Powering the economy

Small and medium sized enterprises (SMEs) are a critical part of Europe’s economy, providing jobs and driving economic growth. They are essential to every regional economy, and their importance increases with distance away from Europe’s major cities. They are also important for providing opportunities for socio-economic participation and mobility for women, young people, and ethnic minorities. However, SMEs face an uncertain future. The OECD has found that more than half face severe losses in revenues due to COVID-19, with one third fearing for their future without further support. The impact to jobs and the wider economy could be severe; Vodafone Business research has found that 39% businesses with 10-499 employees expect some or significant reduction in the coming year, compared with 19% pre-COVID-19. This points to the increasing need for support for SME digitalisation. While COVID-19 has accelerated digital transformation plans for many businesses, more larger businesses (48%) have done so compared to smaller businesses (36% for businesses with 10-249 employees, and only 25% for smaller businesses). This means these businesses are at risk of being left behind, when now more than ever, resilient, agile and innovative SMEs are essential to economic recovery and to supporting the closure of urban-rural economic divides. Aided by digitalisation, SMEs will be central to the EU’s twin transition to a sustainable and digital economy. For the greening of the economy to be as inclusive and wide-reaching as possible, SMEs will need to digitalise their processes, deliver more goods and services digitally, and reduce waste associated with the ‘material’ economy.

Impact of Digitalisation

The positive impacts of digitalisation for SMEs are wide-ranging and drive better business outcomes through:

- Improved financial performance through optimised revenue channels and reduced costs
- Increased productivity, leading to greater efficiency (including ability to better measure and manage carbon emissions)
- Access to new customers through expanded geographical reach
- Improved access to information, and more productive processes that foster innovation

Europe is home to more than 25m SMEs (businesses with under 250 employees), representing over 99% of Europe’s businesses. SMEs employ almost 98m people across Europe, and account for more than two-thirds of new jobs. SMEs contribute over €4 trillion to the total added value of the EU, accounting for more than half of Europe’s GDP.
Digital SMEs contribute to Europe’s competitiveness and prosperity, industrial ecosystems, economic and technological sovereignty, resilience to external shocks, and the shift to a greener economy.

The COVID-19 pandemic has accelerated momentum towards digitalisation; it has highlighted the risks to traditional non-digital business models, and presented new opportunities for those who have digitalised, enabling more rapid response to the changing environment.

A recent study by Vodafone and Deloitte found that the most ‘digital’ SMEs identified new opportunities as a result of COVID-19 at more than twice the rate of the least digitalised counterparts.

The study used a sample of businesses with 10-149 employees in the UK, 10-99 employees in Italy and Spain, and 20-249 employees in Germany.
It is clear that the digital evolution of SMEs’ business models during COVID-19 is likely to be enduring. Digitalisation will be crucial for SMEs to compete in terms of delivering goods and services, and attracting and retaining talent, particularly among younger people with higher digital skills. However, SMEs lag behind large corporates in adopting digital technologies. Only 17% of SMEs have successfully integrated digital technologies, compared to 54% of large organisations.

This reflects key adoption challenges specific to SMEs:

- **The technical and organisational capability to engage with digitalisation**, which can limit ability or willingness to adopt, particularly when faced with overwhelming challenges such as COVID-19.
- **Financial and time restrictions impact the ability to digitise**, given the significant resource constraints and conflicting priorities for these resources, especially in light of COVID-19.
- **The availability, or ability to identify, suitable digital solutions**, leading to either un-started or inefficient digital adoptions.

- **73%** indicated at least one issue related to implementing a digital transformation plan
- **51%** indicated at least one issue relating to planning or starting their digital transformation
- **38%** indicated they needed support with training in digital skills
- **29%** indicated that getting a suitable price for digital investments was an issue
- **28%** indicated issues in the availability of the right digital solutions for their needs
To help SMEs overcome some of these challenges, the European Commission has set out a strategy to establish between 130 and 260 Digital Innovation Hubs (DIH). These hubs will advise SMEs on how to integrate digital innovations into their products, business models and processes, and will support SMEs in finding investment and networking.

In this context, Vodafone is actively supporting SME digitalisation through a range of initiatives and solutions designed to improve SME performance and resilience, helping to support jobs and drive productivity.

**Finding and keeping customers** enabling SMEs to sell their products/services via online channels, with website creation and marketing software and improving face to face interaction, including tools to support social distancing.

**Cost Control** providing software to manage internal processes, smart buildings solutions which also limit environmental impact and solutions to optimise stock management.

**Hybrid Working** enabling employees to both work remotely and in the office, safely, securely and productively.

**Improving Product Quality** with next generation AR/VR product design and visualisation tools, project management software and distribution tracking capabilities.

**Resilience, Privacy and Security** enabling SMEs to secure and protect their assets and their business by providing advice, consultancy, playbooks and solutions.

**Digital transformation and business support** providing a one-stop shop for advice, implementation, training and ongoing support.

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On integration of digital technologies, Ireland leads the EU according to the 2020 DESI report. However, this masks a gap in digitalisation across large and small businesses – for example, in use of cloud, small businesses lag behind larger businesses by almost 20 percentage points.

In this context, Vodafone Ireland is helping SMEs to digitalise and supporting them on their journey to realising the economic, productivity, resilience and environmental benefits.

Working alongside SIRO, Vodafone’s JV with ESB, Vodafone has set up the Gigabit Hub initiative to empower local businesses and communities in Ireland through connected technologies. The initiative helps to address the three key enablers of SME digitalisation: capability, capacity and availability.

The initiative gives independently owned or local government backed business and social hubs two years’ free gigabit broadband connectivity. This enables towns across Ireland to attract both foreign and national investment, strengthen and grow communities, and support regional job creation. The initiative has the added benefit of enabling workers to live and work in rural areas, thus removing the need to commute to cities and reducing their carbon footprint from travel.
Chris Mason runs a business called The Digital Agency, which he moved from Los Angeles to West Cork with his family. In his words:

“Ludgate was a big part of my move from LA. While visiting the area in the summer of 2015, we fell in love with West Cork, and talked about someday moving here. We found out about Ludgate and learned more about the plans for the hub while in California, and realised that it would be perfect for my business; it was a very important part of our move.

Since working out of Ludgate, I’ve serviced the same clients I dealt with in the US, plus a few new ones, and business is great.”

A report by Jim Power, commissioned by Vodafone, found that, if a digital hub was established in every county in Ireland, the potential to make a significant economic, social and financial contribution is very real. The report estimated that the following could be achieved across the Republic of Ireland:

- **1,040** number of businesses
- **5,200** direct staff employed
- **3,640** indirect employment
- **€312m** economic contribution (income multiplier effect)
- **€260m** gross wages earned
- **€208m** net wages earned
- **€52** employee taxes relating to Hub staff
- **8,840** total employment supported
- **€1.56m** commercial rates
The digitalisation of SMEs enables them to optimise revenue channels, reduce costs, increase productivity, access new customers, gain more access to information and reduce their carbon footprint.

A recent study found that digitalised SMEs had on average 26% higher revenues compared to non-digitalised ones. Digitalisation delivers not only financial benefits, however, but also supports better resilience and lower carbon footprints and a number of benefits to European citizens in the form of better quality and lower priced goods and services. Vodafone is supporting SMEs in achieving this digital transition, through initiatives such as its Gigabit Hubs in Ireland and its advice service for SMEs, V-Hub, in Germany, Spain, Italy and the UK, to become the trusted partner of SMEs on advice and technical support around business efficiencies, supply chain efficiencies, and security and resilience.

The scale of the opportunity in Europe from greater SME digitalisation is significant, and will be essential to European economies’ recovery. This can be illustrated by looking at the number of digital and non-digital SMEs, and the potential revenue gains from further digitalisation. Even with variation in outcomes, this points to the significant potential opportunity available to Europe from greater SME digitalisation.

There are more than 1.2m European businesses with 10-249 employees that have not digitalised.

If just 100,000 did so, it would lead to a total increase in turnover of up to €148bn (an average of €1.4m per business, depending on business model and existing level of digital adoption).
11. The illustrative estimation applies the findings of a study by ASME/Microsoft for revenue gains from digitisation to the average turnover for non-digitised SMEs, which is estimated using OECD data for businesses with 10-249 employees. Europe-wide estimates include the EU27, excluding Malta, and the UK, due to data availability.

For further information please visit www.vodafone.com/europeconnected.