

HIE BUSINESS PANEL SURVEY

SUMMARY FINDINGS - SEPTEMBER 2017

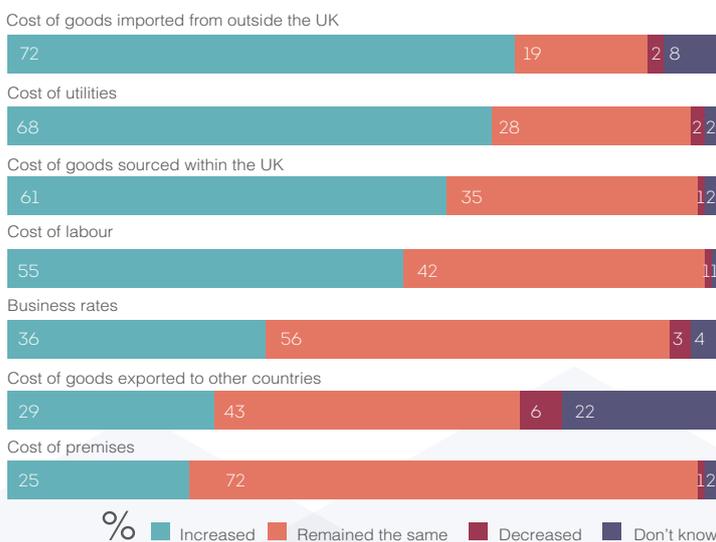
BUSINESS PERFORMANCE

- Reflecting previous surveys, businesses were generally positive about their own performance in the last 12 months - 79% said that they had performed well (39%) or remained steady (40%). Just under a fifth (19%) struggled.
- Those in the tourism sector and larger businesses (25+ staff) were more likely than average to have performed exceptionally well over the past year (23% and 18% versus 9% overall). For the former, this may be linked to the opportunities for domestic tourism offered by the continued low value of the pound.
- In key aspects of performance over the last six months, businesses again reported stability in levels of employment, staff training, working hours and exports. While around two-fifths (41%) saw an increase in their sales or turnover, only a quarter (26%) reported a corresponding uplift in profit margins. This indicates that businesses are taking action to remain competitive.

BUSINESS COSTS

- The majority of businesses (88%) experienced an increase in one or more of the following costs over the last year – goods imported from outside the UK (72%), utilities (68%), goods sourced from within the UK (61%), labour (55%), business rates (36%), exports (29%) and premises (25%).

IN THE PAST 12 MONTHS, WOULD YOU SAY THE FOLLOWING HAVE INCREASED, DECREASED OR REMAINED THE SAME?



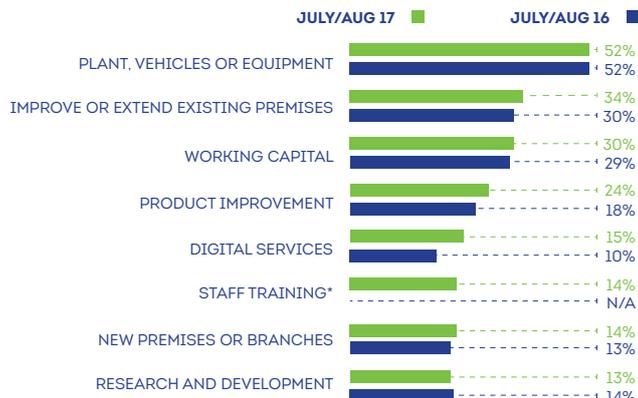
- Among businesses that saw an increase in costs, around half (48%) had responded by absorbing those costs internally, 11% by increasing the price of their goods/services, and 39% by taking both of these actions. These measures tended to be seen as short term solutions with more than half of businesses expecting to have to take alternative action within a year if costs continue to rise.
- Food and drink and small businesses (0-4 employees) were more likely than average to have absorbed costs internally, and those in the tourism sector and larger businesses (25+) to have both absorbed costs and increased prices.

BUSINESS INVESTMENT

Businesses were asked about any financial investments they had made in the past year to support the growth and development of their business, and about future investment plans. This built on questions asked a year earlier, enabling some comparisons to be made.

- Almost half (48%) of organisations had invested in the growth or development of their business in the past year, with food and drink (63%) and larger businesses (25+) (74%) most likely to have done so. A loan from a bank or other financial institution was the most common source of finance.
- As in the previous year, the most common uses of investment finance were for plant, vehicles or equipment (52%); to improve or extend existing premises (34%); for working capital (30%); and for product improvement (24%).
- Tourism businesses were more likely than average to have invested in existing premises (54%) and product improvement (37%); creative industries businesses in digital services (49%); and those in the financial and business services sector to have used investment for working capital (51%).

WHAT DID YOU USE THE INVESTMENT FUNDING FOR?



*not asked about in July/Aug 16

- Findings suggested that poor performance may be a catalyst for investment. Those that had used investment in the last 12 months were more likely than average to report that they had struggled markedly in that period (6% versus 4%), whereas those that had not were more likely to say they had performed exceptionally well (12% versus 9%).
- For the 52% of business who had not invested in the past year, a reluctance to borrow/desire to remain debt-free was the main reason given. Food and drink businesses were more likely than average to have been influenced by market uncertainty and by concerns about Britain's relationship with the EU.

FUTURE INVESTMENT PLANS

- Overall, businesses remain cautious about future investment, with almost two-thirds (63%) saying they are unlikely to invest in the next two years. Again, a desire to remain debt-free was the key concern.
- Likelihood of investing in the next two years was higher among larger businesses (25+ staff), those that had previously used investment, and those in the food and drink sector (69%, 54% and 47% respectively compared to 36% overall).
- In line with previous survey findings, stability in the economic climate/less uncertainty (71%) and more favourable borrowing terms (48%) were the top two factors likely to encourage future investment. Investment in digital and transport infrastructure and financial readiness support were also cited by around two-fifths of businesses.
- While there was little variation across sectors, future investment among food and drink businesses was more likely in the context of a stable economic climate, support for research and development and support for exports/internationalisation.

WHICH, IF ANY, OF THE FOLLOWING DO YOU THINK MIGHT ENCOURAGE BUSINESSES LIKE YOURSELF TO SEEK INVESTMENT IN THE FUTURE?



BUSINESS PROSPECTS AND GROWTH ASPIRATIONS

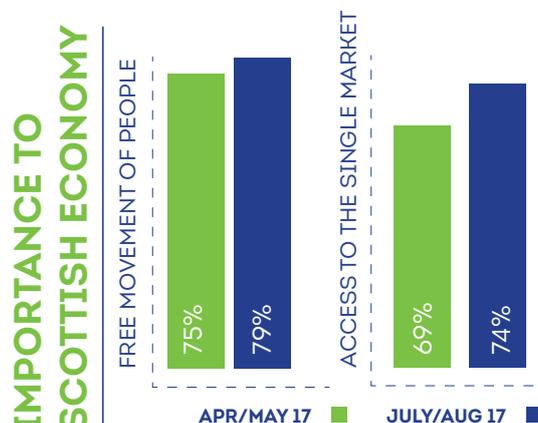
- Levels of optimism for the future continue to be high with 78% of businesses very (17%) or fairly (61%) optimistic for their own business prospects over the next 12 months.
- Larger businesses (25+ staff) (30%) and those in the tourism sector (23%) were more likely than average (17%) to be very optimistic about their business prospects in the next 12 months, and those in the financial and business services sector to be fairly optimistic (72% compared to 61% overall).
- Looking ahead to the next six months, businesses generally anticipate a period of consolidation in their day to day operations with most expecting stability in employment (70%), working hours (67%), staff training (64%), exports (53%) and profit margins (52%). Two-fifths (40%) anticipate an increase in sales/turnover.
- The majority of businesses in the Highlands and Islands (89%) anticipate growth (43%) or stability (46%) in the next year or two.
- Energy businesses (12%) and those with 5-10 or 25 or more employees (both 9%) were most positive about business growth expectations, being more likely than average (4%) to anticipate substantial growth.

ECONOMIC CONFIDENCE

- Around half (52%) of businesses reported that their confidence in Scotland's economic outlook remained unchanged over the last six months, while levels of confidence declined for 32% of businesses and increased for 15%. This suggests a slight uplift in economic confidence since the previous survey, where 11% reported an increase and 38% a decrease.
- Tourism businesses were more likely than average to report that their confidence in Scotland's economic outlook had increased over the last six months (25% compared with 15%). Only 12% of smaller businesses (0-4 employees) reported increased confidence.
- Those who perceive access to the European single market and free movement of people across the European Union (EU) as important to the Scottish economy were more likely than average to report decreased confidence in Scotland's economic outlook (35% and 37% respectively compared to 32% overall).

RELATIONSHIP WITH THE EUROPEAN UNION

- It appears there is increasing recognition of the importance of free movement of people across the EU, and access to the European single market by businesses in the region.
- Around eight in ten businesses (79%) feel that free movement of people across the EU is important to the Scottish economy overall, up from 75% in the previous survey. Two-fifths (40%) feel this aspect is very (22%) or quite (19%) important to their business; the proportion citing this as very important having increased from 15% in October 2016.
- Three-quarters (74%) of businesses view membership of the European single market as important to the Scottish economy - an increase of five percentage points from the last survey. Around half (51%) also see this as important to their own business. Significantly higher numbers of businesses in the creative industries (37%) and food and drink (35%) sectors cite this as very important to them (25% overall).



- Overall, 85% of businesses in the region feel access to the European single market and/or free movement of people across the EU is important to the Scottish economy, and 63% to the operation of their business.

Fieldwork was a mix of online and telephone survey, conducted between 7 July and 14 August 2017. A total of 1,000 businesses and social enterprises across the Highlands and Islands participated.

Findings are weighted to ensure a representative sample of the regional business base in terms of geographical location, organisation size and sector.

From July 2016, HIE Business Panel Surveys have been undertaken on a quarterly basis.

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