

DIGITAL TRANSFORMATION:

Small businesses face obstacles,
opportunities in using digital technologies
in the wake of the pandemic



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Executive summary

The coronavirus pandemic forever changed consumer behavior and accelerated business' digital transformation. Tech giants and other large companies were able to capitalize on this seismic shift, leaving vulnerable small businesses behind, particularly those owned by women and entrepreneurs of color.

Throughout the pandemic, Small Business Majority saw, heard from and helped many small businesses that were able to successfully make digital transformations or otherwise pivot their business model to meet their customers' needs. However, we know that this transition has not been easy, nor has it been uniform across the small business ecosystem.

To better understand small business' digital transformation through the pandemic and into recovery, we launched a multifaceted study of key issues surrounding entrepreneurs' technology adoption. The study included six surveys and five focus groups over the span of 18 months (for more details on the methodology, see Appendix).

Our research finds that nearly all small businesses are using at least some digital technology, including new tools adopted

during the pandemic, but the types of tools adopted vary widely. Some businesses remain largely non-digital in how they work, using a few digital tools for specific tasks, while others conduct nearly all their business in a digital or online environment. While a digital transformation is underway in the small business ecosystem, not all business owners are fully participating, nor do they feel a need to adopt every technology available.

As the world continues to digitize, small businesses must be nimble and adapt to keep pace. As emerging technologies like AI have the potential to revolutionize business, entrepreneurs who utilize it can stay abreast of current trends. This report underscores the progress that many have made in their digital transformation while also revealing that others lack the time, capacity and money to do so. There are significant gaps among businesses across a range of areas, especially for those that are still working to exceed the \$100,000 mark in revenue. Customized business support and beneficial policies are needed to help those left behind fully achieve their digital transformation so they can remain competitive with larger corporations.



To gauge the levels at which different technologies are being used, we conducted surveys on several distinct categories:

General digital literacy and broadband access, to get a baseline understanding of business owners' comfort with technology and their ability to access it.

Online presence, looking at how small businesses create and maintain websites, their social media presence, and whether and how they engage in e-commerce.

Accounting, finance and point-of-sale technology, looking at how businesses leverage technology to better understand their profitability and cash flow.

Customer relationship management (CRM), exploring the different types of CRM tools and concepts and small business owners' familiarity with them (email marketing, post-sale interaction, reputation management, appointment scheduling software, etc.)

Human resources, including technology for managing recruiting, onboarding, employee and benefits management, and scheduling. For self-employed respondents, we look at things they consider when deciding if they want to hire.

Cybersecurity, including how businesses manage and store customer data, their awareness of potential threats, and whether they have been a victim of a cyberattack.

Artificial intelligence, examining how they are using this emerging technology and what concerns they have around its prevalence.



Overall key findings

- About two-thirds (66%) of business owners use some type of financial accounting software for their business, and more than half (57%) use an electronic point-of-sale system.
- 63% have a cybersecurity plan in place for their business. More BIPOC (Black, Indigenous, and People of Color) businesses (65%) have a cybersecurity plan compared to white-owned businesses (54%).
- 69% currently use some kind of artificial intelligence (AI) technology for their business.
- Almost 8 in 10 (78%) businesses with more than \$100,000 in revenue currently use artificial intelligence AI compared to half of businesses with less than \$100,000 in revenue.
- About a third of business owners do not have a website for their business; instead of a website, the majority (76%) have a social media presence. Almost 1 in 10 (8%) businesses have no online presence at all.

General digital literacy and broadband access



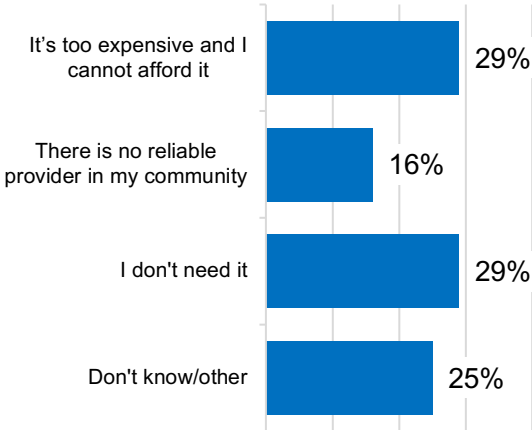
Successful digital adoption begins with a baseline understanding of how to use technology, as well as the ability to access the internet through a broadband connection. We find generally high levels of digital literacy and broadband access, though gaps exist.

We first looked at digital literacy, finding that more than half of business owners surveyed express a pressing need for technology training, recognizing the pivotal role it plays in their success. Their willingness to enroll in courses to improve their digital literacy underscores that entrepreneurs want to take a proactive approach to enhancing their knowledge, with a keen interest in areas such as third-party selling platforms, social media marketing, and cybersecurity.

Despite the importance of broadband access, significant disparities persist, particularly for BIPOC businesses. Although the vast majority of respondents report having access to broadband, access levels vary considerably across demographic lines. For white business owners, broadband access is nearly ubiquitous, with 97% enjoying connectivity. However, for BIPOC businesses the figure stands at 88%, highlighting systemic inequities in access to essential digital infrastructure.

Moreover, even among those with broadband access, challenges remain. A majority of respondents report dissatisfaction with their internet speeds, with less than half meeting the recommended threshold of over 100Mbps for downloads.

Reasons why some small businesses don't have broadband access

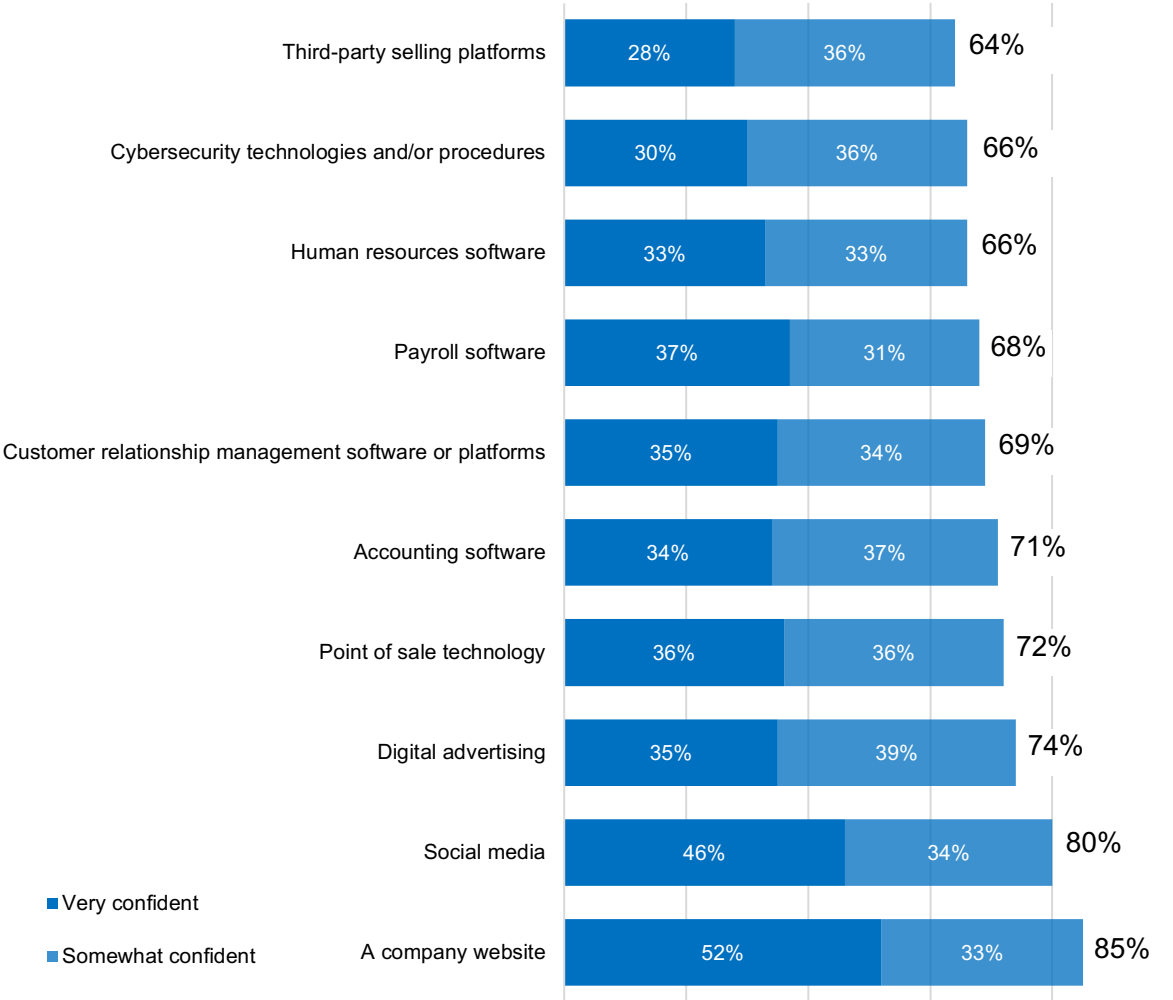


Additionally, service disruptions plague a significant portion of small business owners, with 15% experiencing interruptions at least once a month. These issues not only impede productivity but also hinder their ability to fully leverage digital tools and resources to grow their businesses.

Key findings

- More than half of business owners surveyed need help with technology training, and 72% were likely to take courses to help them improve their skills. The top three topics of interest were third-party selling platforms, social media marketing and cybersecurity, highlighting a lack of confidence in managing these technologies.
- In deciding whether to take digital literacy training courses, one-third of business owners say the most important factor is that those courses are free or low cost.
- Four in 10 businesses have dedicated IT staff. Another 4 in 10 don't think they need IT employees, while the remainder don't have staff but are looking to hire.
- 85% of respondents living in rural areas have broadband access compared to 91% in suburban and 93% in urban areas.
- The vast majority of respondents have broadband access, with most paying between \$50-\$150 per month for the service
- Nearly half of those with broadband access stated that their service was not fast (under 100Mbps download speed), and 15% experienced service disruptions at least once a month.

Small business owners rate their confidence using digital technologies



What our focus groups found

Generally, focus group participants were confident in their ability to manage various technologies for their business and their overall digital literacy. Some older participants and participants whose first language was not English expressed more challenges. For instance, one Spanish-speaking owner of a cafe spoke of having her son handle all of her social media and computer needs.

A common theme in our focus groups was the time required to learn new technologies or try to keep up with existing technologies. With the technological landscape constantly evolving, many participants expressed frustration with the lack of interconnectivity between systems, as well as how inertia and

lack of time prevent them from exploring new offerings.

For broadband access, participants in our focus group in the Inland Empire of California also said access could be spotty in the more rural parts of San Bernardino and Riverside counties, which made it difficult to serve clients in those regions. Their perceptions back up a 2019 study found that about 27% of rural small businesses in the United States did not have access to broadband that met federal standards.

“I think part of it for me is [digital is] a big time suck ...I think maybe if I scale back and be more intentional with my time, I can make better use of it.” – Owner, 1-9 employees

Recommendations

- With more than half of respondents indicating they need support with technology training, practitioners should prioritize digital training courses around the top topics identified: third-party selling platforms, social media marketing and cybersecurity.
- Restore funding for the Affordable Connectivity Program: The federal Affordable Connectivity Program, enacted under the Bipartisan Infrastructure Law, has helped 23 million households save \$30-\$75 each on their monthly internet bills. Funding expired in April 2024, and more than 150,000 households have since lost broadband access.

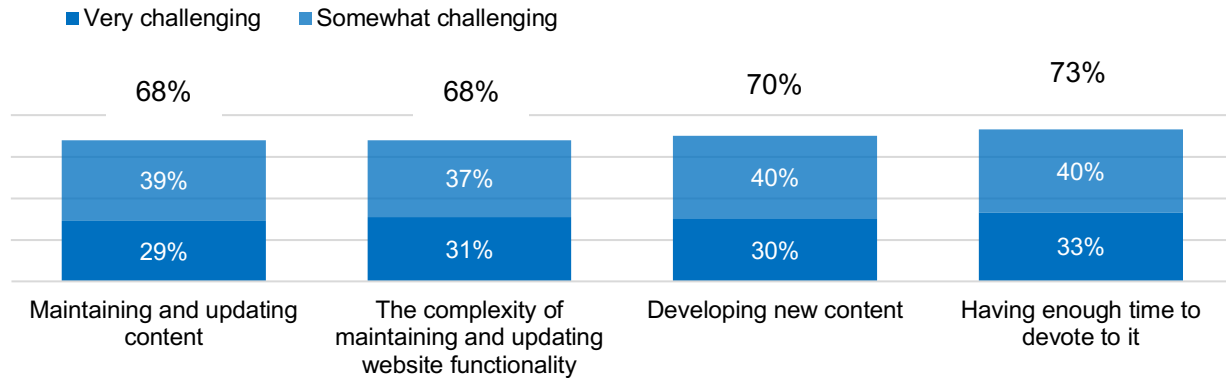


Online presence: Website

Amid Covid-19 lockdowns, social distancing measures and shifting consumer behaviors, small businesses found themselves grappling with an imperative to establish or enhance their online presence. In this context, websites emerged as multifaceted assets, serving not

only as storefronts but also as communication hubs, marketing channels and e-commerce platforms. The majority of businesses surveyed had websites in place during the pandemic, but nearly one-third did not.

Managing their websites poses numerous challenges for small business owners



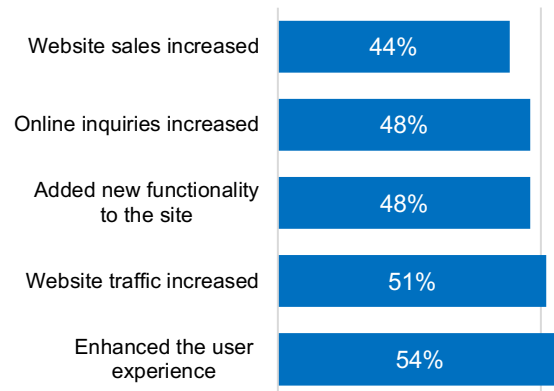
Key findings

- One-third (33%) of respondents currently do not have a website and cited a variety of reasons for not having one. Almost half (48%) reported that a lack of resources and time were major barriers. Similarly, 41% utilized their social media presence instead of a website. More than one-third (36%) said they don't know how to run or create a website, and they (36%) also said the cost to build and maintain a website is prohibitive.
- Respondents say the main purposes of having a business website include building awareness of their business (38%) and having a central place to sell their products or services (35%). Other purposes include providing credibility for their business and connecting with new customers.
- 65% of BIPOC respondents have a website for their business, compared to 77% of white respondents.
- The majority of business owners with a website manage it themselves (56%). Nearly 4 in 10 built the site themselves using a tool provided by their web hosting service, while 3 in 10 outsourced it.
- For respondents with a website, the main purpose it serves is either as the primary place where they sell their goods or services or as a platform for building brand awareness.
- A higher percentage of businesses with under \$100,000 in annual revenue have a website (70%) compared to businesses with over \$100,000 in revenue (64%).

Pandemic transformation

We saw in much of our research that digital channels changed dramatically for business owners during the Covid-19 pandemic. In the case of their website, half of respondents said that web traffic and online sales increased dramatically. Businesses also used the pandemic as an opportunity to enhance the user experience of the site (54%) and to improve the site's functionality (48%) to keep up with increasing demand.

The pandemic saw numerous changes for business' website traffic and use

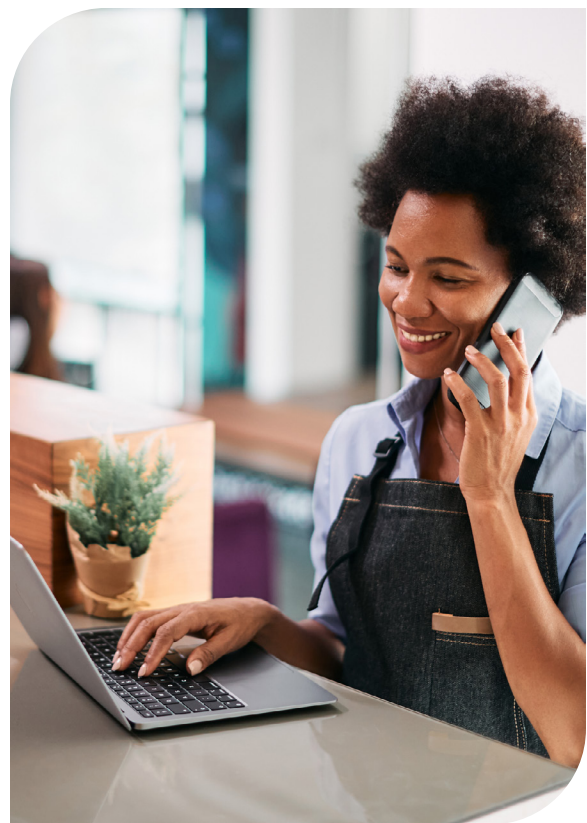


What our focus groups found

Our conversations with business owners revealed that for many, especially those with a physical retail or service presence, their website primarily serves as a virtual calling card or yellow page listing, allowing customers to find the physical location or learn more about the products and services offered. A laundromat owner acknowledged that his business website did not serve much purpose beyond that virtual business card, though others in the group recommended he offer a standing coupon on the website to help spur further customer engagement.

“It’s funny because we had talked about putting all of our inventory online and we just kept putting it off and we literally did it over a weekend when the restaurants shut down. So we went to a completely online program, removed all the tables and chairs out of the coffee shop because it used to be a coffee shop. We brought in shelving and started carrying the best of the best gluten free items that were hard for people to get. And actually ended up staying with that. We’ve expanded and just stayed with that model.”

– Owner, 10-99 employees



Online presence: E-commerce

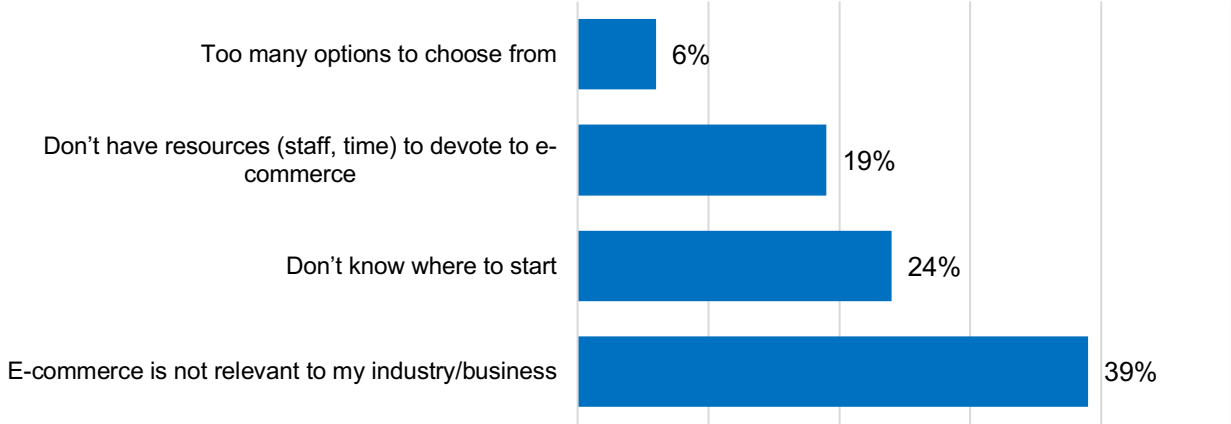
The rise of e-commerce has reshaped the landscape of small businesses, offering unprecedented opportunities for growth and expansion. With digital storefronts, a small business can reach a wider audience due to the lack of a physical storefront’s geographic constraints. However, e-commerce can be unaffordable for many small businesses due to shipping, advertising and third-party expenses. Furthermore, a plurality of entrepreneurs chose to rely only on traditional sales methods instead of e-commerce due to its perceived complexity and a preference for face-to-face interactions.



Key findings

- The majority of survey respondents (60%) have some kind of e-commerce platform in place.
- About one-third (32%) sell their products/services through an e-commerce store/platform on their website, and one-quarter (24%) sell through large third-party platforms, such as Amazon, eBay and Etsy.
- Utilizing e-commerce platforms can prove challenging to business owners. Affordability is a problem for respondents, who say that the cost of advertising on the platform (41%), fees paid to a third party (36%) and the cost of shipping (36%) are challenging.
- The 40% of respondents who do not utilize e-commerce platforms cited a variety of reasons for relying on traditional sales instead. Almost one in four (24%) don't know where to start, 19% don't have the resources to devote to e-commerce, and others (39%) say that e-commerce is not relevant to their business or industry.

Reasons why some business owners don't use e-commerce



Pandemic transformation

Global e-commerce sales increased 19% in 2020 and 22% in 2021, according to the International Trade Administration.¹ Our surveys also support this substantive increase,

with 10% of respondents saying their e-commerce sales at least doubled, with another 44% indicating an increase of between 25% and 100%.



What our focus groups found

For businesses that have an e-commerce-first approach, the pandemic greatly accelerated their sales. Others used the suspension of in-person retail during the pandemic to devote time and investment into their online presence, recognizing the shift in buying that was occurring.

One baker had invested months of time to configure their business for online sales right before the pandemic hit. That foresight allowed them to easily make the switch to all online pickup sales when businesses were shut down. They also launched community-facing events, delivering goods to first responders and teachers.

“But what really moves this business is we also have an online platform where a consumer can go on to our website and order one picture frame because a wholesale customer is not going to order one picture, [but] a consumer can.”

– Owner, 10-99 employees

¹ “Impact of COVID Pandemic on eCommerce,” International Trade Administration, 2021, <https://www.trade.gov/impact-covid-pandemic-e-commerce>

Online presence: Social media



Through organic content creation and paid advertising, social media has become the primary digital method through which most small businesses reach and engage with their target market. Small business owners utilize their social platforms to build brand awareness, display new product offerings and promote customer success stories. Social media also allows for direct and immediate communication with customers so their questions and concerns can be addressed. However, many small business owners don't have the time needed to keep updating their social content.

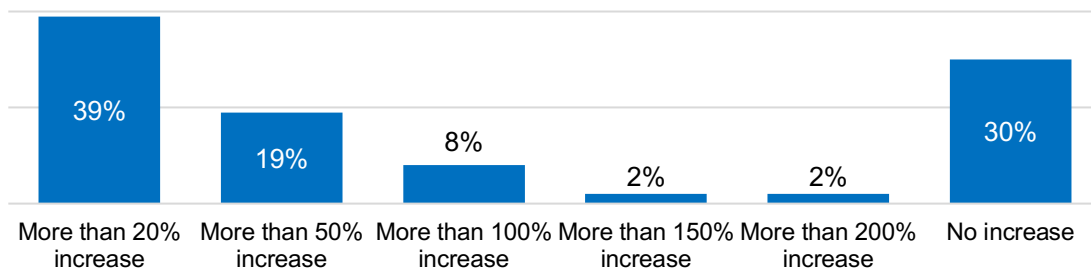
Key findings

- Most small businesses have some kind of social media presence, with Facebook and Instagram as the most popular platforms. Roughly 8% of business owners have neither social media accounts nor a website.
- No matter their employee or revenue size, businesses are leveraging social media. However, 86% of BIPOC respondents use some type of social media compared to 94% of white business owners.
- Most businesses struggle to find the time to maintain or update their social media platforms and develop content for them.
- For respondents that utilize digital marketing channels, 62% use advertisements on social media platforms (Facebook, Twitter, LinkedIn).
- Roughly 1 in 4 respondents (24%) are attracting new customers through traditional advertising.

Pandemic transformation

During the pandemic, business owners expanded their use of social media channels. About 1 in 3 added new social channels, while a quarter partnered with social media marketers/influencers to promote their brand. Offering deals and sharing customer success stories also proved to be popular strategies. Employing these tactics, 72% of business owners said their sales increased by at least 20% during the pandemic, with 10% saying their sales at least doubled.

Implementing new social media strategies led to increased sales for many



Recommendations

One emerging trend we found is that some business owners are using artificial intelligence to help generate social media content and posts, saving time. Practitioners should utilize safe implementation of AI to streamline some of the content creation.

What our focus groups found

Most focus group participants had at least a minimal social media presence, with the most common platforms being Facebook and Instagram. Some businesses are paying for social media ads and working with influencers, while others are more focused on industry-specific channels. Some businesses that rely heavily on social media marketing also reported paying a contractor or vendor to outsource their social media management. Others discussed leveraging AI to help generate social media content.

“We have relied heavily on Facebook and Instagram. So much so that we're on an advisory committee.... And so we work quite a bit with Facebook, but up until this year, we've been in business since 2013, we were managing all of our own social media and now it's gotten to the place where we had to contract out for it. And that took a lot of time too....”

– Owner, 10-99 employees



Customer acquisition and marketing

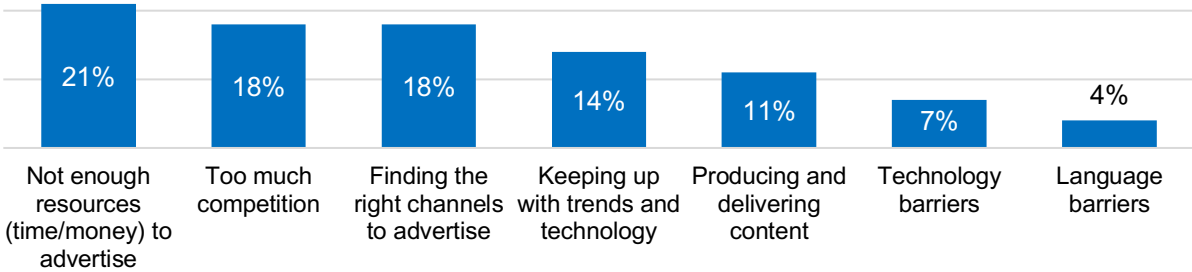
While word of mouth remains the best way for businesses to find new customers, business owners are employing a variety of digital marketing strategies to find and sell to customers, with our survey revealing which tactics small business owners believe are the

most successful. These findings also suggest that there is a need for small businesses to address multiple hurdles to effectively acquire new customers and maintain a competitive advantage in their industry.

Key findings

- Customer stories are the most effective form of marketing, with half of business owners believing so. Search engine optimization (42%), email newsletters/marketing (41%) and content creation/blog posts (40%) also ranked highly.
- Roughly 3 in 10 business owners are not spending any money on digital advertising, while another 28% spend less than \$500 per month.
- For businesses buying ads on digital channels, social media is the most popular choice, with 63% buying ads on those platforms. Google Ads also are popular with 45% of respondents using them, while a third are using display/banner ads on websites.

Challenges small business owners face when acquiring new customers



What our focus groups found

Offline marketing is not dead. Some small business owners still rely on traditional marketing techniques as well, including print, physical advertising and word-of-mouth.

“For me, I made my website myself and I keep it updated myself, but ... my main source of clients is probably word of mouth from previous clients and referrals from doctors' offices. So I physically will go or drop off baskets, and that's actually been a huge referral source for me.”

– Owner, 1-9 employees

Recommendations

Provide more tools and resources to business assistance centers so they are better equipped to help small business owners build a successful online presence. This should include providing culturally competent education to help those in under-resourced areas that struggle to build an online presence.

Digital accounting software and financial literacy

Our research explores various opportunities, challenges and concerns related to small business use of digital accounting tools, as well as their overall financial literacy. The research finds that two-thirds of entrepreneurs utilize some form of financial accounting software, and more than 8 in 10 (83%) of those respondents are satisfied with the user interface and overall usability of those platforms. A majority of small business owners report that due to adopting accounting software, they're better able to manage client billing and invoicing, financial records and bookkeeping.

Additionally, point-of-sale (POS) systems can have a significant impact on small businesses and their operations. A majority of entrepreneurs (57%) utilize digital POS systems. They report that their digital POS systems have led to a faster and more efficient checkout process, enhanced customer experience and satisfaction, and improved inventory management and tracking.

With these technologies enabling small business owners to have more control over their business finances, financial literacy is

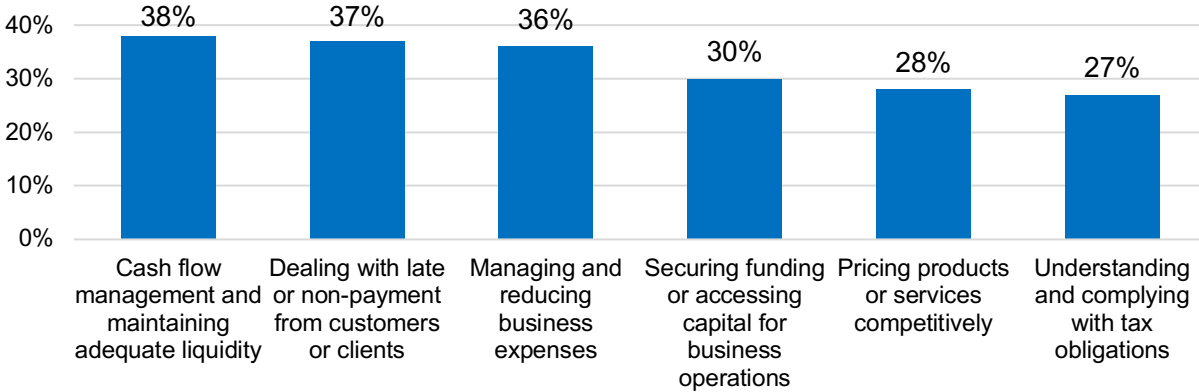
crucial. However, entrepreneurs frequently encounter financial challenges in running their businesses.



Key findings

- Accounting software is used by two-thirds of small business owners (66%). QuickBooks is most widely used (69%), followed by Xero (11%), Zoho Books (8%) and FreshBooks (8%).
- As a result of implementing a new financial accounting system, about two-thirds said they were better able to manage client billing and invoicing, 42% became more confident in their ability to make financial decisions, and 40% said their revenue increased.
- 56% of respondents found expense tracking to be the most beneficial feature.
- Of those who don't use accounting software, 44% prefer manual or existing systems, 42% cite the cost of software, and one-quarter find such tools difficult to learn and implement.
- Many respondents believe that their race/ethnicity (22%), socio-economic status (23%), gender identity (16%) and language (12%) have contributed to difficulties navigating financial systems and services.
- 30% of BIPOC respondents believe they have been denied financial services due to socioeconomic factors compared to 18% of white respondents.

Most common financial challenges encountered by small business owners



Pandemic transformation

About 4 in 10 businesses adopted or enhanced their accounting tools during the pandemic. Those who adopted financial accounting software and POS systems during the pandemic did so because they needed more accurate financial reporting and forecasting, experienced changes in revenue or business operations, the business was just starting and to better manage cash flow.

What our focus groups found

For participants who haven't fully digitized their accounting and financial operations, a reluctance to transition from their current bank was a key consideration. Others who were leveraging digital tools for their finances found great benefit, noting how services like Square or Toast not only help streamline payment and accounting, but also offer marketing and customer relationship management features for a more integrated suite of products.

"I use QuickBooks and I make sure that my CPA has access to it. So it's really easy come tax time. We use a program called Asana, so when we're managing projects and tasks, we can keep track of it."

– Owner, 1-9 employees

"We just about a year ago signed up with a payroll service. The CPA used to do payroll, but we went into a payroll service to get more benefits for the employees than what we could do in house."

– Owner, 10-99 employees

Recommendations

- Provide more funding and manpower for federal resource partners that offer vital education and outreach to business owners and aspiring entrepreneurs such as Small Business Development Centers, Women's Business Centers, Procurement Technical Assistance Centers and the Minority Business Development Agency.
- Increase the utilization of public-private partnerships and expand successful outreach models such as the Community Navigator Pilot Program to ensure that hard to reach communities can rely on a network of trusted providers.
- Provide funding for marketing and outreach across federal agencies that offer services for small and disadvantaged businesses.

Customer Relationship Management

Customer Relationship Management (CRM) systems provide numerous opportunities for small businesses to connect and keep track of their current and potential clients. Typically, digital CRM software is used to log each interaction with a customer, including phone calls, emails, customer service interactions and other meetings. Through this, different employees and departments at a small business can access the same information and better manage the customer's relationship to the business. This is critical because tracking customer engagement and satisfaction is an integral part of small business success.

The survey found that 6 in 10 small business owners use a digital CRM system, and they report that it helps them stay connected with customers, streamline processes and improve profits.

Entrepreneurs who don't utilize CRMs generally are either unaware of their existence or believe they're not relevant to their business or industry. Additionally, small business owners with employees are more likely to use a CRM system than self-employed owners.



Key findings

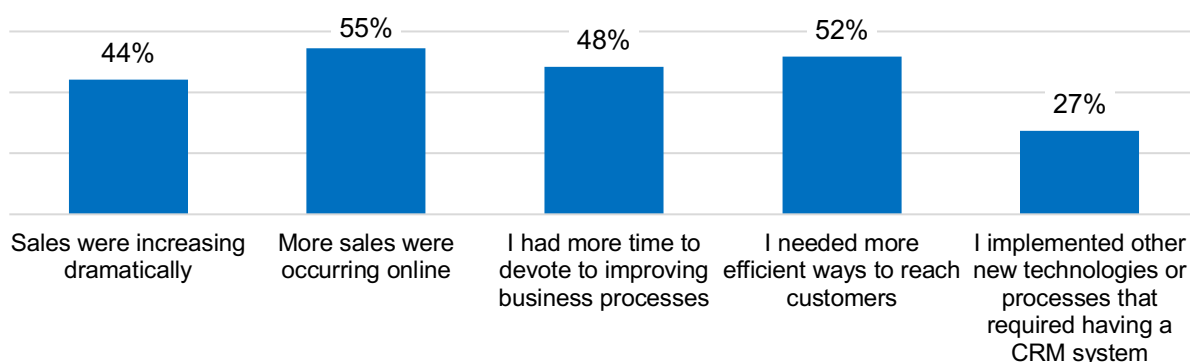
- Six in 10 small business owners stated that they use a digital customer relationship management (CRM) system, with Salesforce (54%), Hubspot (34%), and ZenDesk (33%) being the most popular systems.
- Of the respondents that have a CRM system, they noted that it helped their business through increased sales (55%), improved customer retention (50%), and improved marketing efforts (50%). These respondents primarily use their CRM for personalized email communications (50%) and surveying customer satisfaction (50%).
- Of the respondents who do not have a CRM system, the main reasons involve them being unaware of CRM systems (27%) and CRMs being irrelevant to their business or industry (23%). Furthermore, business owners who don't have a CRM system maintain relationships through emails (64%), personal connection (63%) and phone calls (50%).
- Many businesses have taken steps to automate their customer communications, with a quarter implementing a chat bot on their website and about 4 in 10 automating their email, text message or phone call responses.
- A higher percentage of BIPOC respondents use a CRM system (64%) compared to white owners (55%).
- An increase in the number of employees at a business correlates with higher use of a CRM system, as only 40% of self-employed owners use some type of CRM system.

Pandemic transformation

Almost 7 in 10 respondents implemented or enhanced a CRM system during the Covid-19 pandemic. Respondents cited several reasons for deciding to do so, with the main factor being that online sales were increasing dramatically (55% said so). Of the business owners that implemented CRM systems, 85% stated that it had a positive impact on their business during the pandemic.



Reasons why small business owners implemented CRM systems during the pandemic



What our focus groups found

Many small business owners are still relying on non-digital methods for administrative tasks, and they cite these tasks as being the most inefficient and burdensome for them personally. The biggest barriers to adopting new tools for these owners are cost and the time it takes to learn and implement tools. Many owners feel that they do not have the time to learn how to use new tools, let alone train staff and implement the tools into existing processes.

“We use a CRM, Salesforce, as well as supply chain logistics software, especially during Covid-19. Just because we’re national, we’re not a local shop, so we need to make sure that the sales team is working on things, not stepping on anyone’s toes and that we’re keeping track of who we’ve connected with and where we’re at on that chain.”

– Owner, 10-99 employees

Recommendations

With 4 in 10 business owners operating without a CRM system in place, more education is needed on the topic. Business support organizations should incorporate this topic into their digital tool trainings, providing real-world examples of how CRMs can help businesses retain customers.

Human resources

The digital revolution has permeated nearly every aspect of modern business operations, and human resources is no exception. As revealed by our research, the landscape of HR management is undergoing a profound transformation, driven by the adoption of technology and automation.

We explored human resources from three perspectives: recruiting and hiring; benefits, payroll and scheduling; and employee onboarding and offboarding. While a significant portion of respondents (about 2 in 10) still rely on limited technology for these processes, a majority have embraced moderate technological solutions, with roughly a quarter using advanced technology. Notably, this technological proficiency is linked to revenue, as higher-earning businesses show a greater tendency to adopt advanced technology.



Recruitment and hiring are one of the most important components of human resource management. Three in four respondents said recruitment and hiring was going well and almost 8% said it was not going well for their business. Moreover, for businesses that do not use any online or digital recruitment tools, cost concerns are a top reason, while others prefer traditional methods. Some concerns business owners have when hiring include the ability to offer competitive wages (66%) and employee liability (64%).

Key findings

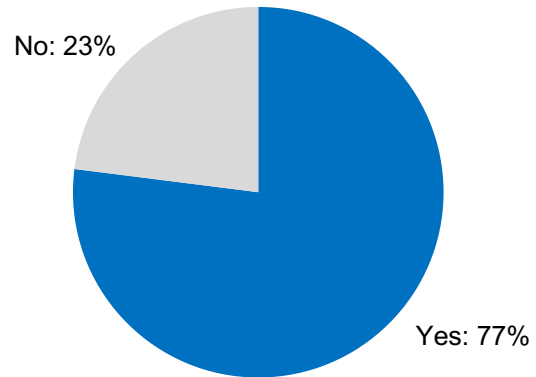
- For business payroll, benefits and time management process, 17% of respondents use limited technology, more than half (53%) use moderate technology, and more than a quarter (27%) use advanced technology.
- More than half of respondents use social media or online recruitment platforms such as LinkedIn, Indeed and ZipRecruiter (51%) during their recruitment process.
- More than three-quarters of business owners (76%) who paid for digital recruitment tools said the expense was worth it.
- Most respondents (88%) were confident in the human resource function at their business.
- Some businesses (22%) struggle at least somewhat to manage their employee training, development and internal communication.
- Being able to offer competitive wages is a top concern when hiring, with two-thirds of business owners saying so.
- Businesses with higher revenue were more likely to be technologically proficient in automating payroll, benefits and time management: 46% of businesses with more than \$1 million in annual revenue were using advanced technology compared to 7% of businesses with an annual revenue under \$25,000.

Pandemic Transformation

About three-quarters (77%) of respondents said they implemented or enhanced their recruiting and hiring technologies during the Covid-19 pandemic. More than half (59%) of respondents noted that working remotely allowed them to expand their candidate pool during the pandemic.

Three quarters (76%) said they implemented or enhanced their payroll, benefits and time management technologies during the Covid-19 pandemic.

Small businesses implemented or enhanced recruiting and hiring technologies during the pandemic



What our focus groups found

Many small business owners in our focus groups were still relying on non-digital methods for administrative tasks like HR, and they cite these tasks as being the most inefficient and burdensome for them personally.

“I think that HR piece can be a time suck...Finding somebody, interviewing, if they show up. Indeed has it where you pay for the ad and they've got this really weird system, and then getting the people onboarded [is a challenge]. And so I think sometimes you'd rather just go without filling a position than to try to figure out how to get it filled.”

– Owner, 10-99 employees



Recommendations

- Offer tax credits or deductions for expenses related to human resources programs, such as employee training.
- Provide grants or financial incentives for small businesses that implement employee retention programs and provide professional development opportunities.

Cybersecurity

Facing ever-increasing and evolving cyber threats, small businesses typically lack the security infrastructure of larger businesses and corporations to protect their digital assets from attack. Phishing scams, spyware, ransomware, viruses and malware can enable hackers to gain access to data and damage devices. While cybersecurity is a concern for most small business owners, as with most digital strategies, entrepreneurs vary in preparedness. Some small business owners are spending a lot on cybersecurity services, while others are completely unprotected.

Our survey found nearly two-thirds (63%) of respondents have some form of cybersecurity plan, mainly for data protection and due to requirements from vendors and clients. Our focus groups further support this finding; most participants with cybersecurity plans and/or insurance have it because it's required by a contract or partnership. Respondents said their cybersecurity plans primarily include password protection procedures, data



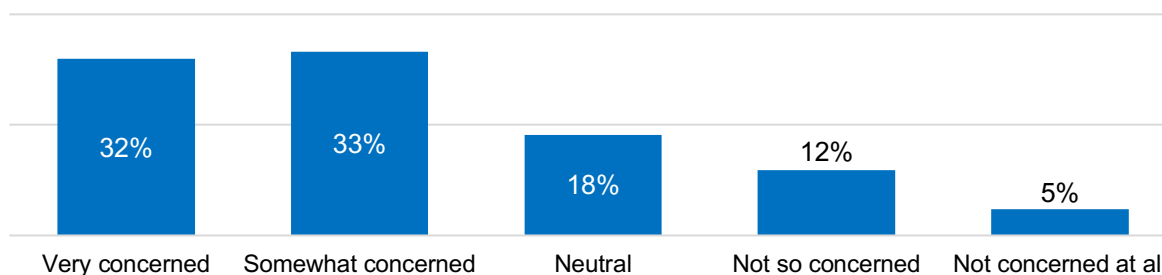
protection guidelines, and protocol for information system backup and recovery.

More than half of respondents (51%) report having dedicated staff or contractors managing their companies' cybersecurity. Meanwhile, 23% currently lack dedicated personnel, but had them in the past, and the remaining quarter have never considered hiring for this purpose. Additionally, while a majority of entrepreneurs at least occasionally provide cybersecurity training for employees, many of them still do not offer such training.

Key findings

- A majority of small businesses surveyed (63%) have some kind of cybersecurity plan in place. This is true even for the self-employed, 51% of whom have a plan. The percentages increase as the size of the firm increases.
- Uptake of cybersecurity plans was consistent across racial demographic groups. The age of the business owner and revenue size of the business correlate most strongly to whether they have a plan, with older owners (age 60+) less likely than other age groups.
- Nearly two-thirds of business owners are concerned about becoming a victim of a cyberattack, and more than one-quarter (28%) have already been a victim. When businesses have been targeted, the most common attacks included website hacks, compromised social media accounts and stolen customer data.
- Reasons why businesses do not have a cybersecurity plan include the lack of education about the topic (44%), the belief that they don't need one (39%) or the cost of implementing one (21%). Of those without a cybersecurity plan, only 14% said they were not interested in implementing one.
- A higher percentage of BIPOC entrepreneurs said they had a cybersecurity plan (65%) compared to white owners (54%).

Small business owners are concerned about cyberattacks



What our focus groups found

Cybersecurity is a concern for most small business owners, but they vary in terms of preparedness. Some small business owners are spending a lot on cybersecurity services, while others are completely unprotected. A business owner in one group experienced a damaging security breach on Facebook, and owners in our groups expressed interest in investing in better cybersecurity.

“The good thing about [cybersecurity] insurance, when I renewed it...is they give you a list of things that you were doing, and if you were doing these things, it obviously lowers your premium. So I take it to my 26-year-old and go, “I know half of these terms and what are the other half?”

– Owner, 1-9 employees

“Our credit cards are encrypted when a customer's making a payment. But cybersecurity, we have an IT, an outside person that monitors our website, but I don't have a separate entity for cybersecurity. However, after talking to this group, I think I better investigate further.”

– Owner, 10-99 employees

Recommendations

- There are numerous considerations when establishing a comprehensive cybersecurity plan. The nonprofit [National Cybersecurity Society](#) provides a suite of comprehensive free resources and guides for small businesses looking to boost their cybersecurity.
- A new grant program from the Small Business Administration awarded \$3 million to small businesses looking to implement enhanced cybersecurity protections. Congress should analyze the impact of this program, which launched in 2024, and reauthorize and expand it substantially if proven effective.



Artificial intelligence

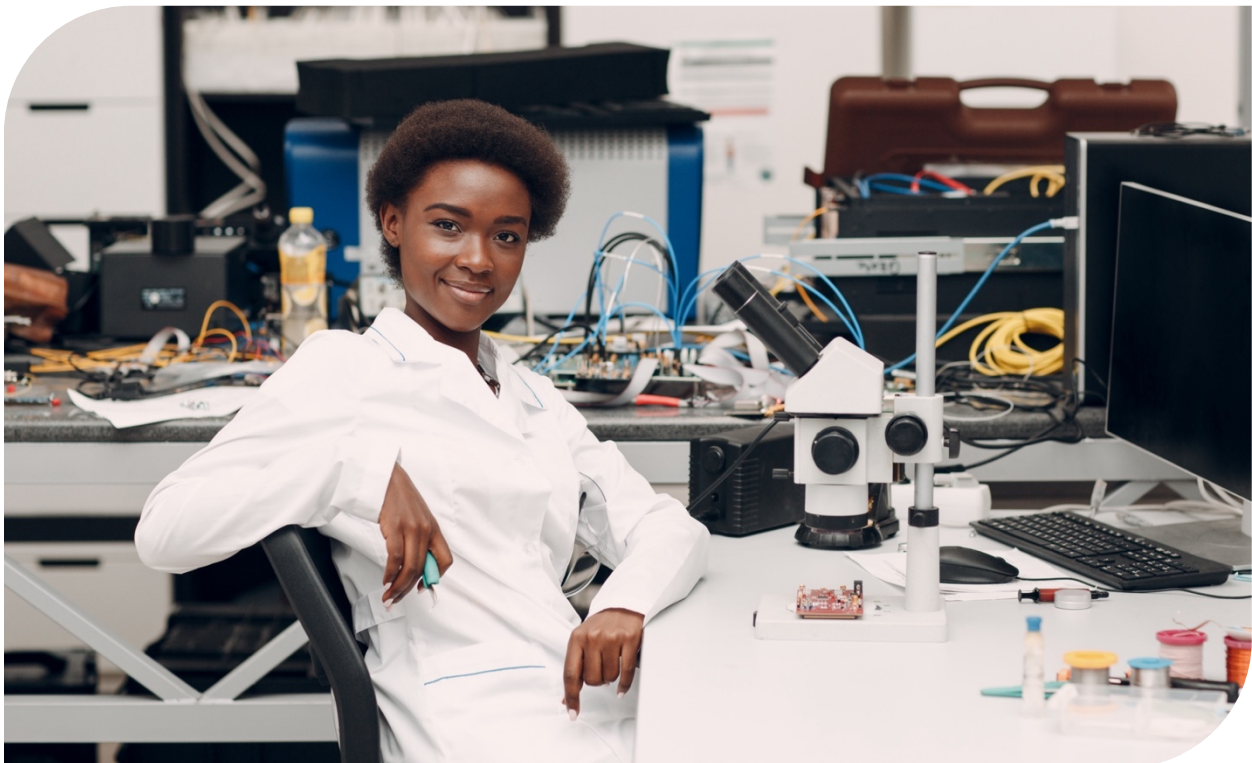
While small business owners vary in their adoption of digital tools and strategy, there is widespread consensus that artificial intelligence (AI) will become essential to how small businesses operate. In fact, AI has the potential to revolutionize how business is conducted, with new technologies already helping more small companies operate efficiently and effectively as well as compete with bigger companies. When considering its implementation, survey respondents expected that AI will streamline operations, automate tasks and reduce manual efforts (52%), and anticipate that AI-driven insights and analytics for informed decision-making and strategy formulation will help their business (46%).

These expectations led to the technology becoming quickly widespread with 69% of small businesses already using AI in some capacity. For the businesses that have not adopted AI, the most significant barriers are

cost concerns (38%) and a lack of awareness (36%).

Business owners are turning to a variety of sources to help implement AI, including AI-specific software vendors or providers, workshops on AI implementation, as well as external consultants or advisors specializing in AI.

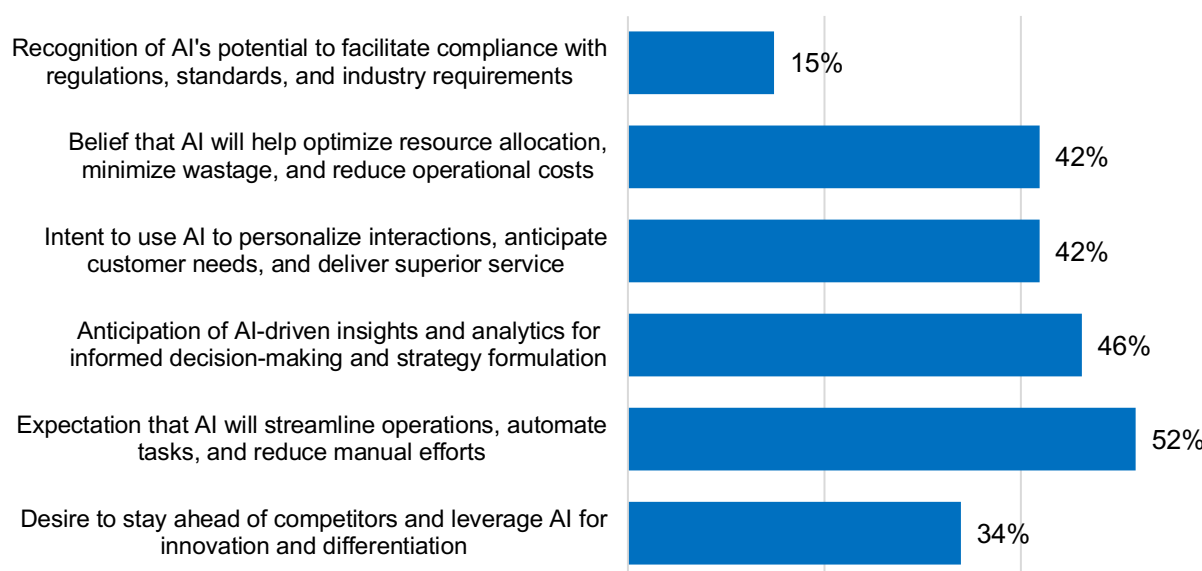
While many small businesses have been quick to utilize AI, some small businesses see disadvantages to its use. A quarter of respondents believe that an increase in AI usage led to an unfair competitive advantage for larger businesses against their own small businesses. Twenty-two percent of respondents believe the increase of AI usage led to an unfair competitive advantage for larger businesses against their industry, while 34% said it led to unfair advantage against both their business and industry.



Key findings

- Nearly 7 in 10 businesses say they are currently using AI technology in some capacity, including more than half (52%) of self-employed individuals.
- Small businesses are using AI in a variety of ways. For example, 57% say they are using AI-powered chatbots to interact with customers, while 49% are leveraging AI tools for marketing and advertising.
- Businesses are concerned about the impact of AI on data privacy (78%) and larger businesses leveraging AI to squeeze out smaller businesses (74%).
- For the businesses that have not adopted AI, the most significant barriers include cost concerns (38%), lack of awareness (36%), and data privacy and security concerns (31%).

Reasons why small business owners consider implementing AI



Recommendations

- Policymakers can help protect small businesses with AI usage through development and funding of small business training programs focused specifically on AI (73% support), ensuring a level playing field for AI regulation to ensure small businesses can compete with larger ones (73% support), and secure adequate data and privacy protections (81% support).
- In a roundtable discussion with the Bipartisan Policy Center, small business owners asked for assistance or resources to navigate the digital tool/AI marketplace and grant writing to apply for funds as they become available for digitization.
- Congress should pass the Small Business Artificial Intelligence Training Act of 2024. The bill would require the U.S. Commerce Department to develop an AI and emerging technologies training toolkit that would help small businesses integrate advanced tech solutions into their business.

Appendix

Methodology

We conducted six surveys as part of this research study from October 2022 through April 2024. Survey respondents were a mix of business owners and decision-makers from Small Business Majority’s network, partner networks, and SurveyMonkey’s online small business panel. Responses for each survey ranged between 700 and 1,400 responses. These surveys were supplemented by four focus groups, two in-person and two online, held between December 2022 and March 2023. We also participated in and recruited small business owner participants for a roundtable discussion on artificial intelligence hosted by Bipartisan Policy Center in December 2023.

Survey demographics

Of those who responded to a question about their race and ethnicity, two-thirds were Black, indigenous or people of color (BIPOC), while one-third were white. With roughly equal parts women and men participating, 3 in 10 respondents were self-employed, while another one-third had under 10 employees.

Only 24% of self-employed respondents had an annual revenue of more than \$100,000, while 43% of employer firms with fewer than 10 employees fall under that threshold. Seventy-three percent of employer firms with 10 to 24 employees had an annual revenue of over \$100,000. Seventy-nine percent of small businesses with 25 to 49 employees had an annual revenue over \$100,000. Meanwhile, 83% of small businesses with 50 to 100 employees had a revenue over \$100,000.

Forty-six percent of women-owned businesses had an annual revenue of over \$100,000 compared to 6 in 10 men-owned businesses. Of BIPOC respondents, 58% had revenues under \$100,000, while 42% of white respondents fell under that threshold.

Race/Ethnicity

BIPOC	66%
White	34%

Gender

Man	47%
Woman	53%

Company Size

Self-employed	28%
Small business, fewer than 10 employees	31%
Small business, 10-24 employees	16%
Small business, 25-49 employees	11%
Small business, 50-100 employees	14%

Annual Revenue

Less than \$25,000	19%
\$25,000-\$49,999	16%
\$50,000-\$99,999	15%
\$100,000-\$249,999	15%
\$500,000-\$999,999	13%
Over \$1 million	9%

Toplines

Download full survey topline from our website: <https://smallbusinessmajority.org/our-research/digital-transformation>

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- The Bipartisan Policy Center for organizing a focus group discussion on artificial intelligence.
- Lake Research Partners for facilitating other focus group discussions with business owners across the country.