UK Business and Charity Digital Index 2018

The fifth edition – Benchmarking the digital capability and skills of UK SMEs and charities

LLOYDS BANK

Contents

New in 2018

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About Us

The Business and Charity Digital Index is the largest measure of digital capability for SMEs and charities across the UK. First published in 2014, it is the only measure of its kind.

Lloyds Banking Group is proud to use a powerful and unique blend of transactional and attitudinal online data to benchmark the digital skills and capability of UK organisations.

Since that time, this Index has been used by UK government to inform public policy, by partners and peers to evolve inclusion strategies and customer propositions, and SMEs and charities themselves, as they decide how and where to place their focus.

> This year's Index marks a key moment in time for us to reflect on all that we and our partners have achieved. We hope that our unique insight, based on actual online behaviour, continues to enable policy makers, thought leaders and practitioners to create the change needed to ensure the UK thrives in the future.

LEIGH SMYTH, RESPONSIBLE TRANSFORMATION LEAD, LLOYDS BANKING GROUP

Over the past five years we have:

ANALYSED OVER 10,000 ORGANISATIONS' BEHAVIOURAL DATA
and benchmarked against a further 100,000 organisations

SPENT 5,000 HOURS SPEAKING TO SMES AND CHARITIES
to understand their thoughts and attitudes

CREATED OVER 150 CASE STUDIES
to understand the impact of digital on their wider business activities

What has the Index data shaped?

- Used by UK government to shape the UK Digital Strategy with the insights evidencing the need for digital skills measures gov.uk/government/publications/uk-digital-strategy
- Provides a view of UK skills which underpins the UK government's Digital Skills Partnership initiative with over 200 cross-sector partners digitalskillspartnership.blog.gov.uk
- Our report content, accompanying national and regional factsheets and online heat map are used by local authorities, LEPs and councils to understand the skills requirements in their areas. lepnetwork.net
- Used by corporates and practitioners as the case for change e.g. the Index research has shaped the Google Garage proposition and has informed HMRC's colleague digital skills training
- The Consumer Digital Index data underpins the Digital Skills Entitlement gov.uk/government/news/adults-to-benefit-from-digital-skills-overhaul which is designed based on the newly refreshed Essential Digital Skills framework gov.uk/government/publications/essential-digital-skills-framework

What have we done as a result of the data?

- We committed to train 1.8 million individuals and organisations, in digital skills including Internet Banking, between 2018 and 2020 (700,000 were trained in 2017)
- Our Digital Champion network was initiated in 2016 and has grown to over 24,000 volunteers across the UK
- Provided 22,000 Lloyds Banking Group colleagues with digital skills training

Up to September this year, we have:

- Trained over 500,000 individuals and organisations, contributing to the pledge of 1.8 million
- Partnered with Google, Upskill Digital, Citizens Advice Bureau and other practitioners to run 40 training events across the UK
- Created a Charity Digital Mentor programme in partnership with Lloyds Bank Foundation
- Informed our digital inspiration initiative for schools: discoveryourdigitalfuture.co.uk

With Thanks to our Partners

Thanks to our SME Partners

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To be competitive in the future it will be essential that all UK businesses, whatever their size, have the Basic Digital Skills they need to succeed; digital skills are as important for the health and care sector as any other. We want to build on the findings of this year's Index, and to understand how we can support businesses to gain the digital capability they need for the future. This will not only mean that our health and care services are delivered more effectively, but should improve services' quality and responsiveness for the people relying on them.
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CAROLINE DINENAGE, MINISTER OF STATE FOR CARE, DEPARTMENT OF HEALTH AND SOCIAL CARE

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This Index provides vital insight for government and helps us develop policies to boost people's digital skills. I'm hugely encouraged by the progress we are making, because the digital capability of our small businesses and charities is now at its highest since the Index began in 2014. We are committed to building a world-leading digital economy that works for everyone, and through our Digital Skills Partnership partners have delivered more than 2.5 million training opportunities.
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MARGOT JAMES, MINISTER FOR DIGITAL AND THE CREATIVE INDUSTRIES

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It's fantastic to see such a high number of SMEs growing their online presence. It's clear from the report that there is still a vast majority of businesses needing more support to truly harness the power of the web, by optimising their online presence for mobile, understanding their customer data and embracing effective and affordable forms of digital marketing.

We are still working hard with our partners by delivering various free and accessible digital workshops and coaching that help businesses to build the confidence they need to make the most of these opportunities in digital.
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GORI YAHAYA, DIRECTOR, UPSKILL DIGITAL

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Developing and improving digital capability can help businesses in every sector be more productive and responsive. Small businesses risk being left behind unless they have the skills to do this. This year's Index shows a continuing lack of Basic Digital Skills amongst many small firms. Our own research highlights that over a quarter of small business owners in England lack confidence in their Basic Digital Skills. It's imperative the benefits of 'being digital' are highlighted to these small firms, and that they and their staff are given access to the digital skills training that meets their needs.
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MIKE CHERRY, NATIONAL CHAIRMAN AT THE FEDERATION OF SMALL BUSINESSES

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More SMEs than ever recognise that digital skills are relevant to their business, although more than a quarter are still not realising the benefits of the online world. We're seeing an encouraging shift in mindset for many SMEs, with 71% of the least digitally capable SMEs now seeing digital skills as relevant; a 31% improvement since 2014. By encouraging and supporting the 655,000 (16%) SMEs with low digital capability to become 'highly digitally capable', our transactional data suggests that we could generate an additional £84.5 billion turnover for businesses, providing significant benefits for UK plc.
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PAUL GORDON, MANAGING DIRECTOR SME, LLOYDS BANKING GROUP

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We are pleased to see the growth of SMEs and charities recognising the opportunity new technologies bring to help them achieve their goals. Accenture believes technology is embedded in everything we do, improving the ways we live, work, and experience the world. But there's a larger transformation at play – a shift beyond 'digital' into an era where tech is built into every single interaction. This means that whilst it's great to see so many companies engaging in this space, there clearly remains much to do to ensure all SMEs and charities understand the opportunities (and threats), new tech can bring.
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STUART CHALMERS, MANAGING DIRECTOR AND HEAD OF UK COMMERCIAL BANKING, ACCENTURE

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It's fantastic to see that 99% of SMEs are now online and a record number have advanced digital capability, with the Index score rising by 24% in the last five years. As we move to a more digital future, it's increasingly important that we ensure UK SMEs are equipped with the knowledge and tools to protect themselves and stay safe online. Currently, only 46% of SMEs are planning to adopt cybersecurity technology in the next two years. It's vital that we continue to support and encourage the development of SMEs' digital skills to help sustain their continued growth over the coming years.
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GARETH OAKLEY, MANAGING DIRECTOR BUSINESS BANKING, LLOYDS BANKING GROUP

Forewords

NICK WILLIAMS

Transformation Director,
Lloyds Banking Group

HELPING BRITAIN PROSPER

It is my pleasure to share with you the fifth annual Lloyds Bank UK Business and Charity Digital Index.

Since 2014, when the first Index was published, the political, digital and economic landscapes have changed dramatically. The UK government's Digital and Industrial strategies have outlined the scale of UK ambition to lead the tech agenda internationally and to grow an inclusive digital economy. Partners such as Do It Digital, Nominet, BT, SCVO, Google, FSB, Lloyds Bank Foundation and Good Things Foundation have worked collaboratively to drive the capability of the UK.

I'm delighted to see that the Index score for SMEs and charities has increased and charities in particular have made significant progress in terms of digital skills. However, the pace has not been quick enough. 1.7 million SMEs and 97,000 charities still do not have Basic Digital Skills. Mindset is an equal barrier to skillset. One-third of SMEs still do not see digital development as relevant. We need bold interventions to ensure our actions meet our ambition.

For the first time, we have analysed actual transactional data to understand the productivity opportunity for the UK. For SMEs alone, there is an £84.5 billion revenue opportunity if we can enable low digitally capable SMEs to move in line with their highly digitally capable peers. Sole traders represent 41% of this group and could each generate up to an extra £24,000 per year in revenue.

Of course, the benefits are not just financial. The 2018 Index also illustrates how digital impacts wellbeing; organisations attribute saving 21% of their working week to digital. In my experience working with both SMEs and charities, this time is precious.

At Lloyds Banking Group, we have taken a holistic approach to closing the digital skills gap. In our local communities, our colleagues – in their thousands – and regional ambassadors, spend time sharing their skills with the people that need the most support. They partner with schools to provide Code Clubs that help the next generation, and lead inspiring events with tech employers to demonstrate local opportunities. They volunteer in UK Online Centres and support SME and charity Digital Knowhow workshops – an initiative founded with Google and partners to help organisations understand how they can meet business objectives through tech.

We've done a lot in the last five years but we think the best is yet to come. Last year alone we helped over 700,000 individuals, SMEs and charities through face-to-face skills training and we are on track to deliver the same for over 1.8 million people by 2020. I am immensely proud of our credentials and the team that help to make it happen. As ever, I am also grateful for the support of our partners, not just for their help with this report, but also for their relentless passion and commitment to this agenda.

We are always keen to understand how you are using the Index findings and any ideas you have for collaboration. Please do contact us at DigitalSkillsInclusion@lloydsbanking.com

> For SMEs and the third sector, the dial has finally moved. When this report began, 24% of charities and 8% of SMEs were digitally excluded – in 2018, 99% of SMEs and charities are now online.

> Championing digital skills is essential to helping firms identify, adopt, embed and make best use of business technologies

KELLY TOLHURST

Parliamentary Under Secretary of State,
Minister for Small Business, Consumers,
and Corporate Responsibility for Business,
Energy and Industrial Strategy

I am delighted to support the Lloyds Bank Business and Charity Digital Index. The report highlights the clear link between market competitiveness and the uptake and application of digital technology in the workplace. Firms that have developed IT infrastructure and take advantage of digital technology tend to be the most competitive.

Technology is transforming industries and societies around the world, and the UK has the opportunity to play a leading global role. As part of our ambitious Industrial Strategy, we launched the Business Productivity Review to explore what actions could be most effective at improving firm-level productivity and the growth of SMEs.

A central focus of the Review explores how we can spread the adoption of key productivity-enhancing technologies to SMEs in particular. New evidence from both this report and the Enterprise Research Centre* shows that technologies such as Cloud computing, e-commerce and web-based accounting software lead to a productivity rise.

Our Government recognises that championing digital skills is essential to helping firms identify, adopt, embed and make best use of business technologies. As outlined in the Lloyds Bank Consumer Digital Index**, 11.3 million (21%) people in the UK lack Basic Digital Skills and this impacts enterprise. That is why Digital Skills Partnerships brings together cross-sector partners to design, develop and deliver innovative digital skills programmes to advance digital inclusion and upskill the workforce. For the UK to be a world-leading digital economy that works for everyone, digital skills gaps must be addressed, from Basic Digital Skills to those required for specialist roles.

> We've been working with colleagues from Lloyds Banking Group and partners from across sectors to share skills and expertise

DAVID MCNEILL

Digital Director,
Scottish Council for Voluntary Organisations

SCVO

It is hugely encouraging to see the 2018 Lloyds Bank Business and Charity Digital Index demonstrates the progress being made by charities in adapting to our digital world, with digital capability almost doubling over the past five years.

Being a digitally capable charity is about exploring how to use technology to maximise impact and meet the expectations of beneficiaries, staff, volunteers, donors and other stakeholders in the modern world. It isn't about using cutting-edge technology for the sake of it.

More than half of all charities now have all five Basic Digital Skills. Despite the progress, the sector must not be complacent and ensure momentum is maintained. The Index highlights cybersecurity must be a focus for charities going forward and many are already recognising the need for change.

Adapting to a digital world and realising the benefits isn't always easy. It needs the time and space to explore the implications, learn new skills and implement change. That's why we've been working with colleagues from Lloyds Banking Group and partners from across sectors to share skills and expertise, supporting charities of all shapes and sizes in Scotland to start or progress their digital journey.

I look forward to seeing an even more digitally confident and capable charity sector across the UK in 2019.

* State of Small Business Britain Report, 2018, enterpriseresearch.ac.uk
** Lloyds Bank UK Consumer Digital Index, 2018, lloydsbank.com/consumerdigitalindex

Methodology

Index score

The Lloyds Bank Business and Charity Digital Index score is the UK's sole measure of digital capability which combines the following data:

1. Actual online behaviour of UK organisations
An analytical review of anonymised Lloyds Banking Group data provides an overview of the customer online banking activities at an aggregate level, as a representative proxy for the UK's SME and charity-banked population.

2. Primary quantitative research
An in-depth questionnaire with 2,000 SMEs and charities was carried out across the UK to reach a rounded view of their digital behaviours and perceptions.

Since the 2017 report, the Index score range is between 0 and 100 and is calculated using behavioural data and quantitative research. It varies from the Basic Digital Skills measure, which is solely quantitative.

The Lloyds Bank UK Business and Charity Digital Index uses actual behavioural and transactional data to provide a unique insight into organisations' digital behaviours

Basic Digital Skills

In 2016 the UK Basic Online Skills framework was refreshed and updated to become Basic Digital Skills. In order to have full Basic Digital Skills, an organisation must be able to undertake at least one task within each of the five categories outlined below.

Basic Digital Skills framework

Communicating
Communicate, interact, collaborate, share and connect with others

Creating
Engage with communities and create basic digital content

Managing Information
Find, manage and store digital information and content

Problem Solving
Increase independence and confidence by solving problems using digital tools and finding solutions

Transacting
Purchase and sell goods and services, organise finances, register for and use Government Digital Services

The Basic Digital Skills framework is the UK's leading measure of digital skills among SMEs and charities

Benchmarking
In this year's report, the data is often benchmarked against the first baseline Business Digital Index report from 2014 and includes year-on-year comparisons between 2017 and 2018.

For further information please see the appendix document lloydsbank.com/businessdigitalindex

Business Barometer data
An additional Lloyds Bank data set has been incorporated into this year's findings. This data comes from the Lloyds Bank Business Barometer monthly publications. For more information on these please contact DigitalSkillsInclusion@lloydsbanking.com

Appendix
Appendix references are denoted by superscript numbers. For the full appendix document, refer to lloydsbank.com/businessdigitalindex

Definitions
Throughout this report the following definitions apply:

SME – Small and medium sized enterprises with annual turnover of up to £25 million and fewer than 250 employees

Charity – Registered charities with annual turnover of up to £25 million and fewer than 250 employees

Organisations – both of the above definitions

Population source
Throughout this report SME populations have been calculated using Charterhouse Business Banking Survey figures as per Q1 2018. See charterhouse-research.co.uk/studies/business-banking-survey. The UK population of charities has been aggregated using sources from; Charity Commission for England and Wales, Charity Commission for Northern Ireland, and the Scottish Charity Regulator (OSCR).

Research contained in this report uses a representative sample of our customer base. As our charity footprint in Northern Ireland is small, a limited number of organisations are included. Northern Ireland is therefore grouped into the 'North'. We recognise that a larger NI sample would enhance the quality of this report and plan to improve this from the next publication in 2019. SME remains unaffected by this.

Index segmentation

The behavioural data of SMEs and charities is used to create a digital capability segmentation.

The segments are ranked from 1, which comprises of the least digitally capable UK organisations, to 5, which represents those with the highest levels of digital capability. Figure 1 illustrates the segment definitions and their corresponding traits.

An SME or charity must demonstrate all previous capabilities before they can progress into the next segment.

This segmentation allows us to distinguish behaviours, tailor analysis and provide a more detailed profile of digital capability among UK organisations.

Figure 1. **Digital capability segment definitions for organisations**

Passive — 1

Score range: 0-18

- Less than one-quarter have websites
- Less than 10% have a social media presence
- Less than one-quarter use Government Digital Services
- Over one-quarter use email
- No Internet Banking

Getting started — 2

Score range: 18-34

As 1 plus:

- One-quarter have websites
- More than 10% have a social media presence
- Over half use Government Digital Services
- Over three-quarters use email
- Less than 10% of their transactions are carried out online

Established — 3

Score range: 34-48

As 2 plus:

- Around one-third have websites
- One-third have a social media presence
- Over two-thirds use Government Digital Services
- 90% use email
- Over one-quarter of their transactions are carried out with Internet Banking

High — 4

Score range: 48-62

As 3 plus:

- Nearly two-thirds have websites
- Nearly half have a social media presence
- Over 80% use Government Digital Services
- Nearly all use email
- Nearly half of their transactions are carried out with Internet Banking, some exclusively
- Two-thirds have digital internal tools (e.g. online accounting)

Advanced — 5

Score range: 62-100

As 4 plus:

- Over three-quarters have websites
- Three-quarters have a social media presence
- Almost all use Government Digital Services
- Three-quarters of their transactions are carried out with Internet and Mobile Banking
- Over three-quarters have digital internal tools (e.g. online accounting)
- Over two-thirds have internal teams in place for digital development

Throughout the report 'low' refers to Segments 1 and 2 combined. 'Least digitally capable' refers to Segment 1.

Throughout the report 'high' refers to Segments 3 to 5 combined. 'Most digitally capable' refers to Segment 5.

Key Findings

In the last five years, organisations have made significant digital progress

Digital usage is at an all-time high, **99% of SMEs and charities are now online**. In 2014, 8% of SMEs and 24% of charities were offline.

See pages 25 and 50.

The digital capability of UK charities has almost doubled since 2014, the Index score has increased by 92% from 24 to 46. For SMEs this has also increased by 24% from 45 to 56.

See pages 14 and 41.

Compared with 2014 there are now 50% fewer SMEs and 81% fewer charities in the group with the lowest digital capability. This change is the result of a shift in mindset as 71% of SMEs and 67% of charities with the lowest digital capability now recognise that digital is relevant to their organisation. This has increased by 31% and 24% respectively since 2014.

As such, compared to 2014, **there are over five times (425% increase) as many charities and nearly twice as many SMEs (72% increase) with the highest level of digital capability.**

Since 2014, charities' growth in digital usage has surpassed that of SMEs. Some of the largest changes include:

- Nearly one-third (29%) of charities now use Cloud-based IT systems, this is 15 times more than in 2014.
- Two-thirds (65%) of charities are now accessing Government Digital Services, more than seven times as many as in 2014.

See page 50

There are now nearly one million SMEs and charities on 'the cusp', with four of the five Basic Digital Skills, up 34% in one year.

See pages 16 and 42.

However there is still an £85 billion productivity gap which digital can close

60,000 (30%) charities and 655,000 (16%) SMEs have low digital capability (*See pages 14 and 41*). The impact of this is vast for the UK – **for the first time using both transactional and behavioural data, Index insight reveals that SMEs with low digital capability could unlock up to an additional £84.5 billion turnover if they were to develop high digital capability.**

See page 19.

- The biggest opportunity exists for sole traders, as 41% fall within the low digital capability bracket.
- If these sole traders were to develop high digital capability, individually they could generate up to an extra £24,000 of turnover per year.
- If all sole traders made this move this would add up to £43.3 billion in increased turnover for UK plc.

Organisations still have progress to make with Basic Digital Skills:

- 103,000 (52%) charities have all five skills (up 4% since 2017).
- 2.4 million (58%) SMEs have all five skills (down 1% since 2017). *See pages 16 and 42.*
- Less than half (49%) of SMEs in the West Midlands have all five Basic Digital Skills – the lowest of any region.
- In the third sector, charities from the South West and Wales have the lowest Basic Digital Skill levels (45%) – this is flat year-on-year.

See pages 36 and 57.

'Problem Solving' is consistently the most difficult skill to obtain; tasks such as 'customer analytics', and 'tailoring products and services to fit user feedback' are the most challenging.

Since 2017, the number of SMEs with 'Problem Solving' as the missing skill (to achieving all five) has increased from 65% to 73%. For charities this has gone up from 36% to 64%. *See pages 17 and 43.*

2.5 million (62%) SMEs are saving time through their use of digital – more than twice as many compared with 2014. On average they report saving one day per working week. *See page 18.*

However, **1.6 million (38%) SMEs are not yet tapping into these time savings and will be missing out on**; productivity gains, cost savings, and crucially better work-life balance and wellbeing.

There are key opportunity areas to drive digital transformation that works for all

Benefit Recognition

The 2018 Business and Charity Digital Index shows that organisations often do not understand or acknowledge the full value of their current digital activity. **64% of SMEs do not attribute any increase in sales to their digital activities, however data shows that 85% of this group have increased sales by up to 25%.**

See page 20.

Organisations find it difficult to understand the potential applications of new technologies and the value they could add. For example, **68% of SMEs claim understanding of Cloud services yet only 39% intend to adopt it if they have not already**. The 2018 data shows there is a correlation between Cloud adoption and increased turnover, demonstrating the value of the missed opportunity.

See page 32.

Accessibility For All

More than 10 million* of the UK online population have a registered disability, however data this year reveals that **96% of SME and 95% of charity websites do not currently meet international web accessibility guidelines** (WCAG)**. When considering that 68% of SMEs and 73% of charities now have a website, this is a concern for digital inclusion.

'Designing for all' also includes adapting to consumer behaviours and expectations. Research shows that at least 25 million people in the UK prefer to shop through mobile***. However 2018 Index data reveals that only **18% of SMEs and 8% of charities have taken the step to optimise their services for mobile use**.

See pages 27 and 51.

Diverse Workforce

Research shows that 81% of UK tech jobs are currently filled by men† and only 19% of SME leaders are female††; however, the 2018 data shows that **women in business are 18% more likely to have Basic Digital Skills than men (65% vs. 55%)**.

The 2017 Business Digital Index demonstrated that the most digitally capable SME leaders are twice as likely to report increasing turnovers compared to the least digitally capable. A larger female cohort in leadership positions would propel the SME and third sectors forward by bringing increased digital skillsets to smaller organisations.

See page 39.

Cybersecurity

Now that 99% of organisations are online, it is more important than ever for them to have the knowledge and tools to grow and maintain their online presence safely.

The 2018 data finds **there are more SMEs than ever with robust security infrastructures in place online (72%)**, however there is a dichotomy. This year there are fewer SMEs who feel adequately skilled to protect themselves; only 30% feel equipped to protect their customers from online fraud and scams. As such, **cybersecurity is the most sought after digital skill; one in five want to grow this capability in the future**.

See page 29.

* Lloyds Bank UK Consumer Digital Index 2018 - lloydsbank.com/banking-with-us/whats-happening/consumer-digital-index.asp

** World Wide Web Consortium (W3C), 2018 - w3.org/TR/WCAG21

*** E-commerce News Europe, 2017 - ecommercenews.eu/59-uks-digital-buyers-make-mobile-purchases

† Tech Nation 2018 - technation.io/insights/report-2018/jobs-and-skills

†† Department for Business, Energy & Industrial Strategy, 2018 - gov.uk/government/statistics/small-business-survey-2017-businesses-with-employees

Calls to Action

1. Focus on sole traders

There is a £43.3 billion opportunity for UK plc. if sole traders are moved up the digital capability ladder. The progression to improved digital capability, must be simplified and more user-centred:

- As SMEs are notoriously time poor, bespoke, mobile, one-stop-shop training opportunities are vital for learning on the go.
- As the 2017 Business Digital Index data shows, there must be an appreciation that less than half of all sole traders have ambitions to grow. As such, messaging must not be linked solely to growth, but to how they can be more efficient and improve productivity, profitability and wellbeing.
- 14% more sole traders prefer support from a friend, relative or colleague compared with the UK average. We must support 'trusted faces in local places'.

2. Converting digital understanding to adoption

The difference between the number of organisations who understand new technologies and those with the intention to adopt them is vast; for example, three-quarters of SMEs (72%) have an understanding of cybersecurity, yet only 46% seek to adopt in the next two years.

Industry and government must work together to make the market simpler to navigate and provide greater support to organisations.

Embedding the principle of 'knowing your customer', online analytics and user feedback should be a focus for learning curriculums. 'Problem Solving' is the final hurdle for SMEs and charities – only 65% and 64% respectively have this skill, and is the solution for many to achieving all five skills.

With more women having full Basic Digital Skills than men, driving gender representation across the workforce would help to develop the digital understanding of SMEs and charities, closing the gap with adoption.

3. Support must be provided throughout the supply chain

Product, service and software providers can contribute to driving digital transformation for SMEs and charities in a number of ways:

- **Education:** Building in end-user training and on-going support would help to on-board and embed new tech, ways of working and confidence for organisations. Cybersecurity measures must also be built in from the outset to keep organisations and their customers safe.
- **Motivation:** Collective action must be taken to inspire and influence SMEs and charities, where possible providing a brand-impartial view.
- **Inclusion:** Throughout the value chain, organisations must build in accessible and mobile design principles; without this they miss out on a large segment of the market.

4. Embed Charity Digital Code of Practice and create a code for SMEs

To continue growing capability and confidence for the third sector, the Charity Digital Code of Practice will be invaluable*.

With SMEs facing little movement in full Basic Digital Skills, the same momentum should be replicated through building an SME Digital Code of Practice. This will help SMEs to understand clear frameworks and next steps of how to build digital capability and skills.

5. Capitalise on existing initiatives

With initiatives such as Making Tax Digital being fully deployed in 2019, we must look to support SMEs onboarding onto this service and capitalise on it.

With a number of new organisations engaging for the first time, industry and government should work together to use it as an opportunity to signpost to other digital experiences, services and training. An example of this is the Lloyds Banking Group and Digital Skills Partnership signpost toolkit**.

Initiatives such as the Self-Funded Work Training tax breaks are another opportunity. Tax breaks for self-funded skills training should include and endorse digital up-skilling, irrespective of the sector or role the organisation has. Currently, only training relating directly to the present role is eligible***.

* The Charity Digital Code of Practice, 2018, charitydigitalcode.org/

** Lloyds Bank UK Business and Charity Digital Index website, lloydsbank.com/businessdigitalindex

***Self Funded Work Training, 2018, gov.uk/government/consultations/taxation-of-self-funded-work-related-training

Business Digital Index

Index Score and Segmentation

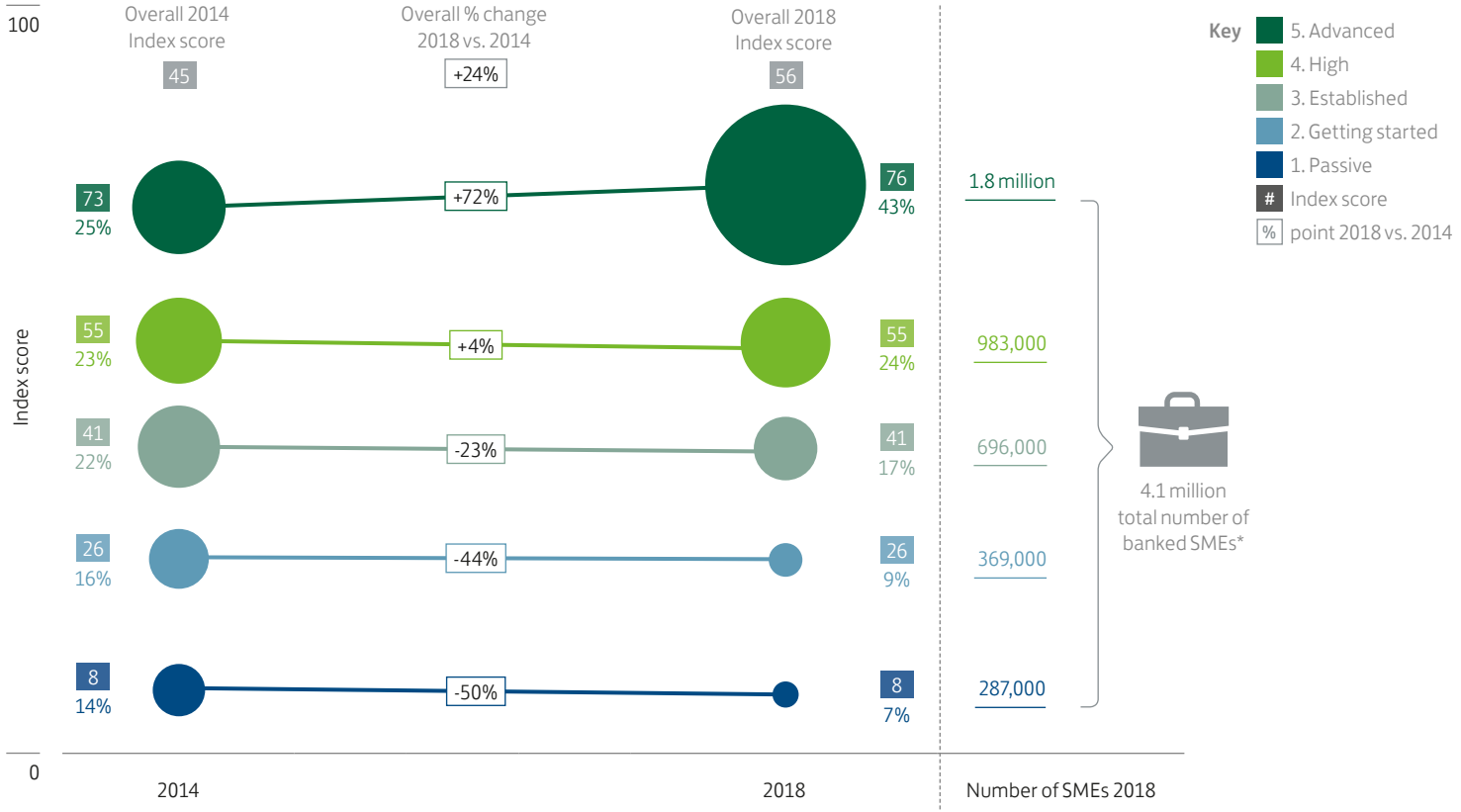
Digital capability is improving

Over the last five years, the overall Index score and digital capability for SMEs has significantly improved. Visualising the data at a segment level (figure 2) helps illustrate the digital transformation many SMEs have been through since 2014. Compared with 2017, the proportion of businesses in the least digitally capable group (Segment 1) has decreased, and at the same time there has been an increase in the proportion of businesses in the most digitally capable group (Segment 5). This movement illustrates a narrowing of the digital divide for SMEs in the UK.

In 2018 there are 655,000 (16%) SMEs with low digital capability (Segments 1 and 2)

In 2018 there are 3.4 million (84%) SMEs with high digital capability (Segments 3 to 5)

Figure 2. **Proportion of SMEs in each segment and Index score, 2018 vs. 2014**



* Charterhouse Business Banking Survey, 2018 (see Methodology on page 8)

Two-thirds

of SMEs save a full day
a week through digital

SMEs using analytics to
understand their customers are

41%

more likely to have
increasing turnovers

2x

The most digitally capable SMEs
are more than twice as likely
to have increasing turnovers

Basic Digital Skills

2.4 million (58%) SMEs have Basic Digital Skills

To qualify as having Basic Digital Skills, an organisation must be able to do at least one task within each of the skills categories – 'Managing Information', 'Transacting', 'Communicating', 'Problem Solving' and 'Creating'. This methodology was last refreshed in 2016 to include 'Problem Solving' therefore this is the third year of benchmarking this particular skill.

The 2018 data shows that 58% of the SME population have all five Basic Digital Skills. This has decreased by 1% since 2017.

Problem Solving online is the final hurdle to businesses achieving all five Basic Digital Skills

22% of SMEs have four of the five required skills. This is over 270,000 more SMEs than last year and represents over 900,000 SMEs in total.

It is 'Problem Solving' skills that are proving the hardest to grasp; of the number of SMEs with only four skills, 73% are lacking 'Problem Solving', this is up 8% since last year (figure 4).

1.7 million
SMEs do not have all five Basic Digital Skills

Figure 3. **Proportion and number of SMEs with one to five Basic Digital Skills, 2018 vs. 2017**

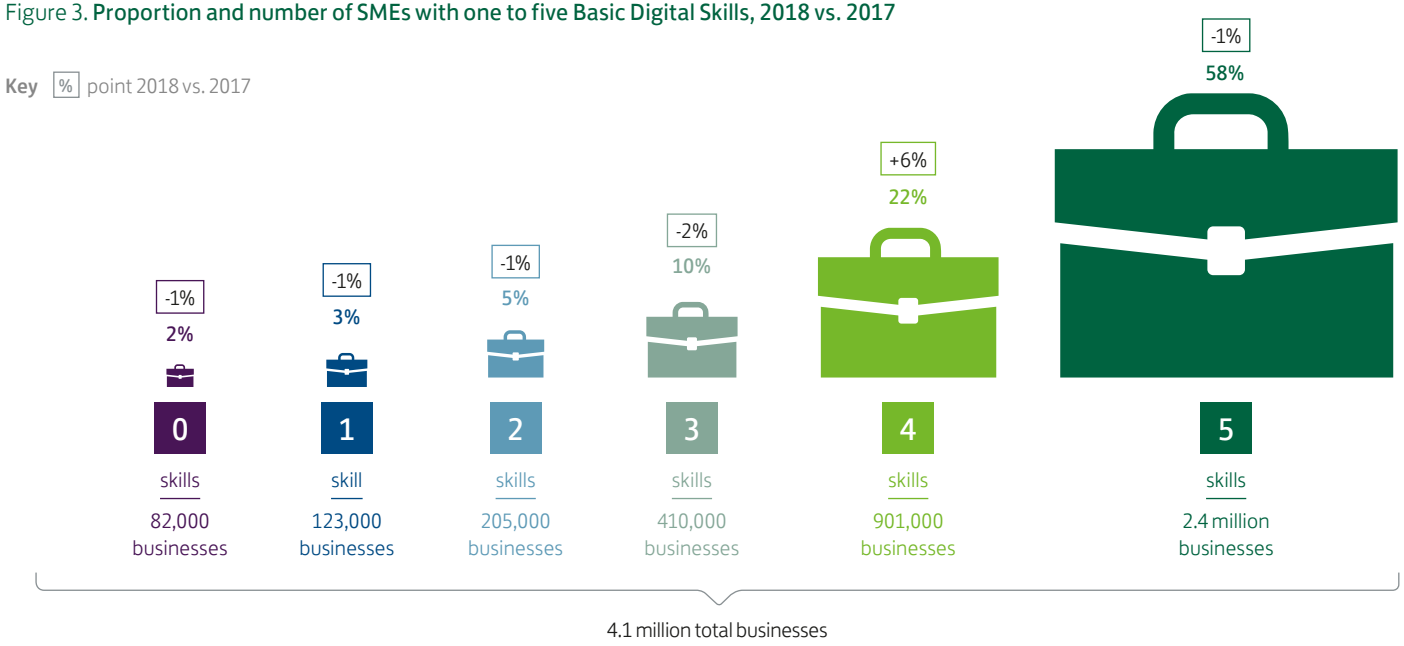
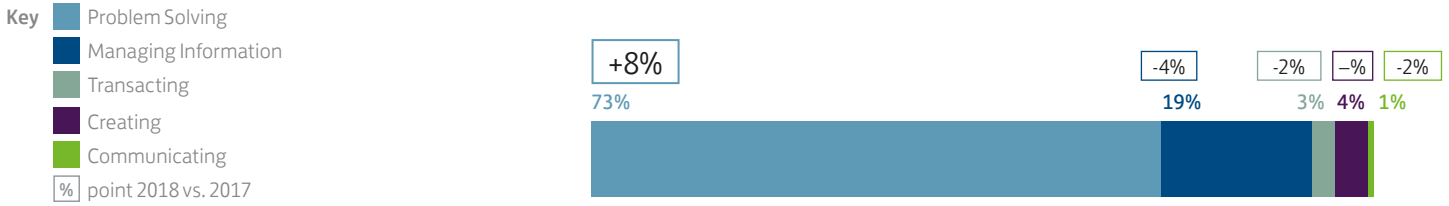


Figure 4. **Skills most lacked by SMEs with four Basic Digital Skills, 2018 vs. 2017**



SMEs are developing 'Communicating' and 'Creating' skills

There has been positive movement within key skill and task areas:

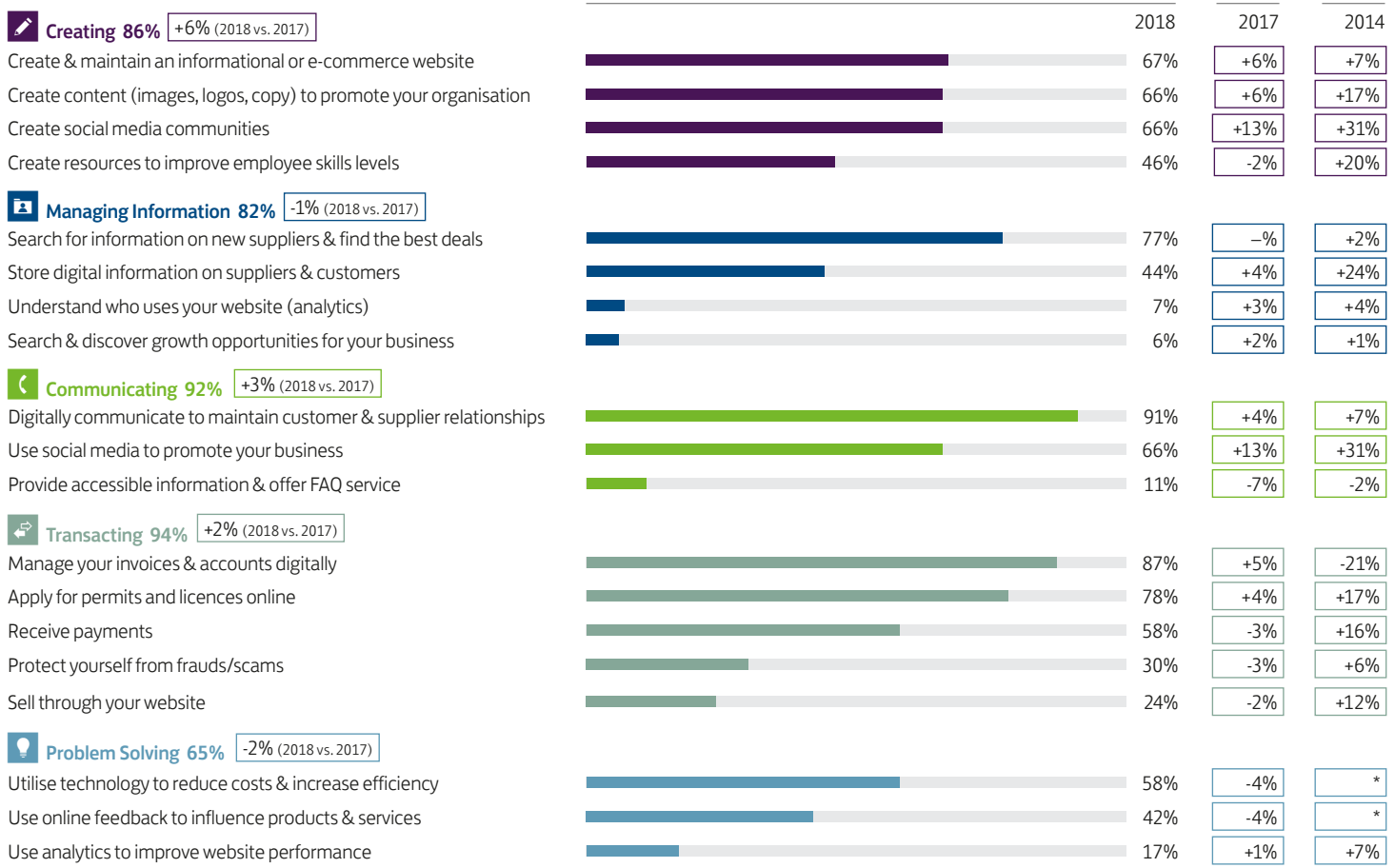
- 66% of SMEs are now creating their own content
- 66% are now using social media to promote their organisation
- 67% create or maintain an informational or e-commerce website

Transacting skills have also improved, driven by an increase in the proportion of SMEs managing their invoices and accounts digitally, which has increased to 87% from 82% last year. The upcoming Making Tax Digital initiative may have been a catalyst for this change.

44% also now store digital information on customers and suppliers. As the survey was undertaken prior to GDPR enforcement, 2019 data may show a significant fluctuation.

Figure 5. **Proportion of SMEs able to undertake Basic Digital Skills tasks, 2018 vs. 2017 and Basic Online Skills benchmark 2014**

% point 2018 vs. year



* 'Problem Solving' was not fully measured as a skill in the Basic Online Skills methodology in 2014

Benefits of Digital

Time saving continues to be the main benefit for SMEs

This year the data shows that the main business benefit of being online is the ability to save time through use of digital tools – 29% of SMEs see this as the main benefit. On the whole, SMEs report saving 21% of their working week due to digital benefits[1]*.

Up to 2018, the main benefit had been the ability to attract customers across the breadth of the UK, however the number of SMEs seeing this as their main reason has fallen since 2014. A hypothesis is that, as Cloud-based IT systems and online accounting software have become more accessible and embedded, the time savings are now more notable.

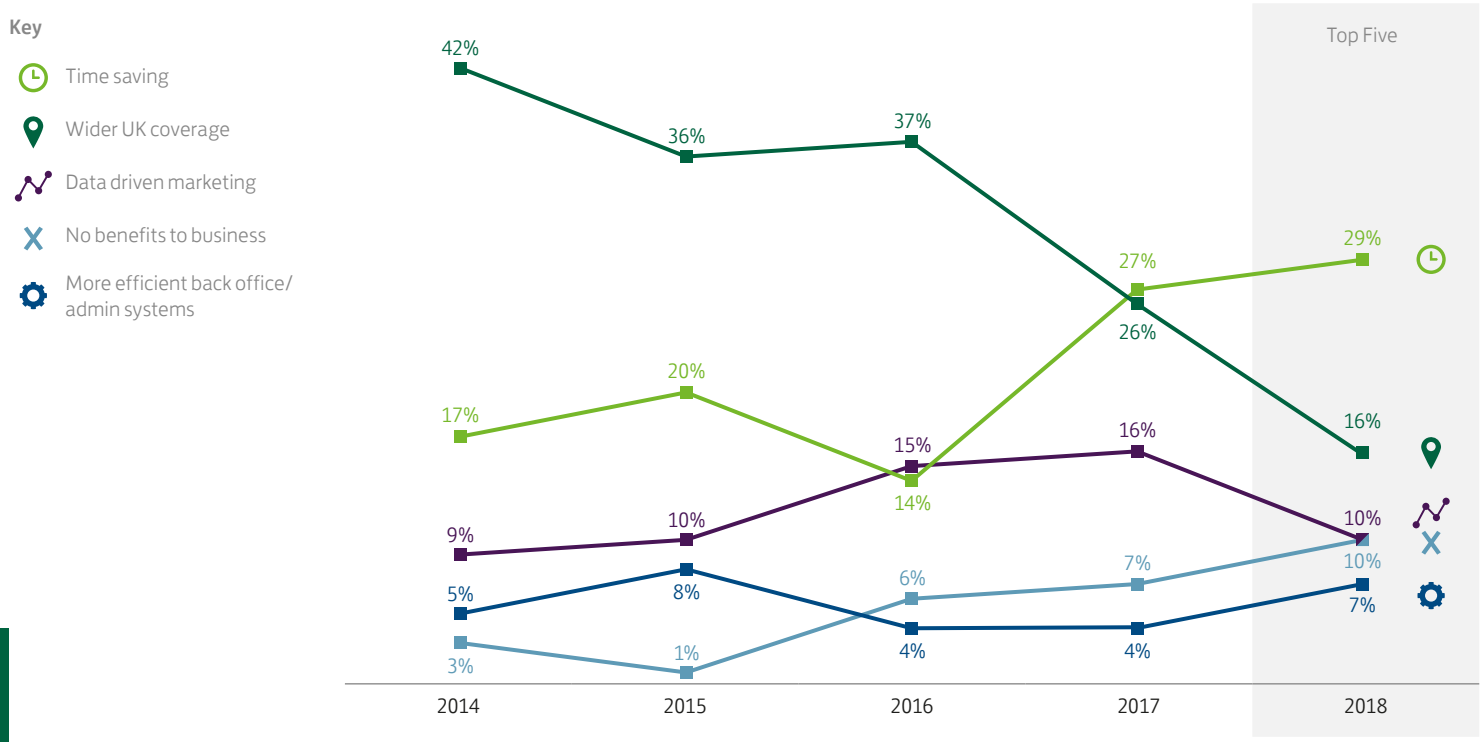
SMEs need to spend time to save time

SMEs from the low digital capability group are 45% less likely to be saving time online compared to the digitally mature group[2]. One possible explanation for this is that SMEs' perceptions are changing as outlined on page 20.

2x

More than twice as many SMEs save time online in 2018 compared with 2014[3] yet 1.6 million (38%) SMEs are not yet tapping into these time savings and are missing out

Figure 6. **Top five digital benefits for SMEs, 2014 to 2018**



*For the full appendix document, refer to lloydsbank.com/businessdigitalindex

SMEs with low digital capability could unlock up to an additional £84.5 billion turnover if they were to develop high digital capability

£85 billion opportunity for SME digital adoption

Beyond the tangible benefits to SMEs themselves, improved digital capability represents a significant opportunity for wider UK plc. For the first time, the Business and Charity Digital Index uses transactional data to provide a view of the productivity growth potential amongst SMEs with low digital capability. In the transactional data set, the average turnover of each SME was calculated and the two groups (those with low digital capability, and those with high) were compared. The difference in average turnover was then applied to all SMEs with low digital capability across the UK.

The data reveals that SMEs with low digital capability could unlock up to an additional £84.5 billion turnover if they were to develop high digital capability[4]. The biggest opportunity lies with sole traders. 41% of them fall within the low digital capability bracket, this is a UK business population of 1.8 million*. If these sole traders were to develop high digital capability, they could generate up to an extra £24,000 of turnover per year each. If all sole traders made this move this would add up to £43.3 billion at a total level.

Trading overseas is a key opportunity

Both the Department for Business, Energy and Industrial Strategy, Longitudinal Small Business Survey, and the Business and Charity Digital Index indicate that around a fifth of SMEs are using digital channels to trade overseas**. With only 18% of UK SMEs doing so, there is a real potential to drive growth through expansion into international markets[5].

East Midlands leading trade through digital

Businesses in London and the East Midlands are those most likely to trade overseas; this aligns to findings in the Lloyds Bank UK International Trade Index which shows that organisations in the Midlands have been leading in exports***. East Midlands is also the only region where trading overseas online has increased since 2017. The figures are the lowest in the North East and Northern Ireland[6].

See the Lloyds Bank 'International Trade Portal' for further insight:

resources.lloydsbank.com/international-trade-portal

Health & Social Work is the only sector to show progress in trading overseas online

The sectors most likely to be trading online are Financial Services and Manufacturing with 29% of these organisations doing so. All sectors have seen a year-on-year decline with the exception of Health & Social Work. Since 2017 there has been a 67% increase in the proportion of SMEs in this sector using digital to trade, with 20% doing so compared with 12% in 2017[7].

18%

of SMEs are using digital to trade overseas

* Department for Business, Energy and Industrial Strategy, 2018 Business Population Estimates, gov.uk/government/statistics/business-population-estimates-2018

** Business, Energy and Industrial Strategy, Longitudinal Small Business Survey, 2017, assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/710553/LSBS_2017_cross-sectional_SME_Employer_report.pdf

*** Lloyds Bank UK International Trade Index, 2018. For more information please contact us at DigitalSkillsInclusion@lloydsbanking.com

SMEs have a digital blind spot

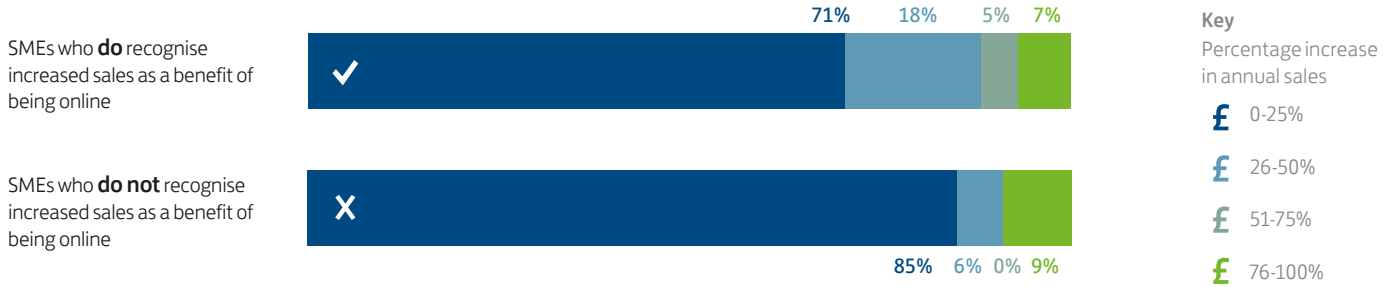
The percentage of SMEs who immediately recognise the direct benefits of digital adoption has decreased[8]. However when prompted to acknowledge digital channel use and the benefits provided, the data shows that respondents are able to identify and attribute significant benefits.

To highlight one example, of the 36% who **acknowledge increased sales** as a benefit, figure 7 shows that 71% of them have increased sales by up to 25% in a year.

64%

Unprompted 64% of SMEs do not recognise digital as driving increased sales, however in actuality 85% of this group have increased sales by up to 25% through digital channels

Figure 7. **Percentage increase in annual sales, split by SMEs who do/don't immediately recognise increased sales as a benefit of being online, 2018**



Digital capability is the foundation for digital confidence, which drives financial gains

Figure 8 illustrates a correlation between a business' digital capability, the confidence it has in its future success, and increasing turnover. These three elements may form part of a self-perpetuating cycle where each propels the other.

Digital levers linked to increased turnover

On average, SMEs who use Cloud-based IT systems, online accounting software and digital training tools have £103,000 higher annual turnover than those using none[9]. Nearly one-quarter (22%) of all SMEs are using the three digital tools and services listed .

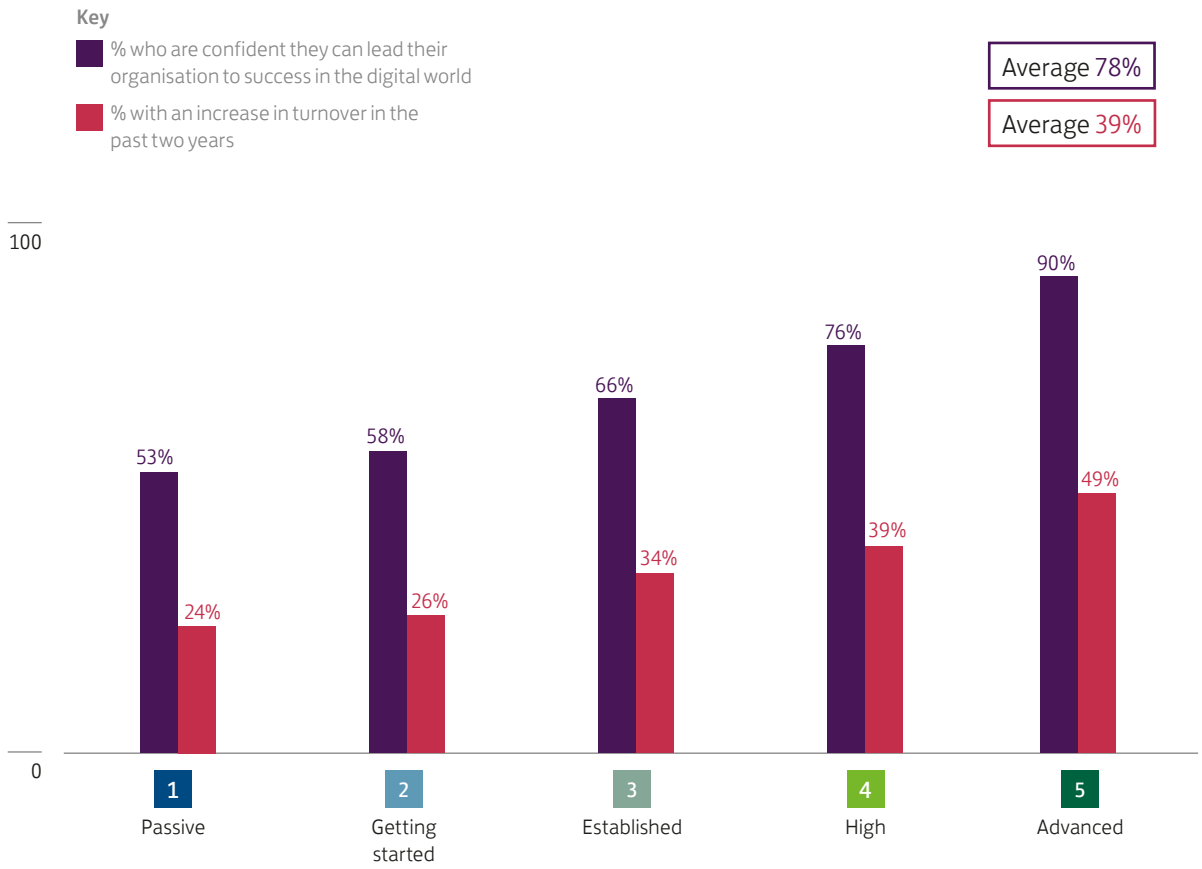
In terms of digital skills, SMEs with social media, e-commerce, search engine optimisation and data analytics expertise have on average £104,000 higher annual turnover than those with none[10]. 12% of SMEs have at least three of these digital skills.

Those with a website, Instagram account and Facebook page have £77,000 higher annual turnover than those with none[11]. Currently 11% of SMEs use all of these channels, and 62% use at least one.

Figure 8 also shows that the most digitally capable SMEs (Segment 5) are more than twice as likely as the least digitally capable (Segment 1) to have increasing turnovers. This demonstrates a correlation between digital capability and financial performance.

In addition, digitally confident SMEs are over two and a half times more likely than the digitally uncertain to have had an increase in turnover in the last two years[12].

Figure 8. **Proportion of SMEs with digital confidence and increase in turnover, split by digital segment, 2018**



Barriers to Digital

The barriers to digital adoption are coming down

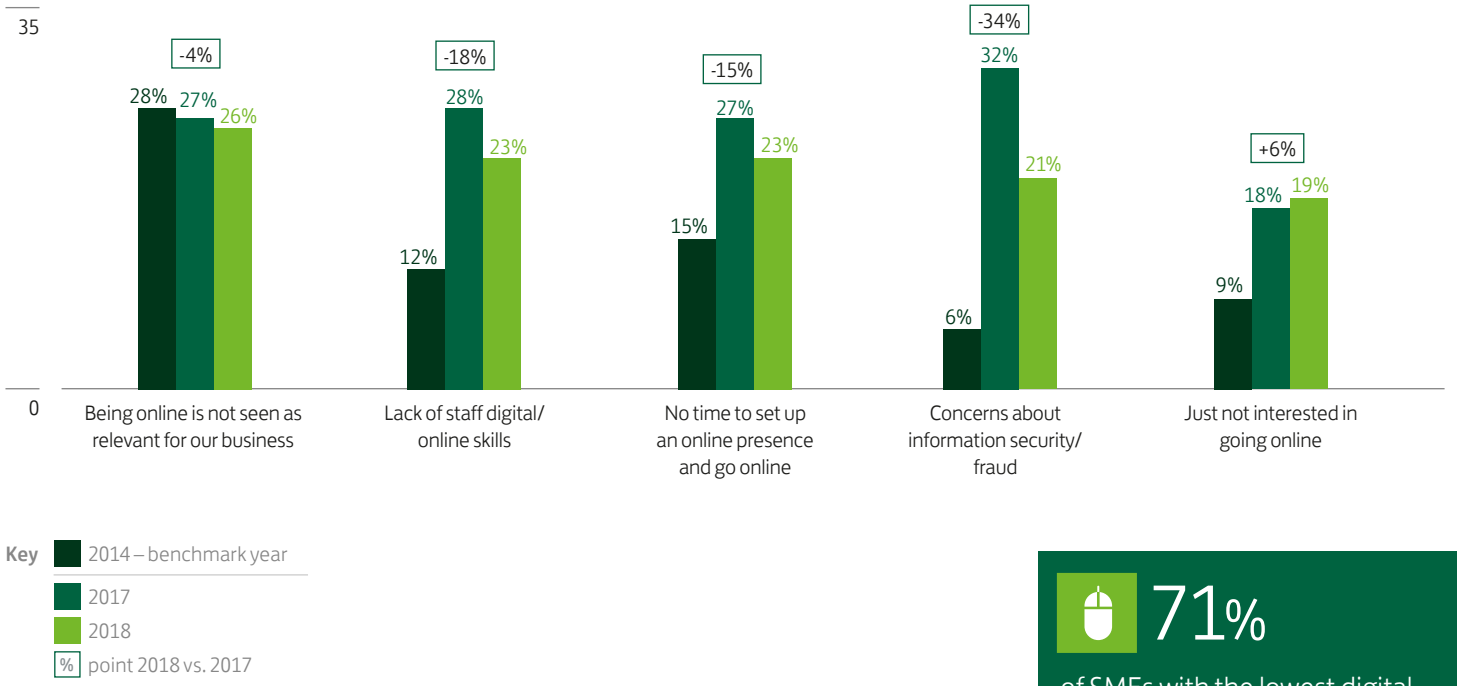
In the past year, the barriers preventing SMEs from doing more online appear to have decreased. This is positive particularly as there had been increases in the barriers identified in the Business Digital Index 2017*.

In 2017, 'concerns about information/security fraud' represented the top barrier preventing SMEs from doing more online. This has now dropped to fourth place, reducing by 34% since last year (figure 9).

This year the top barrier preventing businesses from doing more online is a lack of understanding as to how technology could improve business productivity and help organisations prosper.

Since 2014, the proportion of businesses who don't see the relevance of a digital presence has stayed consistent as demonstrated in figure 9. However, other barriers have become more prevalent as more businesses move online.

Figure 9. **Top five barriers preventing SMEs from doing more online, 2018 vs. 2017 and 2014**



16%

of SMEs say they are already doing as much online as they want to[13]

71%

of SMEs with the lowest digital capability now recognise that digital is relevant to them – a 31% increase since 2014[58]

* Lloyds Bank UK Business Digital Index 2017, page 27, lloydsbank.com/businessdigitalindex

The least digital SMEs have tackled their biggest barriers

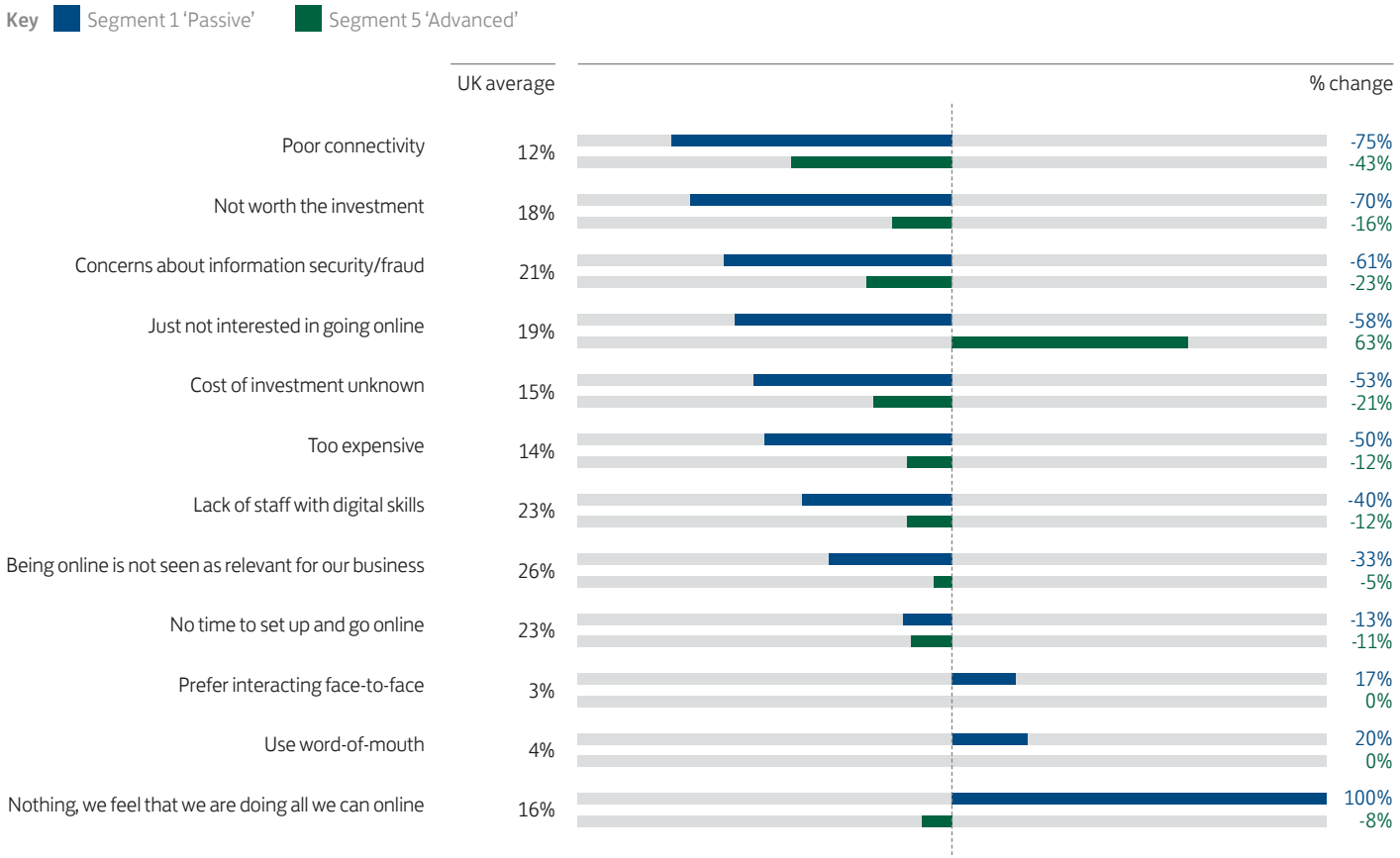
SMEs in Segment 1 'Passive' are largely offline. Figure 10 shows the key barriers to digital adoption for this group of over 285,000 businesses.

Last year, motivation barriers and concerns about security* represented the greatest barriers for the least digital businesses. These barriers have almost halved over the past year. However, the increased number of SMEs preferring face-to-face transactions or word-of-mouth advertising indicates value in a multi-channel approach.

The proportion of the least digital SMEs who feel they are doing everything they can has doubled since 2017 (5% to 10%)[14]. This suggests that either SMEs need further education and support for their ongoing development, or other blockers need to be better understood and overcome.

When comparing the 'Passive' and 'Advanced' segments, figure 10 demonstrates that the least digital businesses have made substantial progress in overcoming their barriers, however it is important for the 'Advanced' segment not to lose momentum.

Figure 10. **Barriers preventing SMEs from doing more online, split by digital Segments 1 and 5, 2018 vs. 2017**



* Lloyds Bank UK Business Digital Index 2017, page 28, lloydsbank.com/businessdigitalindex

Dryden Farms

Dryden Farms in Durham illustrates how one of the oldest industries in existence are now using technology to thrive in a digital world. Set up on Murton Moor farm in the 1970's, the family business has grown from 200 to 650 acres of arable farming, as well as recently diversifying into poultry farming and agricultural contracting.

A key motivator for embracing digital for the business is the ability to optimise the processes involved with running a farm; managing resources, time and cost. For example, through the use of GPS, the farm team have optimised the use of fertiliser application on the farm and their customers' land, resulting in increased yields. Machinery fitted with automatic steering technology has made the operator's job easier and less tedious over a long working day, resulting in enhanced productivity.

Digital has also enabled them to diversify their business and maximise their business model. Their newly-built website has helped them to advertise their outputs, but has also expanded functionality to enable them to manage and promote the contracting of agricultural machinery across the county. The website address www.drydenfarms.co.uk is present on all of the contracting machinery, the farm's equipment and tractors, so they can serve as advertising and signposting too.

The team uses Twitter and Facebook proactively, posting regular weekly updates of ongoing activity, as well as promoting services and outputs to new audiences and potential customers. As a result the business has seen a real uplift. Since the use of social media, Dryden Farms have seen an 80% increase in the use of the online order form, which has resulted in a huge time saving benefits for the company. The website and social presence was set up with a minimal cost of £1,000 and the costs have been recovered many times over via reduced administration and marketing expenditure alone. Dryden Farms revised their approach to social media after attending a Lloyds Bank Digital Knowhow workshop earlier in 2018, in which they gained an understanding of how and when to post content to maximise impact.

Their online activity has also improved the business' local exposure. The farm has appeared on local television discussing recent events in the farming community and has enabled the owner, Judith, to be a role model for other organisations. Judith is now focusing on changing mindsets towards digital across the farming industry, by engaging with the younger population and encouraging them to get online and experience the benefits first hand.

drydenfarms.co.uk

For more information on Digital Knowhow workshops in your area – contact DigitalSkillsInclusion@lloydsbanking.com

Digital Usage

In the next section the following three key aspects of digital usage are explored; transacting preferences, knowing your customer online and cybersecurity.

Transacting online: a tale of two halves

This year 99% of SMEs are now online. The 2018 data on page 17 shows that 94% of the UK's SMEs are transacting online. Almost half (49%) of all their transactions are carried out through digital channels[15]. SMEs who do transact online report that the top three reasons for preferring to do so are; time savings, cost savings and an increase in sales (figure 11).

25% of SMEs feel more secure transacting online

53% of SMEs prefer to transact online[16]. Whilst speed and ease of transaction were the foremost reason, one-quarter (25%) believe it is in fact more secure; perhaps due to the minimised necessity to handle cash as well as the strict controls and checks that are required by digital payments providers (figure 11).

99%
of SMEs are now online

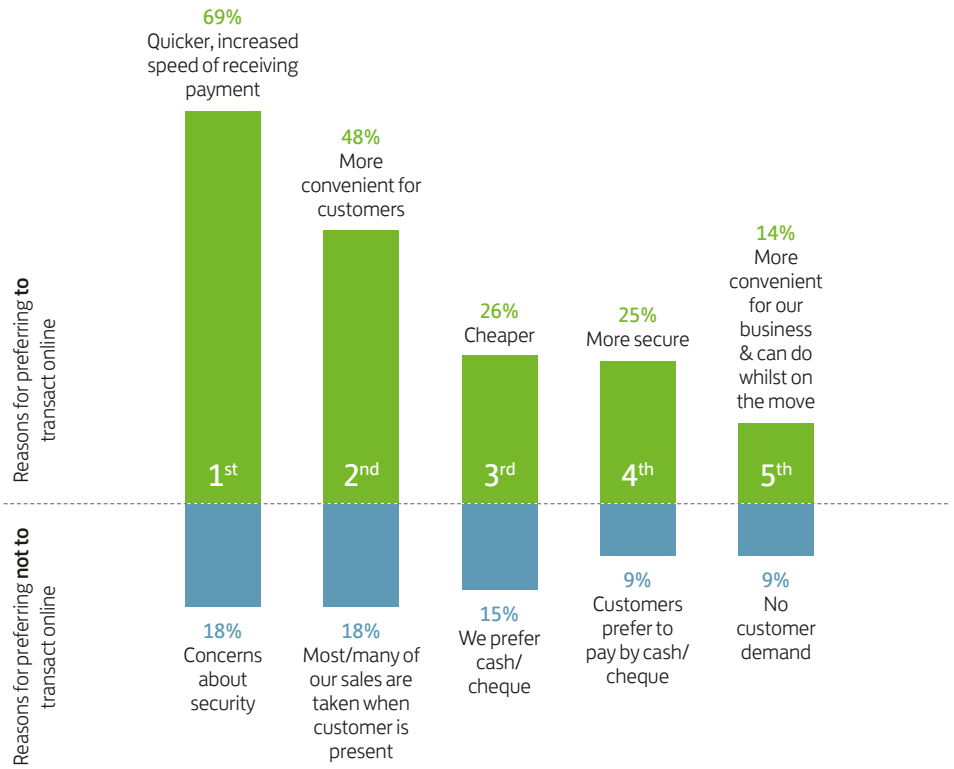
Nearly one in three (30%) prefer to transact via traditional methods

For the 30% of SMEs who prefer to transact in branch, over the phone or using cash, the primary reason is a lack of confidence in online security (figure 11). These concerns over security are more acute in businesses with fewer than ten employees. These organisations may have less resources to protect themselves, making them feel more exposed[17].

Age of business also plays a role; older businesses are nearly twice as likely to use cheques than newer organisations. These businesses debited on average £57,000 in 2017; £41,000 more than the younger businesses[18]. As outlined on page 37, this correlates with the fact that older businesses are less digitally capable.

A consideration for the two groups averse to either cash transactions or digital transactions is that of their customer base. Research has shown that the use of cash in the UK is falling rapidly, while the use of online and mobile payments methods continues to grow rapidly*. Data from the 2018 Consumer Digital Index demonstrates that nearly 47 million UK consumers (87%) transact online – a market many SMEs will be missing out on**.

Figure 11. **Top five reasons given by SMEs for and against preferring to transact online, 2018**



* UK Payments Market Summary, 2017, ukfinance.org.uk/wp-content/uploads/2018/01/PUK-UK-Payments-Markets-2017-Summary-AW-Online.pdf

** Lloyds Bank UK Consumer Digital Index, 2018, lloydsbank.com/businessdigitalindex

Digital Usage: Understanding Customers

SMEs using data analytics are 41% more likely to increase turnover

Being able to understand customer behaviours, preferences and requirements is fundamental to any business, and this is equally true online.

For digital organisations, customer-centricity moves the dial on the bottom line – SMEs with data analytics skillsets are 41% more likely to have had an increase in turnover[19]. They are also 23% more likely to feel confident about their future success in an ever-digital world[20].

This represents a significant opportunity for SMEs. In the past year, there has been a 10% increase in the number of SMEs with a website; 67% now have one. However the data shows that 83% of businesses using digital channels are not employing analytics to improve website performance and the majority of businesses (58%) are not tailoring their products and services based on user needs and online feedback. Also more than half (56%) of businesses are not capturing customer details or their interactions with their website (*see page 17*).

£ 41%

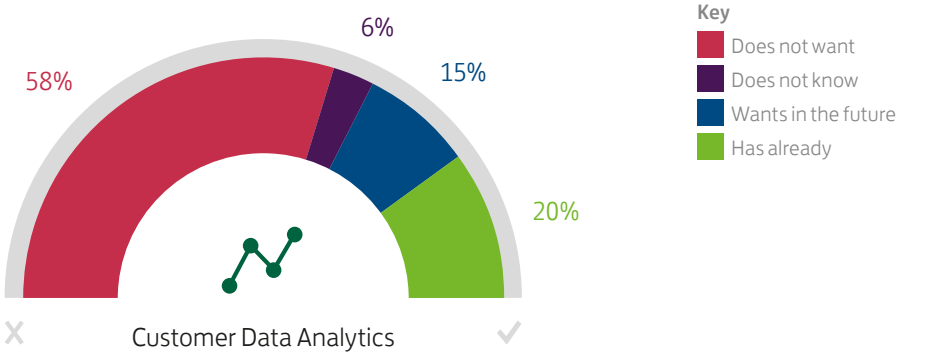
SMEs with data analytics skillsets are 41% more likely to increase turnover

58% of SMEs do not understand how they could benefit from customer data analytics

One route to developing deeper customer understanding online is via businesses developing the relevant skills. Figure 12 shows that one in five businesses currently has data analytics skills and the majority of the rest (58%) are not interested in developing or acquiring this skill. It is possible this stems from a lack of understanding of what can be done with this skill and the benefits it can afford rather than an outright opposition to acquiring it.

As it stands, the data shows low engagement with business activities related to online customer understanding. Few businesses are capturing customer data effectively, meaning that even with data analytics skills, there may not be any meaningful data to evaluate. If this continues, both businesses and customers stand to lose out. However it is the businesses that must take the lead in harnessing customer data.

Figure 12. **Proportion of SMEs and their data analytics aptitude and intention, 2018**



58% of SMEs are not looking to develop customer analytics skillsets

3.4 million (82%) SMEs are missing out on 25 million mobile customers

The 2018 Index data shows that 68% (2.8 million) of SMEs have a website (*see page 17*). This is good news for the 87% (47 million) of UK consumers who use websites to purchase goods or services online or to learn more about the businesses they choose to interact with†.

There are also 25 million UK consumers who are opting to buy goods and services directly from their smartphones*. The 2018 Index data shows that 18% (740,000) of SMEs have mobile-optimised websites and services[21]. Inconvenient for many, this lack of mobile optimisation is a barrier to those who need this functionality for accessibility reasons.

96% of SME websites missing out on £11.75 billion annual revenue

Over 13.9 million UK adults have accessibility requirements due to a disability** and while they are four times more likely to be offline***, there are still ten million who use the Internet. Research shows that seven in ten disabled customers say they click away from a website they find difficult to use, therefore businesses are missing out on in excess of £11.75 billion each year†.

The 2018 Business and Charity Digital Index reveals that only 4% of UK SME websites are accessible[22]. This figure rises to a maximum of 8% for businesses with ten employees or more, compared to only 2% of sole traders[22]. With a sector lens, Education businesses are the most likely to have accessible websites at 7% versus 1% for Agriculture, Forestry or Fishing sectors[23].

* E-commerce News (eMarketer), 2017, ecommercenews.eu/59-uks-digital-buyers-make-mobile-purchases
** Family Resources Survey, 2018, assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/692771/family-resources-survey-2016-17.pdf
*** Lloyds Bank UK Consumer Digital Index, 2018, lloydsbank.com/consumerdigitalindex
† Click Away Pound, 2016, clickawaypound.com/cap16finalreport.html

Spotlight on Sole Traders

Sole traders prioritise front-of-house digital skills, but the back office is falling behind

There are fewer sole traders with all five Basic Digital Skills. This change has primarily been driven by a reduction in the number of sole traders who are using efficiency-driving back office processes and tools (figure 13). Instead, sole traders have been prioritising customer and peer-facing platforms such as their websites and social media. 21% of sole traders using social media have had an increase in turnover – the highest out of all SMEs[24].

Sole traders could unlock £11,000 through online productivity tools and training

For the first time, the behavioural data set has been utilised to show the benefit of back-office systems including Cloud-based IT systems, digital skills training platforms and online accountancy systems. Sole traders using at least one of these three technologies are benefiting from an average of £11,000 greater turnover than those using none[25].

A move up the capability ladder could equate to £24,000 in turnover

41% of sole traders have low digital capability, if these businesses were to develop into having high digital capability, individually they could generate an extra £24,000 of turnover per year[26]. If all sole traders made this move, this would add up to £43.3 billion in increased turnover.

14%

more sole traders prefer support from a friend, relative or colleague compared to the UK average[27]

Please refer to the Lloyds Banking Group and Digital Skills Partnerships toolkit for helpful links and resources for SMEs: lloydsbank.com/businessdigitalindex

Figure 13. **Sole traders' proficiency with Basic Digital Skills tasks, 2018 vs. 2017**

Spotlight on Cybersecurity

Security infrastructure has been prioritised for investment

Almost three-quarters (72%) of SMEs with websites use robust website security mechanisms to prevent hacking; a 9% increase when compared with 2017 and a 76% increase on 2014[28].

This is a positive story for SME data security and may be a factor in digital businesses feeling more confident online.

However, it's important that the remaining one in four (28%) SMEs also embed these security mechanisms to ensure that their business and customers are protected in the digital world.

External experts are plugging the skills gap

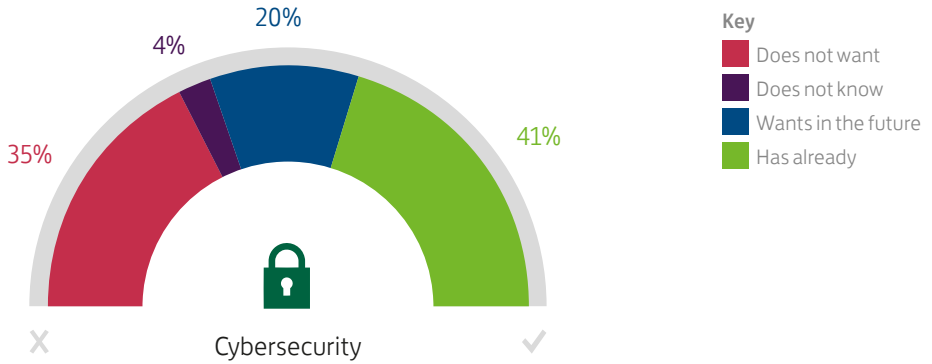
The data suggests that 38% of SMEs are bringing in consultants to help embed new technology and ways of working (*see page 31*). This is due to a continued lack of security skills within small organisations. Compared with 2017, 226,000 more businesses say they lack the skills to protect themselves from general fraud and scams (*see page 17*); a total of 2.9 million businesses (70%).

Businesses have said that cybersecurity skills are the most sought after digital skill[29]. 41% of businesses already have these skills and 20% have indicated they want to acquire them within the next two years (figure 14). Based on this current trajectory, by 2020, 61% of businesses could have cybersecurity skills.

Research shows that larger corporates are also placing a high level of focus on cybersecurity as 54% of FTSE 350 Boards say that cybersecurity presents the greatest risk to their companies*.

A cause for concern is that 28% of SMEs lack understanding of what cybersecurity is and what it means to their organisation (*see page 32*).

Figure 14. **Proportion of SMEs and their cybersecurity aptitude and intention, 2018**



Cybersecurity is the most sought after digital skill; one in five want to grow this capability in the future

*FTSE 350 Cyber Governance Health Check Report, 2017, assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/635605/tracker-report-2017_v6.pdf

The more digitally engaged a business is, the more likely it is to be able to protect itself

Figure 15 shows that SME's understanding of cybersecurity increases the more digital they are.

However, the graph also illustrates a gap between SMEs saying they understand cybersecurity and those who actually have the skill – on average, there is a 31% gap across all digital segments. This suggests that SMEs either do not understand how it is relevant to their organisation, are unaware as to how to protect themselves online or have assessed their business needs and the costs outweigh the benefits.

Cybersecurity capability does not correlate with confidence

SMEs with low digital capability are less concerned about their online security (*see page 23*). One hypothesis is that they are less exposed to and/or aware of potential dangers.

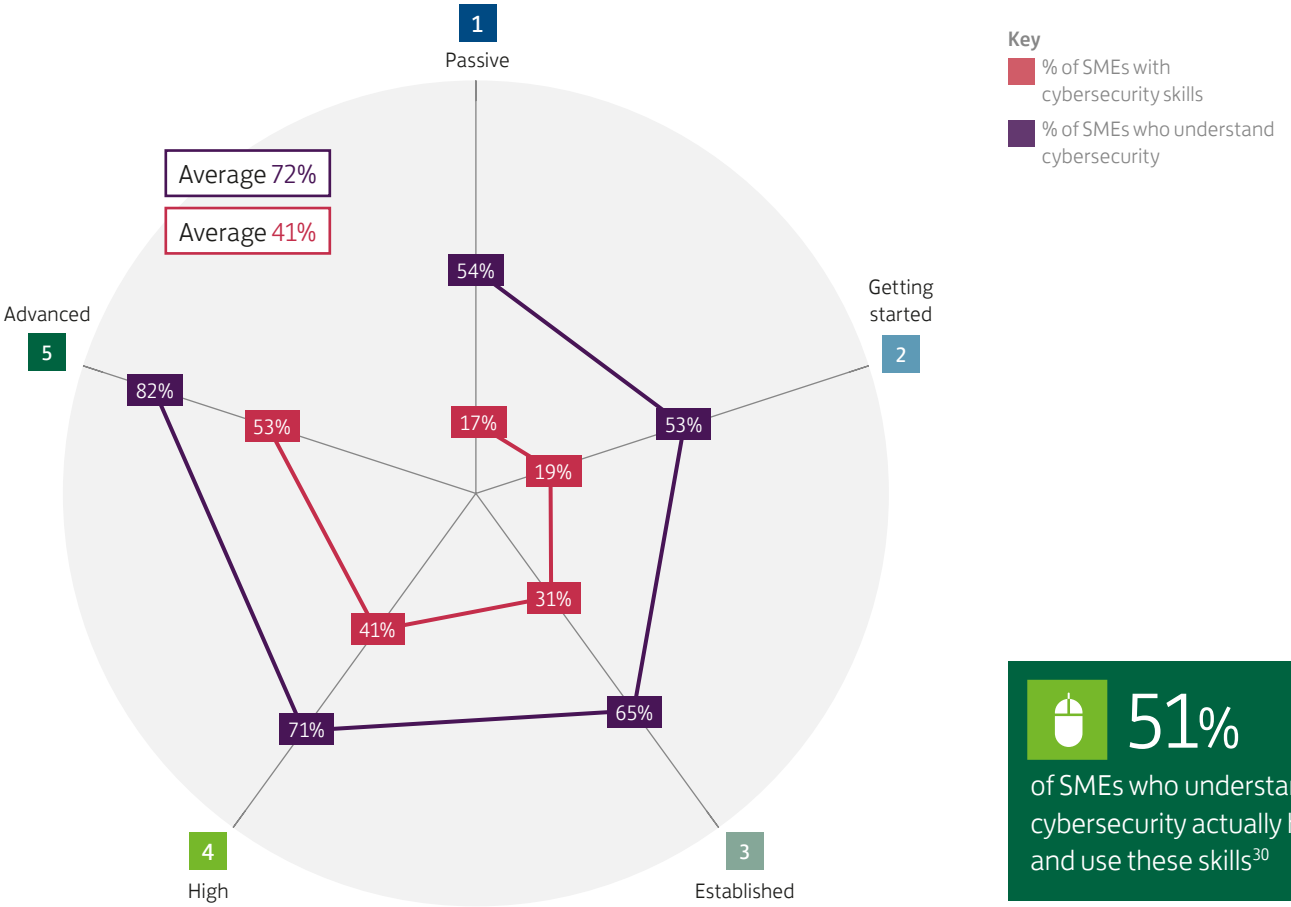
A small level of concern might ensure ongoing focus. However, digital security concerns already prevent one in five (21%) SMEs from doing more online (*see page 23*). Practitioners and thought leaders must ensure these concerns drive momentum and not hamper it.

For more information on how to protect your business from fraud, please visit:

lloydsbank.com/business/security.asp

ncsc.gov.uk/smallbusiness

Figure 15. **Proportion of SMEs who understand and have cybersecurity skills, split by digital capability, 2018**



51%

of SMEs who understand cybersecurity actually have and use these skills[30]

Advice and Guidance

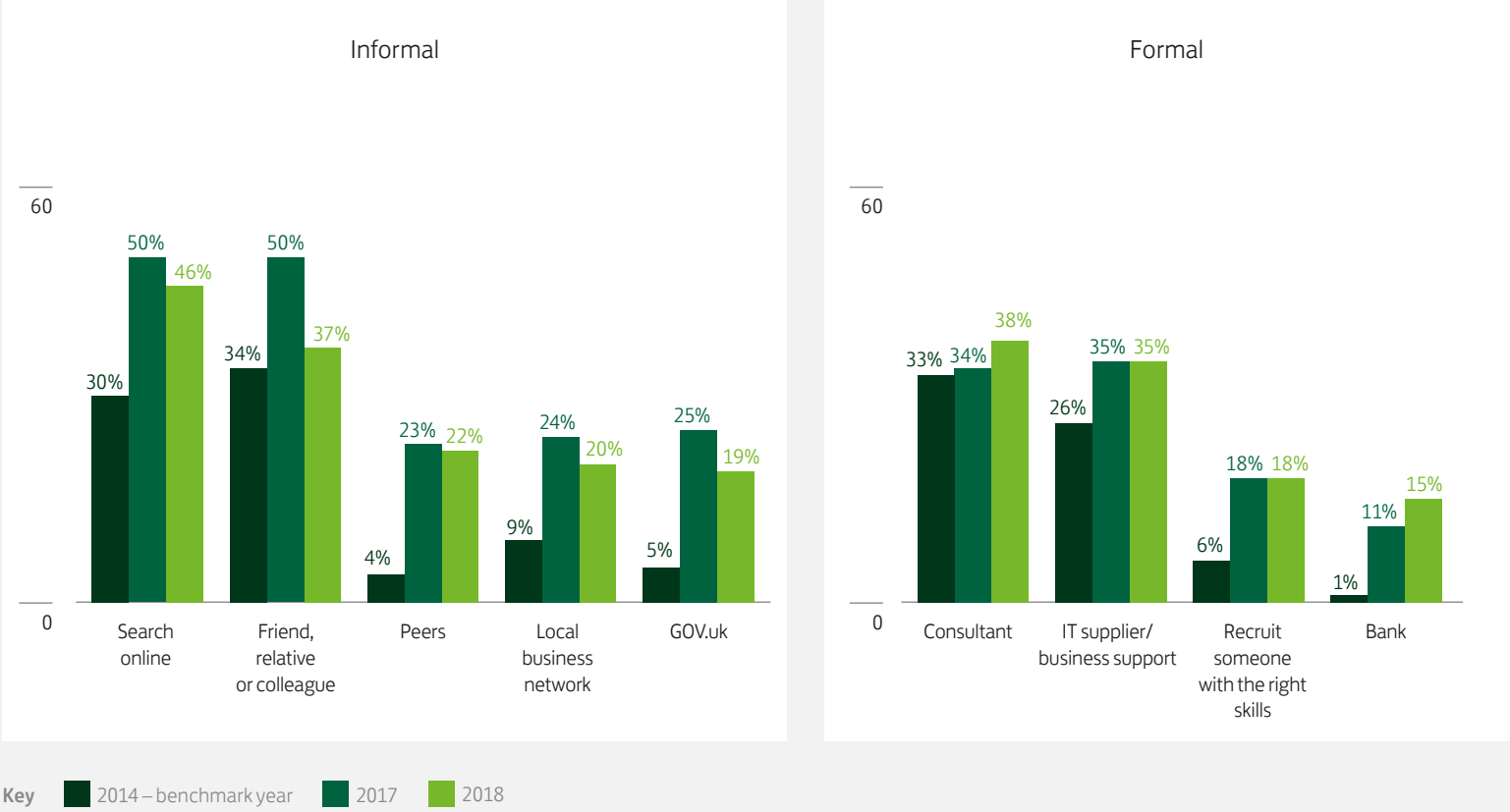
Businesses are turning more to formal sources of digital guidance

The data shows that online search continues to be one of the most popular methods of getting help and advice on technology. However the past 12 months demonstrate a shift towards the uptake of formal support rather than informal help; the only growth since 2017 has come from consultants and the Bank.

Since the creation of the Index in 2014 – 'peers' are the support network that has seen the greatest growth. Nearly six times as many businesses are now tapping into this informal source of digital advice.

When asked if they would be interested in receiving free digital skills training from large organisations, only one-quarter of SMEs said they would be interested[31]. Those less than three years old were 50% more likely to be interested in this type of training compared to those over ten years old[32]. Those with high digital capability were almost nearly 2.5 times as likely to welcome this training provision than those with low digital capability[33] indicating that the more digital knowledge SMEs have, the more they want.

Figure 16. **Where SMEs go for help and advice on technology and the Internet, 2018 vs. 2017 and 2014**



Future Skillset and Mindset

This year, for the first time, the 2018 Index explores the extent to which SMEs are looking to adopt more advanced technology.

Gap between action and intention

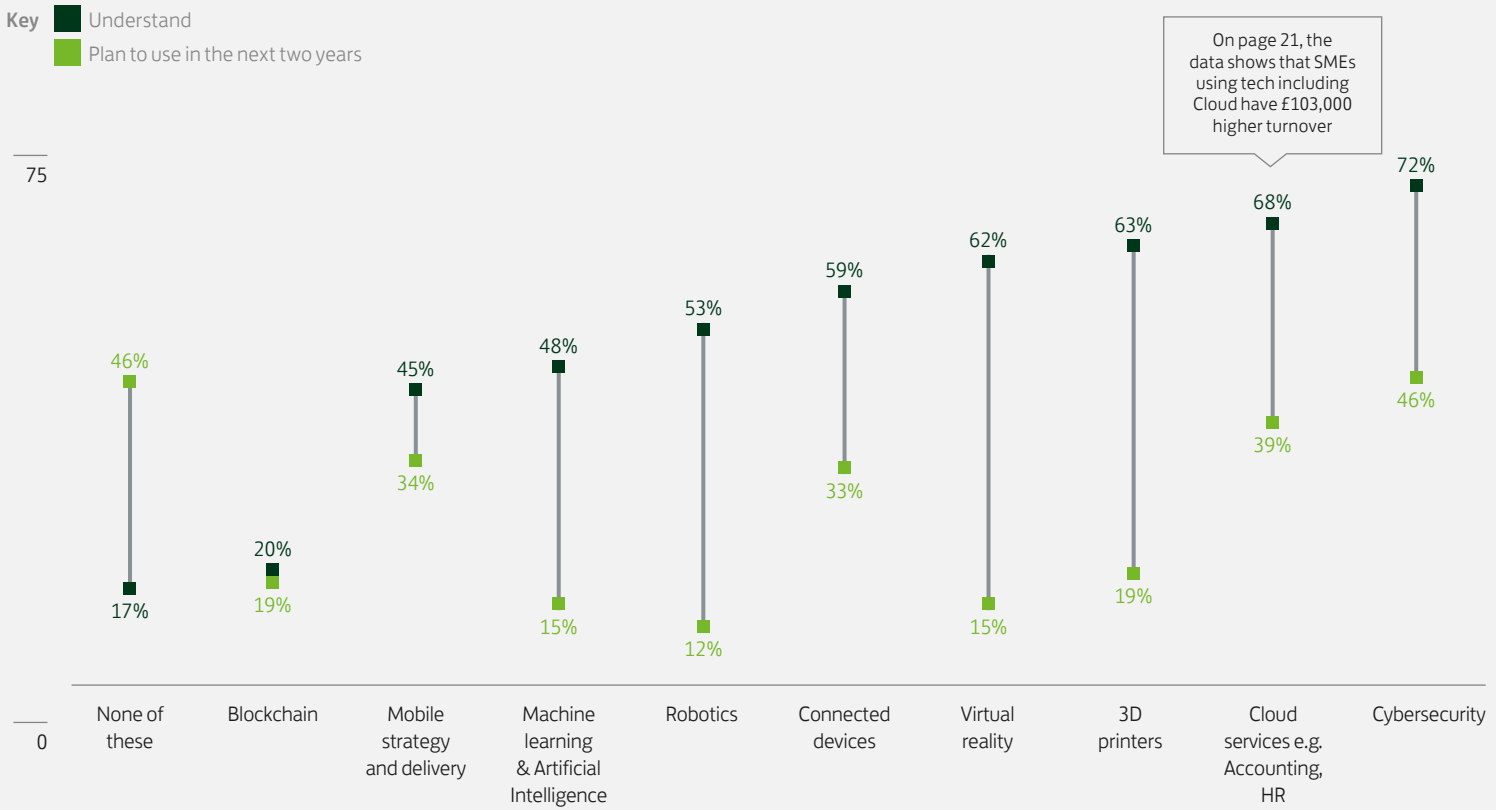
As shown in figure 17, the gap between the understanding of the technologies listed, and the intention to adopt them in the coming years varies significantly. Cloud services and cybersecurity are the most sought after technologies and are those most likely to be adopted in the next two years. Notable gaps are in virtual reality and 3D printer adoption, where almost two-thirds of SMEs understand the opportunity, but very few are adopting it.

Benefits of various technologies are unclear to SMEs

The gap suggests two things; either the technology is genuinely not applicable to some businesses (e.g. virtual reality), or the benefits or onboarding process are not clear. Blockchain is the exception; it has an almost 100% conversion rate, whereby those who understand it have the full intention to adopt it, if they haven't done so already.

Perhaps unsurprisingly, the more digitally capable an SME is, the more likely it is to both understand these capabilities and then act on them[34]. This will prove important to the 43% of SMEs with the highest digital capability. As technology evolves these businesses must continue to develop a learning mindset and be technologically nimble.

Figure 17. **Proportion of SMEs who understand and have plans to use the listed future technologies, 2018**



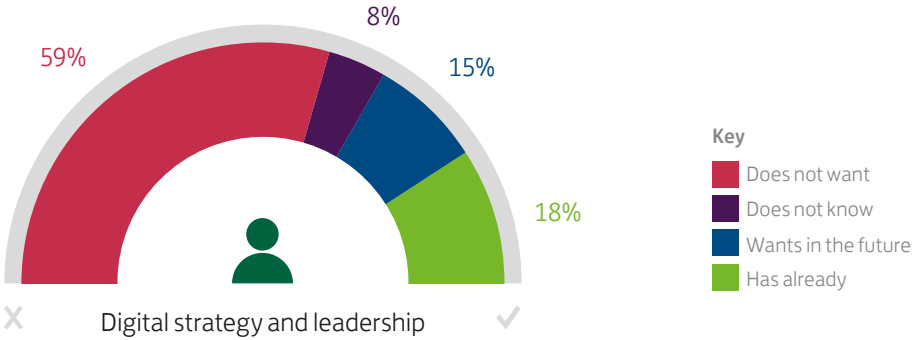
Only one-third of SMEs have or want digital leadership skills

The 2017 Business Digital Index evidenced that leaders with high digital capability are two and a half times more likely to be leading organisations with an increasing turnover*. With digital leadership skills having a tangible impact, it is perhaps surprising that 59% of SMEs do not want to evolve their digital strategy and leadership capability (figure 18).

42% of Service sector SMEs have or want to develop digital strategy and leadership skills

Since 2017, the Service sector is the only sector to have seen an overall decrease in the proportion of SMEs with all five Basic Digital Skills[35]. The survey results show that this could change in the future as this sector has the greatest ambition to develop digital leadership[36].

Figure 18. **Proportion of SMEs and their digital strategy and leadership aptitude and intention, 2018**



* Lloyds Bank UK Business Digital Index, 2017, lloydsbank.com/businessdigitalindex

Cera Care London

Founded two years ago, Cera Care was developed to bring the crucially important business of social care into the digital age. The business provides a home care service, which is supplemented by the use of a dedicated app for both carers and patients.

Traditionally social care has been slow to adapt to digital trends due to funding for the sector, the level of regulation involved, and the average age of health-tech patents being a barrier to change. However, Cera Care have proven that adapting the business model and incorporating digital technology for frontline staff and patients can have tangible benefits and can be done in a compliant way.

By using a tool called Digital Matching for carers and individuals, the organisation has created better relationships between staff and patients. The team consider personalities, requirements and timeframes to match both parties and enable them to directly communicate with each other.

The use of digital analytics has also allowed Cera Care to plan their workforces' time more efficiently and with the patient in mind. Allowing patients to be able to request a carer at the right time that suits them, by analysing the data that is collected, this saves idle time for carers, leading to lower costs and more capital for employee pay. Carers salaries are on average up to 50% more than the market average as a result of these changes, which impacts retention of staff.

The digitisation process has led to care records being stored online. New tools have allowed patients to log details about the care given, which can help raise issues and respond to them faster. Patient data can be shared with permission and the digitised systems are easier to share and collate in comparison to the traditional pen and paper systems that were in place. Patients can also leave messages for the carer directly – improving communication and allowing for remote communication that previously wasn't possible.

Those unable to use smartphones can still benefit as family members can log details and requests via the app on their behalf, and can view care-plans and details remotely.

The digitised approach has provided cost savings for the business. Cera Care plans to reinvest this for further app development, staff training and creation of additional career prospects for employees.

In the future the organisation aims to expand to be able to cater for patients with physical, learning and mental difficulties over the next five years. Their strategy focuses on further developing their digital, data and device capability and continues to build upon the highly successful digitisation of the industry that they are leading.

ceracare.co.uk

Future Skills and Tech

Micro-businesses are resolute in the face of automation

Looking to the future, SMEs see the Internet of Things and Artificial Intelligence (AI) as the technology that will most revolutionise the way that they do business in the next three to five years (figure 19).

Whilst 25% of organisations believe AI will have a significant impact on their organisation, for almost half of SMEs, automation does not present a threat. Data from the Lloyds Bank Business Barometer** shows that 53% of SMEs think that none of their workplace will be replaced by AI or robotics in the next five years[37] and for micro-businesses* with a turnover of under £1 million, this rises to 71%[38].

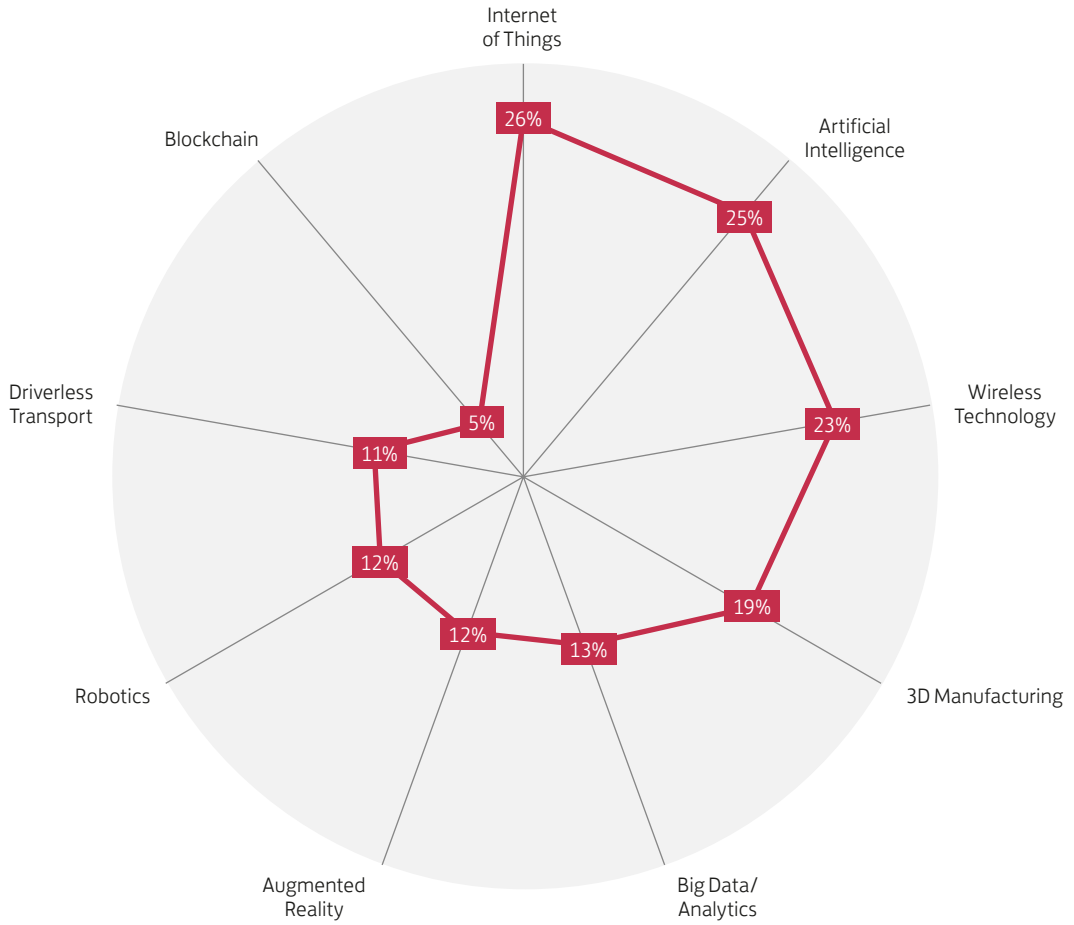
Varied regional expectations for automation

Almost a fifth of London firms expect more than 50% of their workforce to be replaced by AI in the next 5 years[39]. 70% of SMEs in the East of England believe that AI and robotics will not threaten their workforces at all.

53%

of SMEs believe that none of their workforce will be replaced by AI and robotics in the next five years

Figure 19. **Proportion of SMEs who believe the named technology will revolutionise their business in the next three to five years, 2018**



* Businesses with less than £1 million annual turnover

** For information on the Lloyds Bank Business Barometer publications see page 8

Construction and Service sectors anticipate AI the most

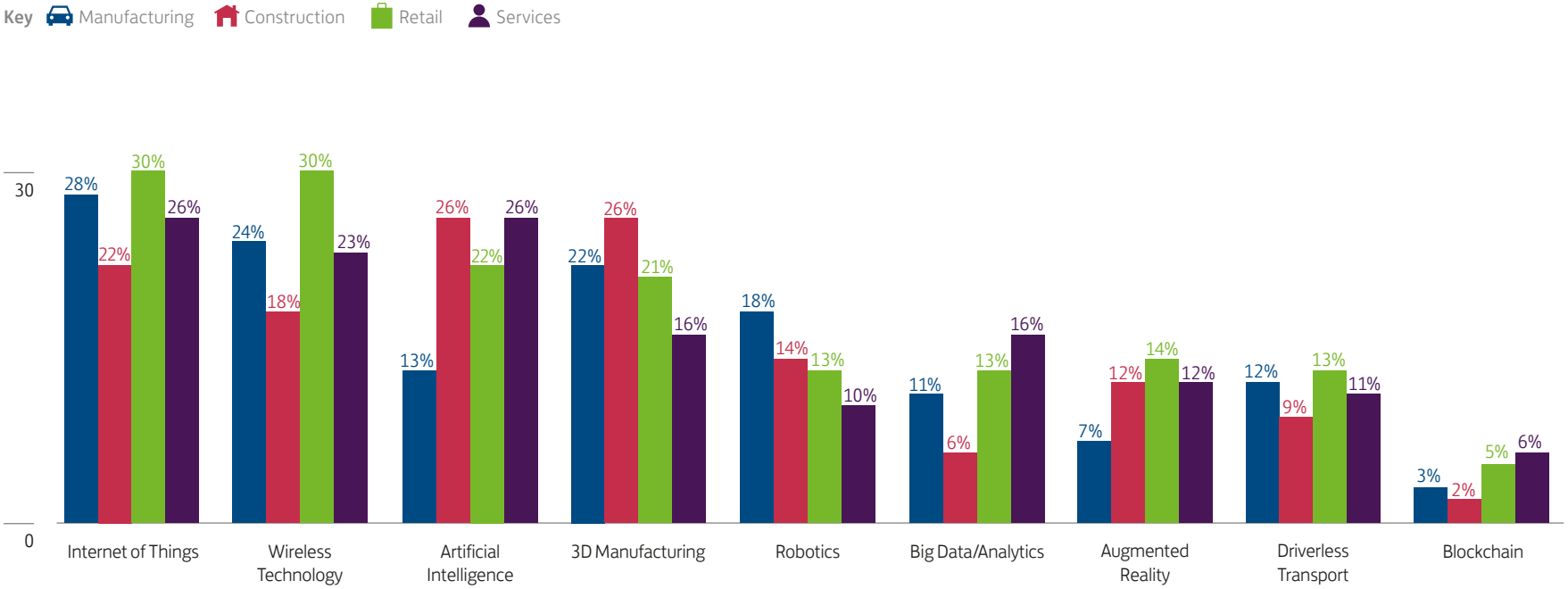
For the first time, the Business and Charity Digital Index incorporates a sectoral view of future technologies and the intention to adopt them.

Figure 20 shows that for the listed sectors, there are varying views as to the extent on which technologies will have an impact on the way they do business.

Sector expectations for the potential revolutionary impact of Blockchain are especially low across the board.

When looking at 'Big Data/ Analytics', the Construction sector lags behind the rest as it is the least likely sector to believe that this technology will revolutionise the way they operate in the immediate future.

Figure 20. **Proportion of SMEs who believe the named technology will revolutionise their business in the next three to five years, split by sector, 2018**



Digital Demographics

North West is leading the powerhouse with digital skills

Figure 21 shows the biggest regional increase in the number of SMEs with Basic Digital Skills has taken place in the North West. The North West is also the region with the highest proportion of SMEs with all five Basic Digital Skills. Only 15% of SMEs in the North West report that digital is not relevant to their business – the lowest of any region and perhaps a contributing factor to their progress with Basic Digital Skills.

This year, the South West is the region with the lowest proportion of SMEs with all five Basic Digital Skills. This has however increased by almost one-quarter since 2015 (up 24%) showing that progress has been made.

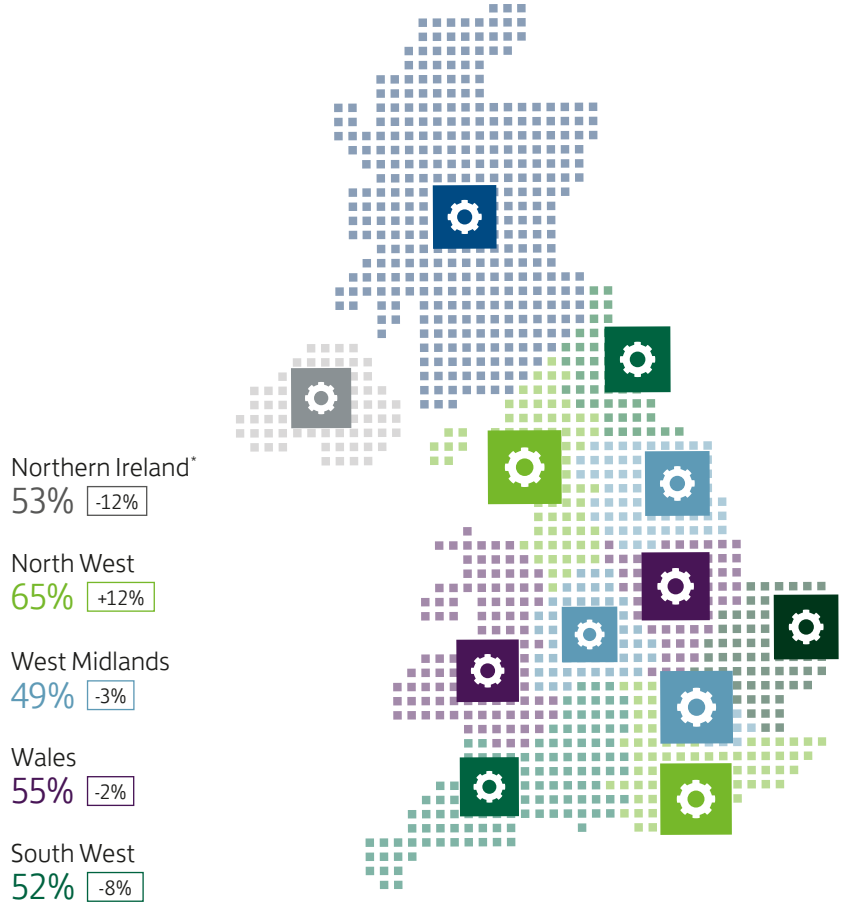
National and Regional Factsheets

Building on the demographics provided, factsheets are available and provide insight into local digital capability and skills with comparisons to previous years.

For more information please visit:
lloydsbank.com/businessdigitalindex

Figure 21. **SMEs with all five Basic Digital Skills, split by nation and by region, 2018 vs. 2017**

% point 2018 vs. 2017



* Northern Ireland sample in 2018 was small, and accordingly data should be treated with care

Age of SMEs

As in previous years, Index scores are highest among businesses under three years old (62, an increase of four points). Businesses ten years or older have an Index score of 55 (this has also increased by four points)[40].

Size of SMEs

When split by employee size, all SMEs have made progress against the Index score measure. Sole traders have made the largest improvement, having increased four points to an Index score of 52 since 2017.

Only 47% of sole traders have all five Basic Digital Skills – this is a 3% decrease since 2017 and compares to 84% of the largest SMEs. Sole traders are the least proficient with 'Problem Solving' skills and have seen a 5% decrease in the last 12 months[41].

Overall, sole traders have the most to gain from support with digital skills and capability.

Figure 22. **SME Index scores, split by size, 2018 vs. 2017**

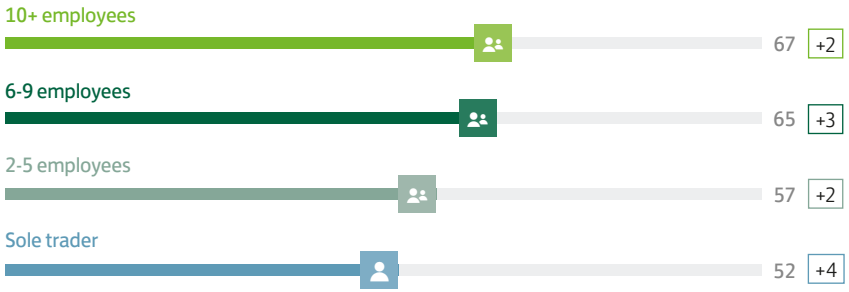
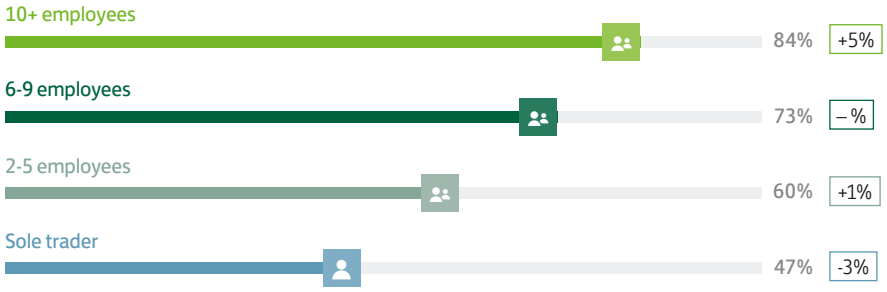


Figure 23. **SMEs with all five Basic Digital Skills, split by size, 2018 vs. 2017**



% point 2018 vs. 2017

Turnover

Figures 24 and 25 show the continued correlation between turnover and digital capability and skills.

In the past year there has been a six point increase in the Index score for businesses with a turnover greater than £1 million.

Figure 25 shows that 42% of SMEs with a turnover of less than £1 million do not have all five Basic Digital Skills. This compares to 20% of those with a turnover between £one million to £25 million.

Figure 24. **SME Index score, split by annual turnover, 2014 to 2018**

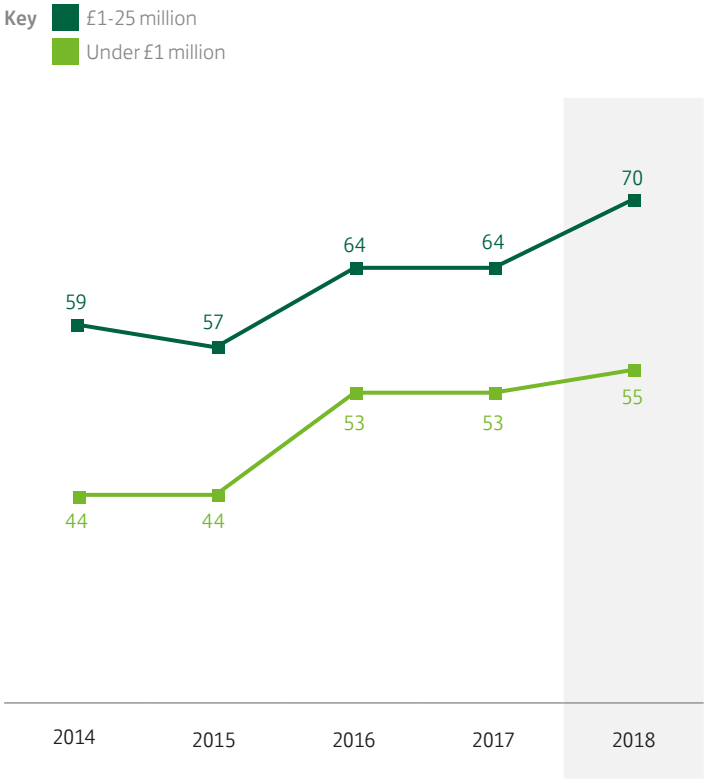
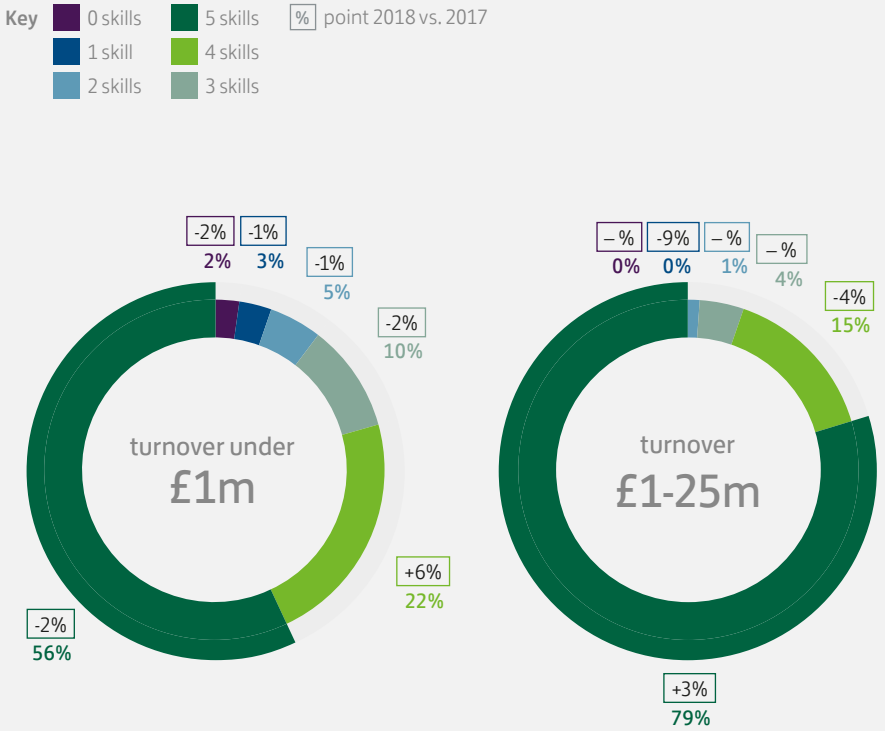


Figure 25. **SMEs with all five Basic Digital Skills, split by annual turnover, 2018**



Lowest proportion of men with all five Basic Digital Skills since 2014

The trend over the last three years shows a 2% point decrease in Basic Digital Skills among male SME managers (figure 26).

Between 2016 and 2017, the Index score (digital capability) and Basic Digital Skills score for women also declined. However this year both measures have improved.

Two-thirds of women in business (65%) now have all five Basic Digital Skills, and they are 18% more likely to have all five skills than men (55%).

More females in leadership and tech roles could propel SMEs

The UK tech workforce is currently 81% male*. A larger female cohort would help propel the digital capability of the SME sector forward by increasing digital capability and skillsets in the roles that benefit from them the most.

Women are in the minority of UK SME leadership**. Figures 26 and 27 show females are more likely to be ahead with digital and page 33 shows that the most digitally capable SME leaders are more than twice as likely to report increasing turnovers. This suggests that SMEs would benefit financially by promoting increased female leadership.

Figure 26. **SMEs with all five Basic Digital Skills, split by gender, 2016 to 2018**

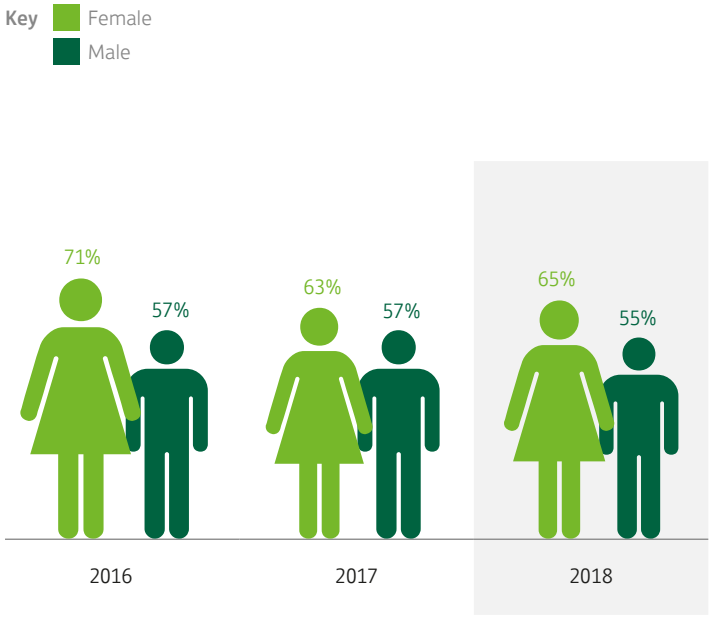
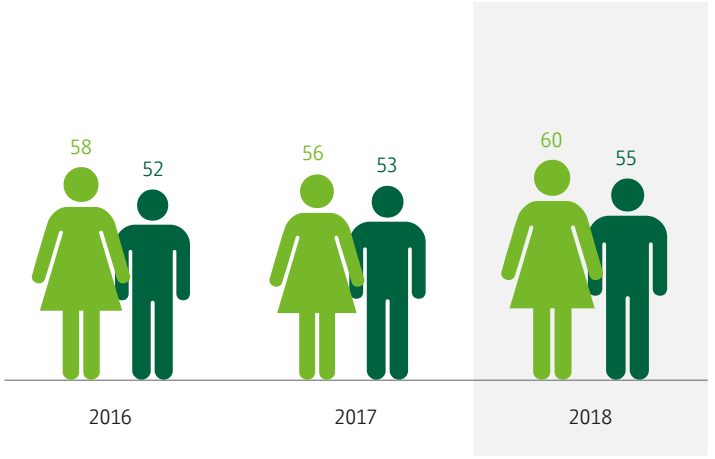


Figure 27. **SME Index scores, split by gender, 2016 to 2018**



* Tech Nation, 2018, technation.io/insights/report-2018/jobs-and-skills
** Business, Energy and Industrial Strategy, Longitudinal Small Business Survey, 2017, assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/710553/LSBS_2017_cross-sectional_SME_Employer_report.pdf

Charity Digital Index

Charity Index Score and Segmentation

Digital capability is improving

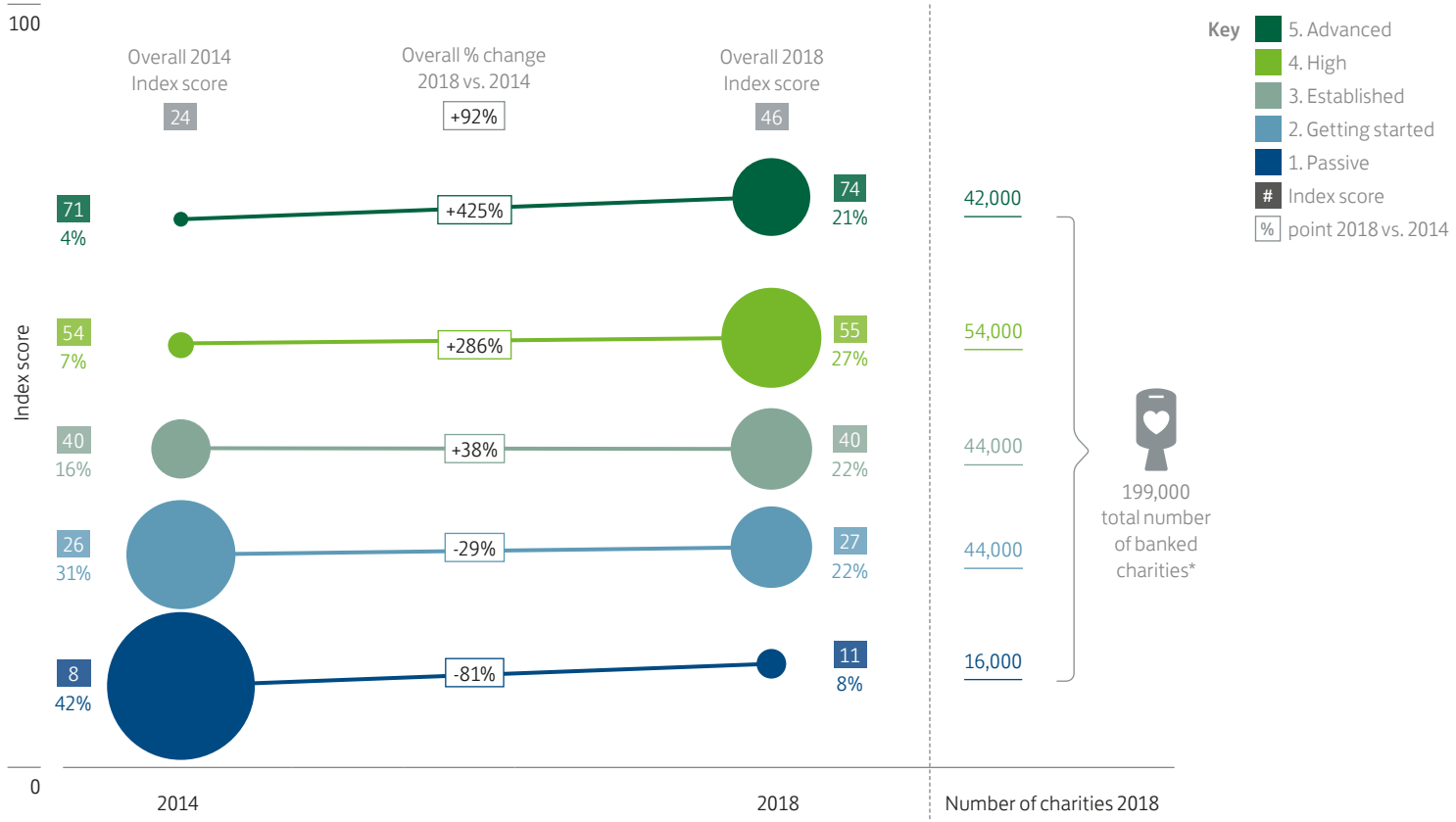
The Index Score and digital capability segmentation have been created using actual behavioural data. Over the last five years, the Index score of charities has almost doubled (figure 28). Visualising the data at a segment level helps illustrate the digital transformation many charities have been through since 2014. Compared with 2017, the proportion of charities in Segment 1 has halved to 8%.

There has also been an increase in the proportion of charities that are online with only 1% offline compared with 4% last year[42]. Since 2014 the number of charities in Segment 1 who see digital as relevant to their organisation has also increased by 24% to 67% (*see page 48*).

In 2018 there are 60,000 (30%) charities with low digital capability (Segments 1 and 2)

In 2018 there are 140,000 (70%) charities with high digital capability (Segments 3 to 5)

Figure 28. **Proportion of charities in each segment and Index score, 2018 vs. 2014**



*The UK population of charities has been aggregated using sources from; Charity Commission for England and Wales, Charity Commission for Northern Ireland, and the Scottish Charity Regulator (OSCR).

Basic Digital Skills

103,000 (52%) of charities have Basic Digital Skills

The Index score outlines actual behaviour, whereas the Basic Digital Skills measure captures core competencies. To qualify as having Basic Digital Skills, a charity must be able to carry out at least one task within each of the given skills categories (see figure 31 for skills and tasks).

The 2018 data shows that charities have made substantial progress with Basic Digital Skills. 52% of charities now have all five Basic Digital Skills; 4% more than in 2017.

As figure 29 shows, there has been a positive shift across the board for charities, with a reduction in the number of those with no digital skills (97,000 down from 100,000 in 2017) and an increase in those able to do three skills or more.

Problem Solving online is the final hurdle to charities achieving all five Basic Digital Skills

24% of charities have four of the five Basic Digital Skills, compared with 2017, this is an increase of 4% and represents 8,000 more charities in total. It is the 'Problem Solving' skills that are proving the most challenging to undertake. As shown in figure 30, for this group on the cusp there has been a 28% increase in those who are unable to solve problems with digital, compared with 2017.

97,000 charities do not have all five Basic Digital Skills

Figure 29. **Proportion and number of charities with one to five Basic Digital Skills, 2018 vs. 2017**

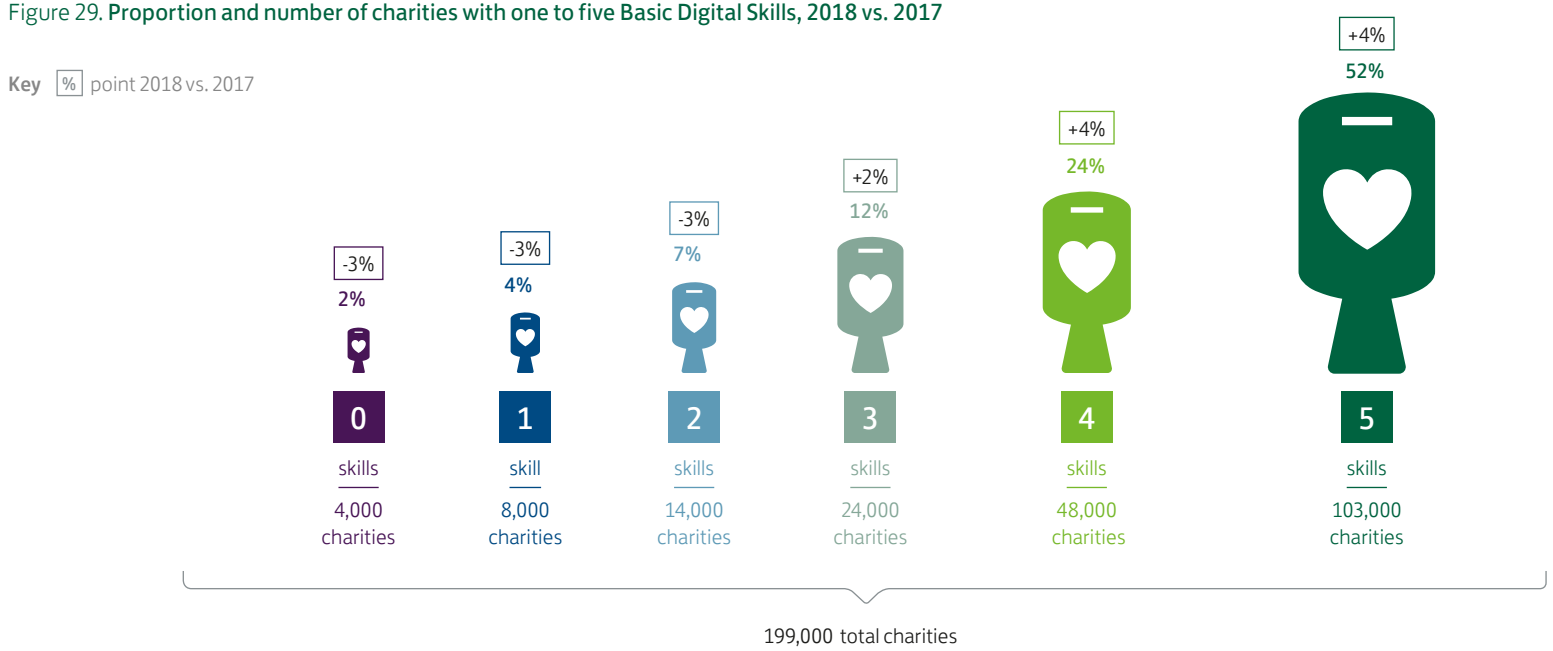
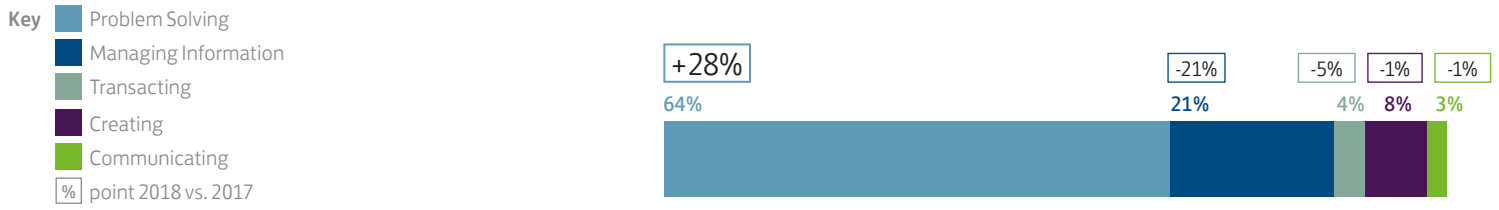


Figure 30. **Skills most lacked by charities with four Basic Digital Skills, 2018 vs. 2017**



Charities have made substantial progress in growing and deepening their digital skillsets

Since 2014, there has been significant progress for charities across the breadth of the digital skills tasks listed in figure 31.

This year the data shows that the proportion of charities able to do all tasks within the Basic Digital Skill 'Creating' has more than doubled since 2017 and is now 25%[43]. Charities able to do all tasks for the digital skill 'Transacting' has also doubled to 12%[44].

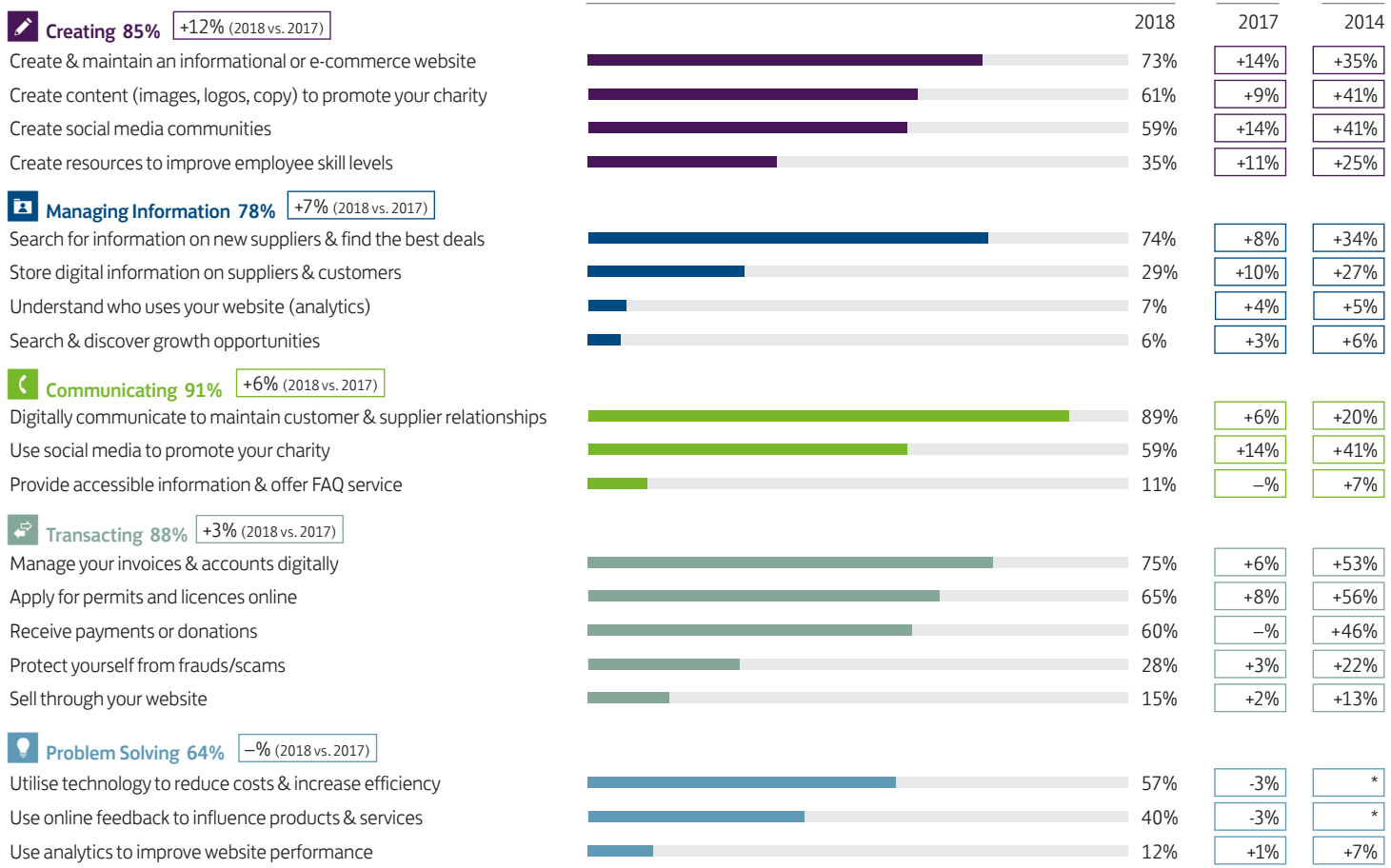
Since 2017, the biggest improvements charities have made have come from the 'Creating' and 'Transacting' areas, in particular, social media use.

40%
of charities do not receive online donations

* 'Problem Solving' was not fully measured as a skill in the Basic Online Skills methodology in 2014

Figure 31. **Proportion of charities able to undertake each task, 2018 vs. 2017 and Basic Online Skills benchmark 2014**

% point 2018 vs. year



Social media skills are the main area of progress

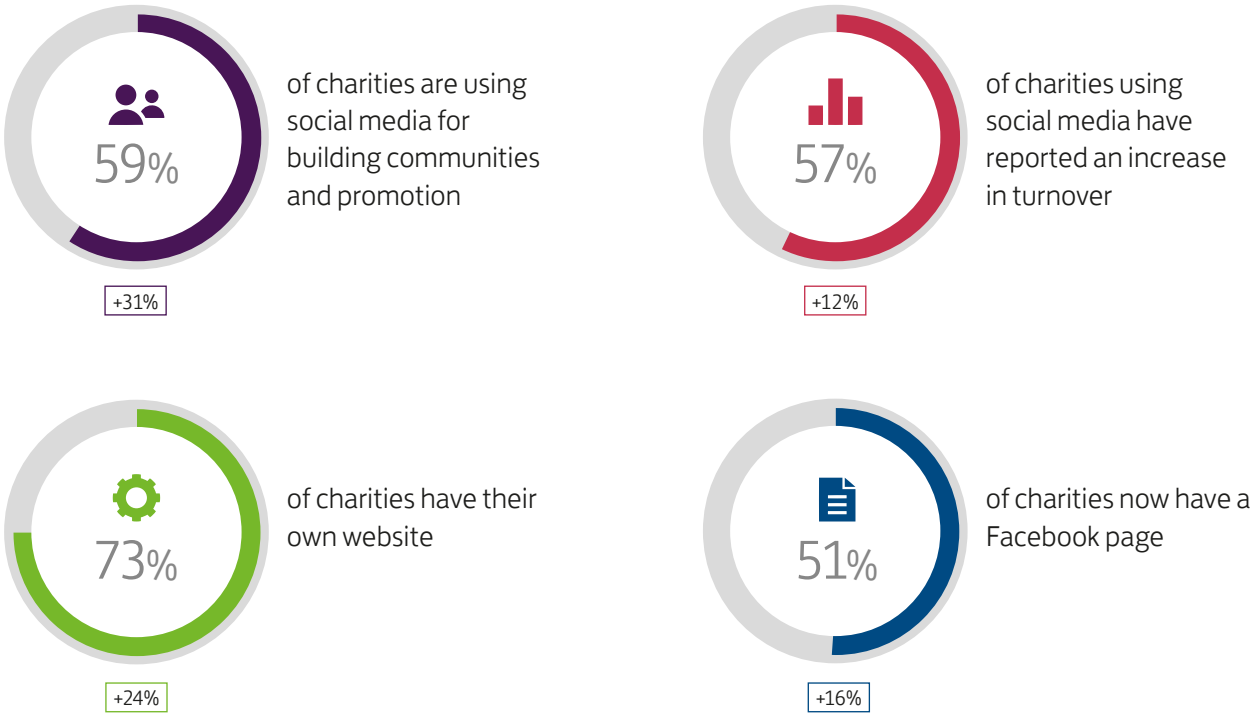
The most notable improvement since 2014 is the increase in the number of charities that now have a website. This has almost doubled from 38% in 2014 to 73% in 2018 (figure 31).

Compared with 2017 there has been:

- a 31% increase in charities creating social media communities (now 59%)
- a 31% increase in charities promoting their organisation through social media (now 59%)
- a 52% increase in charities with a Twitter account (now 32%)

The social media platforms of choice are Facebook (51%) and Twitter (32%)[45]. 57% of charities using social media have had an increase in turnover[46]. This is a 12% increase since last year, indicating that charities could be learning to extract more value from their digital presence.

Figure 32. **Proportion of charities with social media and website skills, 2018 vs. 2017**



Chelmsford Male Voice Choir

Chelmsford Male Voice Choir (CMVC) traces back to 1903 when the choir first sang to raise funds for the British troops fighting in the Boer War. Over the years, they have continued to raise thousands of pounds for local and national charities. With a membership in excess of 70 people, drawn from many walks of life, CMVC is made up of men ranging from their mid 20's to mid 90's.

They became a charity in 2015 to help promote, improve, develop and maintain public education in the appreciation of the art and science of choral music; they do this by performing in public choral concerts.

The choir is led by musical director Eddie Carden, who brings 25 years of musical experience, including eight years as CMVC Chorister and is a current member of the British Association of Choral Directors. The choirs highlight appearances include guests of London Welsh Male Voice Choir (2014) and Festivals of Male Voices at the Royal Albert Hall (2016) with an audience in attendance of 5,000.

In 2016, the charity attended a Digital Knowhow workshop with Lloyds Bank, featuring content from Google and other social media specialists. Here, they recognised the benefits they could achieve from reconstructing their website for the benefit of their members, charities and potential end users.

Their previous website was static with a lack of effective capability and simply 'did not move with the times'. The workshop allowed them to measure their website's effectiveness, so they could explore possibilities for the development of their new website.

As a result, they are able to communicate future event dates, receive interest from people who are keen to use their service or join the choir, and display video content of recordings, musical aids and practice files. There is now a CMVC member's forum where members can communicate privately and also access specific documentation. Previously, CMVC's website would generate an average of 12 viewers per month, since the new roll-out they are receiving between 400-800 views each month. Pleased with the enhanced interaction through their new online platform, the next step for the choir is providing automated ticket orders and sales.

The choir describes their progress since then to be 'going from strength to strength' and are excited for the future developments for their online presence.

cmvchoir.org.uk

For more information on Digital Knowhow workshops in your area – contact DigitalSkillsInclusion@lloydsbanking.com

Benefits of Digital

The proportion of charities saving time due to digital has doubled since 2014

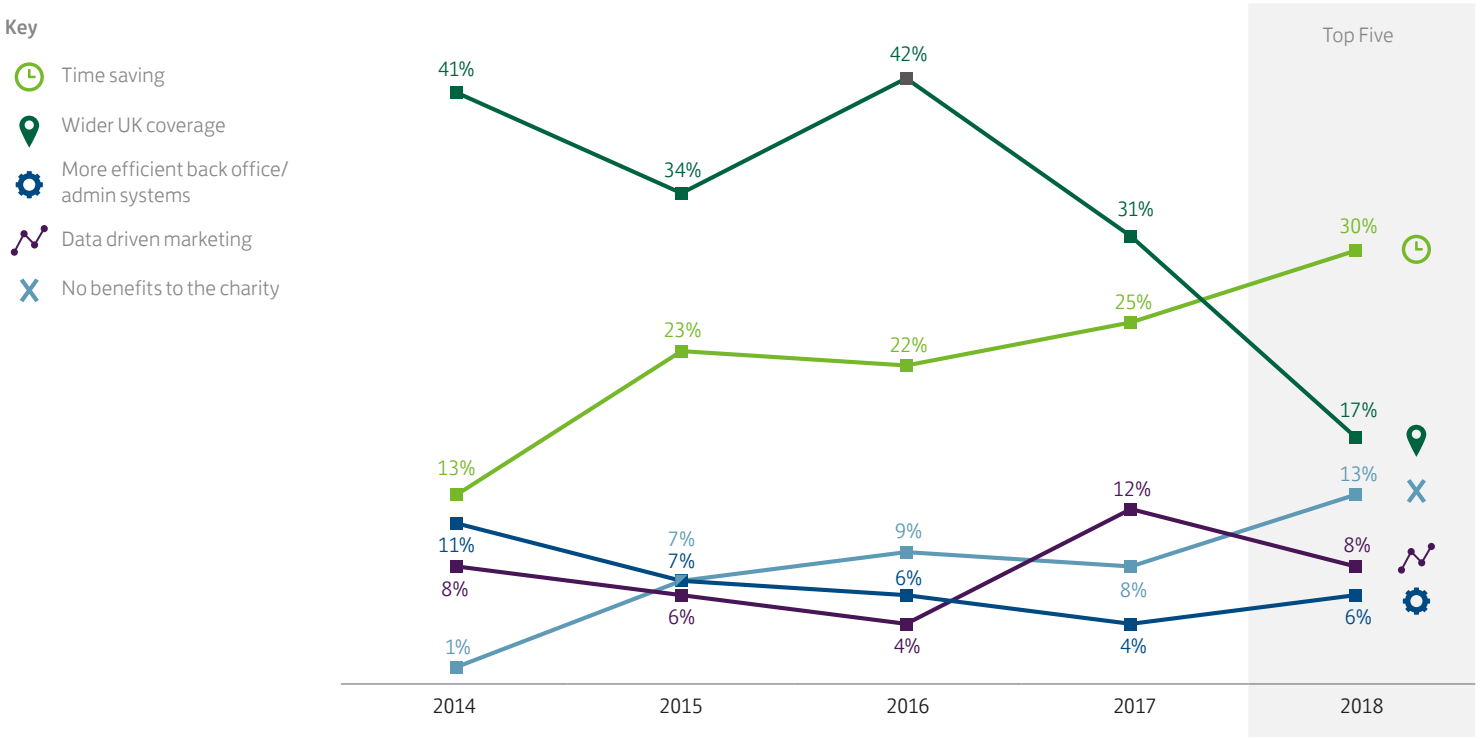
In 2018 the main benefit to charities of being online is the ability to save time. More than twice as many charities now benefit from this[47]. Figure 33 shows that 30% of charities see this as the biggest impact of digital and it translates into time savings of 16% of their working week[1].

Until 2018, the main recognised benefit has been the ability to reach people from across the whole of the UK. However, this figure has decreased significantly since 2014. One hypothesis is that, as productivity software and processes have become more embedded (page 50 shows that 29% of charities now have Cloud-based IT systems and 31% use online accounting software) time savings are more notable.

Charities need to spend time to save time

Charities from the low digital capability group are also 28% less likely to be saving time online when compared to the digitally mature group (*see page 47*). One possible explanation for this is that charities perceptions and expectations are changing. The data on the next page highlights some examples of this.

Figure 33. **Top five digital benefits for charities, 2014 to 2018**



The most digitally capable charities continue to reap the greatest digital dividend

Charities with low digital capability still struggle to realise the benefits of being online (figure 34). They are nearly three times more likely than the highly digital charities to not recognise any benefits. Charities from the high digital capability group are also 39% more likely to be saving time online compared to the group with low digital capability.

Charities have a digital blind spot

A smaller proportion of charities are benefiting from going online in 2018 compared with 2016 and there has been an 80% increase in charities who say they don't benefit at all[48]*.

As with the findings for SMEs (*see page 20*), charities also appear to benefit from digital without directly recognising this. Of the charities that do not immediately recognise saving time as a key advantage of using the Internet, 86% have attributed saving up to 25% of their working week due to digital[49].

Charities will find it harder to make progress digitally if they continue to take digital for granted.

Figure 34. **Benefits to charities of being online, split by digital capability segment, 2018**

	UK average	Low Digital Capability	High Digital Capability	High vs. Low Digital Capability
Saving time	62%	49%	68%	39%
Increased feedback/interaction with donors or supporters	45%	27%	53%	96%
Attracting more donors or supporters	44%	25%	52%	108%
Simplified process of taking payments or donations	40%	26%	46%	77%
Data driven marketing	35%	24%	39%	63%
Cost savings	32%	21%	36%	118%
Increased sales or donations	31%	17%	37%	71%
Wider UK coverage	30%	16%	36%	125%
Can use my mobile to do my business on the move	23%	14%	27%	93%
None of these	18%	33%	12%	-64%
Can use my mobile to take payments	12%	5%	15%	200%
The ability to trade overseas	7%	3%	8%	167%

*2016 was the first year in which this question was asked

Barriers to Digital

Mindset and skillset are now equal challenges

Figure 35 shows that almost one-third of charities acknowledge that a key barrier to doing more online is their own organisations' digital skills. For the first time this is a challenge equal to that of 'being online is not seen as relevant to our charity'. Since 2014, there has been a consistent proportion of charities, around one-third, who have consistently reported a lack of understanding as to how digital is relevant to them[50].

The least digital are 72% more likely to understand the relevance of tech than in 2017

Since 2017, the data suggests there has been a mindset shift for the least digitally capable; Segment 1. Compared with last year[51]:

- Only 25% have no interest in going online (down from 38%)
- 33% do not see digital as relevant (down from 61%)
- 8% deem time as a barrier to doing more (down from 13%)

This indicates that Segment 1 might be the driving force behind the progress of charities in 2018.

67%

of charities with the lowest digital capability now recognise that digital is relevant to them – a 24% increase since 2014[52]

Figure 35. **Barriers preventing charities from doing more online, split by digital capability segments, 2018**

	UK average	1 Passive	2 Getting started	3 Established	4 High	5 Advanced
Being online is not seen as relevant for our charity	31%	33%	39%	41%	27%	20%
Lack of staff digital/online skills	31%	19%	29%	24%	43%	29%
Not worth the investment	20%	14%	22%	20%	23%	14%
No time to set up and go online	18%	8%	18%	13%	23%	20%
Just not interested in going online	18%	25%	18%	26%	12%	15%
Concerns about information security/fraud	16%	14%	13%	15%	20%	14%
Cost of investment is unknown	16%	11%	11%	13%	23%	15%
Nothing, feel that we are doing all we can online	13%	6%	8%	13%	11%	21%
Too expensive	12%	14%	10%	9%	15%	11%
Poor connectivity e.g. slow speeds, no superfast broadband	10%	8%	3%	9%	13%	12%
We are in the process of doing more	3%	3%	1%	2%	3%	7%

Arty Folks

Founded in 1995, Coventry-based charity Arty Folks, are a mental health service offering support in less traditional ways. Viewing mental health crises as providing an opportunity for growth and personal development, Arty Folks have dedicated over two decades to supporting adults aged 18+ who struggle with diagnosed or self-diagnosed mental health issues. Inspiring over 150 people every year, Arty Folks use visual arts and peer-to-peer support via mentoring and coaching.

As a small charity, Arty Folks had struggled with adopting digital tools and processes due to the fear of having limited time to learn how to utilise resources and meeting consumer needs. However, since taking advice from a Lloyds Bank Charity Digital Mentor, they have started to prioritise digital communication methods as the first chance to test and learn. The charity previously struggled to build a coherent brand, but now with the daily use of Instagram, Facebook and Twitter, they are able to create meaningful content in a cost-effective way.

The benefits have proved vital to the charity. With the range of mental health conditions experienced and the number of individuals affected, it is crucial for their organisation and for their campaign to reach wider audiences. To start with, the charity tried out different types of posts and different channels. By testing a new content strategy, they have seen continuous 10% uplifts in impressions per post as they learned what worked well for their audiences. They have also received increased service user enquiries, including interest from the NHS, the local authority and local radio stations; all of whom have been able to get in contact through social media. For beneficiaries, they express the attendance of Arty Folks as a place for 'relaxation' compared to feeling a sense of 'dread' when usually going out.

In order to achieve their objectives of reducing isolation and loneliness, inspiring maintenance of positive health and wellbeing, and challenging the stigma of mental health, Arty Folks are planning to increase their digital capabilities even more. They are keen to improve the quality of their campaigning message and how they tell their story.

arty-folks.co.uk

> We now understand the importance of developing a two-way dialogue with people we might not meet in person, via social media. It is still valuable human contact that can save lives.

Digital Usage

Digital usage has increased dramatically since 2014

There has been a significant increase in the usage of digital infrastructure and tools (figure 36). The biggest increase has come from those services that were the least used in 2014. Less progress has been made on digital usage for activities that were more widely used.

This year compared with 2014 there are:

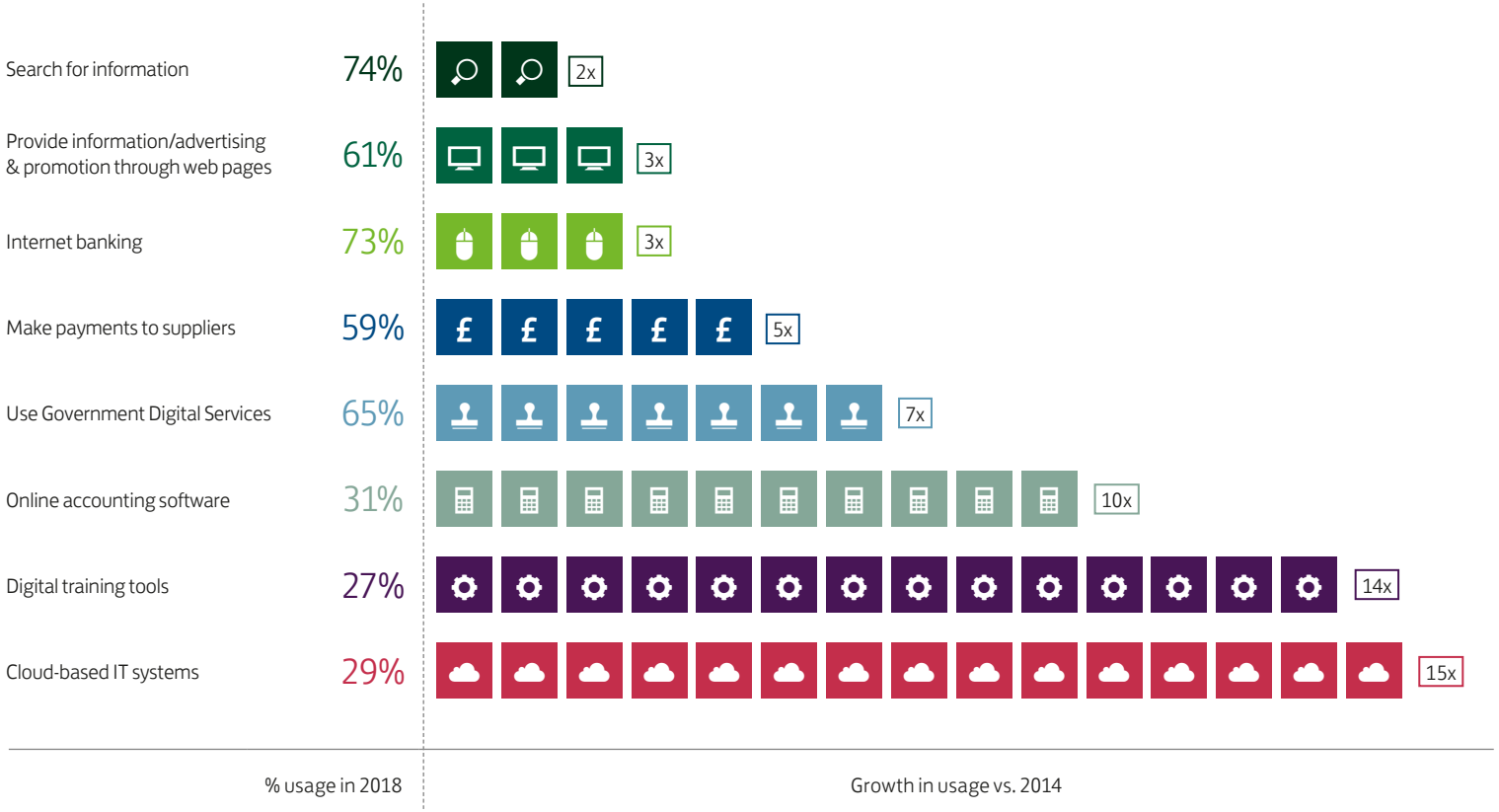
- 15 times more charities using Cloud-based IT systems
- Seven times as many charities accessing Government Digital Services
- Two times as many charities searching for information online

Since 2014, the growth in digital usage by charities has outstripped that of businesses. Both groups are now almost on a par for digital usage[53].

99%

of charities are now online. As reported in the 2017 Business Digital Index, 8,000 UK charities were offline. This year, this figure has decreased to just 2,000

Figure 36. **Charities digital usage and growth, 2018 vs. 2014**



Digital Usage: Understanding Customers

The proportion of charities with websites has increased by 24% since 2017

There are now 145,000 UK charities (73%) with websites (*see page 44*). Whilst this figure has increased by nearly a fifth since last year, the majority have yet to maximise the opportunity through data capture and analytics.

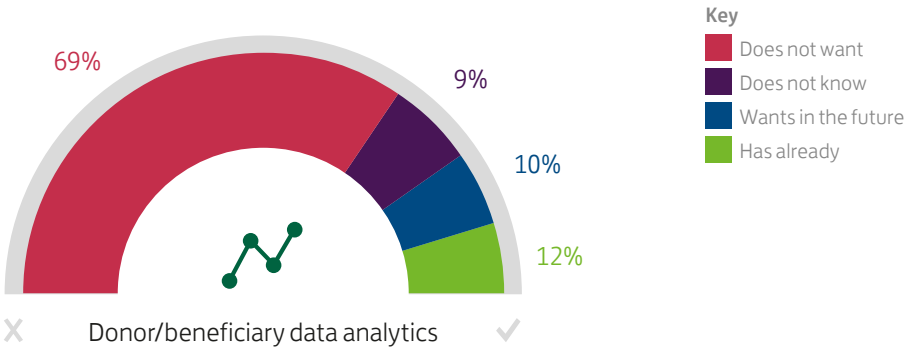
Just over one-quarter (29%) of charities with websites are currently capturing customer and supplier data (*see page 43*). Figure 37 shows that even fewer charities (12%) have the skills required to draw actionable insight from this data. More needs to be done to help charities understand the benefits of effective data usage as both charities and beneficiaries stand to gain. Charities can better use data analytics to tailor services and outcomes and customers can benefit from better and more engaging experiences.

95% of charities' websites do not meet accessibility guidelines

The 2018 Business and Charity Digital Index reveals that only 5% of UK charities' websites are accessible[54]. Over 13.9 million UK adults have accessibility requirements due to a disability* and while they are four times more likely to be offline**, there are still at least ten million using the Internet. Research shows that seven in ten disabled customers say they click away from a website they find difficult to use. As such, charities are missing out on a large pool of potential donors and not serving their online beneficiaries adequately due to the low proportion of accessible websites.

The 2018 Business and Charity Digital Index data also reveals that 92% of charities' websites are not mobile optimised[55].

Figure 37. **Proportion of charities and their data analytics aptitude and intention, 2018**



8%

Only 8% of charities' websites are mobile optimised

* Family Resources Survey, 2018, assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/692771/family-resources-survey-2016-17.pdf

** Lloyds Bank UK Consumer Digital Index, 2018, lloydsbank.com/consumerdigitalindex

Advice and Guidance

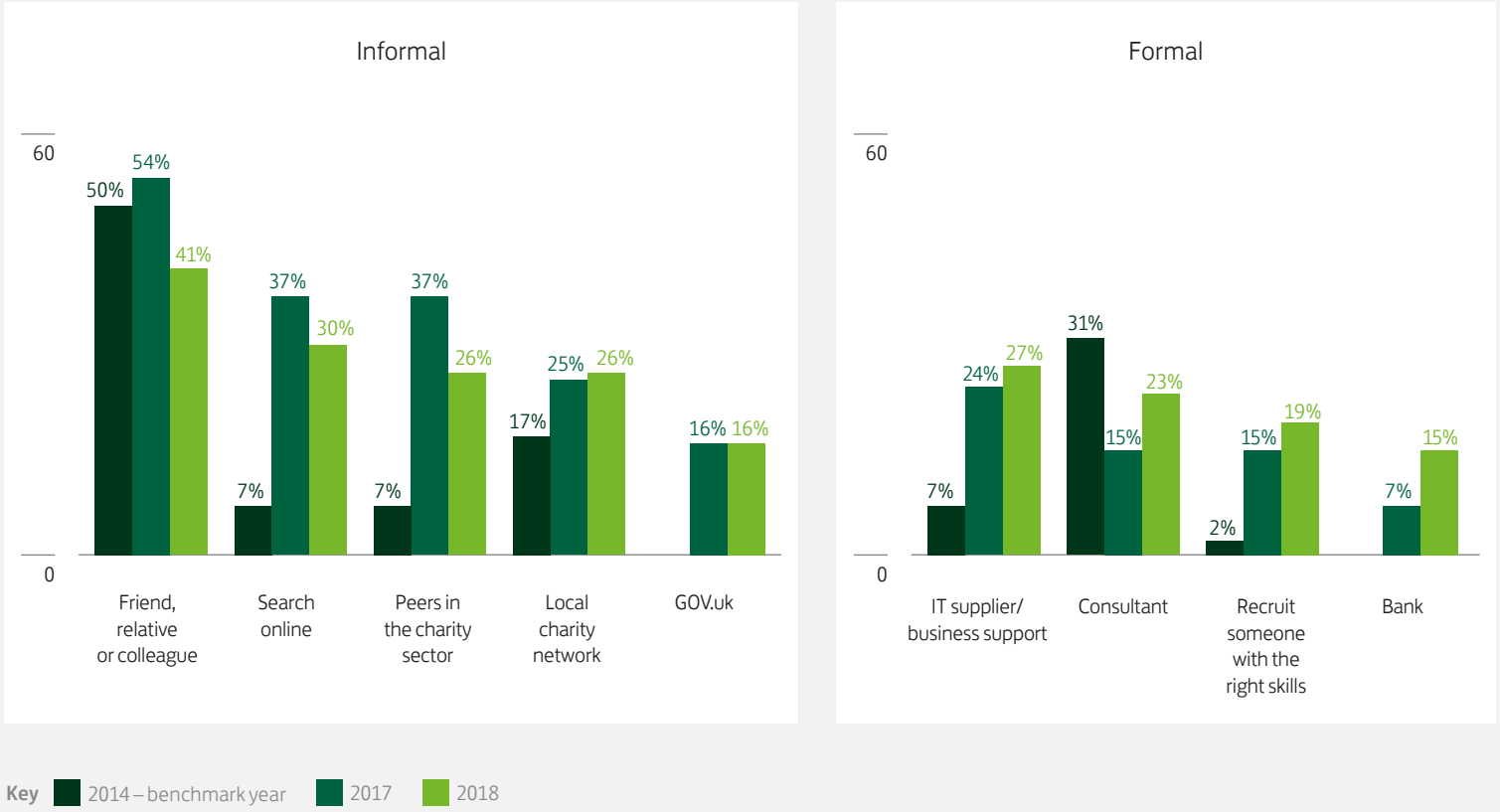
Charities are increasing uptake and investment in formal training

Charities in the past 12 months have shown a preference for more formal methods of digital support (figure 38). The only informal channel for digital advice that has withstood the downturn in use of informal support is that of the 'local charity networks'. While 'trusted faces' are still the preferred source of training, the use of consultants has increased by 53% since 2017.

Almost one in five charities now looking to recruit or invest in talent

While 19% of charities are now seeking to recruit people with the right skills (figure 38), 16% of charities are also looking to invest a proportion of their operating budget into enhancing digital skills, this is up from 13% last year[56]. Overall this suggests that the third sector is committing to their digital development and capability.

Figure 38. **Where charities go to for help and advice on technology and the Internet, 2018 vs. 2017 and 2014**



Christchurch Unitarian Chapel

Christchurch Unitarian Chapel, is one of the oldest churches in Bridgwater and is supported by donations and grants. They run fortnightly services and have the chapel open for multiple events and activities such as heritage open days, coffee mornings and colouring groups for the community. They are a small chapel with an average of 14-20 people attending each service.

The use of digital has allowed the charity to reduce its outgoing costs, and although only making small savings, this has been hugely beneficial for a small charity that doesn't receive large grants like some churches. Traditionally, the chapel would have sent all newsletters by post, incurring printing and postage costs.

> If you think of the cost of a second-class stamp and we're probably sending out 50 newsletters a quarter, that may seem like a small amount of money, but for us, that's an electricity bill

Their digital newsletters, which deliver up-to-date schedules and service information, are now their best advertising channel. It has become apparent that most people now use emails, the chapel saw benefits in being able to send the newsletters via email due to time and cost savings.

The chapel has made additional savings with the help of digital adoption by moving some utilities online, entitling them to a discount. The savings are 1-2% but it really adds up.

The charity has recognised the benefits that digital brings, by using the internal to find information quickly and solve problems. Looking for grant information and being able to keep in touch with what similar chapels are doing is very valuable. It makes it easy for them to find the information they need to run a charity.

Despite already seeing benefits from using digital, the volunteers recognise that there are more benefits that the chapel could achieve.

ukunitarians.org.uk/bridgwater

> We would ideally love to be able to promote ourselves better and to figure out good ways of getting a larger congregational attendance, because at the end of the day if the chapel's going to stay open we need people coming and using it

Future Skillset and Mindset

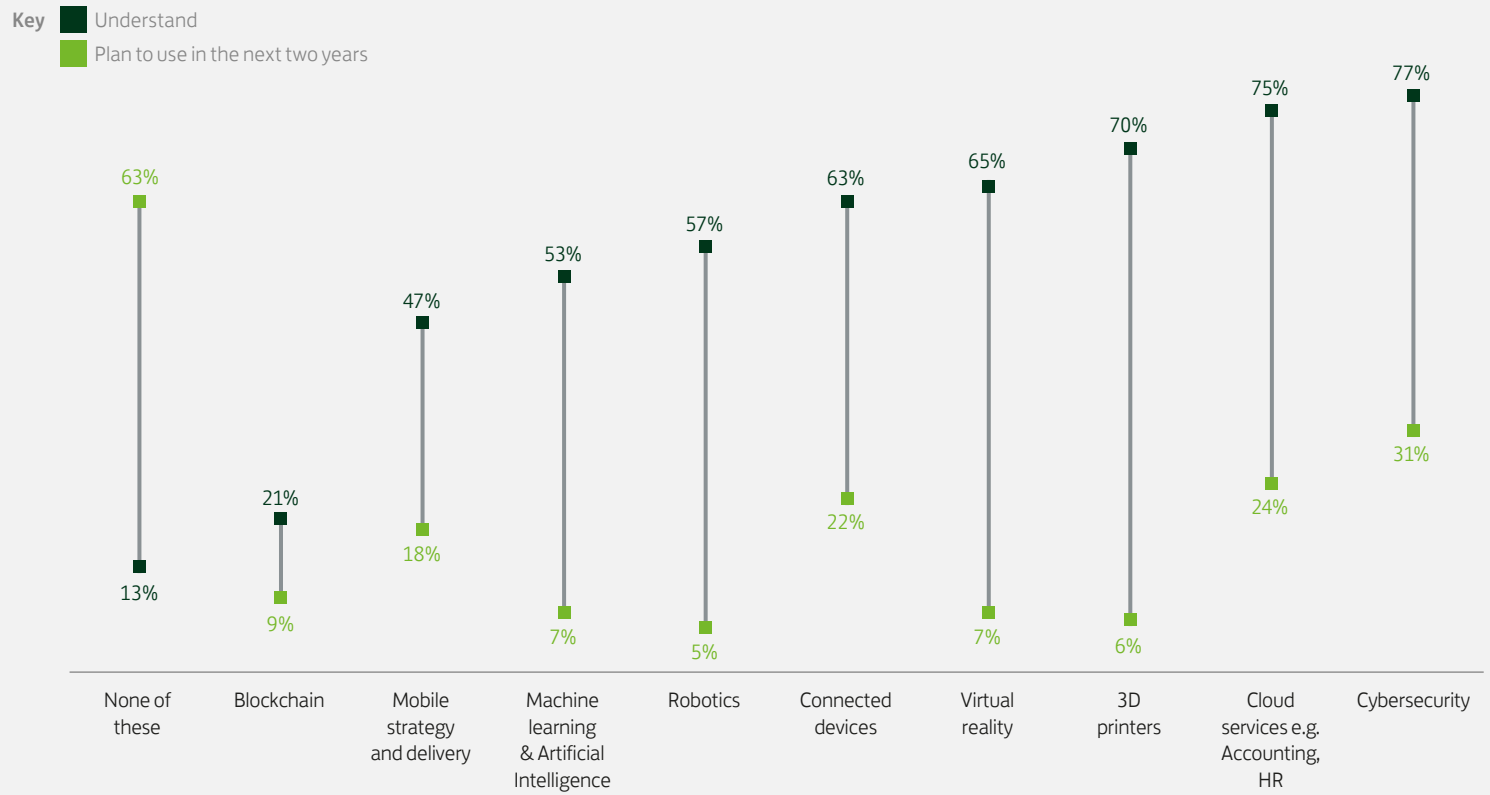
Gap between the understanding and adoption of new technologies

As shown in figure 39, there is a significant gap between charities' understanding of new technologies and their intention to adopt them. For some charities, the digital adoption of virtual reality or 3D printers may not always be relevant or warranted.

However cybersecurity is a fundamental part of keeping customers, beneficiaries and donors safe online, and should therefore be relevant to all organisations using the Internet.

As evidenced for SMEs on page 21, Cloud services are linked to productivity gains and can help organisations drive efficiencies. With only one-quarter of charities intending to adopt this technology in the next two years (figure 39), it is clear that the third sector needs more support with embedding this way of working.

Figure 39. **Proportion of charities who understand and have plans to use the listed future technologies, 2018**



Friends of Castor School

Friends of Castor School is a Parent Teacher Association (PTA) operating as a charity which exists to raise funds and distribute them on behalf of the school. Fund raising involves activities such as seasonal fates, race nights and raffles. The money is spent on school equipment, trips and leavers memory books – anything which will enhance the experience and education of the children in school.

Phillip, who is in early retirement, volunteers and helps to operate the PTA and is responsible for the financial management monitoring of funds. Phillip thinks his digital skills are in line with the needs of the charity and describes the needs of the charity as being quite simple – online banking, excel spreadsheet work, WhatsApp and Facebook and more recently, the use of Dropbox and other Cloud services.

The digital world of Friends of Castor School primarily focuses on financial management and event organisation. Online banking allows speed and efficiency, if a parent says they have paid for a summer fate ticket, Philip is able to check online at the click of a button without contacting the bank – not only is the process quick, it is professional and easy to trace.

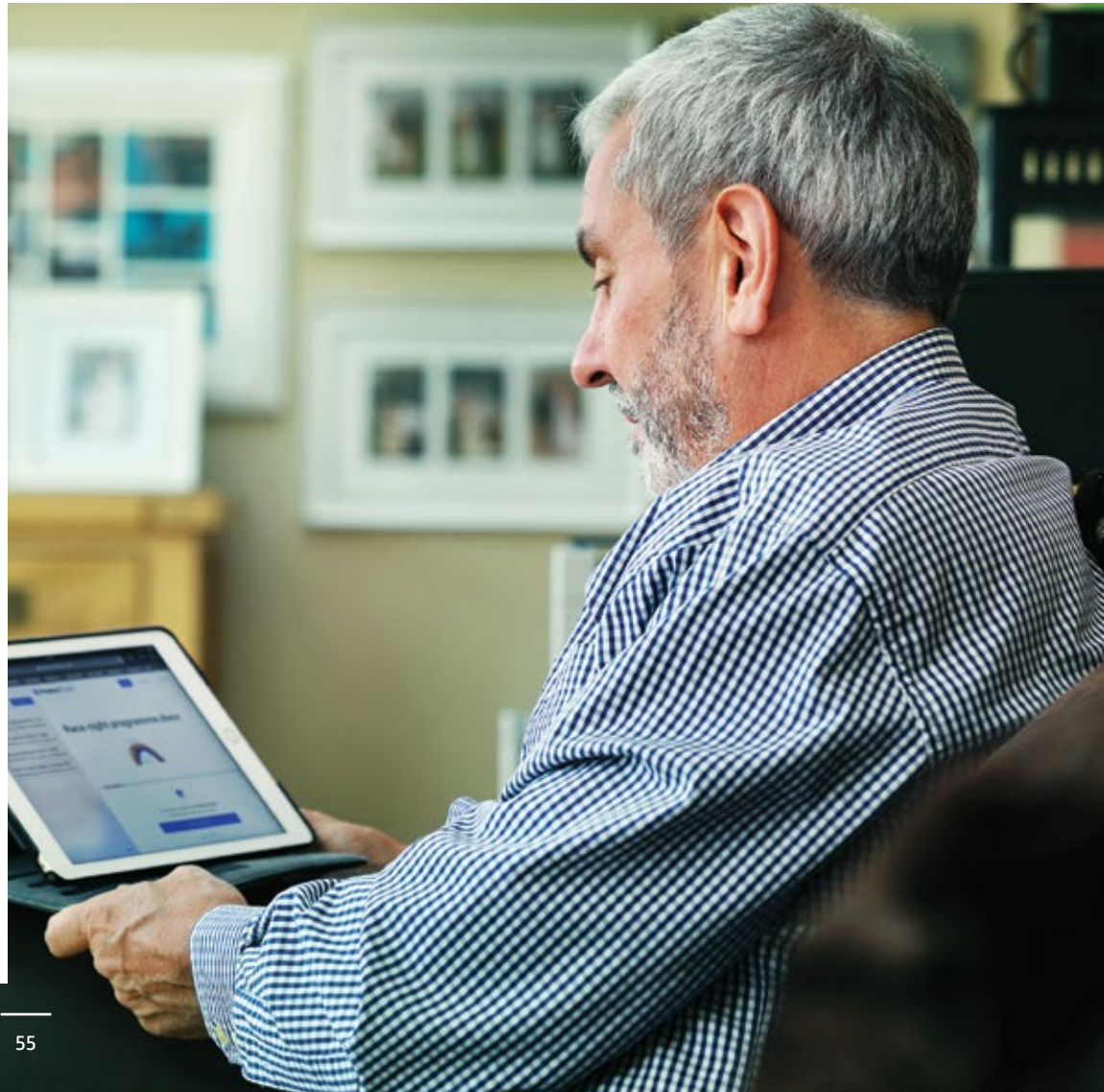
For events, WhatsApp and Dropbox are used to organise and monitor event sales and progress. The PTA WhatsApp group enables real time communication, if an event suddenly needs last minute support, the chair lady can ask all members at once rather than needing to ring individually. It improves accuracy and eliminates error for the committee.

The largescale impact of this is the time saved for the charity – digital interaction has reduced man hours by 50%. Less time is needed to conduct banking tasks and event logistics. This in turn leads to these voluntary roles being less arduous, happier volunteers and increased likelihood of people wanting to get involved again. However Phillip doesn't believe digital has a fundamental impact on the money the charity raises.

There has been limited digital evolvement for the charity – most roles within the PTA change on an annual basis and digital procedures are passed on. The evolution is organic, new things are adopted as and when individuals bring their own skills and knowledge to the charity.

To Phillip's knowledge, no actual investment has been made in digital hardware or software. Due to the scale of the operation and its needs, the charity researched online free and secure methods and then they have asked volunteers use their own devices. One of his considerations is that some of their future parents may not have their own devices so they are looking to see what other efficiencies they might spend.

castorschool.com/page/?pid=34



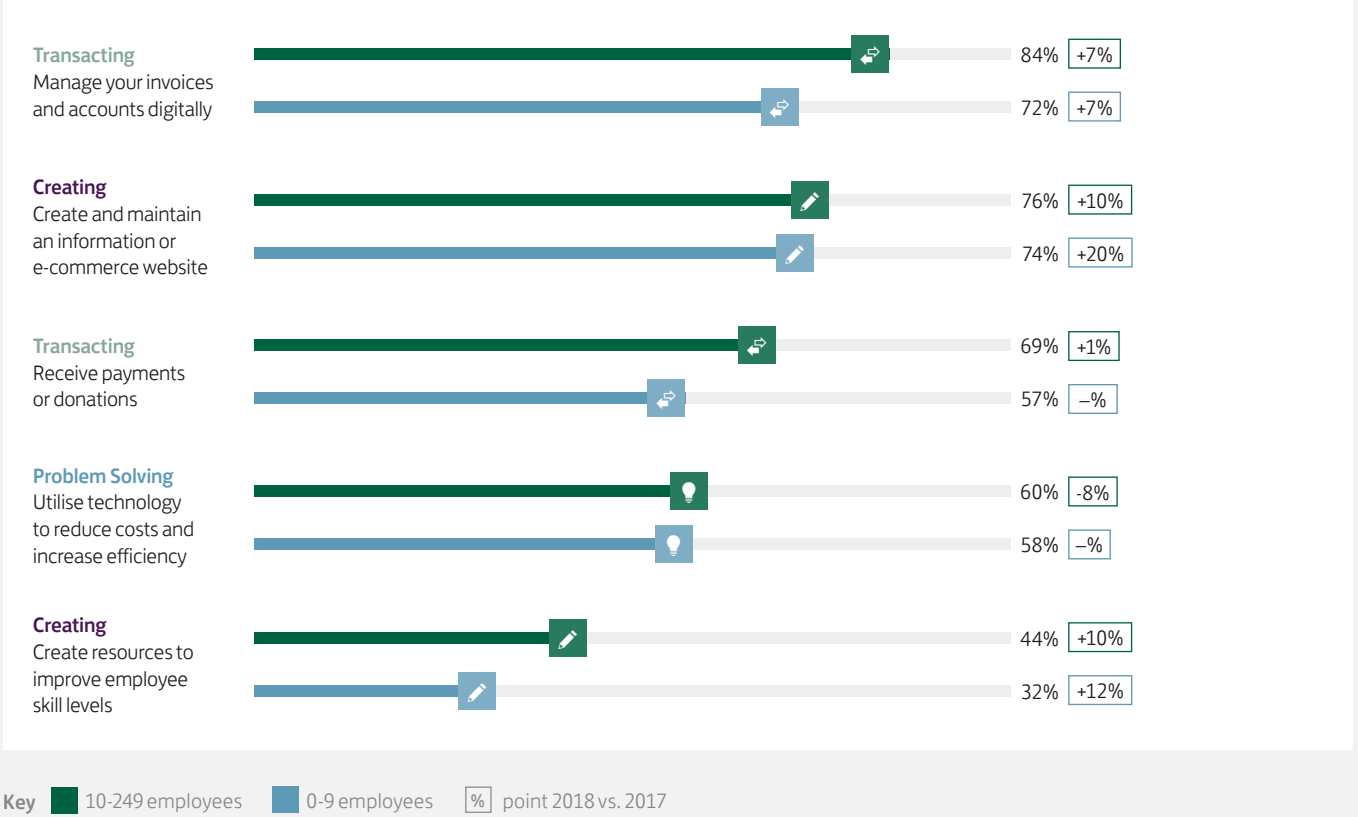
Digital Demographics

Charity Index score and Basic Digital Skill levels by size

Since 2014, large and small charities have made significant progress, both seeing a near 100% increase in Index score[57]. In the past 12 months, smaller charities have decreased the eight point skill gap that separated them from larger charities to four points.

Figure 40 shows digital tasks with the biggest difference between larger and smaller charities. Both groups have created resources to improve employee skill levels. There has also been a significant increase in charities 'creating and maintaining a website', potentially indicating an uplift in investment or a reprioritisation of existing third sector resources into digital skills and tools.

Figure 40. **Charities' undertaking Basic Digital Skills tasks, split by size, 2018 vs. 2017**



Charity Index score and Basic Digital Skill levels by region

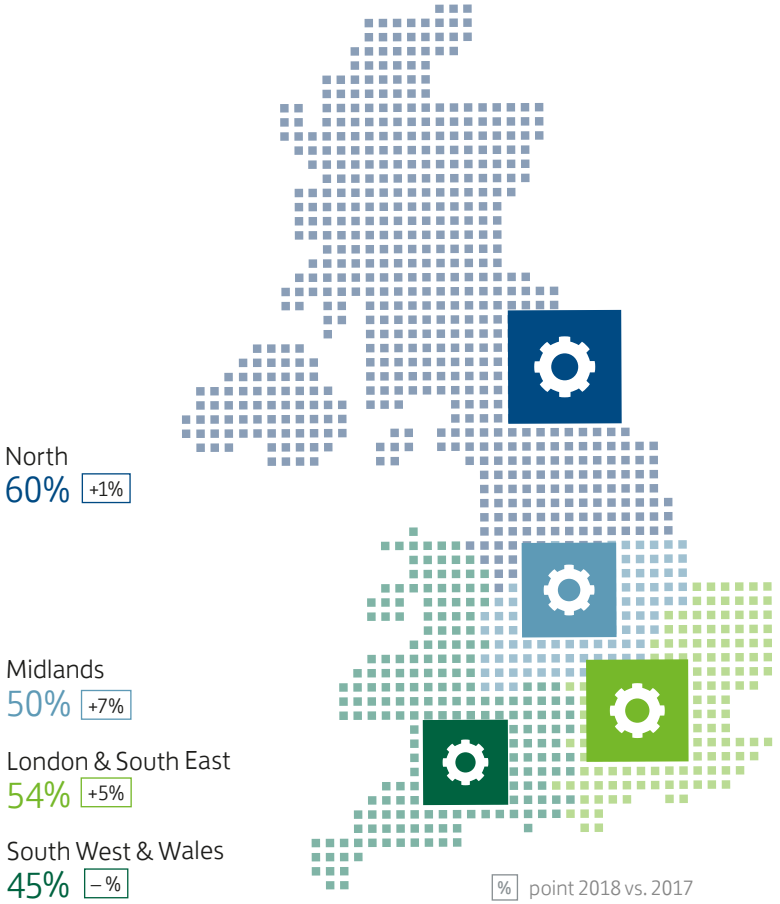
Although they have flat digital capability, London and the South East remain top in 2018 (figure 41). However, other regions have made significant progress, and are almost on a par with the leading region.

As shown in figure 42, Basic Digital Skills show a broader range. The North remains the most likely to have all five Basic Digital Skills, whilst the South West & Wales see no change.

In the past year, South West & Wales has seen a disconnect between digital capability and skills as the Index score has increased by eight points, highest of any region, whilst the level of Basic Digital Skills has not moved.

Figure 41. **Charities' Index score, split by region, 2018 vs. 2017**

Figure 42. **Charities' Basic Digital Skills, split by region, 2018 vs. 2017**



Please note that the sample for charities in Northern Ireland is limited, please see page 8 for more information.

Charity Index score and Basic Digital Skill levels by age

The pace of change is equally demonstrated in charities both above and below ten years of age.

As shown in figure 43, despite improvements older charities continue to be less digitally capable than those established in the last ten years. The younger charities have demonstrated more than twice the progress of the older demographic in the past 12 months.

Equal progress with Basic Digital Skills can be seen in figure 44. 51% of older charities now have all five skills, compared to 69% of younger charities.

Charities that have been ongoing for ten years or more, have the greatest opportunity and should be a key focus for practitioners in the third sector.

Figure 43. **Charities' Index score, split by age, 2014 to 2018**

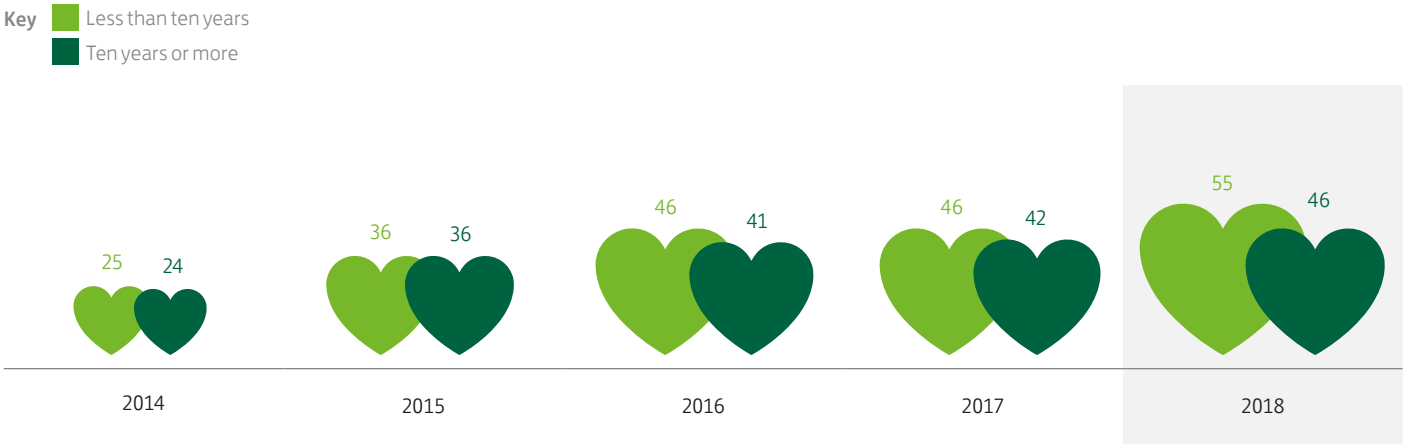
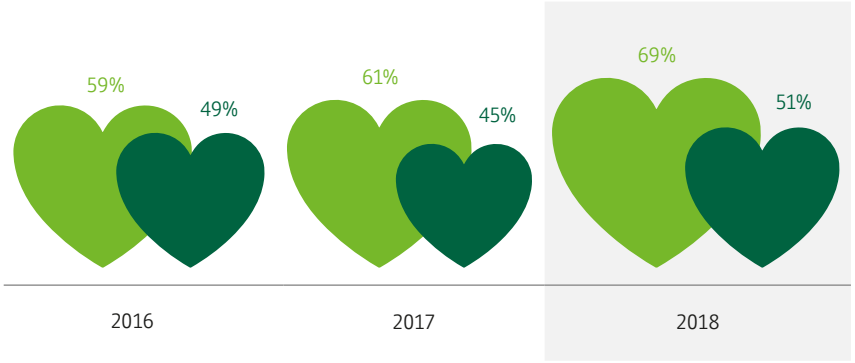


Figure 44. **Charities' Basic Digital Skills, split by age, 2016 to 2018**



Thanks to our Charity Partners

66
It is heartening to see that the digital capability of charities continues to grow. While some uses of digital are now widespread, such as social media and web skills, there are still many opportunities for organisations to grasp including Cloud-based IT, data and analytics and developing digital services. Organisations of all sizes can realise these opportunities with the right support, and NCVO will continue to work with other organisations to develop and provide this support.
99

MEGAN GRIFFITH GRAY, HEAD OF PLANNING, DIGITAL AND COMMUNICATIONS, NCVO

66
I'm delighted to see that digital capabilities and skills are growing across the sector. It's also interesting to see how charities are investing in formal training for digital, showing further appetite to grow and develop. Yet as a sector we need to make sure we are building on this progress and not just doing digital, but prioritising the right things. For example the Index reveals that despite the increase in digital skills , 95% of charities' websites do not meet accessibility guidelines. We would encourage charities' CEOs and trustees to use The Charity Digital Code of Practice to build on the excellent work of the Index and help their teams increase their confidence and experience with digital.
99

ZOE AMAR, DIRECTOR OF ZOE AMAR DIGITAL

66
It's encouraging to see the progression that the charity sector has made in digital capability.

This year's Business and Charity Digital Index suggests more charities recognise that fully embracing digital technology is essential to their prospects and long-term viability. It's also good to see an increase in the number of charities actively investing time and/or resources towards improving digital capability.

However, with almost 4,000 charities without any digital skills and almost 8,000 with only one, there is still a distance to go. We must continue to provide the inspiration and support they need to take action on digital; it is vital for the sector and vital for those they serve.
99

HELEN MILNER OBE,
CHIEF EXECUTIVE,
GOOD THINGS FOUNDATION

66
This year we partnered with Lloyds Banking Group to deliver digital mentoring for small and local charities. The programme was designed to help 'plug' small charities' digital skills and knowledge gaps by pairing them with Lloyds colleagues. This has helped them to demystify the digital world, offer them informed insights by people who really know what they're doing and deliver real hands on support in finding the right practical solutions for them. It's not just the charities that have benefitted – feedback has shown that both the mentors and the charities have felt better equipped, better informed, and inspired by one another – it's a real 'win-win'!
99

JILL BAKER, DIRECTOR OF DEVELOPMENT, LLOYDS BANK FOUNDATION FOR ENGLAND AND WALES

66
Whilst it's been pleasing to see the hard work of the last year resulting in a significant improvement in charity digital skills, there is still much to do to support the 48% of charities who do not yet have Basic Digital Skills and to increase the number with advanced digital skills. This is vital in enabling charities in the sector to meet the ever increasing demands being placed upon them.
99

JONATHAN CHEVALIER, CEO, TECH TRUST

66
We have been really encouraged to see the year-on-year progress of charities increasing Basic Digital Skills from 48% in 2017 to 52% in 2018. We know from the research that the charities who are thinking ahead and preparing for the future with use of digital are more likely to be able to survive and thrive in an tough economic environment coupled with a rise in demand for their services. It is important for charities to find ways to conserve resources and support those most in need, digital is a key way to do this, for example, charities that provide information on their websites with frequently asked questions cut down on routine enquiries, saving time and money in the long run. We know from our work with charities that they often feel overwhelmed with knowing how and where to start, with a lack of access to impartial advice. The signposting toolkit is a helpful resource here.
99

HARRIET STRANKS,
DIRECTOR OF GRANTS,
LLOYDS BANK FOUNDATION FOR ENGLAND AND WALES

Welcome to the fifth year of the Lloyds Bank Business and Charity Digital Index

With five years worth of data this report is the only measure of its kind, providing valuable insight into the digital behaviours and attitudes of organisations across the UK

Find the report and appendices at
Lloydsbank.com/businessdigitalindex

Tweet us at @LBGDigi
#BizIndex18
#BasicDigitalSkills

Email the team at
DigitalSkillsInclusion@lloydsbanking.com

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Please contact us if you would like this information in an alternative format such as Braille, large print or audio.

Great care has been taken to ensure that the information used here cannot be in any way traced to a specific individual. This report has used aggregated data across social and demographic groups to highlight the trends and insights that will help consumers, charities and UK Government to understand more about our nation's digital and financial inclusion landscape.

Lloyds Banking Group is a financial services group that incorporates a number of brands including Lloyds Bank. More information on Lloyds Banking Group can be found at lloydsbankinggroup.com.

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