vodafone

SME digitalisation

How policymakers and industry
can make it work together

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Foreword

90% of Europe's businesses are small and medium enterprises (SMEs) and they employ **two-thirds** of Europe's workers. Whilst there is no doubt that inflationary pressure is challenging for all businesses in Europe, for SMEs there is a risk that the cost of doing business may become unsustainable.

This economic pressure comes at a time when the need for businesses to be digital is stronger than ever. According to research we conducted last year on 'The progress towards the EU's Digital Decade ambition', digital intensity of SMEs has remained flat over the last five years, with the average annual growth rate across the EU standing at just 2% between 2016 and 2021 and some Member States now further behind on their goals than five years ago[1].

Against this backdrop, and with overlapping crises impacting the global competitiveness of European businesses, digitalisation can unlock multiple benefits for SMEs. It provides essential connectivity as well as smart products and services that foster innovation (powered by the Internet of Things – IoT). It can help SMEs become more resilient through increasing financial performance and productivity. It can also empower employees with the right skill set for the future.

Digitalisation can also make SMEs more sustainable, better at managing their energy consumption, and improve efficiency in their supply chains - a critical concern for small companies managing their costs during the on-going energy and environmental crisis. Our Fit for a Sustainable Future report showed that SMEs are less likely than larger businesses to take adaptation to climate change into account in their business planning.

Vodafone has engaged with SME customers to firstly understand what is important to them, and secondly, assess how we can facilitate this both directly, by providing the right solutions and guidance. Vodafone also works alongside governments across Europe to ensure a fit for purpose policy environment which supports SME growth and digitalisation efforts.

To assess progress and attitudes towards digitalisation, we surveyed **3,358** small businesses across 11 European countries (out of which **2,677** in 9 EU Member States - Czech Republic, Germany, Greece, Ireland, Italy, the Netherlands, Romania, Spain and Portugal). We sought to understand what is important to them, and to assess how we can help accelerate their digital transformation through the right solutions and guidance.

The findings are clear - SMEs see digitalisation as a way to protect and grow their businesses:

- **82%** of SMEs and SoHos across Europe consider digitalisation as important

- Cyber security solutions are the third most appealing digital product or solution amongst respondents, and the most appealing for large SMEs (**42%** of respondents)

- **40%** of all respondents cited 'Improved Cyber security' as a benefit they hoped to achieve through digitalisation

- Large SMEs show a great appetite for IoT solutions to enhance their businesses, in recognition of the efficiency gains these can deliver

- SMEs of all sizes identify cost efficiencies as their primary expected benefit from digitalisation

- Large SMEs show a great appetite for IoT solutions to enhance their businesses

Despite the perceived benefits, the survey also identified a range of barriers SMEs face when it comes to adoption of digital tools, such as lack of funding or digital know-how.

Helping Europe's SMEs become more digital – and in turn, more competitive, sustainable and resilient - has never been more important or urgent. This paper also looks at ways that SME's can accelerate their path to sustainable, resilient growth and ensure their vital contribution to Europe's economy.

It evaluates the opportunities enabled by funding support schemes at local, national, or European levels, complemented by the right information to educate SMEs on the benefits of digitalisation, build their digital skills and provide widespread access to high-quality connectivity.

The term **SME covers a broad range of businesses**, ranging from individual entrepreneurs through to established, medium-sized companies. Therefore, where relevant, **we differentiate between categories of SME businesses**, relying on the following standard definitions:

Small office/Home office ('SoHo'):
1-9 employees

Small SME:
10-49 employees

Large SME:
50-249 employees

SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

Europe.connected

SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

Chapter 1

SMEs and their digital potential, critical to the EU economy

As Ursula von der Leyen stated in her 2022 State of the Union Address, SMEs are **"the backbone of Europe's long history of industrial prowess"**[2] and one of the critical pillars to Europe's economy, providing jobs and driving economic growth.

Representing **99% of all businesses in the EU, SMEs employ around 100 million people,** account for more than half of Europe's GDP and play a key role in adding value in every sector of the economy,[3] as well as being crucial to fostering socio-economic participation. They also provide a key role in the development of younger generations — for example, in **Germany, 82% of apprentices undertake their vocational training in an SME**[4].

Therefore, in order to compete globally, build more economic resilience, improve accessibility and bridge urban-rural divides, Europe needs a competitive SME sector capable of accessing global markets.

Digital connectivity, solutions and services play a critical role in unlocking SMEs' maximum potential and supporting them in navigating through the current overlapping crises that require them to adapt at pace. It has been shown that the digitalisation of SMEs provides **strong added value to the European economy**: in previous studies assessing the benefits of digitalisation, Vodafone found that if all EU27 states reached a score of 90 in the European Commission's Digital Economy and Society Index (DESI), they would unlock **€1 trillion in GDP contributions** and create an additional **7.5 million jobs across Europe**[5].

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Even small shifts in digitalisation can make a big difference, with estimates indicating that if **100,000 of the 1.2 million SMEs** in Europe who currently lack digital tools started digitalising their businesses, this could lead to a total **increase in turnover of up to €148 billion**, or an average of **€1.4 million per business**.

The cumulative additional GDP contribution of new digital technologies could amount to **€2.2 trillion in the EU by 2030.**[6]

Recognising the importance of SME digitalisation, the **EU has pledged 20% of the €672.5 billion Recovery and Resilience Facility (RRF) towards digitalisation**. This has been coupled with ambitious targets as part of the Digital Decade programme, aiming to increase the number of SMEs with **basic digital intensity from 60% in 2019**, **to 90% by 2030.** This clearly demonstrates high-level recognition and prioritisation of SME digitalisation.

The importance of digitalisation is also recognised by SMEs themselves, with our survey indicating that over **8 out of 10 SMEs across nine EU countries recognise digitalisation to be important** for their businesses. Larger SMEs are more likely to recognise this, with 87% thinking that digitalisation is important. Nevertheless, even **64% of SoHos in our survey perceive digital transformation as important.**
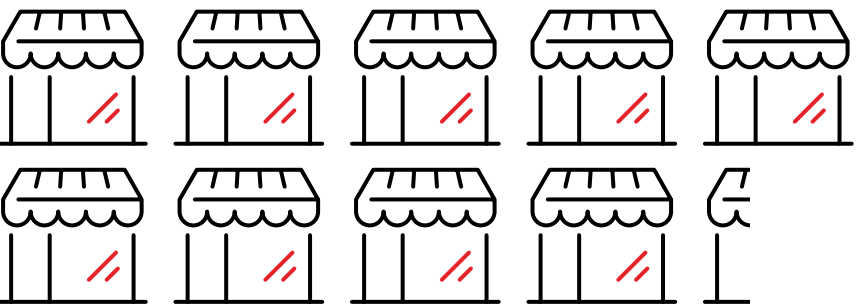
94%

Ireland

94% of SMEs (60% of SoHos) see digitalisation as important

Czechia

Small SMEs (81%) more likely to see digitalisation as important than SoHos (53%) and large SMEs (65%)

Portugal

Over 9 out of 10 small businesses see digitalisation as important

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

Key priorities to digitally enable SMEs

Research by Vodafone has found that investment in digitalisation results in increased productivity, access to new customers and the ability to innovate.

> As a result of these changes, 94% of SMEs would cope better with future risk.

This chapter will look at the compelling ways in which **digitalisation can benefit SoHos and SMEs.**

2.1. Enhanced cyber security

Resilience and adaptability are key to the survival and growth of any business, regardless of size. However, in the face of parallel crises, promoting the security of SMEs is critical to ensuring the security of Europe.

SMEs are more likely to face phishing attacks than larger enterprises,[7] a form of cyberattack which had a **667% increase at the start of the COVID-19 pandemic.**[8] Effective cyber security requires an end-to-end commitment that covers all actors in the supply chain, of which SMEs play a crucial part. A report by the European Union Agency for Cybersecurity ('ENISA') found that **57% of SMEs were shut down as businesses** or **became bankrupt as a direct result of cyber attacks.**[9]

In our survey, **40% of respondents cited improved cyber security** as a benefit they hoped to gain through digitalising their business. The cost of a cyber security breach can be large, often well beyond the average SMEs' available cash reserves.[10] Additionally, according to the OECD, SMEs are less likely to make digital risk assessments, have insurance against cyber security incidents and be aware of their obligations regarding digital security.[11] Therefore, **it is important to help SMEs manage digital security risks and challenges** that can come with digitalising their businesses.

Case study – business security penetrating test

Vodafone Business recently offered its Security Penetration Test service to a small interior design company who were looking to identify vulnerabilities around the perimeter of their corporate network. Although this particular SME had a small in-house IT team, Vodafone Business was able to simulate a much more sophisticated cyberattack using the 'path of least resistance', which would identify weaknesses within the SME's IT security system. Aside from identifying and prioritising which areas of the system need remedial action, the test covers all devices connected to the network whilst offering the convenience of being a singular supplier for all security needs.

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2.2 Commercial resilience

Digital solutions are key to enabling business growth. During the COVID-19 pandemic, there was a shift within the retail sector towards a truly hybrid retail model. **SMEs had no choice but to move online and establish a digital presence in order to continue sales growth.** This put them at a disadvantage compared to larger enterprises which already had a more established online presence and greater digital experience than many SMEs. It has also led to many SMEs relying on larger companies to provide them with said digital services, often coming at a larger cost to the SMEs themselves.

Despite this, **SMEs recognise digitalisation as vital to their businesses** because they expect clear benefits from adopting digital solutions. In our survey, **32% of respondents are interested in websites and digital marketing solutions** within funding support schemes, with **35% of respondents hoping to expand into new markets** and develop new sales channels as a result of digitalisation.

32%
interested in websites and digital marketing solutions

35%
hoping to expand into new markets

Digitalisation is key to enabling this growth, with digital products and solutions enabling SMEs to unlock the value of this 'new normal' hybrid retail model.
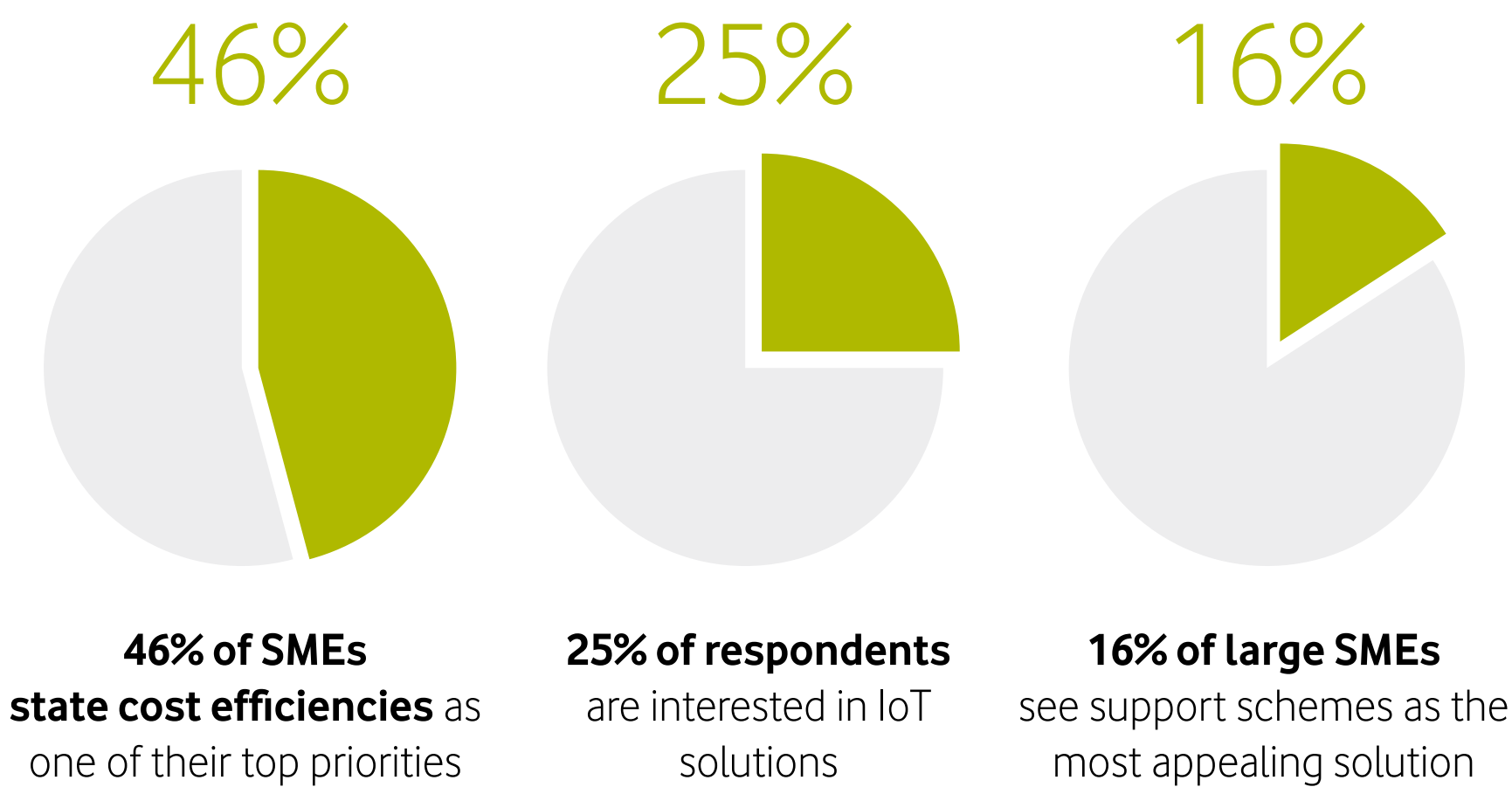
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# 2.3 Operational efficiencies and effective resourcing

In order to be effective, SMEs need to attract and retain more talent. Digital solutions can enable them to hire the employees they need to support their businesses.

For example, through adopting secure and reliant home working solutions, SMEs with geographical or physical limitations can be more inclusive in hiring the best talent to help them grow.

46%

46% of SMEs state cost efficiencies as one of their top priorities

25%

25% of respondents are interested in IoT solutions

16%

16% of large SMEs see support schemes as the most appealing solution

Additionally, when budgets are stretched, **businesses are keen to be as efficient as possible** in their operations, in terms of both cost and time savings. In our survey, **46% of all SMEs have cost efficiencies** as one of their top priorities they hope to gain from digitalisation - this is the top benefit cited by all sizes of SME.

For example, **25% of respondents showed interest in Internet of Things (IoT) solutions** through funding support schemes, with **16% of large SMEs stating it is the most appealing solution** to adopt through such schemes. IoT solutions can enable SMEs from all sectors to unleash massive potential, including the benefit of improving operational efficiency.
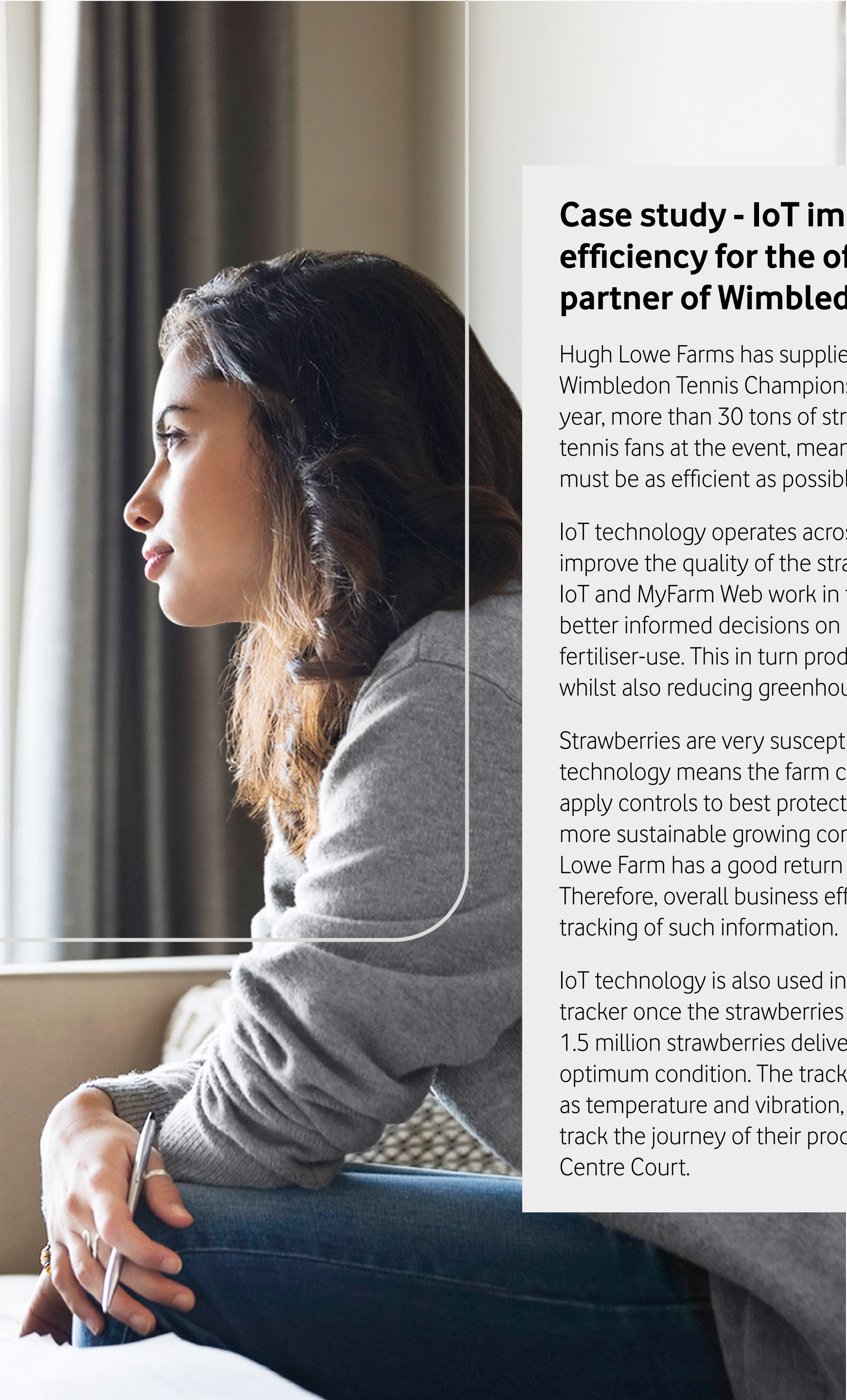
Case study - IoT improves business efficiency for the official strawberry partner of Wimbledon

Hugh Lowe Farms has supplied all the strawberries to the Wimbledon Tennis Championships for nearly 30 years. Each year, more than 30 tons of strawberries are consumed by tennis fans at the event, meaning Hugh Lowe Farms' operations must be as efficient as possible to meet the demand.
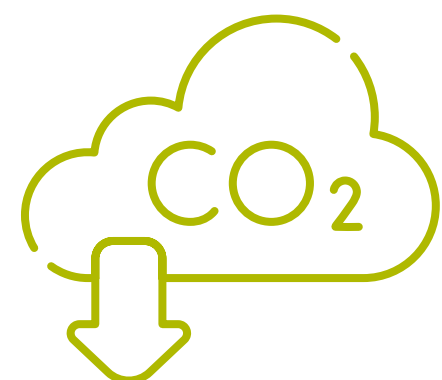
IoT technology operates across the entire supply chain to improve the quality of the strawberries as well as reduce waste. IoT and MyFarm Web work in tandem to collect data and make better informed decisions on soil and crop health, water, and fertiliser-use. This in turn produces the best tasting strawberries whilst also reducing greenhouse gas emissions.

Strawberries are very susceptible to disease, but this technology means the farm can make decisions on how to apply controls to best protect them. This allows for better and more sustainable growing conditions, as well as ensuring Hugh Lowe Farm has a good return on yield and quality of crop. Therefore, overall business efficiency is improved through the tracking of such information.

IoT technology is also used in the Vodafone Mobile Asset tracker once the strawberries are picked to ensure that all 1.5 million strawberries delivered to Wimbledon arrive in optimum condition. The trackers measure delivery time as well as temperature and vibration, allowing Hugh Lowe Farms to track the journey of their produce all the way from the farm to Centre Court.

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

2.4 Sustainability of SMEs

SMEs have a central role within the **'twin' green and digital transition,** the mantra the EU is focusing on in order to achieve **carbon neutrality by 2050.**

Case study - Connected Spaces: IoT energy solutions for small businesses

Smart technology solutions powered by IoT can support SMEs when it comes to energy savings and impact on cost of doing business in the current geopolitical context. Businesses today must generally rely on smart building solutions if they want to reap similar energy saving rewards as households do by using smart meter technology, for instance.

However, these solutions are complex: they have to be integrated into the building, with a heavy reliance on monitoring and evaluation systems. As such, they are expensive and usually more appropriate for large owners/operators, especially landlords, and not SMEs.

Currently, SMEs do not have the resources or budget to collect, let alone interpret, the data necessary to lead to actionable insight. To bring energy savings benefits to SMEs, Vodafone has focused on a more simple approach and has developed its Connected Spaces solution that is simple to integrate and retrofit, cost effect, and easy to scale.

Connected Spaces exists as a series of wireless sensors that can be attached to appliances within seconds, that relay energy use data to an easy-to-use online dashboard. Other sensors can also be included in this package and can monitor temperature, humidity, water use, and motion (to determine use of space). Vodafone can offer monthly reports to help translate this data into usable actions to best manage energy consumption.

Not only does Connected Spaces operate like a smart meter in allowing for visibility of energy use, but it can align energy use with utilisation of spaces to maximise efficiency and reduce waste. Smart Building solutions, which use the same principles but with heavy cost and complexity, can save up to 20% of energy and the ambition for Connected Spaces is similar.

Firstly, SMEs are leaders in the development of the technologies and solutions Europe needs to fight climate change: almost a **quarter of SMEs in Europe are already offering 'green' products and services to customers.**[12]

Secondly, SMEs have significant scope to adapt their business models and processes through adoption of technology to help reduce their impact on the climate. There is certainly room for improvement: **Vodafone's *Fit for a Sustainable Future* report indicates how a lack of digitalisation is hindering businesses in the fight against climate change**. The report cites a lack of tech skills and poorly informed decisions about green technology as leading barriers to sustainability among businesses.[13]

This is despite the European Commission **stating that technology could help to reduce global emissions by up to 15%**, seven times more than the amount created by the IT sector.[14]

45%
believe that it's their job to drive sustainability within their sector

40%
are taking 'adaption to climate change' into account in business planning

However, SMEs do recognise the importance of becoming more sustainable: nearly **45% of SoHos and SMEs** believe that it's their job to drive sustainability within their sector, and **40% of SoHos and SMEs** are taking 'adaption to climate change' into account in business planning — with more than a third already taking steps to adapt.[15]

This shows an intention from **small businesses to shoulder some of the responsibility in tackling climate change,** but currently they are lacking the digital tools to help them be fully effective.

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

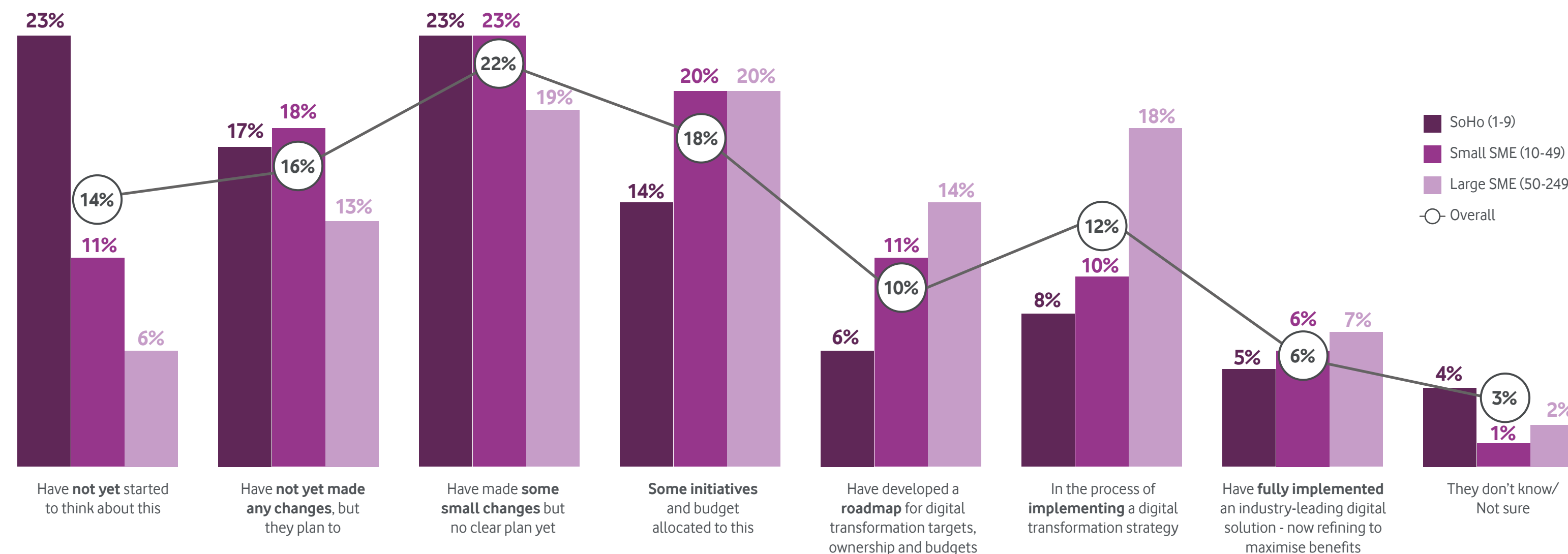Policy environment

Private sector

Conclusion

SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

Barriers to SME digitalisation

The potential financial, security and environmental benefits of digitalisation for SMEs are clearly evident to all actors. Despite this, SMEs still face several barriers when it comes to deploying digital tools and solutions, leading to an increasing digital divide between smaller and larger businesses.[16]

Whilst more basic digital solutions, such as having a website, are becoming commonplace -even amongst smaller businesses- there are fewer SMEs using more advanced IT solutions. In fact, SMEs lag behind larger businesses in adoption of nearly all technologies ranging from the most basic elements such as connectivity, to more advanced technologies such as cloud computing.[17]

Between SME segments, the larger the organisation, the more progress they have made in their digital journey

Legend:
- SoHo (1-9)
- Small SME (10-49)
- Large SME (50-249)
- Overall

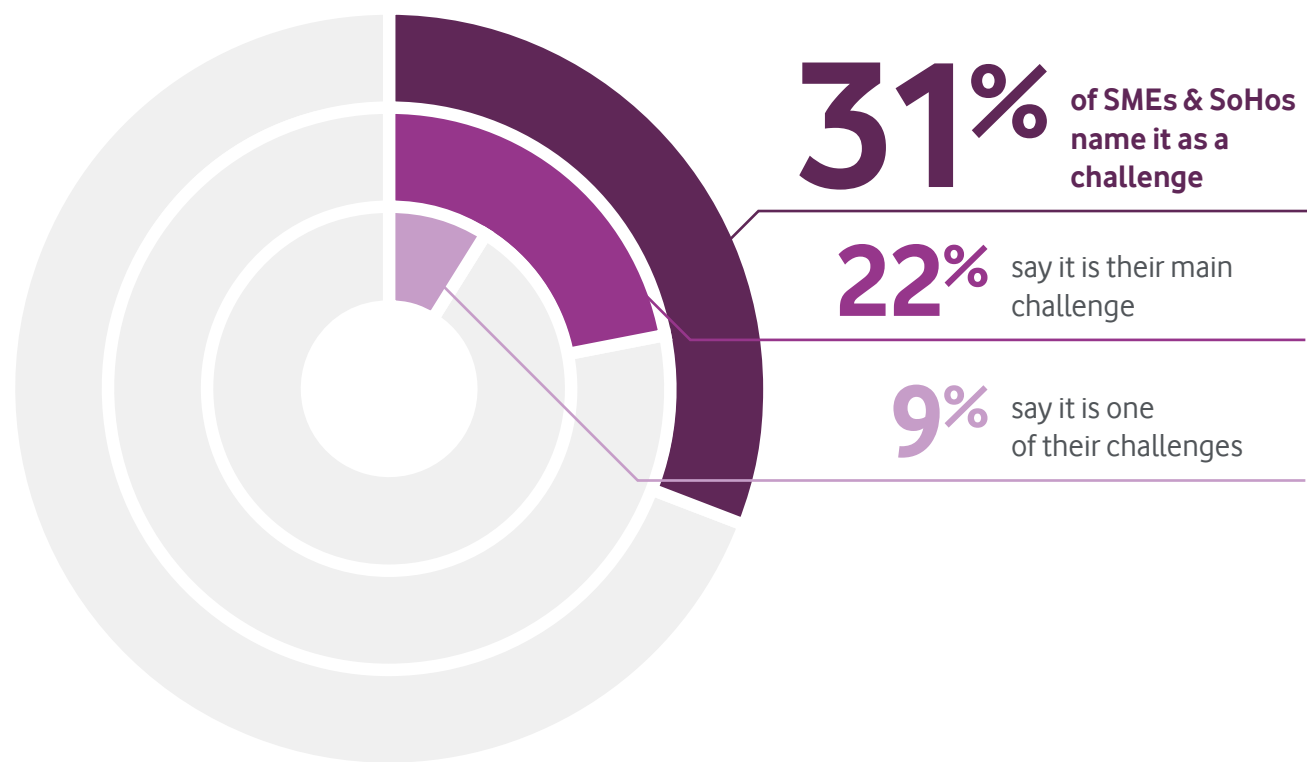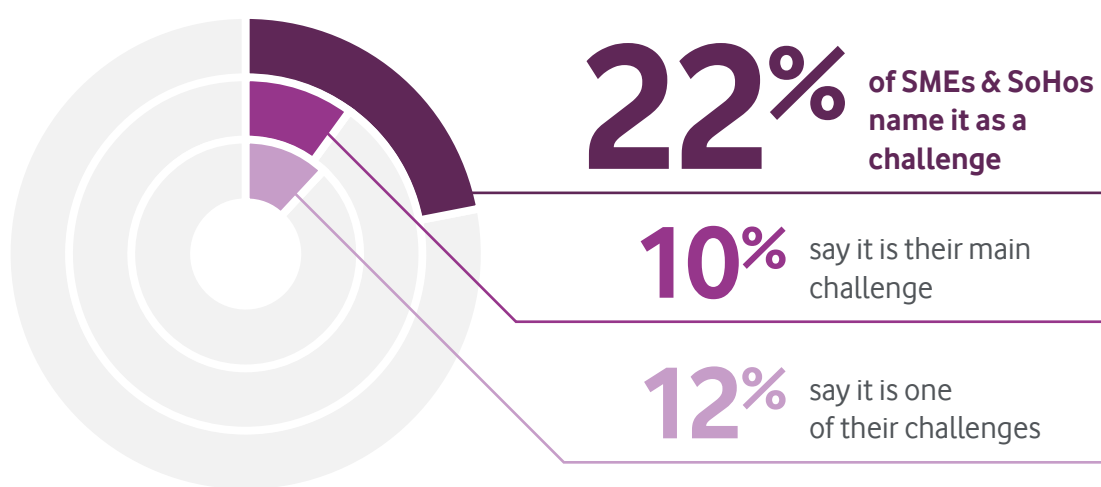|	SoHo (1-9)	Small SME (10-49)	Large SME (50-249)	Overall
Have not yet started to think about this	23%	11%	6%	14%
Have not yet made any changes, but they plan to	17%	18%	13%	16%
Have made some small changes but no clear plan yet	23%	23%	19%	22%
Some initiatives and budget allocated to this	14%	20%	20%	18%
Have developed a roadmap for digital transformation targets, ownership and budgets	6%	11%	14%	10%
In the process of implementing a digital transformation strategy	8%	10%	18%	12%
Have fully implemented an industry-leading digital solution - now refining to maximise benefits	5%	6%	7%	6%
They don't know/ Not sure	4%	1%	2%	3%

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So, what is preventing SMEs from digitalising?

In our survey, we asked SMEs to identify the main barriers they faced when it comes to digitalisation:
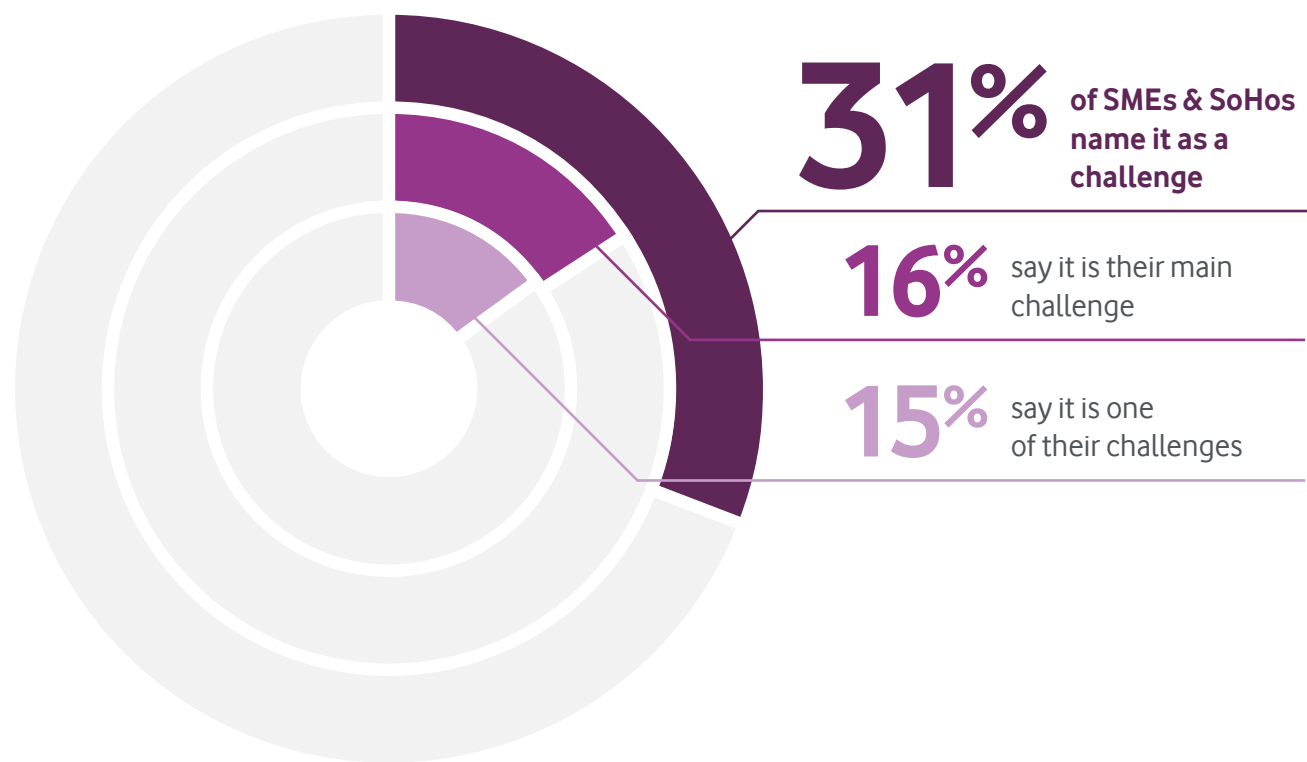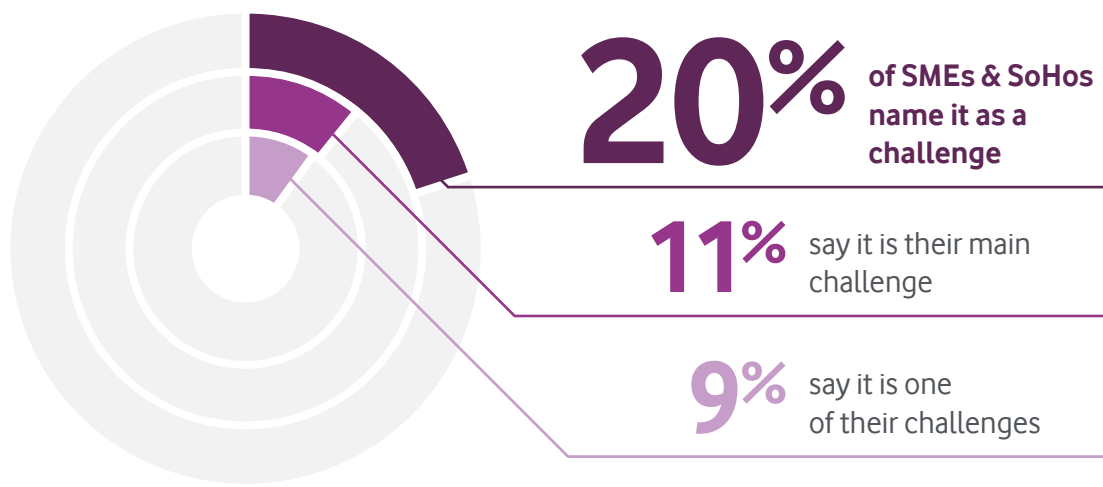
Lack of funding

31% of SMEs & SoHos name it as a challenge

22% say it is their main challenge

9% say it is one of their challenges

Lack of time / resource

31% of SMEs & SoHos name it as a challenge

16% say it is their main challenge

15% say it is one of their challenges

Lack of suitable digital offers in the market

18% of SMEs & SoHos name it as a challenge

9% say it is their main challenge

9% say it is one of their challenges

Concerns over security with adopting digital tools

22% of SMEs & SoHos name it as a challenge

10% say it is their main challenge

12% say it is one of their challenges

Lack of internal digital skills and know-how with the business

20% of SMEs & SoHos name it as a challenge

11% say it is their main challenge

9% say it is one of their challenges

Lack of strategy

18% of SMEs & SoHos name it as a challenge

6% say it is their main challenge

11% say it is one of their challenges

Lack of good quality connectivity

11% of SMEs & SoHos name it as a challenge

7% say it is their main challenge

5% say it is one of their challenges

Only **8% of respondents reported to having not faced any challenges** when adopting digital products or solutions, largely reported by businesses within the IT, Media and Professional Services (sectors where digital is a component aspect of their business models).

With budgets and available funds already stretched, many SMEs are reluctant to spend time and money on digitalisation. Further concerns are largely down to have knowledge and understanding of how these solutions work, how secure they are, how to roll out the correct solutions strategically and having access to high-quality connectivity to enable these solutions to work effectively.

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

Chapter 4

Policy environment

A number of the barriers identified by SMEs could be addressed, at least in part, through the development of a supportive policy environment that allows SMEs to benefit from digitalisation, helping to facilitate their growth and resilience in the uncertain economic environment.

Based on our engagement with SMEs and policymakers to date, we have identified several ways in which policymakers can support SMEs in their digitalisation journeys.

4.1. Funding – adequate funding and investment to achieve digitalisation

The key barrier to digitalisation faced by SMEs, as reported in our survey, is lack of funding. It is crucial that policymakers carefully consider how to fill this gap and enable digitalisation.

The **RRF funds are a key opportunity with 20% of €672.5 billion** to go towards digitalisation. Governments across Europe have been considering how best to allocate this within their National Plans. Overall, all 22 National Plans include measures relevant to SMEs. However, this is often spread across the plans and included as part of larger measures. Among the direct measures targeted to SMEs, there are **19 National Plans that contain investments and reforms worth around €44 billion**, with further potential of funding worth €109 billion (close to 24% of the total RRF) if including the wider measures in all National Plans.[18]
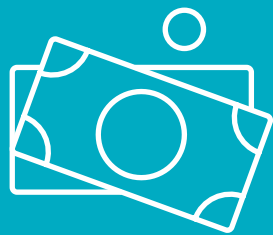
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However, progress in the deployment of this funding is slow.

To date, within Vodafone's footprint, only Spain and Greece have launched full support schemes for SMEs, with Italy launching a scheme focused on broadband but not digital solutions and Romania's SME support scheme due to go live in February 2023. The current deadline for allocating funds is set for 31 August 2023, with the funds needing to be spent by 31 August 2026. Whilst the Commission has reported that **19% of expenditure supporting the 'Smart, sustainable and inclusive growth' was given towards support for SMEs,**[19] our engagement with small businesses across the EU shows there is still a way to go, and lessons to be learned in how best to distribute this funding.

It is important to recognise the need for any regulatory framework which translates into funding, such as the RRF, to encompass the 'think small first' principle. This principle recognises the often-disproportionate disadvantages faced by SMEs compared to larger organisations in the policy environment and ensures that policymakers give full consideration to SMEs at the early policy development stage.[20] A recent report by Business Europe into the application of this principle found that it is 'not applied consistently by all Commission services',[21] highlighting how **SMEs could potentially be left behind by regulation and financial initiatives which aren't fit for purpose**.

Therefore, there are several aspects that should be considered when developing a funding support scheme.

a. Value

In our survey, the average minimum level of funding support required for **SMEs to invest in digital solutions is 39%.** This figure is **higher for SoHos at 46%,** who said they would require a greater level of funding support to digitalise.

There is therefore a clear need for funding support schemes to be developed ensuring that they provide enough value to cover the costs of SMEs of all sizes. For example, in Italy, the Connectivity Voucher Scheme takes a tiered approach to value, based on the broadband speed that the SME is upgrading to. This encourages a step-change in the quality of internet access service adopted by SMEs across the country, allowing them to progress their digital journeys whatever stage they are at, and providing value to all of the SMEs involved.

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

b. Awareness

It is worth noting that, in some smaller SME segments, there was limited interest in funding, irrespective of the value. For example, almost **1 in 5 micro-enterprises stated that they would not be interested in funding support at all.**

Given the established benefits, this is likely due to SoHo businesses not having enough visibility and understanding of the benefits that digitalisation can bring, and limited awareness of funding opportunities. This is reflected in our survey results, with only **64% of SoHos stating that they see digitalisation as important, compared to 87% of larger SMEs.**

In Germany alone, only **36% of SoHos see digitalisation as important**, with **31% of the micro-enterprises seeing it as unimportant**. It is therefore clear that, in addition to ensuring the funding scheme exists, further work by policymakers, Governments and the private sector is needed to demonstrate the benefits and value of digitalisation to businesses, especially the smallest enterprises in Europe, and to promote any schemes they have developed.
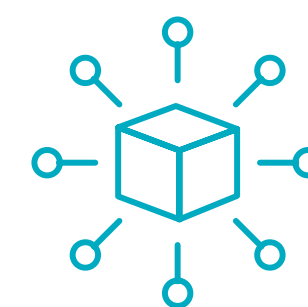
c. Method of application and distribution

The simpler, the better.

In responding to our survey, the most widely reported barrier to using funding assistance schemes was cited to be a **'complex application process' (42%)**, with **23% of respondents reporting it as the main barrier** to using such schemes.

A **complex application process** was cited as the **top barrier** by all sizes of SMEs in every market surveyed.

However, SoHos are more likely to also cite **inadequate information** as a **main barrier.**

Failure to keep things as straightforward as possible will prevent SMEs, who are already significantly resource-constrained, from applying for crucial digital funding.

It is therefore clear that application and distribution mechanisms for **funding schemes must be simple to follow**, and not put off potential applicants due to complex terms of reference, ambiguous eligibility criteria, or lack of clarity on how payments will be disbursed. For example, eligibility criteria should focus on the SME's status at the time of application, rather than requiring a backward looking assessment of their finances or employee numbers over a number of years.

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

The focus on simplicity translates into the method of funding.

It is clear that simple methods such as digital voucher schemes are highly appealing, with **67% of SMEs indicating that they would be interested in this model of support.** Voucher schemes are simple, allow for monitoring of the funds that has been spent as well as support SMEs with the upfront cost of digital products at a time when budgets are stretched.

67%

77%
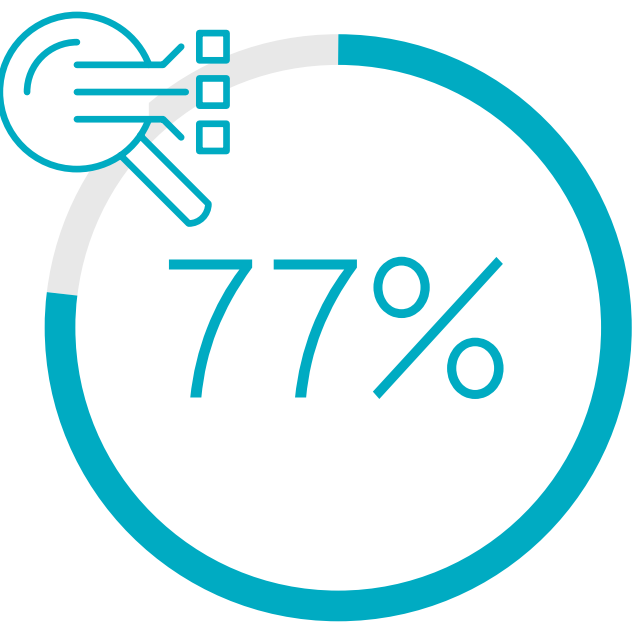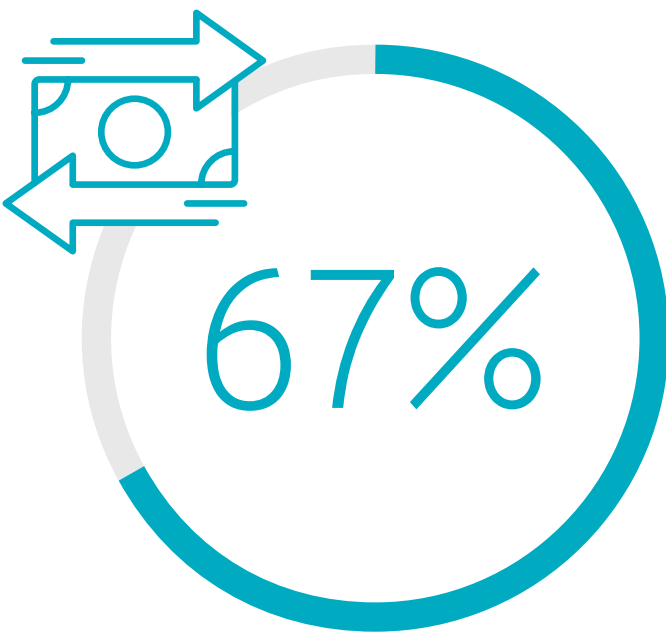
Our survey also shows that tax rebates for the **purchase of digital tools are an appealing method of funding support for small businesses (77%)**. SoHos and SMEs seem to consider this mechanism as simpler and less bureaucratic. Despite having to invest upfront and the cash flow implications, this could also secure them faster access to digital products and services without having to go through any lengthy application processes.

However, tax rebates do not guarantee appropriate monitoring and tracking of the allocation of these funds towards digital products and services for beneficiaries compared with digital voucher schemes. **There is a need for more transparency and a stronger collaboration with governments across Europe, leveraging the expertise of the private sector.** This would support developing more accessible voucher schemes that answer the needs of small businesses and release crucial funds to improve their digitalisation journey, with clear and traceable allocation, distribution and implementation plans.
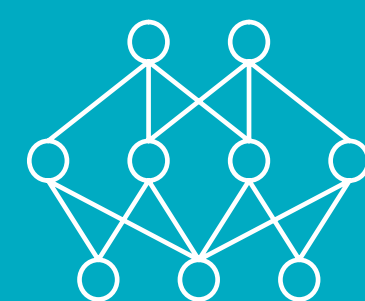
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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

d. Scope of funding

SMEs are not a homogenous group. They operate in different sectors and different environments, and therefore have different needs when it comes to digitalising their businesses.

Respondents to the survey demonstrated the broad range of services which SMEs find most important, ranging from software and hardware to high-speed broadband and IoT solutions. Any funding scheme should therefore be extensive enough to cover these various solutions.

44%
Software

42%
Hardware

42%
Cybersecurity solutions

33%
High-speed broadband

25%
IoT solutions

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

The survey also demonstrated the different interests across the SME segments. For example:

13%

- **SoHos are typically more interested in kickstarting growth.** As a result, they were more interested in website and digital marketing solutions, with **13% citing website and digital marketing solutions** as the most appealing digital products or solutions through a funding scheme.

- Large SMEs are typically more established and are now looking for solutions to help them manage resource more efficiently. **16% of large SMEs reported** IoT solutions as the **most appealing** digital products or solutions

16%

It is therefore critical that any funding scheme takes into account the broad needs of the SME community and facilitates the purchase of a range of different solutions to *meet* these needs, ranging from connectivity (which underpins the deployment of all other digital services) through to advanced IT and software solutions, such as data analytics software.

However, at the same time as covering a broad range of solutions, schemes should make it as easy as possible for an SME to procure these. This was made clear in our survey, where 78% of all SMEs said it was important to them that their digital solutions come from one single provider.

In Greece, the recently launched SME voucher scheme allows small businesses to deploy a range of digital products and solutions, including digital marketing and e-commerce, cybersecurity, digital business solutions and smart-working solutions. The scheme provides up to €20k of funding per SME (with the amount depending on size), with the government subsidising 90% of the solution cost for a period of 24 months. The voucher scheme also allows SMEs to purchase a 'toolkit' of solutions from a single provider, simplifying the process further for small businesses. Vodafone Greece has created bundles of solutions to service the different needs of different SMEs.

Therefore, as part of any scheme, providers should be able to work with partners and suppliers to develop suitable and varied toolkits of digital solutions to provide the right scope of services.

To that end, it is crucial that Governments, technology providers and SMEs work together to ensure the development of funding schemes that are fit for purpose, providing value for SMEs and simply enabling the investment into solutions that are relevant to individual business circumstances.

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

4.2. Digital skills – supportive policies to bridge the skills gap in Europe

Unfortunately, funding alone is not enough.

It's important to acknowledge that although funding support schemes are a key enabler of digitalisation, there is also a need for more sustainable policy solutions to help SMEs continue on their digital transformation journeys beyond bridging the initial funding gap.

As noted in Chapter 3, **the digital skills gap within businesses is another area that is posing a challenge to SMEs**. This gap has been recognised by the Commission - Digital skills are key component of the Digital Decade targets, with the aim for 80% of Europeans having basic digital skills, as well as training of an additional 20m ICT specialists before the end of the decade.

Ursula Von Der Leyen declared that **2023 is the 'European Year of Skills'** as a way to achieve further progress on these targets, with the new 'Digital Europe Programme' focusing on funding bachelor and master degrees in key and emerging tech areas.[22]

The Council Recommendation on improving the provision of digital skills is another initiative in the pipeline, which is expected to reinforce efforts to provide education and training on digital skills.[23] **Strong action is needed in this area to ensure digital skills training is engrained in European education systems from an early age**, helping to influence the level of digital skills of European citizens and progress towards the Digital Decade targets.

15.5%
of small firms

43.1%
of medium firms

61.6%
of large firms

As of 2020, only **15.5% of small firms,** and **43.1% of medium firms** provided internal ICT training, vs. **61.6% of large firms** – OECD

According to the OECD Digital for SME Global Initiative (a multi-stakeholder initiative that includes Vodafone as a member), a lack of ICT skills and lack of awareness around the correct and appropriate software available can hinder digitalisation of small businesses. With a large digital training gap between large and small companies, SMEs are left further behind their larger counterparts, making it harder for them to scale and compete effectively.[24]

The benefits of a combined approach are clear: **SMEs who received government support are 8% more likely to increase digitalisation**. Decisive action by Governments[25] will help to begin to bridge the digital skills gap necessary to enable smaller businesses to progress in their digitalisation journeys.

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

4.3. Connectivity – high-speed, quality connectivity to facilitate digital transformation

Connectivity is the backbone of digitalisation, and affordable access to very high capacity networks (VHCN) will be essential if European SMEs are to make the best of the opportunities digital solutions offer to them.

Despite this, **11% of respondents in our survey cited that a lack of good quality connectivity is a challenge** faced when adopting digital products or solutions, with 7% of all small businesses citing it as the main challenge they have previously faced.

In Ireland, **14% cited lack of good quality connectivity** as a challenge, with 10% citing it as the main challenge faced
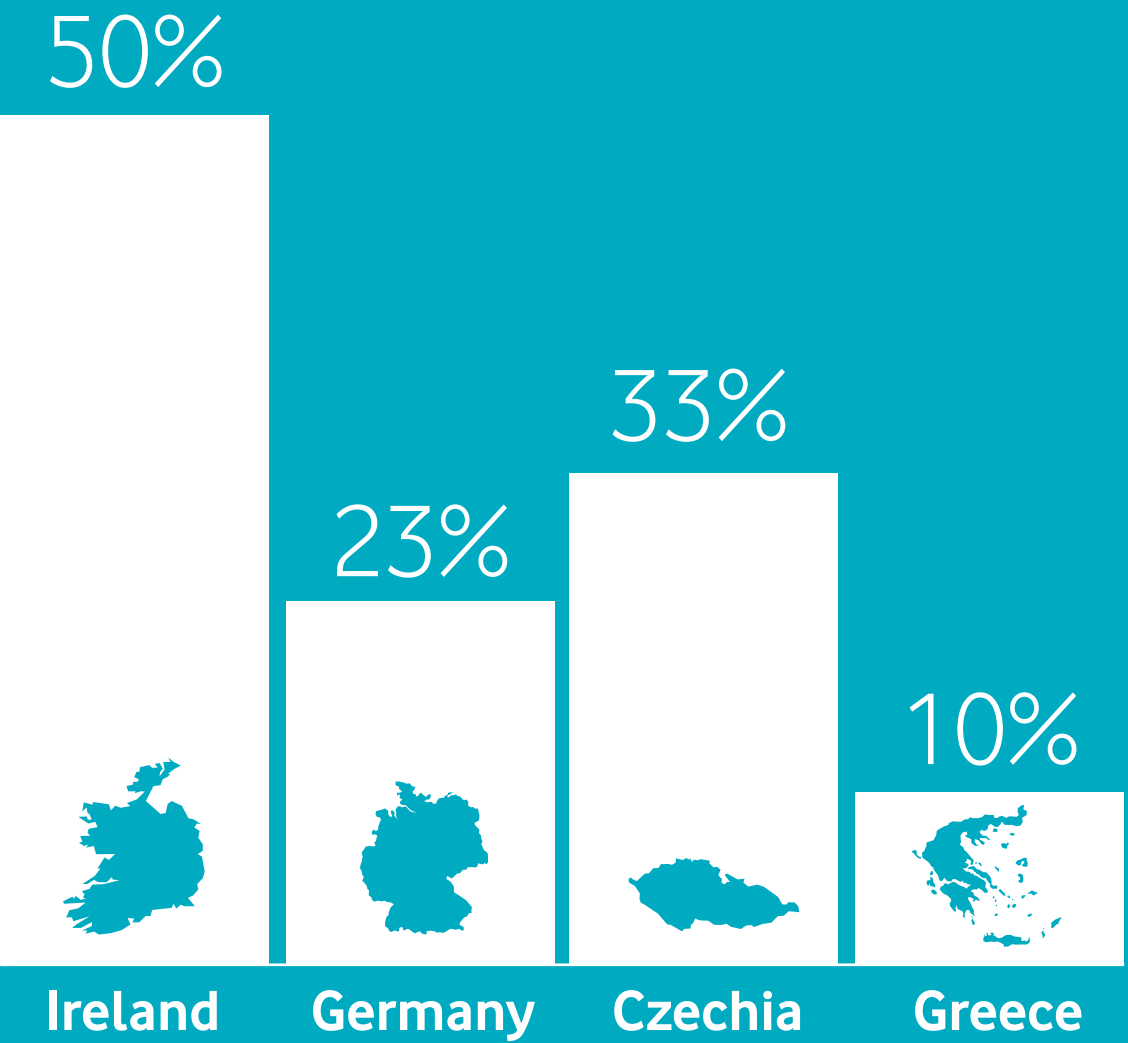
It is therefore clear that high-quality connectivity needs to be made affordably available for all businesses, to help close this digital divide. However, there are still stark differences between the levels of access small companies have to high-speed broadband in comparison to their larger counterparts across Europe.

The importance of ensuring access to all Europeans, including SMEs, has been recognised by the Commission, who have introduced ambitious connectivity targets in the Digital Decade, with **the aim for all European households to be covered by a Gigabit network and all populated areas to be covered by 5G.**

Whilst some progress is being made towards these targets, with the average VHCN coverage across the EU27 standing at only 59% in 2021,[25] there is still a way to go Some Member States are at a real risk of not meeting the targets, for example due to high costs and operational challenges in deploying to remote areas.

VHCN coverage increase 2020

Ireland	Germany	Czechia	Greece
50%	23%	33%	10%

SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

Therefore, these ambitious targets need to be backed up by ambitious policy programmes, including:

Public funding of infrastructure roll-out:
For example, the RRF funding of €127 billion dedicated to digital investments may be used by Member States to help plug this gap. However, Deloitte has estimated that the **RRF funds provide only 46% of the investment needed to close the gap** between the current level of provision of connectivity of member states, and the Digital Decade targets.[26]

In Italy, **€2 billion** has been allocated through the RRF to fund the deployment of **high-performing 5G mobile networks.** Running until 30 June 2026, the scheme will provide grants to network operators and service providers to ensure the wide availability of high-performing networks to consumers, SMEs as well as larger businesses.

Removing red tape: The EU's upcoming legislation on Gigabit connectivity, including the Gigabit Infrastructure Act, could remove the red tape and barriers to the rollout of broadband networks, driving more simplicity and being a key tool to enable the Digital Decade targets.
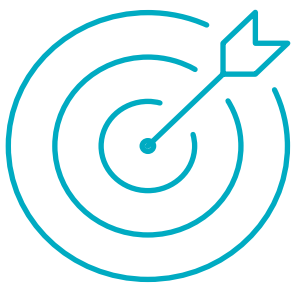
Digital Decade Declaration: We welcome the EU's 'European Declaration on Digital Rights and Principles for the Digital Decade' which puts forward inter alia, a commitment to "developing adequate frameworks so that all market actors benefiting from the digital transformation assume their social responsibilities and make a fair and proportionate contribution to the costs of public goods, services and infrastructures, for the benefit of all Europeans", as well as "ensuring access to excellent connectivity for everyone".[27]

These measures must be implemented in a manner that bolsters the investment needed in network infrastructure, in particular to ensure that all stakeholders, and in particular SMEs gain effective access to high-quality connectivity services. This will open the door to the myriad of digital opportunities that 'being connected' offers, as discussed in the prior sections.

This will help bridge the digital divide between SMEs and their larger counterparts and ensure a fair and balanced internet ecosystem where SMEs have the chance to innovate and grow.

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

4.4 Ensure a fair competitive environment for smaller businesses

As mentioned earlier, many smaller businesses (and their customers) rely on the services of larger businesses, in particular technology platforms, in order to facilitate access to their services. For example, an SME may use a large technology platform to advertise their products or websites or manage their ecommerce relationships.

Whilst there are recognised benefits in using technology platforms, for example to get access to the larger platforms' existing user base, there can be side-effects to these relationships, which may impact negatively upon SMEs' ability to innovate and compete fairly. For example, larger platforms may be tempted to use their position to:

- Introduce unfair contractual terms on termination or suspension of the relationship, including by preventing the transition to an alternative platform;

- Use the data of their smaller business customers for their own gain, to the detriment of fair competition.

Therefore, **we welcome the introduction of Europe's new regulatory framework over digital platforms**, in the form of the Digital Markets Act (DMA), which seeks to ensure fairness and contestability in digital markets by prohibiting the largest technology platforms (so called 'Digital Gatekeepers') from engaging in a range of anti-competitive practices. This includes ranking their own products and services more favourably than similar services or products offered by third parties on the platform, or preventing users from un-installing any pre-installed software or app if they wish to.

The DMA also includes a number of positive obligations that will help smaller firms to compete in digital markets, for example forcing the Gatekeepers to allow third parties to inter-operate with the gatekeeper's own services in certain specific situations and allowing their business users to access the data that they generate in their use of the gatekeeper's platform. This should prevent smaller businesses from being negatively impacted by unfair contract terms, and open up opportunities for them to innovate and move between platforms more easily.

We look forward to seeing the benefits of the DMA as it is implemented over the next few years, starting with the designation of the first companies as Digital Gatekeepers from May 2023. It will be important to effective and proportionate implementation.

The Commission has assumed a novel role as an enforcer of sector-specific regulation and will need to closely coordinate with national authorities, all of which raises institutional design questions. Industry players, including SMEs, will also play a central role, not only when it comes to compliance reports submitted by the gatekeepers, but also in the integration of third parties in the process to ensure the Commission has visibility of relevant behaviours which could amount to an infringement of the new rules.

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

Chapter 5

How can the private sector help?

With our experience working with in excess of **5.2 million SoHo and SME customers across the EU** we have identified solutions to best help SMEs overcome the various barriers they face when trying to digitalise their businesses.

We have identified a range of areas where our expertise and support can complement a supportive policy environment to ensure the best outcomes for small businesses in Europe.

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5.1 Digital Toolkits

As noted in Chapter 4.1 it was clear in our survey that SMEs are not a homogenous group and are interested in a broad range of tools and digital solutions to help them on their digitalisation journeys.

Vodafone has therefore been focused on building the best 'Digital Toolkits' to meet the needs of our various SME customers.

For example, **in Spain, Vodafone worked as a bridge between our SME customer base and the Government** to help develop the Digital Toolkit, ensuring the necessary funding was efficiently and simply distributed to SMEs through a voucher scheme.

The Digital Toolkit contains a broad range of solutions, including **digital marketing, e-commerce, cyber security, digital business solutions** and **smart-working solutions** to appeal to SMEs in different stages of their digitalisation journey. Whilst demand is high across all product types, Vodafone has seen a clear shift in demand from 'growth' products during post-pandemic optimism to one of protection, including high demand for cyber security solutions. This echoes our survey results, as noted in Chapter 4.1, that **42% of SMEs are interested in cyber security solutions.**

Spanish SMEs were early adopters of the Digital Toolkit, leading the way for other countries to adopt what we expect to be similar toolkits, modelled on the Spanish example above.

Whilst there will be local nuances and small differences across the segments, it is likely that the same four types of solutions outlined above will be featured in future toolkits.

Alignment to proposition framework. The toolkit aligns with 4 key pillars of proposition, and has been reinforced by our SME Market Survey.

Finding and Keeping Customers	Healthy & Productive Workforce	Cost Control & Business Efficiency	Cyber Security and Resilience
• ecommerce • customer management • business intelligence	• web & presence • social networks • virtual office	• process management • digital billing • virtual office	• cyber security basic • cyber security advanced • safe communications
35% of businesses who responded to our survey cited **'new sales channels'** and **'expansion into new markets'** as core areas for their digital expansion	**Digital marketing** was popular with SoHo respondents in our survey – it was seen as the most appealing solution in this space after software and hardware	**Cost efficiencies** was rated as the top benefit SMEs and SoHos hoped to achieve in their digital journey, in 8 of 11 markets surveyed	**Cyber security** is one of the top 3 most appealing product categories in 10 of 11 markets surveyed

CORE COMPONENTS

Finding and Keeping Customers	Healthy & Productive Workforce	Cost Control & Business Efficiency	Cyber Security and Resilience
• **eCommerce:** online store; payment methods; website creation • **Customer management:** CRM; email management • **Business intelligence:** dashboard creation & management; database integration	• **Web & presence:** web creation; digital presence; ratings creation • **Social networks:** community management; performance monitoring; social network planning • **Virtual office:** collaboration tools; flexible working	• **Process management:** accounting & finance; portal notifications; admin services; payroll management • **Digital billing:** invoicing; certification; digital signatures; cloud backup • **Virtual office:** digital signage; collaboration tools	• **Cyber basic:** software protections; firewall; web security • **Cyber advanced:** secure audit; technical support; online support; threat analysis; software protections; web security • **Safe communications:** threat detection, Secure Digital Communication • **Communications:** threat detection, Secure Digital Communication

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

5.2 Connectivity as a catalyst

Given a lack of access to high-quality connectivity has been identified as a barrier to deploying digital solutions, Vodafone has taken measures to ensure that, despite the economic crisis, our SME customers have access to this vital resource.[28]

For example, in the UK, through the leading everyone.connected campaign and their business.connected efforts, Vodafone Business are giving SME customers one year free broadband, as well as providing advice through V-Hub and digital upskilling with free tools and training.

Vodafone Ireland are following suit, giving SMEs six months free broadband to ensure they can cope with recent disruption and changing demands. The initiative will cover all business broadband plans, with speeds from 100Mbps to 2Gbps. Businesses can also receive six months of free cyber security protection alongside the connectivity.

Through these measures and many others across our markets, Vodafone is playing a crucial role in keeping SMEs connected through the cost-of-living crisis, ensuring they are capable of contributing to Europe's economic recovery.

SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

5.3 Digital skills & security

Vodafone has placed significant emphasis on working with SMEs to ensure they have fit-for-purpose digital tools.

However, we recognise that these measures alone are not always enough. As we have found in our survey and mentioned in Chapter 3 of this paper, the digital skills gap is a clear barrier for SMEs' digitalisation progress. To help to address this, Vodafone Business developed V-Hub,[29] a digital advice service which offers SMEs one to one support to better understand how they can achieve their business goals by harnessing digital channels and technology.

Live in 15 markets, **the platform has reached over 4.7m unique visitors**. Its key pillars include finding and keeping customers on digital channels and improving the productivity of the workforce with digital technology. A V-Hub Knowledge Centre of articles also offers information, insight and inspiration for SMEs to 'self-serve' - with access to online guides, videos and webinars, while the one-to-one phone service puts businesses directly in touch with experts. This ensures content and conversations cater to different levels of understanding, depending on where each small business is on their digital transformation journey.

Alongside fostering the digital skills of the future, security is also critical to SMEs and, as a result, to the resilience of the whole of Europe. Our survey found that across Europe, 22% of SMEs reported that concerns over security of digital tools was a challenge faced when adopting digital products or solutions in the past. Small and large SMEs are more likely to report this as a challenge than SoHo businesses.

Vodafone will continue to build and roll out Digital Toolkits that include advanced cyber security packages for SMEs, to help them becoming more resilient against potential security challenges.

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

Conclusion

SMEs face unprecedented challenges in today's difficult economic environment.

Nevertheless, digital solutions offer a pathway out of the difficult situation global businesses find themselves in.
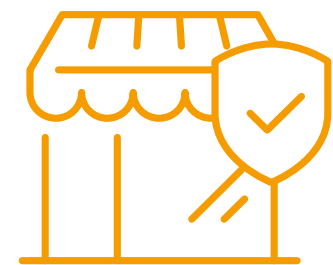
As mentioned, **digitalisation can facilitate SMEs to become more financially resilient, better at tackling increasing cyber security threats, and more sustainable.** This benefits consumers as well as larger organisations, many of whom rely upon SMEs in their ever-expanding supply chains.

Our findings demonstrate the clear digital disparity between SMEs and larger enterprises, as well as the struggles SMEs face in closing this gap. Despite this, **SMEs recognised the importance of digitalisation, as well as the benefits associated with it.** Additionally, SMEs showed greater willingness to invest in digitalisation if additional funding contribution was provided alongside their own investments.

As Europe's largest pan-European technology communications company, Vodafone recognises its role as a digital enabler for society and welcomes the appetite from SMEs to digitalise.

Our survey results have produced a number of key takeaways for policymakers to ensure that SMEs keen to digitalise are able to do so in the easiest way possible. In particular, **SMEs of all sizes need greater and easier access to public funding support** as well as **more advisory services on available digital solutions** and how to implement them. It is therefore critical that in the European Yeas of Skills, policymakers take note of this while continuing to build a fit for purpose policy framework for SMEs, in partnership with large organisations that can provide know-how and expertise.

There remains a disparity between SMEs based on size as well as between markets themselves - a larger SME in Portugal can be better prepared for the digital future than smaller SMEs or SoHos in Czechia, for example. Nevertheless, it is vital to drive digitalisation across all Members States, with the aim to improve their scores on the DESI and unlock a trillion Euro GDP opportunity in Europe to fulfil Europe's Digital Decade.

Digitalising SMEs, an essential contributor to society as a whole, is an integral pillar to achieving such a vision.

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

Annex: Methodology

At the overall level, the country results have been weighted to ensure that each country is represented equally, giving each market a contribution of c.11% to the overall score. Within each country, the results have been weighted by the economic contribution of each sub-segment (1-9 employees, 10-49 employees and 50-249 employees) to ensure that each group's relative contribution to their respective country is reflective of EU SBA data.

SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

Europe.connected

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28   Keeping everyone.connected during cost of living and energy price rises (vodafone.com)

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SMEs digital potential

Key priorities

Barriers to SME digitalisation

Policy environment

Private sector

Conclusion

Europe.connected