



Bipartisan Policy Center

Small Businesses Go Digital



**BENEFITS, TRENDS,
AND BARRIERS
OF DIGITALIZATION**

By The Bipartisan Policy Center

October 2022



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Key Takeaways

- I. Digitalization is associated with growth.** Businesses using a large number of digital tools are significantly more likely to report recent revenue growth.
- II. More money, more digitalization.** Businesses that plan to invest in digital tools in the next year are more likely to have experienced revenue growth.
- III. Digital competency matters.** Small businesses of all sizes say digital skills related to documents, spreadsheets, online advertising, and web design, for example, are important—even essential—for their businesses.
- IV. Time & knowledge stand in the way.** Small businesses cite time and the learning curve as the biggest barriers to adopting digital tools.
- V. Re-training workers is hard.** Small business owners and managers say it is difficult to re-train existing staff with new digital skills.
- VI. Fewer employees, slower adoption.** Microbusinesses are less likely to be early adopters of digital tools and more likely to be conservative in digital tool adoption compared to businesses with more than 10 employees.



Introduction

It might be surprising that in 2017 nearly half of small businesses did not even have a website; by 2021 that figure had fallen to 28%.¹

Digitalization—the conversion of business practices to digital tools—among small businesses has been growing rapidly. A website is just the beginning.

The COVID-19 pandemic forced small businesses to rethink the ways they operate and accelerated digital tool adoption. In just half a year, the global rate of business digitalization accelerated by seven years. In July 2020, 60% of products or services were digitalized in North America, compared to only 33% in June 2017.² According to the Census Bureau’s Small Business Pulse Survey, on average 26.6% of businesses surveyed adopted or expanded their use of digital tools since the start of the pandemic.

Small businesses make up around 44% of all U.S. economic activity, with about 92% of all small businesses being microbusinesses—defined as having fewer than 10 employees.³ Microbusinesses face a separate set of challenges when it comes to digitalization, particularly with cost and time. Despite challenges to digitalization, the adoption of digital tools has a largely positive impact on the businesses that digitalize and the economy at large. Consider, for example, that businesses that use many digital tools were significantly more likely to report revenue growth in the past year.⁴

Research also suggests that the adoption of digital tools is associated with increased productivity. Evidence from the United Kingdom indicates that small businesses became more productive after adopting digital tools.⁵ Yet, the link between digital tools and productivity is not necessarily straightforward and direct. Research has also shown that other factors, like management and worker skills and capital, seem to influence the adoption of digital tools' impact on productivity.⁶

Small businesses utilize a range of digital tools for a variety of reasons but there is potential for greater levels of adoption. The Bipartisan Policy Center (BPC) and Intuit have partnered to study the effects of and barriers to digitalization among microbusinesses.

Past surveys by Intuit have addressed the impact transitioning to online sales can have on small business growth and the issues they face when adopting digital tools. This past spring, BPC also published a report on the state of small businesses and the barriers they face. These barriers included competing with larger firms, which digitalization can assist with by increasing productivity and narrowing the divide in capabilities.

Methodology

To understand attitudes and practices associated with digitalization, which can occur with a wide range of business activities, BPC and Intuit worked with Public First, a U.K.-based consultancy, to field a survey in July 2022. The sample size was 2,021 respondents who were senior decision makers at their U.S.-based businesses with fewer than 100 employees. Throughout the report, we refer to these survey respondents as “small business owners and managers.” The results were weighted by region and business size to nationally representative portions.

DIGITAL TOOLS AND ONLINE TOOLS

Throughout this report we refer to *digital tools* and *online tools*. But what's the difference? With technology constantly evolving, and the impact of digitalization being scrutinized more heavily, the definition of digital tools is fluid. For the purposes of this report, the following definitions are used.

A **DIGITAL TOOL** is any program, software, or application that runs on a digital device like a computer, tablet, or smart phone.

ONLINE TOOLS are digital tools that are web-based, such as apps or cloud services. They rely on the internet while offline tools do not. Both, however, are still digital tools.

Some examples of digital tools discussed in this report are:

› **INVENTORY MANAGEMENT SOFTWARE**

› **CLOUD SERVICES**

› **PAYMENT PLATFORMS**

› **DOCUMENT CREATION AND STORAGE**

› **DATA TRACKING APPLICATIONS**

› **ACCOUNTING SOFTWARE**

› **SOCIAL MEDIA PLATFORMS**

› **MARKETING, ADVERTISING, AND DESIGN APPLICATIONS**

› **SALES PLATFORMS**

› **CUSTOMER SUPPORT**

› **PROJECT MANAGEMENT**



Benefits of Digitalization

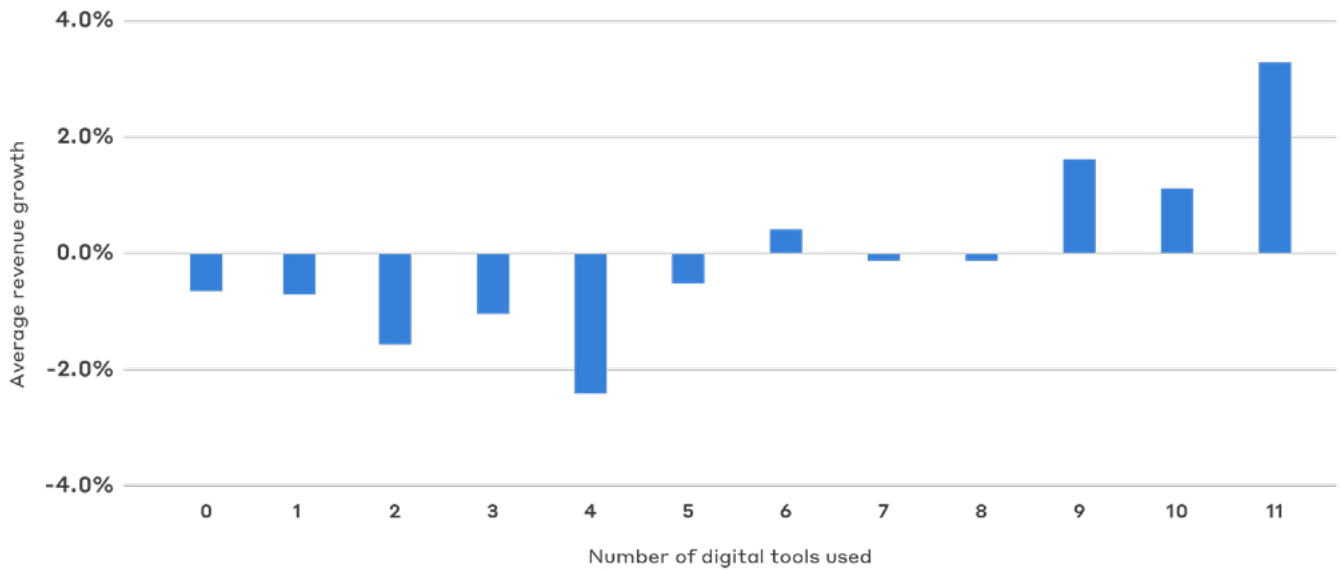
While small businesses take different approaches to adopting digital tools, those that do digitalize benefit greatly.

Businesses using a large number of digital tools were significantly more likely to report recent revenue growth than those that use few digital tools. Businesses that planned to invest in digital tools in the next year were also more likely to have experienced revenue growth and were more likely to say that adoption lowers costs.

“I don’t think that you can grow in today’s era without a strong digital tool program and strategy. Even if you are a service person to person-oriented business, digital tools help you keep your employees on track. Keep your accounting and track. Keep you on track.”

SMALL BUSINESS OWNER

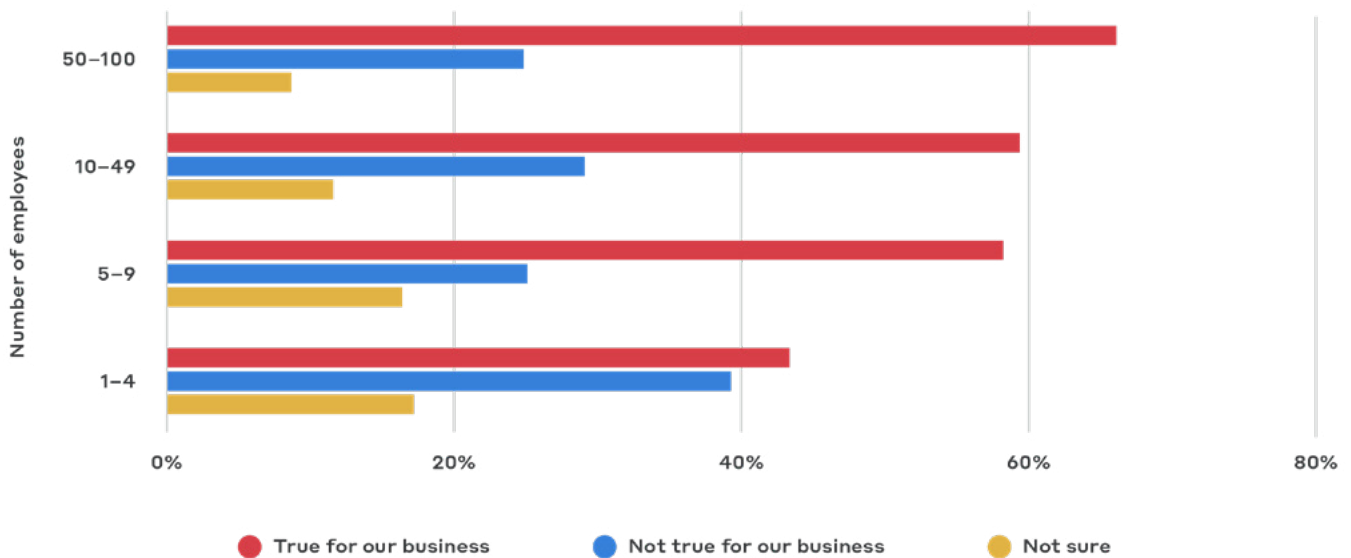
Figure 1: Small Businesses Reporting Revenue Growth Based on the Number of Digital Tools Used



Source: Polling carried out by Public First, June 2022

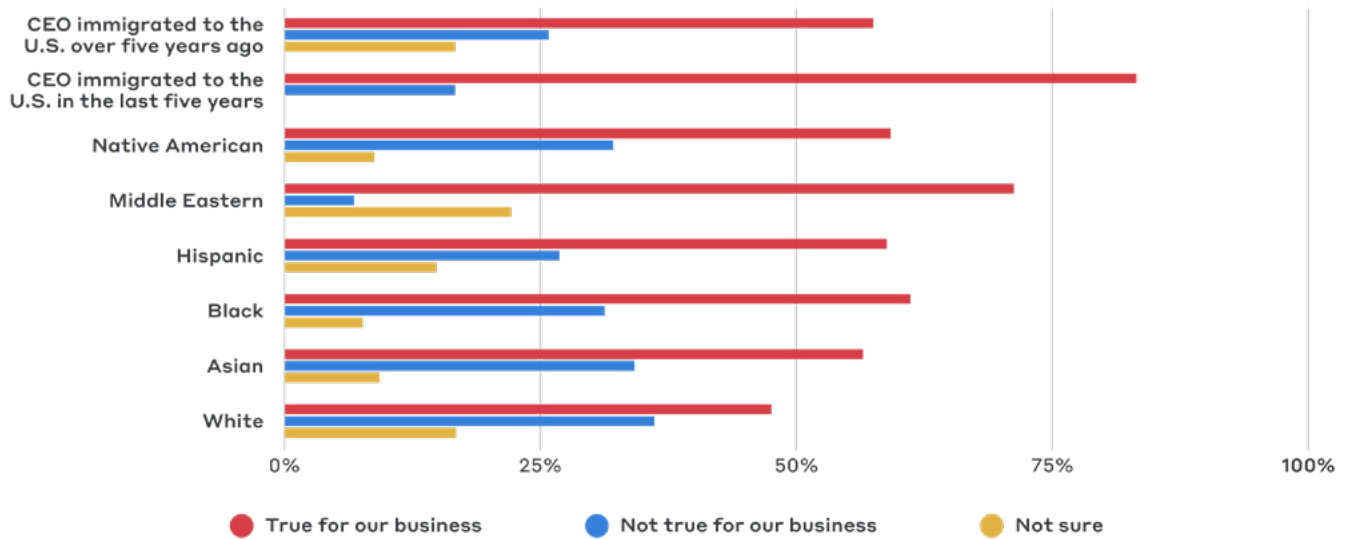
Whether a business owner or manager viewed digital/online tools as having lowered costs differed by demographic characteristics. Black small business owners and managers were most likely to say online tools lowered costs for their businesses (61%), compared to White (47%), Asian (57%), and Hispanic (59%) small business owners and managers. Immigrant-owned businesses were more likely to say that digital tool adoption lowered costs for their companies as well.

Figure 2: Lower Costs as a Benefit From Using Digital Tools by Business Size



Source: Polling carried out by Public First, June 2022

Figure 3: Lower Costs as a Benefit From Using Digital Tools by Ownership Demographic



Source: Polling carried out by Public First, June 2022

In addition to lowering costs and boosting revenue growth, small business owners and managers viewed digital tools as helping them compete with larger businesses. 65% of businesses with 5-9 employees, for example, said online tools made it easier for their business to compete with bigger enterprises. Small business owners and managers also said online tools benefited their businesses in other ways, including ease of use (71%), easier to keep data backed up (70%), and easier to keep data synchronized across the business (63%).

“Digital tools have helped my business grow immensely from market research. From understanding what works and what doesn’t work, to understanding operations and understanding your customers, there’s just a lot of knowledge and a lot of things you can leverage to grow your business.”

SMALL BUSINESS OWNER

“The opportunity of running your business digitally is incredible, because not only is it sort of limitless when it comes to the tools and the access and resources that you need, but it’s also a bit limitless to the people that you can employ and bring into your business.”

SMALL BUSINESS OWNER

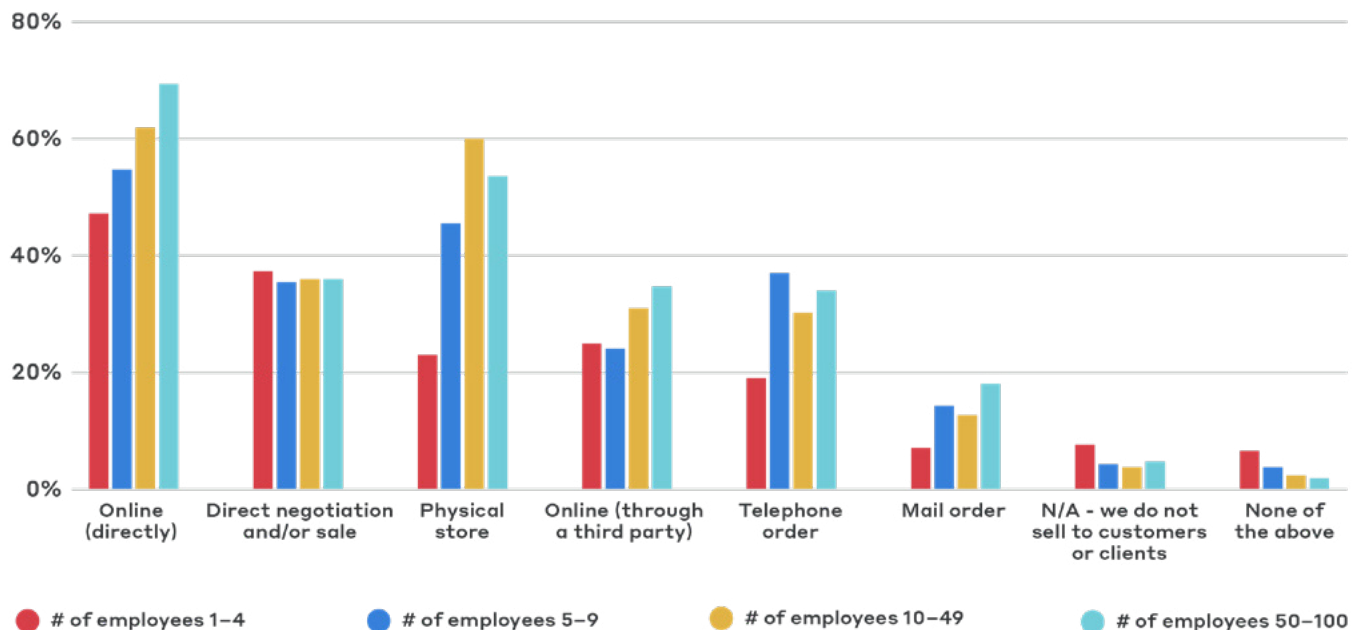
Digital Tool Usage Among Small Businesses

The digital tools and platforms used by small businesses reflect the diversity of the small businesses themselves. Digitalization varies by business age, size, type, and owner demographics. It also impacts the way small businesses operate.

For Sales & Other Purposes

There are no significant differences among small businesses when it comes to those using digital tools for common business activities, like taking payments, managing expenses, and accounting. However, microbusinesses tend not to use digital tools for more advanced business activities, like monitoring key metrics, design, or tracking inventory. Businesses with fewer than 10 employees were also less likely to sell online, while firms with 1-4 employees were more likely to sell through direct negotiation compared to larger firms. Negotiated sales are directly bargained and agreed upon between the seller and buyer.

Figure 4: Mode of Sales for Small Businesses



Source: Polling carried out by Public First, June 2022

Adoption

Small businesses tend to be more conservative than larger firms in their adoption of digital tools. As businesses grow in employment size, they become more likely to adopt digital tools to help manage and grow their business. Of the firms surveyed, 35% of firms with 50-100 employees said they were early adopters of digital tools. This number drops significantly when we look at microbusinesses, with 15% of firms with 1-4 employees, and 22% of firms with 5-9 employees saying they were early adopters.

The same groups of business owners who were adopting digital tools were the same groups who were more likely to say digital tools lower costs. Immigrant-owned businesses and BIPOC-owned (Black, Indigenous, and people of color) businesses were more likely to be early digital tool adopters.

Among BIPOC-owned businesses, Black small business owners and managers were most likely to say they were early adopters of new digital tools (27%) compared to White (19%), Asian (23%), and Hispanic (25%) small business owners and managers.

When looking at digitalization based on male and female ownership, businesses owned by males were more likely to be early adopters of digital tools compared to female-owned businesses.



Figure 5: Share of Small Businesses Who Identify as Early Adopters of Digital Tools

	Number of employees				CEO gender		CEO ethnicity		CEO immigrated to the U.S. in the last five years		CEO immigrated to the U.S. over five years ago	
	1-4	5-9	10-49	50-100	Male	Female	White	BIPOC	Yes	No	Yes	No
We are early adopters of new digital tools	15%	22%	34%	35%	22%	19%	19%	26%	33%	20%	26%	20%
We adopt new digital tools around the same time as our competitors	24%	25%	35%	36%	28%	25%	28%	24%	29%	27%	31%	26%
We tend to be conservative with adopting new digital technology	42%	46%	24%	22%	35%	42%	40%	35%	35%	39%	26%	39%
New digital technology isn't really useful for our business	14%	6%	5%	6%	11%	10%	11%	11%	2%	11%	8%	11%
Don't know	5%	2%	2%	1%	4%	4%	3%	5%	1%	4%	9%	3%

Source: Polling carried out by Public First, June 2022

Future Plans

As of April 2022, according to the Census Bureau's Small Business Pulse Survey, only about 14% of respondents said they were planning to adopt or expand their use of digital technologies in the next six months. Yet, 52% of our survey respondents said they plan to invest in digital tools within the next year. However, significant variation exists among respondents.

MICROBUSINESSES, FOR EXAMPLE, WERE LESS LIKELY TO INVEST IN DIGITAL TOOLS IN THE NEXT YEAR THAN SMALL BUSINESSES WITH MORE EMPLOYEES.

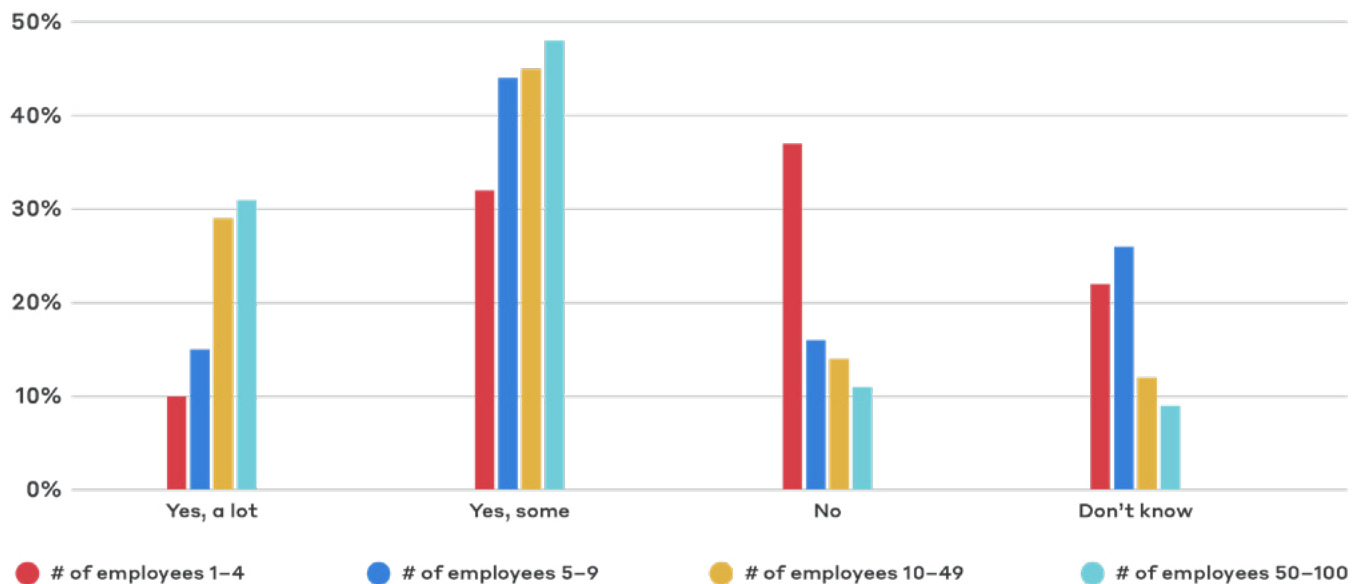
Just 42% of businesses with 1-4 employees planned to adopt digital tools within the next year, while 80% of businesses with 50-100 employees planned to do so.

When looking at ownership, businesses owned by males were more likely to invest in digital tools in the next year. This trend continues for immigrant-owned and BIPOC-owned small businesses. Male small business owners who don't plan to make any investments in digital tools were more likely than women to say they don't think adopting digital tools would make a difference to the day-to-day operation of the business (49% to 40%, respectively).

“As I’ve grown, I’ve actually come to a point where I’m planning out ten years from now. I’m like, okay, what digital tools can I implement today, that will still be relevant ten years from now? So I’m actually going through that phase right now so I can have the most efficient operations, and we can grow easier.”

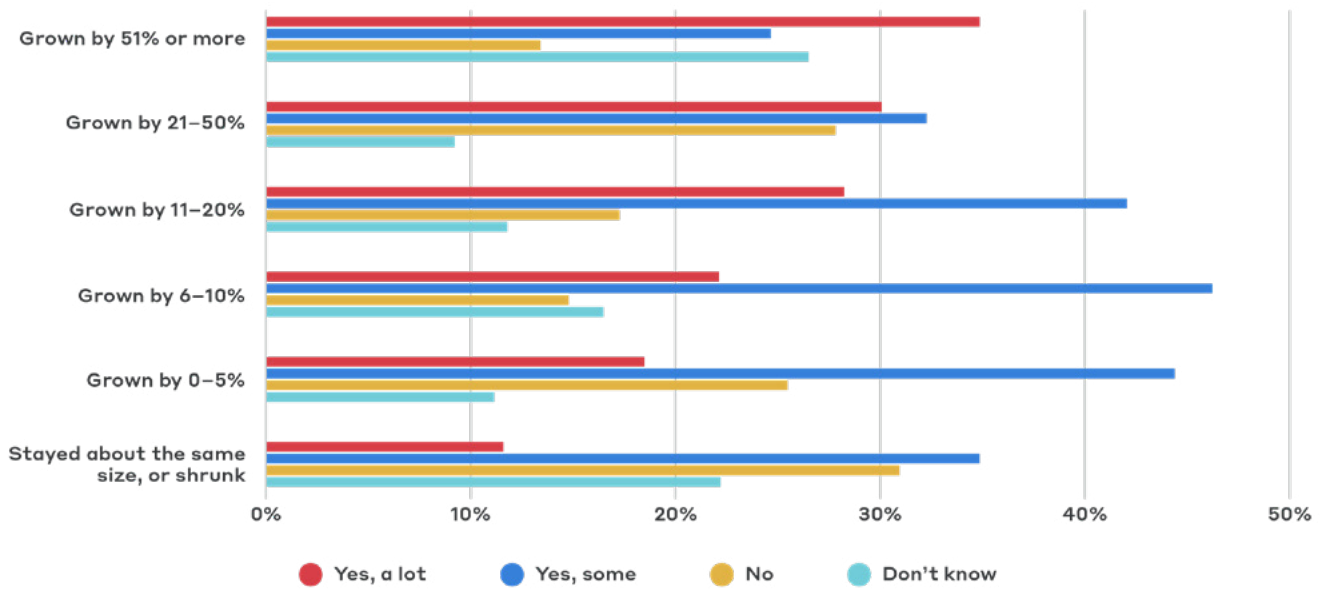
SMALL BUSINESS OWNER

Figure 6: Investments in Digital Tools in the Next Year by Business Size



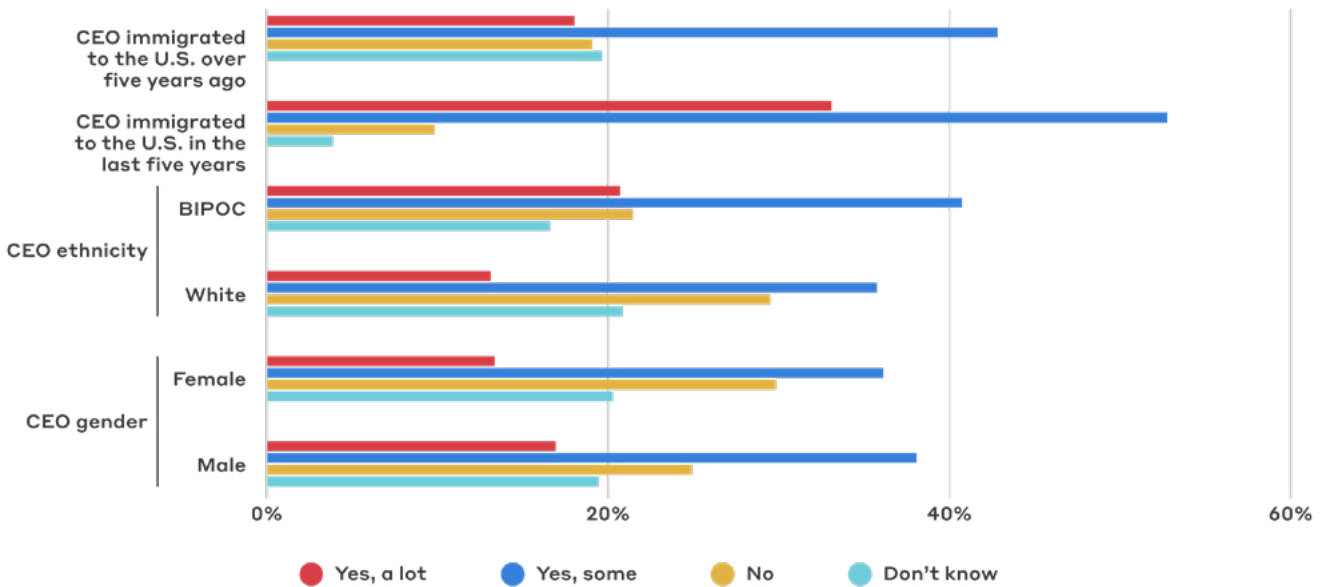
Source: Polling carried out by Public First, June 2022

Figure 7: Investments in Digital Tools in the Next Year by Revenue Growth



Source: Polling carried out by Public First, June 2022

Figure 8: Investments in Digital Tools in the Next Year by Ownership



Source: Polling carried out by Public First, June 2022



Digital Skills in the Workforce

One indication of the trend toward digitalization is the extent to which small business owners and managers value digital skills.

When asked how important digital skills were to their business, 74% of survey respondents said digital skills were important, with 20% deeming them “essential,” and 29% saying they were “very important.” Only 7% of small business owners and managers said digital skills were “not at all important.” BIPOC small business owners and managers were more likely to say digital skills were important to running their businesses than White business owners and managers.

Figure 9: The Importance of Digital Skills to Small Businesses



Source: Polling carried out by Public First, June 2022



The most sought-after digital skills among small businesses surveyed were: knowing how to use digital tools to create and use documents and spreadsheets (43%), followed by online advertising and marketing (36%), and accounting software (35%).

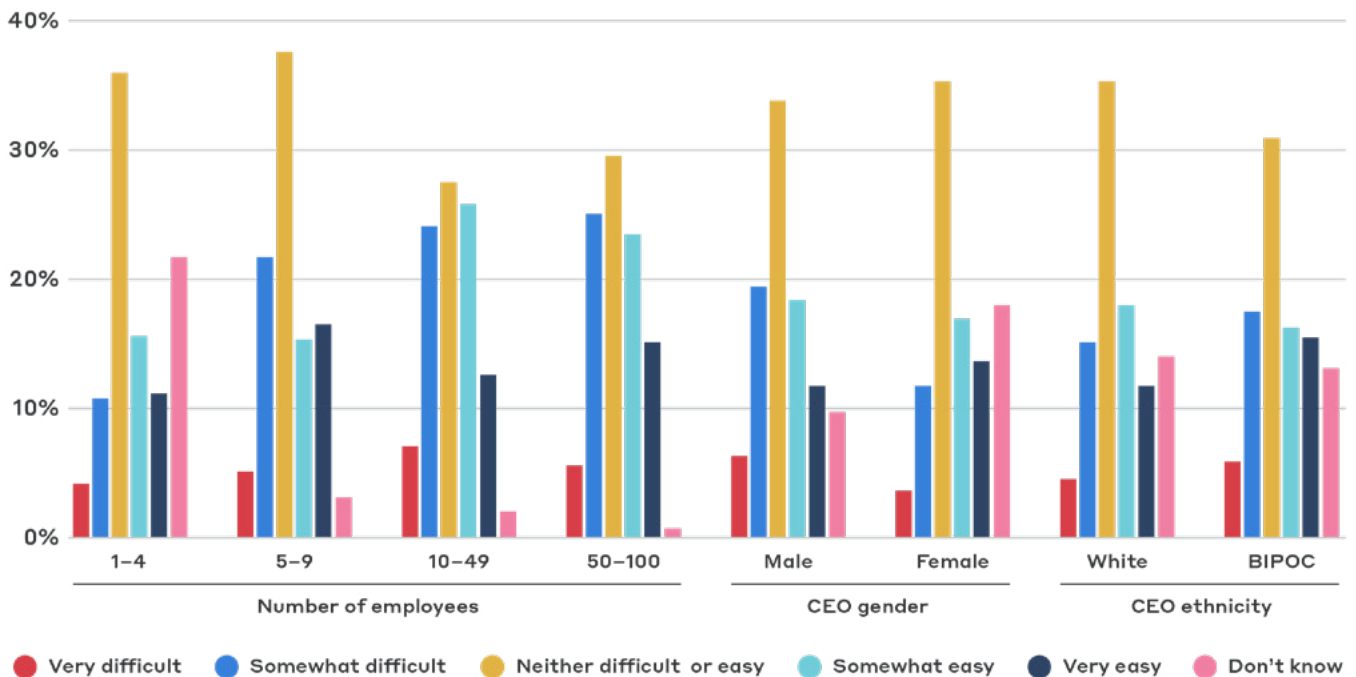
Small businesses that grew revenue by 50% or more in the last year, however, were the most likely to say online advertising and marketing skills were the most important digital skills for their businesses (62%)—suggesting that online advertising and marketing had helped these businesses grow quickly.

While digital skills matter to small businesses, finding workers with digital skills is not always easy. 21% of small business owners and managers said it was difficult to find staff with digital skills. Male business owners were also more likely (26%) than female business owners (16%) to say it was difficult to find staff with digital skills.

AND AS SMALL BUSINESSES ADD WORKERS, THEY BECAME MORE LIKELY TO PERCEIVE A SHORTAGE OF DIGITAL SKILLS TO BE A CONSTRAINT ON THEIR BUSINESSES' ABILITY TO INCREASE REVENUE OR REDUCE COSTS.

In lieu of hiring new staff, retraining current staff is an option, but small business owners face internal difficulties and resistance to digitalization. **20% of small business owners and managers said it was difficult to re-train existing staff with new digital skills.** Compared to microbusinesses, re-training was more difficult for small businesses with more than 10 employees. Male business owners were also more likely than female business owners to say that retraining staff was difficult. Alongside staff resistance, business owners cited cost (27%) and time (21%) as the biggest barriers to re-training.

Figure 10: Level of Difficulty Finding Workers With Digital Skills



Source: Polling carried out by Public First, June 2022



Barriers to Digitalization

A 2017 survey of small businesses conducted by Deloitte and Google found that 40% of respondents believed that digital tools were “not relevant for my business.”⁷

“I think a real barrier to digital tools, and the usage of digital tools, is education. I think we have business owners that are from vast different levels of our society, of our communities at different learning phases within the digital environment.”

SMALL BUSINESS OWNER

Surprisingly this sentiment seems to have not changed much in the last five years, with 47% of microbusinesses with 1-4 employees in the BPC-Intuit survey saying digital tools were not relevant to their business.

These consistent responses suggest that not enough has been done to inform business owners of the benefits to digital tool adoption or provide enough educational resources for businesses to find the tools that will work best for them.



Small businesses generally faced greater barriers to growth and efficiency than larger businesses, and digitalization is no exception for the small businesses who choose to adopt digital tools. Small businesses surveyed cited time and the learning curve as the biggest barriers to improving their employees' digital skills. For microbusinesses, 26% of firms with 1-4 employees and 31% of firms with 5-9 employees cited cost as a barrier. Followed by cost, the next biggest hurdle was the time it takes to train employees. 17% of firms with 1-4 employees and 26% of firms with 5-9 employees cited this as an issue.

“Trying to sort through which [digital tool] is the best for my business is an obstacle to digitalization.

SMALL BUSINESS OWNER

What Does This Mean?

Small businesses were adopting digital tools to increase sales and revenue, promote brand awareness, and access new customers prior to the COVID-19 pandemic.⁸ The accelerated adoption of digital tools spurred by pandemic shutdowns, health considerations, changing consumer behavior, and other shifts has several potential implications.

For small business owners and managers, digital tools can improve productivity, nurture revenue growth, and improve business processes and systems.

For policymakers and others looking to boost economic growth, the adoption of digital tools by small and microbusinesses holds promise. New and small businesses are already significant contributors to key economic factors like new jobs and employment. As more of these businesses find ways to become more productive, including the adoption of digital tools, U.S. economic growth could see a positive bump.

Any conversation about digital tools and associated productivity gains should also include consideration of worker skills, as the realization of productivity gains depends on workers having the skills to implement and use digital tools. Small business owners and managers who participated in the BPC-Intuit survey highlighted the importance of digital skills and associated challenges with re-training staff. Digital literacy and the acquisition of digital skills should, therefore, be considered a requirement not only for success in the workforce but also for economic growth and competitiveness.

Finally, gender and racial differences in attitudes about and experiences with digital tools uncovered in the survey suggest further inquiry is needed to fully understand the reasons for and effects of these variances. There are well-documented differences in entrepreneurship and small business access and outcomes based on gender and race. If digital tools—a means for improving business performance and growth—are viewed differently or unequally accessed and used, policymakers should be ready to respond to close these gaps and level the playing field.



Policy Recommendations

Small businesses' adoption of digital tools is an underappreciated area for federal policy.

A search of pending legislation uncovered just a handful of bills that have been introduced in the 117th Congress to address small businesses digitalization. A public-private initiative launched by the SBA to connect small businesses to technology resources and expand their e-commerce footprint is less than a year old.⁹

EXAMPLES OF DIGITALIZATION-RELATED BIPARTISAN LEGISLATION FROM THE 117TH CONGRESS

› **H.R. 7552 GOLDEN-PRENEURSHIP ACT**

This bill creates a training and curriculum for older entrepreneurs in the Office of Entrepreneurial Development of the SBA. The goal is to provide individuals who are 60 years or older with the tools they need to grow their businesses. BPC Action has endorsed this bill.

› **S. 3906 SMALL BUSINESS BROADBAND AND EMERGING INFORMATION TECHNOLOGY ENHANCEMENT ACT OF 2022**

This bill aims to address small business competitiveness and productivity through broadband and technology access. It appoints a coordinator to oversee the work and requires small business development centers to assist with access.

Policymakers' focus on small businesses has instead been concentrated on other areas. The explosion of small business policymaking in the pandemic era focused on financial aid to ensure small businesses survived and workers were paid. SBA reauthorization—something that hasn't occurred in more than 20 years—looms on the horizon of congressional activity. Yet, opportunities also exist for policymakers to help small businesses realize the productivity gains digital tools make possible.

When thinking about policies to support small businesses' adoption of digital tools, four areas deserve consideration.

- 1. Does the infrastructure support the use of digital tools?** Many digital tools are web-based and require internet connection. Unfortunately, access to affordable and reliable broadband remains unequal across the United States, with gaps in access across geographic and demographic lines. According to two recent surveys by NFIB and Google, around 8%, or about 2-3 million U.S. small businesses lack sufficient access to broadband.¹⁰ Greater adoption of digital tools requires policymakers to close these divides.
- 2. Are small businesses able to procure digital tools?** If the infrastructure enables the use of digital tools, small businesses must then be able to procure these tools. Survey results suggest that cost and insufficient information are meaningful barriers that stand in the way of small business owners and managers acquiring digital tools. Policies that address these barriers, including through outreach and technical assistance, are worth exploring.
- 3. Are small businesses able to use and benefit from digital tools?** Once digital tools are acquired, small businesses must have workers with the skills to use these tools. In addition to assisting small businesses with re-training employees, education and workforce systems should identify and fill skill gaps, while working with small and large employers to understand specific skill needs.
- 4. Are data privacy, cybersecurity, or issues preventing or discouraging small businesses from adopting digital tools?** Digital tools allow small businesses to collect more information about consumers and other aspects of their business. Policymakers should consider whether current regulatory frameworks create uncertainty or extra costs for small businesses that may influence their decision to acquire and use digital tools, as well as assess ways in which small businesses might be better protected from cyber criminals.

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