



Empowering SMEs in the Digital Decade

The €628 Billion Opportunity

Sage's Manifesto for EU SME Policy

Sage

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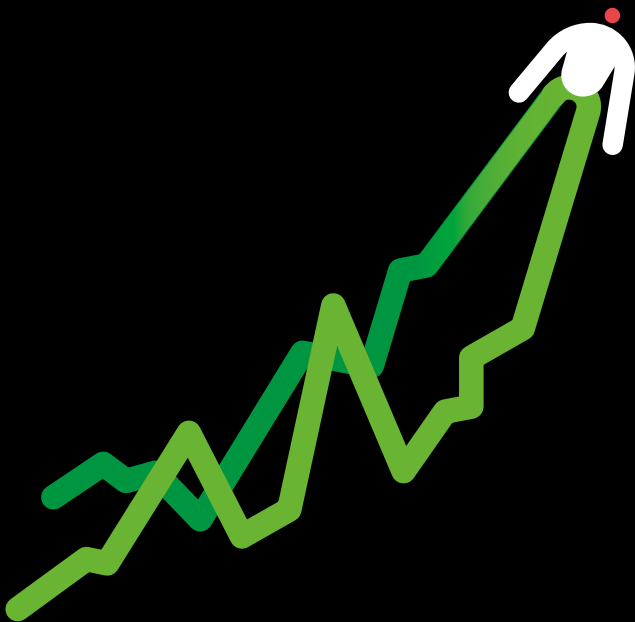
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Foreword

by Derk Bleeker, EMEA President



The European Union's (EU's) digitalisation targets as they relate to business, outlined in their Digital Decade programme, are important and ambitious: by 2030, at least 90% of Small and Medium Enterprises (SMEs) should have a basic level of digital intensity, and at least 75% of European enterprises – of all sizes – must be using advanced technologies such as artificial intelligence (AI), cloud computing, and big data.

The digital transformation of businesses can bring incredible benefits to Europe and the European economy. But achieving these objectives will not be possible without significant support for Europe's 25 million SMEs – representing 99% of all businesses and two thirds of private sector jobs. There is still a long way to go: the EU's own State of the Digital Decade report shows that Europe is simply not on track to reach its 2030 goals. This is certainly not the result of a lack of willingness from SMEs: 85% regard digital tech as crucial to their growth plans.

The opportunity unlocked by supporting SMEs to digitalise is huge. The report sets out a €628 billion growth opportunity simply from raising the EU SME digital 'laggards' up to the average. This makes SME digitalisation one of the most powerful growth levers available to policymakers today.

8 in 10 SMEs surveyed for this report view digital tools as essential to survival and growth. The report shows important links between the adoption of digital solutions, tackling late payments, and increasing cash flow. Whilst it is recognised that digitalisation investments deliver great returns, upfront costs and cash flow challenges remain SMEs' key inhibitors of investment: half of SMEs surveyed see financing as a key barrier to digital transformation, a challenge which intensifies for the smallest SMEs and threatens to leave them behind.

But digitalisation itself holds the answer! Of the SMEs that identify cash flow as a key barrier to their operational success, over half view e-invoicing, for example, as a tool capable of accelerating their cash flow and nearly two thirds of SMEs identify digital technology as playing a beneficial role in helping to manage their cash flow and late payment issues. This underlines the need for and potential benefits of policy to accelerate the digitalisation and investment 'flywheel' in support of sustainable productivity growth.

So, what are the concrete steps policymakers can take to foster the environment SMEs need to thrive? The good news is that several ongoing policy proposals, if implemented swiftly and in a holistic manner, could hold the key to boosting digital adoption.

The EU's newly proposed regulation on combating late payment in commercial transactions, part of the "SME Relief Package", as well as the Directive on VAT rules in the Digital Age (ViDA), which aims to introduce mandatory e-invoicing across the EU, are great examples of existing policy initiatives that have the potential to be crucial underpins of the SME growth flywheel.

Another key takeaway from this report is SMEs' generally positive sentiments towards the potential of new technologies such as AI and digital ID to support growth. However, they struggle to capitalise on the potential benefits, with just 1 in 10 saying it is working well for them today and nearly all being concerned about risks like ethical issues and privacy.

Finally, the research highlights the opportunity to leverage digital solutions to facilitate SMEs' sustainability reporting. EU SMEs are feeling more pressure from their customers to reduce their environmental impacts and over three quarters are already sharing information on their commitment to sustainability to their customers. This is despite very few SMEs having processes in place to measure, track, and report on their sustainability data. With policymakers aiming to increase sustainability reporting for both small and large businesses to reach the objectives of the European Green Deal, it will be crucial to implement simple and standardised reporting frameworks and user-friendly digital tools that can help SMEs with their compliance.

The message that comes through clearly from SMEs in this report is a strong call to action for policymakers to forge robust policies and investment incentives to facilitate the digital transitions for SMEs and power the growth flywheel. With the European elections fast approaching, it is critical that policymakers do not lose momentum if SMEs are to achieve the digital transformation targets set out in the Digital Decade programme. An important first step is a mindset shift, away from digitalisation being seen as a burden, and embracing instead the opportunity for SMEs to become more productive, competitive, and sustainable.

With the right support, SMEs can lead the way to achieving Europe's Digital Decade goals and, more importantly, power sustainable growth and prosperity in the EU for years to come. We look forward to EU policymakers joining us on this mission.



About Sage

Sage exists to knock down barriers so everyone can thrive, starting with the millions of small and mid-sized businesses served by us, our partners, and accountants.

Customers trust our finance, HR, and payroll software to make work and money flow. By digitising business processes and relationships with customers, suppliers, employees, banks, and governments, our digital network connects SMEs, removing friction and delivering insights. Knocking down barriers also means we use our time, digital tech, and expertise to tackle digital inequality, economic inequality, and the climate crisis.

At Sage, we are deeply committed to fostering an environment where digitalisation is an accessible, achievable goal for SMEs, rather than a threat. Our role is not only to provide technological solutions, but also to advocate for policies and practices that pave the way for SMEs to harness the full potential presented by digital adoption.

We are embedded in Europe's SME ecosystem: Sage is proud to serve European SMEs, building on over 30 years of presence in Europe and a thriving ecosystem of more 3,000 employees and 4,000 independent partners and smaller technology companies across 8 EU Member States: Austria, Belgium, France, Germany, Italy, Poland, Portugal, and Spain.

Markets we surveyed in:



About this study

Definition of an SME:

Businesses employing fewer than 250 people.

Survey:

Strand's quantitative research team surveyed circa 1,000 SMEs in each of 15 European markets, capturing all major business demographics (from size to sector) as well as detailed information about geography (NUTS 1 region). Total sample size = 15,016.

Market list:

Germany, France, Italy, Spain, Poland, Romania, Netherlands, Belgium, Greece, Czech Republic, Portugal, Sweden, Hungary, Austria, Bulgaria.

Introduction

Europe is at a critical juncture, with SMEs set to play a pivotal role. The EU, facing rapid technological advancements, a tumultuous geopolitical landscape, inflation, a persistent energy crisis, and intensified global competition, has committed to meet ambitious sustainability and digitalisation targets within the next few years, all while upholding European values.

Achieving these objectives will not be possible without **accelerated support** for Europe's 25 million SMEs, which represent 99% of all businesses and two-thirds of all private sector jobs.

This study reveals that while SMEs have expanding digital ambitions - over 80% identify digital as important to their future growth - there are **large gaps in tech adoption**. Without further action to support SMEs to accelerate their adoption of digital technologies, Europe's Digital Decade goals, and the resulting benefits, will be out of reach.



Context: Europe's SMEs and the Digital Decade goals

The Digital Decade is the European Commission's vision to boost digital adoption and make Europe a digital leader by 2030.

"Europe aims to empower businesses and people in a human-centred, sustainable, and more prosperous digital future."

- Ursula von der Leyen

KEY TARGETS:

Business transformation: 75% of EU businesses will be using advanced technologies such as cloud computing, artificial intelligence, and big data by 2030, along with more than 90% of SMEs reaching at least a basic level of digital intensity.

Skills: by 2030 at least 80% of the EU population will possess basic digital skills and 20 million ICT specialists will be employed in the EU.

Government: all key public services will be available online – with all citizens able to access a digital ID and to access medical records online – and it will be easier for businesses and citizens to interact with public authorities digitally.

Infrastructure: gigabit connectivity to be deployed to all Europeans and to double the EU's share of the global semiconductor market.

Introduction

SMEs are central to the European growth story:

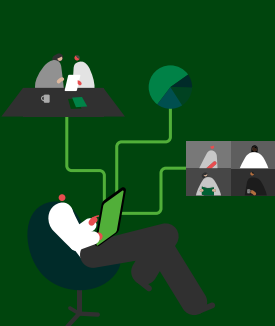
Our research suggests that SMEs are outperforming the overall European economy, having reported, accounting for inflation, a +4.2% year-on-year increase in real terms profitability in Q1 2023, running significantly ahead of economic growth at just +0.2%.²

However, in spite of these optimistic findings, many businesses – even those reporting significant rises in profits – also report facing enormous challenges in a volatile and unpredictable economy. Our research shows that businesses identify reduced consumer spending, cash flow management, and increased wage costs as the primary barriers to growth. This shows that, as the EU strives to reach its digital and green goals, SMEs need an enabling environment which will lay the foundations for them to thrive.

Against this unpredictable background, **technology adoption by European companies – of all sizes – is a crucial tool for achieving Europe’s vision for a green and competitive future.** However, the European Commission recognises that Europe is currently well below its targets for businesses, in particular on uptake of AI and big data analytics.³ If current adoption rates do not increase, and without further investment and incentives, **these targets will not be met by 2030.** Our research shows that **€628 billion in economic growth could be unlocked per annum in the EU** if SMEs which are currently struggling to adopt digital technologies increase their adoption rates to the European average.⁴ This clearly demonstrates the size of the opportunity for European policymakers.

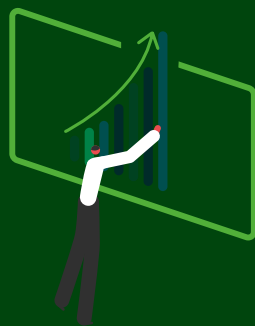
To help policymakers achieve this milestone, we are thrilled to share Sage’s SME Manifesto, which outlines five concrete policies that will enable the digital and green transformation for Europe’s SMEs.

SMEs at the forefront of Europe’s economy



80%+

of SMEs say that tech is critical to starting (80%), surviving (81%) and growing (85%) their business



+4.2%

year-on-year reported increase in profitability in Q1 2023, running significantly ahead of EU economic growth



+16%

EU SMEs predicted tech investment in the next year



€628 BILLION

opportunity to boost SME digitalisation

² European Commission, Eurostat, 16.08.2023. We adjusted our survey data by Eurozone inflation in Q2023 [Eurostat, 16.08.23].

³ Report on the State of the Digital Decade.

⁴ From a 4% rate of tech spending growth among the bottom quartile to +16% average.

Key findings

To take stock of SME digitalisation in the EU, Sage surveyed 15,000 representative SMEs in 15 European markets.



UNLOCKING GROWTH:

€628 billion

If SMEs currently lagging in digital technology uptake increase their adoption rates to European average, it could unlock an additional **€628 billion in growth** for the EU economy per annum

8 in 10

EU SMEs report that digital tech has been important in allowing them to **start** (80%), **survive** (81%), and **grow** their business (85%)

There is still significant room for growth yet adoption rates are low

Technology use by SMEs:

Which of the following technologies do you currently use in your business



51%

Have a website design function



46%

Accounting software



44%

Payroll software

On average, just 30% think that will improve in the next 3 years

+16% EUROPE



+25% US

Projected increase in technology investment over the next twelve months⁵

A key challenge to further adoption: cash flow

20%



report struggling with their cash flow; directly linked to the SMEs' potential to invest in digital: **+16%**: SMEs as a whole. **+9%** [drop of 44%]: SMEs reporting cash flow as a major barrier. **+3%**: Micro-SMEs reporting cash flow as a major barrier

Other challenges

As well as cash flow (#1), EU SMEs report the following barriers to tech adoption:

#2
29%
Lack of digital skills

#3
27%
Concerns about data security and privacy

#4
20%
Challenges with integration⁶

KEY OPPORTUNITIES

SMEs are ready to embrace ESG reporting

65%

stated that aligning with the EU's CSRD could help: win new customers, access green finance, take more effective sustainability action

E-invoicing



E-invoicing can enable digitalisation and help tackle late payments



Over half of SMEs struggling with cash flow believe e-invoicing could significantly accelerate it

SMEs are optimistic about AI

71%

AI is a potential driver for business

34%

of SMEs say that they are currently using AI

68%

of adopters are still getting it to work well⁷

SMEs were optimistic that Digital IDs would streamline interactions with governments, improve customer trust, and speed up transactions



80%

confident that Digital ID would benefit their business

⁵ Implied from our study. According to a similar study conducted in the US - SBB0 data.

⁶ Such challenges might involve getting new technology to work with legacy systems.

⁷ This is up from 8% in 2021 DESI study.

What SMEs need to thrive in Europe's Digital Decade

This study of SMEs across Europe uncovers that, with concerted action, **the Digital Decade can be a pivotal factor in enabling European SMEs to thrive**. SME digitalisation is a **major policy lever for policymakers to stimulate economic growth across the continent**.

Our research indicates that raising the pace of digital transformation for slower-to-adopt SMEs could **contribute €628 billion to the European economy** [more detail on page 16]. To realise these benefits, policymakers must create an environment that empowers **all SMEs to successfully adopt tech**. Without accelerated action, the Commission risks not achieving its Digital Decade targets.

RECOMMENDATIONS:

Drawing on our new research and our decades of experience serving Europe's SMEs, we urge EU policymakers to embrace the following recommendations to create an enabling environment for Europe's SMEs and accelerate the EU towards meeting its Digital Decade targets whilst unlocking significant economic growth.

1



Support the uptake and mandating of e-invoicing.

This will create an enabling environment for SMEs to get paid on time, increase their cash flow, and enjoy greater productivity throughout their business operations.

2



Leverage digitalisation to tackle late payments.

Build on the SME Relief Package, by tackling confidence in cash flow, a key barrier to tech investment. This will particularly help the smallest SMEs.

3



Boost responsible AI uptake and ensure it can work for every SME. This innovative technology will be critical to boosting productivity across the continent and SMEs must be able to take advantage of the opportunities it presents with confidence.

4



Introduce a Digital ID for Europe's SMEs.

SMEs in the EU see the potential for Digital IDs to directly benefit their business and want to realise the range of advantages it presents, in particular bolstering data security and reducing administration.

5



Simplify sustainability reporting for SMEs.

SMEs are currently facing increased requests for them to report on their sustainability data, both from larger companies they supply and from consumers. To support them in this, the EU should accelerate efforts to build an infrastructure that helps SMEs to report on their sustainability, providing both clarity and flexibility.

It is vital that these recommendations are implemented to unlock the enormous potential of SMEs - key drivers of Europe's economy - in Europe's Digital Decade.

Accelerating the Digital Decade for SMEs

European SMEs widely recognise the benefits of digital technologies

It is clear that the vast majority of SMEs are **expanding their digital ambitions** and can identify a tangible and significant return on investment in the adoption of digital technologies. 80% of SMEs say that tech is important to achieving their most important business goals, particularly those focused on revenue growth (89%) and cost reduction (85%).

- Over 8 in 10 EU SMEs say that tech is important to **start** (80%), **survive** (81%) and **grow** their business (85%) - **over two-thirds agree in every sector and for every size of SMEs.** (Fig.1)
- 88% of SMEs report that digital technology is important for **saving time and operating efficiently**. 83% see digital technology as important for **selling more products and services**.
- There are significant opportunities to boost the role of digital technologies in key areas. For example, less than half of SMEs currently see tech as important for **becoming environmentally sustainable** (30%) or in **training new staff** (46%). With Europe's significant sustainability ambitions and the importance of digital skills to the Digital Decade ambitions, these two areas represent important untapped opportunities. (Fig.2)

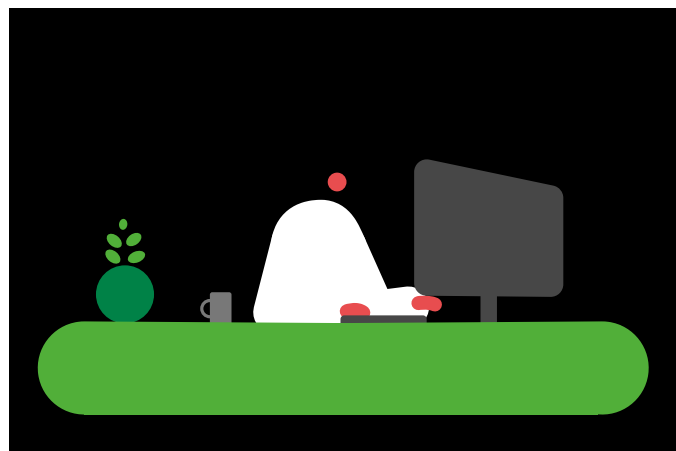
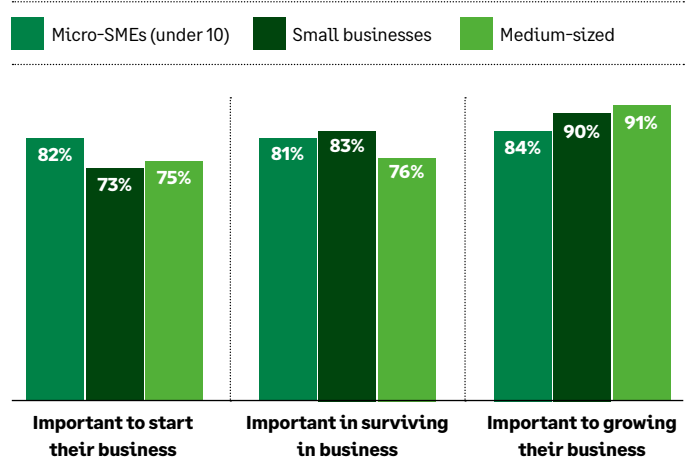
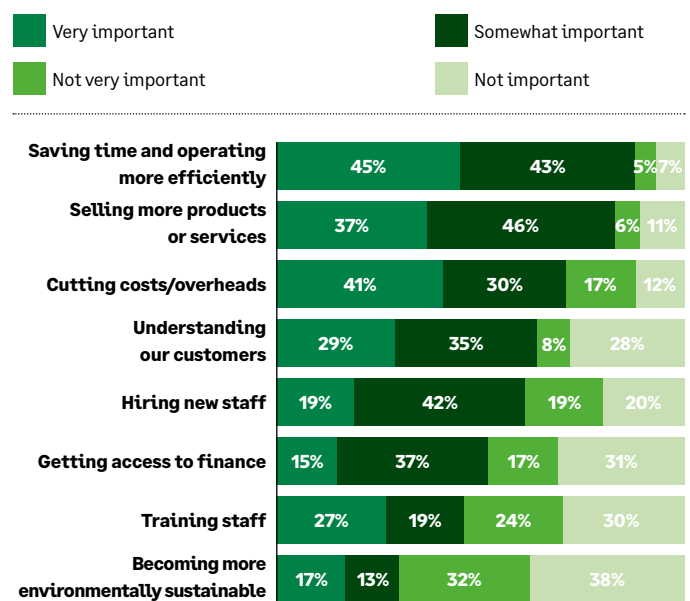


Fig 1. SMEs' view on importance of tech



Q. How important or not have digital technologies (definition above) been to each of the following things...

Fig 2. Which part of business tech is important to



Q. Currently, how important or not are digital technologies to each of the following aspects of your business (base excludes those who said this part of their business was not applicable)



CASE STUDY Germany

Corbiota: accelerating ambitions in the Digital Decade

Corbiota is a livestock farming company that aims to create healthier and more sustainable modern farming.

Founded in Dusseldorf in 2022, Corbiota aims to enhance animal health and welfare in livestock farming, looking to reduce the use of medication, to make the industry kinder and more sustainable, and to improve human health as a result.

Corbiota does this by breeding earthworms to feed to young chicks and piglets. The earthworms have unique microbiota which, when eaten by chickens and pigs, give them a more stable immune system and reduce the need for medication. This reduction in antibiotics in animals reduces antibiotic resistance in humans.

Funded partly by the German Ministry of Economic Affairs and Climate, by the regional government of North Rhine Westphalia, as well as by project partners, big accelerators and the Chemovator (the business incubator of chemical production company BASF).

The company operates on a global vision – its founders noted at creation that farming and food production companies talked more frequently about gut health in the US than they did in Germany. Corbiota knew from the beginning that they would

look to expand to the global stage, a journey in which digital technology proved crucial.

The company uses its own AI to maintain the microbiome of the worm, to maintain climate chambers, and to be carbon neutral. Digital technology drives sustainability, creates a highly efficient system, and brings down costs. This relies on a software that communicates well. Corbiota uses Sage for all its software management – ERP, production planning, and its HR system; all this works together to establish Corbiota as a global company with big ambitions for expansion.

Corbiota has already founded its first subsidiary in the US and has ambitious future aims that could shape livestock and farming. They are looking to expand into other species, such as cattle and companion animals. Furthermore, the compost produced by the worms can be used to grow crops, which can make the plants more resistant, even to climate change, ensuring greater food security.

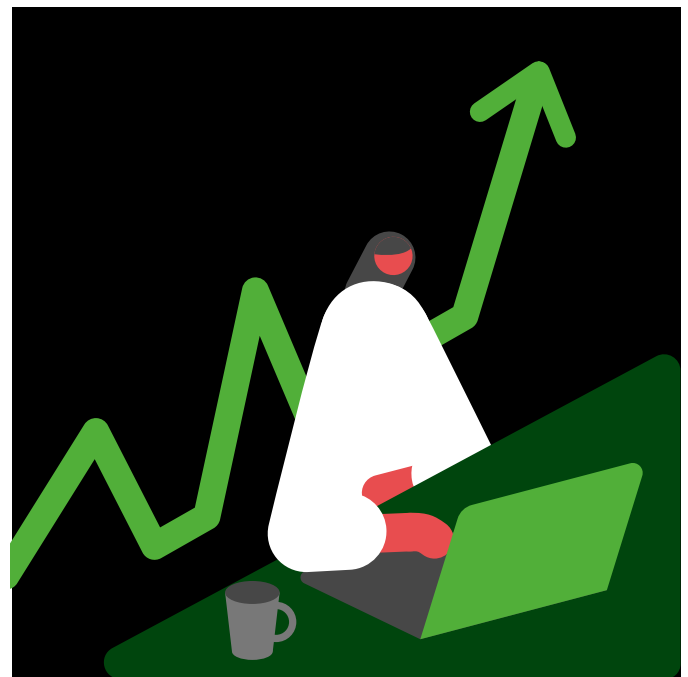
Corbiota is a company that has had digital technology embedded in it from the start – this has helped it to grow, to thrive, and now to expand. Its production is fully automated and AI-controlled, building on digitalisation to ensure zero waste, and looking to redefine animal production on a large scale.

Unlocking the benefits of digital tech: overcoming barriers to adoption

Despite reporting very high returns on investment in tech and digital confidence, SMEs report upfront costs and cash flow as key barriers to this investment. These barriers disproportionately impact on the smallest SMEs, leaving them facing the biggest hurdles to digitalisation.

There is clear evidence of the benefits digital technologies can offer to European SMEs, including:

- **Improved efficiency and productivity:** Digital technologies can help SMEs to automate tasks, streamline processes, and reduce costs. For example, e-invoicing reduces the time it takes to send and receive invoices, while AI can be employed to automate customer service tasks. 84% of businesses note cost savings and efficiency improvements as the most compelling drivers to adopting new digital technologies.
- **Enhanced customer service:** Digital technologies can help SMEs to improve their customer service by providing their customers with more convenient and personalised experiences. 48% of SMEs report using social media to interact with customers and provide support, with an increasing number of SMEs reporting adopting AI tech (such as chatbots), which can be used to answer customer questions and provide 24/7 support.
- **Increased reach and visibility:** Digital technologies are supporting 42% of SMEs to 'reach new markets' and expand their business. For example, SMEs can use e-commerce platforms to sell their products and services online, and social media can be used to market their products and services to a wider audience.
- **Improved competitiveness:** Digital technologies can help SMEs to improve their competitiveness by enabling them to innovate more quickly and efficiently. For example, 23% are reporting using big data to gain insights into customer behaviour and market trends, up from 15% in 2021.⁸



- **Enhanced sustainability reporting:** Digital technologies can help SMEs to improve their sustainability reporting by streamlining the process and making it more efficient - this study finds this to be an area with significant potential for growth, with only 9% of European SMEs currently measuring and reporting on their sustainability performance. This can help SMEs to meet the requirements of the CSRD and other reporting standards.

⁸ The Digital Economy and Society Index (DESI) | Shaping Europe's digital future (europa.eu).



CASE STUDY France

Le Roy René: seizing the opportunities of digitalisation in a traditional industry

Le Roy René is a family-run business, specialising in the production of Provence's famous confectionery: calissons.

A company with over 100 years of history, Le Roy René is a confectioner's workshop in the heart of Aix-en-Provence that carefully crafts the traditional Provençal sweets, 'calissons', which consist of candied fruit, ground almonds, and royal icing.

The adoption of digital software means that Le Roy René can easily and efficiently monitor all stages, from production to purchasing, inventory to order preparation.

Le Roy René identifies three key benefits from its adoption of ERP: agility, traceability, and performance. The next challenge for the business is to expand its digitalisation, bringing it towards B2B customers, offering them optimal service and access to information and order taking at any time.

Le Roy René is also seeking to increase its sustainability action, crafting a CSR approach which seeks to revive almond trees in Provence by working with local farmers. The company collaborates with the association Act for Planet, through which it has already planted an almond grove of nearly three hectares around its factory – a visible manifestation of its environmental commitment.



The company has built on a history stretching back to 1920 in order to innovate, grow, and thrive, strengthening the tradition of the calisson and continually increasing and improving its services.

Challenges to digital adoption for SMEs in Europe

Despite their awareness of the many benefits of digital technologies, SMEs in Europe often face challenges in adopting them. This study highlights the following key challenges:



Lack of financial resources, especially cash flow:

SMEs often have limited financial resources to invest in digital technologies. There is a very clear link between a business struggling with cash flow and it having lower levels of investment and confidence in tech. High implementation costs and budget constraints are the leading barriers to digital adoption for 79% of SMEs.



Regulatory uncertainty:

SMEs may be unsure about the regulatory requirements for using digital technologies.



Lack of awareness of the benefits of digital technologies:

Some SMEs may not be aware of the full range of benefits that digital technologies can offer their business.



Lack of skills and expertise:

SMEs may lack the skills and expertise to implement and use digital technologies effectively. In particular, SMEs report struggling with getting different technologies to work well together, with 81% reporting difficulties integrating/connecting different software and digital tools.



Concerns about security and privacy:

SMEs may be concerned about the security of their data and their customers' privacy. While the severity of this concern fluctuated significantly across different surveyed countries, across Europe over one-third of SMEs (34%) revealed they worry about the risk of cyberattacks when considering the integration of more digital technologies.

The #1 barrier: cash flow

+16%

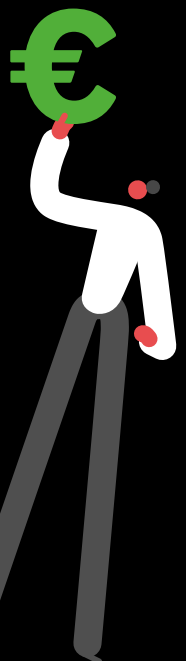
Average estimated 12-month growth in tech investment

+9%

Estimated 12-month growth in tech investment for those who report that cash flow is a barrier for their business

-44%

drop in future investment for businesses who say they struggle with their cash flow





CASE STUDY Portugal

Beyra D'Ouro Fresh: overcoming barriers to digital adoption

Beyra D'Ouro Fresh is an apple production company formed by a group of regional producers.

Beyra D'Ouro Fresh is an apple production business founded in June 2020, during the pandemic, by a group of regional producers who sought to create a new agricultural project in an industry to which digitalisation came later than to others and which demanded innovation.

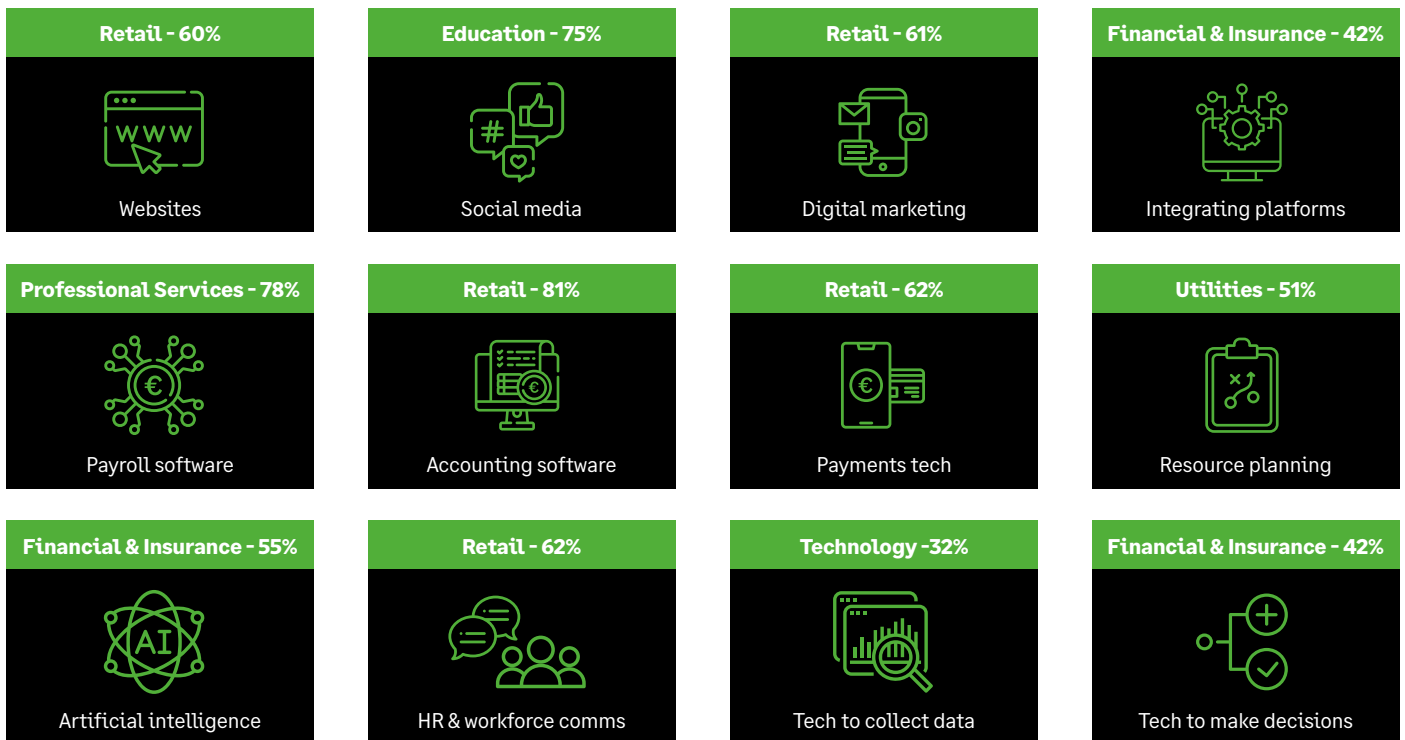
Adopting digital software to manage its internal processes was a challenge – each company in the group varied in size and had their own IT system. However, the adoption of digital technology enabled them to automate the management of their entire system and streamline key processes. Adding management technologies to their business helped them to increase profits by automating the process of receiving orders, shipping, and invoicing, reducing costs and improving accuracy.

The company sought not simply to implement digital technology, but to do so in a way that worked for the business, its employees, and its customers. Beyra D'Ouro was able to realise the key benefits of digitalisation, increasing efficiency and profitability, while maintaining sustainable growth.



Technology was crucial to Beyra D'Ouro Fresh's journey from inception, to production, to growth; the group now covers more than 50 apple producers and more than 400 hectares of orchards. Equipped with the right technology for the present and future, they aim to continue their growth and be an example for other companies in the same sector.

Top digital technologies adopted by sector



Key drivers of adoption

Over **8 in 10**

EU SMEs say that digital technology has enabled them to start (80%), survive (81%) and grow their business (85%).

88%

of SMEs find digital technology important for saving time and operating more efficiently. 83% see digital technology as important for selling more products and services.

84%

of businesses pinpoint cost savings and efficiency improvements as the most compelling driver to adopting new digital technologies.

Key barriers to adoption

79%

of SMEs report high implementation costs and budget constraints as the leading barriers to adopting more digital technologies

81%

of SMEs report difficulties integrating/connecting different software and digital tools.

Over one-third of SMEs

34%

expressed worries over cyber attacks when considering the use of more digital technology.

Digitalising the EU's SMEs - the **€628 billion** opportunity

We used the same economic modelling⁹ process to calculate the impact of higher levels of SMB tech adoption on the EU's economy.

If the level of adoption among SMEs who are currently less successful¹⁰ in adopting digital technologies could be increased to the current average rate of adoption across Europe (+16% per annum), an additional **€628 billion in economic growth** for the EU economy per annum could be unlocked.

The research identified how digital technology enables SMEs to:

1. **Sell more of their goods and services to customers**
2. **Decrease the cost of the goods and services they sell**
3. **Reduce operating expenses**
4. **Operate more efficiently**

These four ingredients represent key inputs into Gross Value Added (GVA), a leading measure of the size of the economy. Our study uses self-reported data on the role of tech in these SMEs and then compared it to overall tech adoption (the % increase in tech spending by SMEs).

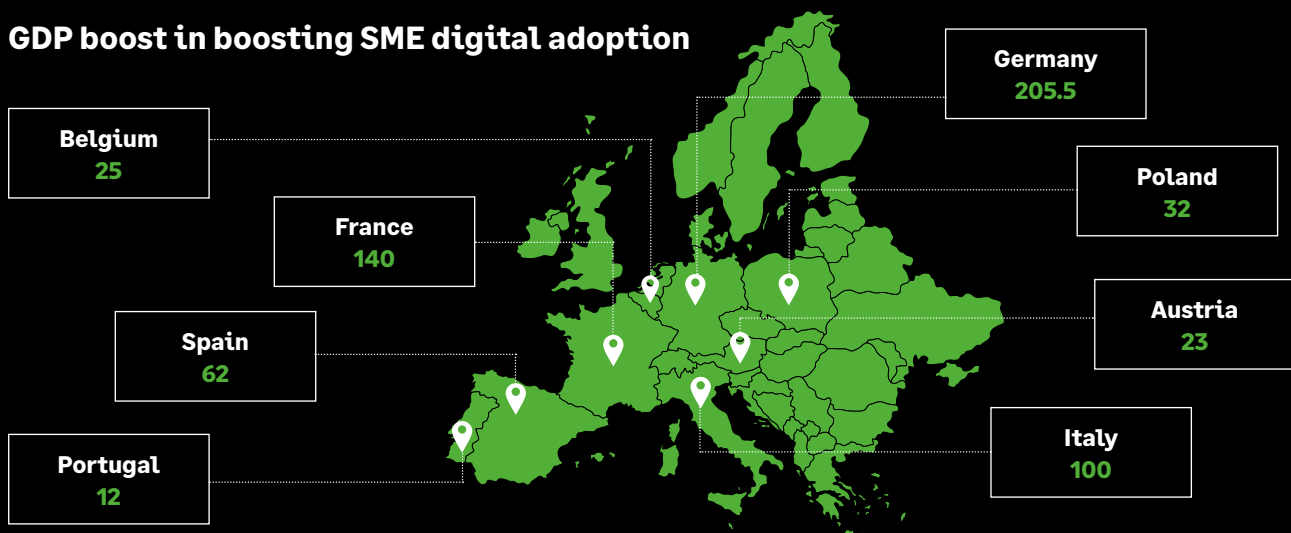
“European SMEs must be at the core of any successful strategy for the long-term prosperity of the continent.

This study's analysis ably demonstrates the need for support to assist SMEs to adopt more tech and to encourage them to explore its potential for growth.

We need to define strategies that will positively encourage the enhanced adoption of e-invoicing and actions to improve cash flow which so often cripple the viability of SMEs. These measures are important for strengthening Europe's position on the global stage for the coming decades.”

- Dr. Carol Cosgrove-Sacks, College of Europe

GDP boost in boosting SME digital adoption



⁹ Economic model first published in Digital Britain, developed by Dr. Scott Urban (Oxford) and economics consultancy, Oxford Analytica. Data for the inputs of GVA were taken from this survey. Data and model adapted to this data set and peer reviewed.

¹⁰ Less successful tech adopters were defined as those at the 80th percentile who had a predicted tech growth below inflation at +4%. This compares with an average rate of +16%.



Empowering SMEs in Europe's Digital Decade

This report sets out recommendations for the establishment of a robust framework of support for European SMEs that will help to facilitate and incentivise higher digital adoption.

The research identified that to achieve the benefits highlighted in the EU Digital Decade for businesses a joined up approach including financial incentives, offering training and guidance, and delivering on the EU's ambitious tech regulatory agenda will be key.

There are five areas of policy that will unlock opportunities for European SMEs digital-led growth: **e-invoicing**, tackling **late payments**, boosting the **uptake of responsible AI**, introducing **digital ID** for businesses, and digitalising **corporate sustainability**.



1. Accelerating the deployment of e-invoicing

This study draws a critical link between e-invoicing and cash flow, and demonstrates SMEs' readiness to embrace e-invoicing. **The EU's VAT in the Digital Age (ViDA) package can create an enabling environment for SMEs to get paid on time, increase their cash flow, and enjoy greater productivity throughout their business operations.**

The VAT in the Digital Age (ViDA) package – proposed in December 2022 – ensures that the EU's VAT system is fit for purpose in the present day and into the rapidly-digitalising future, and will cut the compliance costs and administrative red tape that complicate businesses' efforts to buy and sell across borders.¹¹ The introduction of mandatory e-invoicing based on new digital reporting requirements for cross-border B2B transactions will enable SMEs and other enterprises to report transactions online without effort and to embrace cross-border ways of doing business in the EU. With Member States being obliged to implement the Directive in the coming years and roll out mandatory e-invoicing, SMEs will benefit from time and money savings, increased accuracy, being paid faster and on time, and enjoy greater productivity.

ViDa's introduction of mandatory e-invoicing will help SMEs to harness technology's benefits and reduce their interaction with burdensome administrative procedures. By addressing the key challenges of cash flow and access to finance, the package has the potential to make a real difference to the competitiveness and resilience of SMEs across Europe.

What is e-invoicing?

E-invoicing is the digital exchange of billing documents between a buyer and a seller, instead of sending a paper invoice. This process ensures a faster, more secure, and environmentally-friendly way of managing transactions.

RECOMMENDATIONS:

- 1 Support the uptake and mandating of e-invoicing in the EU**
- 2 Enable technology investment with financial incentives and cash flow support**
- 3 Harness e-invoicing as a tool to tackle late payments by improving SMEs' cash flows**

¹¹ https://taxation-customs.ec.europa.eu/taxation-1/value-added-tax-vat/vat-digital-age_en.

INSIGHTS:

Perceived preparedness and e-invoicing

An encouraging 81% of SMEs report that they are prepared to integrate e-invoicing into their operations when provided with a definition and operational context. This high level of perceived preparedness is indicative of a broader recognition of the centrality of digital tools and platforms to modern business management.

E-invoicing as a tool against fraud

A substantial segment of European SMEs, 67%, acknowledge the potential of e-invoicing to reduce the incidence of fraud within their respective industries. This view is notable among SMEs in the financial services industry, where a significant 75% can envisage e-invoicing reducing fraud. Given the innate capabilities of e-invoicing to ensure stringent, algorithm-driven verifications and secure transaction logging, this perception reflects a crucial benefit in securing financial transactions and fostering a culture of accountability and transparency.

Cash flow and e-invoicing: a critical intersection

A pivotal insight emerges in the intersection of e-invoicing and cash flow management. A significant proportion of SMEs, especially those identifying cash flow as a key challenge, perceive e-invoicing as a tool for materially enhancing their cash flow dynamics.

Why e-invoicing is important to SMEs:

Overall, 60% of SMEs acknowledge the tangible ways in which e-invoicing solutions could improve their cash flow. Over a third, 34%, believe in its potential to significantly accelerate their cash flow.

- Micro-SMEs (companies with fewer than 10 employees) are enthusiastic about the potential of e-invoicing, with 41% envisaging e-invoicing significantly improving their cash flow.
- SMEs that identify cash flow as a key barrier to their operational success recognise the potential of e-invoicing as a solution even more strongly. Among this cohort, 52% view e-invoicing as a tool capable of significantly accelerating their cash flow, while a total of 69% believe that e-invoicing could materially and positively impact their cash flow.
- The connection between e-invoicing and improved cash flow can potentially be attributed to the speeding of the invoice processing timeline, reduction in manual errors, and the streamlined reconciliation processes, all of which combined enable faster payments and enhance financial fluidity.

The benefits of e-invoicing

The benefits of e-invoicing are well-established, with existing studies showing that it has the proven capacity to:

- **Ensure compliance and save time and money:** as e-invoicing digitises all required data, it reduces the periodic reporting burden on SMEs, as information can be provided in the required digital format and periodically submitted without additional cost to the business. E-invoicing can deliver up to €12 in cost savings per document replaced to the business involved¹² and generate cost savings of 60-80%.¹³
- **Deliver and guarantee accuracy:** 39% of SMEs are manually creating invoices,¹⁴ a time-consuming procedure with an added risk of inaccuracy. Errors early in the accounts receivable process can cause delays, cash flow problems, and frustration later in the invoicing process. When invoices are rejected by customers, it is often for simple errors such as a mismatch of price or quantity. Likewise in the accounts payable process, invoice processing is the number one pain point, with 81% of SMEs manually entering invoice details.¹⁵ While

manual processes such as data entry are inherently prone to human error, e-invoicing guarantees data transfer that is 100% accurate.

- **Ensure faster payment and increased productivity:** SMEs who create invoices via their accounting application are paid on time 76% of the time – 7% more than those who create invoices manually.¹⁶ Furthermore, late payments are a significant obstacle to SME growth in the EU, with cashflow and liquidity problems second only to rising costs as a barrier to growth.¹⁷ Digitalising cross-border VAT processes will create the data necessary to tackle late payments and reduce the impact of customers not paying on time. With 30% of accounts payable time typically spent on invoice entry in medium-sized businesses,¹⁸ invoice automation means that staff time can also be dedicated to higher value-adding tasks.

In an era that increasingly demands digital innovation, e-invoicing stands out as a crucial tool to reduce friction for SMEs.

¹² Deloitte 'Tax Insights – Introduction of E-invoicing into the Australian market', April 2022.

¹³ Billentis, The E-Invoicing Journey 2019-2025, 2019.

¹⁴ IDC InfoBrief, sponsored by Sage, Digitizing Accounts Payable and Receivable to Boost Efficiency and Enable Growth, doc #EUR149642122, September 2022'.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Sage survey (February 2023) of 4,000 SMEs in France, Germany, Portugal, Ireland, and Spain.

¹⁸ IDC InfoBrief, sponsored by Sage, Digitizing Accounts Payable and Receivable to Boost Efficiency and Enable Growth, doc #EUR149642122, September 2022'.



2. Digital-by-default - An approach to tackling late payments

The EU's SME Relief Package is a welcome step forward in supporting SMEs, especially in the context of cash flow challenges. This study underscores the potential for the SME Relief Package to target some of SMEs' greatest barriers to digitalisation and thereby create a more competitive Europe.

The European Commission proposed the "SME Relief Package" in September 2023 to strengthen SMEs' competitiveness and resilience. The measures included a proposal for a "Late Payment Regulation", to improve the payment discipline of authorities and large and small businesses, insulating SMEs from the negative consequences of late payments.

INSIGHTS:

Late payments

Existing research has measured the extent to which late payments are a significant problem for SMEs in Europe, revealing that late payments have a negative impact on SMEs' cash flow, profitability, and growth. They can also make it difficult for SMEs to access finance and invest in their businesses.

This study demonstrates both how late payments can hold SMEs back from the digital transformations needed to improve their business and how digital technology can help SMEs to improve their cash flow.

RECOMMENDATIONS:

- 1 Embed digital solutions within legislation to facilitate increased invoice transparency and faster invoice payments.**
- 2 Foster a culture of prompt invoice payment to ensure businesses, especially SMEs, are not disadvantaged by late payments.**
- 3 Ensure legislation allows Europe to take advantage of future payment trends, such as machine learning and industry-specific software.**

Insights from existing studies:

- The European Central Bank's (ECB) Survey on the Access to Finance of Enterprises in the euro area found that in 2021, 10% of SMEs in the euro area signalled that they had experienced problems as a result of late payments from private and/or public entities on a regular basis, and 28% reported that they had experienced problems occasionally.
- The EU Payment Observatory's 2022 Annual Report found that the average time it takes for a business invoice to be paid in

the EU is 22 days, which is 2 days longer than the statutory deadline. The report also found that SMEs are more likely to experience late payments than large businesses.

- A 2022 study by the European Financial Management Association found that late payments to SMEs are associated with a 3% higher risk of credit constraint for SMEs. The study also found that late payments to SMEs harm bank loan terms, such as by increasing interest rates and reducing the size of loans available.

Over the last decade, technological advances have played a substantial role in reducing the impact of slow or late payments. Accounting software, in particular, has helped to accelerate the pace at which invoices are being paid by making critical information easily accessible. Each year across Europe, thousands of SMEs become bankrupt waiting for their invoices to be paid. Late payments have a significant adverse effect on cash flow, leading to job loss and stifling entrepreneurship.

Cash flows and financing the digital transition

According to our research, 20% of SMEs in Europe report struggling with cash flow. This rises to 30% among micro-SMEs. This is reflected in the data on digital investment, which shows that SMEs who currently report cash flow as a major problem facing their business invest 44% less in technology than the average EU SME. A significant challenge emerges, with over half of EU SMEs (52%) articulating difficulties - either significant or moderate - in securing finance to underpin their digital transformations. This number rises to 60% when focusing on micro-SMEs, revealing a notable barrier to digital transformation efforts, particularly among smaller entities.

Financial incentives as a catalyst of investment

The necessity for financial incentives to fuel digital adoption among micro-SMEs is clear, as a staggering 72% identify high implementation costs and budgetary constraints as principal barriers to digital technology adoption, compared to 61% across all SMEs. The criticality of mitigating these financial burdens through incentivisation becomes clear, potentially accelerating digital adoption and thereby enhancing operational efficiencies.

Late payments and cash flow: an obstacle to growth

For 35% of SMEs, and escalating to 41% for micro-SMEs, cash flow difficulties and late payments are perceived as important obstacles to their growth trajectories. Mechanisms and solutions that alleviate late payment challenges will address poor financial health, a key barrier to growth, and ensure a more predictable and stable financial environment for SMEs.

Investment disparities and cash flow challenges

On average, EU SMEs have increased their technology investments by 16% over the previous 12 months. However, there is a stark contrast with SMEs grappling with cash flow challenges, who report only a 9% increase - i.e. a 44% fall in investment expectations. The correlation between cash flow difficulties and reduced investment growth calls for a deeper exploration of strategies to counterbalance these challenges.

Digital technology as a solution

Encouragingly, 63% of European SMEs identify digital technology as playing a significantly beneficial role in mitigating cash flow and late payment issues. This underlines the potential for digital tools to provide solutions to these financial challenges, serving as an impetus for further digital adoption.



3. Boosting responsible AI uptake

The AI Act is a crucial regulatory step to ensure that AI is a trusted and safe technology, enabling its rapid adoption by SMEs and other enterprises. This study demonstrates SMEs' willingness to use AI, but also highlights that they experience adoption issues that prevent them from effectively utilising the technology.

Artificial intelligence (AI) has the potential to revolutionise the way SMEs operate, enabling them to compete more effectively in the global marketplace. This innovation will be critical to boosting productivity across the continent.

With the presentation of the AI Act in April 2021, the EU is leading the way in regulating AI, aiming to foster the development and uptake of safe and trustworthy AI in both the private and public sectors. The proposed legislation follows a risk-based approach, identifies high-risk AI use cases, enshrines basic legal definitions around AI, and introduces the creation of regulatory sandboxes across Member States to support innovation.

INSIGHTS:

Against this background, the adoption of AI by SMEs has risen rapidly. According to our data, a third (34%) of SMEs have embraced AI technologies, though only 11% report that it is presently functioning effectively, with the remainder (23%) still improving its implementation. SMEs recognise the potential of AI, with 71% identifying it as a driver for innovation and efficiency. However, 92% note risks, with ethical issues (75%), data loss/privacy concerns (68%), and fraud (66%) emerging prominently. The journey towards AI adoption will need to be carefully balanced, incentivising adoption while working to address concerns.

By taking these steps, policymakers can increase trust and help SMEs to harness the power of AI to innovate, grow, and succeed.

RECOMMENDATIONS:

- 1 Facilitate SME access to regulatory sandboxes and B2B exchanges of best practices in AI implementation. This would help SMEs to experiment with AI in a safe and controlled environment, and to learn from the experiences of other businesses.**
- 2 Ensure that AI legislation is SME friendly, while addressing concerns around ethics, data protection, and malpractice. This would provide SMEs with the confidence they need to adopt AI without compromising on their values or exposing themselves to unnecessary risks.**
- 3 Develop frameworks to guide SMEs through the implementation and use of AI. This would help SMEs to maximise the benefits of AI while mitigating the associated risks.**



4. Introducing a ‘Digital ID’ for businesses

A European Digital Identity Framework has been proposed in a revision of existing legislation – as there is currently no requirement for EU Member States to develop a national digital ID and to make it interoperable with those of other Member States, leading to significant discrepancies between countries. The proposal is designed to boost the digital identity framework’s effectiveness, extend digital identities to the private sector, and make them mobile-friendly.

12 months after adoption, this proposal will require Member States to issue European digital identity wallets (EDIW) under a notified identification scheme based on common technical standards. Member States will offer EDIWs to businesses, citizens, and residents (natural and legal persons) of the EU, which will be able to link national digital identities and provide proof for other personal attributes (professional certifications, diplomas, medical prescriptions, etc.).

RECOMMENDATIONS:

- 1 Foster collaboration between EU governments and industry to ensure a strong take-up of digital identities among SMEs.**

INSIGHTS:

The study finds clear benefits to digital identity solutions, with 80% of EU SMEs confident it will benefit their business and 70% sure that it will bolster data security. SMEs also identified other advantages such as faster digital transactions (60%), secure authentication (52%), and significant anticipated time savings (up to 6 hours per week). In order for these benefits to be realised, Member States must collaborate closely with technology providers to ensure strong uptake amongst EU SMEs.

The proposed introduction of a 'Digital Identity' for businesses has garnered attention from SMEs across the European Union, with 80% identifying potential benefits resulting from adoption. Within this, 50% of SMEs stated it would definitely be beneficial, while 30% felt it would probably be of some benefit. Conversely, only 8% saw no likely benefit, and 12% were undecided.

Examining the perceived use cases among the positive respondents, **several important advantages** were identified:

- 60% anticipated faster digital transactions.
- 55% expected streamlined online interactions with government agencies.
- 52% noted secure authentication.
- 50% and 48% saw improvements in customer trust and onboarding, respectively.
- 40% identified advantages in employee management, and 47% anticipated enhanced data security.

For SMEs recognising digital ID benefits, **anticipated time savings were quantified** across various operational activities:

- 6 hours per week in conducting digital transactions.
- 5 hours per week when interacting online with governmental bodies.
- 4 hours saved per week in onboarding customers.
- Weekly savings of about 3 hours in both employee management and regulatory compliance.
- A reduction of nearly 2 hours per week in managing data security.

While 70% highlighted the critical importance of data security and felt digital identity solutions could bolster this, 20% acknowledged data security's importance but expressed uncertainty about the direct impact of digital identity solutions.

The exploration into digital ID reveals a landscape where perceived benefits and potential implementation barriers coexist. Ensuring that the transition to adopting digital identity is smooth, well-communicated, and supportive for all SMEs will require a practical, well-structured approach, taking into consideration the varied perspectives and readiness levels across the sector.



5. Digitalising and simplifying sustainability reporting for SMEs

The EU is dedicated to promoting corporate sustainability, ensuring that all large and listed companies play their part in taking care of our planet. Notably, the EU's Corporate Sustainability Reporting Directive (CSRD) entered into force on January 5th, 2023, establishing new rules for disclosing certain information by all large and all listed companies on how sustainability matters (environmental, social, and governance issues) impact their development, performance, and position, as well as how these companies impact sustainability matters.

CSRD represents a significant step forward in embedding sustainability in large companies' business operations. Companies within the scope of the CSRD will be obliged to disclose sustainability information regarding their own operations, as well as disclosing for their subsidiaries and suppliers, leading to obligations trickling down to SMEs. The European Commission has tasked the European Financial Reporting Advisory Group (EFRAG) with producing the draft reporting standards, including sector-specific and voluntary SME standards to guide reporting obligations. The first set of "sector-agnostic" standards were officially adopted at the end of October. The publication of the sector-specific standards and standards for non-EU companies are now expected by 2026.

This study finds that SMEs in the EU are already experiencing increased requests and pressures from stakeholders – especially customers – to report and provide sustainability data. As a result, the EU should accelerate efforts to build infrastructure to support SMEs in their sustainability reporting. The EU and its Member States should additionally develop and promote affordable, user-friendly digital solutions to help SMEs proactively and efficiently engage in sustainability reporting.

RECOMMENDATIONS:

- 1 Ensure that SMEs have a simple and standardised framework to report on their sustainability performance to accelerate the development of voluntary standards for non-listed SMEs. When requesting data, standard setters in the EU should:**
 - Ensure that SMEs can use automated digital solutions to complete their reports
 - Provide user-friendly guides, illustrative examples, and practical guidance (e.g. calculation methodology examples, 'best practice' disclosures, templates, pro-formats)
 - Establish and use consistent ESG terminology and metrics
 - Continue the work on the interoperability of SME standards with other leading market standards
 - Consider proportionality in the number and type of data requests being made of an SME, given their limited resources

INSIGHTS:

Global SME research conducted by PwC, the International Chamber of Commerce, and Sage indicates that SMEs are already feeling more pressure from their customers to report on their sustainability data, with 68% of EU SMEs saying that they are feeling more pressure to reduce their environmental impacts from their customers and 75% saying that they have made claims to their customers about their sustainability. Despite this, only 9.1% of EU SMEs have processes in place to measure, track, and report on their sustainability data.¹⁹ This compares to 7.7% as part of Sage's global study of SME sustainability reporting, indicating greater reporting levels than global averages but still an enormous opportunity for growth.

Despite the likelihood of trickle-down effects from large businesses, 74% have limited or no knowledge about the ESG reporting standards encapsulated within the Directive. Yet, when provided with a nuanced definition and examples, a substantial 70% could discern potential benefits in aligning with the CSRD, and 65% acknowledged benefits pertaining specifically to access to finance.

The discrepancy between initial familiarity and perceived benefits post-explanation points towards a gap in access to information and understanding of the CSRD and ESG reporting among SMEs. This foregrounds a need for targeted information dissemination and support structures to facilitate enhanced understanding and compliance with the CSRD, enabling SMEs to leverage the potential benefits, particularly in the realm of financing.

RECOMMENDATIONS CONTINUED:

- 2 Build and fund the necessary data infrastructure to support SMEs with sustainability reporting.**
 - The EU should accelerate efforts to build the necessary data infrastructure to support SMEs with sustainability reporting. This could include developing shared tools and datasets, establishing common data models, and leveraging existing data repositories
- 3 Promote the use of digital technologies for sustainability reporting.**
 - The EU and Member States should develop and promote the use of digital technologies to help SMEs with sustainability reporting. This should include developing affordable and user-friendly tools to help SMEs collect and report on their environmental data automatically
- 4 Raise awareness of the benefits and importance of sustainability reporting among SMEs.**
 - The EU and Member States should raise awareness of the importance of environmental reporting among SMEs. They should showcase the potential benefits of reporting, such as access to markets, funding, and cost efficiencies

¹⁹ Pathway for Growth: Making Sustainability Reporting Work for SMEs, Sage, PwC, ICC.

Conclusion

As the European Union accelerates its ambitions to be a digital leader by 2030, we are entering a critical period for action. The 2023 Digital Decade update finds that under current trends - without further investment and incentives - these targets will not be met by 2030. Ensuring that this programme remains on track will be a major objective of the EU's next legislative mandate.

As policymakers consider how they keep this critical mission on track, this report identified five recommendations to boost digital adoption:

1. Support the uptake and mandating of e-invoicing



This will create an enabling environment for SMEs to get paid on time, increase their cash flow, and enjoy greater productivity throughout their business operations.

2. Tackle late payments



Build on the SME Relief Package, by tackling late payments and boosting confidence in cash flow using digital tools. In turn, tackling cash flow concerns can help to boost wider tech investment.

3. Boost the uptake of responsible AI and ensure it can work for every SME



AI will be critical to boosting productivity across the continent and SMEs need to be able to take advantage of the opportunities it presents with trust and confidence.

4. Introduce a Digital ID for Europe's SMEs



SMEs in the EU want to take advantage of a range of direct benefits resulting from the adoption of Digital IDs, especially bolstering data security and reducing administration.

5. Simplify and digitalise sustainability reporting for SMEs



The EU should accelerate efforts to build the necessary data infrastructure and tools to support SMEs with their sustainability reporting against a background of increasing reporting requests for sustainability data.

Overall, this report demonstrates that SMEs, which play a central role in Europe's growth story, are key to realising the EU's digital ambitions. Our research finds that by supporting the digitalisation of SMEs, especially those slower to adopt, we could potentially add €628 billion to the European economy. It's a clear signal of the importance of digital transformation for SMEs.

Drawing from our experience supporting millions of SMEs, we've developed the SME Manifesto as a clear guide for this digital journey. It provides clear recommendations aimed at making the transformation process smoother and more accessible for SMEs. Our focus is to offer policymakers practical solutions and data to facilitate this transition.

With the European elections fast approaching, it is crucial that the strategies and recommendations outlined in this report guide our next steps.

By empowering SMEs with the right tools and support, we can strengthen Europe's position in the global digital landscape, achieving more than just our digital targets, by setting new standards in competitiveness, growth, and sustainability.



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