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News release

21st June 2018

‘Digital dividend’ productivity boost for UK’s micro firms

- **Biggest ever study of UK ‘micro-businesses’ (with 1-9 employees) shows big boosts to productivity from use of digital technologies**
- **Doubling adoption could provide a ‘digital dividend’ boost to the economy worth £16.6bn**
- **Research points way to boosting output of group of firms traditionally seen as ‘drag’ on national productivity**

The UK’s army of micro-businesses could boost the economy by £16.6bn with greater adoption of five key digital technologies shown to supercharge productivity.

The largest ever study of so-called micro-businesses – those employing between one and 9 staff – conducted by the Enterprise Research Centre is the first to put hard numbers on the effect digital adoption can have on productivity for the smallest firms.

The findings are significant because the 1.1m such companies, employing more than 4m people, have traditionally been seen as a drag on national productivity. ERC academics say the research could have far-reaching consequences for how policymakers and business support groups communicate the benefits of tech adoption to start-ups and established firms alike.

Doubling uptake of the five key digital technologies could see the Gross Value-Added (GVA) per worker of micro-businesses grow by £16.6bn, the researchers add.

Studying over 6,000 micro-businesses employing an average of four people and with a median turnover of £250,000, the research found that, after controlling for factors like sector, geographical location and firm age:

- Use of cloud-based computing leads to an increase of 13.5% in sales per employee (a proxy for productivity) after three or more years;
- Customer Relationship Management (CRM) software use adds 18.4% to sales per employee over three years;
- e-commerce adds 7.5% to sales per employee over three years;
- Web-based accounting software leads to an increase in sales per employee of 11.8% over three years; and,
- Computer aided design (CAD) leads to a 7.1% increase in sales per employee.

Use of digital technologies has grown rapidly among UK micro-businesses in recent years, with firms using cloud computing growing from 9% in 2012 to 43% in 2018, and web-based accounting software growing from 15% to 42% over the same period. Notably, however, the study found that around a quarter of UK micro-businesses currently make no use of digital technologies at all, while a further quarter use only one.

The study also found that being a home-based business was linked to having a turnover-per-employee around 21% higher, although this could simply reflect higher-value service firms being more likely to be home-based.

Conversely, family firms where the founder was still in charge were found to be 10% less productive than those where the founder had stepped aside, possibly due to founders being less open to change over the long term.

Around 60% of micro-businesses are family owned and managed and most regard freedom and flexibility as their key motivations. Most have no ambition to scale: 74% of respondents aim to *'keep their business similar to how it operates now'*, with a more ambitious minority of 22% aiming to build a *'national or international business'*, with this figure rising to 36% for London firms.

There is significant regional variation across the UK when it comes to innovation and exporting – two factors associated with higher productivity. In London, 47% of micro-businesses are exporters, compared to just 27% in the East Midlands (average = 33%). On innovation, the West Midlands is the strongest region, with 13% of firms there introducing new products or services, compared to fewer than 8% in Northern Ireland (average = 10.6%).

In 2017, there were 1.11m micro-businesses in the UK, employing around 4.09m people (17.6% of the private sector workforce) and generating £552bn in sales (14.7% of that by all UK firms).

Stephen Roper, Director of the Enterprise Research Centre, said:

> "This study provides the first evidence of the value of digital adoption to micro-business productivity in the UK. There's a clear 'digital dividend' for the productivity of our smallest firms from adopting certain technologies and these effects increase with the number used.
>
> "Micro-businesses play an important role in all of our lives. They are our plumbers, our builders, our hairdressers and our mechanics. They are also our architects, designers, artisans, lawyers and accountants. By rooting business support and public information campaigns in the evidence, policymakers can help these firms to raise their productivity and have a major impact on the prosperity of UK plc."

CASE STUDY (Contact details and images available on request)

Kate Davies, Founder, Kate Davies Designs Ltd

When Kate Davies suffered a stroke at the age of 36, her career as a university history lecturer came to a sudden halt. Paralysed on her left side, and facing the reality of managing her new disabilities, she embraced her childhood love of knitting – in the process casting herself off into a new life as an entrepreneur.

Starting from scratch in Edinburgh, later moving to a rural location near Loch Lomond in the Scottish Highlands, Kate began creating knitting patterns inspired by traditional Scottish designs for people to download from the internet.

Eight years later her firm, Kate Davies Designs Ltd, sells a wide range of locally-made yarns, books and ready-made knitwear to 60 countries around the world, with exports making up 70% of sales. Kate's graphic design and marketing photography is handled by husband Tom Barr, while customer service is handled by ex-RBS employee Melanie Patton.

Last year, KDD reached a turnover of £650,000 with just three employees and is now looking to hire a new member of staff.

Digital technologies have been fundamental to KDD's business model. Eschewing traditional retail, the firm deals directly with suppliers, with 90% of sales direct to customers via its online shop. Suppliers and contractors collaborate on projects via cloud file-sharing service Dropbox, while the KDD team keep their bookkeeping up to date via the online Cashflow Manager system, allowing them to quickly calculate tax liabilities.

A savvy social marketer, Kate has 60,000 followers on Instagram and more than 15,000 newsletter subscribers – who are so engaged with the brand that new lines often sell out within hours.

"If you're not going digital, you're missing a trick in terms of cutting down your workload and becoming more efficient," said Kate. "It's made it possible for us to be a tiny business in a very remote location, but with massive international reach. I can deal with customers in New Zealand or Japan from my desk here in the middle of nowhere and can bring in skills and resources you wouldn't have access to otherwise. For a small business owner like me, cloud computing and online accounting systems just make things a hell of a lot easier."

ENDS

Notes to editors

1. Full report

A PDF copy of the full report, *Micro-business Britain*, is available on request. Please contact James Tout (details below).

2. Infographic

ERC Enterprise Research Centre

Microbusiness Britain

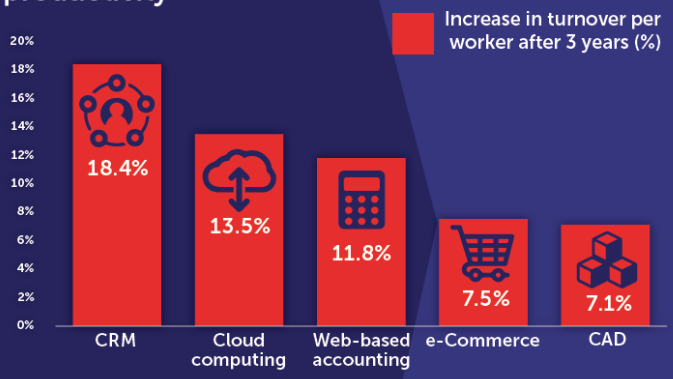
Microbusinesses (with 1-9 employees) make a major contribution to the UK economy

1.1m firms

4m employees

£552bn turnover

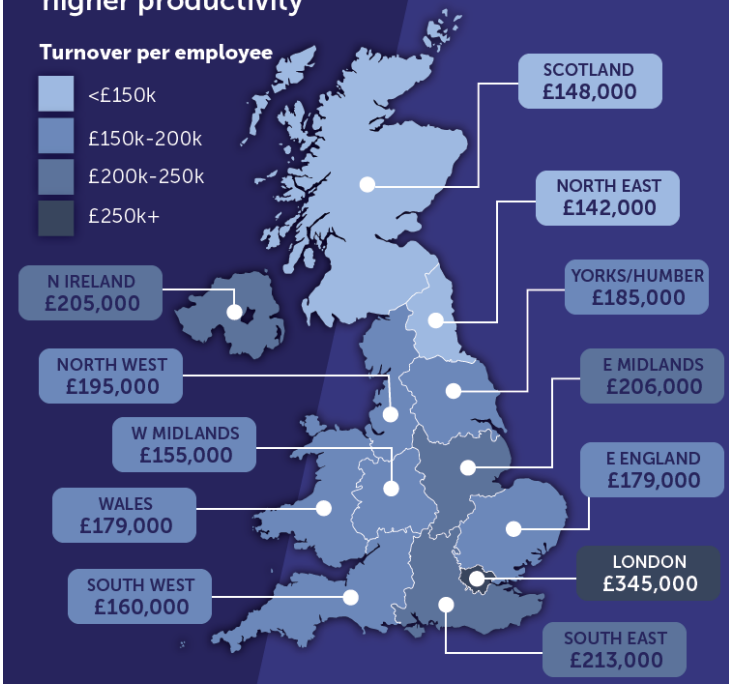
ERC research shows microbusinesses that adopt digital technologies see big gains in productivity



Doubling digital adoption among microbusinesses could boost the economy by:

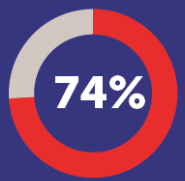
£16.6bn

Average sales-per-employee (a measure of productivity) varies across the UK. Innovation and exporting are linked to higher productivity

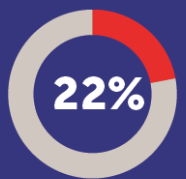


GROWTH AMBITION

A clear majority of microbusinesses want to keep their firms as they are - with only a minority aiming for significant growth



"Keep my business similar to how it operates now"



"Build a national or international business"

www.enterpriseresearch.ac.uk

About the Enterprise Research Centre

ERC is the UK's leading independent research institute on the drivers behind the growth and productivity of small and medium-sized enterprises (SMEs). It is funded by the Department for Business, Energy and Industrial Stategy (BEIS), the Economic and Social Research Council (ESRC), Innovate UK and the British Business Bank (BBB).
ERC is producing the new knowledge around SMEs that will allow us to create a business-friendly environment nationwide, grounded in hard evidence. We want to understand what makes entrepreneurs and firms thrive so we can spread the lessons from best practice and make the UK a more successful economy.
The Centre is led by Professors Stephen Roper of Warwick Business School and Mark Hart of Aston University, Birmingham. Our senior researchers are world-class academics from both Aston and Warwick Universities as well as from our partner institutions which include Imperial College, Queens University Belfast and the University of Strathclyde.
http://www.enterpriseresearch.ac.uk

Contact
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