

Sage calls for a Digital Boost for Small Business

Sage is the UK's largest tech company, a FTSE 100 and we serve over 1 million UK SMEs through our technology.

This paper outlines the urgent need to catalyse digital adoption in UK SMEs and presents potential policy options to achieve this through Government financial incentives, such as digital grants or vouchers.

Exec Summary

- **Tech adoption: the opportunity**

- Government and industry have a once in a generation opportunity to achieve a step change in digital adoption among the UK's SMEs. Leveraging technology has already emerged as a must win battle to enable SMEs and the wider economy to recover post-COVID.
- In response to the pandemic, SMEs have stated a clear desire to invest in productivity-enhancing processes that would boost job creation. 40% of SMEs believe that a technology grant from the Government would increase their hiring beyond current plans, with this being viewed as more effective than cutting NICs or apprenticeship support. 80% say technology will help their business restart as they come out of lockdown¹.
- However, only 33% are actively planning investment in the wake of the crisis. An additional 41% of SMEs are poised to invest, but will only do so with the right incentives, highlighting the huge opportunity for Government to transform digital adoption levels and boost economic growth².
- Economic recoveries are built on the back of SME growth and job creation. Following the 2008 financial crisis, from 2010 onwards SMEs created 73% of new private sector jobs³ The unique challenges posed by COVID-19 means technology will be a huge enabler for SMEs to return to growth.
- Business model disruption and the rise of remote working has made it more important than ever to help SMEs use the latest tech tools (*see table 1 on the essential business technologies*). By leveraging technology – SMEs can get back to work sooner, resume serving their customers by new routes to market and adapt business models to the changing needs of accelerated market trends.
- And beyond the immediate recovery, tech adoption offers a great long-term prize: a higher growth, more dynamic economy, built on tech enabled SMEs operating innovative business models.

- **Tech adoption: the challenge**

- Coming into the crisis, millions of UK small and mid-sized businesses had failed to adopt digital tools. Just 20% of SMEs say their processes were fully digitised before the pandemic⁴.
- This has been a central cause of the UK's lack of international competitiveness on productivity, where prior to Covid the UK only achieved fractional productivity growth⁵. Getting tech adoption right to boost productivity is therefore essential to achieving a "levelled-up" economy.
- COVID-19 has only exacerbated the problems of a lack of adoption. Many SMEs have suffered due to a lack of agility, being unable to shift to remote working or find new ways to continue to serve customers.
- SMEs are unlikely to be able to invest with support, with the pandemic hitting small businesses hard. At the end of June 2020, 79% of SMEs said they do not expect to make the same profit they did pre-pandemic by the end of 2020⁶.

- **Tech adoption: the solution**

- This constrained investment environment is likely a significant factor in the disparity between the 8 in 10 SMEs who believe their ability to leverage technology will be a key determinant in restarting their business, and that only a third of SMEs are currently planning to invest in technology across key business processes. As mentioned, an additional 4 in 10 SMEs have said they will invest if the right incentives are in place.
- So there is a clear need for Government to act decisively to enable the tech investment needed here and now. There are several opportunities to build on existing schemes to offer this critical support (*see table 2 on policy options*).
- Government should provide simple and effect financial incentives to SMEs to encourage adoption, for example through digital vouchers or grants, as soon as possible.

- **Tech adoption: how Sage can help**

- This crisis waits for no-one. Tech companies and government must be agile and committed to working together to equip businesses with the skills, information and investment they need to scale digital adoption.
- There are several initiatives from tech companies already in place, offering a foundation for Government and industry to build on.

The opportunity of tech adoption

The government has made a welcome £5bn commitment to bring faster, gigabit-speed internet to the whole country to ensure everyone is better connected, creating jobs and powering the UK’s economic recovery from coronavirus.

However, the [Nesta/Sage State of Small Business report in 2016](#)⁷, which mapped SME productivity across the UK, could not find firm evidence of a link between productivity and connectivity.

Without a digital boost within key business processes, the UK’s SMEs will not be positioned to reap the benefits of 5G and full fibre. In our view, these two fundamental underpinnings of the digital economy need to be tackled side by side. Improved internet will only be valuable if SMEs put this connectivity to use – through the latest tech tools and better digital skills.

This is backed up by our recent data insights from June 2020. When asked, SMEs expressed that encouraging adoption is equally important, if not more important, than building the right infrastructure. 35% of SMEs say that high speed broadband would be the most beneficial technology action to support their business, but 43% say that tax relief on digital investment or digital vouchers and grants would be most beneficial⁸.

The use of even basic technology is proven to make businesses more agile, resilient, and profitable. They help SMEs achieve higher levels of growth and establish greater resilience in the following ways.

| Solution | Benefit for the SME |
|---|--|
| Digital HR tools/remote working | <ul style="list-style-type: none"> • Enables SMEs to meet the current necessities of working remotely and position themselves competitively to meet accelerated trends in flexible working in future. • This includes tools for increased employee engagement; managing shift patterns; remote payroll and real time information; employee feedback gathering and sentiment measuring; goal setting and performance management; remote payroll and real time information. |
| Accounting, payments and invoicing | <ul style="list-style-type: none"> • Provides 24/7 ability to track cash position in real time and offers cash forecasting to prevent future cashflow issues and unnecessary business failure. • Helps reduce scourge of late payment, enabling business to access revenue quickly and simply through digital payment mechanisms, rather than manual generation of paper invoices. • Improved record keeping, accuracy of tax submissions, and easier compliance. • Technologies include accountancy software, bank feeds, cash forecasting tools, digital invoicing, integrated direct debits and invoicing tracking. |
| Data & analytics | <ul style="list-style-type: none"> • Offer powerful data insights into an organisation’s own business operations and the changing behaviours of their customers – enabling informed decision making to optimise performance. |
| Sector specific technologies | <ul style="list-style-type: none"> • These range from smart e-commerce platforms for the retail sector, to cloud-based Enterprise Resource Planning in manufacturing. A full list of technologies that enable SMEs to be higher growth and more profitable can be found in the CBI’s Ostrich to Magpie report.⁹ |

As they adjust to the new realities from the COVID-19 pandemic, SMEs are already thinking more innovatively, and many are taking bold moves towards productivity-enhancing measures. Polling of 2000 SMEs commissioned by Sage at the end of June 2020 shows that 26% of SMEs are taking major steps such as getting closer to customers, introducing cost efficiencies or managing their workforce better. A further 37% are planning to do so. Similarly, nearly half (47%) of SMEs are taking measures to increase export revenues and an additional 20% are planning to.

This is a testament to the attitude and resilience of the UK’s SMEs. But there is work to do to fully capitalise on a renewed interest in digital adoption among the UK’s small and mid-sized recovery to secure the strong post-Covid pandemic the UK needs. The opportunities for growth offered by tech has captured the attention of SME leaders,

but only around a third of SMEs are currently planning to invest in new digital tools. A further 41% of SMEs have said they are poised to invest in technology, if the right incentives are provided¹⁰.

A step change in the adoption of the tools mentioned above is needed. This would offer an immediate economic benefit – the creation of a much stronger post-COVID economic recovery and enabling job creation. For instance, SMEs believe that a grant to support investment in technology would be more likely to increase hiring than government investment in retraining or expanding the apprenticeship levy. 40% of SMEs believe that a technology grant from the Government would encourage them to increase hiring beyond what they had already planned¹¹. This was the most popular choice, ranking above a 2% cut in the rate of employers' national insurance contribution (30%), investment in retraining programmes (24%) and further Government support for apprenticeships (21%).

It is easy to see why digital tools will be crucial to the economic recovery. SMEs that are technology enabled are more resilient, built to withstand disruption and they are agile. Digital tools allow SMEs to enable colleagues to work from anywhere 24/7, they offer multiple routes to serving customers, and provide SMEs the ability to increase or reduce scale quickly to react to market conditions.

Beyond the economic recovery, there is also a significant long-term prize if we can capitalize on this unique opportunity to boost digital adoption. We have the chance to build an economy based on digitally enabled, high-growth SMEs, who utilise the latest technology innovations to attract talent, serve customers and adopt productive business models.

Tech adoption: how Sage can help

Sage is not asking Government alone to incentivise digital adoption. We are committed to supporting this important agenda and we have already introduced incentives of our own. Our current offer to businesses who are classed as SMEs provides incentives to adopt technology worth up to over £1200.

This support includes access to up to four solutions designed for small businesses, covering people, employee benefits, accounting and cash flow forecasting for between three and six months, for no charge. To support successful adoption, Sage has invested in free resources - specialist support, online training and managing the onboarding until businesses are sure they are getting the best out of each solution.

The UK's tech economy is incredibly diverse, with a range of solutions to help small business. Many other providers have also been proactive, offering free packages and solutions to help SMEs with their post-lockdown recovery. Examples include the Be the Business "Rebuild" platform¹² and Amazon's Small Business Accelerator¹³.

There is significant willing in the industry to work with Government to back small businesses with the skills and tools needed to be successful. There is a significant opportunity for Government to play a critical convening role, bringing together existing initiatives and challenging other tech businesses (such as those in the Digital Economy Council) to offer at least one significant programme to enable SME tech adoption. These commitments could form part of a Government led campaign to encourage tech adoption – and support clear signposting of these initiatives by establishing a central hub, either through gov.uk or a trusted independent platform such as Be the Business.

The private sector has already established significant momentum. This could be capitalised on by Government by introducing incentives to enable SMEs to adopt technology, creating a powerful signal to small businesses to encourage and help them digitise as the UK economy recovers.

A UK wide solution for digital adoption: a "Digital Boost" for SMEs

COVID-19 has created a sea change in demand for digital adoption among SMEs. The crisis has caused many SMEs to realise that their businesses are not agile enough and are unable to meet accelerated changes in consumer and employee behaviours. Over 80% of SMEs believe that technology will play a key role in helping their business adjust to the impact of COVID-19. However, money to invest is limited in the context of today's economy, constraining business ability to adopt necessary digital tools without support.

Our key ask of Government is to introduce simple, easy to understand financial incentives to enable SMEs to invest in the technology solutions mentioned above. This could include one of the following:

| Intervention | Operation |
|--|--|
| Digital vouchers or grants | <ul style="list-style-type: none"> • A digital voucher or grant is likely to be the most effective tool due to its simplicity. • There is significant demand among SMEs for this policy. Sage polling shows that when asked what would be the most effective additional support measure that Government could offer to businesses, the most popular response was “a grant to help your business invest in technologies to adapt to the changed economic circumstances”. Nearly 4 in 10 SMEs (38%) chose this response –ahead of a cut in VAT (33%), extending the biz rates holiday to all sectors (19%), or a cut in corporation tax (17%)¹⁴. • There are several potential delivery methods for such support: <ol style="list-style-type: none"> 1. An SME digital voucher (as suggested by the FSB in their New Horizons research¹⁵) where SMEs can redeem a certain amount of expenditure (e.g. up to £5000) on approved productivity enhancing tech/software from a list of providers who sign up to the scheme. This could operate along the lines of the Green Homes Grant announced on 8 July 2020. 2. A system whereby SMEs are reimbursed by Government for the upfront and first year subscription costs of adopting digital tech through a cash grant, operational on a simple repayment scheme similar to JRS, where SMEs evidence spend and are reimbursed by Gov. • To target support, the incentives should be ringfenced specifically for SMEs, e.g. by only offering support to businesses under a certain revenue cap, as seen in other COVID-19 support measures. |
| Digital Adoption Fund | <ul style="list-style-type: none"> • TechUK have previously championed a Digital Adoption Fund to incentivise tech adoption. • Their suggested fund would reimburse the costs of adopting productivity-enhancing digital tools by SMEs. The fund would be time-limited, cover the cost of the initial adoption of the technology, staff training costs, and the first three years of subscription. • On technologies to include, techUK has suggested - ERP, CRMs, and accountancy platforms. |
| Linking loan repayment relief to investment in technology | <ul style="list-style-type: none"> • Another suggestion from techUK is the introduction of loan repayment relief on CBILS and Bounce Back Loans, if SMEs use the money written off to fund the adoption of digital tools. • Under this scheme, rather than the SME paying financial providers back the full cost of the BBL or CBIL, Government would pay off a small proportion of the loan (techUK say up to a cap of £3500) through the guarantee process, if the SME proves they have invested in productivity enhancing technology that will put their business on a stronger footing in the long-term. • While this has the benefit of adding scale to existing schemes and reaching SMEs through an established delivery mechanism, the other listed here would likely be viewed as the most fair, as this would allow all SMEs within certain criteria to benefit, not just those who have taken out loans under the current Government backed measures. |
| Incentives through the tax system | <ul style="list-style-type: none"> • A long-term solution to the challenge of digital adoption is providing targeted support through the tax system – which has long been outdated through its focus on capital expenditure. • Modern tech innovations that enable SMEs to be productive and profitable are now typically cloud based and offered on a subscription basis – based on an operational expenditure (OpEx) model. • Government could look to introduce OpEx tax incentives for digital adoption. SMEs adopting a technology for the first time could claim a reduction against their tax bill of 200% of the value of the upfront and subscription costs of the new technology – offering a clear incentive and financial support to SMEs looking to boost their productivity or adjust their business model. • Alternatively, if simpler to administer, the government could alter the definition of R&D tax credits to include the adoption of technology in SMEs. This would allow SMEs to claim the 230% relief available under the R&D scheme for upfront and subscription costs for technology newly adopted by the business. |

Whatever mechanism is chosen by Government, the response to Coronavirus has shown that SMEs are hugely responsive to schemes that are easy to understand and straightforward to access. Given the need to provide immediate support to businesses now to aid the UK’s economic recovery, it will be essential to base this incentive on similar principles of simplicity.

¹ Polling for Sage, 2030 decision makers in SMEs, fieldwork conducted 18/06/20 – 22/06/20

² Polling for Sage, 2030 decision makers in SMEs, fieldwork conducted 18/06/20 – 22/06/20

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- ³Sage & Nesta, 2016, <http://stateofsmallbiz.com/>
- ⁴ Polling for Sage, 500 decision makers in SMEs, fieldwork conducted: 21:30 - 08:30 26/05/2020 to 27/05/2020
- ⁵ [ONS productivity stats, UK economy, 7 April 2020](#)
- ⁶ Polling for Sage, 2030 decision makers in SMEs, fieldwork conducted 18/06/20 – 22/06/20
- ⁷ Sage & Nesta, [State of Small Business report](#), 2016, key findings p 9.
- ⁸ Polling for Sage, 2030 decision makers in SMEs, fieldwork conducted 18/06/20 – 22/06/20
- ⁹ [CBI, From Ostrich to Magpie, November 2017, p7](#)
- ¹⁰ Polling for Sage, 2030 decision makers in SMEs, fieldwork conducted 18/06/20 – 22/06/20
- ¹¹ Polling for Sage, 2030 decision makers in SMEs, fieldwork conducted 18/06/20 – 22/06/20
- ¹² www.bethebusiness.com/rebuild
- ¹³ <https://www.enterprisenation.com/accelerator/>
- ¹⁴ Polling for Sage, 500 decision makers in SMEs, fieldwork conducted: 21:30 -08:30 18/05/20 to 19/05/20
- ¹⁵ [FSB, New Horizons, How Small Firms Are Navigating the COVID-19 Crisis, June 2016](#)