HIE Business Panel Survey

Wave 17 – Looking beyond COVID-19

Ipsos MORI Scotland

Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

CONTENTS

1. INTRODUCTION

BACKGROUND

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 seventeenth overall) carried out in October/November 2020. The survey covered a number of topics of general interest to business, including economic optimism, business performance and prospects for the year ahead. This wave also focused on new ways of working associated with both COVID-19 and other upcoming change.

METHODOLOGY

Sampling

The survey sample was mainly sourced from businesses that took part in the 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 Experian 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 code, with the following SIC 2007 Sections excluded from the sampling:

- Public administration and defence; compulsory social security;
- 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.

Survey fieldwork

The survey fieldwork was conducted between 6th October and 3rd November, using telephone interviewing. In total 1,000 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.

This wave, fewer interviews were secured with businesses in the food and drink and financial and business services sectors, while the number of tourism businesses that took part in the survey was higher than usual. This reflected challenges in reaching some businesses by telephone during the fieldwork period, which may have been exacerbated by the implementation of additional COVID-19 restrictions. Responses for these groups have therefore been weighted more heavily than they normally would.

Economic and political context

The disruption brought about by COVID-19 continued during the survey fieldwork period. Certain lockdown restrictions were in place and businesses were operating in a unique and changing environment which made it more difficult to contact businesses. In interpreting these findings, it should be noted that those that had permanently closed since COVID-19, and those that could not be contacted at this time, were unable to take part.

Some of the key announcements made just before and during the fieldwork period included:

- On 22 September – the First Minister announced that existing restrictions would be strengthened and that several further restrictions would be introduced. This included a requirement for pubs, restaurants and hospitality setting to close at 10pm, and general advice was to work from home if possible.
- On 23rd September – a ban on household mixing was extended across the whole of Scotland.
- On 25th September – a national curfew of 10pm was implemented for pubs, bars and restaurants.
- On 7 October – further nationwide measures applied to the hospitality sector, meaning that food and drink premises in the Highlands and Islands could only open indoors between 6am and 6pm with no sale of alcohol, or open outdoors until 10pm including the sale of alcohol. Meeting rules applied, meaning a maximum of 6 people from 2 households.
- On 9th October – further restrictions on the hospitality sector came into force meaning regional food and drink premises could only open indoors between 6am and 6pm with no sale of alcohol (10pm outdoors with sale of alcohol). Meeting rules applied, meaning a maximum of six people could meet from two households (excluding children under the age of 12).
- On 21 October – the First Minister announced that restrictions above would remain in place
- On 29th October – Highland, Moray, Orkney, Shetland and Comhairle nan Eilean Siar are all notified that they will be in Tier 1 as of 2nd November; Argyll and Bute is Tier 2 and North Ayrshire is Tier 3. This means a 10.30pm curfew for hospitality in Tiers 1 and 2. A 6pm curfew remains for Tier 3, with no sale of alcohol permitted.
- Just prior to the end of the fieldwork period it was announced that the UK's Furlough Scheme (originally due to end on 31 October) would be extended.

In addition to the COVID-19 context outlined above, the terms of the UK's departure from the EU were still uncertain at the time of fieldwork taking place, with a 'no-deal' Brexit still a possible outcome. Businesses that took part in the survey were therefore operating in an extremely uncertain economic and political environment.

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.

2. ECONOMIC CONFIDENCE, PERFORMANCE AND GROWTH

KEY MESSAGES:

Economic optimism remains low: 69% of businesses said their confidence in the economic outlook in Scotland had decreased over the last six months, 26% said it stayed the same and 5% said it had increased. Optimism was at the second lowest level recorded since the survey began, with the lowest being the previous wave in June/July 2020.

Tourism businesses were particularly negative about the economy, with 82% saying their confidence had decreased over the past six months.

Confidence in the economic outlook for the Highlands and Islands was lower than this time last year: 37% of businesses said they were confident (down from 53% in October 2019), while 62% said they were not confident (up from 42% in October 2019).

Half of businesses (50%) were operating below the level they had been before COVID-19. Over a third (36%) were operating at much the same level as before, while 13% were operating over and above the level they had been. Higher proportions of tourism and creative industries businesses reported that they were operating below their previous levels.

Views on business performance over the past six months were more negative than in previous waves. While employment remained relatively stable (61%), sales or turnover and profit margins had decreased for more than half of businesses (60% and 57% respectively). Performance was more mixed in relation to working hours, staff training and exports.

Turning to future growth, half (54%) of businesses aspired to grow, a third (36%) were aiming to retain their current level of performance and one in ten (9%) said they would like to downsize. However, growth expectations were lower than in previous waves: 37% anticipated growth, 42% stability and 17% contraction. Tourism businesses were more likely than average to say they were striving for growth, yet also more likely to anticipate a contraction in the next year or two.

ECONOMIC OPTIMISM

Outlook in Scotland

Economic optimism remained low, reflecting the ongoing impacts of COVID-19 and associated lockdown restrictions during the survey fieldwork period. Optimism was at the second lowest level recorded since the survey began (the lowest being the previous wave in June/July 2020): 69% of businesses said their confidence in the economic outlook in Scotland had decreased over the last six months, 26% said it had stayed the same, and 5% said it had increased (Figure 2.1).

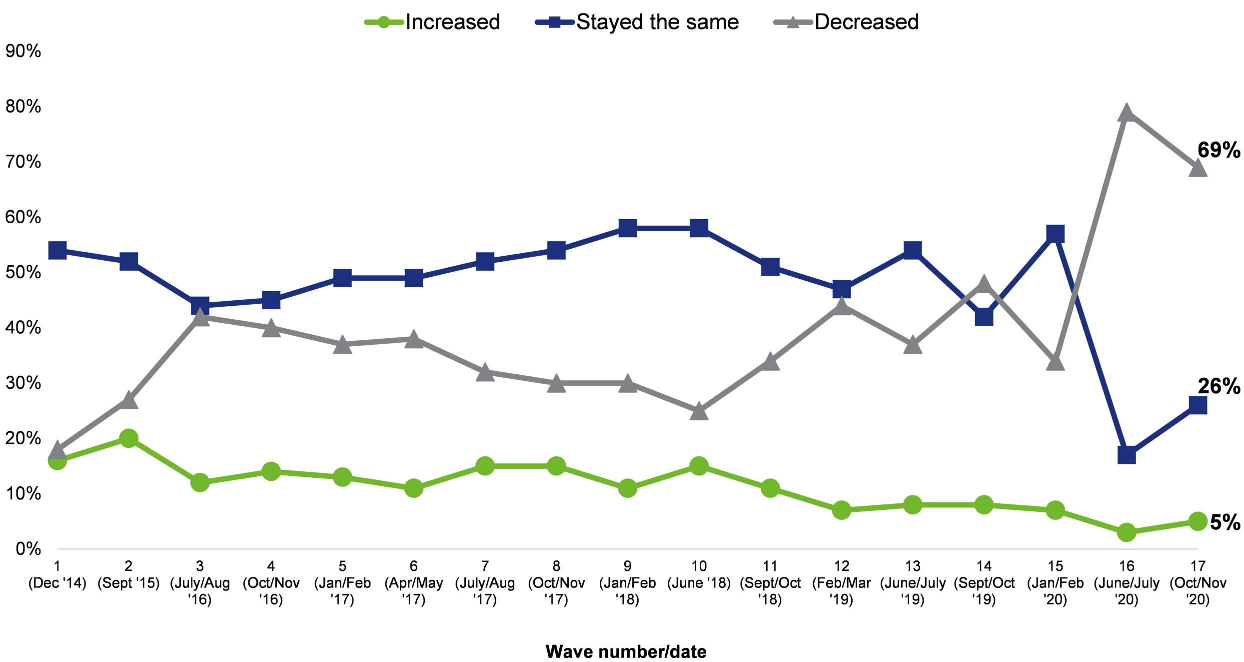
Net confidence this wave was -64[1], higher than the previous wave (-76) but still the second lowest seen since the survey began. Prior to this the lowest level of net confidence reported in the survey was -40 in

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

October 2019. At this point the UK was due to depart the EU on the 31st October, with the announcement of the extension to the Brexit deadline only announced a few days before the survey fieldwork was completed

Figure 2.1: Confidence in the economic outlook in Scotland over time

Q. Over the past six months, since April 2020, has your level of confidence in the economic outlook in Scotland increased, decreased or has it stayed the same?



Base: All businesses

Following the trend seen in the past two waves, tourism businesses were particularly negative about the economy, with 82% saying their confidence had decreased over the past six months (compared with 69% overall). Otherwise, economic optimism was similar across sectors.

HIE-account managed businesses were more likely than non-account managed to say their confidence had decreased (84% compared with 67%), echoing findings from the previous wave. Non-account managed businesses, on the other hand, were more likely to say their confidence had stayed the same (27% compared with 13% of HIE-account managed), again in line with the previous wave.

Businesses in Orkney were more likely than average to say their confidence had increased (13% compared with 5% overall), while those in Moray were more likely to say it had remained the same (40% compared with 26% overall). The more positive outlook among businesses in Orkney may, at least in part, reflect the higher proportion of food and drink businesses in this area (41% in Orkney compared with 25% in the overall sample); though food and drink had average levels of economic confidence, they had performed better than other sectors over the past six months (as will be shown in the next chapter). Moray also had a higher than average proportion of food and drink businesses (48%), which again may in part explain why their confidence was more likely to have remain unchanged.

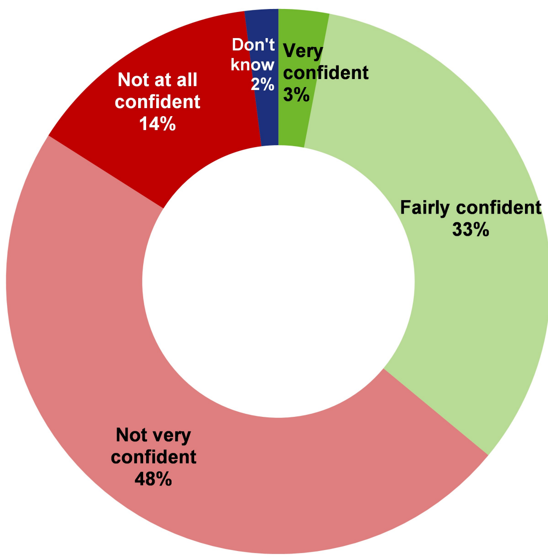
Businesses that were operating below their pre-COVID-19 levels were more likely to say their confidence had decreased (84%) compared with those operating at the same (52%) or over and above pre-COVID-19 levels (50%). International businesses were more likely than domestic businesses[2] to report decreased confidence (74% compared with 66%).

Highlands and Islands region

Confidence in the economic outlook for the Highlands and Islands was lower than this time last year, continuing the downward trend seen over the past three years: 37% of businesses said they were confident (a decrease from 53% in October 2019 and 63% in September/October 2018), while 62% said they were not confident (an increase from 42% in October 2019 and 33% in September/October 2018). (Figure 2.2).

Figure 2.2: Confidence in the economic outlook for the Highlands and Islands region over the next 12 months

Q. Thinking about the Highlands and Islands region as a whole, how confident are you in the economic outlook for the region over the next 12 months?



Base: All businesses

Confidence in the region's economy was particularly low among those whose economic confidence in Scotland had decreased (74% not confident), those that were not optimistic for the year ahead (73%), and those that did not anticipate growth (69%). Those operating below their pre-COVID-19 levels were more likely to say they were not confident (70%) compared with those operating at the same (60%) or over and above (36%) pre-COVID-19 levels.

Reflecting their higher than average confidence in the Scottish economy, businesses in Orkney also showed higher than average confidence in the Highlands and Islands economy (55% compared with 37% overall).

There were no significant differences by sector.

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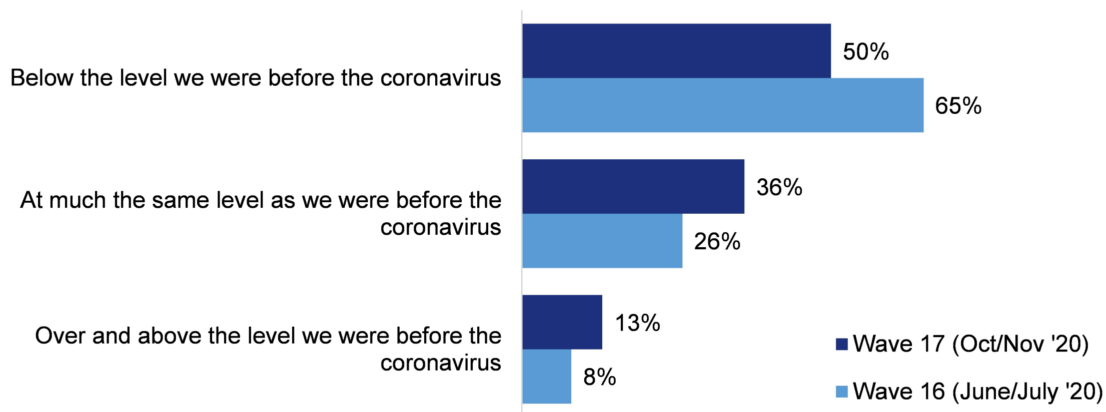
[2] Where international, rUK and domestic businesses are referred this relates to the markets businesses typically sold to. International = outside of the UK, rUK = outside of Scotland but within the rest of the UK, and domestic = Scotland only. A breakdown of these businesses is provided in the Appendix, at Table A.1.

LEVEL OF CURRENT OPERATION

Although half of businesses (50%) were operating below their pre- COVID-19 levels, over a third (36%) were operating at much the same level, and 13% were operating over and above the level they had been (Figure 2.3). These findings do suggest very early signs of recovery since the previous wave (June/July 2020), when 65% were operating below, 26% at much the same, and 8% over and above the level they had been before COVID-19.

Figure 2.3: Current operating level

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



Base: All businesses

Tourism businesses (80%), creative industries businesses (67%) and those located in Lochaber, Skye and Wester Ross (65%) were each more likely than average (50%) to be operating below their pre-COVID-19 levels.

Small businesses (0-4 staff) and food and drink businesses were both more likely to say they were operating at much the same level as pre-COVID-19 (40% and 53% compared with 36% overall). This finding for food and drink businesses seems to be driven by those selling in domestic markets only: 72% were operating at the same level, compared with 43% of those selling to rUK markets, 41% to EU markets, and 37% outside the EU.

HIE-account managed businesses were more likely than non-account managed to be operating over and above pre-COVID-19 levels (22% vs 12%).

In terms of markets of operation, those selling in international markets seemed to be more negatively impacted by COVID-19 than those selling in domestic and rUK markets. Those selling outside the UK but within the EU (58%) and selling outside the EU (62%) were more likely than those selling in rUK (51%) and domestic (48%) markets to be operating below pre-COVID-levels.

There was less variation between markets imported from, however, those importing from outside the EU were more likely than average to be operating below pre-COVID-19 levels (57% vs 50%).

ASPECTS OF BUSINESS PERFORMANCE

Views on business performance over the past six months were more negative than in previous waves. While employment remained relatively stable (61%), sales or turnover and profit margins had decreased for more than half of businesses (60% and 57% respectively). Performance was more mixed in relation to working hours, staff training and exports (Table 2.1).

Table 2.1: Aspects of business performance in the last six months

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	N
Sales or turnover	18	60	20	1	*983*
Working hours	20	36	44	*	*995*
Staff training	23	32	44	*	*809*
Exports	12	38	47	3	*227*
Profit margins	14	57	24	5	*979*
Employment	10	29	61	*	*911*
Base: All businesses saying each aspect applied to them					

As in previous waves, to summarise businesses' experience, we scored each instance of increased performance as +1, each decrease as -1 and each 'stayed the same' as 0 and summed across the six aspects for each business[3].

Overall, 22% of businesses had a positive score, while 63% had a negative score and 15% had a score of zero. The average score was -1.3, an overall negative score indicating that businesses reported more decreases than increases overall. This contrasts with previous waves, where businesses were generally more likely to report increases than decreases (e.g. the mean score in Sept/Oct 2019 was 0.6).

Tourism and creative industries businesses had the lowest overall performance scores (-2.4 and -2.1 respectively), while financial and business services and food and drink businesses had the highest overall scores (though still negative, at -0.5 and -0.6 respectively) (Table A.3, see appendix). Tourism businesses were more likely than average to report a decrease in sales or turnover (88% compared with 60% overall), profit margins (79% vs 57%), working hours (67% vs 36%), and employment (55% vs 29%). Similarly, creative industries businesses were more likely than average to have reported decreased sales or turnover (78% vs 60%), profit margins (74% vs 57%) and working hours (47% vs 36%).

Businesses in Lochaber, Skye and Wester Ross had the lowest overall performance score (-1.9) while those in Moray had the highest overall scores (although still negative at -0.8) (Table A.4, see appendix). Businesses in Lochaber, Skye and Wester Ross were more likely to report decreases in sales or turnover (77% compared with 60% overall), profit margins (68% vs 57%), working hours (47% vs 36%) and employment (47% vs 29%). These findings may, at least in part, be explained by the higher than average proportion of tourism businesses in the sample in Lochaber, Skye and Wester Ross (25% compared with 11% of the overall survey sample).

[3] A positive score indicates that on average businesses reported more aspects increasing than decreasing or staying the same. A negative score means more aspects decreasing than staying the same or increasing.

Businesses with 5-10 and 11-24 staff had the lowest score (-1.7 and -1.8 respectively) compared with those with 0-4 staff (-1.1) and 25+ staff (-1.3) (Table A.5, see appendix).

The mean score for HIE-account managed businesses (-1.6) was lower than for non-account managed businesses (-1.3).

Aspects of performance by markets of operation

Those who sold to markets both within the EU and outside the EU were more likely than average (and more likely than domestic businesses) to see decreases in each aspect of business performance. Those selling to rUK markets were also more likely than domestic businesses to see decreases in employment, exports and sales/turnover. (Table 2.2 – shaded cells show differences from domestic businesses).

Table 2.2: Aspects of business performance by markets sold to

	% reporting a decline in aspects of performance					
	Employment	Exports	Working hours	Profit margins	Staff training	Sales or turnover
Markets sold to	%	%	%	%	%	%
Domestic	26	9	37	54	28	55
rUK	33	46	35	59	35	64
Within EU	35	45	44	66	37	72
Outside EU	38	49	49	71	38	77
Average	*29*	*38*	*37*	*57*	*32*	*60*

There were fewer differences between importers, however those who imported from rUK and international markets were more likely than those who only sourced goods from domestic markets to see decreases in exports, profit, and sales/turnover. (Table 2.3).

Table 2.3: Aspects of business performance by markets imported from

	% reporting a decline in aspects of performance					
	Employment	Exports	Working hours	Profit margins	Staff training	Sales or turnover
Markets imported from	%	%	%	%	%	%
Domestic	23	17	34	44	36	50
rUK	31	41	37	57	31	63
Within EU	30	41	34	55	38	59
Outside EU	33	43	38	64	37	67
Average	*29*	*38*	*37*	*57*	*32*	*60*

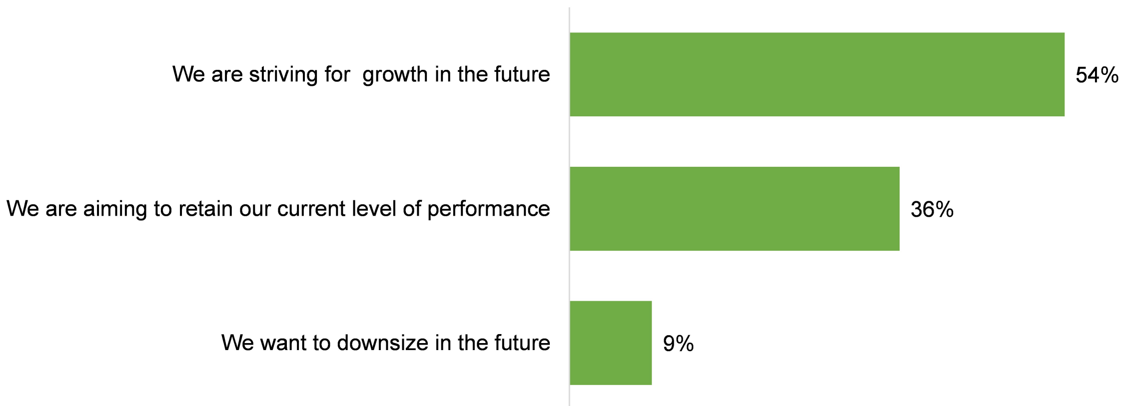
FUTURE BUSINESS GROWTH

Growth aspirations

Over half (54%) of businesses aspired to grow in the future, while over a third (36%) were aiming to retain their current level of performance and one in ten (9%) said they would like to downsize (Figure 2.4). These findings were very similar to those of previous waves; for example, in the January/February 2020 wave (when this question was last asked) 55% of businesses want to grow, 35% were content, and 10% wanted to downsize.

Figure 2.4: Current aspirations for business

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



Base: All businesses

Growth aspirations were higher among certain types of business:

- those with 5-10 (73%), 11-24 (65%) and 25+ staff (67%), compared with those with 0-4 staff (45%),
- tourism businesses (60% compared with 54% overall),
- and HIE-account managed businesses compared with non-account managed businesses (75% compared with 51%).

Small businesses (0-4 staff) were again more likely than average to say they wanted to downsize (12% compared with 9% overall) or keep their current level of performance (41% compared with 36%).

Domestic businesses showed lower growth aspirations than those operating in other markets. Aspirations were higher among those selling outside of the UK but within the EU (66% striving for growth), selling outside the EU (65%) and selling to rUK markets (60%) compared with those only selling domestically (50%). There was a similar pattern among importers; aspirations were higher among those importing from outside the EU (67%), from within the EU (62%) and from rUK (58%) compared with those only sourcing domestically (37%).

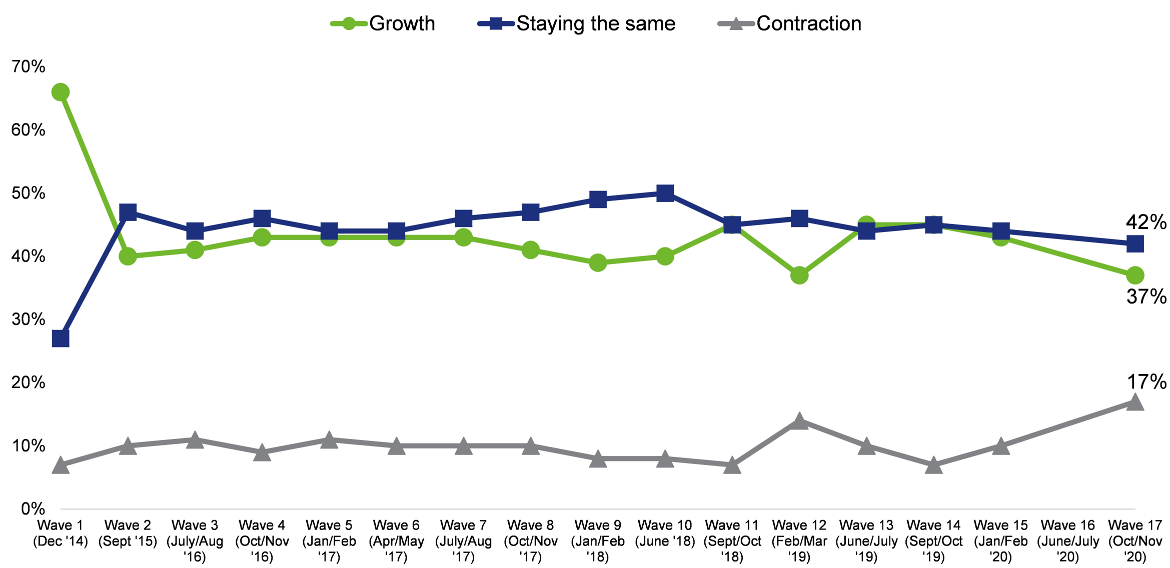
There was further variation by operating level. Businesses that were operating below their pre-COVID-19 levels were more likely to be striving for growth than average (59% vs 54% overall), while those operating at the same level as before the pandemic were more likely to be content with their current level of performance (46% vs 36% overall) (Table A.6 – see appendix).

Future business growth

Thinking about the next year or two ahead, 37% of businesses anticipated growth, 42% anticipated staying the same and 17% anticipated a contraction (Figure 2.5). The proportion anticipating a contraction was the highest level ever recorded in the survey. Overall growth expectations were lower than those expressed at the beginning of the year (January/February 2020), when 43% of businesses expected to grow, 44% anticipated stability and 10% expected to contract.

Figure 2.5: Future growth over the next year or two

Q. Do you anticipate your business growing, contracting or staying the same in the next year or two?



Base: All businesses

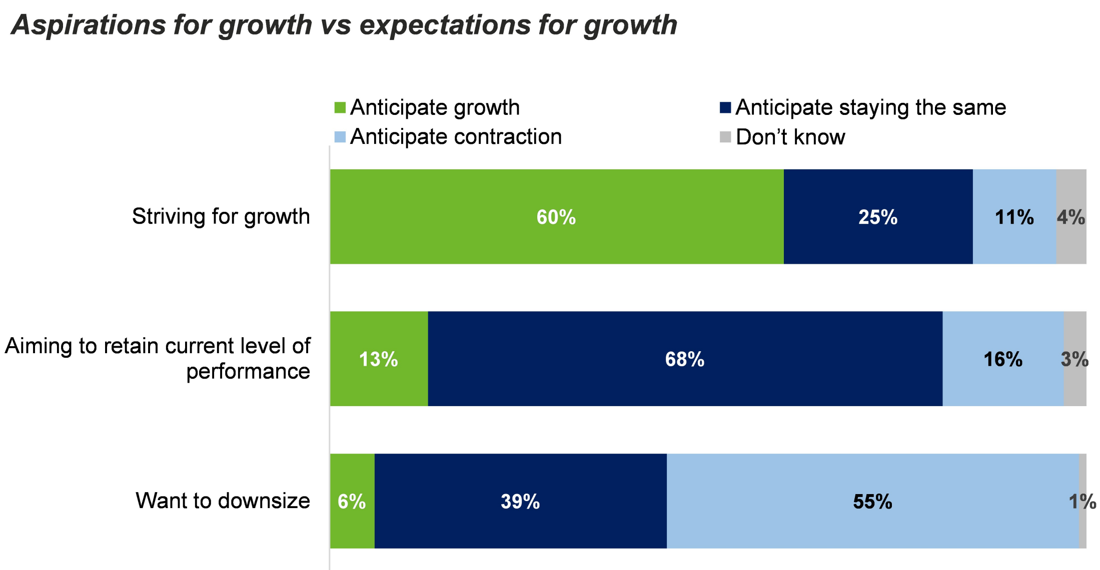
Despite having higher than average growth aspirations, tourism businesses were also more likely than average to anticipate a contraction in the next year or two (21% compared with 17% overall).

Those more likely to anticipate growth were:

- HIE-account managed businesses (58% vs 35% of non-account managed businesses). Non-account managed businesses were more likely to anticipate remaining the same (44% compared with 24% of HIE-account managed businesses),
- those selling outside of the UK but within the EU (50%), outside the EU (48%) and in rUK markets (43%) compared with domestic businesses (32%),
- those importing from within the EU (43%), outside the EU (45%) and from rUK (39%) compared with those only sourcing domestically (28%),
- and those operating above their pre-COVID-19 levels (63%) compared with those operating at the same level (35%) or below (32%) their pre-COVID-19 levels.

Growth aspirations were generally aligned with expectations, though with some exceptions. Among businesses striving for growth, 60% also anticipated growth in the next year or two, though 25% expected stability and 11% expected contraction. Most that were aiming to retain their current level of performance also anticipated stability (68%). Among those that wanted to downsize, 55% anticipated a contraction, while 39% anticipated stability and 6% expected growth (Figure 2.6).

Figure 2.6: Growth aspirations by expectations for growth



Base: All businesses

3. SUPPORTING ECONOMIC RECOVERY

KEY MESSAGES:

Thinking about Scotland's economic recovery after COVID-19, the top three priorities identified by businesses were: supporting businesses to create jobs and retain staff (51%), giving rates relief or tax breaks for businesses (45%) and ensuring businesses have access to financial products that support longer term investment/growth (37%). Priorities for economic recovery did vary, particularly by sector and location.

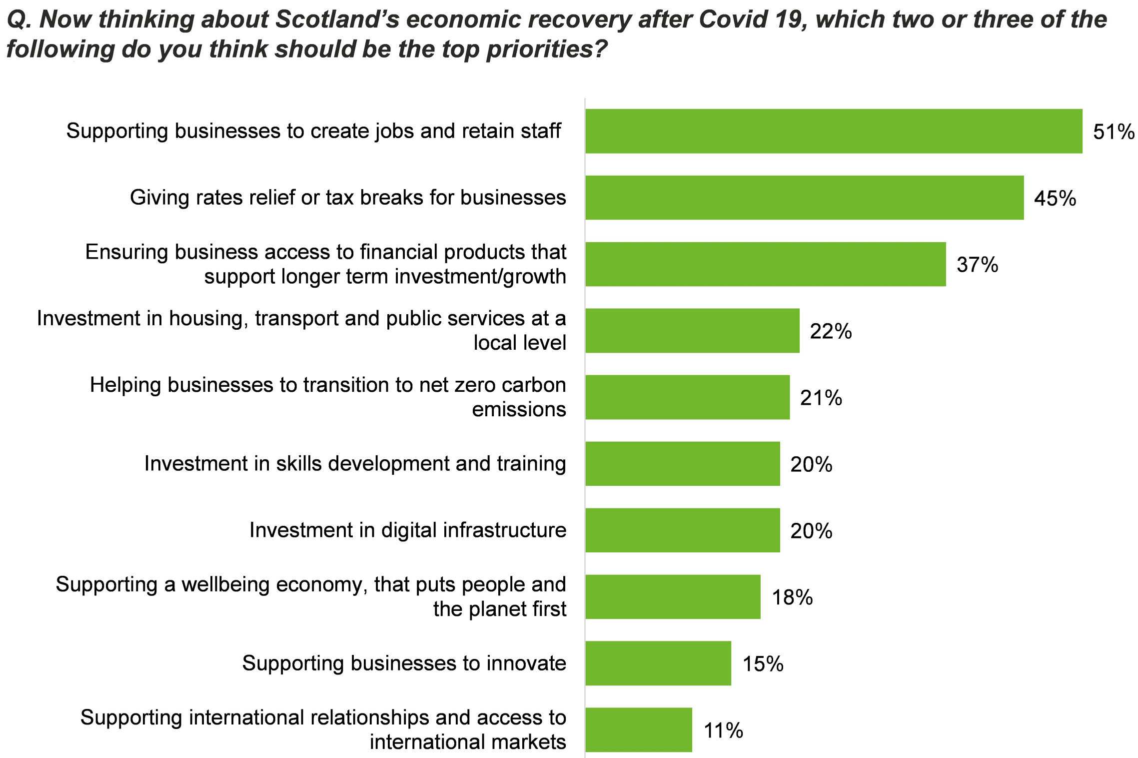
The vast majority of businesses (95%) felt that future waves of coronavirus posed a risk to their business; 86% saw risks in relation to the global economy; 79% in relation to Scotland's relationship with the rest of the UK; 75% in relation to the UK's departure from the EU; and 61% in relation to sectoral change. Nearly all businesses (98%) felt that at least one of these aspects posed some degree of risk, while 45% felt all five posed a risk.

ECONOMIC RECOVERY PRIORITIES

Thinking about Scotland's economic recovery post-COVID-19, the top priorities identified by businesses were: supporting businesses to create jobs and retain staff (51%), giving rates relief or tax breaks for businesses (45%) and ensuring businesses have access to financial products that support longer term investment/growth (37%) (Figure 3.1).

Other priorities, identified by around one in five businesses, were: investment in housing, transport and public services at a local level (22%), helping businesses transition to net zero (21%), investment in skills and training (20%) and digital infrastructure (20%), and supporting a wellbeing economy (18%). Lowest overall priorities were supporting businesses to innovate (15%) and supporting international relationships and access to international markets (11%).

Figure 3.1: Priorities for economic recovery from COVID-19



Base: All businesses

Variation in priorities by size and sector

Large businesses (25+ staff) and those in the creative industries were more likely than average to prioritise investment in digital infrastructure (31% and 33% compared with 20% overall).

Food and drink businesses placed higher than average priority on supporting international relationships and access to international markets (21% compared with 11% overall). Tourism businesses were more likely to prioritise rates relief or tax breaks (57% vs 45% overall), ensuring business access to financial products (44% vs 37%), and investment in housing, transport and public services at a local level (27% vs 22%).

Variation in priorities by area

Businesses in Caithness and Sutherland were more likely than average to prioritise supporting job creation and staff retention (68% vs 51% overall), while those in the Outer Hebrides were more likely to prioritise investment in housing, transport and public services at a local level (38% vs 22%). Elsewhere, businesses in Lochaber, Skye and Wester Ross were more likely than average to say they were prioritising supporting businesses to innovate (23% vs 15% overall) while those in Moray were more likely than average to be prioritising supporting international relationships and access to international markets (24% vs 11% overall). Priorities for businesses in Moray may reflect those of food and drink businesses, who made up 43% of the survey sample in Moray (compared with 25% of the overall sample).

Those located in fragile areas were more likely than those in non-fragile areas to prioritise help for businesses transitioning to net zero (33% compared with 18%) and investment in housing, transport and public services (32% compared with 20%).

Those in accessible rural[4] areas prioritised investment in digital infrastructure (30%), more so than those in remote rural (19%) and other areas (18%).

Variation in priorities by other factors

HIE-account managed businesses were more likely than non-account managed businesses to prioritise investment in digital infrastructure (33% compared with 18%) and international relationships and access to international markets (19% compared with 10%).

Those selling to international markets both within the EU and outside the EU placed greater priority than domestic businesses on investment in digital infrastructure (26% and 27% respectively compared with 18%) and, unsurprisingly, supporting international relationships and access to international markets (21% and 24% compared with 5%).

FUTURE RISKS

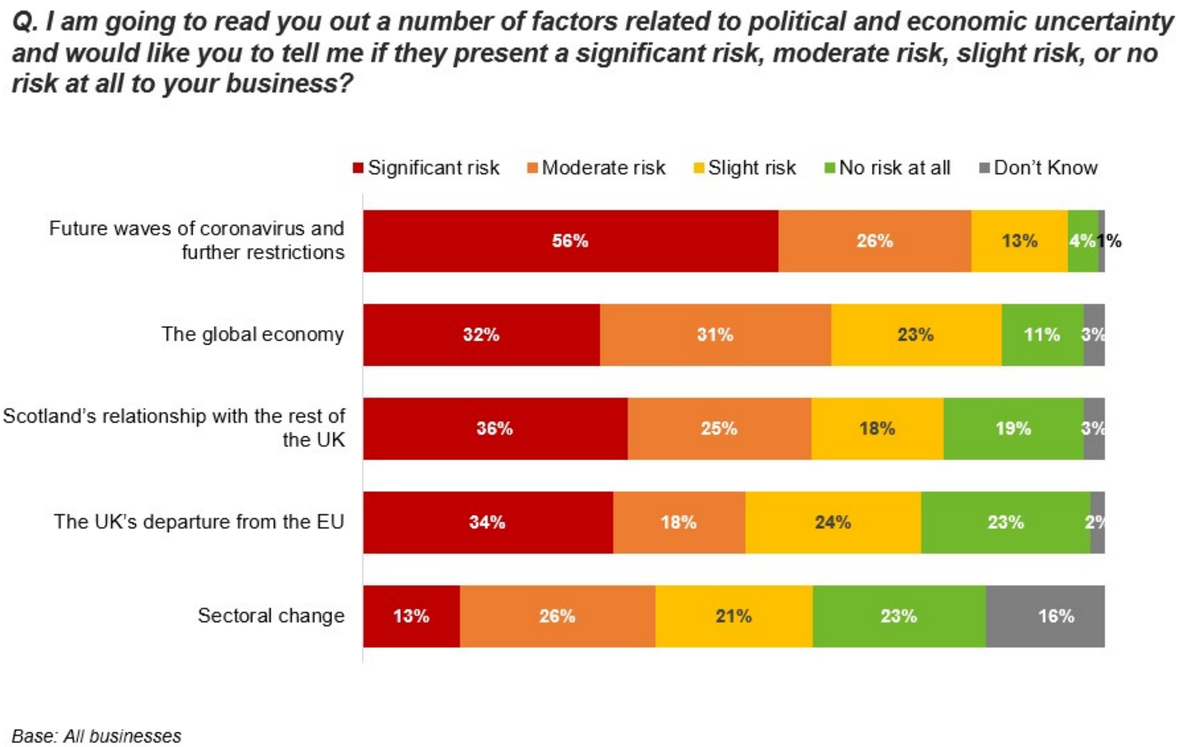
Businesses were asked about the perceived level of risk associated with five aspects of political and economic uncertainty: the UK's departure from the EU, Scotland's relationship with the rest of the UK; the global economy; sectoral change; and future waves of coronavirus and further restrictions. Nearly all businesses (98%) felt that at least one of these aspects posed some degree of risk, while 45% felt all five posed a risk.

Majorities felt that each factor posed at least some risk: 95% in relation to future waves of coronavirus; 86% in relation to the global economy; 79% in relation to Scotland's relationship with the rest of the UK; 75% in relation to the UK's departure from the EU; and 61% in relation to sectoral change. Over half (56%) said coronavirus posed a *significant* risk, compared with roughly a third saying this of the global economy (32%); Scotland's relationship with the rest of the UK (36%); and the UK's departure from the EU (34%) (Figure 3.2).

Each factor asked about previously (in January/February 2020) saw an increase in levels of perceived risk. The largest increase was in relation to risks posed by the global economy which saw a 15 percentage point increase (86%, up from 71%). There was a 12 percentage point increase in those saying Scotland's relationship with the rest of the UK was a risk by (79%, up from 67%) and a 9 percentage point increase in those saying the UK's departure from the EU was a risk (75%, up from 66%). Sectoral change and future waves of coronavirus were not asked about in January/February 2020.

[4] Businesses classed as "remote rural" or "accessible rural" are based on the Scottish Government's three-fold RESAS urban rural classification. Those that would be classed as "rest of Scotland" at a national level, are referred to as "those in other areas" for reporting purposes. https://www.gov.scot/publications/understanding-scottish-rural-economy/pages/13/

Figure 3.2: Risks of specific aspects of political and economic uncertainty



Perceptions of risk from each of these political and economic factors varied by types of business, as outlined below:

Future waves of coronavirus

Those more likely than average to see future waves of coronavirus as a risk were:

- tourism businesses (98% compared with 95%) and a *significant* risk in particular (78% compared with 56% overall),
- those whose economic confidence had decreased (97% risk, 66% significant risk),
- those not confident in their future viability (99% risk, 85% significant risk),
- and those operating below pre-COVID-19 levels (98% risk, 68% significant risk).

The UK's departure from the EU

Brexit was more likely to be viewed as a risk by those exporting within the EU (84%), outside the EU (80%) and to rUK markets (81%) compared with those only selling in domestic markets (70%). It was also more likely than average to be seen as a risk by those *importing* from within the EU (83% compared with 75% overall).

Other businesses more likely to view Brexit as a risk were:

- food and drink businesses (82%, compared with 75% overall),

- those with 11-24 employees (86%),
- those not confident in their future business viability (81%),
- and those with decreased economic confidence (78%).

Scotland's relationship with the rest of the UK

Scotland's relationship with the rest of the UK with seen as more of a risk than average by:

- food and drink businesses (89% compared with 79% overall, and 56% as a *significant* risk compared with 36%),
- HIE-account managed businesses (84% compared with 78% of non-account managed businesses),
- those whose economic confidence had decreased (81%),
- and those selling to rUK markets (82%) compared with those selling within the EU (78%), outside the EU (78%) and domestically (75%).

The global economy

Those most likely to see the global economy as a risk were:

- food and drink businesses (90% compared with 86%),
- those with 11-24 employees (95%),
- tourism businesses as a *significant* risk (87% risk and 41% significant risk, compared with 86% and 32% overall),
- businesses in Lochaber, Skye & Wester Ross as a *significant* risk (86% risk, 42% significant risk, compared with 86% and 32% overall),
- and international (93%) and rUK businesses (92%) compared with domestic businesses (81%).

Sectoral change

Sectoral change was more likely to be seen as a risk by large businesses (25+ staff) (76% vs 61% overall), those whose economic confidence had decreased (64%) and those not anticipating growth (65%).

4. RESPONDING TO CHANGE

KEY MESSAGES:

Quality remains the most important value for businesses; with around half saying ensuring quality was at the heart of their goods and services was integral to what they do. Around a third said strong financial performance (35%) and ensuring a good work life balance (31%) were integral to their business, while around a quarter valued minimising their environmental impact (29%), creating and sustaining jobs (26%), future legacy of the business (24%) and innovation or evolving what they do (21%).

Three-quarters (74%) of businesses said their way of working had changed as a result of COVID-19, with 41% saying they wanted to return to the way they previously operated, and 33% wanting to maintain some or all of those changes. A quarter had not experienced much change; 19% expected this to continue, while 6% expected change in the year ahead.

Most businesses (95%) were taking at least one of the actions listed to help them operate in their current working environment. The most common actions were making processes more efficient (67%), having more meetings and contact online (65%) and adapting existing products or services (59%). Around half (54%) of businesses were collaborating in new ways with others. Of these 61% were collaborating on marketing activity and 59% were sharing resources distribution channels or sales platforms.

Thinking about the 12 months ahead, businesses were broadly optimistic about their sales to markets in Scotland and the rest of the UK, but were more negative in relation to international markets, both within and outside the EU.

In relation to sales and market access specifically, 91% of businesses were taking at least one of the actions listed to help them in the current working environment. Top actions included: engaging differently with customers (64%), looking for new opportunities in domestic and/or UK markets (55%), selling products or services online (50%), and working with new suppliers (46%).

Among employers, 86% had taken at least one of the actions listed in relation to its staff in the current working environment, most commonly offering competitive levels of pay (59%), upskilling existing staff (54%), using staff in different roles (45%), enabling staff to work from home (45%), and offering more flexible contracts (44%).

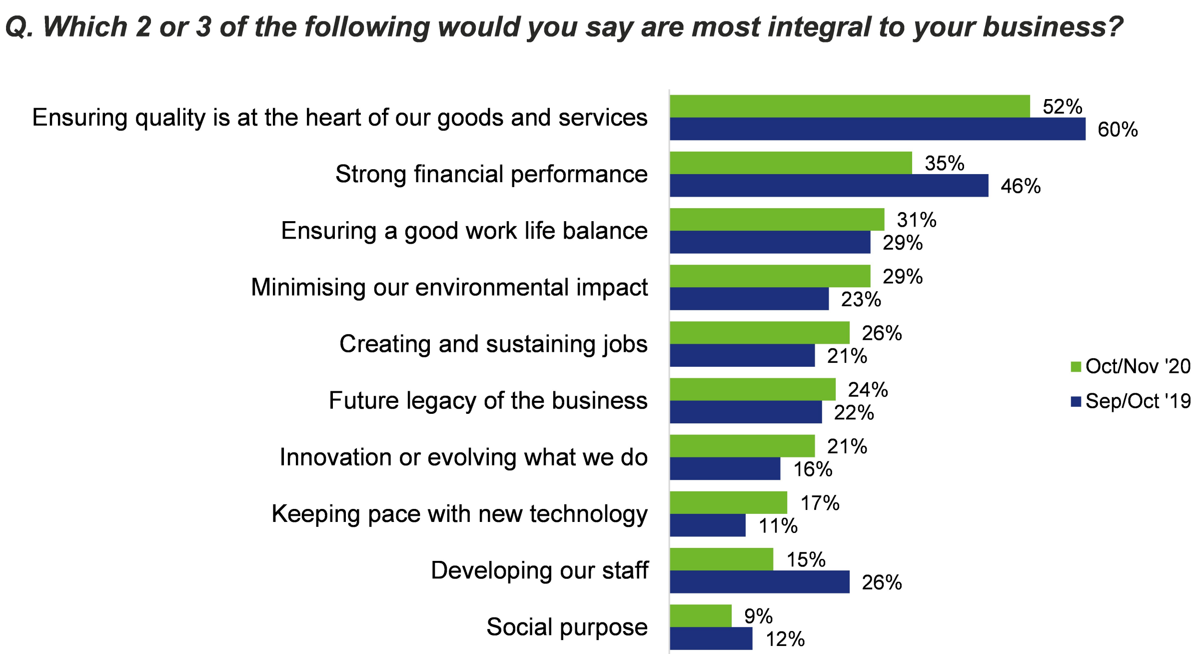
BUSINESS VALUES

To provide context for their views on changes in their working environment, businesses were asked the top two or three values they found most integral to their business. Businesses were last asked this question in September/October 2019, so comparisons between the two waves are drawn where relevant.

As in 2019, quality was again the most important value for businesses; 52% said they found it integral to ensure that quality was at the heart of their goods and services. Around a third said strong financial performance (35%) and ensuring a good work life balance (31%) were integral, while 29% valued minimising their environmental impact, 26% creating and sustaining jobs. 24% the future legacy of the business, and 21% innovation or evolving what they do (Figure 4.1).

Compared with the end of 2019, there was a decrease in the proportion placing value on strong financial performance and developing staff (each decreasing by 11 percentage points), and an increase in those valuing minimising their environmental impacts, keeping pace with new technology (each up 6 percentage points), creating and sustaining jobs, and innovation (each up 5 percentage points). These changes may reflect the changing policy context and challenging economic circumstances businesses were operating in this wave.

Figure 4.1: Business values



Base: All businesses

Large businesses (25+ staff) were more likely than average to value innovation or evolving what they do (34% compared with 21% overall). Those with 0-5 and 11-24 staff were more likely to place value on creating and sustaining jobs (42% and 44% compared with 26% overall), and staff development (26% and 27% vs 15% overall). Small businesses (0-4 staff) were more likely to say a good work life balance was integral to their business (38% compared with 31% overall), echoing findings from September/October 2019.

Business values also differed somewhat by sector. Tourism businesses were more likely than average to value creating and sustaining jobs (33% compared with 26% overall). For food and drink businesses, minimising environmental impacts was a higher priority (34% vs 29% overall). Financial and business services organisations placed higher value on innovation or evolving what they do (33% vs 21% overall) and keeping pace with new technology (28% vs 17% overall).

HIE-account managed businesses were more likely than non-account managed businesses to value creating and sustaining jobs (37% compared with 24%), innovation or evolving what they do (32% compared with 19%) and developing staff (23% compared with 14%).

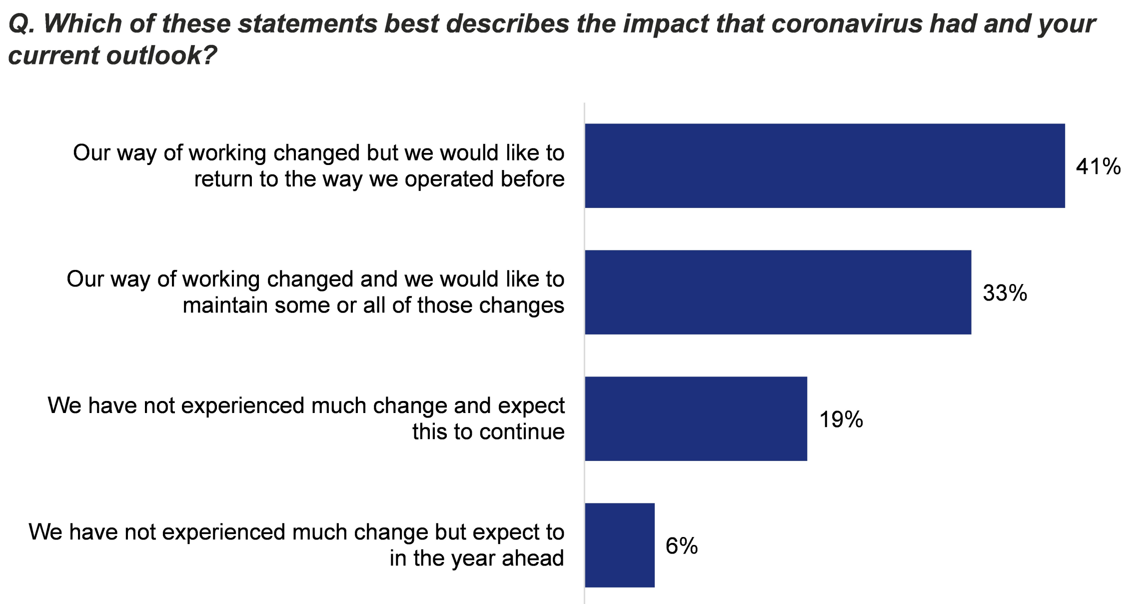
Those operating below their pre-COVID-19 levels placed higher than average priority on creating and sustaining jobs (31% vs 26%), whereas those operating above pre-COVID-19 levels were more likely to prioritise developing their staff (23% vs 15% overall).

Among business who wanted to maintain changes brought about by the pandemic (see following section), higher than average priority was placed on innovation/evolving what they do (46% vs 33% overall) and developing their staff (43% vs 30%).

IMPACT OF COVID-19 ON OUTLOOK

Three-quarters (74%) of businesses said their way of working had changed as a result of the COVID-19 pandemic, with 41% saying they wanted to return to the way they operated previously, and 33% wanting to maintain some or all of those changes. A quarter had not experienced much change; 19% expected this to continue, while 6% expected change in the year ahead. (Figure 4.2).

Figure 4.2: Impact of COVID-19 on outlook



Base: All businesses

Tourism businesses were most likely to have experienced changes to their way of working, with 94% saying they had done so. Just over half (54%) wanted to return to the way they operated before (higher than the average of 41%), while 40% wanted to maintain some or all of those changes (also higher than the 33% average).

Other businesses more likely to say they wanted to maintain some or all of the changes brought about by COVID-19 were:

- large businesses (25+ staff) and those with 5-10 staff (52% and 44% compared with 33% overall),
- HIE-account managed businesses (44% compared with 33% overall),
- those selling outside the UK but within the EU (40%) and those selling outside the EU (43%)
- those operating over and above their pre-COVID-19 levels (47%),

- those confident in their future viability (36%),
- and those striving for growth (39%).

Businesses more likely than average (41%) to say they wanted to return to the way they operated before were: those operating below their pre-COVID-19 levels (53%), those whose optimism in the economy had decreased (45%), and those who were not confident about their future viability (67%).

Food and drink businesses were more likely to have experienced little change (43% compared with 25% overall), with 31% of those expecting this to continue (higher than 19% average) and 11% expecting some change in the year ahead (higher than the 6% average).

Small businesses (0-4 staff) were also more likely to say they experienced no changes and expected that to continue (25% compared with 19% overall).

RESPONDING TO NEW WORKING ENVIRONMENT

Businesses were asked about a list of possible actions they may be taking to adapt to their new working environment. Most businesses (95%) were taking at least one of the actions listed in relation to processes, products and services to help them operate in their current working environment.

The three most common actions taken were making processes more efficient (67%), having more meetings and contact online (65%) and adapting existing products or services (59%). Around half were collaborating in new ways with businesses (54%), using new or different types of technology (54%) and changing or updating their business model (50%). Around two-fifths were only delivering some aspects of their business (44%) or developing new products or services (38%). Fewer were using jobs dispersal to recruit or retain staff (20%) (Figure 4.3).

Figure 4.3: Actions to help businesses operate in the current working environment

Q. Which of the following actions, if any, is your business taking to help it operate in the current working environment?

Base: All businesses

Variation by size and sector

Large businesses (25+ staff) were more likely than average to be:

- having more meetings and contact online (92% compared with 65% overall),
- making processes more efficient (87% vs 67%),
- collaborating (75% vs 54%),
- using new or different types of technology (71% vs 54%),
- and developing new products or services (57% vs 38%).

Those with 11-24 staff were more likely than average to be using jobs dispersal (48% compared with 20% overall) as well as having meetings and contact online (82% vs 65%) and making their processes more efficient (81% vs 67%).

Certain actions were more prevalent among tourism businesses:

- adapting their product or service (80% vs 59% overall),
- changing or updating their business model (71% vs 50%),
- only delivering some aspects of the business (60% vs 44%),
- and developing new products or services (47% vs 38%).

Other sectoral variations were:

- Creative industries - more likely than average to be developing new products or services (49% vs 38% overall);
- Food and drink businesses - more likely to be making their processes more efficient (74% vs 67%);
- Financial and business services - more likely to be having online meetings (81% vs 65%).

Variation by markets of operation

Certain actions were more common among international businesses, including both exporters and importers and from both within and outside of the EU.

- Collaborating - higher than average (54%) among those selling within the EU (67%) and outside the EU (64%);
- Updating or changing business model - higher than average (50%) among those selling within the EU (66%) and outside the EU (66%), and importing from the EU (55%) and outside the EU (59%);
- Adapting existing product/service - higher than average (59%) among those selling within the EU (67%) and outside the EU (69%), and importing from outside EU (66%);

- Developing new products/services - higher than average (38%) among those selling within the EU (49%) and outside the EU (54%) and importing from the EU (46%) and outside EU (57%).

Variation by location and other factors

In terms of location, businesses in Shetland and the Inner Moray Firth were more likely to be having more meetings online (78% and 72% vs 65% overall), with those in the Inner Moray Forth also more likely to be adapting their business model (65% vs 50%).

HIE-account managed businesses were more likely than non-account managed businesses to be having more meetings online (84% vs 63%), changing or updating their business model (63% vs 49%), and developing new products or services (53% vs 35%).

Changing or updating business models was more common among both those operating *over and above* and those operating *below* the level they were before COVID-19 (61% and 57% vs 50% overall).

COLLABORATION

Among businesses that were collaborating in new ways with others, 61% said they were collaborating on marketing activity and 59% were sharing resources. A further 46% were collaborating on distribution channels or sales platforms and on sharing staff, skills or expertise (Figure 4.4).

Compared with the previous wave [5], there was an increase in the proportion of businesses collaborating on marketing activity (61%, up from 52%), sharing resources (59%, up from 50%), and sharing staff, skills or expertise (46%, up from 34%). There was a decrease in those collaborating on distribution channels or sales platforms (46%, down from 59%).

[5]. The answer options in this question were not all the same as those asked in the previous wave. Also in the previous wave this question was asked only of those who had continued to trade without pause or had restarted after a temporary pause, whereas in this wave it was asked of all businesses.

Figure 4.4: New ways in which businesses are collaborating with other businesses

Food and drink and tourism businesses were each more likely than average to be collaborating on marketing activity (74% and 71% compared with 61% overall). Non-growth sector businesses were more likely to be sharing resources (67% compared with 59%) and sharing staff, skills or expertise (55% compared with 46%).

HIE-account managed businesses were more likely than non-account managed businesses to be collaborating on marketing activity (85% compared with 58%).

International businesses (those selling either in the EU or outside the EU) were more likely than average to be collaborating on marketing activity (67% vs 61% overall), distribution channels or sales platforms (54% vs 46%) and providing complementary products or services (44% vs 37%). Domestic businesses, on the other hand, were more likely to be sharing staff, skills or expertise (54% vs 46% overall) and sharing equipment or premises (40% vs 29%).

FUTURE MARKETS OF OPERATION

Future sales

Thinking about the 12 months ahead, for each market businesses sold to, around half of businesses expected sales to remain the same: Scotland (50%), the rest of the UK (52%), outside the UK but within the EU (51%), and outside the EU (53%).

Of the remainder, most businesses were broadly optimistic about their sales in Scotland (31% expected an increase, 16% a decrease) and the rest of the UK (21% expected an increase, 12% a decrease). Views were more negative in relation to international markets: for sales outside the UK and within the EU, 7% expected an increase and 17% expected a decrease; while for sales outside the EU, 8% expected an increase and 12% a decrease. However, there was a much higher proportion of businesses saying they were unsure about future sales in markets outside of Scotland (Table 4.1).

Table 4.1: Expected future sales increases

Expectations for sales in next 12 months	Scotland	Outside of Scotland but within the UK	Outside of the UK, within the EU	Outside of the UK, outside the EU
	%	%	%	%
Increase	31	21	7	8
Remain the same	50	52	51	53
Decrease	16	12	17	12
Don't know	3	15	25	27
Base: All businesses				

Large businesses (25+) were more likely to expect an increase in sales outside of the UK, both within (15% compared with 7% overall) and outside the EU (21% vs 8% overall).

Tourism businesses were more likely than average to anticipate an increase in sales in Scotland (38% compared with 31% overall), but a decrease in sales elsewhere: in the rest of the UK (20% vs 12% overall), outside the UK within the EU (32% vs 17%), and outside the EU (31% vs 12%).

Creative industries businesses were also more likely to expect decreases in sales outside of Scotland: in the rest of the UK (19% vs 12%), outside the UK within the EU (27% vs 17%) and outside the EU (20% vs 12%).

Food and drink businesses, on the other hand, were more likely than average to expect sales in Scotland to remain the same (59% compared with 50% overall) and to expect an increase in sales in the rest of the UK (29% vs 21% overall) and outside the EU (15% vs 8%).

HIE-account managed businesses were more likely than non-account managed to expect sales to increase in each market: Scotland (43% vs 29%), rest of the UK (51% vs 17%), outside the UK within the EU (23% vs 5%) and outside the EU (29% vs 6%).

Future sales by current markets of operation

Markets sold to

Among those who only sold in domestic markets, expected future sales in Scotland were in line with the average (29% expected increase, 50% remain the same, 19% decrease). Around 60% expected little change in each market outside of Scotland, with the remainder generally saying they did not know what would happen to future sales in these markets. (Table A.7 – see Appendix).

Those selling to rUK markets were more likely than average to anticipate increases in the rest of the UK (39% compared with 21% overall), as well as within the EU (13% vs 7%) and outside the EU (15% vs 8%). They were also more likely to anticipate a *decrease* in sales within the EU (28% vs 17% overall) and outside the EU (20% vs 12%). (Table A.8 – see Appendix).

As seen in previous waves, international businesses were more likely than average to anticipate changes in their sales in markets outside of Scotland; this applies to those selling both within and outside the EU.

As shown in Table 4.2, those selling within the EU were more likely than average to anticipate increase in sales to rUK (47%), the EU (20%) and outside the EU (23%). However, they were also more likely than average to anticipate *decreases* in sales within the EU (41%) and outside the EU (29%).

Table 4.2: Expected future sales increases among those selling within the EU

Expectations for sales in next 12 months	Scotland	Outside of Scotland but within the UK	Outside of the UK, within the EU	Outside of the UK, outside the EU
	%	%	%	%
Increase	41	47	20	23
Remain the same	43	34	34	41
Decrease	14	16	41	29
Don't know	3	3	5	7
Base: All selling outside the UK but within the EU (266)				

It was a similar picture for businesses selling outside the EU: they were more likely than average to anticipate increases in rUK (43%), the EU (19%) and outside the EU (28%), but also more likely to anticipate decrease in each (18%, 38% and 33% respectively). (Table 4.3).

Table 4.3: Expected future sales increases among those selling outside the EU

Expectations for sales in next 12 months	Scotland	Outside of Scotland but within the UK	Outside of the UK, within the EU	Outside of the UK, outside the EU
	%	%	%	%
Increase	39	43	19	28
Remain the same	39	34	35	35
Decrease	17	18	38	33
Don't know	4	5	8	4
Base: All international businesses (220)				

Markets imported from

Among importers, there was less variation in sales expectations. However, those that imported from within the EU were more likely than average to expect sales to increase in rUK (31% vs 21% overall) and outside the EU (13% vs 8%). Those that imported from outside the EU were also more likely to expect increases in these two markets (39% and 19% respectively). (Table A.9-A.10 – see Appendix).

Those that imported both from within the EU and outside the EU were more likely to anticipate a *decrease* in sales from EU markets (24% and 27% expected a decrease, compared with 17% overall). (Table A.11-A.12 – see Appendix).

SALES AND MARKET ACCESS

In relation to sales and market access specifically, 91% of businesses were taking at least one of the actions listed to help them in the current working environment.

The most common actions being taken were: engaging differently with customers (64%), looking for new opportunities in domestic and/or UK markets (55%), selling products or services online (50%), and working with new suppliers (46%). Around a third were changing or updating routes to market (36%) and selling less (36%). Less common actions were looking for new opportunities in international markets (21%) and stockpiling goods (13%) (Figure 4.5).

Figure 4.5: Actions to support sales and market access

Q. Which of the following actions, if any, is your business taking to help support its sales and market access in the current working environment?

Base: All businesses

Variation by sector

Almost all actions were more common among large businesses (25+) and those with 11-24 staff (Table A.13, see appendix). The exceptions were selling less and stockpiling goods (for 25+ businesses) and selling less, engaging differently with customers, and selling products or services online (for 11-24 businesses).

Creative industries businesses were more likely than average to be selling their product or service online (64% vs 50%) and selling less (54% vs 36%). There was further sectorial variation among both tourism and food and drink businesses. Tourism businesses were more likely to be:

- engaging differently with their customers (75% compared with 64% overall),
- selling their product or service online (69% vs 50% overall),
- looking for new opportunities with domestic and/or UK markets (60% vs 55%),
- selling less (51% vs 36%),
- and looking for new opportunities in international markets (32% vs 21%).

Food and drink businesses were more commonly

- looking for opportunities in domestic and/or UK markets (68% vs 55% overall) and in international markets (31% vs 21%) and
- changing or updating their routes to market (50% vs 36%).

Variation by other factors

HIE-account managed businesses were more likely than non-account managed to be: looking for new opportunities in domestic and/or UK markets (83% vs 51%), selling their product or services online (77% vs 47%), changing or updating their routes to market (62% vs 33%), and looking for new opportunities in international markets (51% vs 18%).

Almost all actions to support sales and market access were more common among those operating in rUK and international markets, both within and outside the EU. (Table A.14, see appendix).

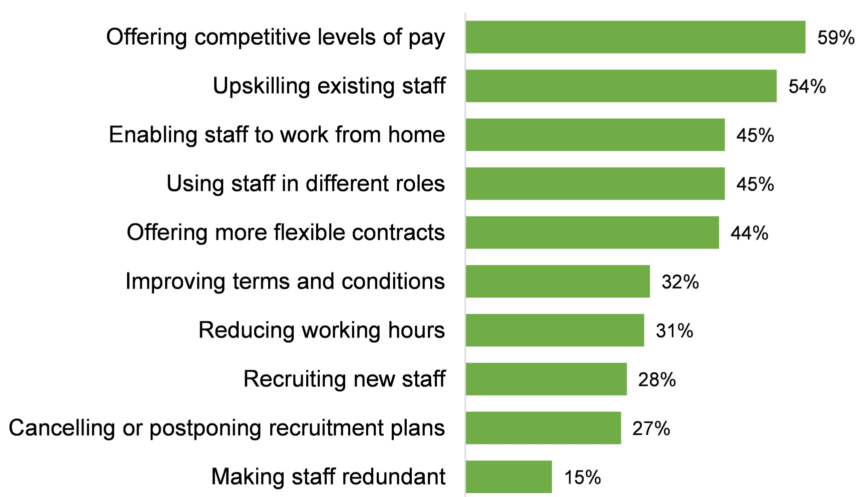
Those operating below their pre-COVID-19 levels were more likely to be looking for new opportunities in domestic and/or UK markets (61% vs 55% overall) and selling their product or services online (56% vs 50%).

WORKFORCE

Among employers, 86% had taken at least one of the actions listed in relation to its staff in the current working environment. The most common actions taken by employers were offering competitive levels of pay (59%), upskilling existing staff (54%), enabling staff to work from home (45%), using staff in different roles (45%), and offering more flexible contracts (44%). A further 31% were planning to reduce working hours, 27% were cancelling or postponing recruitment plans, and 15% were making redundancies. (Figure 4.6).

Figure 4.6: Actions in relation to staff

Q. Which of the following actions, if any, is your business taking in relation to its staff in the current working environment?



Base: All employers (820)

Most of these actions were more commonly taken by large businesses (25+ staff) and those with 11-24 staff, and less commonly by those with 0-4 staff (Table A.15, see appendix). However, large businesses (25+ staff) were notably no more likely than average to have reduced working hours, cancelled or postponed recruitment plans, or made staff redundant. Those with 11-24 staff were more likely than average to be making staff redundant (15% vs 5% overall)

Tourism businesses were more likely than average to have reduced working hours (56% vs 31% overall) and cancelled or postponed recruitment plans (37% vs 27%). Financial and business service organisations were more likely to have enabled staff to work from home (70% vs 45% overall) and recruited new staff (44% vs 28%).

HIE-account managed businesses were more likely than non-account managed to have: offered competitive levels of pay (79% vs 57%), enabled staff to work from home (66% vs 42%), used staff in different roles (65% vs 42%), cancelled or postponed recruitment plans (37% vs 25%), and made staff redundant (25% vs 14%).

Those anticipating growth were more likely to have offered competitive levels of pay (65% vs 59% overall), used staff in different roles (55% vs 45%), recruited new staff (38% vs 28%) and reduced working hours (36% vs 31%).

Reduction in working hours (51%), cancelling or postponing recruitment (42%), and making staff redundant (26%) were each higher than average among businesses operating below their pre-COVID-19 levels.

Plans for furloughed staff

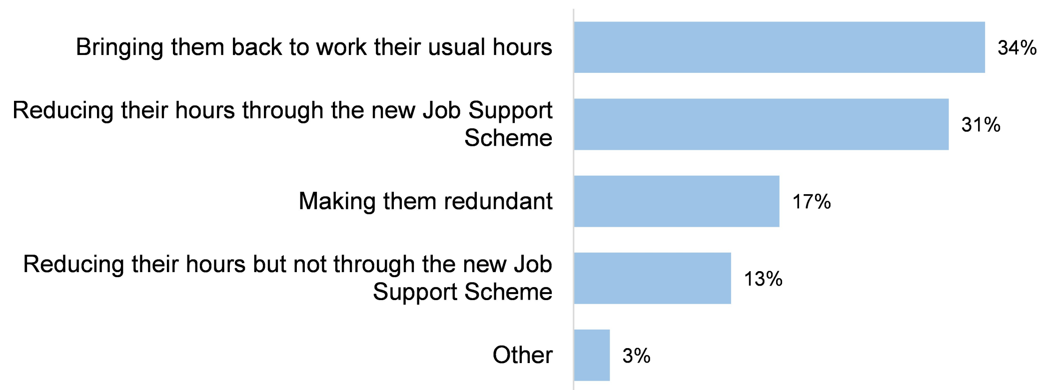
Businesses were asked what they had planned for staff that were on furlough in October. It should be noted that during the final week of the fieldwork period it was announced that the UK's Furlough Scheme (originally due to end on 31 October) would be extended, including in Scotland.

A quarter (25%) of employers had staff on furlough in October, while three quarters (75%) did not. The proportion of employers with furloughed staff was higher than average among creative industries (52%) and tourism businesses (37%).

Of those that did have staff on furlough, 34% planned to bring them back to work their usual hours, 31% planned to reduce their hours through the new Job Support Scheme, 17% planned to make them redundant, and 13% planned to reduce their hours, but not using the Job Support Scheme. (Figure 4.7).

Figure 4.7: Plans for furloughed staff

Q. If you have any staff currently on furlough, what are you plans for those staff after the end of October?



Base: All with staff on furlough in October 2020 (232)

Tourism businesses were more likely than average to say they would reduce furloughed staff hours, both through the Job Support Scheme (57% vs 31% overall) and not (29% v 13%).

5. PLANNING AHEAD

KEY MESSAGES:

While most businesses (94%) were forward planning, timeframes differed. One in three businesses (30%) were planning less than 12 months ahead or one to two years ahead (30%), around a quarter (23%) between two and five years ahead, and 11% over five years ahead. Only 5% of businesses said they were not planning ahead at all.

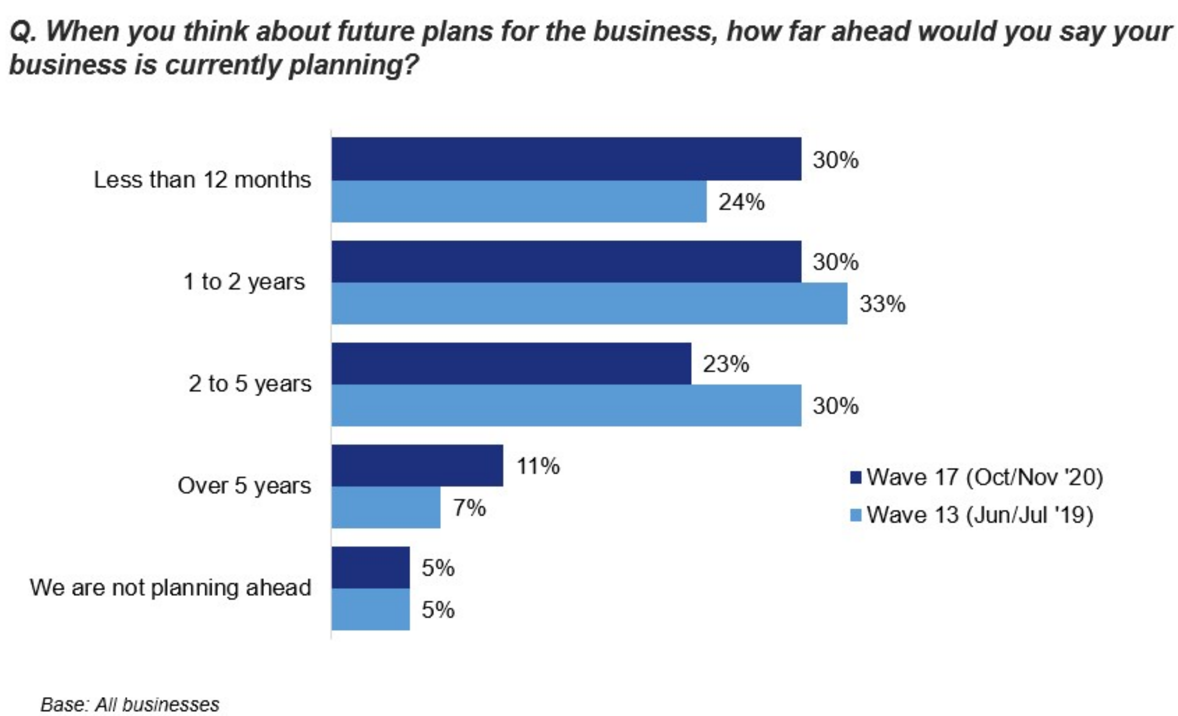
Almost two-thirds (63%) of businesses said they were planning ahead to the same degree as normal, while a quarter (26%) were planning less far ahead than their typical approach and 10% were planning further ahead than normal.

PLANNING AHEAD

Most businesses (94%) were forward planning, over a range of timeframes. One in three businesses (30%) were planning less than 12 months ahead, while the same proportion were planning one to two years ahead, 23% between two and five years ahead, and 11% over five years ahead. Only 5% of businesses said they were not planning ahead at all.

Businesses tended more towards short term planning than was the case in June/July 2019 (Wave 13), when 24% were planning less than a year ahead compared to 30% this wave. However, at the other end of the scale, there was also a small increase in the proportion of businesses planning over five years ahead (11% vs 7% in June/July 2019) (Figure 5.1).

Figure 5.1: Length of forward planning



Businesses more likely to be planning over five years ahead were:

- large businesses (25+ staff) (29% compared with 11% overall)
- food and drink businesses (15%)
- those anticipating growth (16%, compared with 8% of those not anticipating growth).
- those selling outside of the UK but within the EU (16%) and those selling outside the EU (15%), compared with those selling to rUK (11%) and domestic (10%) markets
- those importing from within the EU (14%) and outside the EU (14%) compared with those importing from rUK (11%) and domestic (10%) markets.

Those more likely to be planning between two and five years ahead were:

- food and drink businesses (32% compared with 23% overall)
- businesses that were operating over and above pre-COVID-19 levels (32%)
- those anticipating growth (32%, compared with 18% of those not anticipating growth).

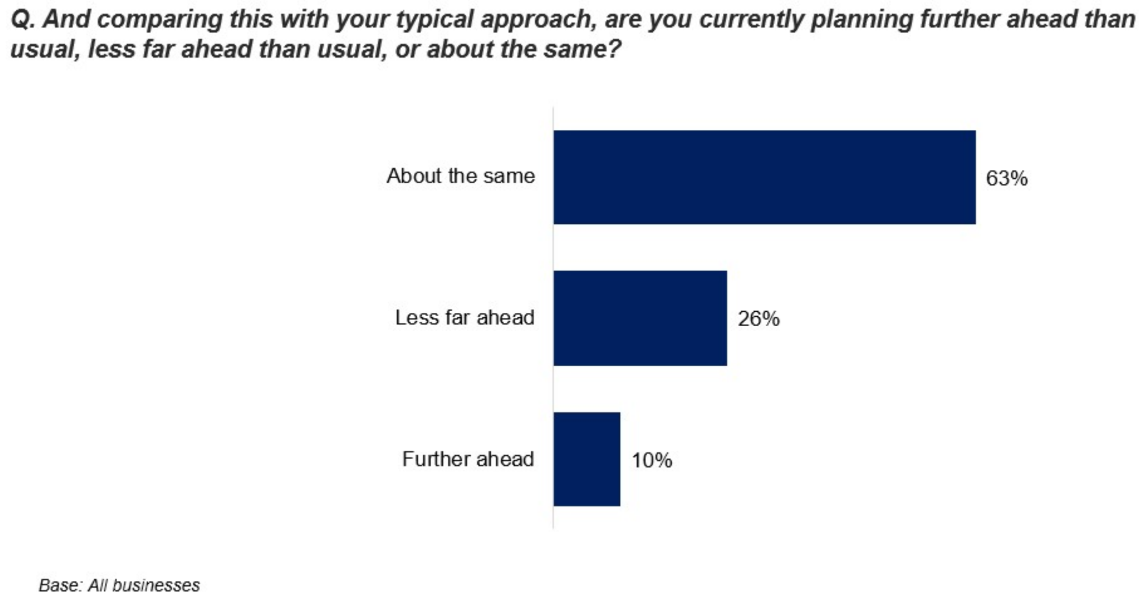
Planning less than a year ahead was more common among:

- those whose economic optimism had decreased in the last six months (33% compared with 30% overall)
- those who were not confident in their business viability (44%)
- those who were not anticipating growth (34%, compared with 23% of those who were anticipating growth)

CHANGES IN PLANNING TIMEFRAMES

Almost two-thirds of businesses were planning ahead the same amount as usual (63%), while a quarter (26%) were planning less far ahead and 10% were planning further ahead than normal (Figure 5.2).

Figure 5.2: Changes to forward planning



Businesses planning less far ahead than normal were:

- tourism businesses (43% vs 26% overall)
- those whose economic optimism had decreased in the last six months (34%)
- those who were not confident in their business viability (48%)
- those operating below pre-COVID-19 levels (38%)
- those who were not anticipating growth (30% vs 26% overall).

Those selling outside of the UK but within the EU (18%), outside the EU (18%), and in rUK (13%) were more likely than domestic only (8%) businesses to be planning further ahead than normal.

Around half (47%) of those planning less than 12 months and around a quarter (23%) of those planning 1-2 years ahead were planning less far ahead than usual. When this question was last asked (in June/July 2019), only 21% and 12% of these groups were planning less far ahead than usual. This emphasises the shift towards shorter term planning, particularly among those already planning no further than two years into the future.

Around one in five (18%) of those planning either two to five or 5+ years ahead were planning further ahead than usual. When asked in June/July 2019, higher proportions (23% and 35% respectively) of each group were planning further ahead, again highlighting a general move towards shorter term planning. (Table 5.1).

Table 5.1: Length of planning by changes in duration of planning

	All businesses	Less than 12 months	1 to 2 years	2 to 5 years	Over 5 years	We are not planning ahead
	%	%	%	%	%	%
Planning further ahead	10	6	8	18	18	2
Planning less far ahead	26	47	23	8	2	42
Planning about the same	63	46	68	74	77	57
Base: All businesses	*1000*	*311*	*286*	*238*	*85*	*65*

6. FUTURE VIABILITY AND NEW WAYS OF WORKING

KEY MESSAGES:

Most (82%) businesses were confident they would remain viable over the next six months; however, 15% said they were not confident. Confidence in business viability improved since the previous wave (75% confident in June/July 2020).

Of the range of potential changes that might occur over the coming months, businesses felt most confident about their ability to respond to changes in customer needs/demand (90%); manage cash flow (88%); and remain competitive in current markets (88%). Areas which businesses were the least confident about were accessing external finance (54%); accessing new markets (48%); and recruiting new staff (40%).

Tourism businesses had lower than average confidence in their future viability over the next six months (31% were not confident) and in their ability to respond to most of the potential changes to their working environment.

Future changes that businesses felt most prepared for were the ways in which staff have to work (77% prepared, 5% not prepared), supply chain arrangements (73% prepared, 12% not), and their routes to market (72% prepared, 11% not). Businesses felt least prepared for changes to customs procedures (31% prepared, 19% not prepared) and intellectual property rights on goods (36% prepared, 15% not prepared).

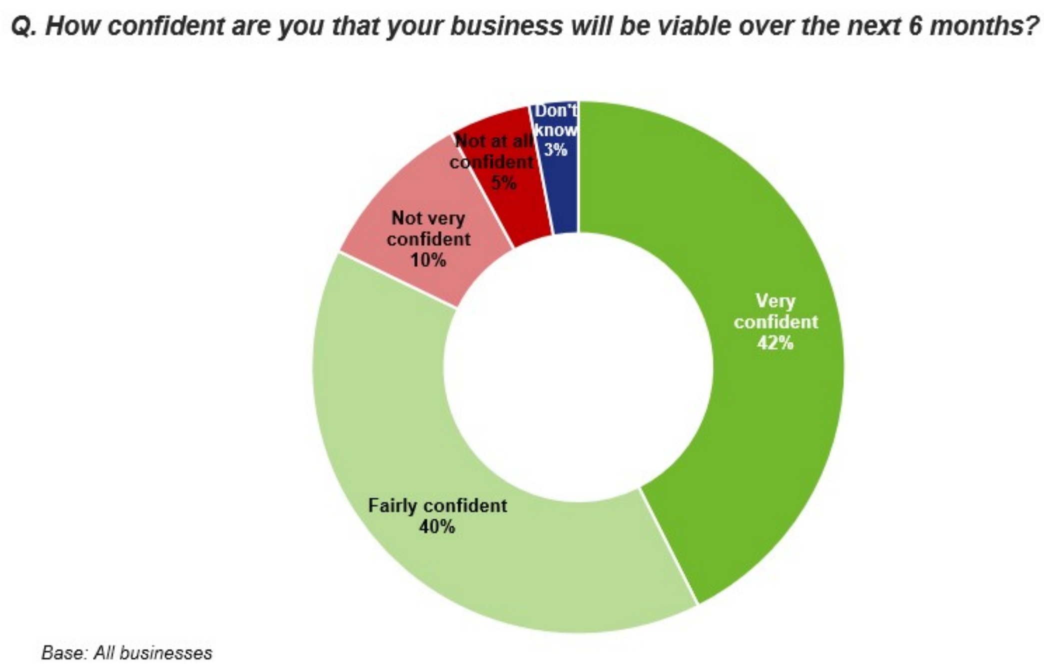
The most common new technology used by businesses was cyber resilience and security technologies (44%), followed by the Internet of Things and sensor technologies (39%). A further third (33%) were using low carbon technology, 31% were using data analytics, 27% automation of processes and 26% mobile app development.

The most common barriers to adopting new technologies were cost (60%), a lack of time (59%) and having more pressing priorities (58%). One in ten businesses said they faced no barriers in adopting new approaches and technologies (11%).

BUSINESS VIABILITY

Most (82%) businesses were confident they would remain viable over the next six months (42% very confident and 40% fairly confident). However, 15% said they were not confident (10% not very confident, 5% not at all confident). (Figure 6.1). This represents an increase in confidence from the previous wave (June/July 2020), when 75% were confident and 25% were not.

Figure 6.1: Confidence in business viability



Food and drink businesses (87%), those in Shetland (95%) and large businesses (25+ staff) were more likely than average (82%) to be confident in their future viability. Those with 25+ staff were also more likely to feel *very* confident (61% vs 42% overall).

Those more likely than average (15%) to say they were *not* confident in their viability were businesses:

- in the tourism sector (31%) (the least confident sector overall)
- in Lochaber, Skye and Wester Ross (24%)
- selling within the EU (20%) and outside the EU (22%)
- importing from within the EU (22%)
- whose economic optimism had decreased (20%)
- operating below pre-COVID levels (25%)
- expecting to downsize (27%) and
- not anticipating growth (19%).

NEW WAYS OF WORKING

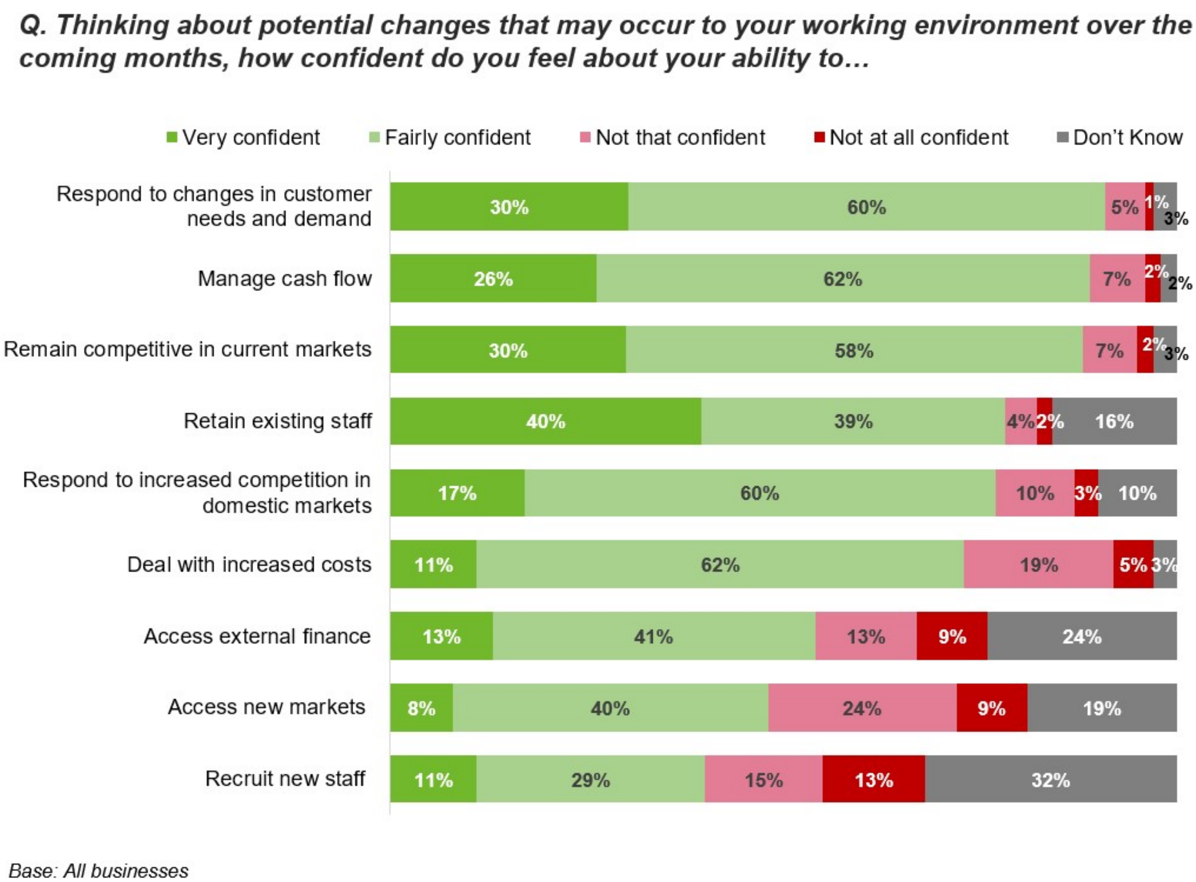
Confidence responding to changes in working environment

Businesses were asked how confident they felt about responding to changes in their working environment over the coming months.

Most businesses felt confident about their ability to respond to changes in customer needs and demand (90% confident); manage cash flow (88%); and remain competitive in current markets (88%). A majority also felt confident about retaining existing staff (78%); responding to increased competition in domestic markets (77%); and dealing with increased costs (74%) (Figure 6.2).

Areas which businesses were least confident about were accessing external finance (54% confident); accessing new markets (48%); and recruiting new staff (40%). These three changes were also those which businesses felt most unsure about (having the higher proportion of 'don't know/not applicable'' responses) (Figure 6.2). It should be noted that 'don't know/not applicable' responses were generally higher among businesses only operating in domestic markets, reflecting the lesser relevance of some of the answer categories to these businesses.

Figure 6.2: Confidence responding to potential changes in working environment



Large businesses (25+ staff) were more confident than average about remaining competitive in current markets (97% vs 88% overall), responding to increased competition in domestic markets (92% vs 77%

overall), and accessing external finance (74% vs 54% overall). Those with 11-24 staff were more likely than average to be confident about responding to changes in customer needs and demand (98% vs 90% overall).

Tourism businesses had lower than average confidence about most potential changes: accessing external finance (40% *not* confident vs 22% overall); accessing new markets (40% vs 33%); dealing with increased costs (39% vs 24%); recruiting new staff (33% vs 28%); managing cash flow (21% vs 9%); remaining competitive in current markets (14% vs 9%); and retaining staff (16% vs 6%).

HIE-account managed businesses were more confident than non-account managed in their ability to: retain existing staff (94% vs 76%) recruit new staff (64% vs 38%), and access external finance (69% vs 52%).

Confidence by market of operation

As noted above, domestic-only businesses showed a higher number of 'don't know'/'not applicable' responses when asked about their level of confidence about changes to their working environment. For example, a high proportion of those selling to domestic-only markets said 'don't know / not applicable' in relation to: accessing external finance (31% compared with 24% overall), accessing new markets (27% vs 19%) and recruiting new staff (36% vs 32%).

When the 'don't know/not applicable' responses are removed, a clearer picture of variation between different markets of operation can be seen, based on those for whom these changes will be most relevant. Overall, levels of confidence were generally high in relation to most changes, with the exception of accessing new markets (41% not confident) and recruiting new staff (41% not confident). However, there was some variation in confidence by markets of operation. (Table 6.1 – the shaded cells show significant differences when compared with domestic-only businesses).

Table 6.1: Confidence by markets sold to/imported from

		Markets sold to				Markets imported from			
	All	**Domestic only**	**rUK**	**EU**	**Outside EU**	**Domestic only**	**rUK**	**EU**	**Outside EU**
Change	% Very/ fairly confident								
Respond to changes in customer needs and demands	**93**	93	94	95	95	90	94	94	98
Retain existing staff	**92**	93	91	91	89	95	92	90	94
Remain competitive in current markets	**91**	90	91	91	90	94	90	89	93
Manage cash flow	**90**	91	90	87	86	90	90	91	87
Respond to increased competition in domestic markets	**86**	85	86	88	88	79	87	87	88
Deal with increased costs	**76**	74	76	75	76	77	75	75	80
Access external finance	**71**	67	74	71	69	68	71	75	71
Access new markets	**59**	56	61	66	65	51	60	64	75
Recruit new staff	**59**	57	62	64	62	54	59	60	70

Base: All excluding 'don't know/not applicable' responses to each change

The key differences were:

- Those selling to EU markets and outside of the EU were more confident than domestic-only businesses about their ability to access new markets (66% and 65% confident, compared with 56%). However, they were each less confident than domestic-only businesses about their ability to manage cash flow (87% and 86% compared with 91%).

- Those selling to rUK markets were more confident than domestic-only businesses about their ability to access external finance (74% compared with 67%).

- Those importing from rUK, the EU and outside the EU were each more confident than domestic-only businesses about their ability to respond to increased competition in domestic markets (87%, 87%, and 88% vs 79%), and their ability to access new markets (60%, 64% and 75% vs 51%).

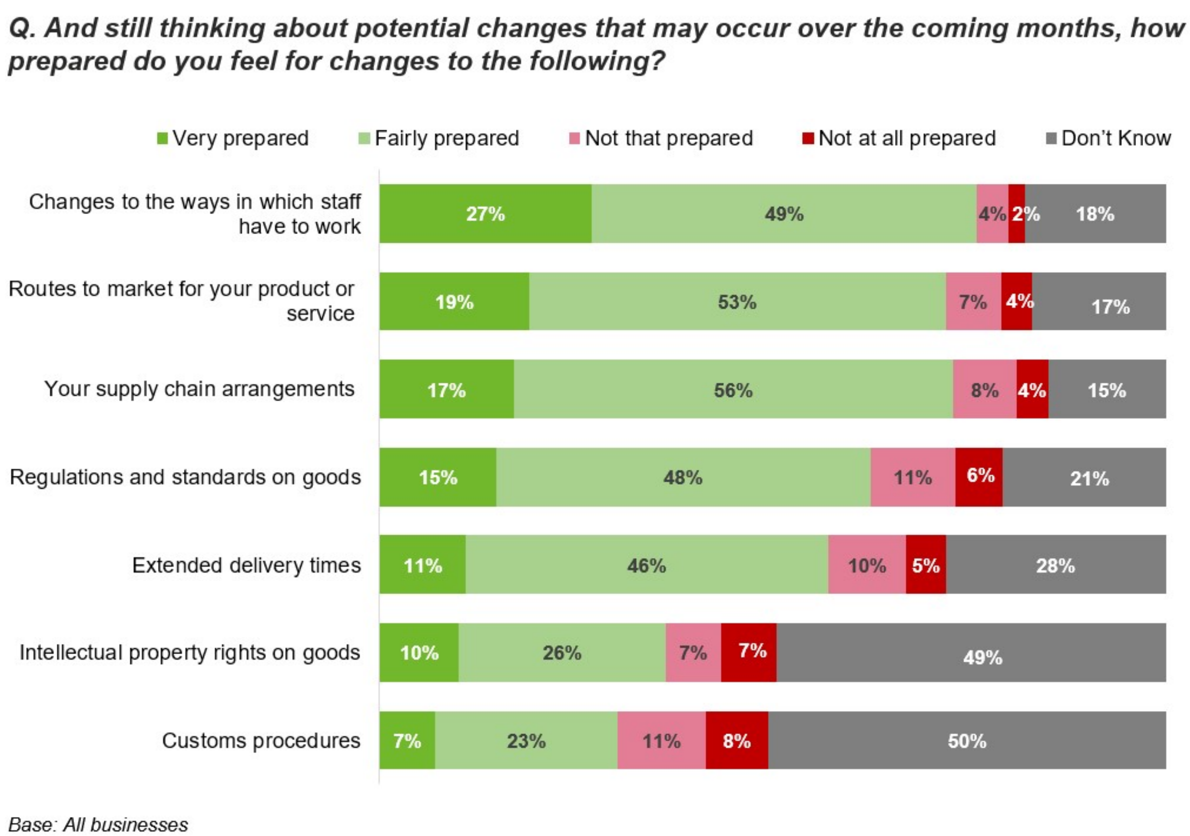
- Those importing from outside the EU were more confident than domestic-only businesses about their ability to recruit new staff (70% vs 54%).

Preparedness for change

As well as measuring their confidence about changes ahead, businesses were also asked how *prepared* they were for potential changes in the business environment in coming months.

Changes that businesses felt most prepared for were the ways in which staff work (77% prepared, 5% not prepared), supply chain arrangements (73% prepared, 12% not), and their routes to market (72% prepared, 11% not). Businesses felt least prepared for changes to customs procedures (31% prepared, 19% not prepared) and intellectual property rights on goods (37% prepared, 15% not prepared). For the latter two changes, around half said they did not know how prepared they felt (49% and 50% respectively). (Figure 6.3). It should again be noted that 'don't know/not applicable' responses were generally higher among domestic-only businesses, reflecting that some changes are likely to mainly affect businesses operating internationally.

Figure 6.3: Preparedness for potential upcoming changes



Variations in terms of preparedness to change included:

- Large businesses (25+ staff) were more likely than average to feel prepared for various changes, including to: supply chain arrangements (91% vs 73% overall); ways in which staff work (97% vs 77% overall); extended delivery times (79% vs 57% overall); and customs procedures (49% vs 31% overall).

- Food and drink businesses were more likely than average to feel prepared for changes to supply chain arrangements (79% vs 73% overall); customs procedures (38% vs 31% overall); regulations and standards (75% vs 63% overall); and extended delivery times (66% vs 57% overall). However, they were less prepared than average for changes to intellectual property rights on goods (21% *not* prepared vs 15% overall) and the ways in which staff have to work (9% vs 5%). By contrast, tourism businesses were more likely than average to feel prepared for changes to ways in which staff have to work (83% vs 77% overall).

- Businesses that were not located in rural areas were more likely to feel prepared for changes to their supply chain (78% vs 73% overall) and to changes to the ways in which staff have to work (84% vs 77% overall).

Preparedness for change by markets of operation

Domestic-only businesses showed a higher number of 'don't know'/'not applicable' responses when asked about how prepared they were for changes over the coming months. For example, 60% in relation to changes to customs procedures (compared with 51% overall) and 57% in relation to intellectual property rights on goods (vs 49% overall).

Again, when the 'don't know/not applicable' responses are removed, a clearer picture of variation between different markets of operation can be seen, based on those for whom these changes will be most relevant. Overall, among those for whom they applied, businesses were most prepared for changes to how staff work (93% prepared), routes to market (87%), and supply chain arrangements (86%). They were least prepared for changes to intellectual property rights on goods (29% not prepared) and customs procedures (38% not prepared). Again, there was variation by markets of operation. (Table 6.2 – the shaded cells show significant differences compared with domestic-only businesses).

Table 6.2: Preparedness for change by markets sold to/imported from

		Markets sold to				Markets imported from			
	All	Domestic only	rUK	EU	Outside EU	Domestic only	rUK	EU	Outside EU
Change	% Very/ Fairly prepared								
Changes to the way in which staff have to work	**93**	92	95	95	94	87	95	94	95
Routes to market for you product or service	**87**	89	85	85	89	85	88	88	88
Your supply chain arrangements	**86**	86	86	86	86	87	85	83	83
Extended delivery times	**80**	76	85	86	86	75	80	82	86
Regulations and standards on goods	**79**	82	77	73	72	80	79	74	77
Intellectual property rights on goods	**71**	78	67	65	68	77	70	67	73
Customs procedures	**62**	65	60	67	69	63	61	59	63
Base: All excluding 'don't know/not applicable' responses to each change									

The key differences were:

- Businesses selling to rUK, the EU and outside of the EU were more prepared than domestic-only businesses for extended delivery times (85%, 86% and 86% compared with 76%). Those importing from outside the EU were also more prepared than domestic-only importers (86% vs 75%).

- Those selling within the EU (73%) and outside the EU (72%) were *less* prepared than domestic-only businesses (82%) for changes to regulations and standards on goods.

- Among importers, those importing from rUK (95%), the EU (94%) and outside the EU (95%) were more prepared then domestic-only businesses (87%) for changes to the way staff have to work.

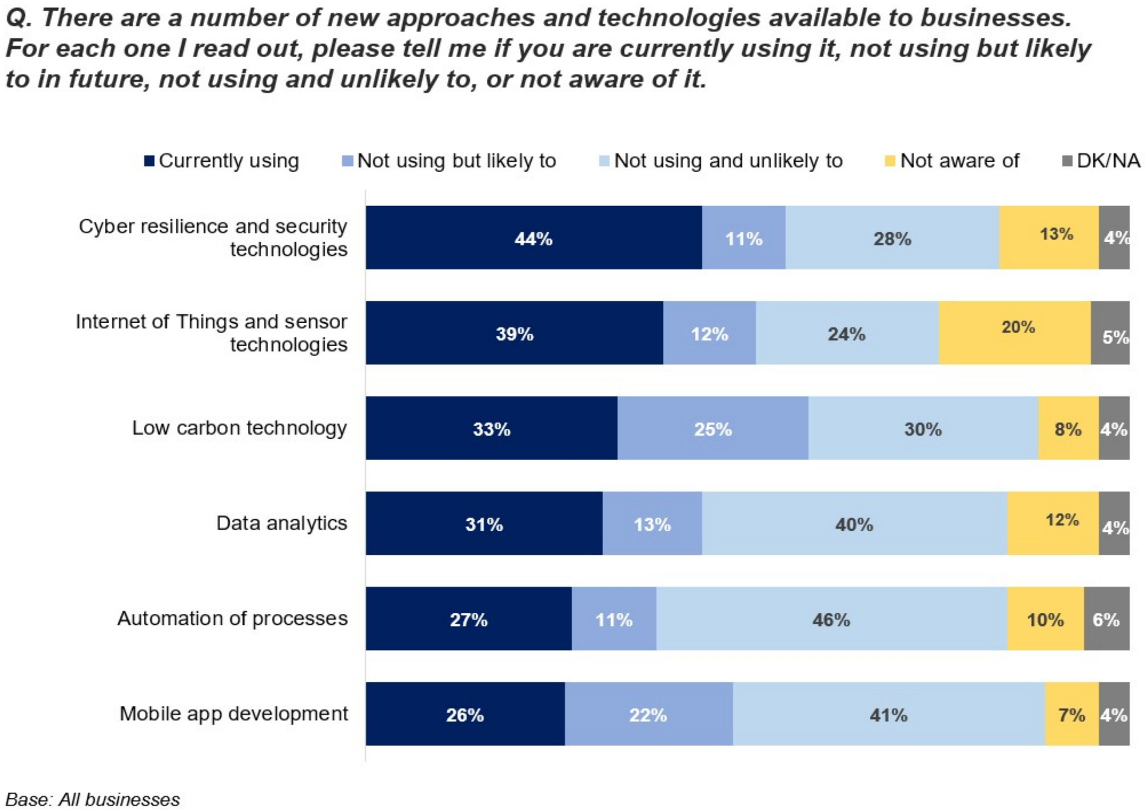
For other changes – routes to markets, supply chain arrangements, intellectual property rights, and customs procedures – there was no variation between market of operation.

NEW APPROACHES AND TECHNOLOGY

Asked about a range of new approaches and technologies available to businesses, those most commonly used were cyber resilience and security technologies (44%), followed by the Internet of Things and sensor technologies (39%). A further third (33%) were using low carbon technology, 31% were using data analytics, 27% automation of processes and 26% mobile app development. (Figure 6.4). Of the approaches not yet being used, 25% were likely to use low carbon technology in future, 22% were likely to use mobile app development, while around one in ten were likely to use each of the others.

There was generally high awareness of these technologies and approaches, although a fifth of businesses (20%) said they were unaware of the Internet of Things and sensor technologies (Figure 6.4).

Figure 6.4: Use of new approaches and technology



Large businesses (25+) were more likely than average to be using cyber resilience and security technologies (61% vs 44% overall), mobile app development (48% vs 26% overall), data analytics (44% vs 31%), and automation of processes (44% vs 27%).

Small businesses (0-4 staff) were more likely than average to say they were not using, and unlikely to use: automation (52% vs 46% overall), mobile app development (43% vs 41%), and cyber resilience and security technologies (33% vs 28%), They were also more likely to be unaware of data analytics (15% vs 12% overall).

Tourism businesses were more likely than average to be using mobile app development (34% vs 26% overall) and data analytics (43% vs 31%). Use of data analytics was also higher than average among financial and business services organisations (48%). Food and drink businesses were more likely than average to be using low carbon technology (40% vs 33% overall) and to say they would use automation in future (20% vs 11% overall).

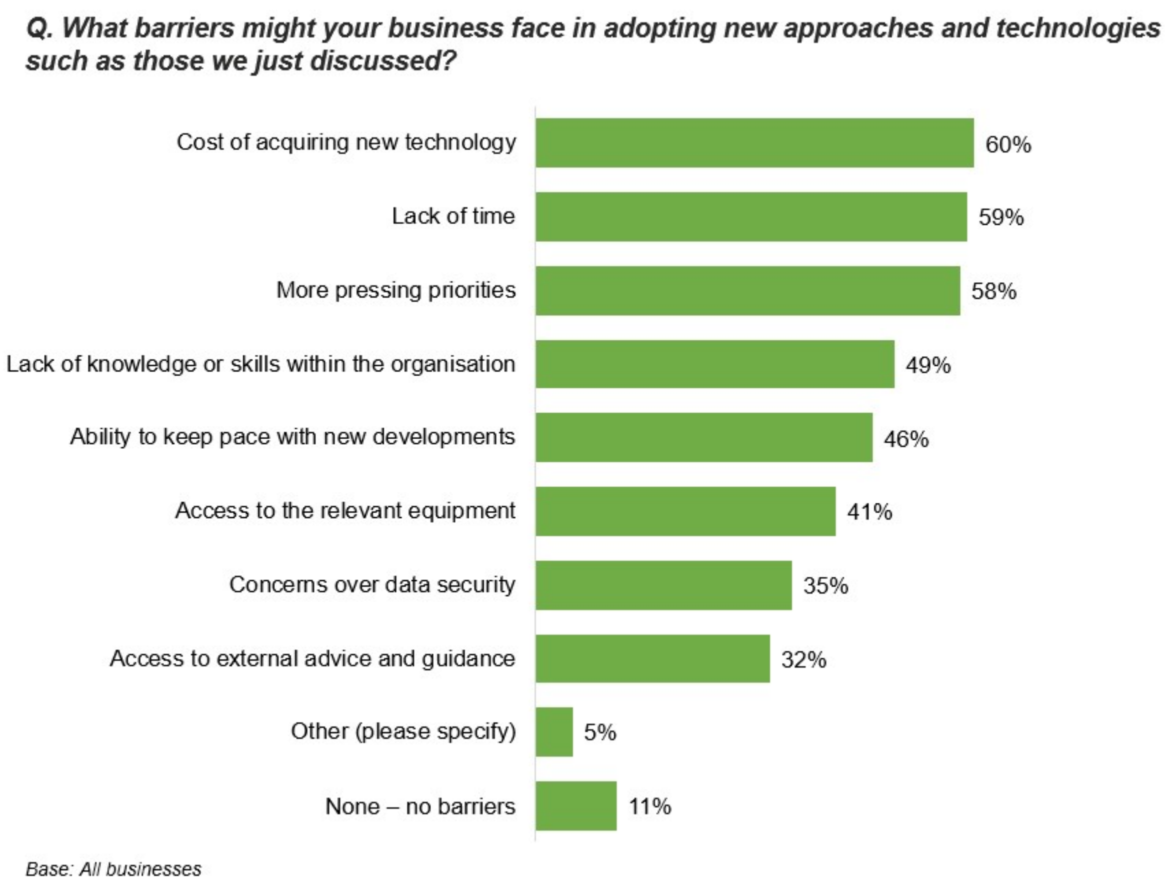
International businesses (those selling either within the EU or outside the EU) were more likely than average to be using cyber resilience and security technologies (52% compared with 44% overall) and mobile app technology (30% vs 26% overall). They were also more likely to say they would use low carbon technology (30% vs 25%), automation (14% vs 11%) and data analytics (17% vs 13%) in future.

Businesses in remote rural areas were more likely than average to be using low carbon technology (38% vs 33% overall). They were also more likely to say they were not using, and unlikely to use, automation (51% vs 46% overall) and cyber resilience and security technologies (34% vs 28%).

BARRIERS TO ADOPTING NEW TECHNOLOGY

Thinking about challenges businesses faced in adopting new approaches and technologies, the top barriers identified were: cost (60%), a lack of time (59%) and having more pressing priorities (58%). Other barriers identified included: lack of knowledge or skills within the organisation (49%); ability to keep pace with new developments (46%); access to the relevant equipment (41%); concerns over data security (35%); and access to external advice and guidance (32%). One in ten businesses said they faced no barriers in adopting new approaches (11%) (Figure 6.5).

Figure 6.5: Barriers to using new approaches and technology



Businesses with 11-24 staff were more likely than average to cite a lack of time (71% vs 59% overall) and having more pressing priorities (72% vs 58% overall) as barriers.

Tourism businesses were more likely to say they had difficulties accessing the relevant equipment (47% vs 41% overall), while food and drink businesses were more likely to say they had concerns over data security (47% vs 35% overall).

HIE-account managed businesses were more likely than non-account managed businesses to say they had more pressing priorities (68% vs 56% respectively).

Cost of acquiring new technology was a particular barrier for those who were not confident about their business viability (74% compared with 60% overall); and those operating below pre-COVID-19 levels (65%).

7. ENVIRONMENTAL IMPACT

KEY MESSAGES:

When thinking about economic recovery from COVID-19, the majority of businesses (81%) agreed that government actions should prioritise climate change (43% strongly agreed, 38% somewhat agreed). Almost one in five (18%) disagreed with this approach (6% strongly, 12% somewhat).

Views were mixed about whether government should focus on helping the economy first and foremost, even if that means taking actions that are bad for the environment: 53% agreed (19% strongly, 35% somewhat), while 45% disagreed (22% strongly, 23% somewhat).

Businesses demonstrated high levels of commitment to reducing their environmental impacts: out of an overall score of 10 (meaning “very committed”) the mean score for all businesses was 7.3. This was consistent with levels of commitment one year earlier in October 2019.

Reflecting this high level of commitment, the vast majority of businesses (97%) anticipated taking some actions that could help reduce or respond to their environmental impact, most commonly: recycling and waste minimisation (89%), improving the energy efficiency of premises (81%), using more locally sourced supplies (72%), and improving the energy efficiency of systems and processes (68%).

GREEN RECOVERY FROM COVID-19

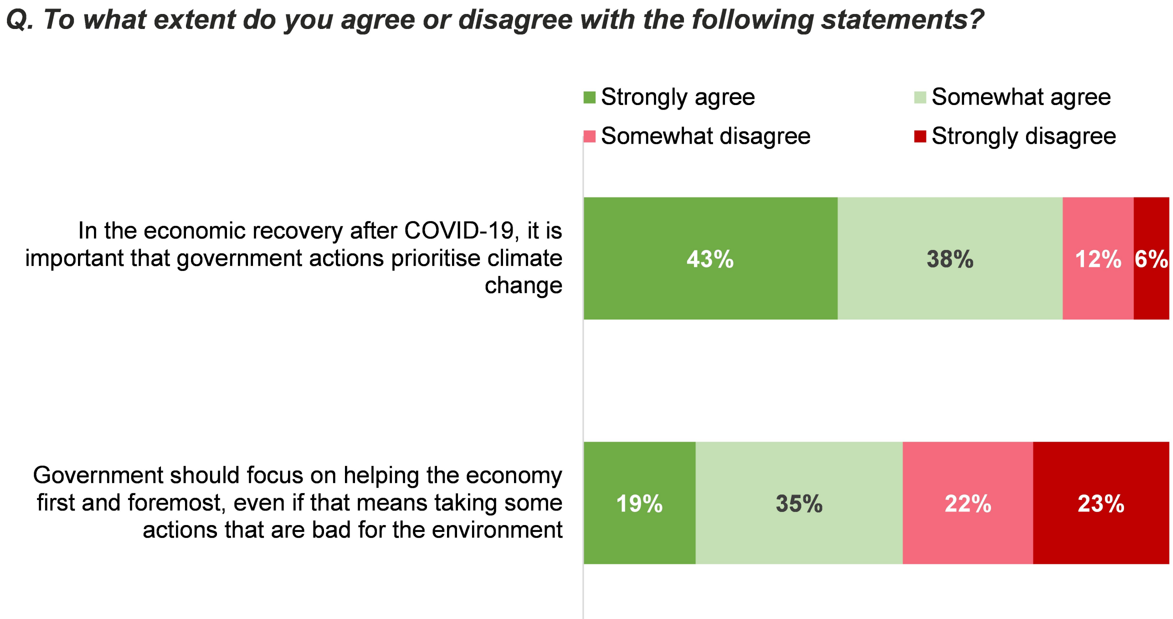
Businesses were asked to consider two approaches that government could take in supporting economic recovery from COVID-19. Firstly, that government actions in the recovery should prioritise climate change - in other words, a ‘green recovery’ from the pandemic. Secondly that government should focus on helping the economy even if that means taking some actions that are bad for the environment.

The majority of businesses (81%) agreed that government actions should prioritise climate change (43% strongly agreed, 38% somewhat agreed). Almost one in five (18%) disagreed with this approach (6% strongly, 12% somewhat). When the same question was asked in a survey of the public[6] (in April 2020), a lower proportion, 58%, of the British public agreed with this approach – though it should be noted that the lower proportion among members of the public may reflect the timing of that survey, which was in the peak of the first wave of the pandemic and associated lockdown.

Views were mixed about whether government should focus on helping the economy first and foremost, even if that means taking actions that are bad for the environment: 53% agreed (19% strongly, 35% somewhat), while 45% disagreed (23% strongly, 22% somewhat) (Figure 7.1).

[6] Ipsos MORI, April 2020 https://www.ipsos.com/sites/default/files/ct/publication/documents/2020-06/now_what_-_climate_change_and_coronavirus.pdf

Figure 7.1: Views on green recovery from COVID-19



Base: All businesses

Tourism businesses were more likely than average to support government actions prioritising climate change (85% agreed compared with 81% overall). There was also higher than average support among business in the Inner Moray Firth (87%).

Those in non-fragile areas were more likely than those in fragile areas to agree with the second approach, that government should focus on the economy first and foremost (56% compared with 43%).

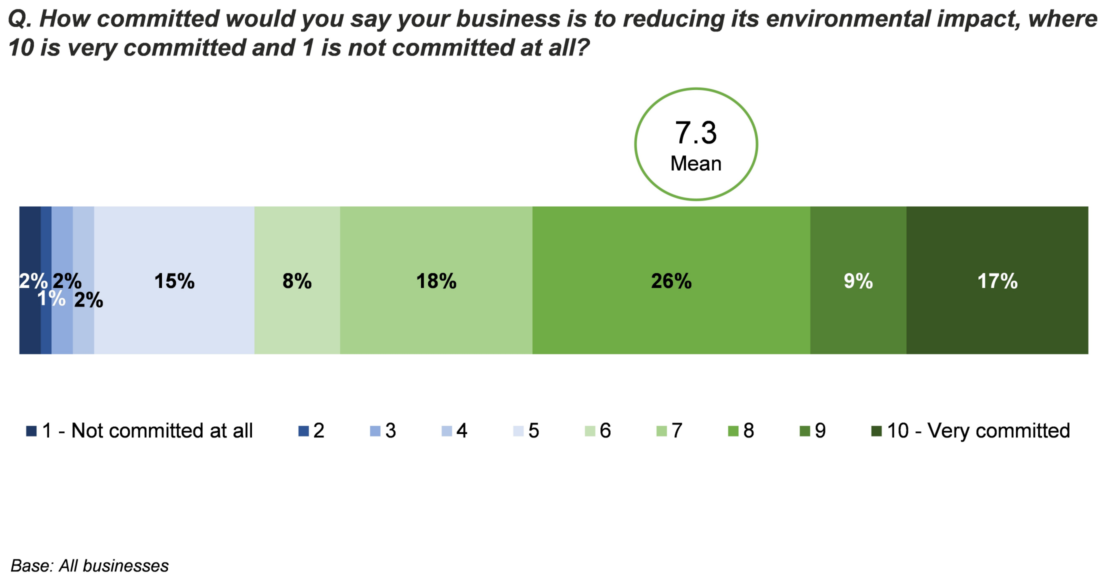
Otherwise views were broadly similar between different types of businesses.

REDUCING ENVIRONMENTAL IMPACTS

Businesses were asked to rate their commitment to reducing their environmental impacts using a scale of 1 to 10, where 1 was "not committed at all" and 10 was "very committed".

Businesses generally demonstrated high levels of commitment to reducing their environmental impacts: 71% gave a score between 7 and 10, while 22% gave a score of 5 or 6, and 6% gave a score of between 1 and 4. The mean score for all businesses was 7.3 out of 10 (Figure 7.2) - the same as in September/October 2019, when this question was last posed.

Figure 7.2: Commitment to reducing environmental impacts



International businesses (those selling within and outside of the EU) demonstrated higher commitment than domestic businesses (mean score of 7.6 compared with 7.2). Those in remote rural (7.4) and accessible rural (7.9) locations had a higher mean score than those in other areas (6.9). Otherwise, views were fairly consistent between different types of business.

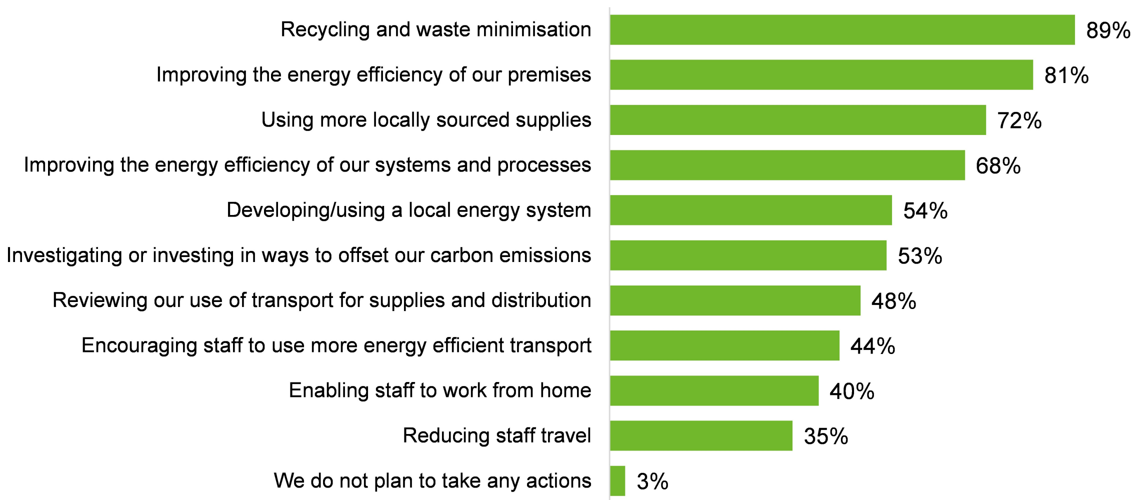
Reflecting the overall high levels of commitment, the vast majority of businesses (97%) anticipated taking some actions that could help reduce or respond to their environmental impacts, while just 3% did not anticipate doing so.

As seen in the September/October 2019 survey, the most common actions anticipated were those that arguably might require the least significant changes to the way businesses operate: recycling and waste minimisation (89%), improving the energy efficiency of premises (81%), using more locally sourced supplies, and improving the energy efficiency of systems and processes (68%). (Figure 7.3).

Around half of businesses planned to develop or use a local energy system (54%); investigate or invest in ways of offsetting carbon emissions (53%); review use of transport for supplies and distribution (48%). Around two-fifths anticipate encouraging staff to use more energy efficient transport (44%) and enabling staff to work from home (40%).

Figure 7.3: Actions taken to reduce or respond to environmental impacts

Q. Some businesses are making changes that could help reduce or respond to environmental impact. Which of the following actions, if any, do you anticipate your business taking?



Base: All businesses

Large businesses (25+) were more likely than average to anticipate improving the energy efficiency of their systems and processes (84% compared with 68% overall), enabling staff to work from home (60% vs 40%), and reducing staff travel (56% vs 35%).

Food and drink businesses were more likely to plan on using more locally sourced supplies (79% vs 72%), improving the energy efficiency of their systems and processes (78% vs 68%), and reviewing their use of transport for supplies and distribution (56% vs 48%). Tourism businesses were more likely to plan on improving the energy efficiency of their premises (85% vs 81%).

Financial and business services and creative industries businesses were both more likely than average to say they would enable staff to work from home (66% and 54% vs 40% overall) and reduce staff travel (52% and 46% vs 35% overall).

Business in Orkney showed higher than average intentions to improve the energy efficiency of their premises (94% vs 81% overall) and of their systems and processes (88% vs 68%) and to develop or use a local energy system (78% vs 54%).

HIE-account managed businesses were more inclined than non-account managed businesses to improve the energy efficiency of their systems and processes (81% vs 67%), enable staff to work from home (55% vs 38%) and reduce staff travel (54% vs 33%).

8. SUMMARY

Overview

This wave businesses continued to experience, and respond to, the unprecedented disruption brought about by COVID-19. Impacts on businesses were clear, with changes to the ways most businesses were working, leading many to experience a downturn in operating level, sales or turnover and profit margins. In addition, the details of the UK's departure from the EU remained unclear, creating further uncertainty about the impacts that Brexit would have on businesses. Reflecting the challenging circumstances they were working in, businesses continued to have low confidence in the economic outlook, for both Scotland and for the Highlands and Islands region.

There were, however, signs of improvement from the previous wave. Economic confidence had improved slightly, and fewer businesses said they were operating below their pre-COVID-19 levels. Businesses also continued to show ambition for growth, though expected levels of growth were lower than usual.

In response to these impacts, most businesses were taking some actions to respond to changes in their working environment. These included making changes to processes, products and services, as well as actions to help support their future sales and market access, and measures relating to their workforce. Businesses generally felt confident about and prepared for changes that may occur over the coming months, though this varied depending on the change in question and the type of business.

Encouragingly, most businesses were confident that they would still be viable in the next six months; more so than they did in the previous wave. However, 15% said they were not confident in their viability, a figure that was higher among certain types of business – most starkly among tourism business, of which a third lacked confidence in their future viability.

Despite the significant disruption brought about by COVID-19, businesses continued to demonstrate high commitment to reducing their environmental impacts. Reflecting this commitment, there was strong support for government to focus on a green recovery from the pandemic.

Economic confidence, performance and growth

- Economic optimism remains low: 69% of businesses said their confidence in the economic outlook in Scotland had decreased over the last six months, 26% said it stayed the same and 5% said it had increased. Optimism was at the second lowest level recorded since the survey began, with the lowest being the previous wave in June/July 2020.

- Confidence in the economic outlook for the Highlands and Islands was lower than this time last year: 37% of businesses said they were confident, while 62% said they were not compared to 53% and 49% in October 2019.

- Half of businesses (50%) were operating below the level they had been before COVID-19. Over a third (36%) were operating at much the same level as before, while 13% were operating over and above the level they had been.

- Views on business performance over the past six months were more negative than in previous waves. While employment remained relatively stable, sales or turnover and profit margins had decreased for more than half of businesses. Performance was more mixed in relation to working hours, staff training and exports.

- Turning to future growth, more than half (54%) of businesses aspired to grow, a third (36%) were aiming to retain their current level of performance and one in ten (9%) said they would like to downsize. However, growth expectations were lower than in previous waves: 37% anticipated growth, 42% anticipated stability and 17% anticipated a contraction.

Supporting economic recovery

- Thinking about Scotland's economic recovery after COVID-19, the top three priorities identified by businesses were: supporting businesses to create jobs and retain staff (51%), giving rates relief or tax breaks for businesses (45%) and ensuring businesses have access to financial products that support longer term investment/growth (37%). Priorities for economic recovery did vary, particularly by sector and location.

- Asked about a range of political and economic factors, the majority felt that each posed at least some risk: 95% in relation to future waves of coronavirus; 86% in relation to the global economy; 79% in relation to Scotland's relationship with the rest of the UK; 75% in relation to the UK's departure from the EU; and 61% in relation to sectoral change.

Responding to change

- Key values for businesses included ensuring that quality was at the heart of their goods and services (52%), strong financial performance (35%) and ensuring a good work life balance (31%).

- Three-quarters (74%) of businesses said their way of working had changed as a result of COVID-19, with 41% saying they wanted to return to the way they operated before, and 33% wanting to maintain some or all of those changes. A quarter had not experienced much change; 19% expected this to continue, while 6% expected change in the year ahead.

- Most businesses (95%) were taking at least one action to help them operate in their current working environment, most commonly making processes more efficient (67%), having more meetings and contact online (65%) and adapting existing products or services (59%).

- Among businesses that were collaborating in new ways with others, this was most commonly collaborating on marketing activity (61%) and sharing resources (59%). Almost half (46%) were collaborating on distribution channels or sales platforms and on sharing staff, skills or expertise.

- Thinking about the 12 months ahead, businesses were broadly optimistic about their sales to markets in Scotland and the rest of the UK, but were more negative in relation to international markets, both within and outside the EU.

- In relation to sales and market access specifically, 91% of businesses were taking at least one action to help them in the current working environment. Top actions were: engaging differently with customers (64%), looking for new opportunities in domestic and/or UK markets (55%), selling products or services online (50%), and working with new suppliers (46%).

- Among employers, 86% had taken at least one action in relation to its staff in the current working environment, most commonly offering competitive levels of pay (59%), upskilling existing staff (54%), using staff in different roles (45%), enabling staff to work from home (45%), and offering more flexible contracts (44%).

Planning ahead

- One in three businesses (30%) were planning less than a year ahead, 30% one to two years ahead, 23% between two and five years ahead, and 11% over five years ahead. Only 5% of businesses said they were not planning ahead at all.

- Almost two-thirds (63%) of businesses said they were planning ahead to the same degree as normal, while a quarter (26%) said they were planning less far ahead than typically and 10% said they were planning further ahead than normal.

Future viability and new ways of working

- Most (82%) businesses were confident they would remain viable over the next six months; however, 15% said they were not confident. Confidence in business viability improved since the previous wave (June/July 2020), when 75% were confident and 25% were not.

- Of the range of potential changes that might occur over the coming months, businesses felt most confident about their ability to respond to changes in customer needs/demand (90%); manage cash flow (88%); and remain competitive in current markets (88%). Areas which businesses were the least confident about were accessing external finance (54%); accessing new markets (48%); and recruiting new staff (40%).

- Among businesses for whom these changes were most relevant, those selling within the EU (66%) and outside the EU (65%) were more confident than domestic-only businesses (56%) about their ability to access new markets, but less confident about their ability to manage cash flow (87% and 86% vs 91%). Those importing from rUK, the EU and outside the EU were more confident than domestic-only businesses about their ability to respond to increased competition in domestic markets (87%, 87%, and 88% vs 79%), and access new markets (60%, 64% and 75% vs 51%).

- Future changes that businesses felt most prepared for were the ways in which staff have to work (77% prepared, 5% not prepared), supply chain arrangements (73% prepared, 12% not), and their routes to market (72% prepared, 11% not). Businesses felt least prepared for changes to customs procedures (31% prepared, 19% not prepared) and intellectual property rights on goods (36% prepared, 15% not prepared).

- Among those for whom these changes had most relevance, those selling to rUK, the EU and outside of the EU were more prepared than domestic-only businesses for extended delivery times (85%, 86% and 86% vs 76%), while those importing from outside the EU were more prepared than domestic-only importers (86% vs 75%). Those selling within the EU (73%) and outside the EU (72%) were *less* prepared than domestic-only businesses for changes to regulations and standards on goods.

- The most common new technology used by businesses was cyber resilience and security technologies (44%), followed by the Internet of Things and sensor technologies (39%). The most common barriers to adopting new technologies were cost (60%), a lack of time (59%) and having more pressing priorities (58%).

Environmental impacts

- When thinking about economic recovery from COVID-19, the majority of businesses (81%) agreed that government actions should prioritise climate change. Almost one in five (18%) disagreed with this approach. Views were mixed about whether government should focus on helping the economy first and foremost, even if that means taking actions that are bad for the environment: 53% agreed, while 45% disagreed.

- Businesses demonstrated high levels of commitment to reducing their environmental impacts: out of an overall score of 10 (meaning “very committed”) the mean score for all businesses was 7.3.

- Reflecting this high level of commitment, the vast majority of businesses (97%) anticipated taking some actions that could help reduce or respond to their environmental impact, most commonly: recycling and waste minimisation (89%), improving the energy efficiency of premises (81%), using more locally sourced supplies (72%), and improving the energy efficiency of systems and processes (68%).

Finally, overleaf we take a close look at the finding for two sectors that showed some different views this wave: tourism and food and drink.

A CLOSER LOOK AT TOURISM BUSINESSES

This wave tourism businesses exhibited different views from other businesses on a number of topics, highlighting some of the unique impacts that COVID-19 and lockdown restrictions have had on the sector.

They had particularly negative views on the economic outlook in Scotland (82% said their confidence had decreased compared with 69% overall). In response, their priorities for economic recovery were focused on financial support for businesses: 57% said the top priority should be rates relief and tax breaks (compared with 45% overall), and 44% said ensuring business access to financial products (compared with 37%). They were also more likely to prioritise investment in housing, transport and public services at a local level (27% vs 22%).

Tourism businesses were more likely than average to be operating below their pre-COVID-19 levels (80% compared with 50% overall), and almost all (94%) had experienced changes to their ways of working. They were more likely to report decreases in their sales or turnover (88% vs 60%), profit margins (79% vs 57%), working hours (67% vs 36%) and employment (55% vs 29%).

Growth aspirations remained high in the sector: 60% were striving for growth, compared with 54% overall. That said, they were more likely than average to anticipate a contraction in the next year or two (21% compared with 17% overall). They were also more likely than average to say they were planning less far ahead than normal (43% vs 26% overall).

Looking ahead at their markets of operation, tourism businesses were more likely than average to anticipate an increase in sales in Scotland, but a decrease in sales in rUK and international markets.

To respond to their new working environment, certain actions were more prevalent among tourism businesses: adapting their product or service (80% vs 59% overall), changing or updating their business model (71% vs 50%), only delivering some aspects of the business (60% vs 44%), and developing new products or services (47% vs 38%). They were also more likely to be taking actions to support sales including: engaging differently with their customers (75% vs 64%), selling their product or service online (69% vs 50% overall); looking for new opportunities with domestic and/or UK markets (60% vs 55%); selling less (51% vs 36%) and looking for new opportunities in international markets (32% vs 21%). This suggests that tourism businesses were trying a range of approaches to remain viable in the challenging circumstances they were operating within.

Employers in the tourism sector were more likely than average to have had staff on furlough in October (37% compared with 25% of all employers), and more likely to say they planned to reduce furloughed staff hours after October. In relation to the workforce more generally, tourism businesses were more likely than average to have reduced working hours (56% vs 31% overall) and cancelled or postponed recruitment plans (37% vs 27%).

Businesses in the sector was more likely to say they were *not* confident in their viability over the next 6 months (31% vs 15% overall). and had lower than average confidence about potential changes to their working environment over the coming months.

A CLOSER LOOK AT FOOD & DRINK BUSINESSES

The food and drink businesses that took part this wave were more likely than average to be selling to rUK markets (61% operating in rUK, vs 49% of the overall sample), and less likely to be 'domestic only' in terms of exports (36% vs 48%). On imports, they were more likely to be importing from within the EU (47% vs 38% overall), but otherwise similar in profile to other importers.

Overall, they were more likely than average to say their operating level was much the same as it was pre-COVID-19 (53% vs 36% overall). But this seems to be driven by domestic food and drink businesses – 72% of them were operating at same level, compared with 43% of those selling to rUK, 41% to the EU, and 37% outside the EU. Indeed, those selling to each of the three markets outside Scotland were more likely to be operating below pre-COVID-19 levels (42% rUK, 46% EU and 46% outside the EU) when compared with domestic-only (13%).

On performance, overall food and drink businesses were more likely to have seen profit margins increased (24% vs 14% overall), and less likely to have seen it decrease (37% vs 57%). However, decreases in profit margins were more common among international food and drink businesses: profits had decreased for 59% of those selling outside the EU and 59% of those within the EU, compared with 45% of rUK and 23% of domestic-only businesses in the sector. There was a similar pattern in relation to sales and turnover – overall food and drink businesses had fared better than average, but within the sector international businesses had not done as well as domestic-only.

Within the sector the more international the markets sold to, the higher the growth aspiration: 33% of those selling domestic-only, 70% selling to rUK, 76% to the EU and 77% outside the EU said they were striving for growth.

Looking at the economic recovery from COVID-19, food and drink businesses placed higher than average priority on supporting international relationships and access to international markets (21% compared with 11% overall).

Brexit was seen as more of a risk by food and drink businesses than average. This applied across all markets they sold to – a majority of those selling to domestic (79%), rUK (83%), EU (85%) and outside the EU (80%) markets all saw it as a risk. Overall, those in the food and drink sector were also more likely to view the UK's relationship with the rest of the UK and the global economy as risks.

On future outlook, food and drink businesses were more likely to have experienced little change as a result of COVID-19 (43% compared with 25% overall). However, this varied by their markets of operation. Those selling outside the EU were more likely to be embracing change brought about by COVID-19 – 49% had seen a change but wanted to maintain some of those changes (vs 17% selling domestically, 31% selling to rUK, and 37% to the EU). Domestic food and drink businesses were more likely to say that nothing had changed (57%, vs 34% of those selling to rUK, 21% to the EU, and 10% outside the EU).

On future markets, food and drink businesses were more likely than average to expect sales in Scotland to remain the same (59% compared with 50% overall) and to expect an increase in sales in rUK (29% vs 21% overall) and outside the EU (15% vs 8%). Expected growth in rUK markets was higher among those selling to rUK (46%), the EU (50%) and outside the EU (43%) rather than domestic-only (3%). They were also more likely to expect an increase in sales in markets outside the EU. This was mainly driven by those selling within the EU (38%) and outside the EU (41%) than rUK (29%) or domestic (5%).

9. APPENDIX

MARKETS OF OPERATION

Markets usually sold to

The vast majority of businesses sold goods or services within Scotland (96%), while 48% *only* sold in Scotland and not in other markets (these are referred to as 'domestic businesses'). Around half (49%) sold outside Scotland but within the rest of the UK (referred to as 'rUK businesses'). 29% sold goods or services outside of the UK (referred to as 'international businesses'); 297% within the EU and 22% outside of the EU (Table A.1). These findings are in line with those in the previous wave.

Table A.1: Markets usually sold to

	Markets sold to
	%
Scotland	96
Outside Scotland, but within the UK	49
Outside the UK, but within the EU	27
Outside the UK, outside the EU	22
Don't know	1
Base	*1,000*

Markets usually imported from

Most businesses sourced equipment or materials from within Scotland (91%), while 78% did so from outside Scotland but within the UK. 40% of businesses imported from outside of the UK (these are referred to as 'importers'); 38% from within the EU and 16% from outside of the EU (Table A.2). These proportions are higher than those seen in the previous wave (June/July 2020) but in line with earlier waves (January/February). This may suggest that businesses were seeing a recovery in importing activity following a decrease linked to COVID-19 in early March. It may also reflect differences in the profile of businesses taking part in the survey in this and the previous wave (see introductory note in section 1).

Table A.2: Markets usually imported from

	Markets imported from
	%
Scotland	91
Outside Scotland, but within the UK	78
Outside the UK, but within the EU	38
Outside the UK, outside the EU	16
Don't know	3
Base	*1,000*

BUSINESS PERFORMANCE

Table A.3: Overall assessments of business performance by growth sector[7]

Growth Sector	Assessment of business performance (mean score)	Base
Financial and business services	-0.5	*58*
Food and drink	-0.6	*150*
Non-growth sector	-1.5	*469*
Creative industries	-2.1	*78*
Tourism	-2.4	*210*
Life Sciences	0.1	*2*
Energy	-2.2	*23*

Table A.4: Overall assessments of business performance by location

Location	Assessment of business performance (mean score)	Base
Moray	-0.8	*82*
Orkney	-1.1	*70*
Shetland	-1.1	*64*
Outer Hebrides	-1.3	*45*
Inner Moray Firth	-1.3	*274*
Caithness and Sutherland	-1.3	*91*
Argyll and the Islands	-1.4	*227*
Lochaber, Skye and Wester Ross	-1.9	*147*

Table A.5: Overall assessments of business performance by size of business

Size of business	Assessment of business performance (mean score)	Base
0-4 staff	-1.1	*632*
5-10 staff	-1.7	*175*
11-24 staff	-1.8	*109*
25+ staff	-1.3	*82*

[7] Please note the small base sizes for Life Sciences and Energy, meaning their overall scores do not represent statistically significant differences from the other scores.

Table A.6: Current growth aspirations by operating level

	All businesses	Below pre-Covid levels	The same as pre-Covid levels	Above pre-Covid levels
	%	%	%	%
Striving for growth in the future	54	59	44	62
Content with current level of performance	36	30	46	31
Want to downsize in future	9	8	10	7
Base	*1000*	*556*	*288*	*131*

FUTURE MARKET SALES

Table A.7: Expected future sales increases – businesses selling in domestic markets only

Expectations for sales in next 12 months	Scotland	Outside of Scotland but within the UK	Outside of the UK, within the EU	Outside of the UK, outside the EU
	%	%	%	%
Increase	29	3	1	1
Remain the same	50	63	60	61
Decrease	19	9	7	4
Don't know	2	25	32	34
Base: All selling in domestic markets only (479)				

Table A.8: Expected future sales increases – businesses selling in rUK markets

Expectations for sales in next 12 months	Scotland	Outside of Scotland but within the UK	Outside of the UK, within the EU	Outside of the UK, outside the EU
	%	%	%	%
Increase	33	39	13	15
Remain the same	50	42	42	45
Decrease	13	15	28	20
Don't know	4	4	18	20
Base: All selling outside Scotland but within the UK (490)				

Table A.9: Expected future sales increases – businesses importing from domestic markets only

Expectations for sales in next 12 months	Scotland	Outside of Scotland but within the UK	Outside of the UK, within the EU	Outside of the UK, outside the EU
	%	%	%	%
Increase	37	7	3	2
Remain the same	52	60	59	57
Decrease	18	7	9	8
Don't know	3	26	29	33
Base: All importing from domestic markets only (173)				

Table A.10: Expected future sales increases – businesses importing from rUK markets

Expectations for sales in next 12 months	Scotland	Outside of Scotland but within the UK	Outside of the UK, within the EU	Outside of the UK, outside the EU
	%	%	%	%
Increase	31	24	8	9
Remain the same	50	51	50	52
Decrease	15	13	19	13
Don't know	3	12	23	25
Base: All importing from outside Scotland but within UK (783)				

Table A.11: Expected future sales increases – businesses importing from EU markets

Expectations for sales in next 12 months	Scotland	Outside of Scotland but within the UK	Outside of the UK, within the EU	Outside of the UK, outside the EU
	%	%	%	%
Increase	32	31	9	13
Remain the same	52	49	48	51
Decrease	14	12	24	14
Don't know	3	8	19	22
Base: All selling outside the UK but within the EU (162)				

Table A.12: Expected future sales increases – businesses importing from outside EU

Expectations for sales in next 12 months	Scotland	Outside of Scotland but within the UK	Outside of the UK, within the EU	Outside of the UK, outside the EU
	%	%	%	%
Increase	34	39	13	19
Remain the same	49	39	41	46
Decrease	15	15	27	15
Don't know	2	7	20	20
Base: All selling outside the EU (162)				

RESILIENCE AND RESPONDING TO CHANGES

Table A.13: Actions to support sales and market access, by size of business

		Size			
	All	0-4 staff	5-10 staff	11-24 staff	25+ staff
Engaging differently with our customers	64	58	70	71	79
Looking for new opportunities in domestic and/or UK markets	55	50	54	71	71
Selling our product or services online	50	45	52	57	71
Working with new suppliers	46	41	48	63	61
Changing or updating our routes to market	36	33	31	48	53
Selling less	36	32	45	42	36
Looking for new opportunities in international markets	21	19	14	32	41
Stockpiling goods	13	12	13	22	11
Base: All businesses	*1,000*	*632*	*175*	*109*	*82*

Table A.14: Actions to support sales and market access, by markets of operation

		Markets of operation		
	All	Domestic only	rUK	International
Engaging differently with our customers	64	59	70	68
Looking for new opportunities in domestic and/or UK markets	55	44	66	74
Selling our product or services online	50	36	65	74
Working with new suppliers	46	42	50	57
Changing or updating our routes to market	36	26	46	54
Selling less	36	37	34	42
Looking for new opportunities in international markets	21	7	35	54
Stockpiling goods	13	13	12	14
Base: All businesses	*1,000*	*452*	*517*	*334*

Table A.15: Actions taken in relation to staff, by size of business

		Size			
	All	0-4 staff	5-10 staff	11-24 staff	25+ staff
Offering competitive levels of pay	59	51	55	85	77
Upskilling existing staff	54	42	62	76	74
Enabling staff to work from home	45	35	47	58	72
Using staff in different roles	45	30	56	76	63
Offering more flexible contracts	44	36	50	53	60
Improving terms and conditions	32	29	26	40	46
Reducing working hours	31	21	42	46	38
Recruiting new staff	28	15	44	42	42
Cancelling or postponing recruitment plans	27	20	32	43	30
Making staff redundant	15	9	22	21	25
Base: All businesses	*1,000*	*632*	*175*	*109*	*82*

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