



DIGITALLY DRIVEN: 2021

U.S. Small Businesses Find a Digital Safety Net for Adaptation, Resilience, and Innovation During COVID-19

Presented by  Connected Commerce
Council



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Foreword by Jake Ward

American small businesses have been forever changed by COVID-19. Businesses closed, jobs were lost, and far too many communities were badly hurt by a pandemic that caused massive upheaval. But even as small businesses continue their struggle, we can learn from their fight. Their experiences over the past year should be lessons for the future that will help speed communities' recovery and make their futures more sustainable.

This report goes deeper than previous research to understand the real impact of COVID-19 on American small businesses. It identifies what has driven surviving small businesses' success and resiliency: first and foremost, the 'Digital Safety Net' that is built on technology platforms and comprised of affordable and agile digital products and services. This Digital Safety Net has empowered millions of small businesses to shift resources, modify business plans, and continually evolve throughout the pandemic. Furthermore, through tracking the shift in digital tool adoption across the pandemic, it is clear that the gap between small businesses that are digitally driven and those that remain uncertain about the use of these technologies is growing. For those that have realized the value of vertically integrating digital tools into their businesses, and made the decision to invest themselves and their teams in using them, they are now far outpacing those who did not. This represents a serious challenge for policymakers and industry to tackle.

For struggling small business owners, this study highlights how the Digital Safety Net can improve business results and survival rates. For governments, NGOs, and industry, the collective story of those who have persevered, and in some cases even thrived, should inform how we strengthen the 25 million small businesses that will power a fully recovered and more resilient U.S. economy.

Digitally Driven: USA reflects the realities and perspectives of more than 2,000 small businesses, who collectively lead us to three primary findings: First, digital tools are critical for small business resilience. Second, for digitally advanced small businesses, digital tools have allowed them to pivot quickly, maintain more pre-COVID revenue, and hire many

more employees. And third, there remain too many obstacles to broad adoption of digital tools by small businesses, particularly due to uncertainty about how to use and understand the value of technology in their business. We must address and solve this challenge.

For small businesses that embrace digital tools, the benefits are clear: greater revenue, stronger customer base, and a significantly improved outlook in an increasingly digital American market. To assist the digitally uncertain, policymakers and business leaders must create solutions, including investments that increase education, training, and small business access to the Digital Safety Net.

The Connected Commerce Council thanks our members for their continued support, along with small businesses across the U.S. for their determination in the face of perilous odds. Finally, I'd like to thank our partners in the production of this report, Google, Greenberg and Catalyst Research.



Jake Ward, President,
Connected Commerce Council

“*But even as small businesses continue their struggle, we can learn from their fight. Their experiences over the past year should be lessons for the future that will help speed communities' recovery and make their futures more sustainable.*”

FACT SHEET - SMBs and the Digital Safety Net

SMBs' use and continuing adoption of Digital Safety Net tools and services varies, due to several factors.

- Digital adoption among small businesses ranges from the digitally advanced (40%, that use a large and diverse number of tools) to the digitally uncertain (24%, that have low adoption rates and remain skeptical of digital tools).
- Nearly all (97%) digitally advanced small businesses adopted new digital tools and business strategies during the pandemic, while only half (51%) of digitally uncertain businesses did.
- Many SMBs are cautious about Digital Safety Net tools due to concerns about cost, ROI, regulatory risk and their own digital knowledge/comfort, but digitally advanced SMBs overcome these concerns while digitally uncertain SMBs do not.

Digitally advanced small businesses have better revenue and hire more people.

- Digital adoption cut revenue losses by more than half (-12% for digitally advanced SMBs vs. -23% for digitally uncertain SMBs)
- Digitally advanced small businesses doubled hiring at a rate of 2X more employees on average vs. digitally uncertain SMBs.

Digitally advanced small businesses vastly outperform digitally uncertain small businesses on key success metrics and are well positioned to press their advantage into the future.

- Digitally advanced businesses retained customers at a 3.2X better rate and acquired new customers at a 20X better rate during the pandemic.
- Digitally advanced small businesses are more than twice as confident about making new hires in 2021 (88% vs. 36% of digitally uncertain).

While advanced small businesses furthered their use of digital tools, uncertain businesses have fallen further behind them in relative terms, creating a widening 'digital gap' among U.S. small businesses.

- Digitally advanced small businesses are over 3X more likely to state that digital tools are more helpful for running their businesses now vs. pre-pandemic.
- This gap between 'advanced' and 'uncertain' small business leaders has widened 22% in the last eight months, from 34% to 56%. Put differently, 8 months ago there was only a 2X difference between the groups, compared to over 3X now.
- There were also widening gaps (8-13% more in the last 8 months) for a number of more specific metrics, such as use of more digital tools, investment in digital tools, and plans to use more digital tools post-pandemic.
- Our data indirectly suggests that roughly 5% of non-advanced SMBs, or approximately 1.5 million companies, closed in the last 8 months.

FACT SHEET - Additional Findings

COVID-19 has pressured SMBs to adapt to a new normal by using and innovating with digital tools.

- 81% of SMBs report changing their business to incorporate new digital tools and strategies due to COVID.
- 98% of small businesses say digital tools are helpful in running their business, with 59% of small businesses saying they have been more helpful during the pandemic.
- 93% of small businesses report that they intend to maintain or increase their use of digital tools post-COVID.
- 81% of small businesses cite future preparedness as a top concern, with 89% of digitally advanced vs. 65% of digitally uncertain small businesses desiring to become more resilient.
- SMBs demonstrate an overwhelming preference for private companies (63%) when it comes to sources of digital tool training.
- Approximately 11 million small businesses (37%) would have closed all or part of their business without access to digital tools.

Across various measures of business success, the smallest businesses of under 20 people struggled the most during COVID-19.

- Solo SMBs (single owner/operator) (-22%) and Micro SMBs (1-19 people) (-23%) saw greater reductions in revenue than Small (20-249) (-13%) or Medium (250-499) (-9%) SMBs.
- Solo SMBs (-18.1%) and Micro SMBs (-16.8%) saw roughly 3X greater reductions in their pre-pandemic customer base during 2020 than Small (-5.8%) or Medium (-4.7%) SMBs.
- Solo SMBs (-20%) and Micro SMBs (-16.5%) saw roughly 5X greater reductions in their pre-pandemic new customer acquisition during 2020 than Small (-3.3%) or Medium (-3.7%) SMBs.

Older SMB leaders and female-led SMBs saw worse revenue declines than younger and male peers.

- SMBs led by women and older (>45) people saw more reduction in revenue compared to male or younger counterparts (younger men, -10%; younger women -17%; older men, -19%; older women, -25%).
- Young (<45) White male-led SMBs on average only saw a -1% decrease in revenue, far better than any other sub-group.

While SMBs led by People of Color saw worse revenue compared to White peers, they have also leaned into the use of digital tools more to help with recovery.

- Asian-led SMBs saw the greatest reduction in revenue (-27%), followed by Hispanic/Latinx (-24%), Black (-19%), and White-led (-15%) SMBs. (Overall average -17%)
- On average, POC-led SMBs are more likely (Black 68%, Asian 67%, Hispanic/Latinx 65%) to find digital tools helpful to their business than White-run SMBs (56%).
- Recovery from COVID-19 remains the top priority of POC-led businesses (52% vs. 38% White-led), while White-led businesses are focused more on business growth (47% vs. 41% POC-led).
- 94% of Asian-run SMBs made some kind of digital change in response to COVID since July (vs. 81% avg.), and a majority increased their investments in technology and digital tools (58% vs. 41% avg.)

A Brief Guide To the Research Findings Presented In This Report

→ A Note on Methodology

The results presented here are based on a quantitative research survey of 2,037 U.S. small and medium-sized business (SMB) leaders across a variety of business sizes and industries conducted from Feb 17–Mar 11, 2021. It is important to note that in order to be included in the study, SMBs had to be in business at the time of the research (i.e., operational); thus, businesses that closed during the pandemic prior to Feb. 17, 2021 were not surveyed.

SMBs are defined as businesses of 0–500 employees. Of the 2,037 SMBs surveyed, 377 (27%) were Solo SMBs without employees, 658 (23%) were Micro SMBs with 1-19 employees, 688 (40%) were Small SMBs with 20-249 employees, and 314 (10%) were Medium SMBs with 249-500 employees.

The survey was conducted by LRWGreenberg, a Material+ Company. Data were weighted by vertical, market, and business size for an accurate representation of SMBs as distributed by the number of people they employ.

The work presented in this report is a continuation of a large-scale global study of SMBs and their use of digital tools during the COVID-19 pandemic sponsored by the Connected Commerce Council (3C) and Google.

More detailed information can be found in the Methodology section of this report.

→ Terminology

SMB – Small and medium-sized enterprises are small businesses with fewer than 500 employees. The vast majority of SMBs have fewer than 20 employees and many are “Solo,” with just an owner/operator who does everything.

Digital Tools – Digital tools are the platforms, services, marketplaces, and other software that power the digital world. For simplicity, we refer to all of these as “digital tools.”

Business sizes – SMBs can be further classified into four business size groupings: Solo (0 employees), Micro (1-19), Small (20-249), Medium (250-500). We investigated whether and how SMBs of different sizes were affected differently by COVID-19 and/or used digital tools differently.

Digital Segments/Groups – Our analysis identified different groups of SMBs defined by their attitudes toward, and use of, digital tools. “Advanced” SMBs view digital tools as essential and use many of them, while “Uncertain” SMBs are the opposite. A third group, “Evolving” SMBs, are essentially in a transition between the two. These groups are further defined in the main report.

Digital Safety Net – The Digital Safety Net describes the positive financial and operational effects that digital tools have on SMBs, particularly to adapt, survive, and recover from economic or societal shocks.

Executive Summary

Digital Tools Create a Safety Net For American Businesses

In many cases, the pandemic’s disruption has been lessened by a Digital Safety Net that has enabled adaptation, innovation, and resilience.

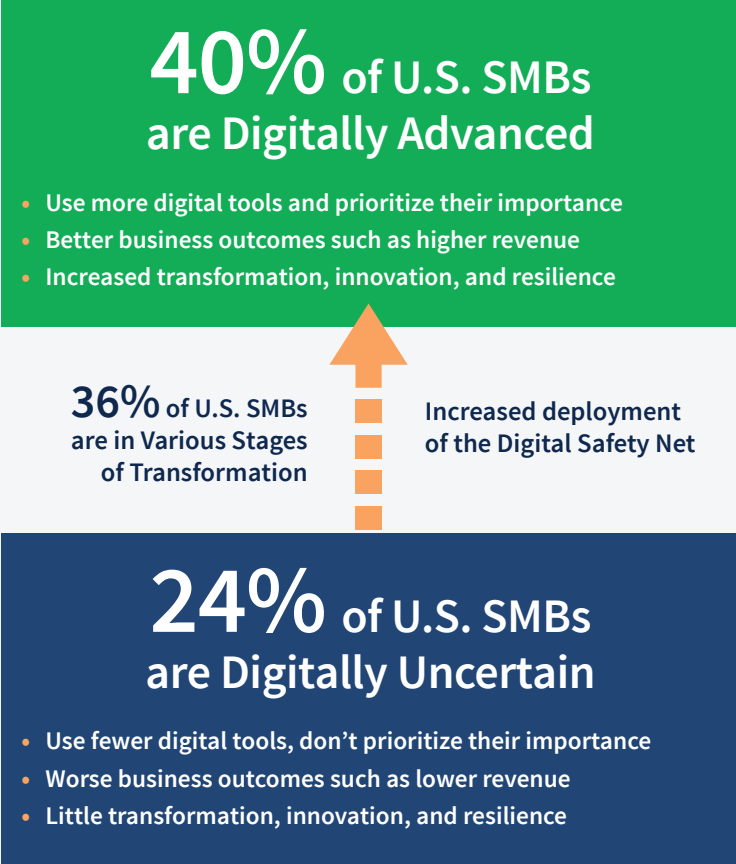
This report is the second major publication from our long-term study of small and medium-sized businesses (SMBs) of 1-500 people in the U.S. The first, based on data collected in Summer 2020, established that in the early months of the pandemic, SMBs were using digital tools to stay afloat, and those using them more estimated that their businesses would do relatively better in 2020 than their less-digital peer SMBs.

Here, we present new data and updated analysis that not only proves these 2020 estimated effects were real, but that the positive effects of a Digital Safety Net have continued throughout the pandemic to the present day. Moreover, digitally-driven SMBs have become even more so during the past year. In turn, they have seen less revenue loss, have maintained and grown their customer base, and in many cases hired people, too. The Digital Safety Net has literally been a small business lifeline.

That said, we also observed a troubling trend: about one-quarter of SMBs are struggling to overcome a “digital inertia” and have not only failed to become more digitally-inclined during the pandemic, but on average they have become somewhat less so. We also found indirect evidence that they are failing and closing during the pandemic more than digitally-driven SMBs. Put bluntly: SMBs not embracing digital tools increase their risk of going out of business permanently.

As the pandemic (hopefully) winds down, small business owners of all kinds will need to work within a post-COVID “new normal” fueled by digital tools - services, platforms, and marketplaces - that power efficiency, growth, and financial security for their businesses and families. While a small subset of SMBs can persist with analog business practices, most of them cannot over time, whether they realize it yet or not. Thus, a detailed understanding of how digital tools impacted and transformed small businesses during the economic disruption of the pandemic, as laid out in this report, provides a framework for future action.

Explaining the SMB Digital Safety Net



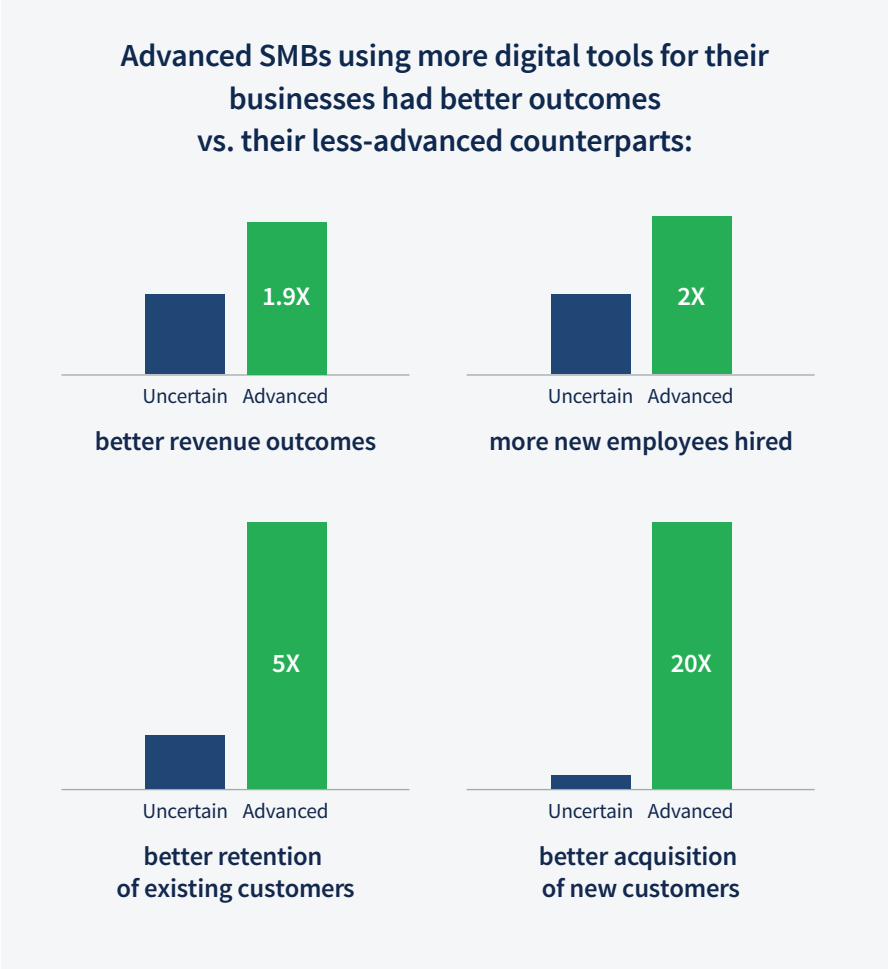
Digital Tools Create a Safety Net For American Businesses

The Digital Safety Net helped SMBs show better revenue performance, customer engagement, and job creation during the pandemic.

While all SMBs were disrupted by the pandemic, some adapted, stabilized, and even thrived much more than others. What we term Digitally Advanced SMBs (40% of the total) - those which proactively used digital tools and emphasized their importance pre-pandemic - outperformed Digitally Uncertain SMB counterparts (24%) on operational and financial metrics.

Digitally-driven SMBs outperformed others across a range of operational and financial metrics. Entering the pandemic, Advanced SMBs were better digitally prepared, utilizing 3.3X digital tools than less-advanced SMBs (13 kinds of tools vs. 4), on average. They also excelled at utilizing certain types of tools, such as enabling e-commerce on their business website, that appeared to confer particular advantage entering the pandemic (see main report). When compared to their Uncertain SMB counterparts, Advanced SMBs showed significantly better sales, revenue, customer retention, ability to attract new customers, and job creation.

SMBs run by solo owner/operators realized major benefits from the Digital Safety Net. An important subgroup of SMBs which are typically at higher risk of failure as SMB owners - solo owner/operators or "Solo SMBs" - particularly benefited from the Digital Safety Net, with Advanced SMBs in that group seeing 12% (or 2X) better revenue outcomes than Uncertain SMBs. Solo SMBs - which make up a large proportion of all SMBs in the U.S. - demonstrate proper use of digital tools can compensate for other disadvantages.



Digital Tools Create a Safety Net For American Businesses

Embracing and utilizing the Digital Safety Net will yield benefits for entrepreneurs, consumers, and economies beyond the current pandemic.

The ability for SMBs to adapt, survive, and recover from disruptions large and small, and bolster their competitive advantage during good times, is both valuable to them and benefits the broader economy. SMBs which do not, however, remain more vulnerable to disruptions and are more at risk of closing. For millions of SMBs not yet digitally-driven, that status is within reach with the right mindset, digital strategy, access to world-class digital tools and innovation, and training.

The digital transformation and success of the approximately 30 million total SMBs in the U.S. today is ultimately beneficial for consumers, individual countries, and the continent as a whole. Of these, roughly 18M are either Evolving or Uncertain SMBs, so there is considerable room for further transformation. And because we know that Advanced SMBs on average have better sales, revenue, customer retention and growth, and hire more employees, the continued evolution of America's SMBs will ultimately result in economic growth at the local and national level, translating into millions of dollars and thousands of jobs.

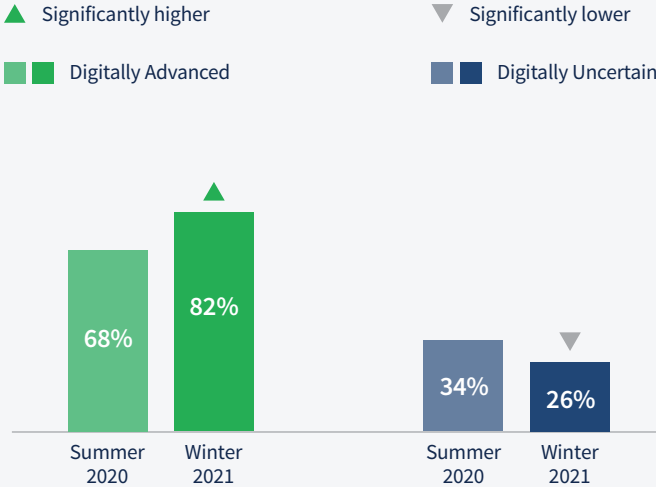
Unfortunately, millions of Uncertain SMBs are at risk of permanently falling behind. Since our previous survey in Summer 2020, on average they have made little progress toward being more digitally driven. By one metric, whether digital tools are more helpful in running their businesses, the gap between Advanced and Uncertain SMB leaders has grown from 34% last summer to 56% now - a 22% increase in just 8 months. There are numerous other indicators described in the main report.

Uncertain SMB leaders find themselves at a "Digital Crossroads" in which many of them know about digital tools, have tried them, and want to learn more about them, but have major concerns about cost, return on investment, their knowledge base, and that the tools ultimately won't help their businesses in the end. This report contains a number of recommendations for policymakers and technology companies that can help support the America's most vulnerable small businesses.

The digital gap between Advanced and Uncertain SMBs has grown over the last 8 months:



Digital Tools Are More Helpful Running My Business Now vs. Pre-Pandemic



Digital Tools Create a Safety Net For American Businesses

SMB leaders should be empowered to access, understand, and use digital tools to maximize the sustainability of their businesses and the total SMB economic impact.

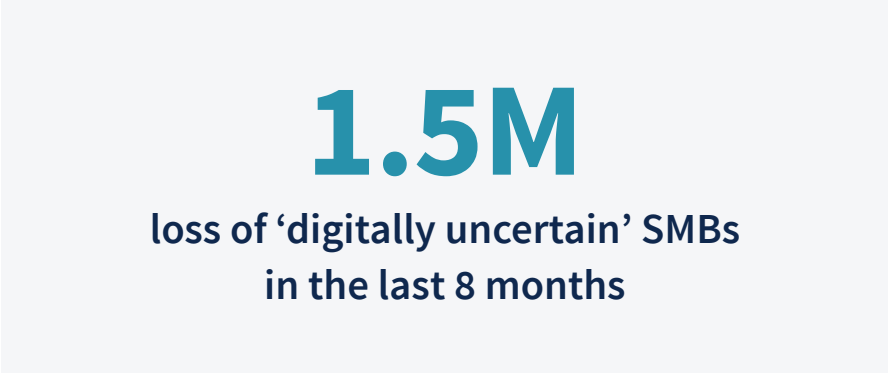
Those SMBs taking full advantage of the Digital Safety Net realized decidedly better business results. For those who didn't, on average they saw worse results financially and operationally. But a subset of those saw something even worse: total business failure.

By comparing the profiles of SMBs surveyed last summer and now, we can infer that 5% of SMBs - approximately 1.5 million businesses - that were not digitally advanced closed during the last 8 months. This dramatic metric demonstrates that not only does using tools confer financial and operational advantages, but also that not using digital tools, or not using them well enough, is a risk factor for SMB failure.

We know that digital tools improve economic outcomes overall, as well as financial and operational outcomes for SMBs. Both technology companies and policymakers therefore have a responsibility to ensure that SMBs have access to digital tools, understand their value for business strategy, and can easily train their employees to use them properly. We are living in a 'new normal' and SMBs are never going back to operating in a less digitally-driven world. In this new world, digitally-driven business is just business as usual. But key stakeholders have to make sure everyone can get to that place.

All stakeholders need to do their part to ensure that SMBs are aware of, have access to, and can operationalize digital tools. In particular, a key goal of economic and small business policy must be to convert "digitally uncertain" SMBs into "digitally advanced" ones, which requires helping them overcome doubts about their own knowledge, cost and return on investment, and regulatory risk (e.g., data privacy and protection).

Policymakers should act to maximize the resilience of the SMB community across the U.S., with particular attention to sole owner/operators (i.e., SMBs with just one person) plus POC and women entrepreneurs. Meanwhile, technology companies should help SMB leaders to understand the value of different types of digital tools they offer and how those tools can fit into a holistic business strategy. They should also make efforts to empower SMB leaders, many of whom are first-time entrepreneurs and treat them as important partners and stakeholders (vs. customers).



Top Recommendations To Enhance the Digital Safety Net for SMBs in the U.S.

→ For Policymakers

Access to capital and infrastructure:

Governments can play a role as a financial safety net for self-employed citizens and entrepreneurs during tough economic times. If SMBs lack the basics, including secure and sustainable digital infrastructure, innovation becomes impossible. Create and make available grants, loans, public-private partnerships, or other programs to support the smallest plus POC- and women-led SMBs which tend to face more disadvantages than other SMBs.

Access to training: Support inclusive access to training for SMB leaders and employees at all levels of digital experience, mindful that entrepreneurs are incredibly diverse (nation, age, gender, race, and ability) and may take different paths toward becoming digital citizens. Such free platform-agnostic training should help SMBs understand and measure their return on investment. This is particularly important for early-stage entrepreneurs and digital novices.

→ For Tech Companies

Access to tools: Companies can support SMB leaders by helping them understand which digital tools make sense for their business, how to make the most of free tools, and how to ensure success and measure return on their investment. They should also continue investing in research and development to create new low-cost tools for SMBs. Companies should identify new ways to engage SMB leaders - especially new entrepreneurs and those running tiny businesses - to grow awareness of the value of both free and paid digital tools, identify the right tools for SMB needs, how tools support a business strategy, and provide personalized tool recommendations.

Access to training: Companies should offer inclusive training on digital tools, both at the introductory and advanced levels. Such training should include how different companies' tools work together as part of a comprehensive digital strategy. Training should be specifically tailored for SMB owners, managers, and employees, with particular focus on the smallest and newest SMBs.

→ For SMB Leaders

Access to tools: This is a perfect opportunity for all SMB leaders to reset, pivot, and think big in order to evolve their businesses to match the digital expectations of a post-pandemic world. They should aspire to be skilled digital professionals - learning, experimenting with, and implementing digital tools as a part of their strategy. SMB leaders should identify gaps and opportunities within digital strategies, toolsets, and skills, based on their business's unique needs, and invest time in learning about tools before investing significant capital in them.

Access to training: SMB leaders, particularly new ones and those which are solo-run or POC- and women-led, should seek out educational opportunities - or empower a digital lead in the business that should lead efforts to do so - about digital business advantages, and should also learn about important regulations such as data privacy. Owners, managers, and employees should learn about the advantages and risks of digital tools, and be trained to maximize the advantages and manage compliance risk.

In-Depth Research Findings



Introduction

The Effects of the COVID-19 Pandemic on U.S. SMBs

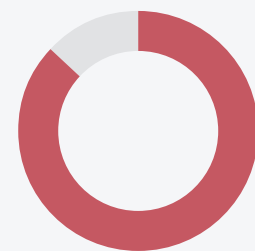
How the Pandemic Operationally and Financially Disrupted American SMBs

By any measure, the pandemic broadly disrupted SMBs throughout the U.S.

General health concerns, government-imposed lockdowns and restrictions, changes in consumer behavior and preferences, and a shift to more online commerce were all contributing factors to the disruption of American SMBs. 87% of the SMBs we surveyed reported being disrupted by the pandemic in some way. And while the situation has improved since the beginning of the pandemic, 36% of SMBs reported reduced hours, 21% reported supply chain problems, and 17% had to lay off employees.

This report only includes data from currently active SMBs, and not those which were temporarily or permanently closed. But even among SMBs that have stayed in business in the year since the pandemic began, the effects have been felt - many have closed physical locations, reduced their hours and services, and in many cases changed their offerings and even entire business models. These disruptions and changes had financial implications for SMBs. Compared to pre-pandemic figures, SMBs saw an average 17% decrease in revenue for the year.

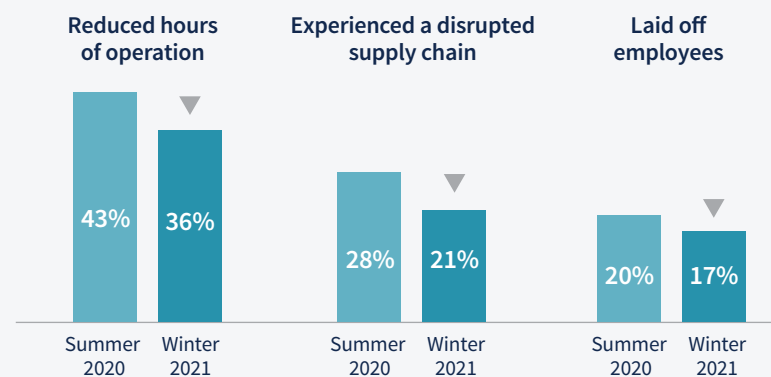
Larger SMBs fared better than the smallest ones. "Micro" SMBs with fewer than 20 employees saw their revenue drop over twice as much as the largest SMBs with 250-500 employees. And while Small and Medium SMBs tapped into public and private loans at somewhat higher rates, Solo and Micro SMBs - more likely to be run by a personally-invested owner/operator - relied on loans much less and tapped into their leaders' personal savings far more in order to access working capital to stay afloat.



87%
Disrupted by COVID-19
(vs. 93% 6 months ago)

How have the COVID-19 crisis and resulting restrictions affected your business?

▼ Significantly lower than other wave



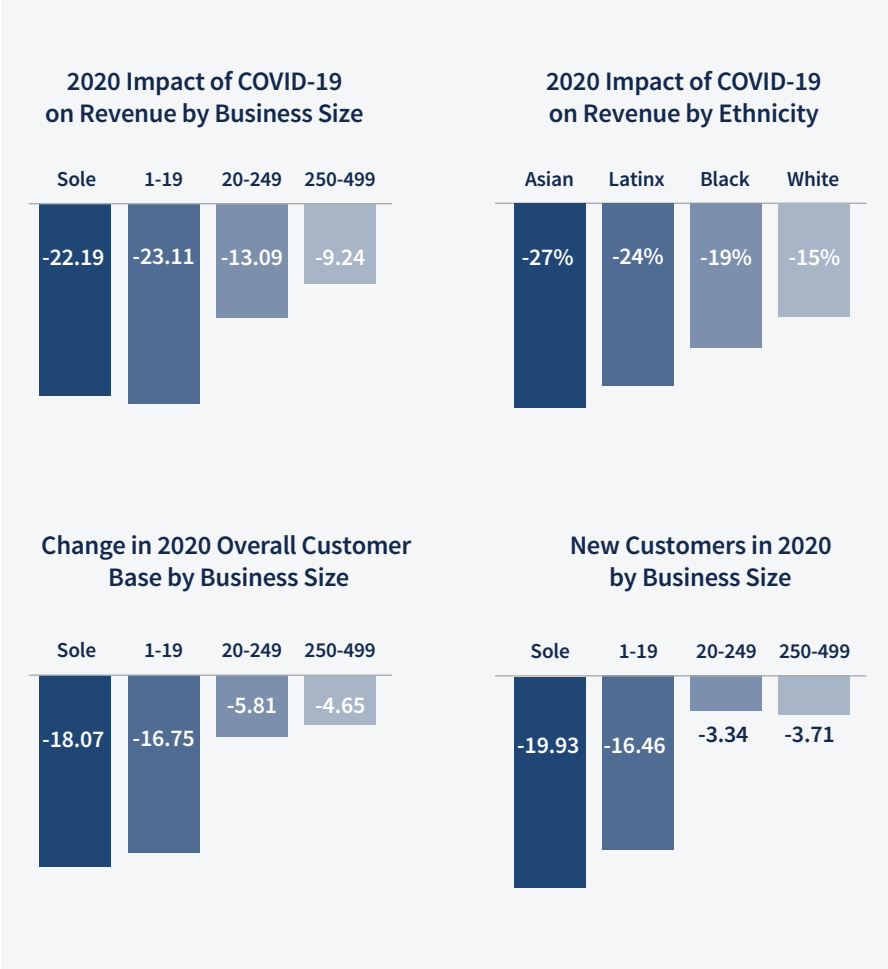
How the Pandemic Operationally and Financially Disrupted American SMBs

The COVID-19 pandemic especially disrupted the smallest SMBs, those with fewer than 20 employees and particularly solo owner/operator businesses.

While generally all SMBs were negatively affected by the pandemic, by segmenting our data by business size, it is clear that the smallest small businesses have suffered the most, on average.

SMBs under 20 employees saw 2020 revenue reductions of 22-23%, which is over twice the reduction of larger SMBs with 250-500 employees. This is logical, as larger businesses tend to have more resources, products, and the like making it easier for them to withstand a crisis, but it illustrates the tough position of the smallest businesses during the pandemic. We measured similar effects of business size on the ability to maintain current customers and acquire new customers. In particular, Solo SMBs saw 18% and 20% reductions, respectively, 4-5X worse than the largest SMBs.

Finally, SMB leaders of different races also report a spectrum of revenue reductions, with Asians faring worst (-27%), nearly twice as bad as White-led SMBs. While we were not able, due to sample limitations, to perform a complete Ethnicity x Business Size x Revenue analysis, no doubt tiny businesses run by people of certain ethnicities have been hit especially hard.



How the Pandemic Operationally and Financially Disrupted American SMBs

The smallest SMBs also had more difficulty accessing working capital for their businesses.

Access to capital, whether through incoming revenue or other sources, is the lifeblood of small businesses - without it, nothing else is possible. We asked SMB leaders about working capital and how they were able to obtain it. While slightly less than half of SMBs of all sizes reported being able to use incoming revenue, we noted other disparities across business size.

Smaller SMBs, and particularly Solo SMBs, did not obtain either public (e.g., PPP) or private loans at very high rates in general, or in comparison to larger SMBs. (We note that PPP loans were not immediately available to solo owner/operators earlier in the pandemic, but are now.)

In addition, a full 37% of Solo SMBs tapped into personal savings (presumably of the owner or co-owner) in order to access working capital for the business. This also happened across all business sizes to some extent, but the amount for Solo SMBs was about three times what it was for the largest SMBs of 250-500 people. No doubt this is because smaller businesses are more directly intertwined with their owners' personal finances and lives, whereas larger businesses are more likely to have more revenue and savings and a more formalized leadership structure.

We also note that in general, Asian- (54%) and Black-run SMBs (49%) had a harder time finding financial resources compared to White-run SMBs (41%). This again is a situation that only exacerbates more general challenges all SMBs face during the pandemic.

Sources of SMB Capital During the Pandemic – Overall and By Business Size

	Winter 2021				Overall average
	Sole	1-19	20-249	250-499	
My business' savings	26%	39%	38%	31%	34%
My personal savings	37%	26%	20%	12%	25%
Loans	19%	41%	53%	60%	42%
Public loans	13%	32%	39%	39%	30%
Private loans	8%	15%	24%	35%	18%

Part 1

Emergence and Establishment of the Digital Safety Net in the U.S.

U.S. SMBs Cluster By Their Perception and Use of Digital Tools For Business

The story of the Digital Safety Net is about how SMBs have been using digital tools for resilience, efficiency, and sustainability during the pandemic.

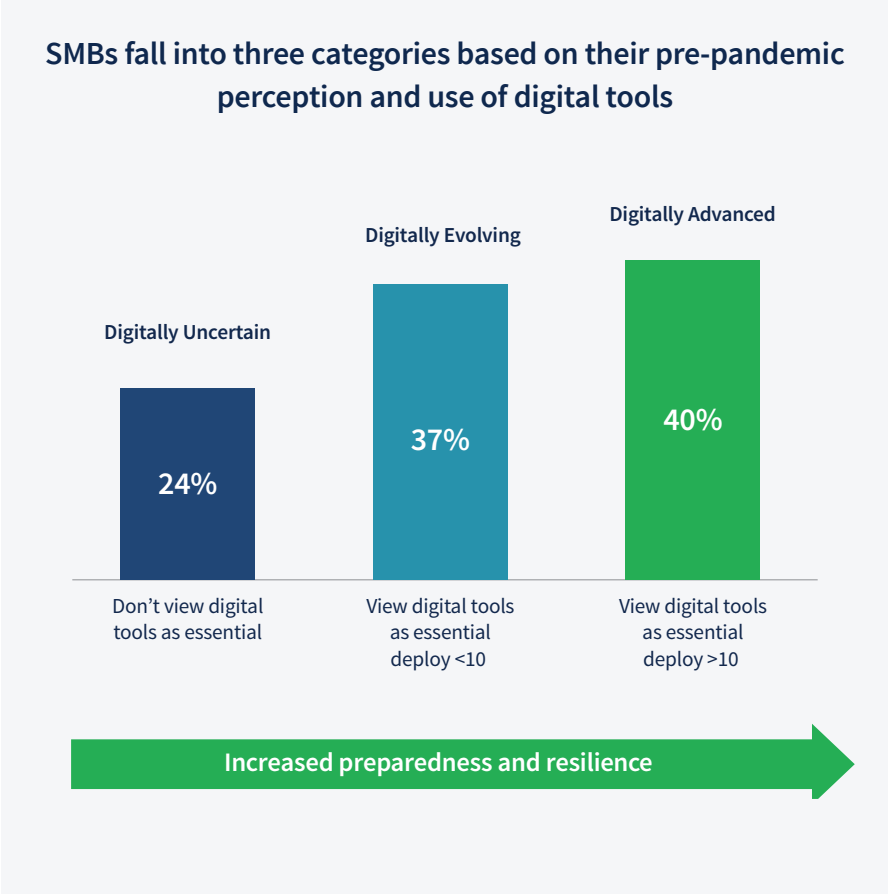
But this story has relevance beyond that, for future challenges large and small, and for competitive advantage during normal times. Based on how SMBs characterized the pre-pandemic importance of digital tools to their business operations, and their actual use of digital tools entering the pandemic, we classified them into three categories.

Digitally Advanced viewed tools as supporting or essential for their business and were already using 10+ of them (average of 12) entering the pandemic. Advanced SMBs are approximately 40% of the total.

Digitally Evolving mostly viewed tools as supporting or essential for their business, but were deploying <10 of them (average of 6) entering the pandemic. A smaller number actually used 10+ tools, but did not view them as important. Overall, these businesses recognize the importance of digital tools to a degree, but they aren't part of a strategy. Evolving SMBs make up approximately 37% of the total.

Digitally Uncertain viewed tools as having little to no importance prior to the pandemic, and were using few of them (average of 5). Uncertain SMBs make up approximately 24% of the total.

Contrasting the most divergent SMBs with regard to digital tools (i.e., Advanced vs. Uncertain) is informative and simple; thus, much of the analysis in this report utilizes this framework. However, our results are clearly applicable to the many Evolving SMBs that are in a transitional state.



A Digital Safety Net Helped SMBs Operationally and Financially During the Pandemic

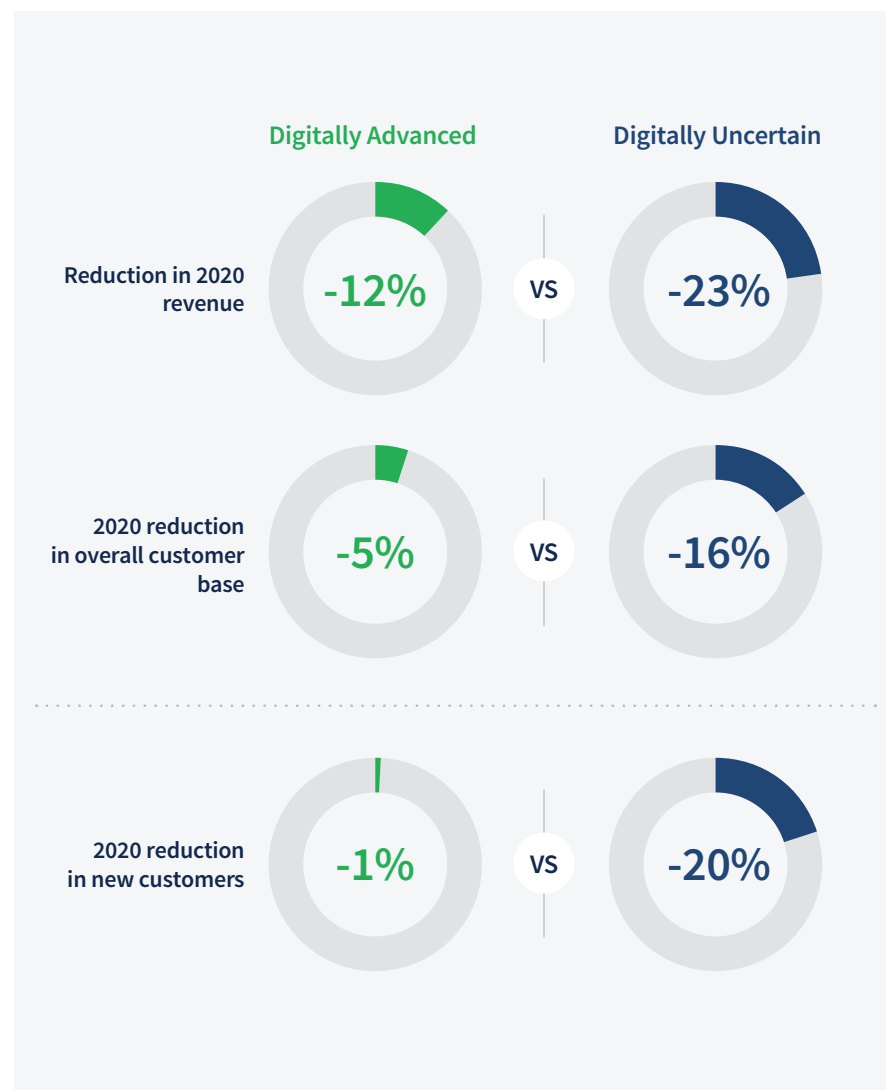
The most important thing to understand about the Digital Safety Net is whether and how digital tools have made an operational and financial impact on the SMBs who deploy them.

There are three types of metrics for this: (1) more sales and revenue; (2) better ability to retain customers and find new ones; and (3) job creation. Though both digitally Advanced SMBs and Uncertain SMBs saw general setbacks due to the pandemic, digitally Advanced SMBs excelled relative to Uncertain SMBs.

Working Capital: Financial metrics were down for SMBs during the pandemic. That said, Advanced SMBs reported 1.9X better revenue outcomes (-12 vs. -23%) and 2X better sales outcomes (-11 vs. -22%) than Uncertain SMBs. (We note that in this report we will use revenue as the standard Digital Safety Net metric.)

Customer Engagement: Advanced SMBs were both 3.2X more successful at retaining customers (-5 vs. -16%), and a remarkable 20X better at obtaining new customers (-1 vs. -20%).

Job Creation: Advanced SMBs were twice as likely (2X) to have hired any new employees (10% vs. 5%) and when they did, they hired 5X as many employees as Uncertain SMBs during the pandemic (1.93 vs. 0.38). Advanced SMBs are also 2.4X as likely as Uncertain SMBs to plan to make new hires in 2021 (88% vs. 36%). (Note that this metric by definition excludes SMBs run by a sole owner/operator.)

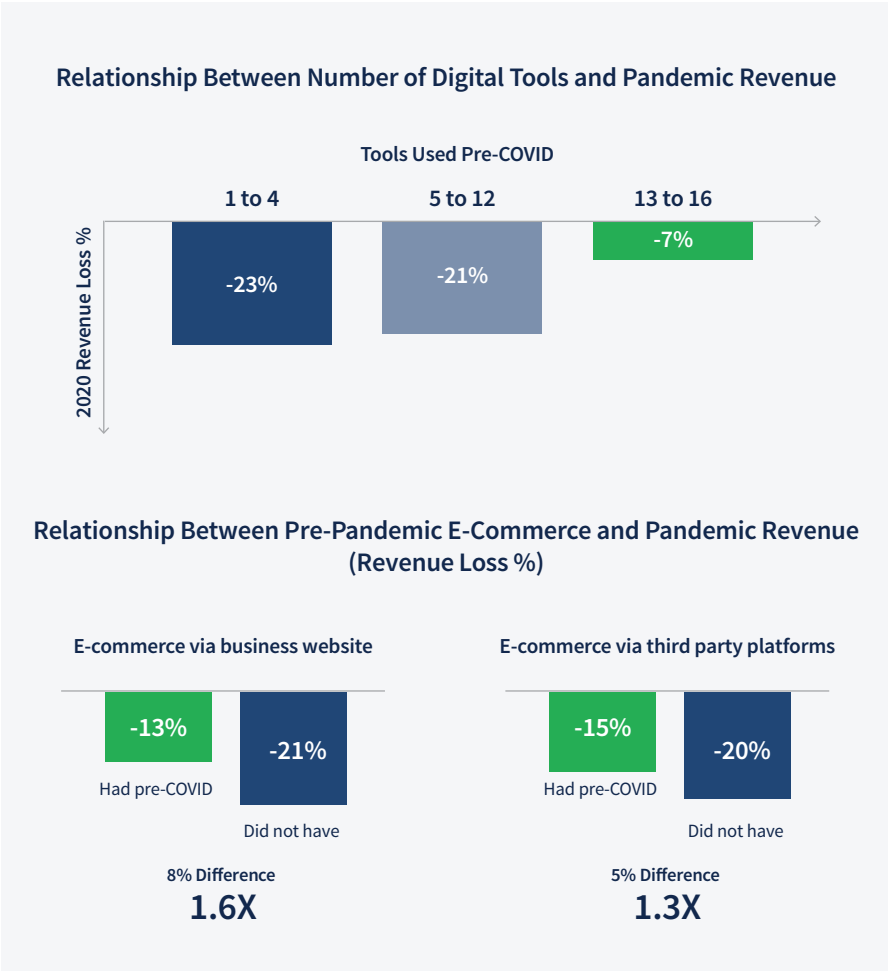


SMBs Entering the Pandemic Using E-commerce Experienced Better Financial Outcomes

If SMBs that use more digital tools perform better operationally and financially, exactly which kinds of digital tools are important?

The main difference between Advanced SMBs and both Evolving and Uncertain ones is the number of digital tools used, where Advanced SMBs use at least 10 and the others <10. In a separate analysis (not shown) we discovered that by looking at the number of tools alone, SMBs using <13 digital tools show revenue reduction of over 20%, whereas those using 13-16 kinds of tools show revenue loss of only 7%. (We measured 16 categories of tools. See following page.)

First, because e-commerce is an obvious way to drive revenue, we investigated whether it was an important driver of competitive advantage during the pandemic. We found that both e-commerce on a SMB's website and conducted via third party platforms conferred advantage during the pandemic.



SMBs Utilizing Digital Tools in Combination Pre-Pandemic Had Better Financial Outcomes

E-commerce via SMB business websites was an important driver of competitive advantage during the pandemic - but not the only one - so we looked to other categories of digital tools.

In total, our survey asked SMB leaders about 16 categories of digital tools, hypothesizing that some combination of these account for revenue differences between Advanced and Uncertain SMBs.

Indeed, this analysis found that, besides digital tools underlying website e-commerce, SMBs using 10 additional kinds of tools entering the pandemic realized a 5-11% positive difference in revenue outcomes than those not using those tools. Interestingly, the digital tools conveying the most advantage to Advanced SMBs fit into three groups mainly related to creating extra value through optimizing digital and business assets:

- **Talent:** Hiring, training, and collaborating with people
- **Analytics:** Gathering insights, measuring success, and optimizing
- **Selling:** E-commerce sales via SMB websites

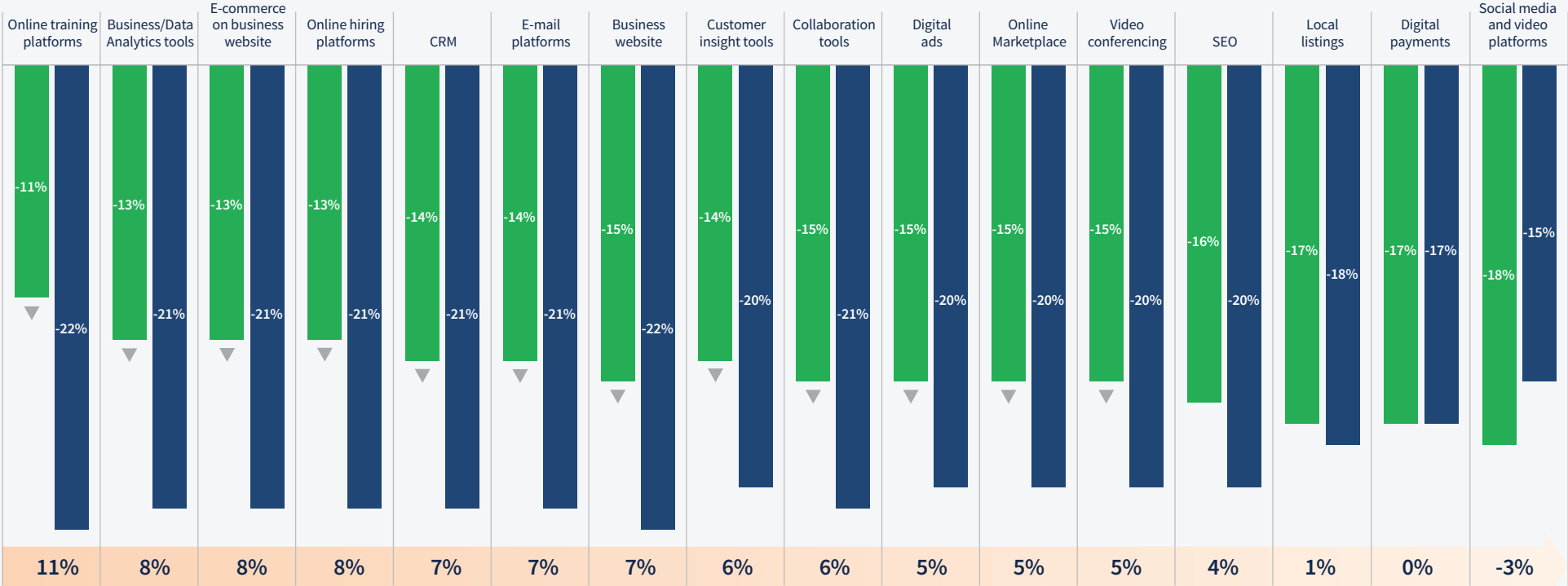
Generally, we can conclude that, when the pandemic began, SMBs already utilizing some or all of these types of digital tools had created a competitive advantage in a more challenging market, and probably pulled ahead of competitors who initially spent significant time researching, training on, and implementing such tools.



SMBs Utilizing Digital Tools in Combination Pre-Pandemic Had Better Financial Outcomes

Relationship Between Pre-Pandemic E-Commerce and Pandemic Revenue

▼ Significantly lower at 95% CI ■ Used pre-COVID ■ Didn't use pre-COVID



Gap

SMBs Utilizing Particular Digital Tools Pre-Pandemic Had Better Financial Outcomes

Advanced SMBs generally used digital tools more, and saw better outcomes - but is that because they used particular tools conferring competitive advantage more?

Advanced SMBs were using about twice as many digital tools as Uncertain SMBs prior to the pandemic, but that analysis assumes all tools are essentially alike. Since it appears that they are not, we investigated the differences between Advanced and Uncertain SMBs tool by tool.

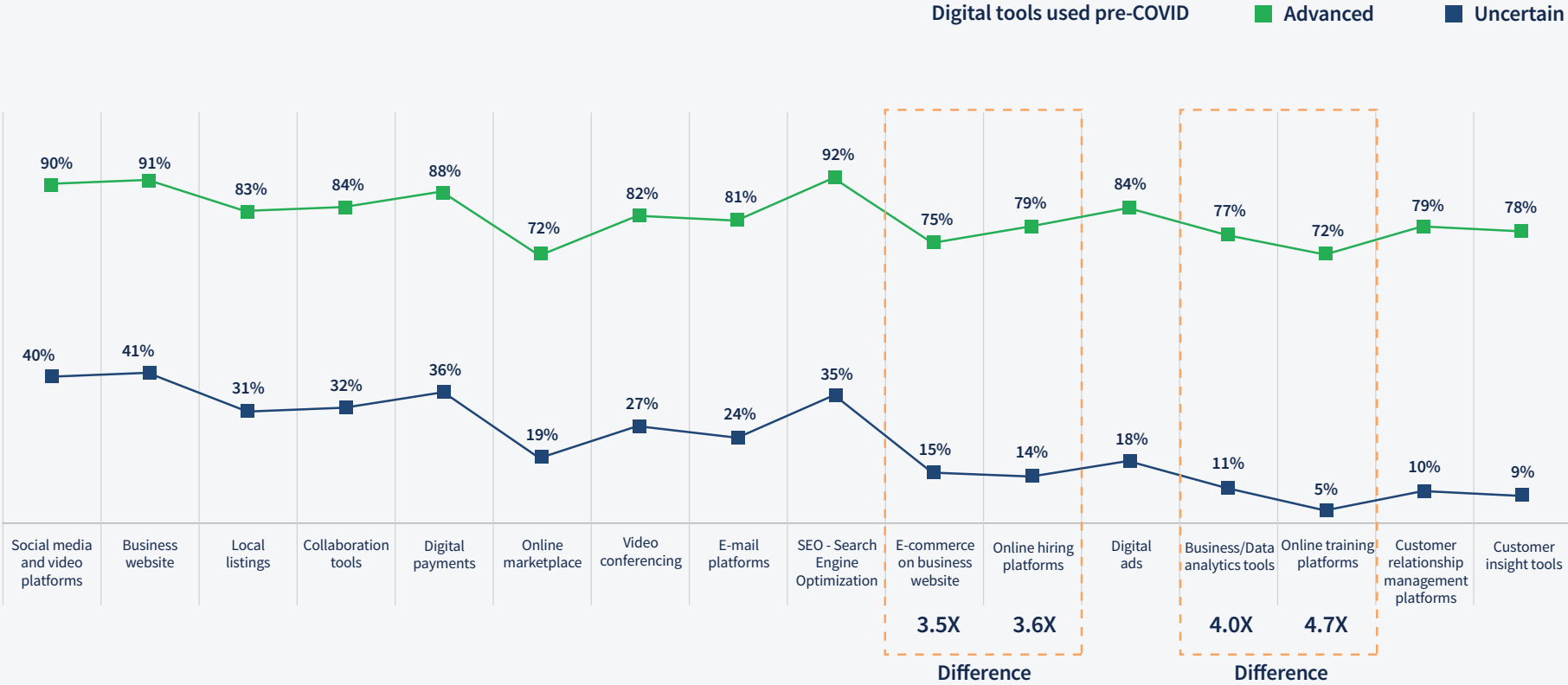
First, not surprisingly, Advanced SMBs were using every type of digital tool we asked about more than their Uncertain counterparts. Further, the differences are substantial, ranging from 2.25X (using social media and video platforms) to 8.7X (using customer insights tools). Not one category of digital tool was used by a majority of Uncertain SMBs prior to the pandemic.

Second, and more importantly, Advanced SMBs excelled at using the digital tools that confer the most advantage. For the categories of digital tools that conferred the very most revenue advantage (see orange asterisks on graph), Advanced SMBs were using them 5-14X as much as Uncertain ones. This means that there is not only a digital divide, but by using the most valuable tools such as online training platforms, business/data analytics tools, and website e-commerce more, Advanced SMBs create a positive feedback loop that gives them greater advantage over time.



SMBs Utilizing Particular Digital Tools Pre-Pandemic Had Better Financial Outcomes

Pre-Pandemic Digital Tool Use By Advanced and Uncertain SMBs



Part 2

The New Normal and Growing Divide of Digitally-Driven SMBs

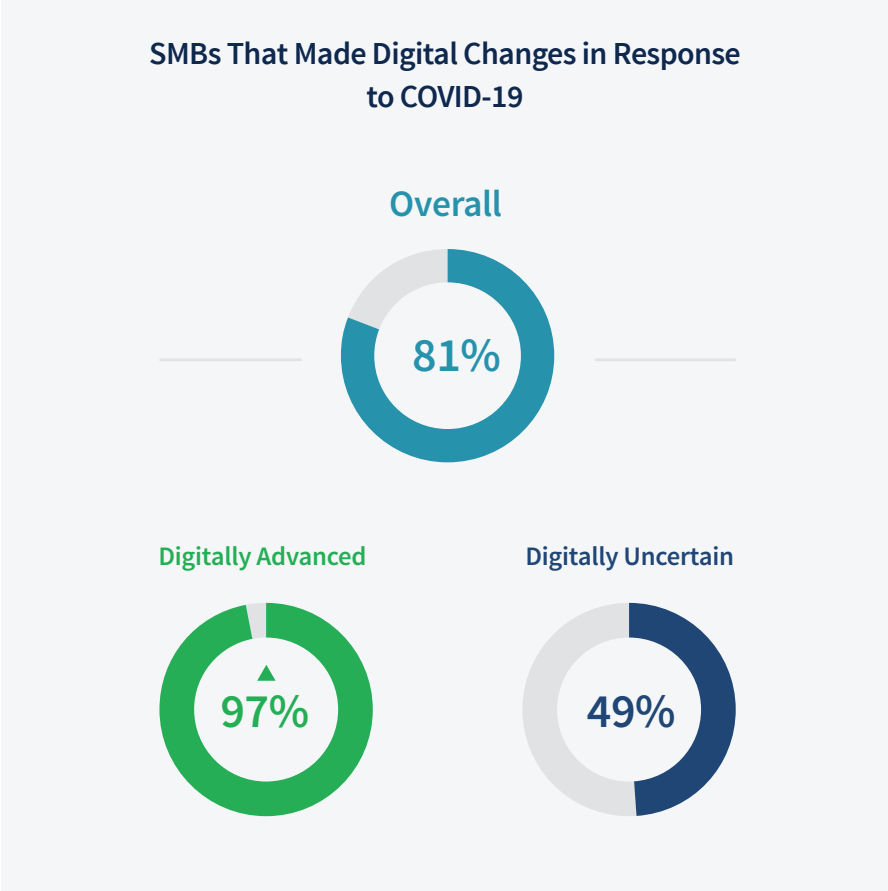
Digitally-Driven SMBs Are Adapting Faster To the Uncertainty Generated By the Pandemic

While, in the aggregate, most businesses adapted digitally during COVID, Digitally Advanced businesses did so at double the rate of Digitally Uncertain ones.

Advanced and Uncertain SMBs, by definition, began the pandemic with different digital tool use and prioritization. However, once the pandemic began, Uncertain SMBs could have more highly prioritized digital tools and evolved faster to catch up to their more digital peers. However, this does not appear to have occurred based on a number of metrics presented on the following pages.

We start with a generic metric. By looking at an aggregate measure of possible “digital changes” SMBs could have made in their businesses, we found that 81% of SMBs overall made at least one change since the start of the pandemic. By itself, this number is a remarkable barometer of the digital evolution of SMBs in the U.S during the past year or so.

However, when comparing the Advanced and Uncertain groups of SMBs, we found a wide disparity between them. Nearly all (97%) of Advanced SMBs have made digital changes to their businesses since the start of the pandemic (16% above the average), whereas only half (49%) of Uncertain SMBs have. In other words, about twice as many Advanced SMBs as Uncertain ones have digitally evolved since the pandemic began.



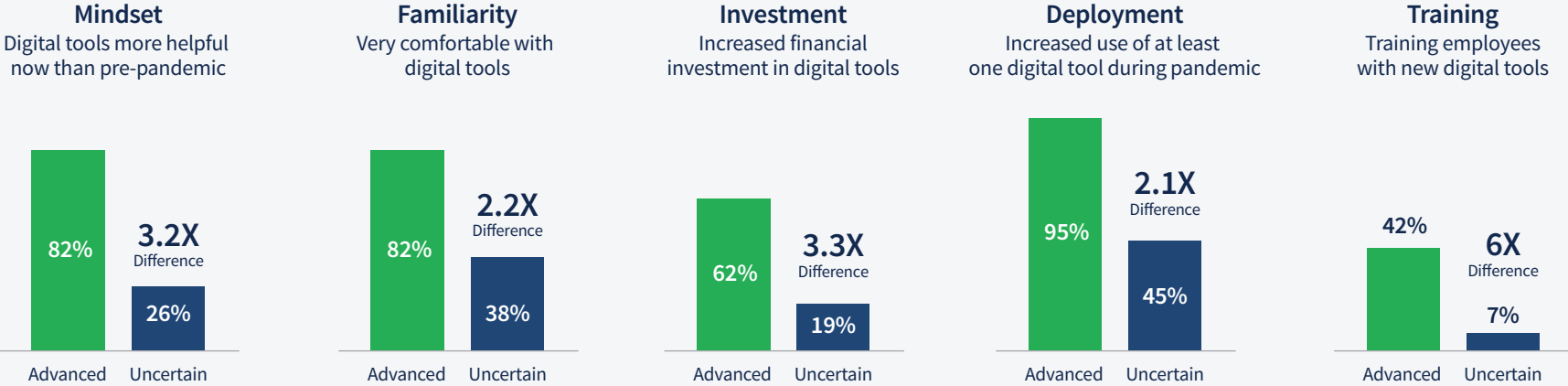
Digitally-Driven SMBs Are Adapting the Pandemic's Uncertainty By Every Metric

Pre-pandemic digital tool use is a strong indicator of SMB success - but how has SMB digital tool use evolved during the pandemic?

A significant gap exists between groups of SMBs in both pre-pandemic digital preparedness and their success during the pandemic. However, we also know that the pandemic was a shock that forced SMBs to change many aspects of their businesses. Have they changed their attitudes or priorities about or use of digital tools?

Overall, the broad majority of SMBs made digital changes during the pandemic, demonstrating the broad application and value of digital tools. Underlying this are three possibilities: Advanced and Uncertain SMBs have increased their use at the same rate; Uncertain SMBs are closing the gap; Advanced SMBs are increasing the divide. Here we show that Uncertain SMBs have not closed the gap, and that Advanced SMBs accelerated the digital divide between the groups.

Higher Pre-Pandemic Digital Tool Usage Is Correlated With 'Digital Acceleration' During the Pandemic



Digitally-Driven SMBs Are Adapting the Pandemic's Uncertainty By Every Metric

Mindset: Advanced SMBs are more than three times as likely to describe digital tools as being more helpful to their businesses now than pre-pandemic.

Familiarity: Advanced SMBs are more than twice as likely to describe themselves as very comfortable with digital tools.

Investment: Advanced SMBs are more than three times as likely to have increased their investment in both digital tools and employee training.

Deployment: Advanced SMBs are 2.1X more likely to have increased their use of at least one digital tool during the pandemic. Virtually all (95%) of Advanced SMBs increased their use of at least one kind of tool, in fact.

Training: Advanced SMBs are 6X more likely to be interested in training their employees with new digital tools. Almost no (7%) of Uncertain SMB leaders feel this way.



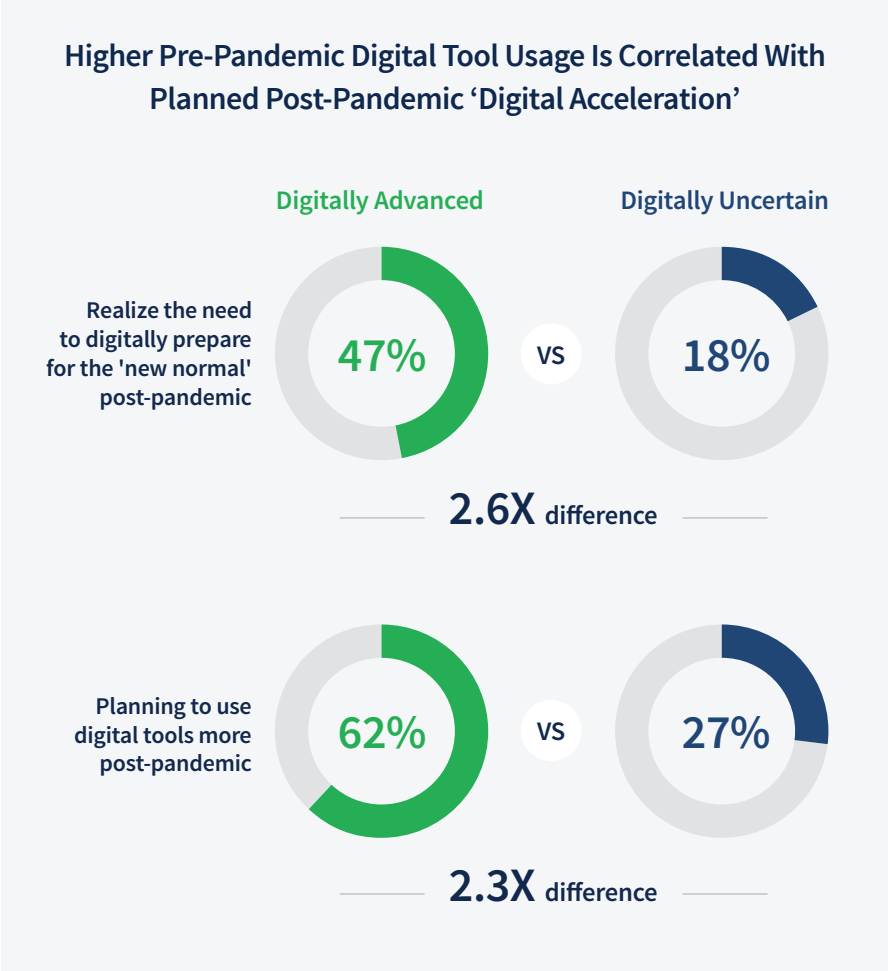
SMBs Are Generally Optimistic About the Future, With Digitally-Driven Ones Leading the Way

96% of SMB leaders believe their business will fully recover from the effects of the pandemic after it ends, with 74% believing that will be within one year and 51% within six months.

We took a deeper look at forward-leaning indicators of SMB digital tool use to understand their confidence. In addition to already doing better up until now, we found that Advanced SMBs are more optimistic about, and are planning better for, a digitally-driven future.

Mindset: Advanced SMBs are 2.6X as likely as Uncertain ones to have realized the need to digitally prepare their business for a 'new normal' post-pandemic. Only 18% of Uncertain SMBs are preparing for a more digitally-driven business future.

Deployment: Advanced SMBs are 2.3X more likely to report that they are planning to use digital tools more post-pandemic.



The Digital Gap Between Advanced and Uncertain SMBs Appears To Be Widening

The digital gap between Advanced and Uncertain SMBs has widened in the 8 months since summer 2020.

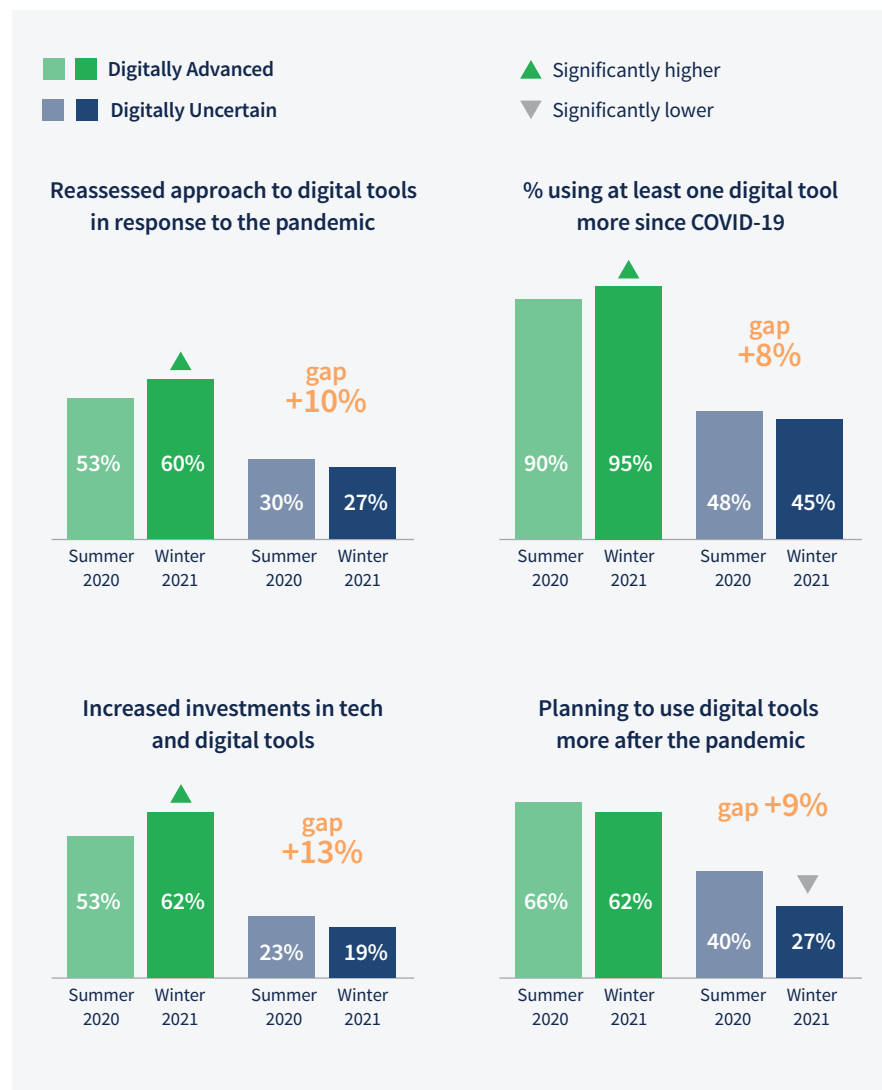
By comparing our first survey data collected May 28-July 3, 2020 (Survey 1) with this updated survey conducted from Feb 17-Mar 11, 2021 (Survey 2), we can look for significant differences within SMB digital segments over time, which in turn can indicate whether Advanced and Uncertain SMBs are becoming more similar or more different during the pandemic. We found they are becoming more different - a negative trendline heading into a more digitally-driven world.

Approach to digital tools: Since Summer 2020, roughly 7% more Advanced SMBs have reassessed their approach to digital tools, a significant increase. And while not statistically significant, Uncertain SMBs have slightly lower levels (-3%).

Using more digital tools: While 90% of Advanced SMBs were already using at least one more digital tool between the start of the pandemic and last summer, an even higher percentage (95%) are now - a significant difference. While not statistically significant, fewer Uncertain SMBs reported using at least one new digital tool than they did last year (-3%).

Increased investment in digital tools: Since last summer, 9% more Advanced SMBs have increased their financial investment in digital tools. The percentage of Uncertain SMBs who did so decreased by 4%. This is a major increase in the gap that may have taken longer to manifest due to the more serious nature of making purchases versus just experimenting.

Planning to use more digital tools post-pandemic: Here we see the opposite pattern, where Advanced SMBs have slightly lower but not significantly lower levels (-4%) but Uncertain SMBs are significantly lower, with 13% less reporting this than last summer, which may indicate that they are discouraged or choosing not to adopt digital tools.



The Digital Gap Between Advanced and Uncertain SMBs Appears To Be Widening

The digital gap between Advanced and Uncertain SMBs has widened in the 8 months since summer 2020.

Digital tools help run my business: Since Summer 2020, the gap between Advanced and Uncertain SMBs for measuring whether they believe digital tools have been more helpful post- vs. pre-pandemic has significantly widened, with +14% Advanced and -8% Uncertain feeling that digital tools are more helpful during the pandemic than before it. This already sizable gap increased from 35% to 56% in only 8 months.

Digital tools help my business retain customers: The percentage of Advanced SMBs who feel digital tools help retain customers significantly increased 6%, while Uncertain fell 5%.

Digital tools help my business navigate regulations: Here, the percentage of Advanced SMBs who feel that digital tools help navigate a changing regulatory environment significantly increased 8%, while Uncertain levels fell 2%.

Digital tools help my business hire new staff: Finally, 7% more Advanced SMBs reported that they view digital tools as helpful for hiring new employees, but Uncertain SMBs stayed at the same level.

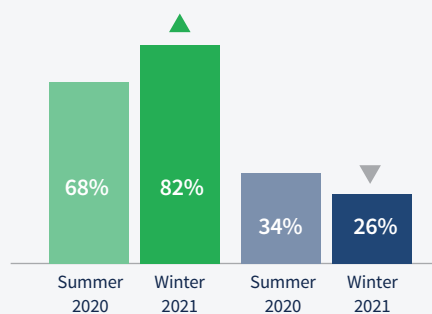
Uncertain SMB leaders are at risk of falling permanently behind in a New Normal and find themselves at a “Digital Crossroads” in which many of them know about digital tools, have tried them, and want to learn more about them, but have major concerns about cost, return on investment, their knowledge base, and that the tools ultimately won’t help their businesses in the end.

This gap has widened 22% (from 34% to 56%) in just 8 months:

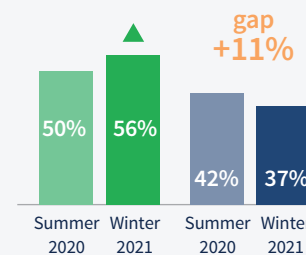
■ Digitally Advanced
■ Digitally Uncertain

▲ Significantly higher
▼ Significantly lower

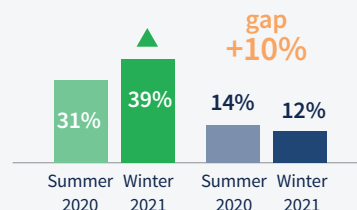
Digital Tools Are More Helpful Running My Business Now vs. Pre-Pandemic



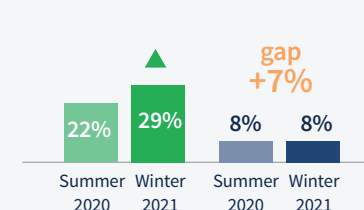
Digital Tools Currently Help With: Keep existing customers



Digital Tools Currently Help With: Navigate the changing regulatory environment



Digital Tools Currently Help With: Hire new staff



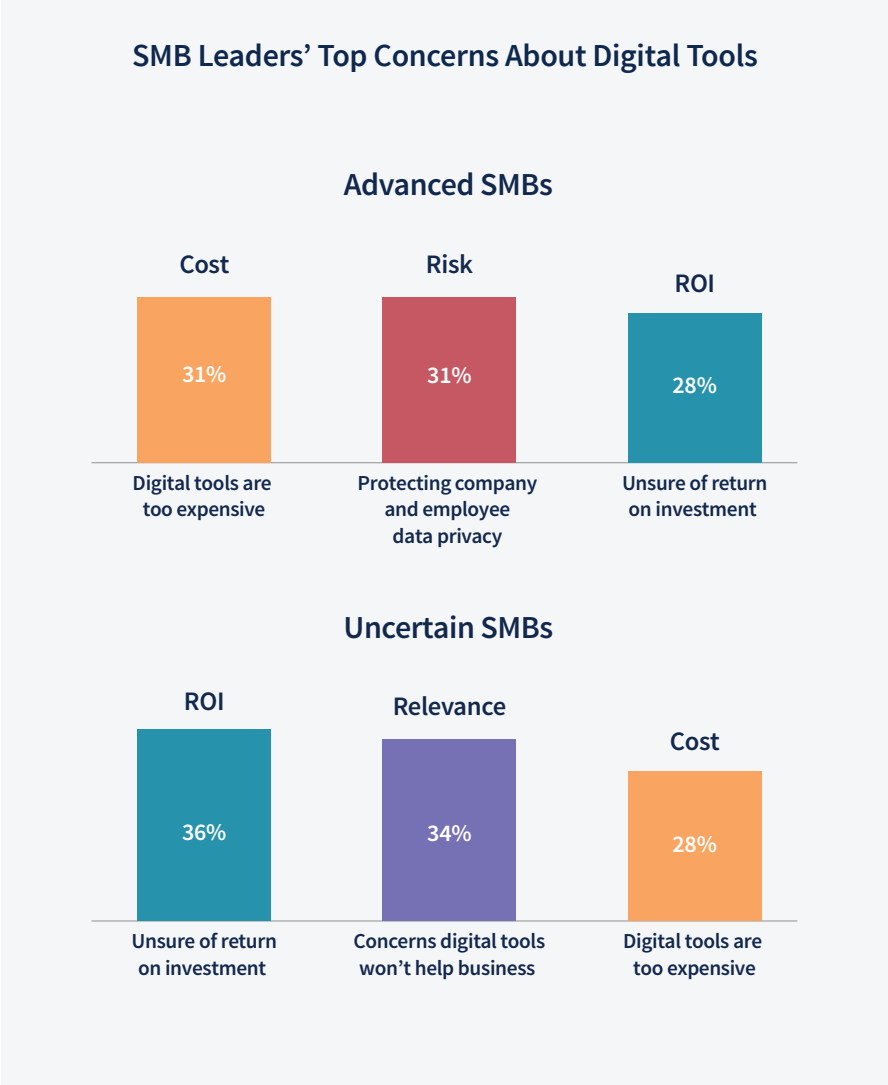
SMBs Have Concerns About Digital Tools, and Want To Learn More About Them

Since many SMBs are not fully digitally prepared and are still learning about and adopting new tools, we investigated what common impediments prevent them from using digital tools more in their businesses.

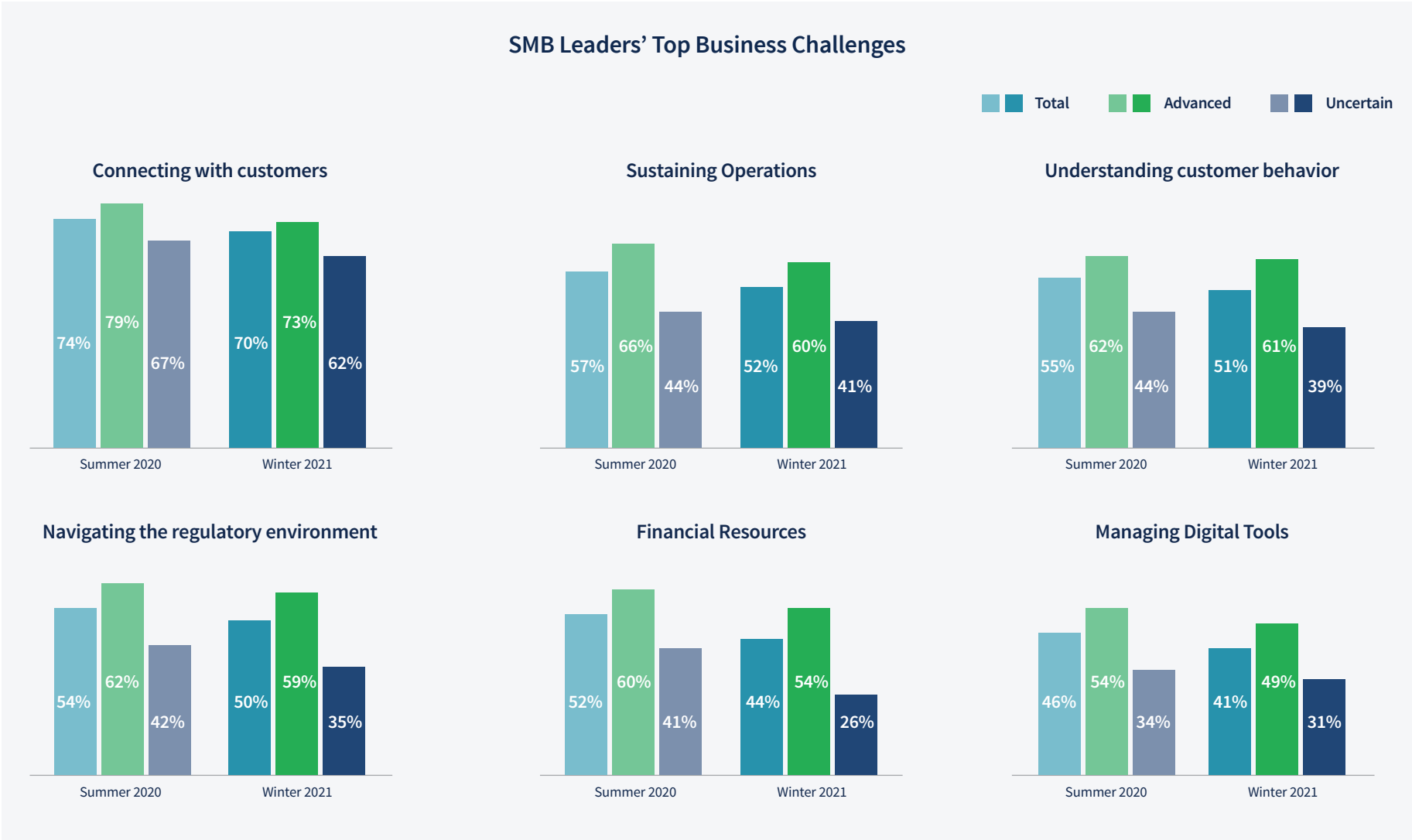
One year into the pandemic, most SMBs know, or have begun to realize, that the future of business is digitally-driven, and they are already learning about and deploying new digital tools against their highest business priorities: connecting with customers (70% overall average); sustaining business operations (52%); understanding customer behavior (51%); navigating regulations (50%); financial resources/access to capital (44%); and managing digital tools (41%).

While digital tools can help with all of these objectives, SMB leaders also have numerous concerns about them: they are unsure of return on investment (31%); worried about the cost (30%); concerned that digital tools won't help their business (25%); think they lack skills and knowledge (23%); and concerned about protecting employee/customer data privacy (22%). The concerns of Advanced and Uncertain SMBs somewhat differ. Interestingly, Advanced SMBs have cost and privacy as higher priorities, perhaps as they deal with more sophisticated tools and more customer data. Uncertain SMBs are more concerned about the return on investment and whether digital tools will actually help their business.

Importantly, a majority (61%) of all SMB leaders are interested to learn more about digital tools for their business, and 69% of SMB leaders reported that digital tool literacy is important for new hires (for some job functions like IT and marketing, that figure is even higher). For such training, SMB leaders prefer step-by-step video tutorials (35% of SMBs); 1:1 consultations (32%); case studies (30%); webinars/livestreams (30%); and, when available, in-person classes (30%).



SMBs Have Concerns About Digital Tools, and Want To Learn More About Them



Discussion & Conclusions

During the Past Year, Digital Transformation Became Digital Urgency For SMBs

Everyone is now living in the “New Normal” - we are simply not going back to a less-digital world.

During the early stage of the pandemic in 2020, society realized a decade’s worth of digital transformation. The urgency for everyone to innovate and transform is real, and practically required for future success. Those SMB leaders who have not already begun to rethink everything they do need to start now, including:

- Hiring, training, and collaborating with employees
- Finding, connecting with, and understanding customers
- Selling products and services, and creating new ones
- Analyzing business data and measuring results

As described in this report, a suite of digital tools can help SMBs with all of the above and more. Success for SMBs can now be defined as:

SMB Success = Agility + Efficiency + Digitally Driven Revenue

The business value of digital tools changes in different environments. During times of crisis, digital tools act as a Digital Safety Net for SMBs. They can keep employees in touch, help find new customers, sell products in different ways, and so on. During normal business times, digital tools act as a ‘bridge’ to fill gaps that SMBs may have. And in competitive situations, smarter deployment of digital tools can multiply efforts and make an SMB more agile, more efficient, and better able to compete for talent, customers, and sales.



Widespread SMB Access To Digital Tools Enables Transformation, Innovation, and Resilience

While there is more to be learned about how specific digital tools help to drive SMB competitive advantage, one thing is clear - access to world-class digital tools clearly provided a Digital Safety Net for small businesses throughout the U.S.

Equally, a reduction in access to digital tools in a digitally-driven global economy would decrease SMB revenue, job creation, and overall transformation and innovation, which would in turn have cumulative effects on national economies. We also found evidence that a large number of SMBs using digital tools less or inefficiently went out of business since last summer. Policies that inhibit SMB access to digital tools would have clearly have negative consequences.

More importantly, however, policymakers should cultivate a regulatory environment that nurtures SMB access to world-class digital tools and transformation and creates a higher level of digital innovation in the economy to foster competition, increase small business growth, and enhance the wide-ranging benefits to consumers not just in the U.S., but across the global economy.



Closing the Growing Digital Divide Between ‘Advanced’ and ‘Uncertain’ SMBs

A major conclusion of this research is that the gap between Advanced and Uncertain SMBs is largely attributable to a lack of “digital optimization” in the business.

What is the actual cause of the digital divide between Advanced and Uncertain SMBs? While we cannot fully answer this question, we suggest an interpretation rooted in our findings.

Uncertain SMBs are aware of digital tools - they used an average of five of them even before the pandemic, and during the pandemic their digital tool use increased. They have also thought through various challenges or risks of using them, such as the cost and return on investment. Finally, many SMB leaders say they would like to learn more about digital tools. They face a Digital Crossroads of sorts in which they are delaying a major decision about whether to make their businesses more digitally driven.

Related to this, Advanced SMBs appear to excel at optimization - that is, using certain kinds of digital tools to optimize their use of other tools and their business as a whole. For example, implementing e-commerce tools on a business website makes the website itself more valuable for driving revenue. Using data analytics to understand paid ad spend makes the ads more cost-effective for attracting new customers to a business website. Together, this has an exponential impact on a SMB.

Policies, plans, and programs to assist SMBs who lag in this regard should have a particular focus on solving for this SMB digital gap. What Advanced SMBs appear to excel at, and where other SMBs need help the most, is making the strategic decision to aggressively innovate and adapt to an increasingly digitally-driven world.



Closing the SMB Digital Divide Would Have Broadly Positive Economic Implications

The digital transformation and success of the approximately 30 million SMBs across the U.S. is, ultimately, success for consumers, workers, and the country as a whole.

Based on our research findings and government data on SMBs, there are approximately 12 million Advanced, 11.1 million Evolving, and 7.2 million Uncertain SMBs in the U.S. right now. For the millions of SMBs who are not yet digitally-driven, that status is within reach for them with the right mindset, digital strategy, access to digital tools, training, and hard work.

Because there are roughly 18 million SMBs we have classified as either Evolving or Uncertain, there is considerable room for further transformation. And because we know that Advanced SMBs on average have better sales, revenue, customer retention and growth, and hire more employees, the continued evolution of America's SMBs will ultimately result in economic growth at the local and national level, translating into millions of dollars and thousands of jobs.



How the SMB Community in the U.S. Moves Forward From the COVID-19 Pandemic

The pandemic has been an economic and societal shock to not only SMBs in the U.S. but to everyone around the world. Ultimately, the lessons learned from the research presented in this report at the intersection of digital tools and small business will be useful for future shocks as well.

American SMBs have been, and to some degree still are, devastated by the effects of the pandemic. While there is a patchwork of regulations state-by-state and even at the city level, at the time of publication many places still have restrictions in place that inhibit business operations. It is also important to remember that the research detailed in this report was conducted only with SMBs which were operational at the time (and willing and able to participate). It is important not to forget how many SMBs have permanently and temporarily closed as well as those who are on their last dollar, customer, or employee and not sure what the future holds for them.

Despite everything, many SMBs will bounce back from the effects of the pandemic, in one form or another, some by utilizing the Digital Safety Net we've explored in this report. In fact, a majority of SMB leaders were optimistic that they would be back to normal business within a year. And other entrepreneurs knocked down by the pandemic will start a new business in the future. They all can take the findings and recommendations in this report and use them in practical ways.

To achieve the vision of a digitally transformed and more resilient U.S., technology companies, policymakers, and SMB leaders must focus on eliminating barriers and creating systems that support greater digital adoption. Through better education, increased access and funding and financial incentives, the public and private sectors can help small businesses recover faster, while increasing the reach and effectiveness of the Digitally Safety Net in the future.



Methodology, References, & Acknowledgements

Methodology

→ Research Survey Approach

The results presented here are based on a quantitative research survey of 2,037 U.S. small and medium-sized business (SMB) leaders across a variety of business sizes and industries conducted from Feb 17–Mar 11, 2021. It is important to note that in order to be included in the study, SMBs had to be in business at the time of the research (i.e., operational); thus, businesses that closed during the pandemic were not included in our work.

SMBs are defined as businesses of 0–500 employees. Of the 2,037 SMBs surveyed, 377 (27%) were Solo SMBs without employees, 658 (23%) were Micro SMBs with 1-19 employees, 688 (40%) were Small SMBs with 20-249 employees, and 314 (10%) were Medium SMBs with 249-500 employees.

The survey was conducted by LRWGreenberg, a Material+ Company. Data were weighted by vertical, market, and business size for an accurate representation of SMBs as distributed by the number of people they employ.

The work presented in this report is a continuation of a large-scale global study of SMBs and their use of digital tools during the COVID-19 pandemic sponsored by the Connected Commerce Council (3C) and Google. In 2020, they published their initial *Digitally Empowered* and *Digitally Driven* reports with early results from the United States. In 2021, they published *Digitally Driven: Europe*, with comparable results from 28 countries across Europe.

→ Terminology Used In This Report

SMB – Small and Mid-size Enterprises are small businesses with less than 250 employees. Many SMBs have less than 10 employees and many are “Solo,” with just an owner/founder who does everything. For comparative purposes, note that this is typically called “SMB” (small and medium sized businesses) in the U.S. to include those with 1-500 people.

Digital Tools – Digital tools are the platforms, services, and other software that power the digital world. For simplicity, we refer to all of these as “digital tools” in this report.

Business sizes – SMBs can be further classified into four business size groupings: Solo (0 employees), Micro (1-19), Small (20-249), Medium (250-500). We investigated whether and how SMBs of different sizes were affected differently by COVID-19 and/or used digital tools differently.

Digital Segments/Groups – Our analysis identified different groups of SMBs defined by their attitudes toward, and use of, digital tools. “Advanced” SMBs view digital tools as essential and use many of them, while “Uncertain” SMBs are the opposite. Another group, “Evolving” SMBs, are essentially in a transition between the two. These groups are further defined in the main report.

Digital Safety Net – The Digital Safety Net describes the positive financial and operational effects that digital tools have on SMBs, particularly to adapt, survive, and recover from economic or societal shocks.

Methodology

→ Correlation vs. Causation

The results presented in this report, and additional results not shown here, demonstrate a clear statistical relationship between greater use of digital tools (the “Digital Safety Net”) and better business outcomes for SMBs. This alone does not prove a causal link (as distinct from an experimental design, which would have randomly assigned digital preparation levels to then compare business outcomes). However, the correlations observed here, along with SMB’s own self-reports about the particular importance and helpfulness of digital tools during the pandemic, strongly suggest that digital tools played an important role in these businesses’ resilience.

→ Industry Breakdown

Our U.S.-wide sample contains SMBs from industries as follows:

- Services (21%)
- Healthcare (19%)
- Retail (12%)
- Manufacturing (11%)
- Food Service (11%)
- Other (11%)
- Travel (8%)
- Arts, Entertainment, Education, Recreation (7%)

Acknowledgements

→ Thank you to those involved in the creation of this report.

The **Connected Commerce Council (3C)** is a non-profit membership organization with a single goal: to promote small businesses' access to essential digital technologies and tools. 3C provides small businesses with access to the market's most effective digital tools available, provides coaching to optimize growth and efficiency, and works to cultivate a policy environment that considers and respects the interests of today's small businesses.

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