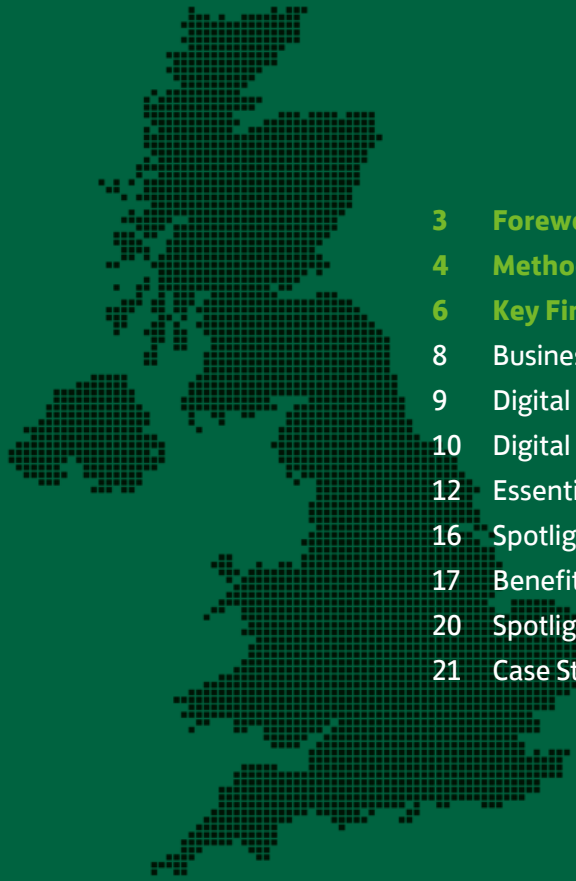
UK Business Digital Index 2019

The sixth edition – Benchmarking the digital capability and Essential Digital Skills of UK small businesses

LLOYDS BANK

Contents

The Business Digital Index is now in its sixth year. It uses the behavioural and transactional data of small businesses to build a view of digital capability in the UK. This year it also includes the first measure of UK Essential Digital Skills.



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Foreword

Nick Williams

Deputy Group Transformation Director,
Lloyds Banking Group

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"Small businesses are the backbone of the UK economy, and supporting them is central to our aim of helping Britain prosper"

Six years ago, I met a butcher from Bury called Steve. Despite being a fabulous butcher, his business was in bad shape. In his own words he decided was going to 'give the Internet a go'. He subsequently set up a website and social media profile and eventually created an e-commerce platform to accept delivery orders and payment online. Six years on and the business is thriving, with an up-to-date internet presence.

Hearing his story changed something for me. Before then we had been considering our digital channels and the levels of digital adoption at the Bank. We knew that it was challenging for small businesses to establish a confident digital presence online, but seeing Steve's business transform in front of my eyes changed this. I had known all the statistics, but hadn't felt the impact that the stories brought home.

Looking back, much is still true of that time. Two percent of businesses are still offline and of those that are online, 28% are just not interested in doing more online. The proportion of small businesses with low levels of digital capability has also plateaued at 16% since 2018. These businesses have been left behind in a competitive marketplace.

In fact, the 2019 report shows that businesses lacking full Essential Digital Skills are almost two and a half times more likely to believe they will close within the next two years. Public sector and industry must partner to support small businesses with both the digital capability and businesses confidence that they need to succeed.

Despite the numbers staying roughly the same in the past few years, there have been some bright sparks. In the last year we have seen the industry's focus on cybersecurity has paid dividends, with this capability seeing the biggest increase in the last year. It's also pleasing to see one-third of small businesses (1.3 million), are increasing turnover, whilst saving time due to their digital capabilities.

One thing that is unchanged is the commitment that we have to partner with other organisations and public bodies to help businesses realise the benefits of digital. Whether increased productivity, time gains, or the benefits to mental health that we know technology can enable. Just this year future.now has been set up and we continue to partner with Be the Business, Google, Federation of Small Business and others to deliver solutions to small businesses.

Large organisations must share their resources to help our crucial small businesses thrive in these times of uncertainty.

As we move into the seventh year of our digital skills journey, I would like you all to consider Steve's story. Small businesses are the backbone of the UK economy, and supporting them is central to our aim of helping Britain prosper.

Methodology

Index Score

The Lloyds Bank Business Digital Index Score is the UK's sole measure of digital capability for small businesses which combines the following data:

1. Online behaviours of UK organisations

An analytical review of anonymised Lloyds Banking Group data provides an overview of the customer online banking activities at an aggregate level, as a representative proxy for the UK's small business banked population.

2. Primary quantitative research

An in-depth questionnaire with 1,500 small businesses was carried out across the UK to reach a rounded view of their digital behaviours and perceptions.

Since the 2017 report, the Index Score range is between zero and 100 and is calculated using behavioural data and quantitative research.

Underpinning this score there are eight key indicators including advertising, security, mobile and infrastructure. Please see appendix for more detail.

It varies from the Essential Digital Skills measure, which is solely quantitative.

Essential Digital Skills

The new Essential Digital Skills (EDS) framework is a significant evolution from its predecessor 'Basic Digital Skills'. Since 2014, Lloyds Bank had measured the Basic Digital Skills of small businesses and charities in the annual Lloyds Bank UK Business and Charity Digital Index. This year Lloyds Bank, the Federation of Small Businesses, Be the Business and Google worked with the Department for Digital, Culture, Media & Sport and its Digital Skills Partnership to comprehensively update the framework to ensure it fully reflects the range of skills organisations need to safely benefit from the digital world of today and the future. Thanks to input from a range of stakeholders the new Essential Digital Skills measure is relevant to the significant majority of UK organisations.

Key changes to the framework include:

- The addition of a sixth skill 'Cybersecurity' with a comprehensive set of essential digital security tasks
- Updated language and examples to the tasks of the existing skills to reflect today's digital business needs.

Due to the improvements made to the framework, the results are no longer comparable to the previous Basic Digital Skills measure. However the added detail, updated language and new skillset allow for a more impactful view of organisations digital competencies which will facilitate more actionable insights.

Essential Digital Skills framework

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

Creating
Engage with communities and create basic digital content

Managing Information
Find, manage and store digital information and content

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

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

Cybersecurity
Protect the organisation and its customers from fraud and other harms through appropriate policies and best practice

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

Benchmarking
In this year's report, the data is often benchmarked against the first baseline Index report from 2014 and includes year-on-year comparisons between 2018 and 2019.

Appendix
The full appendix is available online at lloydsbank.com/businessdigitalindex

Small Business Definition
Small businesses with annual turnover of up to £25 million and fewer than 250 employees.

Population Source
Throughout this report small business populations have been calculated using Charterhouse Business Banking Survey figures as per Q2 2019. See charterhouse-research.co.uk/studies/business-banking-survey

Due to a low sample size in Northern Ireland 2019 data, the report is unable to meaningfully analyse any data from this region, therefore it has not been included.

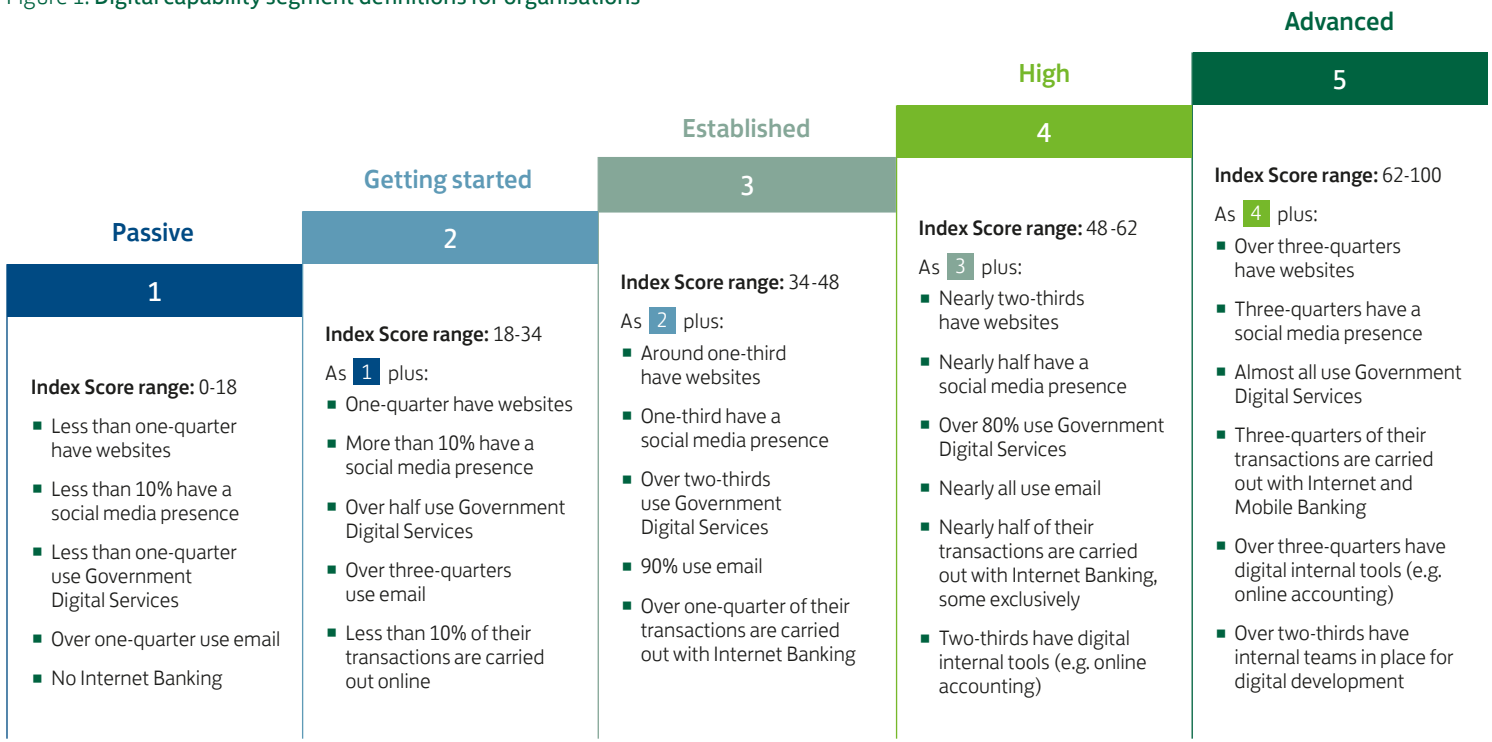
Index Segmentation

Small businesses are allocated into these digital capability segments according to their Index Score and ultimately their digital behaviours.

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

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

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



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

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

Key Findings

1. The digital divide widens and younger small businesses pull ahead

The Business Digital Index Score has increased by 32% since 2014 (from 45 to 60 points), demonstrating the significant progress small businesses have made with their digital capabilities.

Nearly one in every two small businesses are digitally advanced (Segment 5)

Since 2018, 203,000 more small businesses are exhibiting the highest level of digital behaviours. Whilst this digitally advanced group has continued to grow, the proportion of small businesses with low levels of digital capability (Segments 1 and 2) has remained at 16% since 2018.

For the first time the Index includes the new measure of organisational Essential Digital Skills

2.2 million (56%) small businesses have all the Essential Digital Skills. As the new framework is more complex, including more detail on cybersecurity, e-commerce and ability to use Cloud functionality, it is perhaps positive that the proportion is similar to the number of organisations with Basic Digital Skills in 2018.

Younger companies are wise beyond their years

Small businesses under three years old are more digitally capable, with nearly two-thirds (63%) having the highest level of digital capability (Segment 5). Their digital behaviours are also translated into digital abilities as more than two-thirds (69%) of small businesses operating for less than three years have all six Essential Digital Skills, 17 percentage points higher than small businesses over ten years old.

Almost three-quarters (73%) of younger small businesses have a Facebook page compared to just over half (53%) of older firms. They also have loftier ambitions; not only are they more aware of virtual reality, connected devices and Artificial Intelligence, they are seeking opportunities to implement where relevant.

69% of small businesses operating for less than three years have all six Essential Digital Skills

Small businesses lacking full Essential Digital Skills are nearly two and a half times more likely to be closing their business in the next two years compared to those with all six skills. Whilst digital skills alone do not determine a business' future, their digital capability does contribute to their performance.

2. Practice makes productivity for one-third of small businesses

For 1.3 million (33%) small businesses, testing and learning translates into time saving and turnover (a proxy for productivity). Analysis shows that these 1.3 million businesses are undertaking a breadth of over 35 digital activities and are reaping the rewards. They have an average annual turnover of £754,000, £260,000 higher than the average surveyed business. Their turnover has grown by an average of 21% over the last two years and they have simultaneously saved a day per working week.

The return on investment of digital technology and skills has also increased. In 2018, small businesses who used Cloud-based IT systems, online accounting software and digital training tools had £103,000 higher annual turnover than those using none. This year the difference has risen to £262,000, more than two and a half times in a year.

Behaviours and attitudes of small businesses prioritising productivity

This 'productive' small business population is significantly more likely to have leaders with clear digital strategies (38% to 27% average).

Whilst there is no silver bullet when it comes to increasing productivity for small businesses we have identified five key digital ingredients that can help businesses to thrive. These 'productive' small businesses are significantly more likely to:

1. Use data to make decisions on how to improve their online presence
2. Use Cloud-based IT systems
3. Allow customers to view products and services on their website
4. Plan to grow their marketing capabilities
5. Use or intend to use 'smart' devices in the next two years.

762,000 (19%) small businesses are using the internet to trade overseas and reach new markets.

In 2019, small businesses using Cloud-based IT systems, online accounting software, and digital training tools have £262,000 higher annual turnover than those using none

3. Digital defences are on the rise

Cybersecurity has been the biggest priority for small businesses since 2018

There has been a 42% increase in the cybersecurity capabilities of UK small businesses with more organisations and consumers now benefitting from increased security. 95% of small businesses can do at least one cybersecurity skill, for example:

- 87% have the ability to keep their software up to date
- 79% are backing up critical data
- 77% have a password policy in place that reflects best practice
- 75% are now using fraud protection procedures.

Despite this, there are still weak links in the armour

- There has been an increase in small businesses with a Security Index Score of zero for Scotland, the South East and the South West
- Manufacturing, Construction and Agriculture businesses are the least likely to have essential cybersecurity skills, one in three (32%) lack fraud prevention policies and 33% connect company devices to unsecured networks
- 28% of small businesses are still connecting to unsecured networks, potentially putting them and their customers' data at risk.

Small businesses are more concerned than ever about their digital footprint

The key barrier to doing more online is cybersecurity concerns, which have doubled to over 40% since 2018.

Last year the most sought-after digital skill was cybersecurity, and this may be reflected in the vast security improvements. This year however, small businesses are now seeking social media and marketing expertise and technology infrastructure more so than any other digital skill.

42%

increase in cybersecurity capabilities of UK small businesses since 2018

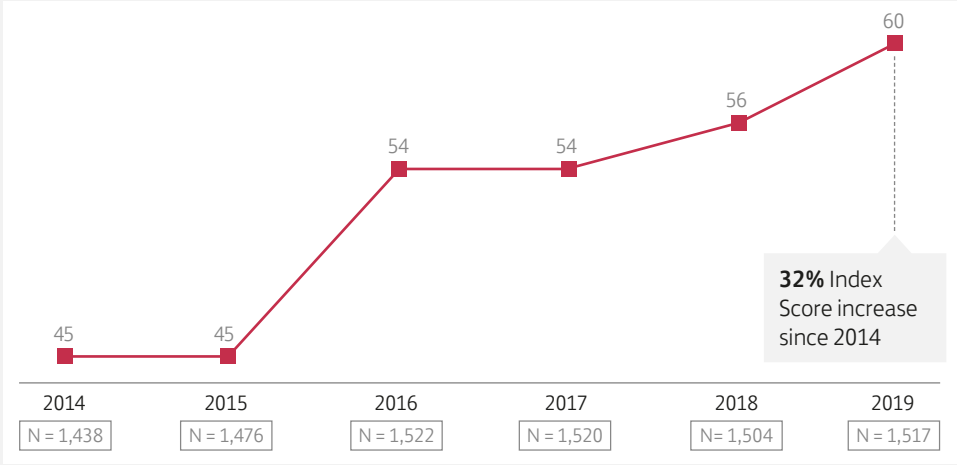
Business Digital Index Score 2019

Since 2014, the Business Digital Index Score has increased by 32% (from 45 to 60 points). This has been driven primarily by younger organisations who have increased their capabilities the most. Since last year, small businesses under ten years old have improved their Index Score by twice as much as those ten years or older, and now lead the older group of businesses by nine points *(appendix 1)*.

Businesses are prioritising building their infrastructures securely

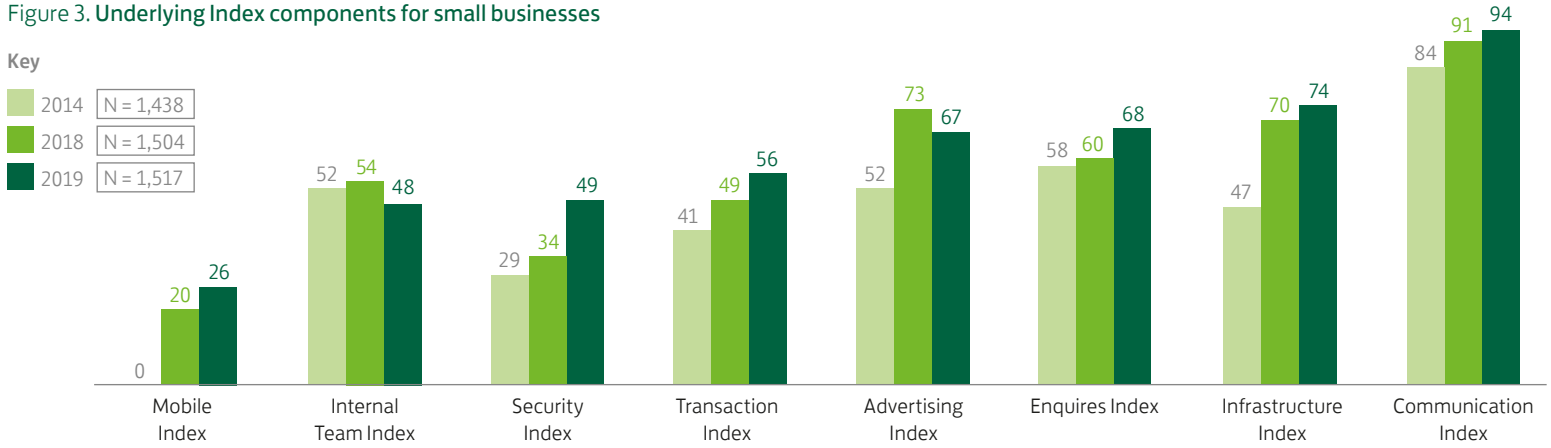
The underlying factors* indicate that the communication Index has consistently been the capability organisations are most likely to have (figure 3). However, since 2014, the online security Index has seen the biggest increase of 70% moving from 29 to 49 points. Small businesses are 42% more likely to now have online security capabilities compared to 2018.

Figure 2. **Index Score for small businesses since 2014**



Also as shown in figure 3, while most Index variables have seen an increase since 2018, the internal team capability Index and advertising Index Scores have seen an overall decrease. This indicates that a smaller proportion of small businesses have the in-house experience to progress on their digital journeys and may be relying more heavily on suppliers. The decrease in social media usage has come almost exclusively from small businesses consolidating their social media presence on Facebook, Twitter and LinkedIn rather than platforms such as Pinterest and Snapchat (figure 7).

Figure 3. **Underlying Index components for small businesses**



Small businesses are 42% more likely to have online security capabilities compared to 2018

*See *appendix 2* for detail on the eight Index components.

Digital Capability Segmentation

The Index Score data is used to segment small businesses into five different levels of digital capability ranging from Segment 1 Passive (lowest capability) to Segment 5 Advanced (highest capability). Organisations are allocated into the these digital capability segments according to their Index Score and ultimately their digital behaviours *(see pages 4 and 5 for methodology)*.

203,000 more businesses are now digitally 'Advanced'

The proportion of small businesses with the highest level of digital capability (Segment 5) has nearly doubled since 2014 (25% to 49%). Since last year, there has been an increase of 203,000 small businesses in Segment 5, this is a six percentage points increase to 49% (figure 4).

Digital capability is still too low for 641,000 small businesses

The proportion of small businesses with the lowest level of digital capability (Segment 1) has more than halved since 2014 (14% to 6%) however this still equates to 241,000 small businesses. Both Segment 1 and Segment 2 (less digitally capable small businesses) represent 16% (641,000) of the UK's small business population. This remains the same as in 2018 indicating resistance to digital adoption and that more must be done to intervene and upskill these businesses. This is especially important given the data shows that nearly all small businesses are online (98%) and interacting with the digital world *(appendix 3)*.

When looking at the segmentation through a regional lens, the results show that Wales, East England and the North East have the largest proportion of small businesses with low or no digital capability (figure 5). Data from the Office for National Statistics shows that Wales has more than twice the proportion of Agriculture, Forestry and Fishing businesses as the UK average* – this industry is among the least digitally capable and indicates a national opportunity *(appendix 4)*.

16% of small businesses still have low levels of digital capability, equal to 2018

Figure 4. **Proportion of small businesses in each segment over time**

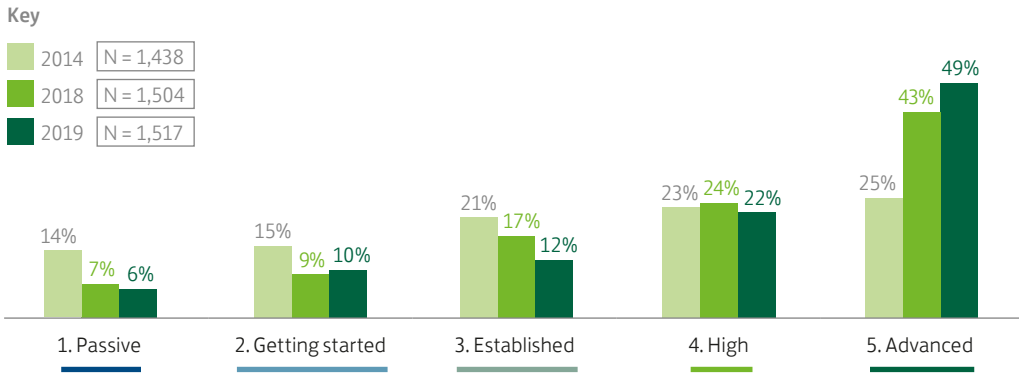
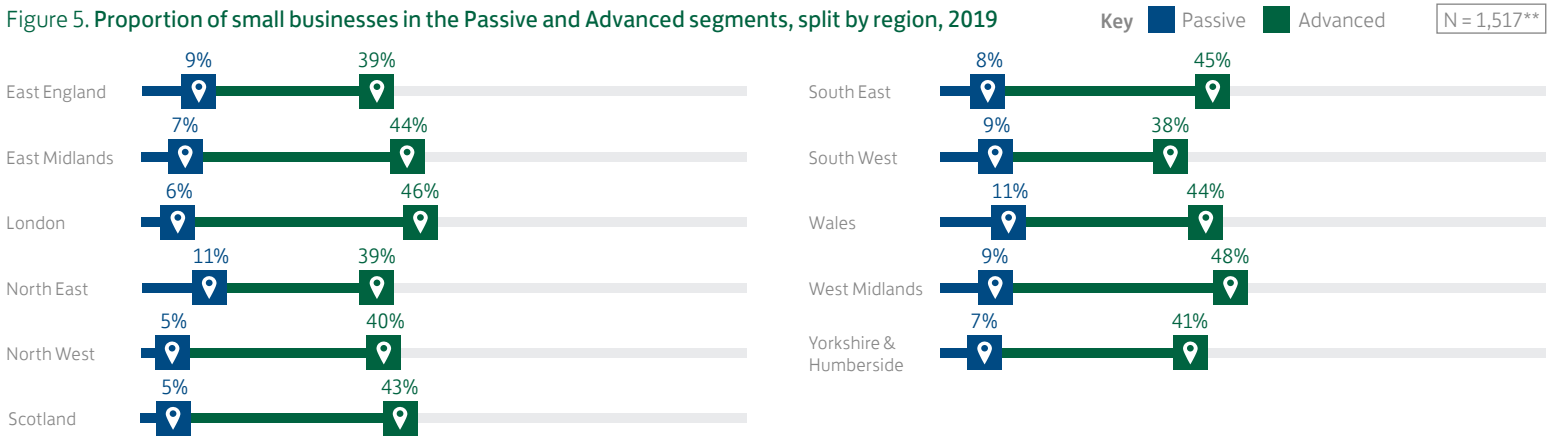


Figure 5. **Proportion of small businesses in the Passive and Advanced segments, split by region, 2019**



*Office for National Statistics, 2019, ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/ukbusinessactivitysizeandlocation

**Please see *appendix 32* for sample sizes per region

Digital Usage and Behaviours

Small businesses intensify social media use to reach customers

92% of small businesses use email to communicate with their suppliers and customers, and over half (54%) use social media (figure 6). 58% of small businesses that use the internet have a Facebook page; by far the most utilised social media channel for business, although Twitter use has grown the most from 39% in 2018 to 48% this year (figure 7). Other platforms such as Snapchat and Pinterest have seen a sharp drop in uptake from 27% in 2018 to ten percent this year. Notably, these channels are also only used by those with increased digital capability and skills *(appendix 5)*.

Research from Hootsuite reveals that in January 2019 there were over 45 million active social media users in the UK and this had grown by 2.3% (over one million people) over a 12 month period*. Data in figure 6 shows that small businesses' social media use is increasing at a faster rate compared with other communication channels (a five percentage points growth in social media communication in a year) indicating an appetite to meet consumer demand *(for more information on Communicating skills, please see page 14)*.

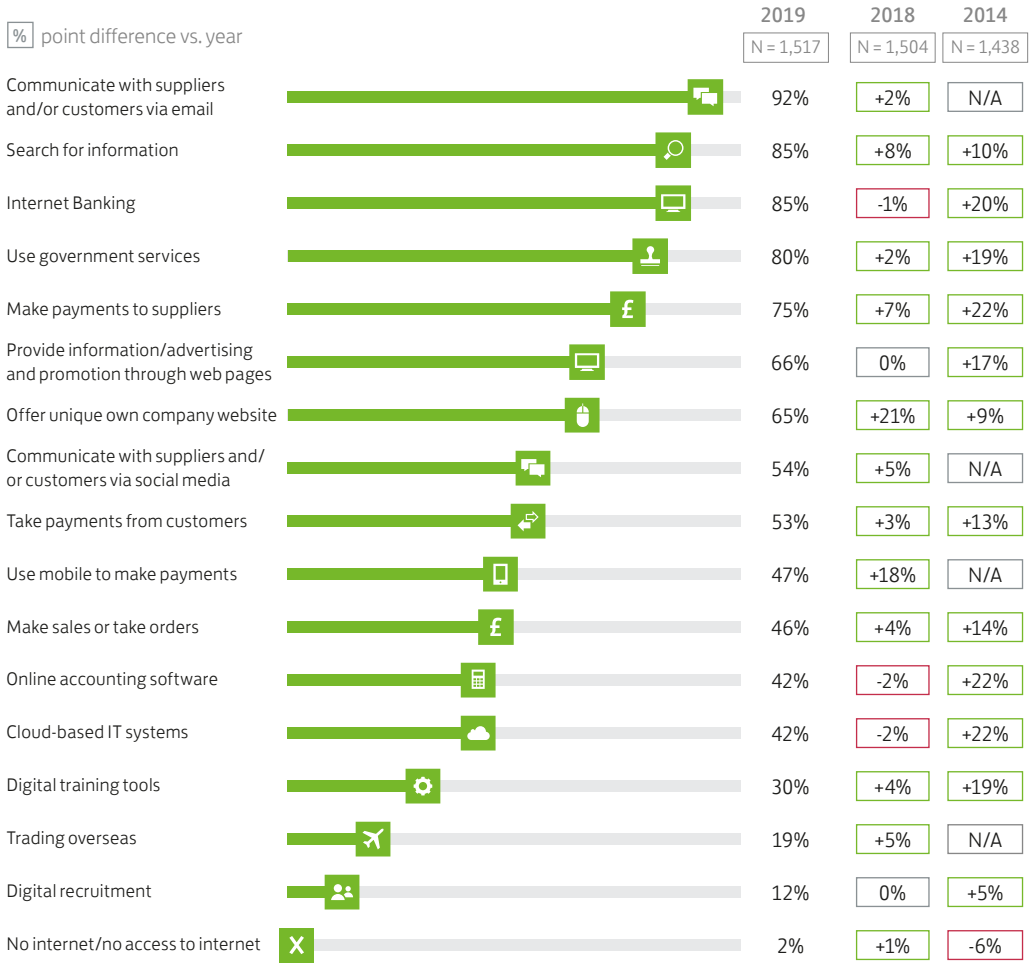
Small businesses with low digital capability are de-prioritising having their own website

67% of small businesses that use the internet have their own website (figure 7). This remains flat since 2018 and compared to the baseline year 2014 is a seven percentage points increase. Since 2014, website use among small businesses that use the internet, with low digital capability has decreased from 19% to 12%.

Lack of growth in digital tools that boost productivity

From a digital infrastructure perspective, there has been little change since 2018. 42% of small businesses are using Cloud-based IT and the same volume are utilising online accountancy software (figure 6). Considering the huge focus on 'Making Tax Digital', it is perhaps surprising that this number has not seen a sharper increase. Analysis on page 20 of this report reveals the increasing value of these IT systems to small businesses, despite the lack of uptake shown in the data.

Figure 6. **For which of the following purposes, if any, does your business use any form of digital channels?**



*Hootsuite, 2019, The Global State of Digital in 2019, hootsuite.com/en-gb/resources/digital-in-2019

Digital channels have enabled small businesses to keep momentum on overseas trade

In an economic climate of lower than average business confidence* small businesses have been able to increase their trade routes beyond Britain. There has been a five percentage points increase (14% to 19%) in the proportion using digital channels to trade overseas compared to 2018 (figure 6). As the Lloyds Bank UK International Trade Index** outlines, exporting has increased since last year overall; reasons as to why are speculative but could be due to the Department for International Trade and supporting initiatives.

Small businesses are migrating to mobile; almost half make payments on the move

Since 2018, there has also been an 18 percentage point increase in the proportion of small businesses which are able to make payments via a smartphone (29% to 47%) (figure 6). In the same period of time, the proportion of businesses using the internet with mobile-optimised websites and services has nearly doubled (13% to 24%) (figure 7). These trends indicate an increased recognition of the flexibility provided by smartphones for both the business and its customers.

8% of small businesses have a business Facebook, Instagram or Twitter account but have no website at all *(appendix 6)*

Small businesses using a higher number of digital channels are most likely to have increasing turnover *(appendix 7)*

Figure 7. **Which of the following online facilities does your business have or offer to customers or users?**

	2019 N = 1,487	2018 N = 1,484	2014 N = 1,438
Organisation website	67%	68%	60%
Organisation Facebook page	58%	56%	30%
Registered on one or more online directories	52%	52%	32%
Organisation Twitter page	48%	39%	19%
Organisation LinkedIn page	25%	21%	1%
Mobile-optimised websites and services	24%	13%	–
Cloud-based sharing sites e.g. DropBox/WeTransfer	24%	15%	–
Organisation Instagram page	18%	13%	–
Other social networking (e.g. Snapchat, Pinterest, Tumblr, Vine, Google+, etc.)	10%	27%	46%
Organisation blog	10%	9%	9%
Customer contact service i.e. live chat	7%	7%	–

Proportion of businesses with mobile-optimised websites and services has nearly doubled since 2018

*Lloyds Bank Business Barometer, 2019, lloydsbankinggroup.com/Media/Press-Releases/2019-press-releases/lloyds-bank/business-confidence-sees-second-monthly-rise2/

**Lloyds Bank UK International Trade Index, 2019, resources.lloydsbank.com/insight/international-trade-index/

Essential Digital Skills

In 2019, 40 cross-sector organisations were consulted in a review of the small business and charity Basic Digital Skills framework. In light of the newly published UK Essential Digital Skills framework in 2018* (for consumers), a re-assessment of the skills small businesses and charities truly need in order to thrive in the UK, felt appropriate.

As such, Lloyds Banking Group convened inputs and opinions from organisations such as Be the Business, Federation of Small Business, Google, BT, UK Government and digital skills practitioners such as SCVO, Good Things Foundation, Upskill Digital and Citizens Online. The final output ensures greater understanding of organisational skillsets, and – complemented by the transactional and attitudinal analysis undertaken in the Business Digital Index – illuminates the current mindset and motivations of the organisations too.

As the 2019 framework surveys on 26 new tasks rather than the 19 from previous years, there will be no year-on-year comparison for Essential Digital Skills throughout the report.

In order to qualify as having Essential Digital Skills, an organisation must be able to do at least one task within each of the skills categories; Managing Information, Transacting, Communicating, Problem Solving, Creating and, newly added, Cybersecurity.

Figure 8. **Proportion of small businesses with one to six Essential Digital Skills, 2019**

N = 1,517

2.2 million (56%) small businesses have Essential Digital Skills

This proportion is similar to the 2018 Basic Digital Skills result, however in the new framework with the digital tasks required to achieve the skill being more complicated, this could infer that small businesses have made progress. 23% of small businesses have five of the required six skills which represents 922,000 small businesses in total.

The Essential Digital Skills framework is used by UK Government to underpin the Adult Digital Skills entitlement which will become available to UK adults in 2020**. It is also the chosen framework for future.now; a coalition created between Lloyds Banking Group, BT, Accenture, the City of London, Good Things Foundation, Nominet and over 30 partners to empower and support organisations across the UK, to improve the digital skills of their workforces. To find out more visit: **futuredotnow.uk**

*Department for Education, Essential Digital Skills (for life and work) framework for people aged 15 and over, 2019, gov.uk/government/publications/essential-digital-skills-framework/essential-digital-skills-framework
**Department for Education, 2018, gov.uk/government/news/adults-to-benefit-from-digital-skills-overhaul

Small businesses that are able to do all six Essential Digital Skills are *(appendix 8a-c)*:

- Almost twice as likely to have increasing turnovers
- Most likely to be from the Retail sector
- Most likely to be London-based (63%).

This year, for the first time, the data has shown the difference between the proportion of small businesses that can undertake one of the framework tasks, compared to all of them (figure 9). 97% of organisations are transacting online, but only 28% are able to; buy goods and services online, complete online forms **and** utilise Internet Banking. The category with the narrowest gap is that of Creating, indicating that whilst the skill might be harder to attain (three-quarters of small businesses have these skills) once acquired, they are more transferable.

Problem Solving remains the largest hurdle

Of the digital skills needed for small businesses to thrive, the Problem Solving activities are proving the hardest to grasp with 69% of small businesses able to undertake one of the tasks (figure 9).

44% of small businesses do not have full Essential Digital Skills

Figure 9. **Proportion of small businesses with one or all tasks in the Essential Digital Skills categories, 2019**

In 2019, the Essential Digital Skills data has also gone through a clustering process, to understand which are the skills that are most strongly correlated, and how many tasks small business organisations are likely to be able to do. This finds that the Creating task and skillset is very distinct; where a small business has digitally creative competencies, they are not significantly more likely to be able to do Transacting or Communicating.

Additional analysis identified that small businesses fall into three groups with very distinct digital skillsets *(appendix 9)*:

1. The first and least skilled group 'low' (28% of businesses) can do only an average of nine of the 26 Essential Digital Skills tasks
2. The 'mid' group (33% of businesses) can do an average of 18 of the 26 tasks
3. The third group 'high' (40% of businesses) can do an average of 23 of the 26 tasks.

Analysis of these groups demonstrates that Transacting and then Cybersecurity are the prioritised skillsets.

Analysis of the task-level survey data indicates that there are some key areas of real digital adoption (figure 10):

- Almost nine in ten small businesses are now able to use Internet Banking
- 75% are using their mobile to do business on the move
- 85% are buying goods and services online.

And in terms of areas of focus:

Cybersecurity

95% of small businesses are undertaking tasks and activities that indicate they are starting to evolve cybersecurity skills. Unlike many of the other skill areas, sector and age of the business does not link to cybersecurity uptake, suggesting it is becoming universally recognised as a key part of taking an organisation online (*appendix 10a and 10b*).

E-commerce

1.8 million (44%) small businesses are making sales via online channels and 59% of small businesses use online channels to attract customers. External research shows that more than half of UK consumers would rather shop online than in-store, meaning that half of the small business population are missing this growing sales channel**.

Data-driven decision making

There is a huge opportunity for organisations to get to know their customers by using online analytics tools. Whether through online customer research, online surveys or website performance analytics, there is an opportunity for almost half (44%) of small businesses to use data to improve their products and services.

Figure 10. **Proportion of small businesses able to undertake Essential Digital Skills tasks, 2019**

N = 1,517

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

**Ecommerce News, 2018, ecommercenews.eu/51-uk-consumers-prefer-to-shop-online-than-in-store/

Demographic highlights:

1. Small businesses over ten years old rank last across all six Essential Digital Skills, however their only real weaknesses are in Problem Solving and Creating, where the gaps are the most significant (figure 13).
2. The North West and East Midlands rank top compared to all other regions and nations in more than one category. However the North East ranks lowest and must put added focus on Problem Solving and Creating, especially any older businesses from these areas who will be at the intersection of multiple demographics challenged by these skills (figure 12).
3. Small businesses with female digital leaders are three percentage points likelier to have all six Essential Digital Skills compared to businesses with male digital leaders (figure 11). Despite female business leaders being more skilled, they are less likely to have the confidence needed to lead their organisation to success in the digital world *(appendix 11)*.

Figure 11. **Proportion of small businesses with the number of Essential Digital Skills they have, split by gender of digital leader, 2019**

N = 1,517

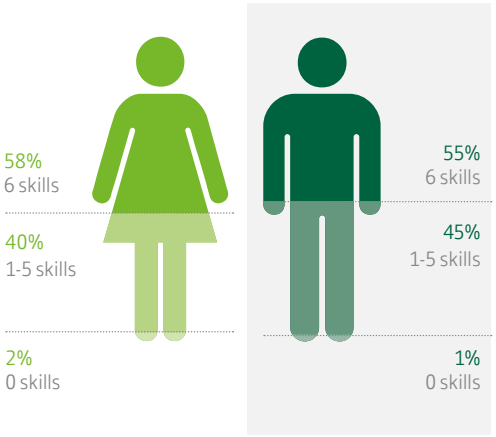


Figure 12. **Proportion of small businesses with at least one task in the Essential Digital Skills categories, split by region and nation, 2019**

N = 1,517

	% of small businesses					
East England	94	69	84	69	96	95
East Midlands	92	79	87	76	94	94
England	92	73	85	68	96	95
London	95	79	89	72	98	95
North East	89	63	83	59	94	90
North West	96	74	87	71	99	98
Scotland	94	75	90	73	99	96
South East	93	78	84	71	96	94
South West	87	69	83	62	98	94
Wales	87	72	83	67	96	90
West Midlands	91	70	90	66	96	95
Yorkshire & Humberside	92	78	82	69	96	95
	Communicating	Creating	Managing Information	Problem Solving	Transacting	Cybersecurity

Figure 13. **Proportion of small businesses with at least one task in the EDS skills categories, split by age, 2019**

N = 1,517

	% of small businesses	Less than 3 years	3-4 years	5-9 years	10 years or more
	Communicating	96	98	94	91
	Creating	86	77	88	71
	Managing Information	91	93	92	84
	Problem Solving	82	73	78	66
	Transacting	99	100	99	96
	Cybersecurity	95	99	97	94

National and Regional Factsheets

Building on the demographics provided, factsheets are available and provide insight into local digital capability and skills with comparisons to previous years. For more information please visit: lloydsbank.com/businessdigitalindex

Spotlight on Cybersecurity

Turnover is the largest driver of cybersecurity; the tipping point is £838,000

Unlike digital capability, age and sector are not strongly correlated to cybersecurity uptake; instead, it is turnover. Within the behavioural and attitudinal data, there are eight key measures of cybersecurity *(appendix 12)*. The small businesses who demonstrate having all eight capabilities turn over £1.4 million on average per year, compared to £94,000 for those with none. The tipping point for organisations having both cybersecurity skills **and** robust website security and infrastructure is on average £838,000 (figure 14).

Companies with greater turnover are likely to have greater incentives and resources for a comprehensive cybersecurity strategy, as they recognise they present a bigger target to cyber criminals.

This is not to say that firms turning over less than this shouldn't make every effort to protect themselves – as businesses of all sizes are regularly targeted, however research has shown that there is a perception among 48% of small businesses that they are not big enough to be targeted*.

Small businesses with more cyber defences are increasing their digital investment

Compared to businesses with less than six cybersecurity measures in place, those with six or more are *(appendix 13)*:

13 percentage points more likely to predict growth in their business (60% to 72%)

14 percentage points more likely to increase the amount invested into their digital activities (45% to 59%)

In both cases, having a robust website security mechanism was the most influential measure in improving these likelihoods.

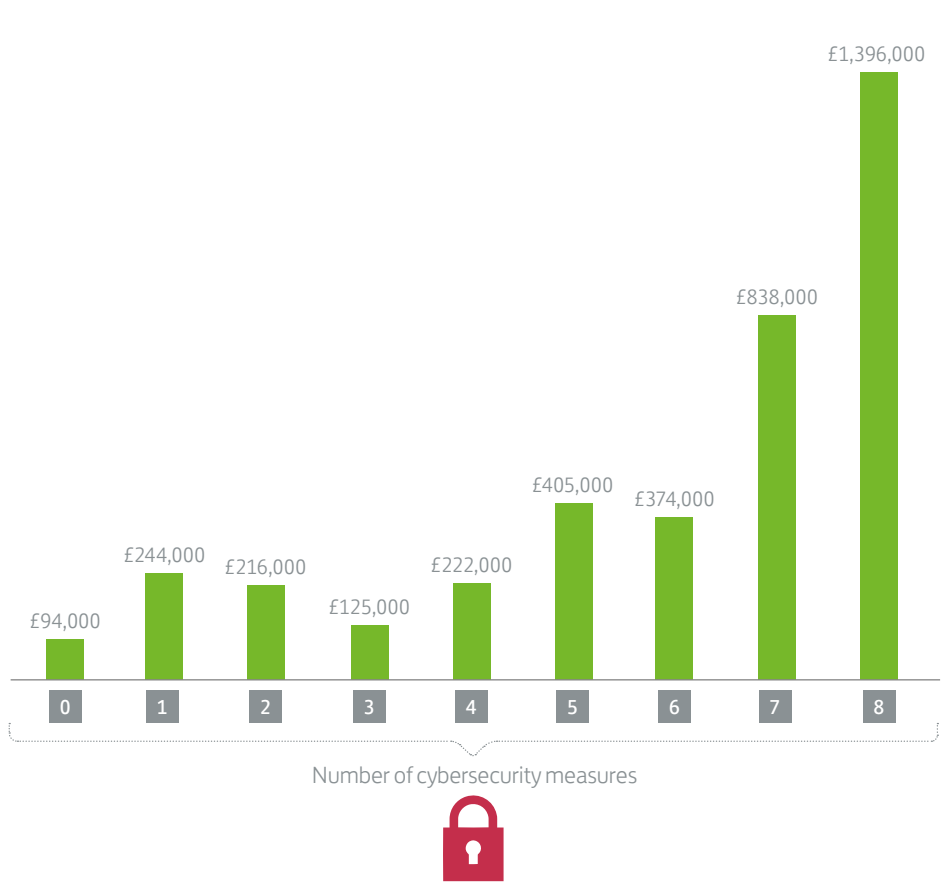
It cannot be assumed that some sectors are more protected than others

The sector a small businesses is from bears no significant impact on the number of cybersecurity measures it has *(appendix 14)*. No assumptions should be made based on sector alone about how protected a small business may be, whether it is from an IT centred industry or not.

Small businesses who demonstrate having all eight cybersecurity measures turn over an annual £1.4 million on average, compared to £94,000 for those with no cyber defenses

Figure 14. **Average small business annual turnover by the number of cybersecurity measures in place, 2019**

N = 969



*Small Business Trends, 2019, smallbiztrends.com/2019/03/small-business-fraud-statistics.html

Benefits of Digital

Customer reach is now the main benefit for small businesses

This year small businesses stated that the main benefit of being online is the ability to attain 'wider UK coverage' (figure 15) with one in five (23%) looking to scale their offering. Whilst this has increased by seven percentage points since 2018, it has still almost halved from 42% to 23% from 2014.

Small businesses put the brakes on data driven marketing

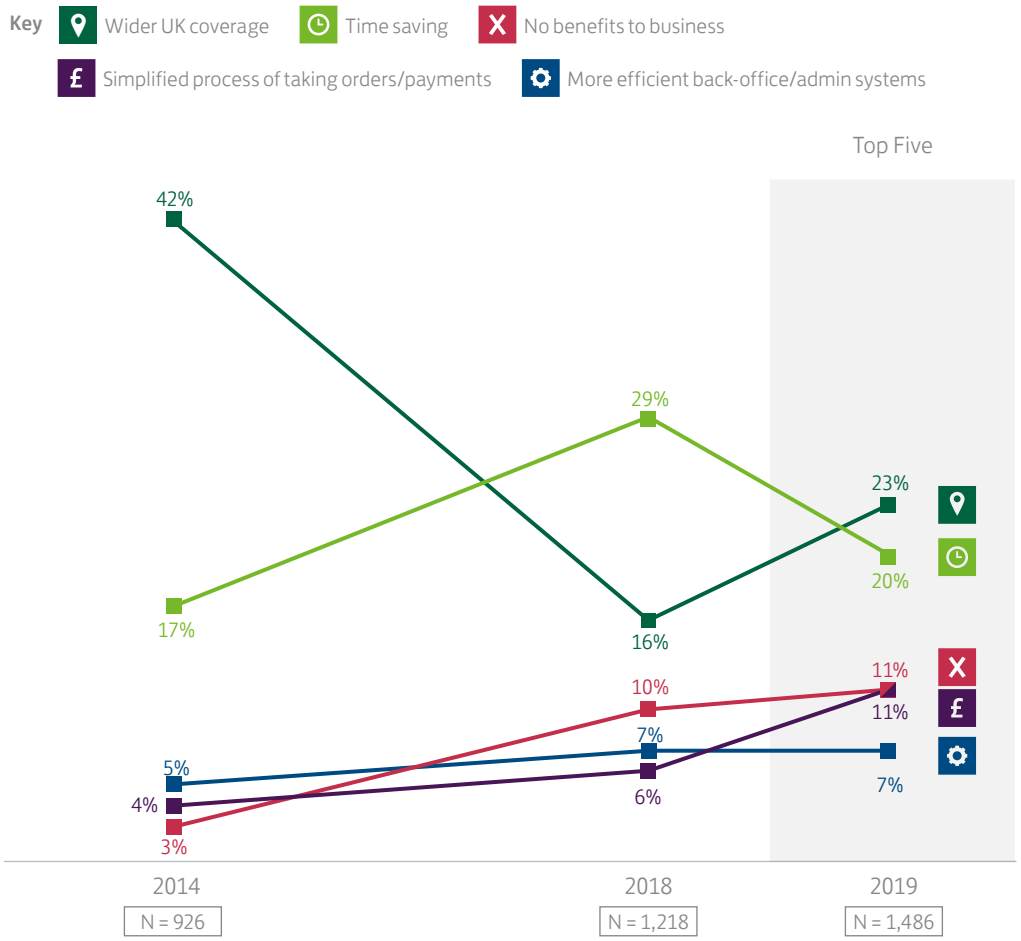
In the past year, the impact of 'data-driven marketing' has fallen out of the top five main benefits and has been replaced by the 'simplified process of taking orders'. One factor that may be reducing small businesses' appetite for data-driven marketing could be the associated costs and implications of compliance to General Data Protection Regulation (GDPR). A study found that in December 2018 only 29% of EU firms were fully GDPR compliant*. As such, it could be that organisations are prioritising their spend to regulatory demands and back-office requests.

Construction and Agriculture sector small businesses still increasingly value the time saving benefits of digital

At an overall level since 2018 'time saving' has decreased as one of the main benefits, but this decrease is not true of all sectors. An increased proportion of Construction and Agriculture sector small businesses stated 'time saving' as the main benefit of being online *(appendix 15)*.

31% of small business respondents prefer to use social media for personal use but not for work. Small businesses who use social media this way are half as likely as those who use social media for business purposes to report an increasing turnover *(appendix 16)*. Social media is one important tool among others for business growth

Figure 15. **Top five benefits for small businesses, 2019 vs 2018 and 2014**



*PYMNTS, 2018, pymnts.com/fraud-prevention/2018/eu-firms-gdpr-compliant/

The 'Digital Dividend' is greatest for online marketing activities

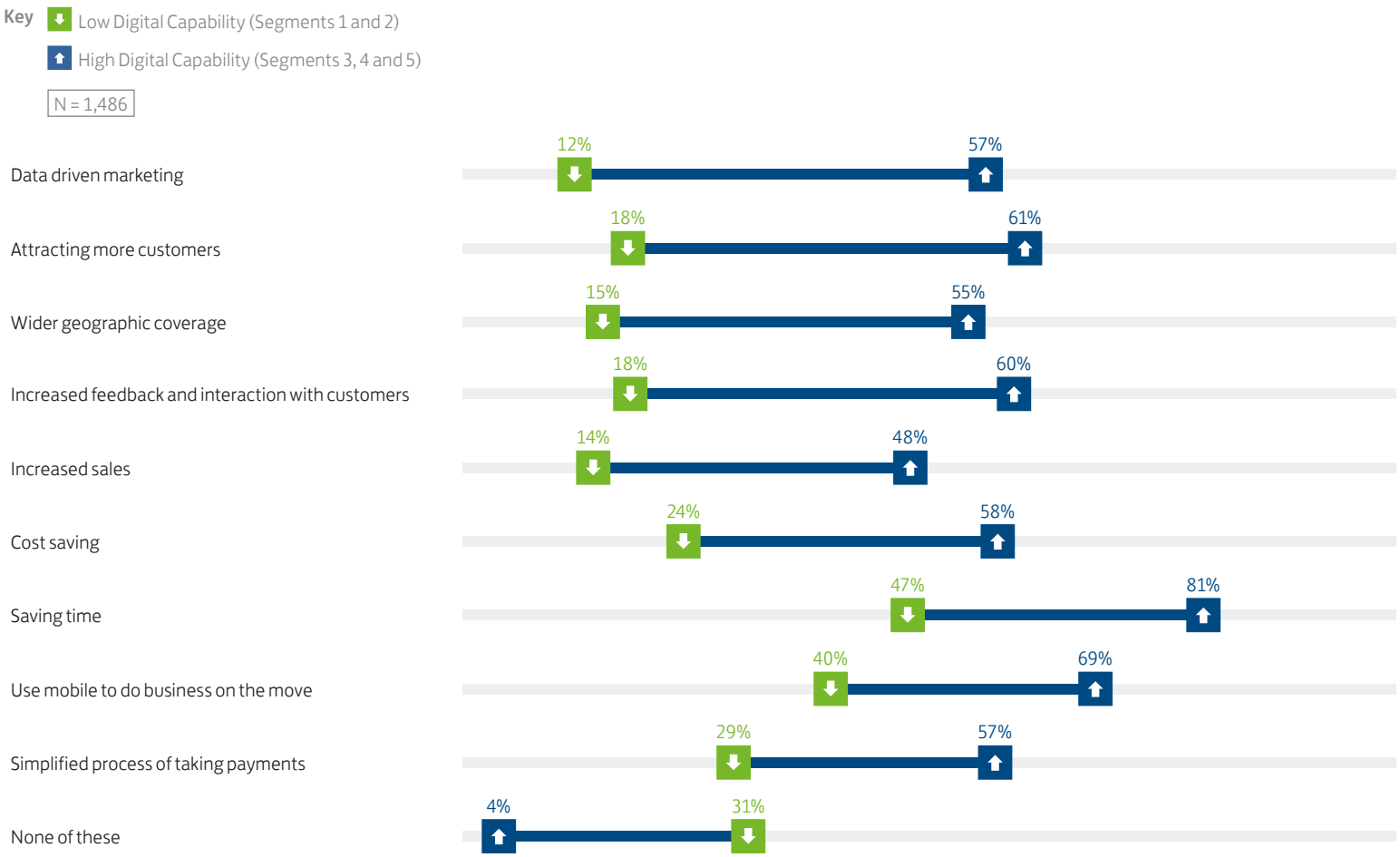
3.3 million (83%) UK small businesses have high digital capability (figure 4). Due to greater exposure and greater usage, this group benefit from digital far more than the 641,000 (16%) businesses with low digital capability (Segments 1 and 2 known as the 'Digital Dividend') (figure 16). The biggest gaps in these benefits between both groups are for; 'data driven marketing' and 'attracting more customers'; two business activities critical to success. As such, the fields of marketing and channel usage indicate that this could be a focus area for practitioners.

Benefits of doing business on the move

This increased use of digital tools and channels also benefits small businesses by facilitating working on the move, which can also reduce business costs. The 2019 survey verbatim data, illustrates people are increasingly enabled to work from home due to the use of digital channels (e.g. 'I can work from home a lot more'). This means costs can be diverted away from not only travel expenses but also the cost of renting office space.

A US study found that the average real estate savings for employers with full-time remote workers is $10,000 per employee every year*. Additionally, the time saved from commuting may also be reinvested into greater productivity if internet access and device provision is adequate.

Figure 16. **Benefits to small businesses of being online, split by digital capability segment, 2019**



*REMOTE.CO, 2019, remote.co/10-stats-about-remote-work/

Small businesses are more aware of the time saved by using digital channels

In 2014, 28% of businesses saving time through digital were not sure how much time was being saved, this has reduced to only 11% in 2019, indicating that the time saving value of digital is becoming clearer. Consequently, the data now shows that a greater proportion of small businesses are saving between five and fifty percent of their average working week because of their usage of digital channels (figure 18).

Increased digital capability linked to improved financial performance

The data shows some relationships between a small business' level of digital capability and their financial performance:

- Small businesses with high digital capability are 17 percentage points more likely than those with low capability to have increased their turnover in the past two years (figure 17)
- Of the small businesses where turnover is increasing, 27% report turnover increases greater than 25% *(appendix 17)*
- The more digitally capable a business is, the greater their increase in turnover has been *(appendix 18)*.

Small businesses save money through digital

The financial benefits of being online also extend to a small businesses' costs. Seven percent of small businesses say they are benefiting from cost savings by being online *(appendix 19)*. Nearly half within this group (49%) save up to ten percent per month and one-fifth (20%) save more than ten percent *(appendix 19)*.

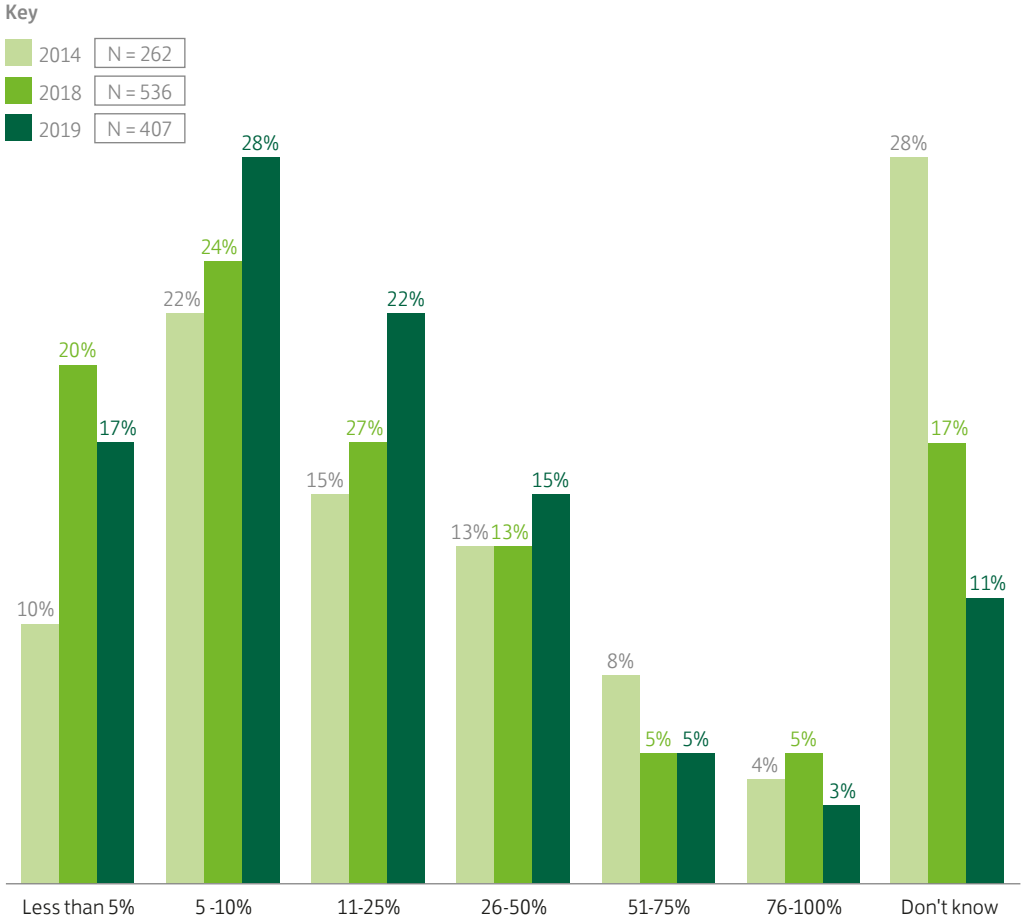
Figure 17. **Change in small business turnover in the last two years split by digital capability, 2019**

N = 1,517

	High Segments 3, 4 and 5	Low Segments 1 and 2
Increased	44%	27%
Stayed the same	36%	47%
Decreased	16%	24%

Small businesses are saving 20% of their working week through digital channels. This equates to 365 hours per year *(appendix 20)*

Figure 18. **Percentage of time saved in an average working week due to use of digital channels, 2019 vs 2018 and 2014**



Spotlight on Productivity

In an economy where business productivity is often deemed to be decreasing*, it is more important than ever for small businesses to harness their digital capabilities.

One-third of small businesses are boosting productivity through digital

Linking transactional data and attitudinal research, the Index has identified a group of small businesses showing productivity indicators with both increasing turnovers and time-savings in part from their digital usage. 1.3 million (33%) small businesses have an average annual turnover of £754,000; £260,000 higher than the average *(appendix 21)*. Their turnover has grown an average of 21% over the last two years and have simultaneously saved a day a working week due to their digital activities.

For this group, the financial impact is tangible and growing. In the 2018 Business Digital Index, analysis found that small businesses who were using Cloud-based IT systems, online accounting software and digital training tools had £103,000 higher annual turnover than those using none. This year the difference has risen to £262,000 more *(appendix 31)*. This may be attributable to advancements in the back-office systems over time, realising the impact of the investment, and reducing costs**.

Whilst digital usage is a key driver, it is important to recognise that the sector and size of business are also important variables in assessing productivity.

Behaviours and attitudes of small businesses prioritising productivity

This 'productive' small business population is significantly more likely to have a digital strategy and leaders with a digital skillset (38% compared to a 27% average) and mindset *(appendix 22)*. The data shows there are at least 35 key digital ingredients all contributing to increased productivity, but there is no silver bullet.

Here are the top five digital factors driving productivity for 33% of small businesses:

1.

Data-driven decision-making: using data to shape and improve their products, services and the effectiveness of their online presence

2.

Use of Cloud-based IT systems (e.g. Dropbox, Google Drive, Microsoft OneDrive)

3.

Allowing customers to view products and services on a website

4.

Growth mindset for marketing: planning to develop and evolve their online marketing capabilities

5.

Currently using or intending to use connected devices and the Internet of Things in the next two years

*Lloyds Banking Group, 2019, lloydsbankinggroup.com/Our-Purpose/enabling-businesses/supporting-business-productivity/?utm_source=social&utm_medium=linkedin&utm_campaign=bethebusiness&utm_content=stat

**ITProPortal, 2019, itproportal.com/features/cost-comparison-cloud-vs-on-premise-201819/

Judith Bond Cakes

judithbondcakes.co.uk

Judith has always had a passion for baking cakes. It turned from a pastime to a profession six years ago when her friends and family convinced her to start her own cake business. Run from her cottage kitchen and her computer, Judith is now baking the most of her growing business.

Initially, Judith was self-taught, using YouTube for step-by-step tutorials in decorating. She then completed a Cake Decorating Diploma at the local College to learn the finer points of Royal Icing. She was confident going online for day-to-day use, but turning professional, she knew she had to understand how to maximise social media platforms for business outcomes. She sought out local face-to-face courses, joined networking groups, watched videos and read blogs on how to set up a company and attract customers.

Following this, she was conscious that she needed the right platforms to showcase her cake designs. This led to the creation of Twitter, Instagram and Facebook accounts allowing Judith to engage with a range of audiences. Slowly but surely, she began to establish a recognised brand and build a loyal client base who now know her as 'the Cake Lady'. Social media did not immediately lead to an increase in orders, but after publishing the website, orders increased by up to 20%, and continue to rise. Word-of-mouth from previous customers turned into online reviews and her local community supported the business in earnest.

Judith now cannot imagine a world without the 'Cloud'. She often starts a task on her laptop and finishes it on her mobile on the go, often working between home and her local coffee shop. This is invaluable and allows the business to be flexible. To manage the varying demands of the business, Judith uses Instagram Preview App for content planning, taking all of her own high-quality cake images, then further editing in Adobe Photoshop.

Being a digital business has really allowed Judith to manage her mental health as the workload is completely within her gift. She has been managing anxiety and depression for a number of years. She can be at home and interacting with people online to suit her day. For Judith, this a real benefit; the ability to pick and choose when she works, whilst saving time and reducing business costs.

Looking to the future Judith is taking one step at a time, ensuring she learns and progresses at a pace that suits her. The world is rapidly moving to video marketing and she is working to upskill herself and ensure her brand remains fresh and her cakes stand out from the crowd. Judith Bond Cakes needs to stay local to remain manageable, but Judith is keen to keep brand-building through her Judith Bond Writes blog and collaborations with other brands in the area.

Barriers to Digital

Small businesses are more concerned than ever about their digital footprint. The key barrier to doing more online is now cybersecurity concerns, which have doubled since 2018.

In just one year, the number of small businesses citing concerns about security and fraud as their main barrier has doubled from 21% to 42% (figure 19). Research by IBM calculated the average cost of a data breach in the UK to be £2.7 million* to an organisation, and the press coverage on online fraud and phishing is likely to encourage small businesses to be cautious online.

Since the first Business Digital Index in 2014, the number of searches for 'cybersecurity' has more than tripled on Google** and it has become a key focus for policymakers; legislation and regulation discussions are still ongoing. However as seen on page 14 the vast majority of small businesses do have essential cybersecurity skills and, as such, this theme is likely to remain an area that needs to be addressed into 2020 and beyond.

Digital disbelief and lack of motivation represent the most common concerns

28% of small businesses are 'just not interested' in going online; a nine percentage point increase since 2018 and three times more than in 2014 (figure 19). The proportion of small businesses who feel like they are doing all they can online has decreased steadily since 2014 from 37% down to 11%. This may be due to businesses becoming more aware of the size of digital opportunity, the more exposed they become.

Small businesses 'doing all they can online' are 1.5 times more confident that they can succeed in the digital world, and this confidence reduces upon deciding to take on more digital activities to keep up with the pace of change *(appendix 23)*. This indicates an appreciation from digital leaders within small businesses that digital transformation has more to offer.

More businesses than ever acknowledge their staff lack sufficient digital skills

Over one-third (36%) of small businesses report that they are not doing more online because they lack clarity on which technologies would support their objectives (figure 19). As 33% of small businesses also acknowledge that they do not have the right levels of digital skills, the concern regarding data-driven decision making, as shown on page 14, is perhaps unsurprising. Page 24 looks at some of the channels small businesses are turning to when looking for support with digital.

One in three small businesses are not doing more online because they lack clarity on which technologies are right for them (figure 19)

Figure 19. **Barriers preventing small businesses from doing more online**

	2014 N = 1,438	2018 N = 1,504	2019 N = 1,517
Concerns about information security/fraud	6%	21%	42%
Being online is not seen as relevant for our business	28%	26%	41%
Not worth the investment	7%	18%	37%
Not sure what the appropriate technologies are to invest in	N/A	N/A	36%
Lack of staff digital skills	12%	23%	33%
No time to set up an online presence and go online	15%	23%	30%
Just not interested in doing more online	9%	19%	28%
Poor connectivity	2%	12%	23%
Too expensive	7%	14%	19%
Nothing, feel that we are doing all we can online	37%	16%	11%
Prefer interacting face-to-face	N/A	3%	3%
Use word-of-mouth	N/A	4%	3%
We are in the process of doing more	N/A	2%	1%
Our customers are not willing to purchase online	N/A	1%	1%
Legal or regulatory reasons	N/A	0%	0%
Technical Issues	N/A	0%	0%
Bank is not compatible/not helpful/too complicated	N/A	N/A	0%

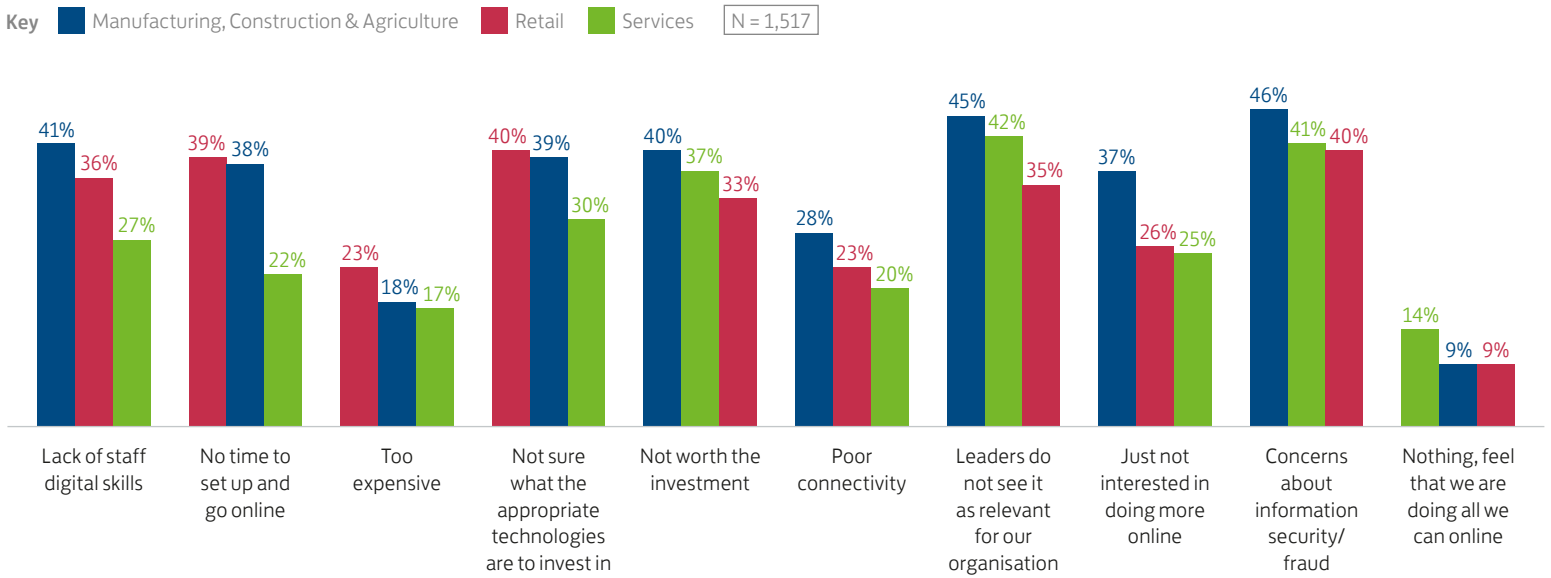
*Computerworld, 2019, computerworld.com/article/3412255/the-most-significant-data-breaches.html
** Google Trends, 2019, trends.google.com/trends/explore?cat=12&date=2014-07-10%202019-10-07&geo=GB&q=cybersecurity

Barriers are highest for the Construction, Manufacturing and Agriculture sectors

As a collective, small businesses in the Construction, Manufacturing and Agriculture sectors face the biggest hurdles impeding their digital development. These sectors currently cite the following as blockers (figure 20):

- **46%** are concerned about cybersecurity (four percentage points above small business average)
- **45%** of leaders say being online is not relevant to their business (four percentage points above small business average)
- **41%** lack staff with the appropriate digital skills (eight percentage points above small business average)

Figure 20. **Barriers preventing small businesses from doing more online, split by sector, 2019**



Small businesses with female digital leaders are eight percentage points more likely than those with male leaders to believe it is worth investing in digital technology *(appendix 24)*

Geographical barriers require local initiatives

Small businesses based in East England, the North East and Wales rank among the regions and nations facing the greatest barriers to continuing their digital development *(appendix 25)*. Those in the East Midlands, London, the North West and Yorkshire & Humberside rank among the regions facing lower barriers in comparison to other UK regions and nations.

Some examples of the range in size of these barriers include the top barrier for East England 'not worth the investment' where 45% of small businesses feel this way. This ranges down to 28% in both London and Yorkshire & Humberside. Small businesses in the West Midlands are among the most concerned by cybersecurity and fraud at 48%, however in the East Midlands this figure is the lowest at 30%.

Retail sector small businesses are nearly twice as likely as Service sector companies to say they lack the time to make their business more digital (39% to 22%) (figure 20)

Digital Advice and Training

Small businesses showing increasing appetite for support with digital

The data indicates that one-third (36%) of small businesses seeking digital support externally do not know where to start when selecting new technologies and investment *(see page 22)*, and they are increasingly seeking advice and training to fill this knowledge gap.

In just one year, small businesses are becoming significantly more active in seeking out support, whether paid or free (figure 21).

Informal channels still dominate as two-thirds of businesses are now upskilling themselves

Small businesses are most likely to seek support independently online, using search tools and in the last year, this has now increased by 19 percentage points to 65% in the last year. However, this is now closely followed by the advice sought from informal sources such as friends and colleagues (62%) which has increased by a further 25 percentage points since 2018.

More than half of small businesses (56%) are now turning to IT companies for this help, having increased from one-third (35%) in 2018 and one-quarter (26%) in 2014.

Figure 21. **Where small businesses looking for external support get help and advice on technology and the Internet, 2019 vs. 2018 and 2014**

	2014 N = 418	2018 N = 295	2019 N = 465
Search online	30%	46%	65%
Friend, relative or colleague	34%	37%	62%
IT supplier/business support	26%	35%	56%
Peers	4%	22%	46%
Consultant	33%	38%	41%
GOV.UK	5%	19%	39%
Local business network	9%	20%	35%
Recruit someone with the right skills	6%	18%	27%
Bank	1%	15%	20%
Local government or LEP*	-	9%	11%
Other	3%	4%	3%
Free training course	-	1%	2%
Don't know	-	2%	0%

Friend, relative, colleague up **25%** and Peers up **24%** since 2018

IT supplier or business support company up **21%**

GOV.UK up **20%** since 2018

The GOV.UK website has supported twice as many small businesses this year with their digital queries compared to 2018

* Local Enterprise Partnership, lepnetwork.net/

Older businesses are more likely to pay for tech support

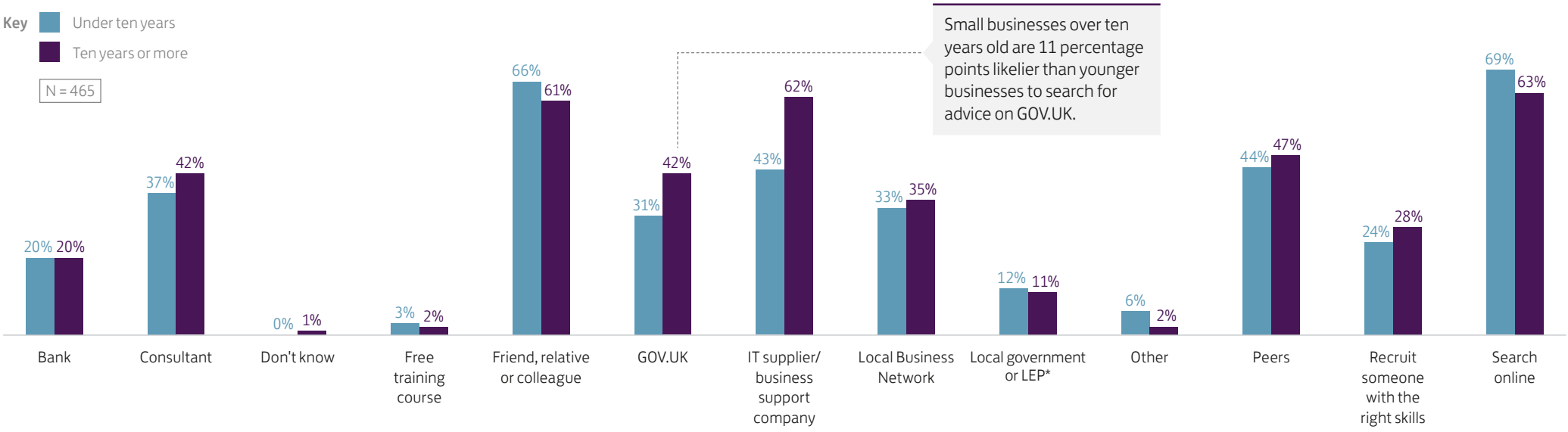
The data shows an important distinction between older and younger small businesses who are seeking external digital support. Figure 22 shows that older businesses (over ten years) are more likely to seek support from paid sources such as IT suppliers, consultants, or newly recruited talent with the right skills.

The Index data shows that older businesses are less digitally capable and skilled and therefore may choose to pay technical experts to help meet consumer and supplier needs *(appendix 26)*. The data shows that small businesses under ten years old are much more likely to find the information they need without support, such as searching online or asking friends, family and colleagues.

Since last year there has been a five percentage point increase in the proportion of small businesses who have received digital support from the Bank

The Digital Champions program is an example of a network offered by Lloyds Bank. It harnesses a network of over 20,000 digitally skilled colleagues who have each pledged to help two individual small businesses or charities in their communities each year.

Figure 22. **Where small businesses looking for external support get help and advice on technology and the Internet, split by age of business, 2019**



*Lloyds Banking Group, 2019, lloydsbankinggroup.com/media/digital-insight/digital-champions-framework/

Tech Understanding and Adoption

Small business' understanding of the different technologies available has increased since last year

As explored on page 22, 36% of small businesses have indicated that a barrier to doing more online is the lack of a comprehensive understanding of technologies available and knowing which would be best for their business.

The Index reports seeks to increasingly understand the more complex technologies that small businesses are engaging with, and how this changes over time. Understandably, some of these technologies may not be wholly relevant to every organisation, but there is an aspiration for small businesses to have a general understanding, in order to decide if the technology would be of benefit to them or not. The 2018 Index found that many small businesses lacked an understanding of different technologies. The data this year shows that more businesses are aware of and understand many of the listed technologies in figure 23.

Younger businesses have the appetite and confidence to adopt newer tech

The youngest businesses are leading the way in the adoption of newer technologies as the data shows they are the most likely to have plans to adopt six of the nine listed items including; connected devices, machine learning and mobile strategy (*appendix 27*). This appetite for tech persists despite this group feeling they understand these technologies less than older businesses, illustrating a level of confidence and a learn as you go attitude.

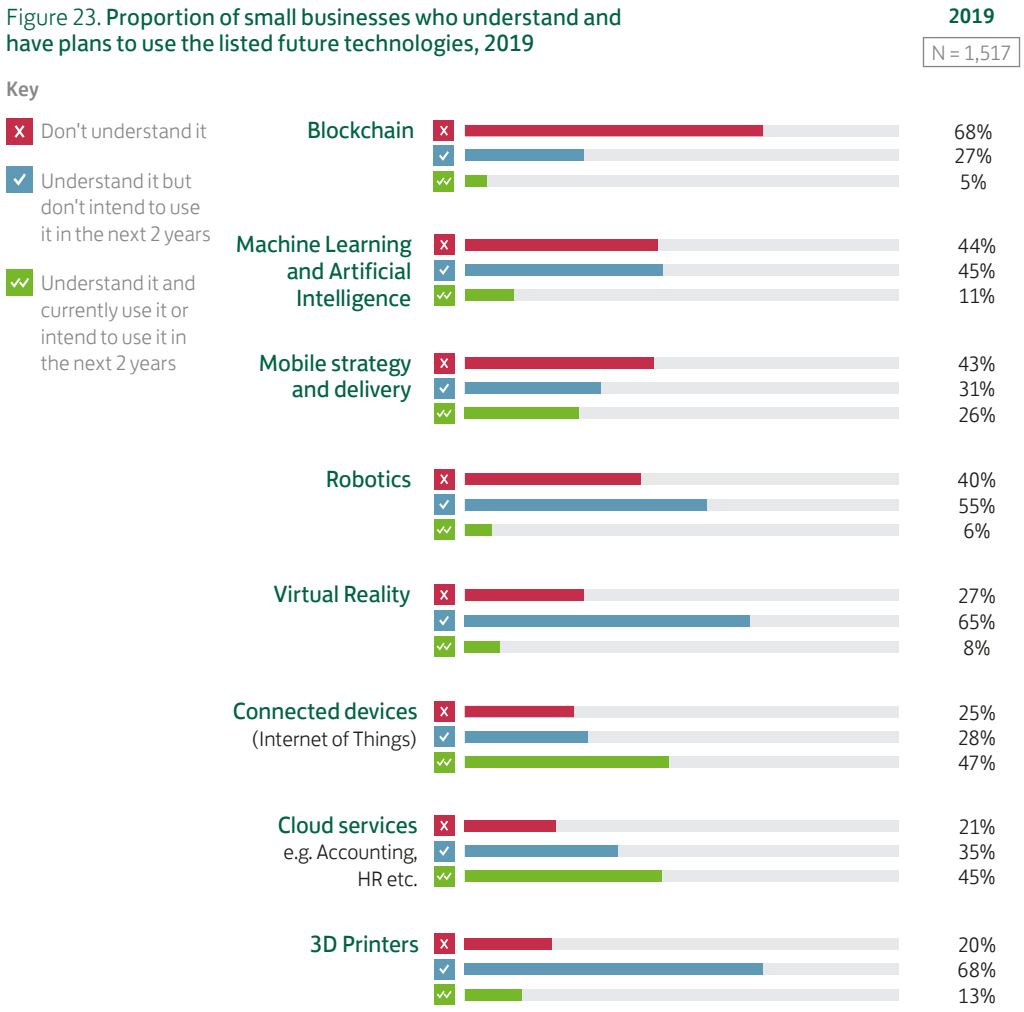
Small businesses in the Service sector are the most tech literate

Manufacturing, Construction and Agriculture small businesses rank the lowest in understanding across the majority of the technologies (*appendix 28*). These small businesses are twice as likely as the Service sector small businesses to not understand what Cloud services can do for them. Comparatively, small businesses in the Service sector have the highest levels of digital adoption for nearly all listed technologies.

%

One in ten (11%) small businesses are using or planning to use machine learning in the next two years. The health sector ranks among the lowest for adoption of this technology, however thanks to a recent £250 million investment by the government into artificial intelligence for the sector*, this could change

Figure 23. **Proportion of small businesses who understand and have plans to use the listed future technologies, 2019**



*Government, 2019, gov.uk/government/news/health-secretary-announces-250-million-investment-in-artificial-intelligence

Future Skills

Digital skills preferences have changed since last year

Data from the 2018 report* showed that cybersecurity was the most sought after digital skill with 20% of small businesses saying they wanted to acquire this skill. The data in figure 25 indicates that this has translated into action with six in ten small businesses now indicating that they have adopted cybersecurity skills, however many more businesses are able to do essential cybersecurity tasks online *(see page 14)* without formally recognising the cybersecurity skills their business has.

This year small businesses have new preferences and the most sought after digital skills are 'social media and marketing expertise' as well as 'digital technology and infrastructure' therefore next year, the data may show small businesses benefiting from greater development in these areas.

Small businesses lacking Essential Digital Skills are more than twice as likely to cease trading by 2021

The Essential Digital Skills chapter *(pages 12-15)* showed that 56% of small businesses can do all six skills. The data in figure 24 shows that almost one in ten small businesses without all six Essential Digital Skills plan to close their business within the next two years. They are almost two and half times more likely to be shutting down compared to those with all six skills. Digital skills alone do not determine a businesses future but they are one important factor.

The data also shows that digitally skilled businesses are significantly more likely to have aspirational plans for their business including; acquiring other businesses, diversifying, growing, and becoming more productive *(appendix 29)*.

The snowball effect of digital skills

Data from this report shows that the more digitally skilled businesses have a greater appetite to gain new skills. For example, 19% of small businesses that have all six Essential Digital Skills say they have plans to acquire e-commerce specialists within the next two years compared to only eight percent of those with two to five skills and two percent of those with zero or one skill *(appendix 30)*. This is true for almost all of the listed skills in figure 25.

Figure 24. **Small business direction over the next two years, split by number of Essential Digital Skills the business has, 2019**

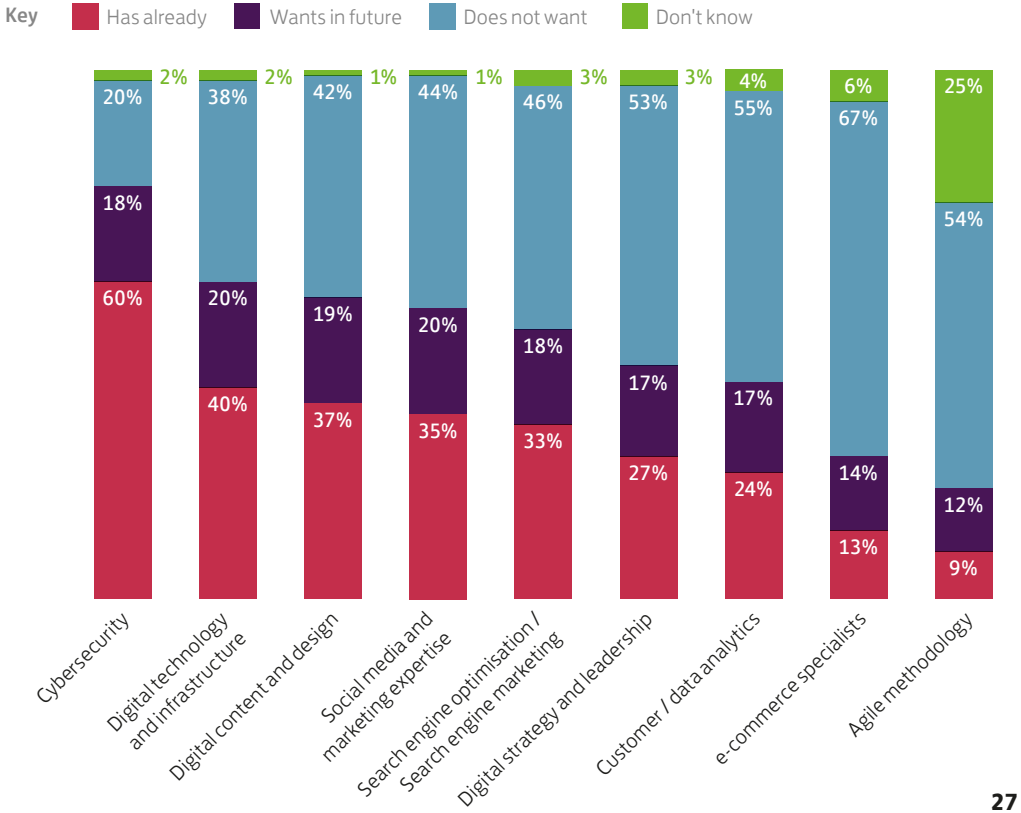
N = 1,517

Closing the business	0 to 5	6
No	91%	96%
Yes	9%	4%

Agile methodology skills are the least understood, including among the most digitally skilled. 30% of small businesses with all six Essential Digital Skills say they don't know whether they want this for their organisation *(appendix 30)*

Figure 25. **Proportion of small businesses and their plans to adopt new digital skills, 2019**

N = 1,517



*Lloyds Bank Business and Charity Digital Index, 2018, resources.lloydsbank.com/businessdigitalindex/

The Green Room Nursery

@Green_Room_Nursery

greenroomnursery.co.uk

The Green Room Nursery, a family-run business in Newmarket, Suffolk, has been running for over 30 years providing childcare to hundreds of families across the region. A few years ago, a family illness led to the closure of the nursery two days a week and the business owner Tristan, was forced to scale back the company to accommodate any care needs.

When the family were able to return to full-time opening hours, Tristan was faced with the challenge of quickly recovering a 40% drop in bookings – as well as needing to think differently about promoting the nursery and being in touch with the way people were communicating.

Speaking to the parents at the nursery, the story time and time again was that they were 'the best kept secret in the area' and 'there's no point in being the best, unless people know you're there'. Tristan realised becoming more digital was the only option for the business to thrive once again.

Tristan's best friend is a graphic designer and helped to set up a basic website so there was an online point of contact for potential new clients, as the first step to becoming more digital. With the help of another family member, an Instagram account was created to contribute to the businesses digital footprint. The platform helps to engage the children during the day and provides a unique way for parents and carers to see daily photos and videos, so they can keep close to their children and watch their adventures unfold.

As a result, the nursery has increased their local exposure and have attracted new customers, seeing a 12% increase in bookings in the first term and expect to see up to a 25% increase by Easter next year. Tristan expects the nursery to be completely full in three years' time, with a waiting list.

The online activity goes beyond social media, as Tristan can operate the business from the comfort of his own phone, or his home. Tristan has seen real benefits to his wellbeing, and the ability to work whilst on the move has improved his work life balance. The nursery is also reaping the rewards as Tristan can concentrate on the children during the day, and take care of the admin when it suits him. Parents have commented on how brilliant the quality of care is as a result.

Digital has enabled the business to access the council portal to claim up to 30 hours of funding for each child. Without being online, they would not be aware of the funding streams available, and without receiving the grants, sustaining the business would have been almost impossible. The Nursery is also able to keep up with competitors from a training perspective too. Sophie, one of the staff, has now enrolled onto a Level 3 NVQ in childcare course, improving her own skills and is sharing the learnings back in the business – Tristan has claimed 75% of funding for the course online.

In the future, Tristan wants to use digital channels as a way to continuously improve the productivity of the business. Now aware of online tools like the Lloyds Bank Academy, the team will continue to learn when it suits. They hope this will enable them to keep the business productive, but also grow their ability to use tech for child education and interaction.

Calls to Action

Created in partnership with

be the business

Be the Business is an independent, not-for-profit organisation aiming to help every firm in the country improve their own performance, and the performance of those they work with. Lloyds Banking Group is working in partnership with Be the Business to help companies across the UK to improve their productivity and boost their performance.

1. Convert digital understanding to adoption

Collective action is needed to inspire and influence small businesses to understand the benefits digital can unlock and the steps they can take to get there. Clarity and consistency of messaging from industry and government is essential to ensure businesses can identify the relevance of digital to their business performance.

This remains an area to build on from 2018. There must be clear communication around the benefits of investing in the right technology and how businesses can identify and undertake credible training.

Firms seeking to identify areas of potential improvement should be encouraged to benchmark themselves against best practice. Be the Business has developed a benchmarking and assessment tool that enables firms to determine how their business compares to businesses of a similar size and sector.* Firms are then able to access practical examples of how similar businesses have adopted tech.

2. Trial the five key ingredients

Ensuring provision matches the digital ingredients that help a business thrive is essential. The report indicates there are five key activities that provide the digital foundations for a more productive firm.

In this years' findings it is evident that digital capability amongst small businesses is improving. However, there is still some way to go embedding digital within organisations. It's not enough to simply adopt the technology, this needs to be accompanied by culture change to ensure that employees become advocates.

For smaller firms this can be an intimidating prospect, especially if they have struggled to implement digital improvements in the past. Too many companies have undertaken the difficult process of introducing technology to their business only for them to fail to fully realise the benefits because their teams weren't prepared for the change. Even with the most advanced business technologies, people remain the key to success.

Ensuring management and employees are fully bought in and have had the right training to help them implement and indeed benefit from the technology should be at the core of the digital adoption process. Businesses could significantly benefit from demystifying how their peers succeed in embedding technology throughout their business.

3. Build on the cybersecurity foundations

Businesses have prioritised cybersecurity over the last year and have increased their capabilities and infrastructure within this area. There is an opportunity to capitalise on learnings and replicate this improvement for other skills.

Understanding the routes to market that small businesses have taken to build cybersecurity skills themselves; providers, educators and policy makers can target potential growth areas and signpost to further training and support.

Compared to other countries, fewer UK firms have implemented productivity enhancing technology.** Building on where firms have developed capability over the last year in cybersecurity, even with relatively basic technology, will hugely benefit future adoption of technology.

* app2.bethebusiness.com/dashboard

**Business Productivity Review: BEIS

Supporting Businesses with their Digital Skills

100%
of small businesses would recommend the Academy to others*

At Lloyds Banking Group we want to ensure every business is able to unlock the benefits of digital.

Using the Index research, Lloyds Bank are able to understand and define the areas where small businesses needed support. The refreshed Essential Digital Skills framework provides more detailed insight into the skills small businesses have, enabling targeted support where it is needed most. The insight has underpinned a curriculum that is delivered through Digital Knowhow Workshops (face-to-face training across the breadth of the UK) and also the new Lloyds Bank Academy offering.

Launched in November 2018, the Lloyds Bank Academy provides blended learning across a range of digital skills. Working with partners, including the Welsh Government, Lloyds Bank have created a range of new free online modules and face-to-face training specifically designed to improve the digital capability of small businesses. The training supports organisations with improving their customer reach, business efficiency and wellbeing.

Alongside the Academy, Digital Knowhow Workshops offer organisations free half-day digital skills training. Working in partnership with Google, the workshops enable small businesses to gain the expertise they need in digital marketing, international trade and data analytics. So far in 2019, we have helped over 1,000 businesses.

In 2018, the Index research revealed that small businesses with low digital capability could unlock up to an additional £84.5 billion turnover if they were to develop high digital capability. Productivity not only impacts the success of individual businesses but is also vital to the success of the UK economy. That's why Lloyds Banking Group are working with Be the Business to help companies across the UK to improve their productivity and boost their performance.

Find out more

lloydsbankacademy.com
businesswales.gov.wales/superfastbusinesswales/
learndigital.withgoogle.com/digitalgarage

ANGELA LOVERIDGE SAYS...

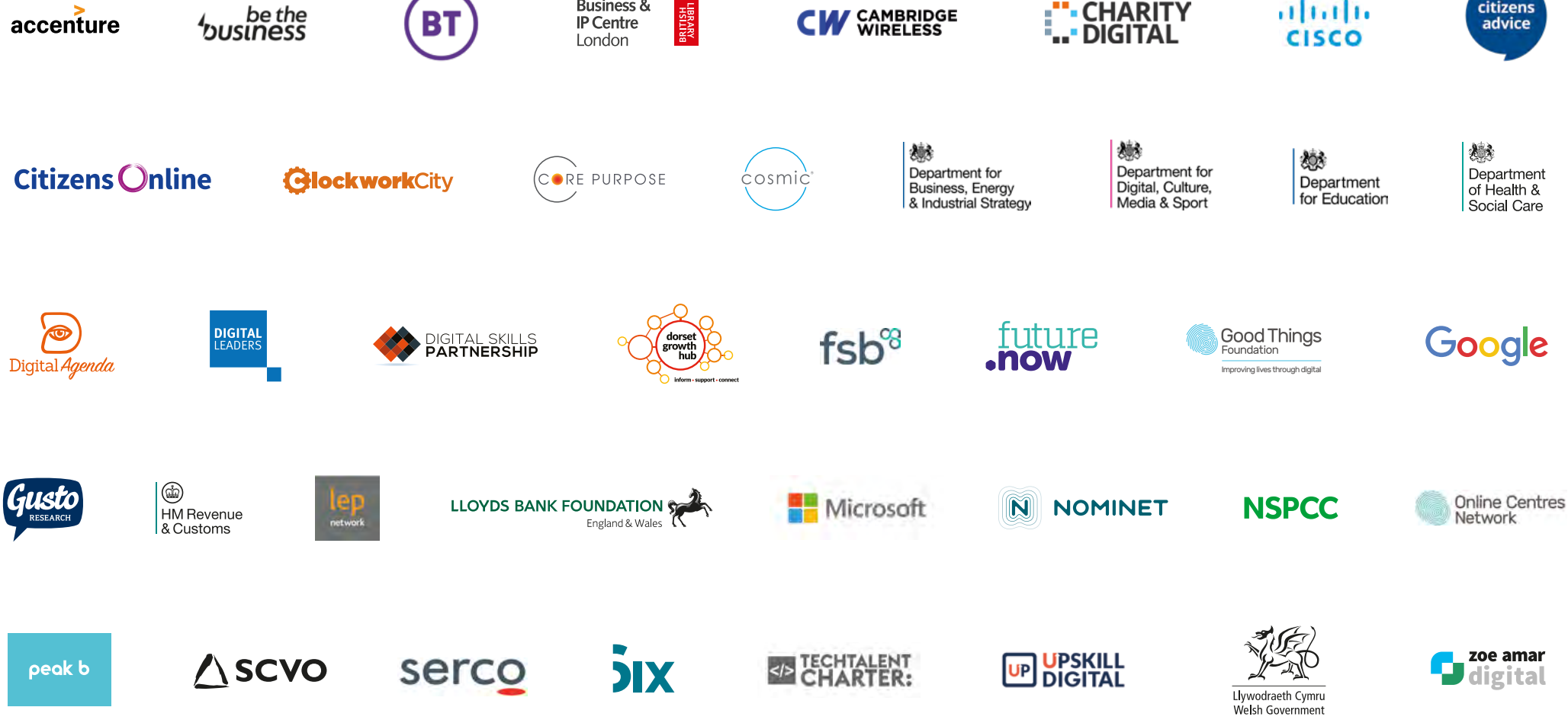
> *"I thought the courses were packed with brilliant content. I particularly enjoyed the practical focus rather than just the theory."*
>
> Founder of Better Together

JUSTIN PAUL SAYS...

> *"The sessions were absolutely invaluable for me as a marketing professional and for people who are new to marketing as well."*
>
> Marketing Director, Zeetta Networks

*Academy user survey

Thank you to our Partners



UK Business Digital Index 2019 Appendix

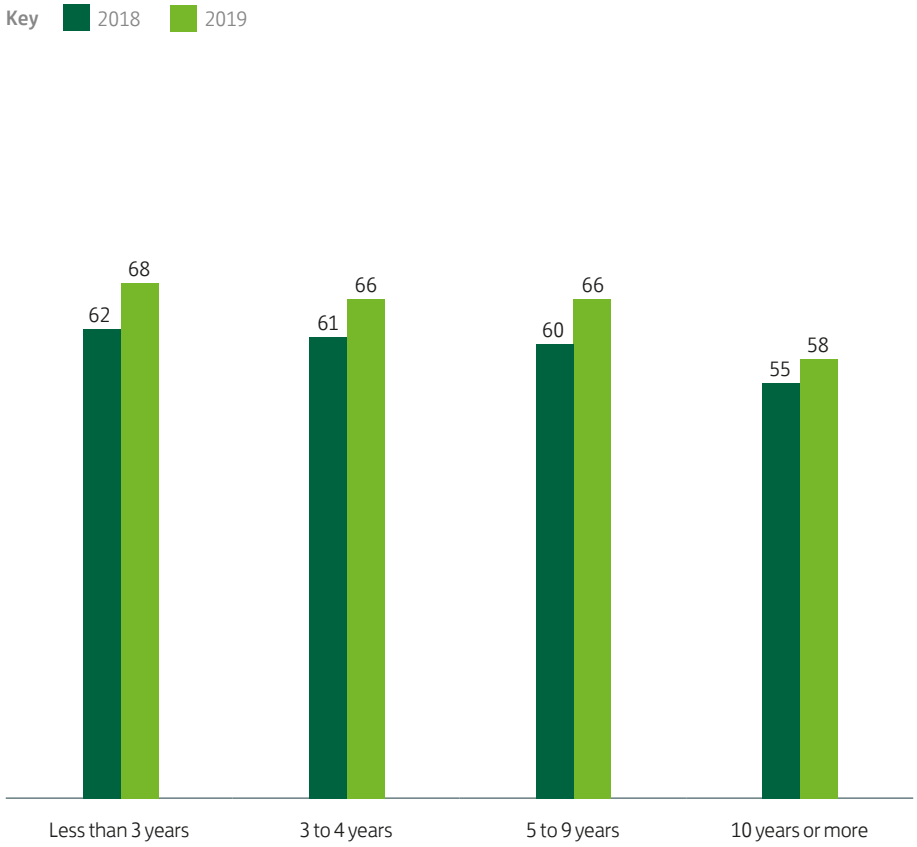
Introduction

The report contains research from over 1,500 small businesses into attitudinal behaviours and uses of digital within their organisations.

To ensure published findings are statistically robust and meaningful throughout the report, care has been taken to only reference within the body of the report those year-on-year changes that meet statistically significant criteria.

Please note that within graphs, figures have been displayed as they are, meaning that minimal differences might not be statistically significant. In addition some graphs throughout this report do not total 100% due to rounding.

Appendix 1. **Digital Index Scores for small businesses, split by age of organisation and year, 2018 and 2019** *(click to return to page 8)*



Appendix 2. **Summaries for all eight digital Index Score components, 2019** *(click to return to page 8)*

Index score definitions

Enquiries Index
This Index is the proportion of enquiries that organisations make online.

Transactions Index
This Index is the proportion of transactions the organisation makes online.

Mobile Index
An organisation scores 100 points if they have used the app three times in the reporting period, and 0 if not.

Infrastructure Index
There are two elements to this Index - using online government services and using internal digital tools. Organisations score 50 points if they have one element and 100 points for both.

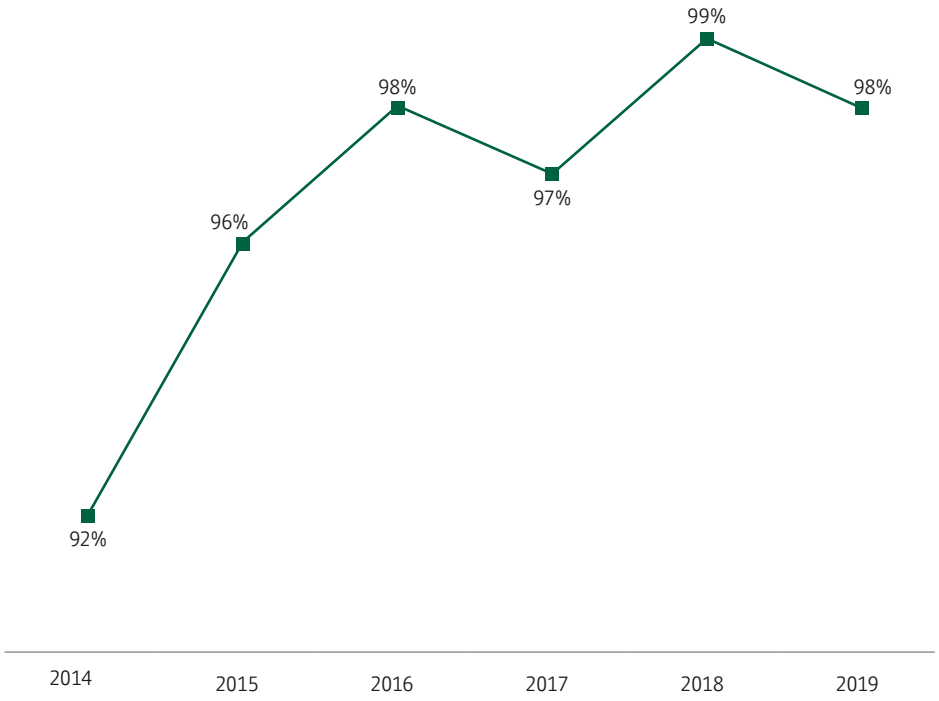
Security Index
Organisations score 100 points if they either have robust anti-hacking measures or accept payments online (which require them to be secure). If they do none of these things they score 0.

Advertising Index
There are two separate elements to this Index. Organisations score 50 points if they advertise through websites or social media and 100 points if they do both.

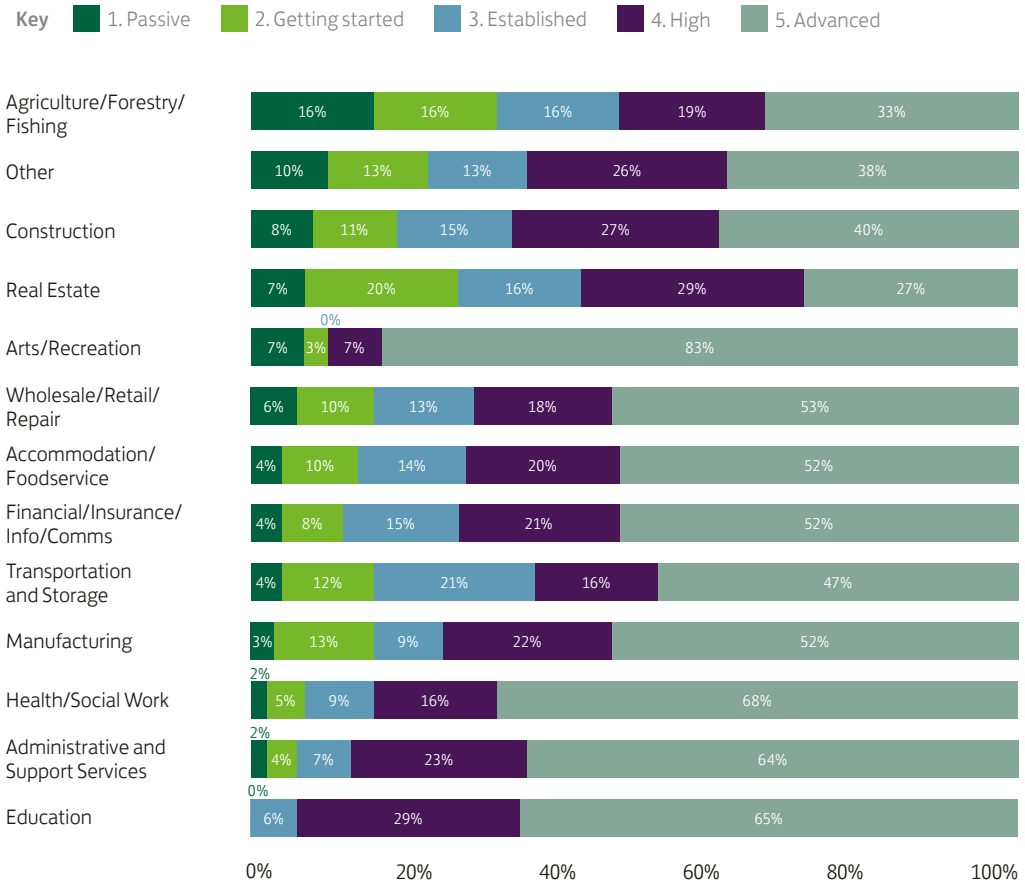
Internal Team Index
The first element is whether or not the organisation does its digital development itself, if it does they score 50 points, otherwise 0. The second element is whether they have the experience to be digital, scoring a max of 25 points. The third element is they know how to access information to become more digital, scoring a max of 25 points.

Communications Index
This Index awards 100 points if the organisation communicates via social media or email, 0 if not.

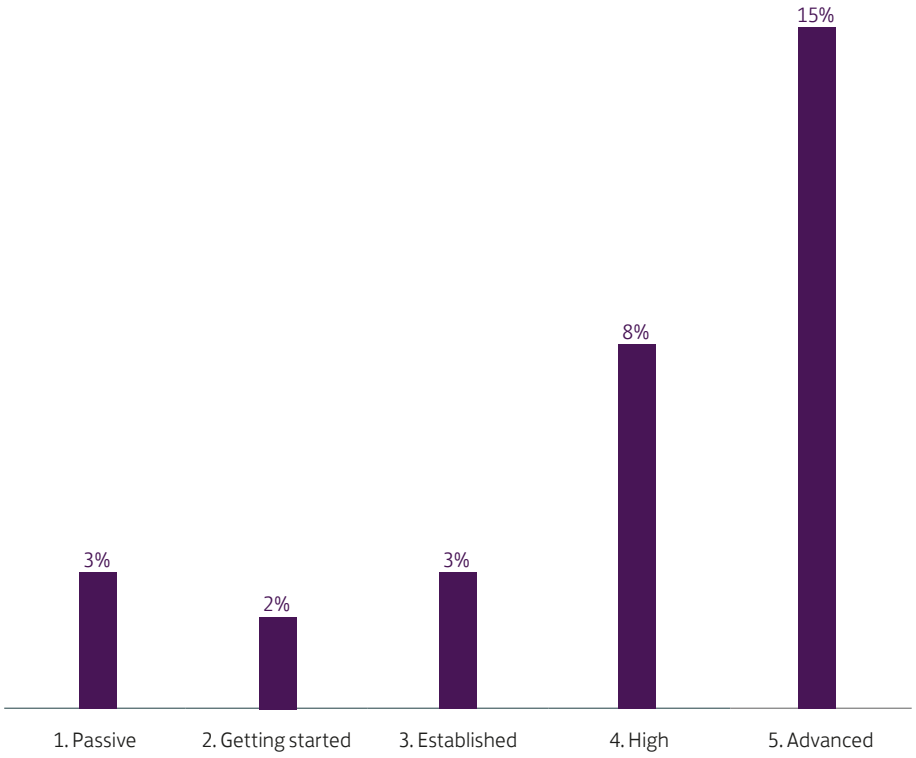
Appendix 3. **Proportion of small businesses who are online, 2014-2019** *(click to return to page 9)*



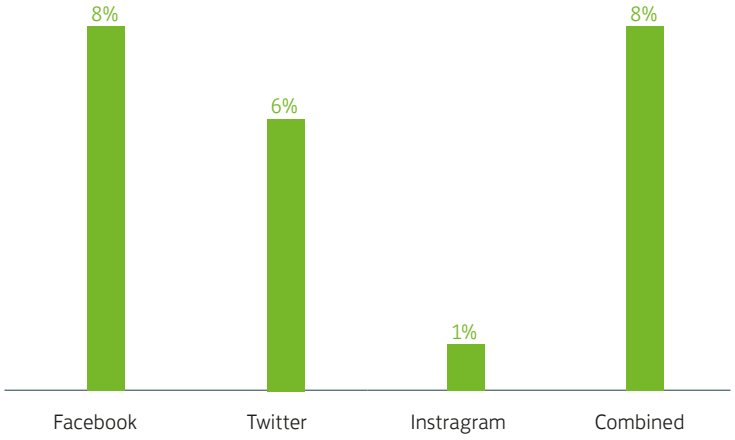
Appendix 4. **Proportion of small businesses in each sector, split by digital capability segment, 2019** *(click to return to page 9)*



Appendix 5. **Proportion of small businesses using social media platforms such as Snapchat and Pinterest, split by digital capability segment, 2019** *(click to return to page 10)*

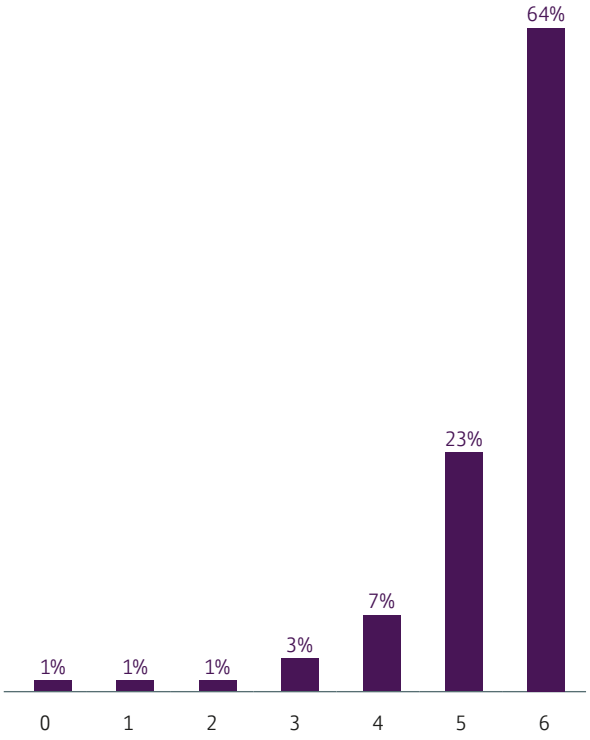


Appendix 6. **Proportion of small businesses without a website using the listed social media platforms, 2019** *(click to return to page 11)*

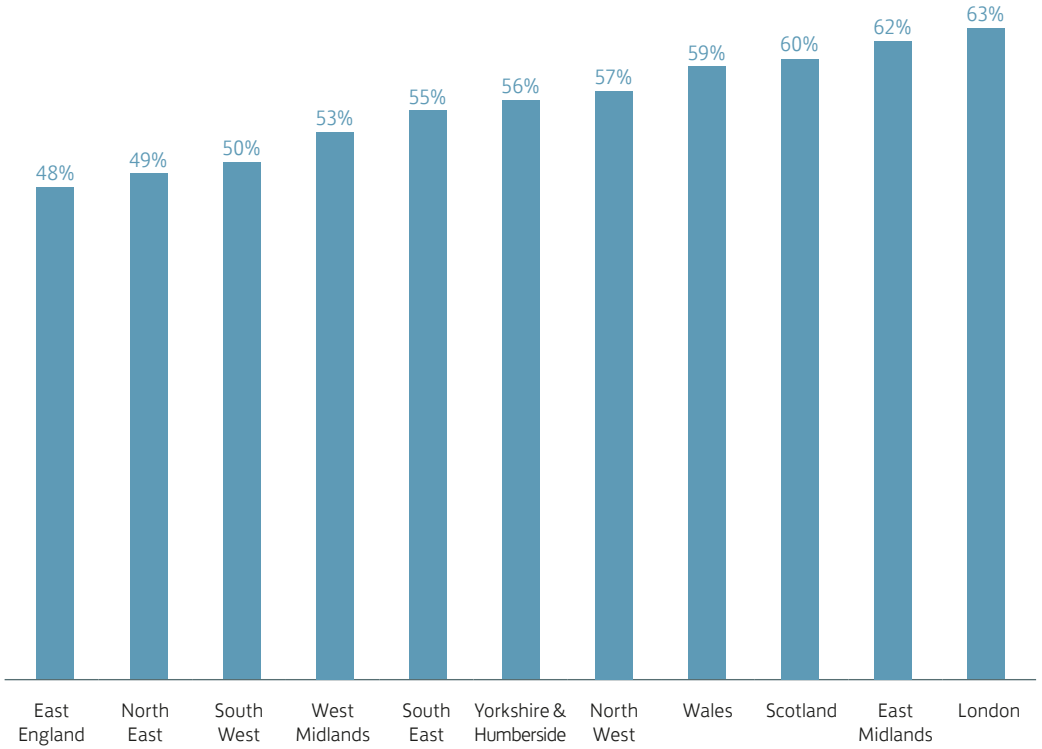


Appendix 7. **The increase in revenue for small businesses split by the number of digital channels they use, 2019** *(click to return to page 11)*

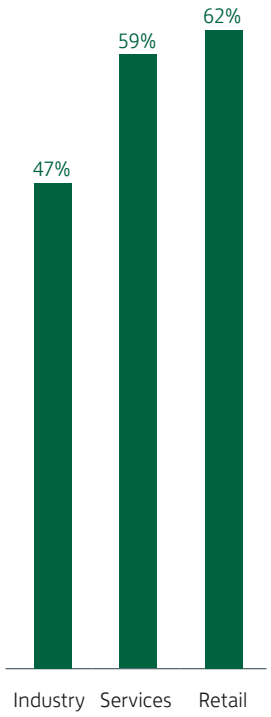
Appendix 8a. **Proportion of small businesses who have reported an increase in turnover in the past two years, split by the number of Essential Digital Skills they have, 2019** *(click to return to page 13)*



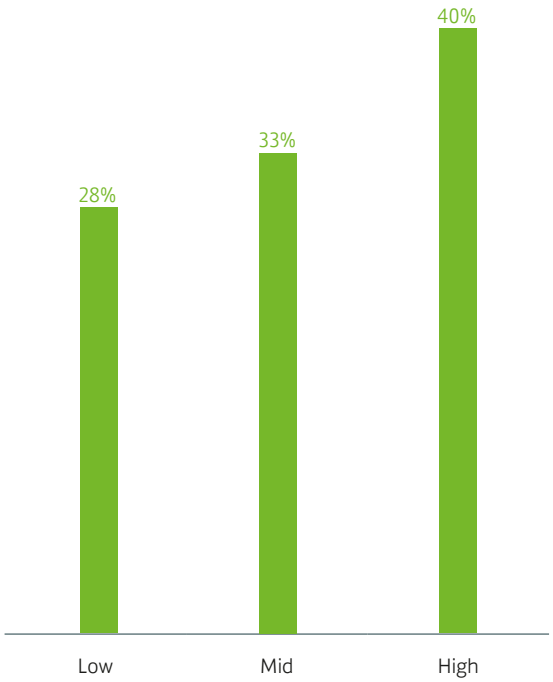
Appendix 8b. **Proportion of small businesses with all six Essential Digital Skills, split by region, 2019** *(click to return to page 13)*



Appendix 8c. **Proportion of small businesses with all six Essential Digital Skills, split by aggregated sector, 2019** *(click to return to page 13)*



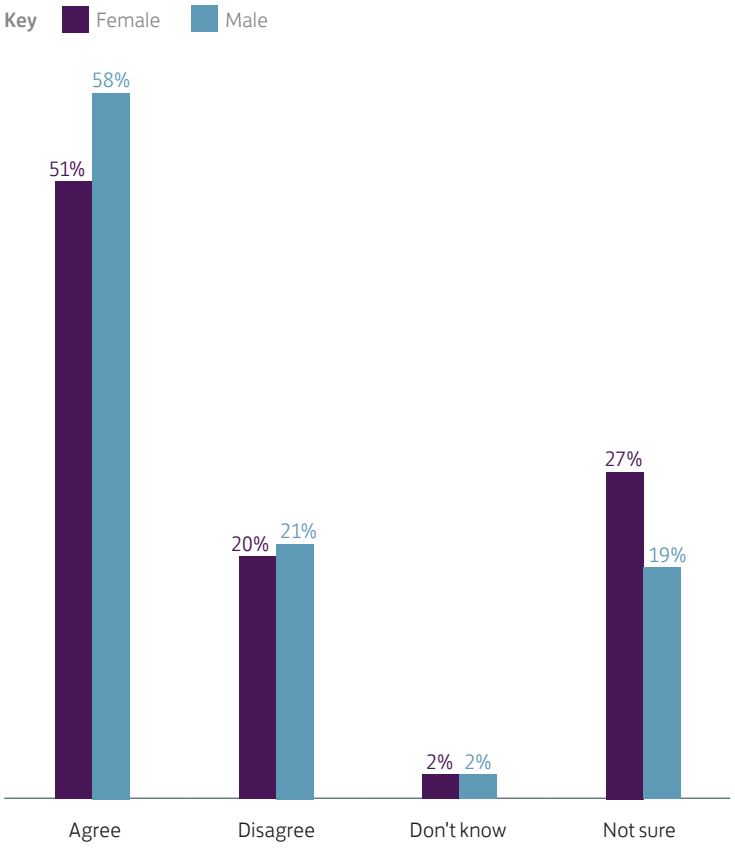
Appendix 9. **Proportion of small businesses falling into identified clusters based on the number of Essential Digital Skills tasks they are able to do, 2019** *(click to return to page 13)*



Appendix 10a. **Proportion of small businesses with overall cybersecurity skill, split by age of organisation, 2019** *(click to return to page 14)*

Appendix 10b. **Proportion of small businesses with overall cybersecurity skill, split by aggregated sector, 2019** *(click to return to page 14)*

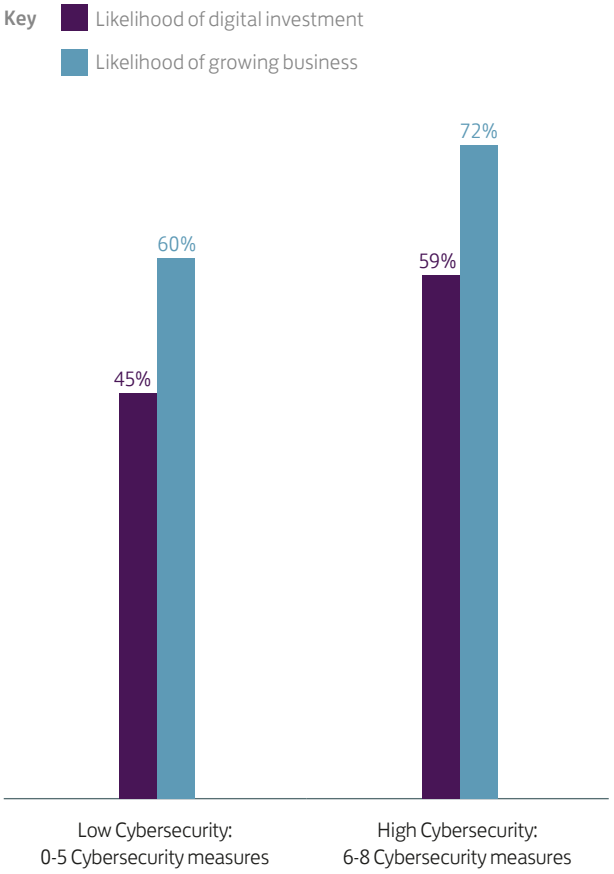
Appendix 11. **'I am confident that in a digital world I can lead my organisation to success', split by gender of digital leader, 2019** *(click to return to page 15)*



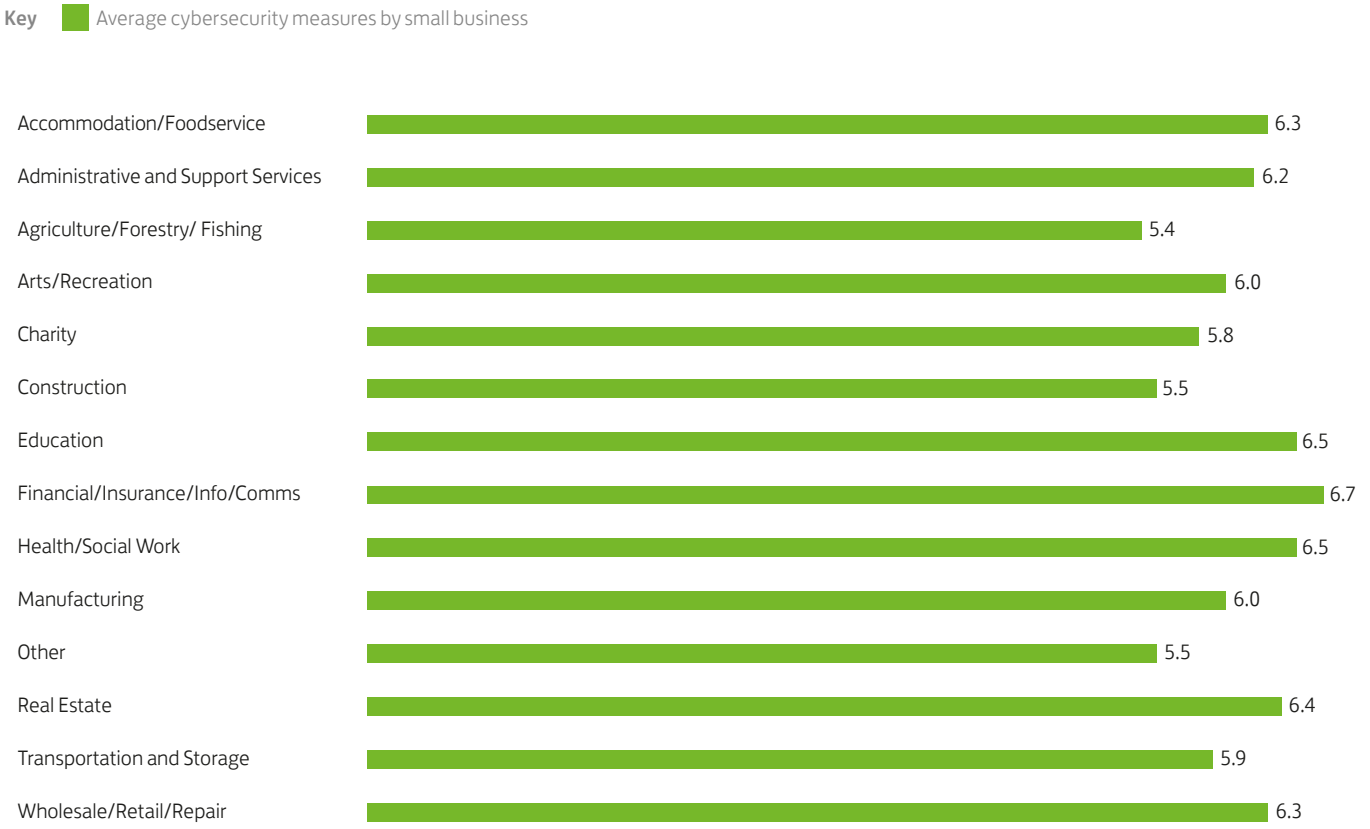
Appendix 12. **Eight measures of cybersecurity, 2019** *(click to return to page 16)*

Number	Measure
1	Back-up critical business data
2	Devices not connected to unsecured networks
3	Password policy in place reflecting best practice
4	Protected from fraud with policies and procedures
5	Software is kept up to data
6	Purchase products or services
7	Robust website security mechanism to prevent hacking
8	Secure online gateway for online purchases

Appendix 13. **Relationship between cybersecurity levels and future directions of small businesses, 2019** *(click to return to page 16)*



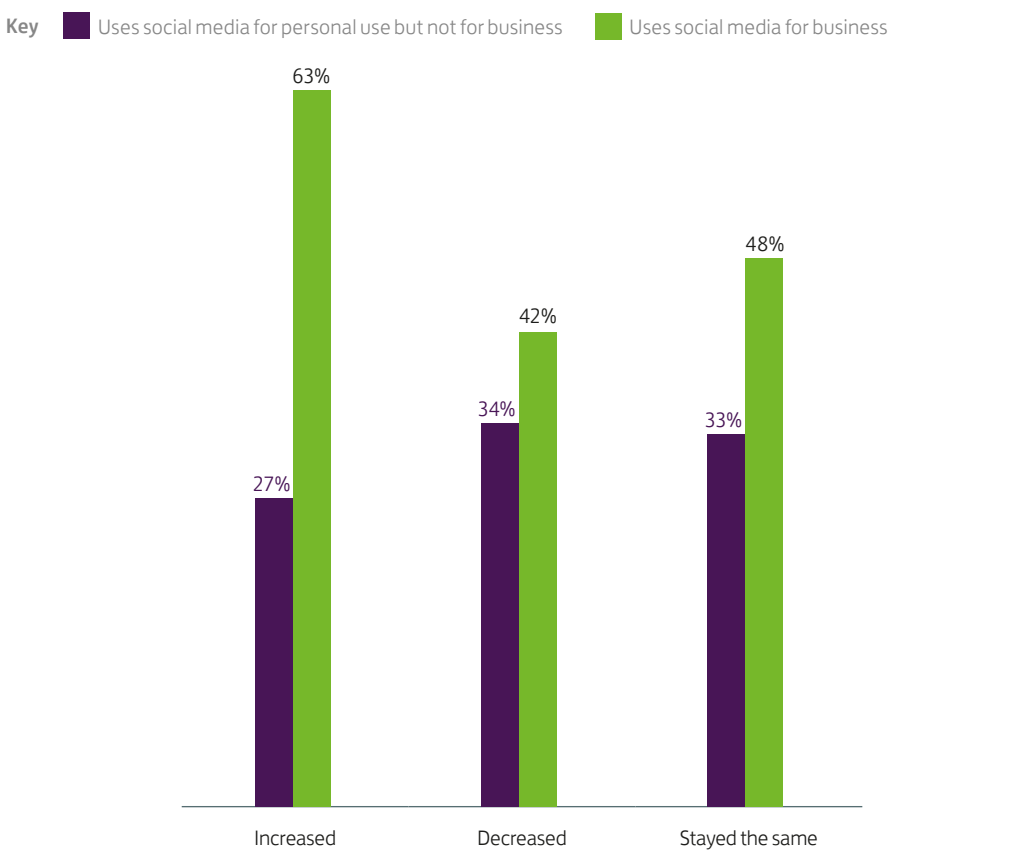
Appendix 14. **Average number of cybersecurity measures small businesses from the listed sectors have, 2019** *(click to return to page 16)*



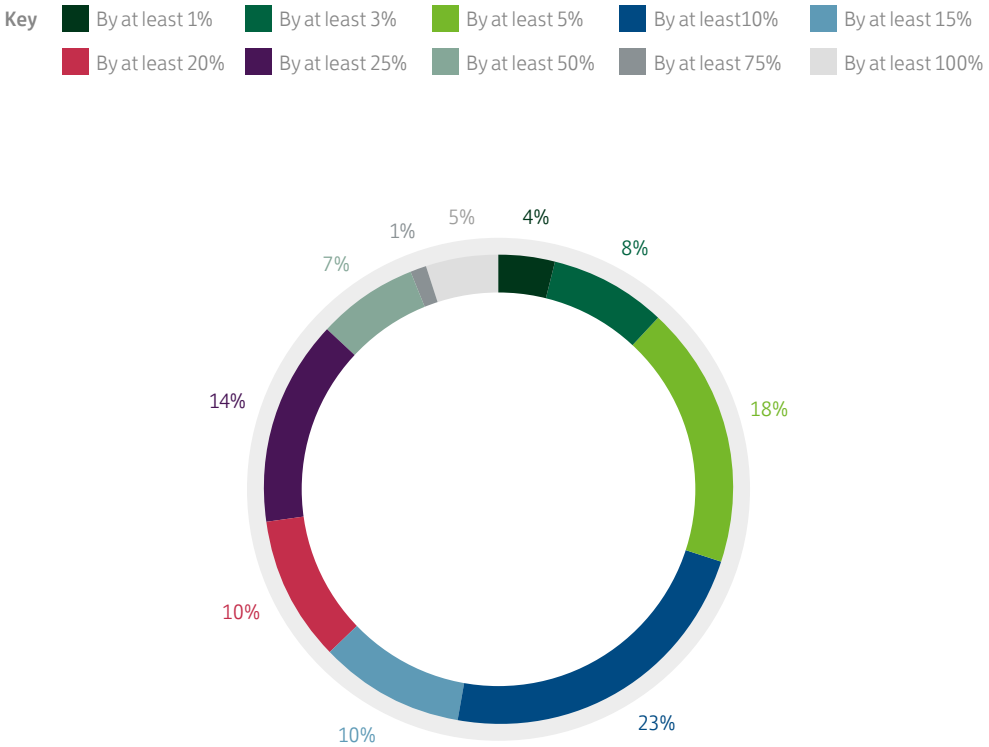
Appendix 15. **Main benefits of being online for small businesses, split by aggregated sector, 2019** *(click to return to page 17)*

	Industry	Retail	Services
Increased revenue/funding	1%	3%	2%
Organisation cost saving/saving money	1%	2%	1%
Dont know	2%	3%	2%
Learn more about your customers/donors	2%	1%	1%
No initial benefit, but expected in the future	2%	2%	1%
Wider geographic coverage/customer exposure overseas	2%	4%	4%
Lead generation	3%	5%	3%
More effective marketing by designing customized strategies based on online usage trends	3%	4%	4%
Better service experience for customers	4%	4%	6%
More efficient back office/admin systems	6%	4%	6%
No benefits to organisation	11%	8%	8%
Simplified process of taking orders/payments	12%	8%	7%
Wider geographic coverage/customer exposure in the UK	13%	26%	18%
Other	17%	14%	21%
Time saving (email/automation)	18%	12%	17%

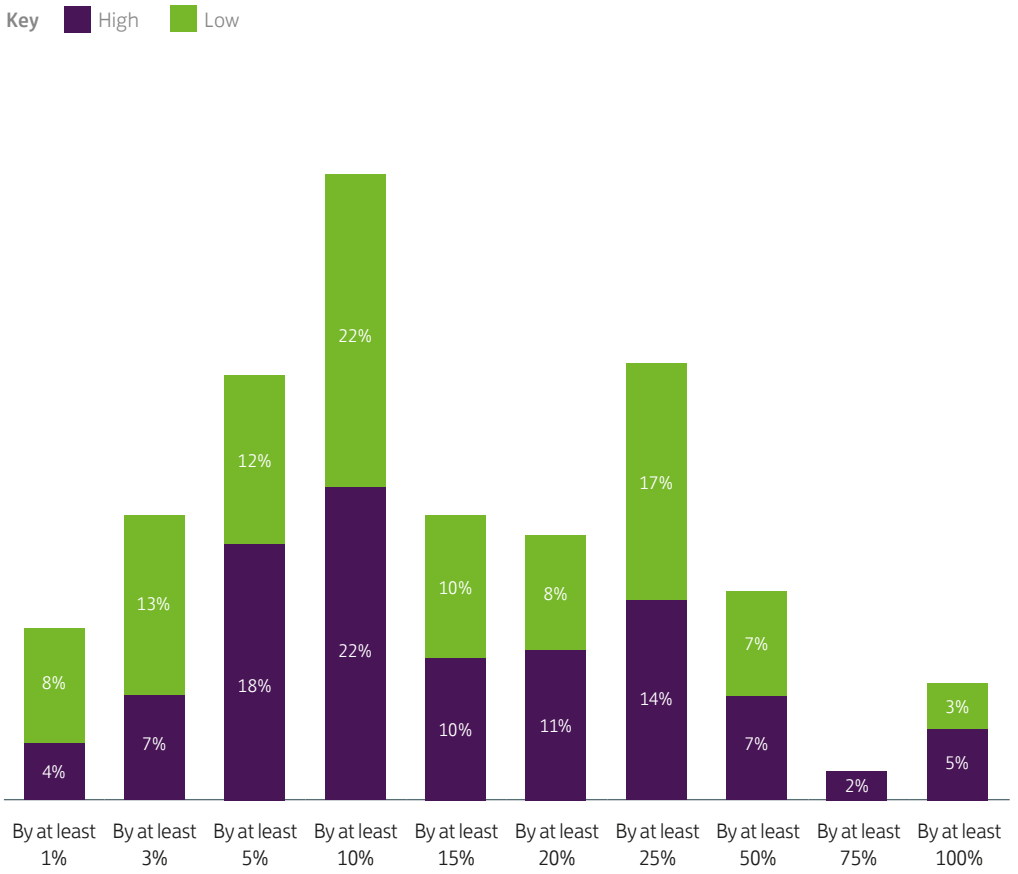
Appendix 16. **Proportion of small businesses with their change in turnover in the past two years, split by their use of social media, 2019** *(click to return to page 17)*



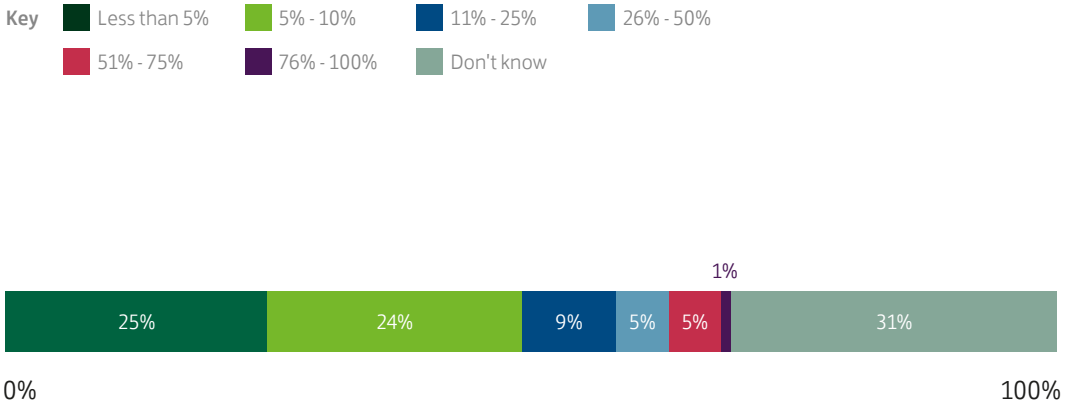
Appendix 17. **Reported percentage increase in turnover by small businesses where turnover has increased in the past two years, 2019** *(click to return to page 19)*



Appendix 18. **Reported percentage increase in turnover by small businesses, split by level of digital capability, 2019** *(click to return to page 19)*



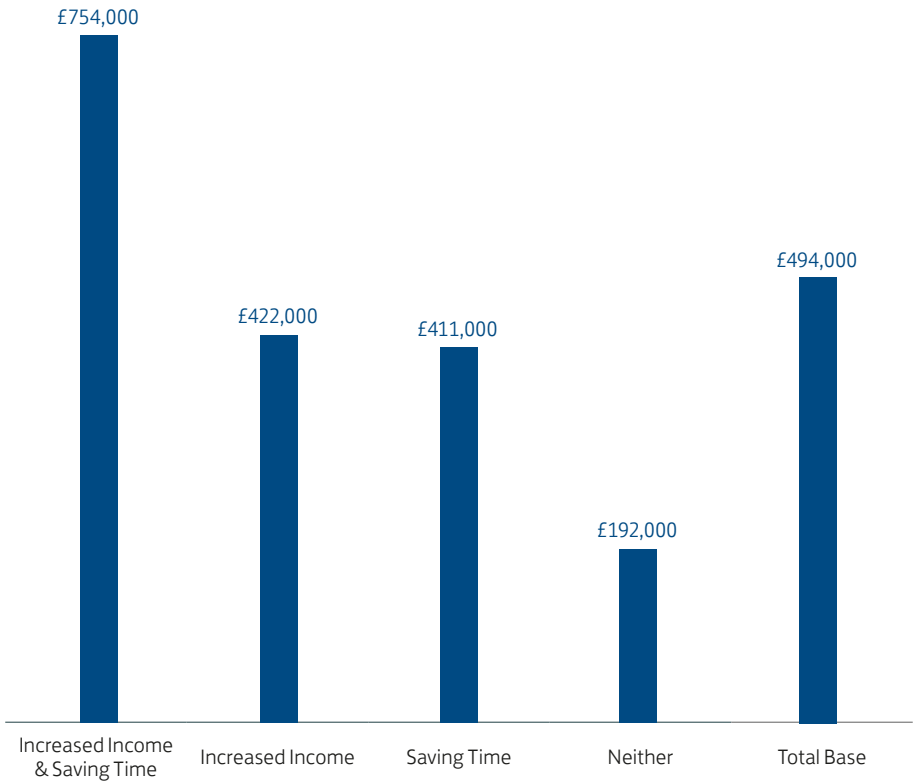
Appendix 19. **Reported cost savings through small business' use of digital channels, 2019** *(click to return to page 19)*



Appendix 20. **Average time saved by small businesses, 2019** *(click to return to page 19)*

Median time saved per working week	20%
Working hours in week saved	7
Working hours in year saved	365

Appendix 21. **Average annual small business turnover, split by listed groups, 2019** *(click to return to page 20)*

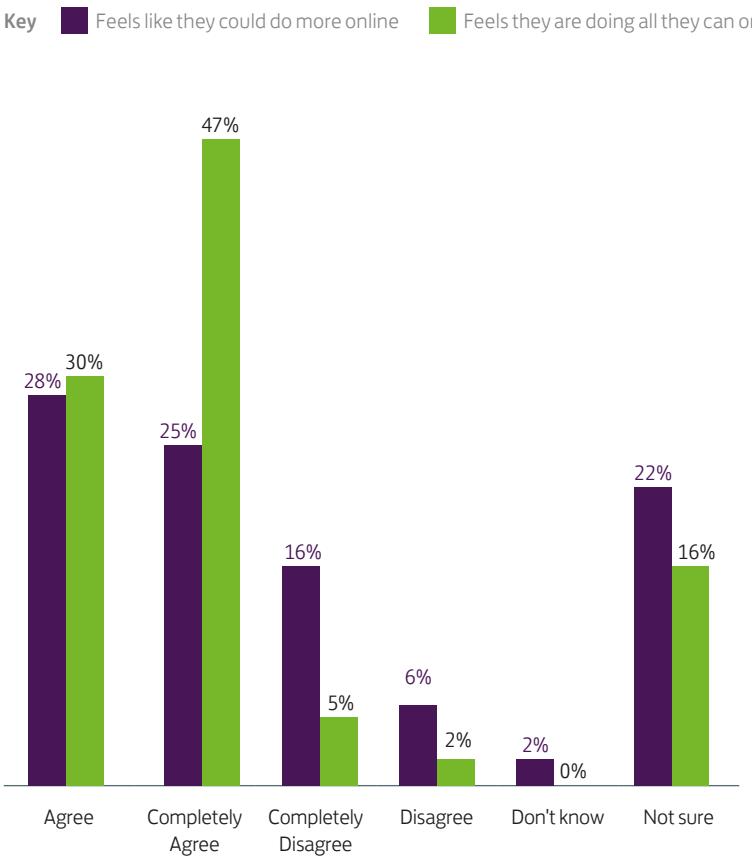


Appendix 22. **Proportion of small businesses reporting doing or having the listed digital activities, 2019** *(click to return to page 20)*

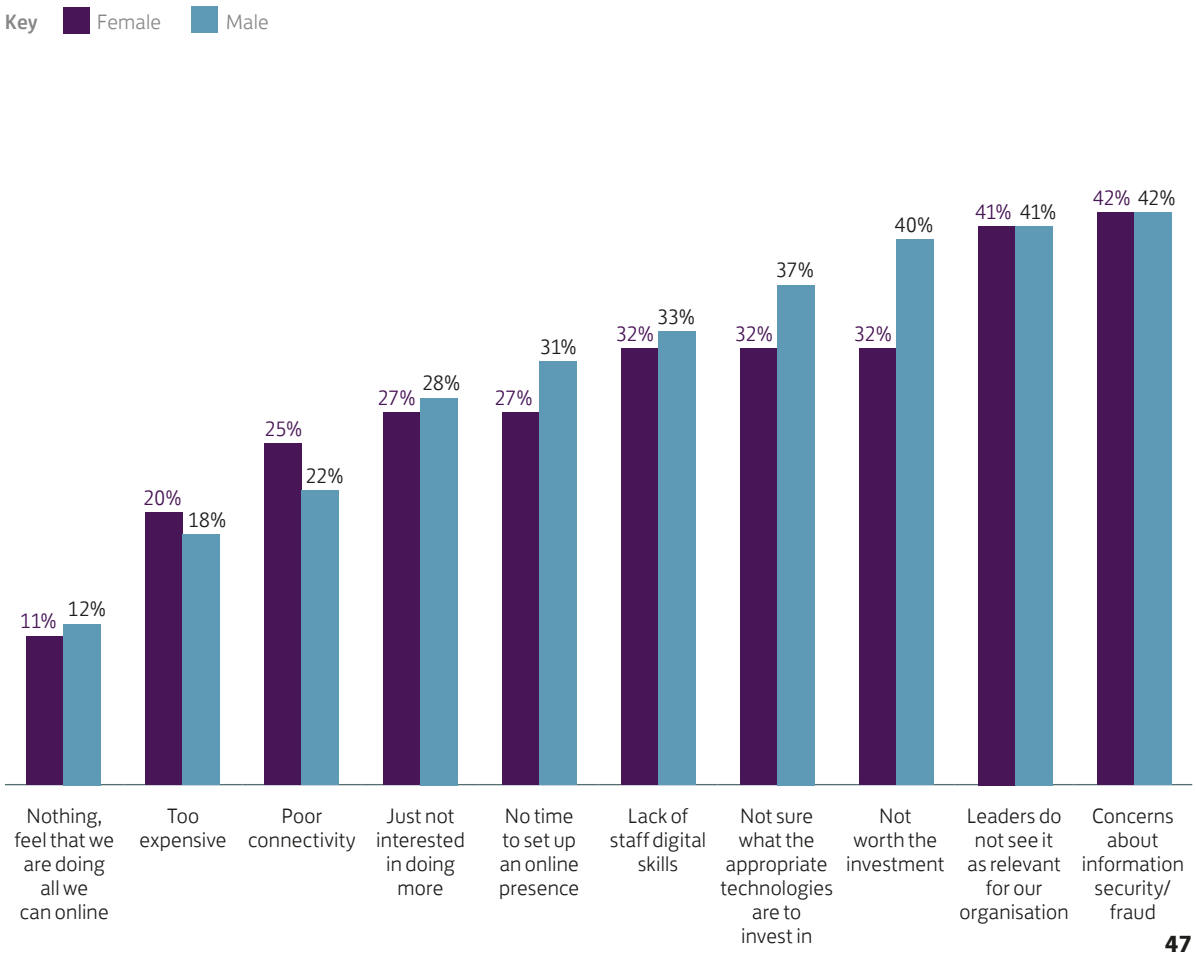
	Income & Time	Total Base
Use Internet Banking	96%	87%
Internet Banking	95%	85%
Use government services e.g. Companies House and HMRC (VAT tax returns)	89%	80%
Use mobile to do business on the move	86%	75%
Make payments to suppliers	87%	75%
Create and maintain an informational or e-commerce website	78%	68%
Improving efficiency with current resources (productivity)	79%	66%
Manage your invoices and accounts digitally	75%	66%
Provide information/advertising and promotion through web pages	77%	65%
Organisation website	77%	65%
Receive online payments or donations	75%	65%
Offer own organisation website	77%	65%
Create content (images, logos, copy) to promote your organisation	74%	63%
Utilise technology such as video-conferencing to reduce costs and increase efficiency	72%	60%
Use software to collaborate	71%	59%
Create social media communities to engage with customers	69%	59%
Use online channels to attract customers	70%	59%
Basic information about the business	71%	58%
Growing business/charity	78%	58%
Organisation Facebook page	69%	57%
Using data to improve products and services	70%	55%
Search for information on new suppliers and find the best deals	68%	54%
Communicate with suppliers and/or customers via social media	66%	53%
View products or services	67%	53%

	Income & Time	Total Base
Use the Cloud to manage information	64%	52%
Use data to improve website performance	62%	49%
Using online channels for receiving or making payments or charitable donations	62%	49%
Connected devices	60%	47%
Organisation Twitter account	60%	47%
Store digital information on suppliers and customers	55%	45%
Cloud services e.g. Accounting, HR etc.	58%	44%
Robust website security mechanism to prevent hacking	57%	44%
Make sales via online channels	54%	44%
Online accounting software	53%	42%
Cloud-based IT systems	56%	42%
Social media and marketing expertise	46%	35%
Digital training tools	42%	29%
Marketing and External Communications	42%	29%
Digital strategy and leadership	38%	27%
Mobile strategy and delivery	39%	26%
LinkedIn	36%	25%
Technology and Infrastructure e.g. back-end financial processes	35%	25%
Diversifying the business/charity	34%	25%
Mobile-optimised websites and services	33%	24%
Employee skills/training	34%	23%
Sales channels	30%	21%
Data capture and usage	29%	19%
Internal communications and employee collaborations	29%	19%

Appendix 23. **'I am confident that in a digital world I can lead my organisation to success' split by whether a small business feels they are already doing all they can online, 2019** *(click to return to page 22)*



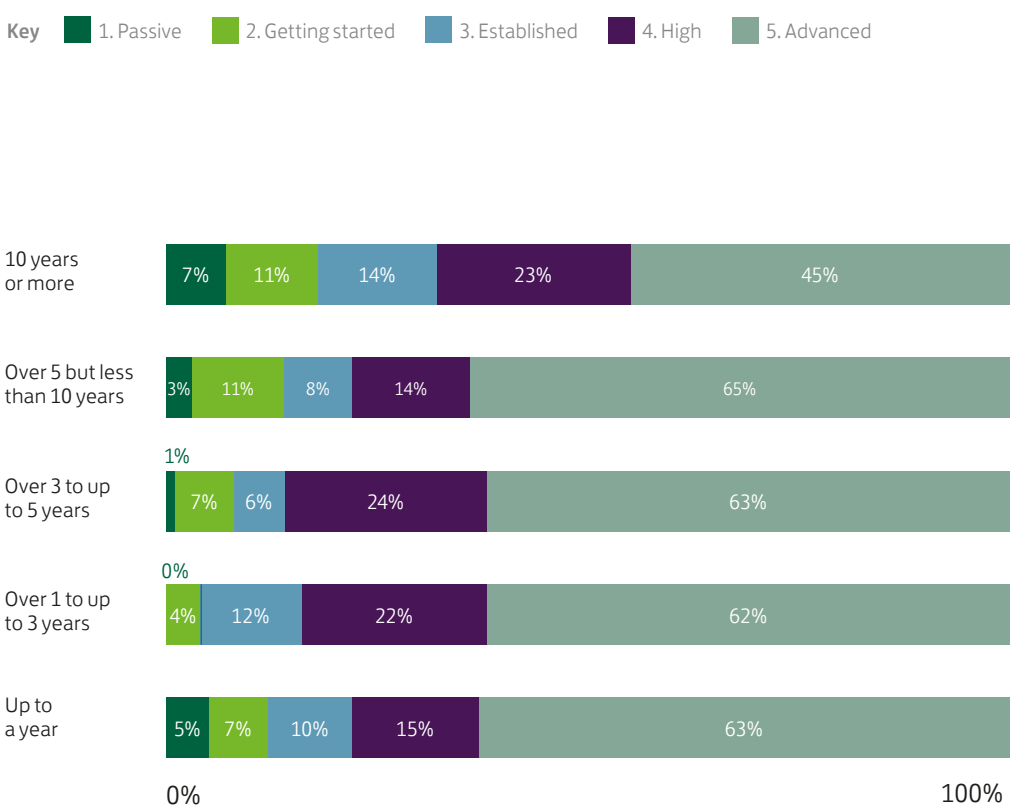
Appendix 24. **Listed reasons that have stopped small businesses doing more online, split by gender, 2019** *(click to return to page 23)*



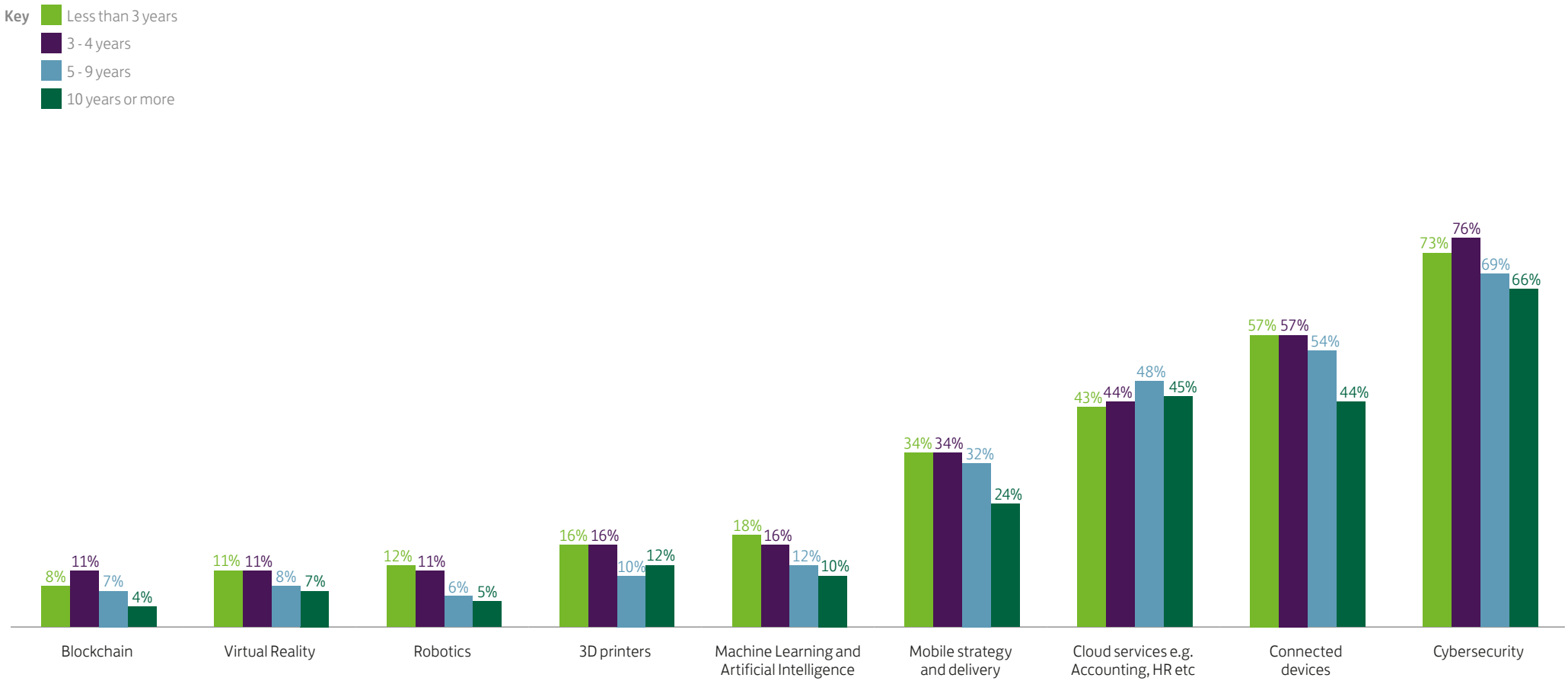
Appendix 25. **Listed reasons that have stopped small businesses doing more online, split by region, 2019** *(click to return to page 23)*

Response	East England	East Midlands	London	North East	North West	Scotland	South East	South West	Wales	West Midlands	Yorkshire & Humberside
Other	4%	3%	4%	4%	6%	4%	6%	3%	2%	3%	4%
Use word-of-mouth	4%	2%	4%	3%	2%	2%	4%	2%	2%	2%	4%
Prefer interacting face-to-face	2%	5%	3%	3%	3%	2%	2%	4%	3%	4%	3%
Nothing, feel that we are doing all we can online	12%	18%	15%	7%	12%	12%	9%	7%	8%	11%	15%
Too expensive	28%	20%	18%	18%	21%	11%	18%	16%	22%	18%	14%
Just not interested in going online	29%	23%	22%	36%	26%	27%	26%	36%	29%	30%	24%
Poor connectivity	30%	19%	16%	21%	18%	29%	19%	29%	31%	21%	19%
No time to set up and go online	31%	29%	29%	33%	27%	32%	31%	29%	34%	26%	29%
Lack of staff digital skills	31%	30%	33%	42%	28%	34%	31%	32%	38%	31%	33%
Not worth the investment	45%	39%	28%	32%	37%	34%	45%	42%	38%	37%	28%
Leaders do not see it as relevant for our organisation	44%	35%	44%	49%	38%	37%	41%	48%	41%	42%	34%
Not sure what the appropriate technologies are to invest in	38%	33%	35%	38%	38%	37%	31%	31%	41%	38%	37%
Concerns about information security/fraud	43%	30%	35%	45%	42%	42%	45%	48%	42%	48%	43%

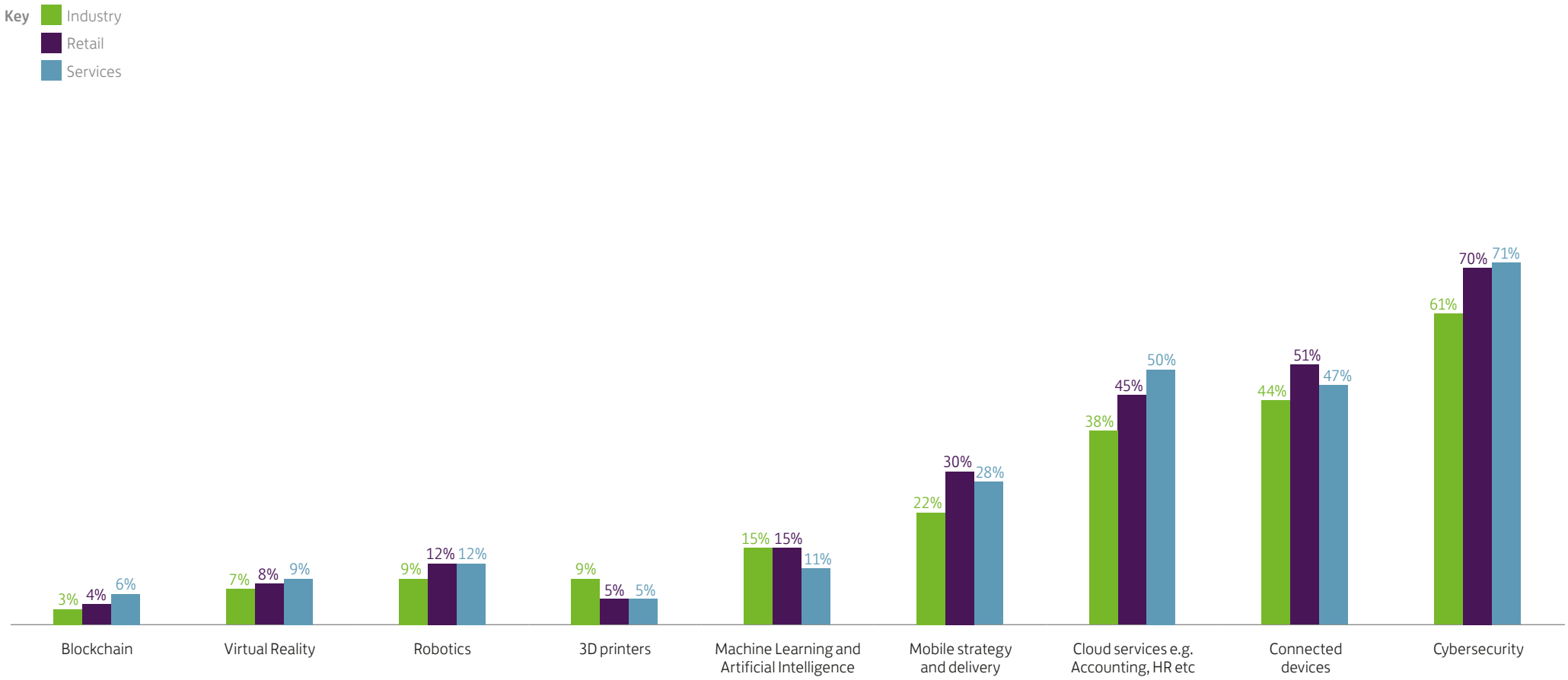
Appendix 26. **Digital capability segments, split by age of organisation, 2019** *(click to return to page 25)*



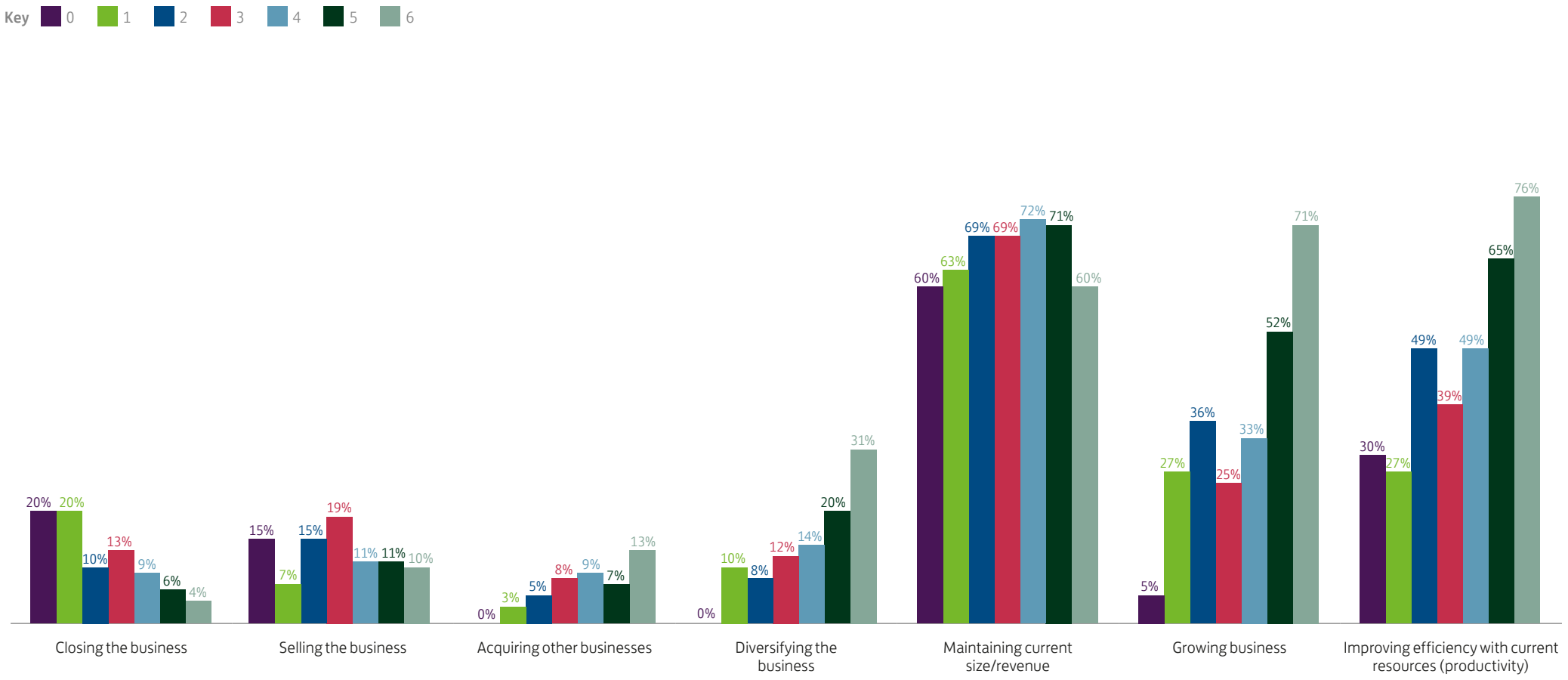
Appendix 27. **Listed technologies that are understood by small businesses, split by age of organisation, 2019** *(click to return to page 26)*



Appendix 28. **Listed technologies that are understood by small businesses, split by aggregated sector, 2019** *(click to return to page 26)*



Appendix 29. **Small business' direction, split by number of Essential Digital Skills, 2019** *(click to return to page 27)*



Appendix 30. **Listed digital skills, split by number of Essential Digital Skills, 2019** *(click to return to page 27)*

Response	0-1	2-5	6	0-1	2-5	6	0-1	2-5	6	0-1	2-5	6	0-1	2-5	6	0-1	2-5	6	0-1	2-5	6	0-1	2-5	6	0-1	2-5	6
Does not want	86%	70%	40%	92%	74%	40%	86%	29%	9%	94%	65%	23%	90%	71%	38%	92%	58%	21%	92%	80%	55%	86%	65%	29%	90%	62%	27%
Don't Know	12%	20%	30%	4%	4%	3%	4%	2%	1%	4%	2%	1%	6%	3%	3%	4%	2%	2%	6%	7%	6%	6%	3%	2%	4%	1%	0%
Has already	0%	2%	14%	0%	11%	35%	2%	50%	71%	0%	17%	54%	2%	12%	39%	0%	21%	55%	0%	5%	20%	6%	17%	47%	0%	19%	49%
Wants in future	2%	8%	16%	4%	11%	22%	8%	19%	19%	2%	16%	22%	2%	14%	21%	4%	19%	22%	2%	8%	19%	2%	16%	21%	6%	18%	23%
	Agile methodology			Customer/data analytics			Cybersecurity			Digital content and design			Digital strategy and leadership			Digital Technology and Infrastructure			e-commerce specialists			Search engine optimisation / Search engine marketing			Social media and marketing expertise		

Appendix 31. **Small business' turnover split by whether they can do all, most or none of the following tasks, 2019** *(click to return to page 20)*

Cloud-based IT systems, online accounting software, digital training tools	2019	2018
All/most of these skills	£388,000	£236,000
None of these skills	£125,600	£133,000
Difference	£262,400	£103,000

Appendix 32. **Survey respondent sample sizes per region, 2019** *(click to return to page 9)*

Region	Respondent Volume
East England	170
East Midlands	141
London	114
North East	105
North West	117
Scotland	125
South East	159
South West	170
Wales	120
West Midlands	125
Yorkshire & Humberside	140

UK Business Digital Index 2019

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- Please get in touch at: **DigitalSkillsInclusion@lloydsbanking.com**
- For more information on the Lloyds Bank Academy please visit: **lloydsbankacademy.co.uk**
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Please contact us if you would like this information in an alternative format such as Braille, large print or audio CD.

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

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Lloyds Bank plc Registered Office: 25 Gresham Street, London EC2V 7HN. Registered in England and Wales no. 2065. Telephone: 0207 626 1500.

Written by Alex Caceres, Alex Owen, Jo Boosey and Jemma Waters.

Issue date: November 2019