

JUNE 2024



UNDERSTANDING
BUSINESS



Diffley
Partnership

56°
NORTH



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UNDERSTANDING BUSINESS

It has never been more important to understand what businesses in Scotland are thinking, what challenges they face and their priorities for future prosperity.

Understanding Business is a quarterly survey across Scotland, measuring the outlook, perceptions and challenges for business - allowing for these to be measured over time.

This high-quality, large-scale survey is brought to you by Diffley Partnership and 56° North.



Introduction

*Understanding Business –
June 2024*

In this latest edition of Understanding Business, we present a comprehensive analysis of the current economic landscape for businesses in Scotland, against the backdrop of evolving political and economic dynamics. During the fieldwork for this report, a UK general election was announced for 4 July 2024.

Key findings in this edition reveal a nuanced picture of the Scottish business landscape. While challenges such as rising operational costs and economic uncertainty persist, there is a noticeable improvement in economic sentiment compared to previous surveys. Businesses are showing cautious optimism, with a decreasing percentage expressing pessimism about current economic conditions.

Profitability and turnover expectations have shown positive trends, reflecting growing confidence among businesses. Despite ongoing recruitment challenges, there is resilience in maintaining workforce stability while exploring avenues for growth.



This report also examines the evolving role of devolution in shaping the business environment in Scotland. Insights from businesses highlight varying perspectives on the effectiveness of devolved powers in driving economic development and competitiveness.

As Scotland prepares for the upcoming general election and navigates future economic dynamics, this report aims to inform policymakers, stakeholders, and business leaders alike.

5 KEY TAKEAWAYS

Our fifth edition of Understanding Business brings you insights from over 500 businesses in Scotland: focusing on their outlook for the economy, prospects for their businesses and challenges they face.



01 IMPROVING ECONOMIC SENTIMENT

Economic sentiment is showing signs of improvement, with 49% of businesses believing conditions are worse than a year ago, down from 60% in March 2024. This indicates a more positive outlook despite ongoing challenges in the economic landscape. Looking forward, about four in ten (38%) believe that economic conditions will be worse over the next 12 months than they are now, down from 45% that said the same in March 2024.

02 CONFIDENCE IN PROFITABILITY AND TURNOVER GROWING GRADUALLY

There is growing confidence among businesses regarding future profitability and turnover. Currently, 39% anticipate an increase in turnover (up from 37% in March 2024), and 35% expect improved profitability (up from 33%). These figures suggest a gradual upward trend in business expectations.

03 WORKFORCE STABILITY AND RECRUITMENT DYNAMICS

Despite stable workforce sizes reported by 67% of businesses (up from 63% in March), recruitment remains a persistent challenge. Overall 47% of businesses attempted recruitment in the last three months. Those who had attempted to recruit continue to cite ongoing issues such as skills shortages (57%) and a lack of suitable applicants (48%).

04 SHIFTS IN BUSINESS CONCERNS

The percentage of businesses more concerned about inflation has decreased significantly from 52% in March 2022 to 39% now, indicating a notable improvement in sentiment. Conversely, those more worried about taxation has slightly increased from 46% to 49%, reflecting heightened apprehension about fiscal policies compared to three months ago.

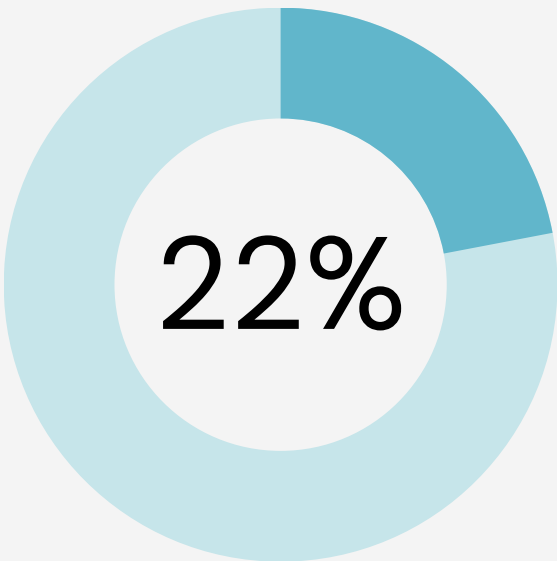
05 IMPACT OF DEVOLUTION ON BUSINESS CONDITIONS

The survey reveals mixed perceptions regarding devolution's impact on Scottish businesses. While 44% believe devolution has enhanced conditions, 33% perceive a negative impact. Additionally, 15% report no significant change. Key areas where businesses see potential for additional devolved powers include investment/funding for economic development (40%), taxation (39%), international trade (38%), and business regulations (34%).

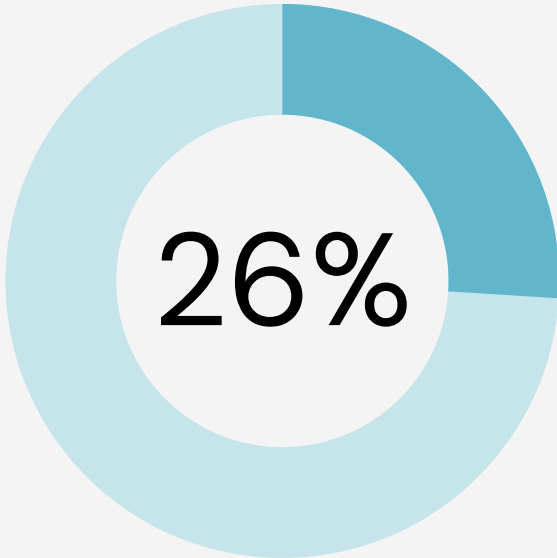
Economic Outlook

When reflecting on the previous 12 months, about half (49%) believe that economic conditions are worse now than a year ago (excluding 'don't knows').

This is much lower than the proportion recorded in March 2024, where 60% of businesses said the same. Three in ten (29%) believe economic conditions are about the same as a year ago, while over one in five (22%) believe conditions have improved. In contrast, just 15% of businesses thought conditions had improved in March 2024.



believe that economic conditions are better now than 12 months ago



believe that economic conditions will be better in 12 months time

Looking forward, about four in ten (38%) believe that economic conditions will be worse over the next 12 months than they are now, down from 45% that said the same in March. About one in three (36%) think that conditions will be about the same in a year as they are now, and one in four (26%) think they will be better.

While still generally negative about economic conditions, businesses are more positive than they were in March. Predictions for the future economy are similar to those recorded in December, when a record 29% thought the economy would improve, and current ratings of the economy are the most positive recorded in the series.



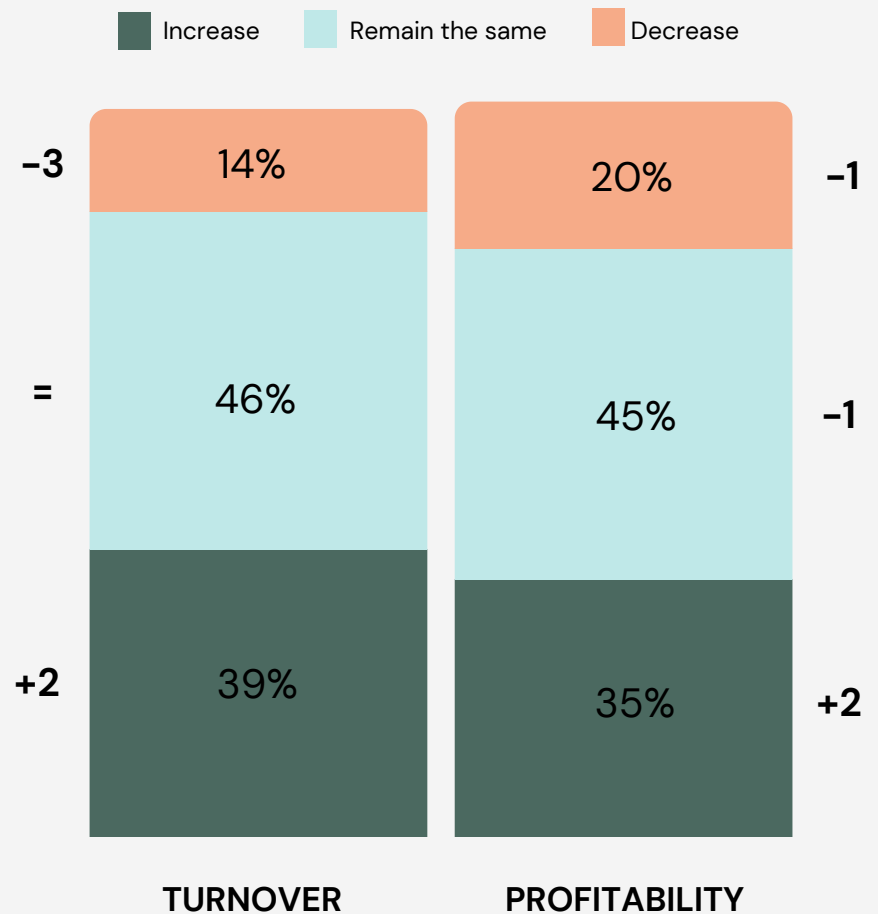
Profitability & Turnover

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

Proportion of respondents projecting increases/decreases

Approximately four in ten (39%) businesses surveyed think their turnover will increase in the next 12 months, marking an increase of two percentage points from March 2024. The proportion that thinks their turnover will decrease is down by three percentage points from 17% in March to 14% in June 2024.

There has also been a small increase in the proportion of businesses that think their profitability will increase, from 33% in March 2024 to 35% in June 2024. The proportion who think their profitability will decrease or remain the same has fallen by one percentage point in the same period.



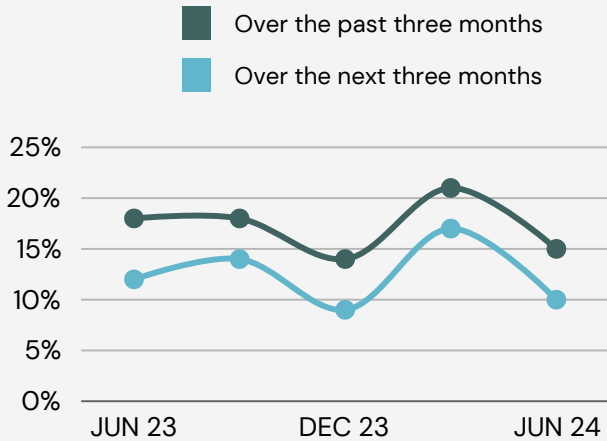
Recruitment

Two-thirds (67%) of those that express an opinion report that their workforce size has remained the same over the past three months, up four percentage points since March. A similar proportion (67%) expect their workforce to remain the same over the next three months.

18% report an increase in their workforce, up two percentage points, while a slightly larger 23% expect an increase in the next three months, up four percentage points.

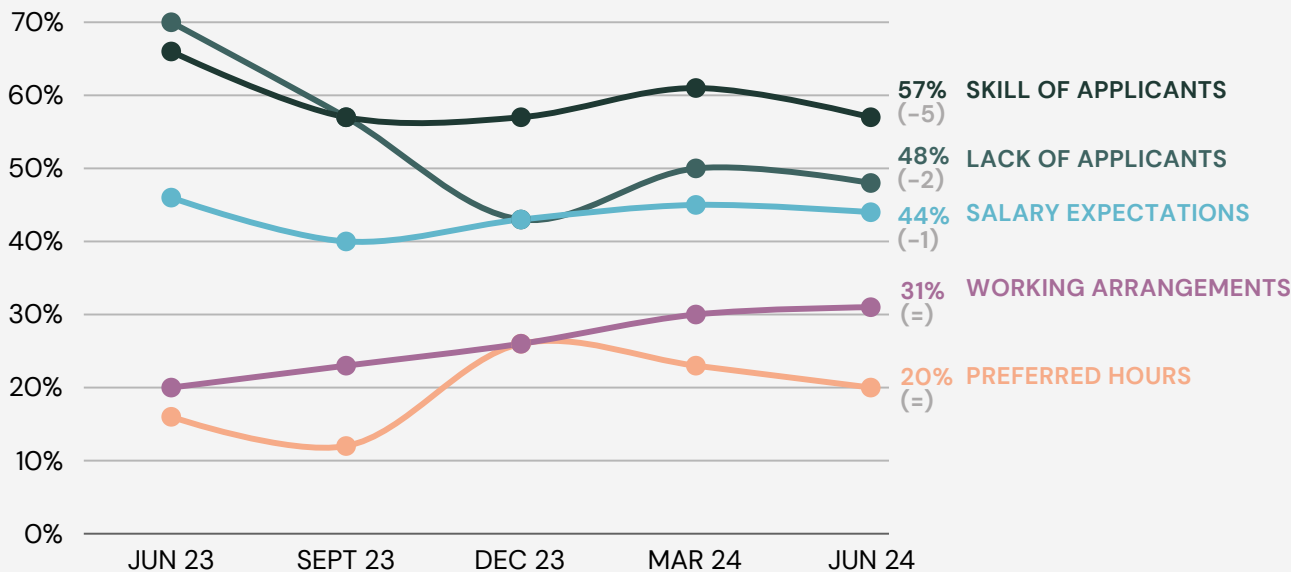
Down a sizable six percentage points, one in seven (15%) report a decrease in workforce size (excluding don't knows). Similarly, only one in ten (10%) expect a decrease in the next three months.

Proportion of respondents reporting/projecting a decrease in their workforce



Under half (47%) have attempted to recruit staff over the past three months. Challenges for recruiting businesses are relatively stable since March of this year, with skill (57%) and lack (48%) of applicants remaining the main challenges. However, across the series, emphasis on lack of applicants has fallen 21 percentage points, while emphasis on candidates wanting greater flexible working arrangements has risen by ten percentage points.

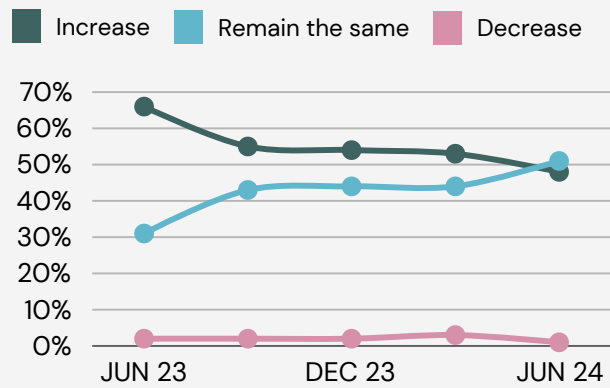
Proportion of recruiting businesses that experienced the following challenges over time



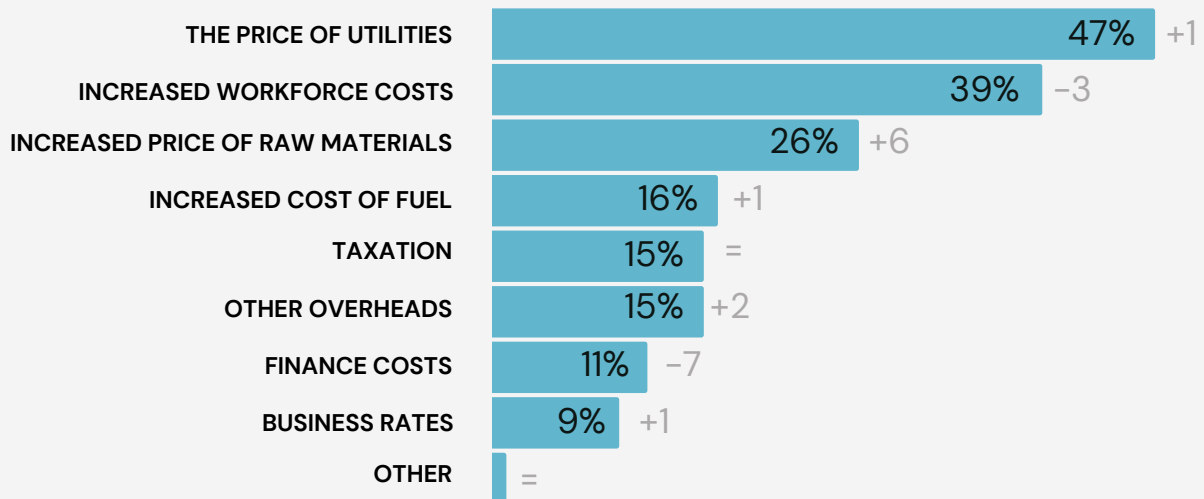
Pricing

A majority (51%) expect their prices to remain the same over the next three months (excluding don't knows). This is the highest recorded percentage of businesses that expect their prices to remain the same, up from 44% in March 2024. Correspondingly, just under half (48%) of businesses expect their prices to increase, down five percentage points from March.

Proportion of respondents expecting price increases/decreases



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

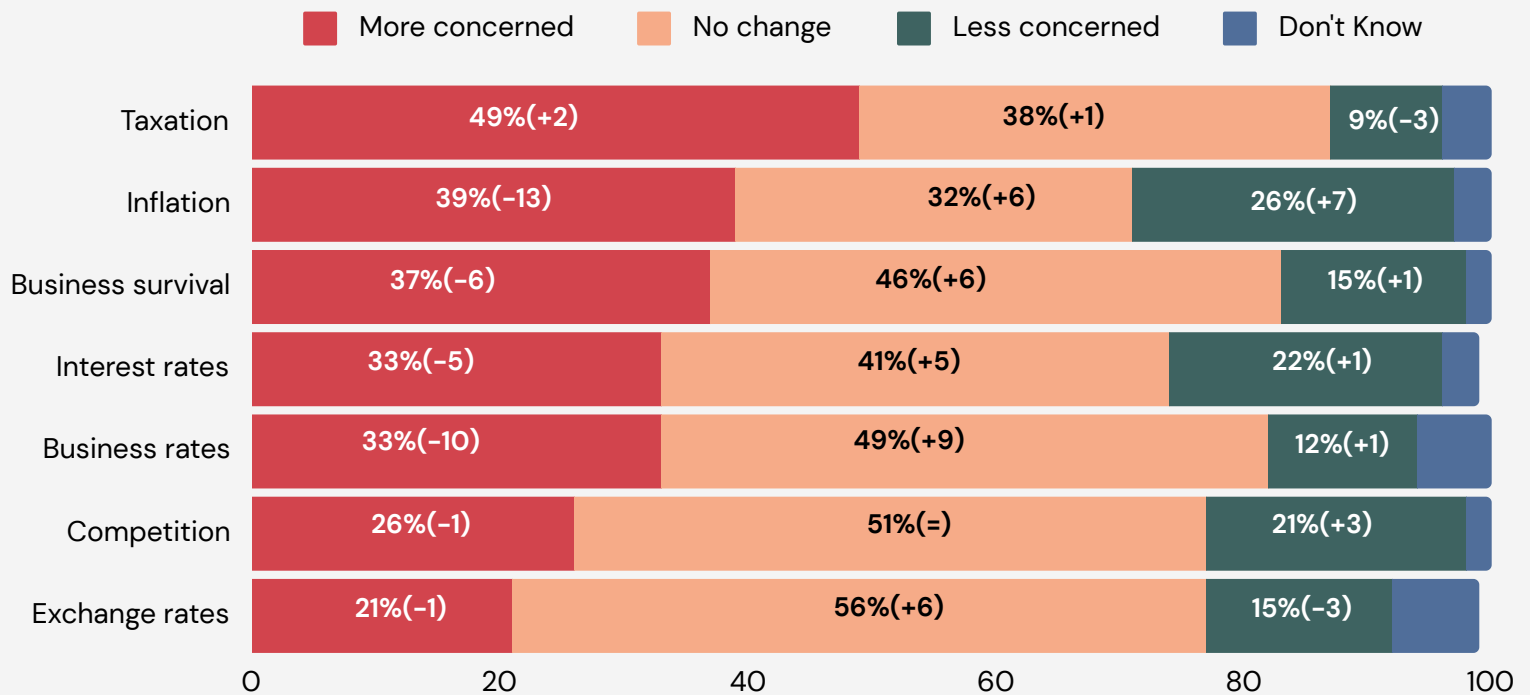


Reflecting on the two most important factors that influence price increases, almost half (47%) of businesses select the price of utilities. About four in ten (39%) select increased workforce costs, and about one in four (26%) select increases in the price of raw materials.

Other factors deemed important by a significant proportion of respondents are the increased cost of fuel (16%) and other overheads (15%) which are up one and two percentage points respectively. Taxation was again identified by 15% of businesses overall, remaining unchanged from March 2024.

Respondents were asked whether they are more or less concerned about a series of issues than they were three months ago.

Proportion of respondents citing the following as a concern compared to three months ago



Around two fifths (39%) of businesses are more concerned about inflation than they were three months ago, marking a notable drop in the trend by thirteen percentage points from March 2024 (52%) and September 2023 (60%).

Meanwhile, concerns about interest rates declined five percentage points with a third (33%) reporting being more concerned in June compared to 39% in March.

Concerns over taxation increased as 49% of businesses report being more worried, up two percentage points from 46% in March.

Government Responsiveness

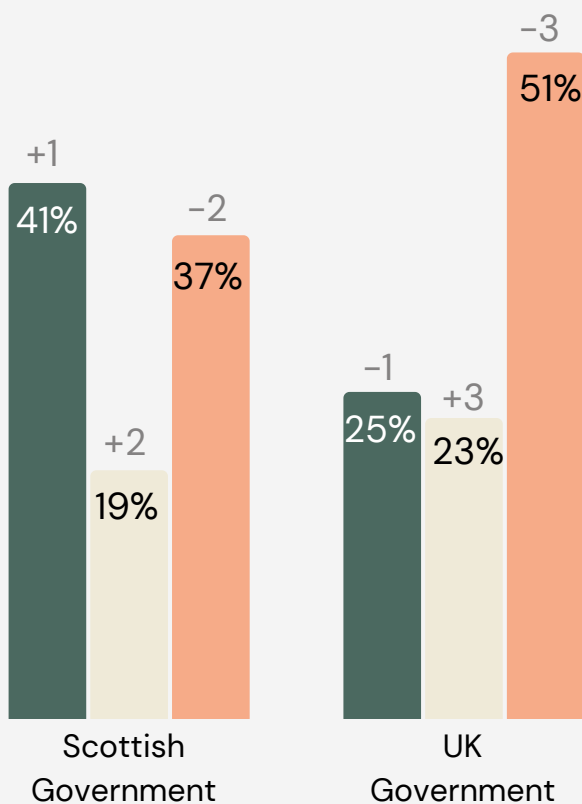
When asked if the Scottish Government is concerned with the needs of businesses in Scotland, around four in ten (41%) agree while 37% disagree. The results were similar in March where 40% agreed while 39% disagreed.

When asked about the UK Government, over half (51%) disagree that the UK Government is concerned with the needs of businesses in Scotland, down three percentage points from March 2024.

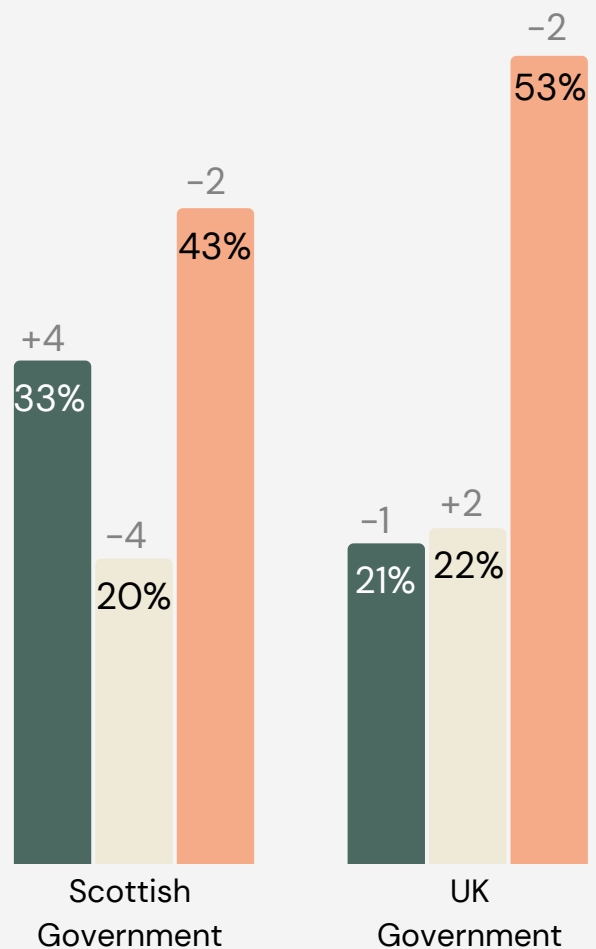
When looking at actions taken, a third (33%) believe that the Scottish Government is taking action to address business concerns in Scotland, up by four percentage points from March.

In June, a fifth (21%) believe that the UK Government is taking action to address business concerns in Scotland, which is about the same as in March, while more than half (53%) do not think UK Government is taking such action.

Concerned with needs of Scottish businesses



Taking action to address Scottish business concerns



Agree Neither agree nor disagree Disagree



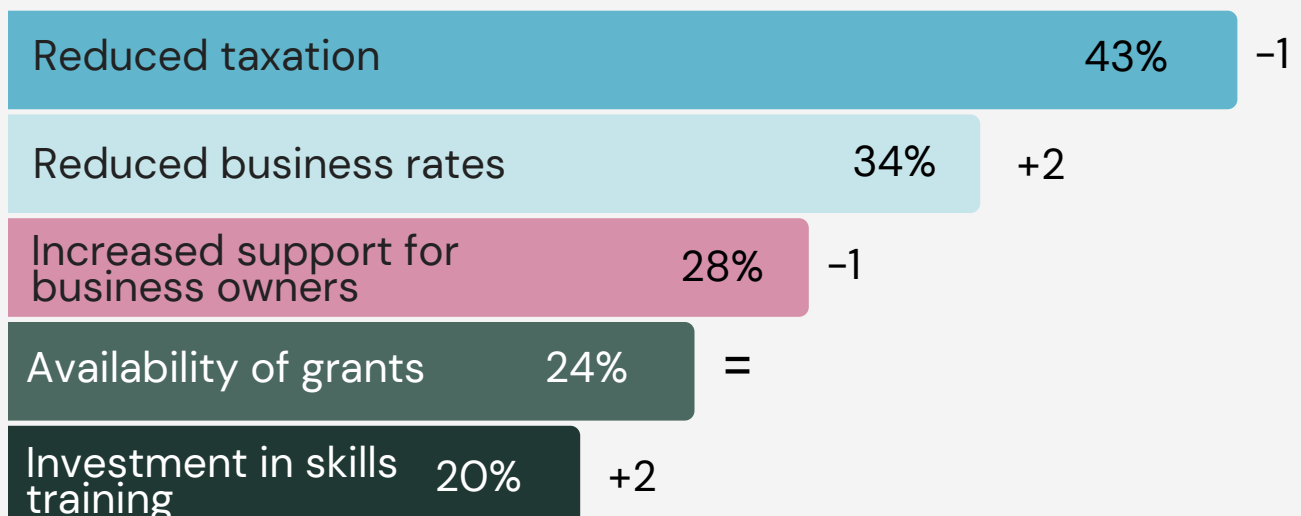
Interventions

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

43% of businesses surveyed cite reduced taxation as one of the top three things that would best help the growth of their business. Another third (34%) cite reduced business rates. Around three in ten (28%) cite increased support for business owners while a

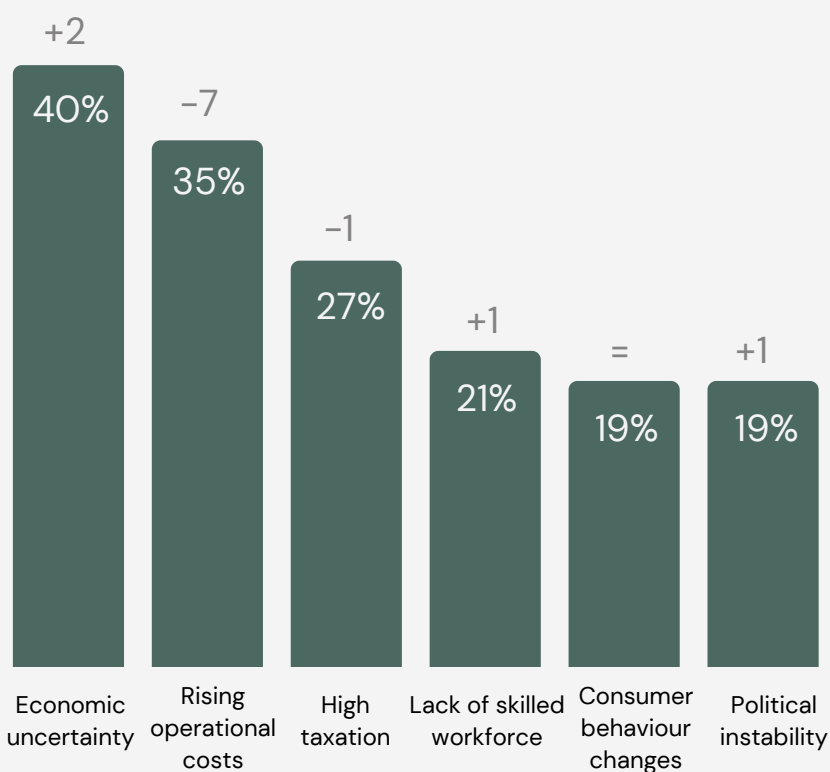
quarter (24%) selected increased availability of grants for innovation and expansion, remaining about the same as in March 2024. Increased investment in skills training continues to be seen as a crucial intervention by one in five (20%) respondents, climbing two percentage points from March.

Proportion of respondents reporting that the following interventions would be helpful for the growth of their business



Barriers

Main barriers to business growth

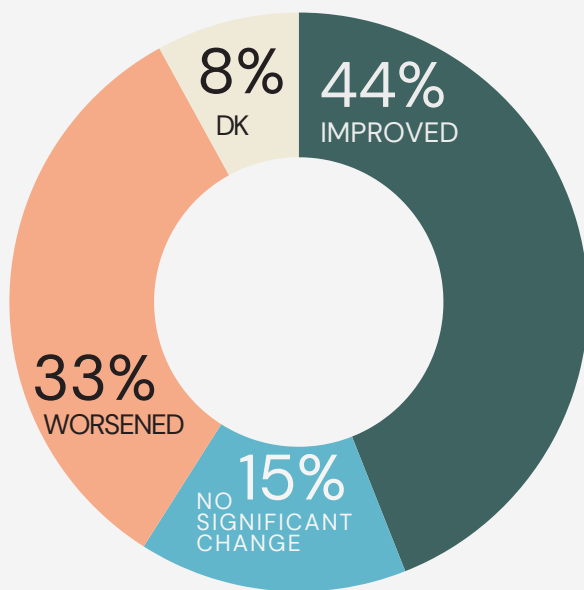


Economic uncertainty remains the most commonly cited significant barrier to business, as two in five businesses (40%) identify it as a major concern. Although rising operational costs emerge as the second most pressing challenge, selected by around a third of respondents (35%), this is down seven percentage points from March (42%).

Around three in ten (27%) cite high taxation as a close third in the list while around one in five identify the lack of skilled workforce (21%) and changes in consumer behaviour (19%) as significant barriers to the growth of their business.

Attitudes towards devolution

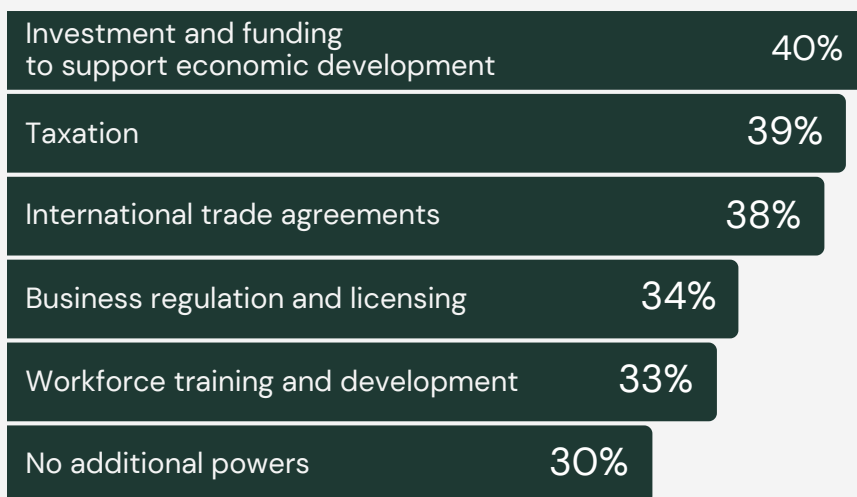
Proportion of businesses that believe devolution has improved/worsened business conditions in Scotland



This edition of Understanding Business asked businesses whether devolution has improved or worsened conditions for Scottish businesses.

Findings indicate that 44% of businesses surveyed believe devolution has enhanced conditions for companies in Scotland, while 33% of them perceive that devolution has negatively impacted the environment for businesses in Scotland. A further 15% have seen no change resulting from devolution arrangements over the past 25 years.

The survey findings indicate that two in five respondents (40%) believe that the Scottish Parliament should have more powers related to investment and funding to support economic development. A similar proportion (39%) deem additional authority over taxation a suitable devolved domain for more powers. Three in ten (30%) believe that the Scottish Parliament should have no additional powers in relation to business.



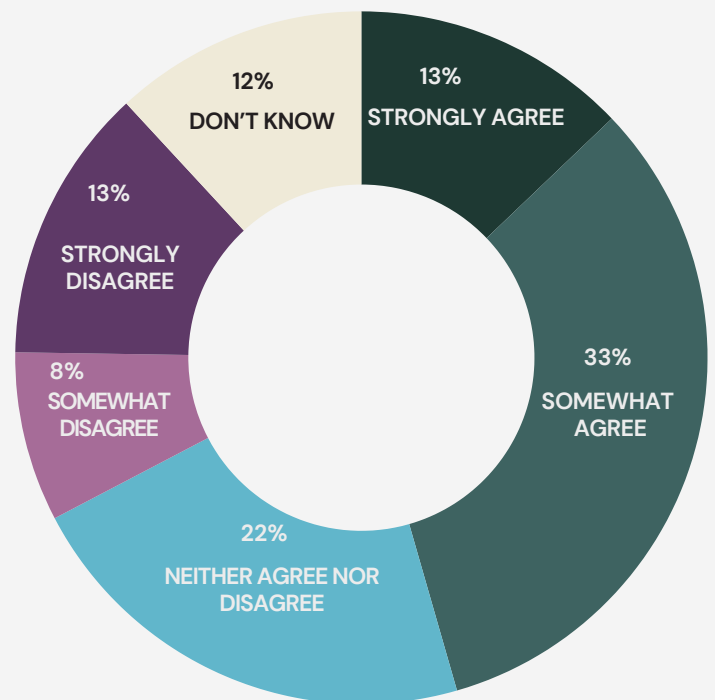
Proportion of respondents reporting that the Scottish Parliament should have powers over the following in relation to business

Mayors and business support

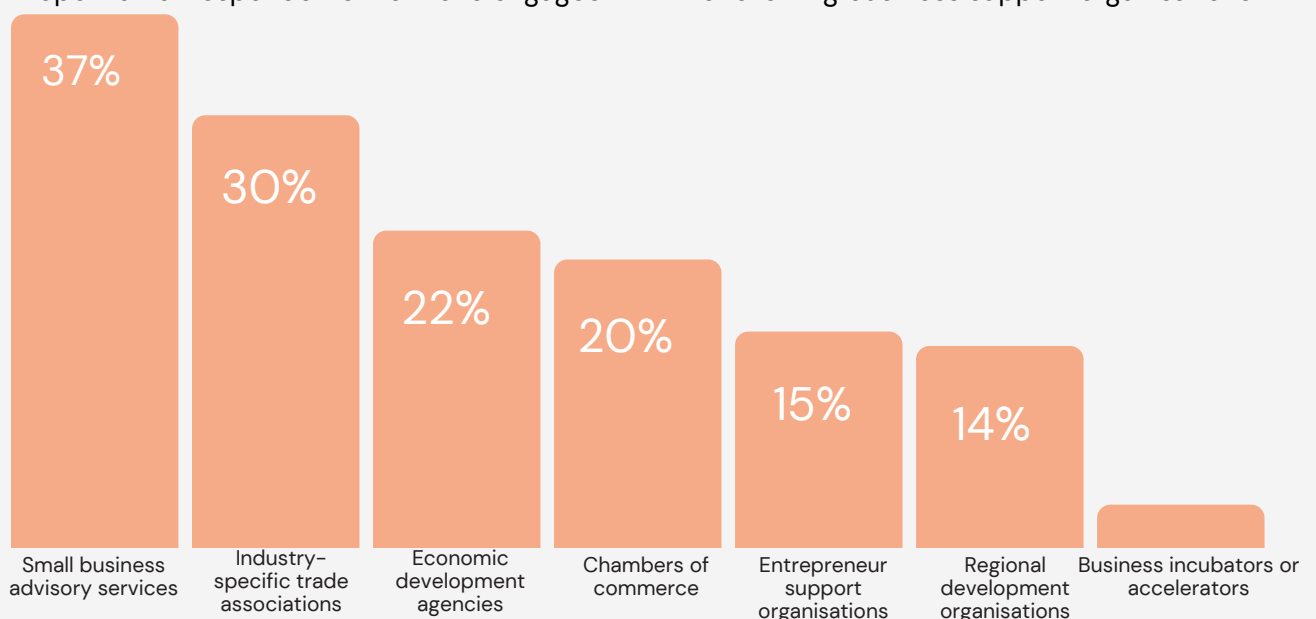
The survey results that more businesses agree that introducing metro mayors in Scotland's largest cities would promote economic growth than disagree. Just under half (46%) of respondents agree that this approach could promote economic growth to some degree, of which 13% say they strongly agree. Overall disagreement came from 21% of the respondents including 13% who strongly disagree. A further 22% take a neutral stance on this approach as of now.

The highest agreement was in Aberdeen and the North East (68%), followed by Glasgow and Strathclyde at 46%.

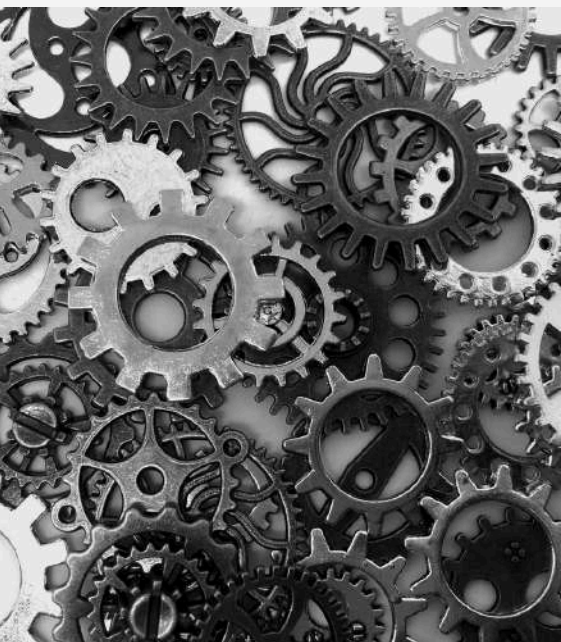
Proportion of respondents that agree/disagree with establishing metro mayors for Scotland's largest cities to promote economic growth



Proportion of respondents that have engaged with the following business support organisations



Approximately two in five businesses (37%) engaged with small business advisory services. Industry-specific trade bodies also featured prominently, with around three in ten (30%) businesses connecting with them for support. Economic development agencies and chambers of commerce saw slightly lower but still substantive engagement from 22% and 20% of respondents respectively. Incubators and accelerators were the least engaged with 3%.



TECHNICAL DETAILS

The survey was designed by Diffley Partnership and 56° North. Invitations were issued online and fieldwork was conducted during May and June 2024. A total of 550 responses were received from senior decision makers in businesses across Scotland.



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To register for exclusive updates and a quarterly bulletin please sign up for our mailing list [here](#).

If you are interested in having your own questions asked and answered in future Understanding Business reports, email us at info@diffleypartnership.co.uk

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