**NATIONAL ECONOMIC FORUM – TWENTIETH MEETING: 16 MAY 2018**

**DISCUSSION REPORT: DIGITAL OPPORTUNITIES IN RURAL ECONOMIES**

**Host:**
- Derek Mackay, Cabinet Secretary for Finance and the Constitution

**Facilitators:**
- Theresa Swayne, Senior Development Manager – Digital, Highlands and Island Enterprise;
- Karen Riddick, Owner, Second Nature

**Summary**

The discussion group brought together individuals from public, private and third sector organisations to discuss the challenges and opportunities afforded by digital connectivity to the rural economy of Scotland. Business models are changing rapidly and, with the growth of online retail, entrepreneurs require new skills and greater support to remain competitive in a global marketplace. Delegates were provided the opportunity to share their experiences and to hear from those who have successfully utilised digital technologies to grow their businesses.

**Introduction and Background**

Technology is transforming the ways we live our lives. It connects us in new and different ways. It allows us to develop new products and services; to collaborate; to access information in new ways; to develop successful, global businesses; and can help us reduce the costs and increase the quality of public services. The advantage of being digitally connected is that location should not matter. Digitalisation affords individuals, small businesses and communities opportunities that previous industrial and manufacturing booms did not. The big question is how do we exploit this opportunity?

The Cabinet Secretary for Finance and the Constitution introduced the discussion by stressing the importance of high quality digital connectivity to improving Scotland's long-term economic growth. However, he recognised that in order to fully capitalise on the opportunities offered by the digital economy Scotland required a digital skilled workforce and future-proofed digital infrastructure. Therefore, he emphasised the Scottish Government's commitment of £600 million investment in the initial phase of the Reaching 100% programme and urged greater action to realise the benefits of this investment.

**Themes discussed**

Discussions covered a wide range of dynamics on rural connectivity, but the over-arching themes are summarised below:

To remain competitive both internationally and home businesses need to embrace the online marketplace. Business models are changing rapidly and with the growth of online businesses, not necessarily in key priority sectors new enterprises and skillsets are required to manage customers, trade online and export successfully. Digital connectivity is both an enabler and a barrier to trade abroad. Concern was raised that our business support mechanism has not adapted sufficiently to accommodate the quickening pace of technological change and global e-commerce opportunities.

Through a number of case studies delegates discussed how to make the most of digital opportunities and the importance of collaboration across the spectrum of digital support and skills to ensure Scotland is truly a world class digital nation.

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Risks
There is an on-going digital skill gap within rural communities. Many small businesses lack the IT skills to embrace and capitalise on the digital economy and therefore need to outsource. This skills gap is particularly prevalent in more traditional businesses that are transitioning into becoming technology enabled. A concern was raised that such businesses are at risk of cyber attack.

There is number of programmes available to business to enhance their cyber security;

- In 2015 the cyber resilience strategy was launched
- The Digital Leaders Cyber Resilience Week ran from 11-15 September 2017
- The HIE Cyber Strong programme is one of a range of programme based in Scotland, which are part-funded by the UK's National Cyber Security Strategy Programme, which helps rural businesses achieve the Cyber Essentials accreditation and minimise the risk of a cyber attack,

A point raised by the delegates was that many businesses are seeking to obtain the Cyber Essentials accreditation on the basis that it is a regulatory requirement and/or imposed by the Scottish Government, rather than to secure their business systems and customer data. Therefore, it was felt that more needed to be done increase awareness of the risks of cyber attacks and support businesses to address these risks.

A barrier to ensuring that Scottish businesses remain cyber secure is the existing IT supply chain. In many rural areas there is a lack of access to suppliers qualified to support small businesses with Cyber Security and Cyber Essentials. Therefore, many rural businesses are forced to outsource for further cyber practitioner support.

Potential Solutions
Delegates felt that whilst there was a diversity of digital support from a number of organisations the sheer volume information could lead to confusion for the business owner. It was felt that more could be down to coordinate the existing digital business support across all agencies and 'declutter the landscape' of support from different agencies a one stop shop for digital and cyber support in Scotland for businesses.

Raising awareness of the benefits of digital technology is essential within rural communities. Digital technologies reduce distance and isolation, stimulate economic growth and sustain vibrant local communities.

Ensuring that Scotland has the necessary digital infrastructure to remain globally competitive is an on-going concern. However, through additional government investment in R100 and innovative solutions from industry e.g. LoRaWAN, IoT and Spectrum, Scottish firms continue to explore opportunities for improving connectivity.

Delegates raised concerns that too little of the £600 million Scottish Government funding of R100 went towards digital skills training. It was broadly felt that more training was needed for rural businesses on a range of digital skills; how to use online platforms; self-employment opportunities; customer engagement (etiquette and culture) and virtual support for online businesses.

Delegates felt that online retailing offers untapped potential for rural employment but that there is a lack of structure and guidance to drive growth in this area.

One solution suggested was the creation of online business parks. This could incorporate a supported environment in which online retailers can occupy premises which allow them to

operate their online business and to have a shop front/trade counter if so desired. The intention would be that businesses could thrive in the absence of passing footfall, but, by default, the creation of shop fronts, may actually bring more people to the development. In that respect there is the opportunity to apply this model to town centres which have a high proportion of unoccupied businesses. Empty shops could provide the perfect environment for internet stock – and with the shop front displaying the range of online wares available. People who prefer online shopping may return to shopping in town centres given that they will, in effect, be buying from 'the internet'.

An online business strategy or shared environment could enable a co-operative approach to be taken to the purchasing of common goods and services such as courier services, packaging, broadband, photography, web design etc. Relevant training could also be provided so that the right advice and guidance is on offer. This would include the use of existing online platforms e.g Amazon and Ebay for online sellers (and the equivalent online facilities for other industries). Businesses might also benefit from improved online communication skills in order to create and maintain the healthy profile that, these days, is required to survive.

It is recognised that the employment of staff can be a barrier to the growth of small businesses, but there is another solution. The development of labour agencies could enable businesses to buy in the services they need, when they need it. This would give businesses the freedom to grow and to create employment – without being the employer.


**Closing Comments**
The Cabinet Secretary for Finance and the Constitution brought the discussion to a close thanking delegates for their insightful contributions.

He acknowledged the contribution of the organisations who presented and/provided case studies in bringing the discussion to life. These included:

- Second Nature,
- Argyll and Islands Tourism co-operative;
- Leask Marine;
- Your Space Music,
- Windswept Brewing;
- The Data Lab;
- FIThomes project and;
- #hellodigital

He reiterated the Scottish Government's commitment to provide future-proof digital connectivity anywhere in Scotland, any place, any time. He further noted that Scotland had the ambition, innovation and entrepreneurial spirit required of a world class digital nation. However, to take advantage of the opportunities afforded by digital connectivity Scottish business need to be aware of digital security and integrate it across the whole supply chain. He stressed the need for a network of support for digital entrepreneurs and welcomed the idea of a single destination for businesses to learn more about digital security.


**Scottish Government**
**May 2018**