Business Digital Capability Monitor

Annual Report

July 2024

BETTER FOR BUSINESS
BUSINESS AND GOVERNMENT WORKING SMARTER

ABOUT

The research

This is the second in a series of four reports to be published by Better for Business (B4B) in July 2024. It covers the second of the main topics included in our Business Health and Digital Monitor:

1. Business health and wellbeing
2. **Business digital capability trends**
3. Business motivations and development goals
4. Environmental awareness and trends

Better for Business

B4B makes it easier and more seamless for businesses to deal with government. We do this by understanding small businesses' diverse needs, and sharing that information to inform the development of policy, tools and resources to support New Zealand businesses.

Our long-term research seeks to capture changes across the business landscape. This helps government agencies identify areas where they can better support businesses to thrive and prosper.

2,356

businesses

Surveyed between:

Late November 2023

↓

January 2024

Both online and by phone

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IN THIS REPORT

New Zealand business digital capability

This report updates topics covered in our previous digital capability reporting, including:

- usage of internal and external digital tools
- barriers to digital adoption

It also focuses on:

- the degree and types of support businesses need for digital enablement
- cybersecurity as a barrier to digital adoption

B4B has been monitoring business digital capability since 2020.

Each year a set of core questions is monitored, supplemented by new inquiries that address emerging areas of interest.

KEY DIGITAL TRENDS

Emerging digital divide

While overall digital tool usage and confidence has stayed the same, some businesses are seizing more digital opportunities and others are falling behind.

Cyber security concerns continue

Concerns about information security continues to hinder digital adoption. Lack of time and knowledge to make the right digital choice also feature as barriers to digital adoption.

Primary digital needs

Assistance with choosing the most appropriate and affordable tools, and digital marketing, are the most popular types of support businesses seek.

Executive summary

Confidence with and use of digital tools have stabilised at a slightly lower level than 2021

The 2023 results show that usage across a range of 'internal' and 'external' tools has plateaued since 2022. Meanwhile, confidence with core digital competencies has remained similar to last year (but is slightly lower compared to 2021).

These trends in confidence and usage differ depending on the type of business. For example, usage of 'external' digital tools increases with the size of the business and the level of growth ambition of owners, and this has been a relatively stable trend over the past few years. By contrast, smaller and less growth-orientated businesses are tending to use less 'external' digital tools over time.

This may suggest an increasing digital divide between certain types of businesses.

Cyber security continues to be the number one concern

Concerns about information security and fraud remain the most frequently identified barrier to pursuing further digital enablement, with 49% of businesses saying it holds them back.

In a new question aimed at understanding perceptions about cyber security protection, only a third of businesses said they are taking action to keep their cyber security systems up to date. Many business owners and managers find it difficult to understand or choose cyber security tools, while a quarter of concerned owners find these tools too expensive.

'Finding the right tool' and 'lack of time' continue to be prominent digital barriers to digital enablement

Difficulty choosing the right digital tools and not having time to learn are the second and third most prominent digital barriers in 2023. 50% of businesses are not as digitally enabled as they could be because of these two challenges. This is down slightly from 54% in 2022.

Digital support needs vary considerably across the business population

Overall, two-thirds of businesses can identify at least one area in which they would like more digital support.

'Choosing the right digital tool' tops the list of support needs, and demand for this type of help is fairly consistent across business groups. However, for businesses that are larger, more digitally advanced, with younger and/or growth-orientated owners, support with 'digital marketing' is more likely to be in demand.

Strategies to support business' digital adoption therefore need to be tailored depending on business profile.

THE CURRENT DIGITAL LANDSCAPE

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Confidence using digital tools

Businesses have a similar level of confidence using 'basic' digital tools to last year.

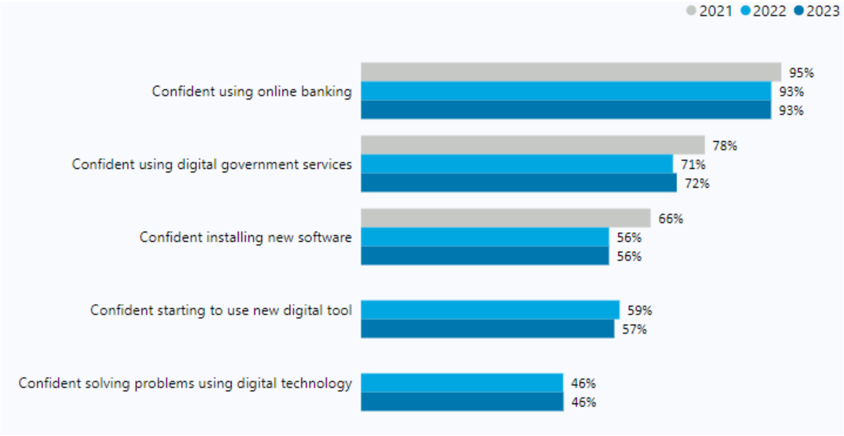
Confidence using 'digital government services' and 'installing new software' surged in 2021 and has since fallen. This likely reflects the pivot towards digital tools during the COVID-19 pandemic.

Larger businesses (20+ employees) are more digitally confident than smaller businesses. The sector and location of a business also effects levels of confidence with these tools.

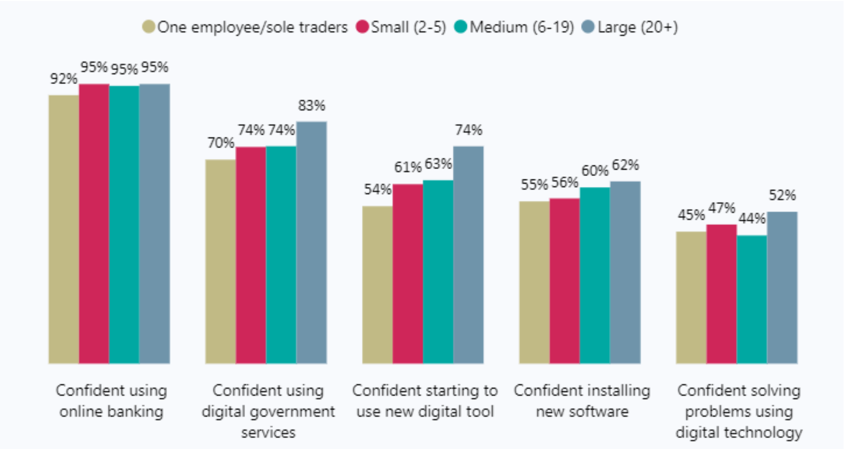
Differences in confidence across business size, region and sector could relate to:

- resource (financial and time) disparities
- digital infrastructure challenges
- differences in technology adoption of suppliers and customers.

Confidence in using digital tools



Confidence in using digital tools by business size



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Current use of ‘internal’ digital tools

Businesses are using internal tools at a similar level as in previous years. The definition of 'internal' is tools used for communication and processing within the business.

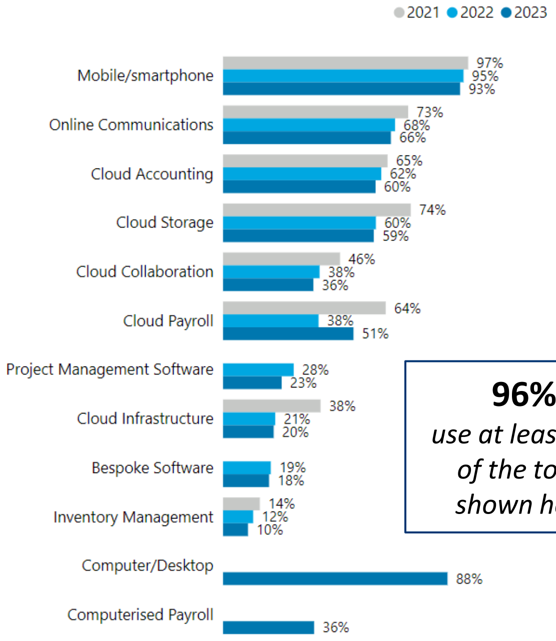
There are differences in uptake of some tools for different types of businesses. For example, the insurance sector is much more likely to use cloud technology than construction.

Smaller businesses and older owners have lower levels of usage for key internal tools, and this is trending downward. In contrast, larger organisations continue to use a similar level, or more tools, year-on-year. This indicates an increasing ‘digital gap’ between these types of businesses.

Usage of two types of internal digital tools was measured for the first time in 2023:

- 88% of all businesses said they were using a desktop, laptop or other computer , making it the second most used ‘internal’ tool.
- 36% of employers said they were using computerised payroll systems.

Percentage of businesses using an ‘internal’ tool: 2021 to 2023

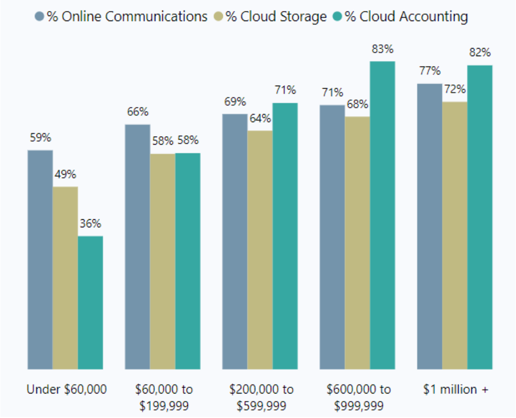


96%
use at least one of the tools shown here

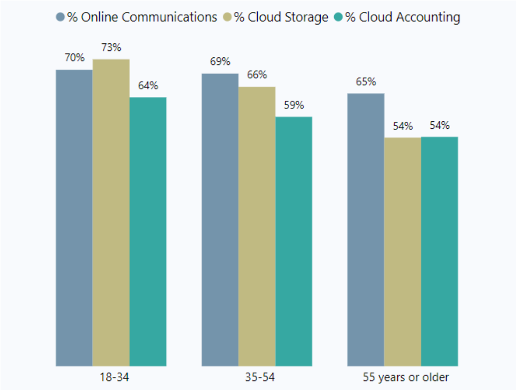
The ‘Wholesale Trade’ and ‘Financial Insurance Services’ sectors ranked the highest in the usage of cloud technologies in their businesses.

58% of sole traders who want their business to grow are using cloud accounting software
(vs. 36% for sole traders who do not aspire to grow)

Usage of key tools by turnover: 2023



Usage of key tools by owner age: 2023



Current use of 'external' digital tools

Most New Zealand businesses have at least some form of online presence.

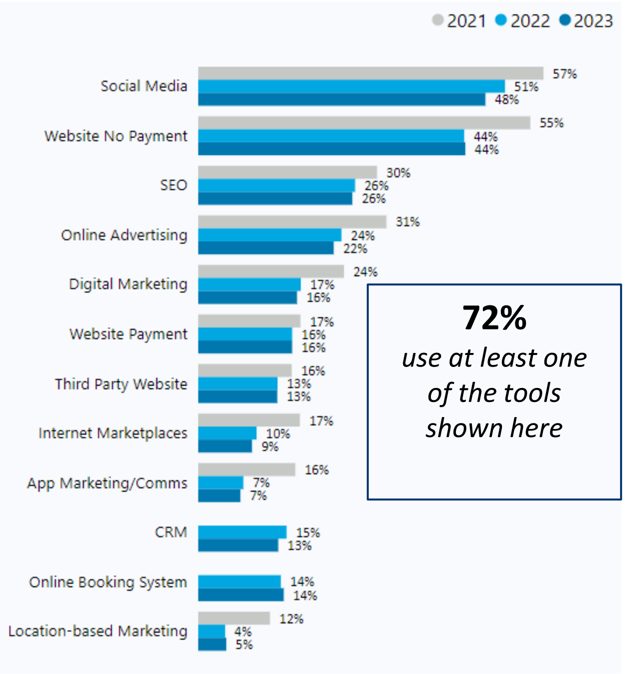
Only 40% of businesses promote themselves online with digital marketing, SEO or online advertising. The majority of businesses with growth-focused owners use one of these tools.

Over the past few years, larger businesses and those seeking growth use 'external' digital tools at a consistent level. But, for smaller businesses and those not seeking growth, usage is declining.

This suggests there is a growing divide when it comes to engaging with customers online.

Given many customers use online channels to discover and buy goods and services, this growing divergence in usage of 'external' tools (which lend an online presence) could begin to marginalise some businesses.

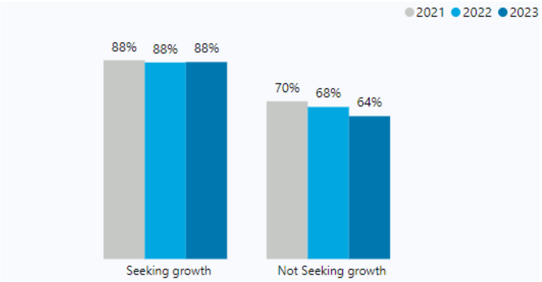
Percentage of businesses using each tool: 2021 to 2023



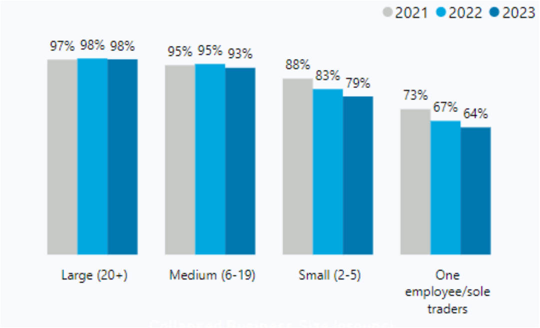
72%
use at least one of the tools shown here

The 'Wholesale trade' industry (35%) ranked the top in digital marketing usage when compared to other industries

Usage of 'external' tool by growth intention



Usage of 'external' tools by business size



The top three industries for social media usage are:
1. Retail Trade (72%) 2. Accommodation and Food Services (68%)
3. Arts and Recreation Services (66%)

UNLOCKING POTENTIAL: WHAT BUSINESSES NEED TO GO DIGITAL

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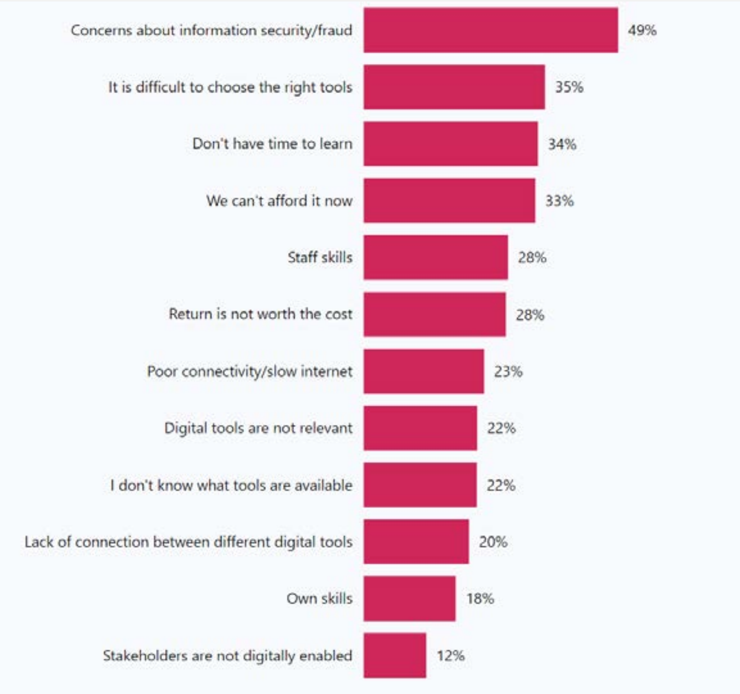
Barriers to digital enablement

Percentage of businesses agreeing these are barriers to making greater use of digital tools



86% of businesses identify at least one barrier to digital enablement.
37% *strongly agree* with at least one of the barrier statements listed here.

Cyber security concerns remain the most prominent barrier to businesses adopting digital technology. Businesses are also facing more complex cyber threats, according to the National Cyber Security Centre of New Zealand[1].

Smaller businesses are more likely to report security concerns. The number of small businesses with this barrier is also increasing (from 42% in 2022 to 50% in 2023). Over time, digital tool 'irrelevance', lack of 'value for money' and 'time' are more likely to be barriers for all businesses on their digital journey. By contrast, digital skills, internet connectivity and digital understanding have become smaller barriers to digital enablement.

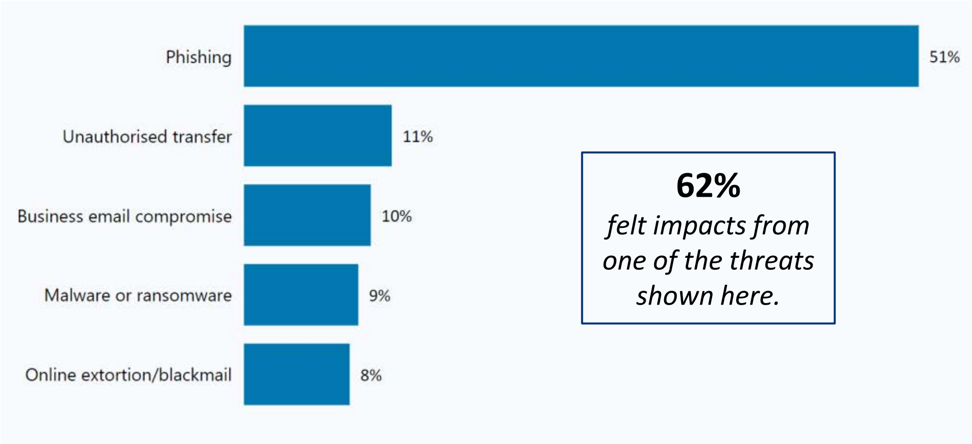
Among those businesses concerned with information security, one in three is taking action to keep their cyber security systems updated. The majority of businesses with security concerns find it difficult to protect themselves.

Main barriers to cyber security protection

[1] *Cyber Threat Report 2022/2023:* *https://www.ncsc.govt.nz/assets/NCSC-Documents/NCSC-2022.2023-Cyber-Threat-Report.pdf*

A focus on cyber security

Percentage of businesses impacted by each threat in last 12 months



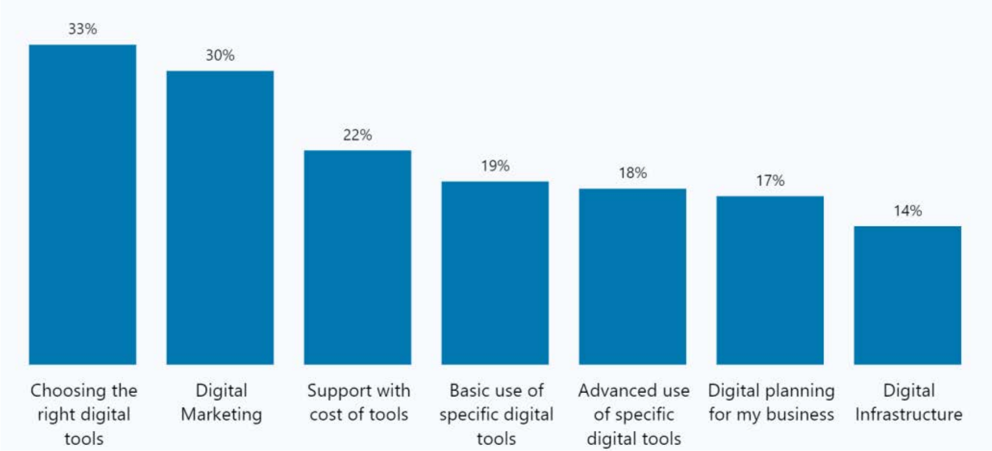
62%
felt impacts from one of the threats shown here.

This year's survey took a closer look at the types of cyber-attacks that impact businesses.

Larger businesses are more at risk of experiencing cyber-related impacts. Businesses that generate revenue online are also more likely to experience cyber-attacks.

The prevalence of cyber-attacks also varies by industry. Businesses in ‘Accommodation and Food Services’ and ‘Wholesale Trade’ are most at risk (72% and 69%, respectively). The lowest level of incidence comes from ‘Arts and Recreation Services’ and ‘Agriculture’ (48% and 52%, respectively).

Future support needs and investment



"AI tools for business."
Other Services, Small (2-5 staff)

"Discouraging cyber sabotage with more surveillance, prosecution, and higher penalties."
Professional, Scientific and Technical Services, Medium (6-19 staff)

"An impartial service that rates and advises on digital tools available for business. Advice on deliverables, cost vs. return, security, and support."
Professional, Scientific and Technical Services, Sole trader

In 2023, business owners were asked: 'When it comes to digital tools, in which of the following areas would your business benefit from more support or advice?'.

Two-thirds of businesses identified at least one type of support need. This indicates a high level of demand for some form of digital help from businesses.

Help with choosing the right digital tools continues to be the most requested type of digital adoption support. Most businesses would like help choosing the best tool, promoting themselves online, or reducing the cost of digital tools.

Larger businesses are more likely to seek support with digital infrastructure, advanced tool use and digital planning.

When asked to express in their own words what support would be most valuable to their business, the below themes emerged:

- Help with navigating the selection of specific digital solutions, systems and providers.
- Support with incorporating artificial intelligence into the business.
- Advice and action related to cyber security.

Different digital barriers and support needs

Barriers

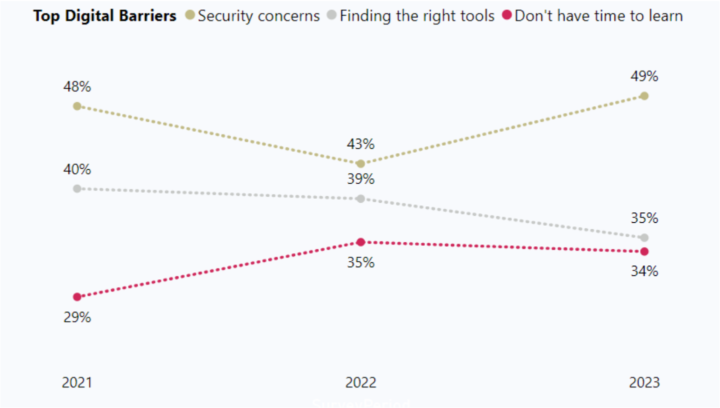
Different types of businesses (by size, turnover and growth intention) have different levels of digital confidence and usage. But, all these business groups report facing similar types of barriers to becoming more digital.

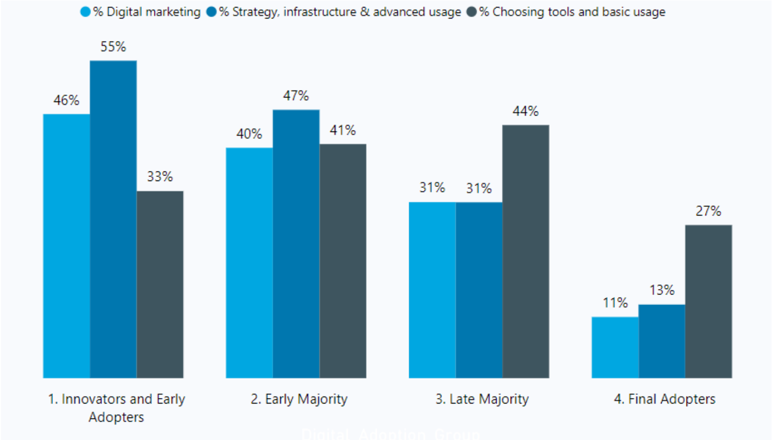
The most common challenges to digital uptake are consistent across time (below). Over the past three years, security concerns are the main barrier, followed by difficulty choosing the right tools and finding the time to learn about digital solutions.

This suggests that it's important to include cyber security awareness into digital policy or solutions. For a significant number of businesses, solutions should also consider reducing confusion around digital choices and a general lack of time.

Despite common challenges, there are some key outliers to consider:

- older owners (55 years or more) are less affected by financial or time constraints, compared to younger business owners, and;
- digital challenges vary across sectors and regions. For example, businesses in Wellington and the 'Education and training' sector are less likely to report digital barriers.





Support needs

Many businesses would like at least one type of digital support. Yet, there are large differences in the kind of help desired depending on the type of business.

Digitally advanced businesses are more likely to seek digital support. These businesses would like help with digital marketing, strategy and advanced use. Businesses that are larger, with younger or growth-focused owners are also more likely to want this type of digital support.

Willingness to adopt digital tools and support shifts depending on the type of business. For example, less digitally advanced, less ambitious or smaller businesses will likely respond better to basic tool awareness and usage campaigns. Whereas larger, more digitally advanced, more ambitious businesses are likely to value a broader and more comprehensive support package.

Conclusion

Key Insights

- **Digital adoption trends**: While some businesses are accelerating their digital enablement, others lag behind, highlighting a growing digital divide.
- **Barriers to digital progress**: Cyber security concerns, lack of time, and difficulty in choosing the right digital tools remain significant barriers.
- **Support needs**: Two-thirds of businesses seek support, primarily in choosing digital tools and digital marketing, with needs varying based on the type of business.
- **Cyber security**: Cyber security remains a top concern, with many businesses struggling to protect themselves adequately.

Moving Forward

- **Tailored strategies**: Digital support should be customised based on business profiles to address specific needs effectively.
- **Bridging the digital divide**: Efforts should focus on reducing the gap by supporting smaller and less digitally advanced businesses.
- **Enhancing cyber security**: Relevant, accessible and affordable tools are essential for businesses to safeguard their digital environments.

Final Thoughts

- The digital landscape is ever-evolving. Businesses must adapt and evolve to stay competitive and secure.
- Ongoing support and targeted interventions can significantly enhance digital capabilities and bridge existing gaps.