

A close-up photograph of a person's hands, wearing a dark suit jacket, carefully balancing a tall, precarious stack of wooden blocks. The blocks are of various shades of light and dark wood, stacked in a slightly irregular, tower-like structure. The person's fingers are positioned around the stack, suggesting a delicate balancing act. In the background, a desk with a white surface is visible, featuring a faint blue bar chart and some papers. The lighting is warm and focused on the hands and the stack, creating a sense of concentration and risk.

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# **Business Challenges 2024: A UK Perspective**

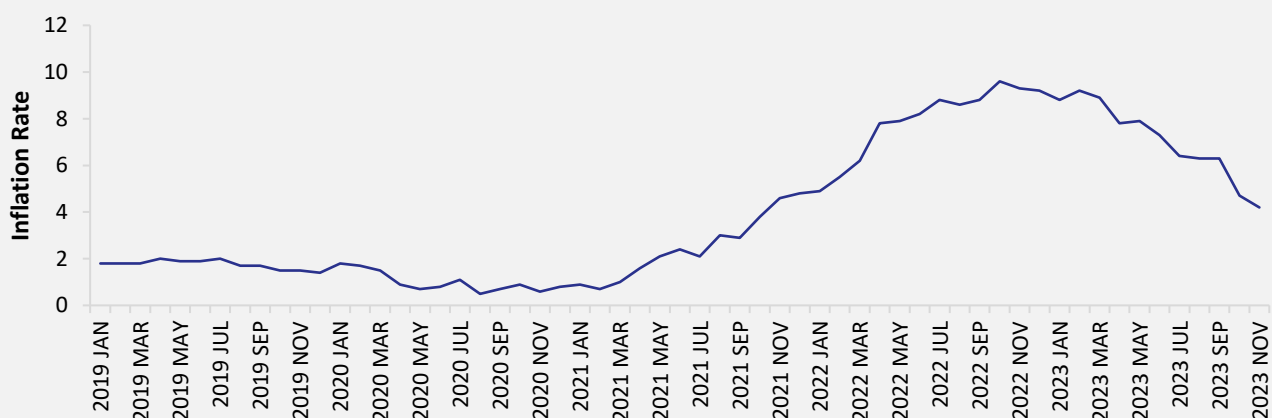
January 2024

As we step into 2024, the world is facing an increasingly turbulent business environment aggravated by the rapidly escalating geopolitical tensions, exponentially growing commodity prices, surging trade wars, and ever-evolving market trends. The UK, in particular, is staring at a plethora of challenges that lie ahead for its corporate sector which demand immediate attention and development of proactive solutions. The prominent business challenges that need to be a priority focus for UK in 2024 include managing inflation, stimulating AI adoption, bridging the skill gaps in the labour market, and handling the transformative changes in the consumer and consumption dynamics, particularly with regards to Gen Z.

## Inflation: A Growing Concern

Inflation remains to be a pressing issue for the UK economy as it heads into 2024. While inflation in the UK has substantially eased up from its record-high levels of 11.1% reported in October 2022 to 4.6% in October 2023, it remains considerably above the long-term target of 2% set by the government<sup>1</sup>. This can have strong implications for the UK businesses as higher inflation translates to increased operating costs, higher wages, shrunk profit margins, and reduced consumer purchasing power crippling the overall business performance and threatening long-term sustainability<sup>2</sup>. Several factors have contributed to the persistently elevated inflation levels in the UK including supply chain disruptions arising from the COVID-19 crisis, surging energy prices as a result of the Russia-Ukraine conflict, and the aftermaths of Brexit restricting trade flows to and from the country<sup>3</sup>. The inflation levels in the UK for the last five years are depicted in Figure 1 below.

**Figure 1 – Inflation rate in the UK**



Source: Office for National Statistics<sup>4</sup>

### Managing Inflation



Effective management of inflation requires a two-pronged approach to ensure that UK's business sector continues to thrive and flourish in the foreseeable future.

- The government needs to focus on drafting suitable policies to control prices and confine the inflation levels in the country within the long-term target of 2%
- The businesses also need to be proactive in developing and implementing suitable strategies to protect their margins which include improving cost efficiencies and cost optimisation, strategic pricing, enhancing productivity and market expansion

1. <https://www.forbes.com/uk/advisor/investing/inflation-outlook-2024/>

2. <https://www.openaccessgovernment.org/rises-in-core-inflation-and-how-this-affects-uk-businesses/167621/>

3. Benori Internal Research

4. <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23>

## Dynamics of Inflation in the Retail Sector

Higher inflation rates have led to a spiralling increase in the cost of living for UK citizens creating ripple effects across diverse industries and sectors. The retail sector is projected to feel the strong negative impact of rising cost of living as it has severely constrained the consumers’ spending power making them skeptical about engaging in long-term retail purchases including homeware and furniture<sup>5</sup>. The challenges for the retail sector will be further compounded due to supply chain disruptions caused by the restrictive shipments through the Red Sea amidst the ongoing Middle East crises as well as escalating cost pressures contributed primarily by the rising business rates in the UK.

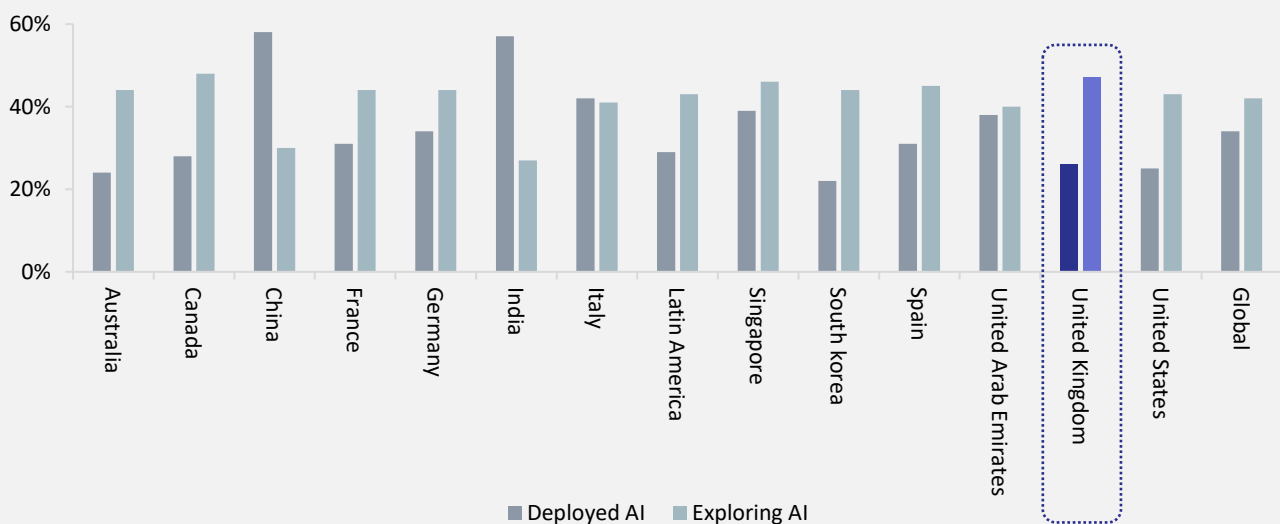
Leveraging high promotional activities, re-engineering supply chains, and optimising cashflows could help the UK retail sector to ensure better preparedness in proactively countering these looming challenges for 2024.



## The AI Gap: Challenges in Adoption

As the world embraces advanced technologies, especially AI, at a breakneck pace, the UK emerges as a conspicuous laggard. A comparative global analysis highlights that UK (26%) lags far behind other countries including China (58%), India (57%), and Italy (42%) in terms of AI adoption rates as demonstrated in Figure 2 below<sup>6</sup>. Based on latest reports by the Office for National Statistics (ONS), as of December 2023, 85% of the UK businesses claimed to be not using any AI technology and 83% have no plans to adopt AI over the next three months painting a grim picture of the country’s AI adoption rates<sup>7</sup>. This can spell disaster for a country aiming to become the global science and technology superpower of the world by the end of this decade stressing the need for urgent transformative reforms to boost AI adoption.

Figure 2 – Global AI adoption rates (Source: IBM Global AI Adoption Index 2022)



Source: IBM Global AI Adoption Index 2022

5. <https://www.just-style.com/news/uk-retail-to-face-challenging-2024-on-business-rates/?cf-view&cf-closed>

6. <https://medium.com/@sgreenman/britains-ai-superpower-ambitions-require-action-on-ai-adoption-not-just-words-on-ai-safety-a689291ac135>

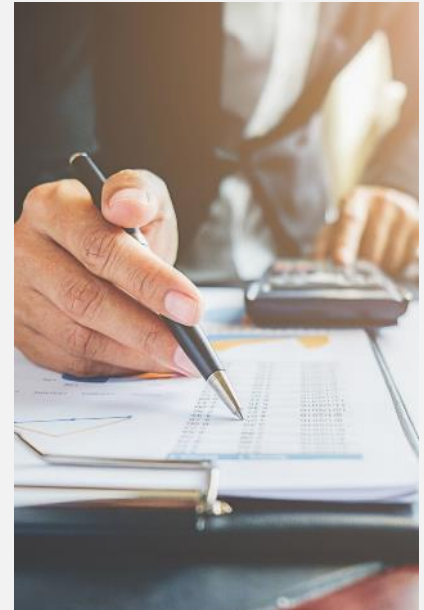
7. <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/businessinsightsandimpactontheconomy/4january2024>

## Complexities of AI Adoption in the Financial Services Sector

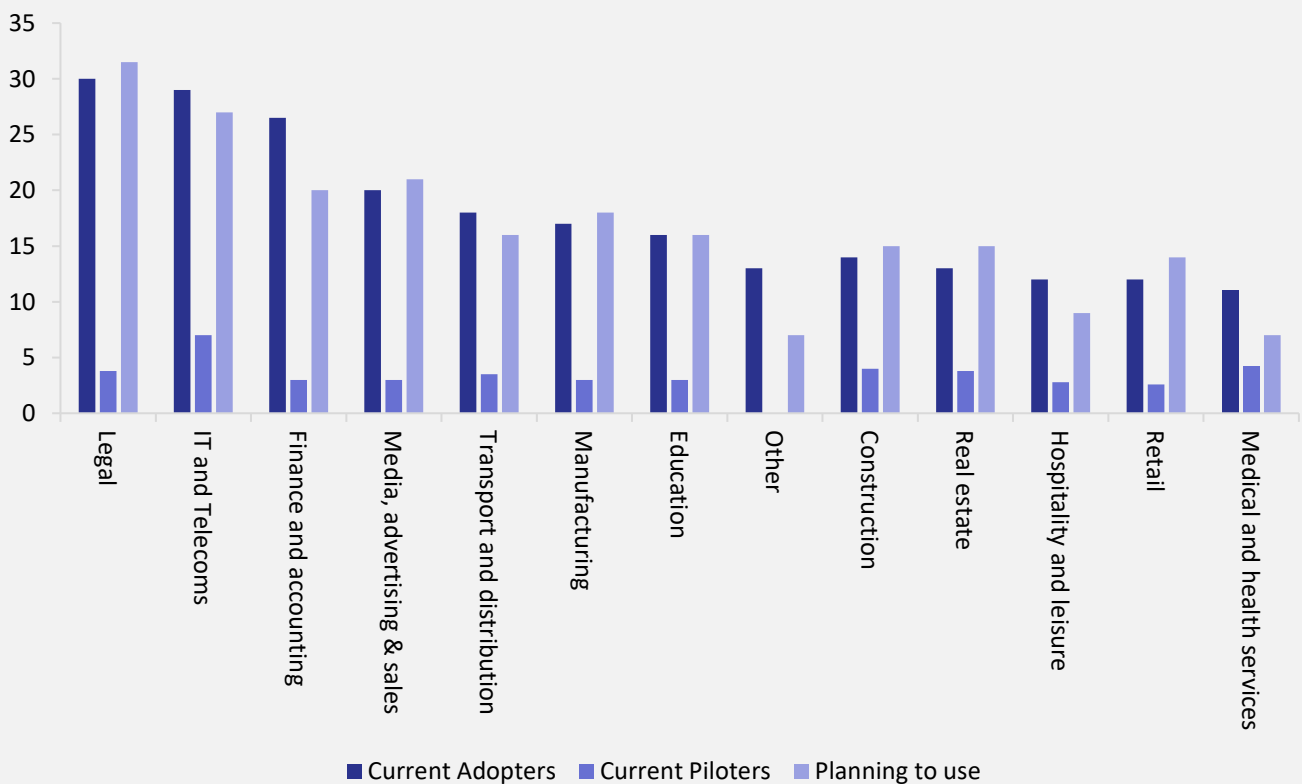
UK's poor embrace of AI technology is well reflected in the weak adoption levels reported across its various industries. For instance, the three major sectors including hospitality, health, and retail have reported lowest AI adoption levels of around 11.5% in 2023 as per a Forbes Advisor report<sup>8</sup>.

On the other end of the spectrum, sectors like IT and telecommunications along with legal have posted highest levels of AI adoption (~30%) in the country.

The financial services sector has also reported alarmingly poor AI adoption rates as a meagre 13% of financial services organisations in the UK have claimed to be using AI in a majority of their business processes<sup>9</sup>. A widespread adoption of AI in the financial services sector is hampered by limited data quality and availability, immature and fragmented technology landscape, lack of trust in machine learning, last mile operationalization, and lack of data talent. Overcoming these roadblocks should remain a core focus area for the sector in 2024 to boost AI adoption and unlock the vast potential of AI-based applications in the sector for ensuring its continued growth.



**Figure 3 – Share of businesses adopting AI by sector in the UK**



Source capital economics and DCMS (2022)

8. <https://www.forbes.com/uk/advisor/business/software/uk-artificial-intelligence-ai-statistics-2023/>  
 9. <https://www.datacamp.com/blog/5-obstacles-standing-in-the-way-of-ai-adoption-in-financial-services>

## Expanding Skill Deficiencies

An acute shortage of contemporary skill sets in the domestic labour market is another alarming challenge staring in the face of UK businesses. An exceptionally high majority of UK businesses (~75%) have expressed serious concerns about the challenge of retaining and attracting talent with the right skill sets in 2024<sup>10</sup>.



An estimated **20%** of the workforce in the UK will be significantly underskilled for their jobs by 2030. This could amount to around 6.5 million people



**27%** of UK workers say that they lack the sufficient digital skills required for their job role



Almost three in five workers (**58%**) say their employer has never provided them with training to improve their digital skills



In the UK, **58%** of workers say that lacking digital skills has affected them negatively in the workplace



Two-thirds (**66%**) of large UK businesses said they struggle to recruit employees with the skills they need



**88%** of young people (aged 16-24) think that digital skills will be essential to their careers



The UK government lists engineering, software development, and architecture among some of the most in-demand skills



**92%** of businesses say that having a basic level of digital skills is important for their employees

This poses serious risks to businesses as such high levels of skill deficiency would prevent businesses from exploiting their full potential and retain their competitive position in the market. Hence, it sounds imperative that bridging the skill gaps in the UK labour market through suitable reforms and initiatives must be a top policy agenda for the incumbent government regime for the next year to ensure that UK remains a competitive force in the global economic landscape.

## Widening Skill Deficiencies in the Technology Sector

The UK **technology sector** is forecasted to be a major victim of widening skills scarcity in the domestic labour market. This is partly attributed to the recent immigration policy changes introduced by the UK government restricting the flow of immigrants into the country<sup>11</sup>. This is expected to have an adverse effect on the country's ability to bridge the widening domestic skill paucity in the technology domain. This emphasises the need to review and modify the relevant government policies such as the immigration policy to create a favourable environment in the country to attract tech talent from abroad and fulfill the skill demands of the ever-developing UK technology industry.



### The outsourcing and GCC Route



As a solution to tackle the widening skill gaps in the domestic labour market, UK firms are increasingly turning to the outsourcing approach with IT being one of the most outsourced business functions. According to reports, in 2022, around one-third (32%) of UK organisations claimed they planned to outsource most of their IT functions over the next two years<sup>12</sup>. Outsourcing delivers various benefits to businesses including higher cost efficiencies, better access to talent, and an enhanced focus on core business activities.

10. <https://www.business4beginners.co.uk/uk-firms-worry-about-skills-shortage/>

11. <https://www.uktech.news/guest-posts/immigration-tech-visa-2024-20231228>

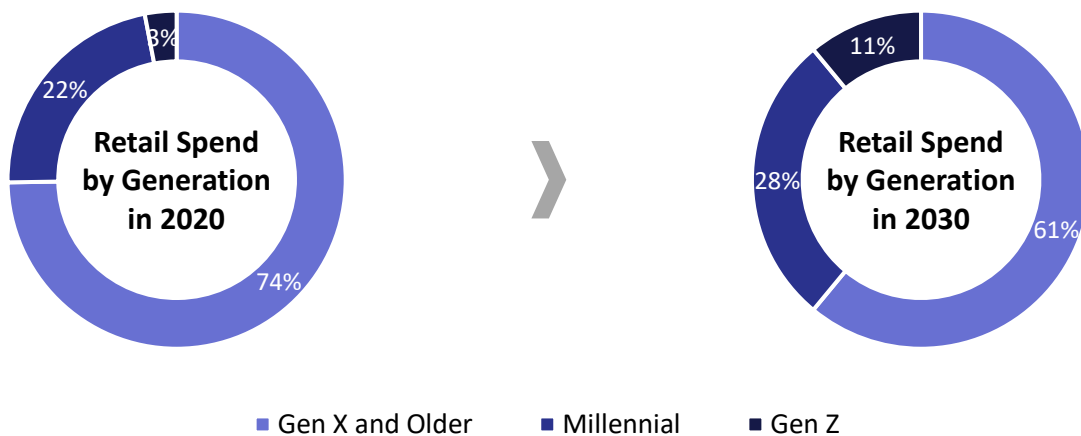
12. <https://www.computerweekly.com/news/252518468/Third-of-organisations-to-outsource-more-IT-amid-talent-shortage>

Large corporations address the skill gap challenge by establishing Global Capability Centers in nations boasting a substantial population of young and proficient workers, such as India. An illustration of this approach is evident in Tesco, where the technological infrastructure supporting operations at all UK stores is overseen from the company's Global Capability Center in Bengaluru.

## Shifting Consumer Dynamics – The Gen Z imperative

The consumer dynamics in the UK are poised to experience a radical shift as Gen Zs, together with Millennials, are fast taking up centre stage as the most significant and influential consumer group in the country with their combined retail spend projected to increase from 25% in 2020 to ~40% in 2030 as more members of this cohort join the national workforce (Figure 3)<sup>13</sup>. The generation is also responsible for an evolving work culture focusing on better employee benefits, tech enabled workplace, purpose-driven job roles making it mandatory for businesses to evolve accordingly. The unconventional lifestyle choices, a strong sustainability focus, and the extreme technology fixation of Gen Z warrant a radical shift in business strategies in sync with the preferences and values of this increasingly important consumer group. This holistic shift in the tactical approach needs to be the key strategic priority for UK businesses in 2024.

Figure 4 – Generation-wise retail spend share in the UK



### Gen Z Consumer Reshaping Fashion Industry

UK's fashion industry is facing a complex dilemma with regards to Gen Z and their shopping behaviour for fashion products displaying contrasting preferences. While on one hand, they treat sustainability as a key factor when making their purchasing decisions for fashion, they are also demonstrating an increased rate of return of fashion items which has adverse environmental effects due to reverse logistics involved in handling product returns<sup>14</sup>. This is further complicated by the fact that the spiralling cost of living in the UK is also eroding Gen Z's preference and willingness to buy sustainable fashion products which often carry a price premium highlighting a notable gap in their words and actions<sup>15</sup>. Hence, the UK fashion brands are confronted with a challenging situation to effectively manage the contrasting demands of the Gen Z consumer cohort of providing sustainable fashion products at easily affordable prices.



13. [https://afterpay-corporate.yourcreative.com.au/wp-content/uploads/2021/05/Clearpay\\_Web\\_report\\_UK\\_vF-1.pdf](https://afterpay-corporate.yourcreative.com.au/wp-content/uploads/2021/05/Clearpay_Web_report_UK_vF-1.pdf)

14. <https://store.mintel.com/report/uk-fashion-sustainability-market-report>

15. <https://www.mckinsey.com/~media/mckinsey/email/genz/2023/06/2023-06-06b.html>

## Conclusion

In the face of complex challenges that UK businesses are anticipated to face in 2024 headlined by above-par inflation, shifting consumer dynamics, alarmingly low AI adoption levels, and severe skill shortages, embracing a proactive approach is the only way forward for UK's corporate sector. Transformative strategic changes and radical policy reforms would not only help to create a frontline defense against these challenges but also pave the way for building a strong and resilient business ecosystem in the future.



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