

UK Business Digital Index 2017

Benchmarking the digital
maturity of small businesses
and charities in the UK



LLOYDS BANK

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WITH THANKS TO OUR PARTNERS



LLOYDS BANK FOUNDATION

England & Wales



FOREWORD



LLOYDS BANK

NICK WILLIAMS

Managing Director,
Consumer and Commercial Digital

Nick Williams

It is my pleasure to share with you the fourth Lloyds Bank UK Business Digital Index.

Technology is changing our world at a speed never seen before. As highlighted in the Government's 2017 Digital Strategy, the digital economy is growing twice as fast as the wider economy at a rate of nearly £100bn per year. Tech investment has hit a peak of nearly £7bn. With such momentum, it is no coincidence that since we launched this study in 2014, the number of organisations with high digital capability has more than doubled.

This year's Index examines actual online behaviours coupled with a survey of 2,000 small businesses and charities. We have also for the first time examined digital leadership and the impact of a digital mindset. We have listened to the requests for greater granularity of Basic Digital Skills and have provided this, as well as detailed recommendations, continuing to ensure our Index remains relevant to you.

Our 2017 Index showcases the benefits of digital, with the most digitally skilled businesses more than twice as likely to increase their turnover as those who are yet to adopt tech. Highly digital charities are also 50% more likely to report an increase in donations. The most digital organisations

are also saving the most time – around one day a week.

However, digital adoption is not universal. Small businesses and charities demonstrating low digital capabilities are increasing, and they are at risk of falling further behind. There are now 1.6m small businesses and still 100,000 charities without the full set of Basic Digital Skills. It is still alarming to hear that one-third of charities and one-quarter of small businesses still do not see how digital is relevant to them.

As such, messages on the benefits of digital need to be tailored to the different digital audiences. For the organisations that are reluctant to adopt digital, we must highlight the cost savings, revenue increases and time savings afforded to those in their sector which do.

Peer-to-peer coaching and local connectors are now essential in driving confidence and capability amongst those who have the most to gain. For example, small businesses with digital leaders are three times more likely to have an increasing turnover; these leaders can provide inspiration for those at the start of their digital journey.

We have a great opportunity and the time is now. More than one in three organisations without full Basic Digital Skills are on the cusp

of attaining them – we must encourage them to 'try one more skill' and support them in doing so.

At Lloyds Banking Group, we are continuing our commitment to Help Britain Prosper; we have made a direct commitment as part of the Government's Digital Skills Partnership to provide digital skills training to 700,000 individuals, small businesses and charities this year. That's part of a larger Group pledge to reach 2.5m by 2020, an initiative we are immensely proud of.

In building this report, I am as ever grateful for the support and insight from our many partners. I would particularly like to thank our partners in the Government SME & Charity Taskforce, including Good Things Foundation, The Tech Partnership, and Lloyds Bank Foundation. We are also grateful to Accenture, Do It Digital and the Department for Digital, Culture, Media & Sport for providing their expert insights into the report.

We are keen to understand how you are using the findings and any ideas you may have for working with us towards a more digital future for the UK. Please contact us at: DigitalSkillsInclusion@lloydsbanking.com

FOREWORD



Department for
Digital, Culture
Media & Sport

THE RT. HON. MATT HANCOCK MP

Minister of State for Digital

I welcome the Lloyds Bank UK Business Digital Index 2017 which comes at a time of great opportunity for our country. We want Britain to be the best place in the world to start and grow a digital business. But we also want every business and charity to grow and prosper by adopting tech and building digital capability.

To achieve this, we are investing heavily in ensuring the conditions are right for a world-leading digital economy. The annual Lloyds Bank UK Business Digital Index allows us to assess the digital capabilities and attitudes of our small businesses and charities. And we have seen great progress since the first report in 2014. Back then, 25% of small businesses and just 8% of charities made up the most digitally mature segment of the Index. These figures have now risen to 42% and 21%, respectively.

This Index shows that small businesses and charities are seeking high speed connectivity, which is essential to ensure they reap the benefits of technology. That is why our commitment to transforming digital infrastructure is so important. For example, broadband rollout has benefited from a £1.7bn public investment, and we are also investing £1.1bn in next generation full

fibre and 5G strategy. By listening to the needs of our small businesses and charities we can ensure they are equipped to thrive in a digital world.

Just three years ago, 56% of small businesses had access to superfast broadband. That has risen to 80% this year, and through our Universal Service Obligation we will ensure that by 2020 every home and every business in Britain has access to fast broadband.

The report also tells us that small businesses and charities are increasingly aware of the importance of online security. This year we opened the National Cyber Security Centre, which provides advice, guidance and support regarding online safety. And we are investing £1.9bn as part of our commitment to make the UK the most secure place in the world for digital and online activity.

The Index shows very clearly the huge advantage that digital gives to businesses and charities. The vast majority of the most digitally active organisations are saving time, attracting more customers, and marketing and transacting more effectively. We must help those organisations that are currently behind the curve realise these benefits too. 39% (670,000) of small businesses and charities without full Basic Digital Skills are

on the cusp of gaining them. We want to help them do that while supporting the one in ten organisations that are further behind.

Earlier this year we announced the establishment of a Digital Skills Partnership, a partnership between the public, private and charitable sectors, that will elevate collaboration so that the sum of all our digital skills activities is greater than the parts. I am hugely thankful to all of the corporate partners that pledged more than four million free digital skills training opportunities, including Lloyds Bank.

I would like to thank Lloyds Bank again for continuing to produce the Index. As technology changes the way we work, it is essential that Government policy is informed by the latest evidence to ensure we are supporting businesses and charities to take advantage of digital advances and the opportunities they can bring.

EXECUTIVE SUMMARY

For the last four years, the Lloyds Bank UK Business Digital Index has provided detailed analysis of small businesses and charities to understand their digital behaviours and attitudes to being online. This year the report benchmarks the digital maturity of organisations and also explores specific tasks being undertaken online, the tangible benefits and the link between a digital mind-set and growth.

The 2017 Index has highlighted that while more businesses and charities are becoming digitally capable, there is a growing minority of organisations with low capability. Addressing this presents the biggest opportunity for practitioners, partners and policymakers to engage those missing out on the benefits of digital.

For those organisations that are progressing their digital capability, the digital dividend is greater than ever before. Both small businesses and charities report that using digital has multiple benefits. Saving time is one of the largest benefits, with the average organisation saving almost one day a week in time efficiencies. Cost savings, increases to turnover and improved customer relationships were also seen as benefits to being online.

New for 2017, the report shows the benefit of digitally-minded and technology-confident leadership. This sees greater returns, and highly digitally capable companies are investing in digital as the cornerstone to growth, for example. Exporting still represents a huge opportunity; those with greater digital capabilities are 11 times more likely to be benefiting from international trade.

Social media also provides key benefits; charities using it are 51% more likely to report an increase in donations.

Peer-to-peer networks and informal training are the preferred methods for organisations to seek digital advice and guidance. The 2017 report offers new granular detail into the types of skills missing. This means there is greater opportunity to segment the audiences, tailor the approach and action the insight. This report includes signposting to a new toolkit designed with thanks to our partners on the Government SME & Charity Taskforce, and contains a number of free resources for organisations to utilise.

New for 2017:



The year-on-year
measurement of Basic
Digital Skills



Digital mind-set
and understanding



Tools and resources to
help drive digital use
and confidence



The specific Basic Digital
Skills tasks



Regional lens on
national findings

KEY FINDINGS

1 Increasing disparity between the lowest and highest digitally capable organisations

Despite an overall plateau in Index scores (remaining at 54 for small businesses and slightly increasing to 43 from 42 for charities, see figure 1), there is growing disparity between the lowest and highest digitally capable organisations.

At the top end of the scale, 42% of small businesses are now categorised as 'highly digitally capable', up from 38% last year. Charities with the highest digital capability have increased by 3% to 21%. Compared with 2014 when this annual study first launched, the number of charities with high digital capability has grown more than five times.

Conversely, small businesses and charities demonstrating low digital capability are also increasing. For small businesses, this bracket grew from 7% to 9% year on year, and charities have grown from 12% to 16%. This minority represents a growing opportunity for organisations to reap the benefits of digital and equal access to benefits.

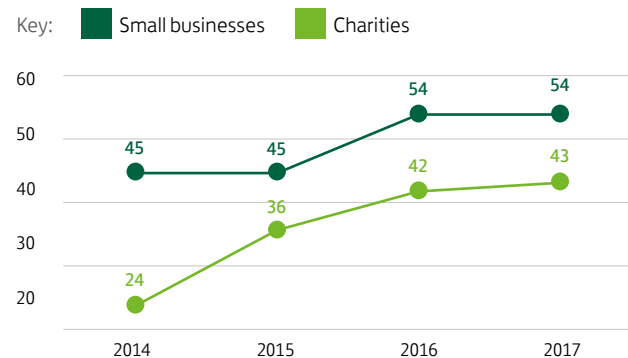
2 1.6m small businesses (41%) and over 100,000 (52%) charities do not have Basic Digital Skills

The number of organisations with all five Basic Digital Skills has reduced. This year 59% of small businesses have Basic Digital Skills, compared with 62% in 2016. Charities follow the same overall trend, with 48% attaining full Basic Digital Skills, compared to 51% last year. The report shows that the main barrier for organisations with low digital capability is motivation – 61% of charities and 43% of small businesses in this bracket believe that an online presence is not relevant for their organisation.

3 670,000 organisations are on the cusp of achieving full Basic Digital Skills

Of the organisations without all of the Basic Digital Skills, 39% (670,000 small businesses and charities) demonstrate four of the five skills, and are on the cusp of full Basic Digital Skills. For small businesses, 'Problem Solving' makes up nearly two-thirds of the missing skills. For charities 'Managing Information' presents the biggest opportunity, with 'Problem Solving' a close second. If the small businesses on the cusp were to try just one more skill in the next 12 months, 75% of small businesses could have Basic Digital Skills by 2018. This presents a huge opportunity for a targeted approach from digital inclusion practitioners and partners.

Figure 1: Organisation Index scores (0-100), 2014–2017



1.6m

small businesses do not have Basic Digital Skills



More than

100,000

charities do not have Basic Digital Skills

4 Digital skills are the shortcut to success

The more digital the organisation, the better the balance sheet. Small businesses with high digital capability are now two-and-a-half times as likely to have an increase in turnover. Highly digitalised charities are also twice as likely to report an increase in donations, with social media proving an important component – charities using it report a 51% increase.

Cost savings are also a key reported benefit. Highly digitally capable charities are ten times more likely, and businesses five times more likely to see cost savings from being online. Time savings are also a key benefit – the data shows that organisations using digital are saving almost 20% of their working week in time efficiencies: one day a week. Other success factors reported include greater customer engagement, geographic coverage and marketing effectiveness.

5 Digital leaders see greater returns

Half of small business (50%) and more than half of charity leaders (58%) believe that they have the right knowledge and experience to thrive in a digital world. However, with digital confidence and leadership comes business performance; the most digital small business leaders are three times more likely to report increasing turnovers.

6 Small businesses that want to grow are using digital to achieve success

Highly digitally capable small businesses are 50% more likely to say growth is important to their strategy than those with low digital capability. The data also finds that those who see business growth and expansion as important are 43% more likely to be investing in digital skills, suggesting that there is a link between a growth mind-set and a digital mind-set.

7 Online safety is the key concern

Online security concerns are now the leading barrier to doing more online. The data reveals that currently only one-third of small businesses and one-quarter of charities say they feel they have the skills to protect their organisations from fraud and potential scams. Therefore, 2.6 million small businesses and almost 150,000 charities do not feel they have sufficient online safety skills.



CALLS TO ACTION

CREATED IN PARTNERSHIP WITH

Michelle Ovens MBE, Do It Digital and
Harriet Stranks, Director of Grant Making,
Lloyds Bank Foundation



LLOYDS BANK FOUNDATION

England & Wales



For training, resources and further
support please refer to our Digital
Knowhow toolkit at
[http://resources.lloydsbank.com/
business-guides/digital-know-how/](http://resources.lloydsbank.com/business-guides/digital-know-how/)



'Try One More Thing' – getting over the skills line

Of those without full Basic Digital Skills, more than a third (39%) of organisations have four out of the five skills; the key missing skills are 'Problem Solving' and 'Managing Information'. Partners and practitioners could adopt the Good Things Foundation's initiative to encourage organisations to #try1thing. Small steps can lead to big changes. If organisations can understand more about how their customers are using their website and reviewing them online, and how to action this insight, they can better shape and develop their offering and achieve full Basic Digital Skills status.



Organisations like mine – sharing best practice and inspiring change

One half of organisations are seeking informal digital advice from friends and family. However, tapping into role models with high digital capability in their trade or sector is a great opportunity to develop best practice and inspire ambition and confidence. Peer networks, LEPs, Local Authority networks and Growth Hubs will prove ever more valuable in bringing organisations together, and mentoring and shadowing opportunities are instrumental in developing capability. For charities, having at least one digitally-savvy board member will bolster the 50% of charity leaders who lack confidence in introducing digital change, and will help to drive investment and donor interaction. Sole traders and smaller charities represent the greatest opportunity for development; making time in the short term to connect with more digital organisations in their field will reap rewards in the long run.



Every sector can benefit from a champions model

While there are great examples of the champions model in the financial sector, within Government and across housing associations, there is significant opportunity for other sectors to either adopt the model or signpost customers and audiences to helpful materials. It is important for all organisations, especially those with large access to those without Basic Digital Skills, to give this support.



Focusing on fraud and security skills

25% of charities and 33% of small businesses feel they do not have the skills needed to protect themselves from fraud and scams. New data protection laws (the General Data Protection Regulation) will come into effect on 25 May 2018. Small businesses and charities must be aware of this regulation and compliant in the way they collect and use data by this date. It is important that organisations are equipped with enough understanding to both meet requirements and feel confident about the changes. This will help to remove these laws as a barrier to online development and business success.



Digital skills now synonymous with business skills

Digital skills are essential for the successful management of both businesses and charities. However, there is a need to tackle motivational barriers amongst those with the lowest digital capability. Messaging and training should showcase the business benefits, including time and cost savings, as well as the improved processes and better interactions with customers and donors.



METHODOLOGY

Index segmentation

The behavioural data of small businesses and charities is used to create a digital maturity segmentation. The segments represent different levels of digital maturity, from Segment 1 being the least digitally capable to Segment 5 where organisations have the highest levels of digital capability. Figure 2 illustrates the segment definitions and their corresponding traits.

A small business or charity must demonstrate all previous capabilities before they can progress into the next segment.

Figure 2: Digital maturity segment definitions for organisations, 2017

0 Least digital			Most digital 100						
1		2		3		4		5	
1 Passive Score range: 0-18		2 Getting started Score range: 18-34		3 Established Score range: 34-48		4 High Score range: 48-62		5 Advanced Score range: 62-100	
<ul style="list-style-type: none">▪ 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		<p>As 1 plus:</p> <ul style="list-style-type: none">▪ 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		<p>As 2 plus:</p> <ul style="list-style-type: none">▪ 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		<p>As 3 plus:</p> <ul style="list-style-type: none">▪ 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)		<p>As 4 plus:</p> <ul style="list-style-type: none">▪ 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' or 'least digitally capable' refers to Segment 1.						'High' or 'most digitally capable' refers to Segment 5.			

The term 'organisations' refers to both small businesses and charities.

Index score

The Lloyds Bank UK Business Digital Index is calculated as follows:

1. Actual online behaviour of UK organisations

An analytical review of anonymised Lloyds Banking Group data to gain an oversight of the online banking activities of customers at an aggregate level, as a representative proxy for the UK's charity and small business-banked population.

2. Primary quantitative research

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

As per the 2016 report, the Index score range is between 0 and 100. The Index score is calculated using behavioural data and quantitative research. It may vary from the Basic Digital Skills measure, which is solely quantitative.

Basic Digital Skills

In 2016 the UK Basic Online Skills framework was refreshed and updated to become Basic Digital Skills (figure 3). 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.

Figure 3: Basic Digital Skills framework



Managing Information

Find, manage and store digital information and content



Communicating

Communicate, interact, collaborate, share and connect with others



Transacting

Purchase and sell goods and services, organise finances, register for and use Government digital services



Creating

Engage with communities and create basic digital content



Problem Solving

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

Data comparisons

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 comparison between 2016 and 2017.

For further information please see the appendix document.

Regional factsheets

Alongside the main Business Digital Index report and appendix, regional factsheets are also always produced to provide a local perspective. Please find these here:

www.lloydsbank.com/businessdigitalindex

Small Business Digital Index



If 16% of small businesses were to try one more skill
in the next 12 months



75% of small businesses could have full Basic Digital Skills by 2018

INDEX SCORE

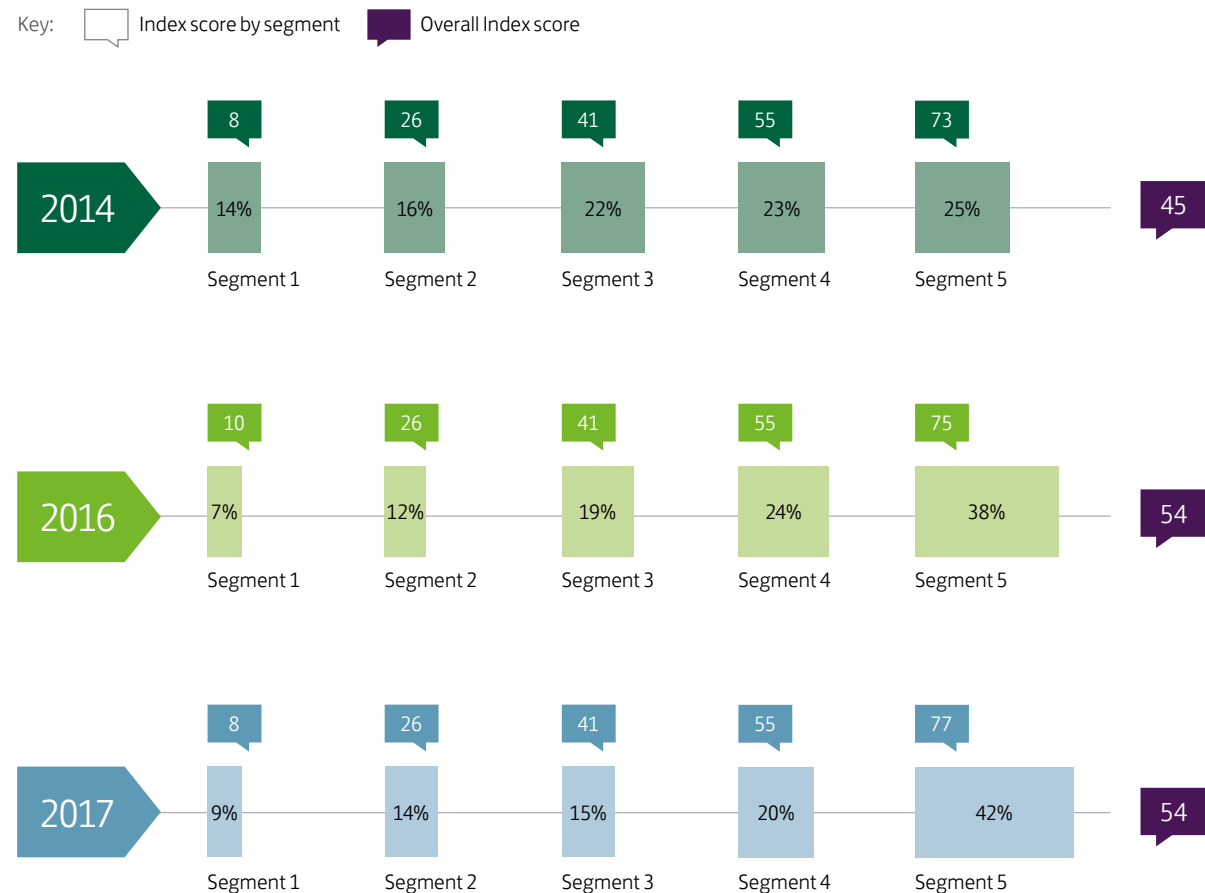
The overall Index score has plateaued

Since the first Lloyds Bank UK Business Digital Index in 2014, there has been significant progress in the number of UK organisations improving their digital capabilities. Figure 4 shows how the size of each of the five segments has changed in the past 12 months.

A closer look at the Index scores at a total level reveals little movement, but the proportion of small businesses within each maturity segment has changed. There are more small businesses with the highest digital capability as well as more with the lowest, demonstrating an increasing skills gap.

The proportion of small businesses in Segment 5, with the highest digital capability, has increased to 42% in the past 12 months (up 4% year-on-year). In contrast, the number of small businesses in Segment 1 – those exhibiting lowest levels of digital capability – has increased to 9% (2% increase from 2016) and the Index score is lower, at eight points. Part of this group will be the digitally excluded; survey results show 3% of small businesses (118,000) have said they do not use the internet.

Figure 4: The number of small businesses in each digital maturity segment and the Index score given to each segment, 2014–2017



1.6m

small businesses are without Basic Digital Skills

BASIC DIGITAL SKILLS

41% of small businesses do not have Basic Digital Skills

To qualify as having full Basic Digital Skills, an organisation must have at least one task within each of the five skills categories ('Managing Information', 'Transacting', 'Communicating', 'Problem Solving' and 'Creating'.) As the methodology was updated in 2016, for the first time there is the ability to compare year-on-year.

There is a slight decline in the proportion of small businesses with all five Basic Digital Skills; 59% of small businesses now have all five compared with 62% in 2016. 1.6m (41%) of small businesses lack all five skills. Figure 5 illustrates the shift in the different skills categories compared with 2016.

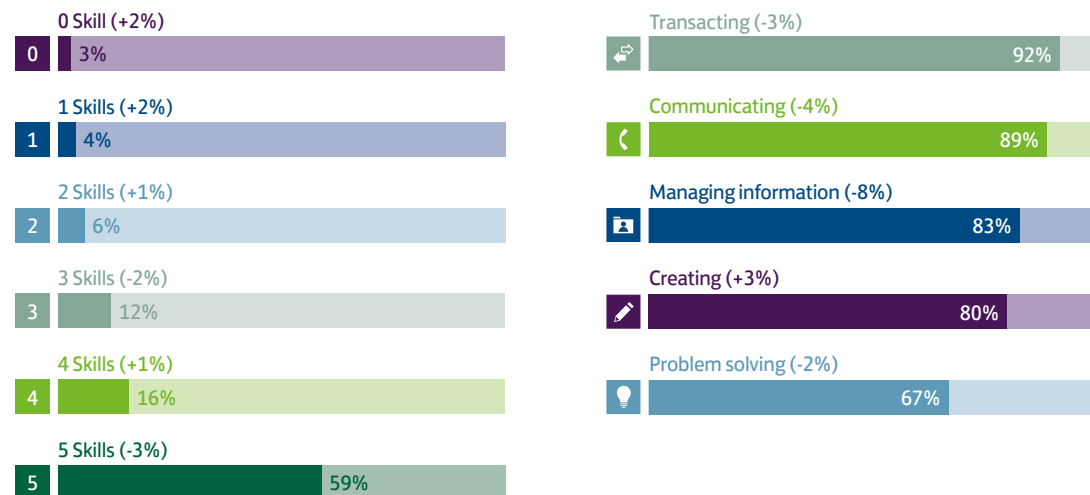


It is a real concern in today's world that 41% of small businesses and 52% of charities are lacking Basic Digital Skills. This research shows the clear benefits of increased digitalisation, with savings in time and cost, increases in revenue and improved customer relationships. We hope that this insightful report will raise awareness and encourage many more small organisations to gain the skills to benefit from digital technology.

Karen Price OBE, CEO, The Tech Partnership



Figure 5: Small businesses' reported number and type of basic digital skills, 2017 vs. 2016



Small Business Basic Digital Skills

More businesses can perform at least two tasks within each Basic Digital Skill

Within each Basic Digital Skill there are a number of tasks that businesses can undertake. Of the small businesses that have Basic Digital Skills, the data shows a greater proportion than ever are broadening their skill sets. 2017 data in figure 6 shows that 21% of small businesses can now perform at least two tasks within each skill category (a 6% increase since 2016).

630,000 small businesses are on the cusp of achieving full Basic Digital Skills

16% of organisations in 2017 have attained four of the five skills and are on the cusp of attaining full Basic Digital Skills status. This group make up one-third (39%) of the small businesses without Basic Digital Skills – this equates to 630,000 businesses.

Of this group, as illustrated in figure 7, 65% are lacking 'Problem solving' skills and 23% lack 'Managing information' skills. These provide areas of focus for practitioners and partners to provide support and training. If the group of 16% on the cusp were to try just one more skill in the next 12 months, 75% of small businesses could have Basic Digital Skills by 2018.

Figure 6: Small businesses with Basic Digital Skills; those who can do 2+ tasks and those with 1, 2017 vs. 2016

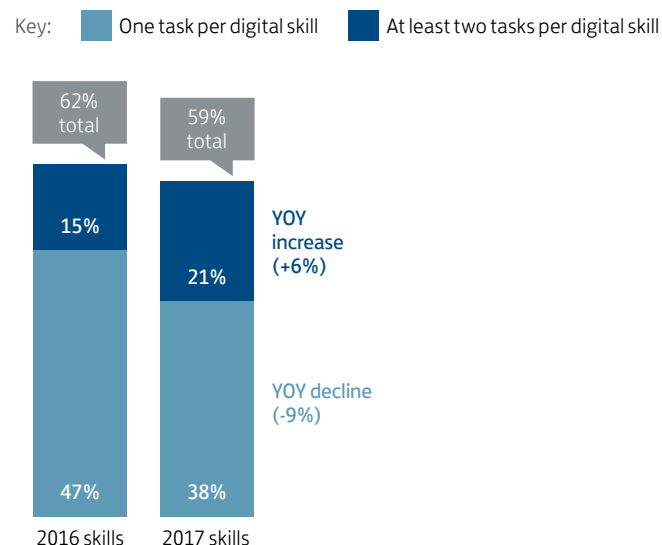
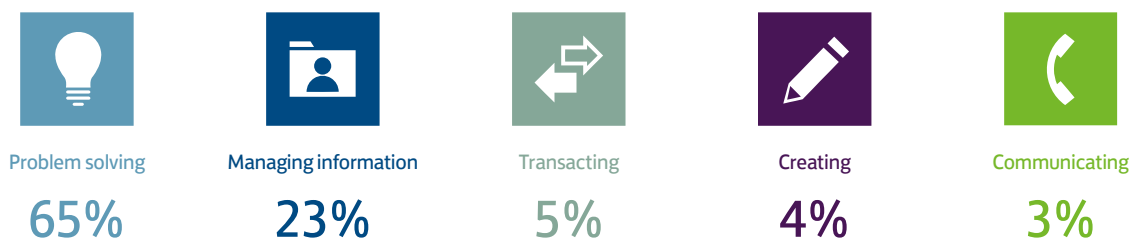


Figure 7: Small businesses with four digital skills and the skills most lacking, 2017



DIGITAL BEHAVIOUR

Detailed digital behaviour

This year for the first time, digital usage data has been broken down into more granular Basic Digital Skills tasks to highlight areas of opportunity and challenge.

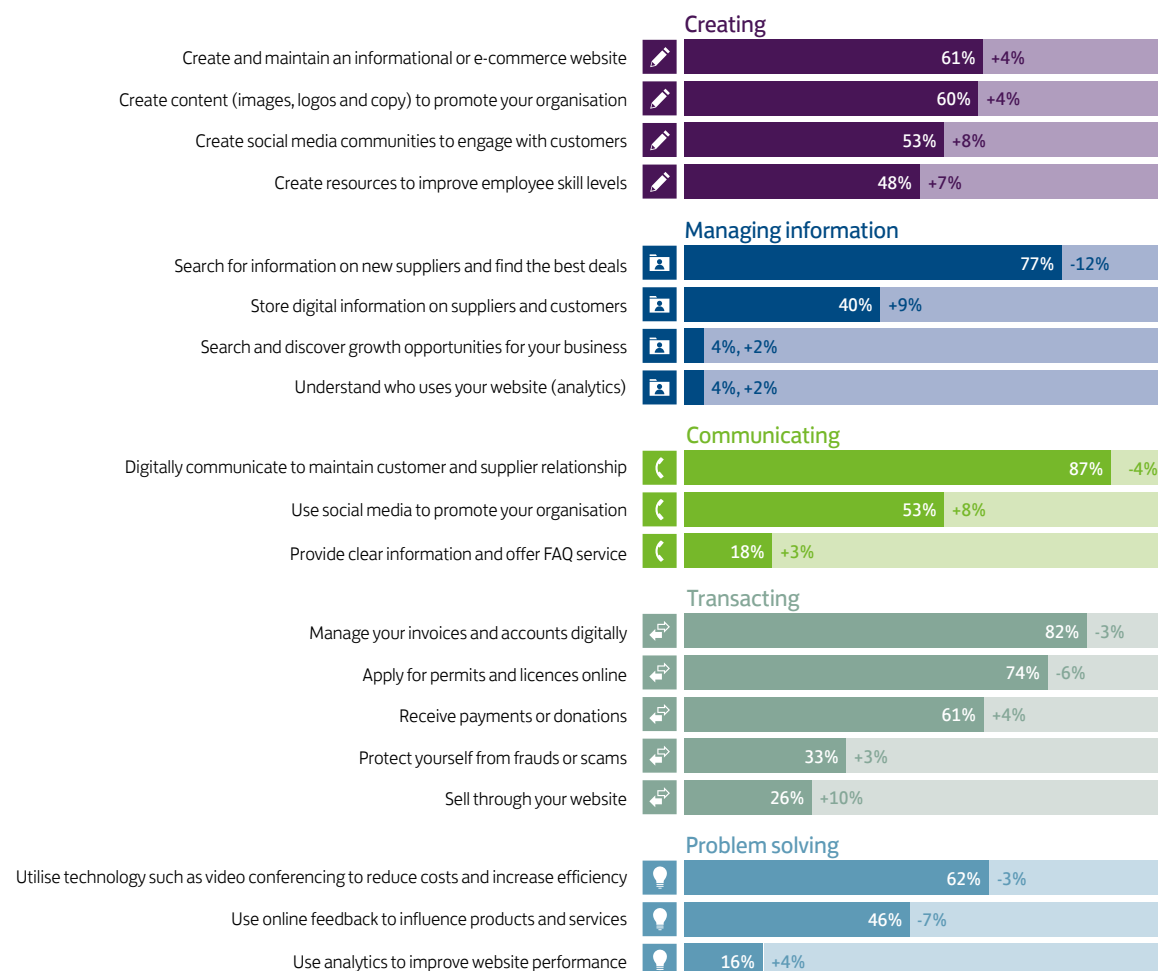
CREATING

70% of the most digitally capable small businesses are now creating resources to improve employee skill levels

Small businesses have made progress in creating and delivering content to their customers, with 60% of them now creating their own promotional content (see figure 8). This may be due to the increase in popularity and accessibility of video and image content platforms such as Instagram and YouTube.

48% are now also creating resources to improve employees' skill levels (see figure 8). 70% of the most digital small businesses are developing resources compared with only 8% of the least digital small businesses (see appendix 1)[†]. This demonstrates that the most digitally capable organisations are eager to retain and continue to grow digital skills.

Figure 8: Small business reported digital tasks aligned to Basic Digital Skills, 2017 vs. 2016



[†] All appendices can be found online at lloydsbank.com/businessdigitalindex

MANAGING INFORMATION

40% of small businesses are now storing digital information on suppliers and customers

As illustrated in figure 8, the 'digital storage of supplier and customer information' skill has seen real progress, with a 9% annual increase. This increase has been driven by the more digitally capable – 68% of these now capture customer information compared to only 2% of the least digital (see appendix 1).

Measures such as 'searching and discovering growth opportunities for your business' are still low (4%). This is despite 52% of small businesses reporting that organisational growth is a key priority (see appendix 15).

Furthermore, there are 12% fewer small businesses searching for new suppliers and deals online than last year. Analysis shows that this decline is driven by the least digitally capable businesses; only 34% of these have sought this information online (see appendix 1).

COMMUNICATING

67% of small businesses state mobile is crucial to the success of their organisation

The biggest progression has been in the number of small businesses using social media for promotion; 53% now report significant usage of social media, compared with 45% in 2016 (see figure 8).

Over a third of businesses (34%) agree that social media is helping them to drive revenues.

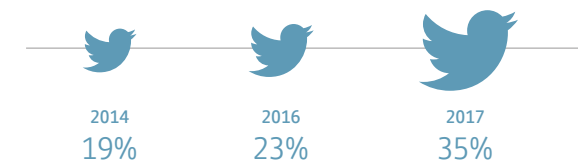
As shown in figure 9, Facebook remains the largest platform, but Twitter is growing the fastest.

A potential enabler of the social media uptake has been the increase of mobile; 67% of the small business population state having a mobile is crucial to success (see appendix 2).

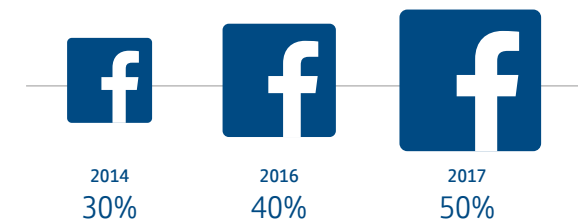
The 4% drop in the number of organisations using digital communication to maintain relationships has been driven by the least digitally capable (see appendix 1). Only 18% of the least digital businesses are communicating digitally, and 99% of the most digital businesses have consistently used digital channels of communication.

Figure 9: Small business usage for social media, 2014–2017

Twitter platform growth



Facebook platform growth



I now secure up to 80% of customer orders via Facebook. Each Sunday, I schedule photos of the cakes I've made the previous week to be shared each day, which means I get a steady stream of comments. I also try and keep our website up to date but Facebook is my main priority and I now have more than 900 likes for my page.

Karen Campbell, Wealden Cake Company, East Sussex



TRANSACTING

Over two-thirds (68%) of small businesses find online payments more efficient

In 2017, 71% of small businesses prefer to make payments using online channels and 11% have 'no preference' as to whether they use online or offline payments methods (see appendix 3).

Asked why online payments were preferential (appendix 4):

- 68% said 'quicker, increased speed'
- 40% said 'more convenient for suppliers'
- 22% said 'easier/more convenient for us'

For those who do not prefer online channels, their reasons were (see appendix 5):

- 19% said 'we prefer to pay by cash or cheque'
- 17% said 'concerns about security'
- 16% said 'suppliers prefer cash or cheque'

Regarding concerns about security, currently only 33% of businesses feel they have the skills to protect themselves from fraud and potential scams (figure 8). This rises to 64% of small businesses with high digital capability, but none of the organisations in the lowest digital capability segment feel they have fraud and scam prevention skills (appendix 1).

In 2017 just over one-quarter (26%) of small businesses are selling through their own website, which remains relatively low despite increasing by 10% (figure 8). This may be due to small businesses utilising intermediary platforms such as eBay, Treatwell, Amazon and Etsy.

Managing invoices and accounts online remains the strongest performing task (82%). This will prove important as these tasks are moving ever closer towards being digital by default.

Please refer to the HMRC's Making Tax Digital for Business site¹ to understand the full transition process, and the Small Business Forum (see Digital Knowhow toolkit for more information) can also help provide support.

PROBLEM SOLVING

Opportunity for 84% of small businesses to use analytics to better understand customers and improve interactions

'Problem solving' remains the least acquired skill – just over two-thirds (67%) of small businesses show evidence of problem solving (figure 5).

62% of small businesses are now utilising technology to become more efficient (figure 8); this number rises to 79% when looking at organisations of over ten employees (see figure 22).

Small businesses have an opportunity to better understand their customers. The data shows 84% don't use digital analytics and insight tools, and 60% (as shown in 'Managing information') don't store and then learn from customer data (figure 8).



Millions of businesses are already banking, paying bills and interacting online. Delivering a modern digital tax system and going digital with business records and taxes is the next step. Making Tax Digital for Business¹ is designed so businesses can meet their UK tax obligations as simply as possible, and HMRC is fully committed to supporting businesses in making a successful transition to the new service.

Theresa Middleton, Director, Making Tax Digital for Business, HMRC



¹ www.gov.uk/government/publications/making-tax-digital-for-business



Strategy is key to social media. Our focus has been on a more disciplined approach to blogs and posts and the drive to tell a story, which has resulted in an increase of Twitter followers of over 50% and a significant increase in website traffic.

Mark Godfrey, Flow Exchange, Norwich





33% of small businesses feel they have the skills
to protect themselves from fraud and scams

BENEFITS OF DIGITAL

Digital skills are a shortcut to success

Figure 9 illustrates that the more digital capability a small business has, the more likely they are to reap the benefits of online tools and processes: the digital dividend.

Spending time to save time

74% of businesses state that using online tools and platforms has helped them to save time; 21% have called this out as the 'main business benefit' of being digital (see appendix 6). Of those saving time, the average reported time saved is 19% per week¹. This represents a huge benefit to small businesses, which are often under time pressure. Recent research shows employees of UK small businesses work an average of eight hours extra unpaid every week – worth £1.6 billion at a total level² – and one-fifth (21%) of all UK small businesses leaders did not have any time off last year at all¹.

As indicated in figure 9, the greater the organisation's digital capability, the more time savings they enjoy. 87% of the most digitally capable small businesses see this as a real benefit, compared with 30% of the least digitally capable. However, one in four of small businesses commented that they have 'no time to set up and go online' (see figure 11).

Figure 9: Small businesses' benefits of being online, split by digital maturity segment, 2017

Key: 0% to 20% 21% to 40% 41% to 60% 61% to 80% 81% to 100%

2017 benefit curve for small businesses	Average figure	Least digital —————> Most digital				
		1. Passive	2. Getting started	3. Established	4. High	5. Advanced
Saving time	74%	30%	54%	66%	79%	87%
Attracting more customers	55%	12%	26%	43%	58%	74%
More effective marketing	53%	12%	19%	43%	56%	74%
Increased interaction with existing customers	53%	13%	22%	46%	57%	72%
Simplified process of taking payments	52%	16%	24%	42%	55%	69%
Cost savings	54%	12%	31%	48%	58%	69%
Can use my mobile to do business on the move	55%	25%	32%	48%	57%	68%
Wider geographic coverage in the UK	48%	5%	18%	33%	51%	67%
Can use my mobile to take payments	26%	7%	10%	24%	27%	35%
The ability to trade overseas	24%	3%	8%	18%	22%	34%
None of these	10%	48%	19%	11%	6%	2%

¹ This number has been derived using Lloyds Banking Group data, and has been calculated using the mid point of the available data range.

² Paymentsense, 2017, <http://smallbusiness.co.uk/staff-working-one-additional-unpaid-2539597/>

Small businesses with high digital capability are

3x



more likely to
save time

5x



more likely to
save costs

11x



more likely to
trade overseas

than the least digital

The more digital the organisation, the better the balance sheet

The most digital small businesses are now also two and a half times more likely to report an increase in turnover than the least digital (see appendix 7).

For businesses with digital leaders, this rises to three times as likely (see appendix 8). Financial benefits also extend to cost savings with 54% of small businesses reporting they actively save money through being online. For the most digital businesses, this rises to 69% which is five times more likely than the least digital businesses (see figure 9).

Greater marketing effectiveness and business footprint

One in two businesses say they have more effective marketing (53%) and attract more customers (55%) through being online; these numbers rise to three in four (74%) amongst the most digital businesses. Two-thirds (67%) of the most digital businesses also report wider geographic coverage being a real benefit. 24% of small businesses also say that having the ability to trade overseas is beneficial. As figure 9 also shows, the more digitally capable small businesses are over 11 times more likely to benefit from international e-commerce than those with low digital capability (3% vs. 34%).



Having recently made tweaks to the company website, now allowing customers to purchase directly online, I have seen a £200 increase in sales within the first week – a very encouraging and positive start. I can now drive customers straight to that platform via my social media channels too.

Tim, Encota, Ipswich



2.5x

The most digitally capable small businesses are two-and-a-half times more likely to report an increase in turnover



The Lloyds Business Digital Index is a vital piece of research. Tracking progress made by small businesses and charities towards digital maturity is a highly valuable addition to the evidence base. It helps inform the work of the Digital Skills Partnership and allows government to work more effectively with stakeholders to help create an inclusive, world-leading digital economy.

**Navroza Ladha, Deputy Director, Digital Skills and Inclusion,
Department for Digital, Culture, Media and Sport**



More digitally capable organisations are more confident in their future prospects

As the data shows a plateau for the first time, digital development and investment may have been impacted by the changes that the UK has faced in recent months. Since 2014, the Index research has asked small businesses about their outlook on the short-to-mid-term prospects of the UK as well as their confidence in their own organisation's future. The data reveals that at a national level, there are 10% more small businesses with a positive outlook on the UK's short-to-mid-term prospects than in 2014 (figure 10).

Organisations are also more positive than ever about their own future prospects. The 2017 Index results show 43% of small businesses are 'confident' about their organisation's future prospects, and 31% of small businesses overall are 'very confident' (see appendix 9). Overlaying this with digital capability, the data shows that the small businesses with high digital capability are the most confident – 77% have a positive outlook on their prospects. Even 68% of the least digital small businesses still are confident in their future success (see appendix 10). As explored in the following section, increased digital capability is also linked to growth, and this in turn is linked to likelihood to invest in digital; an upward spiral.

Small businesses who want to grow are more likely to be investing in digital and developing capability

Highly digitally capable small businesses are 50% more likely to say that growth is important to their strategy than those with low digital capability (see appendix 11). Of the small businesses likely to invest more in digital in the foreseeable future, 71% outline organisational growth as an important part of their strategy (see appendix 12).

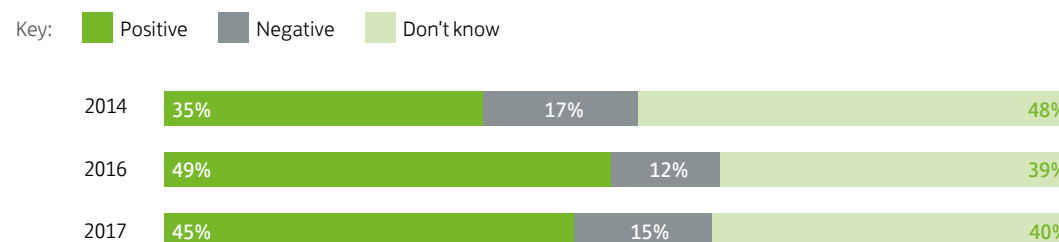
The data reports that those who state growth is 'important' or 'very important' to their business strategy are 43% more likely to be investing in digital skills (see appendix 13), suggesting that there is a link between a growth mind-set and a digital mind-set. 25% of the most digitally capable see keeping up with current digital trends as 'important' compared to only 8% of the least digitally capable (see appendix 14a).

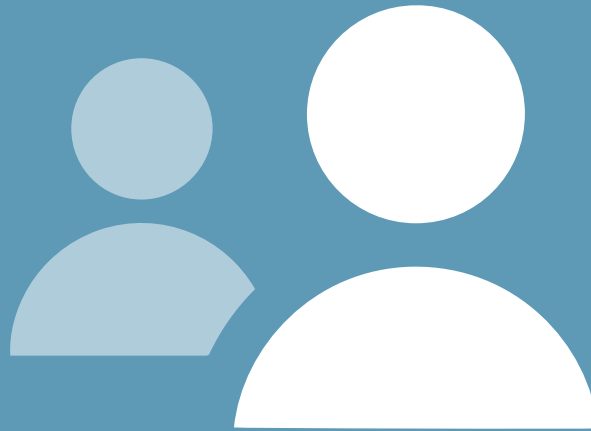
The least digital are facing a business blind spot

The small businesses with the lowest digital capability are almost twice as likely not to want to transform or grow their business than those who are more digitally capable (see appendix 15). This group are also twice as likely not to want to invest in digital channels in the future (appendix 14b), and 91% are not concerned about their business' future without digital development (appendix 14a).

This is despite the fact that those in the least digital segment are 50% more likely to be facing a decreasing turnover (see appendix 16). As the data suggests, digital is an essential part of day-to-day business and important to maintain for business success. As evidenced in figure 11, 20% say it's not worth the investment – as such, there may be a cycle. Those unwilling to invest do not try digital – they then do not reap the benefits so then will not re-invest.

Figure 10: Small business 'How confident are you in the short-to-mid-term prospects for the UK?', 2014–2017





The most digital leaders are three times as likely
to have increased their turnover

BARRIERS TO DIGITAL ADOPTION

Online security is now the leading barrier to digital development for small businesses

Figure 11 illustrates the barriers to digital development reported by small businesses, and shows how these have changed in the last four years. While motivation and time have been consistent themes since 2014, concerns about security and fraud, and lack of employee digital skills have become more prevalent.

As shown in figure 11, 32% of small businesses say their concerns around security and fraud are a barrier to doing more online. It may be the case that sufficient protection is provided by off-the-shelf packages and tools (e.g. basic antivirus or firewall software and online payment platforms), but with more than 875,000 small businesses hit by online security threats in just the last year¹, it is important that they are protected and confident in their internet safety skills.



In reality, online security can affect any organisation, regardless of how big or small it is. Due to handling confidential information I am very mindful that I use effective systems to protect my clients' data, as well as using secure platforms for client-related communications.

Fiona Taylor, Taylors Law, Guildford



Figure 11: Small business' barriers to doing more online, 2014–2017

Key: -10% > -9% to -1% 1% to 9% 10% to 19% 20% >

	2014	2016	2017	'14 vs. '17
Concerns about information security / fraud	6%	33%	32%	26%
Lack of staff digital / online skills	12%	31%	28%	17%
No time to set up and go online	15%	29%	27%	12%
Being online is not seen as relevant for our business	28%	27%	27%	-1%
Poor connectivity e.g. slow speeds, no superfast broadband	2%	23%	21%	19%
Not worth the investment	7%	23%	20%	14%
Cost of investment unknown	3%	24%	19%	16%
Just not interested in going online	9%	18%	18%	9%
Too expensive	7%	15%	17%	11%
Nothing, feel that we are doing all we can online	37%	12%	16%	-20%



One in three small businesses states concerns about online security are a barrier to doing more online

¹ Zurich, 2017, <https://www.zurich.co.uk/en/about-us/media-centre/general-insurance-news/2017/as-many-as-875000-uk-smes-suffer-cyber-security-breach-in-the-last-12-months>

Availability of digital talent is a challenge

More than one in four (28%) small businesses state that lack of digital skills in the business is their main barrier to doing more online (figure 11); this rises to one in three amongst the least digital (see figure 12).

Research by the British Chamber of Commerce reveals these organisational skills shortages are having adverse effects on small businesses in a number of ways. These include increasing workload on existing staff and higher operating costs, which leads to difficulties in meeting customer requirements¹. Digitally skilled employees are becoming a much sought after commodity; the Government's UK Digital Strategy 2017 outlines that there will be a digital skills gap of 1.2 million jobs in the UK by 2022² if there is no intervention. Research from the Manchester Digital Audit shows that 20% of digital firms have turned down work because they cannot find the right staff³.

As the demand for digital skills grows, it will become ever more important to train existing employees as well as hiring new digital talent. The 2017 Consumer Digital Index Basic Digital Skills report showed there is a 10% gap in Basic Digital Skills for the employed work force⁴.

Improving digital leadership and confidence also presents a real opportunity; one in two small business senior leaders believe they have the knowledge and experience they need to make their business more digital (see appendix 17). Leaders that do have the highest digital capability see improved business results – they are three times more likely to have increasing turnovers (see appendix 8).

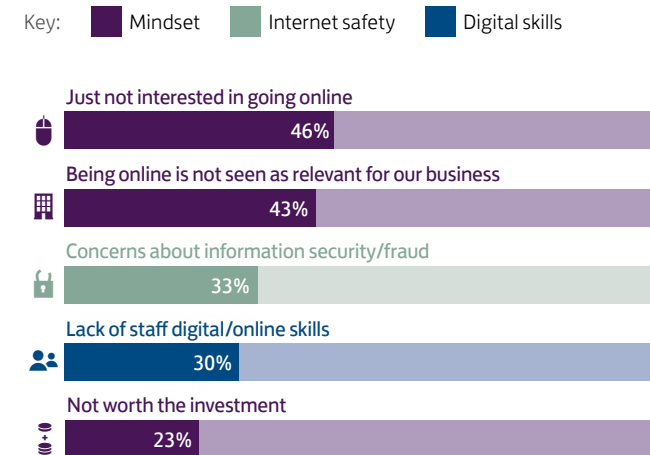
Motivation and mindset impacting the least digital

As evidenced in figure 11, around one-quarter of small businesses say they do not feel that digital is relevant to them, and 18% are just not interested. A more granular view shows that a large proportion of small businesses with motivational (mind-set) barriers are those with the lowest digital capability. For this group, as shown in figure 12, three of the top five reasons for not being online are mind-set led.

Cost and connectivity

One in five small businesses report connectivity as a barrier to doing more online; however only 6% list it as the main barrier to doing more online (see appendix 18). The cost of upskilling in digital technology and perceived lack of value added by digital, are also barriers to engagement (figure 11). Nonetheless, as explored in the next section, more small businesses are investing in digital than ever before.

Figure 12: Small business top five factors that prevent the least digitally capable organisations from doing more online, 2017



A key challenge is ensuring all colleagues have similar confidence and skill sets to utilise the digital tools for the business effectively.

Alison Klabcher, ABL Health, Wigan



1 British Chamber of Commerce, 2017, www.britishchambers.org.uk/press-office/press-releases/bcc-shortage-of-digital-skills-hampering-business-productivity-and-growth.html
2 UK Digital Strategy, 2017, www.gov.uk/government/publications/uk-digital-strategy
3 Manchester Digital Audit, 2017, www.manchesterdigital.com/sites/default/files/Skills%20Audit%20Report%202017.pdf
4 Lloyds Bank Consumer Digital Index, 2017, www.lloydsbank.com/consumerdigitalindex

Small Business

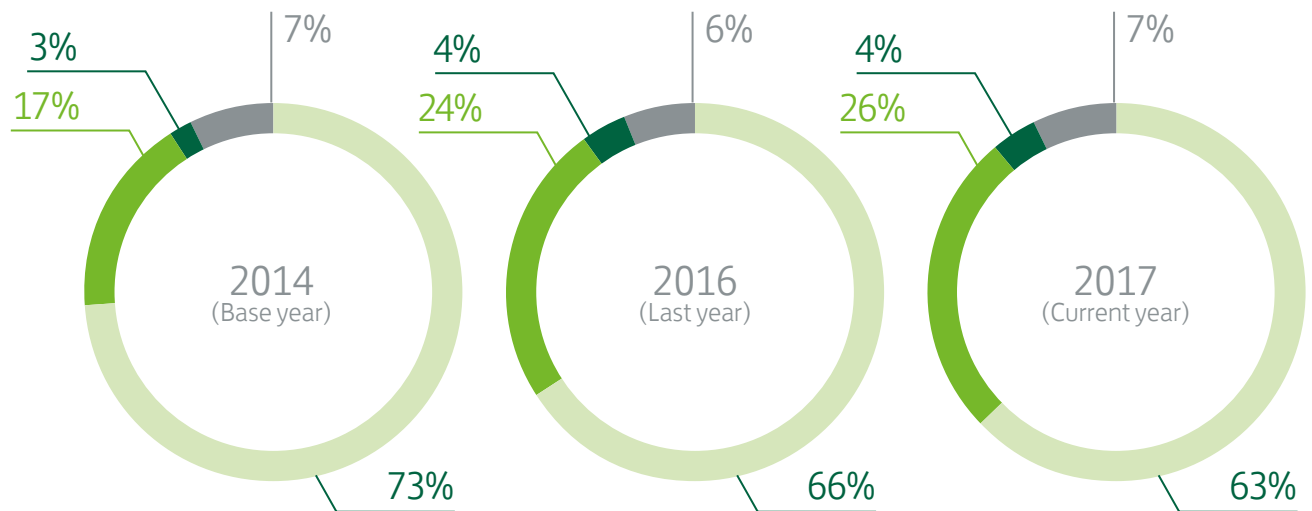
Barriers to digital adoption

Investment in digital skills is increasing

Approximately one-third (30%) of small businesses are investing financially in digital skills (figure 13). This is up from 28% in 2016 and leaping up from 20% in 2014. However, over two-thirds of all small businesses (63%) are still not investing anything in digital skills. Sole traders are even less likely to invest in digital skills, with three in four investing nothing (see appendix 19).

Figure 13: Small business percentage of budget to be invested in digital skills, 2014–2017

Key: 0% 1 to 10% 11% > Don't know



ADVICE AND GUIDANCE

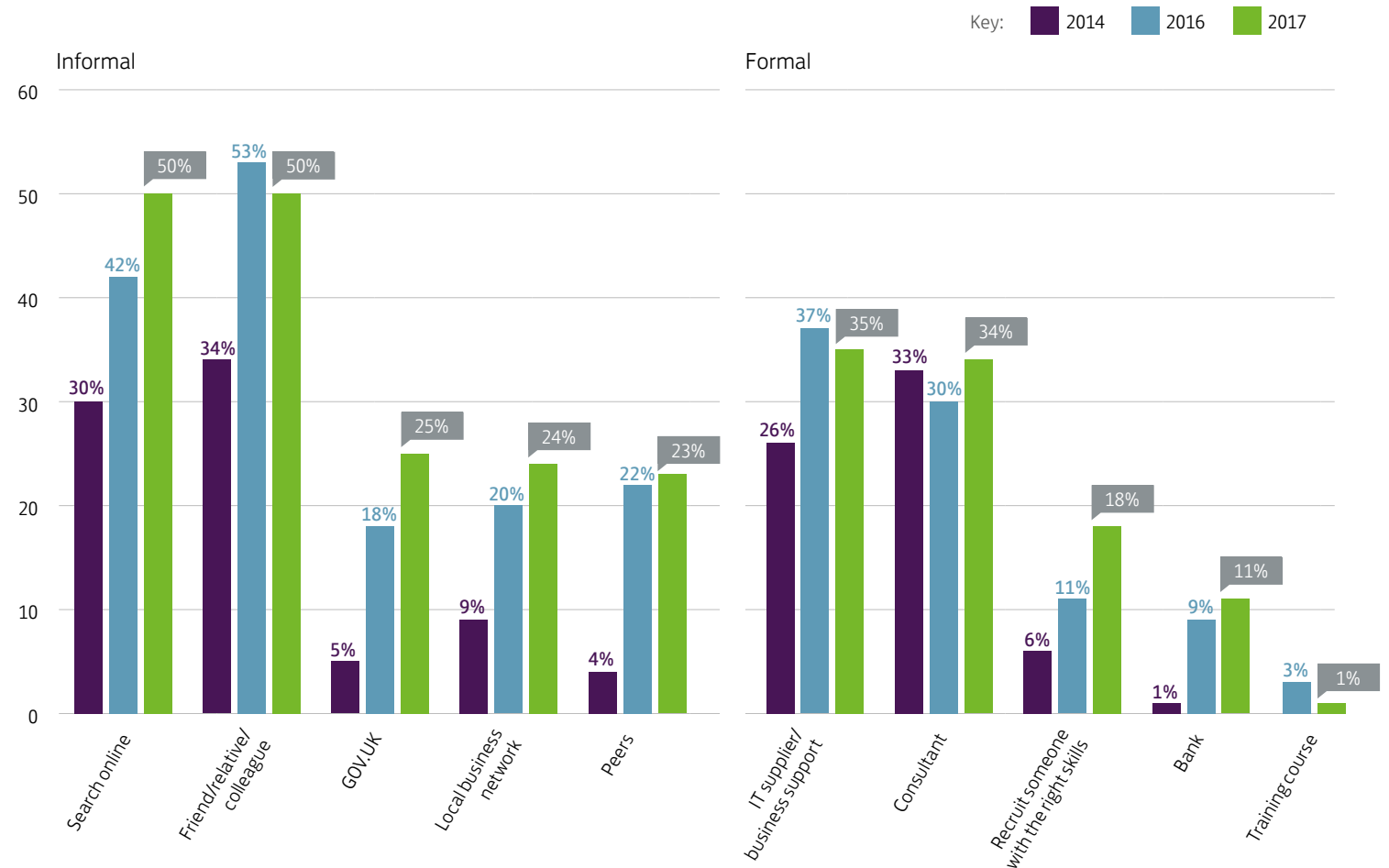
Trusted faces in local places

Building on an emerging trend from 2016, small businesses are increasingly using more informal and free forms of advice to help with technology and the web. Half of all small businesses (50%) get their advice from friends, relatives or colleagues, and almost one-quarter (24%) of small businesses turn to their Local Business Network or peers (see figure 14).

Searching online has seen a surge, with one in two small businesses now using this to progress their understanding of technology and digital products and services.

For information and resources on how to develop digital capability, please refer to the Digital Knowhow toolkit at <http://resources.lloydsbank.com/business-guides/digital-know-how/>

Figure 14: Small business 'Where do you go to get help and advice on technology and the web?', 2014–2017



DIGITAL DEMOGRAPHICS

Each region has areas of success and opportunities for development

Figure 15: Small businesses with full Basic Digital Skills, by region, 2017

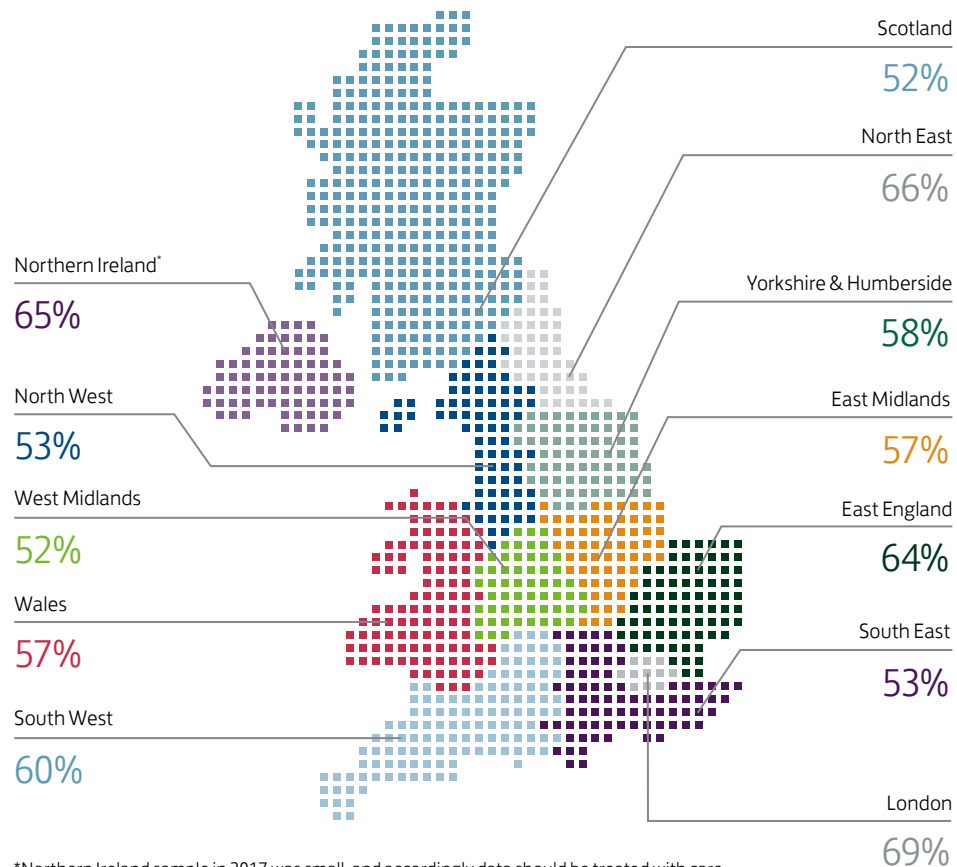
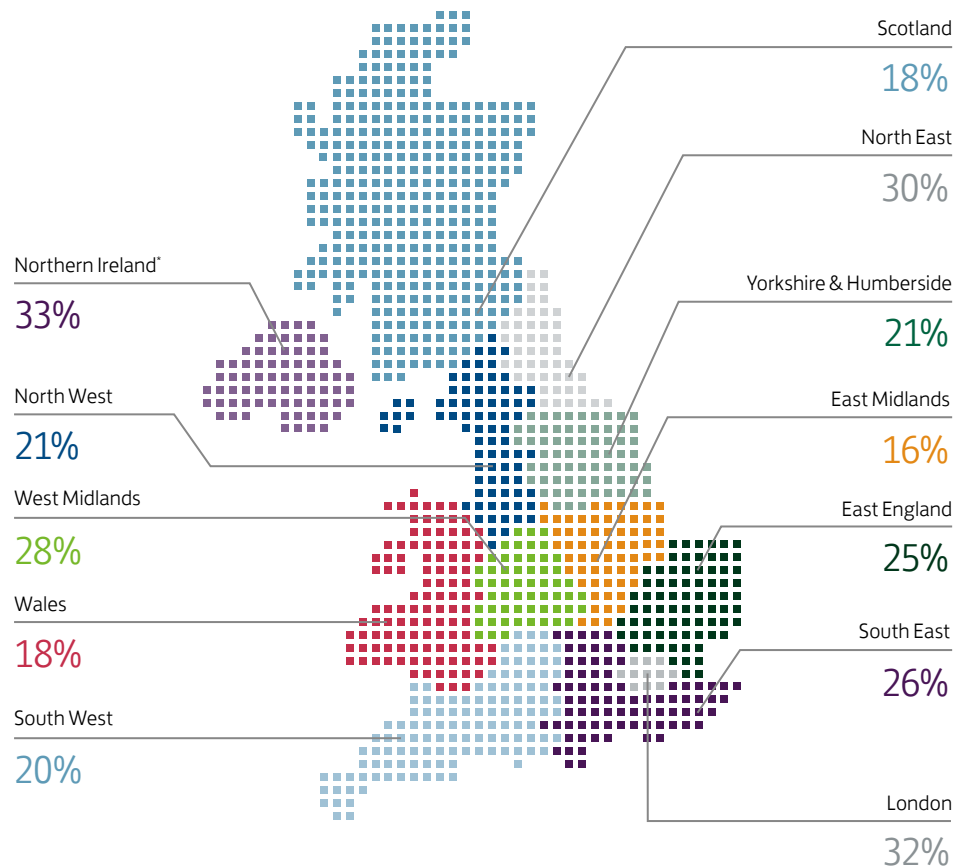


Figure 16: Small businesses top four barriers to doing more online, by region, 2017

Key: 0% to 20% 21% to 30% 31% to 40%

	Concerns about online security	Lack of staff with digital skills	Being online is not relevant	No time to set up and go online
UK Average	32%	27%	27%	28%
East England	36%	29%	22%	28%
East Midlands	30%	28%	21%	31%
London	37%	20%	23%	21%
North East	27%	30%	28%	33%
North West	29%	28%	28%	26%
Northern Ireland*	35%	25%	20%	15%
Scotland	23%	22%	34%	17%
South East	33%	28%	27%	30%
South West	32%	32%	25%	27%
Wales	38%	34%	32%	23%
West Midlands	34%	27%	27%	26%
Yorkshire & Humberside	29%	32%	33%	32%

Figure 17: Small businesses that perceive trading overseas as a key benefit of being online, by region, 2017



*Northern Ireland sample in 2017 was small (n=39) and accordingly data should be treated with care

Regional factsheets

Building on the national demographics provided, regional factsheets have been created to give insight to local digital capability and skills. To explore the regional findings, please visit www.lloydsbank.com/businessdigitalindex.



The Lloyds Bank UK Business Digital Index 2017 findings can help us as Growth Hub better understands SMEs not only on a regional, but national level. The data is crucial in helping us shape our digital support for Dorset's small businesses, helping to make them more digitally capable and competitive.

Richard Burn, Digital Manager, Dorset Growth Hub



Age of small business

In 2017, small businesses under three years old have an Index score of 58 compared with small businesses over 10 years old having a score of 51 (see figure 18). 65% of start-ups have full Basic Digital Skills compared with only 55% of small businesses over 10 years old, (see figure 19).

As with lower digital capability organisations overall, older organisations perceive digital to be less relevant. 57% of small businesses over 10 years old believe that no digital or technological developments are required (see appendix 20).

Figure 18: Small business Index scores by age, 2017 vs. 2016

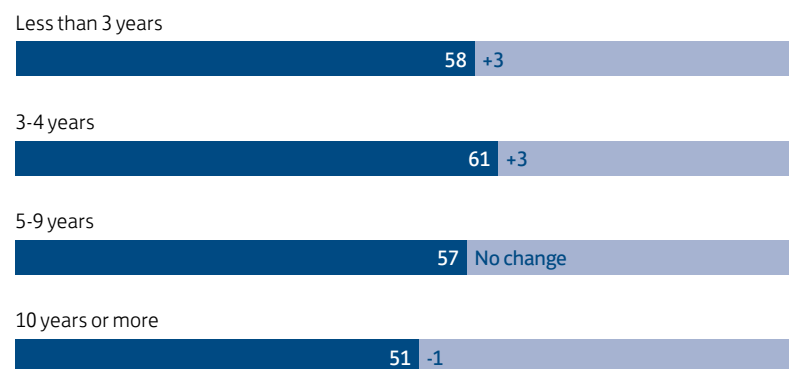
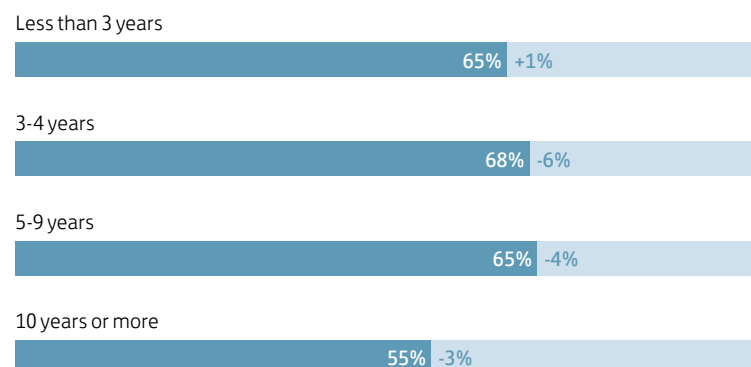


Figure 19: Small businesses with full Basic Digital Skills, by age, 2017 vs. 2016



Small Business

Digital demographics

Size of small business

As shown in figures 20 and 21, sole traders have an opportunity to grow their digital skills – they have the lowest Index score and only 50% have full Basic Digital Skills. The key differences between sole traders and larger organisations are shown in figure 22.



This year's Business Digital Index demonstrates that social entrepreneurs are continuing to focus on developing digital skills to grow their business. More small businesses are digitally capable, which can lead to increased sales, cost saving and business growth. We are particularly keen to support charities and small businesses that have not yet taken advantage of the benefits of being online, to help even the smallest of businesses reach and retain customers.

Jo Harris, Managing Director, Retail Business Banking, Lloyds Banking Group



Figure 20: Small business Basic Digital Skills, by size, 2017 vs. 2016

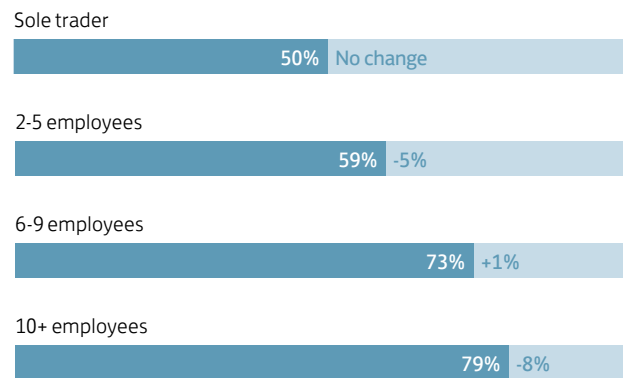
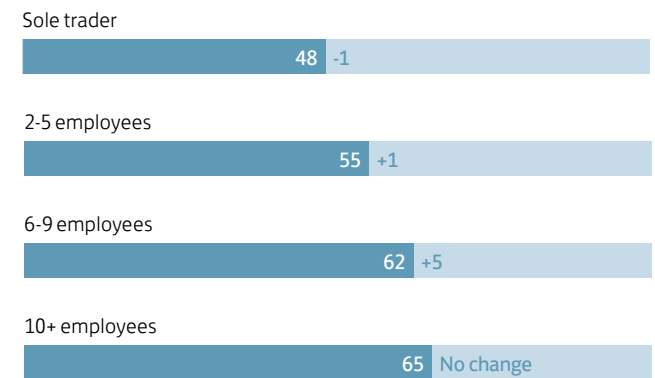


Figure 21: Small business Index scores, by size, 2017 vs. 2016



Size of small business: Basic Digital Skills

On the whole, sole traders have a lower Basic Digital Skills score than organisations with 10+ employees. Figure 22 shows the tasks with the greatest gaps between these two demographics, and provide the greatest opportunity for larger small businesses to be digital role models and mentors to sole traders.

When it comes to using mobile to do business on the move, however, mobile adoption is almost consistent across business sizes. This suggests there may be an opportunity to broaden digital skills for sole traders through the mobile channel.

Figure 22: Small businesses undertaking Basic Digital Skills tasks, by size, 2017



Small Business Digital demographics

Turnover

As shown in figure 24, 2017 sees a continuation of the trend of small businesses with larger turnovers also being more digitally mature.

Figure 25 shows that 42% of small businesses with a turnover of under £1m do not have Basic Digital Skills. This compares with 24% of those with a turnover of £1m to £25m.

Gender

As in 2016, the 2017 data shows relative gender equality for Basic Digital Skills (see figure 23).

Figure 23: Small business Basic Digital Skills, by gender, 2017 vs. 2016

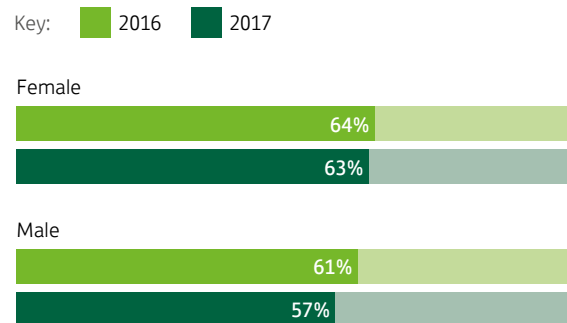


Figure 24: Small business Index score, by annual turnover, 2014 – 2017

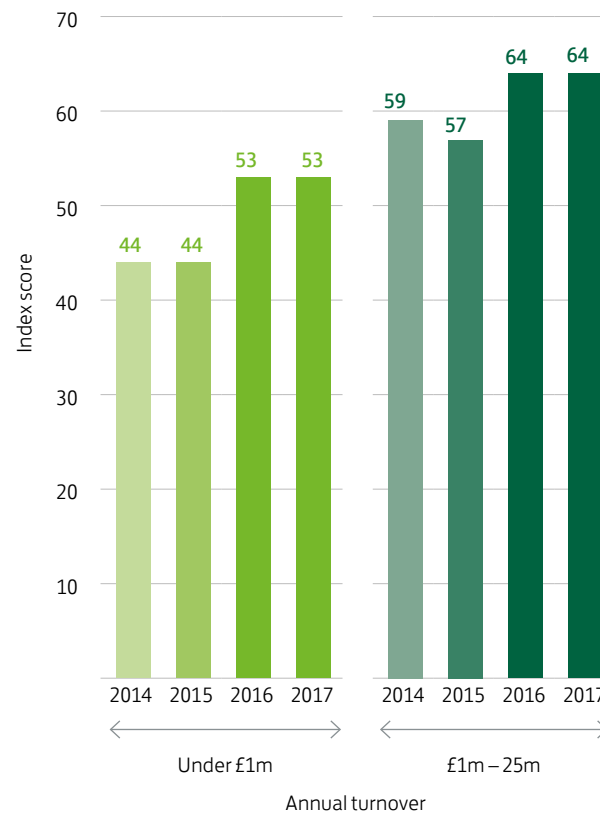
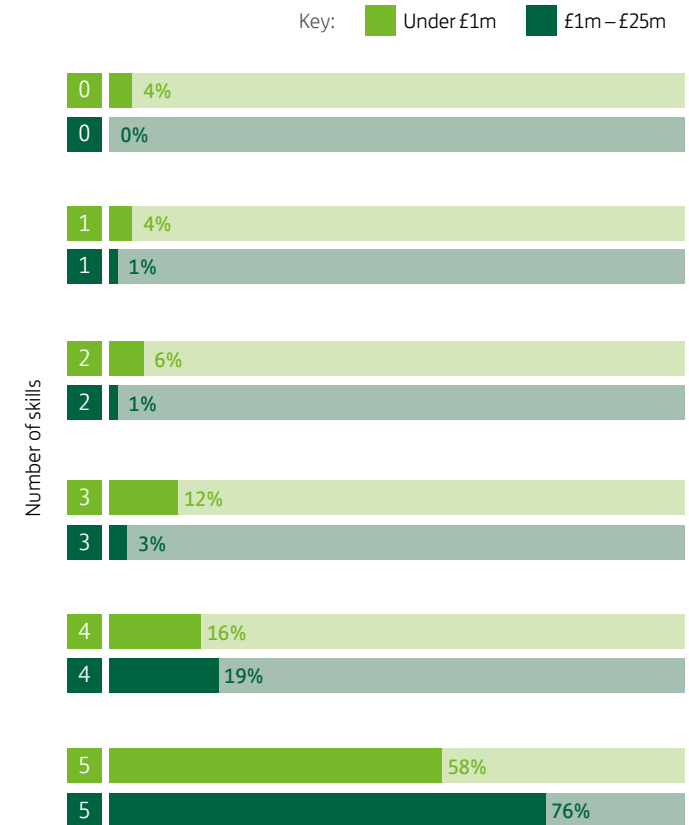


Figure 25: Small business Basic Digital Skills, by annual turnover, 2017





CASE STUDY

Hunts Coaches

JOE HUNT, LINCOLNSHIRE

Hunts Coaches is a third generation family business, started by Joe's grandfather in 1930. With almost 100 years behind them, the company has been transformed over the past few years. A traditional coach business, it now operates 32 vehicles from two sites in Lincolnshire, employing 50 people and providing coaches for school trips, holidays and private contracts.

For many years, the company had been an 'offline' organisation, using paper for most operations such as drivers' schedules, bookings, tracking vehicles or advertising through newspapers.

Moving online has had an incredibly positive impact. Joe has worked with his father, Mick, to incorporate digital into all areas of the business, with every vehicle now having a computer on board and most marketing now delivered online, often through social media. Diaries are digitally managed and one-third of bookings are taken online.

Joe and Mick found that more and more of their customers wanted to book online and even their older customers were becoming more digital, which has opened up new opportunities for them.

The results are tangible. There is greater confidence in the business, as Joe and Mick worry less.

HUNT'S

They have saved money by becoming more efficient and more targeted with their online marketing and using less paper. Their customer base has increased by 33% (all new customers). They've also saved time, not only through online bookings (15 minutes saved per booking) but also by not needing to write out driver schedules in the evenings. Turnover has almost doubled and most importantly, they are now available to their customers 24 hours a day.

This change has meant more investment in the business, with a new staff member taken on to focus on digital marketing. This is in recognition of how important digital is to them and to the future of the organisation. It has been a gradual process, with Mick needing some persuasion, having managed business through paper for so many years. But once he saw the benefits, he was a true convert.

66

We couldn't do without digital now. It's like going from dark to light. If we didn't embrace technology at all we probably wouldn't be here. The cost of not using it wouldn't make things feasible. It keeps us up with and hopefully in front of the competition.

99

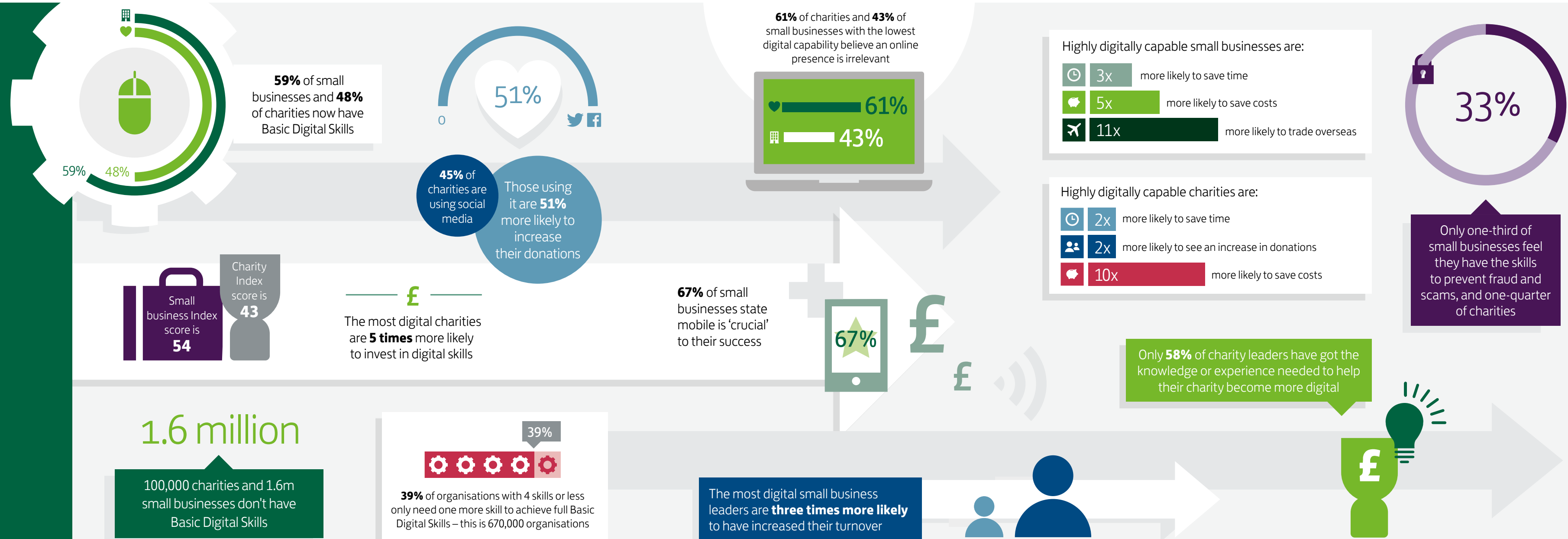


The UK's largest digital capability measure of small businesses and charities

The fourth annual Lloyds Bank Business Digital Index combines actual behavioural data with survey research to provide a unique view of the digital capability of small businesses and charities in the UK.

The report also includes the Basic Digital Skills measure, a view of the links between digital capability and business performance, and insight into the impact of digital leadership.

For any further questions on the report, please contact DigitalSkillsInclusion@lloydsbanking.com





Charities Digital Index



Over 100,000 charities do not have Basic Digital Skills

INDEX SCORE

Index score

Since 2014, significant progress has been made to the overall Index score, and charities are progressing up the digital maturity scale. As shown in figure 26, the proportion of charities in the lowest digital segment has decreased from 42% to 16%, and the number of charities with advanced digital capabilities (Segment 5) has grown from 4% to 21%; there are now five times the number of charities with advanced digital skills.

In the last 12 months, the Index score has slightly increased to 43. A closer look at the Index scores for Segments 1 to 5 show these have remained flat year-on-year. However, the proportion of charities in each segment has changed. While there are more charities in the most digitally capable segment (21% up from 18% in 2016), there are also more charities in the least digitally capable segment than last year (16% up from 12%).

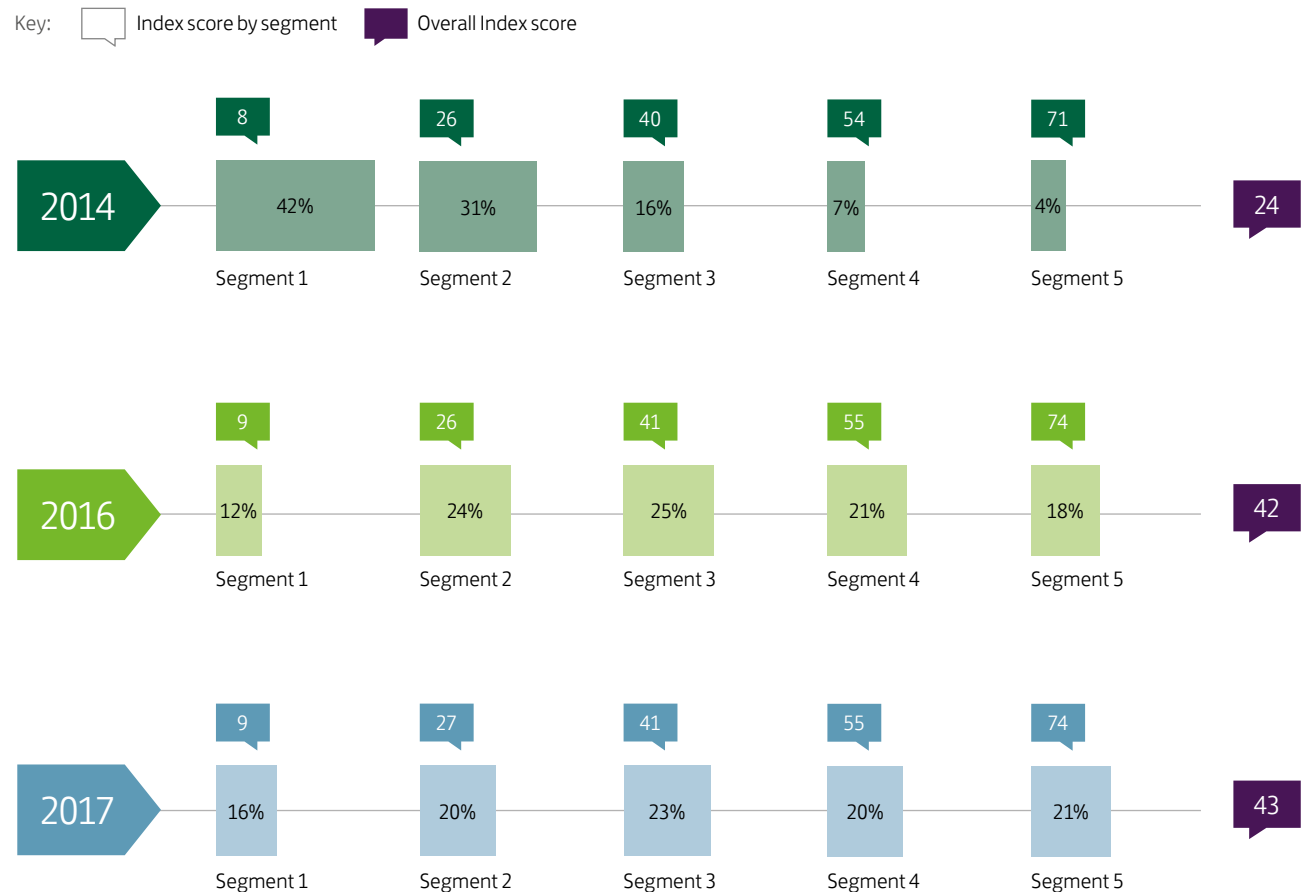
The data also shows that 4% of charities do not use the internet at all (see appendix 21) – almost 9,000 charities. This demonstrates a growing gap between capabilities.

X5



Since 2014, there are now five times the number of charities with advanced digital skills

Figure 26: The number of charities in each digital maturity segment and the Index score given to each segment, 2014–2017



BASIC DIGITAL SKILLS

52% of charities do not have Basic Digital Skills

For the first time, it is possible to compare Basic Digital Skills data for charities year-on-year, using the updated methodology (see page 11).

The 2017 results show 48% of charities now have full Basic Digital Skills and 5% of charities in the UK now have no Basic Digital Skills at all. As figure 27 shows, the root cause of these changes is not limited to one particular skill category.

20% of charities are on the cusp of full Basic Digital Skills

As shown in figure 28, 20% of charities are on the cusp of gaining full Basic Digital Skills; these charities have got four of the five required skills – this equates to 40,000 charities.

If those charities with four of the five skills required were to close the gap, this would mean over two-thirds (68%) of charities would have full Basic Digital Skills, from this year's 48%.

The areas where this group is most lacking skills are illustrated in figure 29; 42% of charities with four skills still require 'Managing information', and 36% still need 'Problem solving'. These are the areas needing the most focus.

Figure 27: Charities' reported type of Basic Digital Skill, 2017 vs. 2016

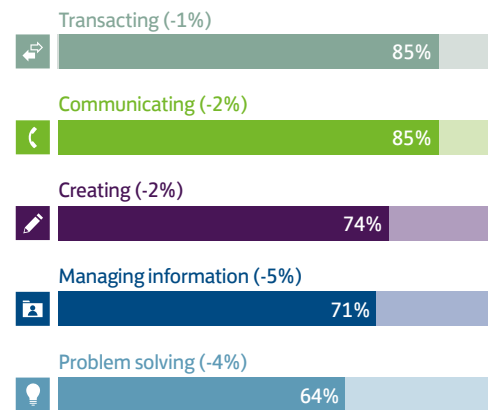


Figure 28: Charities' reported number of Basic Digital Skills, 2017 vs. 2016

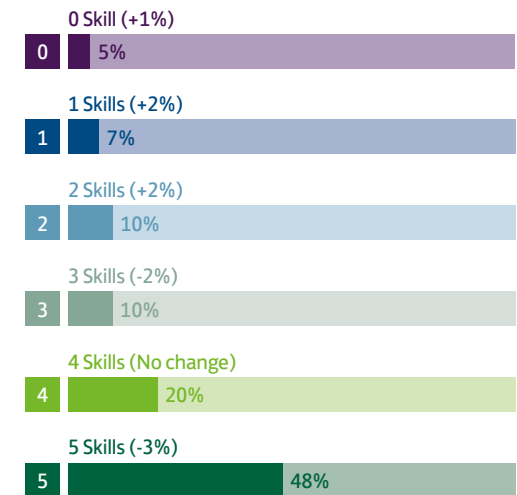
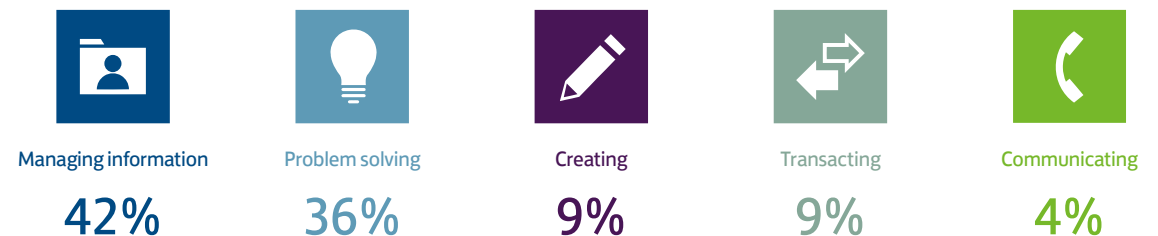


Figure 29: Charities with four digital skills and the skills most lacking, 2017



DIGITAL BEHAVIOUR

Detailed digital behaviour

Charities are demonstrating mixed capabilities. In the next section, these trends will be further explored using the Basic Digital Skills categories as a framework.

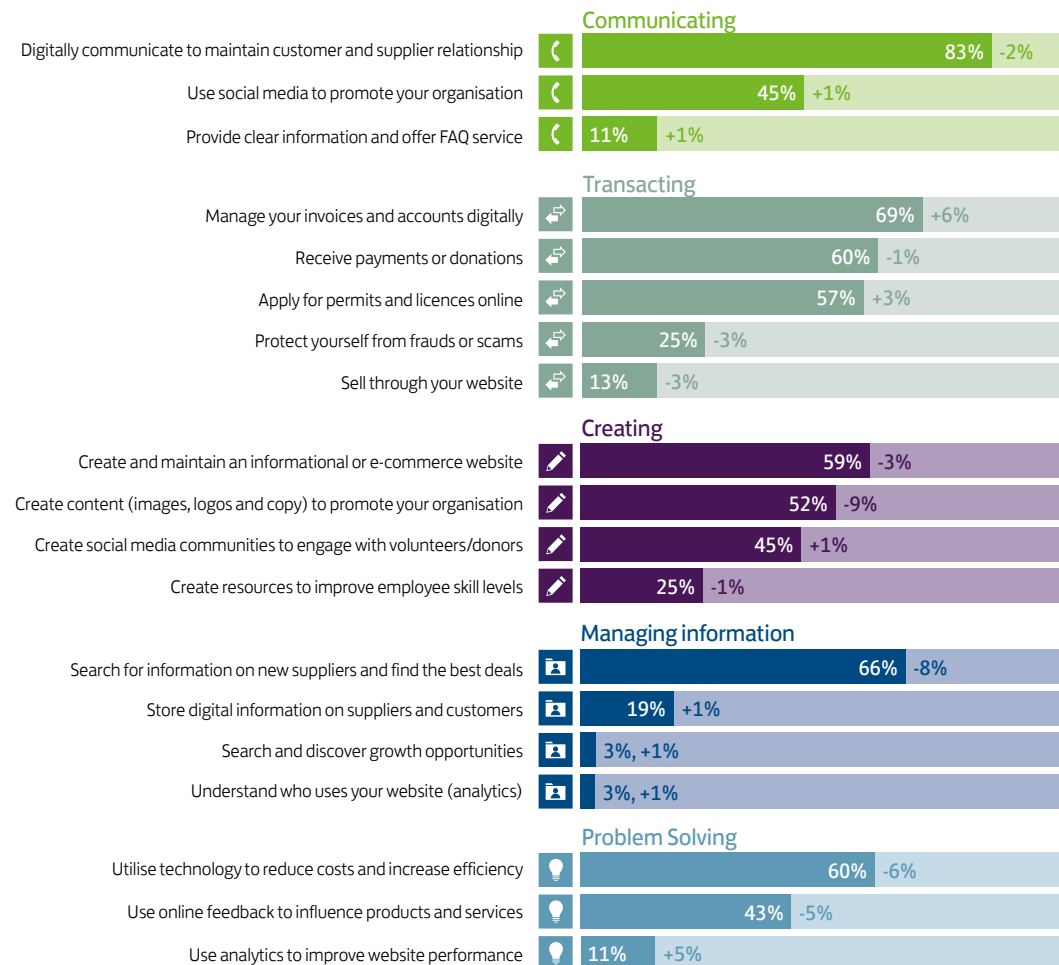


It's good to see that charities with the highest digital capabilities have grown, and it's positive that such organisations are likely to raise more money and save time. Yet I'm concerned to see that charities with low digital capabilities have risen and that one in three charities don't see being online as relevant. More needs to be done to support these organisations and to help them understand that the future is digital.

**Zoe Amar, Founder and Director,
Zoe Amar Communications**



Figure 30: Charities' reported digital tasks aligned to Basic Digital Skills, 2017 vs. 2016



TRANSACTING

75% of charities feel they do not have the skills to protect themselves from fraud and scams

In 2017, 85% of charities are undertaking at least one 'Transacting' task (see figure 30).

69% of charities are managing invoices and accounts digitally – this may be due to the increase of small organisational accounting services such as Xero, Sage and Paymentsense. This is a positive move for charities, saving them both time and money.

A physical presence is still so important for fundraising; 58% of charitable donations in the UK are still given in cash¹. Nonetheless, with the growth in online payment capability, the data shows that there is a need for charities to improve their safety online, as 75% of charities do not feel that they have the skills to protect themselves from fraud and scams. This is almost 150,000 charities.

2 in 3



charities are now using online
accounting services

COMMUNICATING

83% of charities communicate with digital channels

This number rises to 98% for the most digitally capable charities (see appendix 22). 45% are now using social media, this almost doubles to 80% for those with the highest digital capability (see figure 30 / appendix 22). Social media continues to be a low-cost and readily available option for charities, as those using social media are 51% more likely to report an increase in donations (see appendix 23).

Donation platform JustGiving also states that every share on Facebook is worth £5²; this is a powerful message for charities facing fundraising challenges. Charities could be maximising this opportunity by being present on social media platforms to access new donors. It may also help to attract volunteers – complementary research from the Skills Platform shows that 50% of charities acknowledge that greater digital skills can help to co-ordinate volunteers more effectively, thus saving time and effort³.



We have moved away from traditional and less effective communication methods and now use targeted social media to help drive awareness, reduce costs and grow efficiencies. Making the first step was getting over the initial fear of using digital – we've come a long way, we are now starting to use Facebook Live and podcast interviews!

Belinda Colton, Home-Start, Wakefield & District Community Centre, Yorkshire



CREATING

Less than half of charities are using social media to engage with donors and volunteers

59% of charities are creating and maintaining a website, and 52% are creating content to promote their organisation (figure 30). These figures may not be higher because of the increased popularity of intermediary sites such as Facebook or JustGiving; often these larger platforms will drive traffic to causes or initiatives on their behalf.

'Creating' as a skill facilitates viral online campaigns and provides the opportunity to grow communities and online networks. However, less than half of charities (45%) are using social media to engage with volunteers and donors, when 84% of people⁴ (and potential donors) are on social media personally in the UK.

1 Charities Aid Foundation, 2017, <https://www.cafonline.org/docs/default-source/about-us-publications/caf-uk-giving-web.pdf?sfvrsn=8>

2 Justgiving, 2017, <http://blog.justgiving.com/facebook-fundraising-part-two/>

3 Skills Platform, 2017, <http://report.skillsplatform.org/charitydigitalreport-overview/>

4 We are Flint, 2017, <https://weareflint.co.uk/uk-social-media-demographics-2016-main-findings>

MANAGING INFORMATION

81% of charities do not store and analyse customer information

2017 data reveals two-thirds (66%) of charities continue to do well at searching for information on new suppliers and finding the best deals. Despite an 8% drop year-on-year, this continues to be the most popular task within the skill category, but there is still scope for charities to do more (see figure 30).

The biggest areas for improvement are discovering growth opportunities and understanding who uses their website – only 3% of charities are able to perform these tasks, indicating a real lack of skills for the sector.

PROBLEM SOLVING

Problem solving continues to be the skill with the greatest opportunity for development

Only 64% of charities exhibit online 'Problem solving' skills. There is scope for almost 40% of charities to take advantage of using technology to help them reduce costs and increase efficiency (figure 30). This further backs up the findings that 32% of charity leaders believe that they don't have access to the technology they need to make their charity more digital (see appendix 24).

89% of charities are not using online analytics; this is a decrease from 94% in 2016. 81% of charities do not store digital information on their customers and suppliers (as shown in 'Managing information'). This presents a huge opportunity for charities to learn more about their donor and volunteer bases using free trials such as Google Analytics or Webtrends.



In the last year, we have made a change to our social media approach, whereby we now upload photographs, ask questions via polls and share links to relevant forums, to allow the awareness of society to grow. We also wanted to attract some key influencers, and have had support from a TV celebrity – this saw our followership spike in just a few weeks. Overall, the number of followers has more than doubled in the last 12 months.

Jacqui Cannon, Lewy Body Society, Wigan



We started running our own website earlier this year and it's been brilliant for helping us to understand who our supporters are. We use website analytics to understand who is a new visitor to the site and how many repeat visits we have. We've started to share a newsletter on our website and email it to our subscribers, and by using digital analytics we're able to see how many times our newsletter is shared with others, helping us to know how many people we've engaged each month. As a result, we've increased our visitor viewings by 138%.

Shigufta Khan, Blackburn & Darwen District Without Abuse, Blackburn





Charities using social media are 51%
more likely to increase donations

BENEFITS OF DIGITAL

The greater the digital capability, the greater the digital dividend

Almost three-quarters of charities report time savings as a key benefit. This increases to 90% for the most digital charities in Segment 5. While the least digitally capable report very few benefits from being online (Segment 1), 43% still acknowledge time saving as the biggest benefit of using digital (see figure 31).

Charities saving time are reporting saving an average of 18% on a weekly basis – based on an assumed working week of Monday to Friday¹. This is equivalent to one day a week. Charities with advanced digital capability are twice as likely to enjoy time savings as those with the lowest digital capability.

Figure 31: Charities' benefits of being online, split by digital maturity segment, 2017

Key: 0% to 20% 21% to 40% 41% to 60% 61% to 80% 81% to 100%

		Least digital → Most digital				
	Average figure	1. Passive	2. Getting Started	3. Established	4. High	5. Advanced
Saving time	73%	43%	60%	78%	79%	90%
Attracting more volunteers and donors	49%	4%	36%	47%	61%	78%
More effective marketing	39%	6%	17%	38%	49%	68%
Increased interaction with supporters	49%	10%	27%	43%	67%	79%
Simplified process of taking payments or donations	44%	8%	24%	44%	60%	69%
Cost savings	35%	6%	23%	31%	43%	58%
Using mobile to do business on the move	49%	0%	10%	21%	30%	33%
Wider geographic coverage in the UK	33%	4%	21%	29%	39%	59%
Increased donations	28%	0%	21%	25%	38%	46%
Can use my mobile to take payments	8%	0%	2%	9%	9%	16%
None of these	14%	49%	23%	9%	7%	2%

¹ This number has been derived using Lloyds Banking Group data, and has been calculated using the mid point of the available data range.

Charities with high digital capability are

2x
— 🕒 —

more likely to
save time

2x
— 💷 —

more likely to
increase donations

10x
— 🐷 —

more likely to
save costs

than the least digital

The digital dividend

69% of the most digitally advanced charities also take advantage of simplified processes around taking payments and donations (figure 31); this translates into greater ability to manage cash flow and spend. The data also shows a clear link between financial success and digital capability. In 2017, charities with more advanced digital capability are more than twice as likely to report an increase in donations than those with low digital capability.



The charity had never previously had a website, we built one for Chawner Almshouses to help get the ball rolling in attracting more funding. This has been a real catalyst and we now get up to £1,500 a year through donations received via the website

Mick Marrison, Chawner Almshouses, Staffordshire



Charities with high digital capability are more likely to invest in digital going forward

More digital charities have more confidence in their future than those with low digital Index scores. 83% of high digitally capable charities are 'confident' in their organisation's future, compared with 69% of the low digitally capable (see appendix 25).

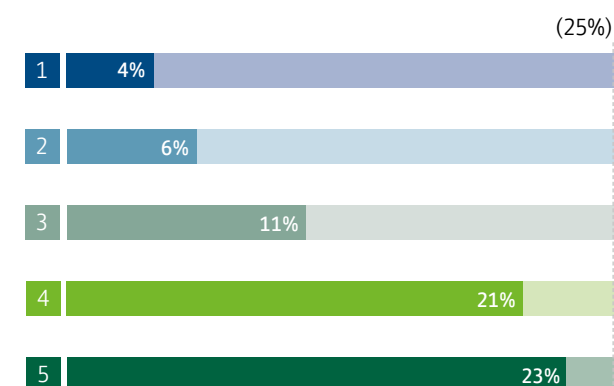
Highly digitally capable organisations are also twice as likely to see growth as 'important' or 'very important' to their charity's strategy, compared with the least digital (see appendix 26).

21% of the most digitally capable are mindful of the importance of staying current with digital trends, compared with only 6% of the least digitally capable (see appendix 27). This is reflected in their investment in digital – as shown in figure 32, the most digital charities are five times as likely to invest in digital skills. This suggests that those who receive the digital dividend want to ensure they keep up with digital opportunities and the fast pace of change.

Charities with greater digital capability find it easier to interact with donors and volunteers

Figure 31 also illustrates that the most digitally capable charities are over eight times more likely to report an increased interaction with supporters and volunteers through digital use. However, as outlined in figure 30, very few charities are capturing supporter and volunteer information or using analytics to better understand who visits their website.

Figure 32: Charities investing in digital skills, split by digital maturity segment, 2017



Our digital platforms have been a great money saver. They allow us to run the charity without paying for an office space, recruit for free and promote our cause without paying for advertising. New technology has added to the strength of our charity and we wouldn't be where we are today without it.

Helen Dyer, CASPA Director, Bromley



BARRIERS TO DIGITAL ADOPTION

Motivation and mindset

As per last year (see figure 33), the report shows that the biggest barrier is motivational; one-third of charities don't see being online as relevant.

For charities with the least digital capability, three of the top five barriers are mind-set led. 61% of charities with the least digital capability see 'lack of relevancy' as a barrier to doing more online (see appendix 28).

These organisations present the biggest opportunity for practitioners, partners and policymakers; not just so the charity themselves can see time and cost saving benefits, but for the volunteers, donors and trustees that the charity is trying to engage.

1 in 3



charities don't see being online
as being relevant to them

Figure 33: Charities' barriers to doing more online, 2014–2017

Key: -10% > -9% to -1% 1% to 9% 10% to 19% 20% >

	2014	2016	2017	'14 vs. '17
Being online is not seen as 'relevant' for our charity	32%	33%	33%	1%
Lack of staff digital or online skills	10%	33%	31%	21%
No time to set up and go online	9%	22%	24%	15%
Concerns about information security / fraud	5%	22%	23%	18%
Just not interested in going online	14%	17%	20%	6%
Not worth the investment	11%	28%	20%	9%
Cost of investment unknown	3%	23%	18%	15%
Nothing, feel that we are doing all we can online	29%	11%	15%	-14%
Too expensive	5%	13%	14%	9%
Poor connectivity e.g. slow speeds, no superfast broadband	1%	15%	12%	11%
We are in the process of doing more	–	10%	1%	–

Digital talent and leadership

As seen in figure 33, approximately one-third of charities also see the lack of employee digital skills in their organisation as a barrier to doing more online. This is a significant increase since 2014, when only 10% recognised it as a challenge. As the digital maturity of charities has increased significantly since 2014 (figure 26), the data suggests that the number of employees with low digital skills hasn't increased, however more charities are aware of the skills opportunity.

Another factor is digital leadership – of charity leaders, only 58% state they have got the knowledge or experience they need to help their charity to become more digital (see appendix 29). One in three do not believe they have access to the right technology to help their organisation become more digital (see appendix 24).

As leaders in their organisations, it may be the case that this lack of confidence or skills leads to digital inertia. As a complementary report from The Skills Platform describes, almost three-quarters (71%) of charities cite their board's digital skills as low or having room for improvement¹. For employees,

digital leadership is needed: 80% of respondents want their leadership team to provide a clear vision of digital¹.

The data also shows that 33% of charity leaders are happy to use social media for personal use but don't use it for their organisation. This suggests a lack of confidence or interest, not a lack of capability (see appendix 30).

Only 58% of charity leaders say they have the knowledge and experience to drive digital capability

Connectivity

12% of charities see connectivity as being an issue; however, only 2% of charities list it as the main barrier to doing more online (see appendix 31).

Almost a quarter of charities view online security concerns as a barrier to doing more online

As with small businesses, concerns around internet safety have become more prevalent since the baseline report. 23% of charities now see concerns about information security and fraud as a key barrier – as shown in figure 33 this is over four times more than 2014.

The number of charities citing it as the main barrier has also doubled – 5% listed it as their main issue in 2016, and in 2017 10% see online safety as their main concern (see appendix 31).

1 in 4



charities see online safety concerns as a barrier to doing more online

1 in 3



charities are lacking the digital skills and talent they need

¹ Skills Platform, 2017, Charity Digital Skills Report, <https://www.skillsplatform.org/content/charity-digital-skills-report>

Cost of digital development and investment in digital skills

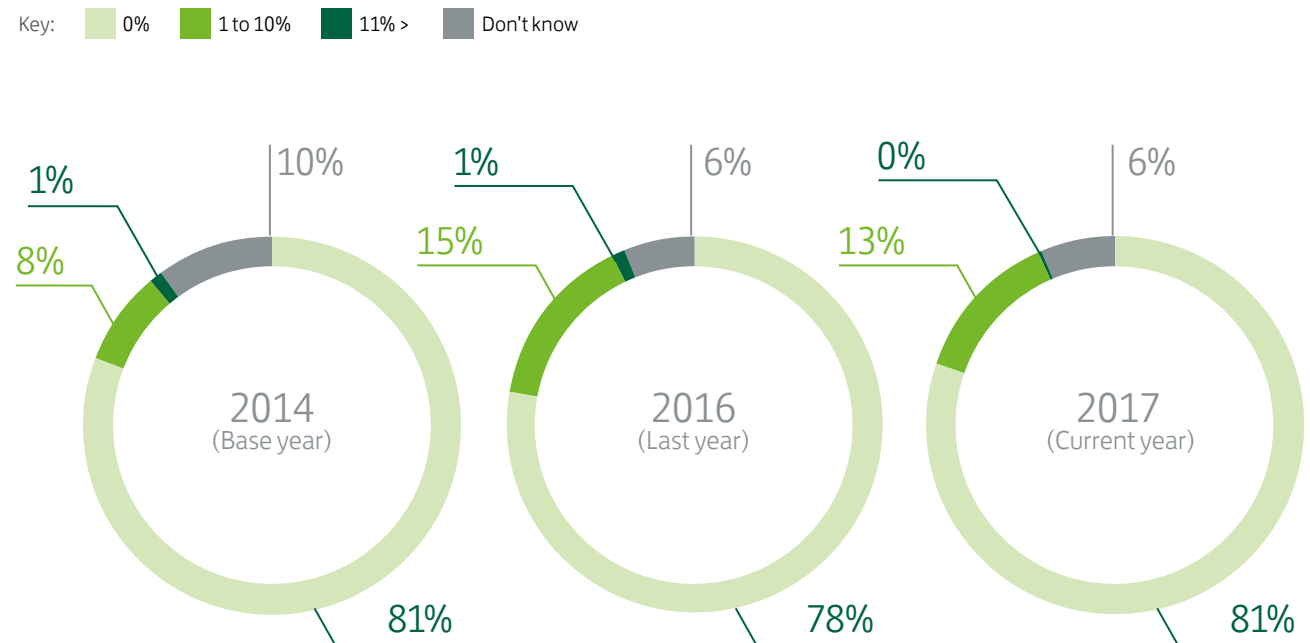
Since 2014, charities have been increasingly reporting that digital development is 'too expensive' and 'not worth the investment' (see figure 33). If charities have limited resources, digital is often de-prioritised, particularly where there is a knowledge gap as to how to move forward.

The vast majority still continue to invest nothing in digital skills, a recurring theme reported each year (see figure 34).

—❤—
81%

of charities are not investing any of
their budget in digital skills

Figure 34: Charities' percentage of budget to be invested in digital skills, 2014–2017



ADVICE AND GUIDANCE

Local networks are key to help inspire and learn

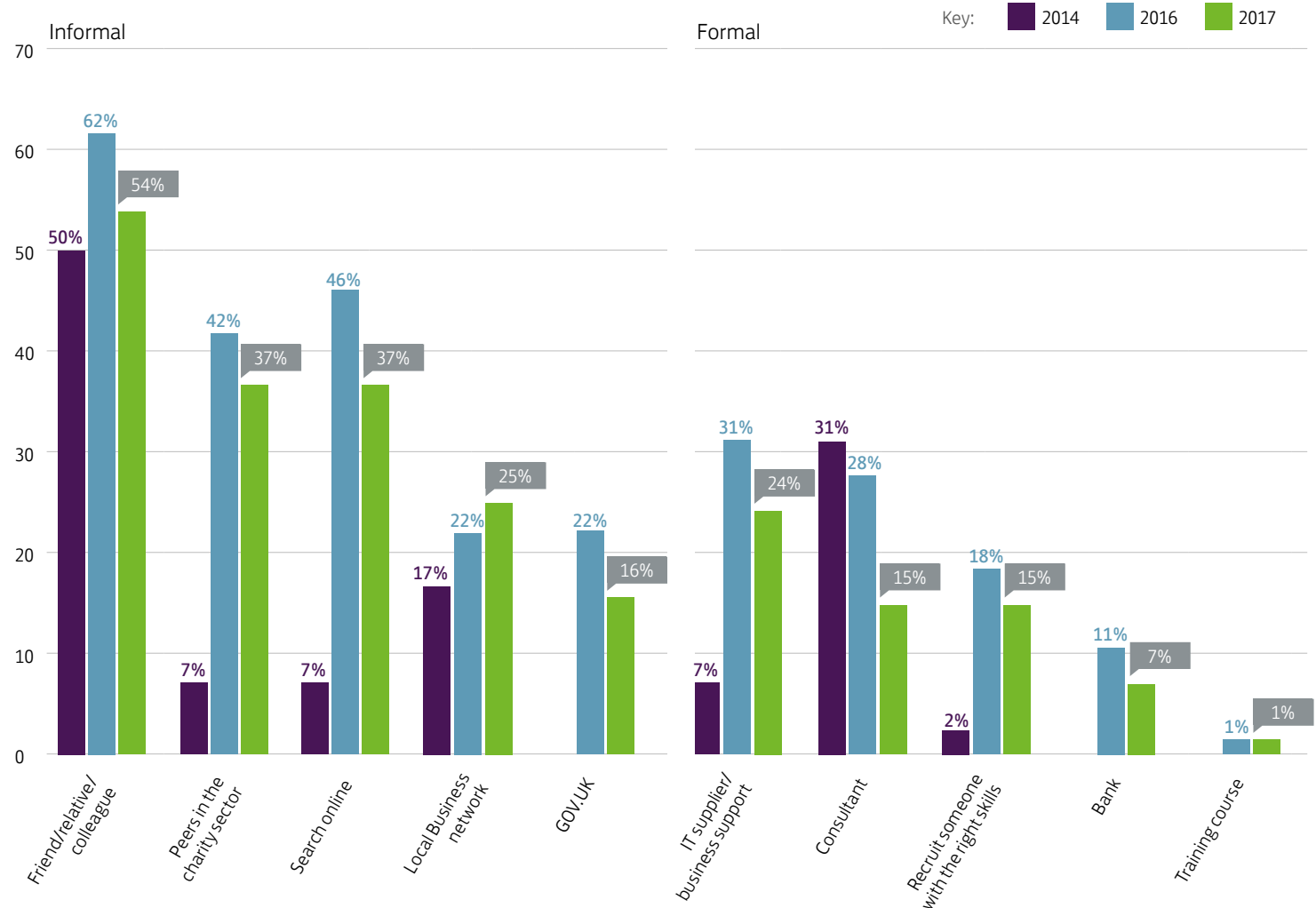
Figure 35 shows that the most frequently used resource continues to be friends, relatives and colleagues; this is also the case on an individual level, as found in the Lloyds Bank Consumer Digital Index 2017¹.

Over one-third of charities are using peers in the charity sector to get advice from organisations they can relate to.

In general, the formal and paid-for avenues of advice continue to be the least preferred method for digital up-skilling. Less than one-fifth of charities are recruiting in digital talent to bolster the missing skills, explored on page 43.

As shown in appendix 32, this data has also been examined at digital capability level. This view illustrates that the least digitally capable tend to use peers or local networks for informal digital advice. The more costly or complex solutions such as consultants or use of IT support companies are attributed to more digitally capable charities. These are organisations that are more likely to have seen the benefits of digital, and therefore will re-invest.

Figure 35: Charities 'Where do you go to get help and advice on technology and the web?', 2014–2017



¹ Lloyds Bank Consumer Digital Index, 2017, www.lloydsbank.com/consumerdigitalindex

DIGITAL DEMOGRAPHICS

Capability gap remains between small and large charities

Since the first report in 2014, the difference in Index score between small and larger charities has widened – a three point difference in 2014 compared with an eight point difference in 2017 (see figure 36).

Figure 37 illustrates the digital tasks with the most amount of variance between large and small charities, to show where smaller charities have the greatest opportunity for growth. While many of the skills on the list may come with a cost or infrastructure hurdle that larger charities are more likely to invest in, tasks such as receiving donations online or even creating a website are often possible using free online software.



Nominet Trust welcomes publication of the 2017 Business Digital Index and the insights it offers to those working to develop the digital capabilities of the charity sector. Digital technology is critical to a charity's ability to address social issues sustainably and at scale. Although overall progress is encouraging, there are indicators of an emerging digital divide; this must be understood and addressed if all charities are to realise the full benefits of digital, no matter what their size.

Vicki Hearn, Director, Nominet Trust



Figure 36: Charities' Index score, by size, 2014–2017

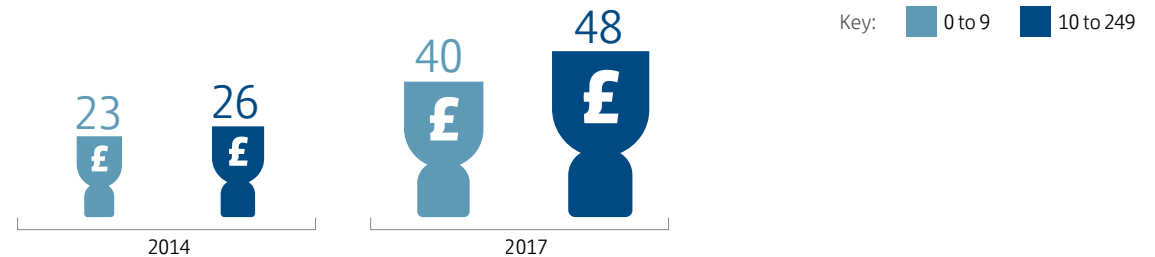
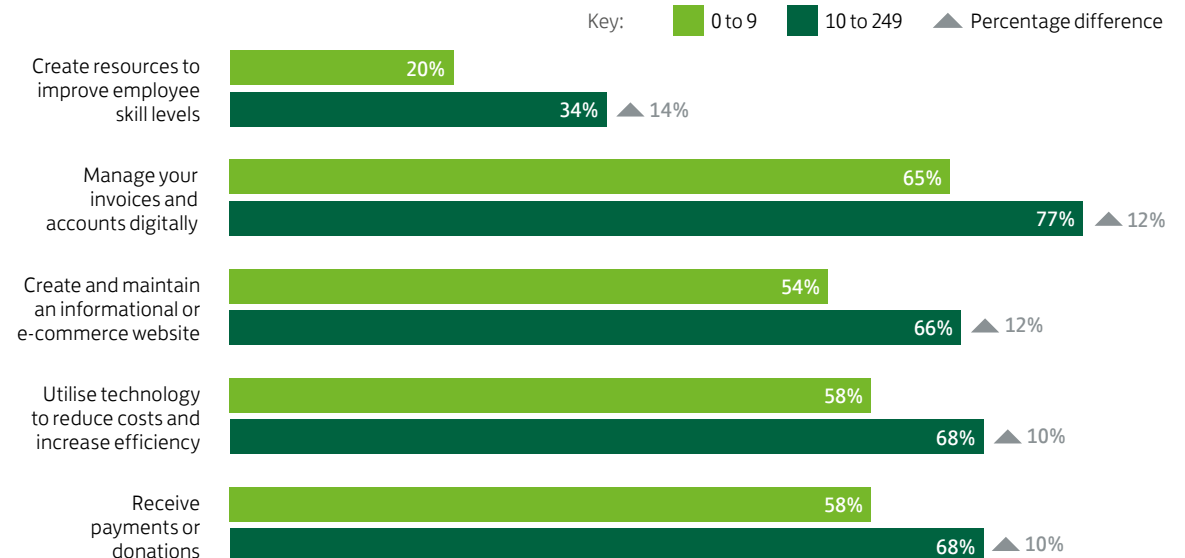


Figure 37: Charities undertaking Basic Digital Skills tasks, by size, 2017



Key areas of opportunity and success for charities in the regions

Charities are analysed across four regional areas:

- London & South East
- South West & Wales
- Midlands
- North (including Scotland and Northern Ireland)

From an Index score perspective, charities in London & South East are leading, and those in the South West & Wales have the greatest opportunity for development (figure 38).

As shown in figure 39, there is slightly more differentiation between Basic Digital Skills levels by region. Charities in the North are most likely to have the full set of Basic Digital Skills, while less than half of charities in the other regions have achieved Basic Digital Skills.

Figure 38: Charities' Index score, by region, 2017

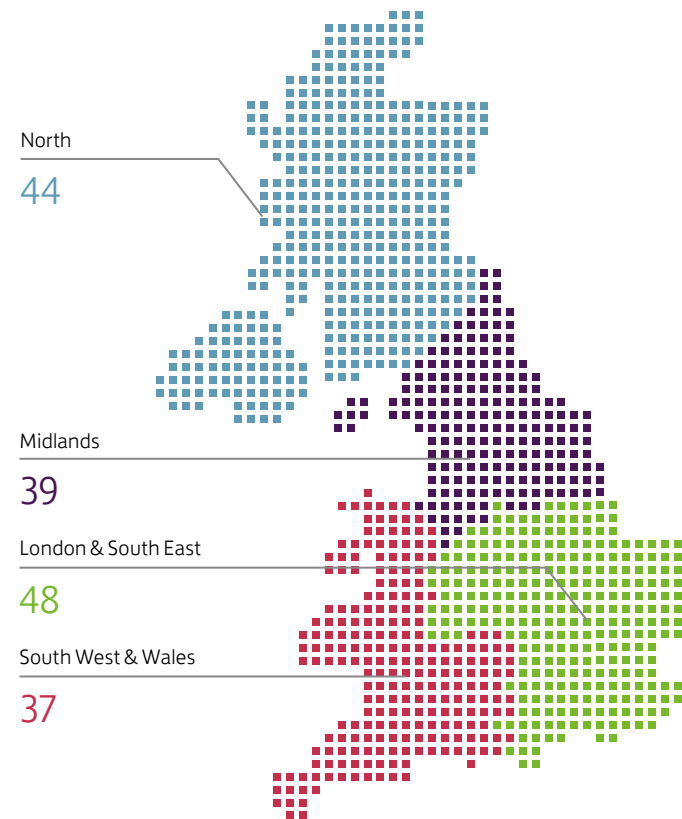
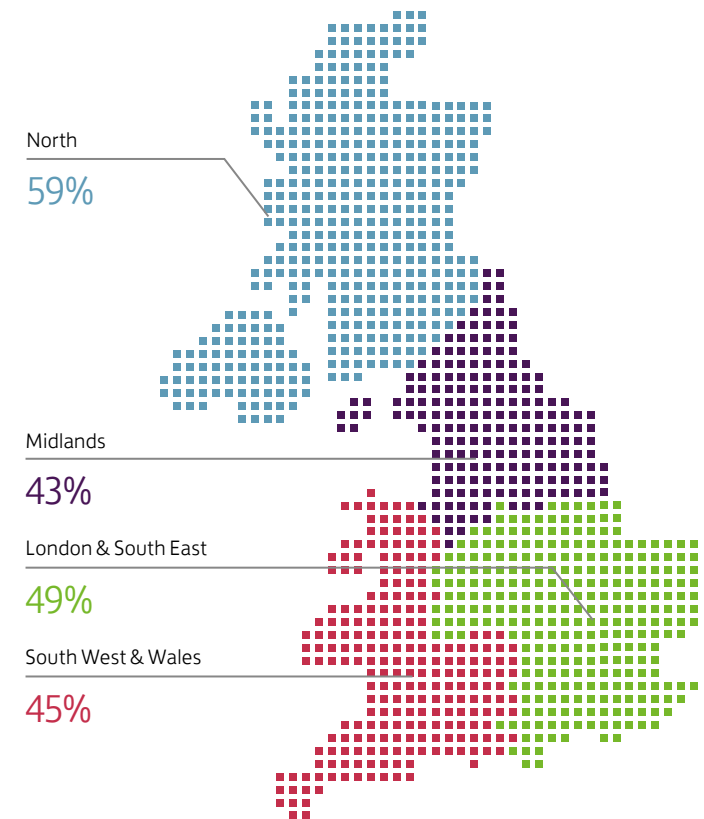


Figure 39: Charities' Basic Digital Skills, by region, 2017



Charities

Digital demographics

Older charities are less digitally capable than those less than 10 years old

As shown in figure 40, older charities are less likely to have digital capability than those set up in the last 10 years; there is a four Index point difference between the two demographics of charity.

As show in figure 41, 45% of older charities have full Basic Digital Skills, compared with 61% of younger charities of less than 10 years (a 16% difference).

Figure 40: Charities' Index score, by age, 2017 vs. 2016

Key: ■ Less than 10 years ■ 10 years or more

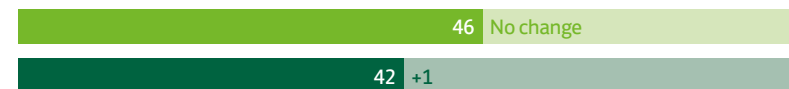
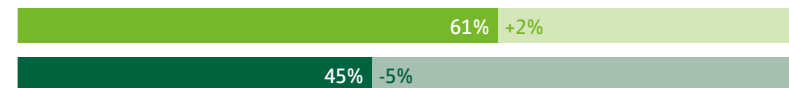


Figure 41: Charities' Basic Digital Skills, by age, 2017 vs. 2016

Key: ■ Less than 10 years ■ 10 years or more





CASE STUDY

Exeter Leukaemia Fund

MAGS NAYLOR, EXETER



Exeter Leukaemia Fund (ELF) is a leading local charity which has seen real change in the last 12 months. ELF's vision is that every family affected by a blood cancer or blood disorder across the South West receives compassionate, tailored support. ELF provides much needed resources, accommodation, support and transport from the Haematology Centre at the RD&E Hospital, Exeter. It also supports a network of volunteers providing emotional and practical support in patients' homes.

Since June 2014, CEO Mags Naylor has worked to drive improvements for the charity, resulting in the delivery of better services, a successful capital appeal and build, plus more funds raised to help those who need it most. As the charity is always competing for donations, Mags identified that cost saving would be the key to making improvements and helping them to grow even further. And central to that was being more digital.

With the support of a local consultancy, Cosmic, and with advice from local peers, Mags built a digital strategy that is transforming the charity from the inside out. She has streamlined ELF's back office processes, developed staff workshops and

training for colleagues. In particular, she has used low cost/no cost digital platforms to change all aspects of the organisation, from HR management to the accounts package.

As a result of adopting these digital processes, ELF has saved an estimated £100k in the first year, with more to come in year two.

What's more, ELF is also starting to use online channels to attract and interact with donors. For the first time this summer, ELF moved its annual ball charity auction online. By engaging prospective donors in advance, and using word of mouth, the charity raised £25,000 from just one event, an increase from the previous year's £11,000.

66

A year ago, I wouldn't have imagined these savings were possible. It really helped me to work with people from other organisations and sectors, to learn what they have done and what's worked well for them. Even though I'm a bit of a techie myself, it's still a leap to apply it – my one word of advice to anyone thinking of doing the same is: embrace.

99

£100,000

a year saved by being more digital



Digital has the potential to be a huge leveller, ensuring that everyone has the same opportunities, and so it's concerning to see that the gulf between organisations without digital skills and those with is continuing to widen. For Britain to truly thrive as a digital nation, it's vital that we ensure that everyone has the skills they need to make the best use of digital - for their businesses, at work, and for the rest of their lives as well. We'll continue to work with great partners, including Lloyds Banking Group, to make this a reality.

Helen Milner, CEO, Good Things Foundation



This Index becomes more important each year, not only to measure the progress of small businesses and charities but to also pin point where further focus is required to help these organisations. I am really pleased to see this year more actionable insight has been published as well as links to training, resources and further support which can really help to provide direction. As ever, digital shows a strong correlation with saving time, increasing turnover and improving likelihood to trade overseas, demonstrating the how digital is linked to success.

Gareth Oakley, Managing Director, SME Banking, Lloyds Banking Group



It is essential that charities of all sizes can harness the potential of technology to better deliver on their mission and be financially sustainable. This research from Lloyds Banking Group reveals a wide diversity in the digital skills of organisations, as well as useful insights into barriers and motivations. NCVO will continue to support our 13,000 members and other voluntary organisations to develop their knowledge, skills and confidence to make the best use of technology.

Megan Griffith Gray, Head of Digital, NCVO



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GROUP



The Lloyd's Business Digital Index 2017 shows we need to do more to make sure businesses of all sizes can use the power of the Internet to grow – today, every business needs to think of itself as a 'digital business'. Through Google's Digital Garage we're making free digital skills training available to all adults and small businesses in the UK. Our garages have trained 2000 people each week across the UK. Anyone can pop in and learn the skills they need to become more confident online, grow their career or business, or maybe even launch the next big idea.

Ronan Harris, UK&I Managing Director, Google



As technology transforms the way we work and live, it creates new opportunities for businesses of all shapes and sizes to prosper. In the UK, investment in such technologies is far from pervasive which creates the potential for a material upside; but absent this investment, also the risk of being left behind. We are also encouraged by the focus on being a responsible business in the digital age to ensure that individuals are armed with the digital skills they need to prosper, and that the overall societal benefits of the digital revolution are unlocked.


Olly Benzecry, Chairman and Managing Director of Accenture, UK and Ireland



Find out more

 Go to lloydsbank.com/businessdigitalindex for the full appendices

 #BizIndex17

 For a list of useful digital tools, information and resources please visit: <http://resources.lloydsbank.com/business-guides/digital-know-how/>

 To get in touch with the team, please email: DigitalSkillsInclusion@lloydsbanking.com

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

If you have a hearing or speech impairment you can use the Next Generation Text (NGT) Service (previously Text Relay/Typetalk).

Important information

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 to highlight the trends and insights that will help small businesses, charities and UK Government to understand more about our nation's digital inclusion landscape.

While all reasonable care has been taken to ensure that the information provided is correct, no liability is accepted by Lloyds Bank for any loss or damage caused to any person relying on any statement or omission. This is for information only and should not be relied upon as offering advice for any set of circumstances. Specific advice should always be sought in each instance.

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