

How we can encourage UK SMEs to take advantage of new technologies such as AI

techUK is the trade association for the technology sector in the UK. Our over-1000 members, the majority of which are UK-based SMEs, are based around the United Kingdom. They employ 1.1 million people across the UK, with a turnover of £329bn in 2023 and an estimated annual growth rate of 10%.

We have prepared this briefing to help MPs and their teams understand key tech issues in the UK, what can be done to tackle these issues, and the benefits of doing so.

This briefing draws upon:

- Our [*UK Tech Plan: How the next Government can use technology to build a better Britain*](#)
- The [*Seven Tech Priorities for the next Government and polling of 250 tech industry leaders in February 2023*](#).

More briefings, both from ourselves and techUK's members, can be found on our [online briefing hub](#).

What is the problem?

The UK is home to some of the most innovative firms in the world and a natural place for businesses to adopt digital and emerging technologies. Indeed, we are currently ranked fifth on the Global Innovation Index 2019 and highest ranking G7/G20 economy.¹

However, the UK suffers from a productivity gap or 'long tail problem'. The gap between the least and most productive firms in the UK is much bigger compared to other advanced economies².

This means a small number of companies at the top of the curve are very productive, followed by a long tail of less productive SMEs. Research by the OECD also revealed that digital adoption and diffusion could widen this disparity, as well as that between firms in different parts of the UK.³

¹ Department for Business and Trade (n.d.) 'UK Innovation'

<https://www.great.gov.uk/international/content/investment/why-invest-in-the-uk/uk-innovation/>

² BeTheBusiness (2023) 'Productive Business Index' https://media.bethebusiness.com/documents/BtB-PBI_Report_April_2023_-_V4.pdf

³ OECD (2022) 'Tackling digital adoption... footprints in the sand' chrome-extension://efaidnbmninnbpcjpcglclefindmkaj/https://www.oecd.org/global-forum-productivity/events/gfp-brussels-2022/9.DanielMawson.pdf

If the UK is to succeed in ambitions to become the fastest growing economy in the G7, the next Government must plug this productivity gap, as productivity is a key lever to drive up living standards, GDP per person and economic growth.

Currently a quarter of UK SMEs are not using basic digital tools such as e-commerce and HR software. This is lower than many comparable countries, such as in Europe and North America, and will risk the UK's international competitiveness and ability to leverage the productivity and economic growth opportunities that more advanced technologies like AI can bring.

Low adoption rates for UK SMEs are a particular risk as AI technologies begin to come onstream. AI will first be deployed through updates to currently in use business software, meaning if UK companies are behind on basic digital adoption, they will soon be behind on AI adoption as well.

What are the solutions?

To unlock untapped productivity, techUK calls for **better support to incentivise digital adoption for SMEs**, including a stocktake of the SME digital adoption support over recent years.

The UK's Digital Strategy 2022 marked a step in the right direction, but more tailored support and programme for SMEs digital adoption has dwindled since Help to Grow: Digital. **Prioritising completion of Making Tax Digital** will ensure SMEs embark on digitalisation by improving processes, generating cost savings, and creating the headroom for future growth.

To incentivise SME digitalisation, techUK call for the next Government to prioritise the following over the next 12 months:

- 1. Utilise the industry-led Digital Adoption Taskforce to identify the most effective interventions to identified barriers of skills, cost, and confidence to digitalisation across SMEs (with a particular focus on micro and small business at the tail end of long tail problem)**
 - SMEs must be incentivised to adopt digital technology and shown the benefits to address their key challenges, improve efficiencies and drive down costs.
 - Holding the Taskforce to account, and vice versa, a single Minister should be identified with responsibility for driving digitalisation across the economy and delivering on the Taskforce's recommendations.
- 2. Develop a co-ordinated and consistent strategy to support digital adoption, with clear targets by 2030, and a focus on the right underpinning infrastructure and regulation. This should target:**

- Digitalisation targets to drive up rates of tech adoption, using the model of the European Commission's Digital Decade policy programme.
- A commitment to policies that encourage tech adoption, including completion of Making Tax Digital for income by 2026 and a phased introduction of e-invoicing with a timeline for its implementation.
- Incentives for SMEs to invest in digital, such as tax incentives and grant/funding programmes that have proven ROI for Government and SMEs (i.e., Made Smarter Adoption Programme)⁴.
- Simple common standards based on the UK Government's AI principles for software providers to sign up to.

3. Commit to digital adoption growth opportunities for SMEs by supporting the next stages of Open Banking's evolution into Open Finance and SMEs carbon reporting for net zero.

- Launch a consultation led by the JROC (Joint Regulatory Oversight Committee) into an Open Finance regulatory framework.
- Provide SMEs access to the Commercial Credit Data Sharing Scheme.
- UK Government to work with the ISSB (International Sustainability Standards Board) to design a simplified reporting standard for SMEs.

What are the benefits?

Digital adoption across SMEs is a huge growth opportunity for the UK. Analysis has shown that if UK SMEs were to better utilise digital adoption, this could add an estimated £232 billion to the economy,⁵ while at the same time improving the UK's resilience against economic shocks.

Through their recent economic analysis, techUK member Xero also found a positive link between digitalisation and productivity, while data has also revealed that small business productivity growth in the UK is often higher than productivity growth across all UK businesses due to use of digital technology through their accountants and bookkeepers.⁶

Digital adoption across businesses also has widespread benefits for Government. Digitisation can help Government better understand what is going on in the economy.

A more digitised economy during the pandemic, including completion of Making Tax Digital, widespread use of Digital ID and e-invoicing would have enabled the

⁴ Made Smarter (n.d.) 'Made Smarter' <https://www.madesmarter.uk/>

⁵ Sage (2022) 'Digital Britain: How small businesses are turning the tide on tech' <https://www.sage.com/investors/investor-downloads/press-releases/2022/06/untapped-tech-adoption-could-boost-uk-economy-by-232-billion-annually/#:~:text=Use%20of%20technology%20by%20small,to%20%C2%A3448%20billion%20annually>

⁶ Xero (2024) 'Xero Small Business Insights (XSBI) report' <https://www.xero.com/au/media-releases/labour-productivity-uk-small-businesses-below-pre-pandemic-levels/>

Government to deliver more targeted support, as Australia's Single Touch Payroll system enabled the Australian Government to do, while allowing the more effective combatting of fraud as well as reducing the impact of late payments for SMEs.

How can I learn more?

If you would like to know more about the importance of getting our incentives for innovation right, you can read our [UK Tech Plan](#) and [Seven Tech Priorities](#).

techUK can also arrange a call with yourself and our policy managers so we can brief you on this topic in more detail. If this would be of benefit to you, please contact archie.breare@techuk.org and alice.campbell@techuk.org.

techUK is also able to arrange a meeting between yourself and a member company of ours who has premises in your constituency if possible. This would provide you with a photo opportunity and allow you to discuss the importance of this issue further with a company operating in your constituency.