Investing for Recovery – Supporting SME Jobs and Growth through Digital Adoption

Modelling by Capital Economics, commissioned by Sage, finds that 400,000 jobs would be supported, £50bn revenue and £21bn in economic output would come as a result of improved productivity if government introduced incentives for SMEs to adopt technology.

As businesses face continued uncertainty in the face of the pandemic, most feel they should be investing more in technology but are held back by lack of finance.   Government financial incentives to encourage SMEs to take up technology would boost the Covid-19 recovery, support jobs and help to crack the UK's long-term productivity puzzle.

Summary

The impacts of COVID-19 have caused a profound shift in the attitudes of small businesses (SMEs) towards technology adoption to keep their business afloat and adapt to lockdown restrictions during the pandemic. Tech enabled SMEs can shift to remote working with minimal disruption, find alternative ways to serve customers under lockdown restrictions, identify new routes to market and adapt to changing customer demands.

Coming into the crisis, just 20% said their processes had been fully digitised and just half of businesses said that investing in technology was a priority. Contrast this with the past 6 months, where 73% of businesses have adopted new technology. At a time of much uncertainty and continually shifting sands, operating efficiently and staying competitive is more vital than ever.

Over two thirds of SMEs say that investing further in technology would benefit their business. Yet now that they are looking to go further most small businesses have been left, following six months of disruption, without the financial capacity to adopt technology to the level they would like.

Invest in Recovery – Key Findings

- 73% of businesses have adopted new technology since the start of the pandemic
- 57% of small businesses are now regularly using digital solutions to help manage finances and accounts, their workforce and people and prevent cyber-attack
- 71% say technology will increase their profitability
- 67% want to invest more in technology
- SMEs want to invest on average £10,000 more in technology
- Realising SMEs' current appetite for technology investment in full could:
    - Deliver £325 billion additional SME revenue
    - Drive £145 billion in economic output as a result of improved productivity
    - Support 2.7 million jobs across the UK
- 1 in 2 report they have no cash to invest in anything new at the moment.
- Businesses will only make 41% of the investment in technology they think they need

Benefits of Intervention:

- 61% of small businesses say that an incentive would help them increase their workforce by on average 12 people over the next 6 months
- A digital voucher or tax incentive would lead to creation of 390-440,000 jobs and £20-23bn growth in Gross Value Added

If the Government is to back SMEs, to bring life back into the economy and create jobs, it must take action now with incentives that will lead to more productivity enhancing investment.

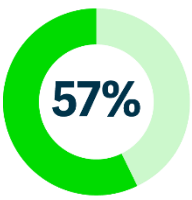
SMEs have the skills to adopt the technology they need

Far from lacking confidence to adopt technology, the increased availability of consumer-style cloud-based solutions for business has left most feeling well equipped to navigate and onboard new solutions.

75%	**Know how to effectively use the technology they have invested in**
72%	**Aware of the options out there and how they could benefit their business**
76%	**Open to changing the way they work to adopt new tech tools in the future**
71%	**Recognise that technology will increase profitability**

SMEs recognise the opportunity for future growth that technology offers. **63% of SMEs** believe that **technology significantly improves their business performance** (7-10 out of 10) with the top four benefits cited as **reduced time spent on administration, increased productivity, increased revenue** and a **better customer experience.**

Whilst many have embraced the move to online meetings, other tech applications are likely to be more important to SMEs. 57% of small businesses now regularly use solutions to help manage finances and accounts, their workforce and people and to prevent cyber-attack.



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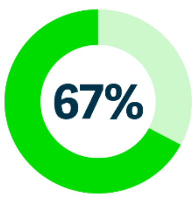

want to invest more but ...
1 in 2 currently have no cash to invest in anything new

And nearly three quarters of businesses want to go further. 72% say their business's performance would benefit from more investment in accountancy, communications platforms, cyber security and human resources or payroll software, and 67% want to invest more in technology.

Businesses in the financial services, education, manufacturing, retail and tech sectors were the most likely to have invested in technology, with construction, hospitality and professional services showing under average rates of investment. Sectors that have been hardest hit financially are least likely to be making investments for longer term productivity improvements, and more likely to be implementing short term fixes.

When asked what they will need to spend on implementing new technology to best position themselves for the recovery from COVID-19 from here, regardless of budget constraints, the median amount broken out by size of SME was as follows,

No. of employees	Tech spend required
1	£5,000
2-9	£9,000
10-49	£10,000
50-99	£15,000
100-249	£25,000

Against a backdrop of reduced demand, unprecedented pressure on public finances and concerns about employment and consumer confidence, the benefits that this investment would create at a macroeconomic level are stark. Should this investment be realised it would result in:

- £325 billion additional SME revenue
- £145 billion in economic output as a result of improved productivity
- Supporting 2.7 million jobs across the UK

Yet there are major barriers to realising these benefits for businesses in the current economic context

Despite high awareness of the benefits, 56% of businesses say that in reality the impact of the crisis has made investment more difficult and one in two report they have no cash to invest in anything new at the moment.

Only 45% of businesses say they have a dedicated budget to spend on technology at the moment and lack of finance are now the biggest barriers to adoption for SMEs

As things stand, on average businesses say they will only make 41% of the investment they think they need to. Government and tech providers need to consider these constraints now if we are to protect UK businesses and enable them to weather the crisis in coming months. Some of the most significant barriers for tech investment are found in areas where Government is yet to act. To achieve the step change in adoption needed, Government support should now be targeted towards alleviating financial pressures and helping SMEs invest for growth.

Effective intervention to drive up digital adoption

When asked which measures would be the most effective in helping adopt new technology that would be most useful for weathering the next six months, financial incentives by government were clearly expressed by businesses as a favourite over other types of support.

The introduction of financial incentives to spur greater digital adoption has also been expressed as a clear favourite by SMEs when compared against other potential measures from Government or industry to enable their implementation of new tech tools.

Measures that would be the most effective in helping businesses adopt new technology

Respondents selected their top three

89% of SMEs believe that if the Government introduced financial incentives to help their business adopt new technology, it would be beneficial for helping them improve their performance, 42% say it would be extremely or very beneficial. The retail, manufacturing, hospitality and construction sectors would be most likely to benefit.

The two most popular measures were tax incentives and vouchers. Businesses also felt these two options would be the most accessible.

- 37% said tax incentives allowing a reduction of 200% of the value of the adoption of new technologies from their tax bill would be the most effective incentive for their business.
- 36% said digital vouchers for SMEs that reimburse two-thirds of the cost of adopting technology up to a cap of £5000 per business would be most effective.
- Just 16% of SMEs said free digital skills training would be most effective for their business, and 11% said a grant of £1000 to invest in tech would be most effective.

50%

of SMEs are predicted to take up of either tax incentives or vouchers.

And this translates to the following benefits[1]:

[1] With SMEs predicting around of 50% take up of either incentives or vouchers (53% & 52%) the wider benefits to the economy of the increased investment would be significant.Taking into account the amount businesses would invest with this government support in place:

- the introduction of vouchers would lead to **440,000 jobs supported, £52bn increased revenue and** driving **£23bn in economic output as a result of improved productivity.**

Vouchers	Incentives	
440,000	390,000	jobs supported
£52bn	£46.7bn	in increased revenue
£23bn	£20.7bn	in economic output as a result of improved productivity

A financial stimulus through a digital voucher or tax incentive was viewed by SMEs as much more effective for their business than access to free skills training, which less than 1 in 5 SME leaders said would be the most effective scheme to help their business adopt tech. Our research shows that most SMEs are confident they already have the skills they need to adopt tech and realise the benefits this will bring to their business. Additionally time is often one of the most valuable assets to SMEs, particularly in the current context of Covid. This may also help explain their preference for financial incentives, which provide a more direct route to SMEs achieving beneficial outputs for their business.

Conclusion

Digital adoption among SMEs has been a challenge that Government has grappled with for several years. If the Government and industry act now, there is the potential to seize the moment and reap the rewards of establishing a truly digital economy powered by high-productivity SMEs that are better equipped to grow and position them to create and protect hundreds of thousands of new jobs.

If ever there was a time for Government to take bold action to catalyse tech adoption in the UK, it is now. If we grab this opportunity now, SMEs will be resilient in the face of Covid-disruption and the UK will emerge with a truly world-beating economy, built on digitally enabled, highly productive SMEs.

- the introduction of tax incentives would lead to **390,000 jobs supported, £46.7bn increased revenue** driving **£20.7bn in economic output as a result of improved productivity.**

APPENDIX

About Sage

Sage is a FTSE 100 tech company and the global market leader for software that provides small and medium businesses (SMEs) with the visibility, flexibility, and efficiency to manage finances, operations, and people. This technology includes integrated accounting, payroll and HR native cloud systems, as well as on-premise and connected cloud.

We are passionate supporters of the UK's small and medium sized business community. Our 2,500 Sage colleagues in the UK support over 1 million SMEs through our products, partners, and advice.

Throughout lockdown we have been taking measures to improve access of businesses to support and advice:

- Payment breaks and trials of 4 apps worth up to over £1200 over the summer
- Created a free tech tool to simplify furlough calculations for employers along as well as webinars and specialist advice online
- Will be a lead partner in the UK's Digital Leaders Week in October 2020 to build the digital confidence of leaders across UK Plc. DLW focuses on three key questions our organisations face during this accelerated period of digital transformation: What works? How to? And where can we get advice?
- Recognizing the challenge of some of the UK's hardest hit verticals Sage Not for Profit Success Launch has been a practical initiative to support charities to be able to access technology. Sage Foundation working with Sage Product Team to offer Sage Intacct to NPOs for a heavily discounted price

Questionnaire

- Total sample size: n=1,011 online UK adults, decision makers in SMEs, aged 25+
- Fieldwork conducted between Tuesday 1st and Friday 4th September, 2020
- Sample: adults aged 25+, "decision makers" or "owners" working in businesses employing fewer than 250 people

In partnership with Capital Economics we have conducted some indicative modelling on three different policies which aim to encourage the take up of digital technology in small and medium sized enterprises (SMEs) in the United Kingdom. The scenarios are described below:

- **Digital vouchers: Digital vouchers for tech adoption**: Vouchers provided by the Government that would reimburse SMEs for two-thirds of their spending on new technology and digital tools, up to a cap of £5,000 per business.
- **Incentives schemes through the tax system:** When adopting a new technology, SMEs would be able to claim a reduction against their tax bill of 200% of the value of the upfront and subscription costs.

We developed an indicative model to assess the economic and fiscal impact of policies to increase digital adoption in SMEs. It is based on a combination of a survey of 1,011 SMEs in the United Kingdom as well as publicly available statistics and reasoned assumptions. The model was disaggregated by business size using the Office for National Statistics' Business Population estimates to scale up results to the SME population.

The core of the modelling used survey results to quantify the difference in the amount SMEs planned to invest with and without the given policy for those who said they would take it up by asking them about:

- What they needed to invest in digital technology to be in the best position to recover and prosper
- Benefits to their business if they were able to make the necessary investment
- Amount they plan to invest with no additional support
- The amount they would invest with the support in the form of the policies suggested

We then used this to scale the results from the survey on their expected benefits on productivity, revenue, profits and employment from increased investment.

We used the scaled up value added, profit and employee impacts to estimate the taxes generated, including employee taxes, VAT and corporate tax. For cautious estimates, we did not include any multiplier impacts. We compared this to the cost of the policy. The cost of the policy was calculated by scaling up the amount that businesses in each size-band indicated they would use from the scheme to the associated business population in the United Kingdom (based on the expected take up of the policy), together with an assumed administration cost of fifteen per cent.

Summary of potential measures to provide financial incentives for tech adoptions

Type of intervention	Support
Tax incentive	• 37% said tax incentives allowing a reduction of 200% of the value of the adoption of new technologies from their tax bill would be the most effective incentive for their business. • This scheme would allow SMEs to deduct 200% of both the upfront and subscription costs of adopting new technology, and could perhaps be applied for the first 3-5 years that the business uses that technology.
Digital vouchers	• 36% said digital vouchers for SMEs that reimburse two-thirds of the cost of adopting technology up to a cap of £5000 per business would be most effective. • This scheme could run in a similar way to the investment vouchers being provided by the Green Homes Grant scheme, which offers a similar incentive for investments in energy efficiency products and services.
Free digital skills training	• 16% of SMEs said a scheme where SMEs access free training for their employees to improve digital skills and knowledge of tech tools would be the most effective Government incentive. • This could be perhaps administered on a local level, led by LEPs in partnership with private sector skills providers or by other trusted partners. • 17% thought training would be the simplest incentive to access.
Grant funding for tech investment	• 11% said digital adoption grants reimbursing SMEs up to £1000 of the costs of adopting new technology would be the most effective policy. • This policy could look to build on the precedent of grant funding being administered via LEPs to enable SMEs make investments in response to COVID-19, some which will already enable greater tech adoption depending on the criteria set by LEPs. • 16% thought a grant would be easy to access.