

## **Written evidence submitted by Be the Business**

Be the Business is an independent charity chaired by Sir Charlie Mayfield and led by Chief Executive Anthony Impey and backed by some of the UK's leading businesses, with the aim of closing the UK's productivity gap. Be the Business is building a movement of large and small businesses that want to improve their performance and share their experiences to help others do the same.

Be the Business provides inspiration, practical tools and free resources for businesses to identify opportunities for improvement and develop proven approaches to boost their productivity through expert analysis and advice from the business community.

### **Introduction**

Be the Business welcomes the opportunity to respond to the Treasury Select Committee inquiry into the economic impact of coronavirus. Throughout the COVID pandemic, Be the Business has been supporting businesses as they respond to the challenges presented by lockdown and changing customer behaviour, with a particular focus on helping businesses adopt technology to help adapt. We welcomed the confirmation from the government at the Spending Review of £50.7 million of funding for business support programmes to improve SME productivity through leadership, management and technology adoption, and will be working closely with government on the implementation of these programmes over the coming months.

Be the Business (BtB) has published two research papers on the role technology adoption can play in improving productivity for small businesses, and how SMEs have adapted to the challenges of COVID by embracing technology. This work has provided the organisation with considerable insight into the technology gap between the UK's SMEs and other comparable nations, and the barriers that are contributing to this. Be the Business are contributing to this inquiry to share this insight and highlight why technology adoption must be a priority as we look at the economic recovery from Covid-19.

### **What are the productivity challenges in the wake of the coronavirus crisis?**

The implementation of, even simple, technologies has been proven to increase businesses productivity rates. The introduction of technology such as Enterprise Resource Planning (ERP) or Customer Relationship Management (CRM) has been shown to create a productivity premium for businesses of around 25%<sup>1</sup>. This benefit across individual businesses has been estimated by the CBI to have significant cumulative potential, adding approximately £100bn of value to UK GVA<sup>2</sup>.

The UK currently underperforms other developed countries in technology adoption. This is not related to our capacity and appetite for innovation but rather the diffusion and adoption of technology; in a study by WEF<sup>3</sup> the UK ranked 8th globally for innovation but only 31st in the world and 16th in Europe for ICT adoption.

The challenge in the UK is particularly acute among smaller businesses where not only are smaller businesses less likely to adopt technology than larger UK firms, but they are significantly less likely to do so than smaller firms in other European countries. For example, while 62% of large UK firms and

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<sup>1</sup> ONS, Information and communication technology intensity and productivity, 2018

<sup>2</sup> CBI, From Ostrich to Magpie, Increasing business take up of proven ideas and technologies, 2017

<sup>3</sup> World Economic Forum, Global Competitiveness Report, 2019

68% of German large firms use CRMs, the gap is much larger amongst small (10-49) businesses: 26% to 40%<sup>4</sup>.

Technology adoption, particularly among the long tail of lower productivity firms, is one of the key causes of this productivity gap and one of the key opportunities to close it.

We have already seen that COVID has driven an unprecedented wave of both innovation and technology adoption in businesses, however, there are still hundreds of thousands of firms that have not taken part in this and could benefit as a result.

Whilst technology adoption was always an important issue, the pandemic has highlighted the benefits it can have and the need to take urgent action to help engage, support and incentivise businesses to invest in technology. Otherwise, this once in a generation opportunity to capture performance and productivity benefits is at risk of being missed.

### **How has the crisis impacted on innovation and technological development?**

Be the Business research and white papers<sup>5</sup> have shown how COVID has driven an unprecedented wave of both innovation and technology adoption. The first lockdown saw three years' worth of innovation in just three months, with over half a million businesses changing their operating model, introducing products or services, or ways of sourcing, making or delivering their offer to customers.

Fieldwork conducted by BtB into businesses' continued response to coronavirus has found that many businesses have continued to turn the crisis into an opportunity to adopt new technology. Findings included:

- Over a third of businesses have innovated, introducing new products, services or ways of working.
- Nearly 60% of businesses have adopted new tech or are considering doing so in the very near future.
- Half of firms report that they have either brought forward existing plans to adopt technology or are actively planning or have implemented solutions since the start of the pandemic<sup>6</sup>.
- This has translated into 40% of firms reporting that staff have become more comfortable with technology overall.
- Separate recent research from SAGE<sup>7</sup> shows a similar picture with 73% of businesses reporting that they have turned to technology to keep their business functioning.
- Almost half of the UK's microbusinesses would have ceased trading during the pandemic without a shift to digital. Over 1.5 million ventured online for the first time, while 2.2 million expanded their online business.<sup>8</sup>

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<sup>4</sup> OECD database, 2019 data

<sup>5</sup> The UK's Technology moment, Sept 2020, A third, a third, a third: different firm positions on recovery, Be the Business, June 2020, Available from: <https://www.bethebusiness.com/media/the-uks-technology-moment-why-2020-can-be-the-year-that-changed-our-trajectory-on-tech/>

<sup>6</sup> The UK's Technology moment, Sept 2020, A third, a third, a third: different firm positions on recovery, Be the Business, June 2020

<sup>7</sup> Investing for Recovery, SAGE, Sept 2020

<sup>8</sup> Lloyds & Be the Business Digital Index: <https://www.lloydsbank.com/assets/resource-centre/pdf/businessdigitalindexreport2020.pdf>

Back in July, when BtB looked at the response of businesses to COVID, it was found that businesses fell into three broad, evenly distributed categories: a third who had innovated or adopted new technology within the first three months of lockdown, a third who had decided to stick with their current business model and third who were undecided on whether to adopt new technology or introduce innovations, but were generally open to change, particularly if they have previously adopted innovation.

Since July the undecided group has been squeezed, with more deciding to stick with their business and model than innovate. What was roughly a third, a third, and a third in July has become, a third, a half and a sixth in October. This continued reluctance amongst a significant proportion of businesses to innovate, indicates the scale of the challenge that needs to be overcome, and the clear need for further initiatives to help businesses do so.

### **What problems could technology solve and what problems will it cause?**

As we set out above large-scale shifts in technology usage have the potential to have a major economic impact in aggregate and at an individual firm level.

Whilst there are no major problems that could be caused by the technology itself, some businesses may face challenges around the financing of new technological products. Our research has found that as a result of COVID, 44% of SMEs will struggle to fund new technology in their business<sup>9</sup>. This is one of the many barriers that small businesses face, alongside a shortage of products targeted at them, and a lack of expertise in owners and digital skills from staff to make adopting and switching to new technology seem plausible.

Likewise, technology suppliers also have to contend with barriers that prevent them serving the SME segment effectively. With many suppliers being global businesses, serving SMEs does not always fit into the economics of product development, the costs of customer acquisition are too high, with small ticket sales challenging their service model.

Be the Business welcomed the latest £50.7 million of funding for business support programmes to improve SME productivity including through technology adoption, announced at the Spending Review. In addition to this we believe there are further long term actions that must be undertaken across industry, suppliers, and Government to deliver the vital shift needed in SME behaviour:

#### *Government actions*

- **Accelerate adoption through government incentives.** While there is an appetite and openness to technology, the decision to invest funds at a time of high risk is difficult. The Government should utilise or extend existing tax vehicles to incentivise this investment.
- **Make technology adoption the flagship endeavour of the Business Support ecosystem.** The Government has the opportunity to reform the business support ecosystem and put technology and innovation at the heart of that reform. In short, regions are well placed to engage the demand side, crowd in the improved supply side, and facilitate and incentivise faster adoption to realise local renewal and GVA growth.

#### *Industry actions*

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<sup>9</sup> The UK's Technology moment, Sept 2020, A third, a third, a third: different firm positions on recovery, Be the Business, June 2020

- **Prioritise owner/manager digital skills interventions.** Business owners and leaders need the skills and expertise to both have the confidence to invest in technology and to integrate it into their businesses and fuel adoption by end-users.
- **Rapidly create sector strategies for better sector-level adoption.** We should immediately convene sector and technology leaders to devise action plans for sector diffusion. This was done well in the manufacturing sector by Made Smarter which developed both “deep tech” solutions but also adoption programmes for firms to benefit from these technologies.
- **Make switching between technology solutions easier.** We should convene the industry to design greater data portability across platforms and technologies to make it easier for SMEs to adopt new technologies.

*Supplier actions*

- **Create a demand-side platform and advisory arm for SME technology buyers to build their confidence and capability: a “moneysavingexpert” for the technology market.** An independent source of free, on demand, tailored support for SMEs in identifying the opportunity for technology in their business and guiding them through the process of specifying, purchasing and implementing that technology in their business.

Be the Business believe these are the vital steps needed to rapidly diffuse digital systems into the fabric of businesses across the UK and removing barriers for tech adoption, ensuring that our SMEs are best equipped to recover and be resilient to future economic challenges. We remain keen to engage further as this consultation progresses.

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