



Digital transformation: Small businesses face obstacles, opportunities in using digital accounting software

November 7, 2023

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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 our latest survey on small business digital transformation in the wake of the pandemic, we explored various opportunities, challenges and concerns surrounding how they use digital accounting software and digital point of sale systems to manage their business' finances.

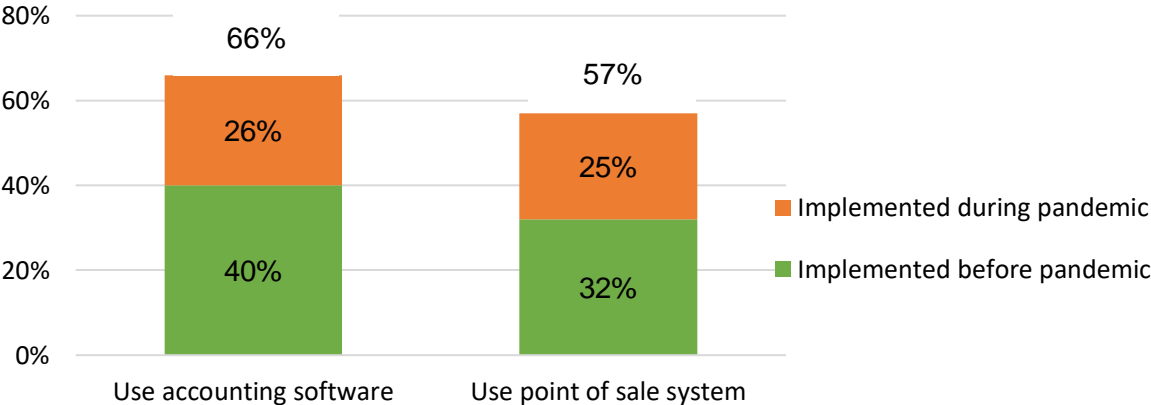
Underpinning this analysis are economic conditions that are weighing on small businesses in a challenging climate. Although 71% of small businesses are optimistic about their business prospects over the next quarter, 56% report that expenses have increased over the previous three months and small businesses report only a slight increase in revenues as headcount remains largely flat.

The survey also reveals a gender and race gap for small business revenues. In the past quarter, 55% of male small business owners noted an increase in revenue, while less than half of women (46%) saw an increase. Furthermore, more women (24%) experienced a decrease in revenue compared to men (16%). While a similar percentage of BIPOC and white respondents saw revenues increase over the last quarter (45% and 49%, respectively), more BIPOC-owned businesses saw revenue decreases (27%) compared to white-owned business (19%). These disparities underscore additional challenges that underserved entrepreneurs face and highlight the need to explore how adopting new technology can support small businesses.

Increase in use of financial accounting software, point of sale systems

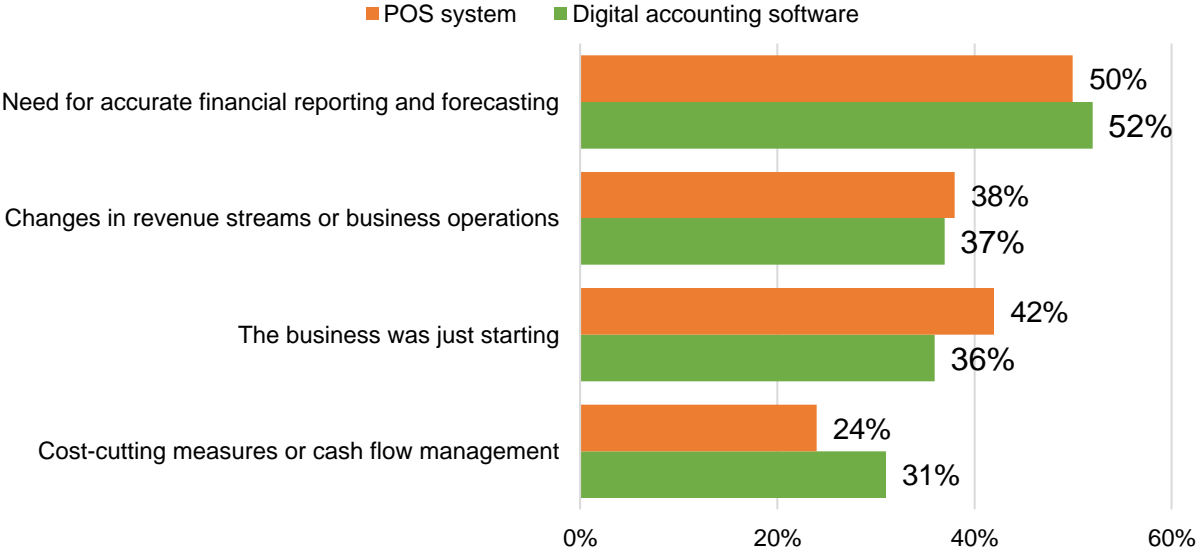
The survey reveals that online financial accounting software and point of sale (POS) systems, which are used to record payments, issue receipts and track sales electronically, can have a significant impact on small businesses and their operations. Financial accounting software is used by two thirds of small business owners (66%), who mainly utilize QuickBooks (69%), Xero (11%), Zoho Books (8%) and FreshBooks (8%). Many small business owners (43%) have used online financial accounting tools for more than three years, while nearly the same number (39%) adopted it during the pandemic and 18% have used it for less than a year. Currently, 57% of respondents utilize digital POS systems, many of whom began using it during the COVID-19 pandemic.

Figure 1: COVID-19 pandemic led to increased use of digital accounting and financial tools



Those who adopted financial accounting software and POS systems during the pandemic did so because they needed more accurate financial reporting and forecasting; they experienced changes in revenue or business operations; because their business was just starting; or as a cost-cutting measure or cash flow management.

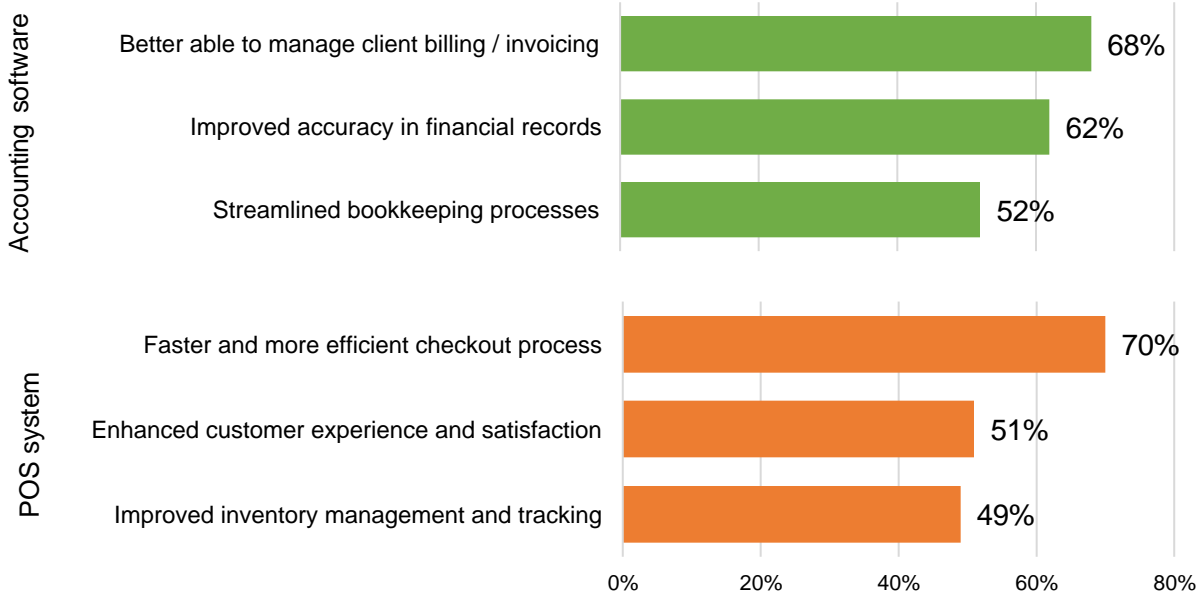
Figure 2: Reasons for adopting digital accounting and point of sale (POS) systems during the pandemic



As a result of setting up a new online financial accounting system, all entrepreneurs who utilize one report a number of benefits for their business, including being better able to manage client invoicing and billing (68%), becoming more confident in their ability to make financial decisions (42%) and increases in revenue (40%). They report that online financial accounting software has improved their business' financial management by improving accuracy in financial records (62%), streamlining bookkeeping processes (51%) and enabling better financial planning and budgeting (46%). The most beneficial features of online accounting software include expense tracking (56%), invoicing and billing (52%), financial reporting (51%), bank account integration (49%) and payroll management (40%).

Small business owners that use digital POS systems report many positive impacts on their business. Notably, it led to a faster and more efficient checkout process (70%), enhanced customer experience and satisfaction (51%) and improved inventory management and tracking (49%) for many respondents.

Figure 3: Top benefits of adopting digital accounting software and POS systems



Overall, 83% of respondents are satisfied with the user interface and overall usability of their online financial accounting tool and 87% of small business owners stated that the use of POS software was impactful for their business. However, 6 in 10 of those who use online accounting software say they have encountered challenges or limitations while using them. Respondents also reported several challenges adopting POS systems such as technical issues or software glitches (45%), cost of the software (41%) and limited customization options for specific business needs (38%).

The survey also revealed a gender gap in technology utilization. Notably, men (74%) are more likely than women (62%) to use accounting software. The same pattern holds true for POS systems: men small business owners (64%) are more likely to use a digital POS system than women small business owners (55%).

One-third of small business owners do not utilize accounting software and report that a preference for manual or existing systems (44%), cost of software (42%) and difficulty in learning and implementation (25%) are the main barriers to digital transformation. According to these respondents, the main advantages of using manual methods are familiarity and comfort with their current methods (63%), ability to customize processes to specific business needs (41%), control over data and operation (41%) and lower cost compared to accounting software (41%).

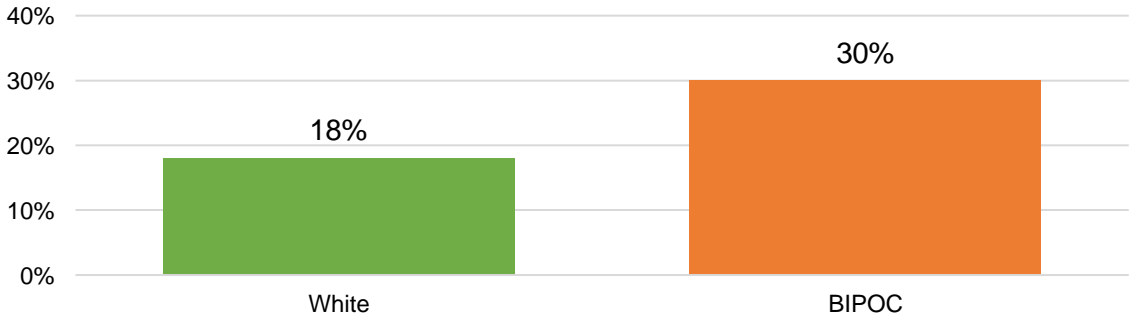
While 55% of respondents who don't utilize digital POS systems say it's not relevant to their business, others prefer manual or existing methods (20%), find it too expensive (20%) or are unaware of different POS system options (14%).

Financial literacy and banking access

Small business owners are confident in their ability to effectively manage both their personal (94%) and their business finances (91%). Ninety-three percent are also confident in their ability to make sound financial decisions for their business. This confidence stems from experience and learning: 62% have taken a course to improve their financial literacy, and 92% are familiar with basic accounting principles. Additionally, 21% of business owners review their financial statements to track their business' financial performance daily and one-third of business owners do so on a weekly basis.

Unfortunately, entrepreneurs frequently encounter financial challenges in running their businesses. For instance, the most frequently reported challenges are cash flow management and management (38%), dealing with late or non-payment from customer or clients (37%), managing and reducing business expenses (36%) and securing funding or accessing capital (30%). They also face barriers accessing financial systems and services such as being denied a loan or having trouble opening a bank account. Many respondents believe that their race/ethnicity (22%), socio-economic status (23%), gender identity (16%) and language (12%) contributed to their difficulties navigating financial systems and services. Furthermore, almost 30% of BIPOC respondents believe they have been denied financial services due to socioeconomic factors compared to 18% of white respondents.

Figure 4: Perceived impact of race on ability to access financial services



Methodology

The survey reflects the opinions of 1,043 small business owners and decision-makers from Small Business Majority's network and SurveyMonkey respondents between July 11, 2023, through September 11, 2023. The margin of error is +/- 3%. Survey respondents were diverse: 35% were BIPOC respondents, there was a roughly even mix of men and women, and 64% were self-employed and employer firms with 10 or fewer employees. Six in 10 BIPOC respondents (60%) reported business revenues under \$100,000, compared to half of white respondents.

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

Acknowledgments

We are grateful to Wells Fargo for its support of this research.