

UK SMEs Technology Investment Barometer 2014





Foreword



Welcome to the first edition of GE Capital's Technology Investment Barometer, an annual survey of investment intentions and sentiment of Small and Medium Size Enterprises (SMEs) across the UK and the other large economies in Europe, with a focus specifically on IT software, hardware and office equipment.

Taking a look at the UK market, economic data suggests that the investment confidence level proves to be the strongest amongst the leading Western European countries including France, Germany and Italy, with 63% of SME's showing positive views on future growth. UK SMEs investments in the next 12 months will increase by 53%, reaching £22.8 billion total investment in technology.

Overall spending in IT and office equipment is expected to grow substantially, with investments in IT hardware assets representing the highest planned investments, driven predominately by the SMEs need to enhance efficiency and productivity.

Optimism is returning, and alongside it, investment intentions are increasing. Currently, UK SMEs have equal preferences over external and internal financing for their capital investments. When choosing an external financing option, 34% of the SMEs would most likely opt for a lease of equipment via a vendor agreement or structured finance. That is where GE Capital's commitment and experience can prove a most valuable method of financing capital investments. GE Capital is looking at designing the right financing solution for SMEs.

As companies continue to invest in technology equipment, software and hardware and gain further confidence, the following 12 months present significant opportunities for the technology industry.

Gabriele D'Uva
Equipment Finance Commercial Leader,
GE Capital



10 Key Insights



63% of UK Small and Medium Enterprises (SMEs) are positive towards future growth



The UK has the strongest level of investment confidence across the large Western European economies including France, Germany and Italy



UK SMEs plan to invest £22.8 billion in technology equipment in the next 12 months, which represents a 53% increase from 2013



Growth is expected in all technology asset classes, IT hardware, IT software and office equipment



The highest planned investment is for IT hardware with £10 billion



Enhancing efficiency and productivity is the main reason for updating IT hardware and software



50% of UK SMEs are financing technology equipment by buying outright with company capital



34% of UK SMEs considered leasing as their preferred external financing solution for acquiring technology assets



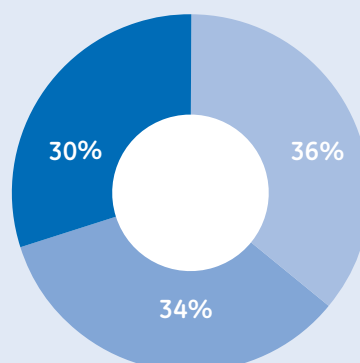
UK SMEs are more likely to consider a high street bank (77%) than any other finance provider



66% of UK SMEs would consider using leasing providers vs. 55% for their EU4 colleagues

The study explores the investment intentions of 330 SMEs located in the UK split in the following categories:

- Small: 2 - 9 employees
- Medium: 10 - 49 employees
- Large: 50+ employees



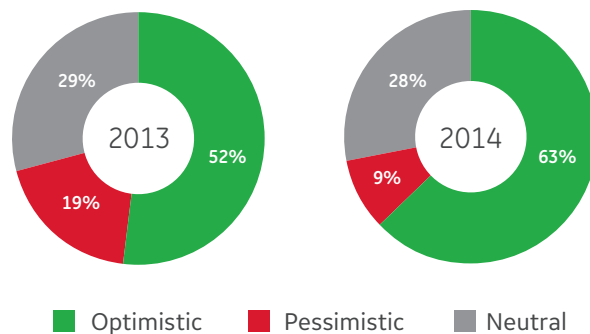


Business sentiment

UK SMEs have the highest level of confidence within the Western European countries

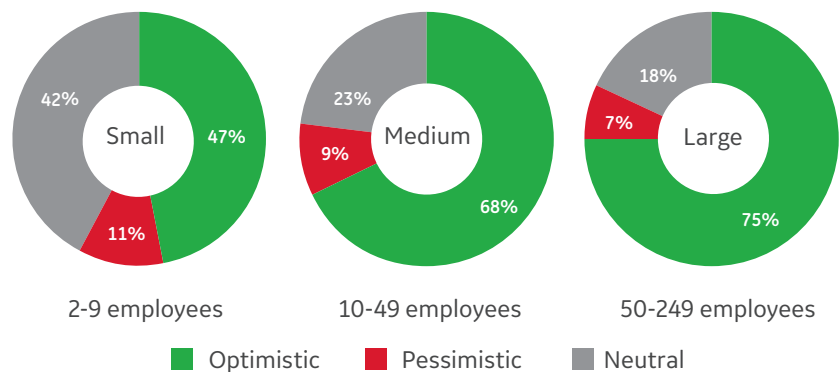
63% of SMEs are optimistic towards future growth

Based on the survey results, UK SMEs are feeling much more confident about their prospects in 2014. In fact, SME confidence has increased by 11 percentage points from 2013 to 2014.



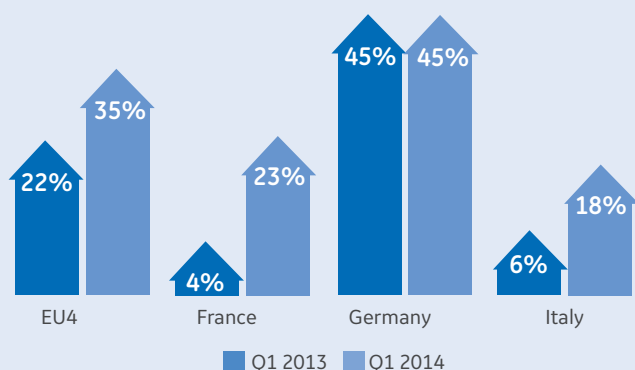
75% of large SMEs have positive business confidence

The level of confidence is linked to the company size of SMEs. Medium and large SMEs show more confidence and certainty regarding their future growth than small SMEs.

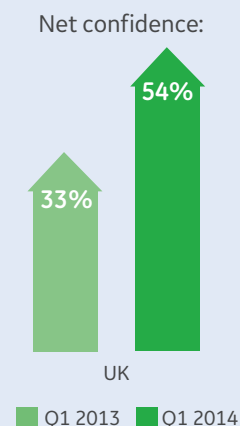


Net confidence: % optimists - % pessimists

UK SMEs have the highest level of confidence within the Western European countries



54% of SMEs have a net positive business sentiment for 2014



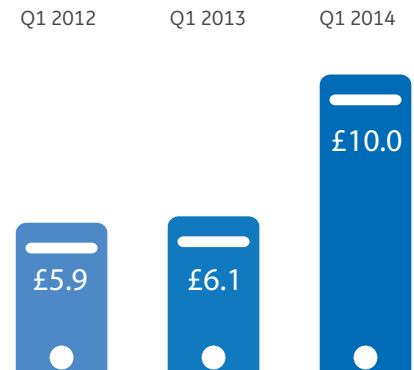


Asset investment intentions

Positive trend of planned capital investment over the next 12 months

IT hardware represents the highest planned investment

Investment in IT hardware is planned to be the highest asset investment for SMEs with £10 billion allocated in the next 12 months. It also represents the strongest growth from 2013 across all asset types with a 64% increase.



IT software planned investments are expected to strongly increase in the next 12 months

UK SMEs plan to invest £7.8 billion in IT software over the next 12 months. They also intend to increase software financing by 47% compared to 2013.



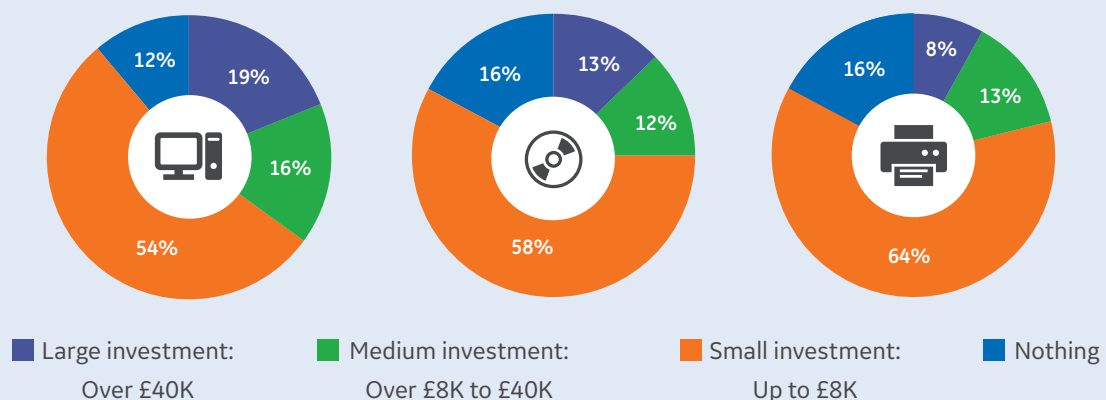
Office equipment investments are set to grow again

Office equipment investment is anticipated to grow over the next 12 months by 43%. Despite the decrease from 2012 to 2013, the intentions for 2014 show significant improvement.



Data in billion

How much does your company plan to invest in the purchase/hire of IT hardware, software and office equipment in the next year?



Reasons for investing

Investing in technology is the key to success for securing new business opportunities



36%

of the planned investment in **IT hardware** is to upgrade existing equipment to enhance efficiency and productivity.



43%

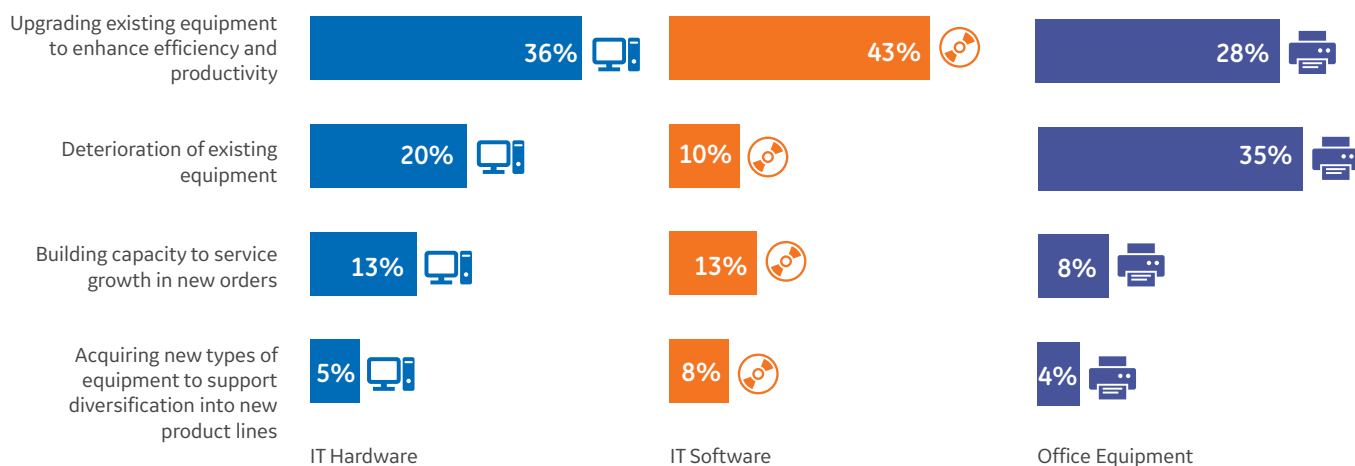
of the planned investment in **IT software** is to upgrade existing equipment to enhance efficiency and productivity.



35%

of the investment into **office equipment** is to replace deteriorating existing equipment.

Main reasons for investments

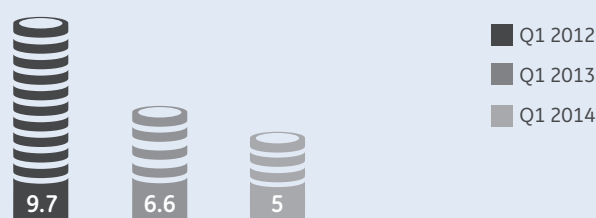


Regarding missed opportunities – such as new business wins or sales opportunities lost due to having outdated equipment – UK SMEs estimated a reduced loss of income in comparison to

2013. In two years, they have reduced missed opportunities by 50%. In comparison to their EU4 colleagues, they have the lowest amount of estimated loss of income.

An additional **£5 billion** could have been achieved with timely investment

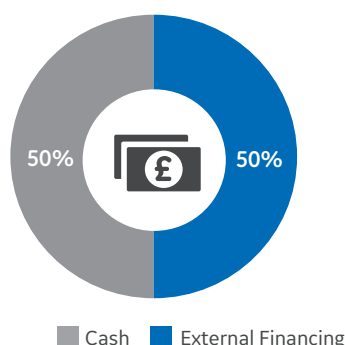
Estimated loss of income among SMEs as a result of dated or inefficient equipment (£BN)



Financing options

Using a leasing solution is the second most popular financing choice after buying outright with company capital

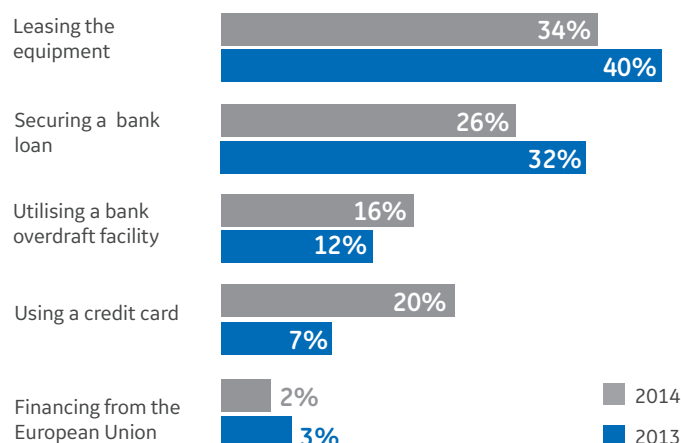
Preferred method of financing



Internal and external financing are equally chosen for capital investment.

Regarding external method of financing, the strongest preference is to lease the equipment via vendor agreement or structured finance.

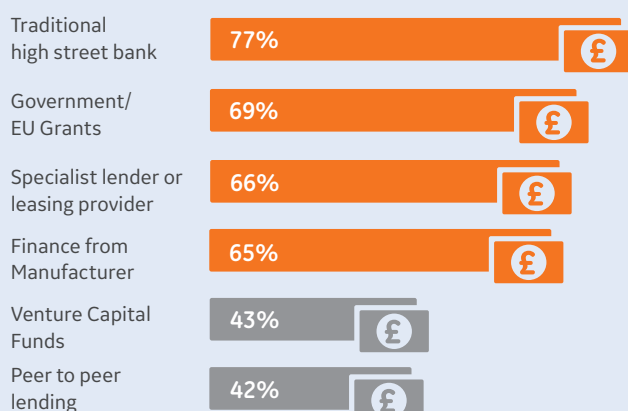
Preferred external method of financing capital investment (% most likely to use)



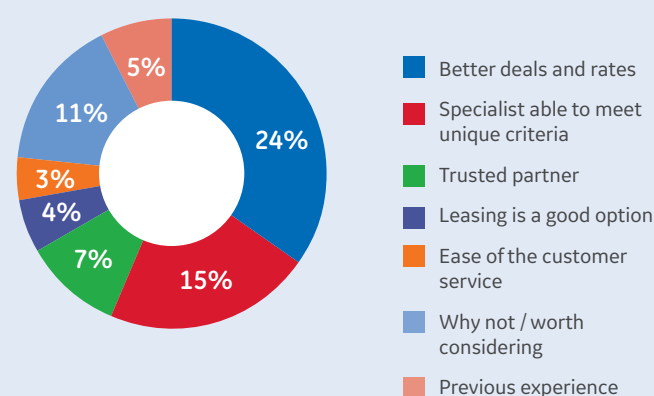
Traditional high street banks remain the preferred source of finance, nevertheless, UK SMEs are likely to use other financing methods such as government funding and EU grants, leasing provider and manufacturers finance.

Leasing is the preferred external method of financing for the SMEs in the UK

Consideration of providers for capital investment (% would consider)



Why would you consider using a specialist lender or leasing provider to obtain finance for new equipment/ assets?



Country Highlights



UNITED KINGDOM

Net confidence: 54% (vs. 33% in 2013)

Total planned investment: £58.9 billion up 12%

Average spend per SME: £58k

Technology planned investment: £22.8 billion
(+59% vs. 2013)



GERMANY

Net confidence: 45% (same as 2013)

Total planned investment: £112.9 billion down 18%

Average spend per SME: £95k

Technology planned investment: £22.4 billion
(-17% vs. 2013)



FRANCE

Net confidence: 23% (vs. 4% in 2013)

Total planned investment: £74.7 billion up 41%

Average spend per SME: £63k

Technology planned investment: £22 billion
(+55% vs. 2013)



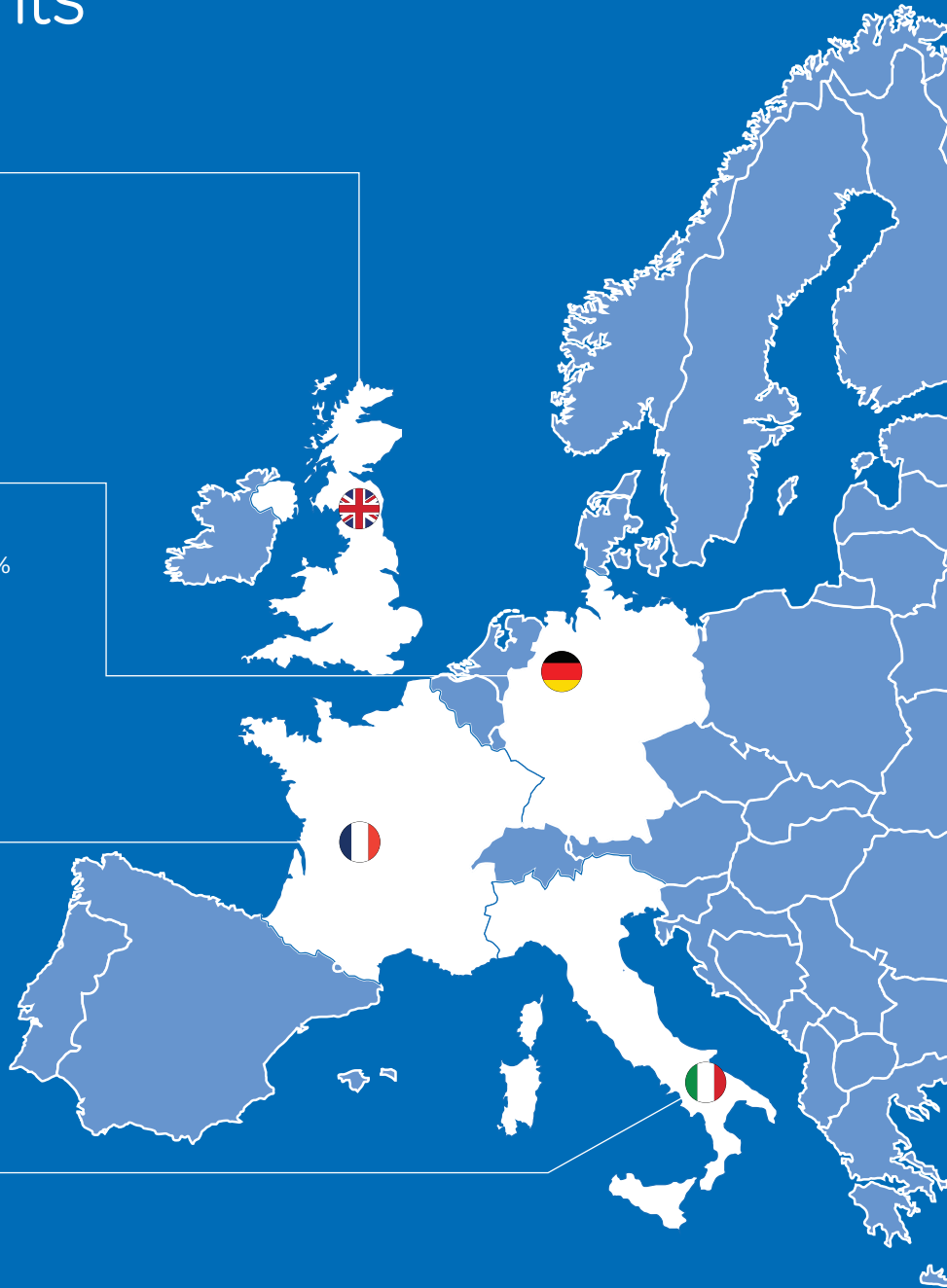
ITALY

Net confidence: 18% (vs. 6% in 2013)

Total planned investment: £49.8 billion down 24%

Average spend per SME: £44k

Technology planned investment: £14.1 billion
(-18% vs. 2013)



Overview of research approach and methodology:

The Technology Capex report is based on the European SME Capex Barometer report and on a GE Capital survey of 2,292 senior executives of small and medium enterprises (SMEs) in seven markets (France, Germany, Italy, The United Kingdom, Czech Republic, Hungary and Poland).

The study provides a forecast of the future capital investment intentions of SMEs, the value of 'missed opportunities' due to lack of investment, an assessment of the obstacles currently restricting SMEs' ability to invest, and an assessment of SME business sentiment and employment.

- An online survey, designed by Millward Brown Corporate (London)
- SMEs were defined by number of employees and within each market, the sample size was split about evenly between business with 2-9, 10-49 and 50-249 employees
- All respondents had buying responsibility in the asset areas covered in the report
- All research was conducted between 13th January and 14th February 2014
- Interviews were conducted online

A look at Europe

Business sentiment



01. Confidence is up

Confidence in the economic climate has increased in all large Western European countries (France, Italy and the UK), except Germany where it has remained stable at a relatively high level

Asset investment intentions and reasons to invest



02. Intended investments increase

At the large Western European countries level intended investment is higher than in 2013 in IT Hardware, IT Software and Office Equipment



03. European growth in IT hardware

IT Hardware accounts for the greatest proportion of intended capital expenditure in each of the large Western European countries markets with UK and German SMEs planning to invest the greatest amount in the next 12 months



04. Upgrade existing equipment

In the large Western European countries upgrading existing equipment to enhance efficiency and productivity is the main reason for investment for both IT Hardware (33%) and Software (35%)



05. Replacing old equipment

Deterioration of existing equipment is the main driver within office equipment for 39% of large Western European countries SMEs

Financing options



06. Large Western European countries internal financing preferences

German, UK and French SMEs say they are "most likely" (49%) to finance their planned investments by buying outright with company capital



07. Leasing in large Western European countries

Leasing is the preferred external method of financing in the Western European economies



08. High street banks are the main financing providers

In all four countries traditional high street banks receive the highest level of consideration, ranging from 73% in Italy to 84% in France



09. Large Western European countries consideration of leasing provider

With the exception of France, the majority of SMEs would consider using a "Specialist lender or leasing provider"

Notes

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