Scotland's Rural College

Rural Report 2018/19 - The Impact of Change on Rural Businesses 2017 – 2020: Evidence from non-agricultural businesses in Aberdeenshire, Dumfries & Galloway, the Scottish Borders and Tayside

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Rural Report 2018/19

The Impact of Change on Rural Businesses 2017 – 2020

- *Evidence from non-agricultural businesses in Aberdeenshire, Dumfries & Galloway, the Scottish Borders and Tayside*

Rural Report 2

Published: July 2019

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Rural Report 2018/19

Executive Summary

1. This report presents the findings from the second of three rural business surveys being undertaken by SRUC, with funding from Scottish Enterprise and the Scottish Government. The surveys aim to improve the knowledge base on characteristics and contributions of rural businesses in Aberdeenshire, Tayside, Dumfries and Galloway and the Scottish Borders.
2. Scotland's rural businesses make a substantial contribution to the national economy. There were an estimated 49,000 registered businesses in rural Scotland in 2018, employing 285,000 people and generating £36 billion turnover. A further 21,000 businesses were registered in small towns, employing approximately 161,000 people and generating over £18 billion turnover.
3. There is a growing policy interest in rural economies at Scottish and UK level. In Scotland, the National Council of Rural Advisers called for the creation of a Rural Economic Framework. Progress is being made toward launching the South of Scotland Enterprise Agency in 2020 and for a number of Regional Growth Deals, including in the Borderlands.

Survey Results – Business structure and choice of business location

4. Interviews were conducted with 1,203 businesses between November 2018 and January 2019. As with our 2017/8 survey, the age profile of owners, directors and partners of rural businesses was found to be similar to that of agriculture. Over a third of were over the age of 60, with 72% being 50 years old or older and only 9% under 40 years.
5. Over 80% of businesses operated from a sole premise, with the remainder being headquarters or branches of larger businesses. 44% of rural businesses reported having a home-based business was a principal location factor, compared with 22% in urban areas.

Survey Results – Family workers and paid employees

6. 40% of businesses reported that family members contributed to the business. Family members were working full-time in 34% of businesses in rural areas, compared to 23% in urban areas and 24% in towns. The vast majority of family labour was paid and women accounted for 37% of full-time and 66% of part-time family labour.
7. 19% of businesses did not employ anyone outside the family, and 10% did not have any workforce at all. Rural businesses were least likely to employ non-family members.
8. A quarter of businesses with employees reported they had experienced challenges in recruiting and/or retaining staff over the previous 12 months. The main issue related to recruiting skilled trades staff with the main challenge specifically a lack of appropriate applicants.

Survey Results – Business Performance Outlook and Planning

9. One in ten businesses had a turnover of less than £25,000 per year. Only 29% of the businesses surveyed had one year business plans, and only 20% had a 5 year business plan. Branches or headquarters of larger organisations were more likely to have forward plan, as were those with full-time workers, those planning to invest, and those exporting.

Survey Results – Operating Environment & Outlook

10. Businesses generally reported a good business operating environment in 2018. Businesses in service sector industries linked to public services gave the highest ratings of their operating environment.

11. Nearly half of businesses reported that their confidence in Scotland's economic outlook had stayed much the same between 2017 and 2018, with 42% saying it had worsened and only 8% saying it had improved. Businesses in remote locations, towns and the Scottish Borders were most likely report that their confidence had worsened.

Survey Results – Links to the Land-based Sector

12. Almost two-thirds of the businesses surveyed reported that they had some form of trading links to the land based sector. Links were more frequently reported in remote rural areas (71%) compared to accessible rural areas (66%) and towns (63%).
13. A large proportion of businesses had limited reliance on the land-based sector for their turnover. However, for those linked to farming, nearly 25% relied on the sector for more than half their turnover in 2018/19, with 7% more than 75% reliant on farmers. For the majority of businesses, recent structural and operational changes within farming, forestry and estates had had no real impact on their business.

Survey Results – Geographic market access

14. 71% of respondents indicated that they made purchases from local businesses, whilst 87% reported making sales locally. Half the businesses had suppliers in the rest of the UK compared to only a third selling goods/services to the wider UK market. 16% of respondents reported that they sold goods/services to the EU and 13% to the rest of the world.
15. 16% of the surveyed businesses that do not export felt that they had goods/services that were suitable for exporting outside the UK. Some of those businesses were keen to enter export markets but felt that they did not know where to start, did not know what would be required, or did not have relevant contacts to help them break into new markets.

Survey Results – Brexit

16. 58% of businesses felt Brexit consequences would be neutral for their business, while 12% thought it would be positive and 30% thought it would be negative. More negative views about Brexit were apparent amongst exporters and importers; businesses in rural areas; businesses which had experienced recent turnover decline, and; older business controllers.
17. In terms of preparation for Brexit, 35% of respondents said that their business will do nothing and wait and see what happens. Those who were preparing were doing a range of things, including: stockpiling; retiring/selling up; better business control; changing their market strategy; and some stating they were relocating to the EU.

Survey Results – Constraints and Advice

18. Poor digital infrastructure/connectivity was considered the biggest constraint to businesses, with 21% saying this was a major concern and 24% reporting it as a minor concern. Other important constraints included recruiting appropriate staff and cash flow.
19. Over a third of businesses reported that business specific (1 to 1) advice, digital/e-commerce support and general advice would be helpful for their business.

Acknowledgements

The SRUC research team would like to acknowledge the funding provided for this survey by the Scottish Government and Scottish Enterprise. We would also like to thank the 1,200 rural businesses who took the time to take part in our survey and Pexel Research Services for conducting the telephone survey in a timely and professional manner.

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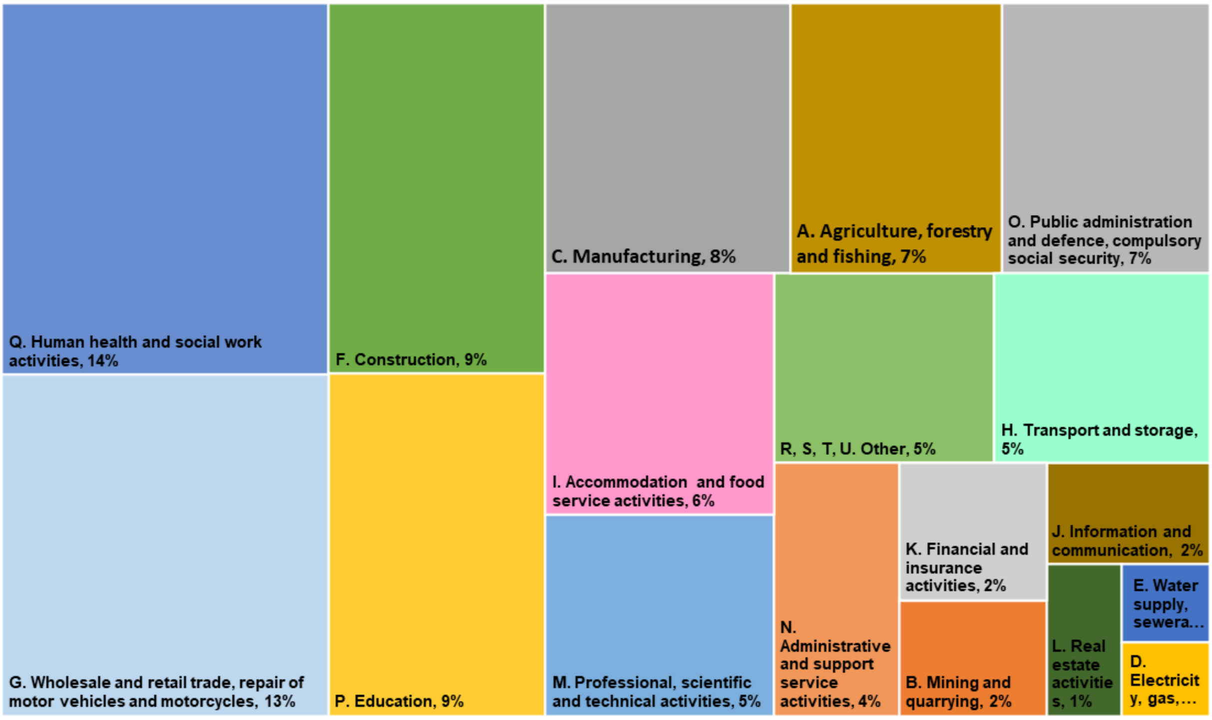
Rationale and evolving context for the study

Scotland's Rural Economy and Evidence Gaps

Scotland's rural areas remain an important component of Scotland's economy with significant amounts of economic activity in sectors such as tourism, farming, forestry, fishing, food and drink manufacturing, etc. However, the main sources of employment for rural residents remain the public sector (health, education and social work), construction, retail and garages (see Figure 1 for 2011 industry of employment). Indeed, some of the fastest growing sectors of the Scottish economy in recent years, such as the food and drink sector, have a significant presence in rural areas.

Figure 1 Industry of employment for 16 to 74 year olds living in rural Scotland, 2011



Source: National records of Scotland: Scotland's Census[1]

According to the Inter Departmental Business Register (IDBR) there were 49,000 registered rural businesses in Scotland in 2018[2] estimated to be employing 285,000 people and generating £36 billion turnover. A further 21,000 businesses were registered in small towns, employing about 161,000 people and generating over £18 billion turnover. It is, however, problematic to assess rural business issues in isolation from urban and town-based businesses and economies, as many businesses operate across different geographies, creating economies that are interdependent through upstream and downstream[3] supply chain

[1] Table KS605SC https://www.nrscotland.gov.uk/
[2] https://www2.gov.scot/Resource/0054/00542894.xlsx
[3] Upstream businesses for any given sector act as suppliers of inputs (products or services) whilst downstream businesses purchase goods or services for further processing or sales to consumers.

linkages. Indeed many towns and urban areas scattered across Scotland act as service hubs or market towns, supporting the wider rural business base.

Rural businesses across Scotland play an important role in providing employment and wealth generation, thereby helping to sustain (sometimes fragile) rural communities. Many of these businesses are integral to local economies and some rely on the direct expenditure, or multiplier effects, arising from farming, forestry and estate (the land-based sector) activities. However, little is known about the extent of any such relationships, how they are changing, nor the relative importance of the land-based sector to local economies. The Scottish Government regularly monitors changes in the agriculture and forestry sectors, and collects (under EU requirements) data on farm incomes and the role that the Common Agricultural Policy (CAP) plays in supporting these sectors. However, to date, there has been little assessment of the impacts of these payments, or changes in the levels of support, on other rural businesses and the wider rural economy. The role of the land-based sector within local economies is often claimed to be significant, yet it is unclear from the existing evidence the extent to which farming, forestry and estates are indeed important contributors to, or catalysts for, rural wealth creation and employment.

Evolving Agricultural support and the rationale for this programme of research

For many agricultural businesses in Scotland, there is a high reliance on EU CAP support to maintain profitability. These public funds, and private business expenditure, flow upstream to suppliers of goods and services (e.g. staff, feed merchants, hauliers, livestock markets, vets, consultants, banks, accountants, etc.) and to the wider Scottish economy through multiplier effects. Value is added to outputs from agriculture in downstream sectors that process, retail and utilise farm produce, creating further economic impacts in the economy.

The latest major CAP reforms came into effect in 2015, with significant changes to the way support was distributed – moving from a support system largely based on historic production levels to a system where payments are converging on three 'regional payment rates' based on what the land is used for. Initial estimates suggested that regions with historically intensive cattle and cereal production would lose out, principally in areas across the South of Scotland, and the North East[4]. However, windfall gains from a weakening Sterling, has meant that many farmers have never had to feel the full effects of the 2015 CAP reform package and the transition to the 'new' Basic Payment Scheme and Greening support mechanisms.

At the same time as the introduction of the Basic Payment Scheme and Greening payments in 2015, a new Scottish Government IT administrative system for the CAP was launched – the CAP Futures Programme[5]. The development of the CAP Futures Programme faced a series of technical difficulties that led to delays in the full implementation of the new administrative system that eventually led to the much publicised delays in processing claims, and in farmers receiving their support payments. Many stakeholders at the time claimed that the payment delays were leaving a "black hole in the rural economy", as farmers struggled to pay bills on time, and took a step back from reinvesting in their capital equipment. These delays led to the introduction of a number of Scottish Government loan schemes[6] in 2016 providing farmers with cash flow injections and a degree of certainty in their receipt of support. At the time Fergus Ewing MSP, then Cabinet Secretary for the Rural Economy and Connectivity, said that

[4] http://www.gov.scot/Topics/farmingrural/Agriculture/ARD-Stakeholder-Group/ARDStakeholderGroup-Meetings2017
[5] http://www.audit-scotland.gov.uk/report/common-agricultural-policy-futures-programme-an-update
[6] https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/national-loan-schemes/

the loan scheme was designed to[7]: "*provide as much certainty as we can, not just for farmers and crofters, but for the wider economy in our rural communities*."

Scottish Enterprise and the Scottish Government noted a paucity of research that has verified the interactions and reliance of the wider rural business base on the land based sector, and the ways in which changes and delays in farm support payments may affect the wider rural business base and wider rural economy. With knowledge that farmers conducted business out with rural areas, Scottish Enterprise were particularly keen to ensure that this research included rural businesses in towns and urban areas to ensure that an improved understanding of business relationships extended into the traditional "market towns" that remain important in the agri-food supply chains.

Brexit and implications for the rural economy

The implications of Brexit are complex and remain unclear and owners' perceptions of Brexit are likely to affect confidence in near future business performance. The land based sector is particularly heavily reliant on the EU's CAP support and EU market access, and therefore the UK's withdrawal from the EU (Brexit) creates a great deal of business uncertainty over: (a) future types/levels of support; (b) cost of imported supplies; (c) export market access; (d) future regulations; (e) access to overseas labour etc. If farming confidence is affected then this may initially impact upstream on suppliers (machinery, builders feed, fertilisers, seeds, etc.) and longer- term on downstream businesses as / if farmers adjust production in light of policy and operational environment changes.

Whilst some rural businesses may benefit from weakened Sterling (e.g. export businesses, tourism businesses), others will already have faced increased costs if they are reliant on imported goods. Given this uncertainty and the growing interest in the rural economy, this research ultimately aims to improve our evidence and knowledge on the characteristics, contributions and ambitions of Scotland's rural businesses, highlighting the wider potential impacts on growth and employment whilst better understanding operational barriers.

Growing Interest in the Rural Economy

There is a growing interest in the rural economy in both Scotland and the UK more widely, particularly in terms of how the economic contribution of rural areas can be maximised and how barriers faced by rural businesses (which may be different from those faced by urban businesses) can be overcome. In 2017, Greg Clark, The Secretary of State for Business, Energy and Industrial Strategy, stressed that: "*some of the biggest economic opportunities are in the rural parts of the United Kingdom.*"


HOUSE OF LORDS

Select Committee on the Rural Economy

Report of Session 2017–19

Time for a strategy for the rural economy

Ordered to be printed 26 March 2019 and published 27 April 2019

Published by the Authority of the House of Lords

HL Paper 330

In April 2019 the UK House of Lords Select Committee on the Rural Economy[8] published the findings of their inquiry and called for a strategy for the rural economy in England. They concluded that "*Rural England faces new challenges arising from, among others, Brexit, declining farm profitability, an ageing population, climate change and the pressure from often piecemeal and inappropriate development…The urgent challenge is to encourage the new opportunities, release unfulfilled potential and enhance the*

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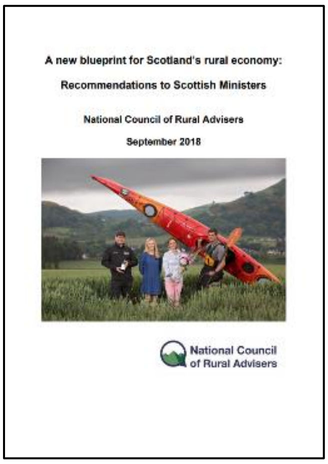
7 http://news.gov.scot/news/farm-support

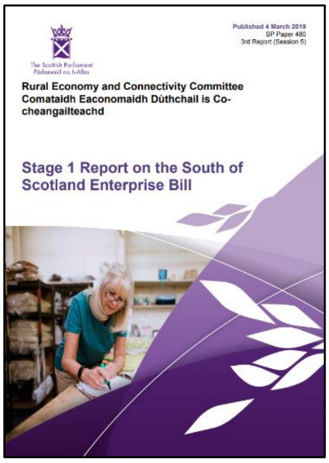
8 https://www.parliament.uk/rural-economy-committee

contribution which rural England can make to the nation while retaining its distinct character." The House of Lords Select Committee also recognised that the responsibility for the rural economy cuts across Government Departments and Agencies and therefore stressed the need for concerted action across the board.



In Scotland in 2018, the National Council of Rural Advisers (NCRA)[9] recognised that "*with an abundance of natural capital, world-renowned heritage and vibrant, diverse communities, our rural economy is not just crucial to Scotland's national brand, it is crucial to our national prosperity*". The NCRA went on to call for the creation of a Rural Economic Framework (REF) to ensure "*Scotland's rural economy is well-positioned to make a strong contribution to, and benefit from Scotland's economic growth.*" The NCRA also called for a new Rural Economy Action Group (REAG) to coordinate the REF work and ensure it is delivered for the benefit of rural businesses. In February 2019 Fergus Ewing MSP, Cabinet Secretary for The Rural Economy, in announcing the chair of the newly created REAG, stressed that "*by ensuring effective mainstreaming of rural policy into all of our policy thinking and delivery, I am determined to ensure that our rural economy becomes the driving force behind, not just our national brand, but also our national prosperity*."

Following a 2018 Programme for Government[10] commitment, the South of Scotland Enterprise Bill[11] was introduced to the Scottish Parliament on 25 October 2018, and completed Stage 1 in March 2019. This will create a new non-departmental public body called South of Scotland Enterprise (SOSE), which will operate in the local authority areas of the Scottish Borders and Dumfries and Galloway[12]. The aims of the Agency will be to "*further the economic and social development of the South of Scotland*" and "*improve the amenity and environment of the South of Scotland*." The Stage 1 report on the Bill by the Rural Economy and Connectivity Committee recognised that "*It is clear that the area faces a significant number of economic, social and geographic challenges which are not being sufficiently addressed through current economic support mechanisms*". Matt Lancashire (Scottish Council for Development and Industry) reiterated that: "*We know that there is currently a productivity issue across the south of Scotland, and there are many economic challenges to do with wages, housing and other issues that drive the economic development of the region. To overcome those challenges, we*



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[9] https://www.gov.scot/publications/new-blueprint-scotlands-rural-economy-recommendations-scottish-ministers/

[10] https://www.gov.scot/publications/delivering-today-investing-tomorrow-governments-programme-scotland-2018-19/

[11] https://www.parliament.scot/parliamentarybusiness/Bills/109840.aspx

[12] It is worth noting that the Scottish Government created a new NUTS 2 region for "Southern Scotland" for regional statistical reporting purposes. The Scottish Government noted that "*a key factor in supporting the proposal for the Southern Scotland Region is the predominantly rural aspect of the area*" https://www.gov.scot/publications/review-nomenclature-units-territorial-statistics-nuts-boundaries/pages/1/

need the agency to span public, private and third sectors and, in particular, to find opportunities in the challenges to drive economic development forward." In addition to the creation of the new Agency, Dumfries and Galloway and the Scottish Borders form part of the new Borderlands Growth Deal (alongside Cumbria, Northumberland and Carlisle City Councils in England) which seeks to deliver sustainable and inclusive economic growth across the South of Scotland and North of England[13].

Filling the gaps – the rural business survey

This report presents evidence from the second of three surveys of non-land-based rural businesses being undertaken in the Scottish Enterprise area - the Borders, Dumfries and Galloway, Tayside and Aberdeenshire regions of Scotland. For detailed description of the background to this study and a rural businesses/economy literature review, please refer to the 2017/18 report. The 2017/18 Rural Report and a series of topical infographics based its findings can be found at:

https://www.sruc.ac.uk/ruralbusinesssurvey

This 2018/19 report examines the characteristics of the businesses, their linkages to the land-based sector, their attitudes towards Brexit, use of family labour and barriers to operation. This work provides new evidence to support the Scottish Government's commitments to support the rural economy as expressed by the National Council of Rural Advisers[14] and the setting up of a new Enterprise Agency for the South of Scotland and the Borderlands Growth Deal (the latter also with UK Government investment). The work was funded jointly by the Scottish Government, through its 2016-2021 Strategic Research Programme, and by Scottish Enterprise.

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13 http://www.borderlandsgrowth.com/

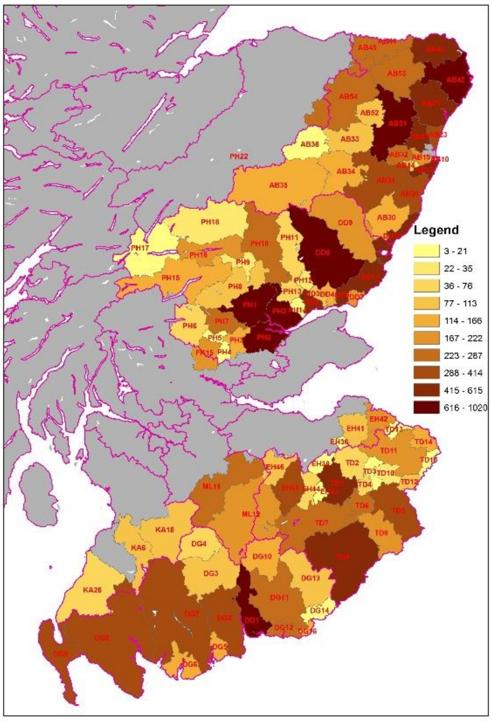
14 More information on the NCRA (including their draft and final reports) can be found here: https://www.gov.scot/groups/national-council-of-rural-advisers/

Data and Methods

The 2018/19 Rural Business Survey was undertaken with non-land-based businesses across Aberdeenshire, Tayside, the Scottish Borders and Dumfries and Galloway. The rationale for the focus on these regions was three-fold:

1. These areas are within the Scottish Enterprise area (Scottish Enterprise is a main funder for this work and a key catalyst for the project).
2. Within these areas, land-based activity is important to the rural economy.
3. These areas were predicted to be some of the hardest hit regions during the 2015 CAP reforms.

Figure 2 Coverage of Contacts Database



For the purpose of this research, land-based businesses were considered to be those primarily undertaking agricultural, estate or forestry activities, and these were excluded from the survey. However, the survey sample included all of the ancillary businesses that make up the wider agriculture, estate and forestry supply chains, such as feed merchants, fencing contractors, machinery dealers, sawmills, food processors, etc. In addition, some activities, such as public sector businesses and major financial and energy businesses were also excluded from the survey sampling framework.

Following a procurement exercise, databases totalling 21,500 non-land-based businesses were purchased for a defined set of postcodes (shown in Figure 2). Business contact data ostensibly came from Yell and Thomson's business databases – procured through Sample Answers[15] and Data HQ.[16] Business listings complied with the newly introduced EU General Data Protection Regulation (GDPR) and were also Telephone Preference Service (TPS) compliant[17].

The methodology largely mirrored the first survey in 2017/18 in that the selected postcodes did not exclude urban areas *per se,* as many of the upstream and downstream businesses that supply and purchase from rural businesses are located in urban fringes. Moreover, if the Scottish Government's Rural Urban classification[18] was rigorously applied during survey sampling many of the key "agricultural or market towns" (such as Hawick, Dumfries, Inverurie, etc.) may have been excluded from the survey. The database was sorted by Standard Industrial Classification codes and included:

- Salutation and contact name
- Company name
- Age of business
- Turnover Band

[15] https://www.sampleanswers.com/
[16] https://datahq.co.uk/
[17] TPS allows a business to register to stop receiving unsolicited calls (e.g. market research surveys).
[18] See http://www.gov.scot/Topics/Statistics/About/Methodology/UrbanRuralClassification

- Full postal address
- Telephone number
- Email address
- Employees in Business
- Standard Industrial Classification (SIC)

Using the Scottish Postcode Directory published by National Records of Scotland[19] the businesses were allocated to the appropriate Scottish Government's Rural Urban classification, including a composite "remote" (remote rural and remote towns) and "accessible" (accessible rural and accessible towns) classification used for this research. The database was then stratified by geographic region, rural-urban classification and business size. Table 1 shows the target survey quota set for each strata and SIC code alongside the proportion of the 1,203 interviews completed.

Table 1: 2018/19 survey quota and proportion of interviewees by strata and SIC code

Region	Target	Achieved	SIC Code	Target	Achieved
Aberdeenshire	28%	28%	A - Agriculture	5%	6%
Borders	22%	22%	B - Mining	1%	0%
Dumfries & Galloway	22%	22%	C - Manufacturing	8%	9%
Tayside	28%	28%	E - Water	0%	0%
Rural - Urban	**Target**	**Achieved**	F - Construction	12%	11%
Remote Rural	16%	17%	G - Wholesale and Retail	20%	23%
Accessible Rural	29%	31%	H - Transport	2%	1%
Remote Small Towns	12%	11%	I - Accommodation	13%	12%
Accessible Small Towns	17%	16%	J - Information	1%	1%
Other Urban	20%	21%	K - Financial	2%	2%
Large Urban	4%	4%	L - Real Estate	1%	1%
Business size	**Target**	**Achieved**	M - Professional	8%	9%
Micro	70%	71%	N - Admin	7%	8%
Small	15%	16%	P - Education	2%	2%
Medium	4%	4%	Q - Human Health	3%	2%
Large	7%	7%	R - Arts	6%	6%
Unknown	4%	2%	S - Other service	8%	5%

Although land-based businesses were not included in the survey sample, a key aim of the survey was to explore the linkages of non-land-based businesses with land-based activities. Therefore, in order to ensure the research had coverage of the land-based-sector's upstream and downstream supply chain a proxy "Supply Chain" strata was created by filtering businesses by their Standard Industrial Classification (SIC code).[20] The supply chain prioritisation meant that businesses that would have higher likelihood of servicing or purchasing from the land-based sector (e.g. timber merchants, agricultural suppliers, accountants, builders, hauliers, veterinarians, sawmills, etc.) were identified, and a greater emphasis placed on surveying them compared to the wider business base (e.g. hotels, pubs,

[19] See https://www.nrscotland.gov.uk/statistics-and-data/geography/nrs-postcode-extract

[20] SIC code is the Standard Industrial Classification code used to classify businesses by the type of their activity (see: https://www.ons.gov.uk/methodology/classificationsandstandards/ukstandardindustrialclassificationofeconomicactivities)

antique dealers, van and truck hire). With half the sampled businesses to come from this Supply Chain strata (compared to 36% of the database contacts being in the strata) it introduced a deliberate degree of sampling bias into the survey.

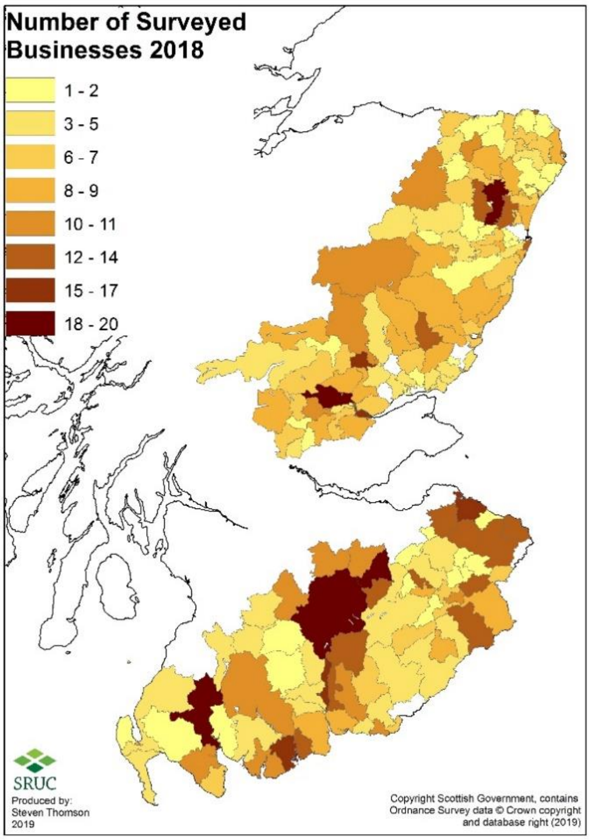
A 15-20 minute telephone survey was compiled in consultation with Scottish Enterprise and the Scottish Government (with further consultation with those engaged in UK wide rural business surveys[21]) and then submitted to SRUC Ethics Committee and the Scottish Government's survey control for approval. The finalised survey was piloted by the tele-marketing company that were contracted to undertake the survey on SRUC's behalf (Pexel Research Services[22]), and feedback was used to make final changes to the questionnaire. The full telephone survey of 1,200 businesses was then conducted between November 2018 and January 2019; with a target of 600 businesses from the potential upstream and downstream agricultural supply chain SIC codes, and 600 from the wider rural business base. The database was then cleaned and analysed using a variety of software packages. A copy of the survey questionnaire can be found at https://www.sruc.ac.uk/ruralbusinesssurvey.

[21] Specifically, the Rural Enterprise UK team at Newcastle University who are undertaking rural analysis of the UK Longitudinal Small Business Survey. For more information, see: https://research.ncl.ac.uk/ruralenterpriseuk/

[22] http://www.pexel.co.uk/

2018/19 Survey Results

Figure 3: Location of survey businesses



Background characteristics

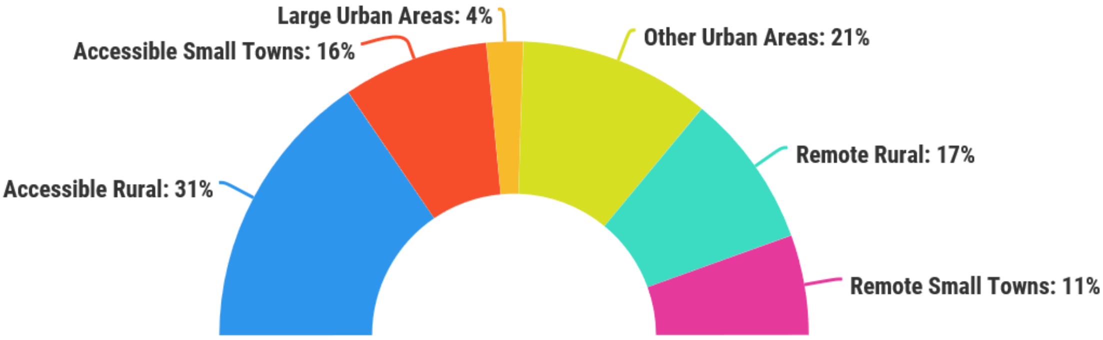
Location

Overall, 1,203 businesses were interviewed across the North East and South of Scotland, with good geographical spread of the businesses (Figure 3). Reflecting its larger business base, 56% of the interviewed businesses were in the North East with 44% in the South of Scotland (this compared to 62% and 38% respectively in 2017/18).

- Aberdeenshire: 337 businesses (28%)
- Dumfries & Galloway: 264 businesses (22%)
- Scottish Borders: 264 businesses (22%)
- Tayside: 338 businesses (28%).

Overall 48% of the businesses interviewed were located in rural areas, with 17% in remote rural locations and 31% in accessible rural areas (see Figure 4). 11% of the businesses were in remote small towns with 16% in accessible small towns. 21% were located in other urban areas (larger market towns) and 4% were in postcodes on the periphery of large urban areas (Dundee and Aberdeen).[23]

Figure 4 Rural / urban location of interviewed businesses



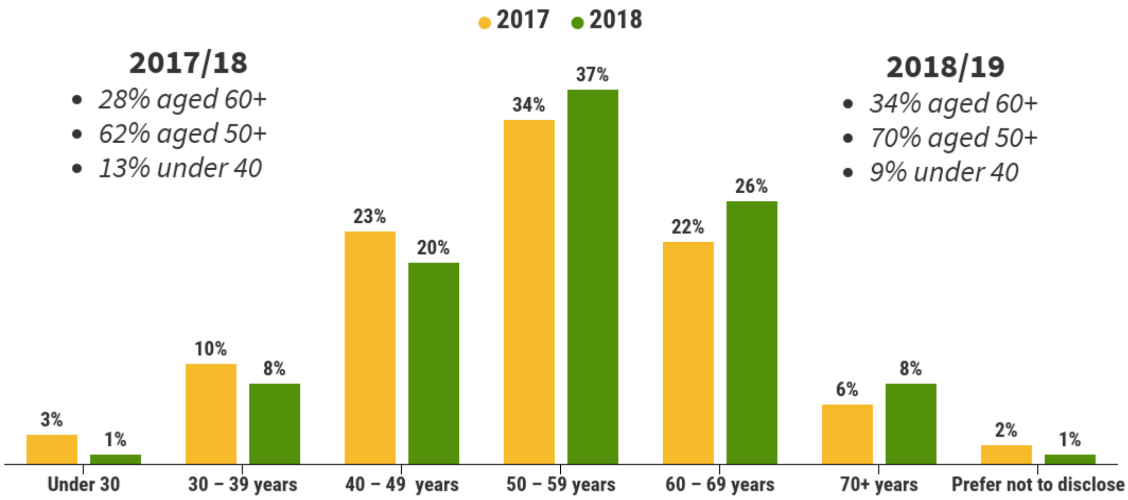
Characteristics of owners, partners or directors

Of those people interviewed, 883 (73%) were either owners, partners or directors (hereafter referred to as business controllers) of the business, with 318 managers, supervisors or senior administrators – this profile is practically identical to the 2017/18 survey. The age profile of business controllers (Figure 5) revealed that 34% were over the age of 60, with 71% being 50

[23] This arises due to some postcodes transecting the rural-urban boundary

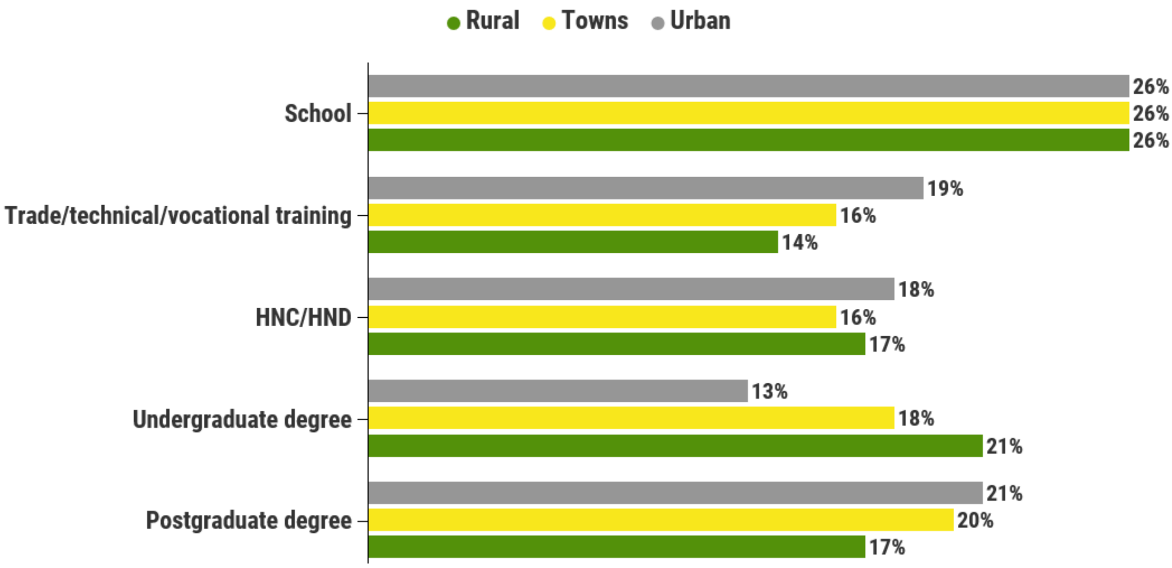
years of age and over (this compared to 62% that were 50+ in 2017/18). Only 9% were under the age of 40 compared to 13% in the 2017/18 sample. For the second consecutive year, the rural business sample suggests that business controllers (i.e. those individuals who own and manage the wider rural business base) have a similar age profile to the head of farm holdings (33% over 65, 61% over 55 and 10% less than 40 in 2018).[24]

Figure 5: Age profile of business controllers



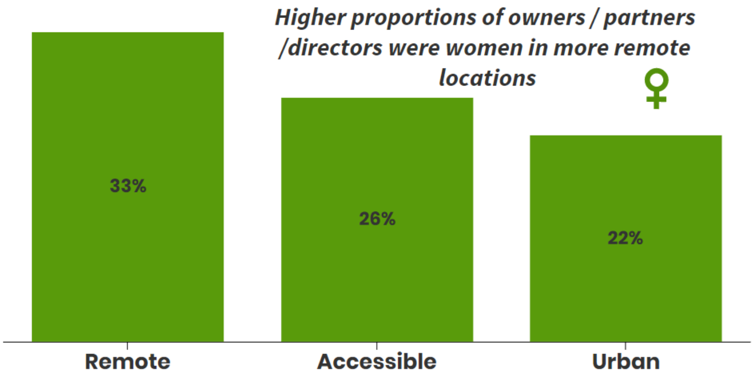
The highest level of educational attainment of business controllers was school for 26% of the survey respondents (30% in the 2017/18 survey sample). Figure 6 shows how the highest level of qualification varies by rural-urban business location, with 21% of controllers of rural businesses having an undergraduate degree as their highest attainment – compared to 13% in urban areas and 18% in small towns. In urban areas, 21% of business controllers had postgraduate qualifications compared to 17% in rural areas. Controllers of urban businesses were more likely to have trade / technical or vocational qualifications as their highest level of attainment (19%), particularly in comparison to rural areas (14%).

Figure 6: Highest level of education of business controllers



[24] Based on 2018 June Agricultural Census returns

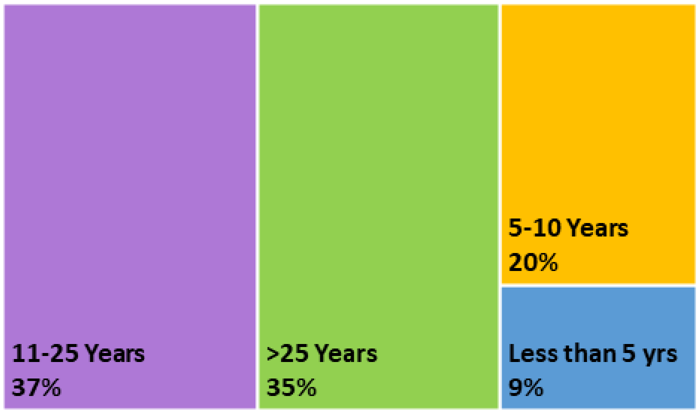
Figure 7 Proportion of women controlling businesses by remoteness



The 2018/19 survey found that 27% of the business controllers were women, slightly higher than the 24% found in the 2017/18 survey. In more remote areas there was a higher proportion (a third) of business controllers were women, compared to only 22% in urban areas and 26% in accessible areas (as illustrated in Figure 7).

Business structure and choice of location

Figure 8 Business Age



Business age and type

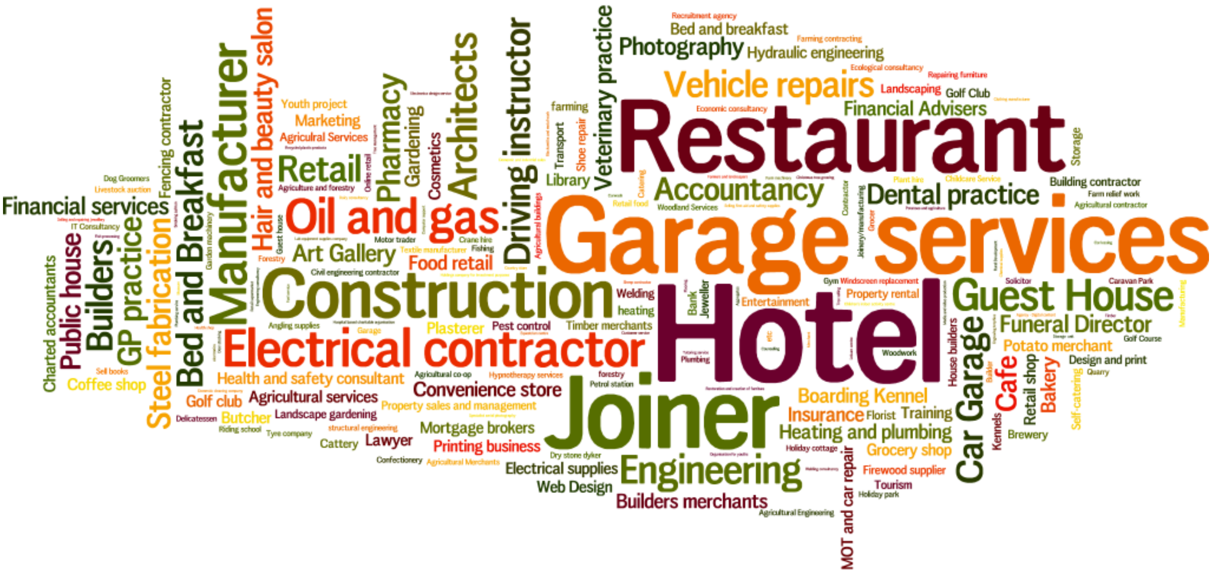
Businesses interviewed in the 2018/19 survey had a median business age of 19 years, but there was a wide range of ages, from brand new start-ups to businesses that were over 100 years old. Figure 8 shows that only 9% were relatively new businesses (less than 5 years old) with 20% in the 5 to 10 year age bracket, 37% aged between 11 and 25 years old and 35% of had been operating for more than 25 years. Only 5% of businesses located in remote areas (both remote rural and remote small towns) were under 5 years old compared to 10% in urban areas and accessible locations (accessible rural and small towns). 45% of remote businesses were 11- 25 years old, much higher than in urban areas (31%) and accessible areas (36%). There were a higher proportion of businesses with women controllers in the 11-25 business age category (41% compared to 36% for men), with a higher proportion of businesses where controllers were men being in businesses that had been operating for more than 25 years (37% compared to 29% for women).

The word cloud in Figure 9 shows the variety of business types interviewed during the survey (the larger the word, the more frequently it appeared). As with 2017/18, there was a wide array of business types, ranging from, for example: 3D printers; aggregate suppliers; boarding kennels; convenience stores; fish merchants; handymen; lab equipment suppliers; media and video production; pest control; recruitment agencies; security services; timber merchants; veterinary practices and wildlife services. The types of businesses[25] interviewed reflect: (a) the

[25] A degree of text cleaning was also required to reduce long descriptive sentences into short answers. For example 'garage services' covers a wide range of descriptions of mechanical, repair, and MOT work.

sampling process; (b) the ease of establishing contact with people of authority in the business, and; (c) their ability / willingness to respond[26].

Figure 9: Interviewees' descriptions of their business



Business structure and choice of location

In the 2018/19 survey, businesses were asked about whether they operated out of a single premise or were a branch or headquarters of a larger business. The results corroborate the wider rural business literature which indicates that there are higher proportions of small and micro businesses, including those operating from home, in rural areas. Overall, 80% of the businesses surveyed operated from a sole premise (Figure 10), with 17% a branch of a larger organisation and 3% headquarters of a larger business. Figure 10 also reveals that 87% of the 574 rural businesses interviewed operated from a sole premise, compared to 76% in small towns and 69% in urban areas. Regionally, Dumfries and Galloway had the lowest proportion of sole premised businesses (74%) followed by Aberdeenshire (79%), Tayside (80%) and the Borders (85%). Generally, businesses that were headquarters or branches were part of businesses operating form less than six branch sites, but in some cases the number rose to over 50 branches (with some being part of operations with headquarters based in a variety of Scottish, wider UK and international locations).

Another new topic for the 2018 survey was to establish the reasoning behind the choice of business location. Interviewees were offered a number of factors known (from previous literature) to influence business location and asked to identify the two most important to them. The reasons for businesses location were primarily home-based businesses (35%) followed by the proximity of their client base. Only 3% of businesses said the location of their premises was because of proximity to suppliers. There were considerable differences in the responses between businesses located rural areas, small towns or urban area. Figure 11 shows how 44% of rural business reported that having a home-based business was a principal location factor, compared to only 22% in urban areas and 29% in small towns. In contrast, for urban-

[26] We acknowledge that there are likely respondent biases embedded within the results. That is there may be over-representation of business types where people in authority were more frequently present during working hours (although provision was made for out of normal working hours calls to be made particularly where call-backs were requested)

based businesses proximity of client base was important to 39% of respondents compared to 33% for small towns and only 19% in rural areas.

Figure 10 Single entity businesses or part of a larger organisation

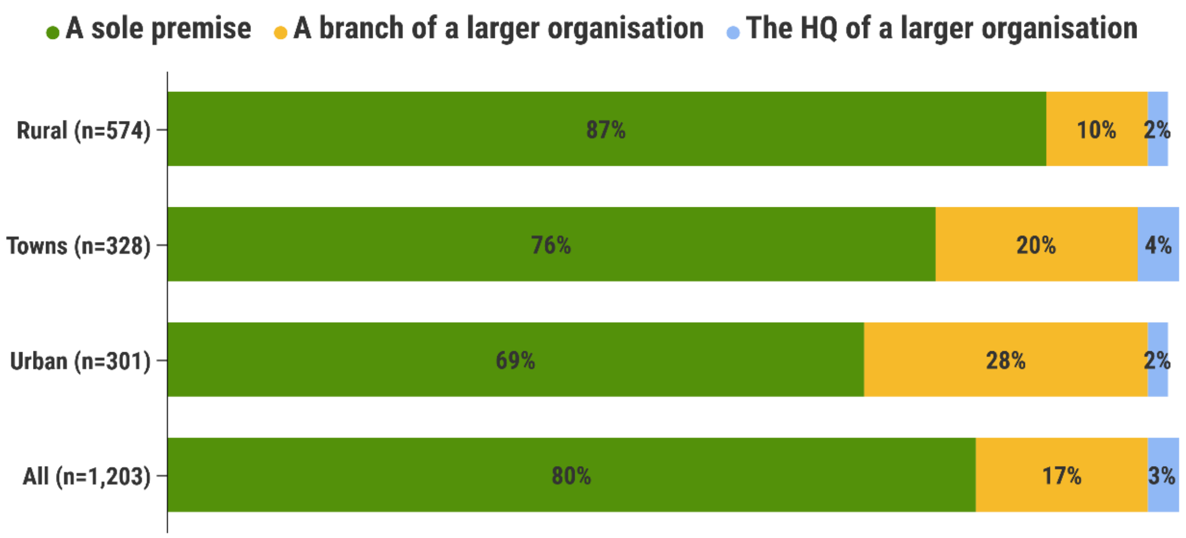
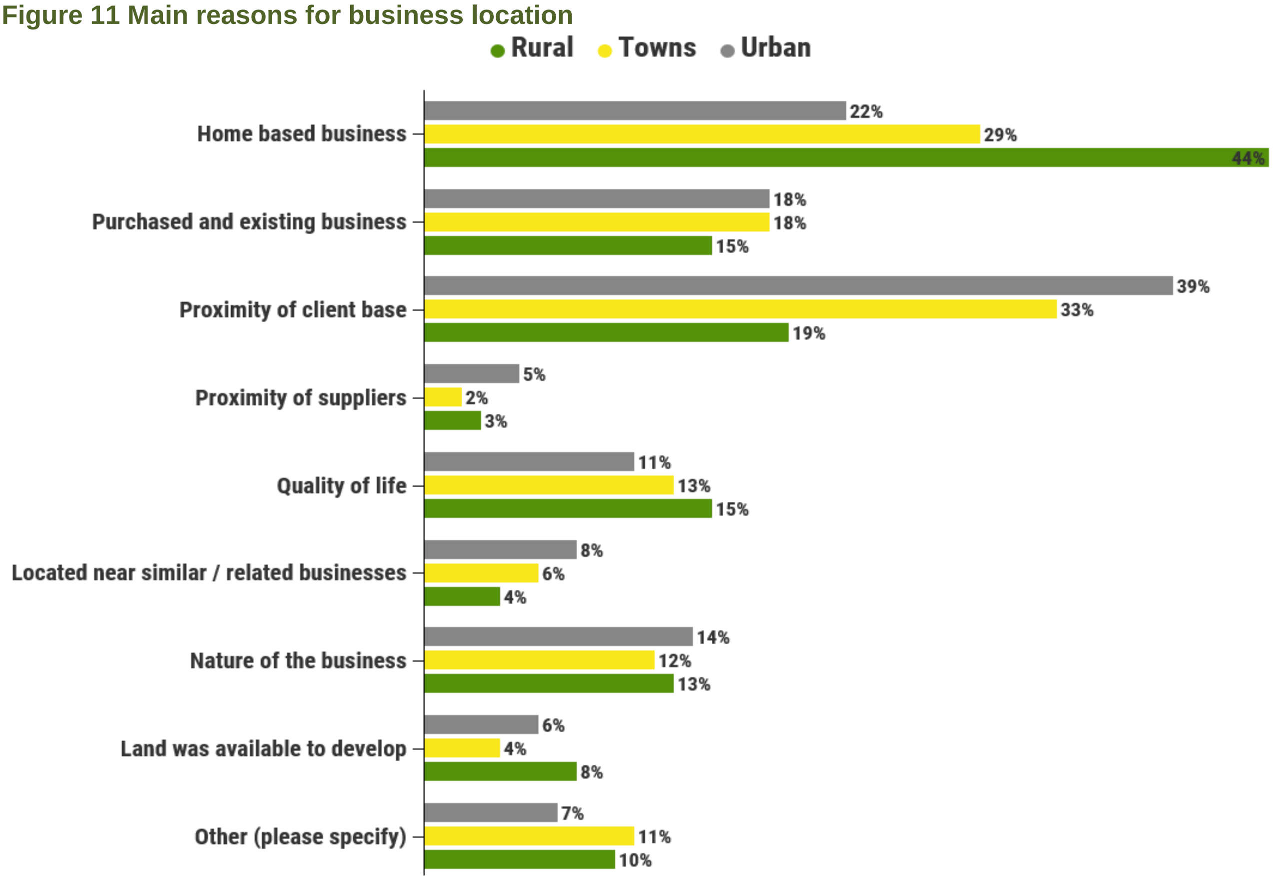
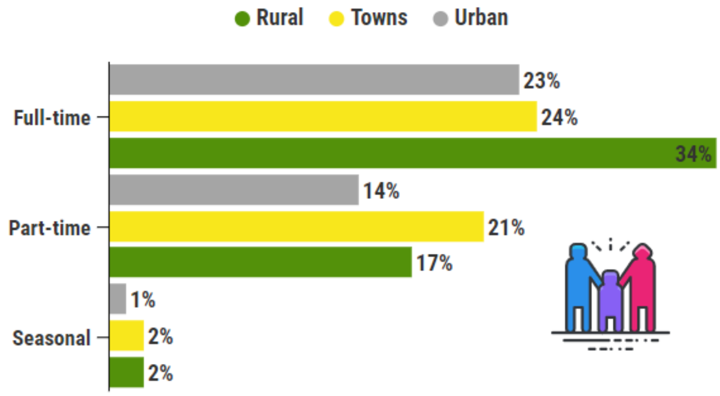


Figure 11 Main reasons for business location



Family workers and paid employees

Figure 12 Use of family labour

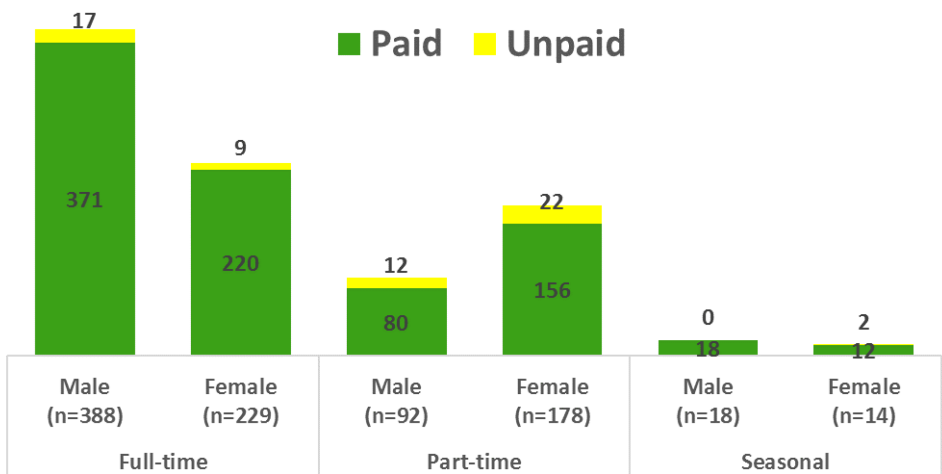


Family labour

In the 2018/19 survey, participants were asked to provide details on the extent and nature of family labour used within their business. Overall, 40% of businesses reported that they family members worked in some capacity in the business – in rural areas 45% of businesses reported use of family labour, whilst in small towns it was 39% and in urban areas 33%. The majority of those using family labour had three or less members of their family working in the business. Figure 12 shows that 34% of rural businesses utilised full-time family workers in their business, compared to 23% in urban areas and 24% in towns – this reiterates the findings of previous research that rural businesses are more likely to be "family businesses". In rural areas 17% of businesses had part-time family workers, compared to 21% in towns and 14% in urban areas. Very few businesses reported the use of seasonal family workers.

Figure 13 shows the gender make up of family workers by type, and also whether they are paid or unpaid workers. Women accounted for 37% of full-time, 66% of part-time and 44% of seasonal family workers utilised by the businesses. Of the 498 male family members employed in the interviewed businesses, 77% were engaged full-time and only 18% were part-time. In contrast, only 54% of the 421 female family workers were full-time whereas 42% were part-time. The incidence of unpaid family labour was almost identical for both men and women, with 96% of full-time and 78% of part time family labour being paid workers.

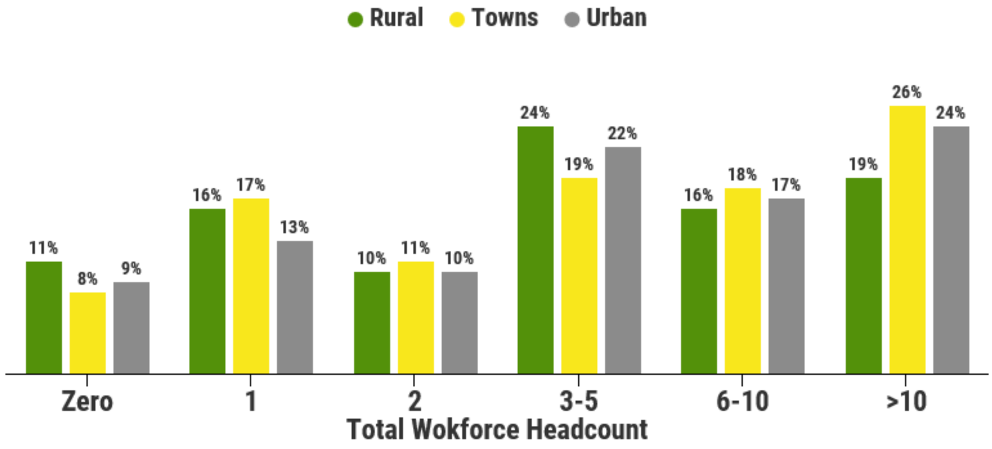
Figure 13 Nature of family workforce



All workers – headcount

When all types of employees were considered together 19% of businesses did not employ anyone outside their own family and 10% did not employ anyone at all, even on a part-time or seasonal basis (see Figure 14). About 16% only utilised a single worker (full-time, part-time or seasonal). 10% of rural businesses had access to two workers, 24% had access to 3-5 workers, 16% had 6-10 workers, and 19% had more than 10 workers. Larger workforces were more common in businesses located in small towns and urban areas.

Figure 14 Worker headcount– family and non-family; full-time, part-time and seasonal



Non-family employees

Excluding family labour, 31% of business respondents had no full-time employees, with 55% having no part-time workers and 86% no seasonal workers (see Figure 15). 46% of businesses had 1-5 full time employees (with 10% having 6-10 and 13% more than 10 full-time employees). 34% of the businesses had 1-5 part time employees with 12% having more than five. Very few businesses had any reliance on seasonal employees (although it may be that defining part-time and seasonal employees is challenging for businesses). Only 5% of rural businesses said they were very reliant on a seasonal workforce with another 4% somewhat reliant on them. Rurality appears to be a factor in these findings with 24% of rural businesses having no non-family employees (compared to 15% in urban area and small towns).

Figure 15 Proportion of businesses with full-time, part-time and seasonal workers by worker size grouping

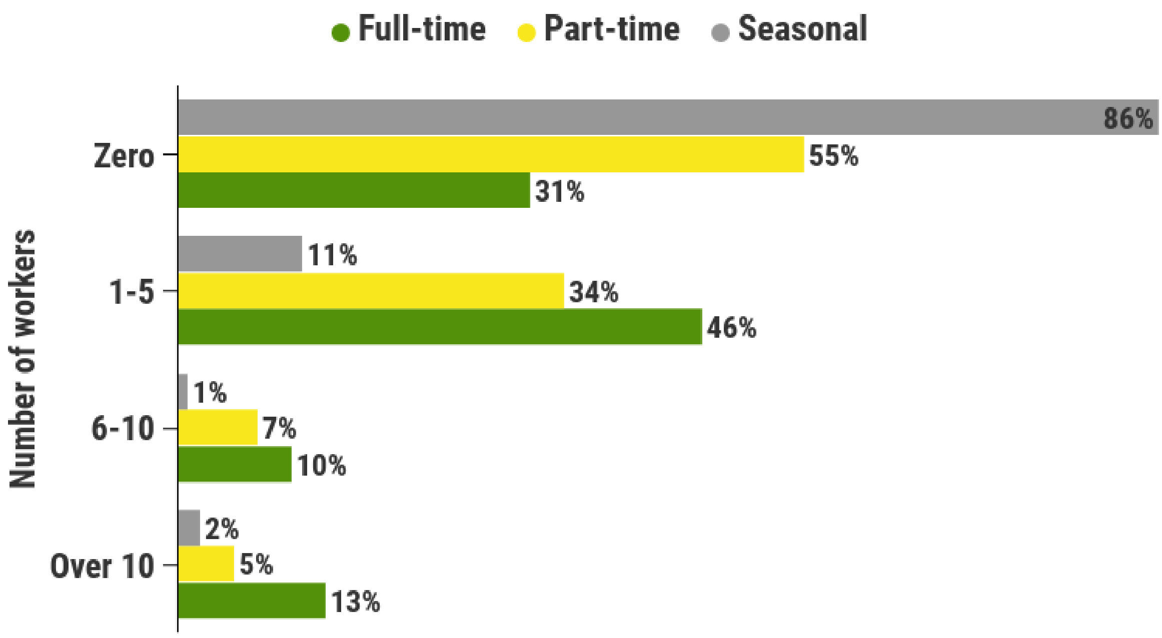
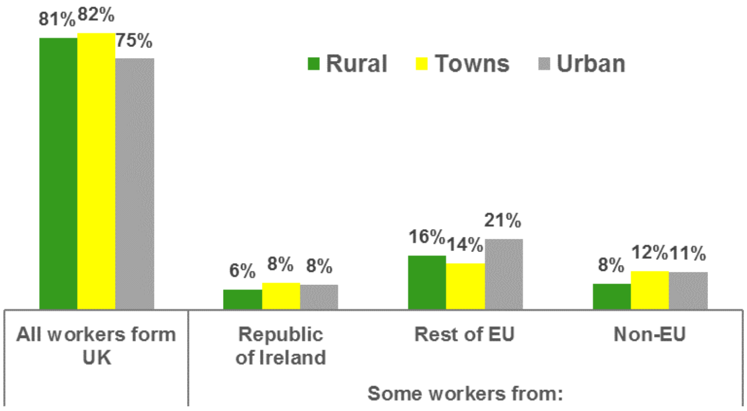


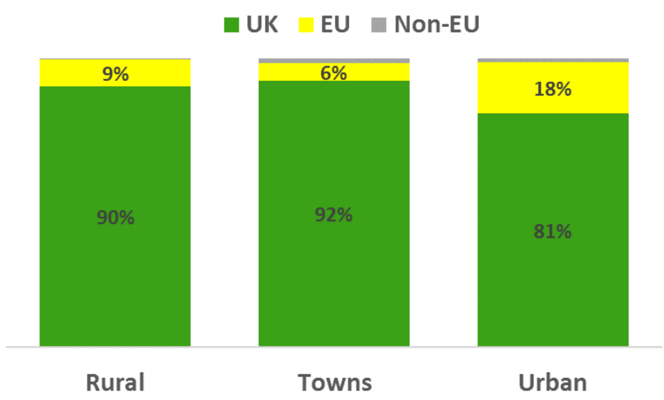
Figure 16 Workforce origin – proportion of businesses



Non-family worker origin

Figure 16 shows that for businesses with non-family workers the entire workforce was from the UK in 81% of rural businesses (compared to 75% for urban businesses). 6% of rural businesses with employees had workers from the Republic of Ireland, 16% had EU workers and 8% had non-EU workers. There was higher proportion of businesses in urban areas that had some employees from the EU or the rest of the world.

Figure 17 Workforce Origin – proportion of employees



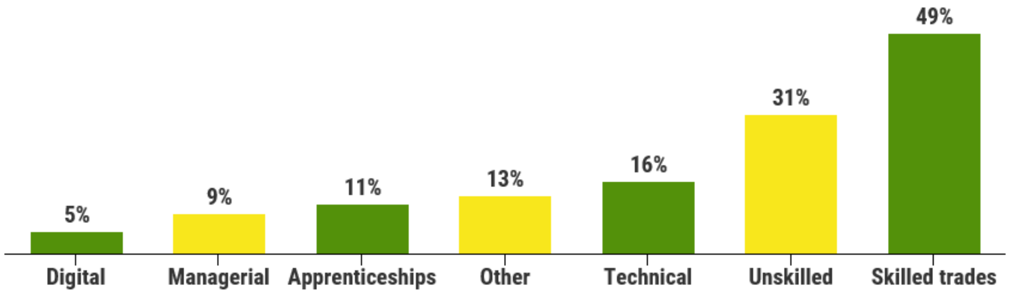
It was estimated that 90% of the 4,800 workers employed by rural businesses were from the UK with 9% from the EU and 1% from the rest of the world (Figure 17). This compared to 92% of the 3,500 workers employed by town-based businesses being from the UK with 6% from the EU and 2% from the rest of the world. In contrast, urban based businesses reported that only 81% of their employees were from the UK with 18% from the EU and 1% from the rest of the word. This perhaps is an indication of the attractiveness of Scotland's urban areas to EU workers, likely to be in large part due to the greater number of job opportunities ("*cities are the go to places for EU migrants… because of the economic opportunities that cities provide*"[27]).

Recruitment and retention challenges

Overall 24% of the businesses with employees reported that they had experienced challenges in recruiting and/or retaining staff during the previous 12 months. This was highest in remote areas (27%) compared with accessible and urban areas (both 23%). For the quarter of businesses with worker recruitment and retention challenges, nearly half (49%) reported that they had experienced difficulties with recruiting skilled trades staff, with 31% reporting challenges with unskilled staff (see Figure 18).

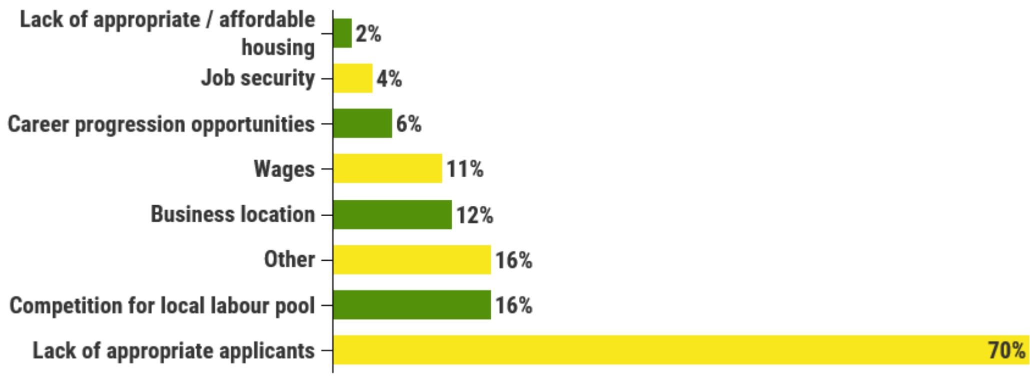
[27] Piazza, G. and Clayton, N. (2018) With or without EU — How changes to European migration will affect cities after Brexit. Centre for Cities report available at https://www.centreforcities.org/wp-content/uploads/2018/08/2018-08-22-With-or-without-EU-—-How-changes-to-European-migration-will-affect-cities-afer-Brexit-2.pdf

Figure 18 Types of skills recruitment / retention issues related to (% of those faced with problems)



The types of staff recruitment / retention challenges faced varied across the businesses surveyed. Nonetheless, 70% of those facing recruitment and retention challenges pointed towards a lack of appropriate applicants as the main issue (see Figure 19). About 15% reported that wages, local competition for labour and their business location were causal factors. Only 5% of businesses had recruitment problems attributed to job security.

Figure 19 Types of recruitment / retention issues faced (% of those faced with problems)



When businesses were asked to expand on the "other" category a wide array of responses were received. Common themes were around work ethic, lack of skills and training needs, Brexit and fewer Eastern Europeans, and legal requirements. Example comments included:

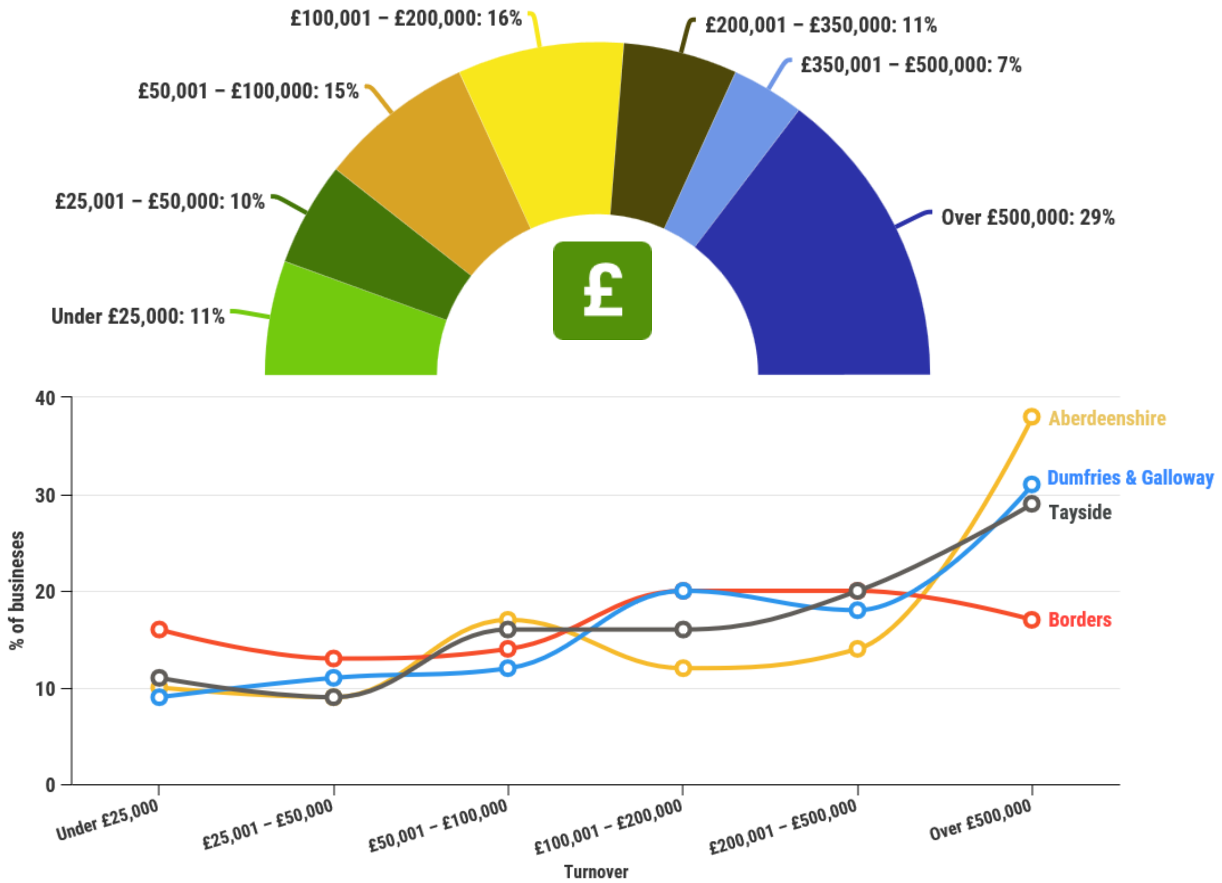
- *"Young people are not interested as they can get more money from the DWP"*
- *"Getting people trained as that is expensive"*
- *"Maternity leave and unable to fill with a trained hairdresser"*
- *"Brexit uncertainty"*
- *"Diminishing workforce, less youngsters"*
- *"Less Eastern Europeans coming in looking for work"*
- *"Attitude towards hands on work has changed"*
- *"Lack of work ethic and professionalism"*
- *"Sparse population in the area".*

Business Performance

Business turnover

A quarter of businesses were either unable[28] (12%) or chose not to (13%) disclose their business turnover. Of those that provided turnover details 29% of the businesses reported that they had annual turnovers in excess of £500,000 (Figure 20). Nearly a fifth (21%) had turnovers of less than £50,000 – with 11% less than £25,000 per year. It was noticeable that the Borders sample had a much higher proportion of businesses in the low turnover brackets (29% below £50,000, compared to about 20% in the other regions), and had far fewer in the over £500,000 turnover band (17% of businesses compared to 38% in Aberdeenshire). These figures follow a similar distribution to the 2017/18 survey where 18% of businesses had turnovers of under £50,000 and 32% were in the over £500,000 turnover band.

Figure 20: Business turnover



Since details on whether the business operated from a sole premise or was a branch or headquarters of a larger operation was gathered it was considered appropriate to assess how turnovers differ between the different types of business structures. Figure 21 reveals that of the 98 branches of larger businesses that reported 'branch' turnover, 64% had turnovers of over £500,000 compared to only 22% of the 762 sole premised businesses. Over 75% of the 26 headquarters had turnovers over £500,000. Nearly a quarter of sole premised businesses had turnovers of under £50,000 with 12% under £25,000.

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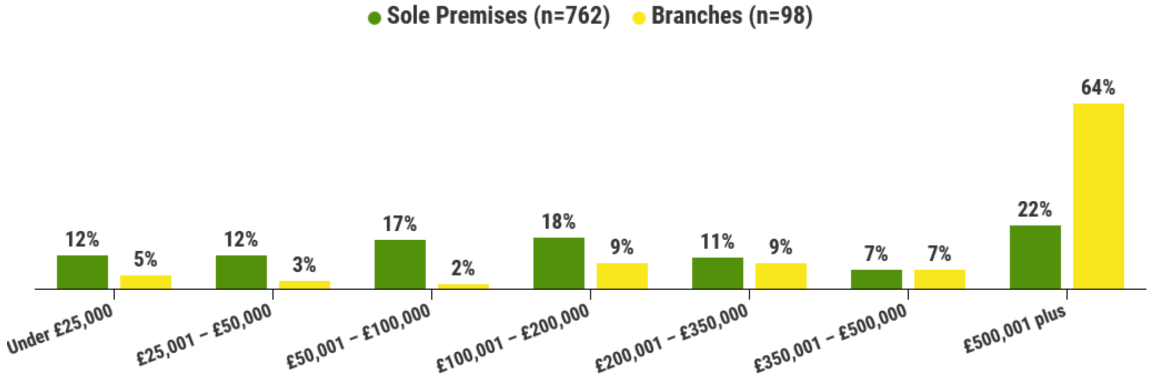
[28] This likely reflects the fact that some people interviewed may not actually have turnover figure to hand.

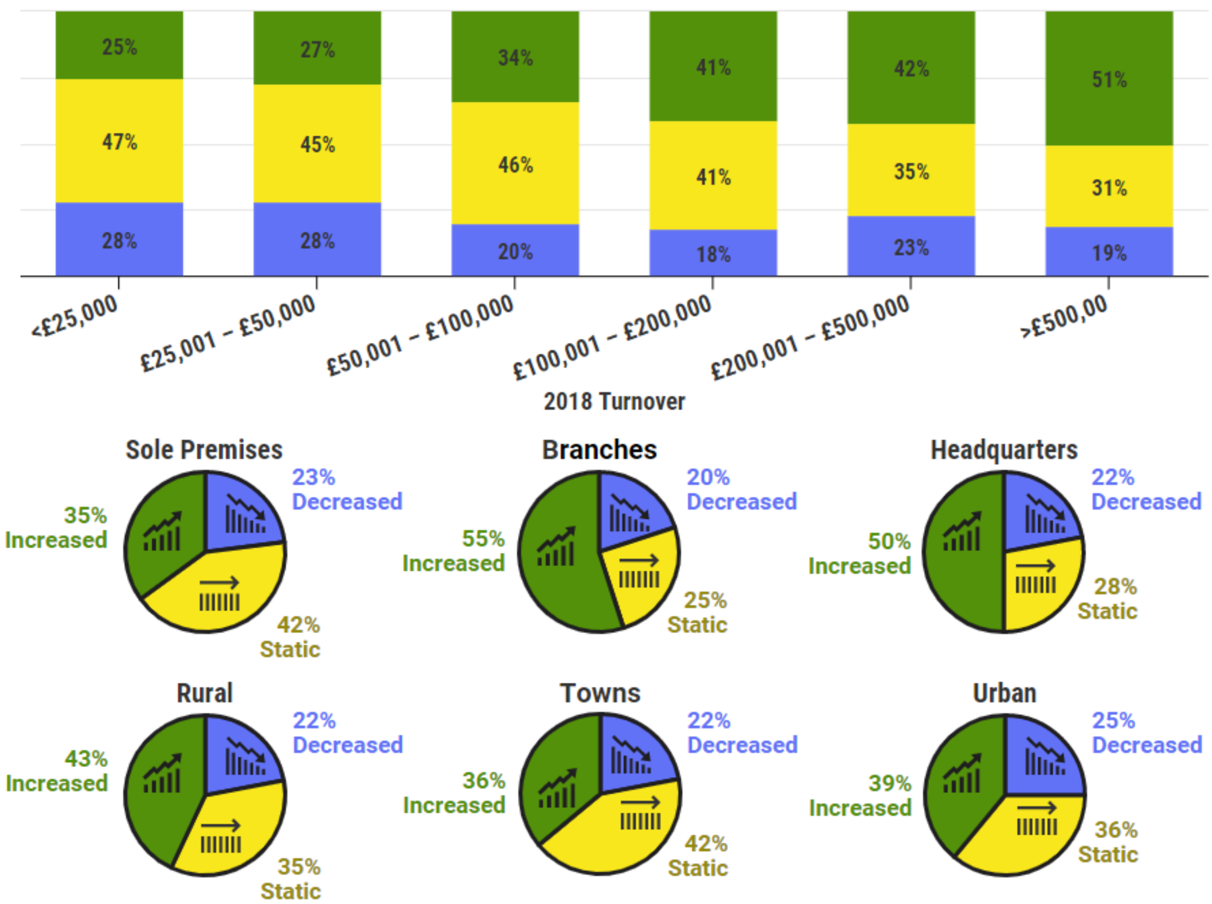
Figure 21 Turnover distribution of sole premised businesses and branches / headquarters



Change in turnover

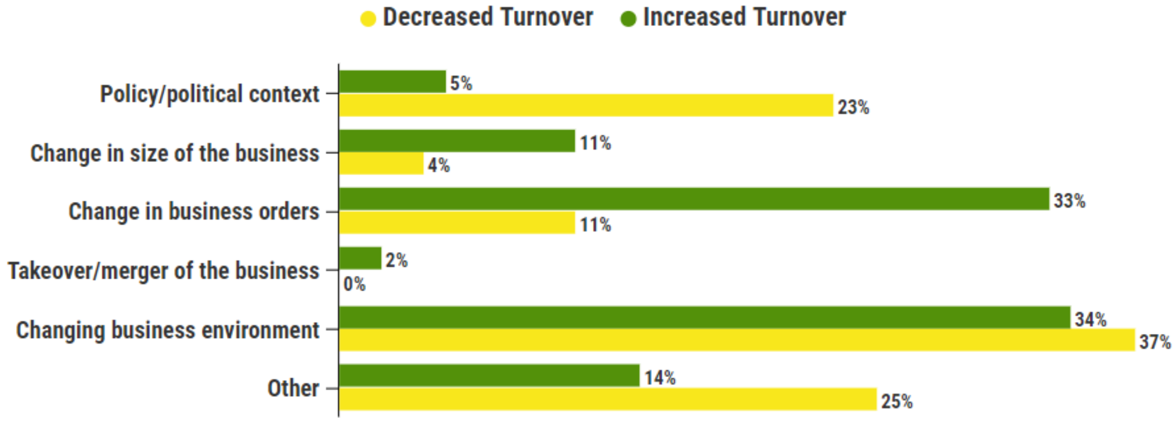
Overall, 23% of businesses reported that their business turnover fell between 2017 and 2018 whilst 38% had improved turnovers (39% were static). Figure 22 shows how branches (55%) and headquarters (50%) of larger businesses were more likely to report that their turnover had improved in the previous 12 months than sole premised businesses (35%). Rural businesses (43%) were slightly more likely to have experienced improved turnovers in the past 12 months compared to those in towns (36%) and urban areas (39%). Higher turnover businesses (linked to branches and headquarters) were twice as likely to have had increased turnovers during 2018 as the lowest (under £25,000) turnover businesses. These figures perhaps suggest that lower turnover businesses (under £50,000) may find it more challenging to grow their business.

Figure 22 Turnover change in last 12 month by business type, location and turnover band



When asked about the key driver for change in their turnover, businesses reported a wide array of factors[29]. For those with increased turnover 33% of businesses attributed that to an uplift in orders/custom, with 34% saying it was due to a change (improvement) in their business operating environment and 11% attributed it to growing their business (Figure 23). For those that had experienced decreased turnovers, 37% attributed it to changing (worsening) business environment, with 23% suggesting it related to the policy and political context in which their business operated, and 11% said it was due to a downturn in business orders/custom.

Figure 23 Reasons for increased or decreased turnover



It was evident when reading through the "other" categories that many businesses have seen changes due to evolving societal norms (use of social media, online gambling, online shopping, less use of pubs, etc.). For some businesses decreasing turnovers were a result of circumstances, with personal health, loss of key staff, weather, consumer-confidence, exchange rates, moving towards retirement, etc. impacting on their business operation (Figure 24b). For many whose turnover had grown, the success was often attributed to hard-work, winning contracts, local developments, improved reputation, diversification of products / services, etc. (Figure 24a).

Figure 24 Word cloud of factors attributed to causing (a) increased and (b) decreased turnover

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[29] Many responses in the "other" category were reclassified, as there were clear links to the answer options – such as "Brexit" or "increased customers", or "change in how we work", etc.

Operating Environment & Outlook

Operating environment

The businesses surveyed mainly reported that they had a good business operating environment in 2018. Figure 25 reveals that only 3% rated their operating environment as poor or very poor (down from 10% in 2017/18) with 47% rating it as good (46% in 2017/18) and 27% very good (24% in 2017/18).

Figure 25: Rating of 2018 operating environment

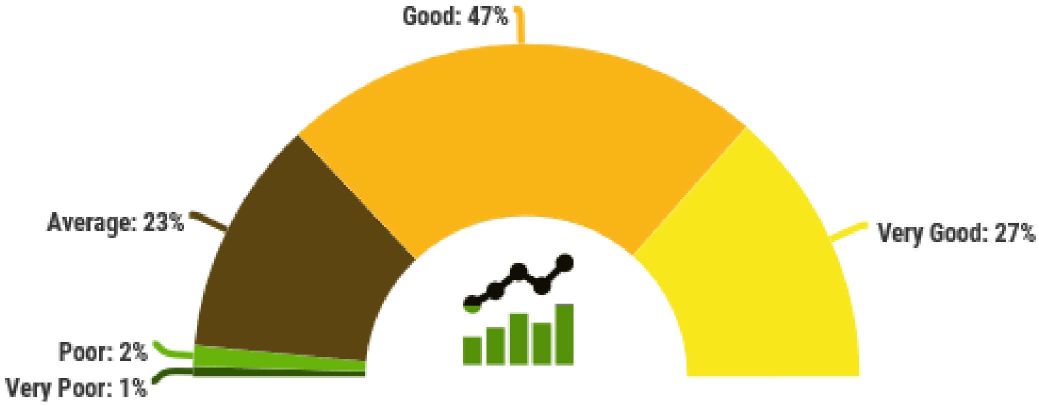


Figure 26 shows how businesses rated their operating environment by various business groupings:

- Firstly it can be seen that, perhaps unsurprisingly, businesses that had experienced a decrease in their turnover in the last 12 months rated their operating environment less highly than businesses with static or increased turnovers.
- Whether the business was located in rural areas, towns or urban areas had limited impact on the rating of their operating environment, although about 10% more businesses in urban areas reported very good operating environments than in rural areas.
- Women were more positive about their operating environment, with 13% more rating it as very good compared to men. Men were 10% more likely to have ranked their business environment as average.
- Respondents that were part of larger businesses were much more likely to rate their operating environment highly.

When the operating environment rating was considered across business SIC codes, it revealed that the majority of industrial classifications had a “good” operating environment. Transport and storage businesses had the largest proportion, over 90%, of businesses that responded with a “good” operating environment – but Figure 27 only shows SIC codes where there were more than 20 respondents (there were only 15 businesses in the transport classification). Arts, Entertainment and recreation businesses had the lowest proportion of businesses of reporting a “good” operating environment (61%) with 35% of this sector reporting “average” operating environment and 4% “poor”. It is perhaps notable that those in more service sector industries linked to public services[30] (e.g. private healthcare, education support services, etc.) had some of the highest ratings of their operating environment.

[30] Public sector employers were excluded from this analysis where possible.

Figure 26 Rating of operating environment by business characteristics

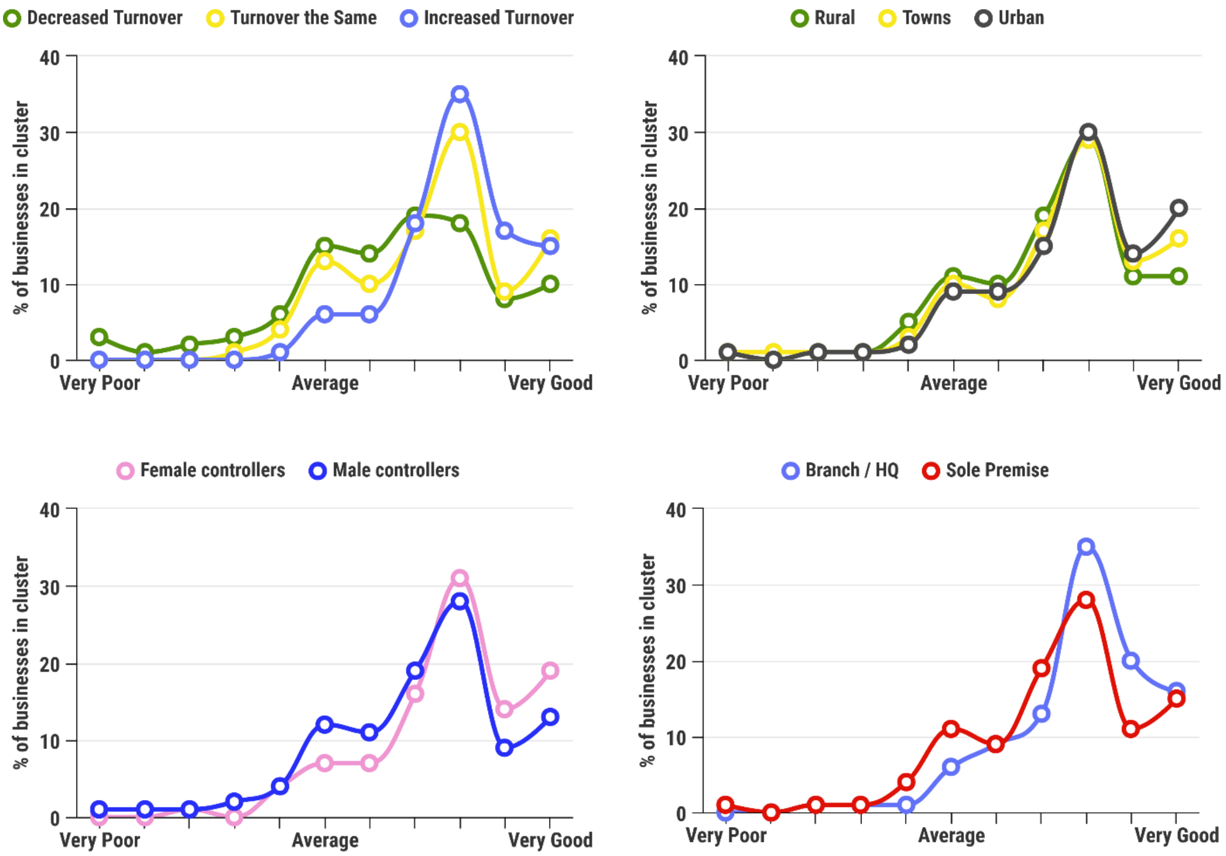


Figure 27 Rating of business operating environment by SIC code groupings

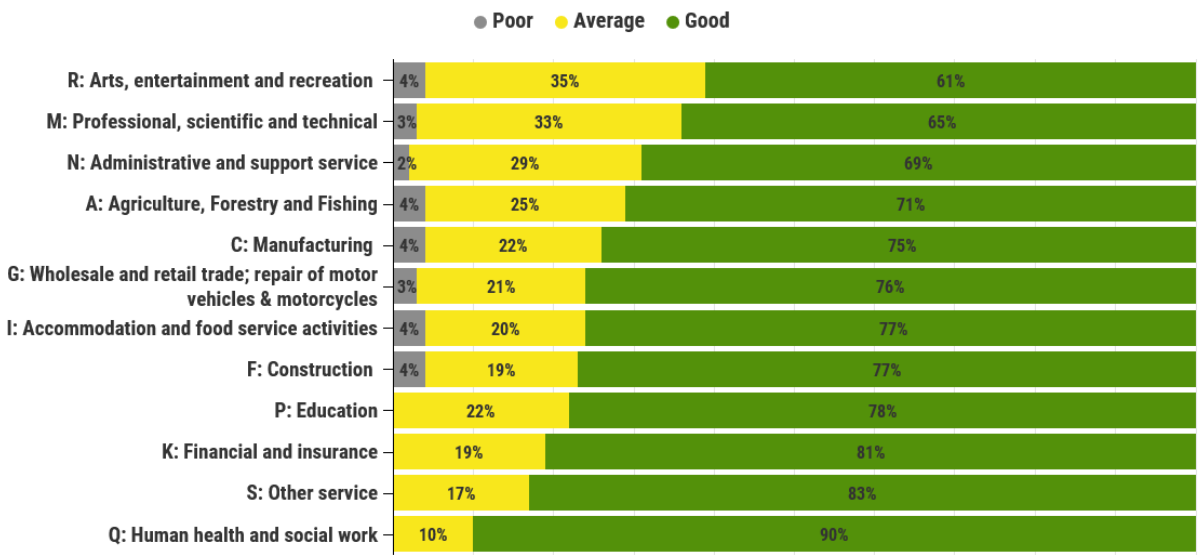
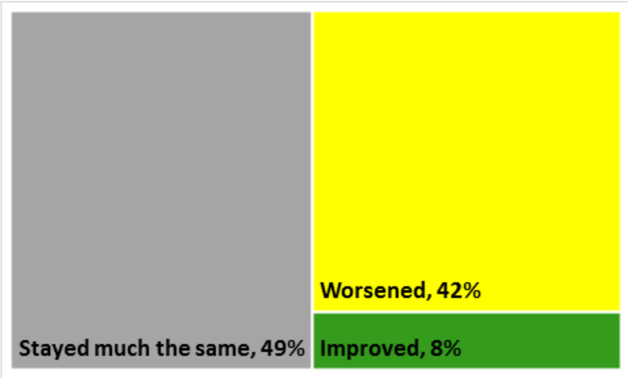


Figure 28 Level of confidence in Scotland's economic outlook in last year

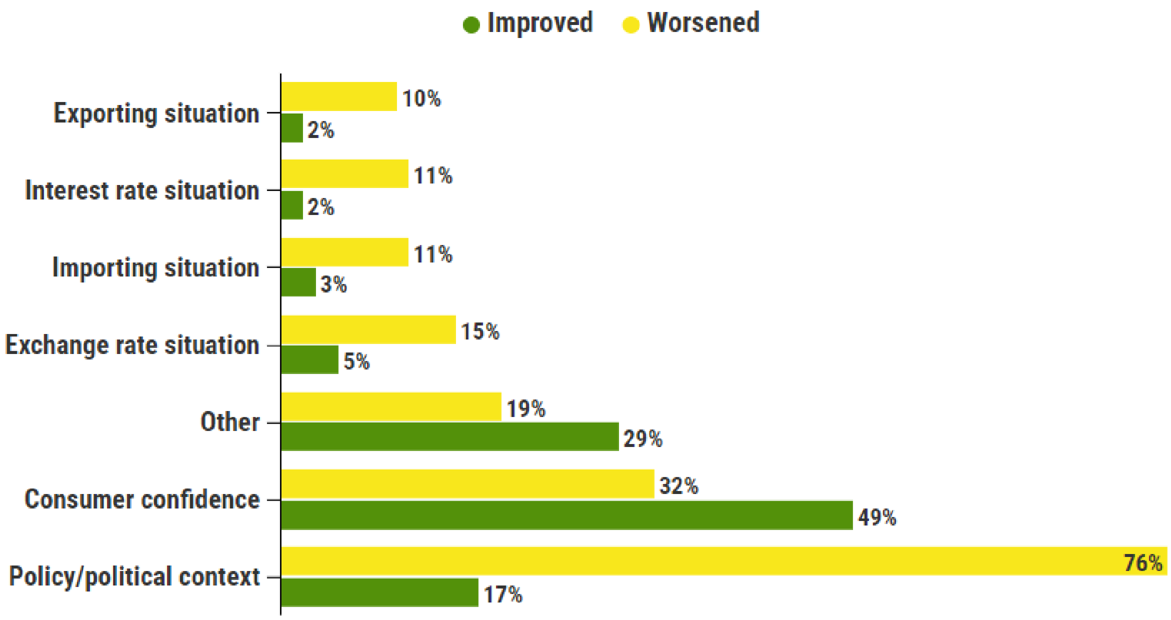


Economic confidence

Nearly half (49%) of the businesses stated that their confidence in Scotland's economic outlook had stayed much the same between 2017 and 2018 (see Figure 28), with 42% stating it had worsened and only 8% saying it had improved. Branches and headquarters of businesses (12%), urban-based businesses (10%) and businesses in Aberdeenshire (10%) were most likely to report improved economic confidence. In contrast businesses in remote locations (48%), small towns (46%) and the Scottish Borders (46%) were most likely to report that their confidence in Scotland's economic outlook had worsened during 2017/18.

When businesses were asked what factors contributed to their changed confidence levels there were differences between those who thought Scotland's economic outlook had improved compared to those that felt it had worsened during the previous year. Nearly half (49%) of the 95 businesses that felt things had improved suggested that this was due, in part[31], to improved consumer confidence (see Figure 29). 17% also suggested this related to an improved political/policy position, with 29% offering other factors that were often related to growth in a particular sector (e.g. oil and gas) or perceived improvements in the wider economy.

Figure 29 Factors that led to change in confidence in Scotland's economic outlook and "other" factors word cloud for those with reduced confidence



For the 491 businesses that felt that Scotland's economic outlook had worsened, over three-quarters suggested that this was due to the changing political/policy context in which they operate (mainly, but not exclusively Brexit), with nearly a third reporting it was due to reduced consumer confidence and 15% related it exchange rates and a weak Sterling. A wide variety of "other" factors were given as to why businesses felt less confident in Scotland's economic

[31] Multiple answers were allowed.

outlook (summarised in the word cloud in Figure 30) with some of the variety demonstrated by the following responses from interviewees:

- *"Impending Brexit"*
- *"Rise in costs - higher minimum wage"*
- *"Oil situation in Aberdeen"*
- *"Mostly export outside EU and UK and uncertainty around Brexit is killing the business"*
- *"Mostly the exchange rate situation"*
- *"Lack of clarity"*
- *"Customs and immigration"*
- *"People don't have money to spend the same"*
- *"Customers go for the cheapest option not quality"*
- *"World Cup reduced custom"*

Figure 30 Other factors affecting confidence in Scotland's economic outlook

Business Planning

Overall only 29% of the interviewed businesses had 1-year business plans, with only 1 in 5 (20%) having a 5-year plan. It is notable that businesses that were headquarters or branches of larger operations were the most likely to forward plan, with 64% having a 1-year plan and 45% a 5-year plan, compared to only 23% of sole premised businesses having a 1-year plan and 16% a 5-year plan. Figure 31 illustrates how business planning varies amongst different cohort groups of sole premised businesses (i.e. not part of a larger multi-branch business) and key findings are summarised as:

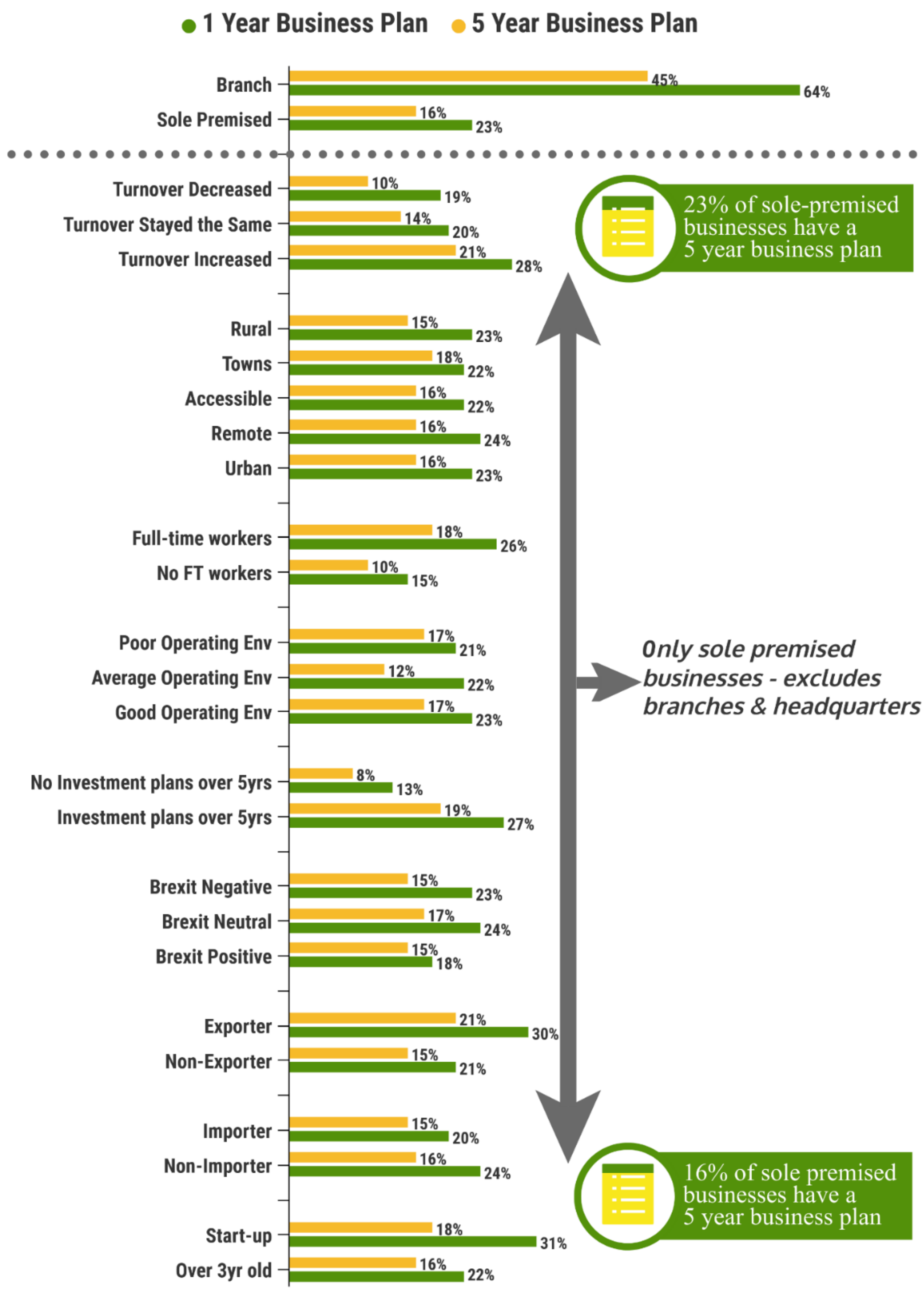
- Businesses in their first three years of operation were more likely to have a 1-year business plan (31%), compared to businesses over 3 years of age (22%).
    - Businesses that had turnover increases in the previous 12 months were more likely to business plan than those with static or decreased turnovers:

	1-year Business Plan	5-year Business Plan
Decreased Turnover	19%	10%
Static Turnover	20%	14%
Increased Turnover	28%	21%

    - Businesses with full-time workers were more likely to business plan compared to those with no full-time workers.

- Those that were not planning to invest in their business over the next 5 years were much less likely to have a business plan. 27% of those planning investment in their business had a 1-year business plan and 19% also had a 5-year business plan.
- Those businesses that were positive about Brexit were less likely to have a business plan compared to those that were neutral or negative about potential Brexit consequences for their business.
- Businesses that were exporting goods or services were more likely to have 1 and 5-year business plans than non-exporting businesses.

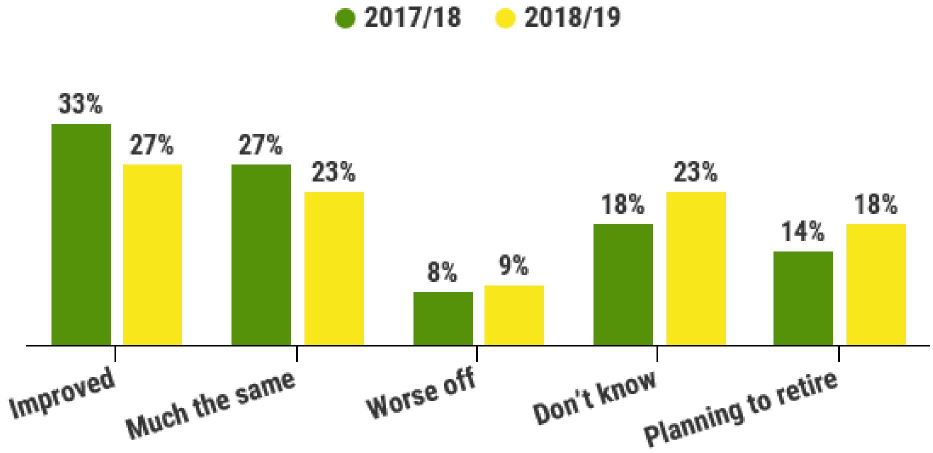
Figure 31 Proportion of businesses, in cohorts with 1 year and 5 year business plans



Business Outlook

Figure 32 shows that 18% of business controllers were planning to retire in the next five years, compared to 14% in 2017/18. In 2018/19, there was less optimism with 27% believing that their business would improve in the next 5 years - down from 33% in 2017/18. Only 9% were pessimistic, thinking their business would be worse off (10% in 2017/18). More businesses (23%) were uncertain of their 5-year outlook in 2018/19 than in 2017/18, perhaps reflecting Brexit and a general lack of formal business planning.

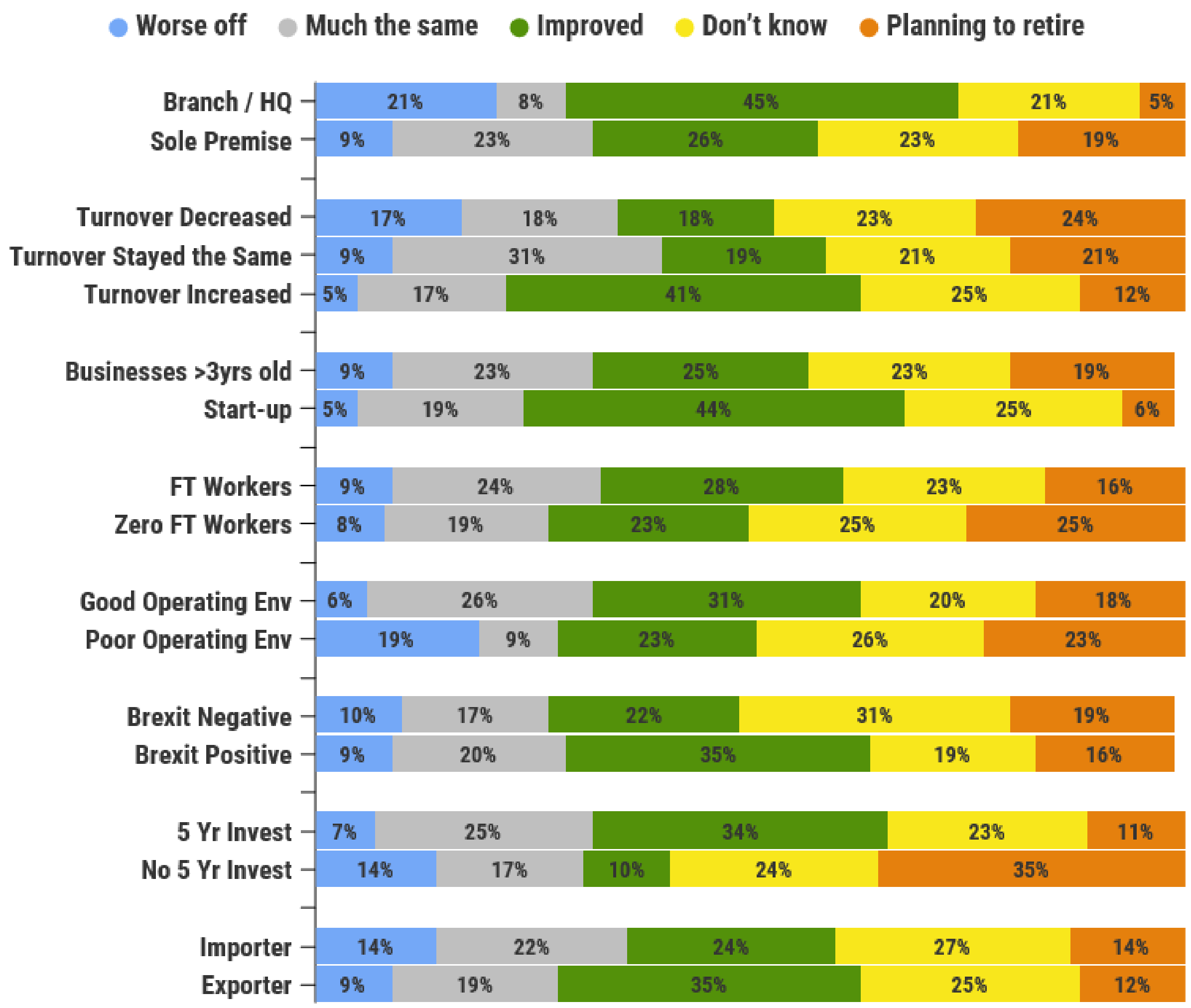
Figure 32 Five year business outlook of owners / partners & directors



There was considerable variation in the 5-year business outlook for different cohorts of business controllers, as shown in Figure 33.

- The men and women that were most optimistic about their future, thinking their business would improve in the next 5 years, included: branches or headquarters (45%); start-up businesses (44%); those with increased turnovers (41%); exporters (35%), and; those that were positive about Brexit (35%).
- The cohorts with the highest proportion of pessimism (expecting things to become worse over the next five years) included: branches and headquarters (21%); those that rated their current operating environment as poor (19%); those whose turnover had decreased (17%); and importers (14%).
- Those with the greatest levels of uncertainty about what the next five years would bring for their business included: those negative about Brexit (31%); those thinking Brexit will have negative impacts on their business (31%); those rating their current operating environment as poor (26%); those in Dumfries & Galloway (29%); importers (27%) and businesses in remote locations (27%).
- Retirement expectation in the next five years was very low in start-ups (6%) and in branches/headquarters of larger businesses (5%). In contrast there was a high expectation of retirement in the next five years amongst: those with no plans to invest in the business in the next 5 years (35%); those with no full-time workers (25%); those whose turnover had fallen (24%) or stayed the same (21%); and those who rated their current operating environment as poor (23%).

Figure 33 Five year business outlook for selected cohorts



Business Investments

Figure 34 reveals just over a quarter of businesses (27%) thought that they would not be making any capital or staff investments into their business in the next five years. This proportion of non-investors was much lower in 2018/19 compared to the 2017/18, where 44% of businesses interviewed had no plans long-term investment plans. In 2018/19, 20% of businesses felt that they would be investing in land/buildings, with 24% planning to invest in machinery, 26% in digital equipment and 27% in staff (up from only 14% in 2017/18). It is worth noting that branches and headquarters of larger businesses had a much higher propensity to plan investment in staff (39%) compared to sole premised businesses (25%).

Figure 34 Five year investment plans of businesses

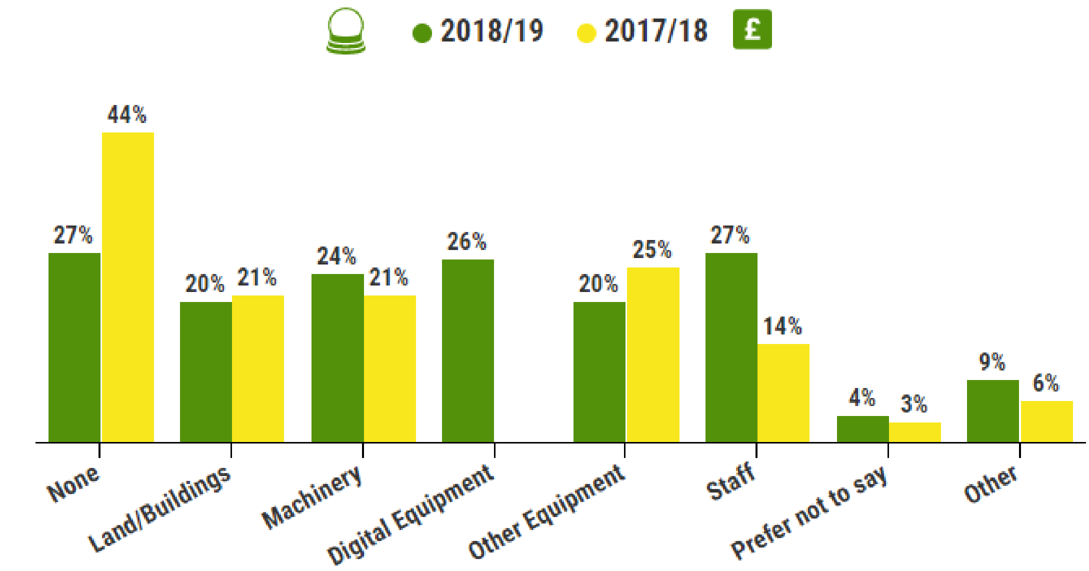


Figure 35 represents the reasons business provided for not having any business investment plans for the next 5 –years. Firstly, there was a proportion who had already invested in their business assets and did not think they needed any further major investments. Secondly, there was a group that just felt that their business did not need investment. Thirdly, there was a large group where retirement is in their minds and who feel that investment is not worthwhile. The fourth group is made up of those that are not planning to invest due to business uncertainty (around consumer demand, Brexit, etc.).

Figure 35 Word cloud representing reasons for having no planned investments

The diversity of non-investment reasons provided is illustrated by the following interviewee comments:

<u>Already Invested</u>

- *"New business so no need for further investment"*
- *"Already invested"*
- *"Sufficient resources at the moment"*
- *"A lot of changes in this present year already been made"*

- *“We're all up-to-date as we've recently expanded the office space and have bought new equipment”*
- *“We've made the necessary investments over the past seven years - no more substantial money investment needed”*

Poor sales and uncertain operating environment

- *“Sales declined we cannot afford to invest”*
- *“No confidence”*
- *“Uncertainty with what's going to happen with Brexit”*
- *“The current political climate is far too uncertain to make any investments”*
- *“We will relocate to continental Europe”*
- *“There are less Polish workers needing driving lessons like before”*

Retirement and business closure

- *“Retirement”*
- *“Poor health and retirement”*
- *“I am in my early 60's with no family to take over \ I feel I have zero chance of selling the business”*
- *“Thinking about closing the business”*
- *“Our lease is due this year and we don't plan to renew it”*

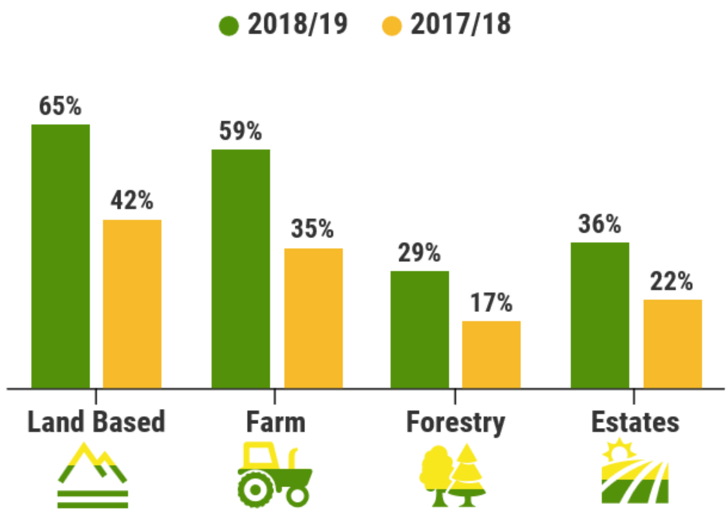
Table 2 summarises the 5-year investment intentions of different cohort groups. Rural businesses were more likely to be planning investment in land, buildings and machinery compared to their counterparts in towns and urban areas (likely a reflection of the different types of businesses operating across each geography). Businesses where turnover had improved in the previous 12 months were considerably more likely to invest across their business compared to those where turnovers had fallen – for example 41% planned to invest in staff compared to only 16% in businesses where turnovers fell. Start-up businesses were more likely to invest in land and buildings and staff compared to their older counterparts. Those with five year business plans were much more likely to be thinking about investments into their business compared to those without a business plan. Those that ranked their operating environment as poor were also much less likely to have investment plans compared to those that considered their operating environment as good.

Table 2 Five year investment plans of businesses in different cohort groups

Cohort	Land/Buildings	Machinery	Digital Equipment	Staff
Rural	23%	29%	27%	26%
Urban	16%	17%	26%	27%
Turnover Decreased	12%	20%	20%	16%
Turnover Increased	30%	30%	33%	41%
Businesses >3yrs old	19%	24%	26%	26%
Start-up	30%	21%	26%	41%
5 Year Business Plan	34%	27%	40%	47%
No Business Plan	17%	23%	23%	22%
Poor Operating Environment	17%	13%	21%	14%
Good Operating Environment	22%	25%	27%	29%

Links to the Land-based Sector

Figure 36 Businesses with links to the land based sector



In 2018/19 nearly two-thirds (65%) of the businesses interviewed reported that they had some form of business links to the land based sector (Figure 36). This was up from 42% in the 2017/18 survey – although it should be acknowledged that the contacts database was procured from a different source, and the surveyed businesses were largely selected at random[32]. In terms of the 2018/19 respondents, 59% had some form of business connection with farms, 29% had linkages with forestry and 36% links to estates (these land-uses are not mutually exclusive in that estates can also have farms and forests – the business self-selected if they felt they had a link to each group of land managers). In remote regions and in remote and accessible rural areas, 71% of the businesses interviewed stated they had some relationship with the land based sector – that dropped to 66% in accessible regions, 63% in small towns and 55% in urban areas. Other than the Agriculture, Forestry and Fishing SIC code there was higher than average linkages in Administrative and support service activities (75%), Construction (69%) and Accommodation and food service activities (69%).

Figure 37 reveals the types of relationship that businesses had with the different land based sectors – upstream, downstream and indirect relationships:

- **Farms:** 26% of businesses surveyed supplied farms with goods and services, whilst 7% purchased goods and services from farms directly, with a further 10% both supplying and purchasing from farms. 15% of the businesses claimed that they were indirectly dependent on the farming sector for business (i.e. through multiplier effects).
- **Forestry:** 12% of businesses supplied the forestry sector with goods and services, whilst only 3% purchased forestry products and a further 3% both supplied and purchased from forestry businesses. 10% of all businesses claimed that they were indirectly dependent on the forestry sector for business.
- **Estates:** 20% of businesses supplied the estate sector with goods and services, whilst only 2% directly purchased estate products, and a further 3% both supplied and purchased from the estate sector. 11% of all businesses claimed that in some way they were indirectly dependent on the estate sector for business.

[32] As discussed in the Data and Methods section, some quota were given for different strata to ensure the businesses represented the make-up of the 21,000 businesses in our contact database. The databases over the different years (2017/18 and 2018/19) are therefore not a balanced panel where differences over time can be observed within participating businesses.

Figure 37 Types of relationship with land based sectors

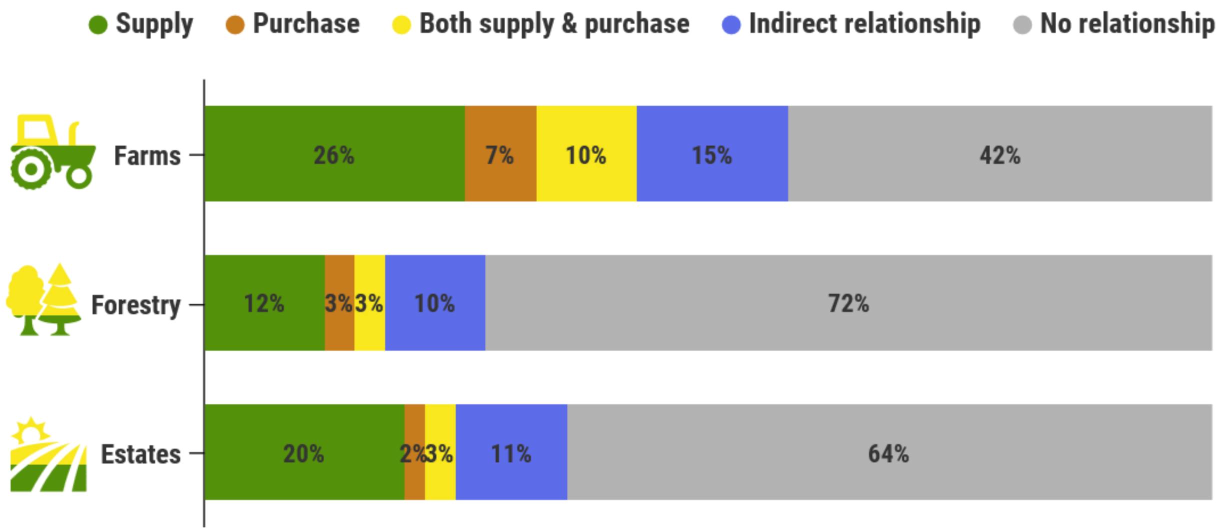


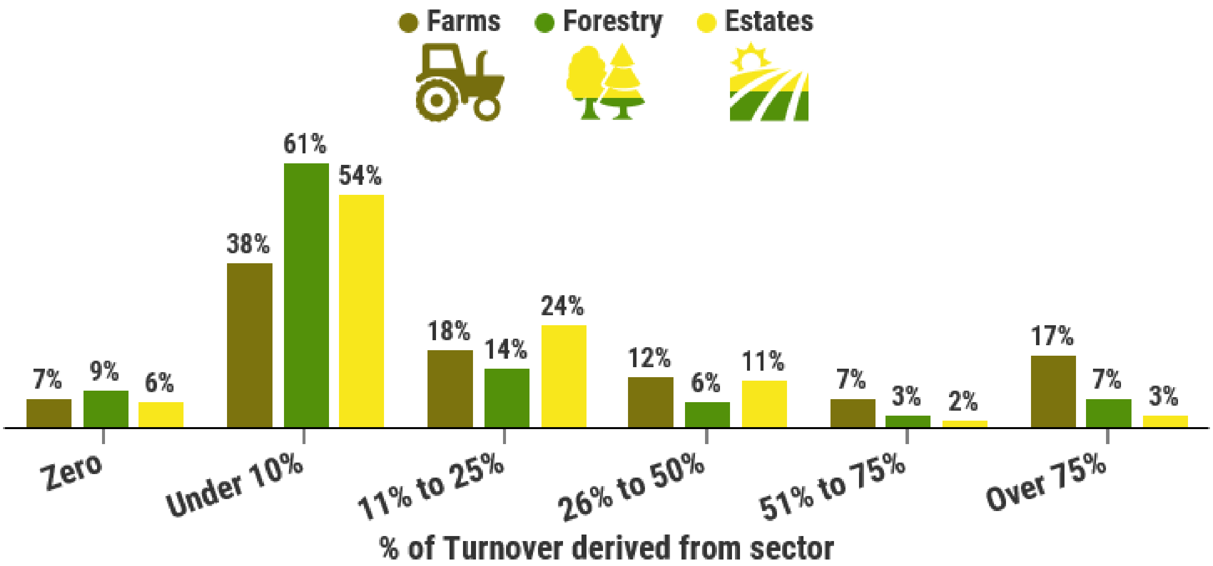
Figure 38 illustrates the types of business whose only relationship with the land based sector is an indirect one (i.e. the farm / forest / estate manager or workers may give their business custom, or they get custom directly from those linked to the land based sector). It is clear that many of these businesses are more service oriented, as would likely be expected from the indirect nature of their business relationship.

Figure 38 Word cloud of businesses that only have indirect relationships with land based sectors

Reliance on the land-based Sector

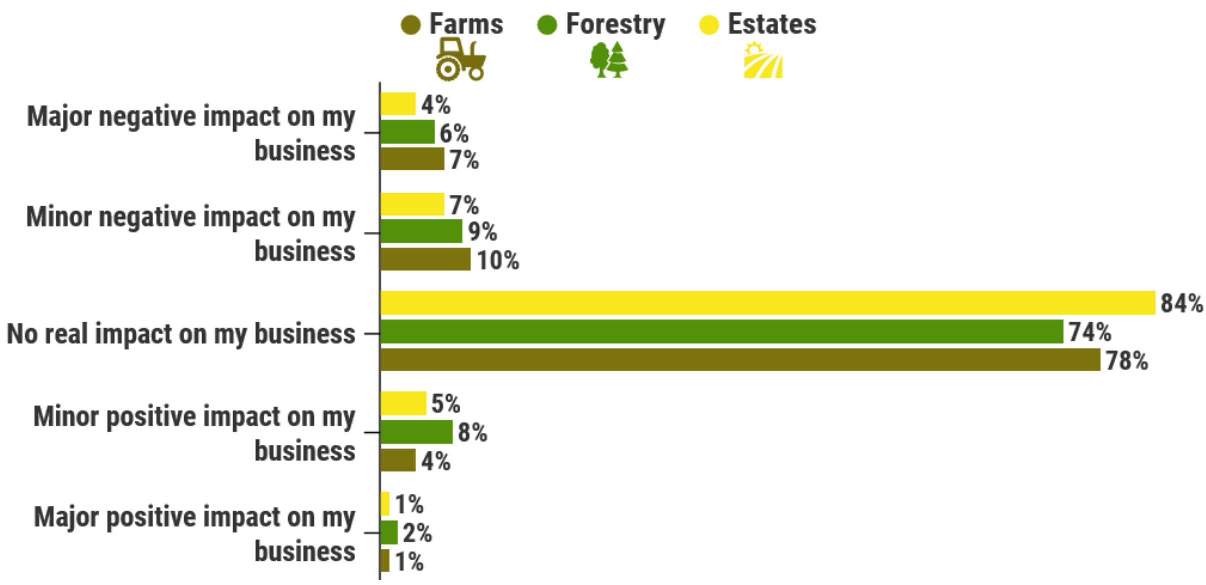
Figure 39 shows the extent of reliance on the farming, forestry and estate sectors for the 779 (65%) businesses that reported land-based links. It shows how much of a business' turnover was reliant on the land based sector (through upstream, downstream and indirect business). A large proportion of businesses had very limited reliance on the land-based sector for turnover – they generated less than 10% of their turnover from farming (45%), forestry (70%), and estates (60%). However, in contrast, for those linked to farming, nearly a quarter relied on the sector for half their turnover in 2018/19, with 7% more than 75% reliant on farmers.

Figure 39 Business reliance on the land based sector for turnover



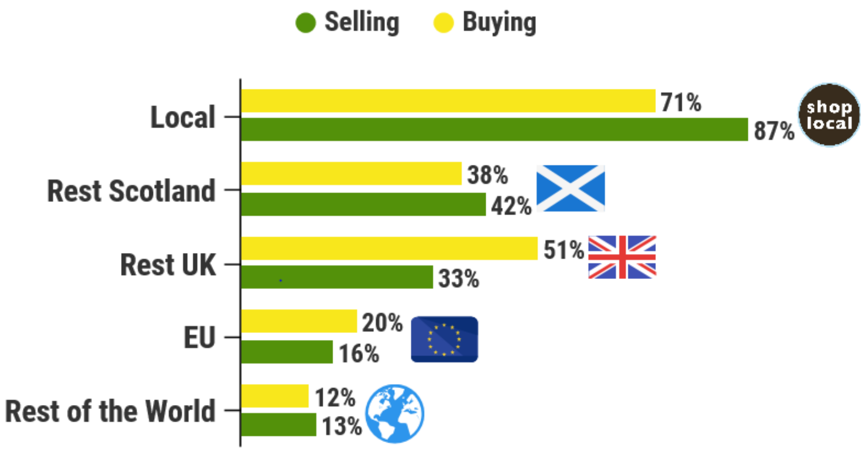
Those businesses with links to the land based sector were asked if any structural or operational changes within farming, forestry and estates in the last two years had affected their business. Figure 40 highlights that, for the majority of businesses that deal with the land based sector, recent changes in the farming, forestry and estate sectors have had no real impact on their business. However, 17% of businesses with farm links had noted changes within the sector which have negatively impacted on their business (significantly so for 7% of the businesses). Half the businesses that were adversely affected by changes in the farming sector were more than 50% reliant on farming for their business turnover with 30% of those most affected being larger businesses with turnovers of over £500,000. Only 5% of businesses reported that recent changes in farming had a positive impact on their business. 15% of businesses with links to forestry and 11% of businesses with links to estates had noted that sectoral changes had negatively impacted on their business in the last two years.

Figure 40 If structural or operational changes in the land based sector have affected business



Geographic market access

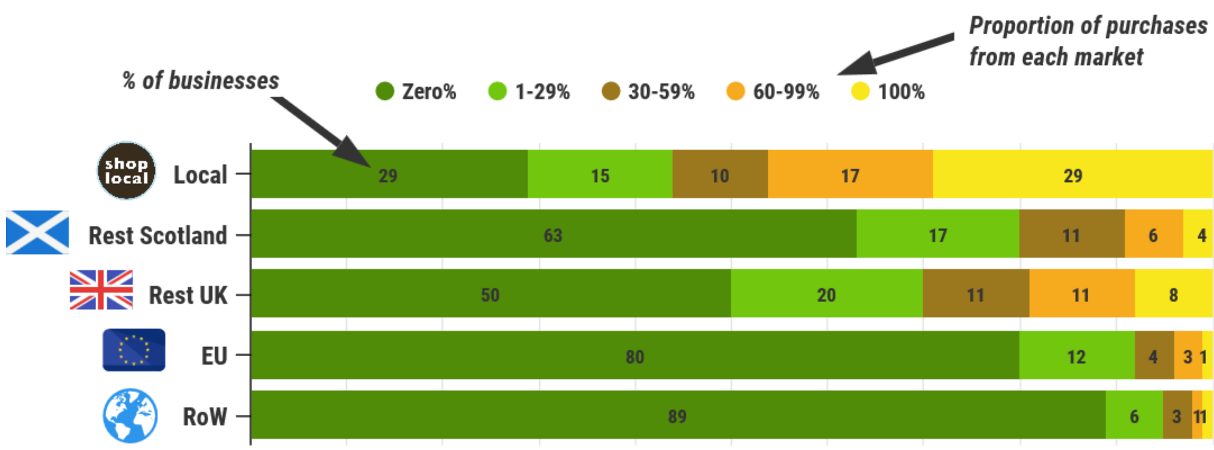
Figure 41 Activity in geographic markets for input purchases and sales of good and services



Businesses were asked where they bought their inputs from and where they sold their goods and/or services. Businesses were not universally active in their local area, but 71% indicated that they made purchases from local businesses whilst 87% reported making sales locally (Figure 41). Only 38% of the businesses made purchases from businesses in other parts of Scotland, compared to 51% who had suppliers in the rest of UK (perhaps indicating specialist supplies). For sales, 42% of the businesses were active in Scotland beyond their local area with 33% also selling across the rest of the UK. For a proportion of businesses, the EU (20%) and the Rest of the World (12%) were important sources of purchased inputs or as markets for their goods and services – EU (16%) and rest of the world (13%). Overall 8% of the businesses were both importing and exporting.

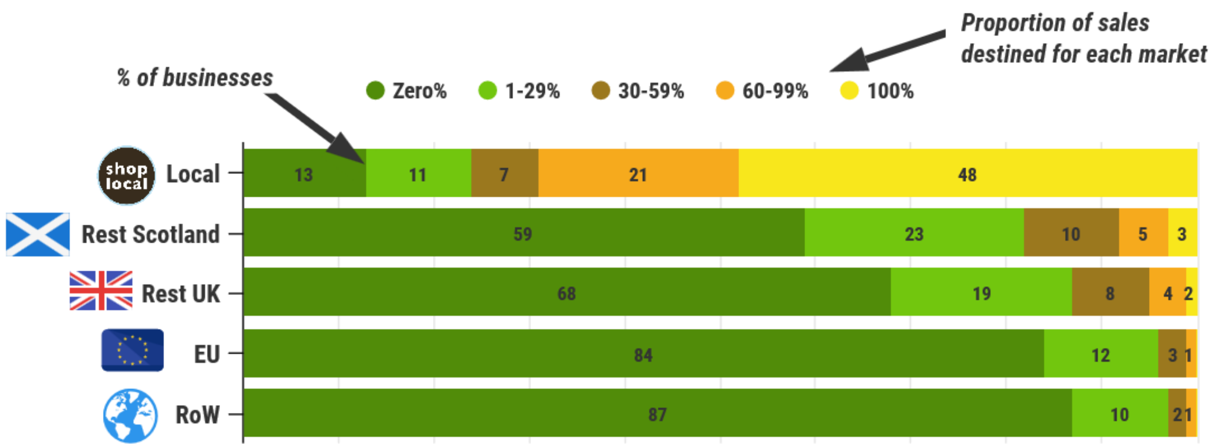
Whilst many businesses were actively buying and selling in multiple geographic locations, many were significantly focused on their local market. Figure 42 shows that 29% of businesses made zero local purchases, 15% were reliant on local markets for 1-29% of their inputs, 10% for between 30-59% of purchases, 17% for 60-99% of purchases, and 29% of businesses only using local businesses for their business supplies. 4% of businesses bought 100% of their supplies from non-local Scottish businesses, with 6% buying between 60-90% of their inputs through that route. The rest of the UK was the source of all business inputs for 8% of businesses, with a further 11% sourcing 50-99% of their inputs through that route. A small number of businesses were highly reliant on the EU and the Rest of the World for supplies, with 47 businesses (4.4%) reliant on the EU based businesses for more than 60% of their input purchases, and 25 businesses (2.3%) being over 60% reliant on inputs bought from the rest of the world. These importing businesses are undoubtedly exposed to trade and exchange rate impacts related to Brexit.

Figure 42 Importance of different input purchase markets to business



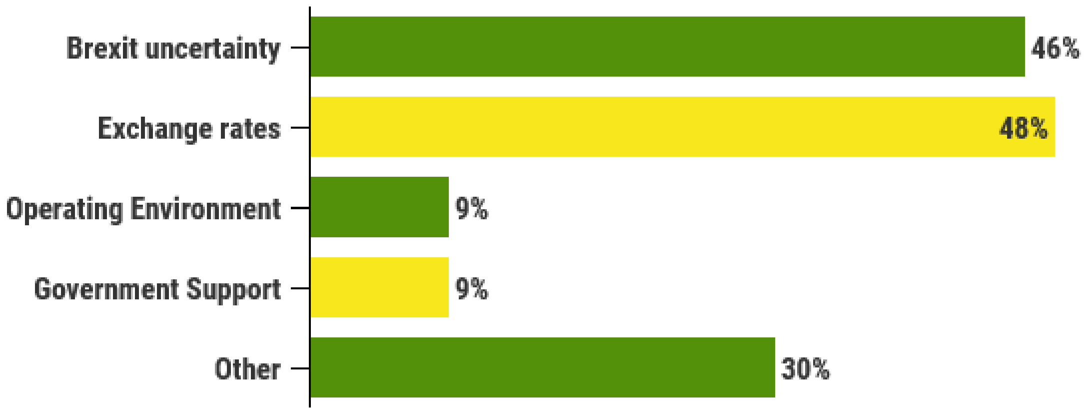
The extent of geographic market access for sales of a business's goods and services differs to the profile for purchases, as may be expected for service sector businesses. Figure 43 shows that nearly half of the surveyed businesses (48%) were fully reliant on the local market for their sales, with 21% reporting 60-99% local sales reliance, and 18% being 1-59% reliant on local custom. Only 8% of the businesses were more than 60% reliant on the wider Scottish market, whilst only 6% were over 60% reliant on custom in the wider UK for sales. There were only a handful of businesses that reported that they were entirely dependent on exporting goods and/or services, although about 15% were engaged in supplying the EU and 12% the rest of the world markets, meaning they are particularly exposed to Brexit and trade issues, as well as exchange rate fluctuations.

Figure 43 Importance of different sales markets to business



Over 200 businesses (17.5% of all businesses) reported that in the previous 12 months some factors had impacted on their export and import activities. For those that both export and import goods 51% reported things had impacted on their trade, with 28% of those that just export and 28% of those who just import also reporting things had impacted on their activities. Figure 44 shows that the main impacts noted related to exchange rates (48% of those that had seen impacts) and Brexit uncertainty (46%). A small proportion noted that import and export effects were a result of changes in their operating environment or changes to Governmental support (both 9%).

Figure 44 Factors affecting imports / exports in the previous 12 months



A wide variety of other factors that impacted on importing and exporting were offered, reiterating the varied challenges that these businesses have to overcome when buying and selling in overseas markets. These often were business specific, or specific to the sector that they operate in, for example:

Regulation and operational

- *"Manufacture difficulty"*
- *"Changes in Chinese business regulation"*
- *"Customs - for both personnel and equipment"*
- *"Importing is no longer reliable"*
- *"Potential changes in regulation and management, and structural funding from the EU"*
- *"Chemicals legislation"*
- *"Delay in a product launch"*
- *"Challenges in developing new medicines"*
- *"Competition"*
- *"International interest in sustainability"*

Financial

- *"Courier prices"*
- *"Price increases"*
- *"Price of steel and scrap metal from China & India have increased by 40% because of Brexit"*
- *"Oil prices"*
- *"Cost of metal"*
- *"Retail prices increased because of wines duty increase"*
- *"World shortage of glass"*
- *"Import tax"*
- *"Value of the pound"*

Export potential

Of the 980 businesses that were not currently exporting goods or services, 154 (16%) felt that they had already had goods or services that were suitable for exporting outside of the UK. These businesses cited several reasons why they were not already exporting, including: uncertainty due to socio-political factors (Brexit); product regulations and standards; lack of experience in overseas markets; personal motivations; and financial constraints. For example some the responses provided included:

Uncertainty/confidence

- *"Uncertainty with the current economic climate"*
- *"Tried in the past and failed"*
- *"Confidence in being paid"*
- *"Brexit"*
- *"Uncertainty has hurt exports to EU countries, particularly Ireland"*
- *"American customs and online retailers restrictions"*
- *"It was happening, until Brexit uncertainty led to overseas clients cancelling their contract"*
- *"Nobody supporting manufacturing in Britain; uncertainty of Brexit"*
- *"I was selling to Holland and Germany and Austria for a little bit, but lately it has not been as good to sell over there"*

Technical/costs/know-how

- *"Time, lack of enterprise support"*
- *"Struggling to set up the website needed, support, knowledge of postage/shipping, etc."*
- *"No customer relations"*
- *"Don't have contacts for networking"*
- *"Issue with shipping chemicals abroad"*
- *"It's too much hassle because there are too many forms to fill in"*
- *"The cost of researching for international expansion"*
- *"Packaging is bulky and costly, so we have to transport in our own vehicles, which is very hard to compete with major distribution centres"*
- *"The knowledge of how to export"*
- *"I need more guidance navigating the laws for labelling cosmetic products outside the EU"*

Business structure/stage

- *"Is too soon for us (maybe in 5 years' time)"*
- *"Have a new product that has not been finalised yet"*
- *"Nothing technical, it just hasn't been the right time"*
- *"Only been working part-time, will direct more attention when full-time"*
- *"Student-based business only, no capacity"*
- *"Lack of finance"*
- *"The capacity of the business"*
- *"Business is currently too small to do so"*
- *"Overwhelming demand for product in the in UK There is nothing left to export"*
- "Lack of advertising/marketing, expertise, size of business"
- "Find dealers abroad"
- "Difficulty in marketing"
- "Limited technology to expand"
- "Licence/legal restrictions and costs"

Personal

- "Laziness"
- "Have not needed to and have preferred to stay local"
- "Sick child at home - too busy to think about expansion"
- "Time"
- *"Not really been looking for the extra business"*

Businesses that had export suitable products/services were asked what type of support or activities could help them become exporters (see Figure 45 for word cloud of factors). For many there was nothing that could help as they were not interested in entering the export market, being content focusing on UK clients, or feeling that they do not currently have the capacity or resources to grow into export markets. For some, they have previously been exporters and no longer are due to regulatory, customs or local competitiveness factors. There were also a proportion that would be interested in starting to sell abroad, but often they did not know where to start, particularly around market intelligence or overseas contacts that could help them break into different markets where opportunities may exist.

Figure 45 Word cloud of support / activities that may help business start exporting

However, some businesses simply did not know what would be required to enter the export market, as they had never seriously thought about it before. For a few of the businesses, help to improve their manufacturing technology was offered as a means of helping them scale-up to be able to export. Whilst some *"prefer to keep business local"* or *"don't know"* what would help them start exporting a wide range of ways to help potential exporters were provided, illustrated by the following responses:

Support/Advice/Training

- *"Business development support"*
- *"More support from the government*
- *"Training on how to get the markets and how to advertise"*
- *"Advertising advice, more staff, and financial support"*
- *"Information and knowledge, and how to market internationally"*
- *"More support, maybe in the form of partnerships with industry specialists"*
- *"Coaching/mentoring in the best way to export"*
- *"Try to look at how to market to the EU Third party specialist websites used at the moment, which do allow access to EU connections"*
- *"Currently in discussion with Scottish enterprise and Scotland's investment bank, the help received has been good"*
- *"Assistance with foreign market access"*
- *"Assistance for research to do exporting"*
- *"Help find contact of dealer abroad"*

Financial & Technical

- *"Transport is an issue, as we make a tricky product to move; transportation is the key"*
- *"Lowering taxes"*
- *"No tariff rate"*
- *"Further investment in advertising"*
- *"Cash injection"*
- *"Some sort of guarantee that I'm going to be paid"*
- *"Grant aid from the government to expand the business would be a help, as well as working more closely with the sea-fishing industries"*
- *"Shelf-life of product"*
- *"Better technology"*
- *"The problem is we don't know the export market and what's involved with that If we were trying to sell to those markets, it would be hard to compete with global packaging companies"*
- *"More funding would help to start exporting"*

Brexit

A series of questions in the survey explored businesses perceptions of Brexit. Overall, 58% of the businesses felt Brexit consequences would be neutral[33] for their business (compared to 50% in the 2017/18 sample), whilst 12% thought it would be positive (25% in 2017/18) and 30% thought Brexit would be negative for their business (25% in 2017/18). The difference between the 2017/18 and 2018/19 surveys, whilst being different samples, suggest that there is less positivity around the business impacts of Brexit this year. Figure 46 highlights how different cohorts of businesses think Brexit might impact on them – with the key points being:

- Generally, regardless of the cohort (with the exception of men) a similar proportion of businesses (about 12-14%) were positive about Brexit.
- A higher proportion of exporters (35%) and importers (38%) were negative about Brexit – reflecting concerns about market access and exchange rates.
- Businesses based in rural areas (32%) were more likely to be negative about Brexit than businesses based in towns (29%) and urban areas (26%).
- Controllers who were men were more polarised in their views (16% positive; 33% negative) than women controllers (10% positive; 29% negative).

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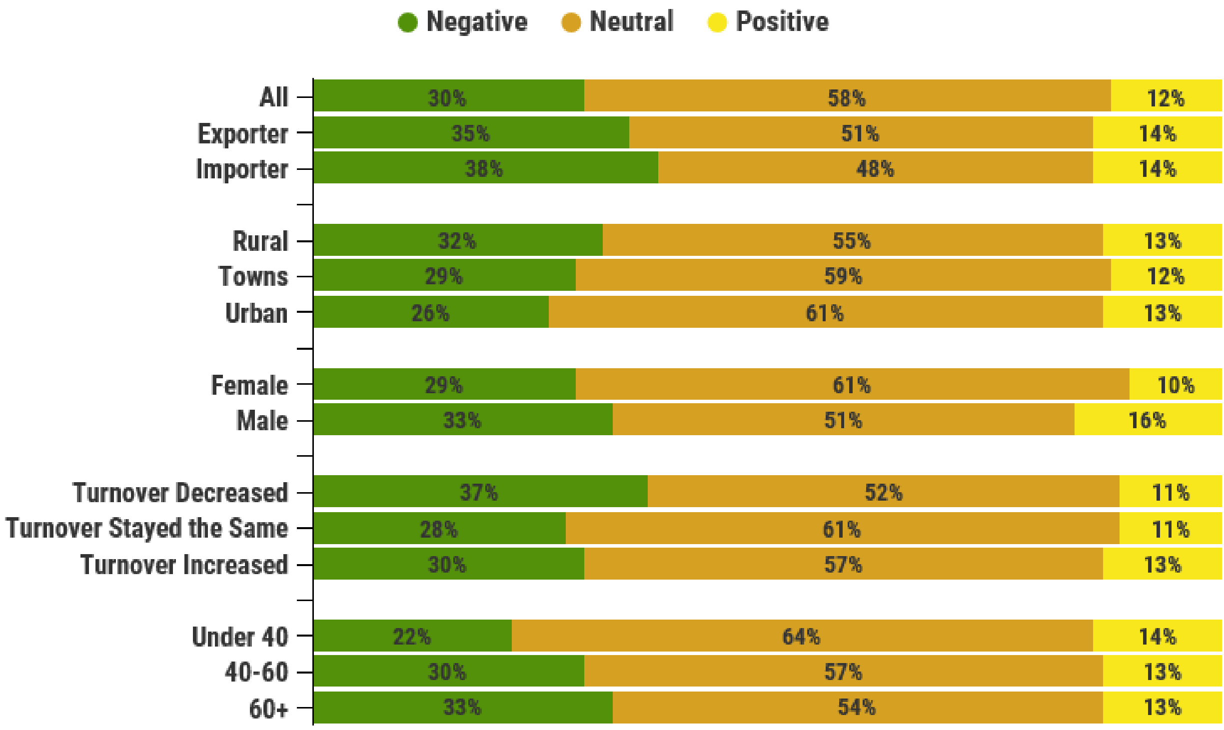
[33] Businesses were asked about the extent to which Brexit would impact on them on a scale of 0 to 10, where 0 was very negative impact, 5 was neutral and 10 was very positive impact. For the purpose of analysis 'negative' is considered 0-3, 'neutral' being 4-6 and 'positive' being 7-10.

- Businesses where turnover had decreased in 2018 were more likely to be negative towards Brexit (37%) compared to others (28-30%).
- In contrast to the popular belief that older people were more in favour of Brexit, the older (over 60 years of age) group of business controllers were more likely to think Brexit would be negative for their business (33%) compared to those under 40 years (22%) and those in the 40-60 years (28%) age groups.

Figure 46 Summary of Brexit perceptions by business cohorts



In order to show how summarising the data can smooth out subtle differences in the distributions of Brexit rankings amongst different cohorts, Figure 47 shows the frequency of scoring by businesses in distinct cohorts. It is noticeable that all these groupings follow a very similar positive Brexit profiles. The key differences are in the extent of Brexit neutrality (the middle hump) and the Brexit negativity tail (left hand side). For example, fewer over 60 year olds were neutral about Brexit consequences, and there was a much higher proportion that ranked the impacts as very negative (17%) compared to 40-60 year olds (11%) and under 40 year olds (5%). Similarly, importers and exporters had lower levels of Brexit neutrality and were generally more pessimistic about Brexit.

Figure 47 Distribution of Brexit ranking by age and overseas links

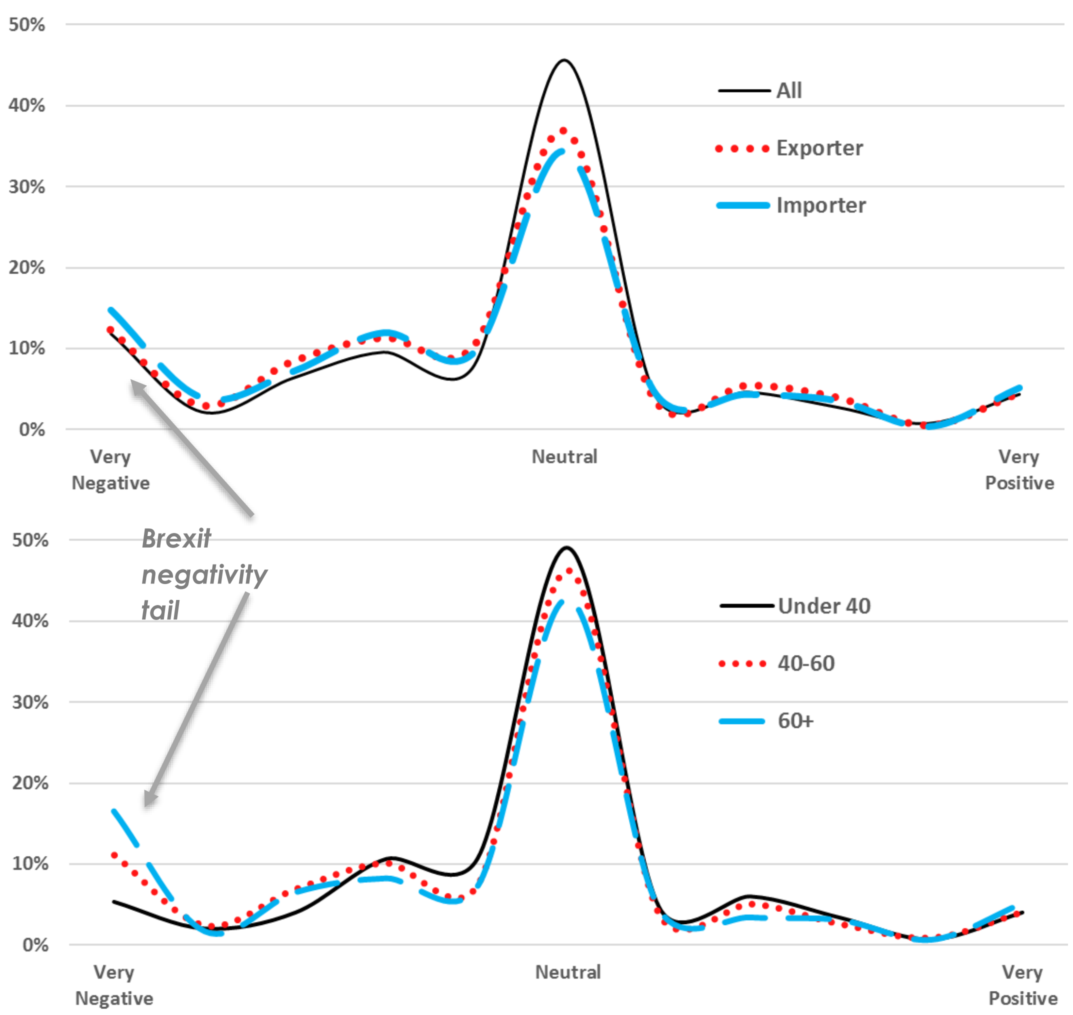
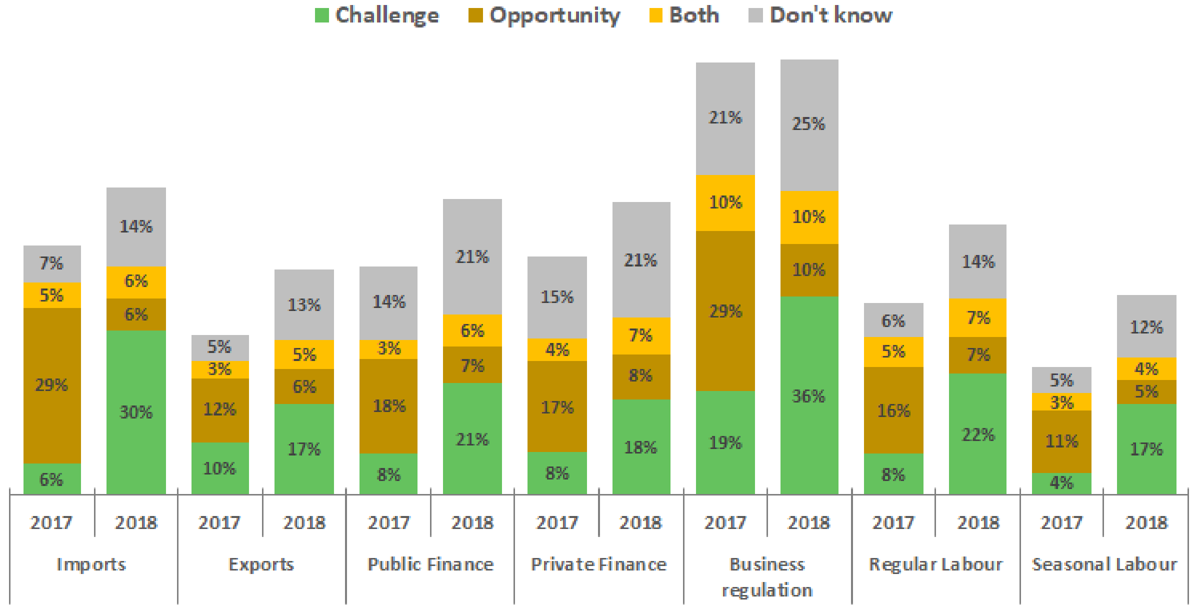


Figure 48 details the responses of interviewed businesses when asked about their perceptions on how Brexit might impact on different components of their business (non-applicable answers are not shown). Generally the 2018/19 interviewees saw less opportunities and more challenges arising from Brexit compared to those interviewed in 2017-18 – perhaps reflecting greater awareness of Brexit related topics as political and press focused on the issues throughout 2018. In 2018/19 only 10% of the respondents thought that Brexit would result in business regulation opportunities (down from 29% in 2017/18), with another 10% thinking it would result in both challenges and opportunities. 36% believed that there would be more business regulation challenges as a result of Brexit (up from 19% in 2017/18). In 2018/19 nearly a third of businesses (30%) thought that importing would become more challenging as a result of Brexit (up from 6% in 2017/18) with only 6% of businesses thinking there would be greater import opportunities (down from 29% in 2017/18). A similar pattern of fewer businesses thinking there will be Brexit opportunities and more businesses thinking that Brexit will bring challenges was found in all topics.

Figure 48 Brexit challenges and opportunities – comparison between 2017/18 and 2018/19



Brexit preparations

Figure 49 World cloud (excluding "nothing") of Brexit preparations

The businesses were asked to briefly describe what measures they were taking to prepare for Brexit. A sizeable 35% of the 733 responses were that the business will "*do nothing*" and just "*wait and see what happens*", as "*you can't plan for what you don't know*" or "it doesn't affect us". Figure 49 shows the key words associated with the actions some businesses are talking to prepare for Brexit. A diverse range of strategies exist from relocating to the EU, to stockpiling, to business planning, to retirement / selling-up, to better business control. The wide range of preparations can be illustrated by the following responses:

Over 1/3 of businesses are not planning doing anything to prepare for Brexit

<u>New Markets/Diversify</u>

- *"Dedicated study group within the company"*
- *"Diversify"*
- *"Do more work in United States"*
- *"Look at global, rather than European markets"*
- *"Not be so reliant on the import from Italy"*
- *"Getting an export licence"*
- *"Try make relations with German suppliers"*
- *"Sourcing more parts domestically"*

<u>Financial / Planning</u>

- *"Anticipate what the prices will be after Brexit and get a balance in between"*
- *"Shrewder finance"*
- *"Controlling costs"*
- *"Possibly buy in advance, but it's hard with perishable goods we can't stockpile"*
- *"Possibly changing the business strategy*
- *"Stockpiling"*
- *"Postponing investments"*
- *"Prepare for business plan"*

"Source more British products"

Promotion

- *"A bit more advertising in Europe"*
- *"Additional export advertising"*
- *"Additional export branding"*
- *"Changing market strategy"*
- *"We are trying to be as attractive as possible to tourists"*
- *"More marketing"*

Relocate / close / staff

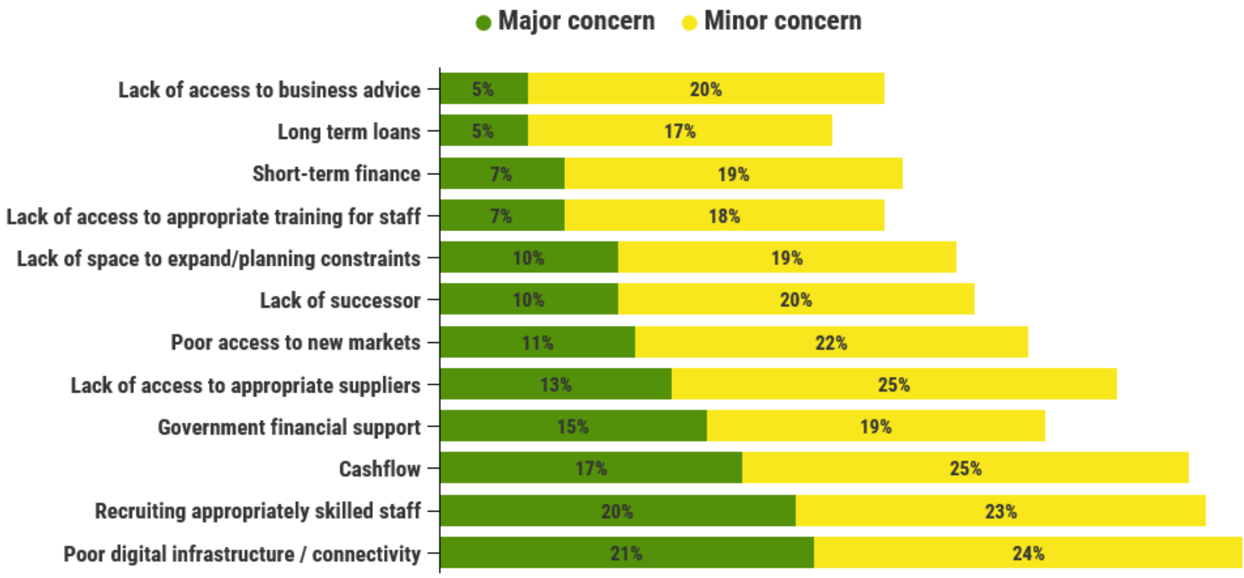
- *"Considering moving to a EU country"*
- *"Possible closure"*
- *"Opening another company in the EU area"*
- *"Engaging more with access to employment for young"*
- *"Retirement"*
- *"Sell up"*
- *"Recruitment of appropriate people with experience in global markets"*
- *"Risk assessment on equipment purchasing"*
- *"Will not carry as much stock as believe the Pound will rise in value after Brexit"*
- *"Stop the new building or most new projects until know outcome of Brexit"*
- *"Increase efficiency"*
- *"Longer-term financial planning"*
- *"Minimise borrowing"*
- *"Legal advice"*
- *"Ensure supplies are readily available"*
- *"Holding more inventory"*

Constraints and Advice

Business constraints

Businesses were asked about the constraints that their businesses were faced with in their daily operations. The issue considered to be the biggest constraint to business was *poor digital infrastructure / connectivity* - 21% said it was of major concern and 24% reported it as minor concern (Figure 50). The second biggest constraint reported was *Recruiting* appropriately skilled staff (20% major constraint; 23% minor constraint) with *Cash flow* the third biggest business constraint (17% major concern; 25% minor concern). It is worth noting that related to Brexit, 38% of interviewees had concerns about *Lack of access to appropriate suppliers* (13% major concern; 25% minor concern) and 33% had concerns about *Poor access to new markets* (11% major concern; 22% minor concern). Overall *Lack of Successor* was a major concern for 10% of businesses and a minor concern for nearly 20%.

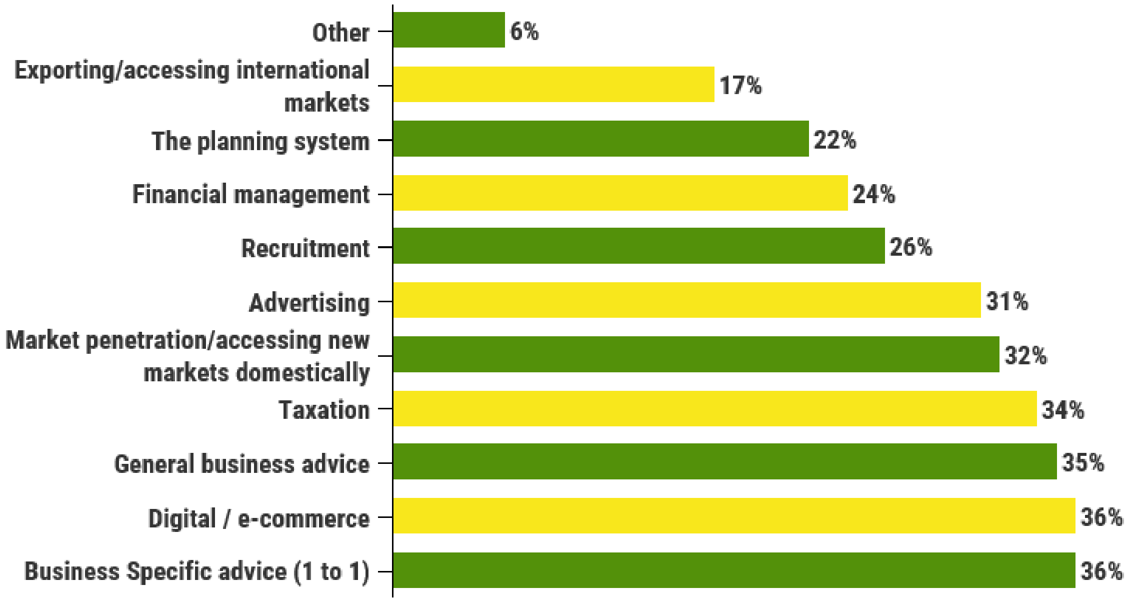
Figure 50 Business constraints of minor and major concern to businesses



Training & support

Figure 51 details the types of business advice and support that businesses reported would be helpful to them. Over one third of businesses reported that *Business Specific advice (1 to 1)* (36%), *Digital / e-commerce* support and advice *(36%) and* General business advice (34%) and *Taxation* support and advice *(34%)* would be helpful. In addition, just under a third of businesses reported that advice on *Advertising* (31%) and *Market penetration/accessing new markets domestically* (32%) would be helpful. Whilst only 17% of businesses thought support / advice on *Exporting/accessing international* markets would be beneficial, it still represents over a sixth of all businesses and it could yield significant economic gains for those potential exporting businesses.

Figure 51 Types of advice / support considered useful



There was some noticeable differences in how the businesses reported training and support needs depending on their geographical location. For example, Figure 52 reveals that businesses in remote towns and rural areas reported higher need for support and advice on taxation, advertising, digital-e-commerce, as well as 1-to-1 advice than their urban counterparts.

Figure 52 Selected training and support needs by business location

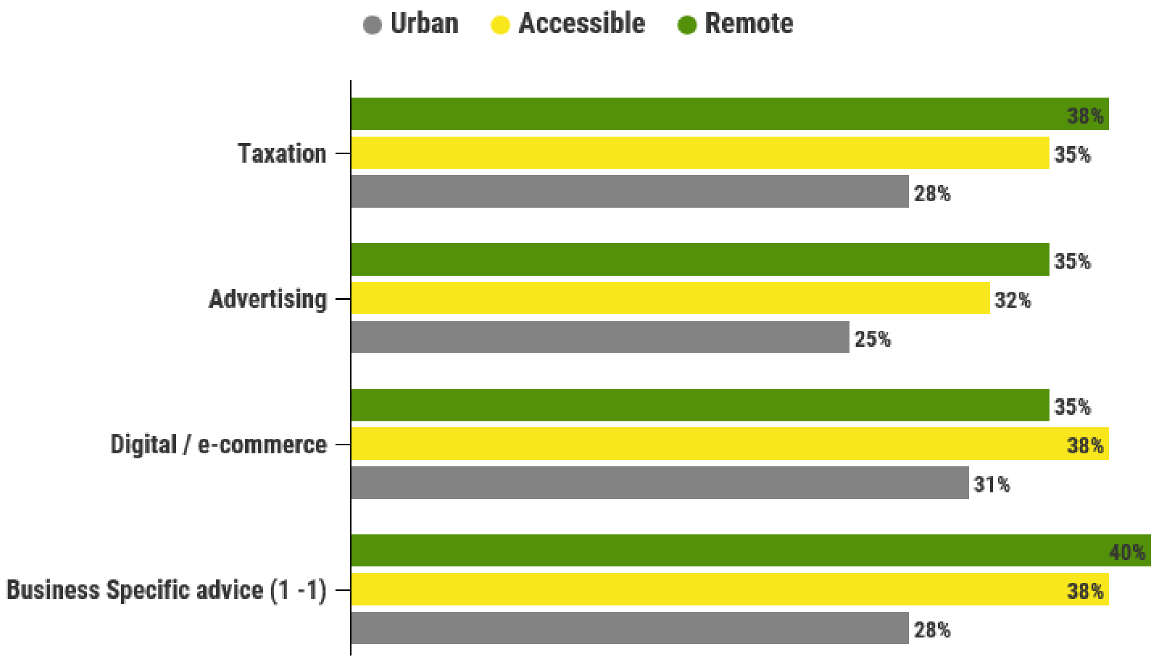


Figure 53 illustrates the ‘other’ identified training and support needs. There was highly varied needs identified, including:

- *“Awareness of grants available in the hospitality industry”*
- *“Communication”*
- *“Support for start-ups”*
- *“Regulatory advice for how things will work post-Brexit, for example VAT rules”*
- *“Human resources”*
- *“Health and safety compliance”*
- *“Social media for all businesses”*
- *“Training in new digital taxation rules”*
- *“Access to accountancy services”*
- *“Pension investments”*
- *“Employment Law”*
- *“Internet security”*
- *“Benchmark training”*
- *“Dyslexia support”*
- *“Advice on how to deal with/compete with AirBnB”*
- *“Skills training for younger workers”*
- *“More technical training specific to industry in Scotland”*
- *“Apprenticeships, government-backed training”*
- *“New regulations advice, related to the effects of Brexit”*

Figure 53 Word cloud of 'other' training / support needs

Conclusions

This report presents the results of the second of three rural business surveys. The survey of 1,200 rural businesses in the North East and South of Scotland focused on exploring the characteristics of these businesses and their owners, their plans, aspirations and ambitions, particularly in relation to Brexit, their links with the land-based sector, their use of family labour, the constraints they are faced with and their training/support needs. The evidence collected through this survey makes a significant contribution to improving our understanding of Scotland's rural businesses, at a time when rural economies are receiving considerable policy attention.

The rural business base largely operates from sole premises (80% of the businesses surveyed) and nearly a quarter of sole premised businesses generated less than £50,000 turnover.

The controllers of rural business have a similar age profile to the farming sector, where a lot of attention has been focused on the aging farming population. The survey results show that this issue may indeed be more of a general business ownership issue rather than anything unique to specific sectors.

The survey has highlighted how important family labour is for many businesses located in rural areas (45%) and small towns (39%). Further the results showed that there was an underlying staff recruitment and retention problem in about a quarter of businesses particularly around being able to recruit appropriate staff.

A large proportion (42%) reported that their confidence in Scotland's economic outlook had worsened, despite nearly three-quarters reporting that their current operating environment was good or very good.

Only 29% of the businesses had a 1-year business plan with only 20% having 5-year plans. Those with business plans tended to be younger (start-up) businesses; branches and headquarters; had turnover growth; had full-time employees; and more likely to have future investment plans.

Just over a quarter of businesses thought that they would not be investing in the business over the next five years – mostly as a result of retirement plans or that they had recently undertaken capital investments.

Nearly two-thirds of the businesses had links to the land-based sector – predominately farming with 59% reporting some reliance on the sector for turnover. Over a quarter of all businesses were supplying farmers, with 7% purchasing from them, 10% both supplying and purchasing from them and 15% having more indirect reliance on farmers (e.g. hotels).

Businesses largely relied on local markets for sales and purchases. However, supplies are brought in from across Scotland (38%), the UK (51%) and internationally. A fifth of businesses were purchasing inputs form the EU with 12% importing from the rest of the world. Businesses were selling locally (87%), in Scotland (42%), in the UK (33%), the EU (16%) and the rest of the world (13%). Those engaged in international purchases or sales frequently noted that things like exchange rates and Brexit uncertainty have made things more challenging.

Nearly 60% of businesses felt Brexit consequences would be neutral for their business, whilst 12% thought it would be positive and 30% thought Brexit would be negative for them. There was more Brexit pessimism compared to last year's survey and considerably fewer businesses felt Brexit would bring opportunities for their business.

45% of the businesses reported that poor digital infrastructure / connectivity affected them and was a constraint on their business (this was much higher in rural and remote areas). Recruiting appropriately skilled staff and cash flow issues were also considered a constraint for over 40% of businesses.

Over one third of businesses reported that 1 to 1 advice, digital / e-commerce support and advice, general business advice (34%) and Taxation support and advice (34%) would be helpful to their businesses. Just under a third of businesses reported that advice on advertising and market penetration/accessing new markets domestically would be helpful, indicating there is a demand for training and support in the wider business base.

Next steps

Following publication of this report a series of short infographic summaries will be produced on similar themes to those in 2017-18 Rural Report (e.g. gender, Brexit perceptions, links to the land based sector, etc.). We aim to launch the third survey in autumn 2019.

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All reports and outputs associated with this rural business research can be found at:
https://www.sruc.ac.uk/ruralbusinesssurvey