

ECONOMIC DEVELOPMENT IN A DOWNTURN

Scottish Enterprise (SE) is Scotland's main economic, enterprise, innovation and investment agency¹. Our ultimate goal is to stimulate sustainable growth of Scotland's economy and to achieve this we help ambitious and innovative businesses grow and become more successful. We also work with public and private sector partners to develop the business environment in Scotland. We deliver a range of dedicated support services locally, nationally and internationally. Our activities help businesses with the appetite and capacity to grow to:

- improve efficiencies;
- access new sources of funding; and
- engage in new markets.

To build a world-class economy, we're interested in industries that have real competitive advantage in Scotland, particularly:

- energy,
- life sciences,
- tourism,
- financial services,
- food and drink, and
- digital markets and enabling technologies.

We work in partnership with universities, colleges, local authorities and other public sector bodies to achieve these goals and to maximise our contribution to the Scottish Government's Economic Strategy². We are mainly funded by the Scottish Government, although we also raise part of our budget from other sources, such as property rental and disposal of assets.

This following provides an overview of key actions being taken or planned by SE as an immediate response to the current economic climate. SE has a key role to play in helping Scottish businesses respond to both the short term "shocks" and over the longer term, the more fundamental challenge, to raise Scotland's sustainable growth rate. The focus here is on the helping businesses respond in the relatively short term, while positioning them for longer term success. There is a great sense of urgency to take decisive action and most of the initiatives set out below have been implemented or will be over the next few months.

The actions have been developed over recent months and draw on direct engagement with the companies we support, as well as wider economic analysis. It is developed from an understanding of both the threats and opportunities that businesses and the Scottish economy face. The economic situation and its impact on the Scottish economy will continue to unfold, and information gathering and reporting mechanisms are in place to ensure real time intelligence informs SE's approach. The action plan is structured around a number of areas:

- Direct and specialised support to businesses
- Finance for businesses
- Accelerating major infrastructure projects
- Developing skills to help SE staff and businesses manage during a downturn
- Marketing campaign to raise awareness of support available to businesses
- Gathering and sharing intelligence and information

¹ <http://www.scottish-enterprise.com/>

² <http://www.scotland.gov.uk/Publications/2007/11/12115041/0>

1. SUPPORT TO BUSINESSES

Scottish Enterprise 'account manages' almost 2000 businesses. These are Scottish SMEs and inward investors that show growth potential. Each business has a dedicated Account Manager and can access a range of advice and services to assist them achieve their growth potential. We are currently undertaking a Business Review with each company to discuss and assess their position, to develop an action plan and to offer support.

Initial issues identified by the businesses include:

- Finance - cash flow is a major issue, particularly for smaller companies. Banks are seeking to renegotiate terms of existing loans and credit lines, placing increased controls on new loans and taking longer to agree packages.
- Operating costs - raw material prices are starting to reduce as demand falls, although companies locked into long-term energy deals are seeing energy costs rising by up to 50%.
- Turnover - forecasts of future sales vary, but on average companies are predicting a 10% - 20% reduction over the next 18 months as order books reduce over the medium term.
- Investment/growth plans – businesses are deferring investment decisions due to the credit squeeze and/or nervousness over the length of downturn. Businesses are also diverting funds from investment to ensure liquidity
- Opportunities – a number of companies are identifying opportunities, for example the fall in the value of sterling is making Scottish goods and services more competitive in export markets.

The Business Reviews, and general feedback from businesses, have identified areas for Scottish Enterprise to provide new and additional support, including:

- **Enhanced 'Investor Readiness' support** - the provision of support to companies to prepare them to successfully raise new funding investment. Support can include the preparation of business plans, financial projections, deal structuring, funding and advice on legal agreements.
- **Viability, restructuring & turnaround assistance** - immediate support to businesses in financial crisis, through the provision of a viability study and the development of a 'turnaround action plan'.
- **Financial review & action plan** – assistance to businesses that have identified potential future financial problems. Support is provided to assess their current financial position, to identify options and to develop an action plan.
- **Strategy workshops** – workshops to help businesses develop strategies to cope with the economic downturn, including international strategy support.
- **Cost reduction/efficiency** – increased provision of support to help businesses reduce operating costs and increase efficiency, for example the doubling in size of the Scottish Manufacturing Advisory Service and increased provision of the Environmental Management Initiative to help businesses develop resource efficiency action plans.
- **Increased support for exporting** - '*Sell now/pay later*' programme, allowing businesses to participate at major trade shows and pay majority of costs up to six months later.
- **Increased focus on innovation** – increasing the proportion of grant funding provided to businesses undertaking R&D, and increased provision of "Winning Through Innovation" (a programme of events and workshops designed to encourage and stimulate greater innovation and entrepreneurial activity in existing and new businesses).
- **Additional high growth business support** - In 2007 the European Commission introduced new powers by which aid for Research, Development & Innovation could be

awarded. One particular power outlines an ability to support Young Innovative Enterprises with aid of up to €1,000,000.

- **Sales & marketing programme** – assistance and advice to businesses to develop and implement more efficient sales and marketing activity.
- **International Preparedness Programme** – advice to businesses looking to enter new overseas markets.

2. FINANCE FOR BUSINESSES

It is still unclear how the market for both supply and demand for equity finance will be affected by the credit crunch. However, to increase access to risk capital Scottish Enterprise is developing the following:

- provision of additional equity finance - in response to continued strong demand for SE's risk finance products as companies seek alternative sources of finance in the current economic climate, further funds are being allocated to the Seed, Scottish Co-Investment and Venture Funds, providing equity investment (co-investing with private sector partners) to Scottish SMEs.
- Investigation of JEREMIE development – this is medium term solution to significantly increase the supply of risk capital through the potential to establish a new, large scale, European Investment Bank financed fund (JEREMIE is an initiative of the European Commission's Directorate General for Regional Policy and the EIB Group which comprises both the EIB and the European Investment Fund (EIF) to enhance SME finance).

3. ACCELERATING MAJOR INFRASTRUCTURE PROGRAMMES

- Bringing forward significant amounts of funding in 2008/09 to accelerate development a number of key infrastructure projects.

4. TRAINING SCOTTISH ENTERPRISE STAFF

'Managing in an Economic Downturn' training is being provided to SE staff to ensure they are equipped with a better understanding of issues businesses currently face. Training covers ten broad issues: strategic planning, banking, business continuity, cost reduction, innovation, key staff retention, managing cashflow, mergers and acquisitions, networking and risk of overtrading. This is accompanied by an 'how to' guides that are also available to businesses through the Business Gateway website³.

5. SCOTTISH ENTERPRISE MARKETING CAMPAIGN

SE is launching in January 2009 a marketing campaign, '*Now is the time to ask*⁴', that will promote the services on offer to businesses to help them manage the downturn. This will include an online diagnostic and interactive toolkit that will signpost to Scottish Enterprise and partner services. There will also be a number of events where businesses can get advice from industry experts and a programme of workshops focusing on specific issues such as finance, leadership, selling and marketing and resource efficiency. As well as increasing SE's visibility in this current economic climate, the campaign is also aimed at engaging new customers for SE to work with - companies who could benefit from the specialist support services we offer and which could feed the pipeline of customers who progress onto our account management programme.

³ http://www.scottish-enterprise.com/sedotcom_home/grow-your-business/news-se-grow-your-business/news-se-grow-your-business-details.htm?articleid=259116&pagetitle=Tackle%20the%20economic%20downturn%20::%20Scottish%20Enterprise%20news

⁴ This will appear on <http://www.scottish-enterprise.com/>

6. INTELLIGENCE GATHERING AND INFORMATION SHARING

It is essential that SE has real time information on the economic downturn and how this is affecting Scottish businesses. This ensures that we are offering relevant advice, services and assistance to businesses. We collect real time feedback from the businesses we work with and from partner organisations, and in turn we share this intelligence with businesses and partners. This includes a weekly commentary on latest trends and issues.

SCOTTISH GOVERNMENT'S RECOVERY PROGRAMME

SE's action plan is a significant contribution to the Scottish Government's recovery programme⁵. The programme has six elements to help the economy address the downturn and is designed to maintain investment and development in the economy while targeting support at households and businesses. The elements are:

- **Reshaping capital spending plans** - bringing forward spend where possible for capital projects including accelerating the supply of affordable housing, investment in new and improved school buildings, transport infrastructure, further/higher education estates and projects supporting fuel efficiency and poverty reduction.
- **Ensuring Government activity supports economic development** through, for example simplifying the planning system, identifying the scope for removing regulatory burdens on business and committing to a target of paying Scottish Government's business suppliers within ten days.
- **Intensifying activity and support for tourism and 'Homecoming 2009'**⁶ - working across all sectors and businesses to boost tourism numbers and the overall economic benefits from Homecoming 2009.
- **Intensifying work around energy efficiency and fuel poverty** - the development of a strategy for increasing spend on energy efficiency through the Carbon Emissions Reduction Target initiative and additional support to tackle fuel poverty.
- **Increasing advice and support to businesses and individuals** through accelerating the award of Scotland's European Structural Funds to bring forward projects that will stimulate the economy, increasing businesses advice and strengthening responsiveness to businesses and individuals facing redundancy
- **Improving financial advice** including increased investment in a range of measures to help individuals in poverty maximise their income, assistance to first time house buyers and help to individuals at risk of financial difficulties and debt problems.

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⁵ <http://www.scotland.gov.uk/Topics/Economy/economic-situation>

⁶ <http://www.homecomingscotland.com/default.html>