HIE BUSINESS PANEL

Wave 27: November/December 2024

Executive Summary

Ipsos

HIE
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 November and December 2024.

Confidence in the economy dropped this wave, to its lowest reported level since October/November 2022. Over the past six months, most had either performed well or had been fairly steady, but more than a quarter had struggled. Overall business performance was down on the previous wave.

Looking ahead, around half of businesses were striving for growth, while over a third were content with their current level of performance and one-in-ten were looking to downsize. Most were aiming for their sales to either remain stable or to increase in each of their markets of operation, with appetite for growth most marked in international and rUK markets.

The biggest challenges facing businesses were economic uncertainty, the cost of doing business, legislation and regulation, and access to skilled labour.

Most businesses cited significant financial concerns, most frequently relating to high and increasing costs, increased cost of labour, having to charge higher prices, and profit margins.

This wave also explored business priorities and approach to investment. Most businesses were investing or planning to invest, with workforce development and wellbeing, process efficiency, and premises or equipment being the most common immediate priorities. New technologies and low carbon ways of working tended to be seen as longer-term priorities.

There was no single reason driving business investment. Similar proportions were investing to build resilience to future challenges, to maintain their performance, or to support growth. The main reasons for not investing were being focussed on survival, performing well without investment, and saving funds for the time being.

Business attitudes to investment risk varied, with just over a third describing themselves as open to risk, whilst just under a third were risk neutral, or risk averse.

When it came to workforce, temporary or seasonal roles were more of a challenge to fill than permanent roles. Most employers were taking some form of action in relation to their workforce. Training was most commonly mentioned, followed by offering flexible working, and making pay and rewards more competitive.

The survey explored likely response to increases in staff costs announced in the UK Budget in October 2024. More than half of employers planned to increase prices, just under half planned to absorb additional costs, and a quarter planned to pause or stop recruitment. Fewer were planning to reduce or stop pay increases or benefits or reduce the number of staff.

In relation to net zero, around three in ten businesses had a formal plan in place for reducing their emissions, this having increased slightly since early 2023. Just under half were already reducing emissions from their premises and equipment, or operations. A further fifth were intending to do so, and around three in ten did not intend to do so.

In terms of what would help businesses move to lower carbon ways of working, more than half said they needed financial support, while around two-fifths said they needed information about opportunities, access to equipment and technology, and guidance on what changes to make.

EXECUTIVE SUMMARY (2)

Business structure

- **Among employers, 66% described themselves as family-owned,** 4% were a co-operative (owned or controlled by its members) **and 4% were employee-owned** (with employees owning a majority of the shares). 8% of businesses were women-led and 4% described themselves as a social enterprise.
- **Around one-in-eight (12%) employers fell within one of the "inclusive ownership models**" of employee-ownership, social enterprise or co-operatives.

Optimism and performance

- **Confidence in the economic outlook for Scotland was down this wave:** 44% of businesses were confident (compared to 50% in November/December 2023), while 55% were not (compared with 48%). Confidence was at its lowest level reported since October/November 2022 (41% confident; 58% not confident).
- **Reflecting on the past six months, 51% said their economic confidence had decreased, 5% said it had increased, and 43% said it had stayed the same**. Net confidence was -46, the lowest level of net business confidence since May/June 2020 (-76) when COVID-19 restrictions were in place.
- **Views on business performance over the last six months were mixed**, with 31% saying their business had performed well, 41% saying their performance had been fairly steady and 28% saying they had struggled. Performance showed a slight fall compared to the previous wave (when 34% had performed well, 21% had struggled, and 44% had steady performance).
- **Over the past six months, sales or turnover performance was mixed** (30% said it had increased, 27% decreased, and 41% remained the same). Businesses had once again performed better on sales or turnover than on profit (16% said profit margins had increased, 41% decreased, and 41% remained the same).
- **Employment and exports had remained relatively stable over the last six months** (73% and 59% respectively said these had stayed the same).
- Over the past twelve months, **most businesses (81%) had taken actions to address their working environment**, while one in five (19%) had not. Businesses most frequently reported having made their processes more efficient (49%) and reviewed supply chains (42%). This was followed by taking steps to reduce their emissions (37%) and using more technology or automation (35%).
- **Just under half (47%) of businesses were striving for growth**, while 36% were content with their current level of performance, and 14% were looking to downsize. Growth aspirations were similar to the previous wave (when 49% were striving for growth, 37% were content, 12% were wanting to downsize).
- **Businesses largely expected stability in the months ahead.** A majority (64%) were expecting to perform at much the same level over the next six months, with just under one in five (17%) expecting to perform better or worse than their current level of performance.

EXECUTIVE SUMMARY (3)

Markets of operation

- **Three in four (75%) businesses were importers** (sourcing goods from outside Scotland), with 74% importing from the rest of the UK and 30% from outside the UK. The majority of businesses (92%) sourced goods and materials from Scotland, with 22% sourcing *only* from Scotland.

- **Just under half (48%) of businesses were exporters** (selling to markets outside Scotland), with 46% selling to the rest of the UK and 27% internationally. The majority (97%) of businesses sold goods or services within Scotland, with 51% selling *only* in Scotland.

- **Among businesses already selling outside the UK, just over half (54%) wanted to grow their level of sales, while 38% wanted to maintain performance.** Among those selling to the rest of the UK, 47% wanted to grow and 45% wanted maintain their level of sales. When it comes to domestic sales, half (51%) wanted to maintain performance while 43% were aiming for growth.

- **Among businesses not already selling in the rest of the UK, or outside the UK, most did not plan to do so** (89% and 91% respectively). For each of these markets, 5% planned to enter for the first time, and 3% planned to re-enter.

Challenges

- **The biggest challenges facing businesses were economic uncertainty (cited by 46% of businesses), the cost of doing business (41%), legislation and regulation (40%) and access to skilled labour (36%).** A quarter cited finances (24%) and one-in-five cited transport connectivity (19%). A lack of housing and supply chain disruption were less commonly reported challenges (cited by 12% and 9% of businesses respectively).

Financial outlook

- **Most businesses (92%) cited significant financial concerns, most commonly high and increasing costs** (74%). Increased cost of labour (53%), having to charge higher prices (51%) and profit margins (51%) were significant concerns for more than half of businesses.

- **The top three measures businesses were taking to support their finances were using loans from banks or financial institutions (30%), using credit or overdrafts (28%), and public sector grants or loans (19%).** Fewer were sharing or pooling resources (12%), using equity finance or shares (7%) or using crowd funding or peer lending (1%).

EXECUTIVE SUMMARY (4)

Planning and prioritisation

- **A majority of businesses (62%) were either currently investing (43%) or planning to invest in the future (19%).** Around a third were not investing and had no plans to (36%).

- **Among businesses who were investing or planning to invest, the most common immediate investment priorities were: workforce development and wellbeing (40%), process efficiency (35%) and premises or equipment (35%).** New technologies and low carbon ways of working were least likely to be immediate investment priorities (23% and 19% said they were), both more commonly seen as longer-term priorities (45% each).

- **There was no single reason driving businesses investment.** Over a quarter of businesses who were investing, or planning to invest, were doing so to build resilience for future challenge (28%) or maintain performance (28%) with a quarter (25%) investing to support growth. A smaller proportion were investing to survive current challenges (17%).

- **The main reasons for not investing were being focussed on survival (38%), performing well without investment (37%), and saving funds for the time being (35%). Around three in ten** said that investment was not a priority (29%) or that they lack the funds to invest (28%).

- **Business attitudes to investment risk varied, with just over a third of businesses describing themselves as open to risk (34%), whilst 30% were risk neutral, and 31% were risk averse.**

Workforce

- **Just under half of employers (47%) had a skills gap (either a lack of staff or a lack of the right level of skills). For employers, temporary or seasonal roles were more of a challenge than permanent roles in terms of securing staff**: a third of employers (34%) did not have enough staff to fill temporary or seasonal roles, while a quarter did not have enough staff to fill permanent roles.

- **On skills, 29% of employers did not have the right level of skills for temporary or seasonal roles, compared with 24% for permanent roles.**

- **The top three barriers preventing businesses from getting skilled staff were:** required skills being in short supply (65%), location of the business (49%) and lack of accommodation (42%).

- **Most employers (80%) were taking some form of action in relation to their workforce.** The top action was training (61%), followed by offering flexible working (44%), and making pay and rewards more competitive (42%).

- **More than half of employers (55%) planned to increase prices in response to upcoming increases associated with staff costs, while 46% planned to absorb the additional cost, and 25% to pause or stop recruitment.** Fewer were planning to reduce or stop pay increases or benefits (21%) or reduce the number of staff (16%). Just under two-fifths planned to reduce costs some other way (37%) and around three in ten felt it was too soon to say (31%).

EXECUTIVE SUMMARY (5)

Net Zero

- **Around three in ten businesses (29%) had a formal plan in place for reducing their emissions.** This was a slight increase on Feb/Mar 2023 when 23% of businesses had a plan in place.
- **Just under half of businesses (45%) were reducing emissions from their premises and equipment, or operations**. A further fifth were intending to do so (21% and 20% respectively), and around three in ten did not intend to do so (29% and 30% respectively).
- **Businesses that were less likely to be reducing, or intending to reduce, their emissions** included those with 0-4 staff, construction businesses, financial and business services growth sector, those content with their current level of growth, and those not investing.
- **In terms of what would help businesses move to lower carbon ways of working, more than half (60%) said they needed financial support,** while around two-fifths said they needed information about opportunities (44%), access to equipment and technology (43%) and guidance on what changes to make and how (42%).

Key sectoral variation

- **Food and drink growth sector businesses** were less confident in the economy, particularly concerned about their finances (including profit, ability to invest, and managing debt)and drawing on financial support such as loans, credit and overdrafts.
- **Accommodation and food services** highlighted issues with access to skilled permanent and temporary staff, and were facing barriers such as location, lack of accommodation, and unappealing working hours. In response to upcoming staff cost increases, they were more likely to be planning in increase their prices or reducing staff numbers.

FOR FURTHER INFORMATION:

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

Erin Simpson, Senior Research Executive, Ipsos Scotland
erin.simpson@ipsos.com

HIE Research Team
hieresearch@hient.co.uk