



Digital Britain: How small businesses are turning the tide on tech

A study of over 5,000 SMBs on
how digital adoption is driving
business performance and
economic growth

Sage

Contents

Page 3

Foreword

Page 5

Executive Summary

Page 7

Policy Recommendations

Page 9

Survival, Resilience and Growth

Page 11

What Digital Britain looks like today

Page 16

Driving growth: The economic value of Digital Britain

Page 18

The Challenge: Closing digital gaps

Page 20

The Future of Digital Britain: Untapped potential

Page 22

Conclusion: Creating a prosperous Digital Britain together

Glossary

Term	Meaning
SMBs	Small and medium-size businesses, defined as those employing less than 250 people.
Digitalisation	A change in how a business interacts with stakeholders such as employees, customers and suppliers, through adopting up-to-date digital tools.
Tech-related tasks	Actions taken by an SMB leader or employee that relate to using or improving the use of digital tools.
Leading business impacts of tech	Where technology is having the greatest impact on SMBs.
Digital gaps	Where tech is having the least impact on SMBs.
Challenges to adopting new tech	Barriers preventing SMBs from adopting new digital tools.
Points of friction	Where tech could improve SMBs performance but is currently underutilised.
Untapped potential	Areas where tech could add value but are currently not being invested in.

Foreword

by Steve Hare, CEO of Sage



SMBs have demonstrated incredible resilience in the face of multiple challenges and uncertainties in the last few years. Their importance in driving much needed growth of the UK economy cannot be underestimated.

This report highlights a fundamental shift, accelerated by the pandemic, which shows that tech is now vital to the creation, survival, and success of SMBs across all sectors. 73% say tech was important to the founding of their business. This rises to 91% for those founded in the last two years. As we look to the challenges ahead, we need to ensure that SMBs can take full advantage of the digital economy to ease disruption and achieve their goals.

Our research shows that tech has been central to navigating a challenging landscape. SMBs who have fully embraced all tech has to offer are now being rewarded with increased revenue and higher levels of employee and customer satisfaction. This is true throughout the UK – from Solihull to Sunderland and from farming to finance. We must build on this and accelerate the UK's digital trajectory to become a high growth and high-tech economy.

As we enter another period of instability, having the tools to adapt, innovate and be agile are vital. This is particularly true for smaller businesses who are more vulnerable.

But as this report reveals, there are barriers preventing SMBs from maximising the opportunities which tech can create. Cost pressures and a lack of time and expertise are holding too many back from reaching their full potential.

Together, the Government and big tech companies like Sage can knock down these barriers small businesses experience. By providing wider financial incentives to encourage more investment in tech, by unlocking the power of data so SMBs can innovate and grow and by ensuring that digital infrastructure supports the economy across every part of the UK.

The size of the prize is vast if we work together to accelerate the tech evolution, unlock growth and deliver a pro-tech, pro-enterprise Digital Britain.

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 SMBs, removing friction and delivering insights. Knocking down barriers also means we use our time, digital tech and experience to tackle digital inequality, economic inequality and the climate crisis.



What we mean by digitalisation



“Digitalisation is more than simply automating tasks within a business. It’s reimagining workflows and interactions across the entire ecosystem of the business.”

Aaron Harris
CTO of Sage

Throughout this research, SMBs recognised the potential of digitalisation to improve their performance across their business.

This goes far beyond automating processes. It is about reaching new customers and strengthening relationships with existing ones. It is about allowing businesses to hire, nurture, and keep the best talent. It is about working more effectively with suppliers and seeking opportunities beyond borders to reach new markets.

Executive Summary

Sage has conducted a landmark study of over 5,000 SMBs in the UK to understand the level of digitalisation and how it is boosting growth across the country. This included a national study of SMBs and deep dives into 10 diverse locations across the country.

For more details on methodology, please see page 23.

Tech has become fundamental to SMBs' survival, resilience and growth (read more on page 9)

- Accelerated by the pandemic, for the vast majority of SMBs, tech is now core to the fabric of their business.
- 8 out of 10 SMBs depend on tech to start, survive and grow. This is increasingly important against the backdrop of economic and geopolitical uncertainty where two-thirds of UK SMBs are already being impacted by increases in costs and wages.
- As the Government acts on its ambition to level up the UK, and moves ahead with plans to digitalise the tax system through Making Tax Digital (MTD), the digital economy should be central to ensuring no region gets left behind as we build a stronger Digital Britain.

The extent of digitalisation among SMBs is wider than previously understood as we edge towards Digital Britain (read more on page 11)

- Over the past year, SMBs have increased their use of tech across all aspects of their business, in particular to improve their relationships with customers, employees and suppliers. Increasing numbers of SMBs are using social media to improve their web presence to strengthen their reputation and reach more customers. Many are also using communication tools to connect with employees and suppliers, particularly in logistics, transport and construction.
- When thinking about new and emerging technologies, SMBs are most excited about 5G-enabled tools as well as drones and payment tech, especially those located in Bristol and Sunderland.
- This is true in sectors and areas of the UK traditionally overlooked as being 'high-tech'.
 - Sectors increasing their use of tech the most are healthcare, hospitality and construction.
 - Alongside our national poll, we conducted deep-dive studies on 10 diverse parliamentary constituencies. Out of those we surveyed, Sunderland Central is leading the way on digitalisation.

Tech is driving performance for SMBs in new ways and is directly contributing £216 billion to the UK economy (read more on page 16)

- As a result of successful tech adoption in recent months, SMBs are feeling most confident about building relationships with their customers, working with suppliers and managing their finances.
- In total, the current use of digital tools by SMBs to operate their business is contributing £216 billion to the UK economy per annum.
- Through effective action by government and tech companies, economic modelling shows that a further £232 billion per year could be unlocked, illustrating how Digital Britain can boost growth of the UK economy.

Large gaps in digitalisation remain, caused by challenges in adopting technology and points of friction in using new tech well (read more on page 18)

- Despite relying on tech, tensions and shortfalls persist that must be addressed.
- Digital gaps in businesses are areas where tech is not yet having a positive impact, especially for hiring new staff (57%), getting access to finance (54%), and achieving sustainability goals (50%).
- In a world where tech is essential, SMBs are most anxious about establishing an online reputation, finding the right solutions and not making use of their data.
- The biggest factors stopping SMBs from investing more in tech are:
 - Fears over returns on investment, especially during the current cash flow crunch
 - Lack of awareness of the right solutions
- Once tech is adopted, there are still points of friction created by:
 - Problems learning new skills
 - Issues integrating digital tools together

If these challenges were overcome, tech could help SMBs remain resilient in the face of challenges ahead as well as providing huge potential for the future of Digital Britain (read more on page 20)

- As the cost of living crisis worsens, the Government and tech companies must work together to remedy these challenges and create a pro-tech agenda for SMBs.
- Based on the evidence in this report, Sage has outlined clear asks of government and other tech companies to deliver a dynamic digital landscape for SMBs to thrive. (Read more on page 6)

Key Findings

Use of technology by
SMBs contributes
£216 billion
to the UK economy

92%

of SMBs say that tech is important for business survival. 91% of businesses founded in the past two years said it was important to their creation.

8 in 10

SMBs depend on digital tools to start, survive and grow. This is reflective of every sector and region in the UK.

On average, small business leaders are spending 40% of their working week thinking about and improving their use of tech.

As well as a national poll of SMBs in the UK, we dived into 10 diverse locations around the UK, to understand the state of digitalisation and what unique needs SMBs in each area have to accelerate growth.

TOP BENEFITS

of technology are saving time, cutting costs, and selling more products.

TOP 3 SECTORS

leading the way on digitalisation are...

- Healthcare
- Hospitality
- Construction

Westmorland and Lonsdale

Over two-thirds have adopted more social media in the last 12 months to keep in touch with customers.

West Bromwich West

93% see tech as integral to their business' resilience.

Bristol North West

Most appealing emerging tech included 5G-enabled tech (51%), Cryptocurrency (31%) and AR (25%)

North Devon

Tech is most important for training staff (87%) and cutting costs (87%)



Sunderland Central

91% see tech as integral to their business' growth.

Kingston upon Hull East

The biggest barrier for SMBs to adopt more tech is cash flow pressure.

Harborough

1 in 5 SMBs find 5G-enabled tech appealing to their business.

Milton Keynes North

Three-quarters believe tech is being applied well across their business.

East Ham

93% find tech important to achieving environmental and sustainability goals.

Solihull

88% say tech has had a big impact on boosting their revenue.

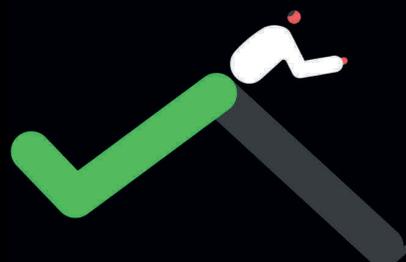
BUT, there is still room for improvement...

Accessing finance, sustainability and unlocking data are areas where tech has greater potential to support SMBs.

Lack of working capital, time and expertise are holding SMBs back from adopting more technology. By knocking down barriers to enable SMBs to use more tech, this could unlock...

£232 billion
extra per annum

Sage



When comparing 10 different parliamentary constituencies, **Sunderland Central** is leading the way on digitalisation.

Policy Recommendations

Based on the evidence in this report, Sage has three clear asks of the Government and other tech companies to deliver a more robust and dynamic digital landscape for SMBs to grow and thrive.

As the Government seeks to redefine the UK's position as a world-leading, tech-enabled economy through policies such as Making Tax Digital, understanding how technologies can best be leveraged to boost growth must be a core part of this ambition.



1 Financial Incentives

Help to Grow: Digital

Cost and complexity remain the highest barriers holding SMBs back from adopting new technology. Help to Grow: Digital has been a welcome step by the Government. However, due to constraints within the scheme, we have seen low levels of take up. We therefore recommend the following improvements:

- Expansion of the number of technologies it covers to include a wider range, such as HR & Payroll software.
- Prioritisation of new buying journeys such as assisted sales, so that a wider range of products, which cannot be purchased online, and meet different needs of businesses, can be purchased through the scheme.
- The Government should incorporate re-sellers, such as accountants, who are seen by many SMBs as a trusted adviser when purchasing software. This will be particularly important ahead of April 2024 when MTD will require 4.2m sole traders to keep digital records and file tax returns electronically to HRMC.
- We recommend that bundled products, professional services and implementation costs be made available through the scheme to make the process simpler and more cost effective for SMBs.

Tax Incentives

Ahead of the Autumn Budget, and as the Chancellor consults on business incentives to boost private sector investment, growth and innovation, we encourage the Government to stimulate business confidence by introducing a tax incentive to scale digital adoption. We suggest this is rolled out by allowing SMBs to deduct 200% of their expenditure on newly adopted productivity enhancing tech from their tax bill. This could take the following shape:

- HMT could set an upper limit, so deductions from SMBs are capped at a maximum amount similar to the Employment Allowance, currently set at £5,000.
- To incentivise intended behaviours, clear and simple criteria would need to be set by the Government. This would outline that the policy is for newly adopted technology, or subscription software in the last year.
- Criteria should be set to ensure that only SMBs benefit. For instance, only businesses below a certain threshold of taxable turnover (e.g. £50m) can claim the enhanced tax deduction. This is already declared in a business' tax return, so would not create added complexity.
- A tax incentive would be simple for both SMBs and government to administer, as it would only require an additional box on a tax return and could be deducted from a company's annual tax bill, as opposed to payments from government.

Online Sales Tax (OST)

- This report shows that 91% of SMBs, across all sectors, view technology as an important tool for growth. Additionally, 79% say that technology is important to meet their revenue goals in the next 3-5 years.
- We therefore recommend that the Government supports further digitalisation of the economy by expanding incentive schemes such as Help to Grow: Digital and should not progress with an Online Sales Tax (OST) in any form.
- An OST would disincentivise growth of the digital economy and increase administrative costs for compliance that will likely be passed on to consumers. This will be particularly true for smaller businesses who will need to recoup the loss of revenue to maintain profit margins.

2 Data

Committing to AI responsibility and data transparency

Sage supports the Government's aspiration to enhance the UK's global reputation as a hub for responsible data-driven business, whilst continuing to uphold high standards of data protection. To unlock the full potential of data and increase access for SMBs, we recommend that the Government:

- Outline a clear plan for opening up government and public sector data sets, that will enable near real-time data insights to empower better decision-making and drive innovation for SMBs.
- Work with industry to establish consistent standards and a legal framework that will enable more trusted, efficient and innovative data-sharing across businesses, third parties and with government.
- Partner with industry to create a responsible AI framework that will enable businesses of all sizes to use data (including personal data) more freely for research purposes, subject to appropriate safeguards.



3 Infrastructure

Building a future-proof and better connected Digital Britain.

We endorse Mobile UK's call for the UK Government to fund Digital Champions for local authorities. This will coordinate and prioritise digital connectivity to better enable mobile infrastructure deployment and to assist with the Government's ambitions to address digital exclusion as part of its Levelling Up agenda. As noted by Mobile UK's recent report, without an adequate focus and funding, the UK will continue to face barriers in meeting its 2030 target for the majority of households to be connected to 5G.

"The challenging blend of a surge in inflation, soaring energy prices and supply-chain bottlenecks has created a rocky outlook for SMBs. Despite their resilience and temporary respite from increased consumer spending, headwinds will severely challenge growth in the months ahead. This report shows that these headwinds are already being acutely felt by SMBs.

Continued investment in technology to help SMBs grow is a key part of the solution to building a stronger, fairer and more geographically-balanced economy. It is clear that further action is needed from policy makers and tech companies to ensure SMBs can reap the full benefits of new technologies which remains critical to their success."



Dr Scott Urban

Economics, Oxford University

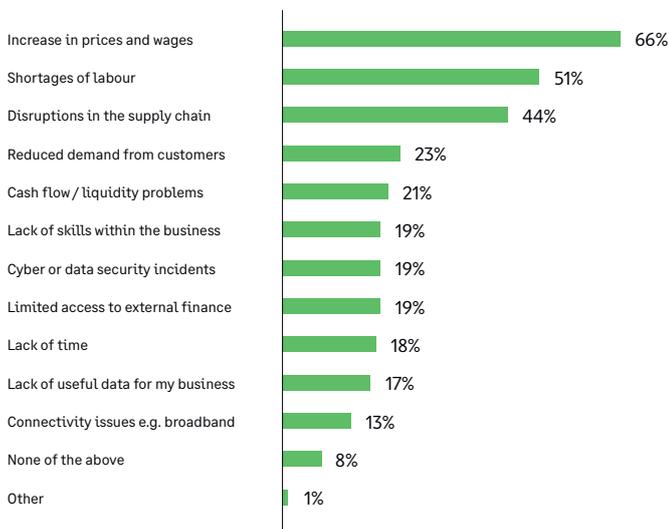
Survival, Resilience and Growth

Rapidly accelerated by the pandemic, tech is now fundamental to SMBs overcoming the challenges they are facing.

Against a backdrop of relentless economic and geopolitical uncertainty, SMBs see tech as essential to their survival, resilience and growth.

- Just as SMBs are recovering from the effects of the pandemic, they continue to face multiple crises posed by the rise in the cost of living, problems attracting and retaining talent and supply chain disruption.
- With the threat of a recession and inflation predicted to reach 10%, the increasing cost of borrowing and pressure to increase wages is having knock on effects for many SMBs. In this context, the ability to innovate is key to maximising output and increasing productivity to remain resilient. For many SMBs in sectors like hospitality, manufacturing and beauty and wellbeing, these problems are compounding and dramatically curtailing their confidence in the future.

The top barriers facing SMBs today



These geo-political and macroeconomic crises are already being felt by SMBs, impacting business confidence and disrupting plans to invest and grow.

“We are definitely feeling the effects of everything that is going on. Right now, I’m feeling uncertain and I think so are a lot of my customers... this makes me more worried about cash flow and it’s cash which is what I use most to invest in my business.”

Gary

IT business in Sunderland

58% Are currently confident about their businesses’ success

▼ 1% since March 10th

58% - 65%

Pandemic range from previous Sage tracking studies

Q.10 How confident have you felt / do you feel about the success of your business over the following time periods?

While SMBs have financially recovered from the pandemic, for example returning to pre-Covid levels of revenue, confidence in the future has been impacted.

SMB confidence highest among:

- #1** Healthcare (64%)
- #2** Creative industries (63%)
- #3** Financial and insurance (60%)

SMB confidence lowest among:

- #14** Manufacturing (48%)
- #15** Personal services e.g. beauty & wellbeing (45%)
- #16** Agriculture (42%)

In the face of multiple crises, SMBs are turning to tech to help overcome their most important business challenges.

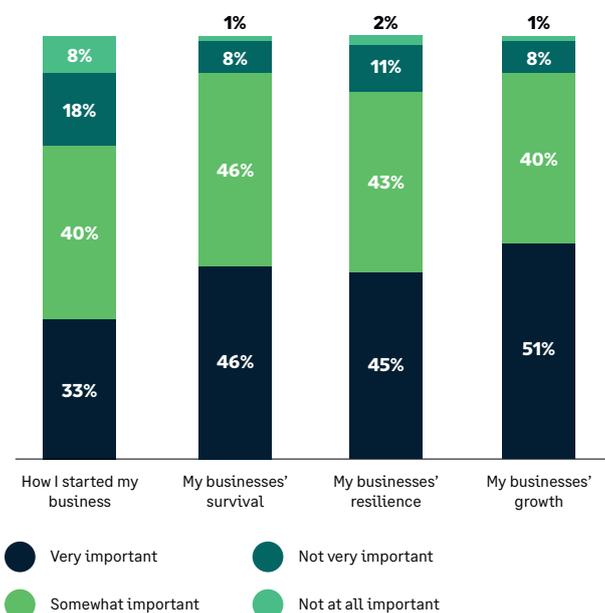
It is clear that the importance of tech has been vital from the start: **73% of SMBs see tech as important to starting their business. This rises to 91% for businesses founded in the last two years.**

Even more recognise tech’s importance to their operations today and their plans for the future.

- SMBs see tech as important to achieving 8 in 10 businesses’ goals in the next twelve months.
- Over 9 in 10 say that tech is important to their survival and growth.
- 88% say that tech is important to their resilience.

Importance of technology through the SMB Journey

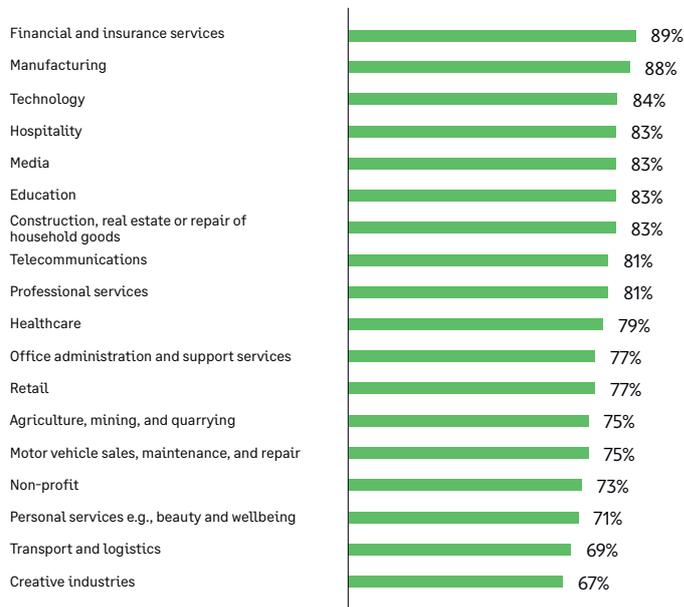
73% total important, rises to **91%** for those founded in past two years



The belief that digital tools are foundational to success is widespread. Over two-thirds of SMBs in every sector recognise the importance of tech in achieving their business goals.

This is equally true for some of the least confident sectors, such as manufacturing (86%), agriculture (75%) and personal services (71%), where tech is playing a fundamental role to their resilience and survival.

Importance of tech to business goals: total important



“The tech I bought during the pandemic has opened up a new world for my business. While everyone is now back in the office, the tech we used for remote working has allowed us to increase our focus and do better in exporting our goods abroad. This is a big growth period for us. It’s important in both winning business but also having the ability to deliver well.”

Paul
Children’s Furniture Design

What Digital Britain looks like today

The extent of digitalisation among SMBs in the UK is wider and more diverse than previously understood.

This study has measured the extent of digitalisation by **understanding the impact that technology is having on business performance**. This is different from methodologies which assess digitalisation by the amount of digital tools a business has adopted.

This lens provides a radical view of SMBs' digitalisation: across sectors and areas. It is now the fabric of operations and success and is contributing to building Digital Britain.

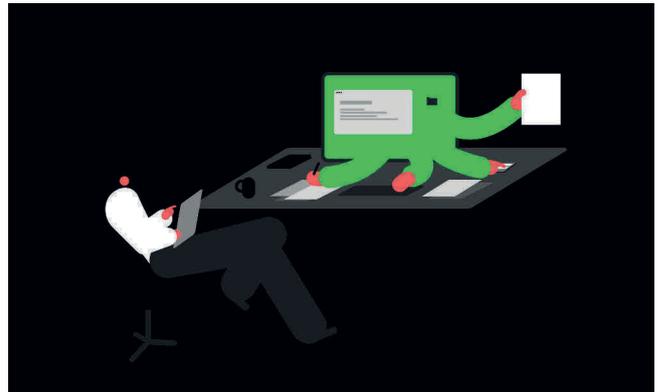
We know tech provided a lifeline for SMBs during the pandemic and, for many, ensured their survival. Many turned to e-commerce, communications platforms and social media to stay afloat, while also representing an opportunity to grow.

As the UK now experiences a difficult period of recovery, SMBs are once again proactively turning to tech to tap into new areas of growth.

Top Tech Trends SMBs identify today

We asked SMBs what digital tech trends are top of mind for their business. They named:

- 1 'Blue Tick Tech'** - includes achieving positive reviews and ratings online (e.g. websites, social media) to boost their reputation - from customers to potential employees. This is especially prevalent amongst those in personal services (beauty and wellbeing), education and hospitality.
- 2 HR Software** - keeping up with their workforce, especially as hiring and retaining staff is a key challenge facing some SMBs. This is particularly popular for those in transport and logistics, manufacturing and professional services.
- 3 Communication tools** - keeping engaged with their workforce as remote working has become the new normal for many sectors.
- 4 Accounting software** - to understand and improve the financial health of their business during uncertainty, particularly for SMBs in transport and logistics.
- 5 CRM & sale management** - gathering and using data to more effectively understand customers. SMBs in agriculture and quarrying reported the highest rates of adoption, with over half saying they have invested in sales management tech in the last twelve months.



- 6 Cybersecurity** - ensuring that systems are secure to manage concerns and anxieties from customers stakeholders. As SMBs across sectors adopt more tech, cybersecurity is seen as a growing risk.

Tech is now fundamental to SMBs for a greater number of reasons, especially in confronting cost challenges and keeping connected to customers as consumer confidence dips to levels not seen since 2008.

SMBs are increasingly seeing the impact of digital tools in improving both the quality and quantity of their relationships across their business. Smaller businesses have become more adaptable in the past two years and are now seeking tech solutions for a broader range of uses.

Spotlight: Accounting Software



Accounting software is **the second most commonly adopted technology** (76%) ahead of social media (73%) and digital marketing tech (73%).

Despite high adoption, **SMBs are continuing to make significant investments in accounting software**

- 42% say they've invested more in the past 12 months.

SMBs who have adopted accounting software are **11% more likely to say they are managing their finances well** (91% vs. 81%).

- This is highest in construction (95%), financial services (94%) and healthcare (93%).

We asked SMBs to name one tech solution they have adopted in the past 12 months.

In every sector, they reported back a vast range of solutions, including:

"The migration of key applications and data to the cloud"

"Video appointments such as Attend Anywhere to meet clients virtually rather than them coming to our office"

Transport and logistics

Healthcare

"New EPOS systems and booking management"

"New tablets and software to bring to use in client pitches"

"Microsoft Dynamics 365 to better understand customer data"

"We have recently started using a 3D printer to help with bespoke production"

Financial Services

Construction

Professional Services

Manufacturing

"Resourcing software so that everyone has a fairer workload"

"Remote communications apps to keep in touch with people on the road"

"Booksy so that customers can book hair appointments in advance"

Technology

Construction

Personal Services

SMBs can see how tech creates value across all elements of their business, but areas for growth remain.

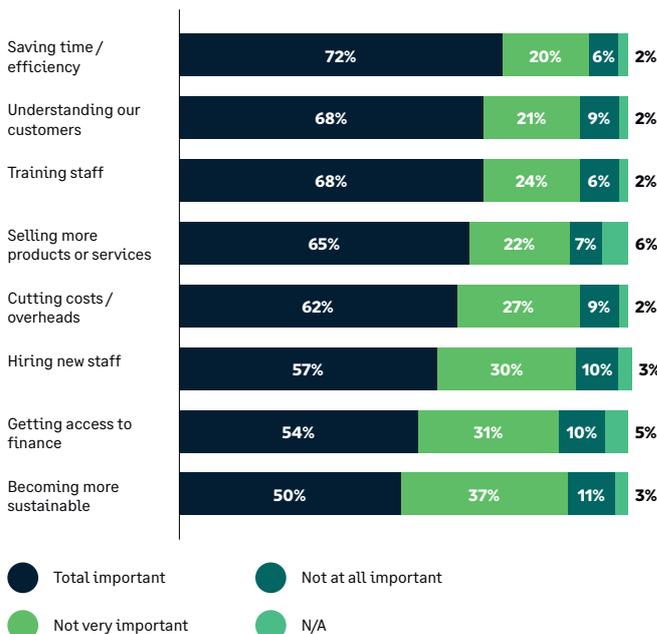
Areas where tech has the most impact for these businesses are **saving time, becoming more efficient, understanding customers and training staff.**

Areas where tech is having less of an impact on their business include **hiring new staff, getting access to finance and becoming more sustainable.**

"For my business, tech has had the most impact on the ways we work as a team... It's the tech that we use like Vimeo, screen casts, Zoom and hard drives that makes this business work well. I can record tasks through screen recording so that my colleague can work on it during the weekend when he prefers to work. The flexibility of being able to work together while at times that suit us best has made us work much better."

Gary
Website design

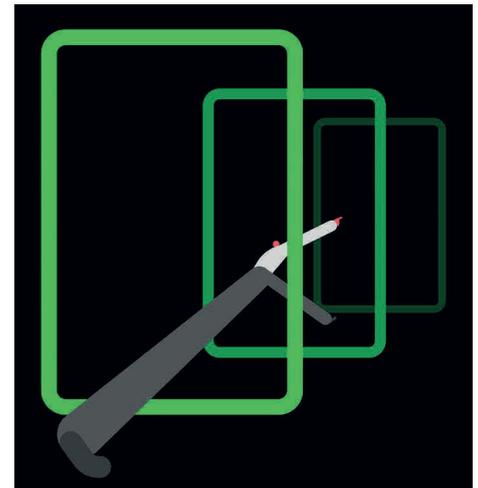
Importance of tech across the business



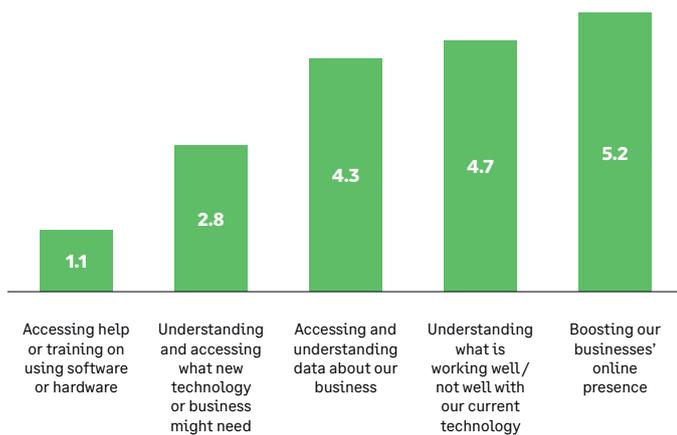
Top digital sectors and how they use technology

Healthcare	Hospitality	Construction and real estate
93% of SMBs use tech to understand their customers	93% to understand their customers	91% to building their reputation
89% to keep their workforce happy	89% to keep their workforce happy	89% to work well with suppliers
86% to manage their financial planning	86% to manage their financial planning	85% to manage their financial planning

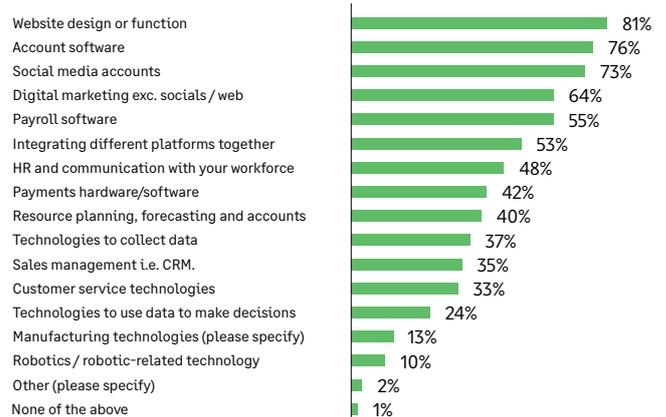
Type of tech	Sector
Website design	Retail (67%)
Social Media	Education (72%)
Digital marketing	Transport and logistics (77%)
Integrating platforms	Financial and insurance services (47%)
Payroll software	Transport and logistics (85%)
Accounting software	Transport and logistics (69%)
Payments	Motor vehicle (51%)
Resource planning	Financial and insurance services (39%)
HR and workforce comms	Education (52%)
Tech to collect data	Technology (35%)
Tech to make decisions	Financial and insurance services (26%)



Time spent by SMBs on tech-related tasks (hours/weeks)



SMB tech Adoption: Digital technologies in use by SMBs in the UK today



With tech becoming important to more areas of their business, SMB leaders are investing more time in understanding and improving their use of tech. On average, they are spending 40% of their working week on tech-related tasks, underscoring its central importance.

Top three sectors spending the most time on tech-related tasks:

	Boosting our businesses' online presence	Understanding what tech is working well / not well	Accessing and understanding data about our business
#1	Personal services e.g. beauty and wellbeing (8.2 hours)	Manufacturing (8.1 hours)	Manufacturing (7.2 hours)
#2	Retail (8.1 hours)	Creative industries (7.8 hours)	Retail (7.0 hours)
#3	Hospitality (7.9 hours)	Education (7.5 hours)	Financial and insurance services (6.8 hours)

Key Trend: Blue Tick Tech Key

Definition:

Blue Tick Tech are public social verification platforms where ratings and reviews are prominent. They exist across a broad range of social platforms, but SMBs most often name Facebook, Instagram, LinkedIn, Etsy, Glassdoor and Twitter as examples.

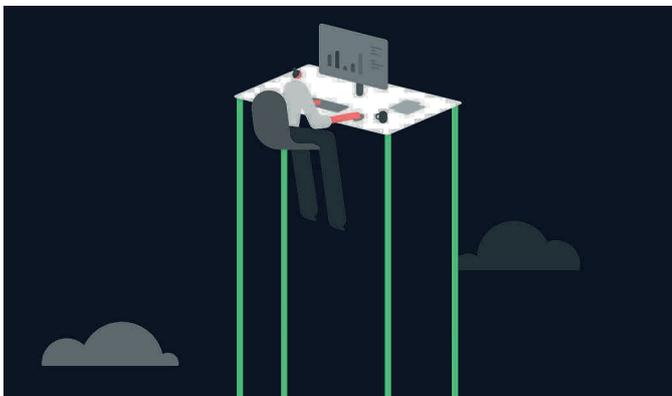
SMBs are investing to keep ahead through 'Blue Tick Tech' to reach new customers. But they see it becoming increasingly important to a wider range of relationships e.g. with employees and suppliers.

62% have increased their internal engagement through social media channels such as WhatsApp, Slack and Microsoft Teams. Social media is used by almost three-quarters of SMBs, ranking above CRMs or payments software.

Of most importance to SMBs are boosting online presence (taking up 11% of their working week) and understanding what is working well or not so well with their current tech (10% of their working week)

This huge time investment extends far beyond sectors traditionally thought of as 'tech champions' like financial services and software companies. For example:

- SMBs in the beauty and wellbeing sector are spending 18% of their time boosting their presence online.
- Retailers are spending 15% of their working week accessing and understanding data about their business.
- The creative industries are spending nearly 8 hours (17% of their working week) understanding what tech is working well.



The challenge: Establishing and keeping up with social verification is an anxiety-inducing and time-intensive task for many SMBs. Trust in tech companies to behave responsibly and fairly, is low, especially around frequent changes to processes and outcomes.

- 68% of SMBs think their business could perform better by increasing their brand and reputation.
- Over three-quarters of SMBs increasingly feel under pressure to maintain good reviews and ratings online so that potential clients and employees know they are well-established and well-reputed.
 - 76% agreed with the following statement from in-depth interviews: **“Potential clients and future employees need to know we’re a well-established and well-reputed business so it’s important that we keep up-to-date on the internet with good reviews or ratings.”**
- SMBs dedicate almost a third of their time on tech-related tasks to boosting their online presence.



“My business actually really took off during the pandemic through maximising the use of platforms such as Facebook and Etsy. My key piece of advice for new businesses on these platforms is to make sure your reviews are as good as possible and high ratings. For me, massive amounts of effort goes into this. Trust and loyalty and your customers getting to know you is really important. For the marketing aspect, it’s better to have a couple platforms that you spend a lot of time on rather than spreading out across lots of different ones. The main one I use is Instagram, and I really enjoy using it. I can also add more personal posts on there, I think people like that about my brand.”

Gemma
Crafts

Sector Spotlight:



Beauty and wellbeing are rebounding through 'Blue Tick Tech'.

In the face of a cash flow crunch, the beauty and wellbeing sector is making extensive use of digital tools to improve their business relationships with existing customers and to reach new ones.

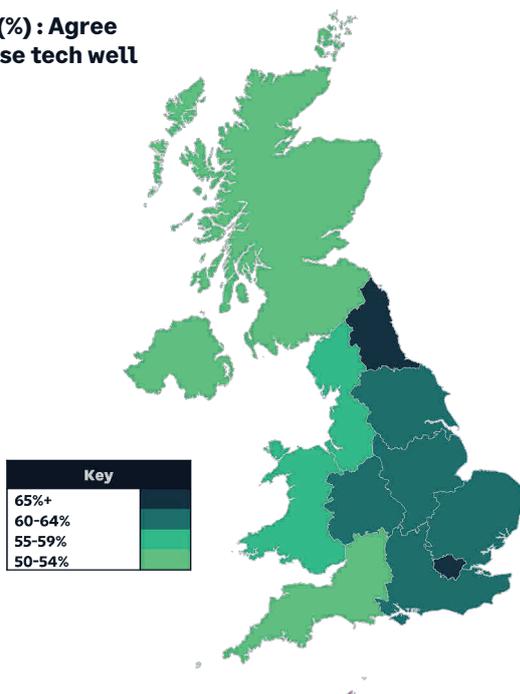
- While SMBs in beauty and wellbeing report high levels of cash flow problems (36%) and a lack of useful data (45%), they are nonetheless using tech efficiently to stay resilient and even grow their business.
- SMBs from beauty and wellbeing are among the most confident in using tech with almost half (45%) saying they use tech better than average compared to others in their sector.
 - Small businesses in beauty and wellbeing are the top users of social media to engage with customers (86%), employees (71%), suppliers (71%) and potential customers (71%).
- Despite their enthusiasm and success when it comes to digitalisation, many are not fully utilising the benefits of tech functionality.
 - 57% said they had recently adopted new tech but were still getting it to work well. This highlights the huge potential that remains for this sector.



"We've done lots of tests so we know our target audience on social media and what type of consumers are interested in natural skincare and what type of message and graphics works best with that audience. That has really helped us market ourselves well and part of why we have been able to do well online. We also work with Facebook to see our return on AdSpend to give us a better idea of what would be better value for money when trying to reach new customers."

Cis
Skincare

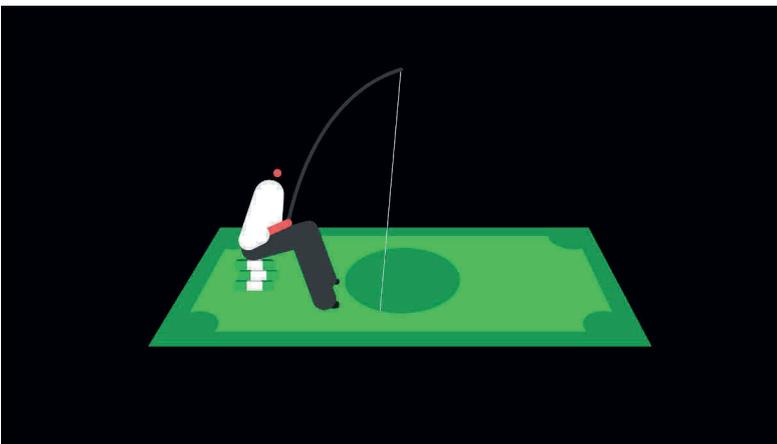
Total (%) : Agree they use tech well



In summary driven by trends identified in this report such as Blue Tick Tech, and the increased use of communication apps, tech has become the fabric of how SMBs start, survive and grow in the UK. When measuring digitalisation from the perspective of the value it creates across a business, it is clear that it is wider, deeper and more diverse than previously understood.

Driving growth: The economic value of SMB digitalisation

Calculating the Value of Digital Britain Today



As part of an economic study on the value of tech, we asked SMBs the extent to which tech helps them to:

- **Sell more of their goods and services to customers** - e.g. by attracting new customers or strengthening their relationships with existing customers.
- **Decrease the cost of the goods and services they sell** - e.g. by working more efficiently with suppliers or by finding a better deal on materials they use.
- **Reduces operating expenses** - e.g. cutting travel costs or rent.
- **Operate more efficiently internally** - e.g. having a more engaged and productive workforce.

The four ingredients above represent key inputs into Gross Value Added (GVA), a leading measure of the size of the economy which is used to determine GDP.

We found that:

The **use of tech** by SMBs is currently adding **£216 billion** to the UK economy.

This represents 10.1% of the UK's economy per annum.

The added value of tech to the UK economy is spread throughout the UK.

Breakdown by region:

Region	Annual GVA added to the economy through tech (£ billion)
London	£54 bn
South East	£32 bn
North West	£23 bn
East of England	£20 bn
Scotland	£18 bn
West Midlands	£17 bn
South West	£16 bn
Yorkshire and Humber	£14 bn
East Midlands	£11 bn
North East	£10 bn
Wales	£7 bn
Northern Ireland	£5 bn

Emerging technologies present exciting prospects across sectors to boost this economic impact further:

Beyond the material benefits that digital tools are offering SMBs across their operations today, there is widespread enthusiasm for emerging tech which could boost growth in the future. If successfully adopted and used, these technologies have the potential to boost the economic impact further.

Across all sectors, 5G-enabled tech is the most exciting prospect for SMBs. 43% of SMBs across the UK can already see how 5G-enabled tech can contribute to their business, and was particularly appealing for those in Bristol and Bromwich.

- A significant number also saw the potential for more artificial reality (AR) or virtual reality (VR) experiences for customers and potential customers.

- A quarter of SMBs in the agriculture, mining and quarrying sector see biometrics as appealing to their business.
- The use of artificial intelligence or virtual reality appeal to over a third of SMBs in transport and logistics.
- A quarter of SMB in the Motor industry are interested in how robotics could be applied to their business.

Most appealing emerging tech to SMBs - by sector

	Biometrics	Crypto	NFTs	Robotics	The metaverse	VR / AI	5G internet
Manufacturing	16%	16%	7%	32%	11%	25%	46%
Personal services e.g., beauty and wellbeing	14%	57%	14%	1%	29%	14%	29%
Transport and logistics	1%	31%	1%	15%	8%	38%	31%
Technology	25%	22%	13%	16%	13%	29%	31%
Media and telecommunications	33%	17%	17%	1%	1%	17%	33%
Financial and insurance services	26%	42%	16%	32%	24%	39%	55%
Professional services	11%	21%	13%	13%	26%	28%	36%
Construction, real estate or repair of household goods	20%	17%	7%	20%	12%	15%	37%
Retail	9%	16%	12%	14%	9%	14%	58%
Creative industries	33%	8%	1%	25%	17%	25%	33%
Education	15%	8%	4%	8%	4%	14%	46%
Healthcare	18%	15%	9%	6%	15%	21%	53%
Hospitality	27%	7%	11%	17%	3%	31%	41%
Motor vehicle sales, maintenance and repair	1%	25%	1%	25%	13%	1%	75%
Agriculture, mining and quarrying	25%	1%	1%	25%	1%	25%	25%

The Untapped Potential of Digital Britain

We used the same economic modelling to calculate the impact of higher levels of SMB tech adoption on the UK economy.

If we increased the average level of SMB tech adoption to match the current top 20% of SMBs, the value of SMB tech use to the economy would rise by almost double (98 percentage point increase) to

£448 billion per annum

Therefore, while SMB use of tech is currently contributing £216 billion to the economy now, if we can ensure that SMBs use more tech, this number has the potential to reach £448 billion per annum.

This means an **extra**

£232 billion per annum

could be unlocked, illustrating how Digital Britain can boost growth.

The Challenge: Closing Digital Gaps

As the opportunities from tech have increased, so too have the challenges.

Tech needs to work better in some areas which are important to the success of SMBs.

Top three areas where tech is having the least impact on SMBs businesses today:

- 1 Reaching sustainability goals
- 2 Hiring new talent
- 3 Getting access to finance

But, each of these areas are also identified by SMBs as highly material to their future success.

SMBs report critical fears and uncertainties which are preventing them from investing more in tech.

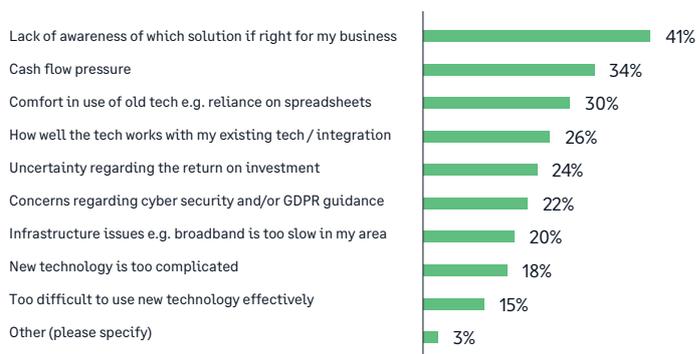
When thinking about what holds them back from investing more in tech, there are a mixture of non-financial and financial fears.

- The most significant is non-financial. 41% say they are simply unaware of which tech solution is right for their business.
- 34% say that concern about the return on investment is the biggest fear holding them back from investing in new digital tools.



- Almost a third (30%) say that breaking new habits and moving staff over to new processes represents a barrier, despite large numbers having the resources and acknowledging the range of solutions that would help them.
- Over one-fifth (22%) are concerned over cyberattacks. This is a low number given the increasing importance of cybersecurity.

Top reasons preventing further investment in new digital tech

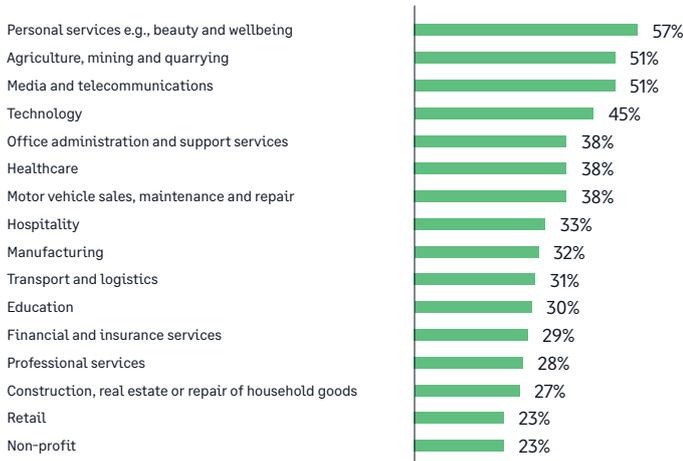


Many of the top barriers identified by SMBs are **knowledge-based** and **behavioural**. For example, anxieties about security, data protection or difficulties learning new tech. Some are as simple as confusion in what would work well for their business - especially given cash flow concerns.

It is likely that many SMBs have been made more anxious by past experiences. When SMBs do adopt new tech, they report points of friction which prevents them from maximising its potential.

- One-third of SMBs (32%) say they have adopted new tech in the last year but are still in the process of getting it to function effectively.
- **These experiences are dramatically uneven by sector.** SMBs in personal services e.g. beauty and wellbeing (57%), agriculture (50%) and telecoms (50%) which are experiencing the biggest problems with functionality.

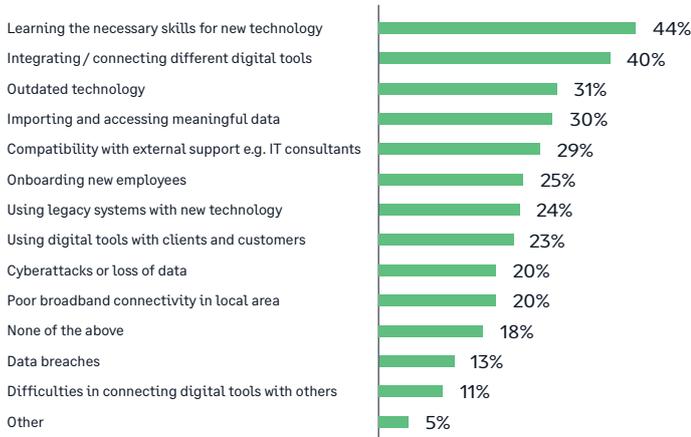
% who have adopted new tech in the past year but are still getting it to function well



Both human and technical issues are creating this friction in using new technology successfully.

- Nearly 1 in 2 (44%) said the biggest issue they face when using new tech is learning the necessary skills to use it effectively.
- 40% of SMBs say integrating different digital tools together remains a significant issue for them.
- While poor broadband connectivity is not one of the most significant problems SMBs report, there is still a significant minority (20%) that report it as a major issue.

Most significant issues SMBs face when using new tech



Digital Gap: Cybersecurity

SMBs say they lack both the skills and tech to feel confident about cybersecurity.

While the value of data has increased, SMBs are not yet fully aware of all the risks that accompany the increased use of tech.

Our report finds that 30% of SMBs do not understand data protection regulations and 1 in 5 report concerns regarding cybersecurity as a significant barrier to adopting new technology. Recent studies of cybersecurity among small businesses point to a surge of attacks and breaches directed at SMBs during the pandemic. As increasing numbers of businesses work remotely, so too increases the exposure to cyber risk.

"I am concerned about cyber and data theft... people are now better at hacking into systems, and that's quite worrying. Manipulating people into giving them your data has increased. I appreciate I'm not the biggest company out there but small businesses are being attacked on a daily basis. We use a VPN and we make sure that staff don't work through their own network, especially if they're working from home. We try to educate everybody about it. As long as you explain to people the reasoning behind it, they can all get onboard - it's just an extra click of a button. It's definitely easier and safer than having printed documents lying around, but not all businesses know how to keep digitally stored information secure. We do our bit, we follow the government guidelines, but it's obviously a source of concern."

Mayur
Recruitment

The future of Digital Britain: Untapped Potential

While this research has identified clear ways in which SMBs are using tech to drive performance, the challenges of using tech well, coupled with barriers preventing further investment in tech has resulted in large reservoirs of untapped potential.

This research identifies **data** as the single most important area of untapped potential for SMBs.

The Biggest Untapped Potential: Data

Accelerated by the pandemic, many areas of technology which generate data, such as websites (80%), social media (73%) accounts, accountancy software (76%) and HR software (48%) have been adopted widely by SMBs - across sectors - and continue to see high levels of investment. In contrast, the adoption of tech to collect and use data in their business e.g. data analytics software, lags significantly behind.

Continuous areas of high investment: High-use, high-investment in the past 12 months, digital tools which generates data.

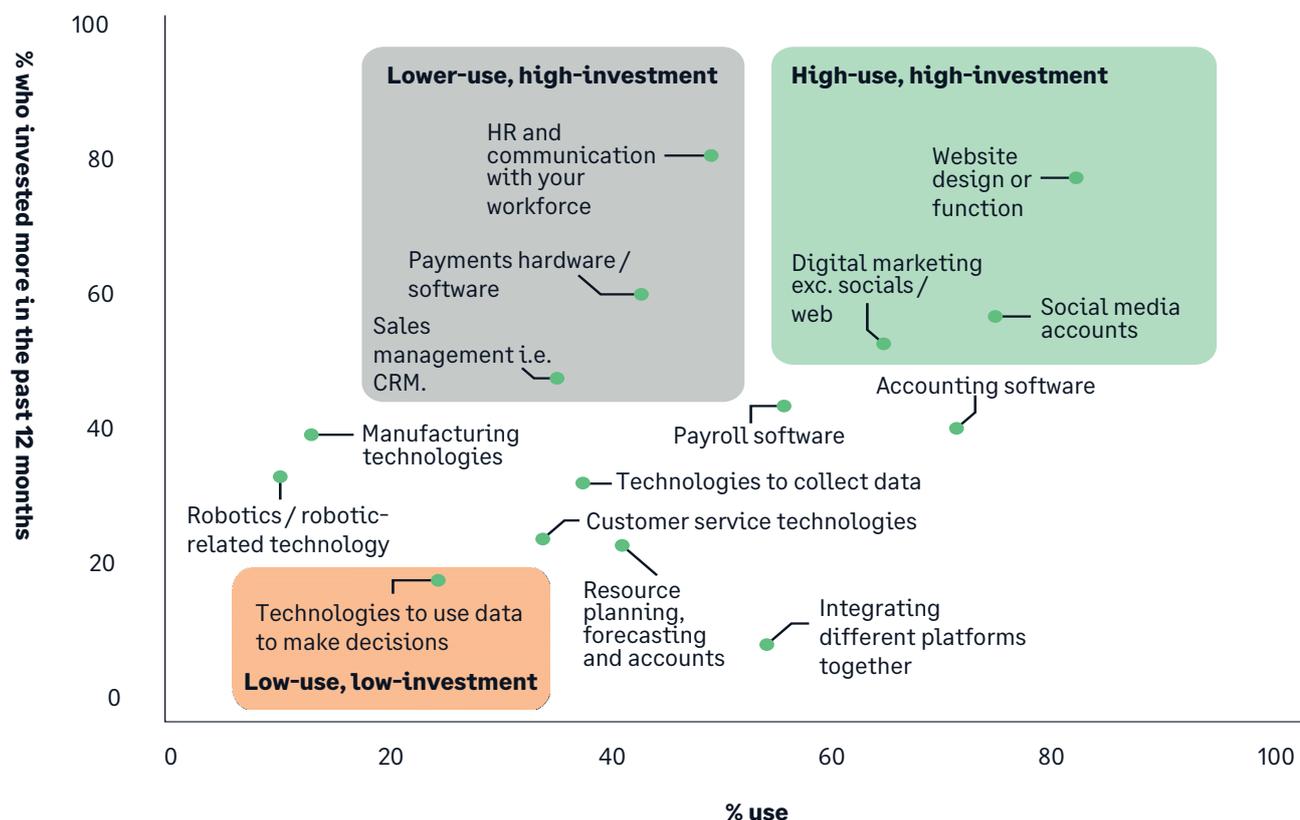
- Expanding their web presence continues to be a high priority for SMBs, especially in web design and function.
- SMBs report high use and high investment in accounting and payroll softwares.

Trending tech: lower-use but higher-investment in the past 12 months.

- HR software, payments tech and sales management software are fast rising areas of tech.

Lagging behind: digital tools to collect data and to use data to make decisions e.g. Google Analytics.

Comparing digital tech use with fast-rising investments...



The SMB Data Goldmine

The ability for SMBs to collect and analyse data lags significantly behind their use of tech which generates data.

- Only 24% of SMBs have adopted tech to use data compared to 70%+ for tech like e-commerce that generate significant amounts of data and insights about customer behaviour.

This lag is particularly acute in specific sectors, for example beauty and wellbeing where the use of tech to reach customers has exploded in the wake of the pandemic.

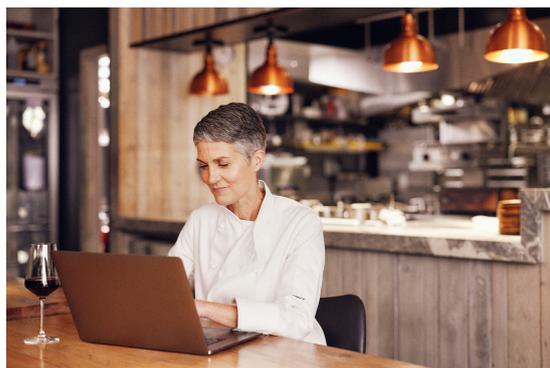
- 45% of SMBs in personal services (e.g. beauty and wellbeing) say that they lack useful data. They are also the highest users of data-generating tech including social media accounts and websites.
- Yet, only 3% say they have adopted tech to use data to make business decisions.

“With a small business, you don’t have access to very much data like you would in huge conglomerates like Procter & Gamble. With their resources you have access to data where you can see the skincare market as a whole and you find out if the market is increasing or decreasing and you can compare that to the development of different skin brands. It would be incredibly helpful as right now, using limited insights from web traffic and social media engagement, I’m not sure is the full picture. In terms of looking at sales, it would be useful to know if I am a declining brand within a declining market or a declining brand because others are actually growing and there is something I’m doing wrong.”

Cis
Beauty and wellbeing

As SMBs increasingly understand the importance of data to drive business performance, trust and transparency is seen as vital to give them confidence to use more data.

- A majority of SMBs say that they struggle to understand the algorithms behind the tech platforms some use to grow their business.
- 60% of SMBs say that the following statement applies to their business: “We generate a lot of new business via our website and social media, so it is important that we know how the algorithm works.”
- Transparency around how data is collected, stored and used is essential to building trust in these processes, for example, providing insight into how reviews, rankings or ratings are created and presented on web platforms.



Five sectors with the lowest adoption of tech to collect and use data to make decision:

- 1** Personal services e.g. beauty and wellbeing (3%)
- 2** Retail (7%)
- 3** Creative industries (8%)
- 4** Hospitality (11%)
- 5** Education (13%)

Conclusion: Creating a prosperous Digital Britain

As the UK embarks upon a Levelling Up mission to grow and build a strong and future-proof economy, it is important to invest in people and ideas.

As the backbone of our economy, the needs of SMBs, who account for 60% of employment in the UK, must be at the centre of such a vision with further digitalisation used as a lever to support this. SMBs see the potential for emerging tech to transform both their sector and their business but a wider set of incentives are required to help them address the challenges that lie ahead. By helping SMBs to access finance, gain insights from data and tackle the talent shortage, Digital Britain will unlock this untapped potential and close the digital gaps identified in this report.

We want to create a Digital Britain where all SMBs, from Harborough to Hull and Solihull to Sunderland, can prosper equally. Whilst our research shows a clear appetite for further digitalisation, this report outlines three areas where SMBs need extra support to go further and faster to help contribute to a stronger economy.

Financial Incentives

SMBs require better financial incentives to invest more in tech, especially in areas of their business where it has been making less of an impact thus far. Sage believes that tech adoption by businesses has played and is playing a critical role in economic output as well as helping to establish longer term productivity gains. 82% of SMBs agree that while tech investment is important, they are nervous about spending working capital in the current economic climate. Against this backdrop, it is crucial that the Government gives SMBs the confidence they need to invest in tech to remain resilient and be able to grow.

Infrastructure

SMBs need better access to infrastructure needed for emerging technologies. SMBs see the potential of emerging technologies to transform their sector and their business. 43% already see how 5G can contribute to the success of their business, while 22% say the same for AI and 18% for cryptocurrency. To take full advantage of these technologies and maximise their potential, robust and future-proofed infrastructure is required across the UK. Infrastructure is also an important element to regional growth, particularly in rural areas, such as North Devon where a quarter (25%) of SMBs are struggling with poor broadband connectivity and mobile coverage.

Data

Data is the single biggest area of untapped potential SMBs. To unlock the value of this data, their relationship with the tech companies who hold and handle this data is central to success. This report shows that SMBs need more support understanding how data works (i.e. the algorithms which sit behind so much analysis) and more tools which allow them to gain insight from their data.

Sage's commitment to building a Digital Britain

Data for Good: The COVID-19 crisis highlighted the importance of accessing real-time economic data. At Sage, unlocking the power of data to help address problems facing SMBs is important to us. As part of our commitment to sustainability and knocking down barriers, we want to provide data-driven insights that make it easier for businesses to thrive. We are working with the Smart Data Foundry to provide data analytics and benchmarking to support government research into trends about how invoices are being paid and to support businesses, who are either recipients of, or makers of late payments.

While the majority of SMBs believe technology has been important to their survival, they are not fully able to access and unlock the full value of their data and anonymised data of their peers. To help address this, Sage will develop a new **Sage Benchmarking Tool**, which, for the first time, will allow our customers to benchmark their financial performance by sector and region. This will help SMBs understand where they are succeeding and provide actionable insight on where they can improve.

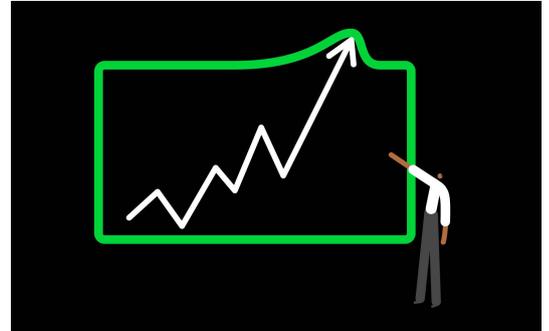
Sage Membership: All Sage customers now gain automatic access to wider benefits to help run their business, for example insights from leading business experts. To help make business flow, we are also building a **Digital Network** that will enable our customers to seamlessly integrate and connect different services and applications in the cloud. This will allow SMBs to collaborate more freely and efficiently with suppliers, banks, employees and wider stakeholders and improve the flow of doing business.

Education: To help our customers get the most value from using Sage technology we offer a range of free training services, such as anytime eLearning courses, webinars and 1:1 support. On average, over 30,000 customers attend our live webinars every year and we receive over 100,000 hits on Sage product learning videos.

Our Survey: Methodology

The fieldwork for this study was conducted by Strand Partners' specialist research team for Sage. The study was conducted under guidance published by the British Polling Council, UK Market Research Society and ESOMAR.

The survey and economic extrapolations were conducted in partnership with Oxford Analytica, an economics consultancy specialising in macroeconomic and geopolitical analysis.



We surveyed 3,032 SMBs online across the whole of the UK, capturing all major business demographics (from size to sector) as well as detailed information about geography (NUTS 1 region and postcode area). Fieldwork dates: 22nd, April 2022 to 29th, April 2022.

A follow-up survey of 2,402 SMBs in the top three sectors of 10 Parliamentary constituencies was also conducted. Fieldwork dates: 22nd, April 2022 to 29th, April 2022. This included East Ham, North Devon, Milton Keynes North, West Bromwich West, Sunderland Central, Bristol North West, Solihull, Kingston upon Hull East, Harborough and Westmorland and Lonsdale. All respondents confirmed that their business was 'primarily located' in one of these constituencies.

To validate our results, we conducted 21 depth interviews with UK 'SMB Decision Makers': owners or senior managers (e.g. Managing Director) of businesses employing fewer than 250 people.

Fieldwork particulars

SMB decision-makers are owners or senior managers e.g. MD or owners of businesses employing fewer than 250 people.

Due to a lack of census data for these business communities, data is unweighted but was monitored for significant skews in personal and business demographics.

For any questions about the methodology, please e-mail: nbonstow@strandpartners.com

