Unlocking Growth: Growth Growth

The UK's SME Tech Opportunity

Foreword

The UK business landscape is going through a profound transformation. Businesses are battling with the challenges of inflation, and the increasingly important role that technology, and more predominantly, AI, plays in the day-to-day running of businesses. Meanwhile, the UK is lagging behind Europe in terms of productivity, which has become a drag on our economy.

Our SME community - comprising of medium, small and micro businesses - of which there are just over 1.4 million in the UK, could provide some of the answer. Employing upwards of 12 million people in the UK, they play a fundamental role in their industries and driving the UK economy forward.

In fact, in 2023, they generated £783 billion to the UK in GVA (gross value added).

That is a large figure, however, this report found that if they were to truly harness the benefits of tech investment, SMEs could contribute an additional £79 billion to the UK economy in the next 12 months – an almost 10% increase on last year. This could in turn generate additional Exchequer receipts (through taxes on income and expenditure) worth over £25 billion per annum over a full year, more than the £22 billion currently outlined as necessary by the Chancellor to fill the "black hole" in public sector finances.

And it isn't just financial benefits – the UK's current productivity gap could also be closed significantly if SMEs were enabled to implement new technologies and reap the operational rewards.

It's critical to note, however, that all of these benefits are dependent on SMEs being able to invest effectively in new tech.

Based on the polling of over 2,000 SMEs, it struck us that the UK could potentially be missing this opportunity to realise the full impact of technology. This report sets out that even though SMEs know how important tech is, they are currently facing big concerns around adoption and investment, they are worried about the costs and skills required, and this has resulted in them fearing that they will be unable to capitalise on tech.

This report also aims to address how it's not just new technology that SMEs need. It's also the right level of connectivity – including 5G and WiFi – and high speed internet, to operate efficiently. It's therefore alarming that the UK is lagging in 5G availability compared to Europe[1], and our network speed is the same[2].

Technology is a key driver and enabler of growth for businesses, who are at the heart of the UK economy, and reliable connectivity is a must-have. At a time where the Government is setting ambitious growth targets, it's absolutely critical that UK networks band together to ensure our businesses are getting the service they deserve.

We hope this report shines a spotlight on the often-overlooked SMEs, and the impact they currently have, and could have, on our UK economy. In doing so, we uncover what they most want from the Government in terms of support, and how this could benefit our wider UK economy for the better.

Mike Tomlinson

Managing Director, Three Business

[1] 5G download speeds (2023 Q4),Opensignal
[2] Median download speeds (March 2024), Ookla Speedtest

Exec summary

As more work and areas within businesses become digitised, the next greatest hurdle businesses face is to have enough capital to invest in digital technologies, such as Artificial Intelligence (AI).

The rewards are significant, not just for business processes, but also for the knock-on impact on the UK economy. Technology and the right connectivity has the ability to boost productivity across the UK and increase the economic contribution that businesses make.

In fact, with the right level of support to invest in technology, our report shows that the UK economy could benefit from a £79 billion boost. It also shows that the UK could narrow the productivity gap with other major economies, closing the gap on the US by 25%, France 34% and Germany by 29%.

Yet, despite SMEs having the appetite to invest and being aware of the benefits, we also know that the majority are unable to prioritise investment in tech, and are concerned that they are failing to capitalise on it as a result.

When we break this down further this report finds:

London businesses are the most concerned about the cost of onboarding new technologies, as well as the difficulty of doing so and the effects of failing to capitalise on new technology.

Adoption of AI and digital tech is a far greater priority for those working in London, with almost half (45%) of businesses prioritising this, compared to 22% in the North and 18% in the South.

Appetite for investing in technology training and development was strongest in the capital (45%) compared to 29% in the North and just 23% of businesses in the South.

Almost all SMEs said a **reliable (97%) and high speed (94%) internet connection was important** for their business.

But more than half (53%) of these businesses said **poor mobile in their area could affect their ability to grow.**

The IT and telecoms sector is the most optimistic about the financial return on investments in tech, anticipating a 33% revenue boost over the next 12 months.

Employees in the IT and finance and accounting sectors also had high expectations for new technologies enabling faster and more efficient operations (55%) and increased productivity (50% in IT and 55% in finance), whilst also looking forward to greater task automation (48%).

Across all industries, businesses are calling for a more stable economic environment, tax relief for SMEs and investment incentives to encourage further tech investment. We also see them looking to the Government to set an example, with more than a fifth wanting to see the Government invest in the development of AI and new technologies.

At a critical time in our economy as the UK looks towards growth, it is important to listen to what businesses are saying and ensure action is being taken to support them – both with existing connectivity and new technologies. Without the it, the economy could be missing out on additional Exchequer receipts worth over £25 billion per annum over a full year – and continue to lag behind Europe.

Concerns for SMEs growth prospects

Against a backdrop of a challenging economic climate and gaps in government support, SMEs face numerous challenges in their ability to grow, with connectivity and technological adaptation ranking among their biggest concerns.

More than half (53%) of SME decision makers report poor mobile signal in their area might act as a hindrance to growth, and 97% said that high speed reliable connectivity is key to running their business effectively. This is therefore particularly worrying that 86% of SMEs cited poor connectivity as having negatively impacted their operations in some form in the past year.

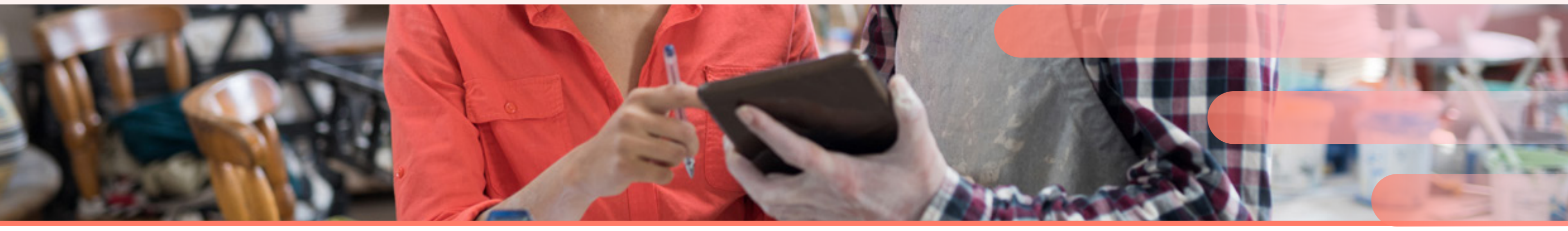
Their concerns are not unfounded. According to recent research, the UK came 22nd out of 25 European countries[3] in terms of 5G availability, with London coming last in a list of 10 European cities.[4] Additionally, the UK's general network speed was also reported to be poor in comparison to Europe, ranking 26th out of 31[5].

Existing technology and connectivity are not the only issues on their list of worries. The rapid pace of technological change also poses a challenge. Two fifths (42%) of SMEs are concerned about the difficulties of onboarding new technologies, with this number rising to 58% for medium size businesses.

This causes them more worries, with a substantial 43% of SMEs expressing concern about failing to capitalise on emerging technologies, such as (AI). Medium businesses (between 50-249 employees) felt this the most, with almost three in five (59%) concerned that failing to capitalise on new technologies might impact their businesses growth.

The costs associated with adopting new technologies are another key concern, with 55% of SMEs feeling this pressure. This has a knock-on effect, with the inability to prioritise tech investments further complicating their growth prospects, with 42% identifying this as a major issue.

While embracing AI is high on the agenda for SMEs, uptake of digital tools for functional businesses processes was still low.



Uptake of digital tools for business processes

31% Budgeting & accounting

36% Invoicing customers

23% Ordering goods

16% Sales

10% Customer service

[3] 5G download speeds (2023, Q4), OpenSignal
[4] https://medux.com/blog/londons-5g-dilemma-ee-outshines-locally-londons-average-experience-worst-among-european-cities
[5] Median download speeds (March 2024), Ookla Speedtest

Prem Patel

Founder and CEO Aveea, STEM workshop provider for primary schools

“Our business relies heavily on technology to run workshops for children, especially in areas where schools can’t afford to buy expensive tech or keep up with the fast pace of innovation. We provide these schools with access to cutting-edge technology and the necessary training for their students. Without this, some children are simply left behind.

“Travelling around the UK to reach different schools, we do face connectivity issues. This is especially true when traveling across the country, where mobile network coverage can be inconsistent. However, with ongoing improvements from mobile networks, we hope to eventually see seamless 5G coverage across the UK, which would significantly enhance our ability to stay connected while on the move.

“My business simply cannot work without connectivity and the latest technology, but the main barriers we face are the costs involved and the uncertainty of how long the technology will remain relevant before becoming obsolete. In addition to that, durability is crucial.

“Without continued investment in technology, we risk falling behind and not providing the quality of experience the kids deserve. This is especially crucial in deprived areas, where the consequences of not having access to technology extend beyond just a hit to our productivity or bottom line; it’s about ensuring that children who need it most in our society have the same opportunities to succeed.”

The ROI from tech

In line with the challenges they face, SMEs are going to invest 14% of their budget into technology in the next 12 months. Medium businesses lead the way, dedicating 19% of their annual budget towards new tech, compared to 15% of small business (10-49 employees) and 11% of micro (less than 10 employees) budgets.

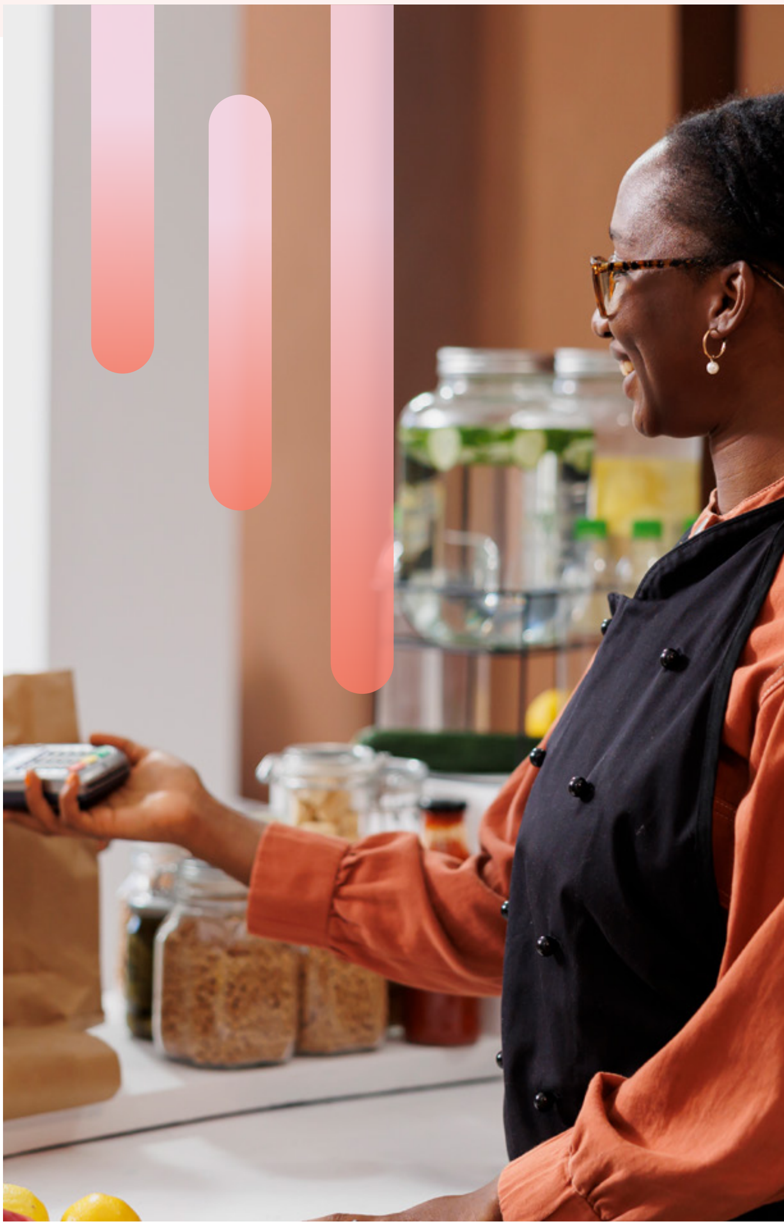
Technology is a big theme for SMEs businesses, with their biggest priorities for investment in the next 12 months being:

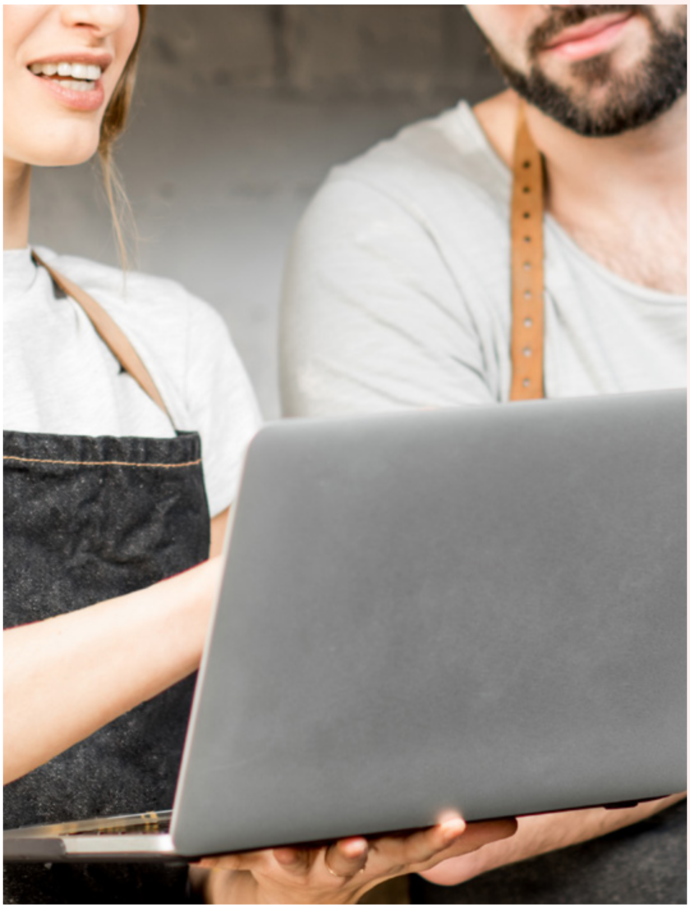
1. **Marketing** 39%
2. **Equipment** 36%
3. **Technology training and development** 31%
4. **Adoption of AI and other digital technologies** 26%

Again, medium businesses put more emphasis on technology and training (49%) and adoption of AI (39%).

While SMEs were keen to invest money into technology in the next 12 months, they also have high expectations in terms of return on investment (ROI).

On average, SMEs expect a 24% revenue boost in the next 12 months based on their tech investment, translating compared to an increase of 30% for mid-size, 24% for small, and 18% for micro businesses.





In monetary value, this translated into an extra contribution towards the UK economy of £79 billion – made up of over £36 billion of by medium businesses, £26 billion from small businesses and almost

£17 billion from micro businesses ((by GVA).

Looking at what this means in comparison to current UK budgets – this could generate additional Exchequer receipts (through taxes on income and expenditure) worth over £25 billion per annum over a full year. This is more than the £22 billion currently outlined as necessary by the Chancellor to fill the "black hole" in public sector finances.

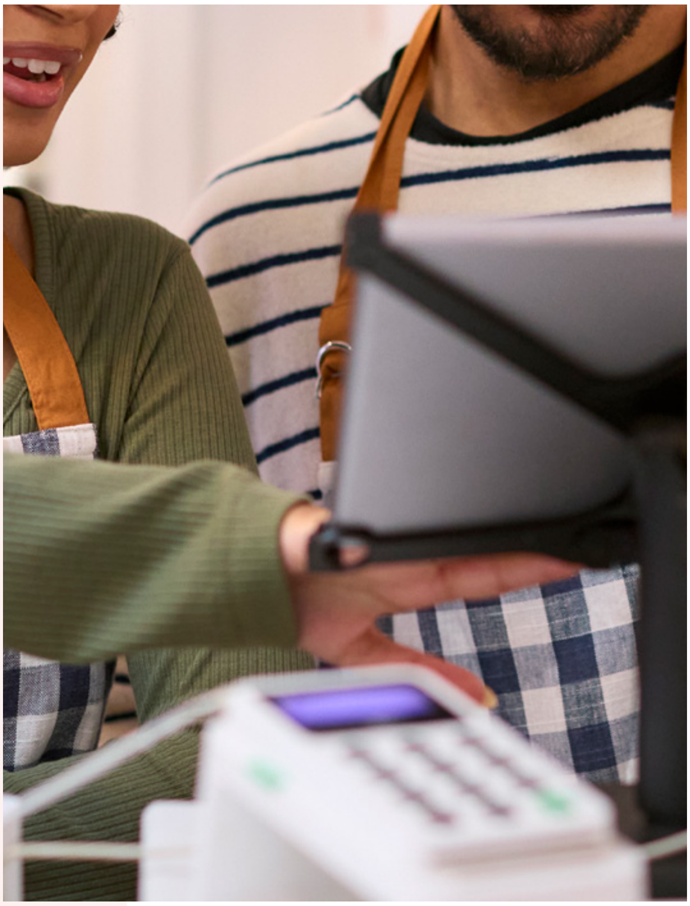
Aside from monetary gains, 40% of SMEs also expect increased productivity as one of their top three benefits from AI investment, with further expectations including becoming faster and more efficient (43%) and automating menial tasks to free up staff time to focus on more meaningful tasks (38%).

If these expectations are met, this could help close the existing productivity gap on the US by 25%, France 34% and Germany by 29%. This would be a huge gain, with the average worker in the US currently generating £17.39/hour more than a UK worker, France generating £14.77/hour more and Germany $19.2/hour more.

Looking at the broader landscape, 43% of SME business leaders say that a stable environment would encourage their business to invest more time and more money in new technology.

The second most influential factor for businesses is a tech investment relief for SMEs, of which 39% of business leaders feel this would encourage them to invest in technology.

Looking ahead, the top ask from medium businesses to the Government, with almost half (46%) prioritising it, is business rate relief. The next biggest asks from SMEs are VAT relief for SMEs (43%), more investment incentives for SMEs (36%) and higher capital allowance for SMEs (29%).



Dr. Ram Raghavan

Founding Partner of the Kaya Wellbeing Index, based in Buckinghamshire

“As a SaaS provider offering a cloud-based solution, connectivity, speed, and reliability are absolutely critical.

We are a virtual team with two members based in different cities across India, one in Nigeria, and one in Ethiopia. Our work, meetings, and lead generation all happen online. Without the internet, we simply wouldn’t exist. It’s as straightforward as that.

We are not only planning to invest in new technologies, but are already actively doing so. We are heavily invested in the cloud and we are now also bringing in AI to the business.

We have high expectations for our investment, and we are planning to use AI to refine our market offering. We are also building some applications to use data we collect to determine the impact of AI on our productivity levels and to help build a culture that is caring, which we hope will help attract the right talent.

New technologies are critical for us and we need to invest a high level to ensure we maintain a leadership position within our industry and ensure we can meet our ambitious growth plans.”

London leaders

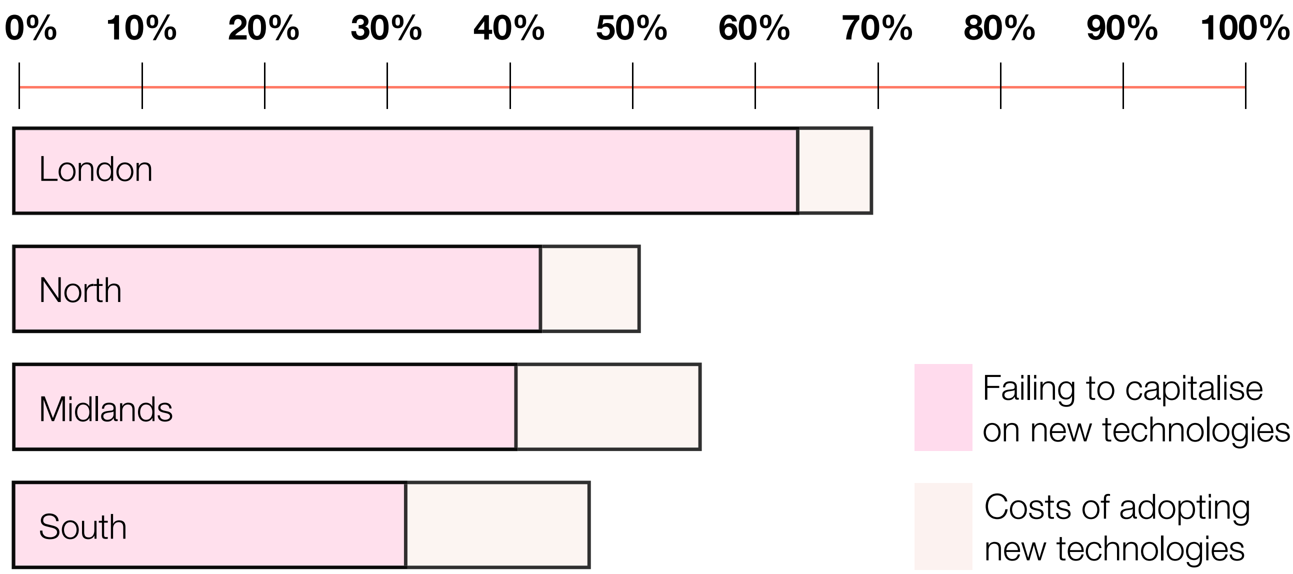
Top tech concerns

When looking at how different concerns play out around the country, SMEs that predominantly work in London are the most concerned when it comes to technology investment, implementation and capitalising on innovation.

When compared to businesses working in the North, Midlands and South, London businesses feel more concerned about the cost of onboarding new technologies (70%), the effects of failing to capitalise on new technology (64%) and having insufficient digital skills within their workforce (64%).

They are also more concerned about the difficulty of adopting new technologies, with over 3 in 5 (63%) being worried, with the same amount (63%) of London businesses concerned about being unable to prioritise investment in tech, compared to just 43% of businesses in the North, 36% in the Midlands and 29% in the South.

It wasn't just new technology – but also existing connectivity – that worried them. A large majority (89%) of London businesses feel that poor connectivity has had some impact in their ability to conduct business in the last 12 months. This aligns to recent research that ranked London last in a list of 10 European cities in terms of 5G quality.[6]



[6] https://medux.com/blog/londons-5g-dilemma-ee-outshines-locally-londons-average-experience-worst-among-european-cities

Investment expectations

While concern levels are high, this is motivating businesses based in the capital to invest. Almost half (45%) of London based SMEs plan to spend or invest in tech in the next 12 months, compared to 22% of those working in the North, 18% in the Midlands and 22% in the South.

This is roughly reflected in their expectations for the revenue boost they expect to see back from this investment, with businesses working in London on average believing they will see a 37% revenue boost, higher than the 24% revenue boost expected in the Midlands, 21% in the North and 15% in the South.

This translates into London businesses generating an additional £40 billion, the Midlands almost £10.5 billion, and businesses working in the North and South adding approximately £8 and £7 billion each respectively.

> **“Businesses based in London expect the greater ROI on investments in technology”**

In terms of areas being prioritised with investment next year, upskilling and training came out highly across all regions. Meanwhile, adoption of AI and digital tech was much higher in London, with almost half (45%) of businesses prioritising this, compared to 22% in the North, 18% in the South and 22% in the Midlands.

Motivations for change

Reflecting London businesses’ concerns about skills, 41% feel that appropriate training and coaching would encourage them to invest in tech. This compared to just a quarter in the North (26%) and the Midlands (27%) and 21% in the South.

Looking specifically at government action to support businesses, a more stable economic environment was the highest factor across the board. In line with London’s fixation on AI, 35% of businesses working in the capital would like to see the Government invest in the development of AI and new technologies, compared to just 18% of those working in the North and in the Midlands, and 12% of businesses working in the South.

> **Additionally, a quarter (25%) of London businesses wanted more regulation around AI - the highest across all regions.**

In addition, businesses that worked in London felt more strongly about creating an investment environment where large businesses can support SMEs (37%), compared to less than a fifth of northern businesses (18%), Midlands businesses (18%), and Southern businesses (14%).

David Jackson

Chief Technology, Doyle Clayton – employment law firm based in London and Reading

> **“Connectivity is the backbone of our firm, enabling us to operate effectively, securely, and competitively in a digital age. Investing in technology platforms and solutions not only allows us to streamline our internal processes and improve efficiencies, but helps our firm to stay competitive, improve client service delivery, and adapt to the evolving legal landscape.**

“Overall, the ROI from tech investments is multifaceted, encompassing financial benefits, improved productivity, client satisfaction, competitive positioning, talent acquisition, scalability, and security. One challenge that we face perhaps more acutely is the need for regulatory compliance. The legal industry is highly regulated and any new technology must comply with these regulations. This can slow down the adoption process. Another challenge for us is the increase of advanced cyber security threats. New technologies can introduce new vulnerabilities, so ensuring robust protection of sensitive information is critical.

> **“Despite these barriers, we recognise the long-term benefits of investing in technology and are finding ways to overcome these.”**

Industry priorities

When focusing on industry figures, significant differences emerge in the challenges faced, the opportunities sought, and the demands placed on the Government.

Each industry experiences unique pressures, but several key themes stand out across sectors.

Common concerns

While there are common worries that keep businesses awake at night, the severity of concern varies by industry. Poor mobile signal is a particular worry for the construction sector, where 66% agreed it hindered growth, compared to 59% in the IT sector and just under half (48%) of manufacturing businesses.

Another notable worry is the fear of failing to capitalise on AI and other emerging technologies. This fear was especially pronounced in IT (60%) and finance (50%).

Digital skills deficits among the workforce are a major worry for many, with finance and accounting professionals the most concerned about this (57%), while IT and finance reported the highest levels of concern around the cost of adopting new technologies (77%) across all sectors.

Investment priorities

In terms of investment, manufacturing has shown more progress in digitising processes. More than half (58%) of mid-sized IT and telecoms companies across the UK have digitised staff payment systems. Similarly, the sector is also leading the way on other digital processes including invoicing customers (37%) and budgeting and accounting (31%).

IT and telecoms sector more likely to digitise business processes such as staff payment systems and invoicing

The IT and telecoms sector was found to be the most optimistic about the financial return on tech investments, anticipating a 33% revenue boost over the next 12 months. This revenue boost would translate into an additional £7.5 billion being contributed towards the UK economy from the IT and telecoms sector alone.

Opportunities for growth

Finance and IT and telecoms also had the greatest expectations from investments in AI, including: becoming faster and more efficient (55%) increasing productivity (55% and 50%), and increased task automation (48%).

Across all industries, businesses are calling for a more stable economic environment (43%), and business rates relief for SMEs (46%) to encourage further tech investment. Sector-specific demands from the IT sector included more investment incentives (48%) and increased investment from the Government in the development of AI (40%), while more than a third of finance businesses (36%) wanted higher capital allowances.

Marion Stewart

CEO at Red Helix, a cyber security provider based in Aylesbury

“Reliable connectivity is foundational to ensuring our business can deliver consistent service and maintain client trust. As a 24/7 managed cyber security provider, our clients depend on us to monitor and secure their environments continuously, so even brief interruptions to our connectivity could potentially delay our ability to respond to threats.

“We also continuously look to prioritise investments into broader and newer technologies, and we have high expectations of the impact these will have on our business. When implemented correctly, we know the benefits can be huge, including higher cost savings, increasing operational efficiency, reducing manual workloads and productivity.

“As an IT firm, we know that investing in new cyber security tools not only enhances our service capabilities, but also makes us more attractive to top talent who are drawn to companies with a strong tech focus.

Of course, we face challenges such as budget constraints and crunches on resource, but ultimately, insufficient tech investment would limit our capacity to service clients effectively, and would render us uncompetitive.

That just goes to show that for us to not invest in tech is simply not an option – it is something we must prioritise.”

Conclusion

SMEs face a wrath of concerns. Not only are they having to deal with ongoing cost and inflationary pressures, and cope with lagging connectivity, but they are also having to adapt quickly to the fast-paced technology landscape, which is at the forefront of their concerns.

Currently, SMEs are facing a tech dilemma – the high levels of investment, and the knowledge to embed technology correctly are short-term challenges, but they know that holding back could cost them even more opportunities in the long-run.

It's therefore positive to see that despite the challenges, our SMEs are continuing to push capital towards technology in the next 12 months, and more than a quarter are focusing on AI and digital technologies.

The incentive for these investments is clear – with SMEs expecting to generate a further £79 billion boost on average in the next 12 months based on the tech investment they are making now. And the results go further than just monetary gains, with an increase in productivity, efficiency and task automation also expected.

However, in order to achieve this, they need support. They want more government incentives and improvements to the connectivity on offer to make sure they can compete on a global stage.

We are at a challenging but optimistic intersection, with SMEs poised to leverage technology for growth. But it is only by a combination of government support, telco collaboration, and business ambition that these businesses will achieve their full potential.

If you'd like to hear more information about working with the Three Business team, get in touch by **requesting a call back here.**

About Three Business

Three Business is the B2B division of connectivity company Three UK and sells a range of mobile business solutions to help companies stay connected and grow their business.

Our network today covers 99% of the UK population and has been recognised by Ooklaas having the fastest 5G.

Three Business was named Business Network of the Year at the Mobile Industry Awards in 2023 and 2024.

Three UK is part of the CK Hutchison Holdings Ltd group of companies which has mobile operations in 11 countries. We employ more than 4,800 people across our offices in Reading and Glasgow and our 297 retail stores.

Methodologies

Survey: All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2015 SME senior decision makers. Fieldwork was undertaken between 2nd - 11th September 2024. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). The views expressed here are not the views of YouGov.

Economic figures: Economic analysis was conducted by Development Economics. The baseline position for the economic contribution from the UK's SMEs was established using the 2024 edition of the annual Business Population Estimates (BPE) from the Office of National Statistics.

The ONS Annual Business Survey (ABS) – was also used to estimate the value of annual Gross Value Added likely to be generated by these SMEs. The approach to this was to estimate the GVA/turnover ratio for businesses in each industry, and then to harness the business revenue estimates from the BPE to generate GVA estimates for SMEs by region and by business size-band.

Findings yielded from two questions used in the YouGov business survey (of UK SMEs) were then used to generate estimates of the potential additional revenues – and associated GVA – that are likely to result from intended new investment in technology. For further information on each calculation, please get in touch.