

MARCH 2024

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 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 – March 2024

In the fourth edition of *Understanding Business*, we provide a comprehensive overview of the current business outlook in Scotland.

Businesses in Scotland are navigating a complex economic landscape, striving for growth amidst various hurdles. Key concerns highlighted include the need for reduced taxation to stimulate business growth, alongside challenges posed by rising operational costs and economic uncertainty.

Changes to income tax policies in Scotland prompt considerations among business owners, with anticipated challenges in areas such as payroll management, investment decision-making, talent acquisition and competition with businesses in England and Wales.

As the General Election approaches, businesses assess political party stances on business interests, with divergent views emerging regarding parties perceived to have the best policies for growth and investment.



Recruitment remains a persistent challenge, with businesses grappling with wage demands and a shortage of qualified applicants. Utility and workforce costs continue to be key considerations when it comes to pricing for businesses in Scotland.

This report offers a nuanced exploration of the Scottish business landscape, aiming to inform decision-makers and foster dialogue towards sustainable economic growth.

5 KEY TAKEAWAYS

Our fourth 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 REDUCED TAXATION SEEN AS CRUCIAL TO HELP GROWTH

When asked to consider what would best help the growth of their business, more than two in five (43%) respondents cite reducing taxation as crucial for boosting business growth. Around a third (32%) identify reducing business rates while three in ten (29%) identify increased support for business owners as key to helping the growth of their business.

02 OPERATIONAL COSTS AND ECONOMIC UNCERTAINTY IMPEDE GROWTH

Rising operational costs (42%) and economic uncertainty (38%) are identified as prominent obstacles to business growth by respondents. Around three in ten (28%) cite high taxation while around one in five identify the lack of skilled workforce (20%) and changes in consumer behaviour (19%) as significant barriers to the growth of their business.

03 CHALLENGES RELATED TO INCOME TAX CHANGES IDENTIFIED

Respondents were asked to consider changes to income tax in Scotland and the challenges that this might pose for them. Around a third report that the changes would be extremely or very challenging when it came to payroll and taxation (33%), shaping investment decisions in Scotland (33%) and attracting and retaining international talent (32%). Around three in ten say that competing with businesses in England and Wales (31%) would be extremely or very challenging for them.

04 BUSINESSES SPLIT ON POLITICAL PARTY PREFERENCES

With a General Election approaching, the survey asked a number of questions on which party was best for Scottish business. The SNP takes the lead when asked who best represents the interests of Scottish business (32%) with 29% choosing Labour and the Conservatives lagging behind at 19%. When asked who has the best policies for growth and investment, Labour leads with 31%, just ahead of the SNP at 30%. Only one in six (16%) say the Conservatives.

05 RECRUITMENT AND PRICING CHALLENGES PERSIST

Businesses continue to face challenges in recruiting skilled staff, with wage demands (45%) and lack of skilled applicants (61%) being major hurdles. Additionally, the increasing prices of utilities and workforce costs continue to be identified as the most prominent reasons for potential price rises.

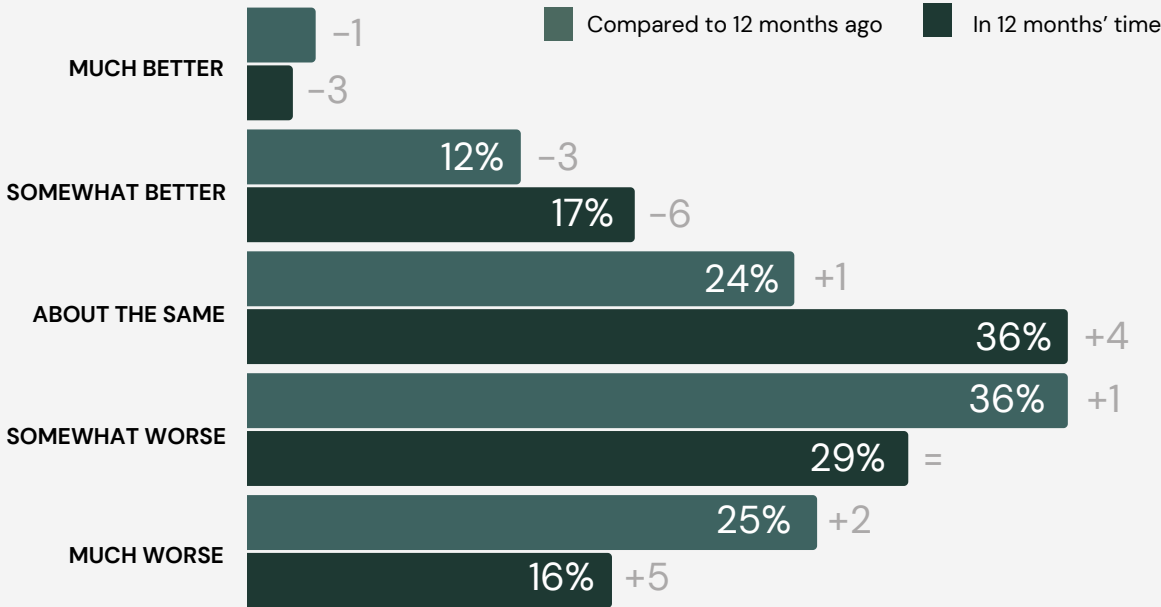
Economic Outlook

When reflecting on the previous 12 months, a majority (60%) believe that economic conditions are worse now than a year ago (excluding 'don't knows').

This is a similar proportion to that recorded in December 2023 (58%). Around a quarter (24%) believe that economic conditions are about the same as a year ago.

Only 15% believe that economic conditions are better than a year ago, compared to 19% reporting the same in December 2023.

Proportions of respondents reporting and predicting perceived changes to the general economy



Looking ahead to the next 12 months, 45% of respondents believe that economic conditions (up from 39% in December 2023) will be worse in 12 months' time and more than a third (36%) believe that they will be about the same.

However, one in five (20%) believe that there will be at least some

improvement in general economic conditions over the next 12 months, down from 29% in December 2023. This suggests that the move towards optimism that we had seen in the previous wave has been tempered in recent times and that businesses remain braced for a challenging 12 months ahead.



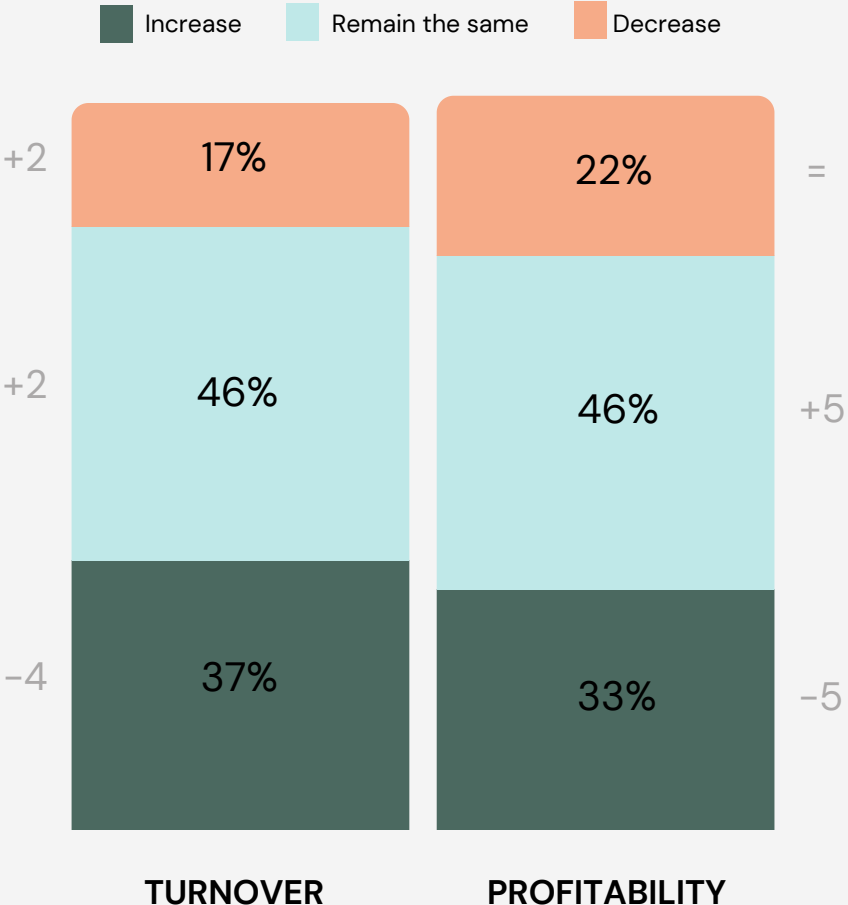
Profitability & Turnover

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 four in ten (37%) businesses surveyed think that their turnover will increase in the next 12 months, a decrease of four percentage points from December. The proportion that think that their turnover will decrease has increased by two percentage points from December from 15% to 17%.

There has also been a notable decrease in the proportion of businesses who think that their profitability will increase, from 37% in December 2023 to 33% in March 2024. The proportion who think their profitability will remain the same has increased by five percentage points in the same period while the proportion expecting a decrease remains stable.



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, 16% report an increase in their workforce size and 21% report a decrease.

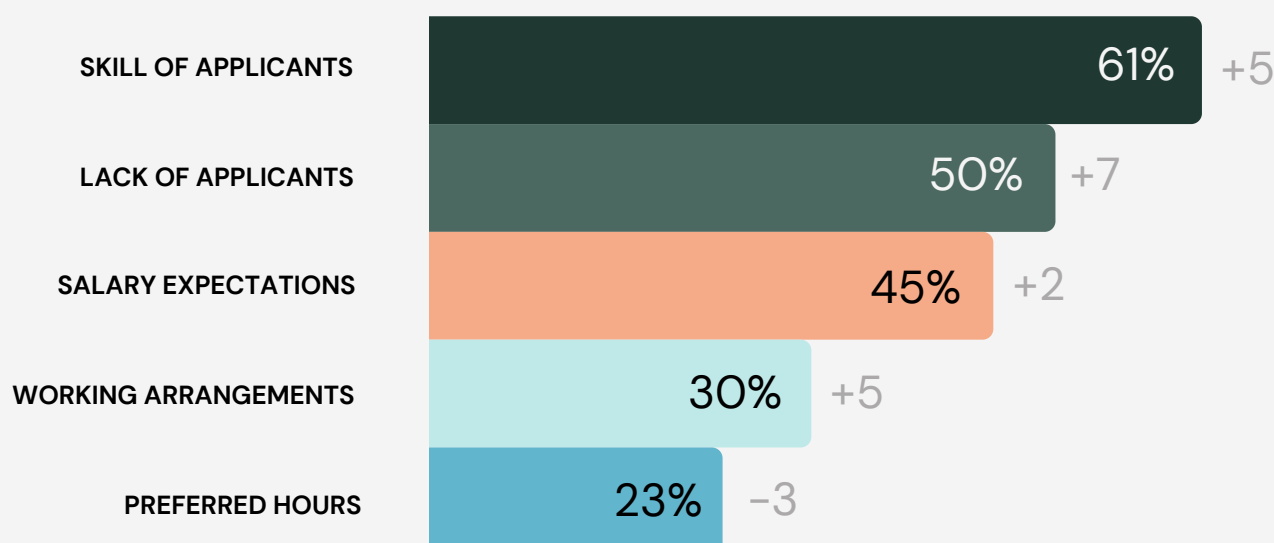
Looking ahead to the next three months, two-thirds (65%) report that their workforce size is set to remain the same while one in five (19%) plan to increase the size of their workforce. The remaining 17% report that they expect their workforce size to decrease in the next three months.

One in two (51%) businesses surveyed have attempted to recruit in the last three months.

Among those who have attempted to recruit staff, the most common challenge identified in recruitment is applicants not being of the required skilled level (61%), an increase of five percentage points from December 2023. A lack of applicants (50%) and salary expectations of candidates (45%) are the next most common difficulties cited.

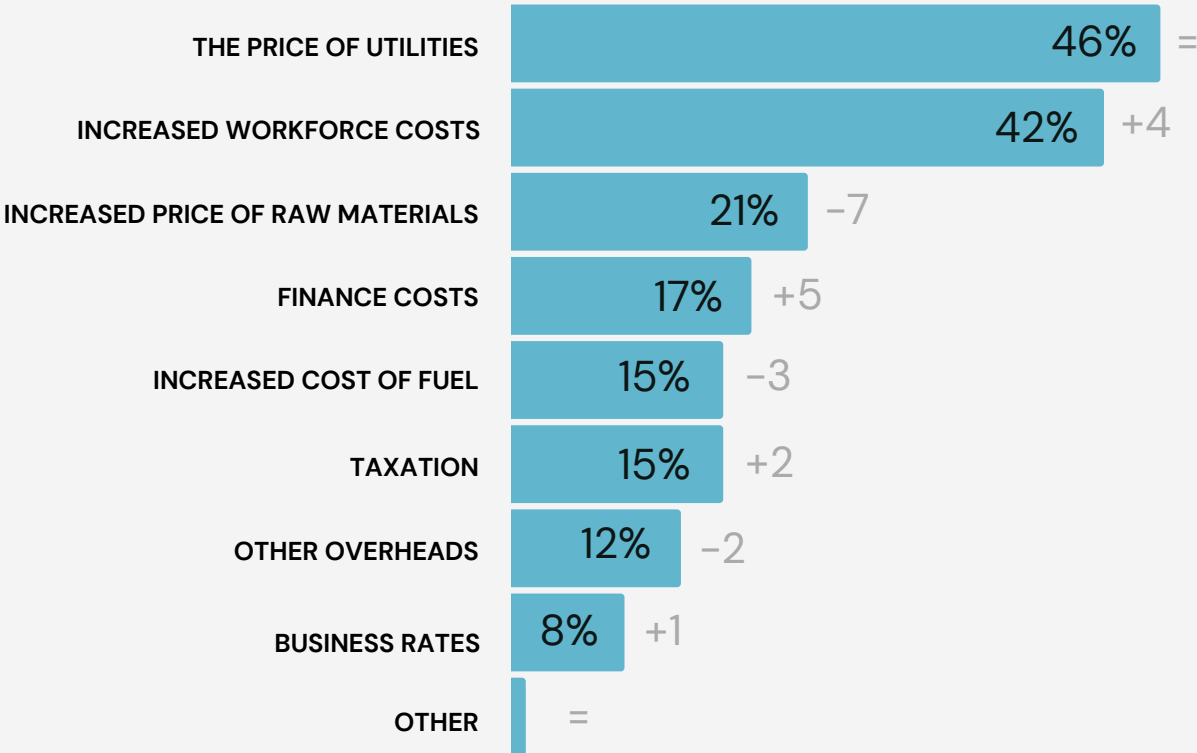
There has also been an increase in the proportion of respondents citing candidates wanting greater flexible working arrangements as a challenge from 26% in December to 30% in March 2024.

Proportion of recruiting businesses that experienced the following challenges



More than half (53%) of respondents that express an opinion expect the price of their goods or services to increase in the next three months, in line with findings from December. More than four in ten (44%) expect them to remain the same.

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

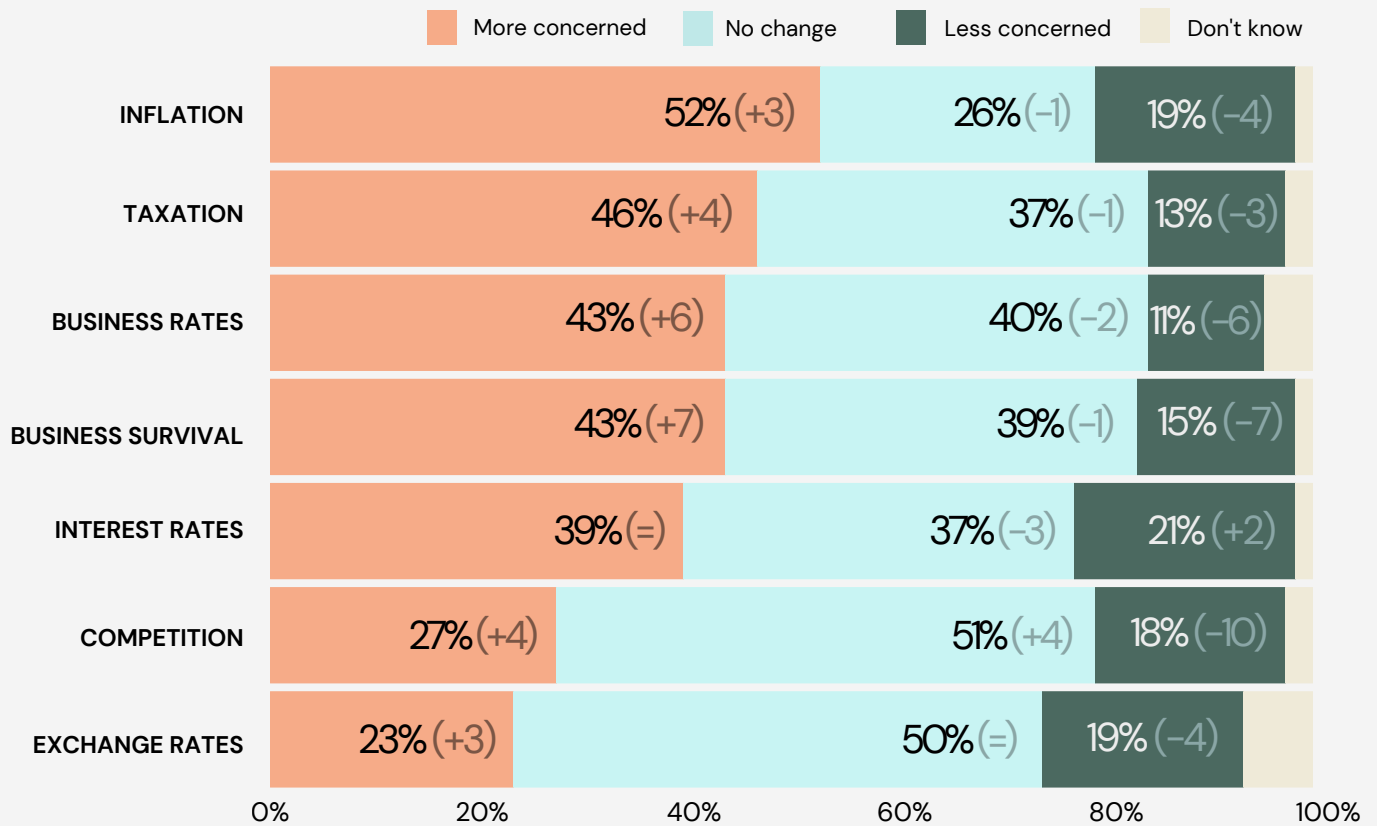


Respondents were asked to select the two most important factors that may lead to price increases. The most selected factor was the price of utilities (46%). Increased workforce costs is the next most identified factor (42%), up four percentage points from December.

Other factors that are deemed as important by a significant proportion of respondents are the increased price of raw materials (21%) and the increased cost of fuel (15%). Taxation is viewed as one of the most important factors by 15% of businesses.

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



About half of respondents (52%) say that they are more concerned about inflation than they were three months ago, compared to 49% in December and 60% in September.

When it comes to taxation, 46% of businesses report being more concerned about taxation than three months ago, compared to 43% reporting the same in December.

The proportion of businesses that

are more concerned about interest rates remains stable from December at 39%. Around one in five (21%) are less concerned, up two percentage points from December and eight percentage points from September.

There has been a notable increase in the proportion of businesses reporting that they are more concerned with business survival, from 36% in December to 43% in March.

Government Responsiveness

When asked if the Scottish Government is concerned with the needs of businesses in Scotland, four in ten (40%) agree while 39% disagree. This is a similar picture to that found in December, where 43% agreed and 37% disagreed.

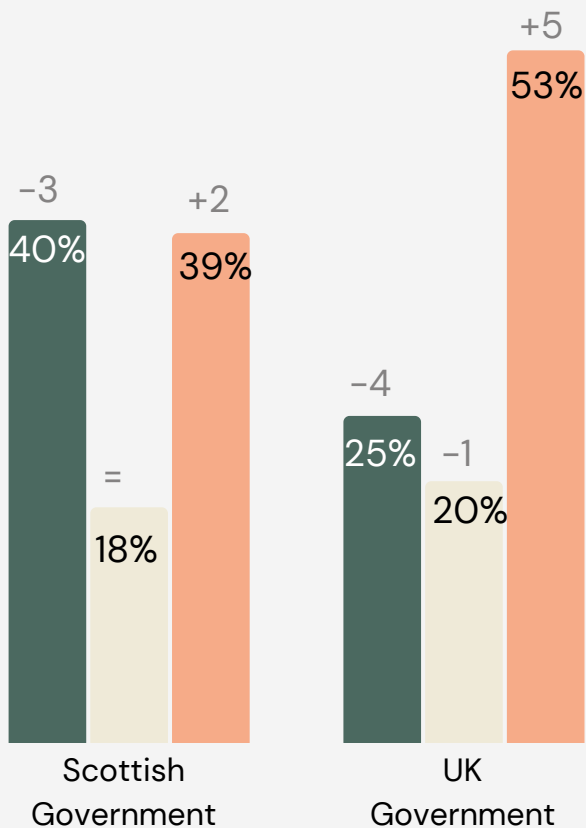
When thinking about the UK Government, 25% agree that the UK Government is concerned with the needs of businesses in Scotland, down four percentage points from December. More than half (53%) disagree,

up five percentage points from December.

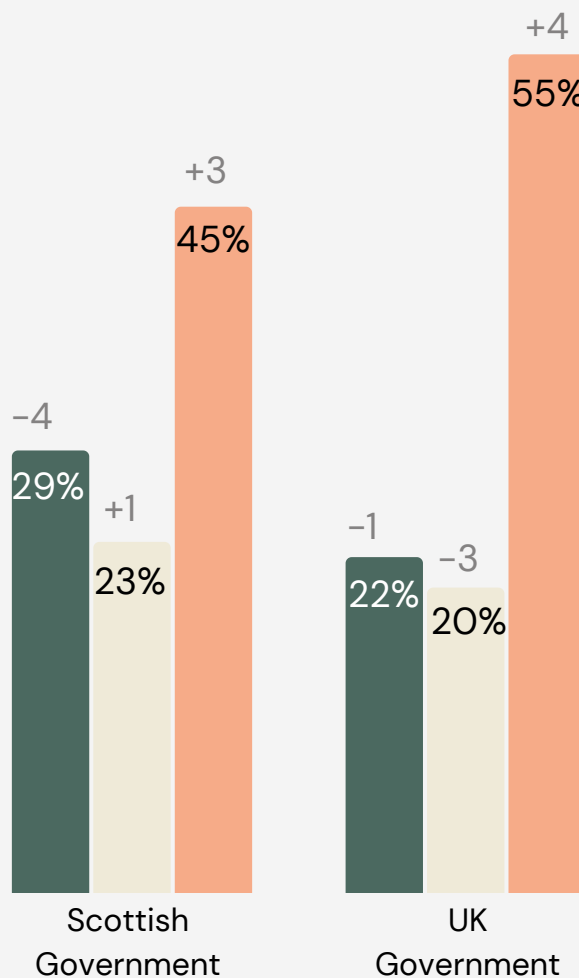
When looking at action taken, around three in ten (29%) believe that Scottish Government is taking action to address business concerns in Scotland, down four percentage points from December. More than four in ten (45%) disagree, up from 42% in December.

Less than a quarter (22%) believe that the UK Government is taking action to address business concerns in Scotland while more than half (55%) disagree, up from 51% in December.

Concerned with needs of Scottish businesses



Taking action to address Scottish business concerns



Agree Neither agree nor disagree Disagree



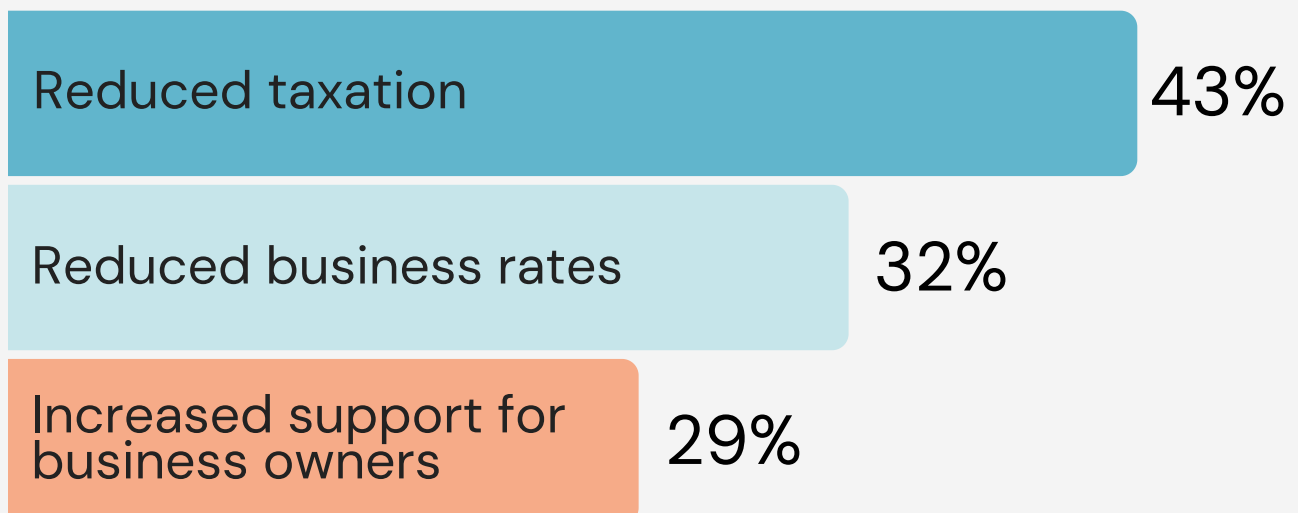
Interventions

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

More than four in ten (43%) businesses surveyed cite reduced taxation as one of the three things that would best help the growth of their business. Another third (32%) cite reduced business rates. Around three in ten (29%) cite increased support for business owners while a

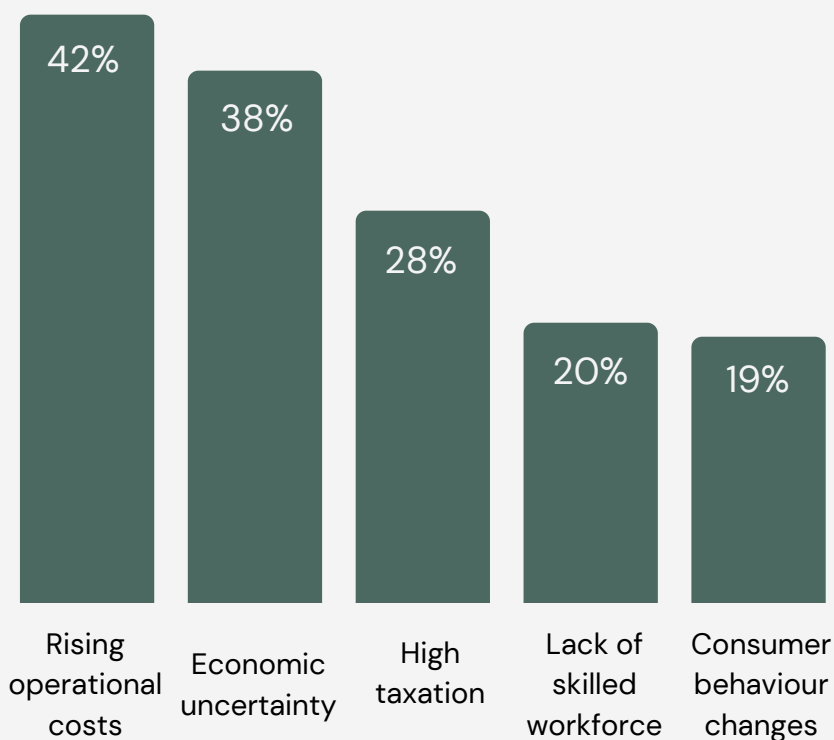
quarter (24%) select increased availability of grants for innovation and expansion. Increased investment in skills training is identified as a crucial intervention by under one in five (18%) respondents.

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



Barriers

Main barriers to business growth

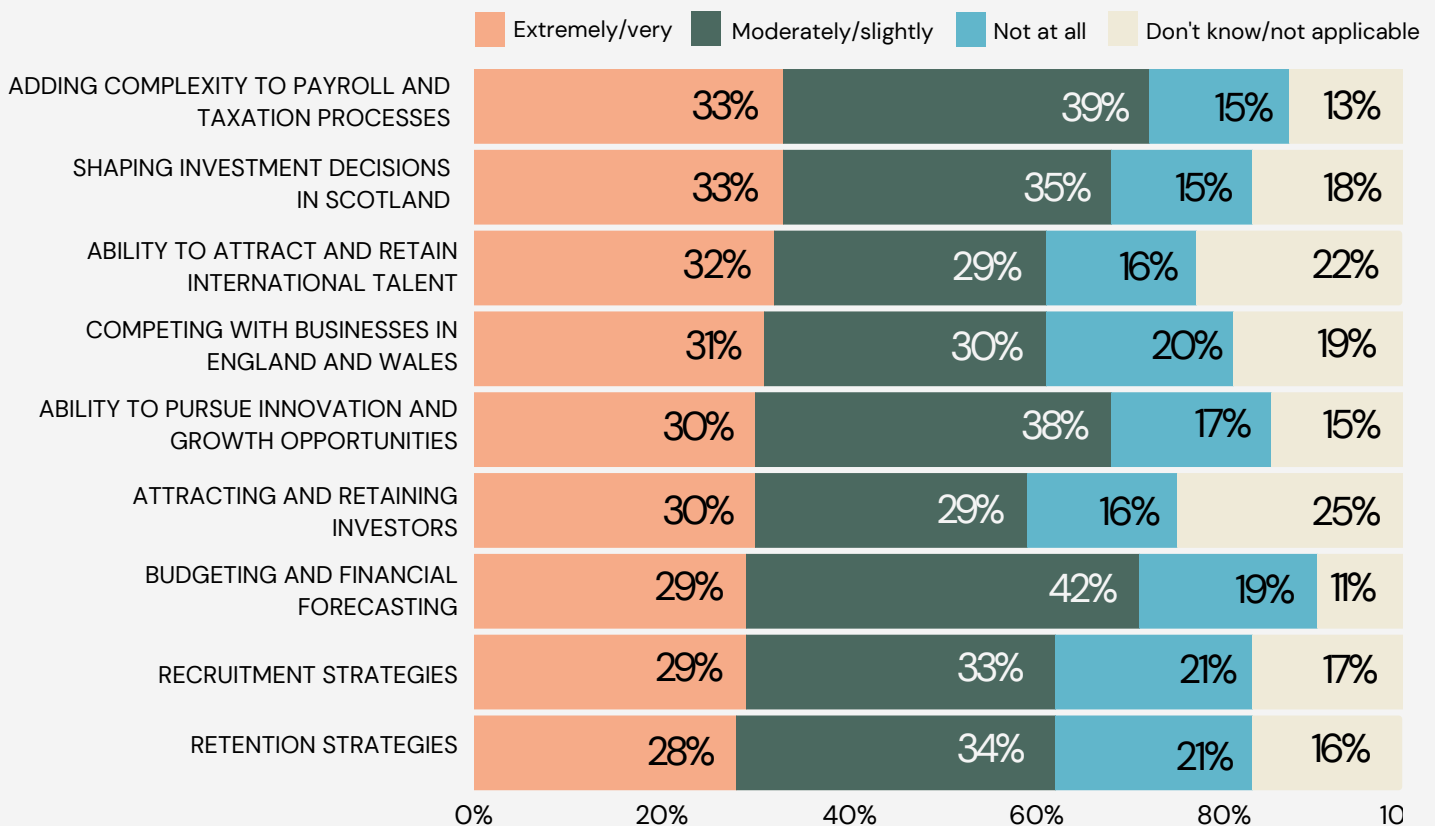


Respondents were also asked to select up to three barriers to growth. Around two in five state that rising operational costs (42%) and economic uncertainty (38%) are among the most significant barriers.

Around three in then (28%) cite high taxation while around one in five identify the lack of skilled workforce (20%) and changes in consumer behaviour (19%) as significant barriers to the growth of their business.

Income Tax Challenges

Proportion of respondents foreseeing challenges in response to income tax changes



Respondents were asked to consider the changes to income tax in Scotland and the challenges that this might pose for them.

Around a third report that the changes would be extremely or very challenging when it comes to payroll and taxation (33%), shaping investment decisions in Scotland (33%) and attracting and retaining

international talent (32%).

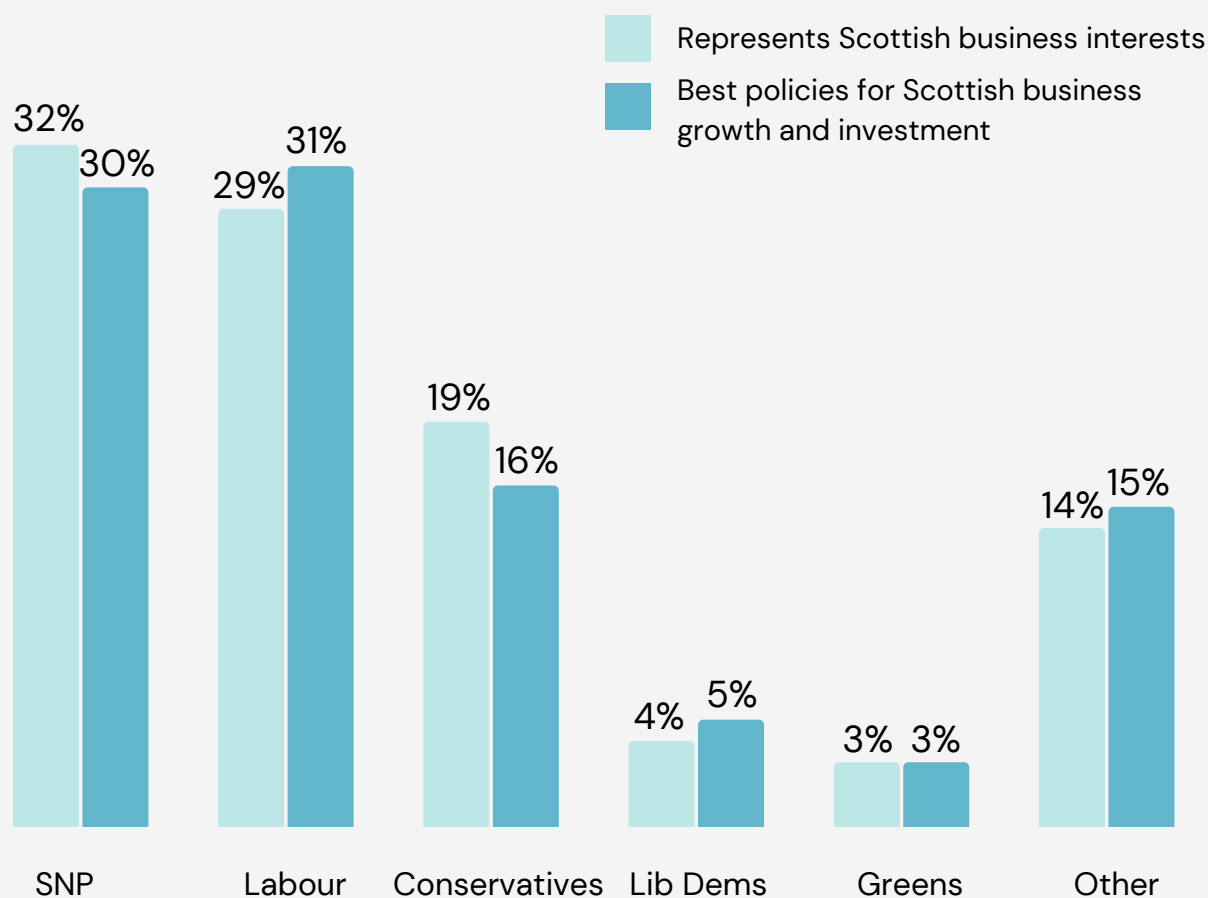
Around three in ten report that the other potential challenges would be extremely or very challenging for them. This includes competing with businesses in England and Wales (31%), attracting and retaining investors (30%) and the ability to pursue innovation and growth opportunities (30%).

Political Parties

With a General Election approaching, the survey asked two questions about which party is best for Scottish business, including which political party best represents Scottish business interests and which has the best policies for Scottish business growth and investment.

The SNP takes the lead when asked who best represents the interests of Scottish business (32%), with 29% choosing Labour and the Conservatives lagging behind at 19%. When asked who has the best policies for growth and investment, Labour is leading at 31%, just ahead of the SNP on 30%. Less than one in five (16%) said the Conservatives.

Proportion of respondents reporting each party as best for Scottish business





TECHNICAL DETAILS

The survey was designed by Diffley Partnership and 56° North. Invitations were issued online and fieldwork was conducted during February and March 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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