



Federation of Small Businesses
The UK's Leading Business Organisation

intellect
REPRESENTING THE UK TECHNOLOGY INDUSTRY

The Digital Imperative



small
businesses,
technology
and growth

Authors:

Ulrika Diallo, Federation of Small Businesses
Priyen Patel, Federation of Small Businesses
Matthew Wrelton, Intellect

Contents

About the FSB	3	Figure 1	Business use of information technology, January 2011 Eurostat (nations comparisons)	7
About Intellect	3	Figure 2	Percentage of firms investing in technology over past 12 months.	9
About the survey	3	Figure 3	Moderate or significant innovation due to technology investment in past year (sector analysis).....	11
Infographic	4	Figure 4	Positive benefits of technology investment over the past 12 months.....	12
1) Introduction	5	Figure 5	Why have firms not invested in technology over the past year?	13
2) Technology, growth and small business key components of success	6	Figure 6	Level of IT skills - overall staff - within SMEs.	15
a) Getting connected.	6	Figure 7	Which of the following would encourage small businesses to invest in technology?.....	16
b) Harnessing the web to grow and to do more with less	7	Table 1	Overall, how do you rate the level of IT skills within your business?	14
c) Being digitally secure	8			
d) IT skills are fundamental	8			
3) Use of technology in small businesses – responses to the “Small businesses and Technology” survey	9			
Investment	9			
Innovation	11			
Business growth	12			
Barriers to investment	13			
What small businesses want	16			
4) Conclusions	18			
5) Commitments and recommendations	19			
Commitment from FSB and Intellect	19			
Recommendations for policymakers	19			
Recommendations for small businesses	20			
Guidance for small businesses.....	21			
Appendix A: Existing assistance and initiatives	22			
Appendix B: Top line survey results	23			
6) References	27			

About

About the FSB

The Federation of Small Businesses (FSB) is the UK's leading business organisation promoting and protecting the interest of the self-employed and owners of small firms.

The organisation has policy, press and public affairs offices in London, Glasgow, Cardiff and Belfast. It also employs staff in the UK regions to further FSB influence at a local level.

The FSB's 'Voice of Small Business' surveys produce regular updates on issues that affect small businesses and underlines the organisation's lobbying work. www.fsb.org.uk/fsb-survey-panel

FSB Member Services is committed to delivering a wide range of high quality, good value business services to its members. These include a range of financial and business support products, such as free business banking and 24 hour access to a dedicated legal helpline.

Take a look at member benefits – www.fsb.org.uk/benefits

Join online – <https://join.fsb.org.uk>

About Intellect

Intellect is the leading trade association for the technology sector which comprises the Information and Communications Technologies (ICT), Electronics Manufacturing and Design, and Consumer Electronics (CE) sectors, including defence and space-related IT.

Intellect has over 850 member companies ranging from major multinationals to SMEs. Our vision is for the UK to be the world leader in the development and use of technology for the benefit of its citizens and economy. Our mission is to:

- Make UK good for TECH - we work to ensure that the UK is the best place in the world for technology companies (both domestic and foreign owned) to locate and grow
- Make TECH good for UK - we work to ensure that the full economic potential of technology is harnessed right across the economy
- Make TECH good for UK people - we work to ensure that technology is used to improve and enhance the quality of life of all consumers and citizens

For more information about Intellect and what we do, take a look at our website: www.intellectuk.org

About the survey

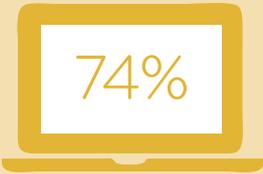
In January 2013 the FSB 'Voice of Small Business' panel was surveyed to collect the data underpinning this report. The results are based on an online survey completed by 2,200 members, which represents a response rate of 35 per cent. The survey was completed between 8 and 16 January 2013. The national data has been weighted to the FSB membership profile. Where results do not sum to 100 per cent, this may be due to multiple responses or rounding. The study was undertaken by Research by Design on behalf of the FSB.

Technology and the small business sector

Key facts



Use email



Have a business website



Use their website for sales

Investment in technology



Average investment by a small business in technology over past 12 months



21-50 staff
Less than 10 staff



Positive benefits of technology for small businesses



62%
Communicating with existing customers



59%
Innovation within business



58%
Back office operations



53%
Target potential customers

Technology investments having a positive impact on business innovation



83%
Software and online investments



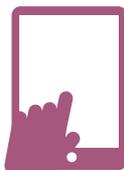
76%
Cloud services



74%
E-commerce



72%
Hardware



72%
Tablets



68%
Smartphone

1) Introduction

In tough economic times the UK's 4.8 million small businesses need to be innovative and efficient to survive and grow. To do this, small businesses need to make the best possible use of the technology available to them. The good news is there are lots of opportunities. Whether through enabling e-commerce, new ways of marketing or improving the efficiency of internal processes - technology offers small businesses many ways to boost their performance.

The internet in particular is powering the creation of thousands of new businesses and unleashing a whole new wave of entrepreneurship. The rate of new business creation in 2012 was one of the highest on record and much of this was enabled by the internet. The UK is the most 'internet based major economy' with the web contributing 8.3 per cent of GDP which is a bigger share than in any other G20 country¹. By 2016, this is forecast to grow to 12.4 per cent which is twice the G20 average. So there is a whole new generation of digital native, tech savvy small and medium sized businesses (SMEs) coming through which is good news for the UK economy as a whole.

However, not all SMEs are so confident or proficient in harnessing technology. A recent study by Booz & Company suggests that only a third of SMEs in the UK have a digital presence and only 14 per cent currently trade online². For many more established businesses, understanding how to integrate what seem like fast changing technologies into their businesses can also be daunting.

All the evidence suggests that tech savvy SMEs grow faster, export more and employ more people³. It is therefore clear that the UK economy as a whole will benefit if the effective adoption of technology across the whole of the SME base is improved. There are clearly still many small companies in the UK who are missing out on the business benefits of technology and that is why the FSB and Intellect have come together to understand more about technology adoption by SMEs and to consider what could be done to improve levels of technology exploitation. We want to ensure that small businesses in the UK are in the best possible position to reap the benefits of digital technologies and grow their business.

This paper is just the start of this partnership between the FSB and Intellect and we will continue to work together to help the UK's small businesses keep ahead of the competition.

2) Technology, growth and small business *key components of success*

The key steps for any small business thinking about leveraging digital technology to improve performance are to get connected, to start harnessing web enabled technology, to be smart about staying digitally secure and to ensure employees have the skills to make the most of the tools at their disposal. So how are UK SMEs doing?

a) Getting connected

According to the Department for Business, Innovation and Skills (BIS) 2012 Small Business Survey, 92 per cent of SME employers had internet access which they used for business purposes. The vast majority of these (99%) had broadband, meaning that 91 per cent of all SME employers had broadband. This was an increase of four percentage points (up from 87%) on the 2010 survey⁴.

Broadband was accessed by 97 per cent of small (10-49 staff) and 98 per cent of medium-sized (50-249 staff) businesses, but only by 90 per cent of micro firms (less than 10 staff). The proportion of micros with broadband has increased from 85 per cent in 2010. By sector, businesses in manufacturing (94%), information/communication (99%) and business services (98%) were the most likely to have broadband. Those in transport, retail and distribution (85%) were the least likely to have it, but this proportion has nonetheless increased by six percentage points since 2010 and likewise the proportion in other services has increased by 10 percentage points.

But take-up isn't the only concern. Without the right speed, reliability and service wrap, UK businesses will not stay at the forefront of the global internet based economy. A 2009 study found that 10 per cent higher broadband penetration in a given year is correlated with 1.5 per cent greater labour productivity growth over the following five years, and those countries in the top tier of broadband penetration have exhibited two per cent higher GDP growth than countries in the bottom tier⁵. Digital infrastructure is fundamental to future growth and it is therefore critical that all areas, including rural and remote ones, are connected.

The Government has stated that it wants the UK to have the 'best' superfast broadband network in Europe by 2015. The Government has defined superfast broadband as having a potential headline access speed of at least 20Mbps, with no upper limit. The aspiration is for 90 per cent of homes and businesses to have access to superfast broadband and everyone to have access to at least 2Mbps.

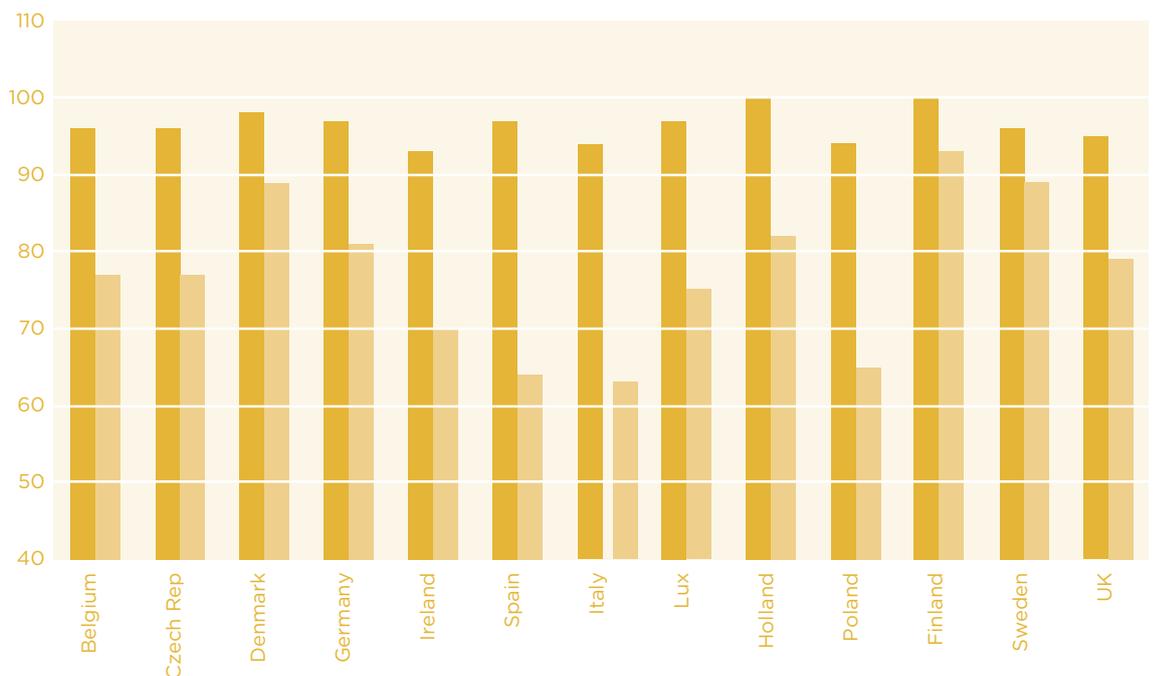
Having committed to put this infrastructure in place, it is essential that both Government and industry do all they can to increase awareness of the business benefits of superfast broadband and that proactive steps are taken to drive uptake by small businesses. This includes the Government actively drawing attention to the growth potential of superfast broadband and there being suitable offerings from Internet Service Providers (ISPs) that provide the type of service wrap and support that is appropriate for small firms.

b) Harnessing the web

In spite of the economic downturn, the use and investment in technology has remained relatively robust in the UK which is encouraging. Office for National Statistics' (ONS) data shows that e-commerce transactions have increased, albeit marginally, from 2010 to 2011 and now make up 19 per cent of the Annual Business Survey total turnover⁶. Next to other EU nations, the UK remains in a healthy position, however when comparing the use of websites the UK falls below the Scandinavian nations, as well as Germany and Holland (see Figure 1).

Figure 1: Business use of information technology
January 2011 Eurostat (nations comparisons)

■ Internet Access
■ Website



It is clear that tech savvy and web intensive businesses are much more likely to grow than their less technology intense peers. A McKinsey study found that SMEs with a strong web presence grow more than twice as quickly as those with minimal or no presence, generate more than twice as much from exports and create twice as many jobs⁷.

ONS research has shown that 79 per cent of the smallest businesses have a website, compared to 99 per cent of larger firms. Only 15 per cent of small businesses with a website use it for sales in contrast to 46 per cent of large companies that do so. That leaves a full 85 per cent of small businesses in the UK not conducting business online⁸. These figures chime with data from the 2012 FSB member survey which showed that 36 per cent of small businesses trade online; 74 per cent maintain a website; and 95 per cent of small businesses use business email.

Access to the internet not only enables small businesses to do business online; it also facilitates new methods of marketing. New domestic and international customers can be reached with smart use of social networking tools such as Twitter, Facebook and LinkedIn. These tools are generally free and can also improve internal communication. Clearly not all companies are suited for conducting sales or marketing online and some sectors such as retail are more conducive to e-commerce. However there are undoubtedly many companies that are missing out. The annual

turnover of UK SMEs could be boosted by as much as £18.8 billion if all of these firms sold and marketed online according to one recent report⁹.

Alongside new marketing opportunities, the internet can also power completely new business models and processes. At the very heart of this is what is commonly referred to as 'cloud computing'. Definitions of the cloud vary, but it covers both secure public services available to anybody with an Internet connection and private services behind a firewall. A recent European Commission report found that as a result of the adoption of cloud computing, 80 per cent of organisations could potentially reduce their costs by around 10 – 20 per cent¹⁰. There are also significant potential green benefits as well, with one study indicating that the energy footprint of small firms can be reduced by up to 90 per cent by moving tasks online¹¹.

The introduction of IT as a service into a small business is a cost efficient and powerful way for SMEs to punch above their weight. The goal is to strengthen the core business with high quality services which, for example, allows sales teams to increase its access to customers using Customer Relationship Management (CRM) services, improve online sales through using e-commerce and marketing services, or access industry standard engineering tools and processes by subscription, not the acquisition of expensive equipment, software and staff to operate them. Best of all, many cloud based commodity services such as email, office software and data storage are all available on a per user cost. These services are usually offered with a higher degree of quality than owner operated services can achieve, because of the scale of the suppliers operations¹².

c) Being digitally secure

Cyber crime is increasingly hitting the headlines and costs large and small businesses in the UK billions of pounds every year. A 2012 report found that 76 per cent of small businesses had experienced a security breach in the last year, and 54 per cent of small businesses do not have a programme in place to educate their staff about security risks¹³. Given that cyber crime is becoming more prevalent and more complex, it is critical that small businesses are not only educated about the cyber threat, but also have tangible steps in place to mitigate the threats.

As part of its Cyber Security Strategy, the Government is working closely with the private sector to raise awareness of this issue. A guidance document called '10 steps to Cyber Security' developed by GCHQ, BIS and the Centre for the Protection of National Infrastructure (CPNI), has been produced which provides advice on how companies can safeguard their information and assets. However, this guidance is designed for a more corporate audience and a similar document designed with small and micro firms in mind is due to be published in April 2013. Further work is also underway across Government to help small businesses understand and mitigate cyber risks faced by their business¹⁴. These are important initiatives and it is vital that mitigating the cyber threat remains a core priority of this Government and the next. Separately to this report, the FSB will be publishing a paper on small firms' experiences with cyber crime, which Intellect will contribute to.

d) Having the right skills in place to reap the reward

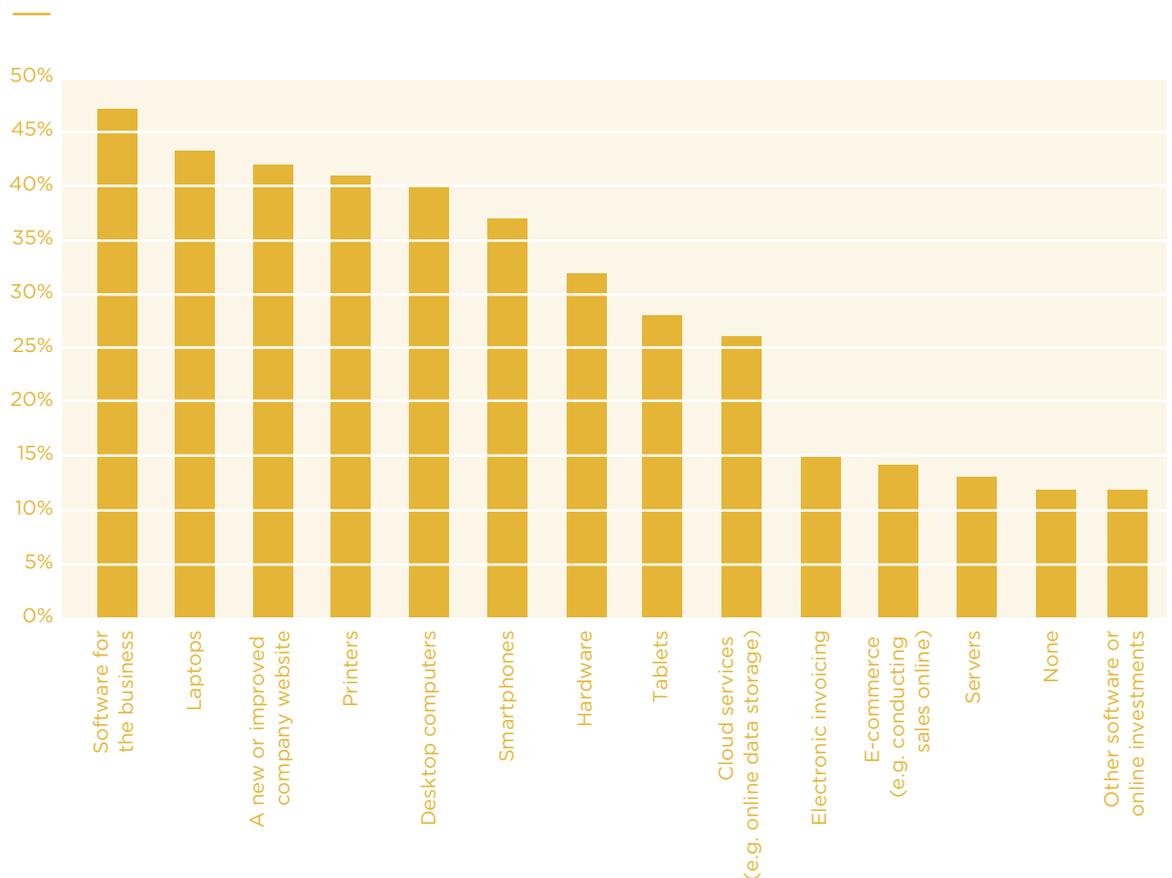
Equipping the current and future UK workforce with IT and digital skills is critical as small businesses will increasingly rely on technology to remain competitive. Of the 4,000 small businesses polled in one recent survey, 40 per cent identified a lack of basic IT skills as a key factor hindering their growth¹⁵. Another survey conducted by the Prince's Trust showed that many young people not in employment, education or training (NEETS) are held back by a lack of IT skills: 17 per cent of the NEETS surveyed think that they would be in work today if they had better computer skills and 17 per cent also would not apply for jobs that require basic computer skills. These are worrying statistics given that most, if not all, jobs now and in the future will require some level of IT skills. It is therefore vital for the education system to equip students with relevant skills, for there to be training in place for those already in employment and also support for those looking to enter the workplace that may lack confidence in using IT. Improving IT skills is clearly a long term challenge both for the Government and the businesses community and there are excellent initiatives such as GO ON UK playing a vital role. Fundamentally, the full growth potential of technology will not be realised if employees and owners of small businesses lack the capability to make the most of the tools at their disposal. This is therefore an issue of critical importance.

3) Use of technology in small businesses: responses to the FSB survey

Investment

Data acquired from the FSB survey shows that investment from small businesses in the past 12 months has been on software for the business, enabling new or better websites, and hardware such as laptops and printers. The average investment is £3,500; however the spending is considerably broad. For example, businesses with fewer than 10 staff have spent on average £2,844 over the past 12 months, whereas firms between 21 and 50 staff have spent more than £10,000. Businesses owned by men spent on average £3,700 on technology in the last year, compared to £2,600 spent by women.

Figure 2: Percentage of firms investing in technology over past 12 months



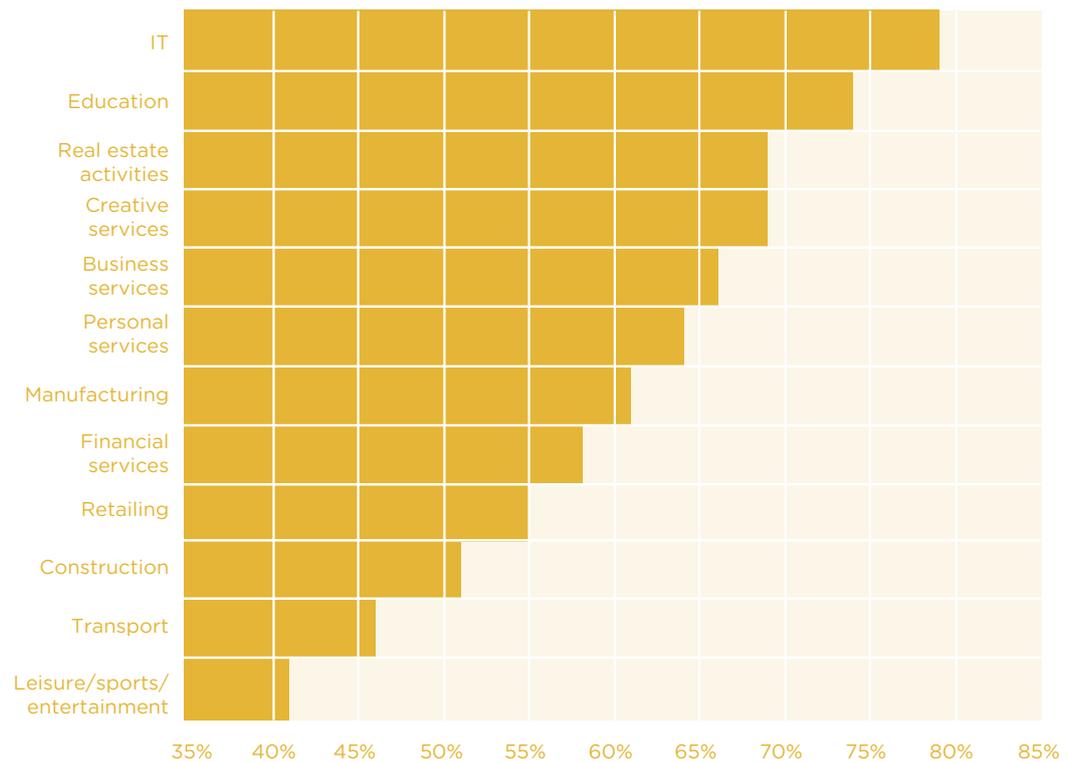
Businesses know that any investment has an upfront cost implication and may require either short or long term borrowing. The current lending environment remains difficult for small businesses. Lending from banks requires a thorough business plan detailing why and how the investment will be productive for the business. This could be in an immediate sense through increased productivity matched by increased sales; through a more efficient business activity which cuts out unproductive work and costs; and increase the contact rate for existing and new customers to drive business growth.

Investment in technology will not always mean immediate returns and increased profits. The research shows that 53 per cent of respondents had not seen a short-term boost to profits from their investments in the past year. This needs to be factored in when deciding how to fund investments as some tangible items such as personal computers, have a very short payback period to the banks¹⁶. However, becoming more efficient is a way to bring costs of back office management down, and 58 per cent of those responding to the FSB survey saw improvements in this area. For businesses wishing to improve their business performance in the short term, contacting new and existing customers is vital. Of businesses that invested in technology the past year, 53 per cent said it helped better target new customers and 62 per cent said it did the same with existing clients.

Innovation

Another key area is how investment has helped innovation in small businesses. Innovation is difficult to measure, especially in smaller firms where the output of patents and trademarks is lower than in larger firms. Smaller businesses are more likely to perform incremental innovation over time rather than radical or disruptive new models. Additionally, innovation should not be looked on as solely a new product in the tangible sense. Among the small businesses surveyed, a positive response is found from most sectors which feel they have innovated due to an investment in technology over the past year. The results show that businesses within the information technology sector unsurprisingly innovated more than any other sector. However the education, creative services and real estate sectors all had a considerable uplift in innovation as well.

Figure 3: Moderate or significant innovation due to technology investment in past year (sector analysis)

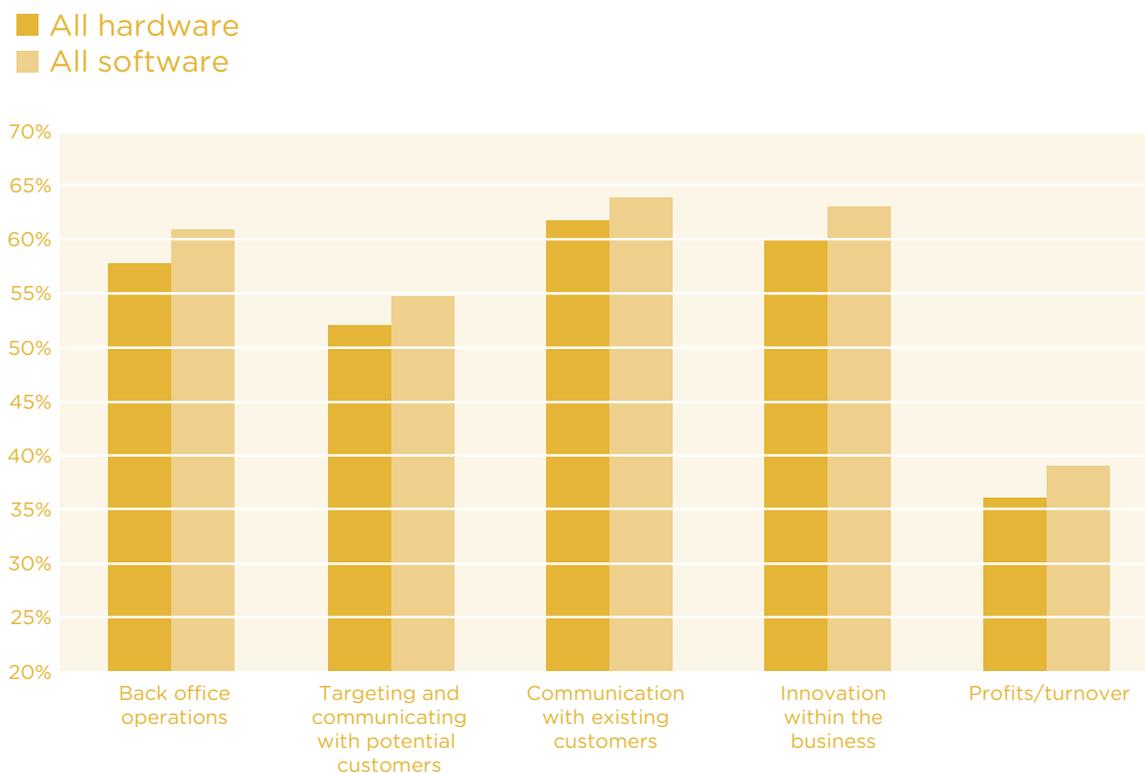


Looking at the specific investments which drove the innovation, respondents cited that both hardware and software products played their part. Marginally greater innovation came from software (63%) compared to hardware (60%) but from multiple answers we can deduce that both are integral. This is especially noticeable when looking at which items of investment created innovation. The research shows that software and online investments had an 83 per cent rating when asked about positive impacts on innovation¹⁷. The second most positive investment was in cloud services (76%) followed by e-commerce (74%). The investments which lead to the most positive innovations come from software and not hardware. Nonetheless investment in hardware such as servers (72%), tablets (72%) and smart phones (68%) also bring strong innovations to small businesses. The least likely to help with innovation are generic hardware products such as printers, laptops and desktop computers.

Business growth

Many investments in business should aim to derive greater profits in the short or longer term. Having a culture within a business that is focused on better use of technology and a zeal to innovate – in both market offerings and business operations – will lead to a more productive and profitable businesses in most cases. However, this is dependent on managers being able to adequately finance this culture and being robust enough to cut out unproductive work and areas of development¹⁸.

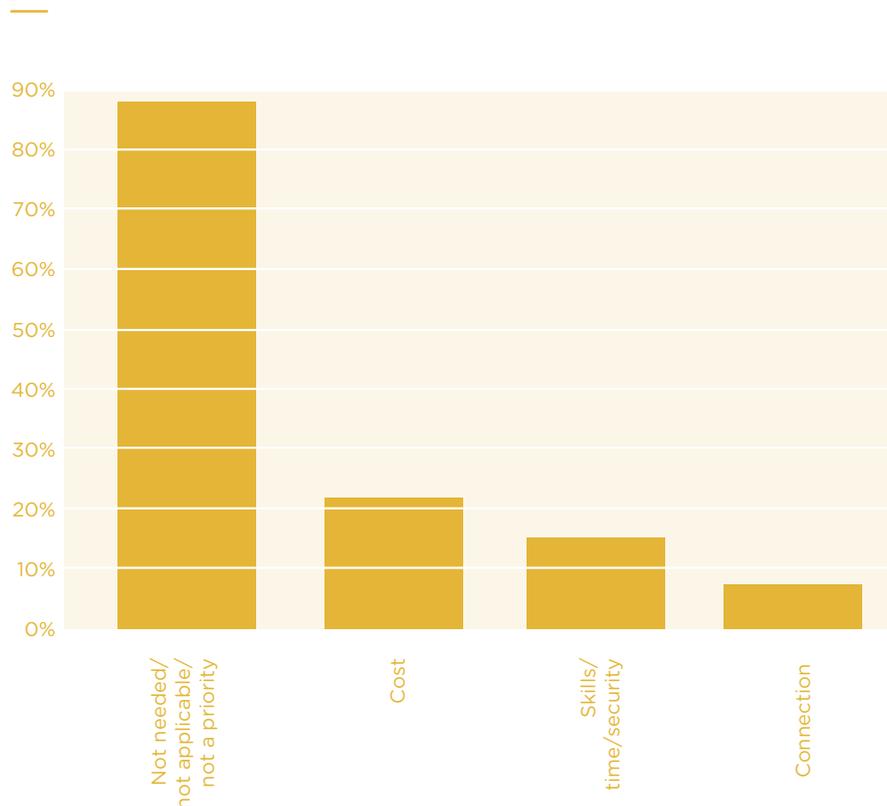
Figure 4: Positive benefits of technology investment over the past 12 months



Barriers to investment

The vast majority (88%) of businesses do invest, even at small levels, in technology. As previously shown, the UK is well placed to take advantage of technological innovation and is already well web-connected. Of the 12 per cent which have not invested in technological innovation, the majority said it was due to the investment not being needed or applicable for their business needs (61%). The second and third challenges were cost (22%) and lack of skills (13%). A small number, eight per cent, are concerned about their internet connection acting as a barrier for investment.

Figure 5: Why have firms not invested in technology over the past year? Multiple answers were allowed.



Looking at the comments from respondents, many stated that investments were made early in their business and do not need replacement. Others stated that their business does not need any form of technology to run successfully. These responses do not include a company website or the annual charges for upkeep as a form of investment.

However, businesses that do not invest will find themselves behind peer businesses within their sector as the pace of technological investment and use increases. A lack of investment over a period of time will disadvantage them in many ways (see figure 4) and as such, there will be greater investment needs in the future if these firms want to meet the sector or the average levels in terms of use and knowledge.

By their very nature, small businesses have lower levels of resources than larger companies. However, even relatively small levels of investment in technology show business benefits. In addition internal attitudes towards technology use, skills and innovation improves. The internal momentum when deciding on investment often comes from senior managers and the business owner who lead on requirements, financing and most importantly, cascading skills¹⁹. Without this injection of urgency, technology adoption in small firms will remain low.

A recent review of good leadership and management by BIS found that poor judgements by managers and owners costs the UK more than £19 billion per year in lost working hours²⁰. Nearly three quarters of organisations in England reported a deficit of management and leadership skills in 2012. This deficit is contributing to the productivity gap with countries like the US, Germany and Japan. It suggests investment in skills for managers as well staff can dramatically improve investment decisions and how technology can be utilised.

Financing investment will always be a difficult decision for small businesses. However, more Government schemes with money attached to encourage investment is not necessarily the answer. Offering grants to small firms that wish to invest would be an overly simplistic approach and could lead to deadweight policymaking. The task for Government and the private sector is to educate small business leaders and owners of the benefits of investment and continue to provide favourable tax measures when investment does take place.

When looking at skills, internal resources and security concerns, the survey shows that 15 per cent found skills deficiencies as a good reason not to invest. However, breaking with long held stereotypes the research shows that businesses owned by people 45 years old and above were more aware of technology investment benefits and more confident (20%) than those below this age (14%). It is important for business owners to know the competency and the skill-set of staff, when investing in technology. When asking small businesses about their skills, their most IT competent employee, and the average for all staff in their business, there are some encouraging signs but only 37 per cent of staff overall have above average IT skills.

Table 1: Overall, how do you rate the level of IT skills within your business?

	Excellent or Good	Average	Poor or very poor	Not applicable	Base
Business owner	58%	35%	7%	1%	2192
Most competent IT employee	55%	20%	2%	23%	2132
Staff overall	37%	33%	8%	22%	2127

Figure 6: Level of IT skills - overall staff - within SMEs
 (all missing proportions are 'average skill levels')

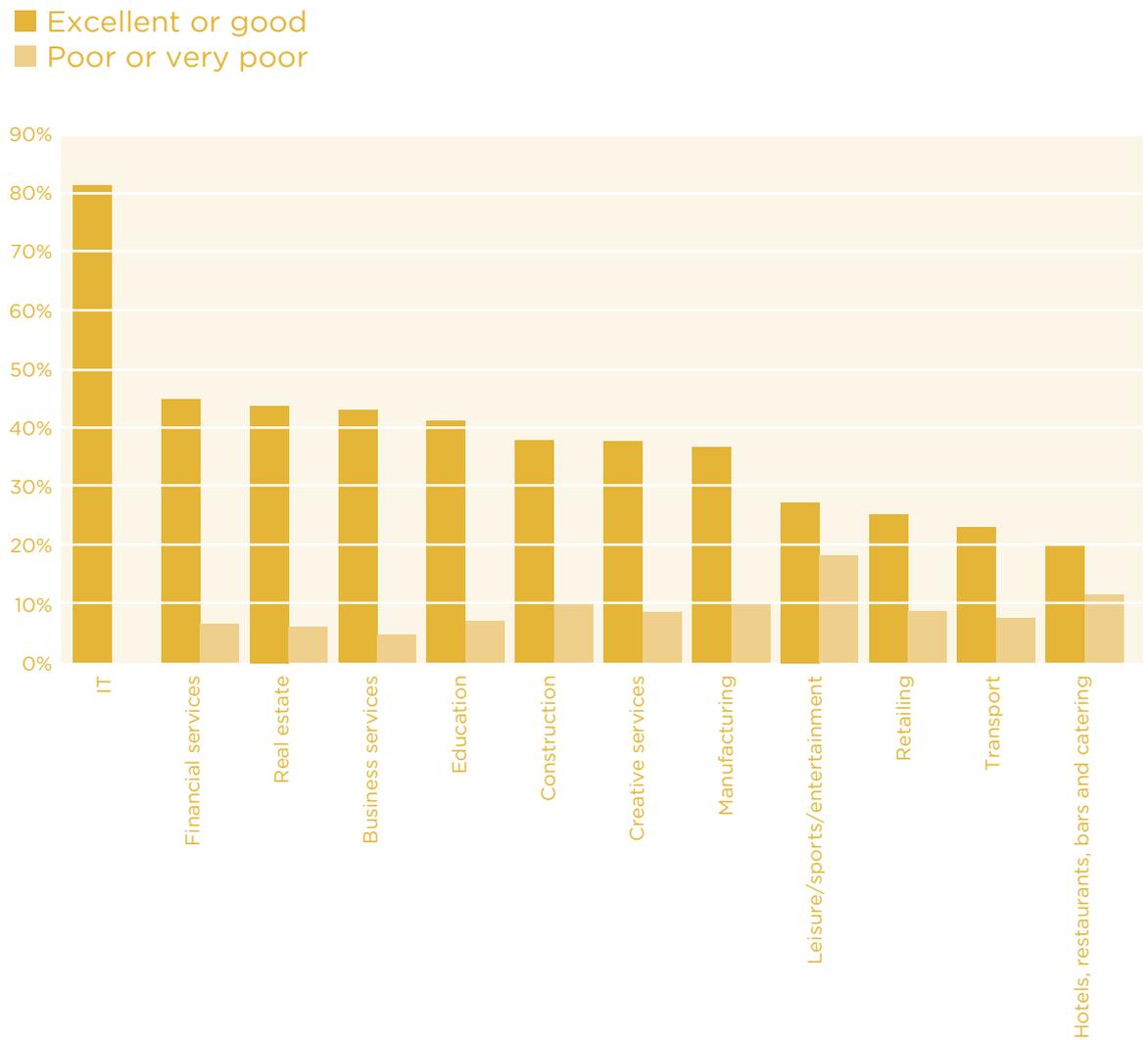


Figure 6 shows unsurprisingly that businesses within the IT sector have the most IT skilled staff with very few staff with poor or very poor skill sets. Results also show that many sectors have staff that have excellent or good skills to utilise digital technology. A highlight here is those sectors which integrate basic digital infrastructure, such as computers, smart phones and customer relationship management tools, have the most skilled staff. Sectors including construction, manufacturing and retailing have on average one in 10 staff described as having poor or very poor digital skills. Those working in the service and hospitality sector are described by business owners as having the most digitally unskilled staff.

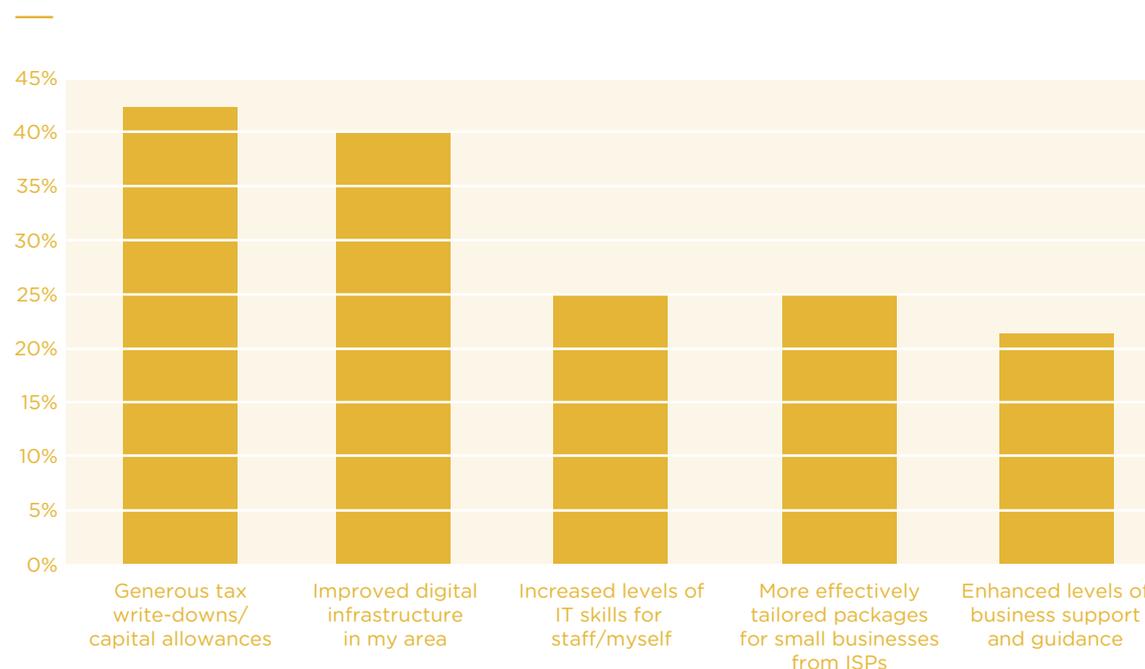
What do small businesses want to encourage them to invest in technology?

From the survey, businesses have said that greater tax and capital allowance help would encourage them to invest. This polling was carried out less than a month after the 2012 Autumn Statement, in which capital allowances were increased tenfold – from £25,000 to £250,000. This should give assistance to businesses who wish to heavily invest in technology and provide cash-flow assistance.

While small businesses will be helped by the capital allowance increase, they suggest that in general, better digital infrastructure, skills and guidance will help them too. As figure 7 shows, increased levels of skills for the business owner and staff are also a trigger to greater investment.

There are a number of schemes and delivery agents which help small businesses find funding, innovation partners as well as offer advice. The function of these support mechanisms is to ‘push’ more small businesses into the technology space by providing support in both the soft (advice, coaching, mentoring) and hard sense (tax incentives, funding, grants). Some of these can be found in Appendix A.

Figure 7: Which of the following would encourage small businesses to invest in technology?



A quarter of businesses cited that greater skill levels would help them invest more in technology, and as has been mentioned previously in this report, additional skills can derive greater productivity from staff. When asked what would encourage future investment in technology respondents said improved capital allowances (42%); improved digital infrastructure in their area (40%); more effectively tailored packages for small businesses from ISPs (25%); and enhanced levels of business support and guidance (21%). Apart from the more obvious incentives such as capital allowances and sufficient digital infrastructure these figures indicate that there is a gap in the market for support and guidance and for access to appropriate products for small businesses.

Businesses need to be able to find impartial advice about what technological products or services are appropriate for their business and their sector. Some small businesses would benefit from being guided through the process of digitalisation by receiving advice around appropriate up-skilling of their staff as well as upgrading of equipment to help transform their operations towards a more digital existence.



At present many small businesses, particularly those who are based at home, run their business ICT over a home broadband package without any service-level agreement (SLA). This puts the business at considerable risk as there is no guarantee for repair when faults and disconnections occur. The current alternative is a business broadband contract which is often more expensive and with a limited SLA. The top-end alternative is a leased line that is a managed service with 24/7 support and often the same upload and download speeds. Leased lines are very costly for small businesses and many would benefit from a broadband product that would fall somewhere in between a standard business contract and a leased line. Examples of bespoke packages for small businesses in addition to tailored broadband packages include dedicated 24 hour specialist SME support lines and sessions for SMEs on how to optimise the services and equipment that they have invested in.

4) Conclusions

Helping small businesses to become more innovative and more efficient should be a key priority for the UK economy. Technology is one of the best levers small businesses have at their disposal to improve their performance and put the UK on the road to recovery. All the evidence suggests that companies that make effective use of appropriate technology are more likely to grow and to outperform their domestic and international rivals.

As the survey shows, small businesses in the UK are investing in technology and are seeing the benefits. This is good news. However given the rapid pace of innovation, it is critical that companies continue to invest and prioritise technology in their overall business development plans to keep pace with their competitors. The challenge is to make sure that small businesses are aware of and have access to all of the services and support that can keep them ahead of the game.

International comparisons suggest that UK SMEs are relatively good at harnessing digital technology but the UK is still some way behind lead nations such as the US and those in Scandinavia. The opportunity is to go from good to great and there are a number of things which need to be addressed: encouraging and supporting more businesses to trade online at home and abroad; tackling digital skills gaps; educating small businesses about cyber threats and the steps they can take to mitigate them; improving and enhancing business support at a central and local level; and improving the nation's digital infrastructure should be key priorities.

Clearly there are lots of highly tech savvy small businesses in the UK that do not any require assistance but there is still a substantial number of companies that could benefit from help on the journey to become more confident and effective technology users. A key question that needs to be considered by central Government, local authorities and the business community is how simple and practical support can be provided to SMEs for whom this does not come naturally.

The Government's 'Digital by Default' agenda is an important component as it will drive behavioural change among citizens and small businesses who will increasingly be required to carry out more online interactions with Government. This shift towards online Government services makes it even more imperative that more small businesses are online and have the staff with the necessary skills. Government services and information about technology must be designed in a way in which small companies can readily use, understand and embrace. The fear is that if not presented in this way that some small firms could be deterred from adopting and embracing technology.

However, this is not simply a task for Government. The wider business community can and should play a much more effective role in encouraging and supporting technology adoption among SMEs. Business organisations have an important role to play and the FSB and Intellect are committed to working together to better understand what drives technology adoption by small businesses and encouraging more companies to harness the opportunities for innovation and efficiency gains that digital technology provides.

5) Commitments and recommendations

Commitment from FSB and Intellect

The FSB and Intellect are committed to working together to ensure that small businesses in the UK are in the best possible position to reap the digital dividend and grow their business. This report is just the first step. We will work together to raise awareness of the benefits of technology for SMEs and seek to provide practical advice and support to companies looking to boost their performance through effective use of technology that is appropriate for their business needs.

Recommendations for policymakers

Improving the evidence base

The ONS should expand its 'ICT Activity of UK Businesses' surveys to include micro businesses

This research gives new insight into the use, impact and outcomes of technology investment for small businesses in the UK.

At a time of unprecedented entrepreneurial activity, Government and related agencies are wisely focused on supporting the growth of these young companies through policymaking and progressive investment. In order to ensure this policymaking is evidence based, there is a clear need for a deep and broad knowledge of the use of technology in all small businesses.

The FSB and Intellect recommend the ONS widens its annual 'ICT Activity of UK Businesses' survey to include micro businesses and include as wide a range of sectors as possible. This will help to more effectively identify gaps and inform policymaking leading to the most significant impact for the estimated 4.6 million micro businesses in the UK.

Working in Partnership

The research shows that 85 per cent of small businesses identify investment in new technologies as a key driver for business growth.

Consequently, central and local Government should play their part working with industry to raise awareness; drive understanding and increase the adoption and successful exploitation of technology in small businesses.

Government should establish a "small business and tech taskforce" in partnership with industry

This taskforce should drive a series of new initiatives such as a national awareness raising campaign and practical support initiatives such as a nationwide roadshow of tech surgeries for small businesses. These events would provide companies with access to information and professional guidance to help them optimise their use and investment in technology.

These events would take place in identified and advertised locations across the UK and would provide small companies with the opportunity to take advice from experienced technology and small business experts, as well as one to one tutorials, seminars and counsel from successful small businesses already optimising technology within their companies. Crucially these initiatives should be supported by the private sector and should leverage the existing national network of technology and business organisations across the country.

The FSB and Intellect volunteer to play an active role in this process and to draw on the collective expertise of our respective members.

Local Enterprise Partnerships (LEPs) should prioritise tech in their plans for local growth

As part of the Government's response to Lord Heseltine's 'No Stone Unturned' report, it was confirmed that LEPs would be asked to develop new strategic multi-year plans for local growth. While we agree in principle that local labour market observers are better placed to identifying where additional skills are needed, we are not convinced that all LEPs currently have the ability and infrastructure to absorb and correctly allocate large funding programmes.

In light of this, a key priority for the local authorities and businesses who make up LEPs, should be to set out steps which they will take to support small businesses in their regions to harness technology to grow their business. This could include activity such as providing practical business support, local campaigns to encourage companies to go online and working with local employers to work out what needs to be done to boost IT skills in the local area.

Recommendations for small businesses

Make technology a priority

The research demonstrates that 85 per cent of small businesses identify investment in new technologies as key to business growth. However, more than a quarter (28%) acknowledges that their business is less advanced in its use of technology in comparison with their competitors.

Against a difficult economic backdrop, it is evident that small businesses must act to achieve and retain a competitive edge and future-proof their business growth.

When looking at annual investment, small businesses should prioritise wisely and spend money where it will have the most positive impact.

Small businesses should review their use of technology to ensure that they are maximising opportunities for growth – both in the short and long term.

Invest wisely in the right technologies

Many small businesses are operating with tight margins and budgets. Consequently, it is essential that informed decisions are made when considering new investment in technology and ensuring that tech investments are appropriate to business needs

The research shows that technology can have a significant impact on a small business with 59 per cent identifying recent tech investment as a driver for innovation within their business. However, only a quarter (26%) of small firms are investing in new business technology such as cloud services.

Small businesses must take action to ensure that are not just investing in technology, but investing in the right technology for them. It is therefore vital that they take counsel and guidance from their network, independent membership groups and advisory organisations to inform their investment decisions and help them to spend their budget where it will have the greatest impact for their business.

This will ensure that small companies are taking full advantage of the latest advancements and innovative solutions available to them.

Prioritise IT Skills

The research identifies that only 37 per cent of staff in small businesses have above average IT skills. When investing in technology, it is essential that the people using it are able to optimise its full range and value in order to maximise the return on investment for the business.

Small businesses should therefore:

- Prioritise IT skills when identifying core competencies for new staff in all roles to increase overall skills and knowledge within the organisation
- Invest in IT training for all relevant staff in order to ensure that their investment in new technologies is optimised and will have a tangible impact on their bottom line.

Guidance for small businesses

Small businesses should take active steps to review their use of digital technology and assess how they could benefit from taking next steps to upgrade. When considering upgrading their IT, small businesses should take the following steps²¹.

Ask your employees

What does and doesn't working for them in the current setup? Where are they spending their time? What do they find difficult to do? You may not realise how much time your team is wasting struggling with outdated technology until they tell you.

Ask your customers

Do they want to communicate more on email or phone, buy or sell in different ways or pay through e-invoicing?

Review current staff skills and IT

Look at what you have in your business, ask peers and even look at consultants if you require more advice. What services are you running for yourself? At what cost to the organisation, don't forget the cost of the person running the systems. This should also look at how skilled you and your staff are and what courses could help and their costs

Assess your needs

Develop a "wish list" of the services your staff would love to have and how they believe it would help them do their jobs better. How would a shared CRM system help staff across the organisation? In terms of the equipment assigned to staff, you can start with what they use at home. However you must understand that not everyone needs the same technology—a salesperson that is always in the field may truly need a tablet, while one who sells only over the phone probably doesn't.

Start small

Before making major and perhaps costly changes, look at options to access online services which minimise the need for capability in the user device. Services you access online usually require a simple web browser, which makes using the services away from the premises and outside working hours feasible.

Set a budget

Your sales team may want tablets, but your budget may say smartphone. Find a middle ground—there are products in all price ranges, so perhaps a lower-end tablet has the functionality you need. This should also include training for staff and communication to customers if you change your buying or selling methods.

Determine the Return on Investment

How much time can you expect to gain from the new investment? Will it help you do things you can't do currently or automate processes that use valuable manpower now?

Review

Once you've invested and made the necessary arrangements for staff to be trained, you should look at the impact to your business. You should look at how this investment has improved communication internally and externally, saved time, increased turnover and productivity and led to more innovation.

Appendix A

Existing assistance and initiatives

Apprenticeships

Apprenticeships are critical for increasing skill levels, developing sustainable employment and careers, and to help businesses develop and grow. Many businesses find the Apprenticeship Programme a useful way of bringing younger people into their business and expanding their skills base. Apprenticeships can be particularly relevant to the digitalisation of small firms. An able apprentice can help up-skill a small firm where digital knowledge might be low or non-existent.

The economic case for this investment is clear: apprenticeships produce economic returns estimated at around £18 for every £1 of public funding. The Government expects to invest around £1.5 billion in apprenticeships for the year 2012-13. www.apprenticeships.org.uk

Broadband Delivery UK (BDUK)

BDUK is a division within the Department for Culture Media and Sport) tasked with delivering the Government's broadband roll out. It is working with a number of partners and through a number of channels to stimulate demand for broadband and superfast broadband services as they become available across the UK.

Business in You Campaign

'Business in You' is a partnership between private enterprise and Government to highlight support for start-ups and growing businesses and encourage entrepreneurial spirit. It provides links to key business support tools, highlighting top tools available from BusinessLink, StartUp Britain and a whole range of partners. businessinyou.bis.gov.uk

GO ON UK

GO ON UK was launched in 2012 and is the follow-on project from Baroness Martha Lane-Fox's initiative to get everyone in Britain online. GO ON UK and its founding partners have a single aim: to make the UK the most digitally capable nation in the world, whether it is small businesses or individual citizen.

The GO ONUK founding partners include Age UK, BBC, Big Lottery Fund, EE, Eon, Lloyds Banking Group, the Post Office and TalkTalk. GO ON UK are currently working on a small business support programme in conjunction with the FSB and other stakeholders. www.go-on.co.uk

Innovation Vouchers

Innovation Vouchers provide funding for small businesses to work with an external expert from a university, college or public sector research establishment to gain new knowledge to help your business innovate, develop and grow. The Technology Strategy Board (TSB) runs the scheme. Experts can support most types of innovation, for example ideas for new or improved products, processes and services, or using design to improve your business. Innovation Vouchers help innovative small businesses obtain expert help from a knowledge provider for the first time, but not to help you buy equipment or training for your business. www.innovateuk.org/deliveringinnovation/innovation-vouchers.ashx

Tax assistance

The Government increased the Annual Investment Allowance in 2012 for a limited period. As a result, businesses are now allowed to claim relief on up to £250,000 of investment, which can include:

- Computers and all kinds of office furniture and equipment
- All kinds of business machines, such as printing presses, lathes and tooling machines
- Computerised/computer aided machinery, including robotic machines

www.hmrc.gov.uk/manuals/camanual/ca23084.htm

Web Fuelled Business Initiative

This initiative was a programme supported by the Department of Business Innovation and Skills and Yell Limited. It included full day bootcamps designed to help small businesses learn how to use the web to increase sales, save money and go global. Round one of the initiative has now finished with round two to commence in the coming months. www.webfuelledbusiness.com

Appendix B

Top line survey results

Q1. Which of the following technologies has your business invested in financially over the past 12 months, if any?

Computing hardware

Laptops	43%
Printers	41%
Desktop computers	40%
Smartphones	37%
Other computer hardware	32%
Tablets	28%
Servers	13%

Computing software and online services

Software for the business	47%
A new or improved company website	42%
Cloud services	26%
Electronic invoicing	15%
E-commerce	14%
Other software or online investments	1%
None	12%

Q4. How much have you invested in these technologies in the past 12 months?
(Those who have invested in technology in the past 12 months)

£1 to £499	15%
£500 to £999	24%
£1,000 to £1,999	19%
£2,000 to £2,999	12%
£3,000 to £3,999	7%
£4,000 to £4,999	5%
£5,000 to £7,499	5%
£7,500 to £9,999	3%
£10,000 to £14,999	3%
£15,000 to £19,999	2%
£20,000 or more	4%
Unsure	1%

Q5. What impact has this investment in technology had on the following...? (Those who have invested in technology in the past 12 months)

	Significantly positive impact	Moderately positive impact	No impact	Moderately negative impact	Significantly negative impact	Unsure/not applicable	Base
Back office operations	16%	42%	35%	1%	0%	5%	1881
Targeting and communicating with potential customers	13%	40%	41%	0%	0%	5%	1857
Communication with existing customers	17%	45%	34%	0%	0%	3%	1877
Innovation within the business	17%	42%	36%	0%	0%	4%	1859
Profits/turnover	5%	32%	53%	5%	1%	5%	1877

Q6. Why have you not invested in technology over the past 12 months? (Those who have not invested in technology in the past 12 months)

Our existing technology meets our current business needs	58%
It has not been a priority for my business	28%
We cannot afford to invest in these areas	22%
Concerns over ability of the current broadband supply to accommodate new technology	8%
We do not know enough about technology	5%
We do not have the skills to utilise technology	4%
Lack of time and resources to train staff	4%
This technology is not applicable to my business	3%
Concerns over security	2%

Q7. Which of the following, if any, would encourage you to consider investing or invest further in these types of technology in the future?

More generous tax write-downs/ improved capital allowances	42%
Improved digital infrastructure in my area	40%
Increased levels of IT skills for staff/ myself	25%
More effectively tailored packages for small businesses from ISPs	25%
Enhanced levels of business support and guidance	21%
Other	1%
None of these - I do not need any encouragement to invest in technology for my business	21%
None of these - this technology is not applicable to my business	7%

Q8. Thinking about your future planning and business growth, how important is it to invest in new technologies?

Very important	42%
Fairly important	43%
Neither important nor unimportant	11%
Fairly unimportant	3%
Very unimportant	1%

Q9. Do you consider your business to be more or less advanced in its use of technology compared to...

	Significantly more advanced	Slightly more advanced	The same	Slightly less advanced	Significantly less advanced	Unsure/ Not applicable
Other businesses in the same sector	10%	30%	40%	14%	4%	2%
Other businesses in your local area	17%	28%	32%	13%	3%	7%

Q10. Overall, how do you rate the level of IT skills within your business?

	Excellent	Good	Average	Poor	Very poor	Not applicable
Business owner	17%	41%	35%	6%	1%	1%
Most competent IT employee	22%	33%	20%	2%	0%	23%
Staff overall	7%	30%	33%	7%	1%	22%

6) References

- 1 The \$4.2 Trillion Growth Opportunity, Boston Consulting Group (2012)
- 2 "This is for Everyone" – The Case for Universal Digitisation, Booz & Company (2012)
- 3 Internet matters: The Net's sweeping impact on growth, jobs, and prosperity, McKinsey Global Institute (2011)
- 4 The 2012 Small Business Survey, Department for Business, Innovation and Skills
- 5 Digital Highways: The Role of Governments in 21st Century Infrastructure, Booz & Company (2009)
- 6 2011 ICT Activity of UK Businesses, ONS (2012)
- 7 Internet matters: The Net's sweeping impact on growth, jobs, and prosperity, McKinsey Global Institute (2011)
- 8 2011 ICT Activity of UK Businesses, ONS (2012)
- 9 "This is for Everyone" – The Case for Universal Digitisation, Booz & Company (2012)
- 10 Unleashing the Potential of Cloud Computing in Europe, European Commission (2012)
- 11 Cloud Computing and Sustainability: The Environmental Benefits of Moving to the Cloud, Accenture in collaboration with WSP Environment & Energy (2010)
- 12 See Intellect's 'The business case for Software as a Service: Case Studies digest'.
- 13 Information security breaches survey, PricewaterhouseCoopersLLP (2012)
- 14 For further details on the government's cyber security strategy, please follow this link: <https://www.gov.uk/government/policies/keeping-the-uk-safe-in-cyberspace>
- 15 Tech SME Index 2013, Simply Business via: www.simplybusiness.co.uk/dms/sb/pdf/techsme-report
- 16 Information Technology Investment: Decision-Making Methodology, MJ Schniederjans, Hamaker, Ashlyn M. Schniederjans, 2010
- 17 2013 FSB – INTELLECT RESEARCH 'Which of the following technologies has your business invested in financially over the past 12 months' cross referenced with # Which of the following technologies has your business invested in financially over the past 12 months'
- 18 Innovation and Growth in the Global Economy, Gene M. Grossman, Elhanan Helpman, 2001
- 19 Cragg and Zinatelli, 1995; Drew, 2003; Premkumar, 2003; Premkumar and Roberts, 1999; Thong, 2001; Thong et al., 1993; Thong et al., 1997
- 20 Department of Business, Innovation and Skills 2012, Leadership and management in the UK – key to sustainable growth
- 21 OPEN Forum October 2011