HIE BUSINESS PANEL

Wave 23: October/November 2022

Ipsos

HIE
Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

EXECUTIVE SUMMARY (1)

Overview

This report presents findings from the most recent wave of the Highlands and Islands Enterprise business panel survey carried out in October and November 2022.

The survey was carried out while the UK was experiencing increased inflation, a cost of living crisis, and entering a recession. During fieldwork the UK Government announced its “mini budget” and subsequent Autumn statement, which signalled higher taxes and likely spending cuts, alongside the existing widespread cost increases.

Against this background, businesses’ confidence in the economy continued the downward trend seen in recent waves and reached its lowest level since 2020.

Business performance was mixed, but most said they had either performed well or had been fairly steady. Aspects of business performance (employment, exports and sales or turnover) remained largely unchanged since the previous wave.

Reflecting the economic uncertainty of the time, business outlook was fairly short-term, with two thirds of businesses unable to plan more than six months ahead. That said, the majority of businesses were confident that they would still be viable in six months time - though fewer were confident than in June/July 2022. Business expectations seemed linked to how well they had been performing, with those that had performed well expecting to perform even better in six months time, and those that had struggled expecting to perform below their current levels.

It was clear that the cost crisis was having widespread impacts on businesses in the region. The majority had experienced substantial cost increases (particularly for raw materials, electricity and gas, and transportation of goods) and this was impacting on profit margins and on plans for the future.

The cost crisis was impacting on the wellbeing of business owners, with reports of stress and worry, working longer hours, reductions in pay and difficulties balancing work and home life. Employers also reported impacts on their staff, such as working at or beyond capacity. Actions being taking in response included engaging more with staff, increasing wages and encouraging flexible working.

As seen in previous waves, sectoral differences were apparent. Food and drink businesses had struggled in the past six months and had delayed or postponed plans due to cost increases. They were also more likely to have absorbed costs and to have made use of private and public sector loans, and credits or overdrafts.

Tourism businesses, meanwhile were more likely to have performed well, but were less confident in their future viability, and had taken a range of actions in response to the cost crisis including increasing their prices, using cash reserves, reducing their operations, and closing for winter.

EXECUTIVE SUMMARY (2)

Optimism and performance

- **Confidence in the economic outlook for Scotland was at the lowest level since this was first asked (in October/November 2021): 41% of businesses were confident, while 58% were not.** Businesses in the Highlands and Islands were more confident in the economic outlook for Scotland (41%) than those in the South of Scotland (37%) and the rest of rural Scotland (33%).

- **Reflecting on the last six months, 63% said their confidence had decreased, 5% said it had increased, and 31% said it had stayed the same**, with net confidence the lowest it had been since October/November 2020.

- **Views on business performance over the last six months were mixed**, with 36% saying their business had performed well, 41% saying business had been fairly steady and 22% saying they had struggled.

- **Over the past six months employment was fairly stable while sales or turnover performance was mixed** (34% said it had increased, 22% decreased, and 44% remained the same). Exports had increased for 16% (higher than the 11% reported in June/July 2022), had decreased for 18% and were stable for 62%.

- **Around a quarter (23%) of businesses felt able to plan no more than a month ahead (with 9% planning week to week, and 14% monthly).** One in five (20%) felt able to plan no more than three months ahead, 23% six months ahead, and 17% 12 months ahead. Just over one in ten (13%) felt able to plan beyond the next 12 months.

Future viability

- **The majority (85%) of businesses were confident they would be viable over the next six months, while 13% were not.** Confidence was down on the previous wave, when 91% were confident and 9% not.

- **Among those that were confident in their viability, 50% expected to be operating at about the same level in six months time**, while 13% expected to be operating below and 13% over and above their current levels. Around a fifth (22%) felt it was too soon to say.

- **Among those not confident in their viability, 25% expected to be operating at a loss in six months time,** 16% expected to have downsized and 7% to have ceased trading completely. Just under two-fifths (38%) were unsure about their likely operating position.

Markets

- **Over three quarters (77%) of businesses were importers** (sourcing goods from outside Scotland): 76% imported from the rest of the UK and 33% from outside the UK. The majority of businesses (92%) sourced goods and materials from Scotland.

- While the proportion of importers was consistent with the last survey wave, **since June/July 2021, there has been an increase in the proportion sourcing goods and materials from the rest of UK** (from 63% to 76%) and a decrease in those importing from outside the UK (from 39% to 33%).

- **Around half (49%) of businesses were exporters** (selling to markets outside Scotland), with 47% selling to the rest of UK and 29% outside the UK. The majority (95%) of businesses sold goods or services within Scotland, with 49% selling *only* in Scotland**. The proportion of exporters was consistent with the previous survey wave, but has decreased since June/July 2021 (62%).**

EXECUTIVE SUMMARY (2)

Cost crisis

- **Almost all businesses (99%) had experienced cost increases in the past 12 months, with 83% reporting substantial cost increases**.
- **The biggest areas of cost increase were raw materials (82% saw an increase, 56% a substantial increase), electricity and gas (81% and 55%) and transportation of goods (77% and 45%),** followed by equipment purchase or repair (77% and 36%), business rates or insurance (72% and 17%) and other utilities (68% and 32%).
- **The costs having the biggest impact on businesses were those that had increased the most**: electricity and gas (53%), raw materials (51%) and transportation of goods (39%).
- The increased costs of raw materials, transportation of goods and staff wages had **a bigger impact on businesses in the Highlands and Islands** than on those across rural Scotland overall.
- **The main impact of cost increases was reduced profit margins (69%),** followed by delayed or postponed growth plans (42%), being unable to set prices for the coming year (37%) and loss or reduction in customer demand (35%).
- **Three quarters (75%) of businesses had delayed or postponed plans because of cost increases**. A range of plans were impacted including: energy efficiency improvements (36%), new capital projects (35%), increasing staff wages or benefits (32%) and investing in technology (30%).
- **In response to the cost crisis the majority of businesses were absorbing costs (70%) or increasing prices (68%).** Other actions included making energy efficiency improvements (55%), using cash reserves (45%), sourcing alternative materials, goods or services (44%) and investing in the business (42%).
- **Cost increases were particularly apparent among those that had struggled in the last six months and those unable to plan more than a month ahead. Certain cost increases were also more common among food and drink and tourism sectors** – in raw materials and equipment for the former, and in electricity and gas, other utilities and staff wages for the latter.
- **Response to the cost crisis also differed depending on business performance.** Those that had performed well were more likely to have increased prices or invested in the business, while those that had struggled were more likely to have scaled back by using cash reserves, reducing operations or opening hours, closing for winter and making staff redundant.

Financial concerns and use of finance

- **The majority of businesses (87%) had financial concerns**. The top concerns were unpredictable costs (77%) and low profit margins or losses (61%), followed by low or no cash reserves (34%), increased interest rates on loans and debt (27%) and restricted access to finance (22%).
- **Half (51%) of businesses were currently using or planning to use some form of finance, a decrease since October/November 2021 (when 63% were doing so).** Around a third of businesses were already using or planning to use loans from banks or financial institutions (36%), public sector grants or loans (34%), or credit or overdrafts (33%).

EXECUTIVE SUMMARY (4)

Wellbeing and support

- **A majority of business owners/senior managers (79%) reported impacts of the cost crisis on their own wellbeing.**
- **More than half (56%) of business owners/senior managers reported generally feeling worried or stressed due to the cost crisis, around half said they were working longer hours (49%) or struggling to balance work and home life (45%) and two-fifths had reduced their own pay and benefits (41%).**
- **Women-led businesses were more likely to have reported feelings of worry and stress, impacts on mental health, and reducing their pay or benefits.** Businesses struggling in the last six months reported higher rates of impact in every category listed.
- **Over six in ten (62%) employers reported seeing impacts of the cost crisis on their staff. Almost a third (32%) said staff were working at or beyond capacity, while around a quarter reported staff requesting flexibility in working patterns or locations (27%), low morale (25%) and requests for longer hours or additional work (24%).** This was especially true in businesses with 25+ staff and among those that had struggled in the last six months.
- **More than four-fifths (82%) of employers are taking action to support staff in response to the cost crisis. Almost two-thirds (64%) were engaging with staff to understand their needs and around half were increasing wages (51%) and encouraging flexible working (50%).** Around a third were targeting support at those on the lowest wages (34%) and offering mental health support (32%).

Business structure and recruitment

- **Among employers, over four-fifths (83%) described themselves as family-owned**, rising to 93% in the food and drink sector, while 10% were employee-owned (with employees owning a majority of the shares). More than one-in-ten (13%) businesses were women-led.
- **Around a third (32%) of businesses had recruited staff in the last six months.** Recruitment was more common among businesses with 11+ staff and those in the tourism sector.
- **Among those that had recruited staff, 24% had done so by looking further afield in the UK and 11% from international markets.** In addition, 27% had helped source or provided accommodation, 19% accommodated childcare requirements, 13% supported relocation costs, and 12% supported employment for partners.
- **Of those who had recruited staff in the past six months, around three-quarters (74%) noted word of mouth as the most effective channel, rising to 84% among small businesses (1-4 staff).** Half (49%) cited adverts on social media as the most effective route, followed by paid-for recruitment services (30%) and adverts on their own website (28%).

A. INTRODUCTION

INTRODUCTION

Introduction

This report presents findings from wave 23 of the Highlands and Islands Enterprise (HIE) Business Panel survey. The survey fieldwork was conducted between 5 October and 30 November 2022, using telephone interviewing. In total 1,009 eligible interviews with businesses and social enterprises across the Highlands and Islands were achieved.

The survey covered a range of topics including: economic optimism, business performance, planning ahead, extent and impacts of the cost crisis, wellbeing and support, and recruitment.

Context for this wave

The survey was carried out while the UK was experiencing increased inflation, a cost of living crisis, and entering a recession. In late September, the UK Government announced its 'mini budget', which was immediately followed by a sharp fall in the value of the pound, along with a surge in mortgage rates, food prices and other costs.

In November, the UK Chancellor's Autumn statement signalled higher taxes and looming spending cuts, and the Office for Budget Responsibility warned of the worst fall in living standards since records began. This happened in the broader context of the ongoing Russia-Ukraine conflict, lingering impacts of COVID-19, and industrial action across the UK.

Rural businesses were therefore operating against an extremely challenging economic environment.

About the HIE Business Panel Survey

The 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 Scotland 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 wave was the fourth survey carried out as part of the Rural Scotland Business Panel, a survey of 2,739 businesses across rural Scotland commissioned by a partnership of HIE, South of Scotland Enterprise (SOSE) and the Scottish Government. The HIE and SOSE Business Panel surveys are distinct components of the overall survey. Findings from the SOSE Business Panel and the overall Rural Scotland Business Panel have been reported separately.

For more information about the HIE Business Panel Survey, and to view previous reports visit: www.hie.co.uk/businesspanel

Findings of the overall Rural Scotland Business Panel Survey are available at: https://www.gov.scot/publications/

Findings of the SOSE Business Panel Surveys are available at: https://www.southofscotlandenterprise.com/business-surveys

METHODOLOGY

Sampling

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

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

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

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

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

Fieldwork

The survey fieldwork was conducted between 5 October and 30 November 2022, using telephone interviewing. In total 1,009 eligible interviews were achieved.

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

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

PRESENTATION AND INTERPRETATION OF THE DATA

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

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

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

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

The profile of the businesses that took part in the survey covered a range of categories in the Scottish Government’s six-fold Urban Rural Classification*. In this report, survey findings have been condensed into three categories: remote rural (category 6), accessible rural (5), and small towns and peripheral urban areas (2 to 4). Throughout, those in small towns and peripheral urban areas are referred to as “urban”.

NOTES:
*The Scottish Government’s six-fold Urban Rural Classification is described on the Scottish website available here.

B. OPTIMISM AND PERFORMANCE

KEY FINDINGS

- **Confidence in the economic outlook for Scotland was at the lowest level since this was first asked (in October/November 2021): 41% of businesses were confident, while 58% were not.** Businesses in the Highlands and Islands were more confident in the economic outlook for Scotland (41%) than those in the South of Scotland (37%) and the rest of rural Scotland (33%).

- **Reflecting on the last six months, 63% said their economic confidence had decreased, 5% said it had increased, and 31% said it had stayed the same**, with net confidence the lowest it had been since October/November 2020.

- **Views on business performance over the last six months were mixed**, with 36% saying their business had performed well, 41% saying business had been fairly steady and 22% saying they had struggled.

- **Tourism businesses were more confident in the economy than average and were more likely to have performed well in the last six months** (which may reflect the timing of the survey being after the summer season). Food and drink businesses were more likely to have struggled.

- **Over the past six months employment was fairly stable while sales or turnover performance was mixed** (34% said it had increased, 22% decreased, and 44% remained the same). Exports had increased for 16% (higher than the 11% reported in June/July 2022), had decreased for 18% and were stable for 62%.

- **Around a quarter (23%) of businesses felt unable to plan more than a month ahead (with 9% planning week to week, and 14% monthly).** One in five (20%) felt able to plan no more than three months ahead, 23% six months ahead, and 17% 12 months ahead. Just over one in ten (13%) felt able to plan beyond the next 12 months.

CURRENT ECONOMIC CONFIDENCE

Confidence in the economic outlook for Scotland was at the lowest level since this was first asked in Oct/Nov 2021: 41% of businesses were confident (compared with 65% a year previously), while 58% were not (compared with 34%).

There was little variation in confidence by business size or sector this wave. However, confidence was linked to other factors including business performance, views on business viability, and ability to plan ahead:

More confident than average

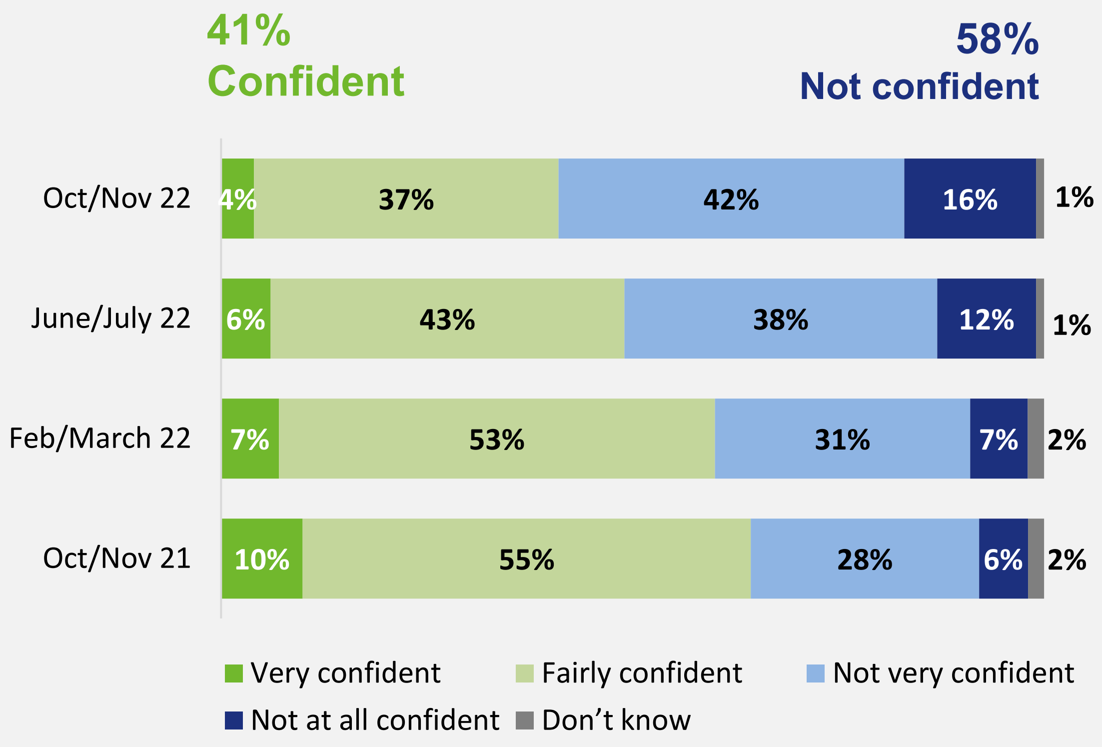
- Performed well in the past six months (53%).
- Confident in their future viability (46%).
- Able to plan beyond the next 12 months (53%).

Less confident than average

- HIE-client engaged (74% not confident vs 57% of non-client engaged).
- Struggled in the past six months (79% not confident).
- Not confident in their viability (91%).
- Unable to plan more than a month ahead (72%).

Businesses in the Highlands and Islands were more confident in the economic outlook for Scotland (41%) than those in the South of Scotland (37%) and the rest of rural Scotland (33%).

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



Base: All businesses (1,009)

ECONOMIC CONFIDENCE OVER PAST 6 MONTHS

Reflecting on the past six months, 63% said their confidence had decreased, 5% said it had increased, and 31% said it had stayed the same. Economic confidence continued the downward trend seen in recent waves, reaching the lowest it had been since October/November 2020.

Net confidence* was -58, the lowest it has been since October 2020 (-64) when the Highlands and Islands were in the midst of COVID-19 lockdown. Net confidence was the same as in the South of Scotland and the rest of rural Scotland.

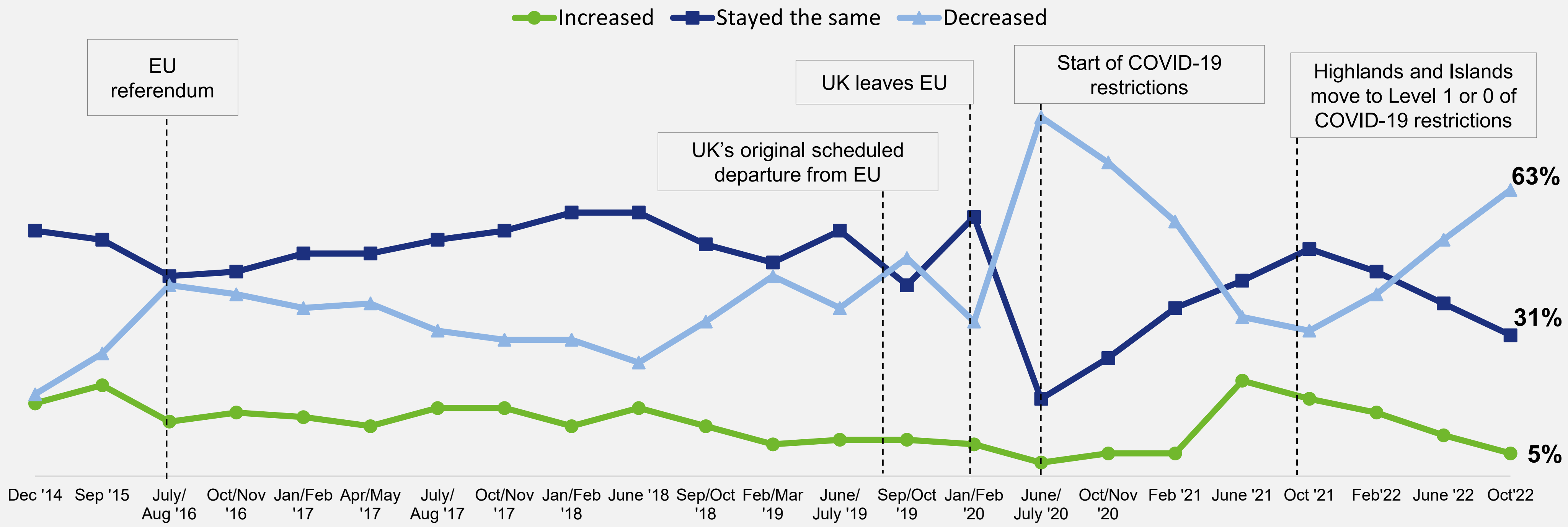
More likely to report increased confidence:

- Tourism businesses (13%).
- Performed well in past six months (10%).
- Expecting to perform above their current level in six months time (14%).

More likely to report decreased confidence:

- HIE-client engaged (77% vs 62% of non-client engaged).
- Struggled in last six months (81%).
- Not confident in future viability (87%).

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



Base: All businesses

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

PERFORMANCE

Views on business performance over the last six months were mixed, with 36% saying their business had performed well, 41% saying business had been fairly steady and 22% saying they had struggled.

Findings were similar to the last time businesses were asked about their performance (in February 2020), when 37% had performed well, 44% reported fairly steady performance and 18% had struggled.

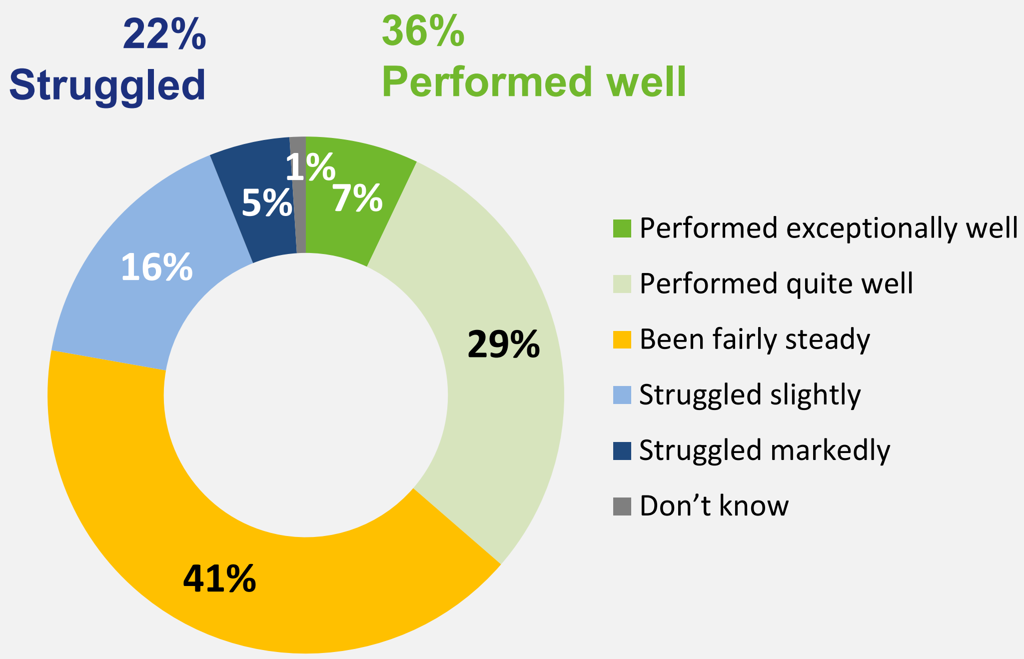
More likely to have performed well

- Tourism businesses (48%).
- Those with 25+ staff (57%).
- Confident in their future viability (41%).
- Able to plan beyond the next 12 months (54%).

More likely to have struggled

- Food and drink businesses (27%).
- Those with 0-4 staff (26%).
- In the Inner Moray Firth (28%).
- Not confident in their viability (58%).
- Unable to plan more than a month ahead (31%).

Q. Overall, how has your business performed in the last six months?



Base: All businesses (1,009)

ASPECTS OF BUSINESS PERFORMANCE

Over the past six months sales or turnover performance was mixed (34% said it had increased, 22% decreased, and 44% remained the same). Employment had remained relatively stable once again (73% said it had remained the same). Exports had increased for 16% (higher than the 11% reported in June/July 2022), had decreased for 18% and were stable for 62%.

Sales or turnover

Increases more common than average among: those with 25+ staff (44%), in accessible rural areas (48%), those that had performed well (62%), and able to plan beyond the next 12 months (45%).

Decreases more common among: those that had struggled (60%), not confident in their viability (45%), and unable to plan more than a month ahead (29%).

Employment

Increases more common than average among: those with 25+ staff (33%), HIE-client engaged (22%), those that had performed well (20%), and able to plan beyond the next 12 months (19%).

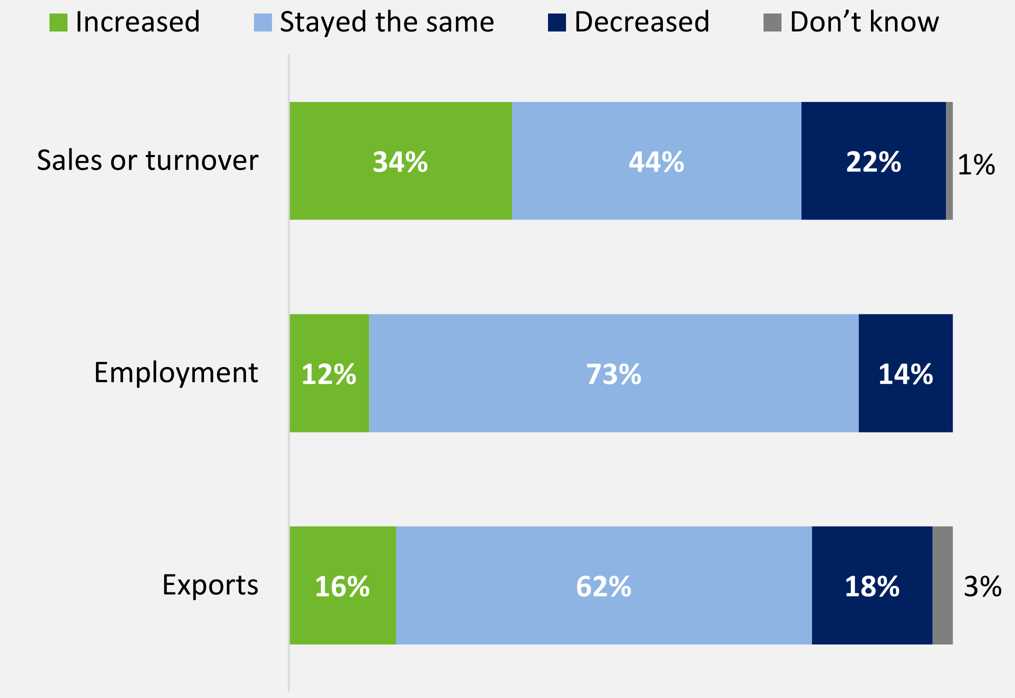
Decreases more common among: those that had struggled (29%), not confident in their viability (28%), and unable to plan more than a month ahead (21%).

Exports

Increases more common than average among: those with 25+ staff (32%), HIE-client engaged (31%), those that had performed well (20%), and able to plan beyond the next 12 months (31%).

Decreases more common among: those that had struggled (50%), not confident in their viability (42%), unable to plan more than a month ahead (27%).

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

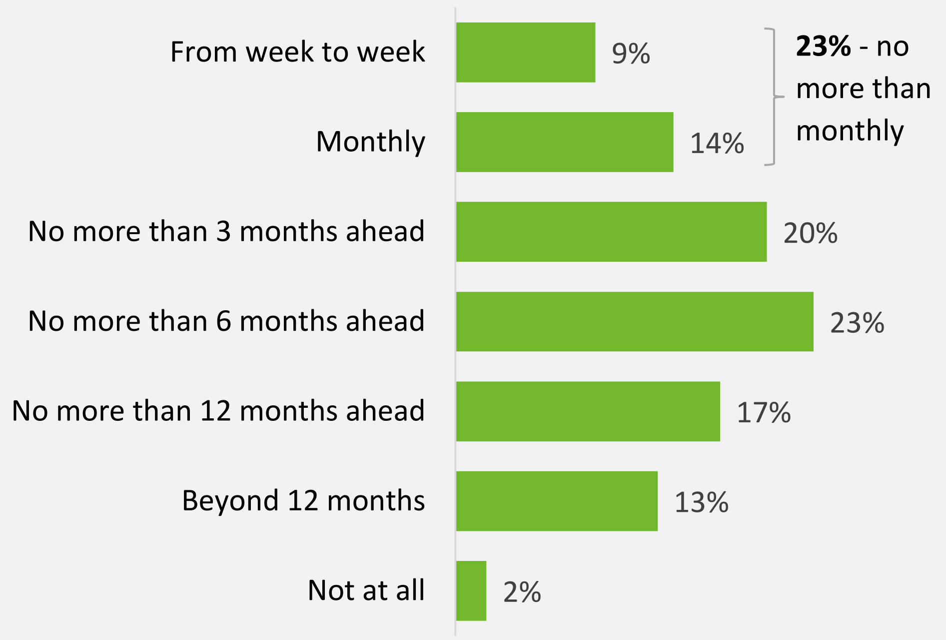


Base: All businesses to whom each applied

ABILITY TO PLAN AHEAD

Around a quarter (23%) of businesses felt unable to plan no more than a month ahead (with 9% planning week to week, and 14% monthly). One in five (20%) felt able to plan no more than three months ahead, 23% six months ahead, and 17% 12 months ahead. Just over one in ten (13%) felt able to plan beyond the next 12 months. A small proportion (2%) said they were unable to plan ahead at all.

Q. How far ahead do you feel able to plan at the moment?



Base: All businesses – (1,009)

Planning no more than monthly*

- Those with 0-4 staff (26% vs 23% overall).
- Those that struggled (34% - including 18% planning week to week).
- Not confident in their viability (48% - including 28% planning week to week).

Planning no more than 3 months ahead

- Creative industries (31% vs 20% average).
- In urban areas (24%).

Planning no more than 6 months ahead

- Employee-owned* (34%).

Planning no more than 12 months ahead

- Those that had performed well (21%).

Planning beyond 12 months

- Food and drink (19%).
- Exporters (16%).
- Those that had performed well (20%).

NOTES:
* Planning no more than monthly is a combination of those planning week to week and monthly
**Employee-owned refers to those businesses where employees own a majority of shares.

B. FUTURE VIABILITY

KEY FINDINGS

- **The majority (85%) of businesses were confident they would be viable over the next six months, while 13% were not.** Confidence was down on the previous wave (June/July 2022), when 91% were confident and 9% not.

- **Businesses in the Highlands and Islands were more confident in their future viability than those in Rural Scotland overall** (85% confident vs 82% overall - with 83% confident in the South of Scotland and 80% in the rest of rural Scotland).

- **Tourism businesses, those with 0-4 staff, family-owned businesses and those that had struggled in the past six months were less confident than average.**

- **Among those that were confident in their viability, 50% expected to be operating at about the same level in six months time, while 13% expected to be operating below and 13% over and above their current levels.** Around a fifth (22%) felt it was too soon to say. Expectations were linked with current performance, with those that had performed well expecting to perform even better in six months' time, and those that had struggled expecting to perform below their current levels.

- **Among those not confident in their viability, 25% expected to be operating at a loss in six months time, 16% expected to have downsized and 7% to have ceased trading completely.** Just under two-fifths (38%) were unsure about their likely operating position.

CONFIDENCE IN FUTURE VIABILITY

The majority (85%) of businesses were confident they would be viable over the next six months, while 13% were not. Confidence was down on the previous wave in June/July 2022, when 91% were confident and 9% not.

Businesses in the Highlands and Islands were more confident in their future viability than those in Rural Scotland overall (85% confident vs 82% overall - with 83% confident in the South of Scotland and 80% in the rest of rural Scotland).

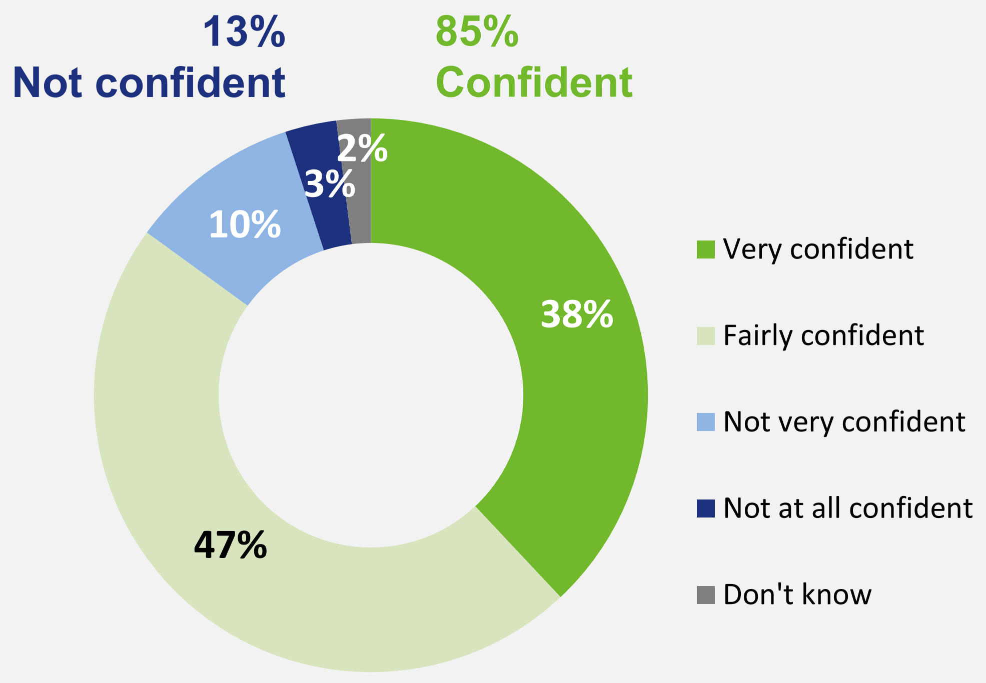
More confident than average:

- Those with 25+ staff (94% confident).
- Those in accessible rural locations (92%) and in Shetland (94%)*
- Those that had performed well (95%).
- Employee-owned businesses (95%).

Less confident than average:

- Tourism (25% not confident).
- Those with 0-4 staff (15%).
- Those that had struggled (36%).
- Family-owned businesses (15%).

Q. How confident are you that your business will be viable over the next 6 months?



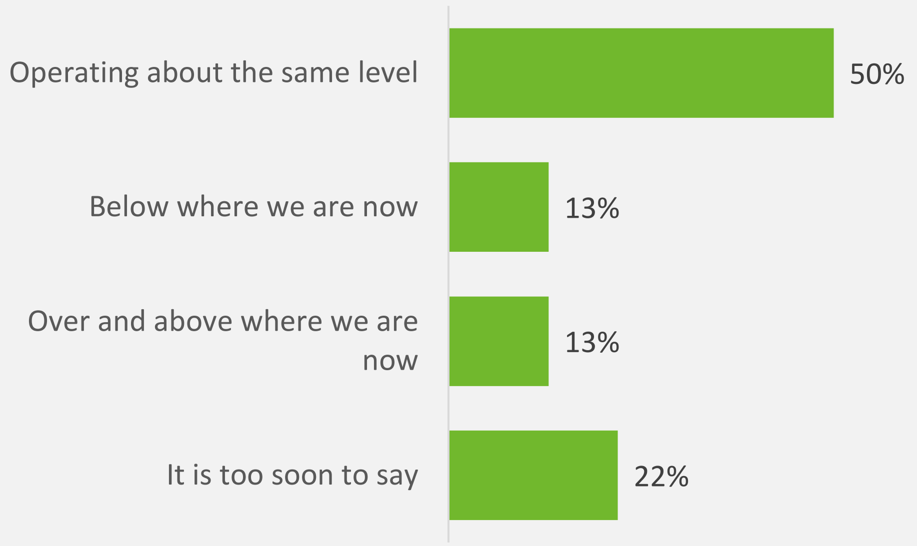
Base: All businesses (1,009)

NOTES:
* This finding for Shetland may be driven by the size of businesses in this area: there was a higher proportion of large business (25+ staff) in Shetland than in the overall sample (18% in Shetland compared with 9% overall)

EXPECTED PERFORMANCE IN SIX MONTHS TIME

Among those that were confident in their viability, 50% expected to be operating at about the same level in six months time, while 13% expected to be operating below and 13% over and above their current levels. Around a fifth (22%) felt it was too soon to say.

Q. In six months time, how do you expect your business to be performing compared with how it is now?



Base: All confident in their viability (854)

Expectations were linked with current performance, with those that had performed well expecting to perform even better in six months time, and those that had struggled expecting to perform below their current levels.

More likely to expect to be operating at the same level

- Those that had fairly steady levels of performance over the past 6 months (57%).
- Those able to plan beyond the next 12 months (63%).

More likely to expect to be operating below current levels

- Those that had struggled over the past six months (22%).

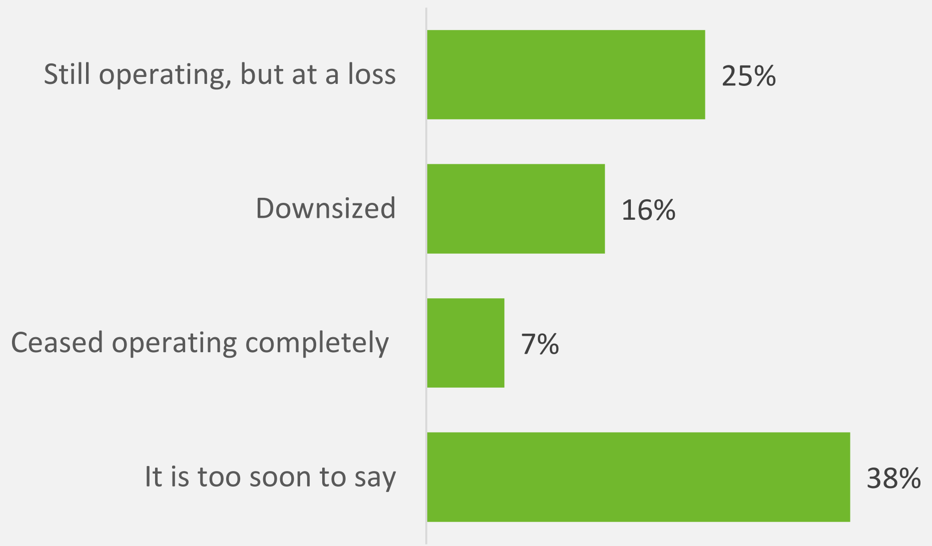
More likely to expect to be operating over and above current levels

- Those that had performed well over the past six months (17%).
- Financial and business services (23%).
- Tourism (19%).

EXPECTED OPERATING POSITION IN SIX MONTHS TIME

Among those not confident in their viability, 25% expected to be operating at a loss in six months time, 16% expected to have downsized and 7% to have ceased trading completely (1% of all businesses). Around two-fifths (38%) felt it was too soon to comment on their likely operating position.

Q. In six months time, what do you expect your operating position to be?



Base: All not confident in their viability (137)

Overall there was little variation in findings by different types of business, with the exception of tourism.

Tourism businesses showed differences in views across the three questions relating to their future viability, as outlined in the preceding slides and summarised below:

- Overall, tourism businesses were less confident than average in their viability over the next 6 months (72% confident and 25% not, compared with 85% and 13% average).
- Confident tourism businesses tended to be those that were larger (25+ staff) and that had performed well in the last 6 months.
- Tourism businesses confident in their viability were more likely than average to expect to perform over and above their current levels (19% vs 13%). This fits with the overall pattern of businesses that performed well expecting to perform even better.
- Tourism businesses that were not confident in their viability tended to be smaller (0-4 staff), be in remote rural areas, and to have struggled in the last six months.
- Tourism business not confident in their viability were more likely to say it was too soon to say what their operating position would be (56% vs 38% overall).

C. MARKETS

KEY FINDINGS

- **Over three quarters (77%) of businesses were importers** (sourcing goods from outside Scotland): 76% imported from the rest of the UK and 33% from outside the UK. The majority of businesses (92%) sourced goods and materials from Scotland.

- While the proportion of importers was consistent with the last survey wave, **since June/July 2021, there has been an increase in the proportion sourcing goods and materials from the rest of UK** (from 63% to 76%) and a decrease in those importing from outside the UK (from 39% to 33%).

- **Around half (49%) of businesses were exporters** (selling to markets outside Scotland), with 47% selling to the rest of UK and 29% outside the UK. The majority (95%) of businesses sold goods or services within Scotland, with 49% selling *only* in Scotland**.**

- The proportion of exporters has remained relatively unchanged since October/November 2021 (when it was 52%). However, **the proportion of exporters was lower than that in June/July 2021 (62%).**

- Highlands and Islands' businesses were more likely to export outside the UK (29%) compared with those in the South of Scotland (22%), and the rest of rural Scotland (23%).

IMPORT MARKETS

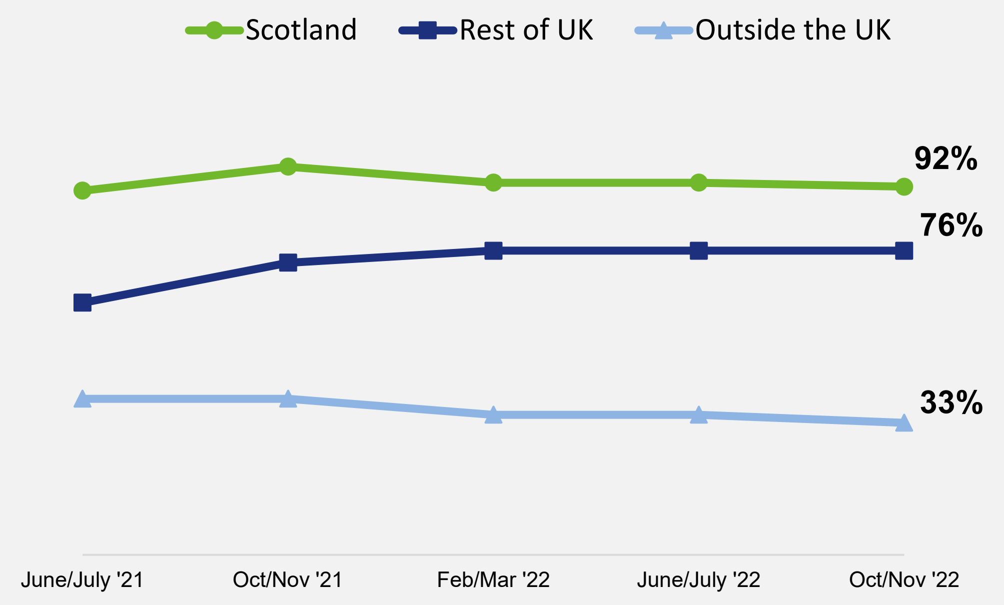
77% of businesses were importers*, with 76% importing from the rest of the UK and 33% from outside the UK. The majority of businesses (92%) sourced goods and materials from Scotland.

While findings were in line with those seen in the previous wave, since June/July 2021, there has been an increase in the proportion of businesses sourcing goods and materials from the rest of UK (from 63% to 76% this wave) and a decrease in those importing from outside the UK (from 39% to 33%).

Variation

- **Food and drink** businesses and those in **island locations** were more likely than average to source goods from Scotland (96% and 95% respectively).
- **HIE-client engaged** businesses were more likely to source from the rest of UK (87%) and outside the UK (54%).
- **Large businesses (25+ staff)** were also more likely to source goods and materials from both the rest of UK (90%) and outside the UK (52%).

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



Base: All businesses

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

EXPORT MARKETS

Around half (49%) of businesses were exporters (selling to markets outside Scotland), with 47% selling to the rest of UK and 29% outside the UK. The majority (95%) of businesses sold goods or services within Scotland, with 49% selling *only* in Scotland.

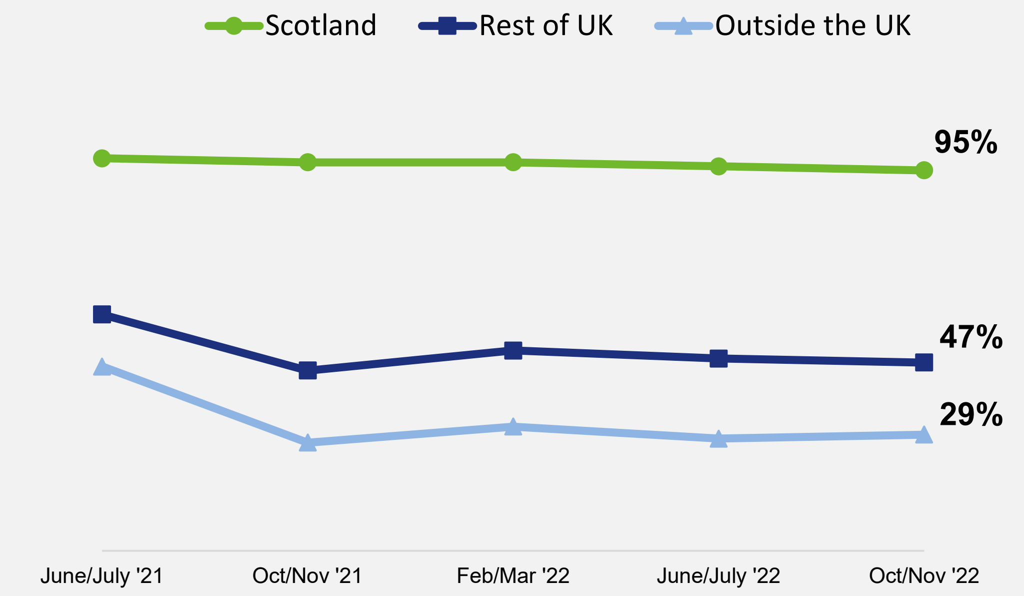
Findings were in line with the previous wave, and the proportion of exporters has remained relatively unchanged since October/November 2021 (when it was 52%). However, the proportion of exporters was lower than that in June/July 2021 (62%).

Variation

- **Tourism** and **creative industries** businesses were more likely to sell to the rest of the UK (both 64%) and outside the UK (61% and 49%).
- **Financial and business services** organisations were also more likely to sell to markets outside the UK (43%).
- **HIE-client engaged** businesses were more likely to sell to the rest of the UK (75% vs 46% non-account managed), and outside the UK (54% vs 28%).

Highlands and Islands' businesses were more likely to export outside the UK (29%) compared with those in the South of Scotland (22%), and the rest of rural Scotland (23%).

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



Base: All businesses

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

D. COST CRISIS

KEY FINDINGS

- **Almost all businesses (99%) had experienced cost increases in the past 12 months, with 83% experiencing substantial increases.**

- **The greatest areas of cost increase were raw materials (82% saw an increase, 56% a substantial increase), electricity and gas (81% and 55%) and transportation of goods (77% and 45%),** followed by equipment purchase or repair (77% and 36%), business rates or insurance (72% and 17%) and other utilities (68% and 32%).

- **The costs having the greatest impact on businesses were those that had increased the most: electricity and gas (53%), raw materials (51%) and transportation of goods (39%).**

- **Cost increases were particularly apparent among those that had struggled in the last six months and those unable to plan more than a month ahead. Certain cost increases were also more common among food and drink and tourism sectors** – in raw materials and equipment for the former, and in electricity and gas, other utilities and staff wages for the latter.

- **The main impact of cost increases was reduced profit margins (69%),** followed by delayed or postponed growth plans (42%), being unable to set prices for the coming year (37%), loss or reduction in customer demand (35%), pressure on staff costs (29%), being less competitive (27%) and being unable to utilise the goods or materials they used to (22%).

- **Three-quarters (75%) of businesses had delayed or postponed plans because of cost increases.** A range of plans were impacted including: energy efficiency improvements (36%), new capital projects (35%), increasing staff wages or benefits (32%), investing in technology (30%), developing new products or services (28%), recruiting new staff (23%), upgrading or moving premises (23%) and staff training and development (19%).

- **In response to the cost crisis the majority of businesses were absorbing costs (70%) or increasing prices (68%).** Other actions included making energy efficiency improvements (55%), using cash reserves (45%), sourcing alternative materials, goods or services (44%), investing (42%), adapting products or services (35%), collaborating (25%) and reducing operations or opening hours (20%).

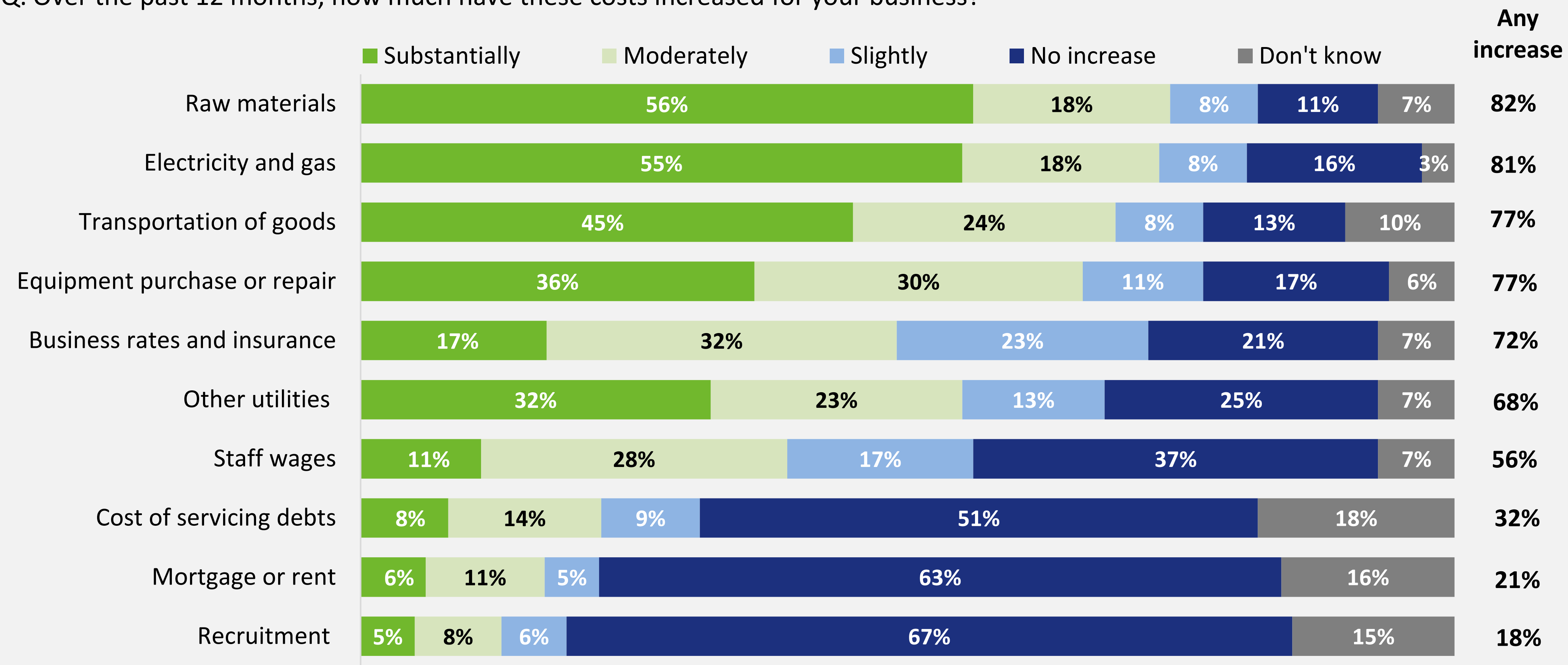
- **Response to the cost crisis differed depending on business performance.** Those that had performed well were more likely to have increased prices or invested in the business, while those that had struggled were more likely to have scaled back by using cash reserves, reducing operations or opening hours, closing for winter and making staff redundant.

COST INCREASES (1)

Almost all businesses (99%) had experienced cost increases in the past 12 months, with 83% experiencing substantial cost increases. The greatest areas of cost increase were: raw materials (82% saw an increase, 56% a substantial increase), electricity and gas (81% and 55%) and transportation of goods (77% and 45%), followed by equipment purchase or repair (77% and 36%), business rates or insurance (72% and 17%), other utilities (68% and 32%) and staff wages (56% and 11%).

Fewer said there had been increases to cost of servicing debt (32% and 8%), mortgage or rent (21% and 6%) or recruitment (18% and 5%).

Q. Over the past 12 months, how much have these costs increased for your business?



Base: All businesses (1,009)

COST INCREASES (2)

Variation in the nature of cost increases is shown below, based on costs that businesses said had increased **substantially** over the past 12 months. Higher than average cost increases were particularly apparent among those that had struggled in the last six months and that were currently unable to plan more than a month ahead. Variation was also evident by size, sector, location, markets, and account management status.

Size

- **25+ staff** – staff wages (34% vs 11% average) and recruitment (15% vs 5%).

Sector

- **Food and drink** – raw materials (75% vs 56% average), equipment purchase or repair (52% vs 36%), other utilities (39% vs 32%) and cost of servicing debt (13% vs 8%).

- **Tourism** – electricity and gas (70% vs 55% average), other utilities (50% vs 32%), staff wages (20% vs 11%), mortgage or rent (13% vs 6%) and recruitment (13% vs 5%).

Location

- **Remote rural businesses*** – raw materials (61% vs 56% average), equipment purchase or repair (42% vs 36%) and other utilities (37% vs 32%).

Account management

- **HIE-client engaged** – staff wages (23% vs 11% average).

Markets

- **Importers** – raw materials (58% vs 56% average), staff wages (13% vs 11%) and recruitment (6% vs 5%).

Performance

- **Performed well** – staff wages (15% vs 11% average).

- **Struggled** – raw materials (63% vs 56% average), transportation of goods (52% vs 45%), equipment purchase or repair (45% vs 36%), other utilities (41% vs 32%), business rates and insurance (23% vs 17%), cost of servicing debt (16% vs 8%) and mortgage or rent (9% vs 6%).

Planning ahead

- **No more than monthly** – raw materials (69% vs 56% average), transportation of goods (60% vs 45%), equipment purchase or repair (47% vs 36%), other utilities (40% vs 32%), business rates and insurance (21% vs 17%), staff wages (15% vs 11%), cost of servicing debt (12% vs 8%) and mortgage or rent (9% vs 6%).

NOTES:

* Findings for remote rural businesses may be driven by the sectoral profile in these areas: there was a higher proportion of food and drink businesses in remote rural areas than in the overall sample (34% in remote rural areas compared with 25% overall)

COST INCREASES WITH BIGGEST IMPACTS

The costs having the greatest impact on businesses were those that had increased the most: electricity and gas (53%), raw materials (51%) and transportation of goods (39%). This was followed by other utilities (19%), staff wages (16%), equipment purchase or repair (12%) and business rates and insurance (11%). Costs having the least impact were those related to servicing debts (4%), mortgage or rent (2%) or recruitment (2%).

Certain cost increases had greater impacts in the Highlands and Islands than across rural Scotland overall – raw materials (51% vs 48% overall), transportation of goods (39% vs 35%) and staff wages (16% vs 13%).

Variation

Size

- **0-4 staff** – transportation of goods (42%).
- **25+ staff** – staff wages (43%), recruitment (13%).

Sector

- **Food and drink** – raw materials (65%), transportation of goods (45%) and equipment purchase/repair (19%).
- **Tourism** – electricity and gas (72%), other utilities (29%), staff wages (24%) and mortgage/rent (6%).
- **Financial and business services** – staff wages (29%).

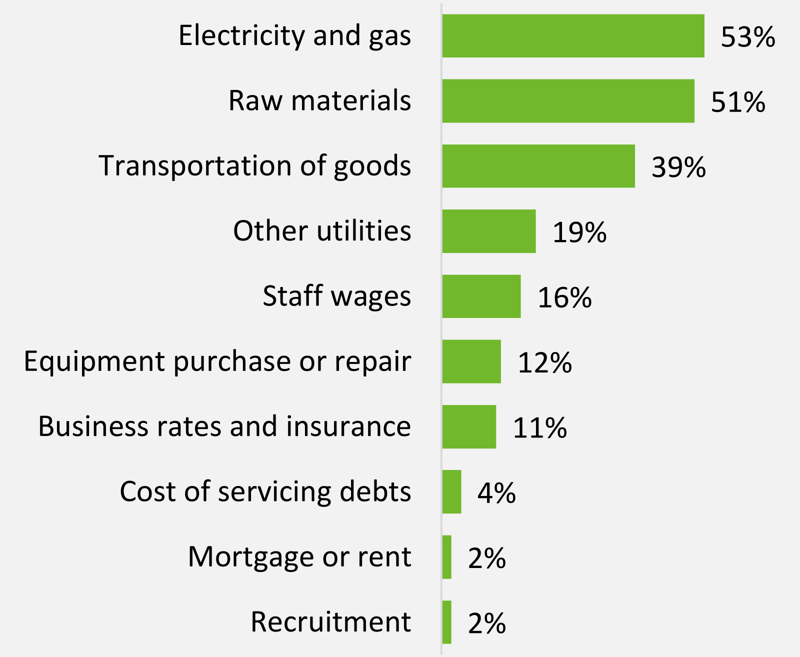
Location*

- **Remote rural businesses** – raw materials (55%) and equipment purchase/repair (14%).
- **Urban businesses** – staff wages (22%).

Performance

- **Performed well** – staff wages (20%).
- **Been steady** – transportation of goods (43%), equipment purchase/repair (14%).
- **Struggled** – electricity and gas (61%), business rates and insurance (15%).

Q. Which two or three cost increases are having the biggest impact on your business?



Base: All businesses (1,009)

Planning ahead

- **No more than 3 months** – transportation of goods (50%).
- **Beyond 12 months** – electricity and gas (60%), equipment purchase/repair (17%).

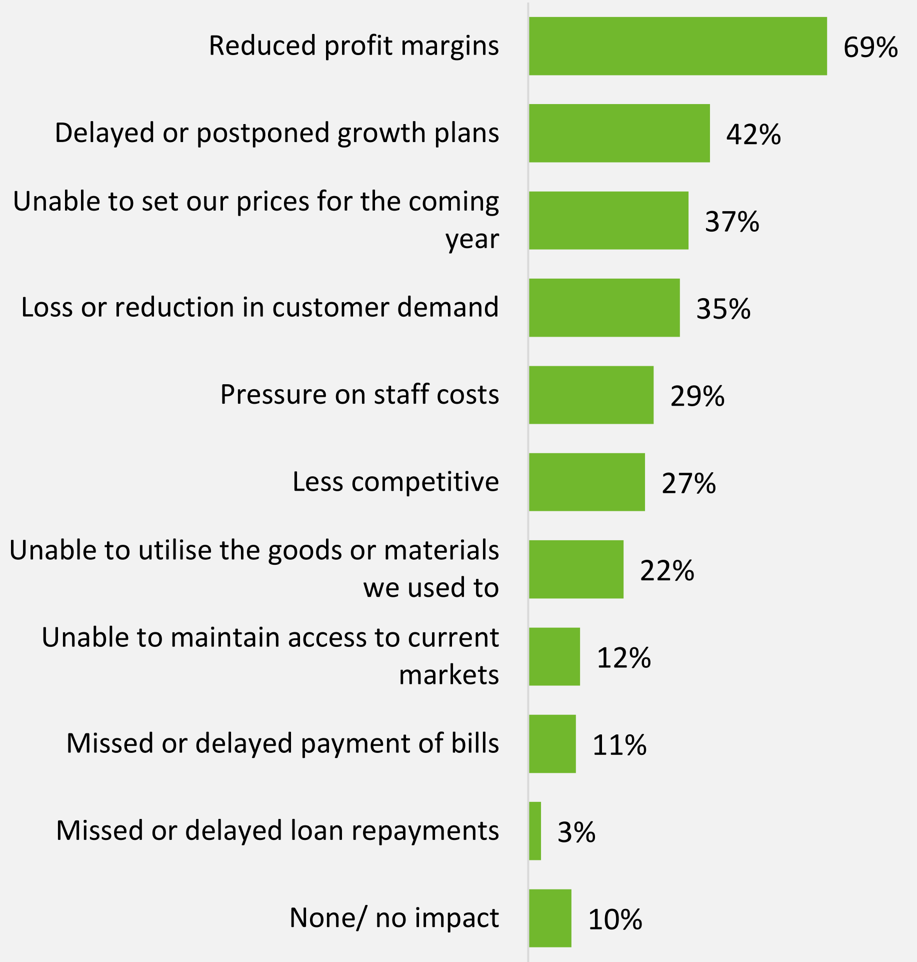
NOTES:

* Findings by location may be driven by the sectoral profile in these areas: there was a higher proportion of food and drink businesses in remote rural areas than in the overall sample (34% in remote rural areas compared with 25% overall) and a higher proportion of financial and business services businesses in urban areas (14% compared with 9% overall).

IMPACTS OF COST INCREASES

The main impact of cost increases was reduced profit margins (69%). This was followed by delayed or postponed growth plans (42%), being unable to set prices for the coming year (37%), loss or reduction in customer demand (35%), pressure on staff costs (29%), being less competitive (27%) and being unable to utilise the goods or materials they used to (22%).

Q. In what ways have cost increases impacted on your business so far?



Base: All businesses (1,009)

Variation

- **25+ staff** – delayed or postponed growth plans (58%), pressure on staff costs (59%) and less competitive (39%).
- **Food and drink** – delayed or postponed growth plans (49%), unable to utilise goods or materials they used to (27%) and missed or delayed payment of bills (17%).
- **Importers** – reduced profit margins (71%), delayed or postponed growth plans (45%), unable to set prices for coming year (39%), pressure on staff costs (31%) and less competitive (29%).
- **Exporters** – loss or reduction in customer demand (40%), pressure on staff costs (33%).
- **Remote rural businesses** – reduced profit margins (73%), missed or delayed payment of bills (13%).
- **Island businesses** – delayed or postponed growth plans (48%).
- **Family-owned** – reduced profit margins (72%).

Cost increases were also having particular impacts on those that had struggled in the last six months and that were unable to plan far ahead (see Appendix).

Businesses experiencing **no impacts** were more likely to be: financial and business services (18%), unable to plan more than 12 months ahead (15%), and those that had performed well (13%).

PLANS DISRUPTED BY COST INCREASES

Three quarters (75%) of businesses had delayed or postponed plans because of cost increases. A range of plans were impacted including: energy efficiency improvements (36%), new capital projects (35%), increasing staff wages or benefits (32%) investing in technology (30%), new products or services (28%), recruiting new staff (23%) upgrading or moving premises (23%) and staff training and development (19%).

Q. Which of the following had you planned, but are having to delay or postpone because of cost increases?

Base: All businesses (1,009)

Businesses experiencing **<u>no disruption to plans</u>** were more likely to be: those with 0-4 staff (29%), in accessible rural (34%) or urban locations (29%), had performed well (33%) and able to plan more than 12 months ahead (34%).

Businesses in the Highlands and Islands were more likely than those in rural Scotland overall to have delayed planned energy efficiency improvements (36% vs 33%) and capital projects (35% vs 28%).

Variation

- **Larger businesses** (25+ staff) – new capital projects (53%), developing new products or services (41%), recruiting new staff (32%).
- **Food and drink** – new capital projects (50%), upgrading or moving premises (28%).
- **Tourism** – energy efficiency improvements (50%), new capital projects (47%), developing new products or services (38%), upgrading or moving premises (30%).
- **Remote rural businesses** – energy efficiency improvements (39%), new capital projects (42%), new products or services (32%), upgrade or move premises (26%).
- **Island businesses** – new products or services (34%).
- **Family-owned** – upgrade or move premises (25%).
- **Employee-owned –** develop new products or services (45%).

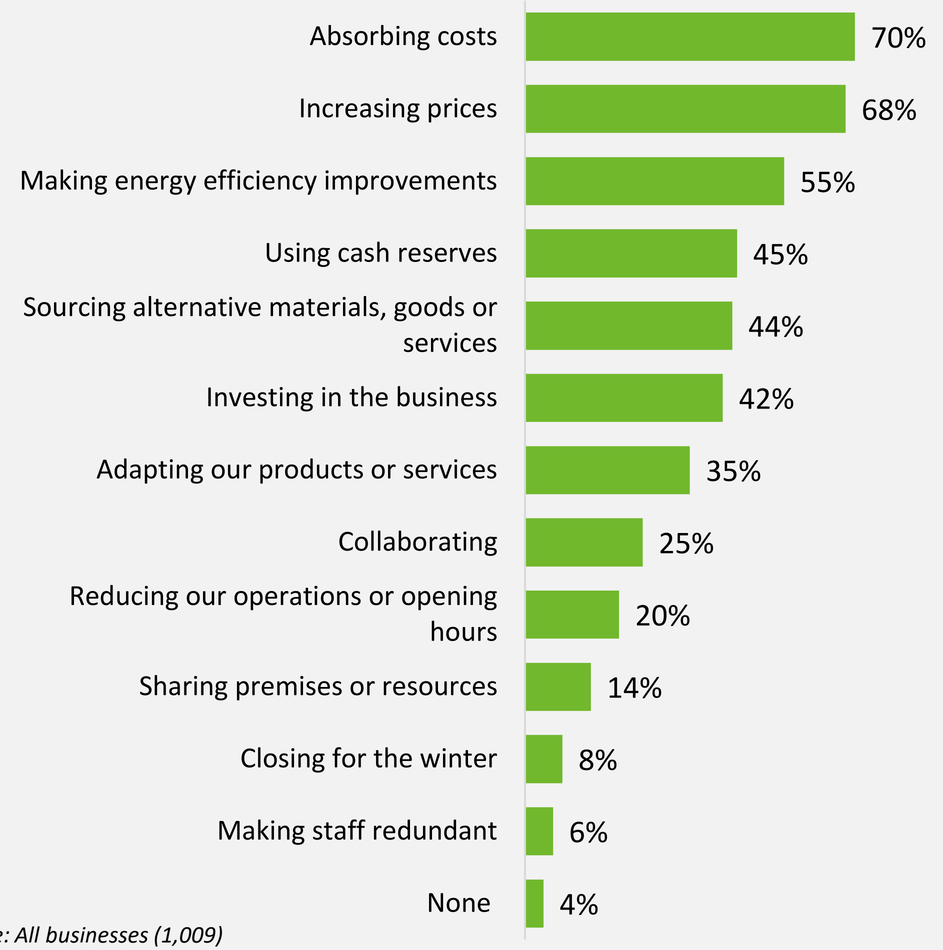
There was also particular disruption for businesses that have struggled, importers, and those that were unable to plan far ahead (see Appendix).

ACTIONS IN RESPONSE TO THE COST CRISIS

In response to the cost crisis the majority of businesses were absorbing costs (70%) or increasing prices (68%). Other actions included making energy efficiency improvements (55%), using cash reserves (45%), sourcing alternative materials, goods or services (44%), investing in the business (42%), adapting products or services (35%), collaborating (25%) and reducing operations or opening hours (20%).

Response to the cost crisis differed depending on business performance. Those that had **performed well** were more likely to have increased prices (72%) or invested in the business (46%). Those that had **struggled** were more likely to have taken actions that suggest scaling back, including using cash reserves (66%), reducing operations or opening hours (32%), closing for winter (13%) or making staff redundant (14%) (see Appendix for full details of variations).

Q. Which of the following actions, if any, are you taking or planning to take in response to the cost crisis?



Base: All businesses (1,009)

Further variation

- **25+ staff** – increasing prices (78%), making energy efficiency improvements (74%), sourcing alternative materials, goods or services (60%), investing (63%).
- **Food and drink** and **employee-owned** – absorbing costs (77% and 80%).
- **Tourism** – increasing prices (82%), energy efficiency improvements (67%), using cash reserves (56%), adapting products or services (48%), reducing operations or opening hours (41%), closing for winter (33%).
- **HIE-client-engaged** – sourcing alternatives (59%), reducing operations or opening hours (32%), closing for winter (16%), making staff redundant (12%).
- **Remote rural businesses** – energy efficiency improvements (58%).
- **Urban businesses** – increasing prices (73%).
- **Women-led** – adapting products or services (46%), reducing operations or opening hours (33%).
- **Planning no more than a month ahead** – using cash reserves (52%).

Importers and exporters were also more likely to take a number of actions (see Appendix).

PLANS AND ACTIONS RELATED TO ENERGY EFFICIENCY IMPROVEMENTS

There was some overlap between businesses that had made energy efficiency improvements in response to the cost crisis, and those that had delayed or postponed their plans to do so. However, the main difference between these two groups of businesses was that those whose plans were disrupted were more likely to be less confident, to have struggled in the past six months and unable to plan more than a month ahead.

Energy efficiency improvements

Among those that had made energy efficiency improvements (55% of businesses), 48% also said their plans to do so were delayed or postponed due to the cost crisis (representing 26% of all businesses). This subset of businesses may, therefore, have wanted to take further action on energy efficiency improvements but felt unable to.

Businesses that were making energy efficiency improvements were more likely than average (55%) to be:

- Those with 25+ staff (74%).
- Tourism businesses (67%).
- In remote rural areas (58%).

Businesses that had plans for energy efficiency improvements disrupted were also more likely to be:

- Tourism businesses (50%).
- In remote rural areas (39%).
- Struggled in the last six months (48%).
- Not confident in the economic outlook (41%).
- Not confident in their own viability (58%).
- If not confident, expect to be operating at a loss (63%).
- Planning no more than a month ahead (43%).

The main difference in the two groups was, therefore, that those whose plans were disrupted were less confident in the economy and their own viability, had struggled in the last six months and were unable to plan more than a month ahead.

E. FINANCIAL CONCERNS AND ACCESS TO FINANCE

KEY FINDINGS

- **The majority of businesses (87%) had financial concerns**. The top concerns were unpredictable costs (77%) and low profit margins or losses (61%). This was followed by low or no cash reserves (34%), increased interest rates on loans and debt (27%) and restricted access to finance (22%). Fewer mentioned repayment of COVID-19 recovery loans (15%) or repayment of other debt (13%).

- **Half (51%) of businesses were currently using or planning to use some of form of finance, a decrease since October/November 2021 (when 63% were doing so).** Around a third of businesses were already using or planning to use loans from banks or financial institutions (36%), public sector grants or loans (34%), or credit or overdrafts (33%).

- **A quarter (25%) of businesses were using more than one form of finance**, with 18% using two, 7% using three, and less than 1% using four. Overall use of finance was higher than average (51%) among: food and drink businesses (60%), those with 25+ staff (58%) and those not confident in their viability (57%).

FINANCIAL CONCERNS

The majority of businesses (87%) had financial concerns. The top concerns were unpredictable costs (77%) and low profit margins or losses (61%). This was followed by low or no cash reserves (34%), increased interest rates on loans and debt (27%) and restricted access to finance (22%). Fewer mentioned repayment of COVID-19 recovery loans (15%) or repayment of other debt (13%).

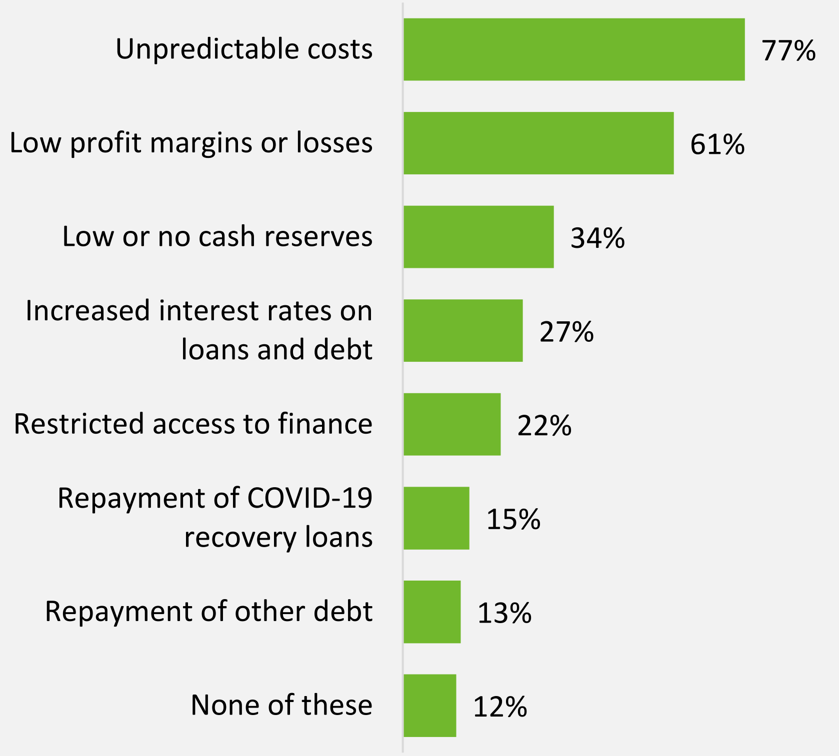
Compared with October/November 2021, there was an increase in the proportion of businesses saying they were concerned about low or no cash reserves (from 22% to 34%) (the other concerns were not asked about in that wave).

Variation

- **Larger businesses** (25+ staff) – unpredictable costs (88%).
- **Food and drink** – unpredictable costs (82%), low profit margins or losses (69%), increased interest rates on loans and debt (34%).
- **Tourism** – low profit margins or losses (70%), low or no cash reserves (43%), increased interest rates on loans and debt (36%), repayment of Covid-19 recovery loans (22%), repayment of other debt (22%).
- **HIE-client-engaged** – repayment of COVID-19 recovery loans (27%), repayment of other debt (23%).
- **Remote rural businesses** – unpredictable costs (81%).
- **Island businesses** – low profit margins or losses (67%).
- **Women-led** – low or no cash reserves (46%), repayment of Covid-19 recovery loans (24%).
- **Family-owned** – increased interest rates on loans and debt (30%), repayment of other debt (15%).

Importers, exporters, business that have struggled and those that were unable to plan far ahead were more likely to be concerned about a number of these (see Appendix).

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



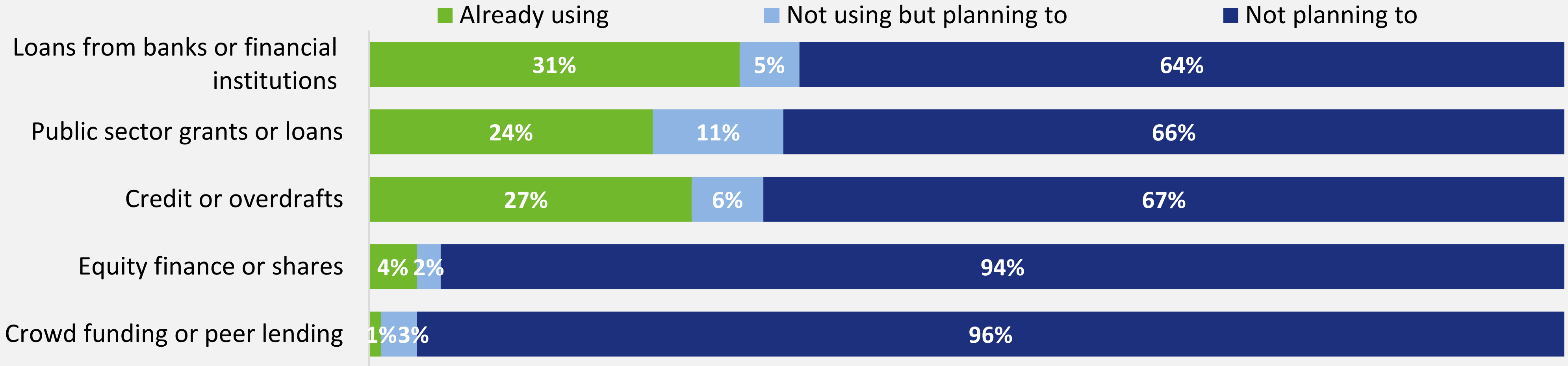
Base: All businesses (1,009)

Those that had <u>**none of these concerns**</u> were more likely be: financial and business services (27%), in accessible rural locations (21%), and those that have performed well (16%).

ACCESS TO FINANCE

Half (51%) of businesses were currently using or planning to use some of form of finance, a decrease since October/November 2021 (when 63% were doing so). Around a third of businesses were already using or planning to use loans from banks or financial institutions (36%), public sector grants or loans (34%), or credit or overdrafts (33%).

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



Base: All businesses for whom each applied

The overall decrease in use of finance compared with 12 months ago is mainly due to fewer using public sector grants or loans (down from 32% in Oct/Nov 2021 to 24% this wave).

Use of other forms of finance was largely in line with the previous levels: loans from banks and financial institutions (31% were using in Oct/Nov 2021), credits or overdrafts (25%), equity finance or shares (3%), crowd funding or peer lending (1%).

A quarter (25%) of businesses were using more than one form of finance, with 18% using two, 7% using three, and less than 1% using four.

Variation

Overall use of finance was higher than average (51%) among: food and drink businesses (60%), those with 25+ staff (58%) and those not confident in their viability (57%).

More likely than average to be currently using each type:

Loans from banks or financial institutions

- Food and drink (39%).
- 25+ staff (42%).
- Importers (34%) and exporters (35%).

Public sector grants/loans

- Food and drink (29%).
- HIE-client engaged (53%).
- Planning beyond 12 months (33%).
- Importers (27%).

Credit or overdrafts

- Food and drink (39%).
- Struggled (35%).
- Planning no more than monthly (33%).
- Family-owned (31%).

Equity finance or shares

- HIE-client engaged (17%).
- Exporters (7%).

F. WELLBEING AND SUPPORT

KEY FINDINGS

- **A majority of business owners/senior managers (79%) reported impacts of the cost crisis on their own wellbeing.**

- **More than half (56%) of business owners/senior managers reported generally feeling worried or stressed due to the cost crisis, around half said they were working longer hours (49%) or struggling to balance work and home life (45%) and two-fifths had reduced their own pay and benefits (41%).**

- **Women-led businesses were more likely to have reported feelings of worry and stress, impacts on mental health, and reducing their pay or benefits.** Those struggling in the last six months reported higher rates of impact in every category listed.

- **Over six in ten (62%) employers reported seeing impacts of the cost crisis on their staff. Almost a third (32%) said staff were working at or beyond capacity, while around a quarter reported staff requesting flexibility in working patterns or locations (27%), low morale (25%) and requests for longer hours or additional work (24%).** This was especially true in businesses with 25+ staff and among those that had struggled in the last six months.

- **More than four-fifths (82%) of employers are taking action to support staff in response to the cost crisis. Almost two-thirds (64%) were engaging with staff to understand their needs and around half were increasing wages (51%) and encouraging flexible working (50%).** Around a third were targeting support at those on the lowest wages (34%) and offering mental health support (32%).

PERSONAL IMPACTS OF THE COST CRISIS

A majority of business owners/senior managers (79%) reported impacts of the cost crisis on their own wellbeing. More than half (56%) reported generally feeling worried or stressed due to the cost crisis, with around half working longer hours (49%) or struggling to balance work and home life (45%) and two-fifths reducing their own pay and benefits (41%).

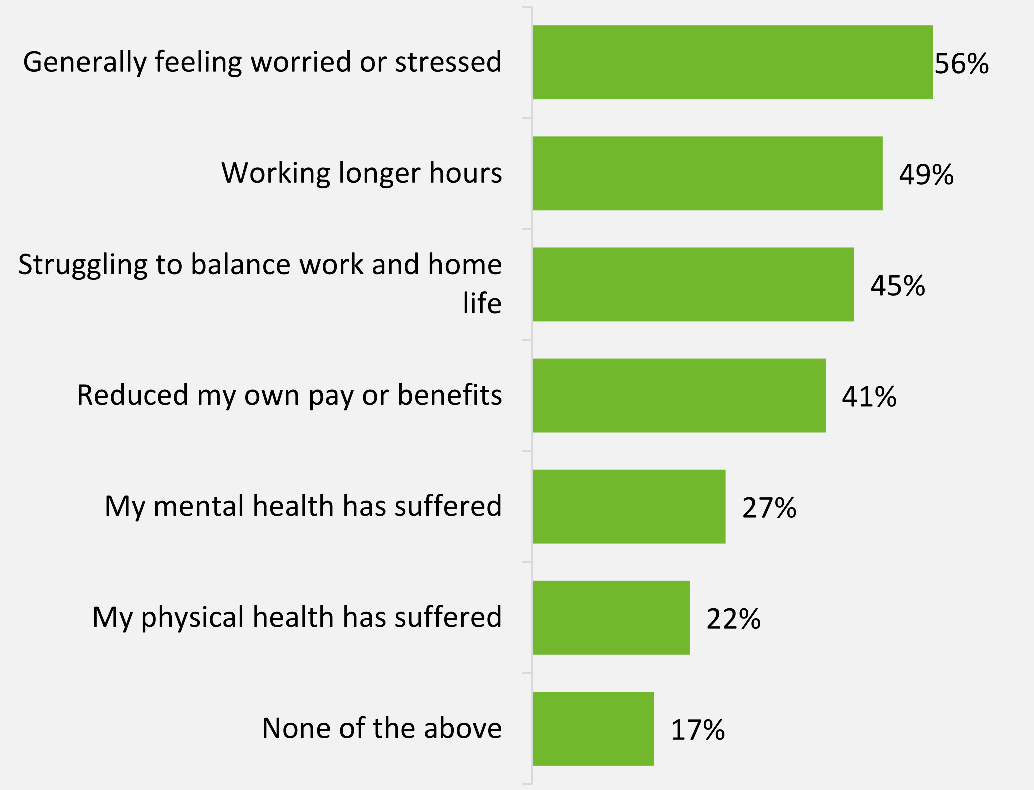
Variation

- **Women-led** businesses:
  - generally feeling worried or stressed (68%).
  - reducing their own pay or benefits (53%).
  - struggling with mental health (36%).
- **Tourism** – struggling to balance work and home life (53%).
- Those with **0-4 staff** – reducing their own pay or benefits (45%).
- **Remote rural** – reducing their own pay or benefits (44%) (although this is likely driven by the high proportion of small businesses in remote rural areas).
- **Exporters** – feeling worried or stressed (60%) and working longer hours (52%).
- **Importers** – working longer hours (49%).

Echoing the overall pattern seen in relation to the cost crisis (section D), businesses that struggled in the last six months and those unable to plan no more than a month ahead were more likely to report each of the impacts.

Creative industries, those performing well, and businesses planning more than 6 months ahead were more likely to report **no personal impacts** from the cost crisis.

Q. In what ways have the cost crisis impacted on you personally?



Base: All businesses (1,009)

IMPACTS OF THE COST CRISIS ON STAFF

Over six in ten (62%) employers reported seeing impacts of the cost crisis on their staff. Almost a third (32%) said staff were working at or beyond capacity, while around a quarter reported staff requesting flexibility in working patterns or locations (27%), low morale (25%) and requests for longer hours or additional work (24%). This was especially true in businesses with 25+ staff and those struggling in the last six months.

Variation

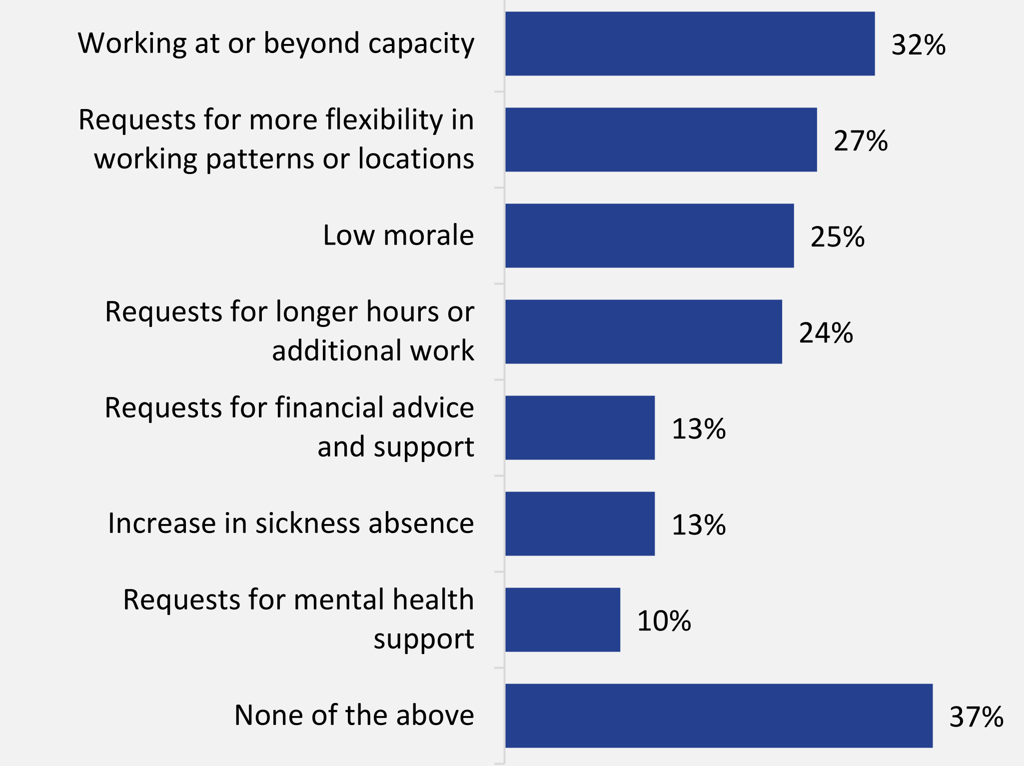
Large **businesses (25+ staff) were** more likely than average to report each impact.

Other businesses more likely to experience specific impacts were:

- **Tourism** – requests for more flexibility in working patterns or locations from staff (35%), longer hours or more work (43%) and mental health support (20%).
- **Financial and business services** and those in **urban* areas** - requests from staff for more flexibility (39% and 32%).
- Those that **struggled** in the last six months – staff working at or beyond capacity (44%), requests for more flexibility in work patterns or locations (35%), low morale (42%) and requests for longer hours or additional work (31%).
- Businesses planning **no more than three months ahead** - requests for longer hours or additional work (31%).
- Business planning **no more than one month ahead** - increase in sickness absence (19%).

Among employers that had reported impacts of the cost crisis on their own wellbeing, 91% also reported seeing impacts of the cost crisis on their staff, while 9% did not.

Q. In what ways have you seen the cost crisis impacting on your staff?



Base: All employers (790)

Those reporting seeing **no** impacts on their staff were more likely to be smaller businesses (1-4 staff) (51%).

NOTES:

* Findings by location may be driven by the sectoral profile in urban areas: there was a higher proportion of financial and business services businesses in urban areas (14% compared with 9% overall).

SUPPORT FOR STAFF IN RESPONSE TO THE COST CRISIS

More than four-fifths (82%) of employers are taking action to support staff in response to the cost crisis. Almost two-thirds (64%) were engaging with staff to understand their needs and around half were increasing wages (51%) and encouraging flexible working (50%). Around a third were targeting support at those on the lowest wages (34%) and offering mental health support (32%).

Variation

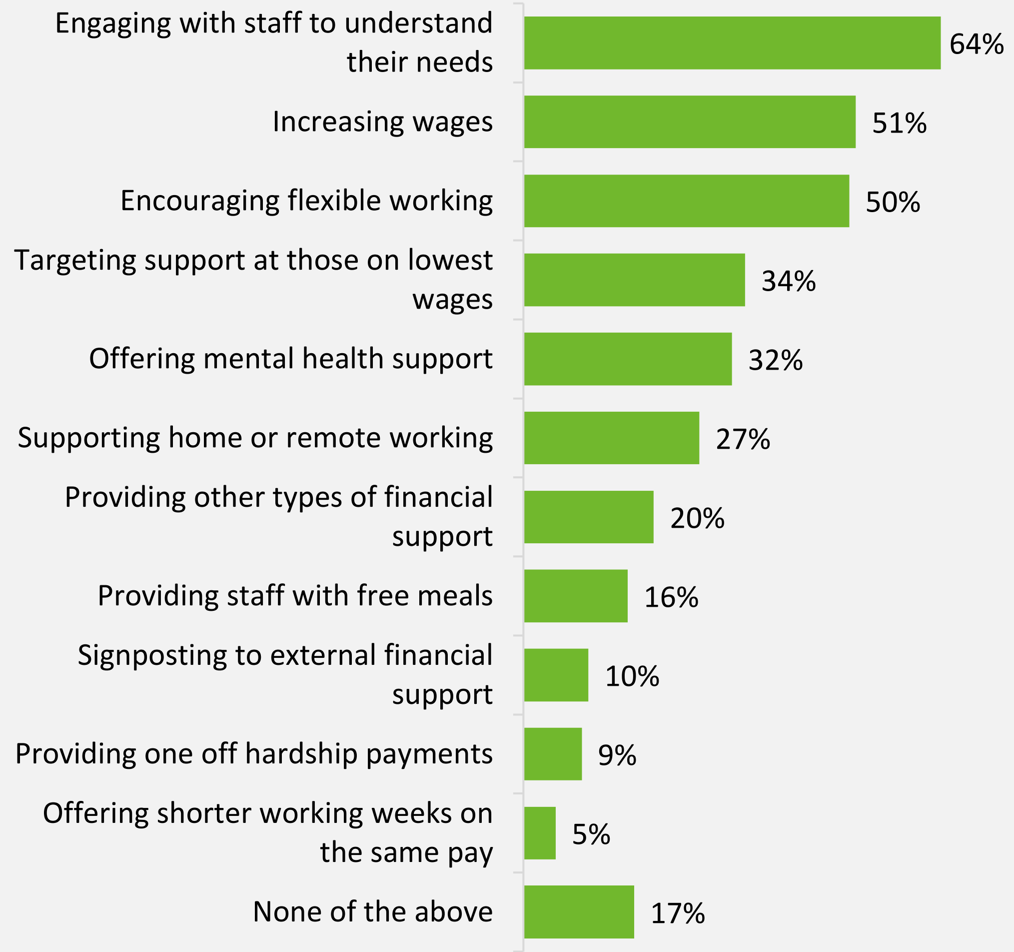
Most actions were more common among large businesses (with 25+ staff). In addition, the following were more likely than average to take certain actions:

- **Women-led** – Encourage flexible working (69%), offer mental health support (44%) and providing a free meal to staff (30%).
- **Employee-owned** – Supporting home or remote working (50%) and offering shorter working weeks at the same pay (20%).
- **Financial and business services** and **creative industries** – Supporting home or remote working (50% and 56%).
- **Tourism** and **food and drink** – Supplying free meals to staff (42% and 25%).
- **Remote rural** areas - Providing staff with free meals (24%).

Businesses that had performed well were more likely to have taken a number of actions - increasing staff wages (59%), supporting home or remote working (32%) providing other types of financial support (27%), and making one-off hardship payments (14%).

Businesses that had struggled were more likely than average to have targeted support to the lowest earners (42%).

Q. For existing staff, what actions are you taking or planning to take in response to the cost crisis?



Base: All employers (790)

F. BUSINESS STRUCTURE AND RECRUITMENT

KEY FINDINGS

- **Among employers, over four-fifths (83%) described themselves as family-owned, rising to 93% in the food and drink sector, while 10% were employee-owned (with employees owning a majority of the shares). More than one-in-ten (13%) businesses were women-led.**

- **Around a third (32%) of businesses had recruited staff in the last six months.**

- **Among those that had, 24% had done so by looking further afield in the UK and 11% from international markets.** In addition, 27% had helped source or provided accommodation, 19% accommodated childcare requirements, 13% supported relocation costs, and 12% supported employment for partners.

- **Of those who had recruited staff in the past six months, around three-quarters (74%) noted word of mouth as the most effective channel, rising to 84% among small businesses (1-4 staff).** Half (49%) cited adverts on social media as the most effective route, followed by paid-for recruitment services (30%) and adverts on their own website (28%).

BUSINESS STRUCTURE

Among employers, over four-fifths (83%) described themselves as family-owned, rising to 93% in the food and drink sector, while 10% were employee-owned (with employees owning a majority of the shares). More than one-in-ten (13%) businesses were women-led.

There was a degree of overlap between two of the categories: among women-led businesses, 22% also described themselves as family-owned.

More likely to be family-owned

- Food and drink (93%).

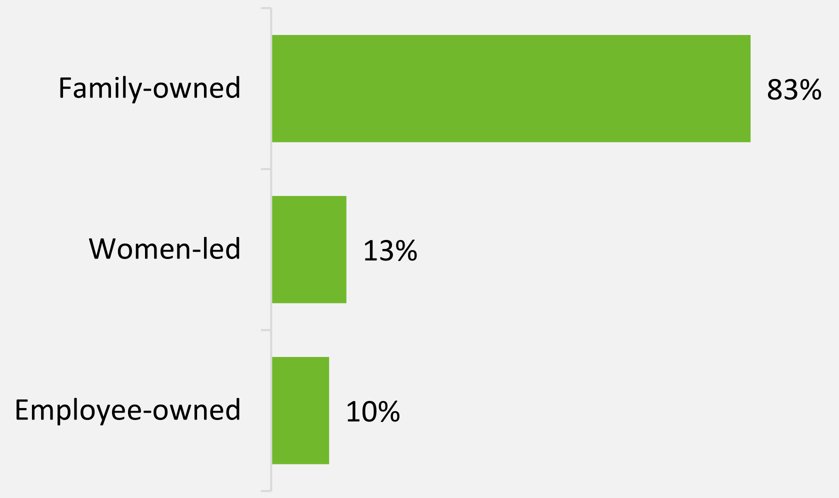
More likely to be women-led

- Tourism (22%).
- Creative industries (26%).
- Financial and business services (21%).

More likely to be employee-owned

- 25+ staff (15%)
- Creative industries (22%).
- Financial and business services (20%).

Q. Which of the following, if any, describes your business?



Base: For women-led – all giving an answer (841); for family or employee-owned – all employers giving an answer (631)

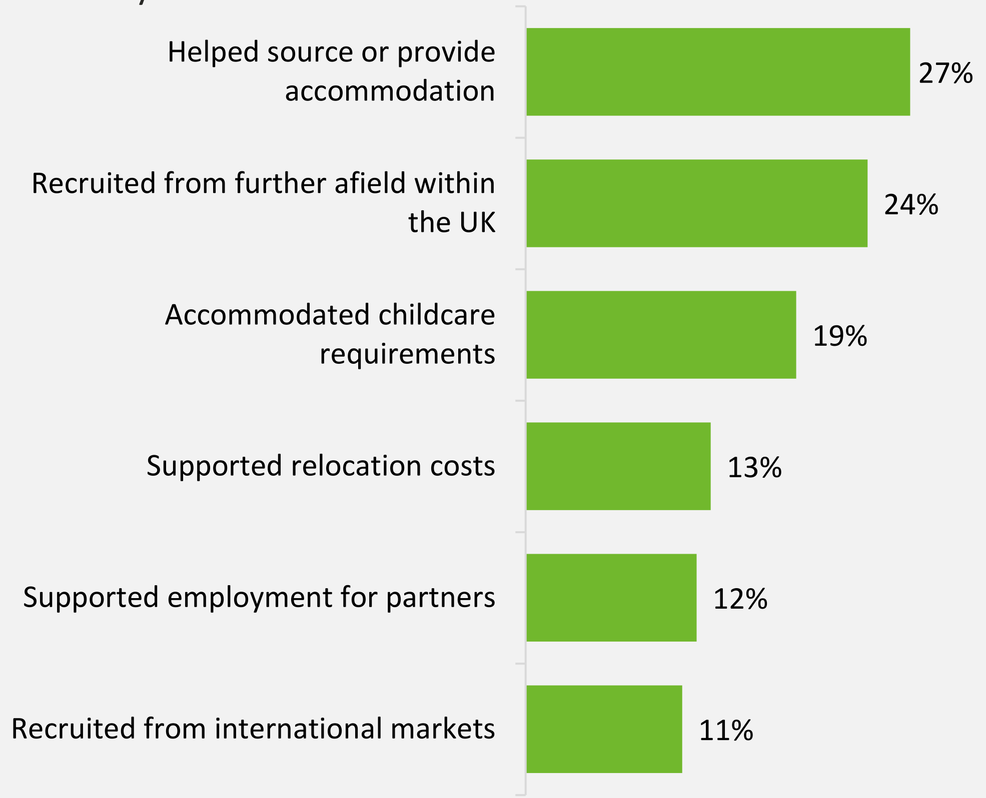
NOTES:

The proportion describing themselves as women-led was lower than when this was last asked (in February/March 2022), when 24% described themselves as women-led. However, the question format was different in the previous wave (respondents were only asked about being women-led, whereas in this wave they were asked if any of the three terms described their business). The difference in question wording makes it difficult to compare the findings between waves.

RECRUITMENT RATES AND APPROACHES TO RECRUITMENT

Around a third (32%) of businesses had recruited staff in the last six months. Among those that had, 24% had done so by looking further afield in the UK and 11% from international markets. In addition, 27% had helped source or provided accommodation, 19% accommodated childcare requirements, 13% supported relocation costs, and 12% supported employment for partners.

Q. Which of the following approaches have you taken to help recruit staff recently?



Base: All who have recruited staff in the past six months (322)

Recruitment was more common among larger businesses (60% of those with 11-24 and 91% of those with 25+ staff) as well as tourism (50%) and HIE-client engaged (62%) businesses.

In terms of specific methods:

- **Large businesses (25+ staff)** were more likely than average to have used each recruitment strategy listed.
- **Tourism** businesses and those in **remote rural areas** were more likely to have helped source accommodation (56% and 36% respectively) and supported employment for partners (29% and 17%).

Generally speaking, respondents who used any one approach were more likely to use another, suggesting that those who were making special efforts to recruit were doing so in multiple different ways - 48% of businesses had used at least one method, but a majority of those (27% overall) had used at least two.

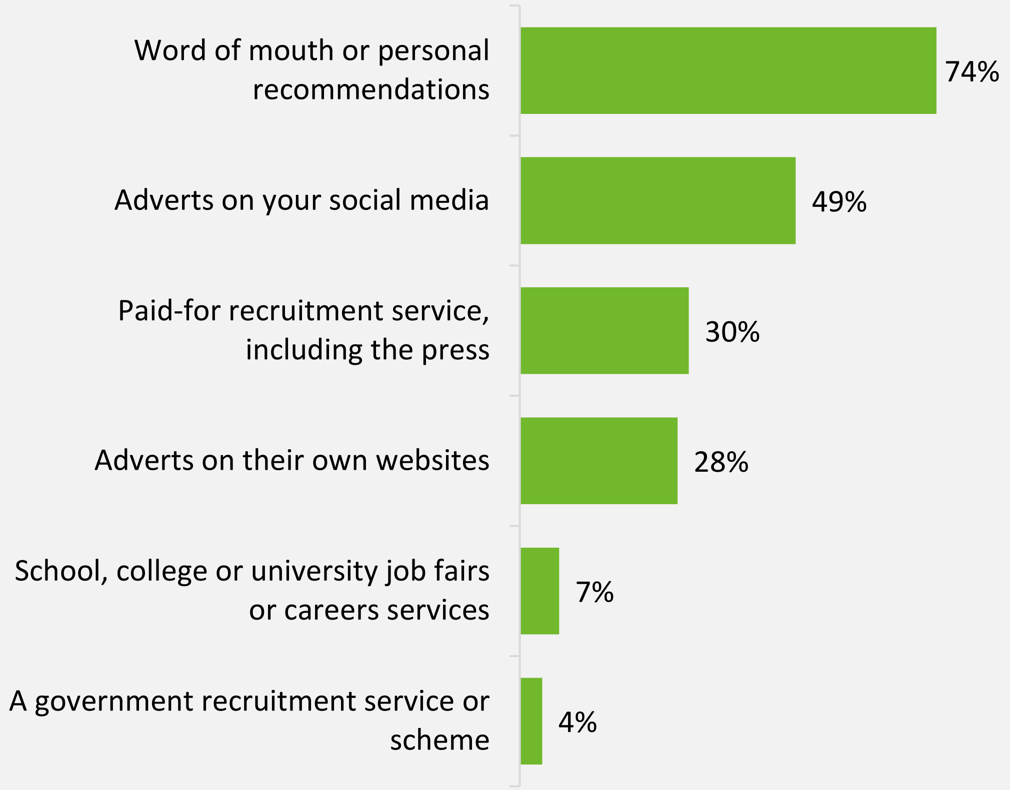
EFFECTIVENESS OF RECRUITMENT METHODS

Of those who had recruited staff in the past six months, around three-quarters (74%) noted word of mouth as the most effective channel, rising to 84% among small businesses (1-4 staff). Half (49%) cited adverts on social media as the most effective route, followed by paid-for recruitment services (30%) and adverts on their own website (28%).

The following businesses were more likely than average to report certain channels as being the most effective:

- **Small businesses** (1-4 staff) – word of mouth or personal recommendations (84%).
- **Large businesses** (25+ staff) – Social media ads (65%), paid-for recruitment services (46%) and adverts on their own website (43%).
- **Remote rural** businesses – word of mouth or personal recommendations (80%).
- Businesses in **urban** areas– paid-for recruitment services (39%).
- Businesses located on **islands** – social media adverts (60%).

Q. Which of the following channels have been most effective for helping you recruit staff?



Base: All who have recruited staff in the past six months (322)

I. APPENDIX

PROFILE OF BUSINESSES INTERVIEWED

Size (no of employees)	%
Sole trader	21
1-4	41
5-10	17
11-24	11
25+	9

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

Relationship with HIE	%
Client-engaged	6
Non-client engaged	94

Location	%
Argyll and the Islands	18
Caithness and Sutherland	10
Inner Moray Firth	27
Lochaber, Skye and Wester Ross	12
Moray	13
Orkney	7
Outer Hebrides	6
Shetland	6

Fragile status	%
Fragile area	18
Non-fragile area	82

Urban/rural	%
Remote rural	56
Accessible rural	12
Other (urban)	33

ADDITIONAL VARIATION – IMPACT OF COST INCREASES (1)

Level of performance				
	Total	Performed well	Been steady	Struggled
	%	%	%	%
Reduced profit margins	69	60	71	83
Delayed or postponed growth plans	42	32	42	62
Unable to set our prices for the coming year	37	32	33	52
Loss or reduction in customer demand	35	21	34	64
Pressure on staff costs	29	24	28	41
Less competitive	27	22	26	41
Unable to utilise the goods or materials we used to	22	16	21	34
Unable to maintain access to current markets	12	7	9	26
Missed or delayed payment of bills	11	7	9	21
Missed or delayed loan repayments	3	2	1	8
Other	13	14	11	14
None/no impact	10	13	11	2
Don't know	1	1	*	1
Base	*1,009*	*369*	*413*	*218*

NOTES

*Darker shaded cells are figures that are higher than the average

ADDITIONAL VARIATION – IMPACT OF COST INCREASES (2)

Planning ahead	Total	No more than monthly	No more than 3 months	No more than 6 months	No more than 12 months	Beyond 12 months
	%	%	%	%	%	%
Reduced profit margins	69	78	79	68	60	56
Delayed or postponed growth plans	42	49	49	46	30	34
Unable to set our prices for the coming year	37	48	43	37	25	24
Loss or reduction in customer demand	35	47	43	33	23	25
Pressure on staff costs	29	28	34	33	24	22
Less competitive	27	39	32	25	20	14
Unable to utilise the goods or materials we used to	22	29	27	18	18	16
Unable to maintain access to current markets	12	15	15	13	5	10
Missed or delayed payment of bills	11	16	14	9	8	4
Missed or delayed loan repayments	3	3	4	3	2	1
Other	13	10	11	16	14	13
None/no impact	10	7	6	9	15	14
Don't know	1	1	-	1	1	2
Base	*1,009*	*236*	*198*	*236*	*167*	*131*

NOTES

*Darker shaded cells are figures that are higher than the average

ADDITIONAL VARIATION – PLANS DISRUPTED BY COST INCREASES (1)

Plans disrupted by cost increases	Total	Performed well	Been steady	Struggled
	%	%	%	%
Make energy efficiency improvements	36	32	33	48
Deliver new capital projects	35	28	34	47
Increase staff wages or benefits	32	26	32	43
Invest in technology	30	25	28	43
Develop new products or services	28	21	26	44
Recruit new staff	23	16	24	33
Upgrade or move premises	23	17	21	35
Staff training and development	19	15	15	33
Other	5	4	4	9
None	25	33	24	11
Don't know	*	-	-	1
Base	*1,009*	*369*	*413*	*218*

NOTES

*Darker shaded cells are figures that are higher than the average

ADDITIONAL VARIATION – PLANS DISRUPTED BY COST INCREASES (2)

Plans disrupted by cost increases	Total	No more than monthly	No more than 3 months	No more than 6 months	No more than 12 months	Beyond 12 months
	%	%	%	%	%	%
Make energy efficiency improvements	36	43	40	35	29	30
Deliver new capital projects	35	36	36	33	31	40
Increase staff wages or benefits	32	34	40	37	21	22
Invest in technology	30	39	29	30	27	21
Develop new products or services	28	33	25	31	26	23
Recruit new staff	23	29	26	28	10	14
Upgrade or move premises	23	29	27	22	16	17
Staff training and development	19	24	26	18	9	13
Other	5	7	4	4	5	6
None	25	18	21	21	34	34
Don't know	*	-	-	-	-	-
Base	*1,009*	*236*	*198*	*236*	*167*	*131*

NOTES

*Darker shaded cells are figures that are higher than the average

ADDITIONAL VARIATION – PLANS DISRUPTED BY COST INCREASES (3)

Plans disrupted by cost increases	Total	Importer	Exporter
	%	%	%
Make energy efficiency improvements	36	38	39
Deliver new capital projects	35	38	39
Increase staff wages or benefits	32	34	34
Invest in technology	30	31	31
Develop new products or services	28	31	34
Recruit new staff	23	24	25
Upgrade or move premises	23	24	24
Staff training and development	19	21	20
Other	5	6	5
None	25	22	23
Don't know	*	*	-
Base	*1,009*	*784*	*493*

NOTES

*Darker shaded cells are figures that are higher than the average

ADDITIONAL VARIATION – ACTIONS IN RESPONSE TO THE COST CRISIS (1)

Actions in response to cost crisis	Total	Importer	Exporter
	%	%	%
Absorbing costs	70	72	71
Increasing prices	68	72	71
Making energy efficiency improvements	55	58	59
Using cash reserves	45	49	49
Sourcing alternative materials, goods or services	44	50	45
Investing in the business	42	44	46
Adapting our products or services	35	38	39
Collaborating	25	28	31
Reducing our operations or opening hours	20	21	20
Sharing premises or resources	14	14	13
Closing for the winter	8	8	12
Making staff redundant	6	6	6
Other	3	3	3
None	4	3	3
Don’t know	*	*	1
Base	*1,009*	*784*	*493*

NOTES

*Darker shaded cells are figures that are higher than the average

ADDITIONAL VARIATION – ACTIONS IN RESPONSE TO THE COST CRISIS (2)

Actions in response to cost crisis				
	Total	Performed well	Been steady	Struggled
	%	%	%	%
Absorbing costs	70	69	70	71
Increasing prices	68	72	69	61
Making energy efficiency improvements	55	57	53	55
Using cash reserves	45	35	43	66
Sourcing alternative materials, goods or services	44	43	45	47
Investing in the business	42	46	41	37
Adapting our products or services	35	32	33	43
Collaborating	25	25	21	35
Reducing our operations or opening hours	20	14	18	32
Sharing premises or resources	14	13	12	19
Closing for the winter	8	8	6	13
Making staff redundant	6	4	3	14
Other	3	2	3	4
None	4	4	3	3
Don’t know	*	1	*	-
Base	*1,009*	*369*	*413*	*218*

NOTES

*Darker shaded cells are figures that are higher than the average

ADDITIONAL VARIATION – FINANCIAL CONCERNS (1)

Financial concerns	Total	Performed well	Been steady	Struggled
	%	%	%	%
Unpredictable costs	77	74	78	82
Low profit margins or losses	61	47	62	84
Low or no cash reserves	34	21	29	63
Increased interest rates on loans and debt	27	24	27	32
Restricted access to finance	22	16	17	41
Repayment of Covid-19 recovery loans	15	14	10	28
Repayment of other debt	13	9	8	25
None of these	12	16	12	6
Don't know	1	1	*	*
Base	*1,009*	*369*	*413*	*218*

NOTES

*Darker shaded cells are figures that are higher than the average

ADDITIONAL VARIATION – FINANCIAL CONCERNS (2)

Financial concerns	Total	Importer	Exporter
	%	%	%
Unpredictable costs	77	80	76
Low profit margins or losses	61	64	65
Low or no cash reserves	34	34	36
Increased interest rates on loans and debt	27	30	31
Restricted access to finance	22	24	24
Repayment of Covid-19 recovery loans	15	17	18
Repayment of other debt	13	14	16
None of these	12	10	12
Don’t know	1	1	1
Base	*1,009*	*784*	*493*

NOTES

*Darker shaded cells are figures that are higher than the average

ADDITIONAL VARIATION – FINANCIAL CONCERNS (3)

Financial concerns	Total	No more than monthly	No more than 3 months	No more than 6 months	No more than 12 months	Beyond 12 months
	%	%	%	%	%	%
Unpredictable costs	77	81	79	80	73	71
Low profit margins or losses	61	69	71	61	55	47
Low or no cash reserves	34	45	34	36	22	21
Increased interest rates on loans and debt	27	31	30	28	23	24
Restricted access to finance	22	27	22	22	14	19
Repayment of Covid-19 recovery loans	15	22	17	17	9	9
Repayment of other debt	13	17	11	12	10	11
None of these	12	9	8	10	18	18
Don’t know	1	1	-	1	-	1
Base	*1,009*	*236*	*198*	*236*	*167*	*131*

NOTES

*Darker shaded cells are figures that are higher than the average

Ipsos Standards & Accreditations

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

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

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

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

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

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

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

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

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

FOR FURTHER INFORMATION:

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

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

HIE Research Team
hieresearch@hient.co.uk