

LLOYDS BANK UK BUSINESS DIGITAL INDEX 2014



Benchmarking the
digital maturity of small and
medium-sized enterprises
and charities in the UK

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FOREWORD



LLOYDS BANK

**MIGUEL-ÁNGEL
RODRÍGUEZ-SOLA**

Group Director

Digital, Marketing &
Customer Development

As Eric Schmidt and Jared Cohen said in their book, *The New Digital Age*, the internet is among the few things that humans have built that they don't fully understand. This continues to be true. The internet is evolving – we hear daily about new ways it can empower us, improve our lives and make the world a better place.

However, although online access undoubtedly provides great opportunity, it is not evenly taken up. For example, half the organisations we spoke to have no website at all and of those who do, only about a third are using it to do more than present their products and services or basic company information.

Lloyds Bank is a very proud founder partner of Go ON UK and our association has directly led to the creation of this index which, for the first time, allows us to measure the level of digital maturity of SMEs* in the UK and to demonstrate progress and areas for improvement.

The index will help thought leaders and organisations in the UK understand more about the national digital landscape, identify where the goals, set by Go ON UK, are being met and where the challenges are being most sharply felt.

The report, carried out with 1,988 of our Lloyds customers, examines how businesses and charities in the UK are exploiting digital channels to manage and grow their organisations. The new index provides a way of benchmarking digital maturity within businesses and charities across the UK, tracked on an annual basis.

Our index will evolve over time and I personally look forward to seeing the way the UK is responding to the digital challenges called out in this report.

Although the UK is one of the most digital places in Europe, it's clear we still have some way to go to meet our digital aspirations. Beyond being connected, there is a fundamental need for better exploitation of the possibilities of web-based applications and education about the benefits.

Attitudes to growth and technology play a clear part in businesses and charities turning to digital to help them thrive. We saw a strong positive correlation between businesses and charities that had more confidence in the UK economy and their own business, and their digital maturity – these organisations also saw digital as a way to grow their organisation.

In contrast, almost 30% of organisations we spoke to said that being online was not relevant to their business. Just over a third said they were already doing all they could online.

I am convinced that this index will help us all to understand how small businesses and charities in the UK are using the digital medium and how we can support them. I'd like to take this opportunity to thank our delivery partners, Accenture, who have played a crucial role in making the index a reality and have dedicated many hours to driving the analysis.

As supporters of Go ON UK we are always looking to improve the digital services we offer to our own customers, helping them better manage their businesses and lives. We want customers and the community to share in the benefits of the internet and ultimately create prosperity for the UK. We hope you enjoy reading the report and find the content useful and insightful.

* SME is defined as a business with 0–249 employees – BIS, 2013.



MARTHA LANE FOX

Chair

Go ON UK

A handwritten signature in black ink that reads "Martha Lane Fox".

In March 1989, Tim Berners-Lee, then a physicist at CERN, submitted a proposal for an information management system to his boss. "Vague, but exciting", was the feedback he received.

Twenty five years later, that system – the world wide web – has fundamentally transformed the way we communicate, work, innovate and live.

The UK is one of the world's strongest internet economies. The digital economy accounts for over 8% of GDP – greater than education or construction – and is forecast to rise to over 12% by 2016¹.

We are world leaders in e-commerce. British internet users made 129m visits to retail websites on Boxing Day 2013, up by 15% in one year – the biggest online shopping day to date². And over half of these visits were made on mobile devices³.

London is a significant digital hub, with businesses in this sector growing at a rate of 17% between 2009-2012, compared to 6% in other industries⁴. But it's not just the South-East – recent work shows there are strong digital clusters in Manchester, Middlesbrough and Aberdeen⁵.

But this report shows that the transformative power of digital is not being fully exploited by SMEs and charities in the UK. Just 18% of firms and charities allow customers to purchase products, services or make donations from their website.

Yet a third of the least digitally mature organisations claim they have the skills they need to make their business more digital. So why aren't they? Only 2% say connectivity is the main obstacle to doing more online.

The main barrier is about the perceived benefits of digital. 39% of organisations reported that they had no interest in doing more online, or it was irrelevant to them.

SMEs and charities who choose not to expand their digital offer will, over time, be left behind. It is vital, for them and for the economic health of the country, that they are supported to make the most of the opportunities offered by the web.

Go ON UK is focused on closing the digital skills gap. We want to make sure everyone – individuals, businesses, charities – can get connected and make the web work for them. We are at an early stage of the web's development and the pace of change will only increase. As Tim Berners-Lee said: "The web as I envisaged it – we have not seen it yet. The future is still so much bigger than the past."

Thanks to Lloyds Bank for their continued commitment as a founder partner of Go ON UK, and to both Lloyds Bank and Accenture for their work in producing this report.

1. BCG – The Internet Economy, March 2013
 2. Experian, December 2013
 3. IBM, December 2013
 4. Tech City, Annual Report, December 2013
 5. Niesr & Growth Intelligence – Measuring the UK's digital economy with big data.



EXECUTIVE SUMMARY

This report is based on detailed analysis of small businesses and charities^{1,2}. It looks at the use of and attitudes towards digital technologies, the benefits of using digital capabilities, and the barriers to organisations realising those benefits.

We believe this new measure of digital maturity will bring three overall benefits. Firstly, it will help policymakers and organisations themselves gain a better understanding of the digital world in which SMEs and charities are operating. Secondly, and most importantly, it will help to clarify what needs to be done to help organisations that are already on their digital journey, and those that have yet to appreciate the potential value of setting out.

Lastly, SMEs can unlock an additional £18.8bn of incremental revenue growth by optimising their use of digital technologies³.

By repeating this report annually we will provide valuable comparisons of changes in digital usage, basic online skills and perceptions over time.

ALMOST
1.5M

organisations in the UK have a high degree of digital maturity, meaning they invest significantly in digital infrastructure, training and use advanced digital security techniques.

OVER
1.9M

organisations have a medium level of digital maturity – they may have a basic social media presence, use simple e-commerce tools or carry out some but not all banking transactions online.

ALMOST
1.7M

organisations have a very low level of digital understanding and capability – many make no use of the internet at all and do not have any web or social media presence.

1. For this report, 'Charity' refers to 'Charities, Clubs and Societies'. For ease of reading, we refer to 'charities' throughout this report.

2. Clubs and Societies means any organisation, whether corporate or unincorporated and where the organisation is unincorporated consists of two or more persons.

3. Booz & Co, November 2012.

11%

of respondents say they don't use the internet.

KEY FINDINGS

Digital skills and training

A third of SMEs and charities don't have the basic online skills as defined by Go ON UK and this picture is mostly flat by region. Furthermore, 75% of SMEs and charities are not investing in improving digital skills. Paradoxically however, even one third of the least digitally mature SMEs and charities say they have the knowledge to make their organisation more digital if they wanted to.

We know from our research that only 1 in 4 organisations are actively seeking digital help in the first place. Of those seeking support, most are only looking for help with basic functions such as website maintenance or design but perhaps most worryingly 25% don't know what support they need.

Attitudes and the use of digital

The primary reason why SMEs and charities are not taking practical steps to do more online are attitudinal. Almost a third of all SMEs and charities we spoke to said being online was not relevant for their business and more believe they are already doing all they can online.

Our research shows that while connectivity is obviously a major issue for some organisations, only 2% cite lack of connectivity as a barrier to doing more online.

We also found that the internet isn't being optimised by organisations. Only half of SMEs and charities had a website and for those who do, nearly all provided company information and over three quarters provided product or service information. But after that, more sophisticated functionality is limited with only 1 in 5 allowing payments/donations from customers or donors from their site. 11% said they did not use or had no access to the internet at all.

Digital demographics and link to success

We found that digital maturity by region was relatively flat but that those regions in most need of support were Northern Ireland, Scotland and Yorkshire & Humberside. By sector there was more polarisation with charities emerging as the least digitally mature compared to those operating in the arts, education or service sectors.

Organisations with one employee appear to be significantly less digitally mature than larger organisations, especially important when you consider they make up around three quarters of SMEs in the UK. Perhaps unsurprisingly, older SMEs and charities emerged as least digitally mature compared to younger organisations.

We found there was a positive correlation between those who were most digitally mature and their confidence in both their own organisation and the UK economy as a whole. These organisations also rated themselves as out-performing their expectations.

*A charity means a body which, in England and Wales, is defined by section 1(1) of the Charities Act 2006, in Northern Ireland is defined by section 1(1) of the Charities Act (Northern Ireland) 2008 and in Scotland is defined by section 106 of the Charities and Trustee Investment (Scotland) Act 2005.

CALLS TO ACTION

Taken together, our research findings suggest that while there are many great examples of how digital is benefiting the UK's SMEs and charities, there is also much more that can be done. We have identified four specific calls to action:

01

EXPLAINING THE BENEFITS

The benefits of digital must be articulated more clearly: how can those organisations who feel digital is 'irrelevant' be persuaded to look again at the changing needs of their customers, donors and clients?

02

AVOIDING COMPLACENCY

SMEs and charities must be helped to move beyond digital basics: how can those who say they have 'done it all' be convinced that there is always something more they can do, and that maturity is an ongoing journey rather than a single step?

03

PROVIDING MORE SUPPORT

More support must be provided for the "Disconnected": how can the 11% of SMEs and charities that are currently not using online channels at all be stimulated to start doing so?

04

ENCOURAGING INNOVATION

The most innovative SMEs and charities must be supported in pushing back the digital boundaries: how can the "Innovators" be encouraged to keep innovating, and share what they have learned from being digitally mature enterprises in a way that will benefit all?

In our view, each of these challenges can only be tackled through a carefully-targeted programme of initiatives involving a wide range of stakeholders, with a shared commitment to:

- delivering better education and communication around the business case for digital
- highlighting the strong benefits and relevance of digital to all SMEs and charities – regardless of location, size or sector.

In the rest of this report, we will explore the digital maturity index in more detail, and examine the findings that we believe are of greatest interest.

INTRODUCING THE LLOYDS BANK UK BUSINESS DIGITAL INDEX

EVERY 12 MONTHS

The Index is a new research study into the digital maturity of UK's SMEs and charities. It will be repeated annually, enabling benchmarking over time.

1,988 SMEs AND CHARITIES

The research is based on an analysis of Lloyds' customer data and a comprehensive survey of 1,988 small businesses, charities, clubs and societies.

7 SEGMENTS

The initial study has revealed seven distinct segments of digital maturity across all industries.

The Lloyds Bank UK Business Digital Index benchmarks the stage of digital development of SMEs and charities (which include clubs and societies) in the UK. The index, to be produced annually, is calculated using a specially-developed methodology which is described in the next section.

Applying this methodology, we have formulated the Index referencing a 2014 digital maturity 'benchmark' score of 100. As Figure 1 shows, our analysis reveals a wide spectrum of benchmark scores ranging from 'low' to 'medium' to 'high' digital maturity, with SMEs and charities spread across seven distinct segments from 'disconnected' at the lower end to 'innovators' at the top.

Each segment is clearly-defined and has a set of specific factors and attributes influencing its approach to digital and overall digital maturity.

The chart also shows that the seven segments are relatively evenly distributed across the population, each accounting for between 12% and 17% of the SMEs and charities surveyed.

The numbers in brackets represent the total number of SMEs and charities in the UK^{1,2}, extrapolated from our research³.

At a glance, we can see that only 29% of SMEs and charities in the UK are in the high digital maturity segment. A full definition of each segment is included at the end of this section.

We have mapped each segment based on level and intensity of digital activity against the following attributes:

- Proportion of transactions conducted online
- Proportion of enquiries handled online
- Sophistication of digital infrastructure
- Implementation of online security measures
- Use of digital channels for advertising
- Usage of digital channels for communication
- Dedicated resource driving digital development.

Importantly, the Index segments identified contain different mixes of digital attributes as they move from left to right; simply doing 'more' of something is not necessarily enough to achieve a higher digital maturity score. Instead it is a question of achieving the right mix of activities to progress up the scale.

For example, mid-scale "Starters", with an average digital index score of 102 are active on social media, do proportionally more internet banking and typically have a larger budget to support digitisation. However, to grow to become "Advanced Users" they would need to demonstrate use of innovations such as cloud-based services.

In focusing on the quality rather than the quantity of activity, we believe the index presents a more robust, deeper picture.

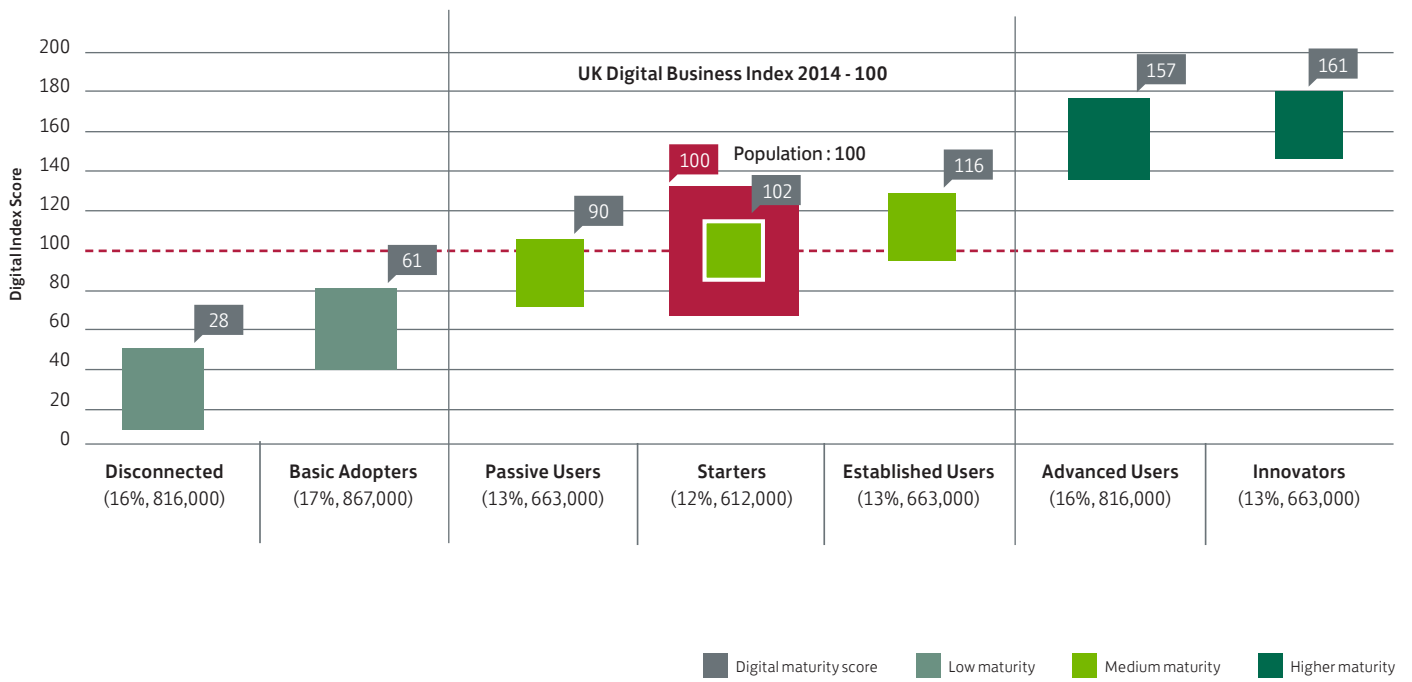
1. Source, Department of Innovation & skills (BIS) – 2013.

2. Source, UK Charity Commission – 2013 (England and Wales), Office of the Scottish Charity Regulator (Scotland) and The Charity Commission for Northern Ireland (Northern Ireland).

3. Table doesn't include the number of clubs or societies in the UK as data for these organisations doesn't exist unless they are a registered charity.

FIGURE 1

Seven discrete segments of digital maturity and their index scores.



100

UK's digital index score

DEFINITION OF SEGMENTS

Here are the different digital maturity segments and their corresponding traits.

01

DISCONNECTED

- No/minimal use of internet
- Very low on internet banking transactions.

02

BASIC ADOPTERS

- Basic enterprise website
- Low digital infrastructure.



03

PASSIVE USERS

- Intermittent use of digital channels to accept payments
- Signs up to social media, internet banking but use is sporadic.

04

STARTERS

- Presence in social media
- Large volume of internet banking transactions
- Use third party digital expertise
- Large budget allocation for digitisation.

05

ESTABLISHED USERS

- High usage of e-commerce platforms
- Spends on ICT training and development
- Social media presence.

06

ADVANCED USERS

- Usage of cloud and/or online accounting
- Seek external support for increasing digital innovation.

07

INNOVATORS

- Significant spend in digital security
- High spend for digital infrastructure and training.

RESEARCH APPROACH, METHODOLOGY AND SAMPLE

1,988

Survey of Lloyds Bank
customers

The Lloyds Bank SME Digital Maturity Index is calculated using a two-stage process:

- An analytics-driven review of anonymised internal Lloyds Banking Group data to gain an oversight of the online banking activities of customers at an aggregate level, as a proxy for the UK's SME and charity population as a whole.
- An in-depth, questionnaire-led survey of 1,988 Lloyds Bank customers¹ to reach a rounded view of their digital activities and perceptions. This data was also fully anonymised prior to analysis.

There are many possible definitions of what 'digital' actually means. For the purposes of the Index, we have agreed on a set of factors we believe best describe 'digital', and intend to carry this definition forward in future versions of the report. Applying this definition, the Index methodology involves an assessment of the digital maturity and positioning of SMEs and charities across a wide range of dimensions, including:

- Communicating online
- Having access to and using digital technologies
- Using digital internally to drive greater efficiency (e.g. online training tools)
- Robust online security, to protect customers, donors and the organisations themselves
- Running a website where customers and donors can find information
- Using online banking tools
- Possessing a range of basic online skills (as defined by Go ON UK – see definition on page 19)

- Maintaining a social media presence (e.g. use of Facebook or Twitter to interact with customers or donors)
- Positive attitudes towards being more digital
- Positive outlook for current and/or future success of the organisation in question.

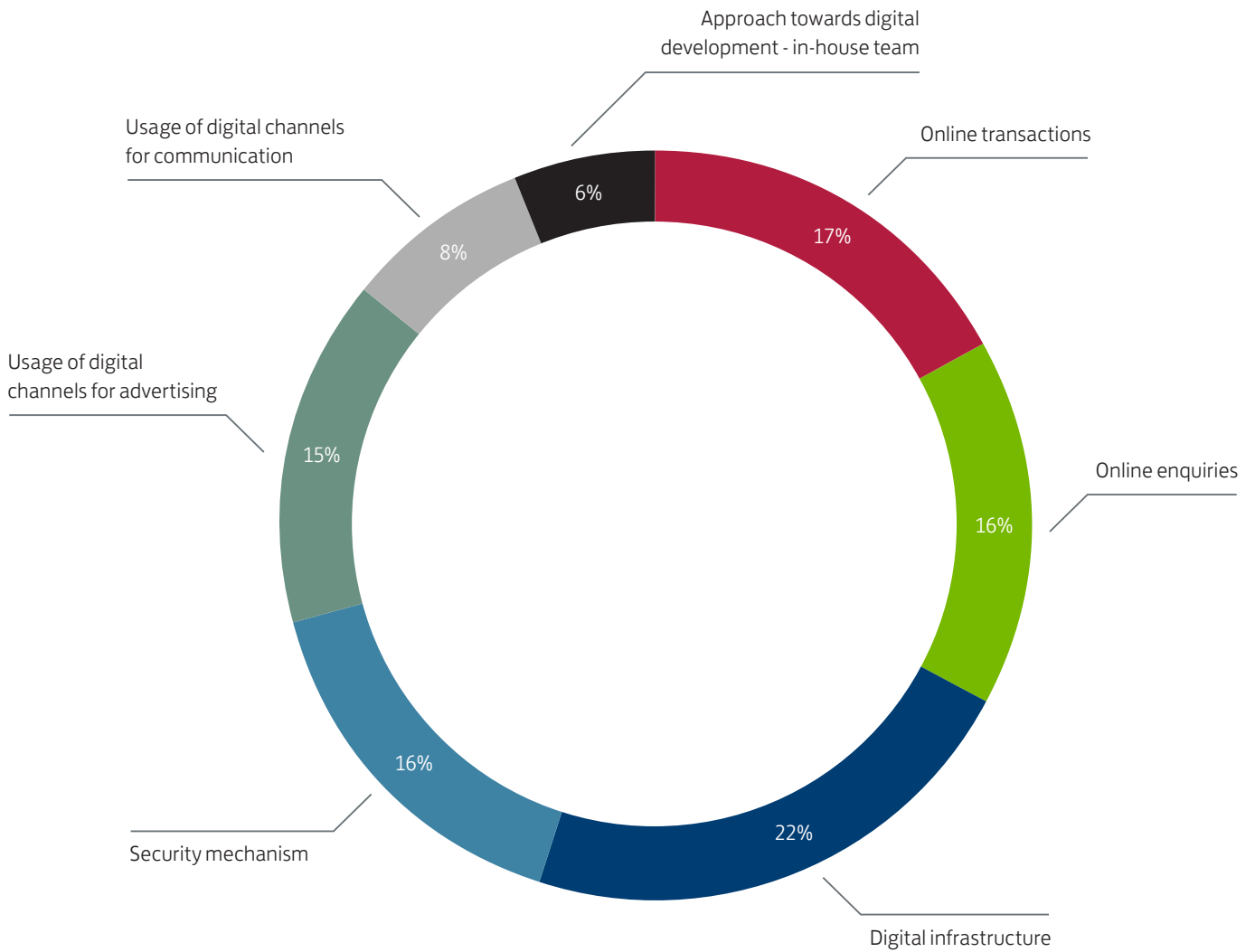
Within this approach, we have allocated different weightings to various digital activities to reflect their relative contributions to overall digital maturity. These weightings are shown in Figure 2. The percentages are generated by taking account of all these weighted variables, drawing data from both transactional and survey sources.

About 33% of the overall score is generated from Lloyds Bank's own transactional data, and the remainder from the survey responses. In subsequent editions of the Index, we will track variances to this benchmark to illustrate and track the progress of digital maturity across the UK population of SMEs and charities.

1. The survey was carried out in September 2013 with Lloyds Bank and Bank of Scotland customers.

FIGURE 2

Relative weightings attributed to different digital variables.



NOTE: for the purposes of this analysis, all firms are said to have at least one employee, equivalent to the "zero employee" classification for sole traders used by the Department of Business, Innovation and Skills (BIS) and Office of National Statistics (ONS).

FINDINGS

Digital skills and training

OVERALL 3/4 SMEs AND CHARITIES

are not allocating any budget to developing digital skills.

25% OF SMEs AND CHARITIES

who are reaching out for support remain unsure on what type of help they need.

DIGITAL SUPPORT

There is a strong reliance on friends, family, online searching and most often IT consultants for digital support.

Digitally mature SMEs and charities are more confident in their skills – and have better access to the technology they need.

As Figure 3 shows, two-thirds of the most digitally mature SMEs and charities agree they have the necessary knowledge and experience to become even more digital.

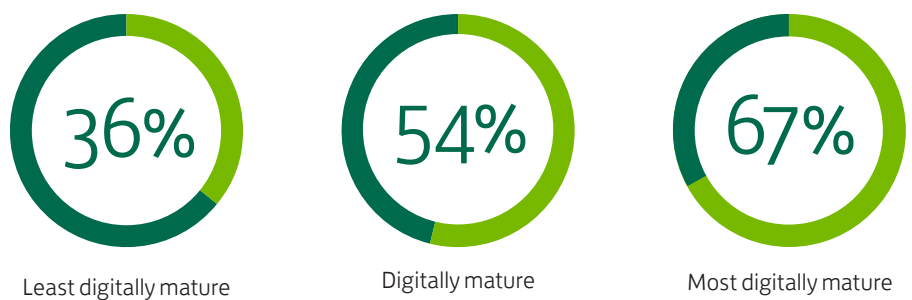
As figure 8 (see page 22) demonstrates, a lack of knowledge and skills is not seen as a major barrier to entry, with one in three of even the least digitally mature claiming to have the skills to progress. If these least digitally mature SMEs and charities really do have the necessary skills to do more digitally, the question is why they haven't done so – pointing to a need for education on the benefits of digital.

67% of all SMEs and charities – and 80% of digitally mature respondents – say they have access to the technology they need to make their enterprises more digital, while only 2% pointed to connectivity being an obstacle to doing more online. Cost and security were also rarely mentioned as barriers.

Of those surveyed, some 11% told us they simply did not use the internet, mirroring the wider attitudes we note in the next section (see Fig 8), around the lack of interest in digital, belief in the relevance of digital, and willingness of SMEs and charities to engage with digital.

FIGURE 3

'I have the knowledge and experience I need to make my business more digital.'
(Percentage of respondents who answered 'agree' or 'strongly agree').



Case study : Black Voices

Black Voices is a music group based in Birmingham, that has travelled the world performing during its 25 years. Carol Pemberton, music director of Black Voices, said: "We've had a website for as long as I can remember and we couldn't have managed without it, but we've learned most of our digital skills through trial and error. Working with young people has the added benefit of there always being a whizz-kid on hand who can help with technological issues!

When we were previously funded by the Arts Council we did receive online training through them, but there is still a lot that could be done to provide support and skills training for small organisations and community groups."



We've had a website for as long as I can remember and we couldn't have managed without it, but we've learned most of our digital skills through trial and error.



CAROL PEMBERTON

ONLY
1 IN 4

SMEs and charities surveyed are reaching out for digital support in the first place.

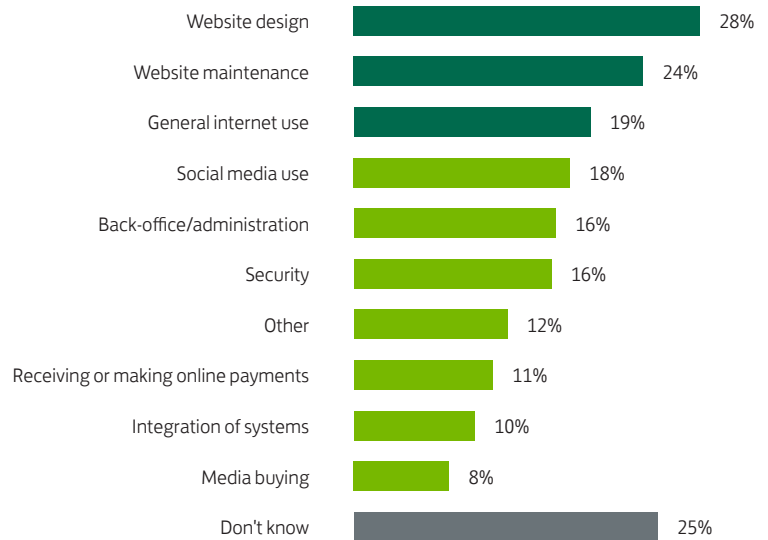
Our analysis also reveals issues around digital advice and training in every digital maturity segment. Overall 75% are not allocating any budget to developing digital skills. As Figure 4 shows, SMEs and charities looking for support want training in the basics, but 25% remain unsure what type they need. So there's a clear requirement for education on what skills SMEs and charities need to make the most of digital.

Those who do spend money on advice and training tend to buy it externally. Looking at where respondents go to access the digital advice and support they need, as Figure 5 shows, there is a strong reliance on friends, relatives, online searching and, most often, through paid IT consultants.

FIGURE 4

'What types of digital advice and training would you wish to be able to access?'

■ Key needs ■ Other needs



NOTE: asked of 492 respondents using any form of external digital advice or support.

FIGURE 5

'Where do you go to get advice and training on how to use technology and the web?'



NOTE: asked of 492 respondents using any form of external digital advice or support. Responses were not mutually exclusive.

ONLY
24%

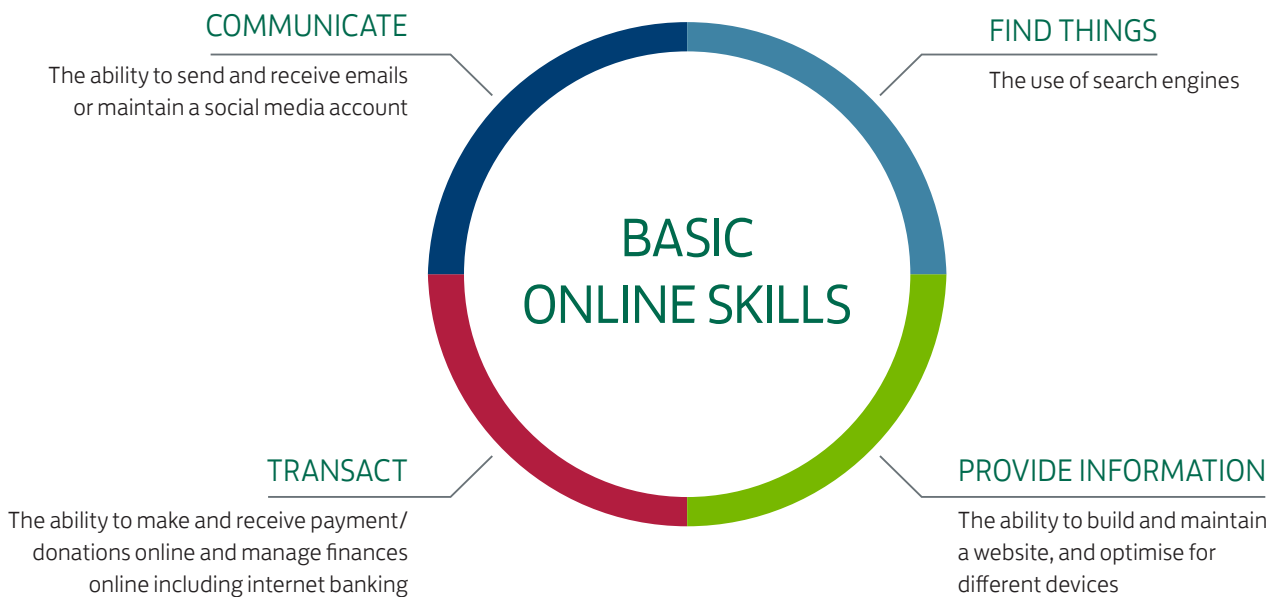
of all SMEs and charities surveyed
are seeking digital support.

What does this tell us? Of concern should be the fact that only one-in-four SMEs and charities surveyed (492 out of 1,988) are reaching out for digital advice and support in the first place. Then, despite the abundance of training and support materials accessible online and free-of-charge, fewer than one-in-three of this subset felt comfortable finding their own answers, preferring to rely on paid consultants to deliver what was needed.

This indicates a clear opportunity to drive more self-sufficiency and confidence around dealing with digital amongst the UK's small businesses and charities, and perhaps a need for a multi-channel approach to provision. Consequently, it's important to

back up online content with printed materials, access to low-cost digital training through schools, colleges and community centres, as well as through the Chambers of Commerce and wider Government channels.

This is particularly important when considering the level of digital skills amongst SMEs and charities. Go ON UK outlines four key themes to define "Basic online skills" for both SMEs and charities.



ONLY
1 IN 3

charities are able to 'transact'.

BASIC ONLINE SKILLS

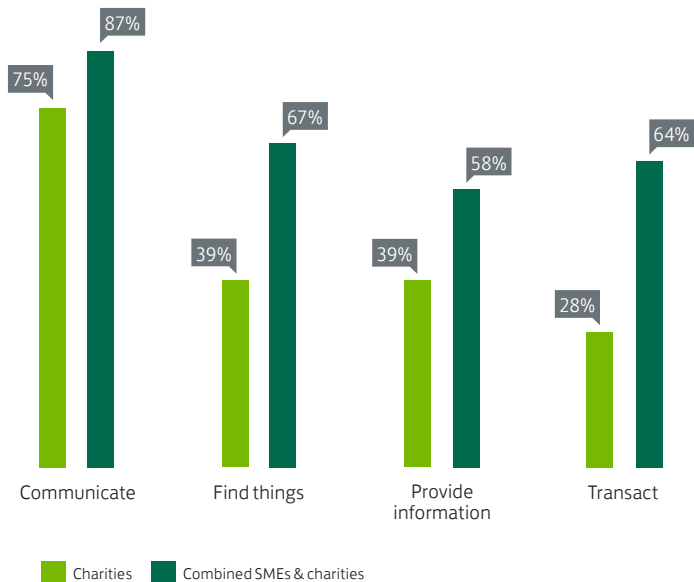
Figure 6 shows that against these criteria, most SMEs and charities have a good level of basic digital communication skills. However, the challenge is particularly acute for the charities sector, where only two in five organisations have basic digital skills in the dimensions of “find things” and “provide information”, while fewer than one-in-three are able to “transact”. Looking at the level of skills across the UK, we also saw a fairly even distribution with no real evidence of national ‘black spots’ when it came to having the skills needed to be a more digital small business or charity.

Clearly, to make gains in the area of digital training, skills and advice, it will be important to link relevant content and accessible channels to these areas of specific need.

In this way, support can be properly targeted to raise the combined level of digital maturity of both the SME and charity sectors.

FIGURE 6

Level of basic online digital skills as defined by Go ON UK (total population vs charities).



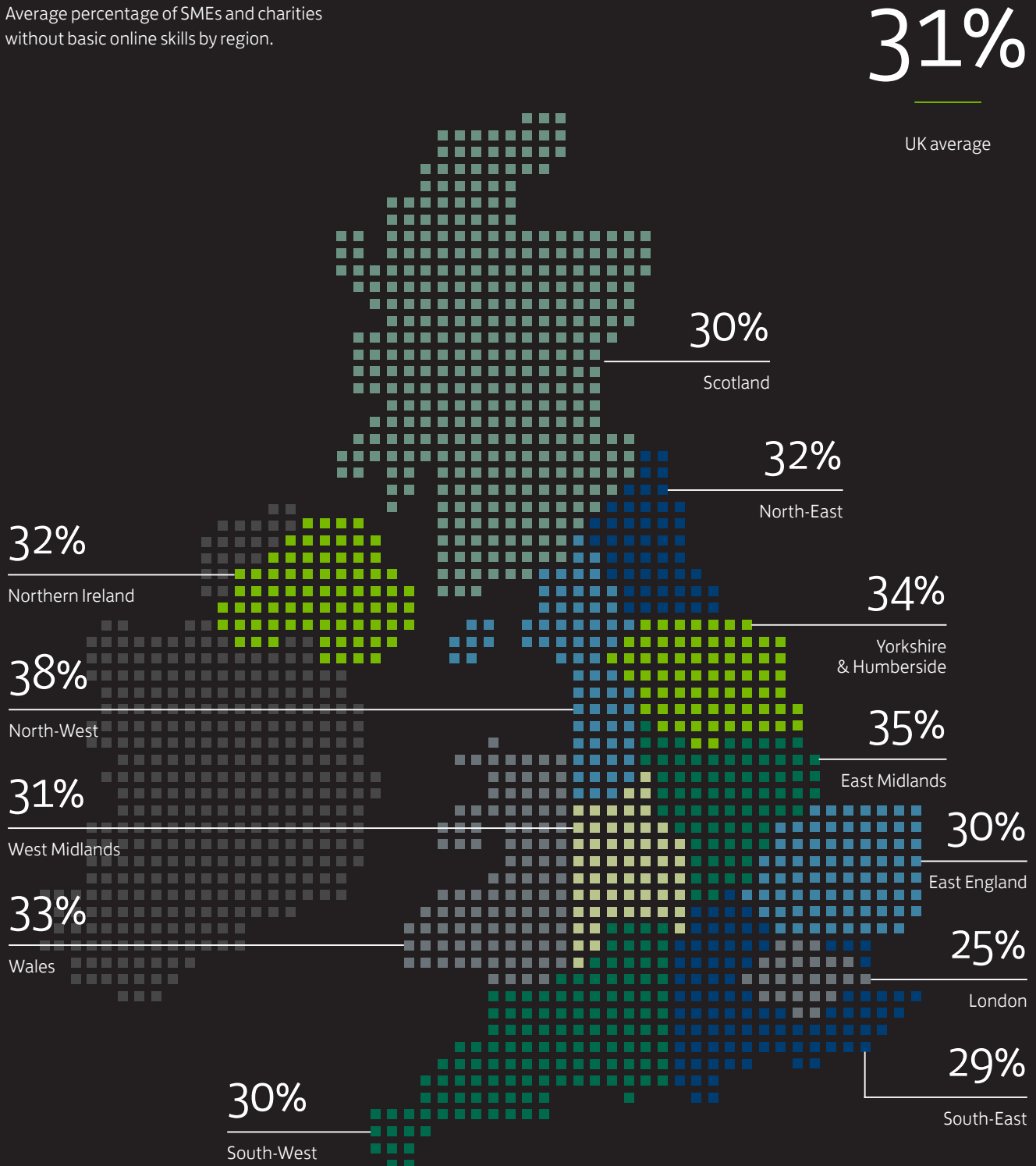
When you compare digital skills regionally a different pattern emerges. Initially it appears to follow the regional view shown on page 29 with those in the South being more digitally enabled but the pattern is more complex in the Midlands and the North.

On the whole, the region with the most SMEs or charities without basic online skills is the North-West (38%) followed by

East Midlands (35%) and then Yorkshire & Humberside (34%). London is leading the way across the board but still a quarter of the population in the capital is without basic online skills. More detail on the way basic online skills are distributed across the UK and by digital maturity segment can be found in Table A1 in the appendix.

FIGURE 7

Average percentage of SMEs and charities without basic online skills by region.



Attitudes to digital

29% OF SMEs AND CHARITIES

say that being online is not relevant for their business or charity.

INCREASED DIGITAL MATURITY

The main barrier to increased digital maturity lies not in skills and infrastructure but in mindset and attitudes.

Most respondents see digital as either 'solved' or 'irrelevant'. As Figure 8 shows, over one-third of SMEs and charities surveyed believe they are doing "everything they can" online. 29% say being online simply isn't relevant for their business or charity.

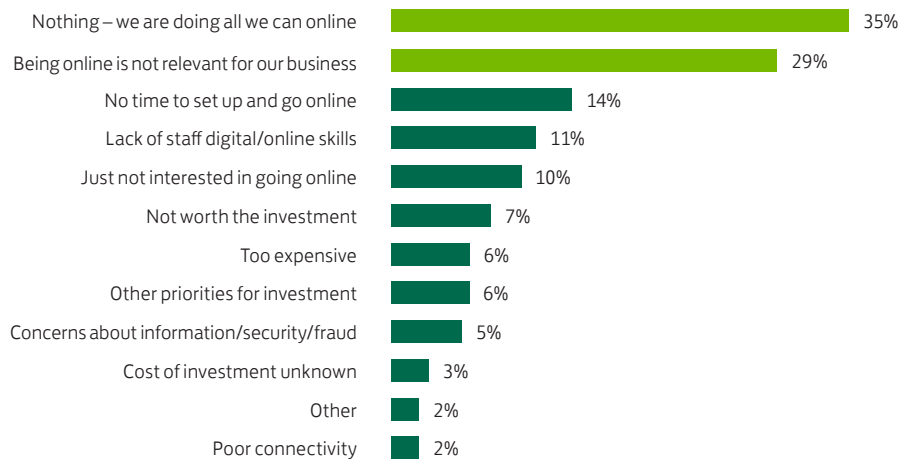
These findings further underline that the main barrier to increased digital maturity lies not in skills and infrastructure but in mindset and attitudes, especially in particular segments.

Those SMEs and charities who see further digital progress as 'irrelevant' are predominantly smaller SMEs and charities of 5 employees or less, which have been trading for 10 years or more. In terms of industry, the largest group regarding digital as irrelevant are charities, 25% of whom take this view.

A further breakdown of those who believe the internet is not relevant for them can be found in Table A2 in the appendix.

FIGURE 8

'Which, if any, of the following reasons, has stopped your company doing more online?'



Interestingly, the profile of SMEs and charities that believe they are 'doing all they can' is remarkably similar to those rating digital as 'irrelevant'. Once again they are predominately smaller SMEs and charities of 10 years' or more standing, and include a disproportionate number of charities (20%).

Yet digitally mature SMEs and charities say they are already realising major benefits – primarily wider reach and exposure across

the UK and time savings. Further potential benefits such as global reach, lower costs and enhanced revenues are hardly mentioned. While connectivity is clearly a big issue for those without it, overall the majority of SMEs and charities do not cite connectivity as an issue.

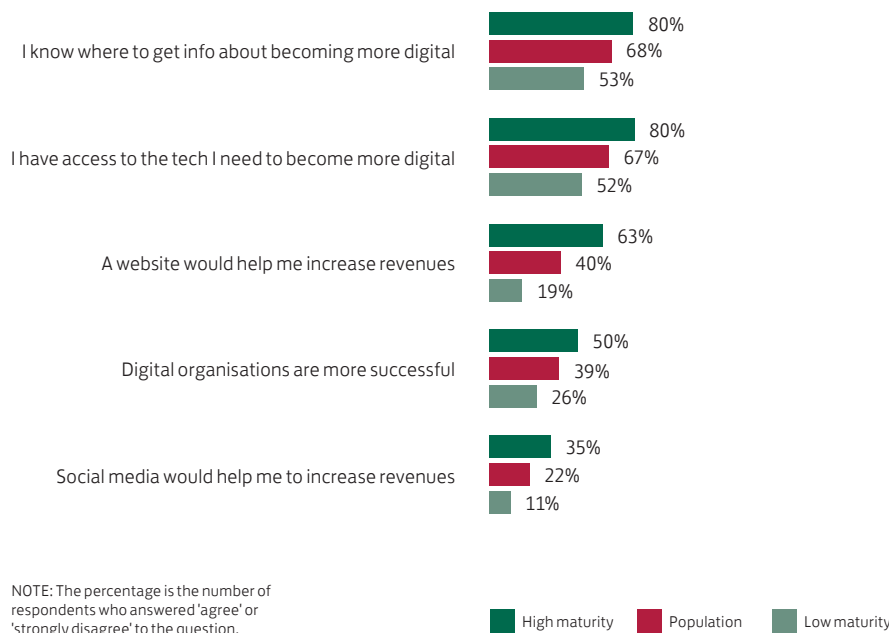
More detail on SMEs and charities that believe they are 'doing all they can' can be found in Table A3 in the appendix.

The findings around attitude again point to the need to make the case for digital more clearly. Figure 9 shows that digitally mature SMEs and charities are more positive about their own digital resources and the resulting benefits. But with only 50% of high maturity respondents believing digital organisations are more successful, there is more work to be done by all stakeholders, including the Government, Go ON UK and its founder

partners to communicate the message that digital helps SMEs and charities to thrive. Tables A4, A5 and A6 in the appendix show in more detail where those making use of online provision are finding the most benefit and how this is expressed by digital maturity segment. This shows that the main benefit is found in reaching a wider customer base and saving time.

FIGURE 9

'Thinking about your attitudes towards being a more digital-based business, to what extent do you agree with the following statements?' (Percentage of respondents who answered 'agree' or 'strongly agree').



Case study : Richard Denny Global

Richard Denny Global is a business-to-business skills training company based in Moreton-in-Marsh, Gloucestershire. It was founded by business growth specialist, inspirational business speaker and author Richard Denny.

Judith Harker, Managing Director of Richard Denny Global, said: "Most of our business currently comes from referrals by satisfied customers, but we've been putting a lot of work into developing our digital skills, including our website and email marketing, which is a great way of generating new business."



...we've been putting a lot of work into developing our digital skills, which is a great way of generating new business.



Use of digital

ONLY 50% OF SMEs AND CHARITIES

have a website.

11% OF RESPONDENTS

said they did not use the internet.

POLARISATION

There is polarisation between those who receive the vast bulk of payments or donations digitally, and others that receive the majority of funds via physical means.

ONLY 18% OF SMEs AND CHARITIES

allow customers to purchase products, services or make donations from their website.

Our research provides clear evidence that SMEs and charities are taking advantage of the 'digital basics'.

Many SMEs and charities that have a website are just scratching the surface of digital potential (see Figure 11, on page 25). While almost all offer basic company information, and three-quarters enable viewing of products and services, virtually none offer the advanced features that today's customers expect.

Only 50% of all SMEs and charities said they had a website at all but others are making use of digital in other ways. Figure 10 below shows that over 80% are using digital channels for communication, two thirds are using them for information research and over half are using internet banking. Interestingly, around a third are allowing payments/donations from customers via digital means e.g. through use of internet banking but only 18% through their website. 11% do not use the internet or have no access.

FIGURE 10

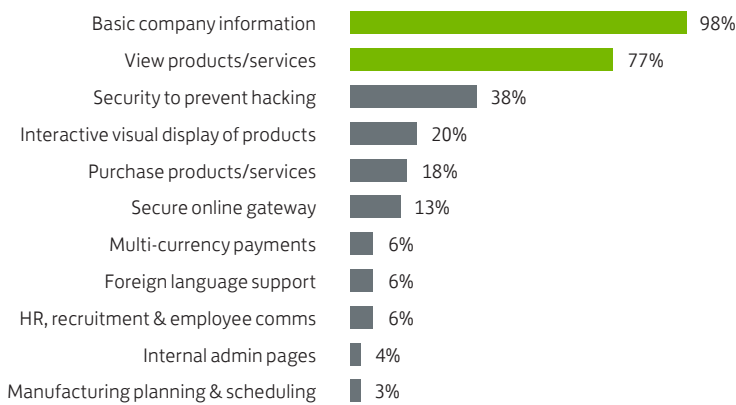
How SMEs and charities are using any form of digital channel (i.e. not just website).



The opportunity created by the unrealised potential of digital is especially clear in online payments and donations. As Figure 11 shows, only 18% of SMEs and charities allow customers and donors to purchase products/services through their website.

FIGURE 11

Features and functionality supported by respondent's websites (n=1,095).



Note: asked of organisations with a website (n=1,095)

Basic functions Advanced functions



Websites are limited to basic information with limited provision of advanced functionality.



Figure 12 shows polarisation between those who receive the vast bulk of payments or donations digitally, and others that receive the majority of funds via physical means. This suggests that once a firm gets a taste of the benefits – especially increased speed of receiving payments and donations and greater customer/donor convenience

– it will often move quickly to migrate all its incoming payments (or where possible, donations) online. Those most in favour of receiving payments and donations online include SMEs and charities less than two years old and businesses in construction and manufacturing.

29%

of SMEs and charities take between 0 and 20% of their payments/donations online.

FIGURE 12

Proportion of payments or donations received online (where SME or charity allows payment via a digital channel).

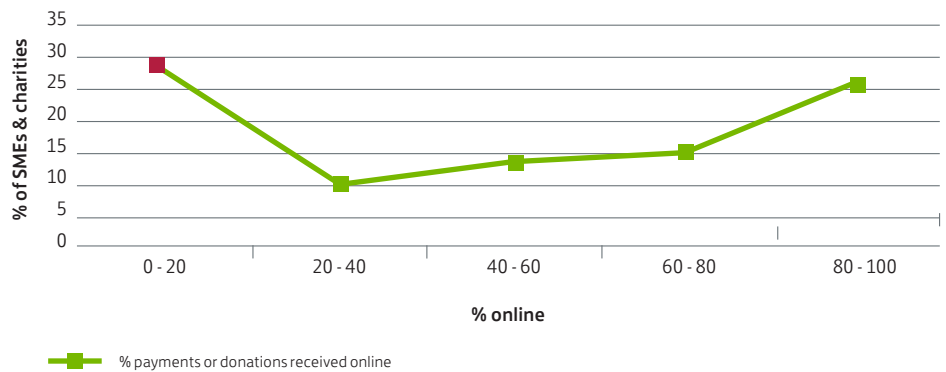
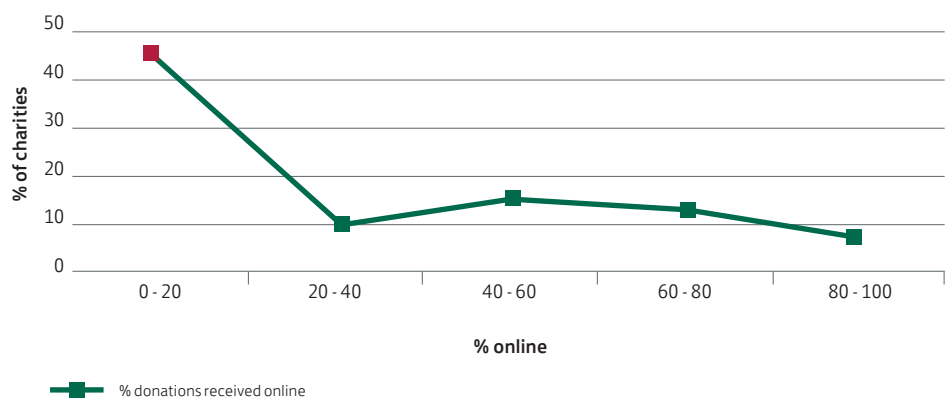


FIGURE 13

Proportion of donations received online (where charity allows donation via a digital channel).



47%

of charities take between 0 and 20% of their donations online.

As a final observation, we should reiterate that Clubs, Charities and Societies still appear to remain far less likely to take donations digitally – almost half (47%) take between 0 and 20% of their donations online (see Fig 13).



ONLINE TRANSACTIONS

Those most in favour of receiving payments and donations online include SMEs and charities less than two years old and businesses in construction and manufacturing.

Digital demographics: variations by industry, region, size and age

ALMOST 60% OF CHARITIES

have "low maturity." Charities emerge as the least digitally mature type of business.

Our analysis reveals striking differences between industries in terms of their digital maturity, with sectors such as administration and support services, education, and arts and recreation emerging as leaders

(see Figure 14). In contrast, charities are the least digitally mature type of business. More detail about how digital maturity is split by industry sector can be seen in Table A7 in the appendix.

LOCATION

is much less of a factor than industry sector in determining maturity.

1 EMPLOYEE

SMEs and charities with only 1 employee are significantly less digitally mature than their larger counterparts.

CLEARER PATTERN

on age with longer established SMEs and charities tending to be less mature.

FIGURE 14

Digital maturity index scores for SMEs and charities, split by industry segment.

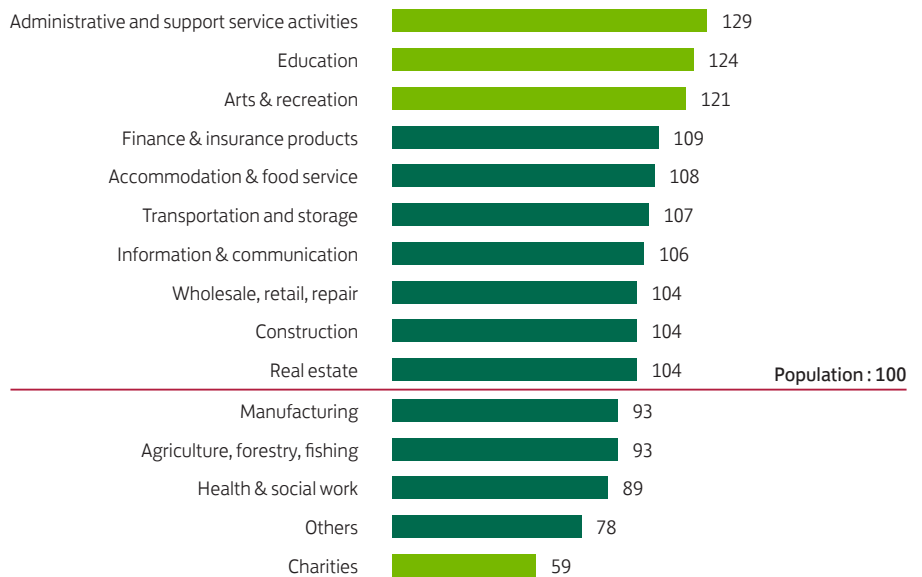
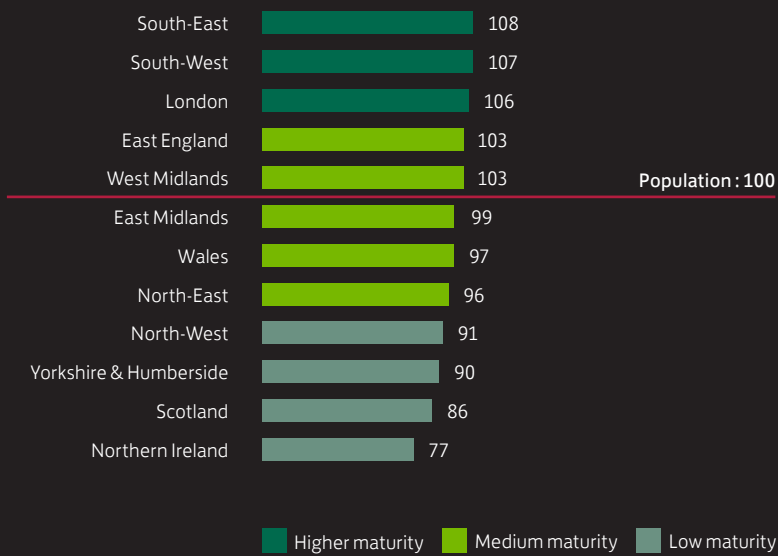


FIGURE 15

Digital maturity index scores for SMEs and charities, split by region.



Location is much less of a factor than industry sector in determining maturity.



Table A8 in the appendix shows in more detail how digital maturity falls within the different UK regions and in particular how many of each of the 7 segments are included in each region.

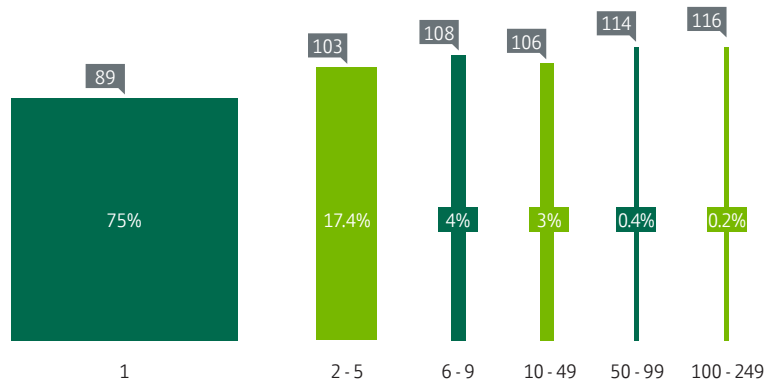
Organisations with only one employee are by far the least digitally mature. This is particularly important when you consider this group makes up around 75% of the SMEs in the UK¹. If this group could be improved, it would dramatically affect the level of digital maturity for the UK as a whole. In Figure 17, analysis by the age of organisations reveals that longer-established SMEs and charities tend to be less mature.

AROUND
75%

of SMEs in the UK have only one employee and are by far the least digitally mature.

FIGURE 16

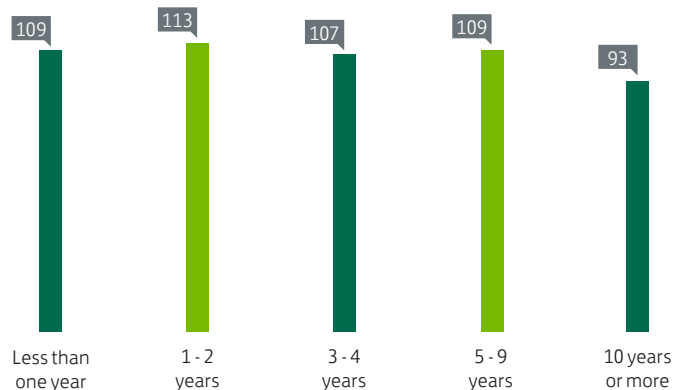
Digital maturity index scores for SMEs and charities, split by number of employees².



NOTE: The % represent the percentage of those organisations in the UK as a whole, e.g. SMEs with only 1 employee make up

FIGURE 17

Digital maturity index scores for SMEs and charities, split by age.



1. Source, Department of Innovation & skills (BIS) - 2013

2. The percentage size of organisations, according to number of employees, only pertains to SMEs, not charities, clubs or societies as this data is not available.



One possible interpretation is that younger organisations are more likely to be outsourcing their technology, and may find it easier to update infrastructure than those who have adopted in-house solutions. Conversely, their older counterparts are perhaps more likely to have more legacy systems and complex networks, making updating technology more costly and challenging.

There may also be an argument to say that older SMEs and charities are less mature because management teams have not needed to engage with the digital revolution happening around them. But for newer SMEs and charities, digital is almost a hygiene factor, and reflects the social context in which modern founders operate, at least at a basic level (e.g. social media being an accepted/expected method of communicating).

COMMON PRACTICE

For newer SMEs and charities, digital is almost a hygiene factor, and reflects the social context in which modern founders operate.

The link to success

POSITIVE CORRELATION

between the most digitally mature SMEs and charities and those who have more confidence in their own enterprise and the UK economy as a whole.

80% OF SMEs AND CHARITIES

in the most digitally mature segments believe that digital plays an important role in helping achieve their strategic objectives.

ALMOST 2/3

64% of the digitally mature segments rate themselves as “above” or “significantly above” performance expectations.

Our study confirms that those with high digital maturity are more likely to have strong growth aspirations and to believe that digital technology is important to their future success.

If this view was shared by more SMEs, it would help unlock the potential £18.8 billion in incremental revenue, predicted by Booz & Co (November 2012) by harnessing digital technology.

Some 80% of SMEs and charities in the most digitally mature segments believe that digital plays an important role in helping achieve their strategic objectives – with 64% citing growth as an important part of their strategy.

Digitally mature SMEs and charities also rate their own performance against expectations more highly. Almost two-thirds – 64% – of the digitally mature segments rate themselves as “above” or “significantly above” performance expectations, against 59% of those surveyed overall. And while 68% declare themselves “confident” or “very confident” in their future prospects, this proportion rises to 76% among digitally mature respondents.

Interestingly, digital maturity also correlates with higher confidence in the UK economy, pointing to a ‘halo effect’ from digital capabilities. Some 41% of the most digitally mature SMEs and charities rate themselves as “confident” or “very confident” on the prospects for the UK economy, against 34% overall.

41%

of the most digitally mature SMEs and charities rate themselves as "confident" or "very confident" on the prospects for the UK economy.

SPOTLIGHT ON NORTH-EAST ENGLAND

32%

of SMEs and charities in the North-East don't have basic online skills.

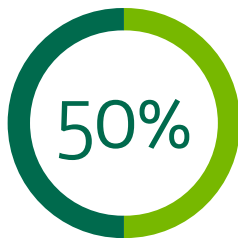
We have provided a focus on the North-East of England because this supports the recent Go ON UK regional rollout in that region. Our survey sample includes SMEs and charities based in the North-East. As a group, they have a stronger focus on manufacturing, construction and charities than the UK-wide average, and nearly two-thirds have been trading for more than 10 years. While this profile might be expected to give the region a low digital maturity score, in fact it comes out with 96, only slightly below the benchmark of 100.

This performance reflects the fact that North-East SMEs and charities are generally more positive about digital opportunities and investment, and more confident in their skills and access to technology. So there is an opportunity to capitalise on this positive attitude to drive higher maturity in the region.

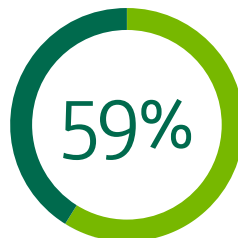
A deeper analysis reveals a stronger focus among North-East SMEs and charities on the digital benefits of back-office efficiency and better customer service experience – advantages highlighted by twice the proportion in the North-East compared to UK-wide. However, asked why they do not have a website or use social media, North-East SMEs and charities are twice as likely to mention cost and security issues, and almost three times as likely to cite a lack of skills.

Also, while they are slightly below average on having company websites and using social media, North-East SMEs and charities are 50% more likely to be registered with online directories.

This may be further evidence of a skills challenge, since it suggests SMEs and charities would rather use a third-party index service than apply digital tools themselves to market their products and services. Our findings include:



of North-East SMEs and charities rate themselves as “skilled” or “very skilled” in digital (UK average of 44%)



rate digital as “important” or “very important” to their strategies, against a UK average of 55%

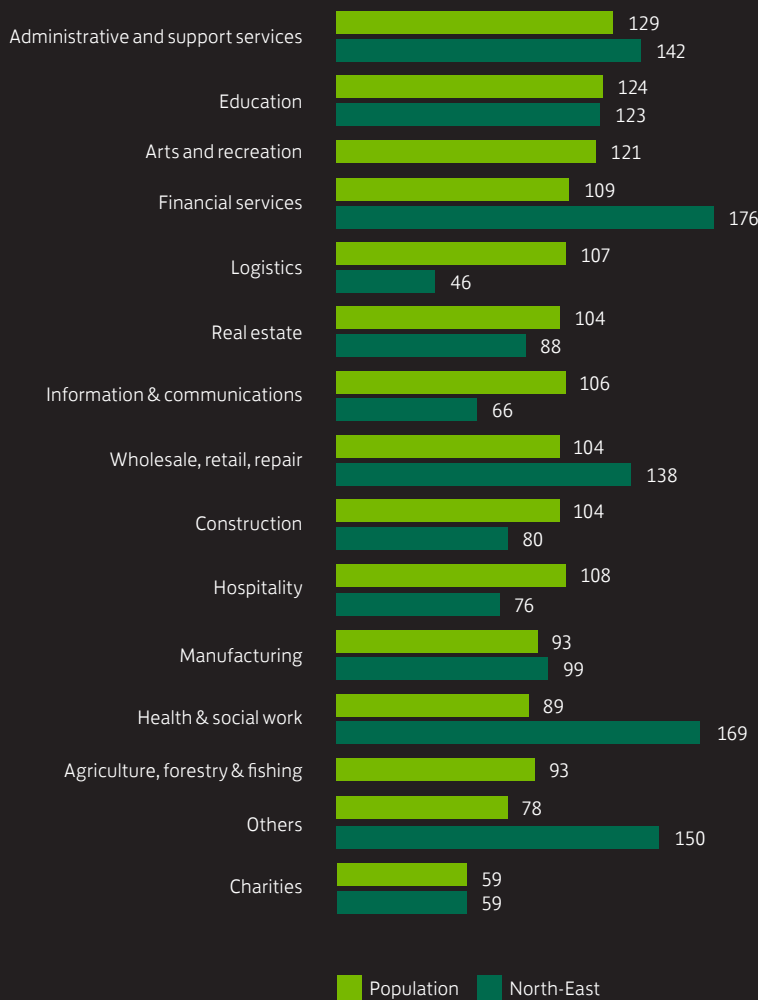


are considering increasing their level of overall digital investment (UK average of 20%)

A comparison by industry segment (see Figure 18) underlines how SMEs and charities in the North-East are punching above their sector weight in digital maturity. Several North-East segments score well ahead of their UK-wide average, reinforcing the opportunity to build on the momentum already achieved.

FIGURE 18

Digital maturity index scores in the North-East and UK-wide, split by industry segment.



SEVERAL SEGMENTS

Several North-East segments score well ahead of their UK-wide average.



It's clear that the main barriers to digital adoption are around attitude.



CONCLUSION



Any efforts to drive home the value of digital need to focus more on hearts and minds.



Our research shows that digital technologies, tools and skills are being exploited by both small businesses and charities, but that nearly all SMEs and charities could be doing more to realise the full potential benefits. While basic digital capabilities are widespread, there is a sharp drop-off when it comes to exploiting the more advanced digital tools available for use on companies' websites.

There is little evidence that connectivity is holding back progress, and few SMEs and charities cite a lack of skills or funds as a reason not to do more online. The problem seems to be a lack of belief that digital is relevant, that more can be done, or that being more digital drives greater success.

As policymakers seek to increase the digital maturity of small businesses and charities in the UK, they must address these specific challenges.

NEXT STEPS : CREATING A PROGRAMME TO FOSTER DIGITAL MATURITY

In light of our findings, we believe that four key 'calls to action' arise from this report:

01

EXPLAINING THE BENEFITS

The benefits of digital must be articulated more clearly: how can those organisations who feel digital is 'irrelevant' be persuaded to look again at the changing needs of their customers, donors and clients?

02

AVOIDING COMPLACENCY

SMEs and charities must be helped to move beyond digital basics: how can those who say they have 'done it all' be convinced that there is always something more they can do, and that maturity is an ongoing journey rather than a single step?

03

PROVIDING MORE SUPPORT

More support must be provided for the "Disconnected": how can the 11% of SMEs and charities that are currently not using online channels at all be stimulated to start doing so?

04

ENCOURAGING INNOVATION

The most innovative SMEs and charities must be supported in pushing back the digital boundaries: how can the "Innovators" be encouraged to keep innovating, and share what they have learned from being digitally mature enterprises in a way that will benefit all?

THE 'ART OF THE POSSIBLE'

UK's SMEs and charities have an urgent need for a deeper understanding of the 'art of the possible' in the digital domain.

In our view, each of these challenges can only be tackled through a carefully-targeted programme of initiatives involving a wide range of stakeholders, with a shared commitment to:

- delivering better education and communication around the business case for digital
- highlighting the strong benefits and relevance of digital to all SMEs and charities – regardless of location, size or sector.

While we're eager to act as a catalyst for such a programme, we don't claim to have all the answers ourselves. We would welcome thinking, comment and cooperation from all stakeholders involved in the drive for digital maturity – from SMEs and charities themselves, or interested parties ranging from Government to telecommunication companies, online service providers to trade associations, Chambers of Commerce, and more.

What is clear from our research is that the UK's SMEs and charities have an urgent need for a deeper understanding of the 'art of the possible' in the digital domain. The resulting insights will stimulate progress across the spectrum of digital maturity – encouraging digital leaders to revisit their existing set-up, and non-digital SMEs and charities to reassess the potential returns on digital investments.



We at Lloyds Bank will continue to support these goals, in association with Go ON UK – both by monitoring and evaluating progress on an ongoing basis through this UK Business Digital Index, and by seeking to work with other stakeholders to drive that progress further and faster.



MIGUEL-ÁNGEL RODRÍGUEZ-SOLA

APPENDIX

TABLE A1

More detailed view of basic online skills across the UK 'Broad Online Skills – by region and Digital Maturity Segments'.

Regions (% Organisations)	Communicate	Find things	Provide information	Transact
South-East	90	69	60	65
South-West	88	68	60	65
London	91	73	66	71
East England	89	70	59	63
West Midlands	87	66	60	61
East Midlands	84	63	51	63
Wales	83	65	59	62
North-East	79	70	54	70
North-West	84	56	54	54
Yorkshire and Humberside	82	71	52	60
Scotland	89	66	63	63
Northern Ireland	88	67	43	73
Population	87	67	58	64

Regions (Average Digital Index)	Communicate	Find things	Provide information	Transact
South-East	116	123	130	127
South-West	118	126	132	130
London	116	122	128	123
East England	113	119	129	131
West Midlands	114	120	128	127
East Midlands	116	127	138	127
Wales	111	114	120	120
North-East	113	109	131	116
North-West	104	114	125	121
Yorkshire and Humberside	106	109	123	117
Scotland	94	103	107	109
Northern Ireland	85	92	113	92
Population	111	118	127	123

Digital Maturity Segments (% Organisations)	Communicate	Find things	Provide information	Transact
Disconnected	25	21	13	18
Basic adopters	100	62	29	49
Passive users	100	73	90	58
Starters	100	62	15	73
Established users	100	81	92	77
Advanced users	100	92	87	95
Innovators	100	94	87	95
Population	87	67	58	64

Digital Maturity Segments (Average Digital Index)	Communicate	Find things	Provide information	Transact
Disconnected	64	47	67	60
Basic adopters	61	69	87	74
Passive users	90	99	93	105
Starters	102	104	104	103
Established users	116	117	117	119
Advanced users	157	157	160	158
Innovators	161	161	161	162
Population	111	118	127	123

NOTE:

Communicate

- communicate with suppliers or customers via email
- build/update social media accounts
- allow customers to contact business online, provide feedback
- ensure email accounts are secure.

Find things

- information research.

Provide Information

- build and maintain websites
- add search function for product services
- ensure website is secure
- host website via 3rd party or cloud.

Transact

- online banking (survey)
- make payments (survey)
- take payments/donations (survey)
- provide secure transacting environment (secure online gateway).

TABLE A2

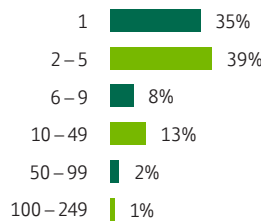
Enterprises who regard digital as irrelevant for their business.

74% of these organisations have less than or equal to 5 employees. 63% of these organisations have been in business for more than 10 years. 25% of organisations who believe being online is not relevant are Clubs, Charities and Societies.

NUMBER OF EMPLOYEES

Number of employees are categorised into 6 buckets ranging from '1' to '250 plus'.

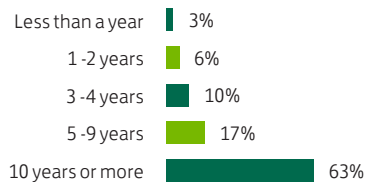
Out of the total businesses which consider 'Not relevant' as one of the reasons for not being more online, 74% of them are small organisations with employee size less than 6.



LENGTH OF BUSINESS

Length of business is categorised into 5 buckets ranging from 'Less than a year' to 'Ten years and more'.

Out of the total businesses which consider 'Not Relevant' as one of the reasons for not being more online, 63% of them are vintage organisations with more than 10 years' experience.



INDUSTRY CLASSIFICATION

SMEs have been broadly classified into 16 categories based on the 2003 SIC codes.

CCS, Construction and Administrative and Support Service businesses constitute 63% of organisations that don't find being online relevant for their business.

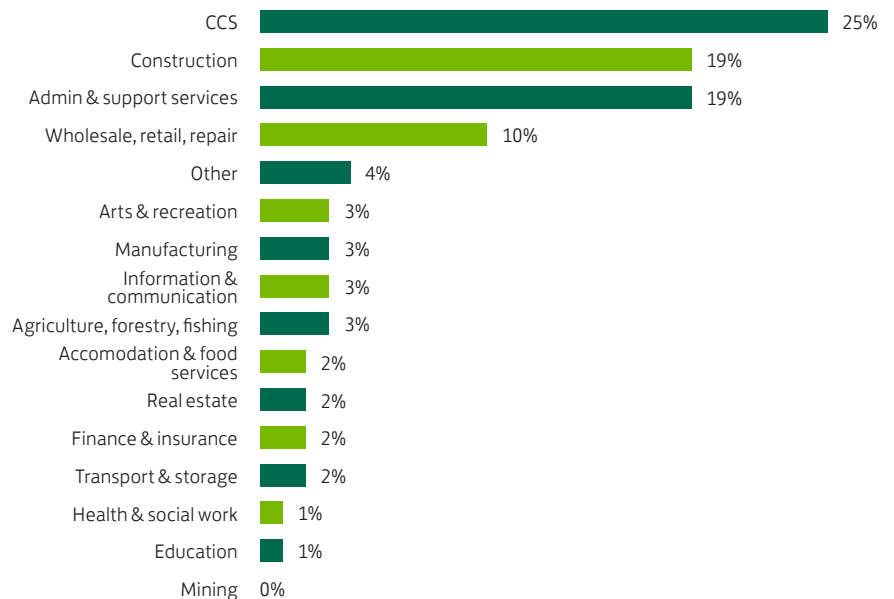


TABLE A3

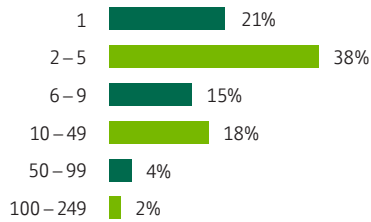
Organisations who are “doing all they can”.

NUMBER OF EMPLOYEES

35% of organisations claim to be “doing all they can” when it comes to digital.

74% of these are small organisations of fewer than 10 employees.

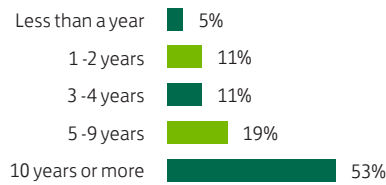
It is questionable whether any firm (especially a small or micro-business) can be fully aware of their digital opportunity – more must be done to raise awareness.



LENGTH OF BUSINESS

72% of organisations who believe they are “doing all they can” have been established for more than 5 years, with a significant concentration amongst long-standing businesses of more than 10 years (53%).

Resistance of long-established businesses could be a reflection of organisational inflexibility. Digital adoption must be easy to understand and implement.



INDUSTRY CLASSIFICATION

The largest segment who regard themselves as “doing all they can” are (once again) Clubs, Charities, Societies (20%).

Looking at the payments experience of charities, when asked why they didn’t use online payments, 48% claimed there was no donor demand, while 48% pointed to the need for the customer to be present.

In a sector so focused on physical transactions, the case for using a digital alternative is still to be made.

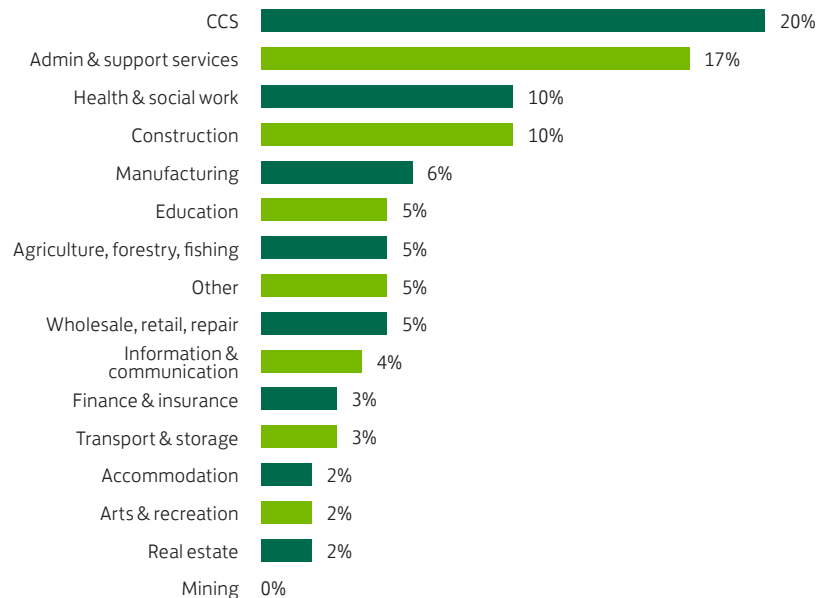
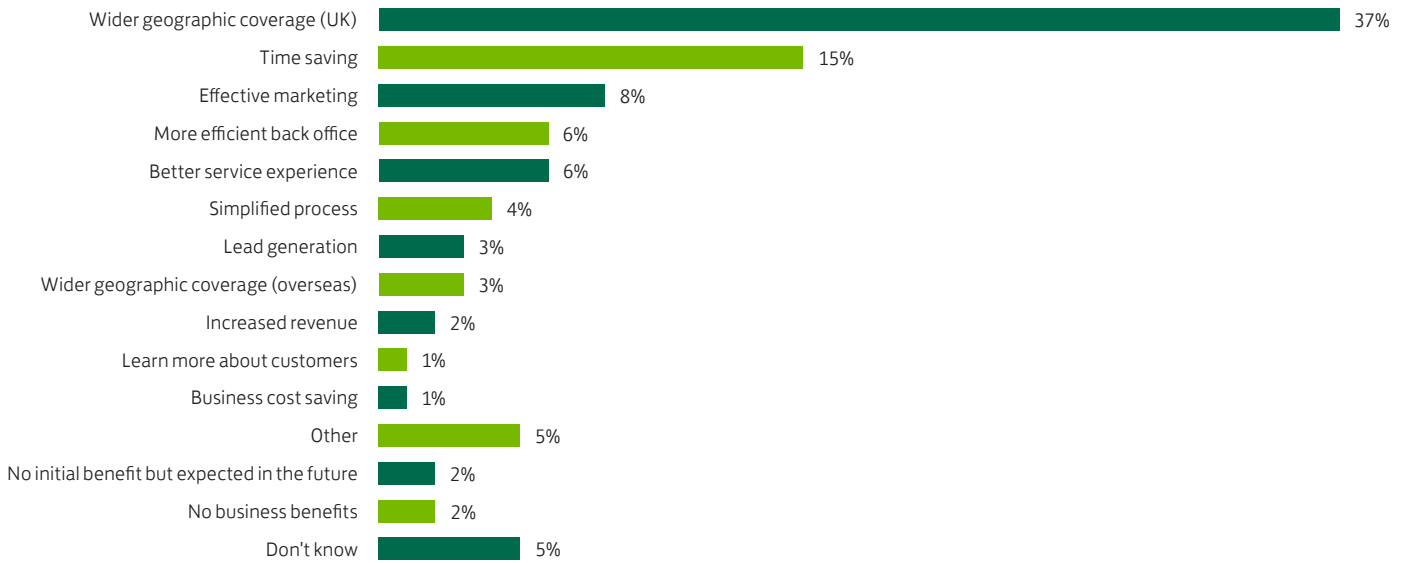


TABLE A4

Main benefits of being online (SMEs and charities).

37% of SMEs and charities believe that wider geographic coverage (UK exposure) is the main benefit of being online. “Time saving” and “Effective marketing” are other prominent benefits.



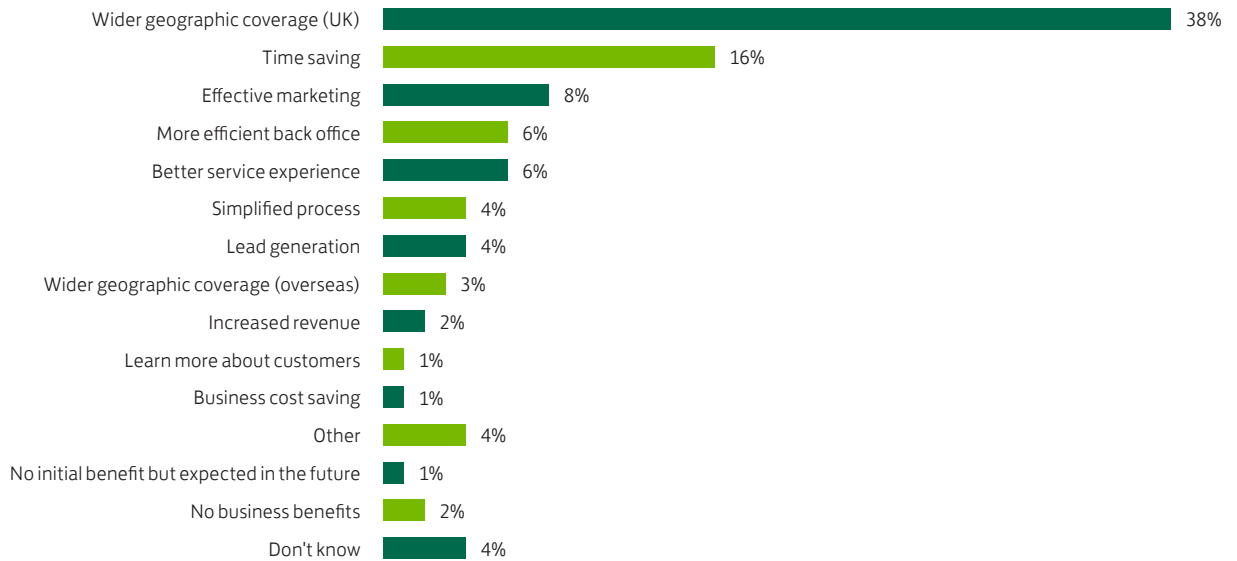
CLUSTER SEGMENTS

Benefits for being online	Disconnected	Basic adopters	Passive users	Starters	Established users	Advanced users	Innovators	Population
Doesn't have a Web or SM presence	87%	72%	0%	82%	3%	23%	0%	41%
Have a Web or SM presence	13%	28%	100%	18%	97%	77%	100%	59%
Wider geographic coverage (UK)	35%	37%	37%	33%	42%	33%	39%	37%
Time saving	16%	15%	12%	25%	15%	15%	15%	15%
Effective marketing	9%	11%	6%	8%	8%	7%	9%	8%
More efficient back office	2%	7%	6%	0%	5%	9%	6%	6%
Better service experience	5%	6%	3%	3%	6%	8%	7%	6%
Simplified process	2%	5%	6%	0%	3%	4%	2%	4%
Lead generation	2%	4%	1%	3%	3%	4%	5%	3%
Wider geographic coverage (overseas)	0%	3%	4%	5%	2%	2%	4%	3%
Increased revenue	0%	1%	1%	0%	2%	3%	1%	2%
Learn more about customers	5%	1%	3%	0%	0%	1%	0%	1%
Business cost saving	0%	1%	1%	0%	1%	0%	2%	1%
Other	0%	2%	4%	5%	5%	8%	5%	5%
No initial benefit but expected in the future	7%	1%	3%	5%	3%	1%	1%	2%
No business benefits	7%	4%	3%	3%	1%	2%	0%	2%
Don't know	9%	3%	9%	13%	5%	3%	2%	5%

TABLE A5

Main benefits of being online (SMEs).

38% of SMEs believe that wider geographic coverage (UK exposure) is the main benefit of being online. “Time saving” and “Effective marketing” are other prominent benefits.



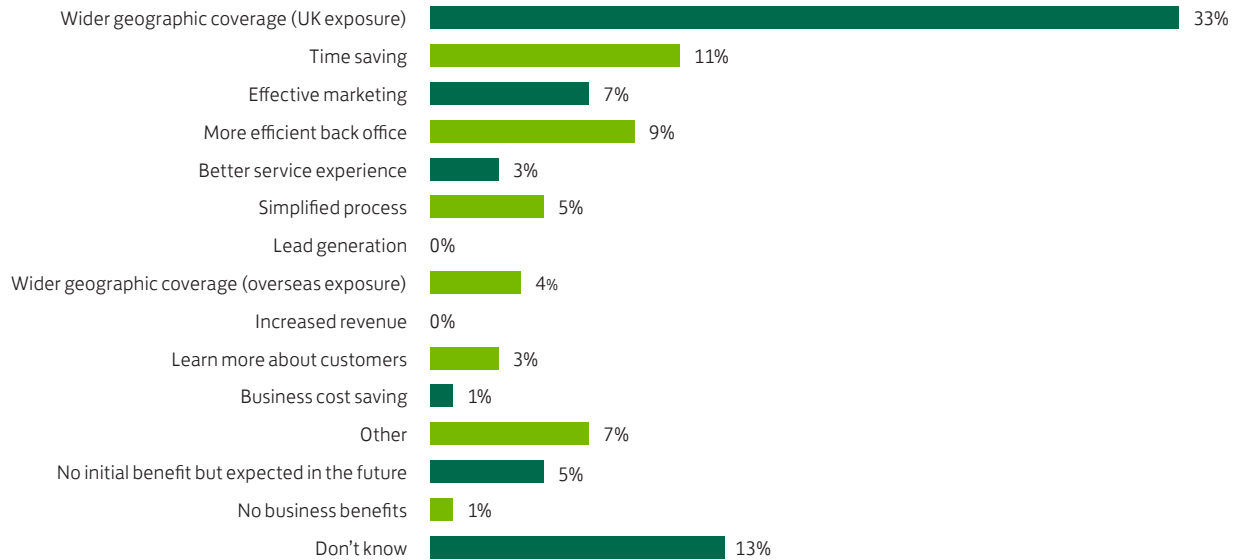
CLUSTER SEGMENTS

Benefits for being online	Disconnected	Basic adopters	Passive users	Starters	Established users	Advanced users	Innovators	Population
Doesn't have a Web or SM presence	84%	64%	0%	82%	3%	24%	0%	36%
Have a Web or SM presence	16%	36%	100%	18%	97%	76%	100%	64%
Wider geographic coverage (UK)	41%	36%	41%	35%	43%	33%	39%	38%
Time saving	22%	13%	14%	26%	15%	16%	15%	16%
Effective marketing	6%	11%	8%	9%	8%	6%	10%	8%
More efficient back office	3%	7%	4%	0%	4%	9%	6%	6%
Better service experience	6%	6%	4%	3%	7%	8%	7%	6%
Simplified process	0%	6%	7%	0%	3%	4%	2%	4%
Lead generation	3%	5%	2%	3%	3%	4%	6%	4%
Wider geographic coverage (overseas)	0%	2%	3%	6%	2%	2%	3%	3%
Increased revenue	0%	1%	2%	0%	2%	3%	1%	2%
Learn more about customers	3%	1%	1%	0%	1%	1%	0%	1%
Business cost saving	0%	1%	1%	0%	1%	0%	3%	1%
Other	0%	1%	3%	3%	5%	8%	5%	4%
No initial benefit but expected in the future	3%	1%	2%	6%	2%	1%	1%	1%
No business benefits	6%	5%	4%	3%	2%	2%	0%	2%
Don't know	6%	4%	5%	6%	5%	3%	2%	4%

TABLE A6

Main benefits of being online (clubs, charities and societies).

33% of charities believe that wider geographic coverage (UK exposure) is the main benefit of being online. “Time saving” and “Effective back office” are other prominent benefits.



CLUSTER SEGMENTS

Benefits for being online	Disconnected	Basic adopters	Passive users	Starters	Established users	Advanced users	Innovators	Population
Doesn't have a Web or SM presence	92%	87%	0%	83%	5%	8%	0%	58%
Have Web or SM presence	8%	13%	100%	17%	95%	92%	100%	42%
Wider geographic coverage (UK exposure)	18%	41%	31%	17%	39%	36%	33%	33%
Time saving	0%	24%	9%	17%	13%	9%	13%	11%
Effective marketing	18%	12%	4%	0%	11%	9%	0%	7%
More efficient back office	0%	6%	10%	0%	11%	18%	7%	9%
Better service experience	0%	6%	2%	0%	3%	0%	7%	3%
Simplified process	9%	0%	4%	0%	5%	18%	0%	5%
Lead generation	0%	0%	0%	0%	0%	0%	0%	0%
Wider geographic coverage (overseas exposure)	0%	6%	5%	0%	0%	0%	13%	4%
Increased revenue	0%	0%	0%	0%	0%	0%	0%	0%
Learn More About Customers	9%	0%	5%	0%	0%	0%	0%	3%
Business cost saving	0%	0%	1%	0%	0%	0%	0%	1%
Other	0%	6%	6%	17%	5%	9%	13%	7%
No initial benefit but expected in the future	18%	0%	5%	0%	8%	0%	0%	5%
No business benefits	9%	0%	0%	0%	0%	0%	0%	1%
Don't Know	18%	0%	16%	50%	5%	0%	13%	13%

TABLE A7

Digital maturity by industry.

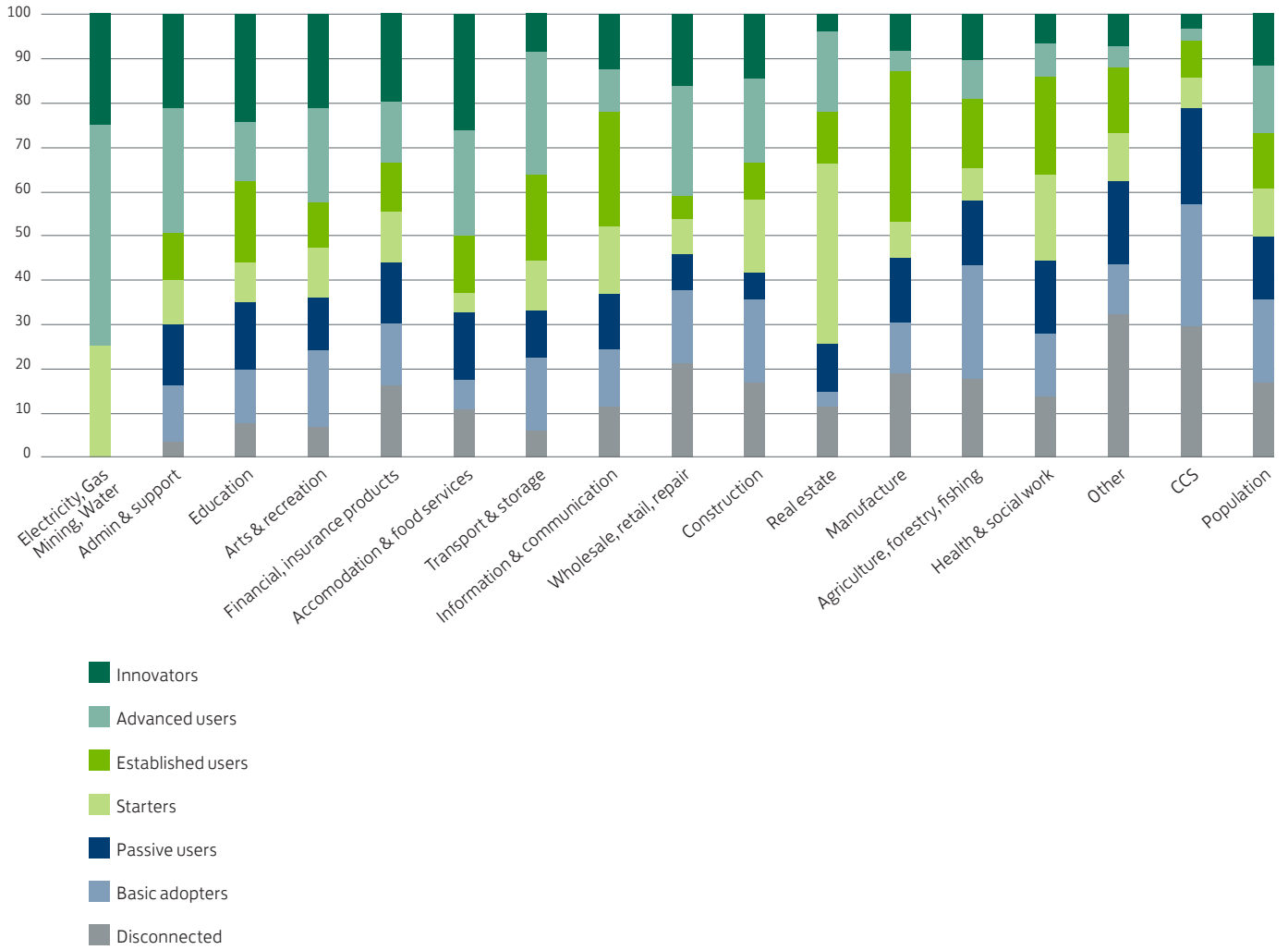
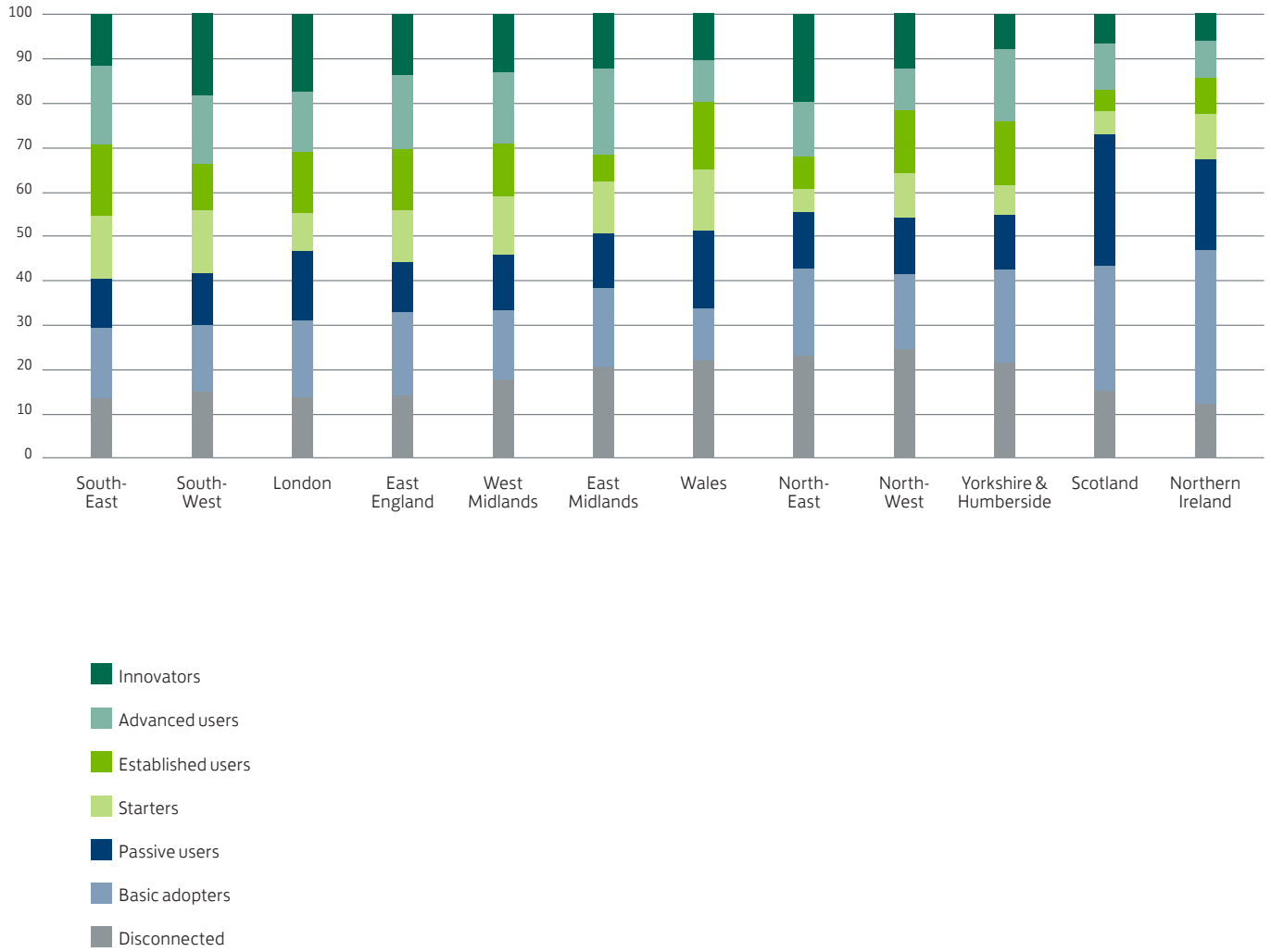


TABLE A8

Digital maturity by region.



Find out more



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