HIE BUSINESS PANEL SURVEY SUMMARY FINDINGS - JULY 2017

Fieldwork was a mix of online and telephone survey, conducted between 22 April and 16 May 2017. A total of 1,014 businesses and social enterprises across the Highlands and Islands participated.

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

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

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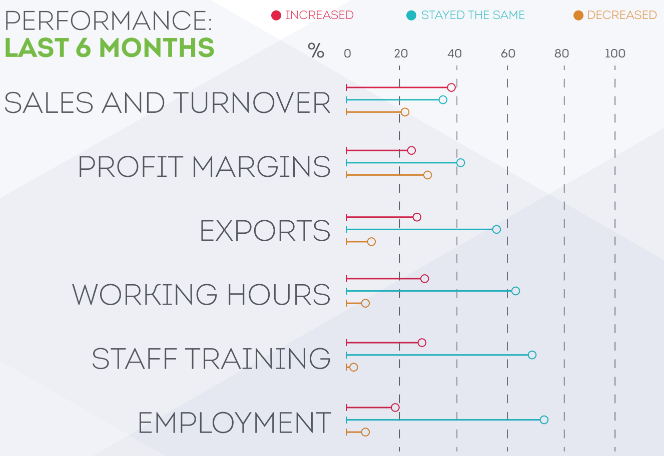
ECONOMIC CONFIDENCE

- **Overall, economic optimism remains low amongst businesses in the region. While around half (49%) reported that their confidence in Scotland's economic outlook remained unchanged over the last six months, levels of confidence declined for 38% of businesses and increased for 11%.**
- In line with findings from the previous wave, larger businesses (25+ staff) and those in the tourism sector were more likely to report that their confidence in Scotland's economic outlook had increased over the last six months (20% and 16% respectively compared to 11% overall).

BUSINESS PERFORMANCE

- **Businesses were generally positive with respect to their own perfomance in the last 12 months - 78% reported that they had performed well (40%) or remained steady (38%). Just over a fifth (22%) struggled.**
- Tourism businesses (52%) were again more likely to have performed well, and small businesses (0-4 employees) to have experienced stability (42%).
- Businesses generally reported stability in key aspects of performance over the last six months, although views were more mixed in relation to sales/turnover and profit margins.
- Larger businesses (25+ staff) were more likely than average to report an increase in all aspects of performance (with the exception of working hours); and tourism businesses, an increase in sales/turnover. For the latter, the stronger than average financial performance may be linked to the continued low value of the pound and perceived positive impact on overseas and domestic tourism.



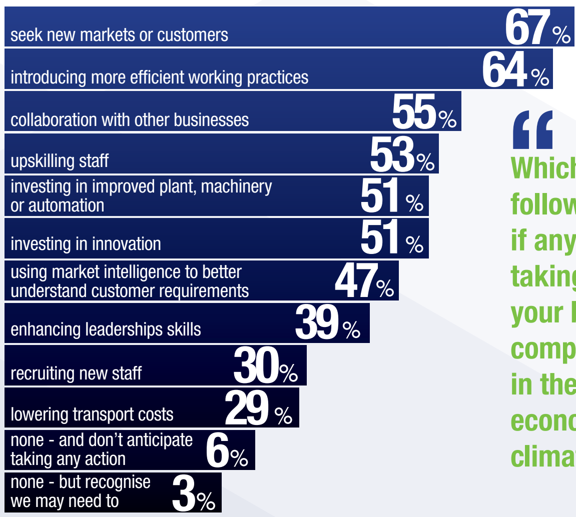
FUTURE BUSINESS PROSPECTS

78% OF BUSINESSES VERY OR FAIRLY OPTIMISTIC FOR THEIR BUSINESS PROSPECTS

- **Despite lack of confidence around the general economic outlook, levels of optimism continue to be high with more than three quarters (78%) of businesses very (17%) or fairly (61%) optimistic for their own business prospects over the next 12 months.**
- Those in the tourism sector (29%) and larger businesses (25+ staff) (27%) were more likely than average (17%) to be very optimistic about their business prospects in the next 12 months.
- As with past performance, businesses generally expect stability in most aspects of performance over the next six months. However, while 46% anticipate profit margins will remain the same, a similar proportion (45%) expect sales/turnover to increase indicating that businesses are taking action to remain competitive.
- Reflecting overall optimism, larger businesses (25+ staff) had more positive expectations than smaller businesses, and were more positive than they had been in the previous two waves.

GROWTH ASPIRATIONS AND ACTIONS TAKEN

- **The majority of businesses in the Highlands and Islands (87%) anticipate growth (43%) or stability (44%) in the next year or two.**
- Growth expectations are highest amongst larger businesses (25+ staff) with 73% anticipating growth in the near future. Small businesses (0-4 employees) were more likely to expect stability (53%).
- To achieve growth ambitions and overcome challenges identified, the vast majority (94%) of businesses are taking action to enhance their competitiveness, or recognise that they may need to.
- The most common actions that businesses are taking to enhance competitiveness are seeking new markets/customers (67%) and introducing more efficient working practices (64%).
- Food and drink businesses, larger businesses (25+ staff) and those optimistic for the future were more likely than average to report that they had taken action across the majority of measures.



"Which of the following actions, if any, are you taking to enhance your business competitiveness in the current economic climate?"

FACTORS CONTRIBUTING TO PERFORMANCE

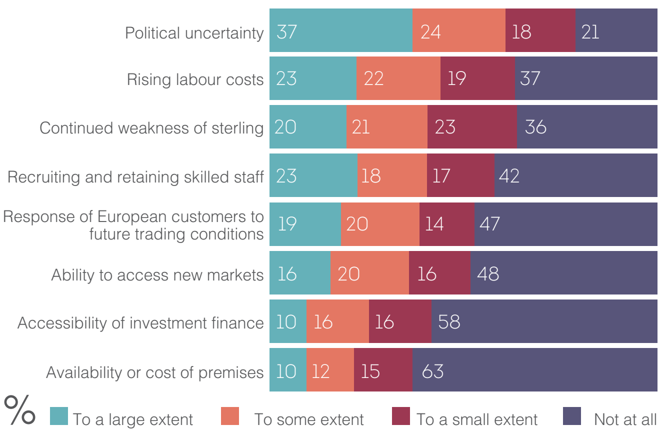
Businesses were asked unprompted to provide detail on the internal and external factors that had contributed to their healthy, stable or weak business performance.

- *Businesses that had performed well* cited a range of reasons, including: good quality staffing, management and strategic planning, reducing operating costs, diversification, increased competitiveness attributed to the weakness of the pound, and a focus on marketing.
- *Among those that reported stable performance* it was common for this to be attributed to a strong customer or client base that they routinely work with, although some noted that they had to reduce operating costs to maintain stability.
- Common reasons for *businesses having struggled* included the impact of political uncertainty (which was making consumers more cautious and less likely to spend) and the low value of the pound increasing the cost of imports. For food and drink businesses (who were more likely than average to report that they had struggled), increased competition from large scale production of commodities in other countries, delays and reductions in subsidy payments and changeable weather were also cited.
- A number of cross-cutting challenges facing businesses were mentioned, including political uncertainty, rising costs, recruitment and funding.

CONSTRAINTS AND CONCERNS

Respondents were asked to consider the extent to which a number of aspects were of concern to their future business prospects. They also responded to statements about the potential impact of current or proposed political change.

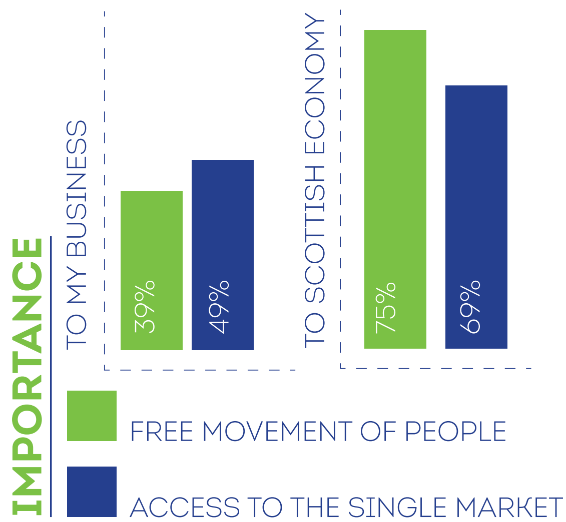
TO WHAT EXTENT ARE YOU CONCERNED ABOUT THE FOLLOWING?



- Political uncertainty emerged as the aspect of most concern for businesses in the Highlands and Islands (79% stated they are concerned about this). The UK leaving the European Union (EU) and the prospect of a second independence referendum in Scotland were both identified as factors contributing to uncertainty.
- Rising labour costs (64% concerned) and the ability to recruit and retain skilled staff (58%) were also key concerns for businesses in the region, with the former a concern for tourism businesses and those with 11-25 staff in particular. The prospect of a change to the free movement of people across the EU adds to this issue with 63% of businesses agreeing that leaving the EU will threaten the future of businesses relying on non UK EU workers.
- More than half of businesses were worried about the impact the continued weakness of sterling (64%) and response of European customers to future trading conditions (53%) will have on their future prospects. Respondents were split in their views on whether leaving the EU will reduce the cost of exporting goods, and therefore make businesses that export more competitive - 29% agreed and 36% disagreed.
- While accessing new markets was highlighted as the most common action businesses in the region are taking to remain competitive, around half (52%) of organisations are concerned about their ability to do this. However, some did identify opportunities to capitalise on new markets, with 53% of respondents agreeing that the UK leaving the EU will force businesses to source more products from within the UK, encouraging the growth of UK-based production.
- More than half (55%) of respondents said they would not withhold making investment decisions until Brexit negotiations are complete, although 42% are worried about the accessibility of investment finance. Those in the food and drink sector were more likely than average to say they would delay making investment decisions (33% compared to 23% overall).
- Overall, businesses that had struggled in the past 12 months were more likely to be concerned about most aspects listed. Food and drink businesses were more worried than others about external influences such as political uncertainty, the response of European customers to future trading conditions, the ability to access new markets, and the accessibility of investment finance.

RELATIONSHIP WITH THE EUROPEAN UNION

- **The majority of businesses in the region view free movement of people across the EU (75%) and access to the European single market (69%) as important to the Scottish economy. Overall, 84% feel one or both of these aspects are important.**
- In terms of the operation of their business, access to the European single market and free movement of people across the EU were seen as important to 49% and 39% of respondents. 61% recognise the importance of one or both aspects to their business.



- Access to the European single market was of particular importance to food and drink businesses (67%) and those with 5-10 employees (59%), while free movement of people across the EU was significantly more important to tourism businesses (57%) and those with 11-24 (48%) or 25+ staff (54%).
- Overall, the proportion of businesses who felt that free movement of people across the EU is very important to their business has increased from 15% in October 2016 to around a fifth (21%).

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