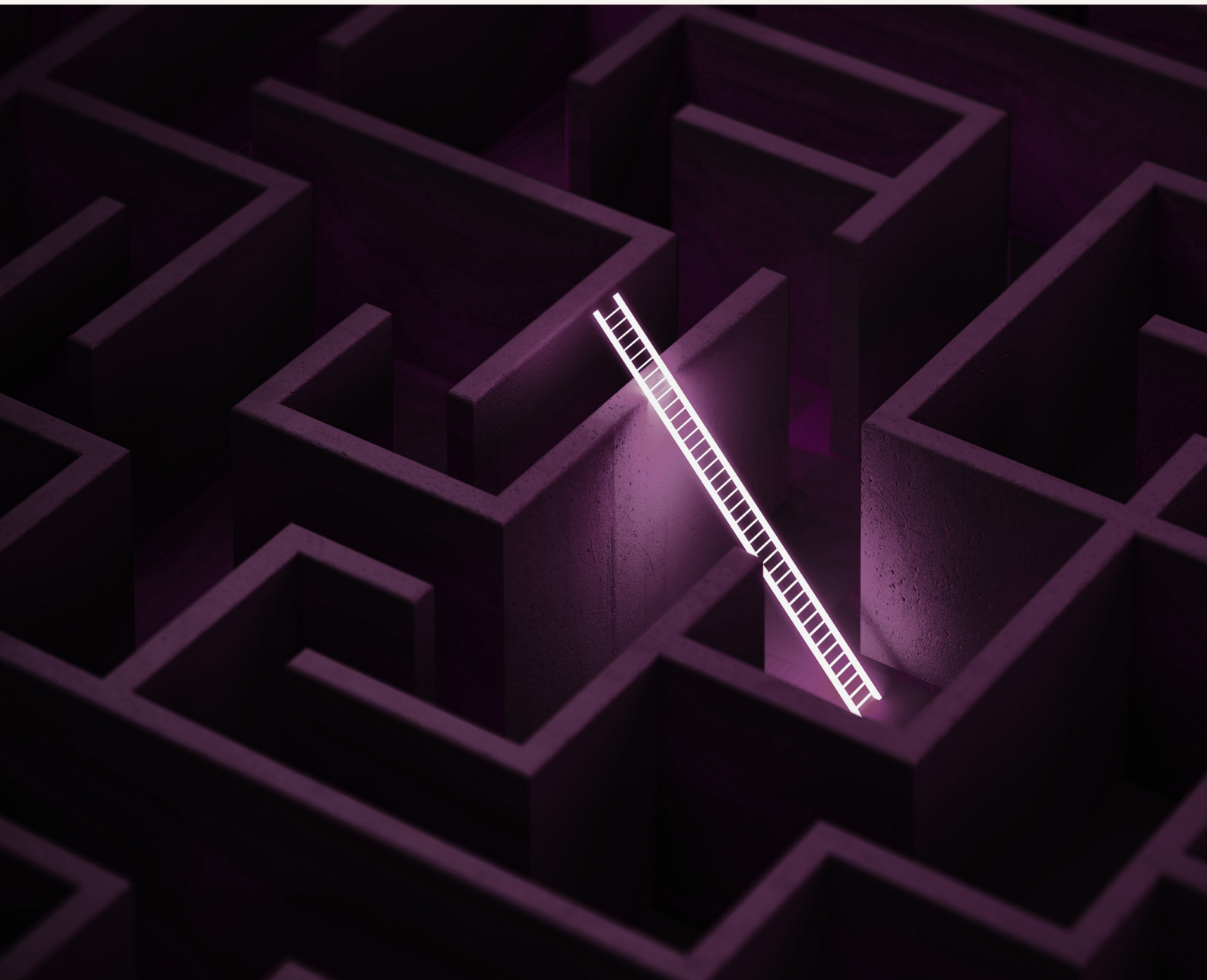
STARLING

The Productivity Puzzle:

How Digital Financial Tools Can Unlock SME Growth



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Foreword

Small and medium-sized enterprises (SMEs) employ 60% of private sector workers in the UK, playing a crucial role in the British economy.[1] They are the coffee shops which know your name, the tech startups solving tomorrow's problems and the family-run businesses that have anchored our high streets for generations.

This report is more than a collection of data; it is a tribute to the 5.6 million small businesses which serve as the beating heart of the UK economy.[2] In a world of continual change, these entrepreneurs remain our greatest constant, proving that while they may be 'small' in name, their impact is nothing short of monumental. Their success is not merely a corporate metric; it is a fundamental barometer of our national economic performance and driver of long-term growth. And yet, the UK faces a difficult productivity choice, with output per worker trailing behind our G7 competitors. Solving this requires us to empower SMEs to work smarter, not harder.

However, we know that running a business today isn't just about focusing on your passion, vision or success. It's about navigating endless to-do lists. Our research shows that the average SME spends £63,000 every single year on financial tasks [3] (e.g. bookkeeping, invoicing, tax returns). Even for microbusinesses of under 10 people, this figure stands at just under £30,000. This is time and money that could be spent on growth, innovation, and reaching new customers, not stuck in spreadsheets or chasing invoices.

This report identifies that SMEs already using digital tools for financial tasks report an average time-saving of 41%. Yet a significant digital divide remains. While awareness of technology is high, adoption is frequently stalled by a fear factor regarding implementation and a massive misperception of cost. A significant number of SMEs believe digital financial software costs 15 times more than the actual market price. Bridging this gap is not just about installing software, it is about fostering the digital skills and confidence necessary to reskill the workforce for a high-growth future.

To narrow the divide, we are presenting Starling's Five Point Plan to Support SME Digital Adoption. We need to move away from one-size-fits-all policies for SMEs and instead provide segmented and targeted support that prioritises microbusinesses and female-led companies. We're also recommending a new Financial Tool Cost Calculator to dismantle the myth that digital transformation is only for the big players.

Beyond the direct productivity boost for businesses, there would also be significant gains to the UK's tax revenue from increasing SME digital tool adoption. This report reveals that helping SMEs embrace digital financial tools could inject between £18.4-£25.3 billion into the UK economy, generating up to £10.4 billion in new tax receipts. To put that figure into perspective, it exceeds the revenue that would be raised by adding 1p to the basic, higher, and additional rates of income tax combined.[4]

At Starling, we can see first-hand the challenges SMEs face every day and are building the solutions to tackle them. We believe the bank account should be a hub for growth, not just a ledger. We are increasingly offering AI-powered features and launching our free HMRC-recognised Making Tax Digital (MTD) for income tax software in March. Our bank is also making Starling's invoicing feature available to all customers. These are all tools that allow leaders to focus more time on growing their businesses.

By working collaboratively to dismantle the barriers to digital financial tool adoption, we can empower every small business owner to trade their administrative burdens for growth, ensuring that the UK's economic engine room is fully fuelled for the journey ahead.

Adeel Hyder

Managing Director of SME Banking, Starling

Executive summary

Digital financial technologies offer a huge opportunity to increase the productivity of the UK's SMEs. This report demonstrates how digital financial tools can dramatically reduce the time spent by SMEs on administrative tasks, boosting productivity and allowing SME leaders to focus on their core business and growth of their firm. Our analysis, based on bespoke economic modelling, expert interviews and a large, representative survey of SME leaders shows that these tools have already delivered cost savings and efficiency gains of between £45.8 and £59.0 billion. Yet, a vast amount of untapped potential remains; we project that further adoption could unlock additional economic benefits of between £18.4 to £25.3 billion annually. With the aim of helping unlock these additional gains, the detailed results presented in this report also analyse the barriers to digital adoption faced by SME firms and their leaders. We use these findings to propose Starling's Five Point Plan to Support SME Digital Adoption of actionable recommendations for policymakers.

For the purposes of this research, digital financial tools refer to technology-based applications and platforms that help businesses manage financial processes electronically, automate routine tasks, and reduce administrative burden. The following tools were incorporated in the economic modelling outlined in this report: mobile/digital invoicing, digital tax submission software, counterparty risk tools, delayed payment options and merchant acquisition technologies.

CURRENT ECONOMIC BENEFITS

£45.8-£59.0

billion

POTENTIAL ADDITIONAL BENEFITS

£18.4-£25.3

billion

POTENTIAL TOTAL BENEFITS

£71+

billion*

*The lowest potential total figure here is £71.1bn; the highest potential figure is £77.4bn. The conservative estimate of current benefits (£45.8bn) correspond to the higher estimate of potential unrealised benefits (£25.3bn)

Starling's Five Point Plan to Support SME Digital Adoption

This report explores why digital financial tools such as digital invoicing and digital tax software must be a priority for the government. Based on both economic modelling and the experiences of SMEs, it proposes a five-point strategy to leverage the growing accessibility of digital financial tools, significantly enhancing productivity and supporting sustainable growth across the UK.

RECOMMENDATION 1: PRIORITISE ADOPTION OF FINANCIAL TOOLS

Government digital adoption initiatives set to be launched in 2026 should prioritise the uptake and effective use of core digital financial tools, where evidence shows the greatest potential time and cost savings for SMEs.

- ↗ Upcoming government adoption pilots and any new public-private programmes should be explicitly designed to increase SME adoption of financial tools.

RECOMMENDATION 2: DISMANTLE THE AFFORDABILITY PERCEPTION GAP

Financial support for digital adoption should be refocused to directly address misperceptions around cost, which our research shows are the single biggest barrier to adoption - particularly for microbusinesses.

- ↗ A new user-friendly online 'Financial Tool Cost Calculator' should be created and embedded in the Business Growth Service.
- ↗ If future grant or voucher schemes are developed, these must be designed using eligibility criteria based on strong evidence of both productivity gain and the experience cost-based barriers amongst specific segments.

RECOMMENDATION 3: IMPLEMENT SEGMENTED AND TARGETED SUPPORT FOR SMES

A one-size-fits-all approach to digital adoption will fail to reflect the significant variation across the SME population. To be effective, interventions must be tailored by business size and owner demographics, ensuring support aligns with the specific needs and barriers faced by different groups.

- ↗ Policymakers should prioritise microbusinesses when designing digital adoption interventions.
- ↗ Support should be more deliberately targeted at female-led micro and small businesses.

RECOMMENDATION 4:
BUILD A TRUSTED SUPPORT ECOSYSTEM

Government-led digital adoption support should be co-developed with - and communicated through - the intermediaries SMEs trust most, such as industry bodies, accountants, and business mentors, to maximise uptake, confidence, and sustained engagement.

- The Business Growth Service should embed trusted messengers at the heart of its platform using business owners and specialist advisers, such as accountants, as its public-facing voices.
- Any new advisory tools or offers - such as a UK CTO-as-a-service model - should be co-developed and co-branded with leading small business groups, accountancy bodies, and relevant industry organisations.
- Communication campaigns around the planned introduction of mandatory e-invoicing in 2029 must apply lessons from the rollout of Making Tax Digital.

RECOMMENDATION 5:
INTEGRATE DIGITAL ADOPTION INTO NATIONAL MENTORING INITIATIVES & LOCAL NETWORKS

Digital adoption should be embedded within existing business mentoring programmes and local support networks, using peer-to-peer learning to build confidence, share practical experience and normalise the use of digital tools among SMEs.

- The new Business Mentoring Council should make digital adoption a core and explicit focus of mentoring support for microbusinesses.
- Alongside this, future digital adoption pilots - while remaining primarily digital in delivery - should be designed to work through trusted local and regional business networks to boost engagement.

Introduction

SMEs are the engine room of the British economy. Improving the efficiency and productivity of SMEs is critical to the UK's long-term economic growth prospects. As the report from the SME Digital Adoption Taskforce identified, digital technology is key to unlocking the potential of SME businesses.

At Starling Bank, we wanted to understand the barriers preventing SMEs from using digital financial tools, which could help save time and costs in their business. Using detailed research with SME leaders, insight from SME policy experts, and new economic modelling, this report outlines the scale of the opportunity from digital financial tools, identifies the obstacles hindering adoption, and proposes the key interventions needed to help small businesses on their digital journey.

Based on self-reported survey data, UK SMEs estimate an average annual spend of approximately £63,000 on financial tasks, including internal staff resources and external consultancy. [5] Even for microbusinesses of under 10 people, this figure stands at just under £30,000. Greater adoption of digital financial tools could help SMEs reduce these costs and free up time for higher value business activities. Our analysis also indicates that, if more SMEs fully leveraged these tools, the resulting cost savings and productivity gains could contribute £18.4–25.3 billion per year to the UK economy.

Furthermore, although SMEs are aware of the benefits of digital financial tools, our research indicates that adoption is sometimes limited, and many businesses that have implemented these tools are not using them to their full potential.

In the following chapters, we use the data from a representative survey of 1,000 UK-based SME leaders to identify the key barriers preventing them from widespread adoption of digital financial tools and examine the enablers that allowed firms who have adopted these tools to make the switch.

Government policy plays a crucial role in encouraging the adoption of digital tools; it helps build awareness, deepen understanding and increase confidence in their use. But effective policy relies on robust data. This research addresses data gaps identified by the SME Digital Adoption Taskforce and offers practical recommendations for how support for SMEs can best be designed and targeted, as the government continues its rollout of the new Business Growth Service.

Size of the prize

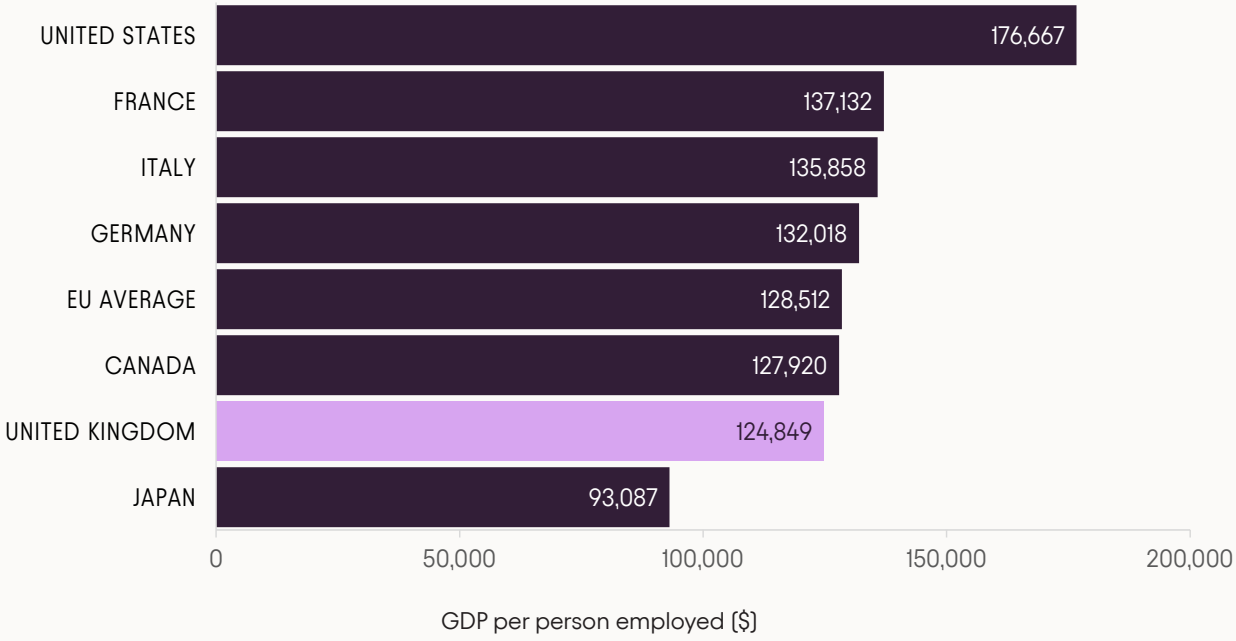
The opportunity from increasing the productivity of SMEs, particularly sole traders and microbusinesses is enormous. Our economic modelling shows that broadening the adoption and deepening the use of digital financial tools could add between £18.4 and £25.3 billion to the UK economy, helping to close the productivity gap with competitors such as France and Germany, and raising billions in additional tax receipts.

Furthermore, when viewed in the international context, the UK has a productivity problem. Our output per worker is below that of France and Germany, is 30% behind that of the US, and is even below the OECD average.[6] As then-Chancellor of the Exchequer, Gordon Brown once described it, productivity is the "fundamental yardstick of economic performance". [7] It matters not only for the long-run success of the economy, but is also key to how much the government has available to spend on public services. If the UK were able to increase labour productivity just to that of France, the economy would be 10% larger, and the Chancellor would have an additional £130 billion in tax receipts available to spend.[8]

The UK's productivity problem lies primarily at firm level, rather than being a reflection of individual workers. According to the most recent ONS data, 71% of workers in the UK work in firms with labour productivity below the mean.[9] While the mean average Gross Value Added (GVA) per worker is £53,000, there are over a million businesses where GVA per worker is below £25,000[10], as can be seen in Figure 2.

FIGURE 1: COMPARISONS OF LABOUR PRODUCTIVITY ACROSS THE G7

GDP per person employed, US$ PPP
OECD data, 2024



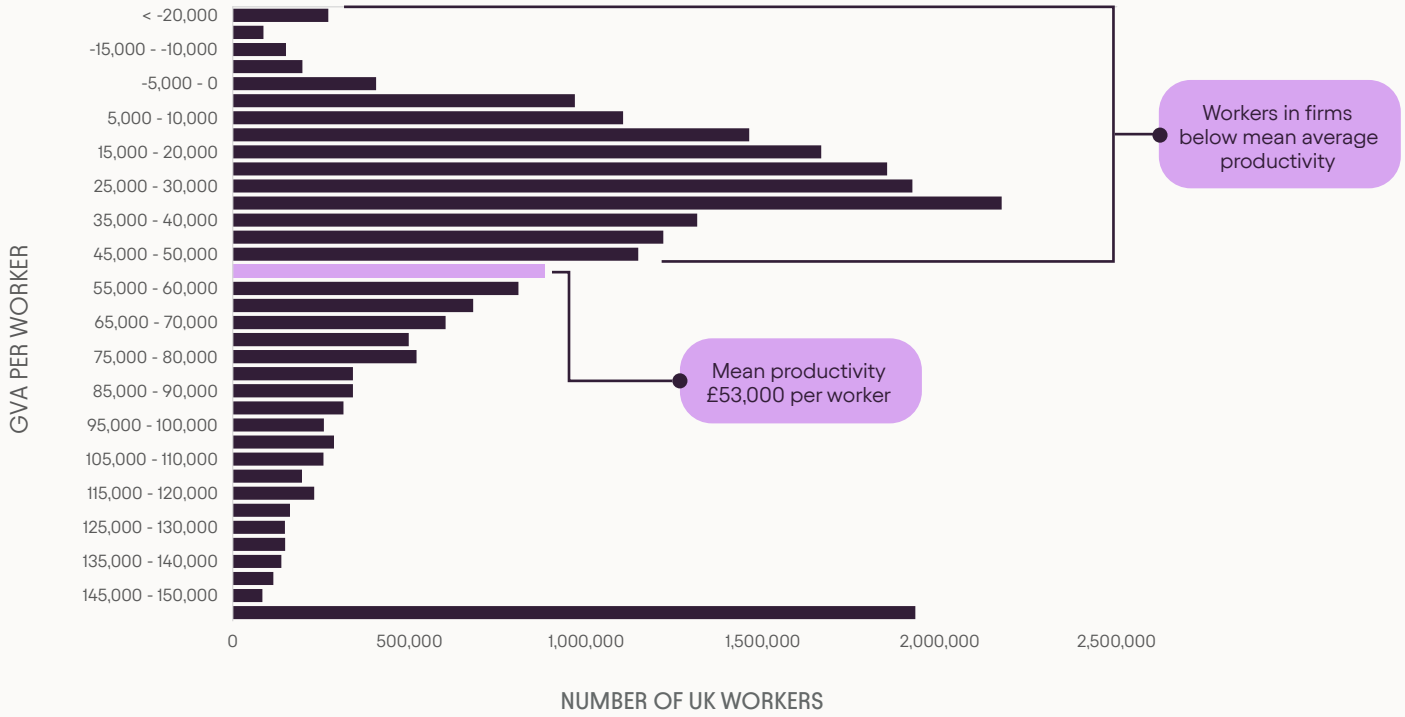
A key part of the productivity challenge for the UK is business size. Small and micro businesses have lower productivity per worker than large and medium sized businesses.[11] But these businesses employ over 13 million people[12] - nearly half of the private sector workforce[13] - meaning even a small change to the output of SMEs could have a large impact on the economy as a whole.

Some economic commentators have argued that governments should focus on maximising the scale and output of a few large and highly productive firms.[14] We certainly recognise that there is a role for policy to help highly innovative firms stretch the frontier of productivity.

FIGURE 2: VARIATION IN LABOUR PRODUCTIVITY ACROSS FIRMS

Number of workers by labour productivity

ONS, Firm-level labour productivity from the Annual Business Survey, 2022 data



But there is also a vital role for policy to help less productive firms to 'catch up.' Bringing the productivity of small and micro business up to the average productivity of large firms could add £105 billion to the UK economy.[15] That is more than the government spent on the entire defence budget in 2025.[16]

Improving the UK's productivity therefore requires a focus on helping our businesses, in particular SMEs, work smarter - digital adoption has a major role to play in supporting large and small businesses to improve their efficiency.

PRODUCTIVITY AND DIGITAL ADOPTION

Running a small business can be challenging. SME leaders want to focus on growing their business and improving the products and services that they offer, but there are time-consuming administrative and financial tasks that need to be done too. The average SME employs more than three staff and faces total costs of nearly £63,000 per year to manage its finances; even microbusinesses need on average slightly more than one employee for this purpose and pay out over £30,000 each per year.

The opportunity from digitalising these tasks is huge, saving money and allowing leaders to focus on their business. Firms that currently use digital tools for their financial tasks report a 41% time saving compared to using more traditional methods: SMEs in the capital report even higher savings of almost 50%.[17]

NATIONAL ECONOMIC BENEFITS

To understand just how big the opportunity for the UK economy is, we commissioned London Economics to build an economic model of the UK's SMEs using the data we gathered from SMEs in our survey. The model uses evidence from our survey on time savings, staff involvement and adoption levels and links the time saved on routine financial tasks to higher economic output at firm and economy level, scaled using official ONS business population data.

Current uptake and future potential

One of the judgements for this economic modelling is the balance between the existing level of economic benefits driven by firms having already adopted digital financial tools and the potential for further gains resulting from firms beginning to use digital tools or deepening their use within their business.

These inputs are based on assessments from survey respondents on the proportion of financial tasks currently performed with use of digital tools, and that could potentially be performed in this way. This was evaluated using a verbally anchored scale ('almost all,' 'most' etc.), as most respondents would struggle to give an exact percentage. The two modelling outputs on economy-wide productivity gains represent a more and a less conservative numerical interpretation of these responses.

Uncertainty also arises from respondents' perception of what tasks can be automated and limited understanding of the future opportunities for further automation of tasks resulting from developments in AI technology. We therefore present economic benefits as a range, showing results for both a higher and lower scenario for current uptake.

For more detail, see the annex to this report.

We found that digital financial tools are already delivering economic benefits worth between £45.8 and £59.0 billion (1.6% to 2.1% of GDP) for the UKs SME population each year. These existing benefits are concentrated in larger SMEs, with businesses employing more than 10 staff accounting for around three-quarters of existing gains, reflecting in particular the higher rates of existing adoption among these firms.

Despite the significant levels of adoption to date, there remains a huge economic prize for the UK from wider and deeper adoption. We found that between £18.4 and £25.3 billion of additional future gains (0.6% to 0.9% of GDP) could be achieved through further adoption and more intensive use of existing tools. This is a potential productivity gain similar to the sum raised by fuel duty annually[18] or that spent annually on the Home Office budget.[19]

London Economics also tested how the results change under different assumptions. This analysis indicates that the future benefits from SME adoption could range between £6.4 billion and £33.8 billion[20]. The top 5% of these simulations, representing the most optimistic view on our findings, show future benefits in excess of £62.3 billion.

FIGURE 3: ECONOMIC BENEFITS OF TOOLS ACCORDING TO CURRENT UPTAKE SCENARIOS

Estimated existing, potential and total gains per scenario
London Economics modelling

	Uptake scenario	
	Lower current uptake	**Higher current uptake**
Existing gains	£45.8 bn	£59.0 bn
Potential future gains	£25.3 bn	£18.4 bn
Total gains	£71.1 bn	£77.4 bn

WHICH FIRMS STAND TO GAIN?

Microbusiness stand to gain the bulk of our headline finding of £18.4 to 25.3 billion of future benefits from the adoption of digital financial tools. Our model shows that sole traders could see a £4.1 to £4.9 billion productivity boost from wider and deeper adoption, capturing around 20% of the total future benefit. A further £7.0 to £9.4 billion of benefits, almost 40% of the total is available for other microbusinesses, i.e. those with 1-9 employees.

These smallest businesses have the most to gain because of their lower current rates of uptake compared to larger SMEs. For analysis purposes, we have included sole traders within the microbusiness category; however, we have also broken out sole traders separately to illustrate how their patterns of behaviour and potential impacts differ from those of employer microbusinesses. As we explain below, this shows the need to focus efforts to drive digital adoption on microbusinesses in particular.

FIGURE 4: POTENTIAL ECONOMIC BENEFIT

Potential GVA Opportunity by Firm Size
London Economics modelling, lower current uptake scenario

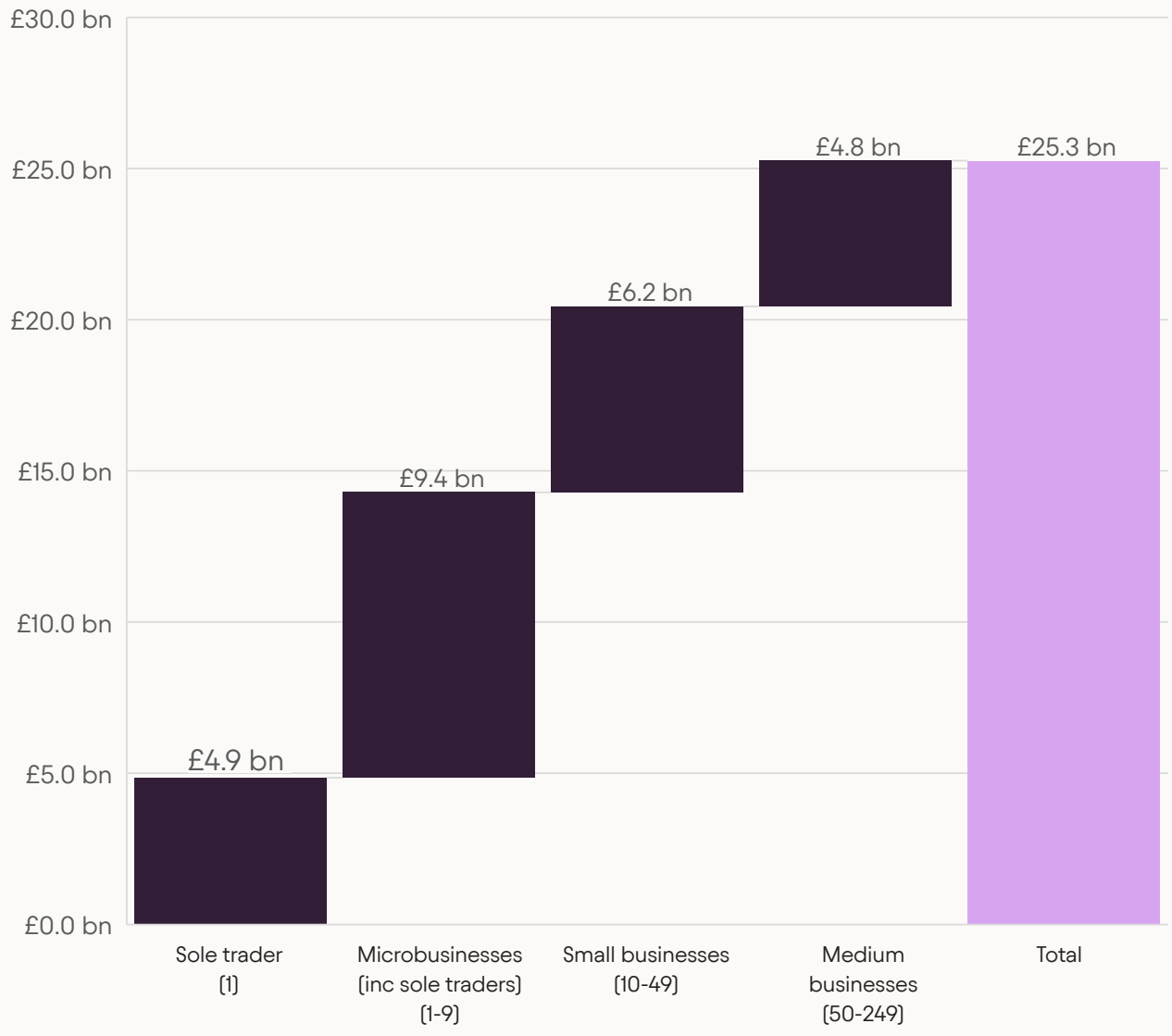


FIGURE 5 – ECONOMIC BENEFITS OF TOOLS ACCORDING TO BUSINESS SIZE

Range in estimated gains (lower and upper adoption scenarios)
London Economics modelling

Firm size	Sole traders (1)	Microbusinesses (inc sole traders) (1-9)	Small businesses (10-49)	Medium businesses (50-249)	Total
Existing gains	£2.2 to £3.2bn	£11.7 to £15.5bn	£18.6 to £23.5bn	£13.3 to £16.8 bn	£45.8 to £59.0bn
Potential future gains	£4.1 to £4.8bn	£7.0 to £9.4bn	£4.1 to £6.2bn	£3.2 to £4.8 bn	£18.4 to 25.3bn
Total gains	£7.1 to £7.2bn	£21.1 to £ 22.4bn	£24.8 to £27.7bn	£18.1 to £20.1 bn	£71.1 to £77.4bn

FIRM-LEVEL ECONOMIC BENEFITS

As well as looking at the national picture, we also consider the benefits of digital adoption at the level of typical individual firms within each business size group.

We derive the following indicative firm-level benefits by dividing the aggregate GVA gains (from our lower current uptake scenario) by the number of firms in each size bracket and converting to implied turnover impacts using ONS GVA-to-turnover ratios.

The headline economic impacts presented above use mean averages from survey data, which is the appropriate method for assessing aggregate GDP effects. For consistency we present mean figures in Figure 6 below. However, we know that the distribution of productivity among SMEs is significantly skewed, with workers in firms at the 90th percentile of labour productivity producing around 3.5 times more output than workers in firms at the median of the distribution[21]. Median estimates, which may better reflect typical firm-level outcomes, are provided in an extended annex accompanying this report.

FIGURE 6 – POTENTIAL FUTURE GAINS AT FIRM LEVEL

Mean estimated turnover increase by firm size, lower current adoption scenario assumed
London Economics modelling

Firm size	Turnover increase	% increase
Sole traders (1)	£2,705	2.9%
Microbusinesses (inc sole traders) (1-9)	£19,540	3.2%
Small businesses (10-49)	£79,985	2.3%
Medium businesses (50-249)	£420,910	1.7%
Weighted average	£11,900	2.4%

As the table above shows, the potential increase in turnover is greatest for microbusinesses, reinforcing our recommendation that microbusinesses should be the focus for policymakers. The difference between the mean and median figures here also shows the opportunity for less productive firms to learn from trailblazers and the importance of sharing experience and best practice when designing policy interventions.

In addition to the productivity benefit for SME firms, the Exchequer would also gain from additional tax receipts. In the next fiscal year, the total tax to GDP ratio is estimated by the OBR to be 41.2%.[22] Applying this to the £25.3 billion of additional GVA potential from the adoption of digital financial tools would suggest additional tax receipts of £10.4 billion could be available in a low uptake scenario. These additional tax receipts generated through greater SME productivity are more than would be raised by adding 1p to each of the basic, higher, and additional rates of income tax[23]. This productivity opportunity was a key driver of the work of the SME Digital Adoption Taskforce.

The additional £10.4 billion of tax receipts resulting from the increased productivity modelled here would be more than that raised by adding 1p to each of the basic higher and additional rates of income tax.

The opportunities from digital adoption in unlocking the potential of SMEs to become more productive are set to increase in the coming years as Artificial Intelligence (AI) provides new avenues to streamline processes and lessen the workload associated with finance tasks. As the OBR noted in its recent update of the productivity forecast for the UK economy, AI is the next general-purpose technology (GPT), with "broad applicability across the economy and the potential to reshape production processes." The OBR forecast anticipates AI alone to boost UK productivity by around 2.5% over the next decade.[24]

Awareness of the opportunity

Having identified the scale of the opportunity from the adoption of digital financial tools, the obvious question to ask is whether businesses, and in particular SMEs, are aware of these digital tools and the value they could add. Our research shows high awareness rates, with even the smallest business realising the opportunity.

Interviews conducted directly with UK SME decision makers as part of this research indicated a high level of awareness regarding the advancement of finance-related tools, including knowledge that a range of different tools are available. However, the depth of such knowledge was inconsistent, with some individuals possessing only a surface-level understanding.

> **"I notice more advertising now for software for small businesses – definitely a lot more than five years' ago.**
>
> HOSPITALITY & LEISURE BUSINESS, 10-49 EMPLOYEES

> **"Invoicing tools seem to be a real step up in technology, I used to do a lot of this manually when I had my previous businesses."**
>
> TECHNOLOGY BUSINESS, 2-9 EMPLOYEES

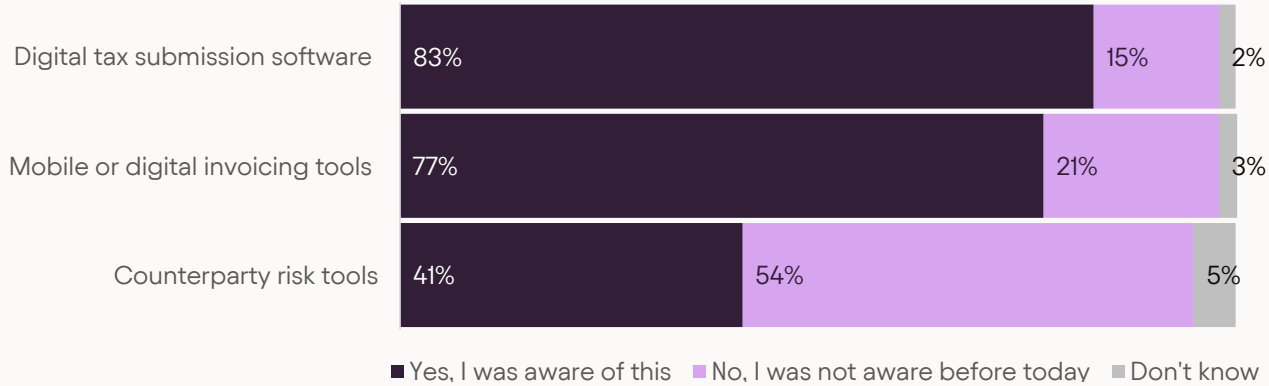
Our quantitative research, as shown below in Figure 7, shows high awareness of the key digital tools among SMEs. Digital tax submission software was the most recognised financial tool in the survey, with 83% of SMEs and 78% of sole traders reporting awareness. This high recognition is likely due to the upcoming mandatory requirements of Making Tax Digital, which comes into effect in April 2026.

Survey respondents also showed a high familiarity with digital invoicing tools, with 77% being aware of them. Perhaps unsurprisingly, this familiarity was higher among businesses with a mixed Business-to-Consumer (B2C) and Business-to-Business (B2B) model (83%) compared to those purely operating B2C (72%).

Awareness was lowest for counterparty risk tools with just 41% of our representative sample of UK SMEs and only 32% of microbusinesses knowing about these products.

FIGURE 7: FINANCIAL TOOL AWARENESS

% Selecting each option | Base: All respondents (n=1001)

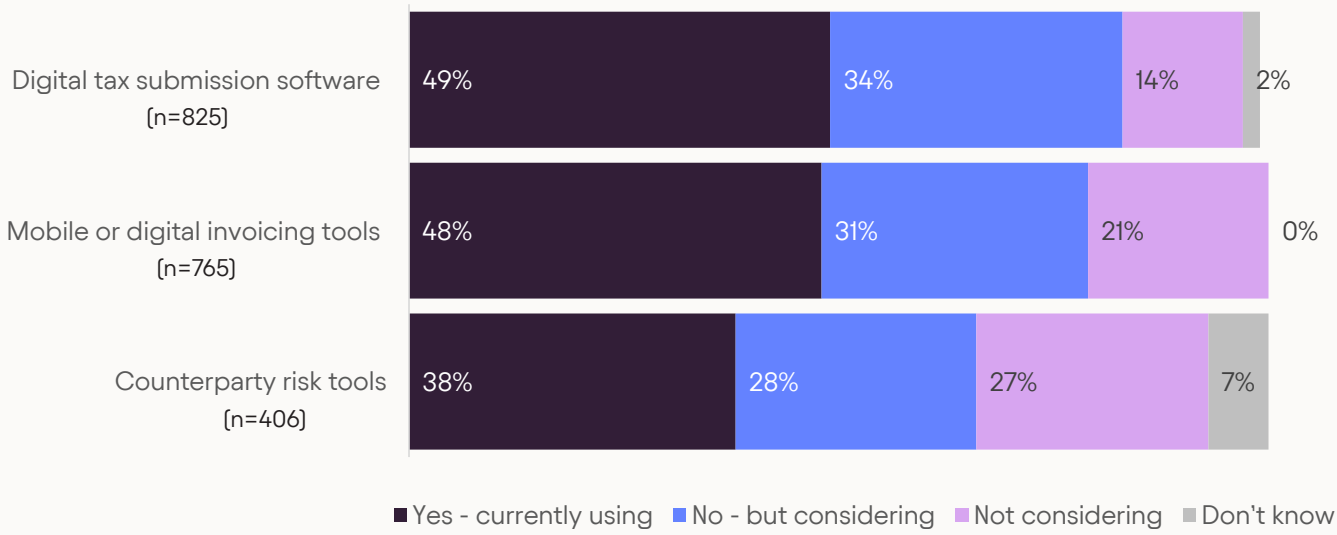


CONSIDERATION

As well as having high awareness of digital tools, most SMEs are either already using or considering the use of these products – in particular, digital tax software and mobile invoicing tools.

FIGURE 8: FINANCIAL TOOL USE AND CONSIDERATION

% Selecting each option | Base: All aware of each tool

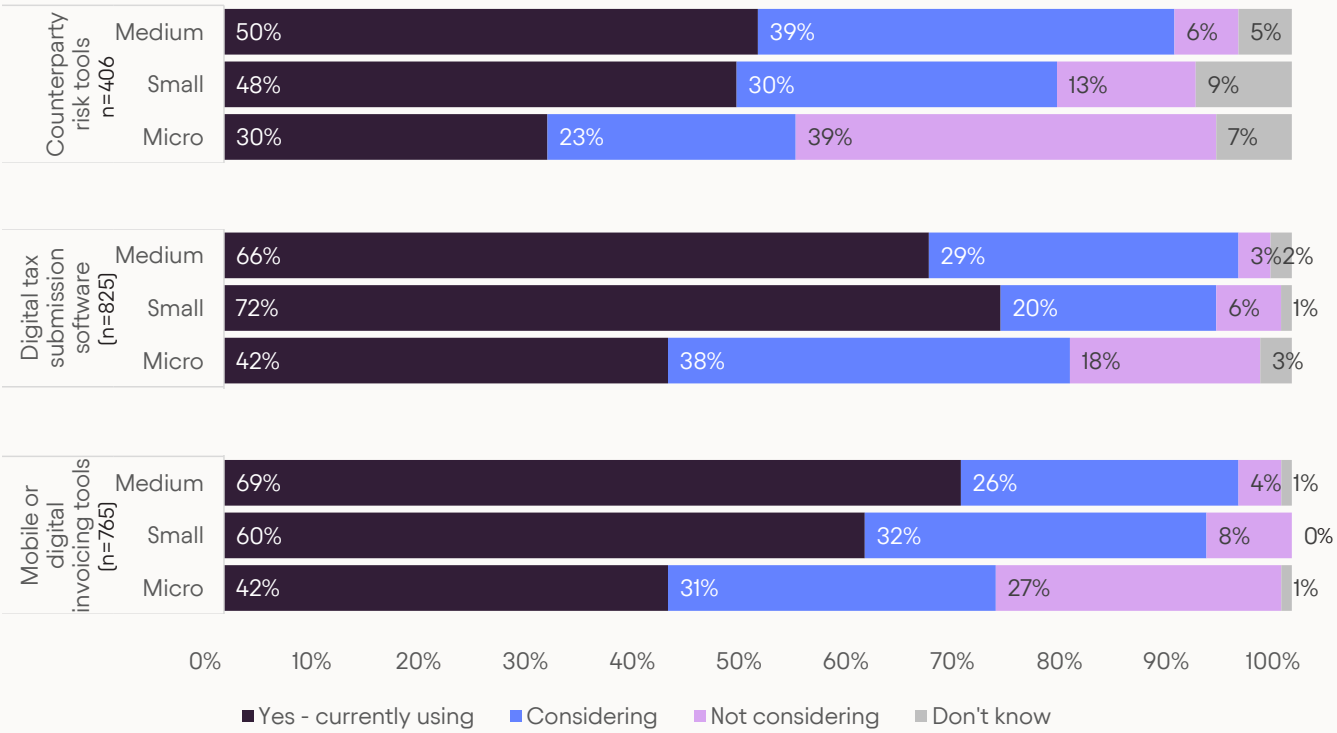


Consideration for different digital financial tools varies by size of SME, as shown in Figure 9 below. In general, medium sized businesses are the most likely to already be using these tools which might be expected given their larger size. However, for digital tax submission software, current rates of adoption were highest among the small business cohort.

FIGURE 9: VARIATION IN USE AND CONSIDERATION OF DIGITAL TOOLS BY SIZE OF FIRM

Financial tool consideration

% Selecting each option | All aware of each tool



The challenge is not a lack of awareness regarding digital financial tools; therefore, dedicating limited government resources to simply advertise their availability would be inefficient. Instead, SMEs require support to understand that the cost of these tools is much lower than they perceive, and they need tailored advice on selecting and implementing the right tools for their business.

USE OF DIGITAL TOOLS

In our survey, 84% of SMEs reported using a digital tool for at least a few financial tasks within their business; half of SMEs (52%) say they use digital tools for most or all of these tasks. Despite the encouraging headline, adoption varies significantly between business groups. Among medium sized businesses, 37% have almost all of their financial tasks managed with digital tools whereas for microbusinesses, it is 16%.

Even among SMEs that have adopted digital tools, there is further scope for productivity gains. Only a quarter (26%) of firms utilise digital tools for "almost all" financial tasks. This indicates that whilst there is significant scope to widen adoption, there are also considerable productivity gains that could be achieved by SMEs improving - and deepening - their use of digital processes.

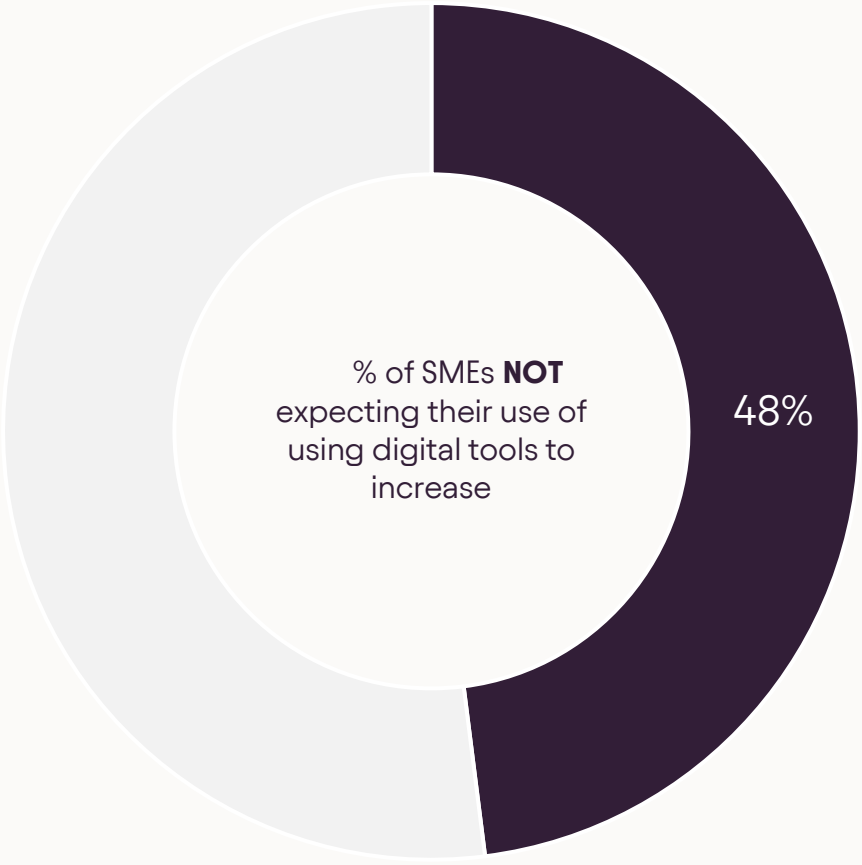
We also found that, among firms who are already using digital financial tools, 50% expect to make greater use of them in the future. The expected uptake is higher among medium sized businesses (70%), compared to small businesses (54%) and sole traders (43%).

Across the SME population, however, 48% of firms expect their use of digital tools to remain the same or even reduce. This is a surprising proportion given the rapid evolution of digital tools and the progress, driven in part by AI, in how much value they could add for SMEs.

The expectation that use of tools would not change in future was especially prevalent among microbusinesses. Whilst getting SMEs to take a first step into digital financial processes should remain the priority for government support, ministers must keep under review evidence that particular cohorts of firms are getting stuck at relatively low levels of digital adoption and consider specific sectoral interventions if future data show these are required.

FIGURE 10:OUTLOOK ON INCREASED USE OF TOOLS AMONGST EXISTING ADOPTERS

% Expecting use not to increase in future
All currently using digital tools (n=836)



Recommendation 1: Prioritise core digital financial tools

Government digital adoption initiatives set to be launched in 2026 should prioritise the uptake and effective use of core digital financial tools, where evidence shows the greatest potential time and cost savings for SMEs.

ACTION

Future digital adoption pilots and any new public-private programmes should be explicitly designed to increase SME adoption of financial management tools. Tools including invoicing, digital tax submission and accounting software should be embedded as the primary focus of programme design, funding criteria, and delivery partnerships.

KEY FINDINGS

- SMEs spend an average of 34% of their time on financial tasks, at an estimated cost of £63,000 per year. For microbusinesses of under ten people, this figure stands at just under £30,000.
- Current users of digital financial tools report these saving up to 41% of time spent on financial administration, with SMEs estimating 37% of financial tasks could be automated or replaced using existing digital tools.
- Medium-sized firms, which have higher adoption rates, overwhelmingly report that benefits outweigh costs.
- Time freed up from further adoption of digital tools could be used for higher-value activities, supporting revenue growth.

Size matters

Our research explores the different perceptions and experiences of different sizes of SMEs - micro, small and medium businesses. The barriers to adoption identified by SMEs vary with size, as does the level of trust in sources of advice and guidance. Understanding these differences and how they impact a firm's approach to digital adoption is key to designing the right interventions to support SMEs.

There are 5.7 million private businesses in the UK, of which only 8,335 are not SMEs. In other words, 99.85% of businesses are SMEs.[25] Despite this scale, policy conversations typically group these businesses together, failing to recognise the enormous variance that exists among SMEs.

At the smallest end are the 3.2 million sole traders.[26] This group is the least likely to already be using digital tools; for example, only a third (35%) currently use accountancy or finance software, and only a fifth (21%) have CRM or customer management software. When the sales manager is the same person as the finance director, it can understandably be hard to find the time to research new software and overcome an attachment to existing processes.

At the other end of the SME spectrum are the 38,435 businesses that have between 50 and 249 employees.[27] Due to the larger staff count, roles within medium businesses are more specialised, meaning finance staff may have greater capacity to select and implement digital tools to replace manual processes. A significant 89% of these firms already use accountancy or finance software, and an impressive 74% are using AI tools in their business.

These distinct groups showed variations in the barriers they experience to digital adoption, the enablers they identified as helpful, and their perception of their own digital adoption progress compared to similarly sized businesses.

For the microbusinesses in our survey two barriers stood out: financial constraints and the belief that "current processes work well for us." Both were identified by 32% of microbusinesses, a significantly greater share for both barriers compared to larger SMEs. In addition to the survey, we also interviewed a number of business owners, with this feeling of 'process inertia' being mentioned in particular by microbusiness owners.

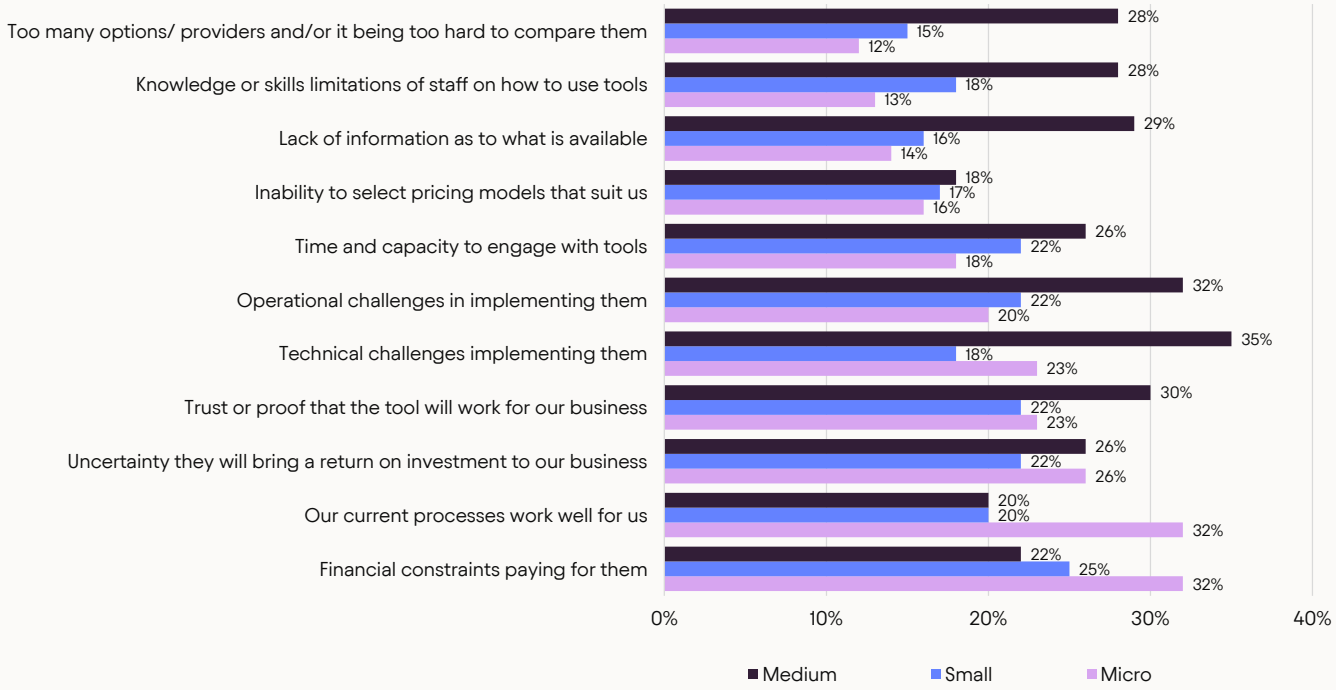
Digital tools are frequently perceived as costly, with additional concerns around the time required for implementation, training, and the disruption to established processes. These factors often deter uptake until businesses reach a clear 'tipping point' where the benefits outweigh the perceived challenges. Furthermore, information overload can hinder businesses in identifying trusted and suitable options, exacerbating hesitation to adopt digital solutions.

> **"I just assume that things are costly...The more you're going to offer me, the more I'm going to have to pay for it...I suppose there's an unwillingness to look into it, because you just assume it's not going to be cost effective."**
>
> HOSPITALITY & LEISURE, 2-9 EMPLOYEES

For medium sized businesses, the most cited barriers were the technical and operational challenges of implementing digital tools. These concerns were selected by firms with 50-249 employees which was significantly more often than identified by smaller SMEs. While medium sized businesses will have more capacity to implement and operate new methods, it is also the case that doing so may be more complex, for example, due to the need for integration with multiple existing systems elsewhere in the business.

FIGURE 11: BARRIERS TO ADOPTION

% Selecting each option | Base: All Respondents (n=1,001)



SMEs of different sizes also had different views of what the government could do to support digital adoption, with each size category having a different preferred intervention by a statistically significant margin.

Government grants were highly popular with microbusinesses, with 45% of these businesses selecting access to a grant to cover part of the cost as one of the most useful things the government could do. However, grants were significantly less likely to be selected by larger SMEs. We discuss grants as a policy intervention in the chapter on cost as a barrier.

For small businesses, tax relief was the most popular choice. For medium sized businesses, access to expert advice was the most selected by a significant margin.

FIGURE 12: PREFERRED GOVERNMENT SUPPORT IN DIGITAL TOOL ADOPTION

% Selecting each option, by category

Microbusinesses (1–9 employees)
A grant to cover part of the cost of adoption
45%

Small businesses (10–49 employees)
Tax or business rates relief for adopting businesses
43%

Medium businesses (50–249 employees)
Access to expert advice on selecting or using digital tools
48%

SMEs compare themselves to other SMEs and we wanted to understand where businesses in our survey thought they were on the digital adoption journey relative to businesses of a similar size operating in the same sector. The most common response was that businesses thought they were using digital tools about the same as their peers, with 47% of all SMEs putting themselves in that category.

However, the perception of relative performance differs significantly based on business size. Medium sized businesses displayed the highest confidence, with 51% believing they were ahead of smaller firms and only 5% feeling they had fallen behind. In contrast, microbusinesses were less confident of their relative position, as only 18% considered themselves ahead of similar firms, while a larger proportion (21%) they were behind most of their peer group.

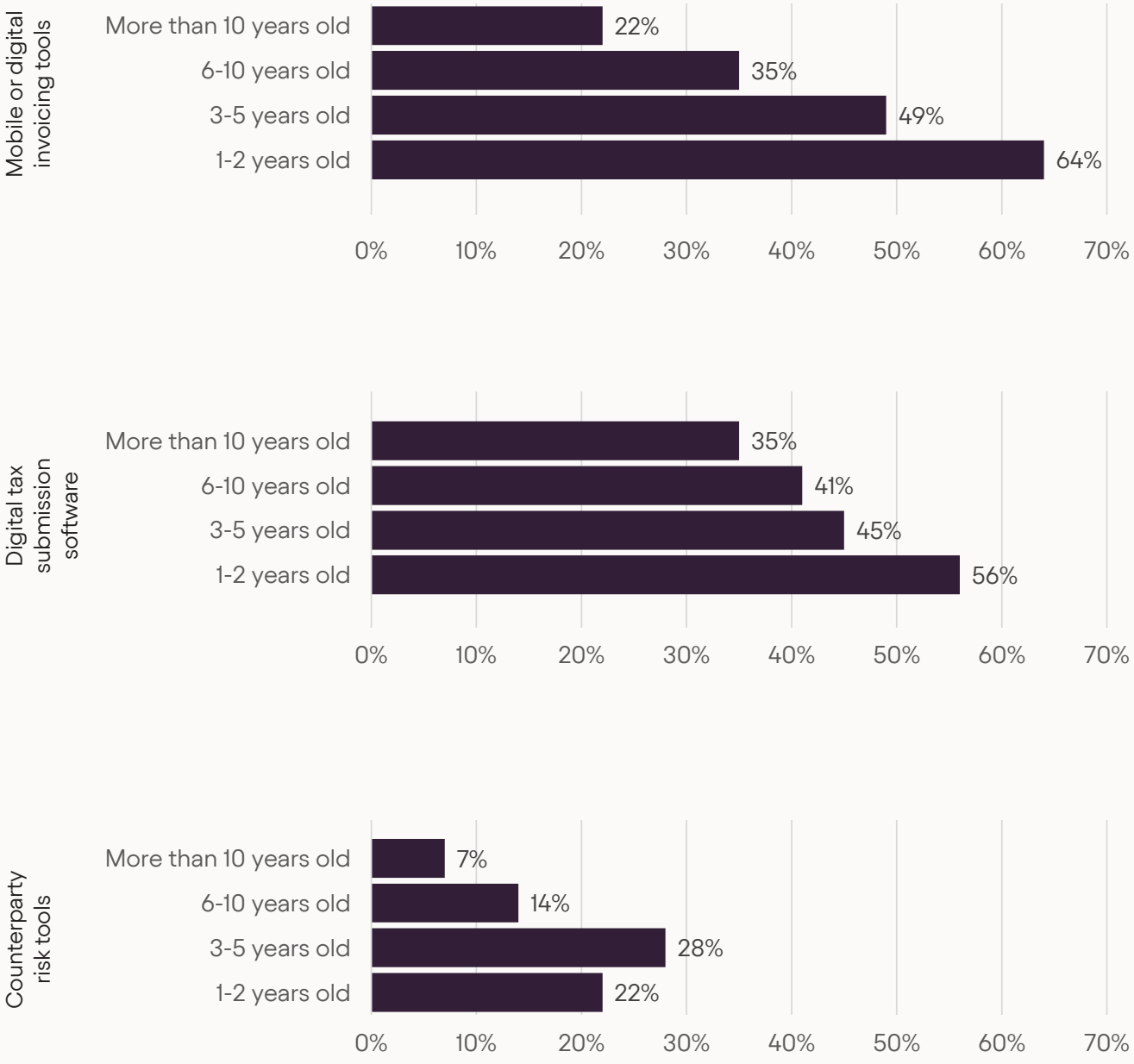
NEW SMES ARE HIGHLY DYNAMIC

New micro and small businesses (defined as those established within the past two years) are a highly dynamic group and show some of the fastest growth of job creation in any business category. While only 6.9% of total jobs are in such firms, they account for more than a quarter (27.2%) of all new jobs created.[28]

Furthermore, newer businesses report higher rates of digital tool adoption than long-established businesses. For example, on digital invoicing tools, 64% of businesses established one to two years ago report using these tools compared to 22% of SMEs established more than a decade ago. This disparity may in part relate to the phenomenon of 'existing system inertia' identified above as a barrier frequently experienced by SMEs; in other words, older businesses are more likely to have entrenched processes, whereas newer businesses are free to adopt the latest processes.[29]

FIGURE 13 : TOOL USE BY BUSINESS AGE

% currently using | Base: All respondents (n=1001)



The cost barrier

Digital tools are generally not expensive to access, yet cost is the barrier most cited by SMEs for not taking up the opportunity. This derives from SMEs having very high perceptions of the costs of these tools. Overcoming perceived costs is more complex than simply offering a grant to meet a part of the real-world cost.

The single most cited barrier to adoption is cost. Three-in-ten (30%)[30] SMEs identify financial constraints as the reason their business is less likely to use digital tools and 19% say this is the single biggest barrier to adoption that they face. This is especially true for the smallest businesses (those with a turnover under £100,000) where 38% identify cost as a barrier and 24% say this is the biggest barrier.

> **"It feels almost like a luxury rather than a necessity at this stage of the business. Subsequently I don't know if it's right to invest in such software as a priority."**
>
> MICROBUSINESS, CONSUMER SERVICES, ON DIGITAL TAX SUBMISSION SOFTWARE

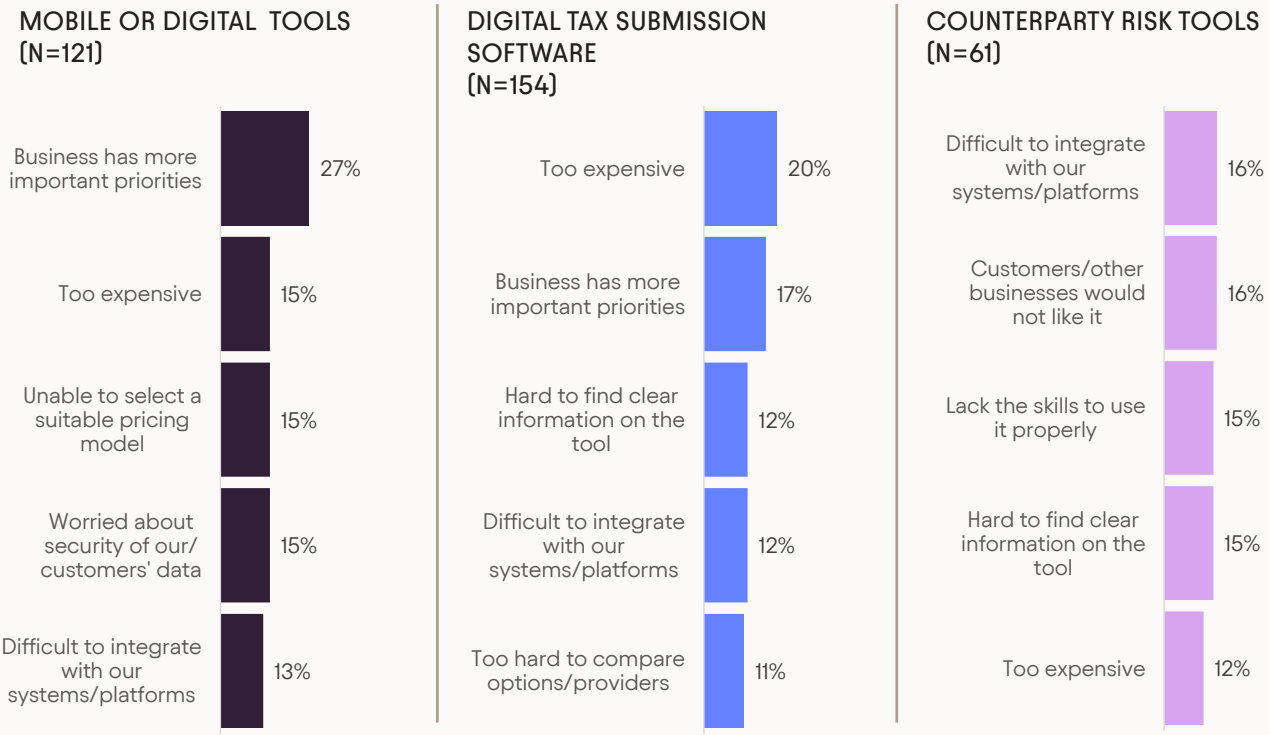
To explore the perception of cost further, we specifically examined businesses that reported considering the use of each tool individually.

For digital tax submission software, the perception that these were "too expensive" was most cited as the biggest barrier to moving from consideration to adoption.

However, this was not the case for mobile or digital invoicing, where cost was selected second behind the business having more important priorities. For counterparty risk tools, expense was considered the fifth biggest barrier, with difficulty to integrate with existing systems or platforms being selected as the primary barrier.

FIGURE 14: BIGGEST BARRIERS TO ADOPTING EACH TOOL

% Selecting each option | Base: Considerers of each tool



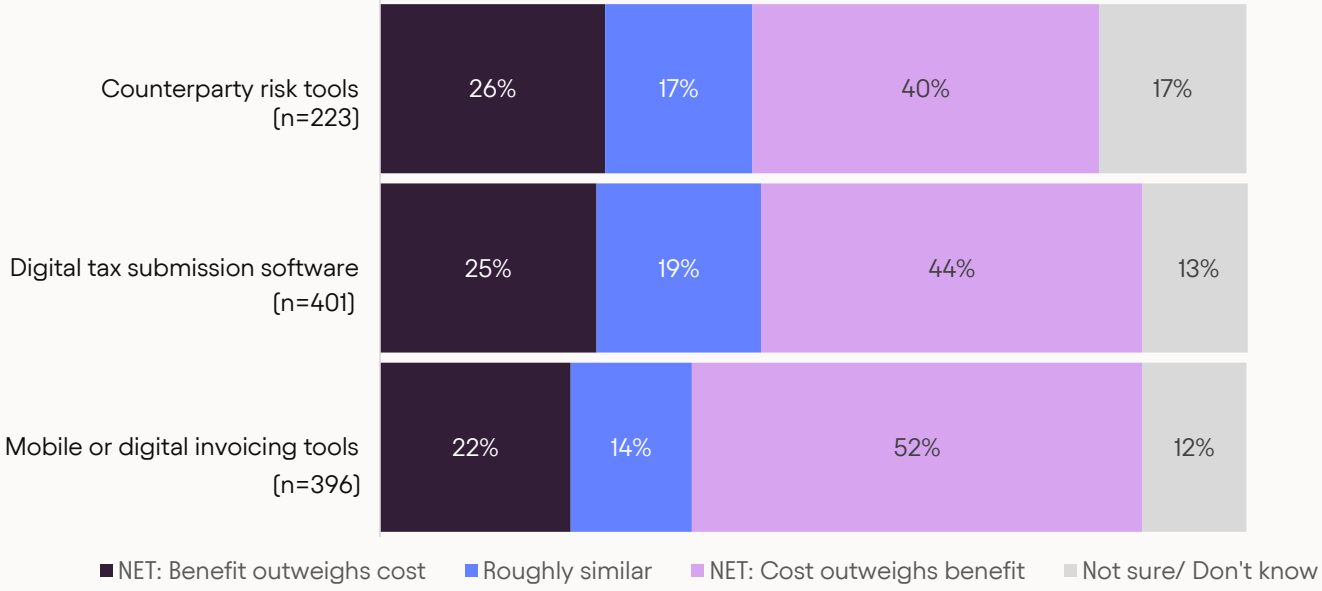
Beyond the simple cost barrier, a lack of confidence in the return on investment from digital tools is hindering adoption, cited by 26% of SMEs as making them less likely to adopt.

To consider this in more detail, we asked respondents to weigh the expected monetary costs against the expected monetary benefits. The findings revealed that even for the most widely adopted tools, such as digital tax submission and digital invoicing software, more firms believed the costs would outweigh the benefits than the other way round.

FIGURE 15: COST/BENEFIT ASSESSMENT OF ALL TOOLS

SME cost-benefit assessments of each tool

% Selection each option | Base: All non adopters aware of each tool



PERCEPTIONS OF COST

The UK government "is committed to ensuring the availability of free software products for small businesses with simple tax affairs.[31]" HMRC has provided tools on gov.uk to help small businesses identify free software that is suitable for the Making Tax Digital programme – both for VAT and the forthcoming MTD requirement on income tax.

Therefore, it is surprising that 20% of firms considering the uptake of digital tax submission software state that the biggest barrier to adoption is because its "too expensive". To better understand this cost perception, we asked businesses to estimate the cost for "a business like yours" to use each of the digital tools. The responses were striking.

Across all businesses in our survey the average expected cost of digital tax software was almost £12,000 a year and for counterparty risk tools the expectation was over £21,000 a year.[32]

Underneath these headline estimates there are some interesting patterns. As might be expected, larger businesses tend to have higher cost estimates for digital tools, which is likely due to the greater complexity of the firm's finances and larger number of user licences required.

FIGURE 16: PERCEIVED MONTHLY COST OF TOOLS - THOSE YET TO ACQUIRE THEM

Base: All not using a particular tool

Only a small minority of respondents expected to be able to use tools without a cost. For example, among those who were aware of digital tax submission software but not currently using it, only 7% believed they could use such a tool for free.

The expected costs highlighted above are many times higher than the actual cost of many digital tools on the market. To evidence this, we compared three well known named brands (which we have anonymised here), excluding special offers. Vendor 1's top of the range accounting package has a standard price of £65 per month. The similarly-advanced package from Vendor 2 has a monthly payment option at £115. From Vendor 3, the top package has a standard price of £59 per month. These should be considered an upper bound for most of the businesses in our survey groups, especially since each of these providers offers lower cost options that can still perform more than one of the tool functions in our survey. For example, the basic package from Vendor 3 can offer digital tax submission and digital invoicing for a standard price of £18 per month. Comparing these with the perceived costs above, we can conclude that SMEs perceive the cost of digital tools to be at least 15 times higher than the real-world cost of even high-end digital finance software.

Comparing these real-world costs with the potential benefits found in our economic modelling above demonstrates, in direct contrast to the perceptions of those surveyed, the extent to which the benefits of digital financial tool adoption outweigh the costs. In the 'size of the prize' chapter, we showed that for a typical microbusiness, the adoption of digital financial tools would be likely to add almost £9,000 to annual turnover; 40 times higher than the perceived cost. For a typical small business, the uplift would be over £39,000; 181 times higher than the perceived cost.

OVERCOMING THE COST BARRIER

Given that cost is the most cited barrier to adoption, it is perhaps little surprise that when asked how the government can support SMEs, the most cited option is "a grant to cover part of the cost of adoption." Of all SMEs, 42% said grants were their preferred form of support. This preference is particularly notable among microbusinesses, with half (50%) of this group specifically calling for grant support. Indeed, grant support is the most cited across all industrial categories, as can be seen in Figure 17 below.

However, there are reasons to consider that grants – or at least grants on their own – may not be the most effective means for the government to increase digital adoption.

The first is the experience of the UK's Help to Grow: Digital scheme (HtGD). This scheme aimed to boost technology adoption by offering a digital technology voucher which could cover 50% of the cost of new software for SMEs for up to 12 months. HtGD opened in January 2022 and was intended to run until March 2025. However, following much lower-than-expected uptake it was closed for new applications after just 13 months. HtGD was intended to reach 100,000 SMEs, with a particular focus on SMEs who were less aware of digital technology; in practice just 830 vouchers were ever redeemed.[33] Given the potential generosity of the scheme – the voucher value was capped at £5,000 – this represents an extremely low rate of uptake.

FIGURE 17: PREFERRED GOVERNMENT SUPPORT IN DIGITAL TOOL ADOPTION – TOP RESPONSE

% Selecting each option, by category

Primary industries	Industrial sector	Consumer services	Digital economy	Public & community
A grant to cover part of the cost of adoption	A grant to cover part of the cost of adoption	A grant to cover part of the cost of adoption	A grant to cover part of the cost of adoption	A grant to cover part of the cost of adoption
31%	43%	46%	40%	41%

Initially, the scheme was limited to firms that had at least five employees, a requirement that excluded more than half of all SMEs. This restriction was removed in July 2022. In part, this reflected demand from the smallest of businesses – by the time the scheme closed almost half (46%) of all applications had come from businesses with fewer than five employees, and most redemptions for accountancy and e-commerce software came from such businesses.[34]

Simply repeating a grant scheme, after the experience of having tried HtGD and having had to abandon it after just 13 months, would not be advised.

A second reason to question whether a grant alone would be successful relates to the high perceptions of costs, as outlined above. Given the high level of awareness of digital financial tools, we considered why the 50% voucher grant was not more attractive to more SMEs. If an SME perceives that the cost of digital tax software is almost £12,000, for example, then even

FIGURE 18: AVERAGE MONTHLY COST OF TOOLS BY SIZE

Digital Tool	Average monthly cost estimate				
Firm size	**Total avg.**	**Sole trader**	**Micro businesses**	**Small businesses**	**Medium businesses**
Mobile or digital invoicing tools	£974	£850	£748	£2,481	£716
Digital tax submission software	£973	£865	£719	£1,524	£3,566
Counterparty risk tools	£1,771	£1,719	£1,510	£2,611	£1,924

with a 50% voucher they will see a cost barrier of £6,000. If instead they were aware that the real-world cost was closer to £200 per year, then a £100 cost to the SME presents much less of a barrier. In other words, education on the actual cost of digital tools may be needed to make a grant scheme turn considerers into adopters.

The perception that the cost outweighs the benefits of adopting digital tools is particularly strong among microbusinesses. In contrast, medium-sized businesses are more likely to view the benefits as outweighing the costs. Smaller SMEs, in particular, are split on this view, highlighting that perceptions of digital tools vary significantly depending on business size and stage of the business lifecycle.

PRICING MODELS

For many firms, overcoming the cost barrier came down to finding the right way to price and pay for a digital financial tool. In our survey, 39% of SMEs using digital tools identified being "able to select a pricing model that suited us" as one of the most important factors in their decision making, rising to 51% among medium sized businesses. This further evidences our thesis that when SMEs gain a better understanding of actual pricing options, their barriers can rapidly fall away.

When thinking about overcoming the cost barrier, particular interest should be paid to SMEs in industrial sectors. These businesses report a significantly higher share (over 43%) of relevant staff time is taken up on financial tasks, compared to only 32% in other sectors.

TAX RELIEF AS AN ALTERNATIVE TO GRANTS

A financial alternative to grants that was popular with many businesses was a relief from tax or business rates. This was a preferred option for government support among 33% of SMEs and was generally more popular with larger SMEs. It was also more popular with male SME leaders (36%) than female (26%).

However, tax relief is unlikely to be an attractive option for driving adoption among the smallest of businesses. Only 25% of sole traders cited tax relief as a useful way for the government to support companies to make greater use of digital financial tools, and 26% of respondents whose turnover is below £100,000.

Business rates relief is likely to provide no benefit to many of the smallest businesses most in need of support. While business rates are paid by most businesses operating from non-domestic premises, many of the smallest businesses are not in scope at all. This is because a) small business rate relief means that no tax is payable in regard of a property with a rateable value of £12,000[35] and b) many microbusiness do not operate from rateable premises at all, for example because they operate from the proprietor's home. The growth in the use of coworking spaces and flexible office plans also limits the applicability of a business rate discount.

Recommendation 2: Dismantle the affordability perception gap

Financial support for digital adoption should be refocused to directly address misperceptions around cost, which our research shows are the single biggest barrier to adoption-particularly for microbusinesses.

ACTION

A new user-friendly online 'Financial Tool Cost Calculator' should be created and embedded in the Business Growth Service. This calculator should provide a quick and user-friendly way for SMEs to identify the estimated cost of adoption of a digital tool for their individual business. Government should shift from general awareness-raising towards interventions that help SMEs better understand the true, often much lower, cost of digital financial tools. The new Business Growth Service provides an opportunity to help SMEs assess affordability and value in a straightforward way.

If future grant or voucher schemes are developed, these must be designed using evidence-based eligibility criteria. This will avoid the uptake challenges seen in previous initiatives, such as Help to Grow Digital. Given that sole traders and microbusinesses are most likely to cite cost as a barrier, any scheme should ensure thresholds allow for the purchase of standalone, high-value tools (such as invoicing software), rather than inadvertently crowding out demand from the businesses most in need.

KEY FINDINGS

- Microbusinesses frequently overestimate the cost of digital financial tools and perceive the expense as outweighing the benefits.
- Among microbusinesses, the mean expected monthly cost of digital invoicing (£748) and digital tax software (£719) is around 40 times higher than the actual market price of comparable tools (c. £18 per month), highlighting a substantial affordability perception gap.
- Early adopters report that clear communication on time-saving potential, simple onboarding and transparent pricing are key enablers of adoption. This was reinforced in our expert interviews, which highlighted that many fintech products fail because they are scaled-down versions of enterprise tools, rather than solutions designed specifically for SMEs. SMEs instead need products built for modularity and meaningful time savings.
- Grants are the most frequently requested form of government intervention among microbusinesses. Two-fifths (42%) of all SMEs identify grants as their preferred support, rising to half (50%) among microbusinesses that are not sole traders. However, this demand may in part reflect misperceptions around the cost of digital tools, rather than a genuine need for ongoing subsidy.
- Poorly targeted eligibility criteria have previously limited uptake of support schemes, particularly among the smallest firms. For example, during the Help to Grow Digital Scheme, eligibility required firms to have more than five employees, which excludes a large share of microbusinesses.

The advice barrier

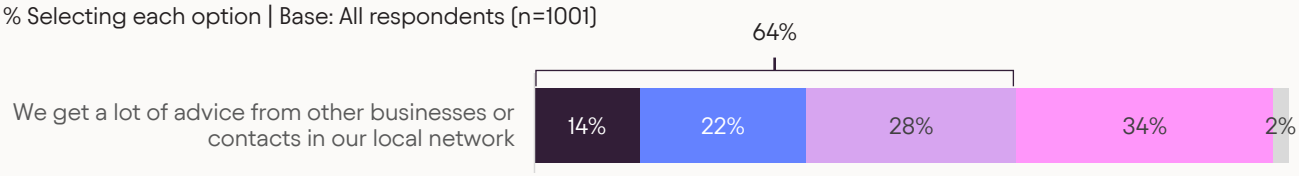
Businesses get advice from a wide range of sources. Our research shows that trust in these sources is not a significant issue. However, access to advice remains a challenge, particularly for the smallest businesses. The government cannot meet the entire demand for business advice alone, but it can facilitate the networks of advice and support necessary to help businesses overcome the remaining barrier to adopting digital tools.

Peer-to-peer advice and more informal contact between business leaders are a key source of information when considering new financial technologies. Two-thirds of businesses surveyed (64%) receive advice about new business ideas or technologies from other businesses or contacts in their local network. Even for microbusinesses and sole traders around half get advice this way[36].

When asked what would be most useful if the government were to offer SMEs support to adopt and make greater use of digital financial tools, access to expert advice on selecting or using digital tools was identified by a third of all SMEs as a priority access to expert advice on selecting or using digital tools was identified by a third of all SMEs as a priority. Indeed, expert advice was the most cited option among medium sized businesses, with almost half (48%) identifying this. Among medium sized businesses, advice was far more relevant than the option of a grant (cited by just 27% among this group).

FIGURE 19: SOURCES OF NEW TECHNOLOGY INFORMATION

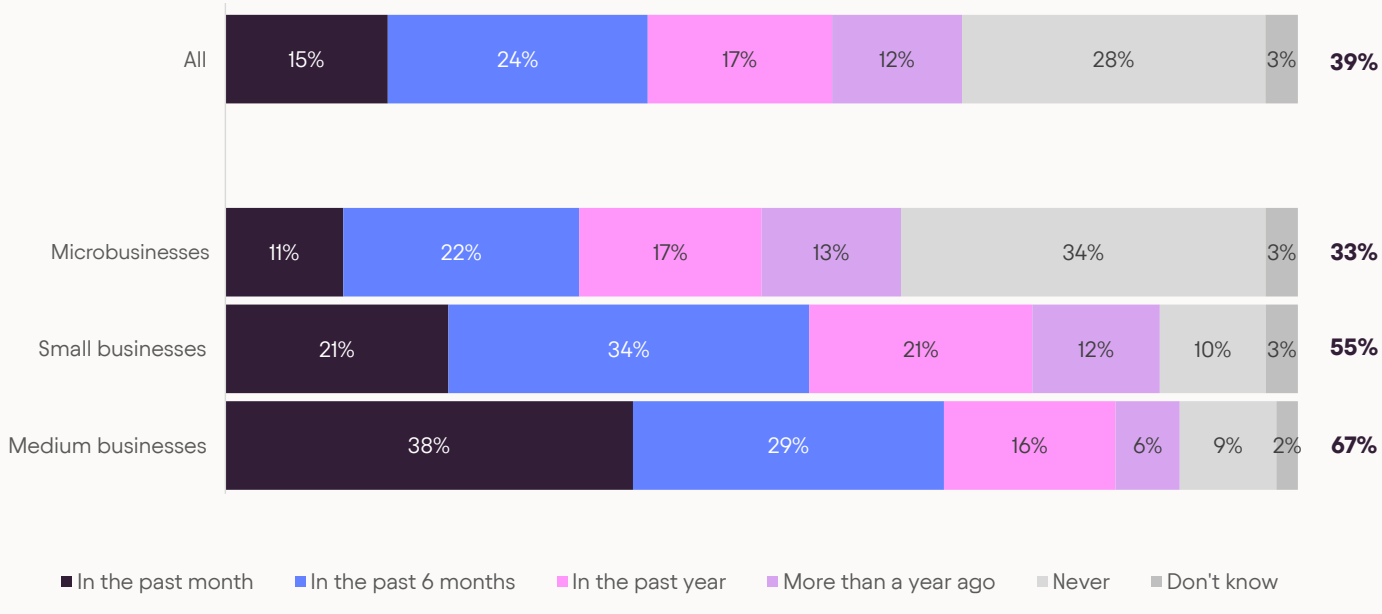
% Selecting each option | Base: All respondents (n=1001)



Peer-to-peer contact with other businesses as a source of advice varies significantly with the size of firm. For medium sized businesses, 67% reported conversations with "another business about their experience using digital or financial tools" in the last six months. However, among microbusinesses, this answer falls to only 33%.

FIGURE 20: DISCUSSIONS WITH OTHER BUSINESSES ON TOOL USAGE

% Selecting each option | Base: All respondents (n=1001)



The presence of opportunities to learn from other SMEs in the same sector was lowest among sole traders. Only 21% of businesses identifying as "just myself" felt they had such opportunities, compared to 70% among the medium sized businesses in our sample.

These findings are supported by the exploratory work we carried out amongst SMEs. When we interviewed decision makers at SMEs, many said they wanted to be able to observe the successful usage of digital tools among their peers, to witness the value of adoption. Such opportunities to observe or receive recommendations were said to provide the confidence and trust in non-adopters to do the same.

> **"It's an educational piece in terms of what the benefits of the tools are and how they can impact the business...from there, once they understand that, then they'll be a lot more open to change."**
>
> RETAIL & WHOLESALE,
> 10-49 EMPLOYEES

GENDER DIFFERENCES IN SME ADVICE

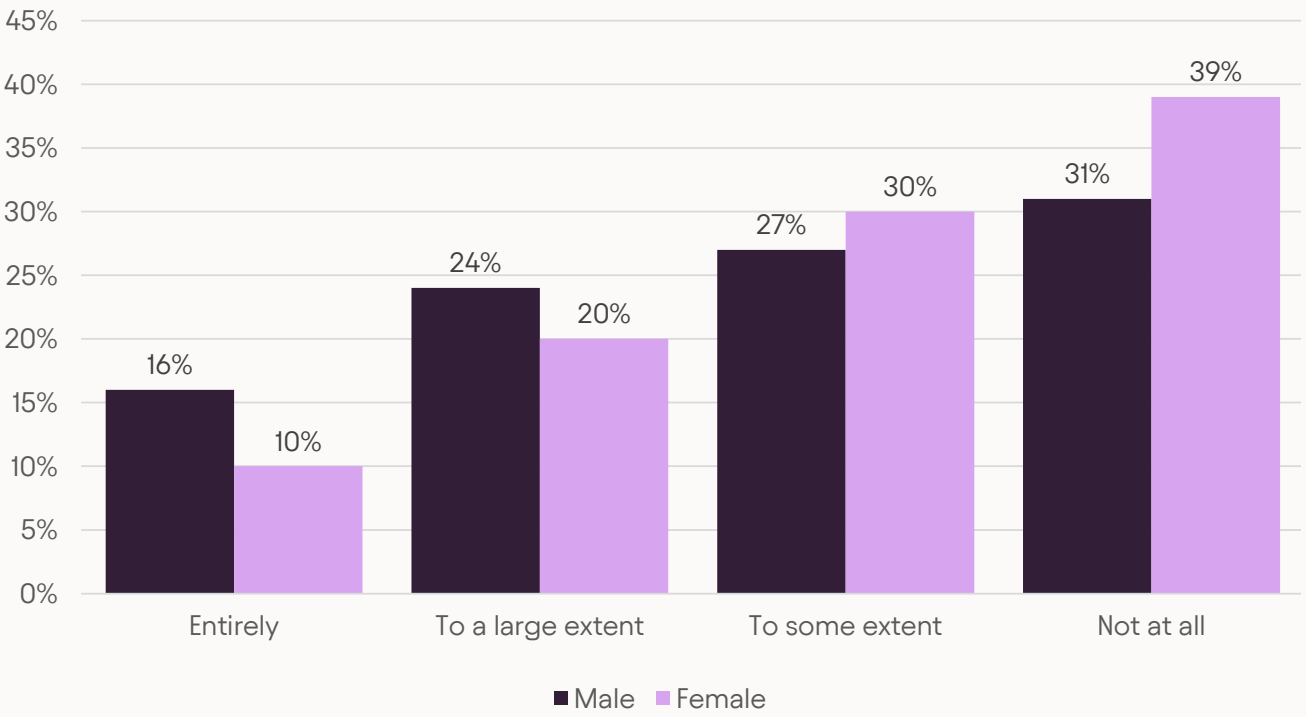
Our research demonstrated a statistically significant divide between male and female respondents in terms of their access to support and advice from other SMEs. Among male respondents, 41% agreed entirely or to a large extent that they had "good opportunities to learn from other SMEs in our sector", however among female respondents, this was 27%. Indeed, 28% of female respondents said they had not had any opportunity to learn from other SMEs in their sector at all. For female respondents from microbusinesses, the proportion reporting no contact with other SMEs in their sector rose to 35% and for female sole traders this was 39%; in both cases, a significant 10 percentage points above the equivalent levels for male respondents.

This finding was reinforced by looking at the extent to which SMEs accessed advice from businesses in their local network. Among male respondents, 40% agreed entirely, or to a large extent, that they received "a lot of advice from other businesses or contacts in our local network"; among female respondents this was 29%. In addition, 39% of female respondents said they got no advice at all from such networks. For the smallest businesses this is even more of an issue; 47% of female respondents from microbusinesses and 52% of female sole traders receive no advice from other businesses or contacts within a local network, significantly higher than the percentages for male respondents (38% and 44%).

Taken together, these findings suggest that appetite among female SME owners is not the underlying issue. In fact, external evidence indicates a strong interest in digital and emerging technologies: according to analysis by the Federation of Small Businesses (FSB), 27% of female SME owners are open to integrating AI tools into their business, versus 16% of male SME owners.[37] This reinforces that female SME owners are not less open to innovation or digital adoption. Rather, the barriers they face appear to relate more to networks, exposure, and opportunities to access support, particularly outside London and other major hubs.

FIGURE 21: ADVICE SOURCE BY GENDER

% responding they "get a lot of advice from other businesses or contacts in our local network" | Base: All respondents



In recent years powerful initiatives, including the Invest in Women Taskforce, the Female Founders Forum and Women in Innovation (Innovate UK), have significantly improved the landscape for women to access support, advice, and investment from other women. However, these groups may seem distant to some female-led SMEs.

For those starting out in urban centres such as London - or in sectors such as innovative tech-focussed sectors - the landscape of support for female-led SMEs has arguably never been stronger. Yet, this accounts for only a small proportion of micro and small businesses across the country. For many female sole traders, running their own businesses around the UK in an increasingly services-based economy, there are limited or even no established networking groups of similar professionals or professional conferences to attend.

Recommendation 3: Implement segmented and targeted support for SMEs

A one-size-fits-all approach to digital adoption will fail to reflect the significant variation across the SME population. To be effective, interventions must be tailored by business size and owner demographics, ensuring support aligns with the specific needs and barriers faced by different groups.

ACTION

Policymakers should prioritise microbusinesses when designing digital adoption interventions. While they are often the hardest businesses to reach, they collectively represent the largest opportunity for productivity gains, given lower baseline levels of adoption and greater headroom for improvement.

Support should also be more deliberately targeted at female-led micro and small businesses. These firms report less regular access to business advice and peer support than their male counterparts. As it evolves, the Business Growth Service should offer locally relevant and sector-specific advice, mentoring and peer-learning opportunities for female-led businesses, helping to address confidence gaps and strengthen awareness of successful adoption among comparable firms.

KEY FINDINGS

- ↗ Preferences for government intervention vary significantly by firm size: microbusinesses most commonly call for grants, small businesses favour tax or business rate relief, and medium-sized firms place greatest value on access to advice.
- ↗ Economic modelling shows up to £9.4 billion in benefits from the productivity boost gained by wider and deeper adoption is available for microbusinesses, greater than for larger firms as adoption ceilings are significantly higher.
- ↗ Female-led businesses are more likely than male-led businesses to want government support in the form of grants, expert advice when selecting tools, and subsidised training to build digital skills. Female-led businesses are more likely to cite time savings and seeing similar businesses use tools as key motivators, highlighting the importance of peer validation.

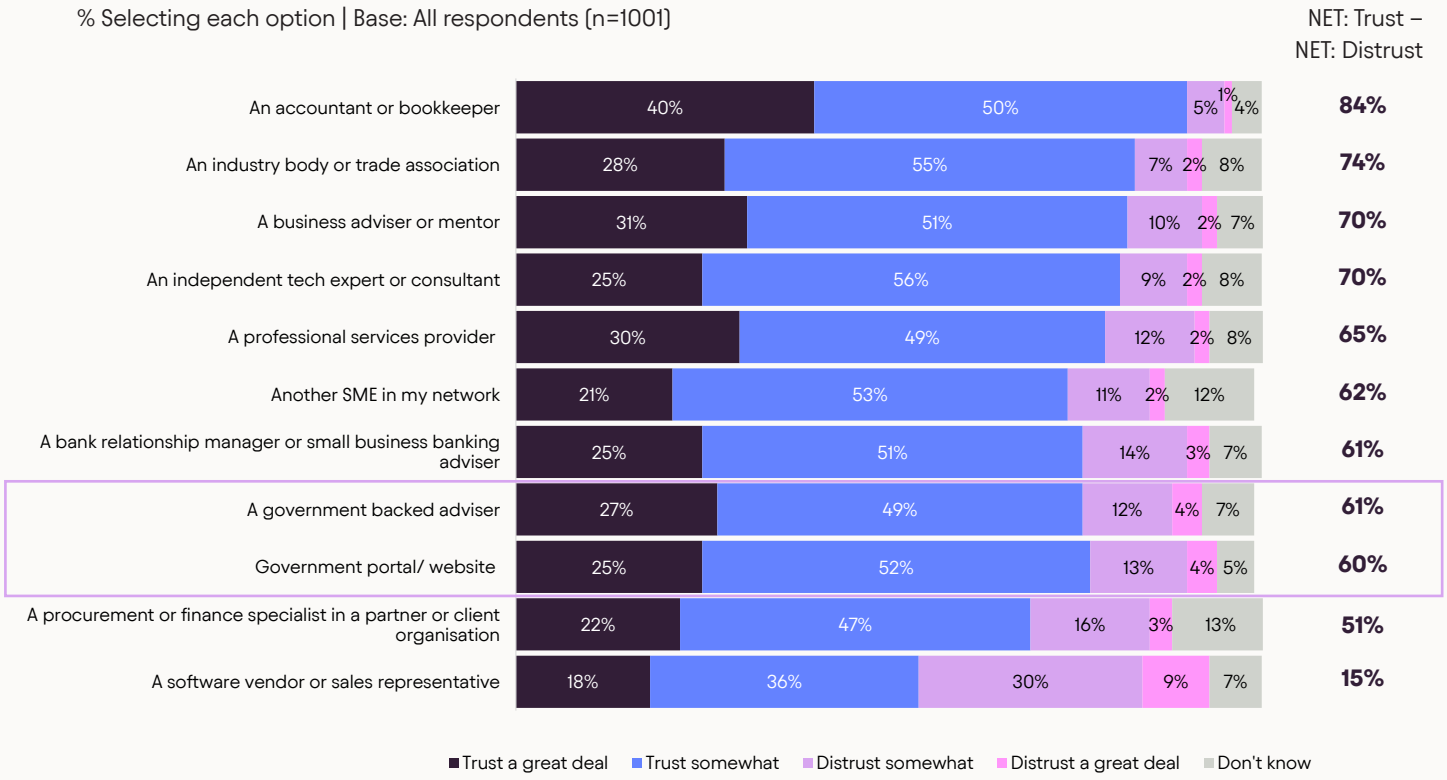
TRUST IN GOVERNMENT ADVICE

SMEs generally show high levels of trust in the advice sources noted in our survey. Unlike the trust issues observed among individual consumers, the SME sector does not appear to experience the same kind of trust deficit. Net trust in government sources of information fits to this broadly positive framework: 77% of respondents said they trusted a government-backed adviser, compared to just 16% expressing distrust. Female respondents were also more likely to trust - and less likely to distrust - a government-backed adviser than male respondents.

Nonetheless, there are several other sources, such as advice from a bank or another SME, which rank even higher in terms of trust - as illustrated below.

FIGURE 22: TRUSTED SOURCES OF ADVICE ON DIGITAL TOOLS

% Selecting each option | Base: All respondents (n=1001)



Trust in government advice is also lower amongst microbusiness than amongst small or medium-sized firms. For example, 39% of medium sized firms expressed a "great deal of trust" in the support of a government-backed adviser, compared to just 25% on microbusiness and only 22% of sole traders.

Therefore, to ensure government advice schemes are effective they need to be designed with - and promoted by - genuine small business voices and representatives, to best achieve cut through. This is especially relevant as DBT plans ongoing updates and new features for the Business Growth Service.

TRADITIONAL SOURCES OF ADVICE

The single most trusted source of advice among micro and small businesses is an accountant or bookkeeper, with 90% of all SMEs deeming this source of advice trustworthy.

Whilst some traditional bookkeepers may view simple, easy-to-adopt digital tools as a direct competitor to their current services, we believe this group represents a powerful channel for educating SMEs about the benefits of digital tools. For example, an SME adopting a digital tax submission software could make a bookkeeper's job significantly easier if it integrated with the accounting software the bookkeeper was already using.

Business advisers and mentors also had high trust levels among SMEs of all sizes. We consider this to be a significant positive for the Business Growth Service as it seeks to integrate government support with private sector advice.

DIGITAL ADVICE

One of the most interesting recommendations from the SME Digital Adoption Taskforce was the proposal to develop an "online CTO (Chief Technical Officer) as a service, providing AI-powered guidance and support to SMEs".[38] A similar scheme already operates successfully in Singapore - the SMEs Go Digital programme includes a CTO-as-a-Service platform allowing SMEs to self-assess their digital readiness and needs and access proven digital solutions.

Recommendation 4: Build a trusted support ecosystem

Government-led digital adoption support should be co-developed with, and communicated through, the intermediaries SMEs trust most - such as industry bodies, accountants, and business mentors - to maximise uptake, confidence, and sustained engagement.

ACTION

The Business Growth Service should embed trusted messengers at the heart of its platform using business owners and specialist advisers as its public-facing voices. Leveraging their existing credibility with SMEs would help increase engagement and reduce scepticism around government-led initiatives.

Any new advisory tools or offers-such as the Digital Adoption Taskforce's recommendation for a UK CTO-as-a-service model-should be co-developed and co-branded with leading small business groups, accountancy bodies, and relevant industry organisations. This would improve both relevance and perceived legitimacy among SMEs.

Communication campaigns around the planned introduction of mandatory e-invoicing in 2029 must apply lessons from the rollout of Making Tax Digital - reframing compliance-heavy messaging to focus on clear business benefits. Delivery of this messaging should be led by trusted intermediaries to counter inertia and resistance.

KEY FINDINGS

- ↗ While government is generally seen as a trusted source of information, microbusinesses place greater trust in intermediaries such as accountants, banks, and industry bodies.
- ↗ Expert interviews reinforced that digital adoption is more effective when led by these trusted third parties, with government best positioned to support standards and assurance in the background rather than leading delivery directly.
- ↗ Women are generally more trusting of government sources of advice and business advisers but are less trusting of software vendors or sales-led messaging than men, reinforcing the importance of credible, non-commercial intermediaries.

The inertia barrier

The majority of businesses in our survey were aware of multiple digital financial tools, but many considered that their current processes work well enough to mean they do not need to become digital adopters. This is a complex barrier, which may reflect the fears some SMEs have about adopting digital tools in their business and what could go wrong. Getting SMEs to take the first step into adoption may be the hardest part of the journey, but once overcome, broadening and deepening the use of digital tools can be more straightforward. There are lessons from the Making Tax Digital programme that should be identified and leveraged.

After cost, the perception that current processes, however rudimentary, work well enough is the second most cited barrier to adoption. Given the high level of awareness of digital solutions, this suggests a deeply ingrained inertia barrier holding back SMEs, especially the smallest ones, from taking the plunge with a modern digital approach.

In our survey, 29% of businesses said that their current processes working well was a barrier to adopting digital tools, and 19% said this was their single biggest barrier. Indeed, in regions such as the North East and the South West this is the most cited barrier. This echoed our findings in the initial interviews undertaken in our research, where businesses considered their organisation as already running efficiently. Furthermore, there tended to be an in-built assumption that maximised productivity is not attainable for smaller enterprises, often due to the perception that efficiency-enhancing tools are out of reach for them. Consequently, there was a greater acceptance of persistent levels of manual processes or outsourcing of financial tasks to contractors as a means of optimisation.

> **"We're quite efficient, but we do outsource some services. I'm hoping we can implement a tool that helps us do this internally, rather than outsource."**
>
> RETAIL & WHOLESALE BUSINESS, 10-49 EMPLOYEES

The reluctance to adopt digital invoicing tools is widespread across businesses of all sizes, with the most common reason cited being that the business has more important priorities. This is a striking finding, especially considering that 30% of firms "are aware of other businesses like ours using something similar", and given that invoicing is one of the most time-sensitive finance tasks identified in our research. Furthermore, only 31% of microbusinesses are currently using or considering mobile digital invoicing tools. This suggests that the prioritisation challenge is closely intertwined with the wider inertia barrier: even where businesses understand that invoicing can be improved, the perceived effort of change outweighs expected gains.

This context makes the recent announcement at the 2025 Autumn Budget especially relevant. As set out by the Government, e-invoicing will become mandatory by 2029, with a detailed roadmap expected in Budget 2026 and a consultation phase beginning in early 2026. Given that late payments continue to significantly affect SME liquidity, cash flow and broader productivity, the mandate is intended to act as a structural spur to adoption-precisely the kind of external shift that can help businesses move beyond the "good enough" mindset that dominates our survey findings.

Attachment to current processes is a particularly significant barrier for that hardest to reach group: microbusinesses. This was cited as an obstacle by 32% of businesses with fewer than 10 employees compared to just 20% of SMEs with 10 or more employees.

This presents a complex barrier for policymakers to consider. The offer of a grant towards the cost of a digital tool, for example, is unlikely to be effective for a firm that does not currently want to change its process and is not willing to spend their own money on such a change. For these businesses, changing their ways will require something else to change first. Regulatory shifts, such as mandatory e-invoicing, have the potential to provide that catalyst but they must be accompanied by clear communication and appropriate support.

Many SMEs, particularly microbusinesses, tend to overestimate the difficulties of adopting digital tools. Our initial interviews with SMEs revealed that many saw tools as too complex for their size or needs, where the instinct

was to outsource tasks rather than adopt a technology to address them. Emphasising the ease of integration and highlighting how seamlessly these tools can fit into existing workflows could help overcome this inertia to ensure SMEs are less daunted by adoption and consider it more achievable.

> **"If I thought the process was very easy and they made it very easy, I would do it myself and actually would save me the costs."**
>
> TECHNOLOGY COMPANY, 2-9 EMPLOYEES

Below we argue that regulatory change can act as a spur for overcoming inertia and consider the extent to which inertia is a proxy for other concerns about implementing new processes.

THE ROLE OF MAKING TAX DIGITAL

Making Tax Digital (MTD) was initially announced in 2015 and became the default for VAT returns from 2019. More than six years on, it is perhaps unsurprising that the digital financial tool with which businesses are most familiar is digital tax submission software. However, even among those that are aware of digital tax software, only 49% of all SMEs surveyed say that they are using it today.

Unsurprisingly, businesses with the smallest turnover, below £100,000, are least likely to be using digital tax submission software. However, even among firms that have a turnover above £100,000 - and thus above the VAT registration threshold - a surprising 32% claim they are not currently using such software.

The submission of tax returns was identified as the most resource intensive financial process, with 33% of SMEs saying that this was the most time consuming for their business. Tax returns were considered more burdensome by microbusinesses and sole traders, 35% and 37% of whom respectively said they were the most resource intensive, than for small and medium businesses.

From April 2026, Making Tax Digital will apply to income tax returns for sole traders and landlords with income over £50,000. When prompted for different ways that SMEs could manage a change such as this, the ability to use their existing business bank's app or desktop software came out as the most attractive for SMEs in general and for the sole trader cohort in particular.

While undoubtedly, this change will be seen as burdensome by many who must change their existing process and learn a new one, it also presents a great opportunity to drive digital adoption. For many sole traders having to adopt a digital tax submission tool to meet the MTD requirements, this will be their first experience of using a digital finance tool and may open them up to adopting further tools in the future.

International experience suggests that the design of such regulatory change matters. Spain's introduction of its digital VAT reporting system, the Suministro Inmediato de Información (SII), offers a useful comparison. Rather than presenting digital reporting as a pure compliance requirement, Spain linked adoption to clear, tangible benefits for businesses, such as faster VAT refunds, fewer audits, and reduced paperwork. This 'compliance quid pro quo' helped SMEs see digitalisation not as an administrative burden but as a way to simplify their interaction with the tax authority. As the UK prepares future phases of MTD and moves toward mandatory e-invoicing, adopting similar support-first principles could ease the transition and encourage wider digital uptake.

INERTIA AS A PROXY CONCERN

Our research on this topic was guided by a series of expert interviews conducted in Summer 2025.[39] As we have described above, SME awareness of digital tools is high, but reluctance to try them out remains. Our expert interviews offered insight into what might be driving this behaviour.

Two experts in the way SMEs think had different - but potentially overlapping - explanations for the inertia barrier. The first considered it a bandwidth issue for business leaders focussed on other priorities and potentially worried about the resources that would need to be devoted to a digitalisation programme.

> **"The problem is being misrepresented: it is not primarily about skills or digital capabilities, but about capacity... The prevailing government narrative can be patronising, portraying SMEs as lacking basic skills when the real constraint is bandwidth."**
>
> AN SME EXPERT AND CHAMPION

In our survey, we saw that female SME leaders in particular raised concerns about having the time and capacity to engage with new digital tools. This likely reflects differences in how adoption effort is experienced, rather than lower interest in digitalisation. Where business owners are covering a wider range of operational roles, the perceived time, cost and disruption of adopting new systems can feel higher, even where the expected benefits are recognised. The second expert had an even more stark description: an SME owner might be aware that a digital tool could benefit their businesses

but might still be fearful of the process of adoption and how disruptive this might be:

> **"you can't underestimate the fear factor SMEs have around adoption."**
>
> AN SME EXPERT AND CHAMPION

It is understandable that SMEs having either of these sets of concerns would identify their current processes as sufficient. However, this assessment that existing ways of doing things is 'good enough' is different from not recognising the benefit of a more modern set of financial processes.

Both concerns should be central to the design and operation of the new Business Growth Service. If the government can provide SMEs with trusted sources of expert advice that show not only how easy it can be to start using digital tools but also sign-post SMEs to the right tool for their business, then the inertia challenge may be overcome.

Recommendation 5: Integrate digital adoption into national mentoring initiatives and local networks

Digital adoption should be embedded within existing business mentoring programmes and local support networks, using peer-to-peer learning to build confidence, share practical experience and normalise the use of digital tools among SMEs.

ACTION

The new Business Mentoring Council should make digital adoption a core and explicit focus of mentoring support for microbusinesses. Learning materials, mentoring guidance and programme outputs should be closely aligned with, and feed into, wider digital adoption pilots to ensure consistency and reinforce practical take-up.

Alongside this, future digital adoption pilots - while remaining primarily digital in delivery - should be designed to work through trusted local and regional business networks to boost engagement. This includes partnering with local authorities, combined authorities, and Chambers of Commerce to leverage existing relationships and community-based support structures.

KEY FINDINGS

- Microbusinesses are the least engaged in peer networks, limiting access to examples of successful digital adoption and informal learning opportunities.
- Peer-to-peer learning and mentoring can help reduce uncertainty around adoption by providing trusted, relatable examples of successful implementation.
- Local and regional business networks are key to reaching harder-to-engage microbusinesses and tailoring support to regional barriers. Outside London, around 20% of SMEs say, "current processes work well", indicating inertia that can be addressed through locally delivered, benefit-led engagement, while London-based SMEs are more likely to cite financial constraints (20%).
- Women are less likely than men to report receiving good advice from peers or having strong opportunities to learn from other SMEs.

Conclusion and recommendations

CONCLUSIONS

The UK has a productivity problem. Our output per worker is below that of France and Germany, is 30% behind that of the US, and is even below the OECD average. If the UK were able to increase labour productivity just to that of France, the economy would be 10% larger, and the Chancellor would have an additional £130 billion in tax receipts available to spend. Small and micro businesses have lower productivity per worker than large and medium sized businesses. But these businesses employ over 13 million people - almost half of the private sector workforce – meaning even a small change to output per worker could have a large impact on the economy as a whole. Bringing the productivity of small and micro businesses up to the average productivity of large firms would add £105 billion to the UK economy. That is more that the government spends on the entire defence budget.

The SME productivity gains from digital financial tools are potentially huge. The use of digital financial tools is already delivering efficiency gains in the region of £45.8 billion (1.6% of GDP) under conservative adoption assumptions. Further adoption of digital financial tools could yield an additional £18.4 to £25.3 billion (0.6% to 0.9% of GDP) of gains. The largest potential for future gains is among microbusinesses and sole traders, which could achieve productivity gains of £14.3 billion.

SMEs have high awareness of digital tools and use is already prevalent. Over four-in-five (83%) SMEs for example knew about digital tax submission software and 84% of SMEs say they are already using a digital tool for at least a few financial tasks within their business. Though this varies significantly with business size, with the smallest firms being at an earlier stage in the adoption journey.

The perception that these tools have prohibitive costs is a major barrier to adoption. The average SME estimates that digital tax submission software and digital invoicing tools would set them back close to £12,000 a year – many times more than what these tools actually cost for SMEs. For example, the basic package from one well-known software vendor, which offers digital tax submission and digital invoicing, is available at a standard price of £18 per month. Demonstrating the actual cost to SMEs is key to driving adoption.

SMEs have high awareness of digital tools but need trusted sources of advice to become adopters. Businesses get advice from other businesses – almost two-thirds of businesses surveyed (64%) said they got advice to at least some extent from other businesses or contacts in their local network. When probed which sources of advice on digital tools they trusted most, business advisers (31% say they "trust a great deal") and accountants (40%) featured highly, more than government sources of advice (25%). Government has a role to play, but as was seen with Help to Grow Digital, a government scheme on its own will not solve the problem.

Peer-to-peer informal advice between business leaders is a key source of information when considering new financial technologies. But levels of contact vary with the size of the firm - twice as many medium businesses reported having had conversations with "another business about their experience using digital or financial tools" in the last six months compared to the microbusiness population.

Access to advice and networks remains uneven, particularly for women in smaller businesses and outside major urban or tech-focused sectors. Male respondents were far more likely to report opportunities to learn from peers, with 41% agreeing entirely or to a large extent that they had "good opportunities to learn from other SMEs in our sector," compared with just 27% of female respondents; 28% of women reported having no such contact at all. While initiatives such as the Invest in Women Taskforce, the Female Founders Forum, and Innovate UK's Women in Innovation have strengthened support networks for women - especially in urban centres and innovative tech sectors - many female sole traders in the wider UK services economy still lack established networking groups or professional forums.

Despite the potential benefits of deepening use of digital financial tools among existing users, businesses remain cautious about expanding their use going forward. Among firms who are already using digital financial tools, 50% expect to make greater use of them in the future. However, across the SME population, 48% of firms expect their use of digital tools to remain the same or even reduce. This is a surprising proportion given the rapid evolution of digital tools and the progress, driven in part by artificial intelligence, in how much value they could add for SMEs.

RECOMMENDATIONS

RECOMMENDATION 1: PRIORITISE ADOPTION OF FINANCIAL TOOLS

Government digital adoption initiatives set to be launched in 2026 should prioritise the uptake and effective use of core digital financial tools, where evidence shows the greatest potential time and cost savings for SMEs.

- Upcoming government adoption pilots and any new public-private programmes should be explicitly designed to increase SME adoption of financial tools.

RECOMMENDATION 2: DISMANTLE THE AFFORDABILITY PERCEPTION GAP

Financial support for digital adoption should be refocused to directly address misperceptions around cost, which our research shows are the single biggest barrier to adoption - particularly for microbusinesses.

- A new user-friendly online 'Financial Tool Cost Calculator' should be created and embedded in the Business Growth Service.
- If future grant or voucher schemes are developed, these must be designed using eligibility criteria based on strong evidence of both productivity gain and the experience of cost-based barriers amongst specific segments

RECOMMENDATION 3: IMPLEMENT SEGMENTED AND TARGETED SUPPORT FOR SMES.

A one-size-fits-all approach to digital adoption will fail to reflect the significant variation across the SME population. To be effective, interventions must be tailored by business size and owner demographics, ensuring support aligns with the specific needs and barriers faced by different groups.

- Policymakers should prioritise microbusinesses when designing digital adoption interventions.
- Support should also be more deliberately targeted at female-led micro and small businesses.

RECOMMENDATION 4: BUILD A TRUSTED SUPPORT ECOSYSTEM

Government-led digital adoption support should be co-developed with - and communicated through - the intermediaries SMEs trust most, such as industry bodies, accountants, and business mentors, to maximise uptake, confidence, and sustained engagement.

- The Business Growth Service should embed trusted messengers at the heart of its platform using business owners and specialist advisers, such as accountants, as its public-facing voices.
- Any new advisory tools or offers - such as a UK CTO-as-a-service model - should be co-developed and co-branded with leading small business groups, accountancy bodies, and relevant industry organisations.
- Communication campaigns around the planned introduction of mandatory e-invoicing in 2029, must apply lessons from the rollout of Making Tax Digital.

RECOMMENDATION 5: INTEGRATE DIGITAL ADOPTION INTO NATIONAL MENTORING INITIATIVES & LOCAL NETWORKS

Digital adoption should be embedded within existing business mentoring programmes and local support networks, using peer-to-peer learning to build confidence, share practical experience and normalise the use of digital tools among SMEs.

- The new Business Mentoring Council should make digital adoption a core and explicit focus of mentoring support for microbusinesses.
- Alongside this, future digital adoption pilots - while remaining primarily digital in delivery - should be designed to work through trusted local and regional business networks to boost engagement.

Methodological annex

This annex provides detail on the methodology used for the opinion research and the economic modelling in this report.

OPINION RESEARCH

Commissioned by Starling, the analysis draws on an online survey of 1,000 UK SMEs, with fieldwork undertaken by Yonder Data Solutions between 23 October and 7 November 2025. The survey targeted managers and above with decision-making responsibility, covering a broad range of industries.

To help understand more about what makes for unique aspects of SMEs in the UK's experiences, sample sizes were boosted to be made sufficiently large enough to allow for an analysis of UK SMEs by size of their business.

Survey data have been weighted on size, region, and sector to be representative of the UK SME universe, as outlined by the UK Office for National Statistics (ONS).

Additionally, 10 in-depth interviews were conducted with a cross-section of SME owners and decision makers screened as either 'Productivity Adopters' (those with hands-on experience using a range of digital tools), 'Frustrated Adopters' (those interested in adoption but facing barriers) or 'Productivity Sceptics' (those holding mainly negative views, regardless of adoption status). Interviewees were selected to provide perspectives across gender, business size, sector, region and digital financial tool adoption usage or consideration.

A further four in-depth interviews were conducted with policy and industry experts with experience advising on digital adoption among UK SMEs, including through national initiatives and sector-facing organisations. Interviewees were selected to provide insight into drivers and barriers to digital financial tool adoption, with a focus on productivity, implementation challenges, and the role of government and industry.

Both sets of in-depth interviews were held between 23 July and 13 August 2025 and were designed to inform the development of the online survey.

ECONOMIC MODELLING

Economic modelling data were produced by research partner, London Economics. It assesses the potential contribution of digital financial tools to UK economic output by translating SME-level time and cost savings into aggregate Gross Value Added (GVA). It draws on the bespoke survey data in this report covering how SMEs currently use digital financial tools, the time they report saving relative to traditional methods, and the staff and costs involved in completing core financial tasks.

These inputs are combined with official ONS data on firm numbers, workforce size, and productivity, and applied separately to sole traders, microbusinesses, small businesses, and medium-sized firms to reflect meaningful differences across the SME population.

At a firm level, the model estimates both existing gains from the current use of digital tools and the additional gains that could be realised through wider and deeper adoption. It does this by comparing current financial task costs and productivity with a counterfactual scenario in which digital tools are not used, and by assessing how time freed up through automation is split between cost savings and redeployment to higher-value activities. These firm-level effects are then scaled to the national SME population to estimate the overall economic impact.

As with any survey-based modelling, results should be interpreted as indicative rather than precise forecasts: they reflect reported experiences and assumptions about how time savings translate into productivity, but they provide a robust, evidence-based view of the opportunity from greater digital adoption among SMEs.

Endnotes

1 DBT, Backing your business: our plan for small and medium sized businesses, CP 1358, July 2025)

2 DBT, Business population estimates for the UK and regions 2025: statistical release, October 2025

3 Average derived from survey responses in which businesses estimated their yearly spending on financial operations, covering both employee payroll and external consultants or contractors.

4 HMRC: Direct effects of illustrative tax changes bulletin, June 2025 - It is estimated that adding 1p to each of the rates of income tax would generate £8.6 billion in new tax receipts for financial year 2026 to 2027.

5 Average derived from survey responses in which businesses estimated their yearly spending on financial operations, covering both employee payroll and external consultants or contractors.

6 OECD, Data Explorer, GDP per person employed, 2023 data. Calculation compares GDP per person employed in the UK and the US, indicating that UK productivity is around 30% lower.

7 Hansard, 3 November 1998

8 Author's calculation for fiscal year 2026-27, based on a) OECD, Data Explorer, GDP per person employed, 2023 data and b) OBR, Economic and fiscal outlook, November 2025, Table 4.2. Data are calculated as the percentage difference between France and UK on GDP per person employed (i.e. 10%), and then applying this difference to the UK's estimated government receipts for 2026-27 (£1,304bn), to reflect a proportional increase in receipts if the economy were 10% larger.

9 ONS, Trends in UK business dynamism and productivity: 2024, December 2024

10 Ibid.

11 ONS, Firm-level labour productivity from the Annual Business Survey, December 2024

12 DBT, Business population estimates for the UK and regions 2025, October 2025, Table 28a

13 Ibid., Table 28b

14 For example, McKinsey, The power of one: How standout firms grow national productivity, May 2025

15 Author's calculation, derived from ONS, Firm-level labour productivity from the Annual Business Survey: summary statistics, UK, December 2025. Note this is likely to be a conservative estimate as the covers only the UK Non-Financial Business Economy which accounts for approximately two thirds of the UK economy in terms of Gross Value Added.

16 HMT, Public Expenditure Statistical Analyses 2025, July 2025, Table 1.12

17 Author's calculation; calculated by comparing businesses' perceived cost of digital tools with typical market prices, showing how much higher expectations were relative to actual software costs.

18 OBR, Economic and fiscal outlook, November 2025, Table A.5

19 HM Treasury, Public Expenditure Statistical Analyses, July 2025, Table 1.12

20 Using Monte-Carlo simulations, with assumptions drawn from distributions placed around all key model inputs This represents the central range in which 50% of the simulation results fell.

21 Author's calculation, derived from ONS, Firm-level labour productivity from the Annual Business Survey: summary statistics, UK, December 2025

22 OBR, Economic and fiscal outlook, November 2025, Table 4.1

23 ONS, Direct effects of illustrative tax changes bulletin, June 2025

24 OBR, Briefing paper No.9 - Forecasting productivity, November 2025

25 DBT, Business population estimates for the UK and regions 2025: statistical release, October 2025

26 Ibid.

27 Ibid.

28 ONS, Trends in UK business dynamism and productivity, December 2024, (2023 data from the Longitudinal Business Database)

29 The very newest businesses in our survey, those founded in 2025, had lower adoption than the 1–2-year-old cohort, though we can assume some of that relates to these being disproportionately sole-traders.

30 Aggregate figure of businesses answering on any tool asked about in the survey; Counter party risk tools, Digital tax submission software, Mobile or digital invoicing tools, Merchant payment systems or Delayed payment options for customers.

31 HMT, Making Tax Digital for Income Tax end-to-end service guide, December 2025 HMT, Making Tax Digital for Income Tax end-to-end service guide, December 2025

32 As described in the methodological annex, we excluded very high-cost estimates from the calculation of these means to ensure the results were not unduly skewed.

33 BEIS, Evaluation of Help to Grow: Digital - Final Evaluation Report, September 2023

34 Ibid.

35 HMG website, Business rates relief, accessed 1 December 2025

36 Survey data: Microbusinesses = 58%; Sole traders = 49%

37 FSB, Redefining Artificial Intelligence: The Growth of AI Among Small Firms, March 2024

38 SME Digital Adoption Taskforce, Final report, July 2025

39 See methodological annex for further detail.

STARLING