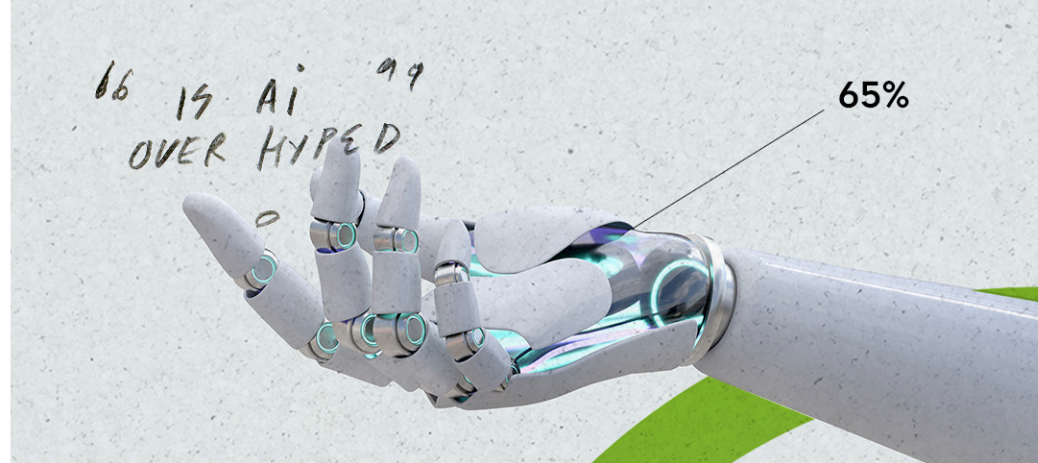


Summer / Autumn 2024

Tech Confidence Index

techmarketview.com



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Welcome

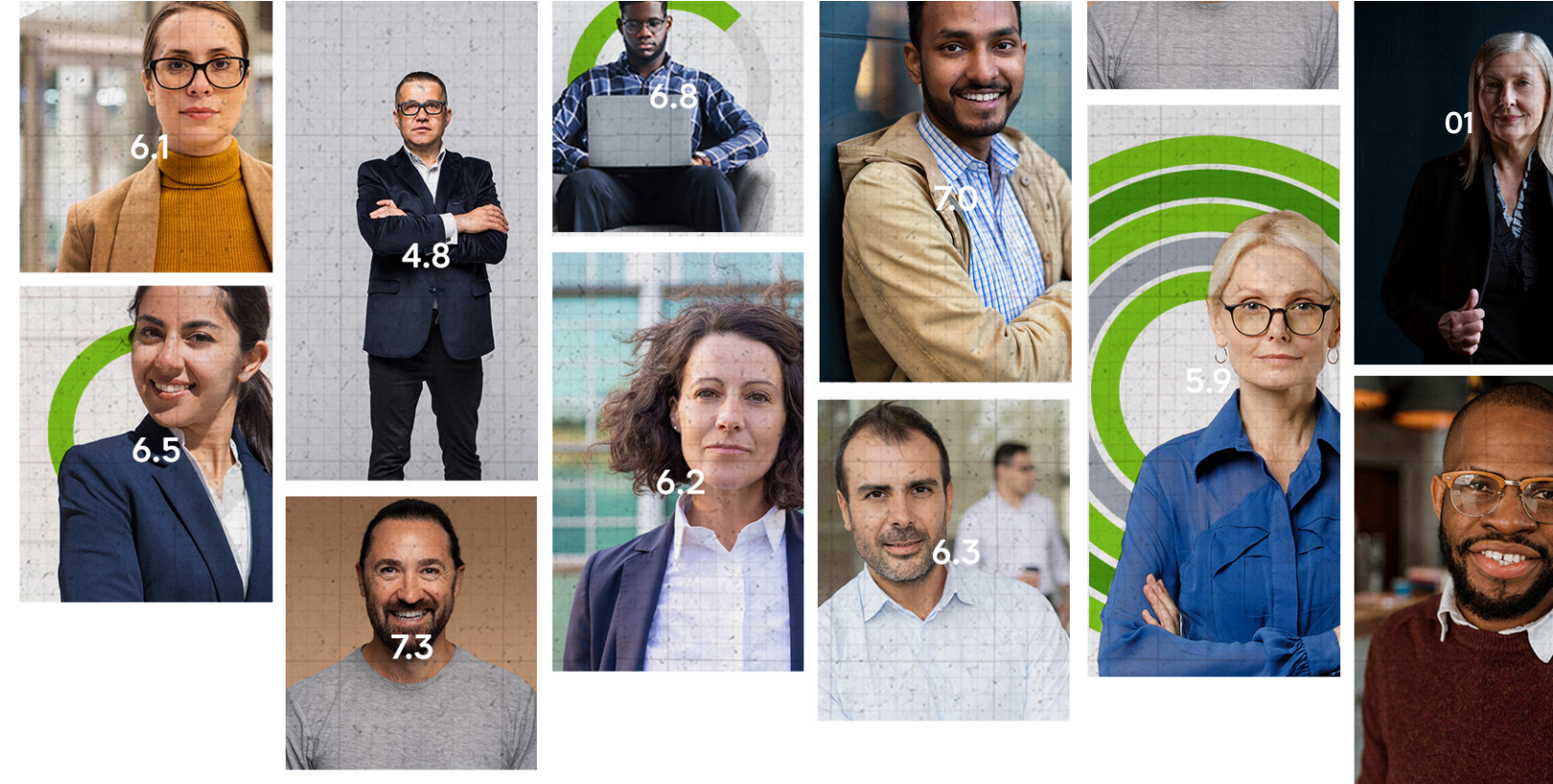
A new tool for the UK tech sector

Welcome to the very first edition of TechMarketView's Tech Confidence Index (TCI), a new bi-annual survey of UK technology sector leaders that we believe will become a bellwether for the state and prospects of the UK tech sector.

The UK tech market has been through the wringer over the last few years. It has navigated the complexities of Brexit, a global pandemic, geopolitical turbulence, and an energy crisis. The economic consequences – and hence the impact on businesses – have been significant.

However, we have also witnessed a period of impressive innovation, which has often required wider cultural and organisational transformation. Enormous change over a short period has been accelerated by the need to work from home, the increasing expectations of consumers and employees, and the emergence of promising emerging technologies, such as GenAI, IoT, and Digital Twins.

Of course, the other big news for the country is the election of a new government. And, with all this context in mind, we are launching our new Tech Confidence Index a six-monthly survey tracking the confidence of the UK technology scene to help both Software & IT Services (SITS) suppliers and end users understand market sentiment whilst planning and preparing for the period ahead.



Capturing the view of the market

One of TechMarketView's unique strengths is our 'community' of more than 20,000 technology industry professionals who read the daily UKHotViews newsletter. In the past, we have gauged opinions via our extensive conversations with CXOs within the industry. However, we would like to make sure we are casting the net wider and 'taking the temperature' of the UK tech market in a more consistent way, enabling us to monitor changes over time.

This report includes the results of a major survey of c.250 business leaders, including CEOs, VPs, MDs and Sales and Finance heads, serving all major SITS sectors and end user industries. The online survey was conducted between 15th August 2024 and 9th September 2024.

Understanding levels of confidence in the UK tech market is hugely important to allow us to accurately forecast future demand for software and IT services.



Georgina O'Toole
Chief Analyst & Partner

And here's why. The propensity of organisations to invest, especially in technology that represents a path less well travelled, is intrinsically linked to levels of business confidence.

At TechMarketView, our 2024 research theme is 'Enabling Acceleration'. We chose those two words to represent our prediction that this year would be defined by suppliers needing to pull as many levers as possible to encourage clients and prospects to move faster on their business or digital transformation journeys.

To enable faster progression of technology implementation, and to allow the realisation of related benefits more quickly, we see three significant barriers that must be knocked down: caution; concern; and complexity.

Organisations are cautious because they have been burnt by tech investment in the past, including when they hurtled headlong into the cloud, without seeing the expected returns. They are concerned because they fear, having experienced the impact of the COVID-19 pandemic, that they will come up against future shocks to their businesses, in what is seen as an increasingly unstable world. And they are confused by technical complexity because they are struggling to get to grips with rapid technological advancements and don't know where they should place their bets.

TechMarketView's Tech Confidence Index (Summer/Autumn 2024) paints a picture that confirms enduring uncertainty in the market. Over half of the survey respondents described the current business environment as 'neutral' or 'poor'. And while there was more optimism in the forward view, with 60% of respondents believing that conditions would improve over the next 12 months, that still leaves 40% remaining nervous.

With suppliers not necessarily expecting a smooth road ahead, the survey does beg the question of how readily organisations will be willing to commit to the production, and the scaling, of the explosion of existing GenAI pilots, proof of concepts, and experiments.

Here's where I think our survey is really telling. With all the hype around GenAI – that has been magnified by both the media and tech companies alike – I had expected our survey to reveal a high majority of respondents investing in AI. In fact, only 55% of respondents answered positively to that question. Also, only 40% said that their customers are demanding AI solutions. And, despite what tech suppliers are saying in their marketing, many don't believe their own hype: 65% of respondents believe that the expectations of GenAI technology are exaggerated.

Another interesting response was to the question, 'where do you plan to invest in the next 12 months?', AI and GenAI came out on top, with a positive response from 71%. However, only 43% said they would be investing in business or digital transformation. To me, that suggests something quite profound – that AI and GenAI, particularly when used for more simplistic use cases, are not currently seen as the technology that will most readily transform organisations. In my view, GenAI, in particular, is viewed as a tool to augment the human workforce, by enhancing productivity or efficiency. It is not viewed as a technology that will enable massive, or disruptive change. For GenAI to have greater impact will require investment in the digital and data foundations that will support far more complex use cases. In the current economic climate, and with shaky confidence levels, agreeing such large-scale investment will continue to be tough.

Considering the economic, political and technological outlook, how would you rate the prospects of your firm's UK operations over the next 12-months?

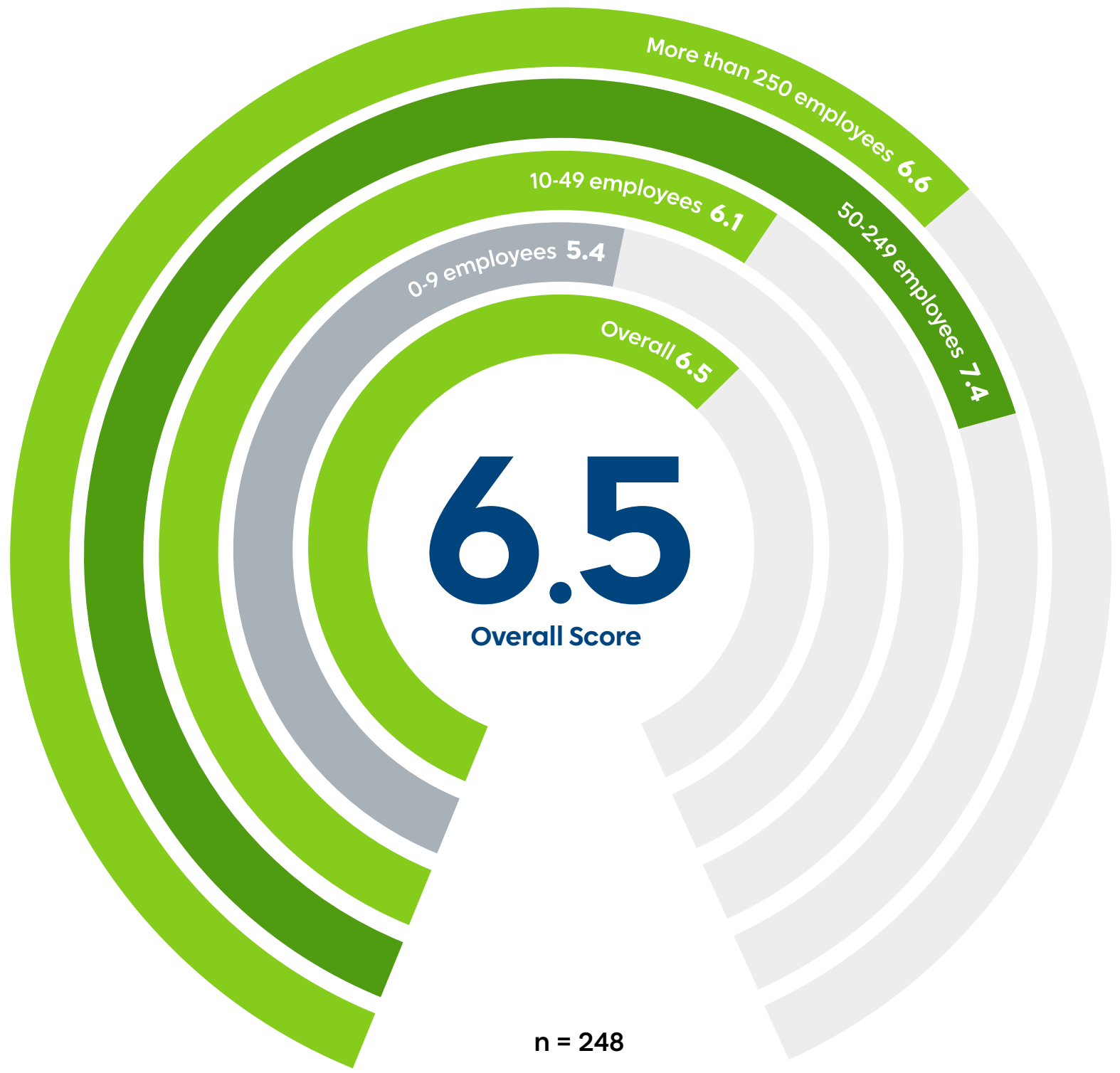
(0 = Poor and 10 = Excellent)



When considering the current economic, political and technological outlook, the majority of firms rated their business prospects above average over the next twelve months, with most firms rating themselves 7/10 (30%), followed by 8/10 (20%).

This is reflected in TechMarketView’s new Tech Confidence Score, which averages at 6.5/10 this autumn and peaks at 7.4/10 for medium-sized businesses. The rating is based on businesses’ confidence in their prospects over the next twelve months and will be published bi-annually as part of the TCI report.

- 0-9 employees - 5.4
- 10-49 employees - 6.1
- 50-249 employees - 7.4
- More than 250 employees - 6.6

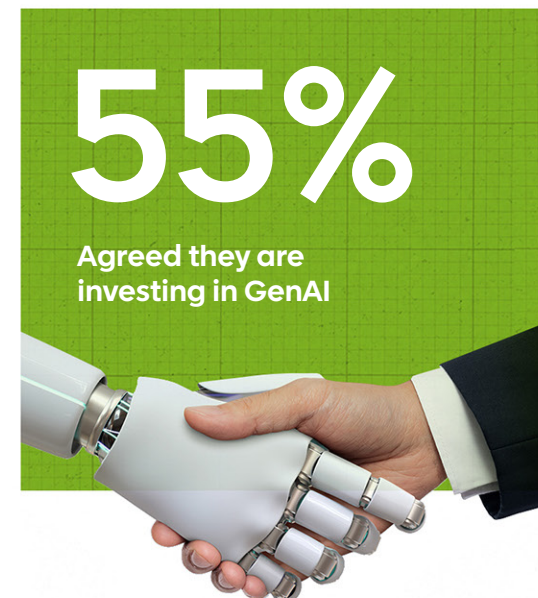


Business conditions

- Asked about the current business environment, over half (56%) believe business conditions to be neutral or poor, whilst 38% report current UK business conditions good, (only 5% very good).
- Forty-three percent feel conditions are unchanged in the last three months, 31% say that conditions have improved while 25% stated they had declined.
- Respondents were more optimistic about the next 12 months, with 60% believing conditions will improve over the next 12 months, with only 13% predicting they will decline.

GenAI Impact

- Unsurprisingly perhaps, when asked about GenAI, leaders had somewhat contradictory opinions. 55% agreed they are investing in GenAI, with 46% admitting to using it regularly in the workplace. Despite 40% seeing customers demanding GenAI solutions, 65% of leaders believe the expectations from GenAI technology to have been over-hyped.



Skills and labour

- When asked about skills shortages, 57% of those that had an opinion stated it isn't an issue for their business currently, versus 43% who considered IT and skills shortages to be restricting their ability to compete or meet demand. However, there was a strong split between the size of companies, with 54% of largest companies reporting a skills shortage compared to just 22% of those with fewer than 50 employees.
- The survey also found that technical skills are in high demand, as mentioned by 69% of respondents. Within that, software development (19%), data and analytics (17%), and AI (13%) are the most frequently mentioned. Business and management skills were also in demand, being mentioned by 28% of respondents, with sales and marketing skills (15%) being the main driver in this area.



Business investment

- Key areas where UK tech companies plan to invest over the next twelve months include AI and GenAI (71%), sales and marketing (44%), and business/digital transformation (43%).
- The top five technologies believed to be key drivers for business were ranked as follows: AI/GenAI (78%), data analytics (60%), automation (46%), cybersecurity (37%) and IT consultancy (36%).

Concerns

- When asked about the biggest issues for their UK operations, the factors most concerning to business leaders included government policy (54%), falling demand or sales (48%) and labour and skills shortages (43%).
- Over half (54%) of those questioned believe the government will have little or even a negative impact on the UK's tech industry, whilst 43% believe the new government will have a positive impact.



The Tech Confidence Index

- When considering the current economic, political and technological outlook, the majority of firms rated their business prospects above average over the next twelve months with most firms rating themselves 7/10 (30%), followed by 8/10 (20%).
- This is reflected in TechMarketView's new Tech Confidence Score, which averages at 6.5/10 this autumn and peaks at 7.4/10 for medium-sized businesses. The rating is based on businesses' confidence in their prospects over the next twelve months and will be published bi-annually as part of the TCI report.



Q1. Excluding normal seasonal patterns, how would you describe the current conditions for your firm in the UK?

The View

Asked about the current business environment, over half (56%) believe business conditions to be neutral or poor, whilst 38% report current UK business conditions good, (only 5% very good).

A market appearing to suffer from uncertainty and conflicting opinion is not unsurprising given what we have seen over the last twelve months or so. We have tried to capture this in our overall Research Theme for this year in “Enabling Acceleration” which paints a picture of a market in which end user organisations, across both the public and private sectors, are eager to transform at pace, but are being held back from investing due to a multitude of factors.



0.4% responded 'Don't know / Not applicable'

n = 248

We have summarised these barriers to progression as The 3Cs: Caution, Concern, and Complexity.

- **Caution**, because organisations feel they've been burned by past tech investment that hasn't had the results they were hoping for.
- **Concern**, because the world feels increasingly unstable, and they are fearful of what is lurking around the next corner.
- **Complexity**, because of the fast pace of technological advancements, leaving them unsure where to turn.

Having said all of that, there is still a sizable portion of the market (43%) that see current business conditions as either good (38%) or very good (5%), reflecting diverse conditions and performances.

Caution

Because organisations feel they've been burned by past tech investment that hasn't had the results they were hoping for.

Concern

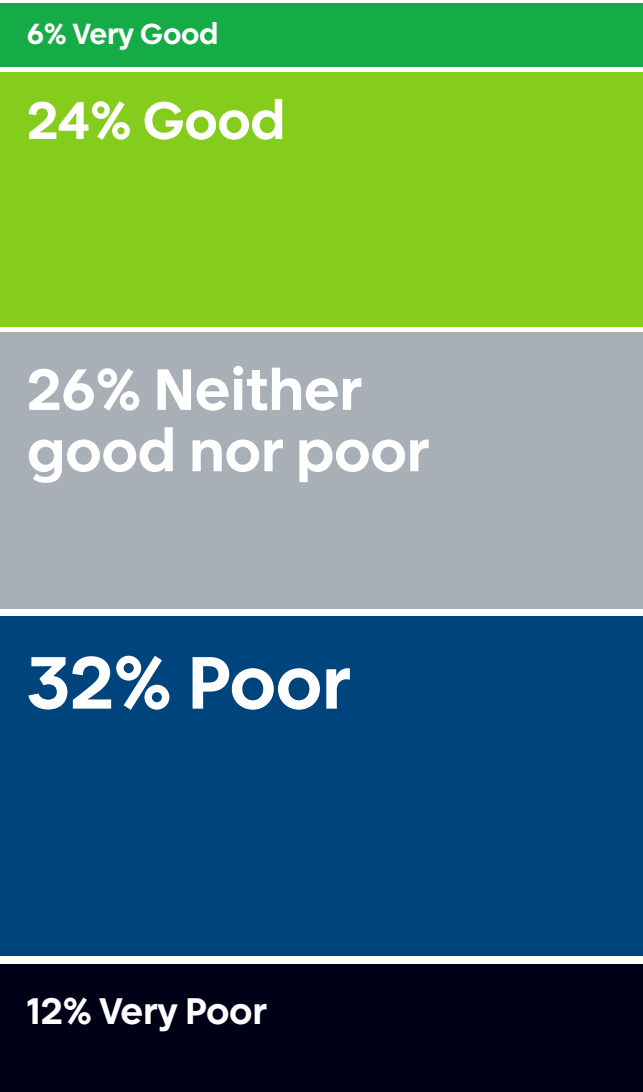
Because the world feels increasingly unstable, and they are fearful of what is lurking around the next corner.

Complexity

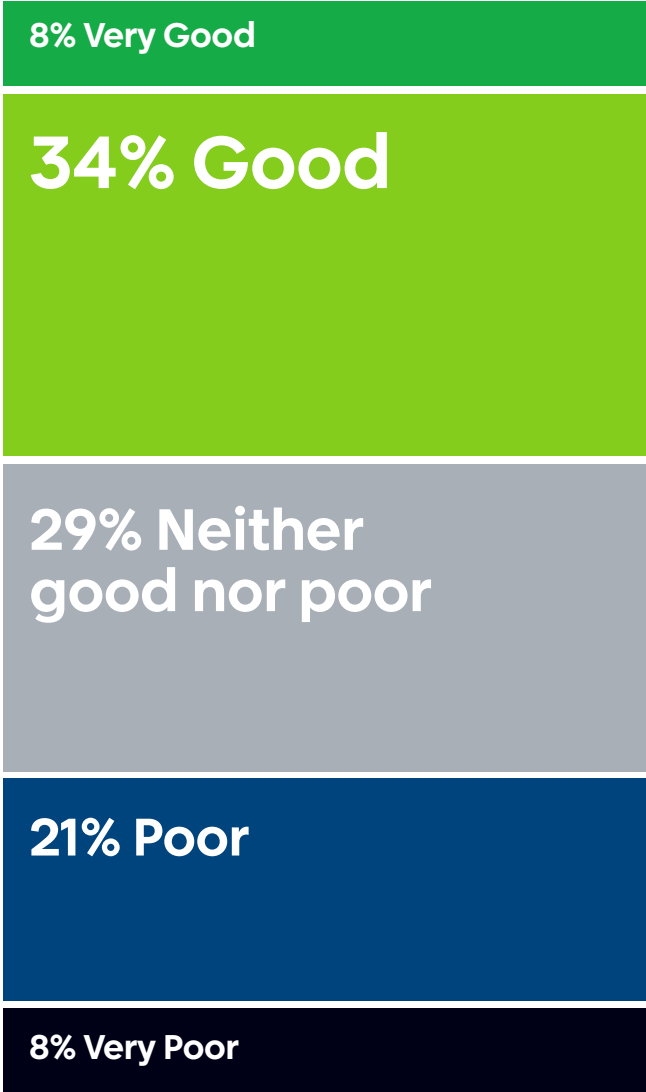
Because of the fast pace of technological advancements, leaving them unsure where to turn.

Within our survey, smaller companies (of fewer than 50 employees) see conditions as being more negative than medium and large companies.

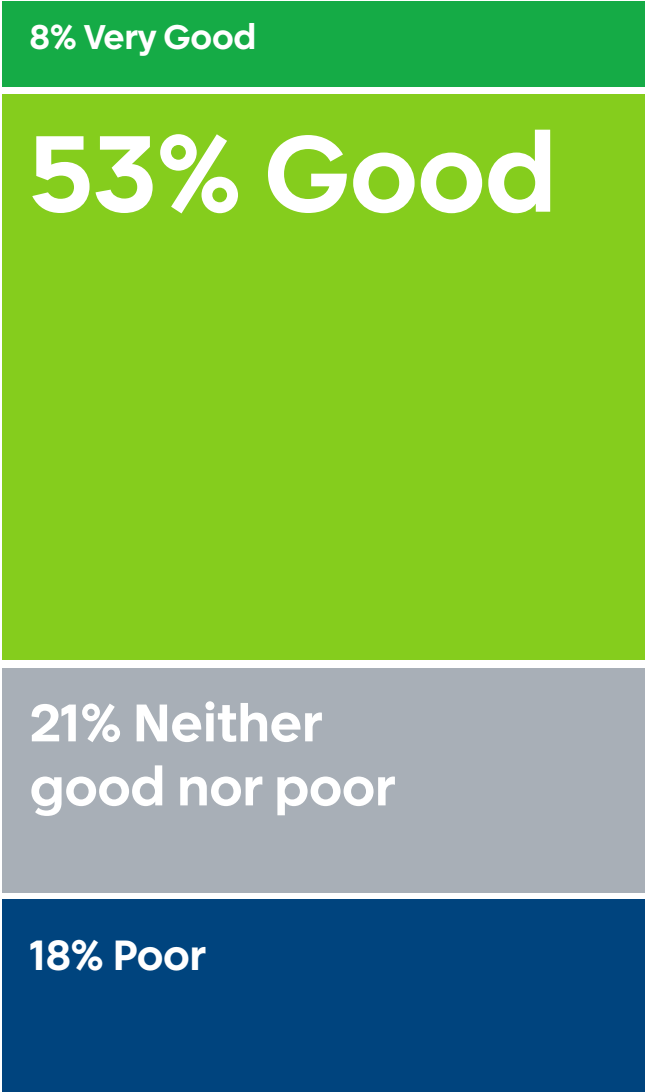
0-9 Employees



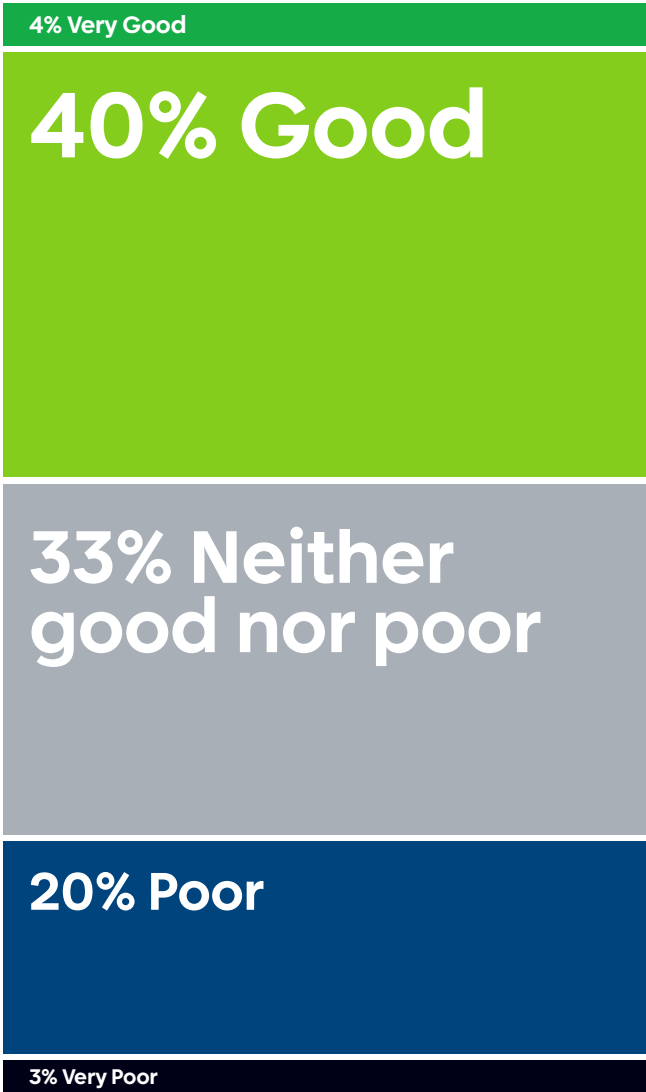
10-49 Employees



50-249 Employees



250+ Employees



n = 244

Q2. Over the past three months, how has this situation changed?

The View

43% said conditions are unchanged in the last three months, 31% say that conditions have improved whilst 25% stated they had declined.

Conditions over the last three months look equally subdued with growth in UK SITS forecast to have declined across all vertical sectors this year to date, and where budgets have been squeezed and put under increasing pressure to release funds for AI-driven investment in the face of continuing economic headwinds. The ‘Save to Spend’ mentality, which we have seen so many times before when times are tough, is now being fuelled by GenAI.

Also of note, the General Election held at the beginning of the summer placed even more pressure and uncertainty on the already struggling Public Sector SITS market, currently the second largest UK SITS sector by spend (after Financial Services).



0.4% responded ‘Don’t know / Not applicable

n = 248

Q3. Over the next 12 months, how do you expect this situation to change?

The View

On a more optimistic note, 60% believe conditions will improve over the next 12 months, with only 13% predicting they will decline.

Despite the recent economic uncertainty and budgetary pressures that may have dented confidence among the UK tech sector over the last year or so, looking forward to the next twelve months the majority expect things to improve. Our sense is that whilst the UK SITS market may have remained subdued during the first half of 2024, there is now growing optimism of an uptick in demand, particularly with private sector demand recovering and pipelines building as we entered the second half of 2024. In particular, Financial Services, Manufacturing and Energy & Utilities verticals appear to be some of the most vibrant.

A new government promising the potential of stable policy and a growth agenda as well as the prospects of GenAI filtering through into new revenue opportunities may also have played a part.



4.4% responded 'Don't know / Not applicable'

n = 248

Key concerns

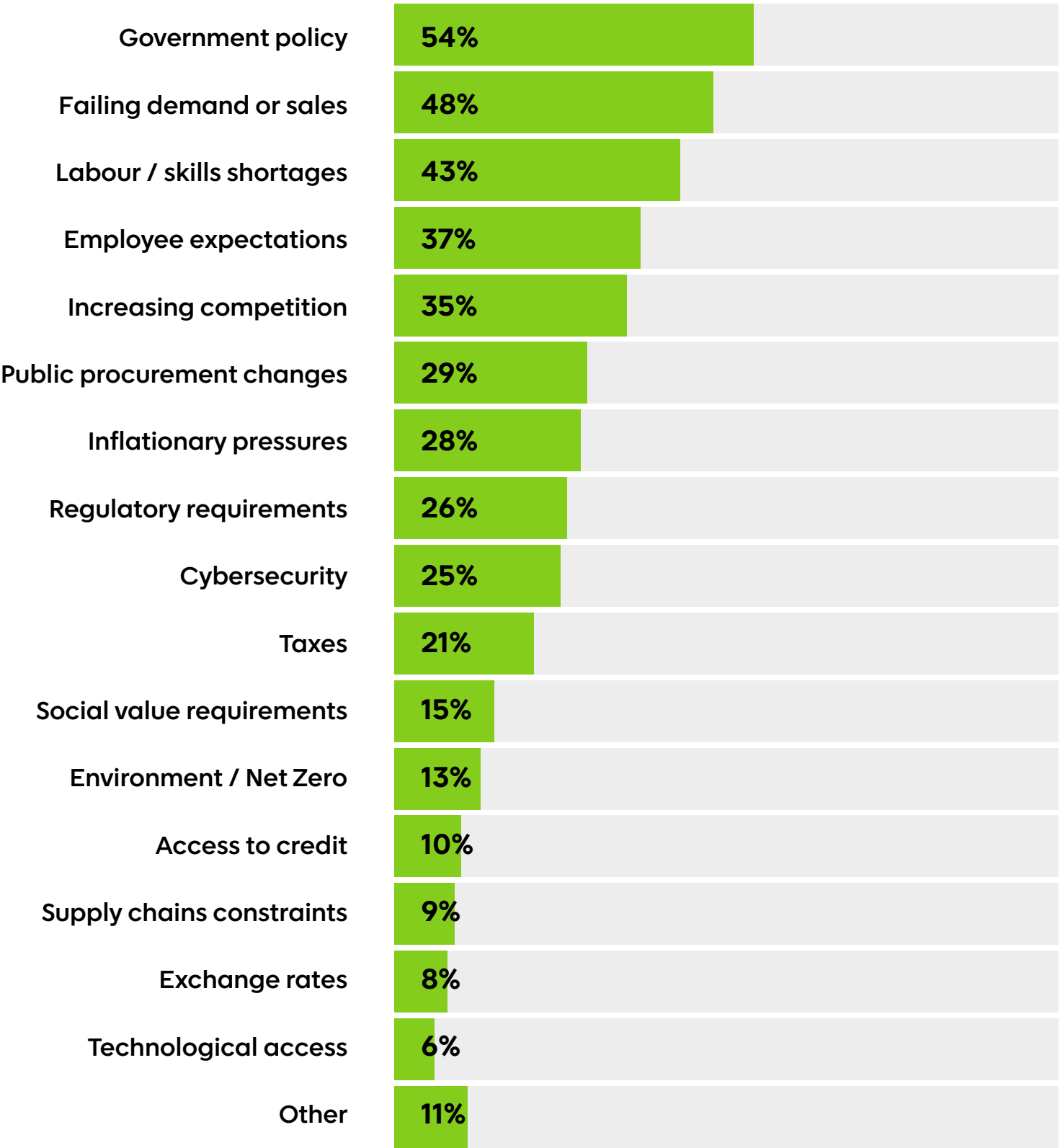
Q4. Which of the following factors are key concerns for your firm’s UK operations?

The View

When asked about the biggest issues for their UK operations, the factors most concerning to business leaders included government policy (54%), falling demand or sales (48%) and labour and skills shortages (43%).

The response to this question throws up a broad range of concerns and growth inhibitors. The prevalence of government policy and other government related concerns such as taxes and regulatory pressure perhaps reflects the wider uncertainty of a new government coming to power with so many unknowns still in play.

Added to this, downward pressures on demand have been numerous. For example, the winding down of the response to Brexit, COVID and the energy crisis have been met by more straitened times for the public purse. This resulted in an anticipated deceleration in increase in public sector, whilst other sectors have struggled with inflationary pressures, growing regulation and increasing competition.



Respondents could select multiple options

n = 248

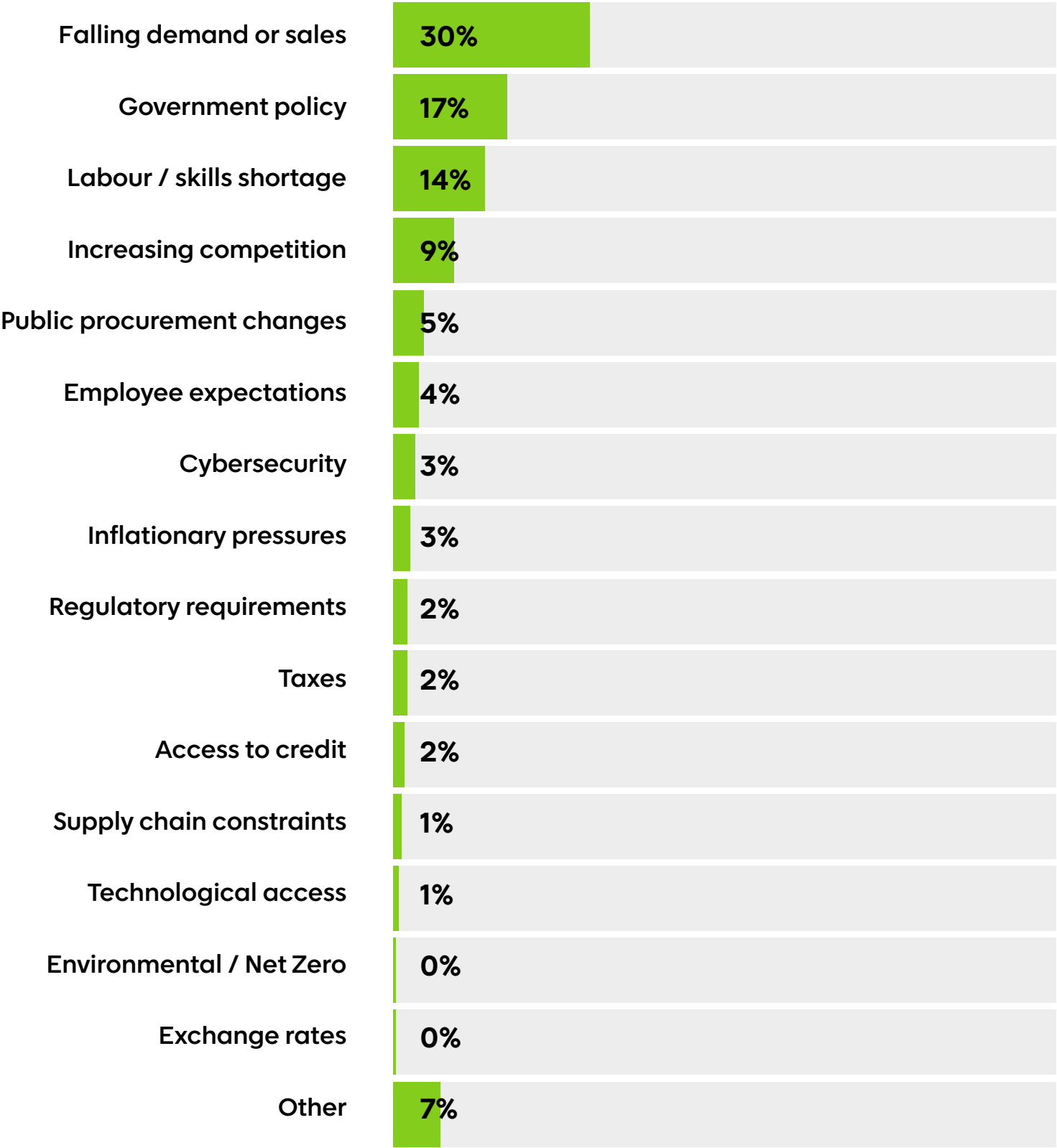
The most pressing concern

Q5. Which is the most pressing concern for your firm's UK operations?

The View

When asked to identify their single most pressing concern:

30% of respondents identified falling demand or sales. Government policy (17%) and labour/skills shortages (14%) were the second and third most pressing concerns.



Key priorities for investment

Q6. Over the next 12 months, which of the following are key priorities for investment?

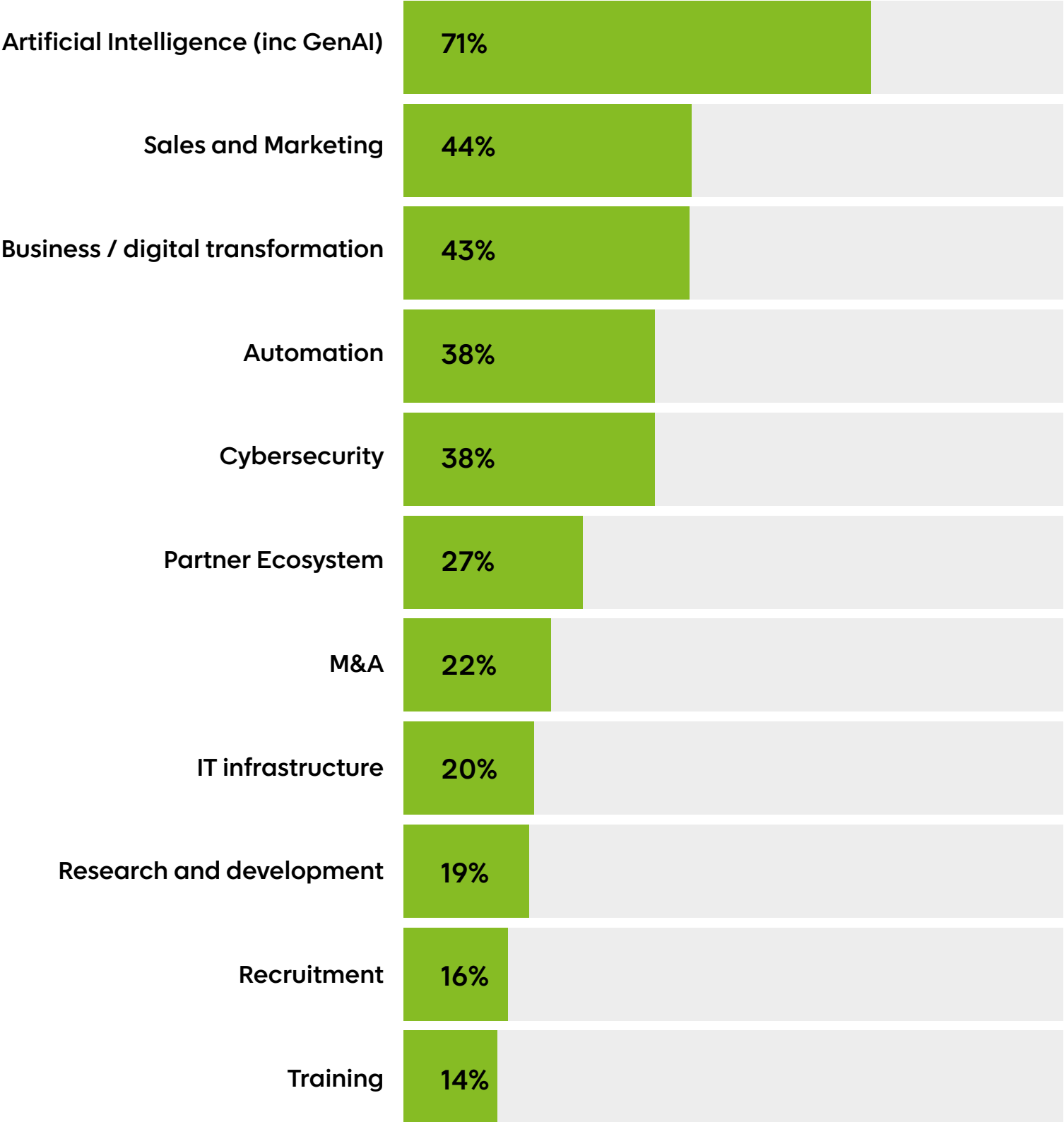
The View

Key areas where UK tech companies plan to invest over the next twelve months include AI and GenAI (71%), sales and marketing (44%), and business/ digital transformation (43%).

Over the last twelve months or so, cloud, data and AI investment have been some of the real bright spots in the market. In particular, customer interest in GenAI solutions remains high and is driving customer conversations, with the potential to drive future growth, but it is yet to drive a major expansion in revenues. Nonetheless, Business Process and IT Services companies continue to invest heavily in AI capabilities and partnerships in anticipation of future strong demand. And software players are embedding GenAI in their existing applications, which is driving increased interest. Notably, despite the subdued growth picture, our conversations with the leadership of IT services firms suggest that GenAI is having a positive impact. Not only is the increased interest driving demand for more traditional IT services, as end user organisations seek to ‘get their house in order’, but it is also leading to a wider interest in earlier iterations of AI and intelligent automation.

Despite a subdued outlook for economic growth in the UK and organisations taking more measured approaches to digital transformation, the rotation to the ‘New’ will remain the primary engine of growth for much of the SITS market.

Finally, given the concerns expressed elsewhere in this survey on fears of falling sales / demand, perhaps it’s not surprising that sales and marketing has come out as the second biggest priority for investment.



Key growth drivers

Q7. Over the next 12 months, which of the following technologies do you expect to be key growth drivers for your business?

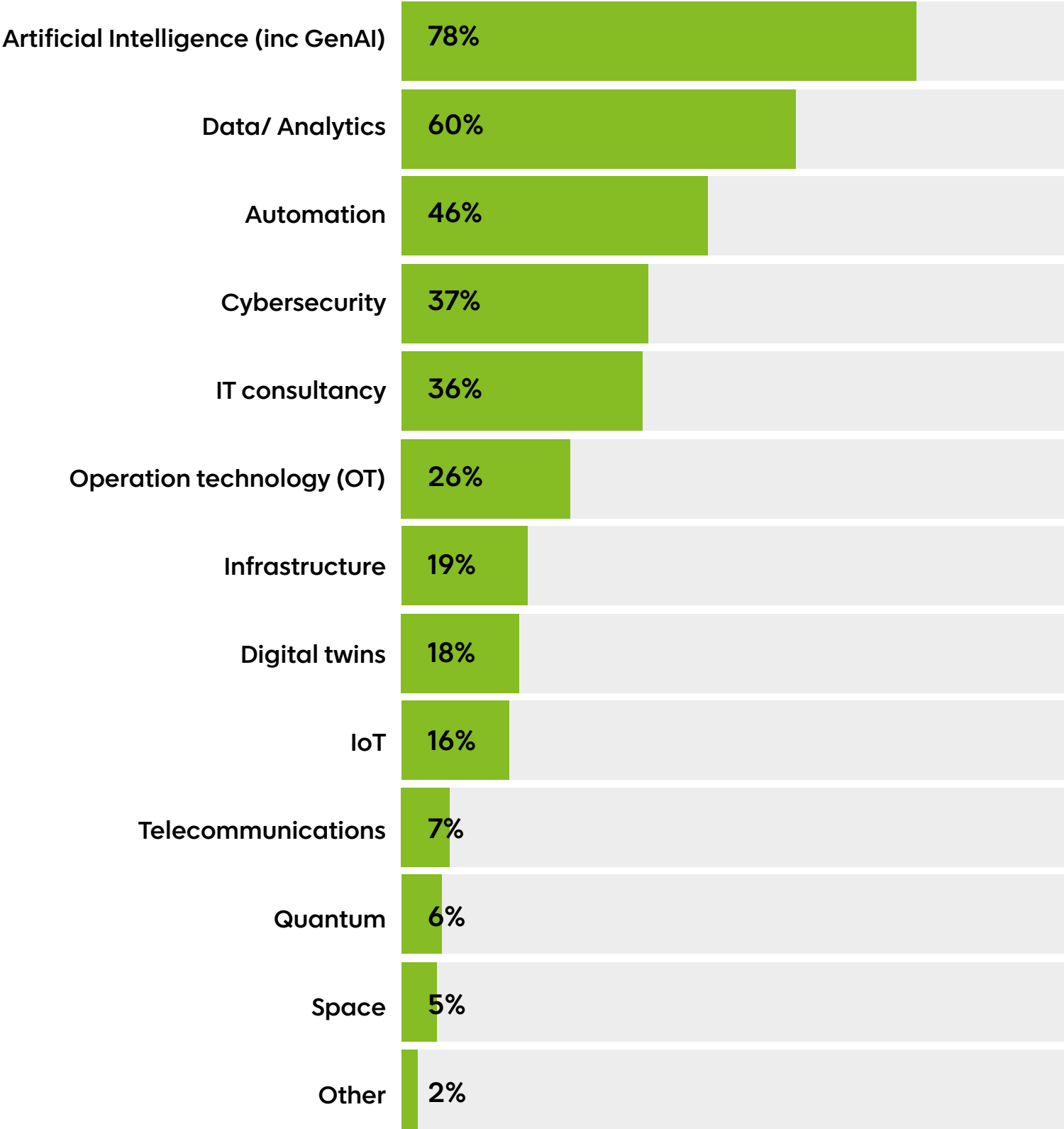
The View

The top five technologies believed to be key drivers for business were ranked as follows: AI/GenAI (78%), data analytics (60%), automation (46%), cybersecurity (37%) and IT consultancy (36%).

Given the current hype around GenAI, it’s very easy to get carried away. We believe the jury remains out on the likely future pace of GenAI adoption prevalent for the simplest of use cases including, but not limited to, summarising minutes or documents, creating bid documents, exploring data, or generating code. This picture of a nascent GenAI market is reflected in our data. It is our view that supplier revenues from GenAI-deployment centric activities will represent less than 1% or less than £650m of the UK software and IT services market in 2024.

However, GenAI is impacting the market more widely. We believe that heightened interest in GenAI – and hence heightened interest in investing in digital and data foundations – will add £4bn of incremental new spend to the market between 2024 and 2027. This has pushed our forecast Compound Annual Growth Rate (CAGR) for that period up from 5.5% to 6.1%. A lot of additional spade work will be required for organisations to be GenAI ready. Hence much of the focus on data, AI and automation is interlinked.

Over recent years we have seen high-profile cyber-attacks, from ransomware locking out systems, to the theft of sensitive data. As a consequence, cybersecurity has moved to the top of many organisations’ agendas.



n = 247

Q8. Is your firm currently facing any shortages of IT labour/skills that are restricting its ability to compete or meet demand?

The View

When asked about skills shortages, 57% of those that had an opinion stated it isn't an issue for their business currently, versus 43% who considered IT and skills shortages to be restricting their ability to compete or meet demand. However, there was a strong split between the size of companies, with 54% of largest companies reporting a skills shortage compared to just 22% of those with fewer than 50 employees.

Finding, keeping and 'right-skilling' individuals with the talents needed to enable organisational acceleration remains a key issue for many.

Whilst much of the focus has been on skills pinch points in emerging and disruptive technologies such as AI, data and cyber, there are much broader challenges prevalent in the UK SITS market at a technical, business or domain-specific level.



* Excludes 32 'Don't know / not applicable' responses

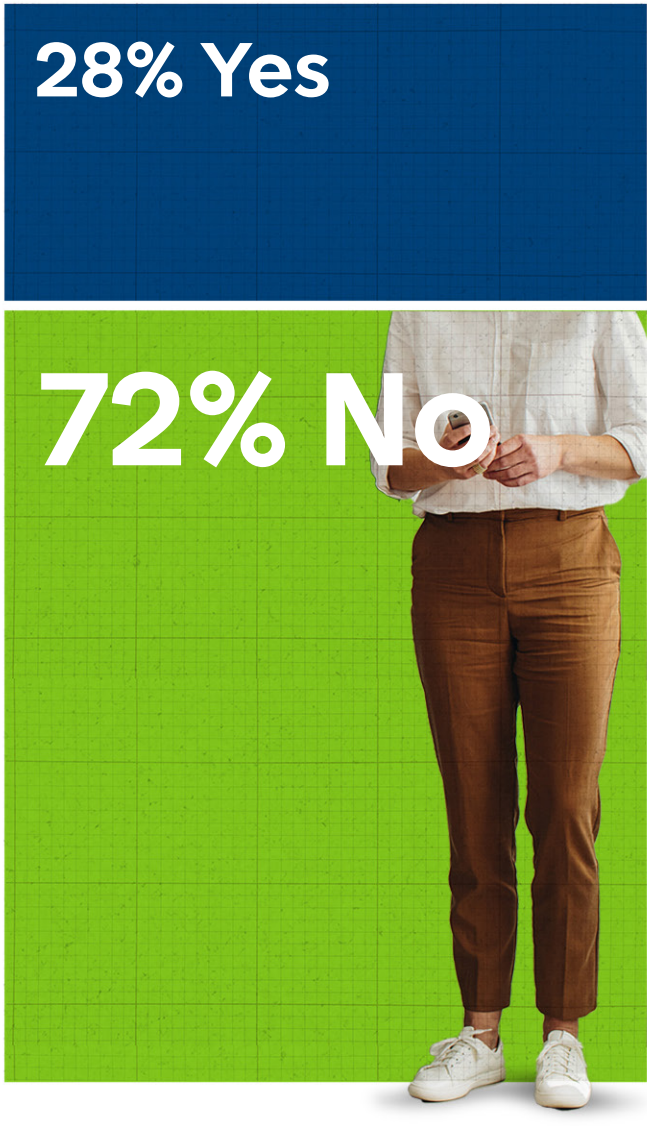
n = 219*

On skills, there does appear to be a strong split between the size of companies, with 54% of largest companies reporting a skills shortage compared to just 22% of those with fewer than 50 employees.

0-9 Employees



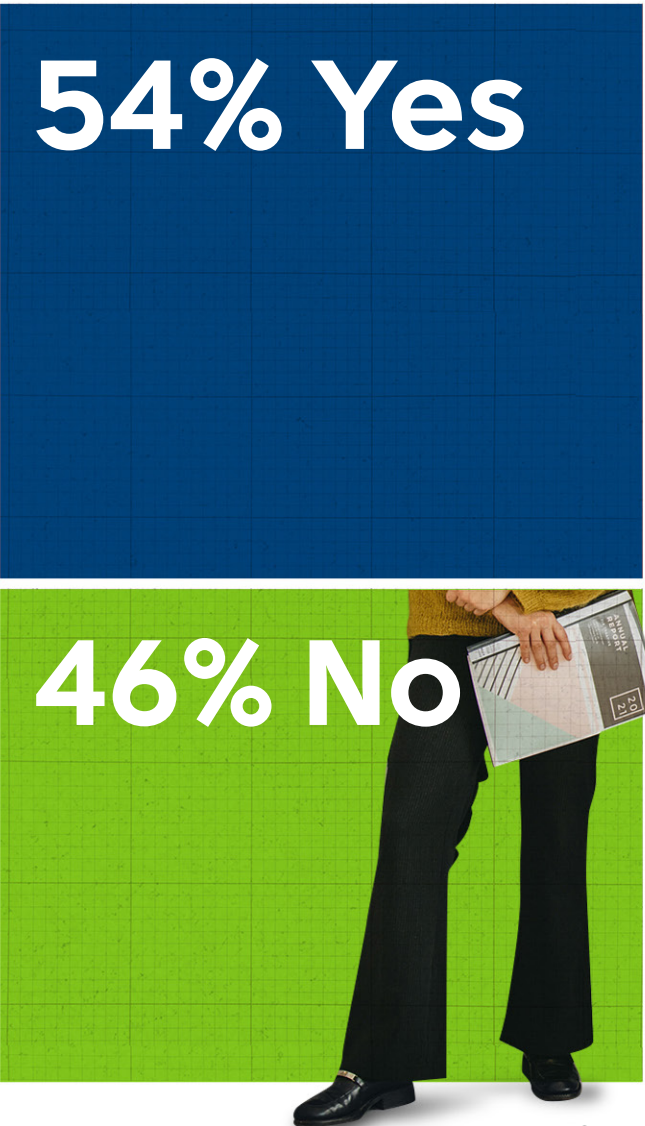
10-49 Employees



50-249 Employees



More than 250 Employees



* Excludes 31 'Don't know / not applicable' responses

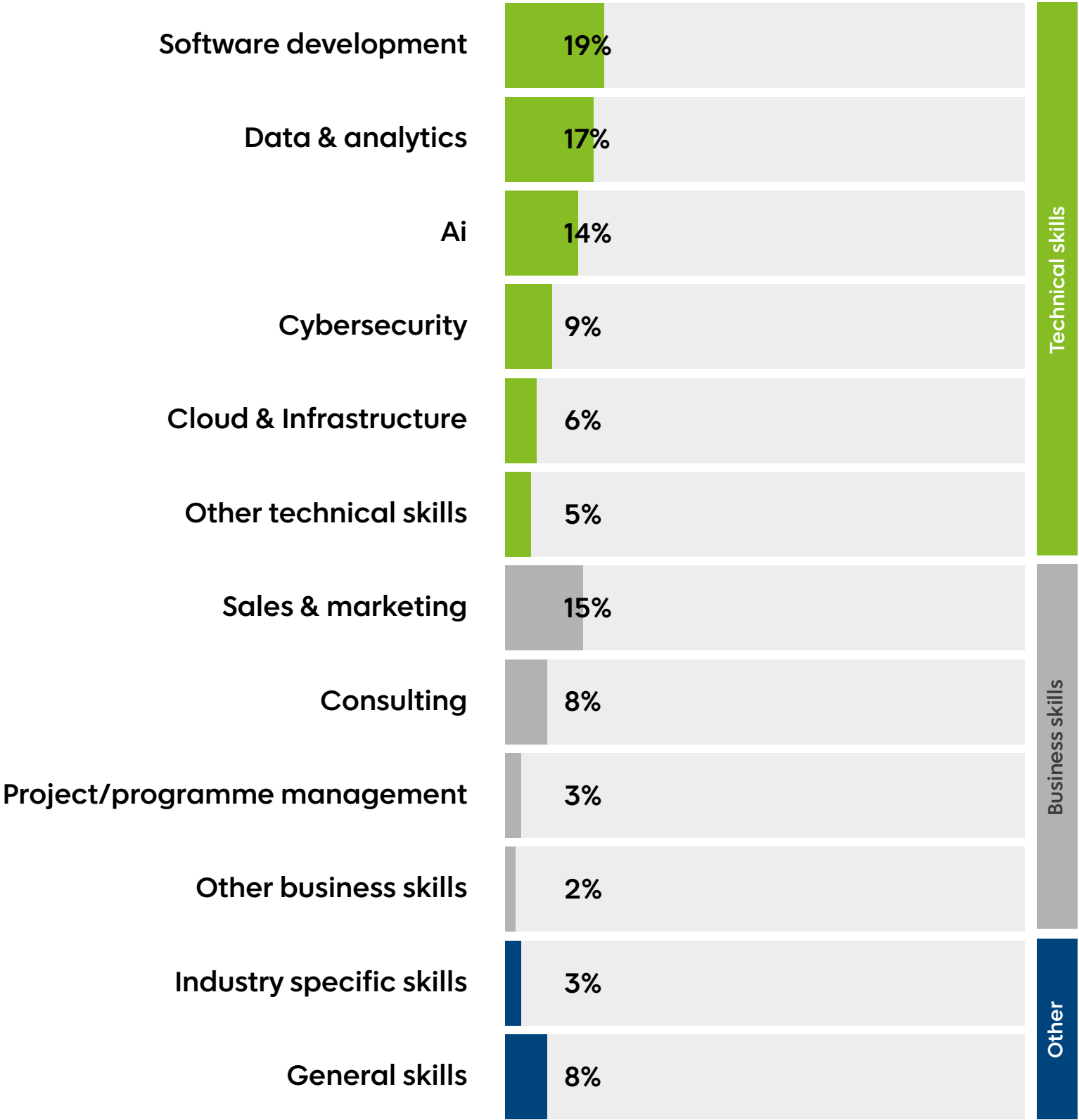
n = 214*

Q9. In which areas are the IT labour/skills shortages you mention in the previous question most evident?

The View

Looking into the specific areas of skills shortages we can see that.....

- Technical skills are in highest demand, mentioned by 69% of respondents.
- Within technical skills, Software Development (19%), Data & Analytics (17%), and AI (14%) are the most frequently mentioned.
- Business & Management skills are the second most in-demand category, with Sales & Marketing (15%) being particularly sought after.
- Some respondents mentioned general or unspecified skills (8%), indicating a need for versatility or all-round capabilities.
- A small number of responses (3%) indicated demand for industry-specific skills.

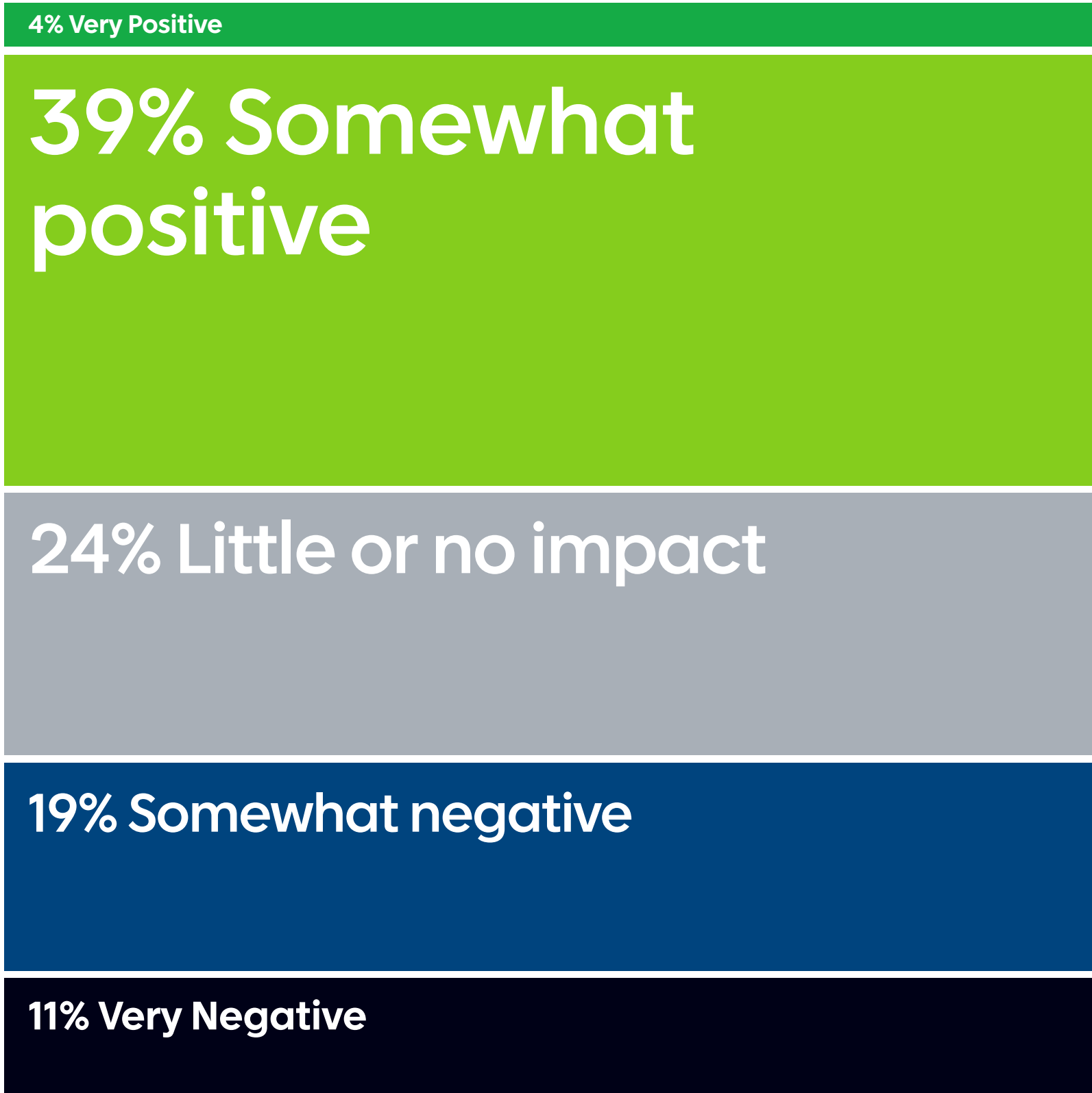


Q10. What impact do you expect the new UK government to have on the UK tech industry?

The View

Over half (54%) of those questioned believe the government will have little or even a negative impact on the UK’s tech industry, whilst 43% believe the new government will have a positive impact.

Perhaps not surprising given that the fieldwork for the survey happened just a few weeks after the general election, but the jury also remains out on what the new UK government means for the tech industry. Whilst a growth agenda has broad appeal, tight financial constraints and the risk of widespread tax increases, particularly on capital, may concern many.

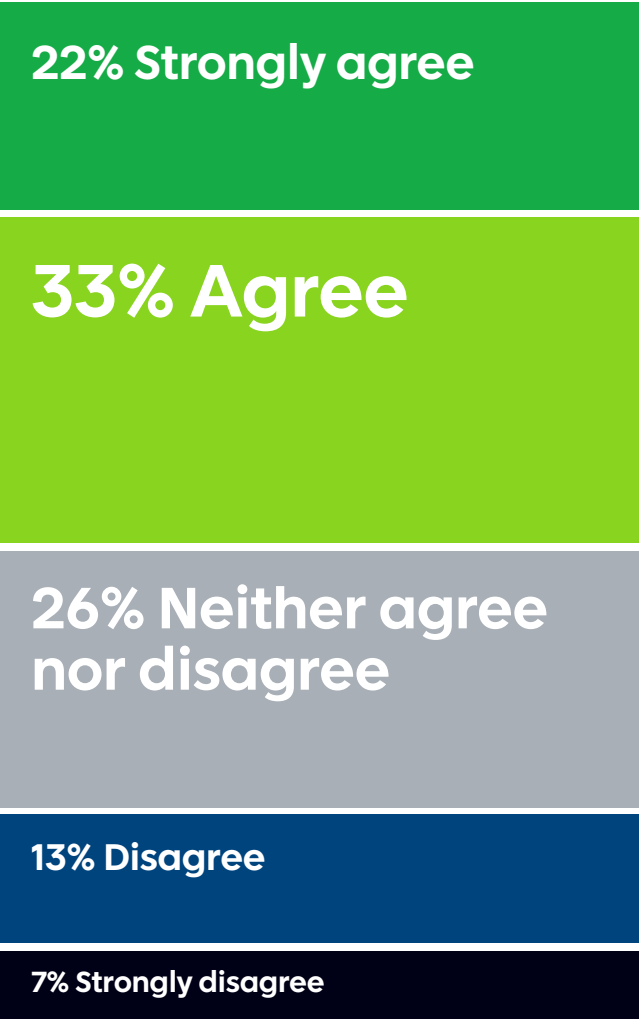


3.2% responded 'Don't know / Not applicable'

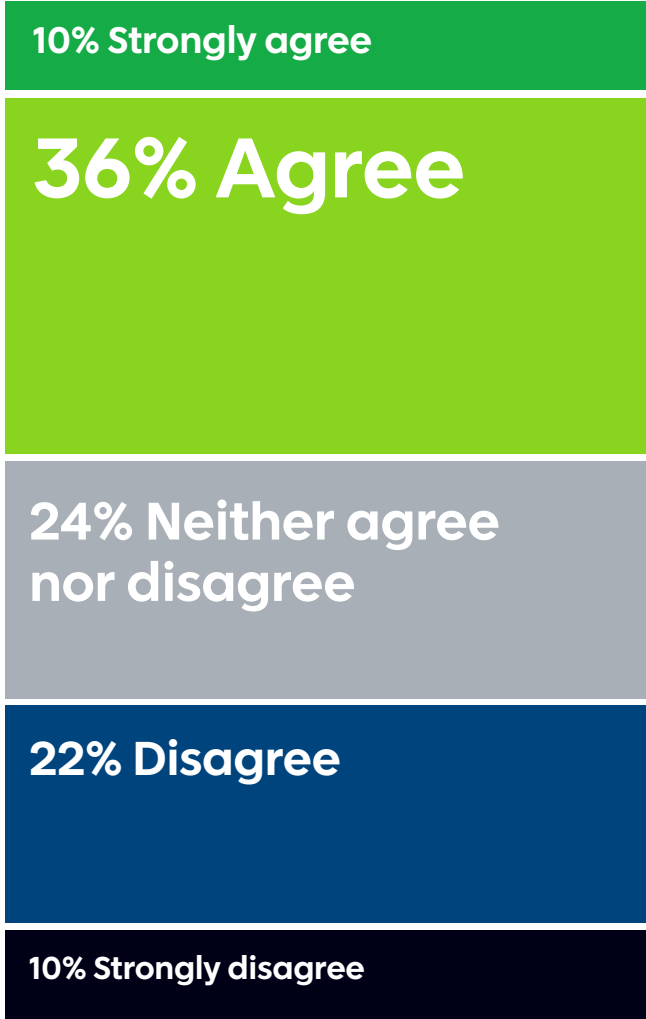
n = 247

Q11. How strongly do you agree or disagree with the following statements about Generative AI (GenAI)?

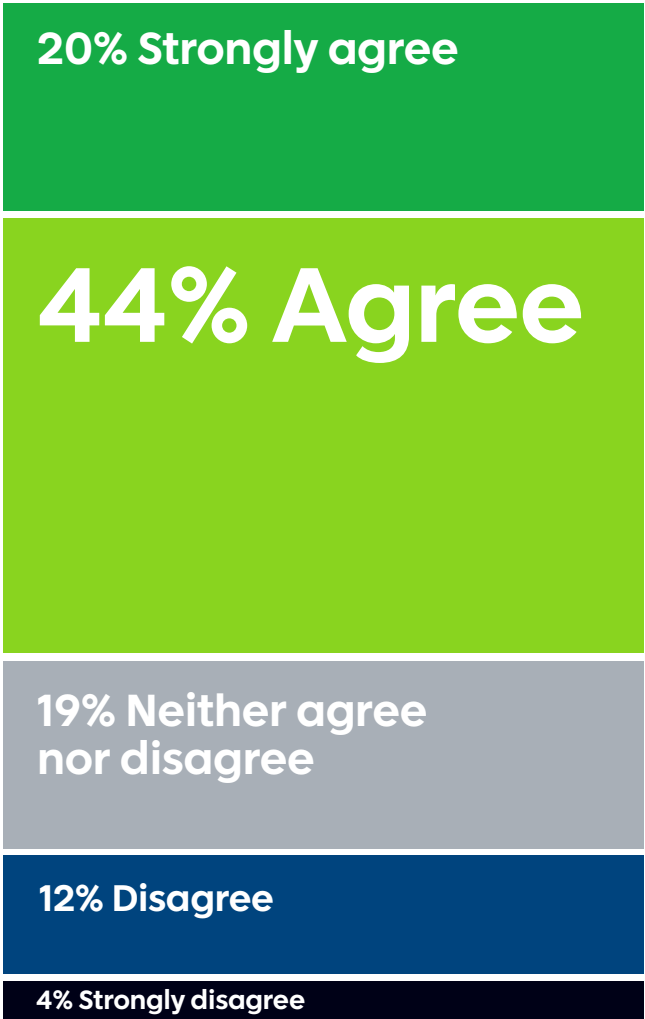
My firm is investing heavily in GenAI



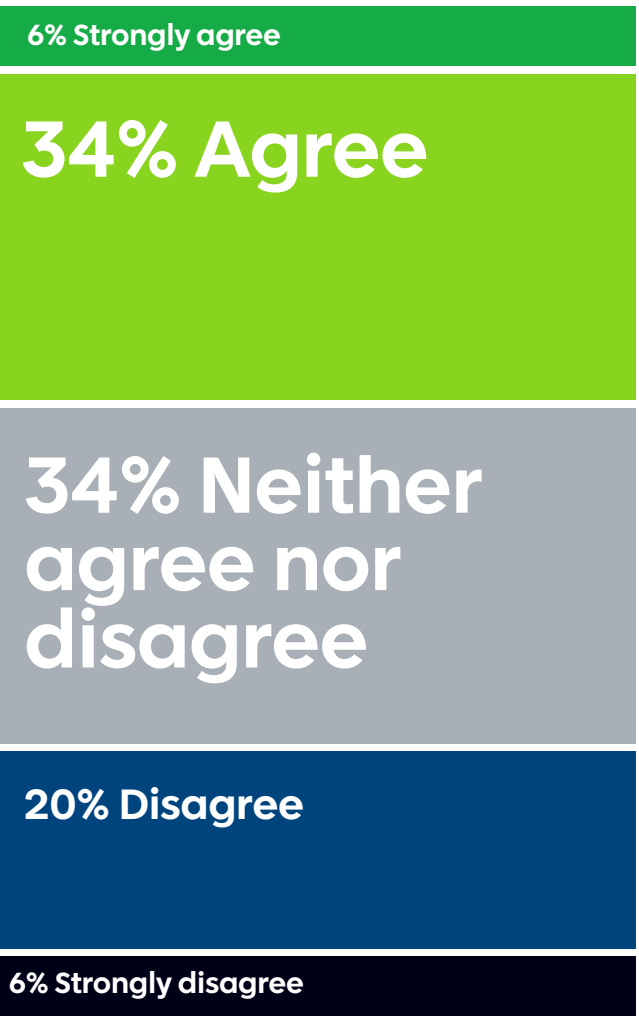
I regularly use GenAI to help with my work



The expectations of GenAI are over hyped



Our customers are demanding GenAI solutions



n = 245-246

Unsurprisingly perhaps, when asked about GenAI, leaders had somewhat contradictory opinions.

55% agreed they are investing in GenAI, with 46% admitting to using it regularly in the workplace.

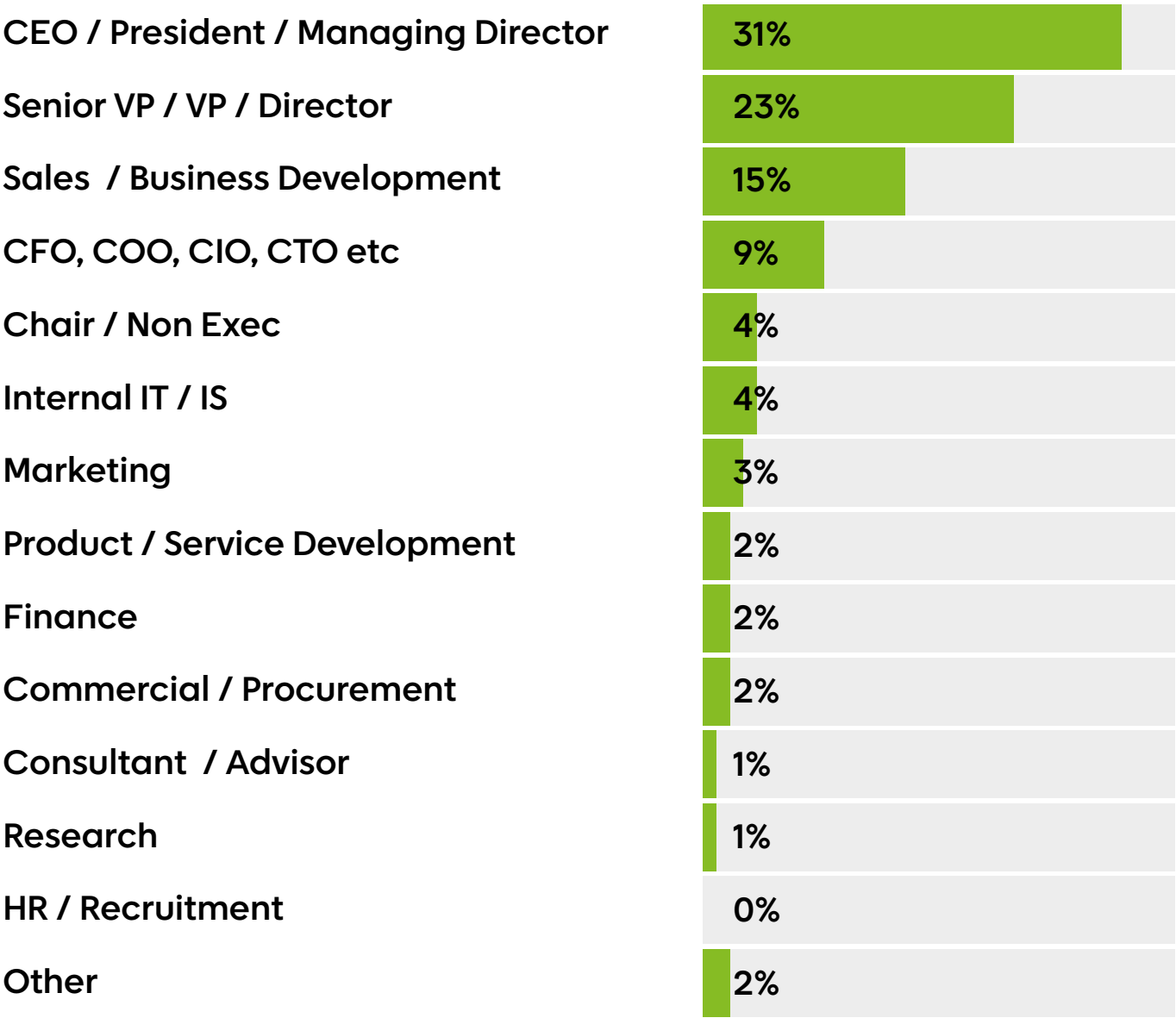
Despite almost half (40%) seeing customers demanding GenAI solutions, 65% of leaders believe the expectations from GenAI technology to have been over-hyped.

Whilst spend on GenAI is not currently having a sizeable impact on growth in the UK SITS market, the GenAI frenzy, has still led many organisations into a period of experimentation.

No organisation wants to believe that they might miss out on the potential of the technology to make them more competitive or more profitable. However, the outcome of such experiments has often been frustration (due to a realisation that their data and digital foundations are not in good enough shape to optimise the results) or disappointment (due to the results being less dramatic than hoped).

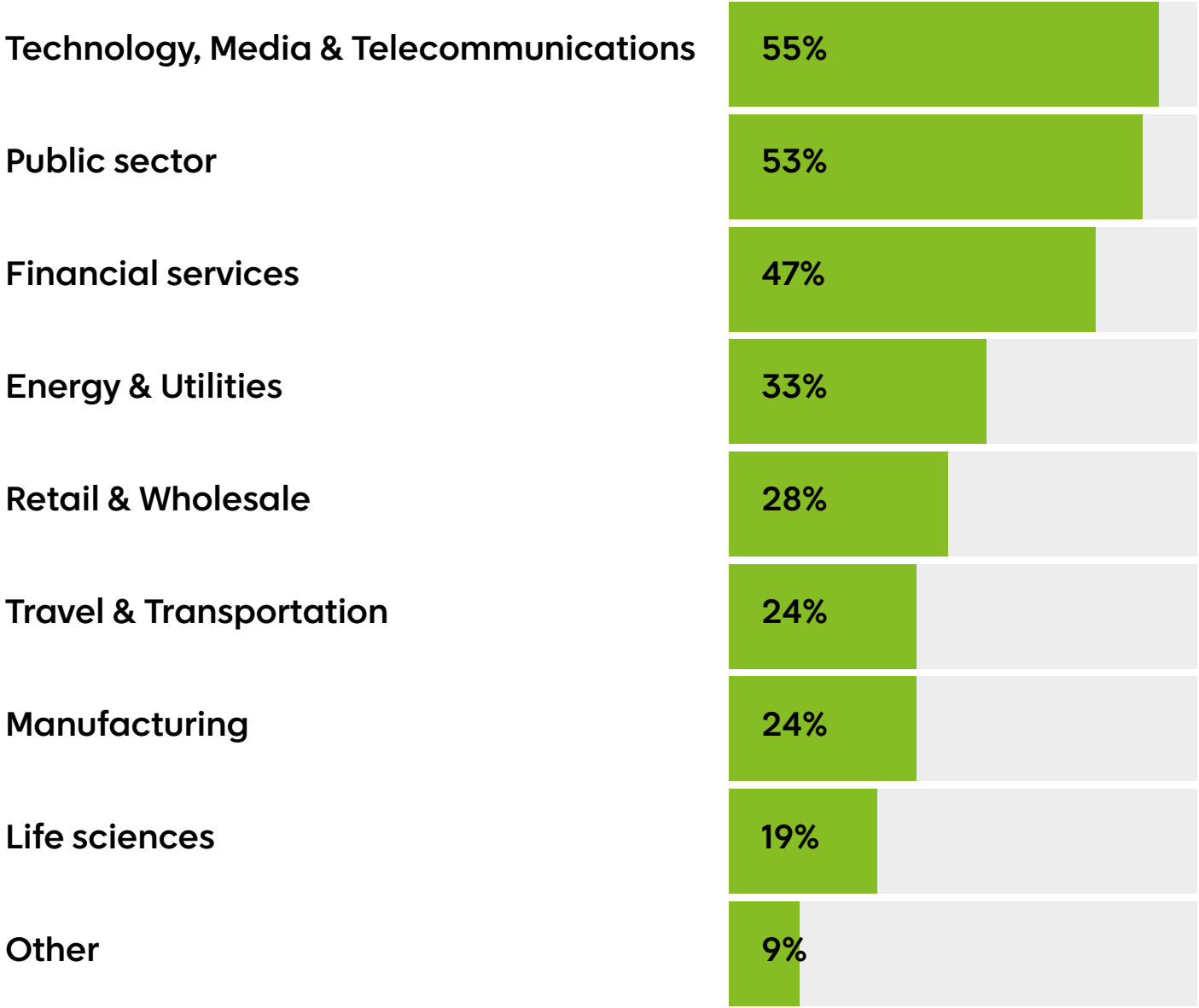


Q12. Which of the following best describes your job role?



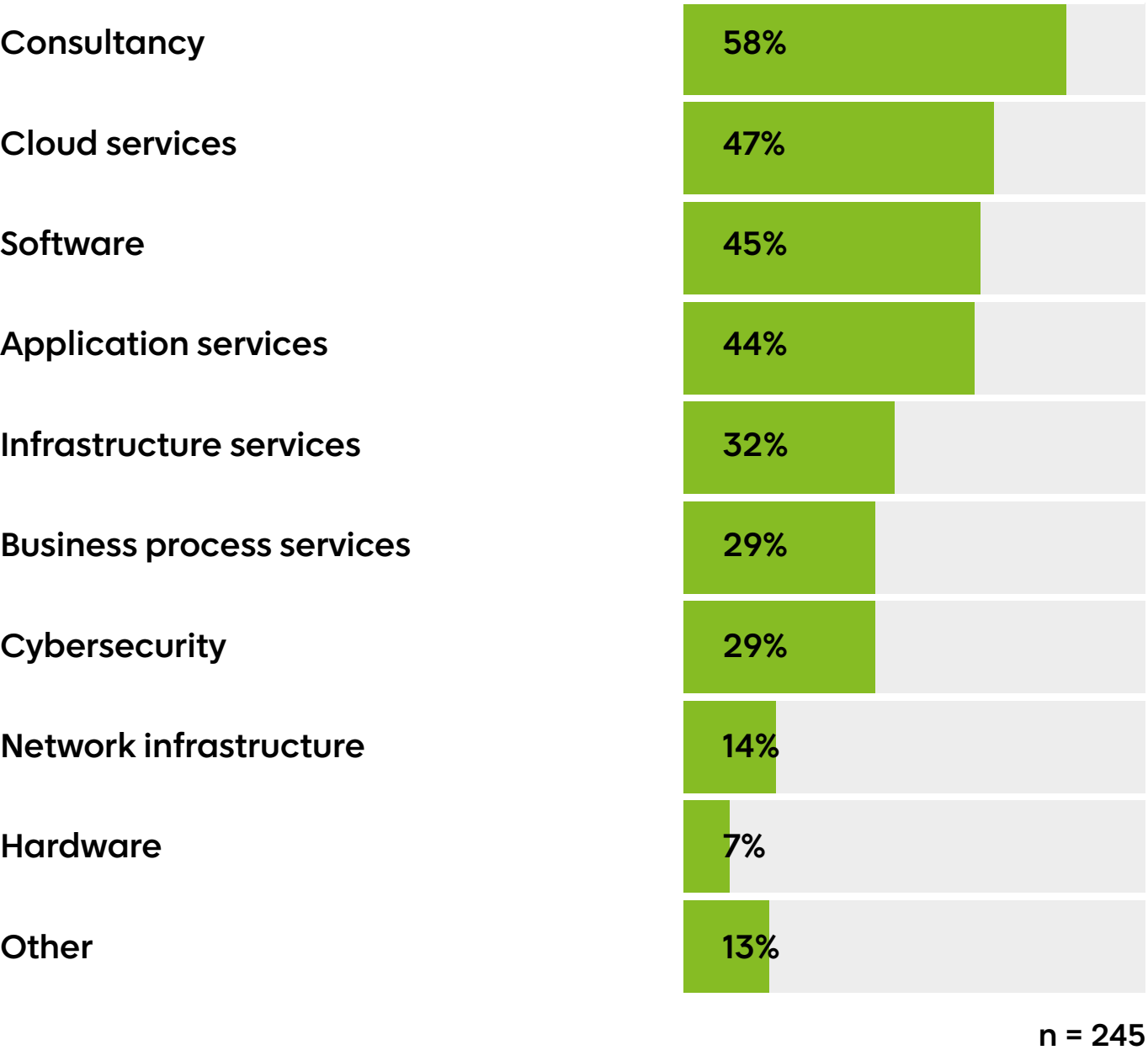
n = 248

Q13. Which of the following end user industries would you describe as core to your firm's UK operations

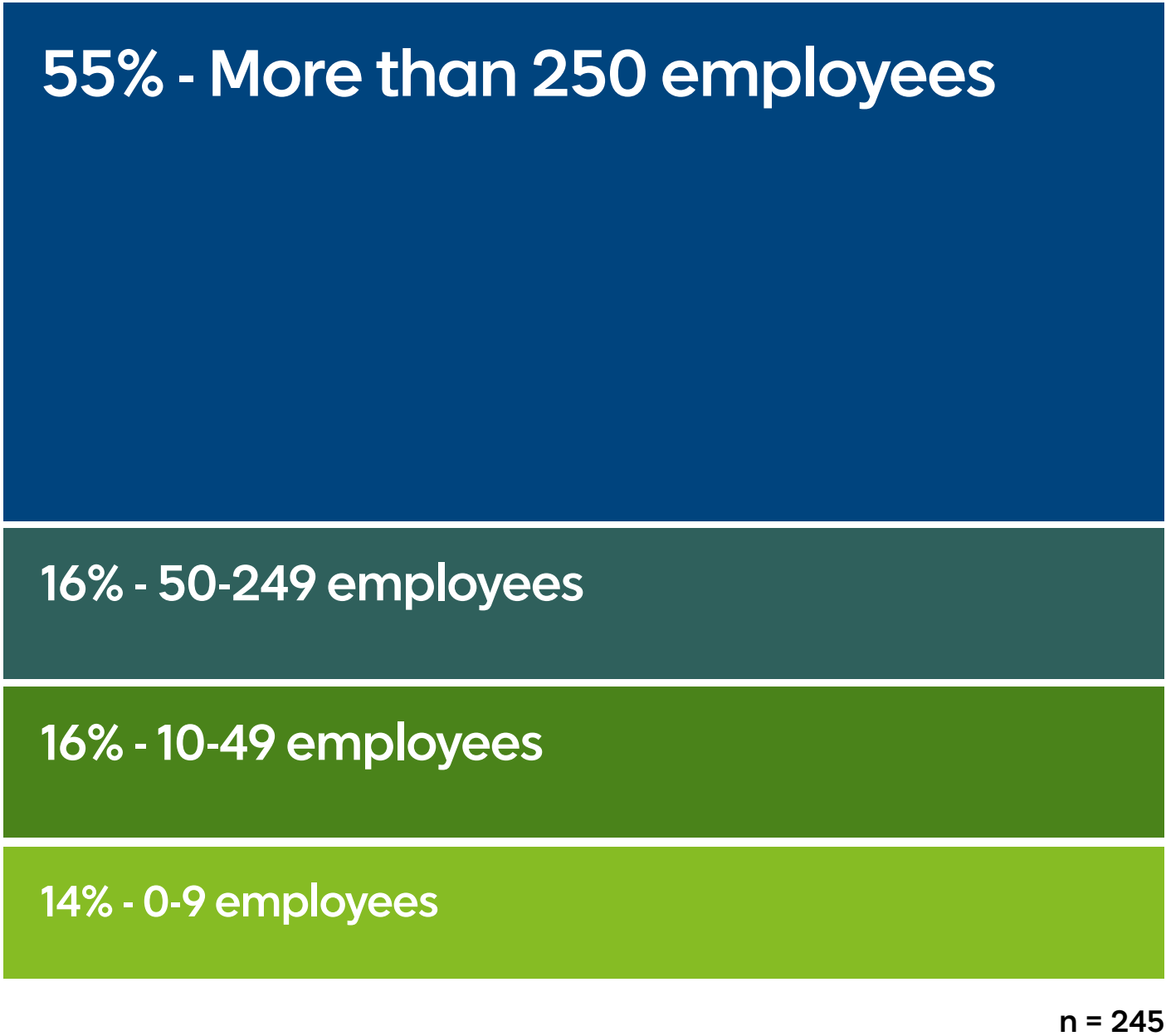


n = 247

Q14. Which of the following would you describe as being your firm’s core activities in the UK?



Q15. Which of the following best describes the size of your firm’s UK operations?



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