

JULY 2023



Opportunity in change: A market research report on SME business sentiment

For the European equipment leasing industry



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Introduction:

How asset finance can support SMEs in 2023 and beyond

As we progress through 2023, businesses are facing significant socio-economic challenges, and the longer-term effects of the pandemic persist. With the aim of gauging the resilience of the market and its path forward, Acquis conducted an international survey, with the following objectives:

1

Determining the scale and nature of challenges faced by SMEs in 2023 and beyond.

2

Identifying growth opportunities for SMEs and industry innovations.

3

Investigating businesses' investment plans and priorities.

4

Assessing the growing importance of ESG and the transition towards sustainability.

In this whitepaper, asset finance providers will discover:

- 1.** The primary macro and microeconomic considerations for SMEs in the next 12 months, and their effect on equipment leasing behaviour.
- 2.** SMEs' investment timeline for new equipment assets and their priority areas.
- 3.** The degree of adoption and implementation of sustainability practices and ESG policies among SMEs.
- 4.** SMEs' preferred finance options and openness to innovations such as subscription-based models.

About the survey sample

A confidential, self-completion online survey conducted during April and May 2023, in the native language for each country.

1,250 interviews conducted with SME decision-makers, whose businesses are likely to lease business equipment or assets, as detailed to the right.

A proportional sample of businesses surveyed from the UK, France, Spain, Germany, Poland and the BeNeLux region.

A wide range of business types represented across the sample:

- Information Technology
- Finance & insurance
- Wholesale / Retail
- Building, Construction, Engineering
- Manufacturing / Production
- Healthcare, Beauty, Social Care
- Food & Drink
- Business administration
- Transport, Distribution, Storage
- Catering & Event management
- Medical, Pharmaceutical
- Telecommunications
- Media, Communications
- Arts, Leisure, Entertainment
- Recreation
- Charities, Not For Profit
- Agriculture, forestry & fishing

As for job seniority:

- Owner/MD/Chairman or board member
- C-suite level
- Other senior manager/decision maker
- Intermediate/middle manager



PART 1

Business confidence and market sentiment in 2023 and beyond

How optimistic are you about the long-term future of your business?



Nearly half of businesses still feel optimistic about the future.

Reflecting the resilience of SMEs and their ability to adapt, nearly half, 46%, throughout Europe feel optimistic about their long-term future, with 13% of these feeling very optimistic. A further 26% feel neutral about what the future will bring, reflecting the impact of recent instability in the market.

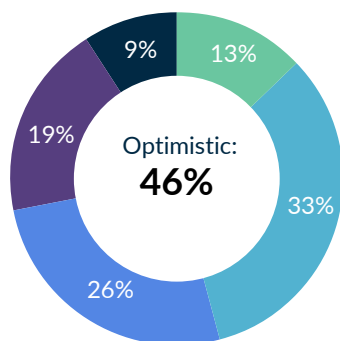
2023 revealed more nuanced sentiments than when we asked SMEs the same question in 2021, with a significant proportion of SMEs surveyed exhibiting concerns about their future, with just under a third, 28%, admitting to feeling worried, 19% feeling quite pessimistic, and 9% feeling very pessimistic about their long-term viability.

SMEs are now more cautious about their prospects, but less pessimistic too.

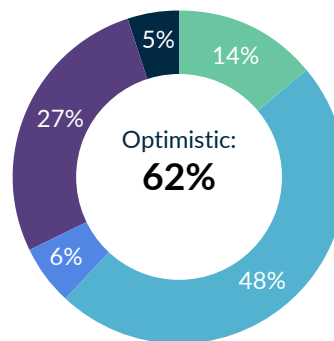
Comparing the current market sentiment with our 2021 research, we can see optimism amongst SMEs has declined overall. With the compounding impact of significant economic headwinds on businesses, this shift is unsurprising. Factors such as inflation, the rising cost of energy and the threat of recession have created a 'perfect storm' of macro-economic events, which have converged to create difficulties for businesses.

Yet it is encouraging to see that negativity has also decreased: while 32% of businesses admitted to feeling quite or very pessimistic about their future in 2021, this number has now dropped to 28%.

2023



2021



Among the industries surveyed, those showing highest optimism about the future may simultaneously be the best equipped to adapt to the changing economic pressures. Notably, the IT, medical and pharmaceutical, and distribution and storage sectors emerged as the most optimistic.

Media & Communications is the industry showing the most pessimism, with 42% of European SMEs in this field concerned about their future. Agriculture, Charities and Telecommunications were also among the industries feeling most pessimistic about their future.

42%

of European SMEs within the Media & Communications industry are concerned about their future.

Most optimistic

56%

Medical & Pharmaceutical



55%

Retail



52%

IT



Most pessimistic

44%

Media & Communications



44%

Agriculture



41%

Charities



“Businesses have faced a turbulent few years, with several large-scale social and economic events impacting trading conditions, the effects of which are still being felt. Despite this, we are seeing impressive resilience across the market – with lessors reporting a rise in new business volumes and seeing increasing demand for their services.”



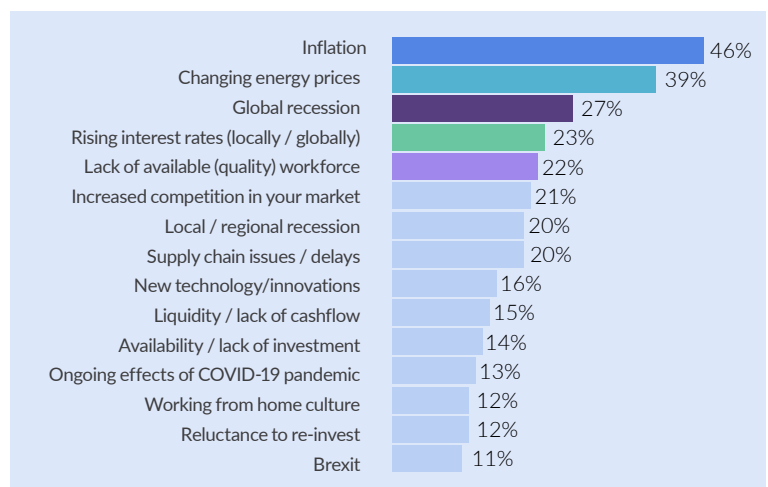
Nick Leader
CEO
Acquis

What do you feel are the main challenges your business will face over the next 12 months?

While in 2021 SMEs identified the global pandemic and associated restrictions as key business challenges, these difficulties have since been compounded by new challenges, such as supply chain issues, inflation and the threat of recession, consequently economic headwinds now dominate the top five concerns.

46% of SMEs view inflation as their main challenge in the next year.

People-centred challenges feature highly in the top concerns of SMEs right across Europe, with 22% of businesses concerned about the lack of available workforce, and 12% seeing work from home culture as a challenge to their businesses.



46%

Inflation



39%

Changing energy prices



27%

Global recession



22%

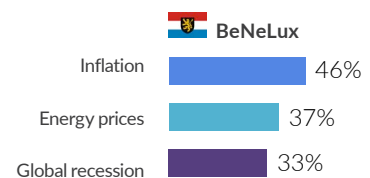
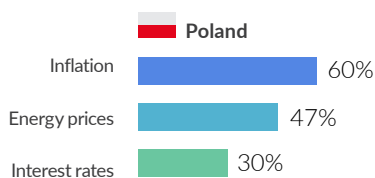
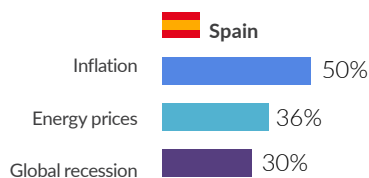
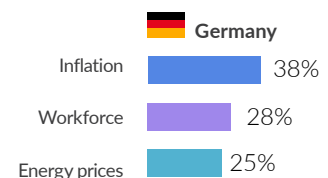
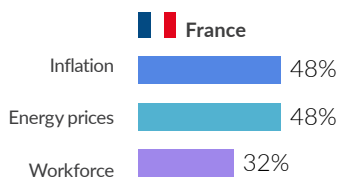
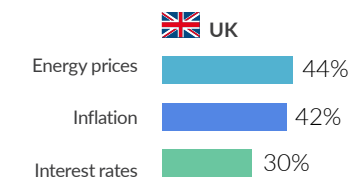
Lack of available workforce



12%

Working from home

Country analysis: Top 3 challenges SMEs perceive over the next 12 months



Which of these challenges will have the biggest negative impact on your business?

Persistent disruption of supply chains, inflation, Russia's invasion of Ukraine, the ongoing cost-of-living crisis, and the lingering effects of the Covid-19 pandemic are all currently impacting the economic outlook.

Cashflow constraints and limited investment persist as common SME concerns, as does the need to keep pace with technological advancements. Leasing is well placed to alleviate these issues and enable businesses to commit the time and financial investment needed to overcome them.

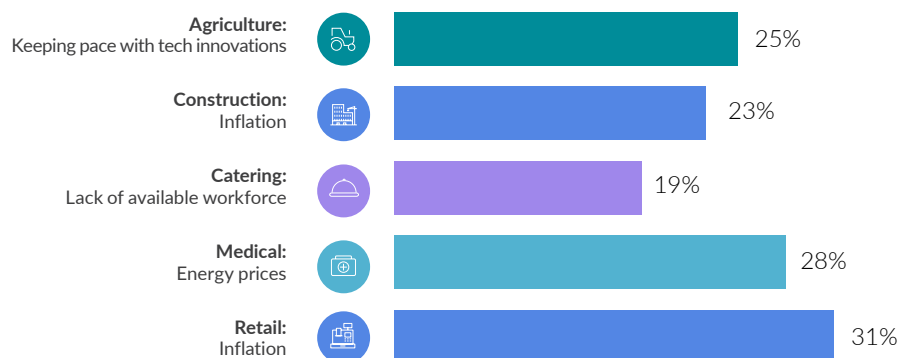
"In all territories, pressing economic concerns have overshadowed the more traditional challenges SMEs expect to face, such as market competition and the pressure to innovate.

However, with businesses' ability to adapt and thrive being so fundamental to their success in such a rapidly changing market, it is likely SMEs will take a more holistic view going forward."



Nick Leader
CEO
Acquis

Top SME concerns by industry



Percentage of SMEs concerned / extremely concerned about the following issues:

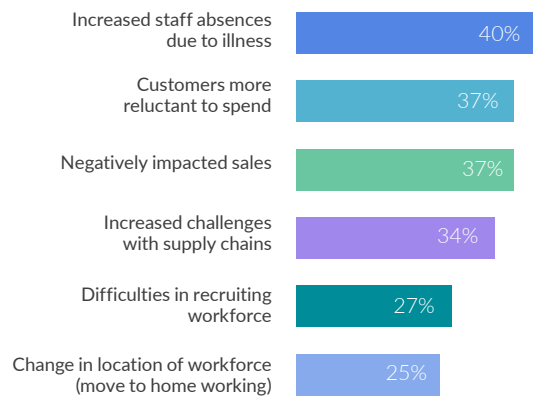


What negative effects do you feel the pandemic has had on your business?

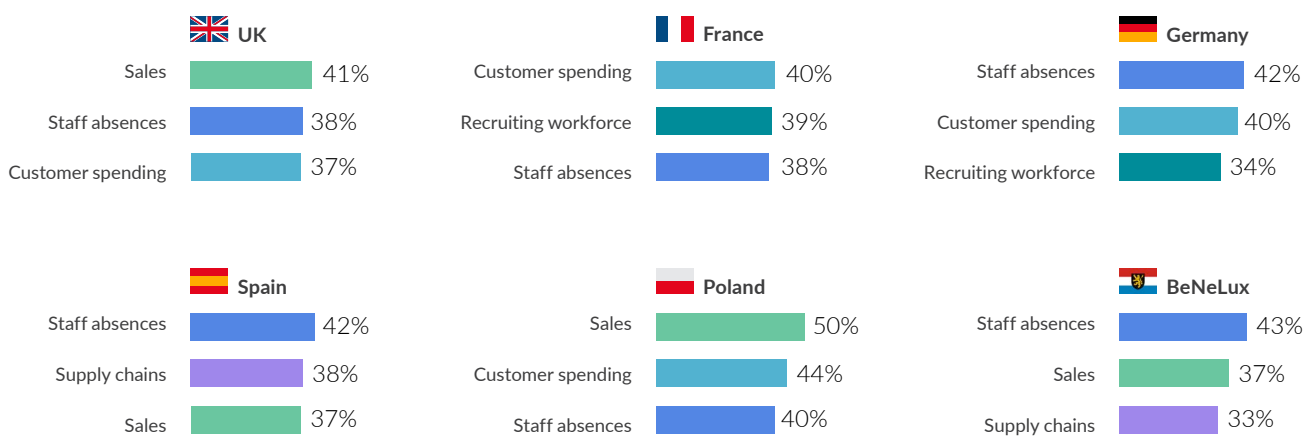
Increased staff absence was cited most often as an ongoing negative effect of the pandemic for European SMEs, affecting

40%

A third of SMEs surveyed reported negatively impacted sales as an ongoing after-effect of the pandemic, no doubt compounded by supply chain issues still being experienced by 34%. Negatively impacted sales were felt most amongst Polish respondents, with 50% of Polish businesses identifying this as an enduring effect of the pandemic, compared to 41% in the UK. Meanwhile, Germany felt the lowest impact on sales, with only 26% of SMEs identifying this as a negative impact to their business.



Country analysis: Top 3 negative impacts of the pandemic cited by country



How have SMEs' working models changed over the last 2 years?

41% of SMEs have changed their working model since the start of 2021

The economic and social instability experienced in 2020 and 2021 compelled businesses to undergo rapid and unprecedented changes in their operations, embracing the necessary shift towards hybrid working.

The increased focus on digitalisation and automation has reduced the reliance on traditional office-based work in certain industries. As the market stabilises, we

are witnessing many SMEs committing to these changes for the long term, with the continued popularity of hybrid work.

France and Spain have seen the highest volume of changes to business working models as a direct result of the pandemic, with 44% of SMEs adjusting their working models. This is closely followed by the UK at 41%.

KEY FINDINGS

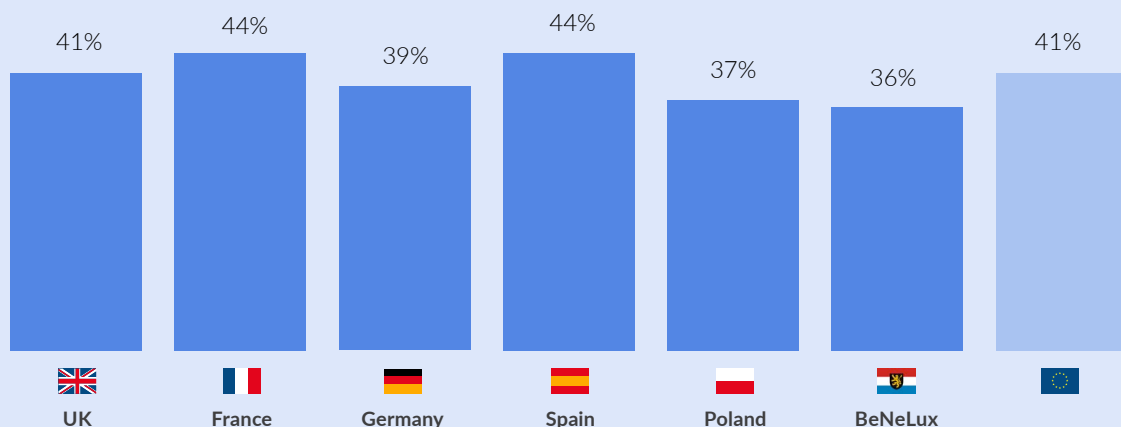


Increased number of SMEs operating a hybrid working model (from **25%** to **36%**)

21% of SMEs surveyed operated a fully central employee working model prior to the pandemic. This has fallen to just **12%**.

SMEs' in the UK (**41%**) are more likely to be currently operating remotely than other countries surveyed.

% of businesses who changed their working model since the pandemic



PART 2

SME growth opportunities and industry innovations

What are the largest growth opportunities for your business in the next 12 months?

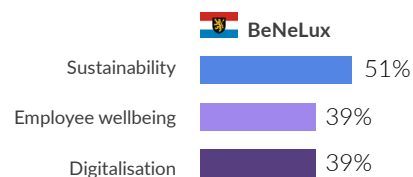
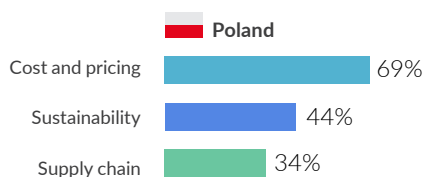
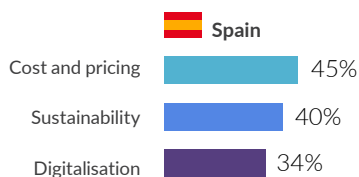
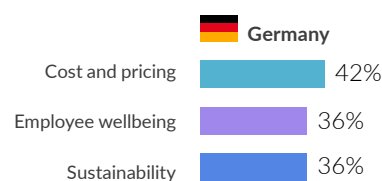
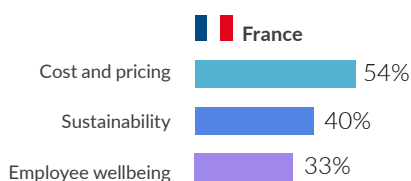
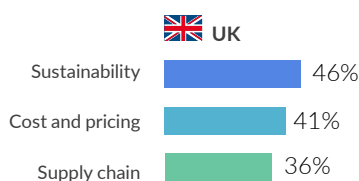
SMEs not only perceive workforce related issues as a key challenge for the next 12 months, but also recognise the potential for growth by increasing investment in their staff: a third of European businesses (33%) rank investing in employee wellbeing among the top three growth opportunities going forward.

While opportunities for service and product optimisation are prevalent across all territories, the French leasing market shows less concern for digitalisation and automation, with 24% of SMEs recognising it as a growth opportunity. On the other hand, French SMEs exhibit ambition in expanding into new geographical markets, with 30% recognising it as a growth opportunity, the highest percentage among respondents.

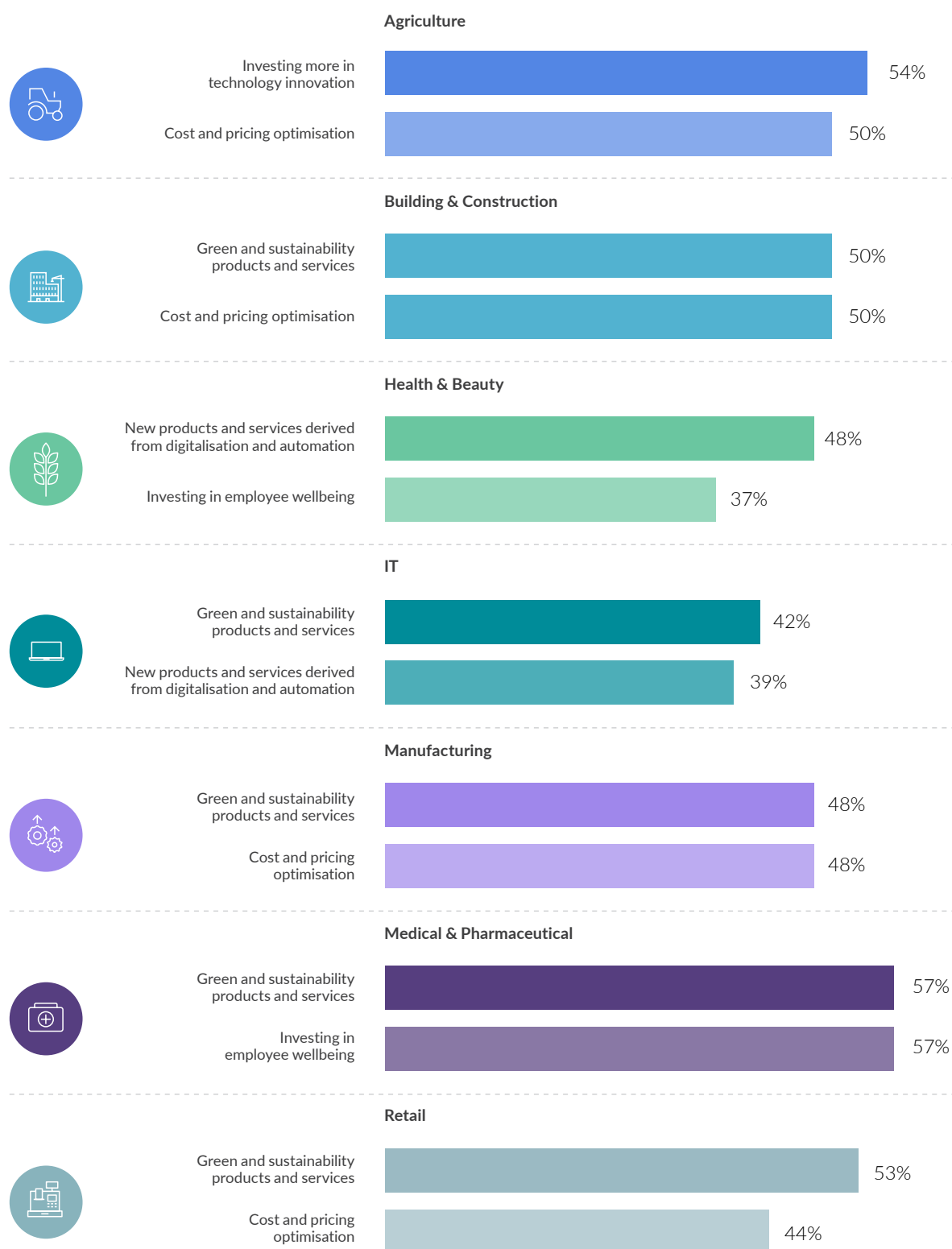
The UK market identifies sustainable products and services as the foremost growth opportunity, with 46% of businesses acknowledging its potential. Similarly, nearly half of European SMEs (46%) express interest in this area, signalling a significant investment and innovation drive for sustainable solutions in the near future.

46% recognise optimisation of cost and pricing as a key growth opportunity.

Country analysis: Top 3 growth opportunities for SMEs

















Sector analysis: Top 2 UK growth opportunities

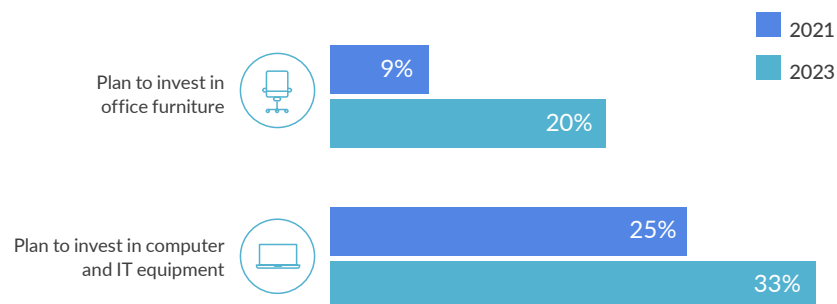


Over the next 5 years which assets is your company likely to invest in?



Equipment most likely to invest in, next 5 years	 UK	 France	 Germany	 Spain	 Poland	 BeNeLux	 Average
Computers and IT 	31%	28%	30%	34%	52%	34%	33%
Software 	24%	32%	32%	27%	34%	35%	29%
Photocopiers, MFDs, printers, and scanners 	18%	22%	24%	25%	35%	19%	23%
Office Furniture / equipment 	14%	17%	27%	23%	21%	24%	20%
Telecommunications 	18%	18%	21%	22%	17%	23%	20%
Manufacturing / Engineering / Production 	16%	17%	10%	19%	17%	16%	16%
Green power generation equipment 	18%	10%	14%	15%	12%	20%	15%

Strong growth in the intention to invest shown in traditional equipment categories.



Strategic investment in key assets and equipment is essential for SMEs to effectively confront challenges in the next twelve months and longer-term. By leasing better equipment, SMEs can improve not only their service and product offering, but also create better working environments, potentially tackling the issue of attracting and maintaining a stable workforce.

SMEs are most likely to invest
in computer & IT equipment

33%

Looking back at SME's investment plans, when asked in 2021 about their intention to invest in business equipment, just 9% of European SMEs planned to invest in office furniture, which was expected during the pandemic. That figure has now climbed to 20%, demonstrating there is an ongoing demand despite the changes to working models. Any shortfall in a return to pre-pandemic volumes is likely to be softened considerably by rising demand for computer and IT equipment to support hybrid working, which we have seen grow from 25% in 2021 to 33% today.

"With the shift in working models towards hybrid working, we may expect to see a decline in investment in traditional office equipment, yet higher demand for computers and IT. While the data supports this notion, there is still strong demand for traditional equipment which suggests SMEs understand the importance of a 'best-of-both-worlds' approach."



James Rudolf
CCO
Acquis

Overall, EU equipment investment is projected to grow 4.3% in 2023,² and these results suggest considerable investment is likely across a varied range of asset classes, with different priorities per industry.

Of the businesses expressing an intention to invest in Photocopiers, SMEs in the Charity (36%), Retail (30%), and Finance & Insurance (28%) sectors, reported the highest need for this type of equipment. The top sectors most likely to invest in Office

Equipment were Charities (54%), Telecomms & Media (40%) and Medical (26%). For Computer Equipment, 38% of respondents in the Business Administration sector, 36% in the Finance & Insurance sector, and 36% in the Retail sector all reported an intention to invest within the next 5 years.

These findings serve to outline that while growth opportunities exist in new equipment types, there is still strong demand for the more traditional equipment types amongst SMEs in Europe.

Sectors most likely to invest in the following equipment:



Photocopiers:

Charities	36%
Retail	30%
Finance & Insurance	28%



Office Equipment:

Charities	54%
Telecomms & Media	40%
Medical	26%



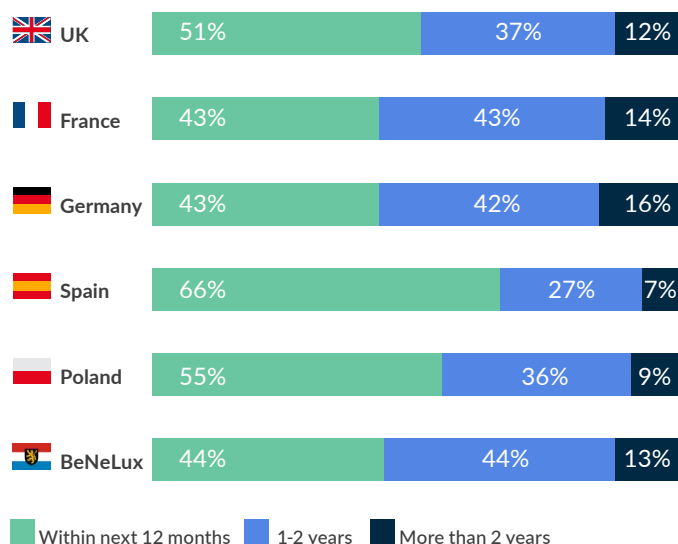
Computer Equipment:

Business Administration	38%
Finance & Insurance	36%
Retail	36%

² EU Commission's European Economic Forecast

When is your business most likely to invest in new assets to assist its growth?

Country Analysis



In times of socio-economic change, it can be tempting for SMEs to hold back on committing to investment, which will have longer term impact on the potential for growth and resilience. It is encouraging to see that the majority of European SMEs are planning to invest in assets and equipment in the relatively short term; indeed many are already taking steps to secure and strengthen their place in the market, and this is good news for the leasing industry.

50% of SMEs intend to invest in assets or equipment in the next 12 months.

When asked the same question in 2021, the majority of SMEs answered that within 1-2 years was the most likely timescale for investment (52%) suggesting many were forced to put off investment decisions due to the pandemic. It is encouraging to see that this intention has since shifted, with 50% of 2023 respondents reporting their intention to invest in new assets within the next year, compared with just 22% in 2021.

KEY FINDINGS

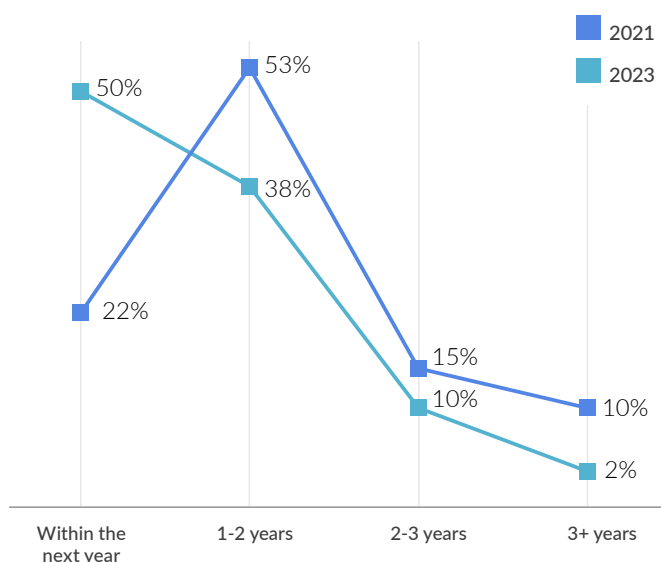


Half (**50%**) of European SMEs who are likely to invest in new business equipment/assets, plan to do so in the next 12 months.

Over a third (**38%**) plan to invest in 1-2 years and one-in-ten (**10%**) will invest over the next 2-3 years.

Two-thirds (**66%**) of SMEs in Spain plan to invest within the next 12 months, compared to around four-in-ten in Germany (**43%**), France (**43%**) or BeNeLux (**44%**). Over half of those in Poland (**55%**) or UK (**51%**) plan to do the same.

Timing of SMEs' intention to invest



How will your company be most likely to fund investment in new business assets?

32%

Leasing is the number one preferred business finance option with **32%** of European businesses planning to fund investment this way

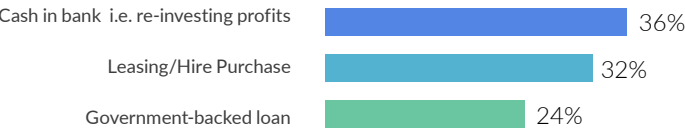
“The fact that leasing and hire purchase is the preferred type of business finance for SMEs across Europe shows the growth potential of the market, and that businesses recognise its many benefits.”



James Rudolf
CCO
Acquis

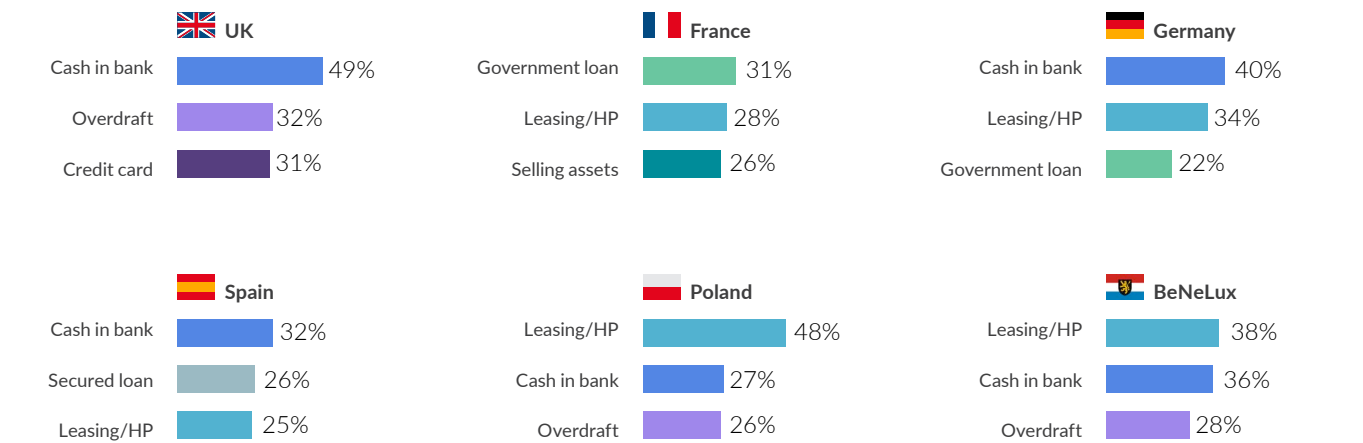


How companies plan to fund investment in new business equipment



The preference for leasing and hire purchase as the primary form of business finance among SMEs across Europe highlights the immense growth potential of the market and reflects SMEs' recognition of its numerous benefits.

Country Analysis



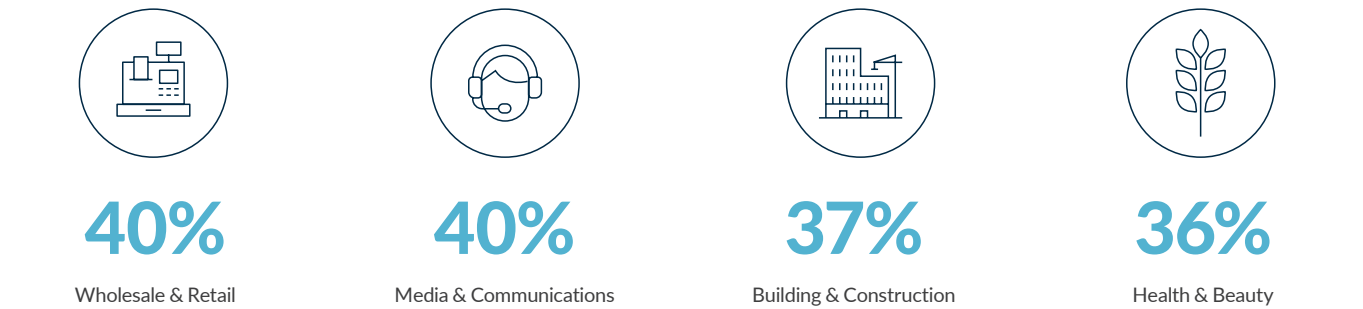
The UK, Germany and France are in the top 10 leading countries generating the newest business in the European leasing market, contributing 68% of the total European volume,³ and are simultaneously among those most likely to be able to fund new asset and equipment investments without an external funding source. Nearly half, 49%, of UK SMEs, and 40% from Germany, say they are most likely to fund investments through company funds and profits.

Leasing is among the top three finance sources in all regions. Lessors will welcome the opportunity to continue supporting clients with products that offer the necessary flexibility and security not available through other funding sources.

In the UK, the high usage of overdrafts and credit cards may be reflective of the lack of finance options available amongst smaller SMEs. With leasing

already being the preferred funding source for nearly a third of UK businesses (30%), there is an opportunity for lessors to step in and supply more attractive finance options, allowing SMEs to avoid high interest rates and inflexible repayments.

Sectors most likely to use leasing to finance equipment

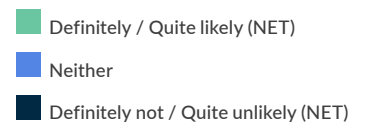


³ World Leasing Yearbook 2023

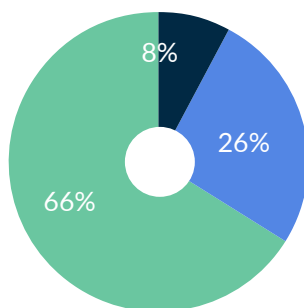
In the future, are you likely to consider using subscription products e.g. pay-per-use, instead of traditional finance products?

Subscription products, like pay-per-use, represent a significant opportunity for asset finance companies. By setting the lessee's payment profile according to usage, pay-per-use can provide customer choice and the opportunity for competitive differentiation.

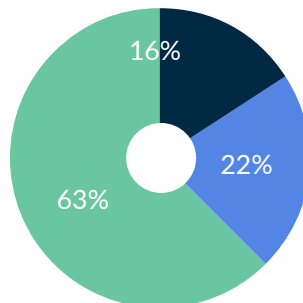
Our survey revealed increasing acceptance of pay-per-use as a leasing model amongst European SMEs: since 2021, the number of businesses who would consider subscription-based products has gone up from 25% to 66%.



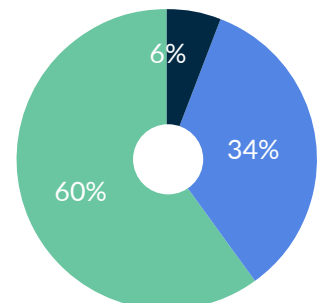
Country analysis: open to use of subscription products



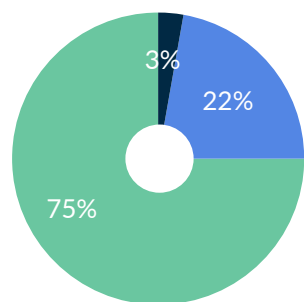
UK



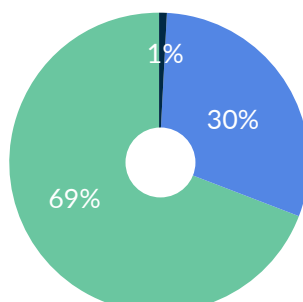
France



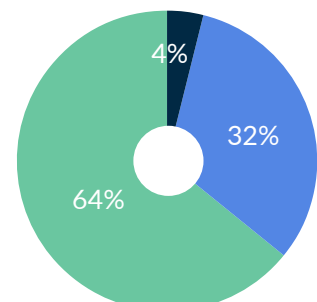
Germany



Spain



Poland



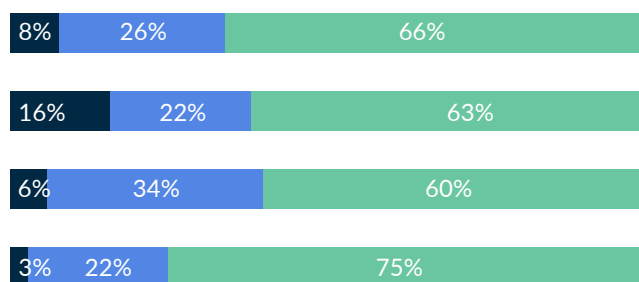
BeNeLux

164%

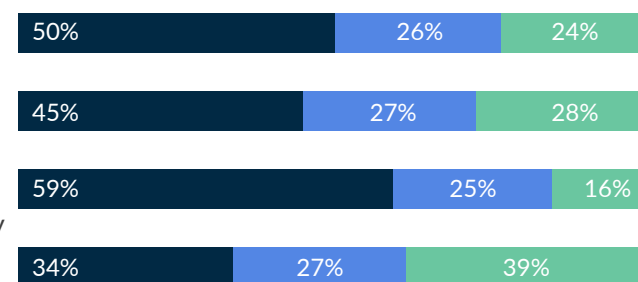
The number of SMEs open to subscription products has increased by 164% since 2021

Increase in businesses considering subscription-based products

2023

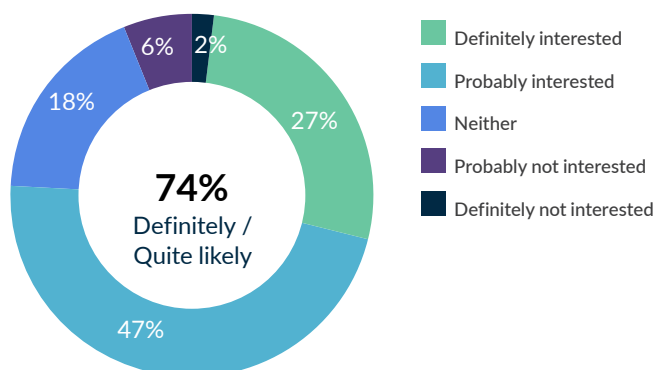


2021



■ Definitely not / Quite unlikely
 ■ Neither
 ■ Definitely / Quite likely

Would you consider using subscription products instead of traditional finance products at a discounted price?



SMEs are undergoing a significant shift from ownership to usage-based models, enabling them to adapt to change and allocate capital for business development. This industry-wide change is driving the growing appeal of pay-per-use and subscription products among manufacturers. As a result, equipment finance providers have an expanding opportunity to support these evolving trends and facilitate the adoption of usage-based models in the market.

With the introduction of discounts, interest in subscription-based products amongst SMEs rises further – with nearly three quarters (74%) saying they would be interested provided the discount was satisfactory. This figure rises even further in the UK, at 77%, and in Spain and Poland, at 81%.

PART 3

Buyers' Growing Commitment to a Sustainable Future

Does your business have, or are you planning to implement, an ESG policy?

"It's very encouraging to see that the overwhelming majority of SMEs either already have, or are shortly planning to implement, an ESG policy."

There are big opportunities in the leasing market for ESG centred products and services, and these opportunities will only grow as environmental responsibility becomes a higher priority for consumers."



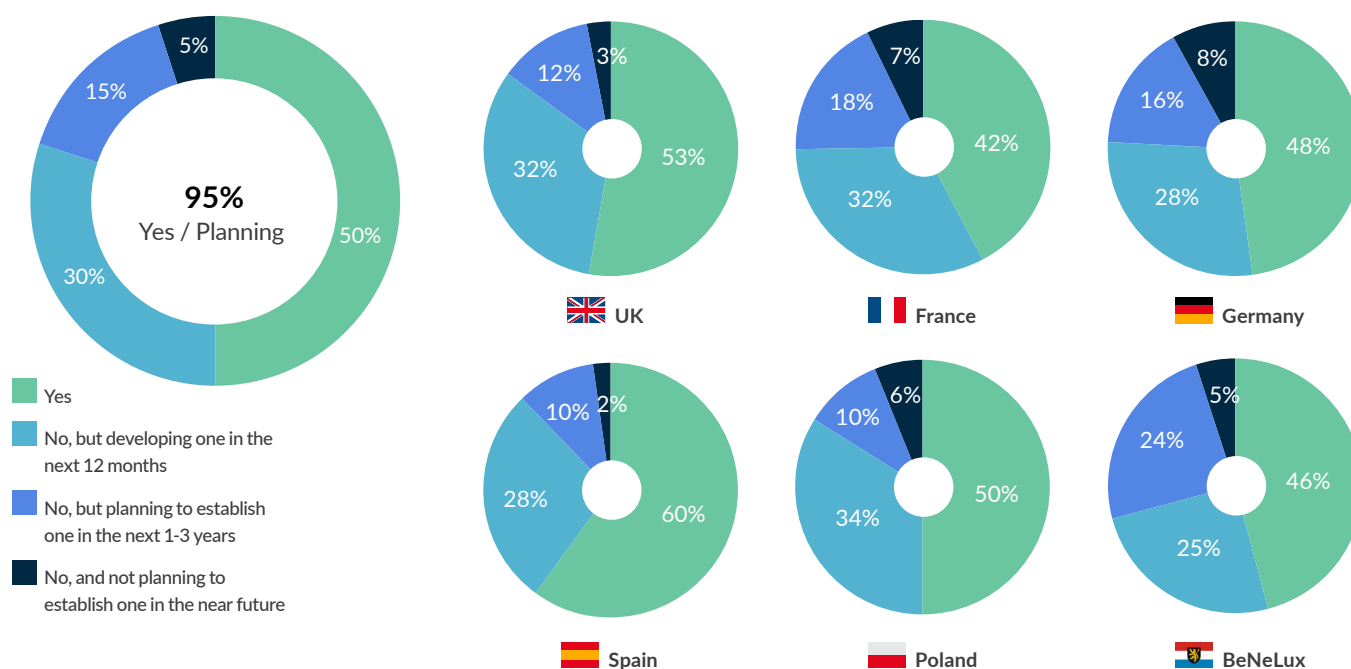
Nick Leader
CEO
Acquis

A strong commitment to sustainable products and practices

SMEs are now increasingly embracing sustainability and are ramping up the pace of change by not only investing more in sustainable products but also prioritising sustainability as a core aspect of their overall business strategy.

Environmental, Social and Governance (ESG) principles are reshaping the leasing industry, as businesses regardless of size embrace higher environmental standards and transparency to uphold corporate responsibility. Sustainability is gaining prominence for SMEs considering their growth plans, driven not only by changing regulations and governance but also by consumer demand for sustainable practices.

Country analysis: SMEs planning to implement an ESG policy



How are SMEs prioritising sustainability?

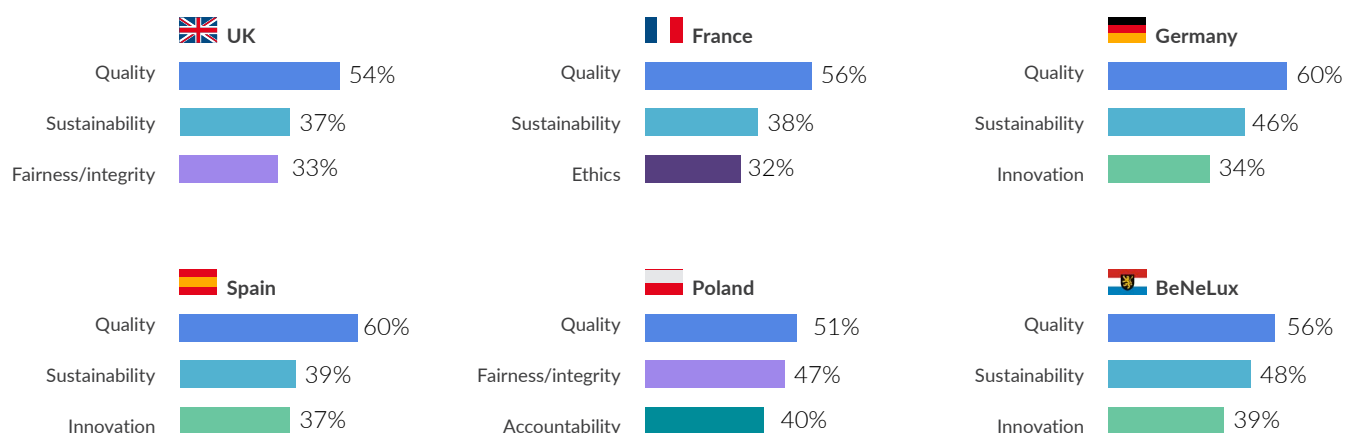
SMEs are actively prioritising green practices and products in various ways. This includes integrating sustainability as a core corporate value and making investments in the development and utilisation of greener technology and assets.

42% of SMEs see green products and services as a top growth opportunity

Country analysis: Top 3 most important corporate values that your organisation prioritise



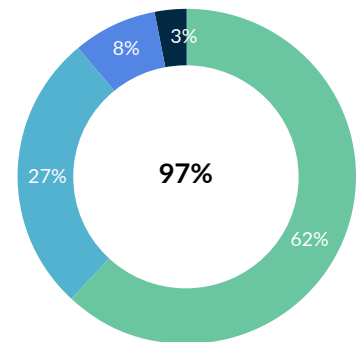
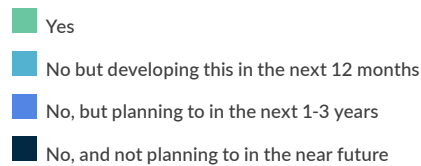
Country analysis: Top 3 most important corporate values



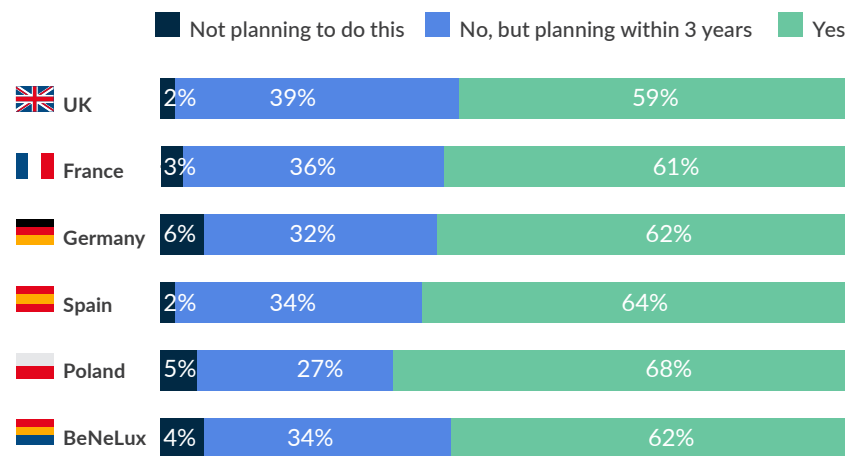
On a regional level, sustainability is among the top three corporate values prioritised by all surveyed countries except Poland. But while fewer Polish SMEs view sustainability as a top concern on a corporate level, Poland shows the highest commitment to developing greener products and services - with 68% having already done so, and a further 27% planning to in the next three years.

Over the last 12 months, have you adapted your products or services to improve sustainability or support a greener business agenda?

% of SMEs that have adapted their offering to improve sustainability or support a greener business agenda (last 12 months)



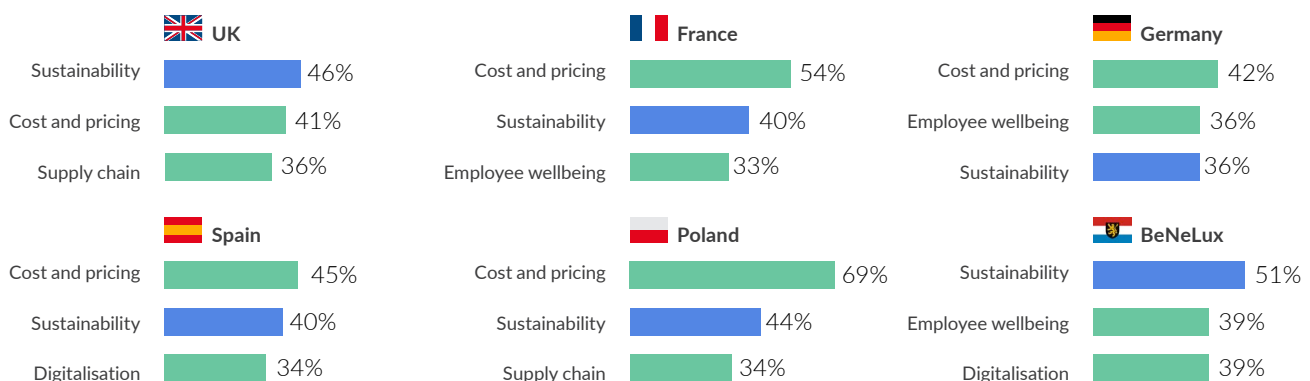
Country analysis: Adaptation of products/services to improve sustainability or support a greener business agenda



The UK, while slower to improve the sustainability of products and services (with 59% having done so) shows high commitment to improving sustainability of products or service offering in the next three years with 39% of UK SME respondents citing an intention to. The UK also has the highest percentage of businesses ranking sustainability as a top growth opportunity, at 46%.

Country analysis: How sustainability is perceived as a growth opportunity

In every region we surveyed, sustainability was ranked as one of the top 3 growth opportunities SMEs identified for their businesses.



Key takeaways

"In the face of uncertainty and challenges over the past three years, SMEs in Europe have shown resilience and are now on the path to recovery. Our lessor partners and their clients, along with the gathered data, indicate a promising future for the leasing industry. Despite remaining cautious, businesses are embracing investment and innovation, seizing new opportunities in a rapidly changing market. We are thrilled to witness the strengthening of the leasing industry and remain committed to supporting our clients with tailored products and services that meet their evolving needs."



Nick Leader
CEO
Acquis

46%

of European businesses feel optimistic about their long-term future.
And less are pessimistic – the figure dropping from 32% in 2021 to 28%



41%

of European SMEs have changed their working model since early 2020
The growth of hybrid working has been sustained, and continues today



46%

of SMEs in Europe see cost and pricing optimisations as their top growth opportunity
With sustainable products and employee wellbeing also in the top three



33%

of European SMEs plan to invest in computer and IT equipment
And this figure has increased by 8% since 2021



51%

of European SMEs will invest in assets or equipment in the next 12 months
Those looking to invest in the next two years has grown by over 10% since 2021



32%

of European businesses are planning to fund investment through leasing
Making it the number one preferred business finance option



66%

of SMEs in Europe would consider subscription-based products
An increase of 41% since 2021



About Acquis

Acquis is an independent provider of fully outsourced insurance solutions for leased equipment. Thanks to our expertise and business intelligence we publish a quarterly Index that showcases equipment leasing volume trends, drawing on over a decade of experience working in partnership with some of the most prominent asset finance companies across Europe.

For further information on how our insurance solutions can help reduce portfolio risk and increase revenue, please contact:
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