

HIE BUSINESS PANEL

Costs, Labour and Supply Chain Challenges

Wave 20: October 2021

Ipsos MORI



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

EXECUTIVE SUMMARY (1)

Overview

This report presents findings from the most recent wave of the Highlands and Islands Enterprise business panel survey carried out in October/November 2021.

The survey was carried out at a time when businesses were grappling with a range of economic challenges. In addition to the ongoing recovery from COVID-19, businesses were operating against a backdrop of increased inflation, record fuel prices, widespread reports of fuel shortages and a wider supply chain crisis.

Nonetheless, businesses showed signs of continued recovery from the disruption brought about by COVID-19. Economic optimism remained relatively stable, businesses were reporting stronger sales and turnover, and more were now operating at much the same level as they had been prior to the pandemic. Most businesses were either content with their performance or striving for growth.

Once again, however, tourism businesses seemed to be impacted by a challenging working environment. They were more likely to be operating below their pre-pandemic levels and to have seen decreases in sales and turnover and employment. That said, they were more likely than average to have increased confidence in the Scottish economy and to say they were striving for growth.

Despite the signs of recovery and economic optimism, it was clear that businesses were feeling the effects of the challenging economic circumstances.

Most businesses had experienced increased costs in the last 12 months and this was their top concern. Businesses were more likely to have absorbed those costs than increased their prices, but for many that was a relatively short term solution.

In addition to increased costs, a majority of businesses were also experiencing issues with their supply chain, and a sizeable proportion were facing labour shortages. On a more positive note, most were taking measures to support Fair Work for their staff.

This wave also saw a change in the way businesses were trading with other markets. Findings suggest greater use of domestic markets for both buying and selling goods and services, particularly for the food and drink sector. Looking ahead, though, there was a sense of cautious optimism about future sales to most markets of operation.

Net zero was also on the radar for businesses, though other priorities seemed to be of greater importance in the short term, such as keeping pace with new technology and innovation. Most businesses were taking action to reduce their emissions, though as previously, they tended towards the easier, less disruptive measures.

Looking to the future, businesses continued to show a positive outlook, with most saying they were optimistic about the next 12 months.

EXECUTIVE SUMMARY (2)

Optimism and performance

- **Businesses were fairly confident in the economic outlook for Scotland over the next 12 months.** Around two thirds (64%) were confident, while a third (34%) were not.
- **Economic optimism remained relatively stable** since the previous wave: 50% said their confidence had stayed the same over the past six months, 17% reported an increase, and 32% a decrease.
- **Businesses showed continued signs of recovery from the pandemic:** around two thirds were now operating at (44%) or above (22%) pre- COVID-19 levels, while around a third (32%) were operating below (down from 42% in June/July 2021).
- **Aspects of businesses' performance also pointed to signs of recovery.** Over the past six months, sales or turnover was more likely to have increased (38%) than decreased (28%). In the same period, employment had remained relatively stable (63%). Exports were more likely to have decreased than increased (24% vs 14%), but had remained stable for around half (54%).
- **Most businesses (82%) were optimistic about their prospects in the next 12 months, while 17% were not.** Overall optimism levels were similar to those seen in June/July 2021.
- **Just under half (45%) of businesses were striving for growth** while a similar proportion (45%) were content with their current level of performance. Around one in ten (9%) wanted to downsize.

Top priorities and concerns

- **Of the five areas explored, the most common priorities for businesses over the next twelve months were keeping pace with new technology (54%) and innovating or evolving what they do (51%).**
- **Where issues were seen as a priority, they were typically more so in the short-term** (within the next 12 months). The exception was moving to low carbon ways of working, which was least likely to be a priority within the next 12 months (27%), but a further 43% said it was a priority for the next 5 years.
- **The most common concern among businesses was increased costs (82%),** followed by economic uncertainty (65%), supply chain issues (59%) and changing regulations (55%).
- **Other key concerns (for at least two in five businesses) included retaining customers (48%), transport (45%) and recruiting and retaining staff (42%).** Fewer were concerned with moving to net zero, increased competition and access to export markets.

EXECUTIVE SUMMARY (3)

Financial concerns and access to finance

- **Around a third (31%) were concerned about at least one of these aspects of their finance:** low or no cash reserves (22% concerned) access to finance (15%) and existing debt (13%).
- **Almost two thirds (63%) of business were currently using, or planned to use, some form of finance.** Around a third were using public sector loans or grants (32%) or loans from banks or financial institutions (31%) and a quarter were using credit or overdrafts (25%).
- **The main reason for using or planning to use financial support was cashflow,** cited by a quarter (24%) of businesses, followed by buying new assets (15%) and working capital (12%).
- **The main reason for not using or planning to use financial support was that there was simply no need to (79%),** while 10% said they wished to remain debt free.
- **Over half (56%) of businesses had applied for financial support in the past 12 months. Of those 96% had been successful** (77% getting all and 19% some of what they wanted). Only 5% were turned down on everything.
- **For those that were not offered the finance they wanted, 14% had postponed their plans indefinitely,** while around one in ten said it prevented business growth (9%), and a similar proportion had deferred plans but eventually they went ahead (8%). For 13%, there was no real impact as they got funding from elsewhere.

Increased costs

- **Most businesses (96%) had experienced some form of increased costs over the last 12 months.** Majorities reported cost increases across almost all measures asked about in the survey, with most increases related to the sourcing, transporting and exporting of goods, the cost of labour and the cost of utilities.
- **Business response to increased costs was mixed, but they were more likely to absorb costs than pass them on to customers through price increases.** Among those that had experienced cost increases in the last 12 months, 36% had absorbed those costs, 12% had increased prices, and 50% had done both.
- **Three in five (59%) businesses that had absorbed costs said they could do so for up to 12 months** before increasing prices, while a quarter (26%) felt they could do so beyond 12 months.
- **Among businesses that had increased their prices in response to rising costs, 45% felt they could continue do so for up to 12 months** before absorbing costs, while 46% felt they could for longer than 12 months.

EXECUTIVE SUMMARY (4)

Labour and supply chain issues

- **Among those for whom it was relevant, 57% overall had experienced some form of labour shortage:** 49% arising from recruitment or retention challenges, and 44% arising from staff absence.
- **Businesses reported a range of impacts due to labour shortages.** The three most common were: increased workload for other staff (29%) difficulties in delivering services or fulfilling orders (21%) and scaling back production or services (15%).
- **Among those for whom it was relevant, three quarters (76%) were experiencing some form of supply chain issue:** 74% were experiencing issues accessing the goods, materials, or supply of services they needed, while around half were experiencing issues with export processes (53%) and transportation of goods to customers (45%).
- **Four in five (82%) businesses that were experiencing supply chain issues said this had led to increased costs.** This was a particular issue for food and drink businesses.

Markets

- **Three quarters (76%) of businesses were importers** (sourcing goods or materials from outside Scotland), with the largest import markets being England and Wales (73%), followed by the EU (36%) and outside the EU (21%).
- **This wave saw signs of import substitution,** with an increase in the proportion of businesses sourcing goods and materials from both England and Wales, and their local area.
- **This wave saw a decrease in the proportion of exporters** (those selling goods or services outside of Scotland) (48%, down from 62% the previous wave), with decreases seen in each export market.
- **Findings suggest a move towards more domestic trading** by businesses in the region - the proportion of those selling *only* within Scotland increased this wave (51% up from 38%).
- **The shift in market focus was seen across sectors, but most notably among food and drink business.** This sector saw the largest decrease in the proportion of businesses buying from and selling to markets outside of Scotland.
- **Thinking about the 12 months ahead, there was a sense of cautious optimism** about future sales. Businesses generally expected either stability or an increase in sales to the markets they operated in.

EXECUTIVE SUMMARY (5)

Net Zero

- **The vast majority (93%) of businesses had taken some action to reduce their greenhouse gas emissions.** The top three actions were: recycling and minimising waste (89%), using more locally sourced supplies (70%) and improving energy efficiency of premises (52%).
- **The most common actions were those that arguably might require the least significant changes** to the way businesses operate.
- **The most frequently mentioned barriers to taking actions to reduce greenhouse gas emissions was cost of making changes (73%),** followed by lack of green transport options (58%) and difficulty making existing premises more energy efficient (57%).

Workforce and Fair Work

- **Among employers, 40% considered themselves employee-owned,** while 58% did not.
- **Around a third (34%) of businesses had staff on furlough in the few months** leading up to end of the furlough scheme (up to 30th September 2021) while (66%) did not.
- **Of those that had staff on furlough, the majority (82%) said those staff were now back in their usual role.** A further 6% had brought staff back but at reduced hours and 1% into a new role or different part of the business. A small minority said staff had left the business (5%) or been made redundant (3%).
- **The majority of businesses (78%) were taking measures to support Fair Work for their staff.** Around two thirds (67%) were paying the real Living Wage, while 60% were committing to flexible working after the pandemic and 57% had Diversity and Inclusion policies. Fewer, 34%, were measuring their gender pay gap.

A. INTRODUCTION

INTRODUCTION

The HIE Business Panel Survey

The Highlands and Islands Enterprise (HIE) Business Panel was established to measure and monitor the economic health of the region through the experiences and opinions of businesses and social enterprises in the area, and to explore topical issues at a regional, sub-regional or sectoral level.

Following two waves of panel surveys in 2014 and 2015, HIE commissioned Ipsos MORI to carry out regular business panel surveys with 1,000 businesses and social enterprises, representative of the Highlands and Islands business base in terms of geographic area, organisation size and sector. The surveys ran quarterly during 2016 and 2017, before changing to three times per year in 2018.

This report presents findings from the most recent wave of the survey (the twentieth overall) carried out in October 2021. The survey covered a range of topics including: economic optimism, current priorities and concerns, financial support, response to cost increases, labour shortages, and supply chain issues. It also covered import and export markets and business response to net zero.

This wave the survey was carried out as part of the Rural Scotland Business Panel, a survey of 2,700 businesses across rural Scotland commissioned by a partnership of HIE, South of Scotland Enterprise (SOSE) and the Scottish Government. The HIE and SOSE Business Panel surveys were distinct components of the overall survey. Findings from the SOSE Business Panel and the overall Rural Scotland Business Panel have been reported separately.

Context for this wave

The survey was carried out against the backdrop of challenging economic circumstance for businesses in the region, and across the UK.

Though widespread COVID-19 lockdown restrictions had eased, some businesses were still operating in a different way than they had been pre-pandemic, with the tourism sector in particular still subject to limitations on its usual operation.

September and October 2021 saw reports of increased inflation, record fuel prices, widespread fuel shortages and a wider supply chain crisis. The survey therefore explored the extent to which these issues had impacted on businesses in the region.

November 2021 saw the UN Climate Change Conference (COP26) take place in Glasgow, with the attention of global media turned to Scotland and its response to the climate emergency. The survey therefore captured business views on net zero and moving to low carbon ways of working.

METHODOLOGY

Sampling

The survey sample was mainly sourced from businesses that took part in previous waves of the survey and had indicated that they were willing to be re-contacted. Additional HIE panel members and HIE account-managed businesses were also approached along with companies identified from the Dun and Bradstreet business database.

The sample was designed to match the structure of the Highlands and Islands business population in terms of sector, size, and geographical distribution. Quotas were set for recruitment and interviewing so that the achieved sample reflected the population of eligible organisations as defined by the Inter-Departmental Business Register (IDBR). Eligible organisations were defined by SIC (Standard Industrial Classification) code, with the following SIC 2007 Sections excluded from the sampling:

- Public administration and defence; compulsory social security;
- Education and health and social work;
- Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use; and
- Activities of extraterritorial organisations and bodies.

SIC codes were used to identify areas of economic activity considered to be growth sectors (as set out in the Government Economic Strategy) so that quotas could be set to ensure these were represented in the survey sample.

Within each participating organisation, the survey respondent was the owner or a senior manager able to comment on the performance and future prospects of the organisation.

Fieldwork

The survey fieldwork was conducted between 4 October and 3 November 2021, using telephone interviewing. In total 1,003 eligible interviews were achieved.

The achieved sample was broadly representative of the population, notwithstanding some differential non-response due to differences in availability and willingness to participate.

Weighting was applied to correct the distribution of sectors to match the sample counts. A breakdown of the achieved profile of businesses is provided in the Appendix.

PRESENTATION AND INTERPRETATION OF THE DATA

The survey findings represent the views of a sample of businesses, and not the entire business population of the Highlands and Islands, therefore they are subject to sampling tolerances, meaning that not all differences will be statistically significant.

Throughout the report, differences between sub-groups are commented upon only where we are sure these are statistically significant, i.e. where we can be 95% certain that they have not occurred by chance.

Where percentages do not sum to 100%, this may be due to rounding, the exclusion of 'don't know' categories, or multiple answers. Aggregate percentages (e.g. "optimistic/not optimistic" or "important/not important") are calculated from the absolute values. Therefore, aggregate percentages may differ from the sum of the individual scores due to rounding of percentage totals.

Throughout the report, an asterisk (*) denotes any value of less than half a percent and a dash (-) denotes zero. For questions where the number of businesses is less than 30, the number of times a response has been selected (N) rather than the percentage is given.

B. OPTIMISM AND PERFORMANCE

KEY FINDINGS

- **Businesses were fairly confident in the economic outlook for Scotland over the next 12 months.** Around two thirds (64%) were confident, while a third (34%) were not.
- **Economic optimism remained relatively stable** since the previous wave: 50% said their confidence had stayed the same over the past six months, 17% reported an increase, and 32% a decrease.
- **Businesses showed continued signs of recovery from the pandemic:** around two thirds were now operating at (44%) or above (22%) pre- COVID-19 levels, while around a third (32%) were operating below (down from 42% in June/July 2021).
- **Aspects of businesses performance also pointed to signs of recovery.** Over the past six months, sales or turnover was more likely to have increased (38%) than decreased (28%). In the same period, employment had remained relatively stable (63%). Exports were more likely to have decreased than increased (24% vs 14%), but had remained stable for around half (54%).
- **Most businesses (82%) were optimistic about their prospects in the next 12 months, while 17% were not.** Overall optimism levels were similar to those seen in June/July 2021.
- **More than two-fifths (45%) were striving for growth** while a similar proportion (45%) were content with their current level of performance. Around one in ten (9%) wanted to downsize.
- **Once again, tourism businesses seemed to be impacted by a challenging working environment.** They were more likely to be operating below their pre-pandemic levels and to have seen decreases in sales and turnover and employment. That said, they were more likely than average to have increased confidence in the Scottish economy and to say they were striving for growth.
- **Food and drink businesses had seen fairly stable performance over the past six months,** and were more likely to be operating at about the same level as they were before COVID-19, reflecting findings from the previous wave. However, they were slightly less optimistic than average about the year ahead, which may suggest they anticipate future challenges with the supply chain and their markets of operation.

CURRENT ECONOMIC OPTIMISM

Around two thirds (64%) of businesses were confident in the economic outlook for Scotland over the next 12 months, while a third (34%) were not.

This was the first time overall confidence in the economic outlook for Scotland was captured in the survey. However, findings were similar to those on regional economic confidence captured in the previous wave: in June/July 2021, 67% of businesses were confident in the regional economic outlook, while 31% were not.

Confidence in the economy was linked to other measures of business confidence, including optimism, growth aspirations and operating level:

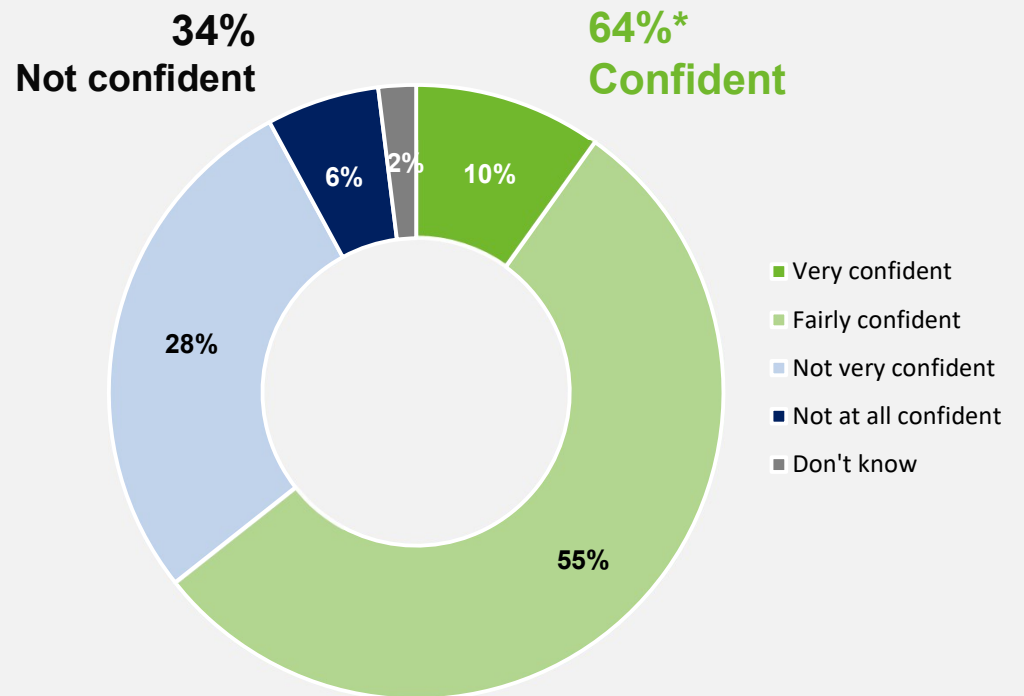
More confident than average

- Those exporting to international markets (any market outside of the UK) (71% confident)
- Optimistic about their future (75%)
- Operating above pre-pandemic levels (72%)
- Striving for growth in next 12 months (70%)

Less confident than average

- Small businesses (0-4 staff) (38% not confident)
- Selling to markets in Scotland only (36%)
- Not optimistic about their future (83%)
- Operating below pre-pandemic levels (42%)
- Aiming to downsize (49%)

Q. How confident are you in the economic outlook for Scotland over the next 12 months?



Base: All businesses (1,003)

NOTE:

The overall confidence figure of 64% is different from the two combined figures of 10% Very Confident and 55% Fairly Confident due to rounding. Throughout the survey, aggregate percentages, such as the overall confidence figure, are calculated from the absolute values (i.e. the number of businesses answering either option) and may therefore differ from the sum of the individual scores due to rounding of percentage totals.

ECONOMIC OPTIMISM OVER PAST 6 MONTHS

Economic optimism remained relatively stable since the previous wave: 50% said their confidence had stayed the same over the past six months, 17% reported an increase, and 32% a decrease.

Net confidence* this wave was -15, in line with that seen in the previous wave (-14 in June 2021). Overall confidence remained considerably higher than that seen at previous stages of the pandemic (-51 in February 2021, -64 in October/November 2020 and the record low of -76 in June/July 2020).

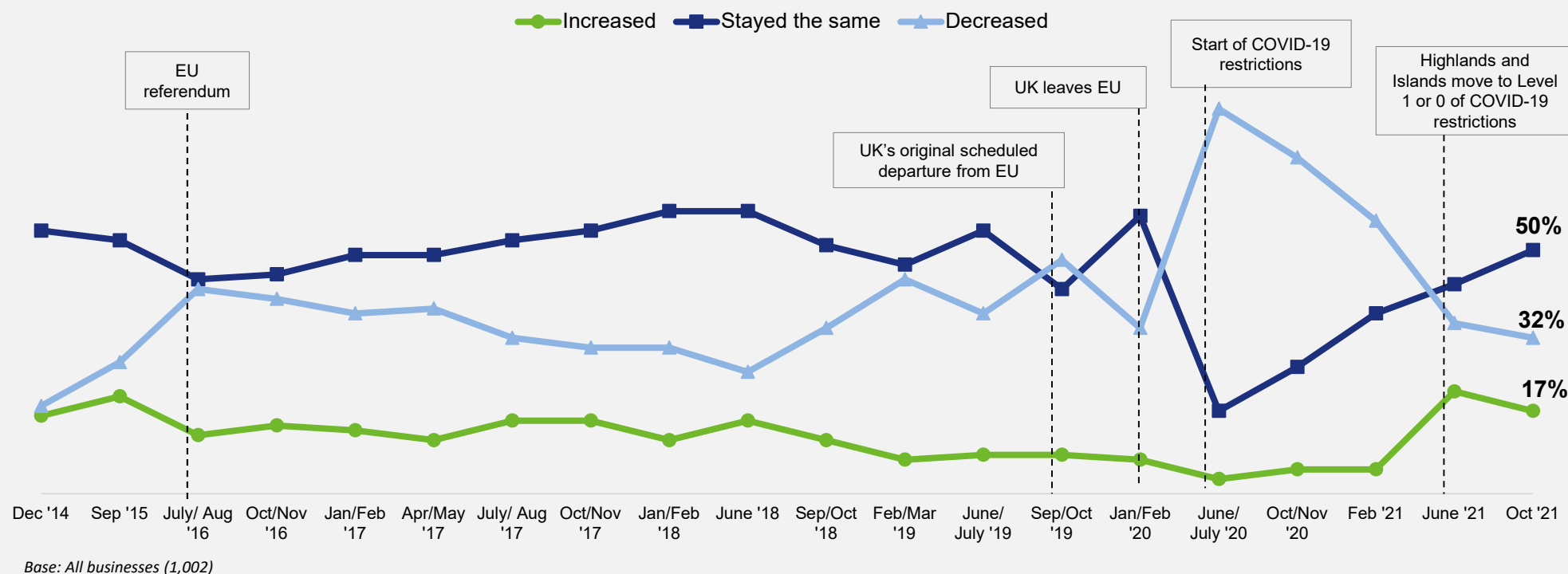
More likely to report increased confidence:

- Tourism businesses (25%)
- Those operating above pre-pandemic levels (30%)
- Striving for growth in the next 12 months (25%)
- Selling to markets outside the EU (25%)

More likely to report decreased confidence:

- Those operating below pre-pandemic levels (40%)
- Not optimistic about their future (64%)
- Aiming to downsize (46%)
- Selling only to domestic markets (35%)

Q. Over the past six months, has your level of confidence in the economic outlook in Scotland increased, decreased or stayed the same?



NOTES:

*The net figure is the difference between 'increased' and 'decreased' assessments at each wave. Net scores are positive when positive assessments exceed negative

LEVEL OF CURRENT OPERATION

Businesses showed continued signs of recovery from the pandemic: 44% were now operating at much the same, and 22% above, their pre-COVID-19 levels, while 32% were operating below the level they had been (down from 42% in the previous wave).

For the first time since June/July 2020, more businesses were operating in line with (44%) than below (32%) their pre-pandemic levels. The proportion operating above their former levels continued to increase, with one in five (22%) now performing at this level.

More likely to be operating below pre-COVID-19 levels

- Tourism businesses (55%), echoing findings from the previous wave
- Creative industries (47%)
- Those not optimistic about their future (50%)
- Aiming to downsize (45%)
- Selling to international markets (39%) and to Northern Ireland (41%)

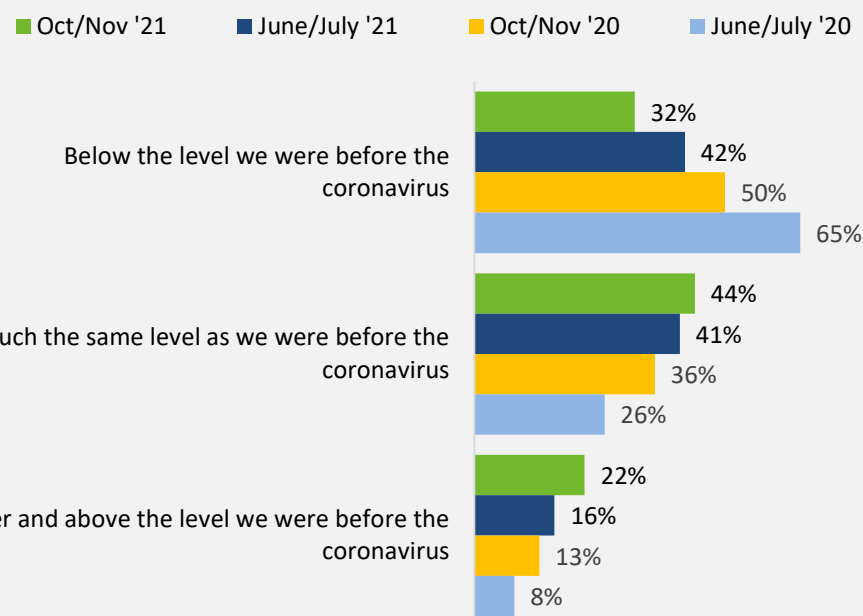
More likely to be operating above pre-COVID-19 levels

- Financial and business services (37%)
- Those with 11-24 staff (32%) or 25+ staff (38%)
- Importing from international markets (27%)
- In urban parts of the region (32% vs 18% in both remote and accessible rural locations)

More likely to be operating at same level as pre-COVID-19

- Food and drink businesses (69%)
- Small businesses (0-4 staff) (47%)
- In remote rural areas (47%)
- Selling to domestic markets only (46%)

Q. Which of the following best describes the way in which you are currently operating?



Base: All businesses (1,003)

Note: This question was not asked in the February 2021 survey, hence there is no data shown for that wave

NOTES:

In this report "domestic markets only" means those trading only in Scotland and no markets outside of Scotland; "international" means those trading with any markets outside of the UK (a combination of those saying they sold to the EU or to outside the EU)

ASPECTS OF BUSINESS PERFORMANCE

As a further indication of business recovery, over the past six months sales or turnover was more likely to have increased (38%) than decreased (28%). In the same period, employment had remained relatively stable (63%). Exports were more likely to have decreased than increased (24% vs 14%), but had remained stable for around half (54%).

Sales or turnover

Performance was more positive than in the previous wave (when 30% reported an increase, 40% a decrease and 29% no change).

- **Tourism** businesses were more likely than average to see a decrease (48%) while **food and drink** businesses were more likely to report stability (47%), reflecting the pattern of recent waves.
- **Exporters** selling to England and Wales were more likely to have seen an increase (42%), while those selling to Northern Ireland (35%) and outside the EU (36%) were more likely to have seen a decrease.

Employment

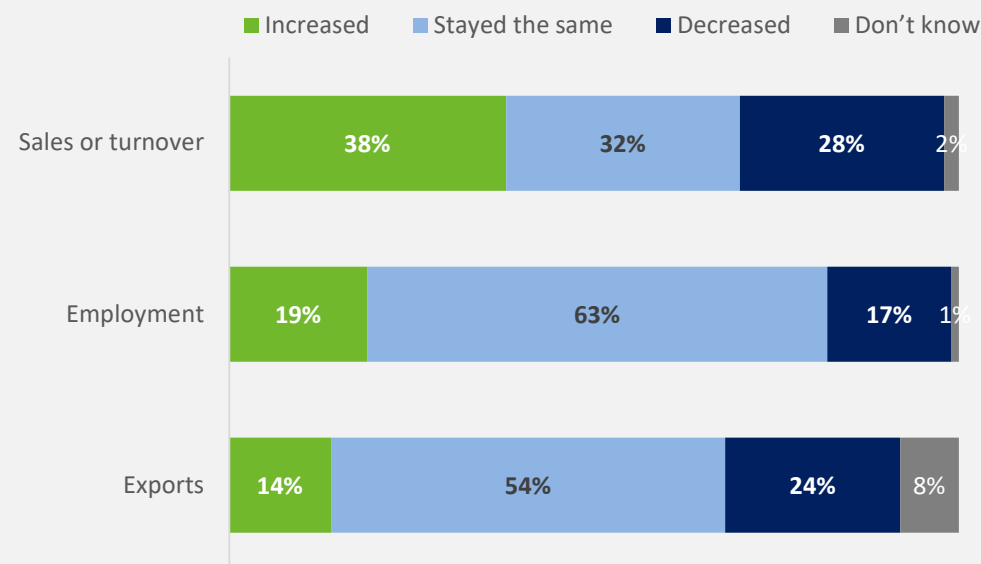
Downturn in employment was more pronounced among those that had also experienced reduced sales and turnover (39% of these businesses had also seen a decrease in employment). In addition:

- **Tourism** businesses were more likely to have seen a decrease (29%) while **financial and business services** were more likely to have seen an increase (38%) and **food and drink** to have seen stability (73%)
- Decreases were slightly higher among those exporting outside the EU (23%)
- **HIE-account managed** businesses were more likely than non-account managed to experience increased employment (32% vs 18%).
- Those operating **above pre-pandemic levels** were more likely to have increased employment levels (44%); those operating below were more likely to report decreased employment (35%)

Exports

- Those operating **below pre-pandemic levels** were more likely to report decreased exports (36%)

Q. Please tell me if the following has increased, stayed the same or decreased over the last six months?



Base: All businesses to whom it applied: sales or turnover (991), employment (900), exports (226)

FUTURE PROSPECTS

Most businesses (82%) were optimistic about their prospects in the next 12 months, while 17% were not.

Optimism was very similar to that seen in June/July 2021, when 80% were optimistic and 18% not.

Food and drink businesses were less optimistic than average (74% confident, 25% not), though a majority was still optimistic. This may reflect perceptions related to supply chain issues impacts on the food and drink sector, explored later in this report.

Unlike the previous wave, when tourism businesses had lower than average levels of optimism, this wave they were in line with the overall findings.

Otherwise, optimism was broadly linked to overall operating levels, growth aspiration and markets of operation.

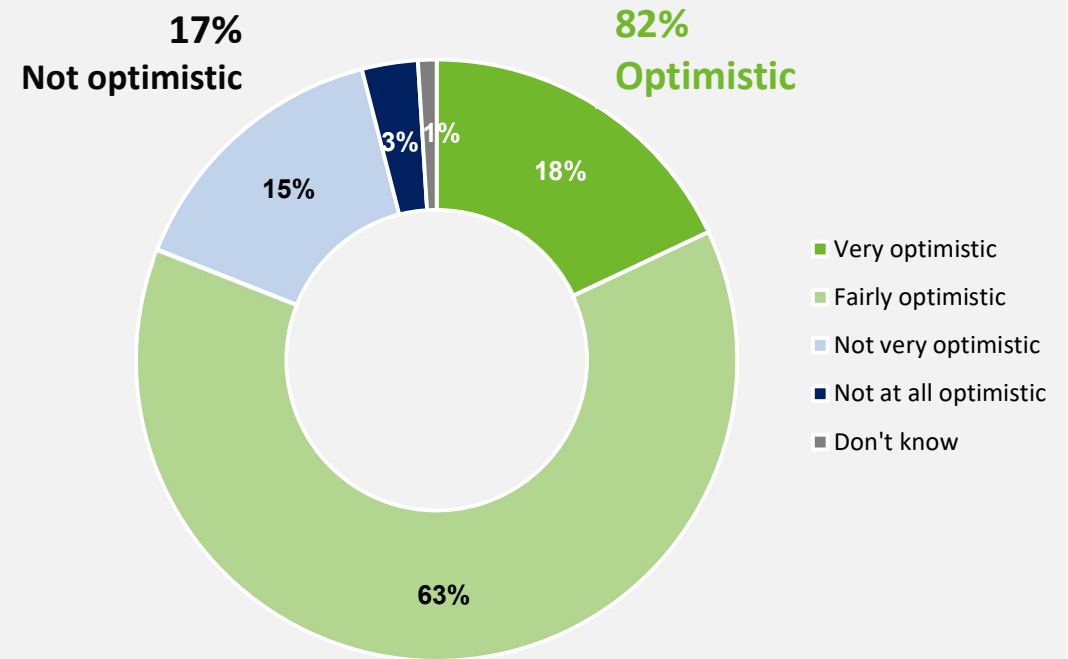
More optimistic than average

- Those operating above pre-pandemic levels (92% optimistic)
- Striving for growth in next 12 months (87%)
- Selling to international markets (88%)

Less optimistic than average

- Operating below pre-pandemic levels (27% not optimistic)
- Aiming to downsize (27%)
- Selling to domestic markets only (21%)

Q. How optimistic are you for your business's prospects in the next 12 months?



Base: All businesses (1,003)

GROWTH ASPIRATIONS

More than two in five (45%) of businesses were striving for growth while a similar proportion (45%) were content with their current level of performance. Around one in ten (9%) wanted to downsize.

Growth aspirations were in line with those seen in June/July 2021, when 44% wanted to grow, 47% were content, and 8% wanted to downsize.

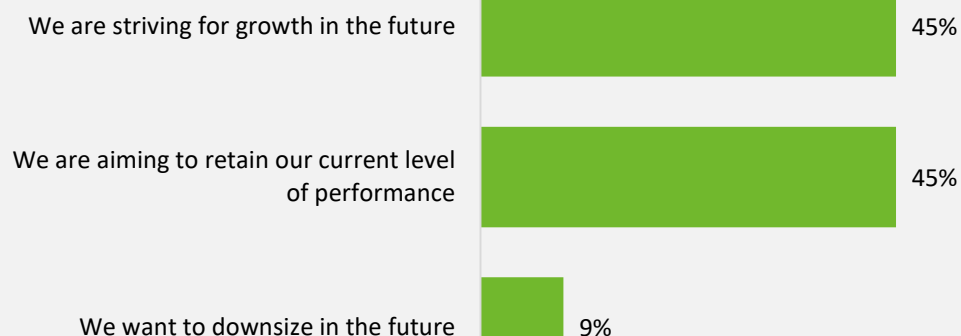
More likely to strive for growth

- Tourism businesses (58%)
- Those with 5-10 (64%), 11-24 (56%), and 25+ (72%) staff
- HIE-account managed (83%, vs 42% of non-account managed)
- Importing from (56%) and selling to (56%) international markets

More likely to want to downsize

- Non-growth sector businesses (12%)
- Small businesses (0-4 staff) 13%
- Non-account managed (10% vs 2% of HIE-account managed)
- Sourcing goods only from domestic markets (14%)

Q. Which of these statements best describes your current aspirations for the business?



Base: All businesses (1,003)

Growth aspirations were again linked to operating levels (see table to the right). Those operating above pre-COVID-19 levels were more likely than average to be striving for growth, while those operating below pre-COVID-19 levels were more likely to want to downsize. Those operating at much the same level were more likely to want to stay at that level.

Growth aspiration	Level of current operation compared to pre-pandemic levels		
	Over and above	Same	Below
We are striving for growth in the future	61	37	44
We are aiming to retain our current level of performance	34	53	42
We want to downsize in the future	5	9	13
Base	221	424	341

*figures that are significantly higher than the average are highlighted in green

C. TOP PRIORITIES AND CONCERNS

KEY FINDINGS

- **Of the five areas explored, the most common priorities for businesses over the next twelve months were keeping pace with new technology (54%) and innovating or evolving what they do (51%).**
- **Where issues were seen as a priority, they were typically more of a priority in the short-term (within the next 12 months) with the exception of moving to low carbon ways of working.** This was least likely to be a priority within the next 12 months (27% said it was), but a further 43% said it was a priority for the next 5 years, making it the third highest priority overall when the longer time period was taken into account.
- **Reaching new markets and reskilling staff were lowest priorities overall**, with around two in five saying these were not priorities for them at all (40% and 43% respectively).
- **The most significant concerns for businesses currently are increased costs (82%),** followed by economic uncertainty (65%), supply chain issues (59%) and changing regulations (55%). The top concerns for businesses reflected the wider economic context for the survey, taking place during a period of increased inflation, rising costs and a reported supply chain crisis.
- **Other key concerns (for at least two in five businesses) included retaining customers (48%), transport (45%) and recruiting and retaining staff (42%).** Fewer were concerned with moving to net zero, increased competition and access to export markets.



PRIORITIES

Of the five areas explored, the most common priorities for businesses over the next twelve months were keeping pace with new technology (54%) and innovating or evolving what they do (51%).

Although moving to low carbon ways of working was least likely to be a priority within the next 12 months, two in five (43%) said it was a priority for the next 5 years, making it the third highest priority overall. This suggests that businesses acknowledged the importance of the move to low carbon, but that other priorities were seen as more relevant or pressing in the short term.

Reaching new markets and reskilling staff ranked lowest overall, with around two in five saying these were not priorities for them at all (40% and 43% respectively).

Variation

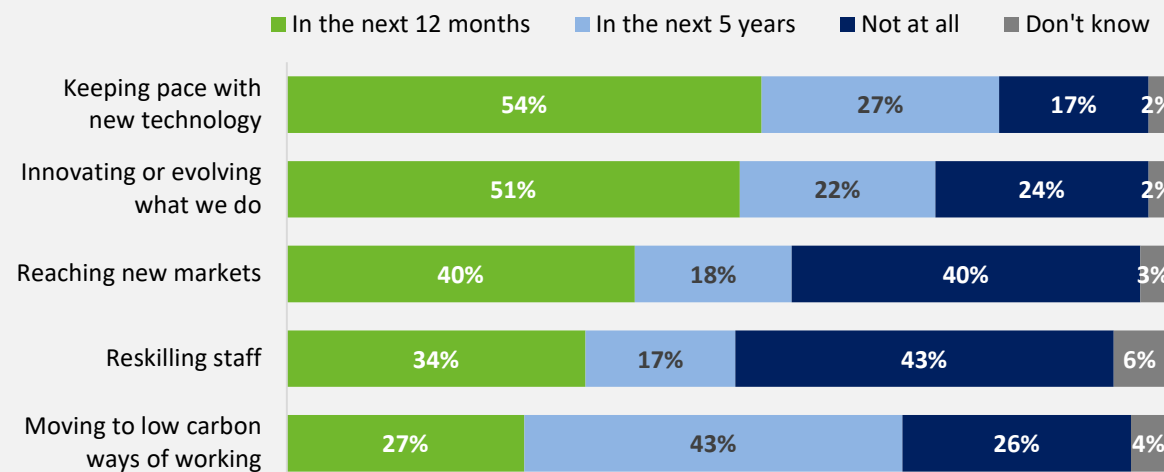
Businesses viewing these factors as priorities in the next 12 months tended to be those that were trading outside of Scotland, striving for growth, and that had seen their level of performance change since COVID-19 (see Appendix).

Other variation included:

Priorities for the next 12 months:

- **Financial and business services** – keeping pace with new technology (65%)
- **Creative industries** – moving to low carbon ways of working (38%)
- **Large businesses (25+)** – reskilling staff (50%)
- **HIE-account managed** – reaching new markets (62% vs 38% of non-account managed), innovating (71% vs 50%), and reskilling staff (58% vs 32%)

Q. Would you say the following are an immediate priority for your business in the next 12 months, a priority in the next 5 years, or not at all?



Base: All businesses (1,003)

Priorities for the next 5 years

- **Food and drink** – keeping pace with new technology (33%)
- **Tourism businesses** – moving to low carbon ways of working (53%)
- **Large businesses (25+)** – moving to low carbon (65%), keeping pace with new technology (43%), reaching new markets (32%), and reskilling staff (27%)
- **Island businesses** – reskilling staff (20% vs 15% of mainland businesses)

CONCERNS

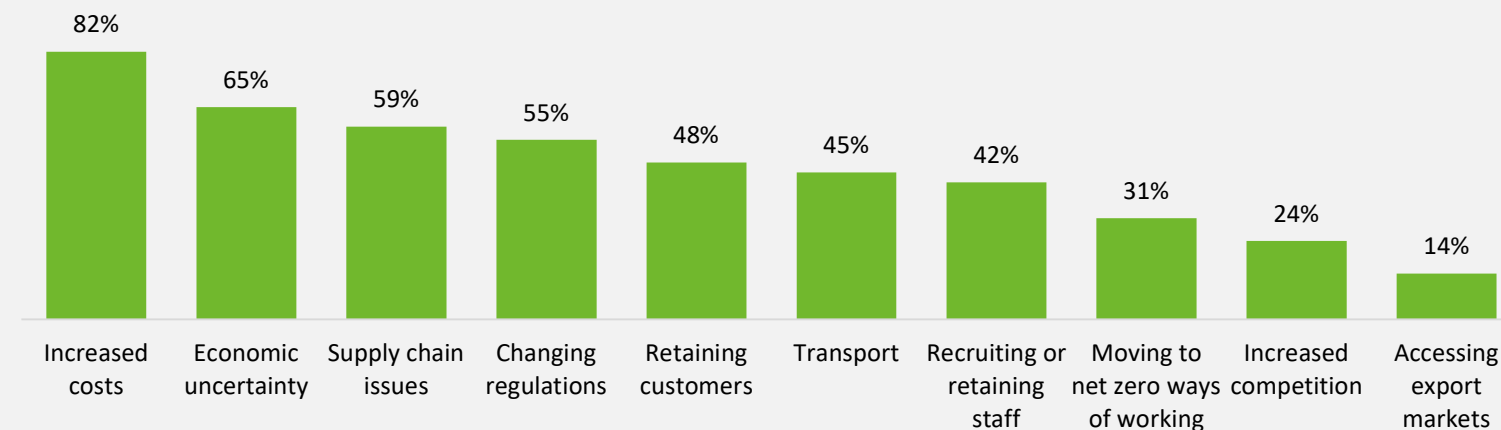
The most significant concerns for businesses currently are increased costs (82%), followed by economic uncertainty (65%), supply chain issues (59%) and changing regulations (55%).

The top concerns for businesses currently reflected the wider economic context for the survey, taking place during a period of increased inflation, rising costs and a reported supply chain crisis.

Other key concerns included retaining customers, transport and recruiting and retaining staff.

Fewer were concerned with moving to net zero, increased competition and access to export markets.

Q. Which of the following, if any, is currently a significant concern for your business?



Base: All businesses (1,003)

Variation by sector

- **Food and drink** – increased costs (88%), economic uncertainty (78%), supply chain issues (68%), changing regulations (63%), transport (60%) and moving to net zero (41%).
- **Tourism** – recruiting or retaining staff (56%), retaining customers (55%) and accessing export markets (26%).

Variation by importers and exporters

- Those **importing from outside of Scotland** were more likely to say each of these, except for increased competition, was a significant concern.
- Those **importing from Northern Ireland** - changing regulations (63%)
- Those **selling to Northern Ireland** - retaining customers (56%).

Variation by geography

- **Remote rural areas** – increased costs (86%), transport (50%), moving to net zero (34%) and accessing export markets (16%).
- **Island communities** – supply chain issues (64% vs 57% mainland), transport (56% vs 40% mainland), recruiting and retaining staff (47% vs 40% mainland), and accessing export markets (19% vs 12% mainland)

Variation for account managed businesses

- **HIE-account managed businesses** – economic uncertainty (80% vs 64% non-account managed), supply chain issues (72% vs 58%) and recruiting/retaining staff (56% vs 41%).

D. FINANCIAL CONCERNS AND ACCESS TO FINANCE

KEY FINDINGS

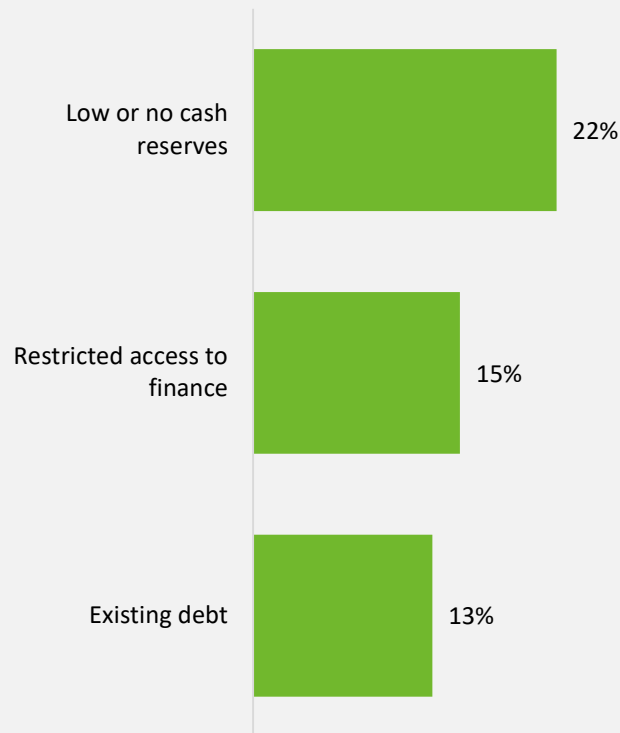
- **Overall, around a third (31%) were concerned about at least one of the following aspects of their finance:** low or no cash reserves (22% concerned) access to finance (15%) and existing debt (13%).
- **Almost two thirds (63%) of business were currently using or planned to use some form of finance.** A third were using public sector loans or grants (32%), a similar proportion were using loans from banks or financial institutions (31%) and a quarter were using credit or overdrafts (25%).
- **The main reason for using or planning to use financial support was cashflow,** cited by a quarter (24%) of businesses, followed by buying new assets (15%) and working capital (12%).
- **The main reason for not using or planning to use financial support was that there was simply no need to (79%),** while 10% said they wished to remain debt free.
- **Over half (56%) of businesses had applied for financial support in the past 12 months. Of those, 96% had been successful (77% getting all and 19% some of what they wanted).** Only 5% were turned down on everything.
- **For those that were not offered the finance they wanted, 14% had postponed their plans indefinitely, while around one in ten said it prevented business growth (9%),** and a similar proportion had deferred plans but eventually went ahead (8%). For 13% there was no real impact as they got funding from elsewhere.



CURRENT FINANCIAL CONCERNS

Overall, around a third (31%) were concerned about at least one of these aspects of their finance: low or no cash reserves (22% concerned) access to finance (15%) and existing debt (13%).

Q. Which of these, if any, are financial concerns for your business at the current time?



Base: All businesses (1,003)

As might be expected, financial concerns were more apparent among those operating below pre-pandemic levels and that were not optimistic about their future. Some concerns were also higher among remote rural businesses, with further variation by sector, growth aspiration and markets of operation.

More likely to say low or no cash reserves was a concern:

- Remote rural (25%)
- Operating below pre-pandemic levels (32%)
- Not optimistic (35% vs 19% of those that are optimistic)
- Striving for growth (25%)

More likely to say restricted access to finance was a concern:

- Tourism businesses (23%)
- Operating below pre-pandemic levels (20%)
- Not optimistic (24% vs 13% of those that are optimistic)
- Striving for growth (18%)
- Selling to Northern Ireland (19%)

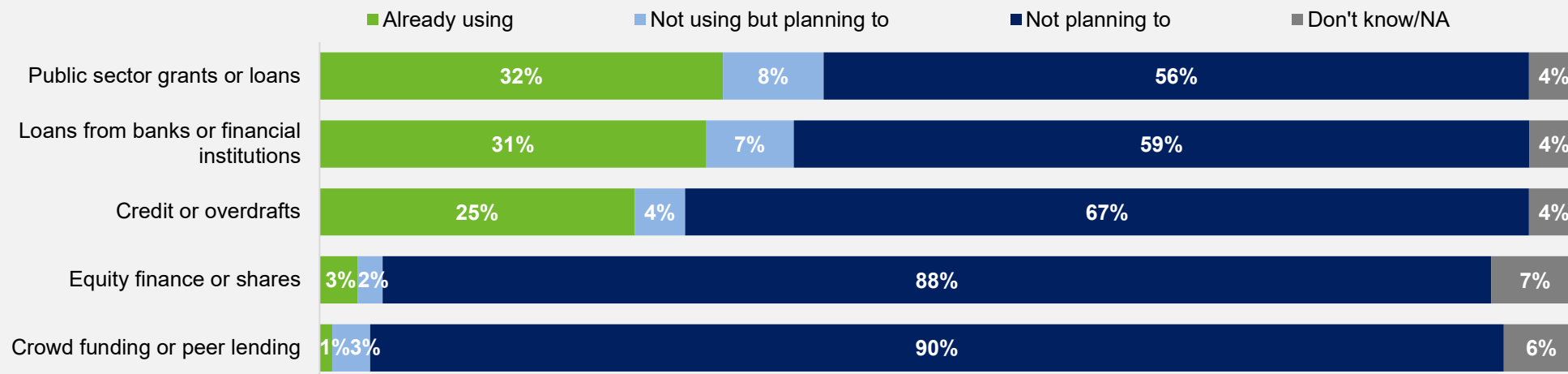
More likely to say existing debt was a concern:

- Tourism businesses (22%)
- Remote rural (17%)
- HIE-account managed businesses (23% vs 13% non-account managed)
- Operating below pre-pandemic levels (20%)
- Not optimistic (20% vs 12% of those that are optimistic)
- Selling to England and Wales (16%), Northern Ireland (18%) and outside the EU (19%)

USE OF FINANCE

Almost two thirds (63%) of businesses were currently using or planned to use some form of finance. A third were already using public sector loans or grants (32%), loans from banks or financial institutions (31%) and a quarter were using credit or overdrafts (25%).

Q. Which of the following forms of finance is your business currently using or planning to use?



Base: All businesses (1,003)

More likely than average to be currently using:

Public sector grants/loans

- Tourism (39%)
- HIE-account managed (64% vs 29% non-account managed)
- Island businesses (36% vs 29% mainland businesses)
- Striving for growth (39%)
- Selling to England and Wales (35%), Northern Ireland (38%) and outside the EU (38%)

Loans from banks or financial institutions

- Tourism (40%) and food and drink (38%)
- Large businesses (25+) (51%)
- HIE-account managed (53% vs 29% non-account managed)
- Island businesses (38% vs 27% mainland businesses)
- Striving for growth (36%)
- Selling to England and Wales (36%), Northern Ireland (36%) and internationally (37%).

Credit or overdrafts

- Food and drink (34%)

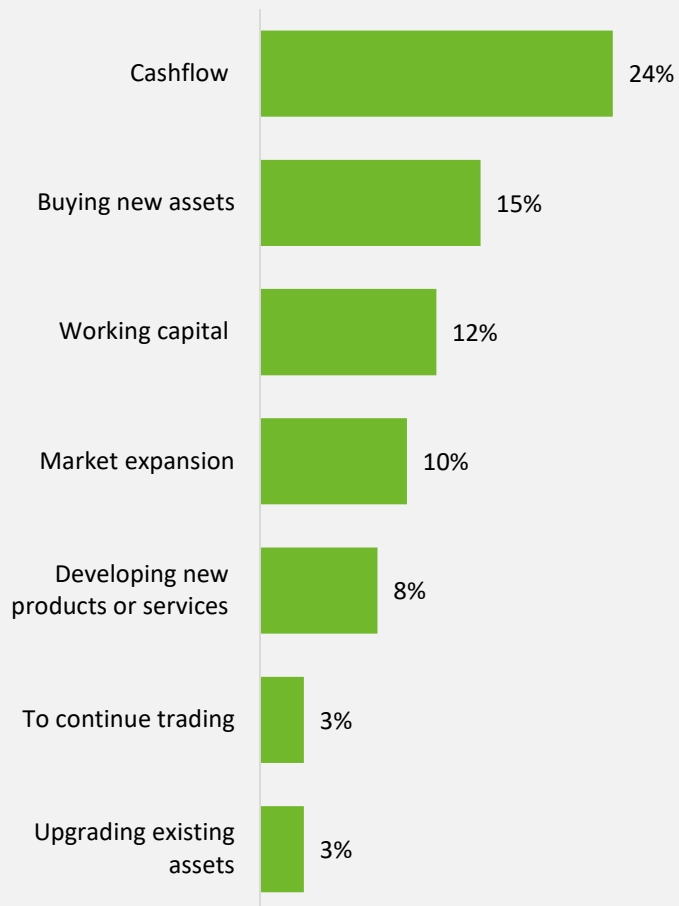
Equity finance or shares

- Selling internationally (7%)

REASONS FOR USING OR PLANNING TO USE FINANCE

The main reason for using or planning to use financial support was cashflow, cited by a quarter (24%) of businesses, followed by buying new assets (15%) and working capital (12%).

Q. What is your main reason for using or planning to use financial support? [Unprompted responses]



Base: All using/planning to use finance (624)

Variation

Use of financial support varied by how optimistic businesses felt about their future. Those that were optimistic were more likely to say they used finance to buy new assets (17% vs 6% of non-optimistic businesses). Those that were *not* optimistic were more likely to use it for working capital (18% vs 10%) or simply to stay afloat and continue trading (8% vs 2%).

Those more likely to say they were using finance for **market expansion** were:

- Striving for growth (16%)
- Operating above pre-pandemic levels (15%)
- Importing from international markets (13%)

Those more likely to use finance for **developing new products or services** were:

- Remote rural businesses (11%)
- HIE-account managed (17% vs 7% of non-account managed).

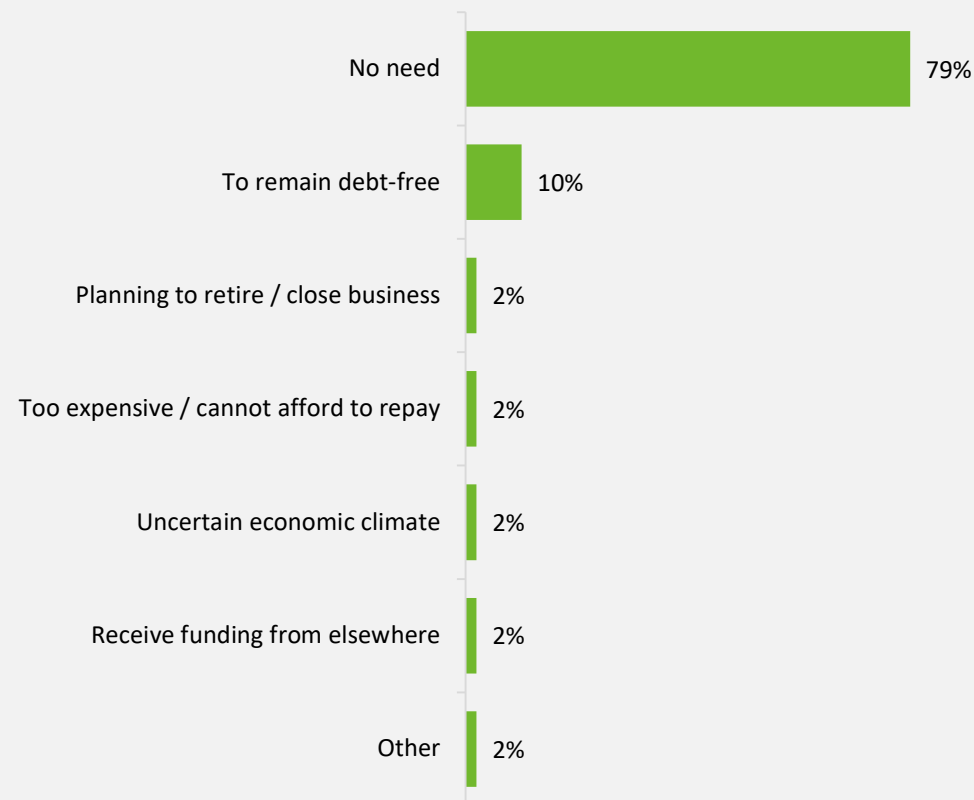
REASONS FOR NOT USING OR PLANNING TO USE FINANCE

The main reason for not using or planning to use financial support was that businesses felt there was simply no need (79%), while 10% said they wished to remain debt free.

Other reasons were given by only small proportions (2%), such as plans to retire or close the business, the economic climate, the cost of repayment, and funding being provided from elsewhere. Lack of need was therefore the key reason for those not accessing finance.

There was little variation by type of business, however, those that were optimistic about the next 12 months were more likely to say they had no need for financial support (82% vs 64% of those not optimistic).

Q. What is your main reason for not using/planning to use those types of support?
[Unprompted responses]

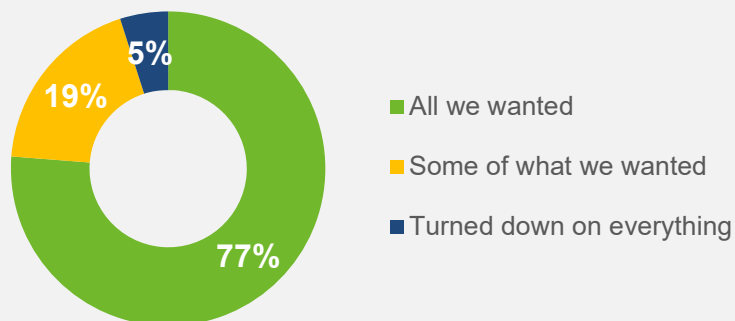


Base: All those not using/planning to use financial support (332)

EXPERIENCE OF APPLYING FOR FINANCE

Over half (56%) of businesses had applied for financial support in the past 12 months. Of those, 96% had been successful (77% getting all and 19% some of what they wanted). Only 5% were turned down on everything.

Q. Over the past 12 months, when your business has applied for or sought finance, have you been offered all of what you wanted?



Base: All that applied for finance (562)

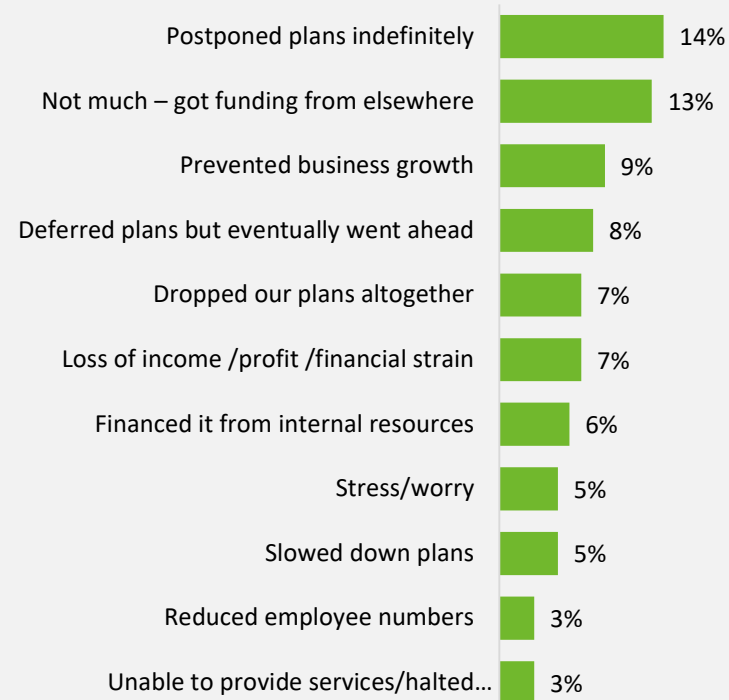
More likely than average to have applied for finance:

- Tourism (66%)
- HIE-account managed (85% vs 54% of non-account managed)
- Island businesses (62% vs 53% of mainland businesses)
- Operating bellowing pre-pandemic levels (63%)
- Selling to England and Wales (61%), Northern Ireland (63%) and outside the EU (63%).

For each of the groups listed above, the vast majority had received all or some of what they applied for.

Businesses least likely to have applied for financial support were those in the financial and business services sectors (38% had applied) and those with 0-4 staff (51%).

Q. What effect did not being offered the finance you wanted have on your business? [Unprompted responses]



Base: Businesses that had not been offered all finance they wanted (133)

For those that were not offered the finance they wanted, around one in five had postponed plans indefinitely (14%) or dropped them altogether (7%). Around one in ten said it prevented business growth (9%) or they deferred plans but eventually they went ahead (8%). For 13%, there was no real impact as they got funding from elsewhere.

E. INCREASED COSTS

KEY FINDINGS

- **The majority (96%) of businesses had experienced some form of increased costs over the last 12 months.** Majorities reported cost increases across almost all measures asked about in the survey, with most increases related to the sourcing, transporting and exporting goods, the cost of labour and the cost of utilities.
- **Cost increases were more apparent among certain types of business,** in particular: food and drink and tourism sectors, larger businesses, those in more rural locations, and those exporting to the EU and to England and Wales.
- **Business response to increased costs was mixed, but they were more likely to absorb costs rather than pass them on to customers through price increases.** Among those that had experienced cost increases in the last 12 months, 36% had absorbed those costs, 12% had increased their prices, and 50% had done both.
- **Over half (59%) of businesses that had absorbed costs said they could do so for up to 12 months** before increasing prices, while a quarter (26%) felt they could do so beyond 12 months.
- **Among businesses that had increased their prices in response to rising costs, 45% felt they could continue do so for up to 12 months** before absorbing costs, while 46% felt they could for longer than 12 months



COSTS IN THE PAST 12 MONTHS (1)

The majority (96%) of businesses had experienced some form of increased costs over the last 12 months. The most common cost increases related to the sourcing, transporting and exporting of goods, the cost of labour and the cost of utilities.

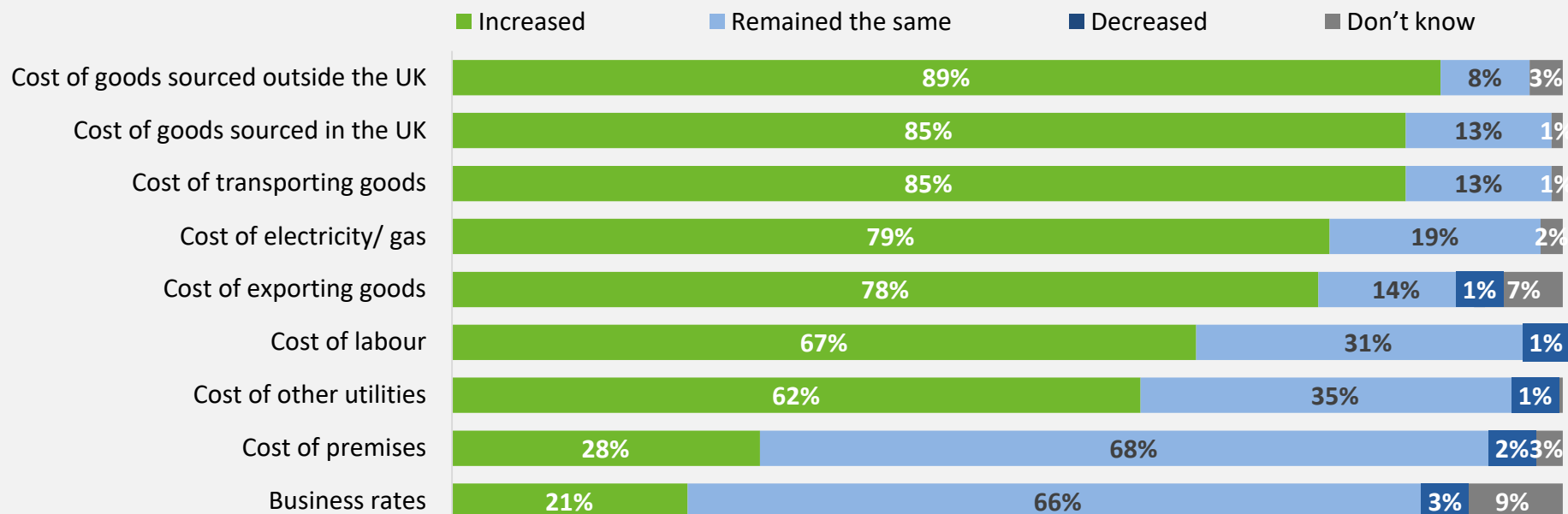
It was clear that businesses in the region were feeling the effects of the economic challenges occurring at the time of the survey. Majorities reported cost increases across almost all measures asked about in the survey, with the exception of cost of premises and business rates.

Over three-quarters of businesses saw an increase in the cost of sourcing goods from both outside (89%) and within (85%) the UK, transporting goods (85%) and exporting goods (78%).

Increased cost of utilities was also common: 79% experienced an increase in electricity and gas and 62% in other utilities. Two-thirds experienced increases in labour costs (67%).

Cost of premises and business rates remained relatively stable (for 68% and 66% respectively). The general stability in business rates may reflect the Scottish Government's rates relief for businesses during COVID-19 (up to until 31 March 2021). However, 28% said cost of premises had increased, while 21% said business rates had increased.

Q. Thinking now about costs. In the past 12 months, would you say the following have increased, decreased or remained about the same?



Base: All for whom it applied

COSTS IN THE PAST 12 MONTHS (2)

Cost increases were more apparent among certain types of business, in particular: food and drink and tourism sectors, larger businesses, those in more rural locations, and those exporting to the EU and to England and Wales.

Variation by sector

- Food and drink and tourism businesses were more likely than average to experience increased costs of goods sourced in the UK (90% and 91% respectively), and cost of electricity or gas (both 85%).
- However, tourism businesses were more likely to experience a *decrease* in business rates (14%), reflecting the Scottish Government rates relief for leisure businesses during and after the pandemic (they received 100% rates relief due to continue until March 2022).
- Financial and business services businesses were more likely to experience *decreases* in cost of premises (6%).

Variation by business size

- As would be expected, increased cost of labour was more common for those with 25+ (86%), 11-24 (77%) and 5-10 (76%) staff, compared with small businesses (0-4 staff) (58%).

Variation by location

- Those in remote rural (83%) and accessible rural (89%) locations were more likely than average (79%) to have experienced increased electricity or gas costs. Remote rural businesses were also more likely to see increases in the cost of other utilities (65% vs 62% overall)
- Those in accessible rural locations were more likely to report increased transportation costs (95% vs 85% overall).
- Increased cost of premises was higher than average in Orkney (44%).

Variation by markets of operation

- Views on the costs of goods did not vary by the markets businesses were importing from – this was the case for both cost of goods from within and outside of the UK.
- However, views on costs of exporting goods did vary slightly by export market – those exporting to the EU (85%) and England and Wales (84%) were more likely than average (78%) to report increased costs. Exporters to Northern Ireland and outside the EU were in line with the average.
- Those importing from the EU (90%) and from England and Wales (88%) were also more likely to report increases in the cost of transporting goods.

BUSINESS RESPONSE TO COST INCREASES

Among those that had experienced cost increases in the last 12 months, 36% had absorbed those costs, 12% had increased their prices, and 50% had done both.

More likely to have absorbed the costs internally

- Food and drink (52%), and financial and business services (46%)
- Small business (0-4 staff) (41%)
- Remote rural (39%)
- Operating below pre-Covid levels (38%)
- Sourcing goods from Scotland only (45%)

More likely to have increased the price of goods/ services

- Tourism businesses (15%)
- Operating above pre-Covid levels (20%)
- Selling to Scotland only (15%)

More likely to have both absorbed the costs and increased prices

- Urban businesses (55%)
- Optimistic about the future of the business (52%)
- Striving for growth (55%)
- Importing from international markets (57%).

Q. Which of the following best describes how your business has responded to increased costs?



Base: Businesses that have experienced any increased costs (957)

OUTLOOK FOR RESPONDING TO COST INCREASES – ABSORBING COSTS

Over half (59%) of businesses that had absorbed costs said they could do so for up to 12 months before having to increase their prices, while a quarter (26%) felt they could do so beyond 12 months.

A quarter (26%) felt they could continue to absorb costs for no more than 6 months, while a third (33%) felt they could do so for between 6 to 12 months.

A quarter (26%) felt they could do so over the long term: 14% for more than 12 months and 12% indefinitely.

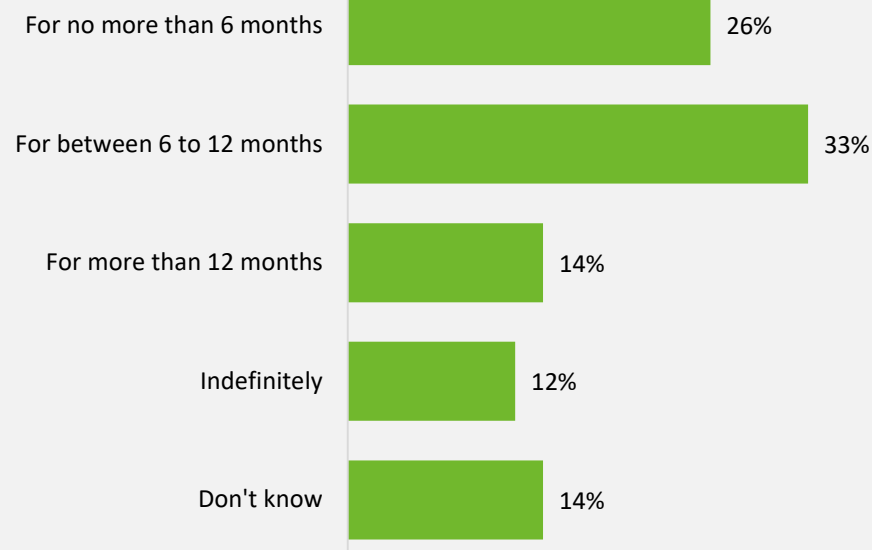
Able to absorb costs in the short term (no more than 6 months)

- Tourism businesses (42%)
- Operating below pre-pandemic levels (37%)
- Importing from the EU (24%) and England and Wales (31%)

Able to absorb costs in the longer term (more than 12 months)

- Financial and business services (32%)

Q. And assuming costs remain at the same level, how long do you expect to be able to absorb costs before you increase prices?



Base: Businesses that have absorbed increased costs (332)

OUTLOOK FOR RESPONDING TO COST INCREASES – INCREASED PRICES

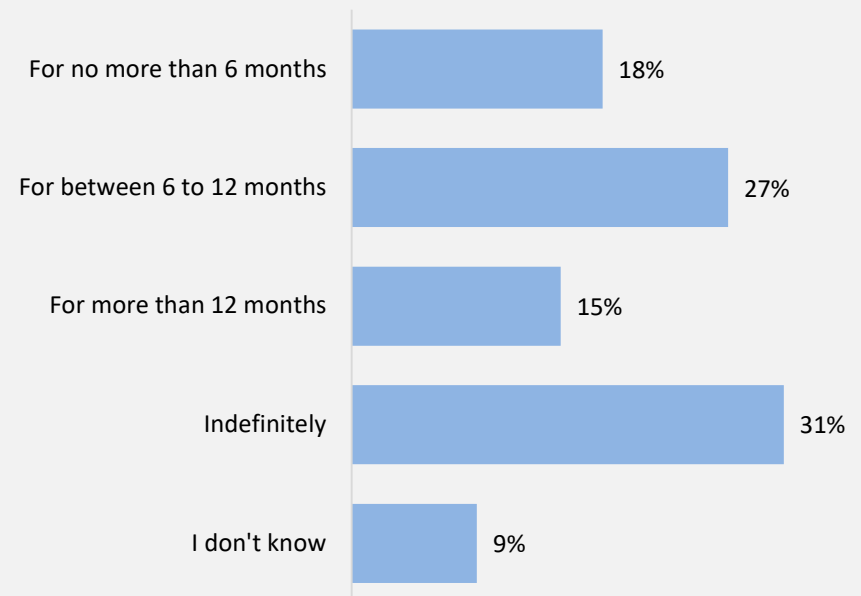
Among businesses that had increased their prices in response to rising costs, 45% felt they could continue do so for up to 12 months before absorbing costs, while 46% felt they could for longer than 12 months.

Around one in five (18%) felt they could maintain or increase prices further for no more than 6 months, while a quarter (27%) felt they could do so for between 6 to 12 months.

For those that felt this could continue in the longer term, 15% expected to maintain or increase prices further for more than 12 months, with a third (31%) reporting that they will be able to do this indefinitely.

Businesses in remote rural areas were more likely than average to be able to maintain or increase prices further for between 6 to 12 months (37%). Those in urban areas were more likely to say they could do this indefinitely (46%). Otherwise, there was no significant variation.

Q. And assuming costs remain at the same level, how long do you expect to be able to maintain or increase prices before you need to absorb costs?



Base: Businesses that have increased prices in response to increased costs (118)

F. LABOUR AND SUPPLY CHAIN ISSUES

KEY FINDINGS

- **Among those for whom it was relevant, 57% overall said they had experienced labour shortages:** 49% arising from recruitment or retention challenges, and 44% arising from staff absence.
- Overall, **labour shortages were more common than average among tourism businesses**, with 68% experiencing some form of shortage.
- **Businesses reported a range of impacts due to labour shortages.** The three most common were: increased workload for other staff (29%) difficulties in delivering services or fulfilling orders (21%) and scaling back production or services (15%).
- **Among those for whom it was relevant, three quarters (76%) were experiencing some form of supply chain issue.** In particular, 74% were experiencing issues accessing the goods, materials, or supply of services they needed, while around half were experiencing issues with export processes (53%) and transportation of goods to customers (45%).
- **Four in five (82%) businesses that were experiencing supply chain issues said this had led to increased costs.** This was a particular issues for food and drink businesses.
- Other common impacts were: difficulties delivering services/ fulfilling orders (45%), increased demand (38%), changing supplier (33%) and amending or diversifying offer (32%).



LABOUR SHORTAGE ISSUES

Among those for whom it was relevant, 57% said they had experienced labour shortages: 49% arising from recruitment or retention challenges, and 44% arising from staff absence.

Overall, labour shortages were more common than average among tourism businesses (68% had experienced some form of shortage). There was further variation for each specific type of labour shortage:

More likely to be facing recruitment/retention challenges

- **Tourism** (39% to large extent, 61% to any extent)
- **Larger businesses (25+)** (49% large, 87% any)
- **Importing from the EU** (25% large, 56% any) and **England and Wales** (24% large, 52% any)
- **Selling to England and Wales** (24% large, 55% any), **Northern Ireland** (27% large, 57% any), and **outside the EU** (27% large, 57% any).

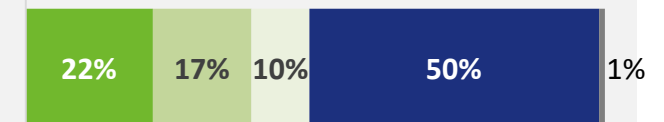
More likely to be arising from staff absence

- **Tourism** (23% to a large extent, 40% to any extent)
- **Larger businesses (25+)** (22% large, 79% any)
- **Urban areas** (12% large, 50% any)
- **Importing from England and Wales** (11% large, 47% any), **Northern Ireland** (17% large, 55% any), and **the EU** (12% large, 49% any).

Q. To what extent is your business currently experiencing issues with the following?

■ Large extent ■ Some extent ■ Small extent ■ Not at all ■ Don't know

Labour shortages arising from recruitment/ retention challenges



Labour shortages arising from staff absence



Base: All for whom it applied

IMPACT OF LABOUR SHORTAGES

Businesses reported a range of impacts from labour shortages. The three most common were: increased workload for other staff (29%) difficulties in delivering services or fulfilling orders (21%) and scaling back production or services (15%).

Around one in ten said that labour shortages had resulted in delays to developing new products or services (11%), loss of business to competitors (9%), increased costs (9%), and general difficulties in recruiting or accessing staff needed (8%).

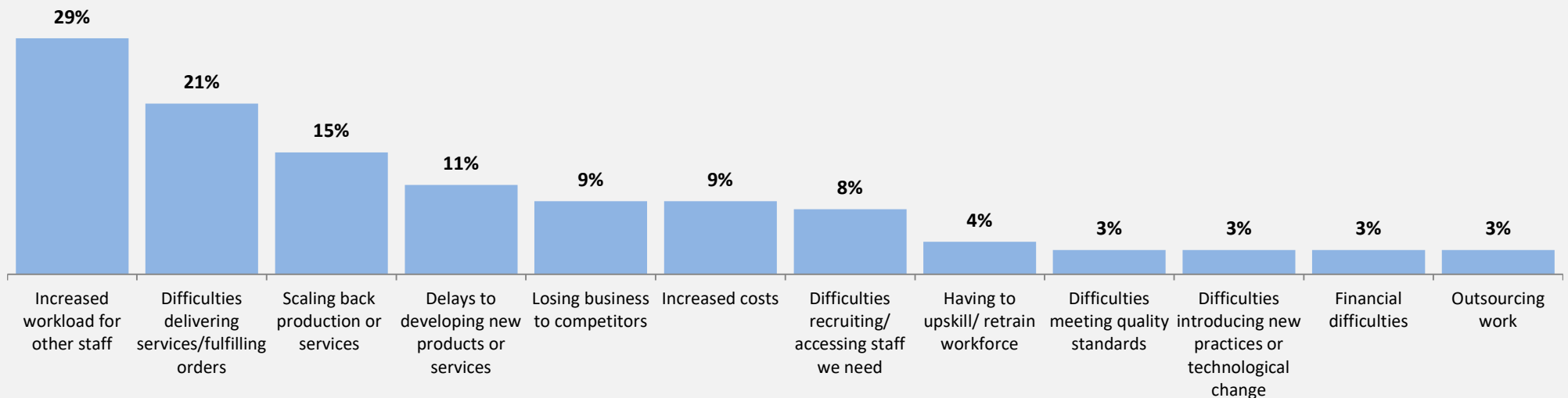
Less common impacts included having to upskill or retrain their workforce (4%), difficulty meeting quality stands (3%) and introducing new practice or changes (3%), financial difficulties (3%) and outsourcing of work (3%).

Variation

Tourism businesses were more likely to report scaling back production or services as an impact (31%).

Larger businesses (25+) were more likely than average to say they had to upskill/ retrain workforce (10%), outsource work (8%), and had difficulties introducing new practices or technological change (7%).

Q. What impact are these labour shortages having on your business? [Unprompted responses]



Base: All experiencing labour shortages (425)

SUPPLY CHAIN ISSUES

Among those for whom it was relevant, three quarters (76%) were experiencing some form of supply chain issue. In particular, 74% were experiencing issues accessing the goods, materials, or supply of services they needed, while around half were experiencing issues with export processes (53%) and transportation of goods to customers (45%).

It was clear that the supply chain crisis was impacting on the full range of import and export markets:

More likely to experience issues with accessing goods, materials or supply of services

- Those importing from
 - England and Wales (25% to large extent, 76% to any)
 - Northern Ireland (30% large, 85% any)
 - The EU (30% large, 84% any)
 - Outside the EU (28% large, 84% any)

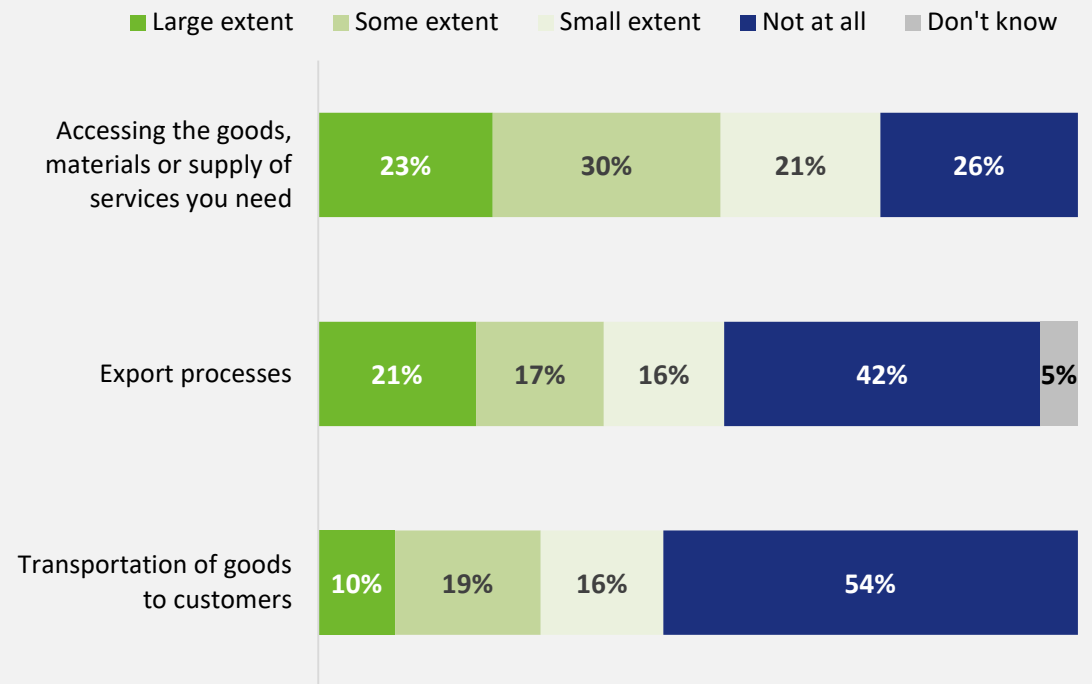
More likely to experience issues with export processes

- Those exporting to
 - England and Wales (29% large, 64% any)
 - The EU (27% large, 71% any)
 - Outside the EU (24% large, 64% any)

More likely to experience issues with transportation of goods

- Food and drink (52% to any extent)
- Importing from
 - The EU (12% large, 52% any)
 - Outside the EU (13% large, 56% any)
- Selling to
 - England and Wales (12% large, 53% any)
 - Northern Ireland (13% large, 53% any)
 - The EU (14% large, 57% any)
 - Outside the EU (14% large, 56% any).

Q. And to what extent is your business currently experiencing issues with the following ?



Base: All for whom it applied

IMPACT OF SUPPLY CHAIN ISSUES

Four in five (82%) businesses that were experiencing supply chain issues said this had led to increased costs.

Other common impacts were: difficulties delivering services/ fulfilling orders (45%), increased demand (38%), changing supplier (33%) and amending or diversifying offer (32%). The least common impact was changing market focus, though this was still experienced by a quarter of businesses (24%) with supply chain issues.

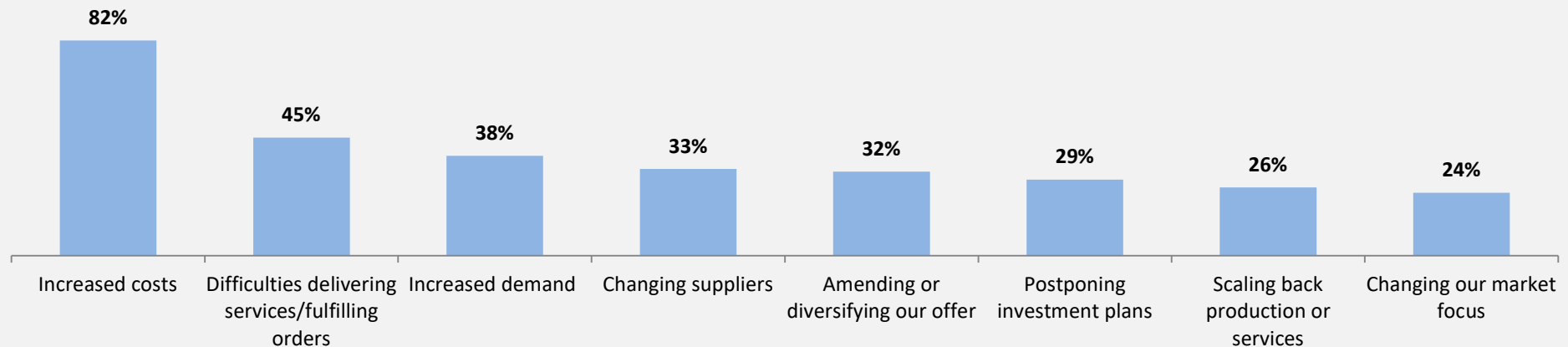
Food and drink businesses (89%) were more likely than average to have experienced increased costs.

Tourism businesses were more likely than average to have postponed investment plans (40%), scaled back production services (39%), and changed market focus (33%)

Those **operating below pandemic levels** were more likely to have scaled back production or services (42%), experienced difficulties in amending or diversifying offer (40%), postponed investment plans (36%), and changed their market focus (33%).

Whereas those **operating above pre-pandemic levels** were more likely to have experienced increase in demand (63%) and difficulties delivering services or fulfilling orders (58%).

Q. Which of the following impacts, if any, are these issues having on your business? [Unprompted responses]



Base: Businesses experiencing issues (707)

G. MARKETS

KEY FINDINGS

- **Three quarters (76%) of businesses accessed goods and/or services from outside of Scotland**, with the largest markets being England and Wales (73%), followed by the EU (36%) and outside the EU (21%).
- **This wave saw signs of import substitution**, with an increase in the proportion of businesses sourcing goods and materials from both England and Wales and their local area.
- **This wave saw a decrease in the proportion of exporters** (48%, down from 62% the previous wave), with decreases seen in each export market. This reverses the trend seen in the previous wave.
- **Findings suggest a move towards more domestic trading** by businesses in the region - the proportion of those selling *only* within Scotland increased this wave (51% up from 38%).
- **The shift in market focus was seen across sectors, but most notably among food and drink business.** This sector saw the largest decrease in the proportion of businesses buying from and selling to markets outside of Scotland.
- **Thinking about the 12 months ahead, there was a sense of cautious optimism** about future sales. Businesses generally expected either stability or an increase in sales to the markets they operated in.



IMPORT MARKETS

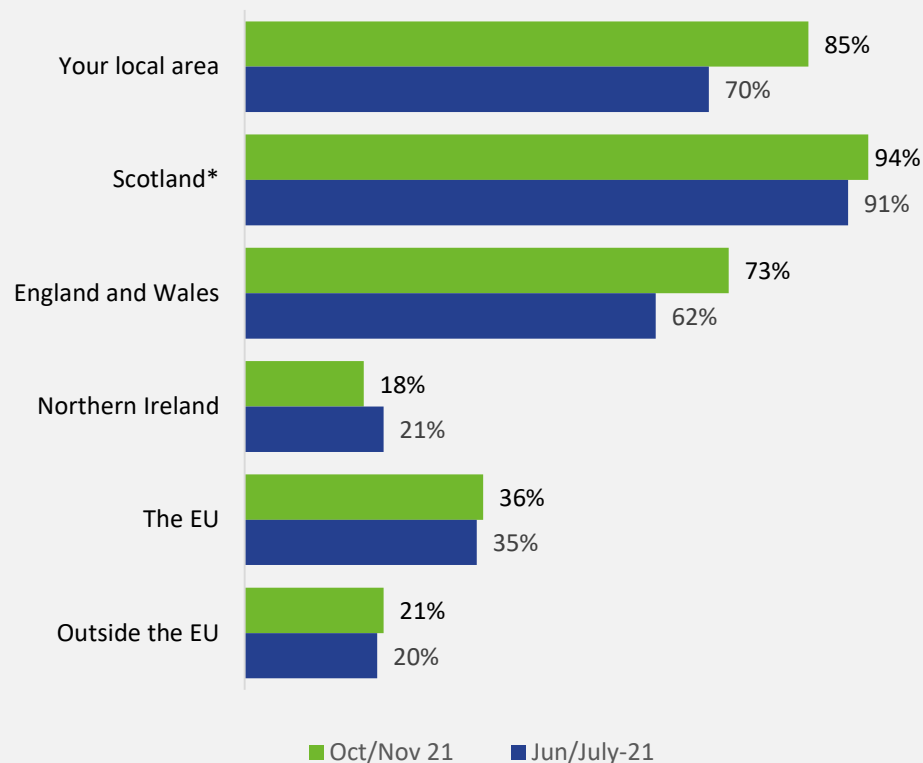
Three quarters (76%) of businesses were importers*. The largest import markets were England and Wales (73%), followed by the EU (36%) and outside the EU (21%).

Compared with the previous wave, there was an increase in the proportion of businesses sourcing goods and materials from England and Wales (73% up from 62%). Over the same period, there was also an increase in those sourcing from local markets (85% up from 70%). This suggests that businesses were turning to a wider range of markets to source the goods and materials they needed.

Variation

- **Food and drink** businesses were more likely than average to source goods from their local area (91%). In the previous wave, they were more likely than average to source from the EU - this was no longer the case this wave, with 35% now sourcing from the EU, in line with the average.
- **Tourism** businesses were more likely than average to source from their local area (96%), reflecting findings from the previous wave.
- **Large businesses (25+)** were more likely than average to source from each import market: England and Wales (78%), Northern Ireland (32%), the EU (62%) and outside the EU (39%). The previous wave saw a similar pattern.
- Businesses in **remote rural areas** (88%) and in **the Islands** (89%) were more likely than average to source from their local area.
- Businesses operating **above their pre-pandemic** levels and those **striving for growth** were each more likely than average to import from EU markets (each at 45%).
- **HIE account managed** businesses were more likely than average to source from England and Wales (90% vs 72% non-account managed), from the EU (66% vs 34%) and from outside the EU (40% vs 20%).

Q. From which of these markets do you currently source goods and materials?



Base: All businesses (1,003)

*Scotland is based on those answering either "Your local area" or "Scotland" combined

NOTES

*In this report, "importers" are defined as those that source goods or materials from any market outside of Scotland

EXPORT MARKETS

The majority (97%) of businesses sold goods or services within Scotland, with 51% selling *only* in Scotland. Around half (48%) of businesses were exporters (selling to markets outside Scotland).

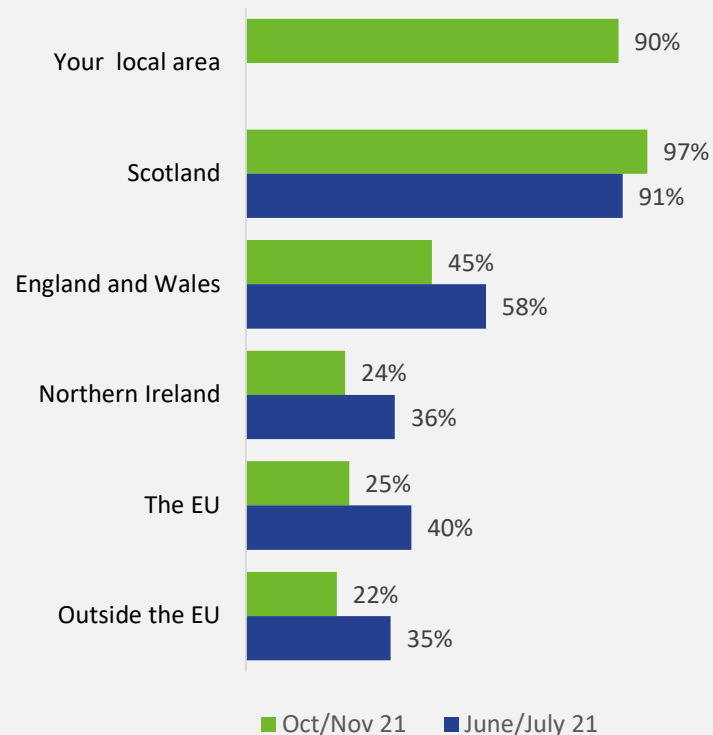
This wave saw a decrease in the proportion of exporters (48%, down from 62% the previous wave). This decrease was seen in each export market, as shown in the chart.

These findings suggest a move towards more domestic trading by businesses in the region. Indeed, the proportion of those selling *only* within Scotland increased this wave (51% up from 38%). This reverses the trend seen in the previous wave, but reflects findings seen elsewhere in relation to a downturn in exporting from UK businesses since the end of the EU transition period.

Variation

- **Food and drink** saw a significant decrease in exporters - 43% were exporters this wave, compared with 63% in the previous wave.
- **Tourism** businesses were once again more likely to sell to each export market: England and Wales (70%), Northern Ireland (64%), the EU (56%) and outside the EU (54%).
- **Large businesses (25+)** were more likely to sell to England and Wales (62%), Northern Ireland (40%), the EU (41%) and outside the EU (38%).
- Those operating **above pre-pandemic** levels were more likely to be selling in local markets (95%). Those operating **below pre-pandemic** levels were more likely to be exporting to Northern Ireland (31%), the EU (30%) and outside the EU (30%).
- **HIE-account managed** businesses were more likely to sell to England and Wales (71% vs 43% non-account managed), Northern Ireland (37% vs 24%), the EU (56% vs 23%) and outside the EU (49% vs 20%).
- **Island** businesses were more likely than average to sell to the EU (31%) and outside the EU (27%).

Q. In which of these markets do you currently sell goods or provide services?



Base: All businesses (1,003)

**Your local area" wasn't asked in the June/July 21 wave

**For Oct/Nov 21 wave, data for Scotland is based on those answering either "Your local area" or "Scotland" combined

NOTES

In this report, "exporters" are defined as those that sell good or services to any market outside of Scotland

OUTLOOK FOR EXPORT MARKETS (1)

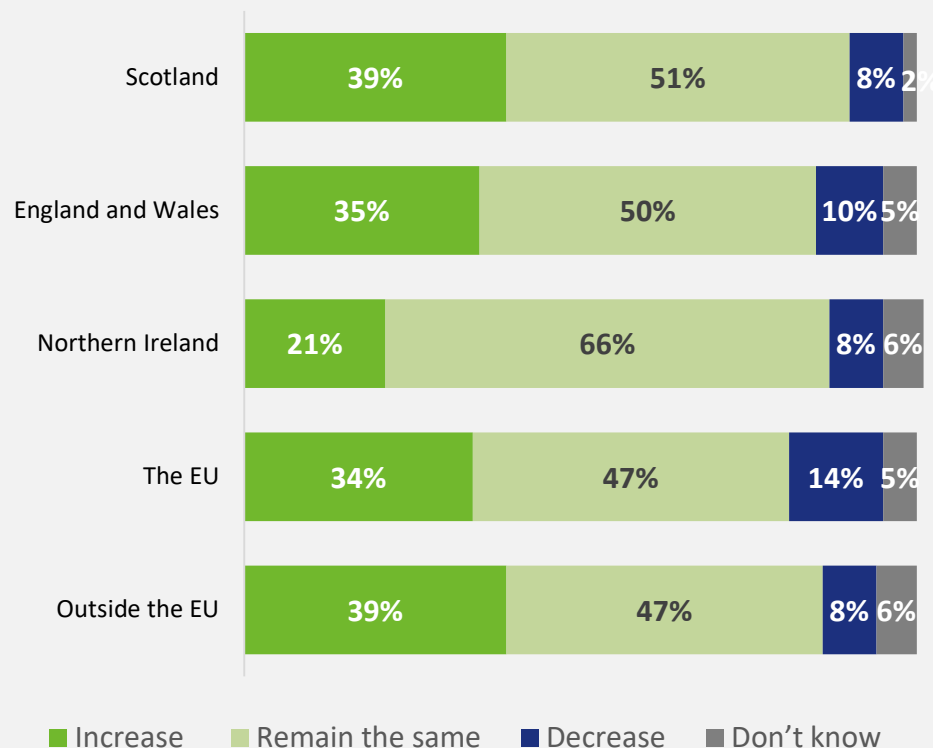
Thinking about the 12 months ahead, there was a sense of cautious optimism about future sales. Businesses generally expected either stability or an increase in sales to the markets they operated in.

Half of businesses expected sales in Scotland and England and Wales to remain fairly static (51% and 50% respectively) while around a third expected them to increase (39% and 35%).

Those selling to the EU and outside the EU also generally expected stability (47% respectively), while around a third expected sales to increase (34% and 39% respectively).

Those selling to Northern Ireland generally expected stability (66%), although 21% expected an increase and 8% a decrease.

Q. Do you expect your level of sales in the following markets to increase, stay the same, or decrease in the next 12 months?



Base: All business to whom each applied (i.e. excluding not applicable responses)

OUTLOOK FOR IMPORT AND EXPORT MARKETS (2)

Variation by sector

- **Tourism** businesses were more likely than average to expect an increase in sales to the EU (61% vs 34% overall) and outside the EU (61% vs 39% overall). This differs from the previous wave, when they were more likely to expect a decrease in sales outside the EU.
- **Tourism** businesses were more likely to expect a *decrease* in future sales to Scotland (18%) and England and Wales (18%).
- **Financial and business services** businesses were more likely than average to expect increased sales in Scotland (55%)

Variation by size

- **Large businesses (25+)** were more likely to expect increased sales to the EU (49%)

Variation by location

- Those in **remote rural areas** were more likely to expect increased sales to the EU (48%) and outside the EU (43%)

Variation by account management

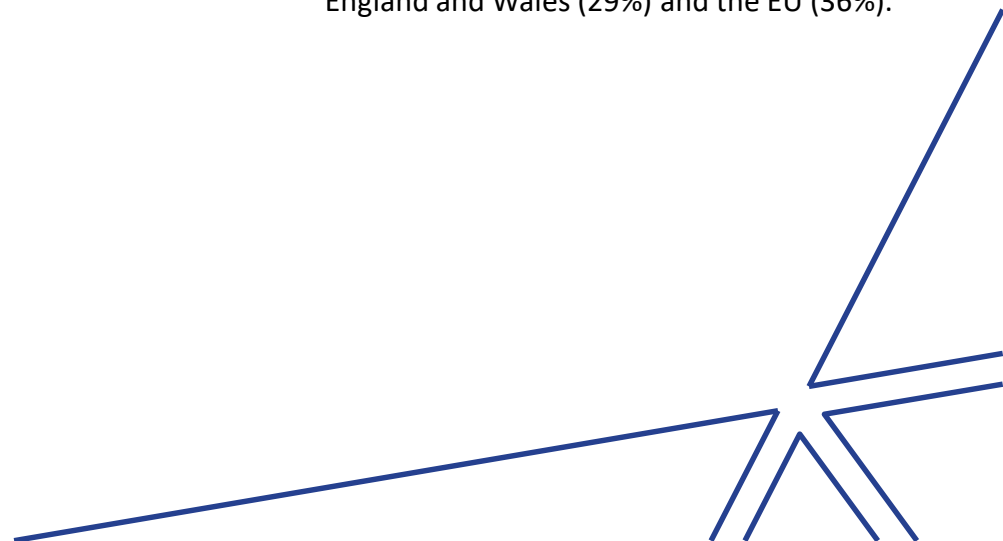
- **HIE account-managed** businesses were more likely to expect an increase in sales to Scotland (54%) while **non-account managed** were more likely to expect a decrease in sales to the EU (16%).

Variation by operating level

- Those operating **above pre-pandemic levels** were more likely to anticipate an increase in sales to: Scotland (56%) and to England and Wales (46%).
- Those operating **below pre-pandemic levels** were more likely to anticipate decreased sales to all markets: Scotland (14%), England and Wales (16%), Northern Ireland (11%), the EU (20%) and outside the EU (12%).

Variation by growth aspiration

- Those **striving for growth** were more likely to anticipate an increase in sales to all markets: Scotland (59%), England and Wales (51%), Northern Ireland (27%), the EU (44%) and outside the EU (49%).
- Those aiming to **downsize** were more likely to anticipate decreased sales to Scotland (22%), England and Wales (29%) and the EU (36%).



The background is a solid dark blue. It features several white geometric lines. A prominent double line runs diagonally from the top left towards the center. Another double line runs diagonally from the bottom left towards the center. A single line runs horizontally across the middle, intersecting the other two. A long, thin single line extends from the center towards the bottom right. The text 'H. NET ZERO' is positioned on the horizontal line, centered horizontally and slightly above the vertical center.

H. NET ZERO

KEY FINDINGS

- **The vast majority (93%) of businesses had taken some action to reduce their greenhouse gas emissions.** The top three actions were: recycling and minimising waste (89%), using more locally sourced supplies (70%) and improving energy efficiency of premises (52%). These most common actions were those that arguably might require the least significant changes to the way businesses operate.
- **The most frequently mentioned barriers for businesses taking actions to reduce greenhouse gas emissions was cost of making changes (73%),** followed by lack of green transport options (58%) and difficulty making existing premises more energy efficient (57%).



ACTIONS TO REDUCE EMISSIONS (1)

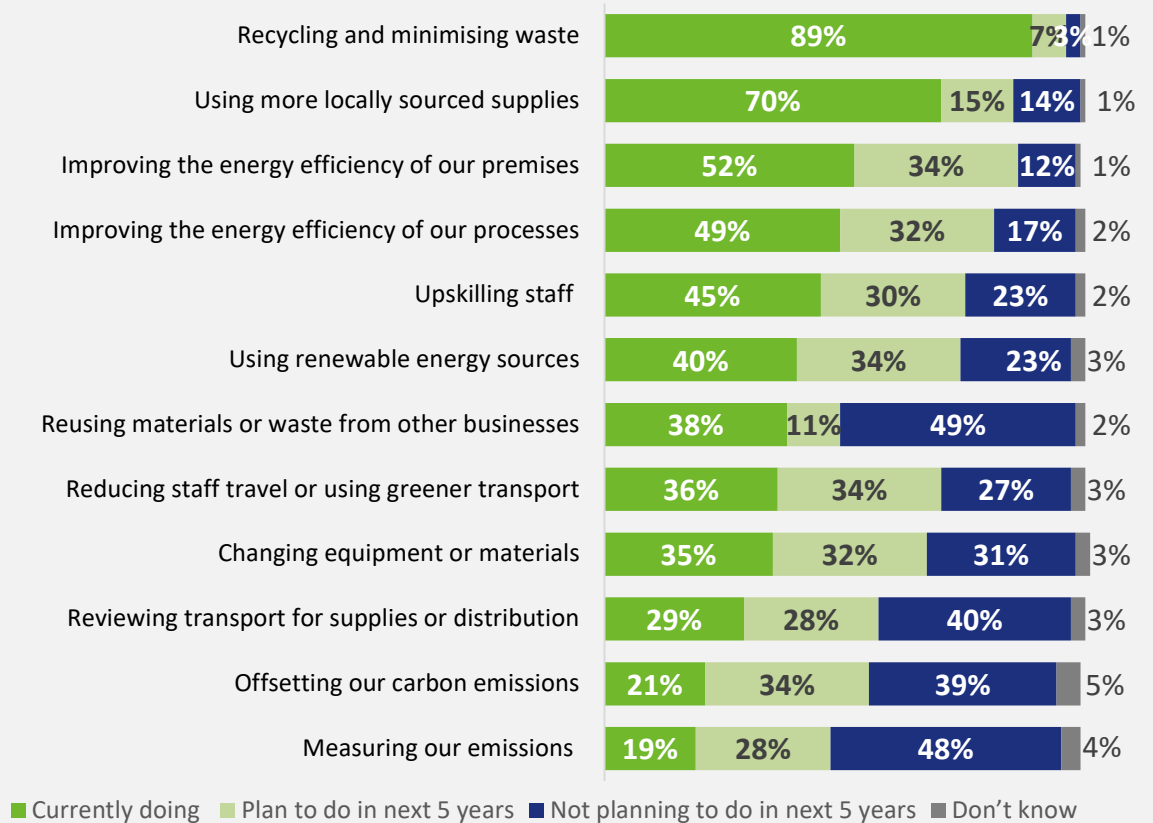
The vast majority (93%) of businesses were currently taking some actions to reduce their greenhouse gas emissions. The top three actions were: recycling and minimising waste (89%), using more locally sourced supplies (70%) and improving energy efficiency of premises (52%).

As seen in previous waves, the most common action businesses were taking or planning to take were those that arguably might require the least significant changes to the way businesses operate.

The top actions being taken were similar to those seen in the October 2020 wave (when this topic was last explored), when the top three actions businesses anticipated taking were: recycling and waste minimisation, improving energy efficiency of premises, and using more locally sourced supplies.

Actions that businesses were more likely to say they did *not* plan on taking were: reusing materials or waste from other businesses (49% not planning to), measuring their emissions (48%), reviewing transport for supplies or distribution (40%) and offsetting carbon emissions (39%).

Q. Which of the following actions is your business currently taking to reduce its greenhouse gas emissions?



Base: All businesses (1,003)

ACTIONS TO REDUCE EMISSIONS (2)

Variation by sector

Sectors that were more likely to **currently** be taking actions to reduce emissions:

- Food and drink: using renewable energy sources (47%), offsetting carbon emissions (30%) and measuring emissions (33%)
- Tourism: using more locally sourced supplies (81%)
- Creative industries: reducing staff travel or using greener transport (52%)
- Financial and business services: upskilling staff (57%)

Sectors more likely to be **planning to take actions in the next 5 years**:

- Food and drink: changing equipment or materials (38%)
- Tourism: changing equipment or materials (34%)

Sectors more likely **not to be planning to take certain actions in the next 5 years**:

- Financial services: offsetting our carbon emissions (51%)
- Creative industries: offsetting our carbon emissions (61%)

Variation by location

Businesses in **remote rural** areas were more likely to be currently taking the following actions:

- Using renewable energy (43%)
- Improving energy efficiency of processes (52%)
- Offsetting carbon emissions (25%)
- Recycling and minimising waste (92%)
- Using more locally sourced supplies (75%)

They were also more likely not to be planning to upskill staff in the next 5 years (26%).

BARRIERS TO REDUCING EMISSIONS

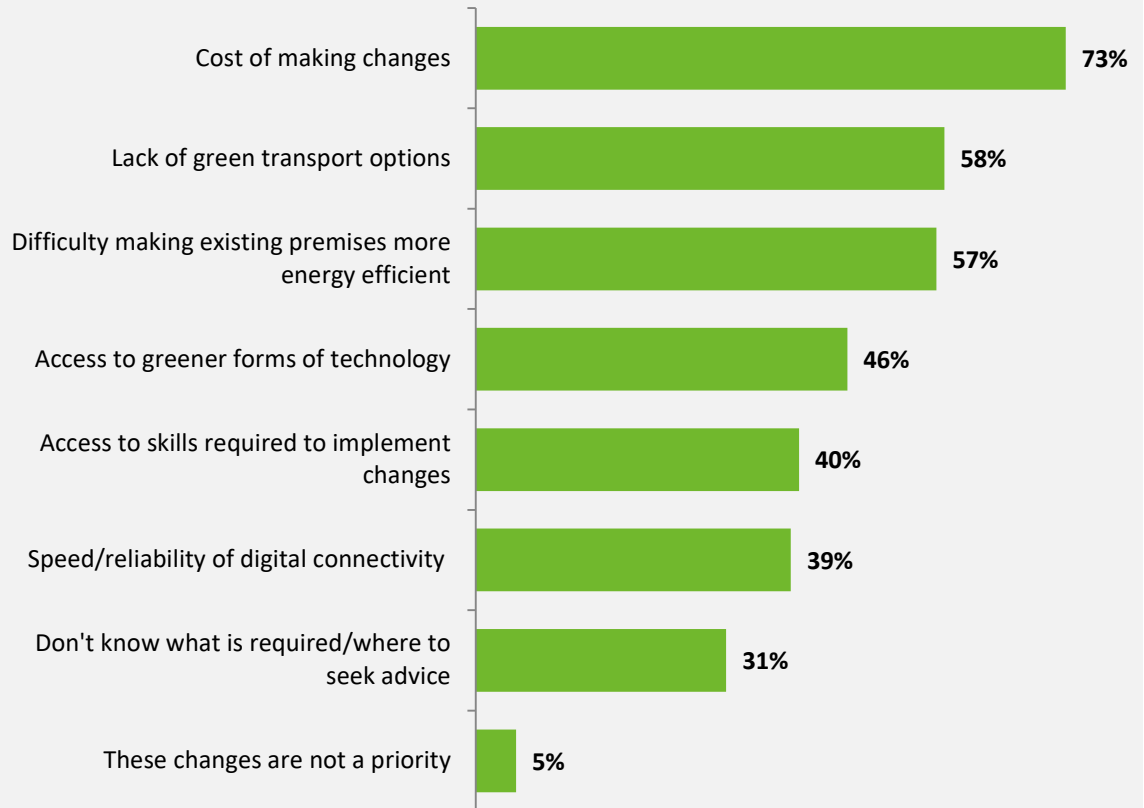
The most frequently mentioned barriers to reducing greenhouse gas emissions were: cost of making changes (73%), lack of green transport options (58%) and difficulty making existing premises more energy efficient (57%).

Variation

Businesses more likely than average to cite certain barriers:

- **Tourism** - difficulty making existing premises more energy efficient (69%) and cost of making changes (83%).
- **Large businesses (25+)** – access to greener forms of technology (59%).
- **Importers** sourcing goods from England and Wales (62%), Northern Ireland (67%), and Internationally (66%) - lack of green transport options.
- Those in **Lochaber, Skye and Wester Ross** - cost of making changes (83%) and lack of green transport (72%).
- **HIE-account managed** businesses - access to skills (53% compared to 38% non-account managed).

Q. What barriers to making those changes do you expect your business will face, if any?



Base: All businesses (1,003)

I. WORKFORCE AND FAIR WORK

KEY FINDINGS

- **Among employers, 40% considered their businesses to be employee-owned**, while 58% did not.
- **Around a third (34%) of businesses had staff on furlough in the few months** leading up to end of the furlough scheme (up to 30th September 2021) while (66%) did not.
- **The types of business most likely to have had staff on furlough were large businesses (25+) (56%), tourism businesses (44%)** as well as those operating below pre-pandemic levels (43%) and those striving for growth (43%).
- **Of those that had staff on furlough, the majority (82%) said those staff were now back in their usual role.** A further 6% had brought staff back but at reduced hours and 1% into a new role or different part of the business. A small minority said staff had left the business (5%) or been made redundant (3%).
- **The majority of businesses (78%) were taking measures to support Fair Work for their staff.** Around two thirds (67%) were paying the real Living Wage, while 60% were committing to flexible working after the pandemic and 57% had Diversity and Inclusion policies. Fewer, 34%, were measuring their gender pay gap.



EMPLOYEE OWNERSHIP

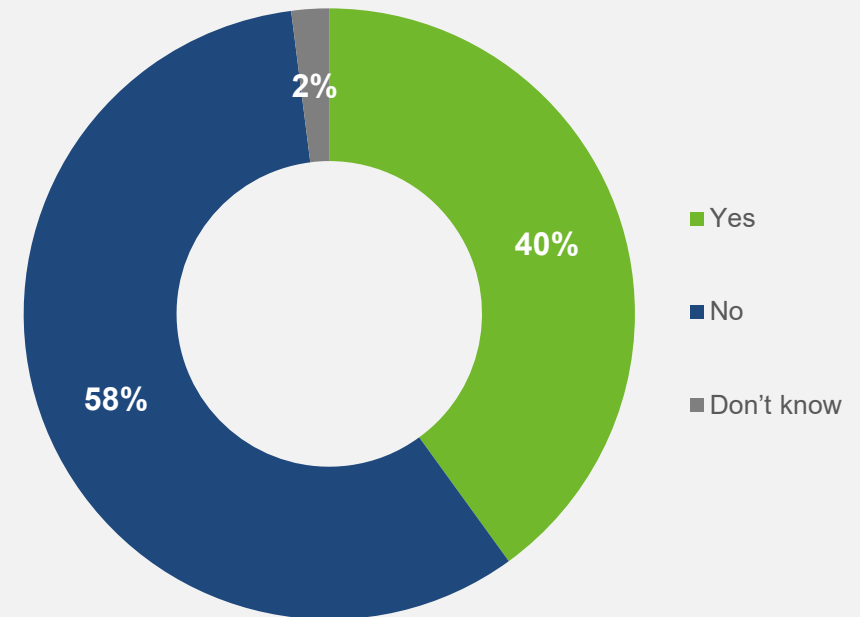
Among employers, 40% considered their business to be employee-owned, while 58% did not.

Findings are based on employers only (i.e. with at least one employee in addition to the business owner). However, 58% of sole traders also considered their business to be employee-owned, while 40% did not.

Employee-ownership was higher among:

- Businesses with 1-4 staff (58%)
- Those in accessible (49%) and remote (44%) rural areas, compared with urban (32%) areas
- Non-account managed (42%) compared with HIE-account managed (21%)
- Those saying they want to downsize in future (55%)

Q. Would you describe your business as employee-owned?



Base: All employers (802)

NOTES

“Employee-ownership” was not defined in the question wording, therefore findings are based on businesses own understanding and interpretation of what this term means to them

STAFF ON FURLOUGH

Around a third (34%) of businesses had staff on furlough in the few months leading up to end of the scheme (up to 30th September 2021). Of those that did, the majority (82%) said recently furloughed staff were back in their usual role.

In addition to those that had brought furloughed staff back to their usual roles, a further 6% had brought staff back but at reduced hours and 1% into a new role or different part of the business. A small minority said staff had left the business (5%) or been made redundant (3%).

More likely to have furloughed staff

Tourism businesses were more likely than average to have had staff on furlough in recent months (44%). However, even with most (82%) of their furloughed staff back in their usual roles, tourism businesses were still more likely than average to say they were experiencing labour shortages (see Chapter F).

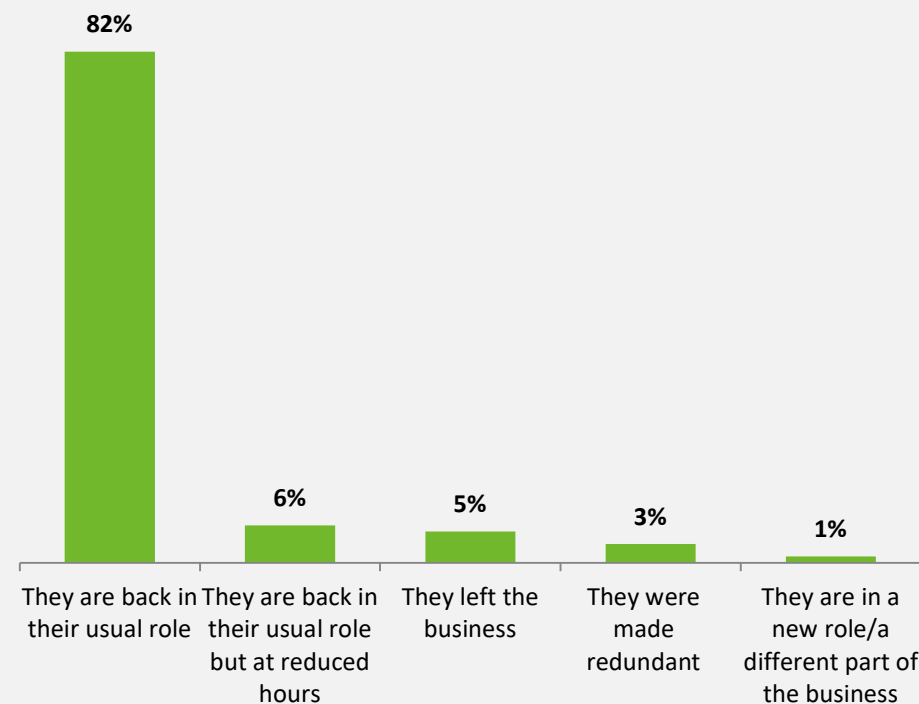
Other businesses more likely to have furloughed staff were:

- Large businesses (25+) (56%) and those with 11-24 staff (55%)
- Non-employee owned businesses (41%)
- Non-growth sectors (39%)
- Those operating below pre-pandemic levels (43%)
- Those striving for growth (43%)
- In urban areas (43%)

More likely not to have furloughed staff

- Small businesses (0-4) (76%)
- Employee-owned businesses (74%)
- Food and drink (84%)
- Those sourcing goods domestically (73%)
- In remote rural area (70%), particularly Orkney (76%)

Q. If you had any staff on furlough in the last few months, what happened with those staff after the end of the furlough scheme on 30th September 2021?



Base: All those that had staff on furlough in recent months (344)

FAIR WORK PRACTICES

The majority of businesses (78%) were taking measures to support Fair Work for their staff. Around two thirds (67%) were paying the real Living Wage, while 60% were committing to flexible working after the pandemic and 57% had Diversity and Inclusion policies. Fewer, 34%, were measuring their gender pay gap.

Fair Work practices were more common than average among large businesses (25+), those in urban areas, HIE-account managed and those striving for growth.

More likely to pay the real Living Wage for all staff

- Non-growth sector (71%)
- Large businesses (25+) (79%)
- In urban areas (74%)
- HIE account managed (93% compared to 66% non-account managed)
- Striving for growth (76%)

Commit to flexible working

- Creative industries (73%) and financial services (72%)
- Large businesses (25+) (75%)
- In urban areas (68%)
- Striving for growth (70%)

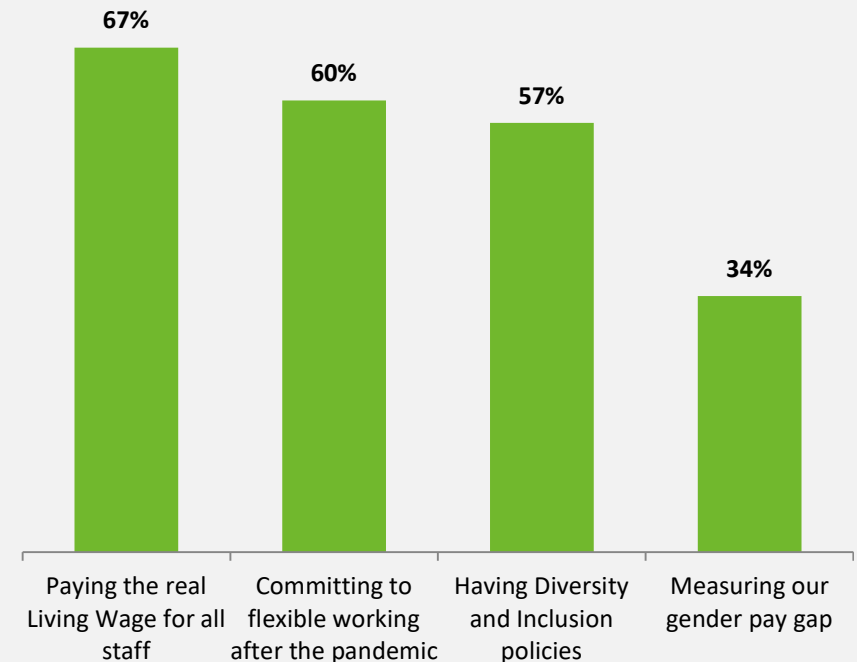
Have Diversity and Inclusion policies

- Non-growth sector (61%)
- Large businesses (25+) (86%)
- In urban areas (65%)
- HIE account managed (86% compared to 56% non-account managed)
- Striving for growth (71%)

Measure gender pay gap

- Large businesses (25+) (50%)
- HIE account managed (53% compared to 33% non-account managed)
- Striving for growth (45%)

Q. Which of the following measures, if any, are you currently taking to support Fair Work for your staff?



Base: All businesses (1,003)

H. APPENDIX

ADDITIONAL VARIATION – BUSINESS PRIORITIES

Priority over the next 12 months	%	%	%	%
		Growth aspiration		
	Total	Striving for growth	Content	Aiming to downsize
Keeping pace with new technology	54	63	47	40
Innovating or evolving what we do	51	68	40	27
Reaching new markets	40	56	27	23
Reskilling staff	34	47	25	18
Moving to low carbon ways of working	27	34	22	15
Base	1,003	452	448	96

Priority over the next 12 months	%	%	%	%
		Operating level compared to pre-pandemic		
	Total	Over and above	Same	Below
Keeping pace with new technology	54	61	51	53
Innovating or evolving what we do	51	60	45	54
Reaching new markets	40	40	34	46
Reskilling staff	34	47	28	33
Moving to low carbon ways of working	27	28	25	28
Base	1,003	221	424	341

ADDITIONAL VARIATION – BUSINESS PRIORITIES

Priority over the next 12 months	%	%	%	%	%
		Markets imported from			
	Total	England and Wales	Norther Ireland	The EU	Outside the EU
Keeping pace with new technology	54	56	58	60	66
Innovating or evolving what we do	51	54	57	61	64
Reaching new markets	40	40	41	47	46
Reskilling staff	34	37	36	41	44
Moving to low carbon ways of working	27	27	24	32	28
Base	1,003	733	179	366	217

Priority over the next 12 months	%	%	%	%	%
		Markets exported to			
	Total	England and Wales	Norther Ireland	The EU	Outside the EU
Keeping pace with new technology	54	59	54	58	59
Innovating or evolving what we do	51	61	62	65	66
Reaching new markets	40	50	52	53	55
Reskilling staff	34	38	39	37	39
Moving to low carbon ways of working	27	30	30	31	30
Base	1,003	472	275	273	247

PROFILE OF BUSINESSES INTERVIEWED

Size (no of employees)	%
Sole trader	20
1-4	43
5-10	17
11-24	11
25+	9

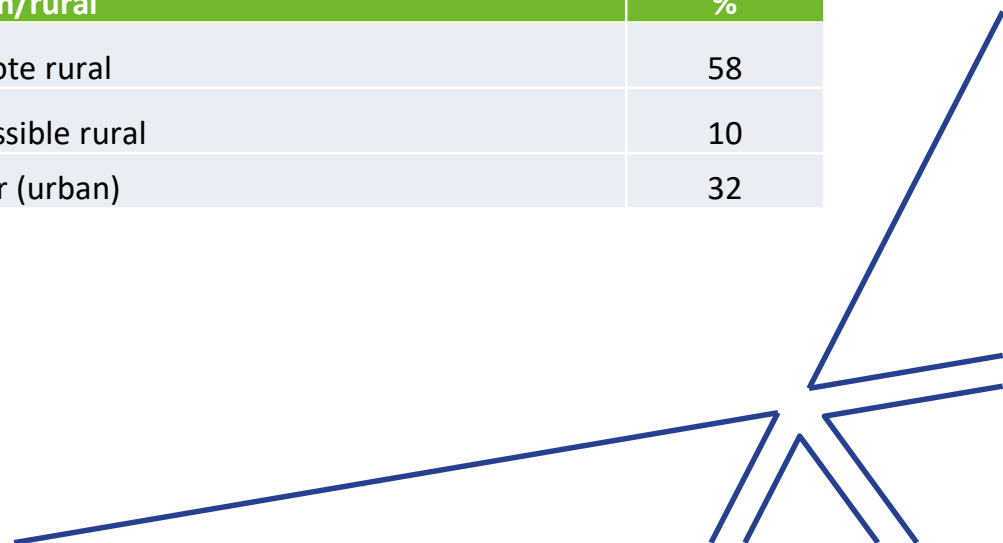
Growth sector	%
Creative industries	4
Energy	2
Financial and business services	9
Food and drink	25
Life sciences	*
Tourism	12
Non-growth	48

Relationship with HIE	%
Account-managed	7
Non-account managed	93

Location	%
Argyll and the Islands	19
Caithness and Sutherland	9
Inner Moray Firth	25
Lochaber, Skye and Wester Ross	13
Moray	12
Orkney	9
Outer Hebrides	6
Shetland	6

Fragile status	%
Fragile area	19
Non-fragile area	81

Urban/rural	%
Remote rural	58
Accessible rural	10
Other (urban)	32



Ipsos MORI's Standards & Accreditations

Ipsos MORI's standards & accreditations provide our clients with the peace of mind that they can always depend on us to deliver reliable, sustainable findings. Moreover, our focus on quality and continuous improvement means we have embedded a 'right first time' approach throughout our organisation.



ISO 20252 – is the international market research specific standard that supersedes BS 7911 / MRQSA & incorporates IQCS (Interviewer Quality Control Scheme); it covers the 5 stages of a Market Research project. Ipsos MORI was the first company in the world to gain this accreditation.



MRS Company Partnership – By being an MRS Company Partner, Ipsos MORI endorse and support the core MRS brand values of professionalism, research excellence and business effectiveness, and commit to comply with the MRS Code of Conduct throughout the organisation & we were the first company to sign our organisation up to the requirements & self regulation of the MRS Code; more than 350 companies have followed our lead.



ISO 9001 – International general company standard with a focus on continual improvement through quality management systems. In 1994 we became one of the early adopters of the ISO 9001 business standard.



ISO 27001 – International standard for information security designed to ensure the selection of adequate and proportionate security controls. Ipsos MORI was the first research company in the UK to be awarded this in August 2008.



The UK General Data Protection Regulation (UK GDPR) & the UK Data Protection Act 2018 (DPA) – Ipsos MORI is required to comply with the UK General Data Protection Regulation and the UK Data Protection Act; it covers the processing of personal data and the protection of privacy.



HMG Cyber Essentials – A government backed and key deliverable of the UK's National Cyber Security Programme. Ipsos MORI was assessment validated for certification in 2016. Cyber Essentials defines a set of controls which, when properly implemented, provide organisations with basic protection from the most prevalent forms of threat coming from the internet.



Fair Data – Ipsos MORI is signed up as a 'Fair Data' Company by agreeing to adhere to ten core principles. The principles support and complement other standards such as ISOs, and the requirements of Data Protection legislation.

This work was carried out in accordance with the requirements of the international quality standard for market research, ISO 20252 and with the Ipsos MORI Terms and Conditions

FOR FURTHER INFORMATION:

Ciaran Mulholland, Associate Director, Ipsos MORI Scotland
ciaran.mulholland@ipsos.com

Catriona Millar, Senior Research Executive, Ipsos MORI Scotland
catriona.millar@ipsos.com

HIE Research Team
hieresearch@hient.co.uk