



## Digital transformation: Small businesses face obstacles, opportunities in growing their online presence

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# Introduction

The COVID-19 pandemic completely altered consumer behavior and how entrepreneurs operate their businesses in order to successfully reach customers. In an increasingly online world, understanding how businesses build their digital presence and connect with and sell to customers is more important than ever. In our latest survey on small business digital transformation in the wake of the pandemic, we explored various opportunities, challenges and concerns surrounding small businesses’ website, social media, digital marketing and e-commerce efforts. Underpinning this analysis are economic conditions that are weighing on small businesses in a challenging climate. Although they are largely optimistic, 60% of small businesses report that expenses have increased over the previous three months while revenues and headcount have largely remained flat.

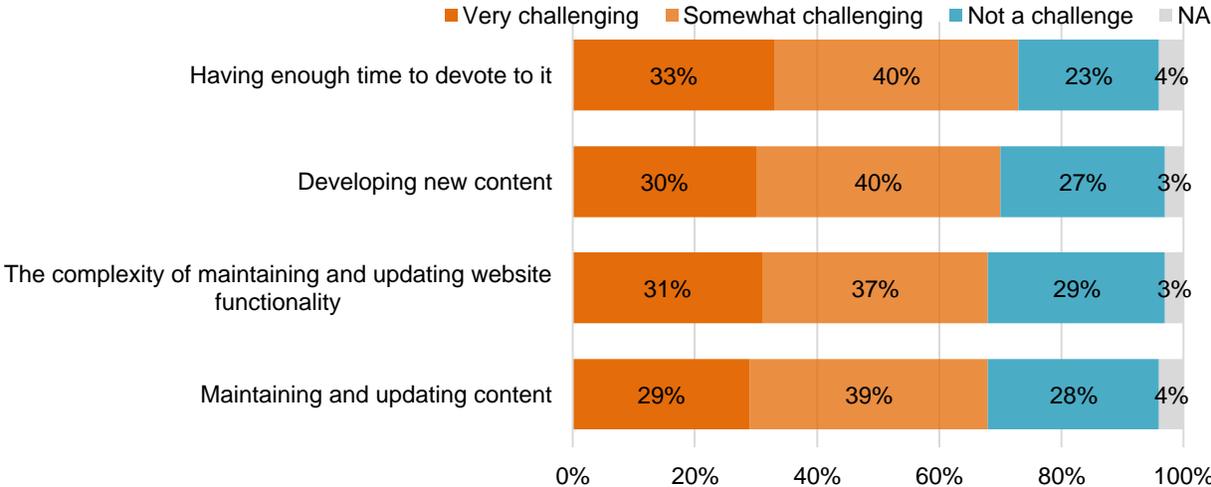
## The importance of a website

In our ongoing look at small business’ digital needs, we find that website adoption and use is not as widespread as might be expected. In this survey, 3 in 10 business owners reported that they do not have a website, including, notably, one-third of food and beverage businesses. Respondents cited a variety of reasons for not having one: for many businesses (41%), having a social media presence instead of a site is a major reason. Others (23%) say a major reason is the fact that a website is not relevant to their industry. But the biggest factor holding businesses back is the lack of time and resources needed to build a website, with nearly half (48%) citing that as a major reason. An additional 36% say that the lack of knowledge around how to create one is a major reason. This knowledge gap is more pronounced BIPOC and women respondents, with 39% of BIPOC respondents citing that as a major reason, compared to 17% of white respondents, and 39% of women compared to 31% of men.

Having an established web presence correlates to higher revenue businesses: 66% of businesses with no website have revenues of \$100,000 or less; of businesses with a website, 45% have revenues of \$100,000 or less. Additionally, having a website allowed companies to benefit from the shifts in consumer behavior during the COVID-19 pandemic, when more customers moved online. When respondents were asked about changes during the pandemic, 51% said their website traffic increased, 48% said there was an increase in online inquiries (e.g., forms, newsletter signups), and 44% said their website sales increased.

Building and maintaining their websites is not without its challenges, which is particularly challenging for small businesses that have a small staff or operate their businesses on their own. Nearly 4 in 10 business owners built their site using a builder provided by their web hosting service, and 56% maintain and update the site themselves.

**Figure 1: Managing their websites poses a number of challenges to small business owners**

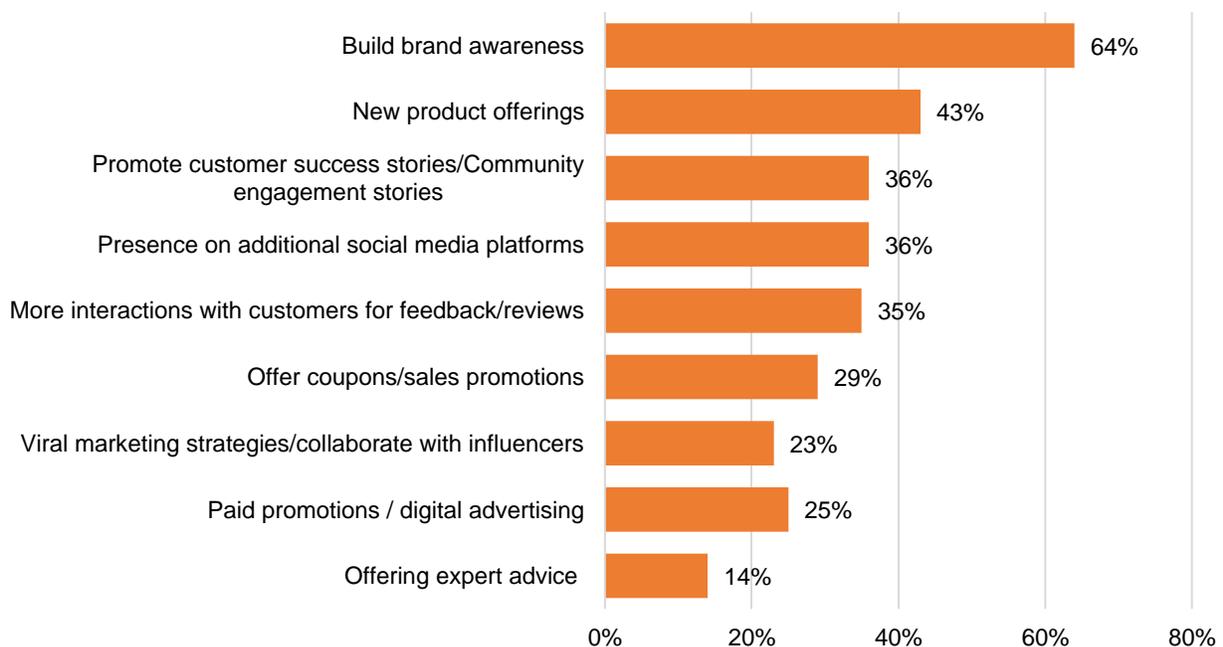


## The growth of social media

While a website is one way to maximize a business's growth, social media is an important avenue small businesses are using to reach their customers. Nearly 9 in 10 have some kind of social media presence for their business. Facebook and Instagram are the dominant platforms used by businesses (70% and 58%, respectively). Another 35% use LinkedIn, 32% use Twitter, and 26% use TikTok.

Small businesses that use social media implemented a variety of strategies when adapting to the challenges posed by the COVID-19 pandemic. Respondents used social media to build brand awareness (64%), display new product offerings (43%), promote customer success stories (36%), expand their presence to new platforms (36%) and to interact with customers (35%). Additionally, small businesses offered coupons and promoted sales (29%), utilized viral marketing strategies and collaborated with influencers (23%) and employed digital advertising (25%).

**Figure 2: Social media strategies small business owners implemented during the pandemic**



When implementing those social media strategies in their business since the pandemic, 70% saw sales increases of at least 20%, with almost one-third saying sales increased at least 50%. Similar to the challenges they face running their website, small business owners report that having enough time to devote to social media is a top concern.

## Explosion of e-commerce during the pandemic

With all the pandemic-related restrictions, many small businesses were left with no other choice but to quickly adapt to the unprecedented times. Many had to adopt their sales into e-commerce platforms, virtual meeting platforms and other digital tools to interact with customers virtually.

The majority of survey respondents (60%) have some kind of e-commerce platform in place. About a third (32%) sell their products/services through an e-commerce store/platform on their website, and a quarter (24%) sell through large third-party platforms, such as Amazon, eBay, and Etsy. Additionally, a quarter (24%) leverages community marketplaces such as Facebook Marketplace, Nextdoor, and Craigslist.

E-commerce platforms can be a significant source of sales for small businesses. More than half (52%) of those who utilize them receive 25-75% of their sales from an e-commerce platform. Eleven percent of

businesses receive the vast majority (75-99%) of their sales through e-commerce platforms and 7% of businesses rely solely on e-commerce platforms for their sales. Only about one in four (26%) respondents received less than 25% of their sales from an e-commerce platform.

The pandemic led to increased sales on e-commerce platforms for the majority of respondents. Fifty percent of respondents say their sales increased by at least 25% and 23% saw sales increase by more than 51% of their pre-pandemic levels on e-commerce platforms.

However, 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%) is challenging. Others cited not being able to achieve high-enough visibility on the platform (45%) and the fear of having their product copied or stolen (35%) as being challenging.

The 40% of respondents who do not utilize e-commerce platforms cited a variety of reasons for relying on traditional sales instead. Nearly one in four (24%) don't know where to start and 19% don't have the resources to devote to e-commerce. Others (39%) say that e-commerce is not relevant to their business or industry. More than half of BIPOC respondents (51%) do not sell on digital platforms, compared to 38% of white respondents.

## Digitally acquiring customers

Some small business owners employ a variety of digital marketing strategies to find and sell to customers, and the survey reveals which tactics small business owners believe are the most successful. Small business owners noted that customer success stories have the highest percentage of success at 50%, indicating their effectiveness in driving business success. Search engine optimization follows closely behind at 42%, which highlights the importance of ranking well on search engines for increasing online visibility. Email newsletters/marketing (41%) and content creation/blog posts (40%) also received significant percentages. Online coupons/sales promotions garnered a lower percentage at 34%, indicating that while they can still be useful, they are only part of an effective plan to acquire customers. These results demonstrate the importance of utilizing a variety of marketing strategies to achieve business goals.

Small businesses have certain challenges when acquiring new customers for their business. One fifth of small businesses (21%) do not have enough resources (time/money) to advertise, 18% say that there is too much competition, another 18% face difficulties in identifying the most suitable advertising channels for their business, and 14% find trouble keeping up with trends and technology. These findings 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.

## Methodology

The survey reflects the opinions of 871 small business owners and decision-makers from Small Business Majority's network and SurveyMonkey respondents between February 6, 2023, through March 27, 2023. The margin of error is +/- 3%. Survey respondents were diverse: Three-quarters were BIPOC-owned firms, there was an even mix of men and women-owned firms, and 67% were self-employed and employer firms with 10 or fewer employees. More than half BIPOC firms (52%) reported revenues under \$100,000, compared to 39% of white firms.

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

## Acknowledgments

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