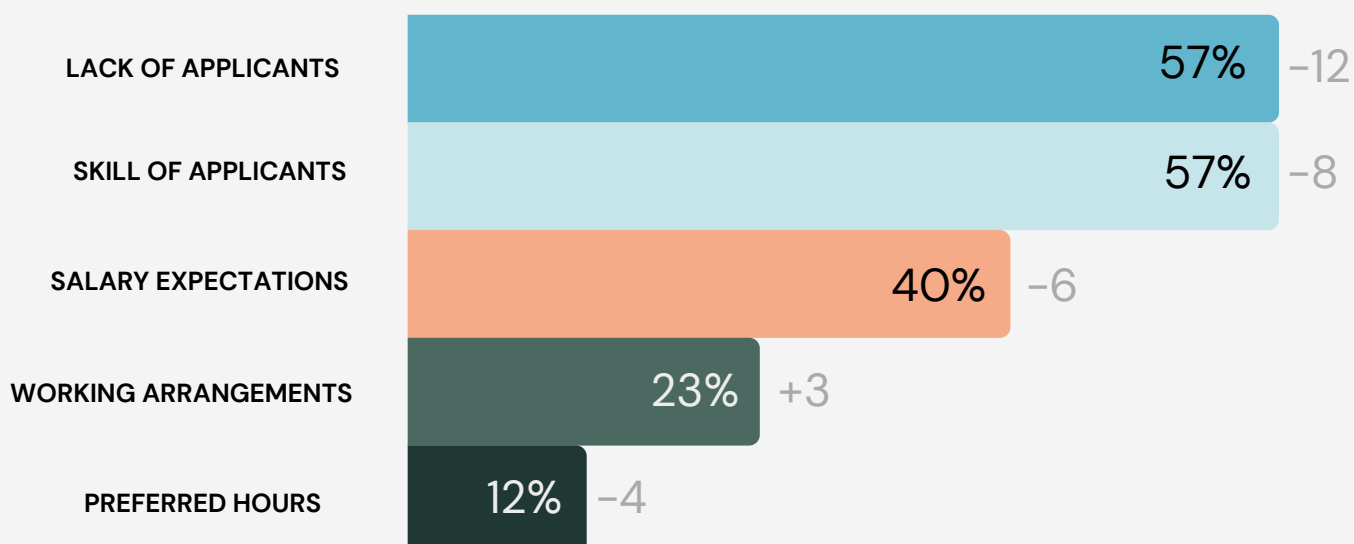
Looking ahead to the next three months, two-thirds (65%) report that their workforce size is set to remain the same while more than one in five (21%) plan to increase the size of their workforce. The remaining 14% report that they expect their workforce size to decrease in the next three months.

Over one in two (50%) businesses surveyed have attempted to recruit in the last three months.



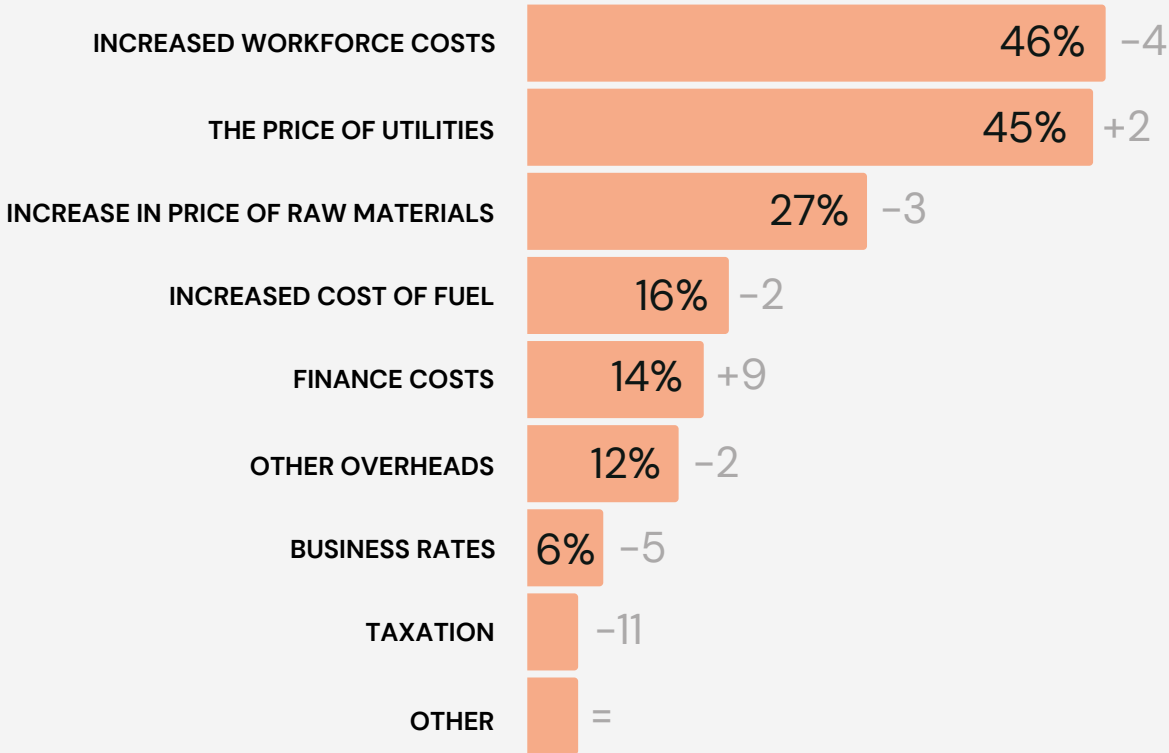
Among those who have attempted to recruit staff, a lack of applicants (57%) and applicants not being of the required skills or experience for the roles that they were recruiting (57%) remain the two biggest challenges highlighted by businesses, though less extreme than in the first report, where these figures were 70% and 66% respectively. These findings continue to suggest a need to address the skills gap in order to ensure that businesses in Scotland can fill available roles.

Proportion of recruiting businesses that experienced the following challenges



More than half (54%) of respondents that express an opinion expect the price of their goods or services to increase in the next three months, a decrease from 66% in June. Four in ten expect them to remain the same.

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



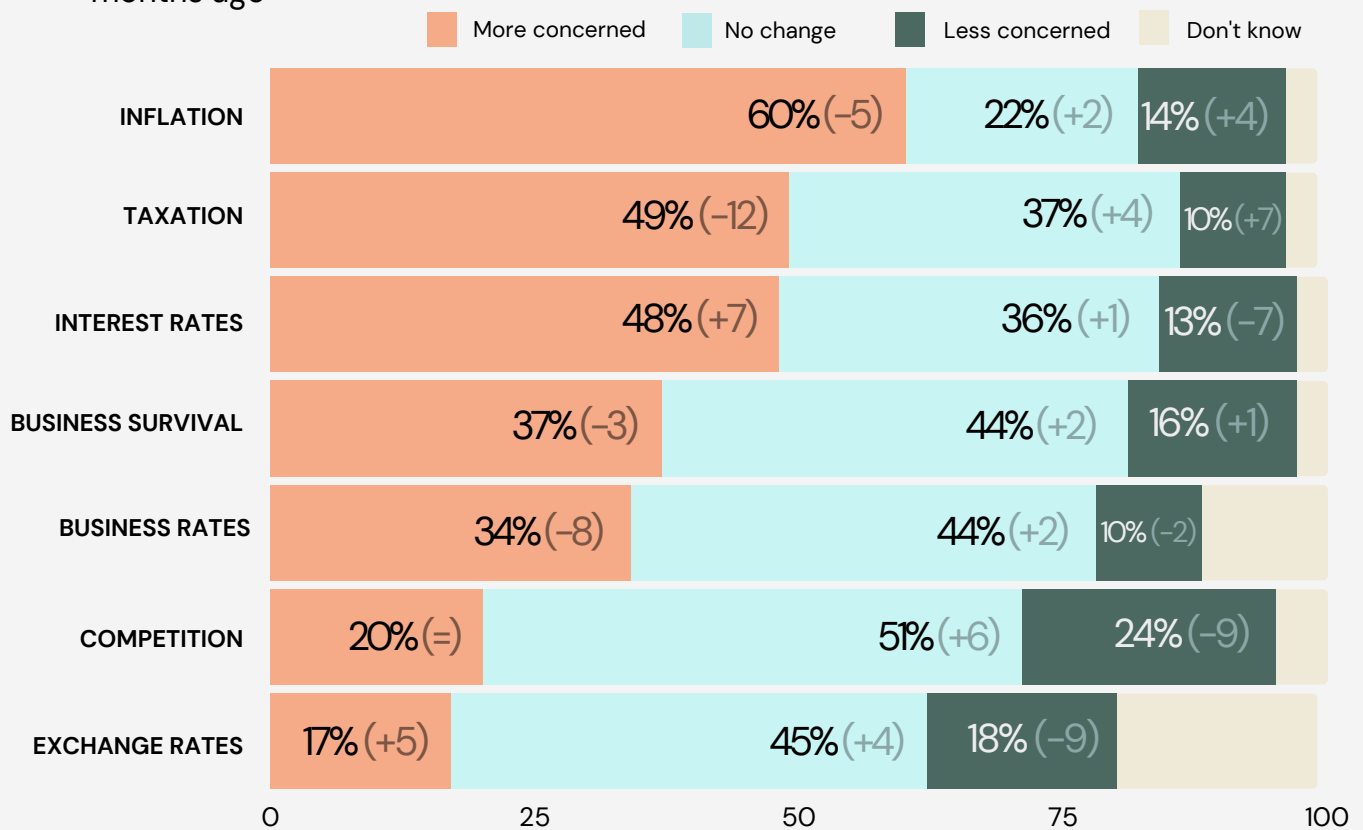
Respondents were asked to select the two most important factors that may lead to price increases. The most selected factor was increased workforce costs (46%), though this is down four percentage points from June. The price of utilities was the next most identified factor (45%), up two percentage points from June 2023.

Other factors that are deemed as important by a significant proportion of respondents are increases in the price of raw materials (27%) and the increased cost of fuel (16%). Finance costs is now deemed as one of the two most important factors by 14% of businesses surveyed, an increase of nine percentage points from the previous report.

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



Six in ten respondents (60%) say that they are more concerned about inflation than they were three months ago, down five percentage points from the first report. The proportion of businesses who have had no change in concern relating to inflation has increased from 19% to 22%.

Around half of businesses surveyed report being more concerned about taxation (49%, from 61% in June) and

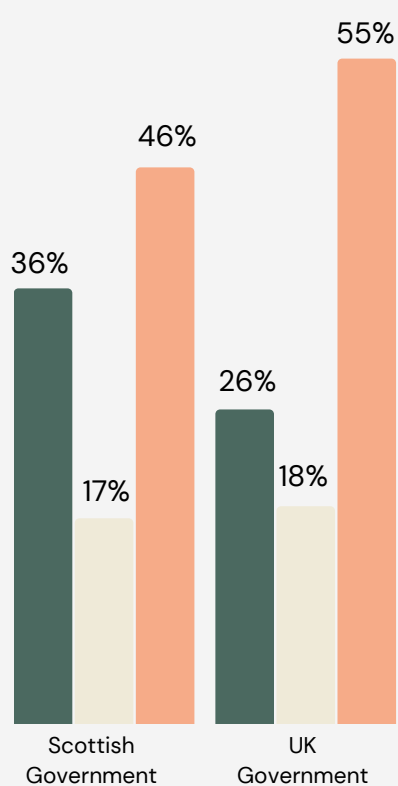
interest rates (48%, from 41% in June).

Businesses with 250+ employees were most likely to highlight that they were more concerned about interest rates and inflation than those with less employees.

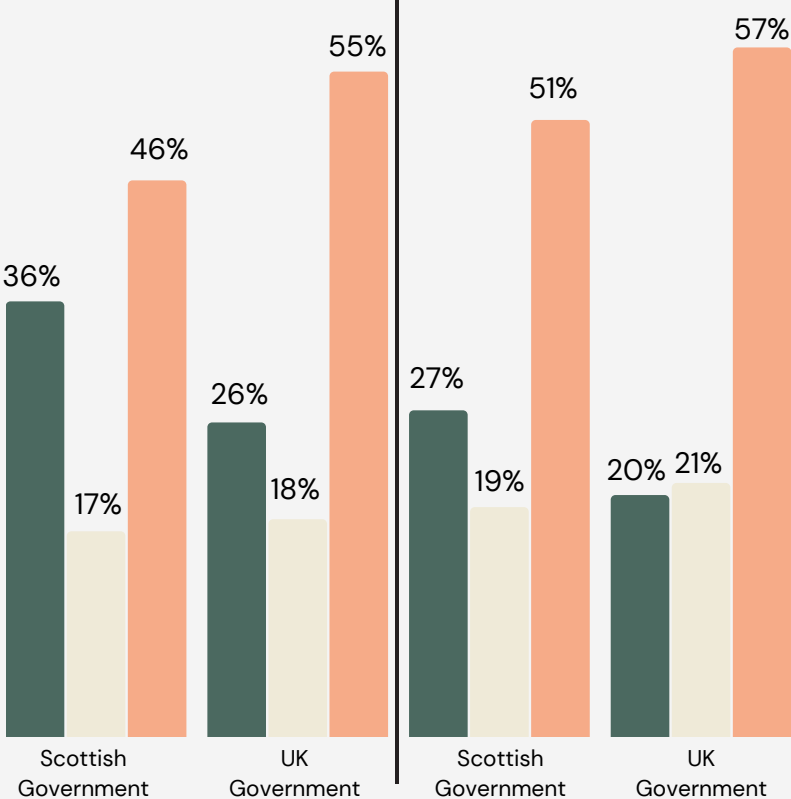
More than a third of businesses surveyed are more concerned about business survival (37%) than three months ago, though this represents a decrease from 41% in June.

Government Responsiveness

Concerned with needs of Scottish businesses



Taking action to address Scottish business concerns



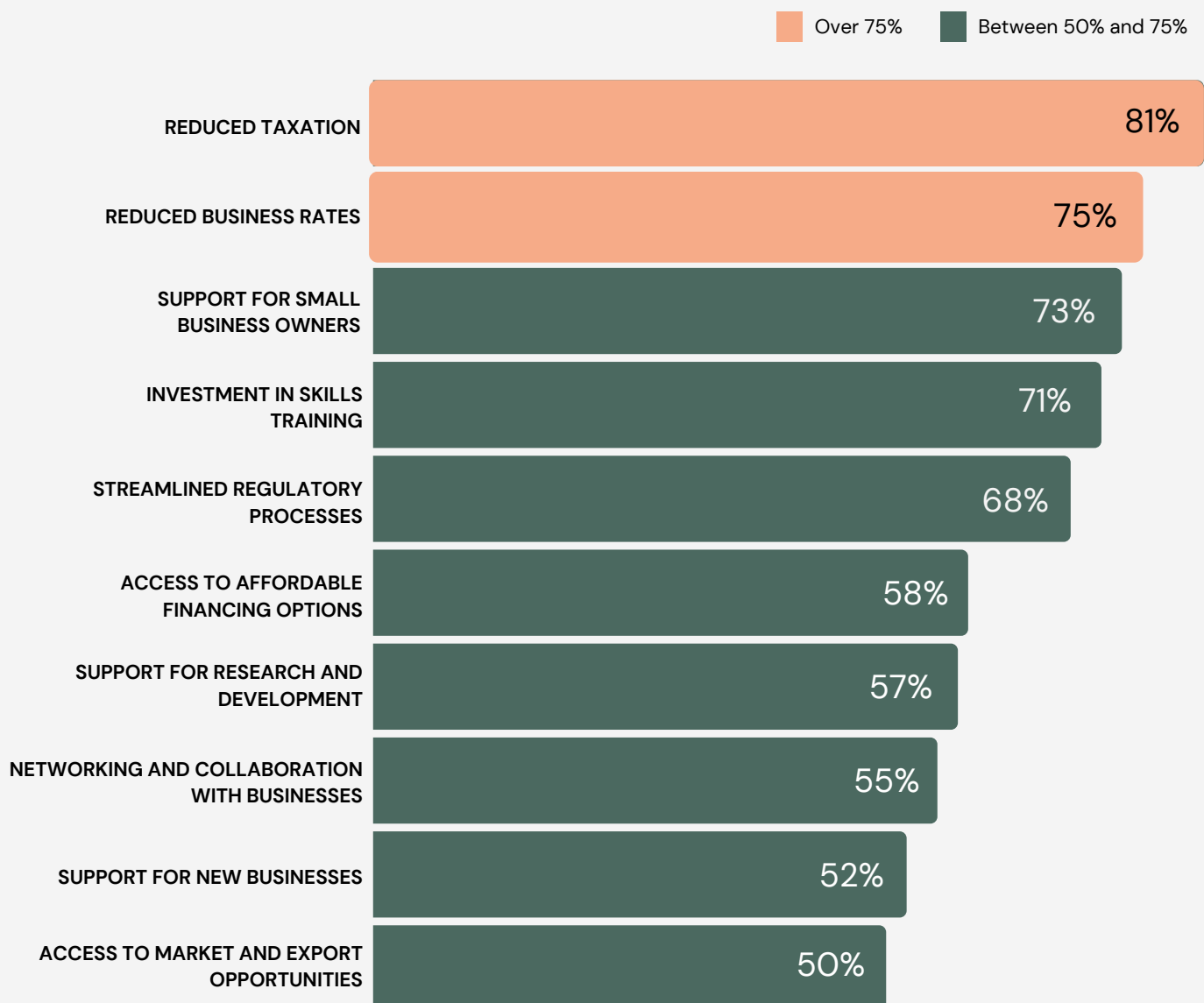
■ Agree
 ■ Neither agree nor disagree
 ■ Disagree

When asked if the Scottish and UK Governments are concerned with the needs of businesses in Scotland, a majority tend to disagree. However, businesses are even more likely to disagree that either Government is taking action to address business concerns. In these assessments, the Scottish Government fared marginally better in responsiveness than the UK Government.

Respondents were asked to consider potential interventions that might be helpful to businesses like their own. All of the potential measures presented have been deemed helpful by at least half of respondents.

The measures that are deemed to be helpful by the greatest number of respondents are reduced taxation (81%), lower business rates (75%), increased support for small business owners (73%) and investment in skill training (71%). This hierarchy reflects earlier findings on concerns and challenges with recruitment.

Proportion of respondents reporting that the following interventions would be helpful for businesses like theirs



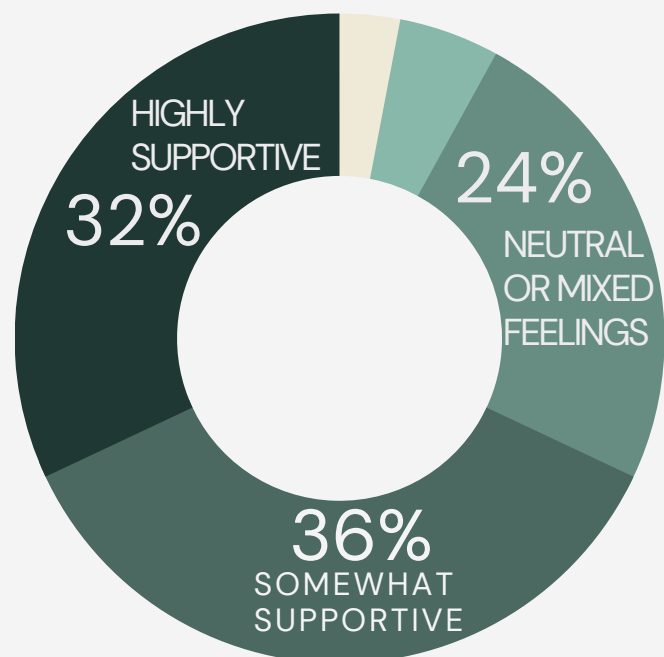
Net Zero

The majority (68%) of businesses express support for Net Zero emissions goals, emphasising a commitment to sustainability among businesses in Scotland. The level of support varies depending on business size with larger businesses more likely to report being supportive than smaller businesses.

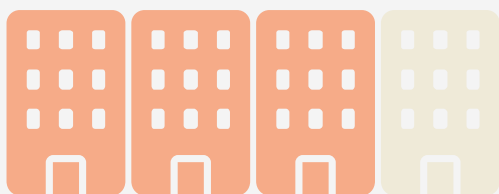
When thinking about oil and gas exploration, three-quarters (74%) of businesses that responded think that ending oil and gas exploration would not be beneficial for the economy.

Views were more mixed on the environmental impact of this decision, with 56% thinking that ending oil and gas exploration would be beneficial for the environment and 44% stating that it would not be.

How would you describe the attitude of your business towards achieving Net Zero goals?



Nearly 3 in 4 businesses



*think ending oil and gas exploration **would not** benefit the economy.*

Just over half (56%)



*think ending oil and gas exploration **would** benefit the environment.*

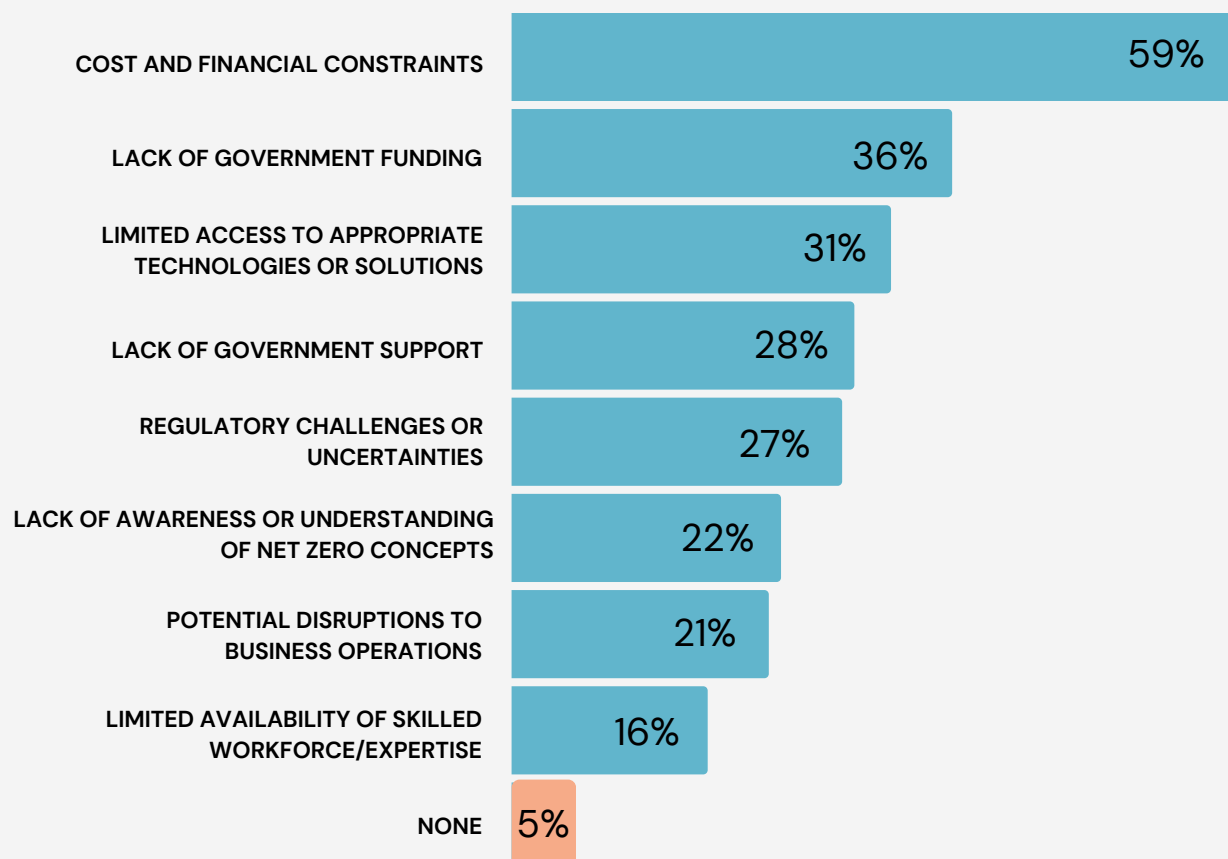


Barriers

Despite support for Net Zero goals, businesses highlight a series of challenges that impede progress to reduce emissions.

Many highlighted perceived cost (59%), a lack of government funding (36%), and limited access to appropriate technologies or solutions (31%) as significant obstacles to achieving Net Zero targets. About one in four identified regulatory challenges/uncertainty and lack of awareness of Net Zero concepts.

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





TECHNICAL DETAILS

The survey was designed by Diffley Partnership and 56° North. Invitations were issued online and fieldwork was conducted from July to September 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 Understanding Business reports, email us at info@diffleypartnership.co.uk



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