

UPGRADE: CLOSING THE DIGITAL GAP AND LIFTING PRODUCTIVITY FOR SMEs

Digital technology has enabled businesses to continue trading in the most difficult of circumstances. As the UK economy recovers and reopens, increasing the rate of digital adoption by SMEs will be vital.

Although Britain is a world-leader in innovation, too often best practices are not spreading to all SMEs. *Upgrade: closing the digital gap and lifting productivity for SMEs* argues that poor take-up of digital technologies by small businesses is a central element in our pre-COVID productivity crisis

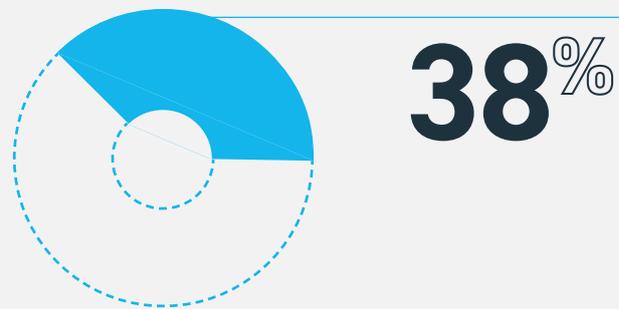
and that increasing uptake will be vital to the economic recovery. It also quantifies the £16.6bn cost to the UK economy of this digital gap and shows what closing that gap would mean in terms of increased productivity.

Headline Findings

- There is a strong positive relationship between digital adoption and productivity. Survey data shows that micro businesses (one to nine employees) that adopt five key digital technologies see higher rates of productivity over the following three years. These are: customer relationship management (CRM), ecommerce, cloud-based computing, web-based accounting software, and computer-aided design.
- If the UK's 1.1m micro businesses doubled their uptake of these five key digital technologies, it would lead to a £16.6bn boost in gross value added.
- This would be a £4,050 average productivity boost for the 4.09m workers employed by micro businesses, restoring four-fifths of lost productivity growth since the financial crisis, enabling businesses to bounce back faster post-lockdown.
- The UK is a world-leader in innovation, placing in the top five out of 129 countries on the World Intellectual Property Organisation's Global Innovation Index for each of the past six years.
- The UK outperforms the EU average on most measures of business digitisation. For instance, nearly a third of UK firms (30%) use cloud solutions (versus the EU average of 18%).

UK BUSINESSES WITH VERY LOW LEVELS OF DIGITAL ADOPTION

(Source: EU Digital Intensity Index)



- However, there is substantial room for improvement. EU data reveals the UK has a large proportion of businesses (38%) with very low levels of digital adoption. By contrast, in Sweden and the Netherlands just over a fifth (23%) of firms have very low levels of digital adoption. In Finland, just one in ten (11%) have low levels of adoption.
- Radical improvement is possible. For example, in 2012, just under 10% of micro businesses stored data in the cloud. By 2018 that had more than quadrupled to 40%.

The barriers to digital adoption



Knowledge

If businesses are unaware of the benefits of adopting a digital solution or cannot assess whether a solution will work, then they will under-invest in technology.



Skills

Even if a business can identify the right solution, they may not be able to implement it if they lack digital skills in-house and cannot afford to hire external specialists.



Finance

Accessing external finance for digitisation can be difficult as banks prefer to fund investments in tangible capital where their expertise is greater and there is a physical asset as collateral.

Solutions

Recommendation 1

Prioritise funding for peer-to-peer learning initiatives delivered by trusted business networks.

Recommendation 2

Outsource the provision of business advice to existing trusted groups.

Recommendation 3

Do more to leverage relations between SMEs and accountants.

Recommendation 4

Allow tax relief for self-funded training.

Recommendation 5

Improve awareness of and access to digital training.

Recommendation 6

Ensure better awareness of tech grant schemes.

Recommendation 7

Improve the impact of tech grant schemes.

Recommendation 8

Allow research and development (R&D) tax relief for user interface and user experience development work.

Recommendation 9

Improve the promotion of and access to R&D tax credit schemes.

The report features case studies of businesses who have benefitted after adopting digital technology.



Polaris Transportation Group

Automating their cross-border freight document processing enabled a 25-year-old trucking company, Polaris Transportation Group, to cut two-to-three hours of paperwork a day and reduce errors by 30%.

"Adoption was well received once employees realised that automation allowed their skill sets to move beyond just clerical functions."



KIND2

Taking part in Enterprise Nation's HeadsUp! training programme was a wake-up call for ethical haircare entrepreneur Sue Campbell.

"I realised that we needed to be ready with all the infrastructure to support trading from day zero, otherwise I risked being too distracted by the financial and administrative management of the business to focus on growth."



Maya Magal

Organising her business' data digitally using accounting software helped London-based jewellery maker Maya Magal to expand from one to three stores by providing accurate financial forecasts.

A deeper understanding in terms of projected sales and costs was key to expansion.