

Business Digital Capability Monitor

Key findings and update
May 2023



ABOUT

The research

This report is the second in a series of three reports to be published by Better for Business (B4B) in May 2023. It covers the second of the main topics included in our recent research:

1. Business health and wellbeing
2. **Digital capability trends**
3. Business motivations and development goals.

A survey of 2,702 businesses was conducted by Research New Zealand on behalf of B4B, using both online and phone-based interviewing. Answers are weighted to be representative of industry category and business size (by number of staff). Respondents are business owners or managers.

Better for Business

B4B represents the voice of NZ businesses and works with a range of government agencies to make it easier and more seamless for businesses to deal with government. We do this by understanding, representing, and supporting the diverse needs of small businesses across Aotearoa, and by leading the strategic response to improving the experience businesses have when dealing with government.

Our long-term research seeks to capture the ongoing changes across the business landscape so we can identify how we can make it better for business. When we talk about putting the business customer at the centre – we really mean it.

2,702
businesses

Surveyed between:

Late November 2022



Early March 2023

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IN THIS REPORT

New Zealand business digital capability

This report provides a brief update on the topics covered in our previous digital capability reporting. It also provides a focus on:

- Regional variations in digital adoption
- The degree and types of support required in relation to digital enablement
- Deeper dives into the areas of cybersecurity and cost/value concerns as barriers to enablement.



B4B has been
monitoring
businesses digital
capability since
2020 ...

... with some core questions that
are monitored each year,
accompanied by some new
questions that cover emerging
topics of interest

In summary

Security concerns are reflected in day-to-day experiences

Concerns about information security and fraud remain the most frequently identified barrier to further digital enablement by businesses, despite a small drop from 48% to 44% of businesses saying it holds them back, between 2021 and 2022.

In a new question aimed at understanding the prevalence of cybersecurity issues, only a third of businesses said they had *not* experienced any threats, attacks or crimes in the last 12 months. Half of business owners and managers are giving the threat of attacks regular consideration as they run their business.

Cost and value concerns have increased slightly amid more challenging economic conditions – but users are generally seeing value

48% of businesses are not as digitally enabled as they could be because of affordability or value for money concerns – up slightly from 45% in 2021.

A new follow-up question reveals a range of causes to businesses' concerns about cost or value – suggesting a range of responses from the digital sector and government will be needed: including better illustrating the true return on investment.

In another new question this year, users of digital tools were asked whether they consider them 'essential' to the running of their business. Reliance – and therefore perceived value – is especially high for productivity-enhancing digital tools.

Finding the time to focus on digital enablement is becoming more difficult

B4B's research has found increasing time pressures on businesses owners in the face of staff shortages and cost pressures. 35% say a lack of time is holding them back from further digital enablement – up from 30% last year.

Confidence and skills are still lacking for many, and businesses still have unmet support needs – especially how to make the 'right' digital investments

Confidence using basic tools appears to have dipped slightly while lack of staff skills (35%) and lack of knowledge about which tools to invest in (39%) remain persistently prevalent barriers.

Reflecting this pattern, it's not surprising that – in a new question – two-thirds of businesses are able to identify at least one area in which they need more digitalisation support.

Support in choosing the right digital tool tops the list of support needs, followed by digital marketing support. Growth-seeking businesses are particularly likely to desire further support in these areas.

Support in both basic and advanced use of specific tools is still required by some.

These results suggest that efforts to increase awareness and uptake of Digital Boost, which offers support in many of these areas, should continue.

Uptake of digital tools appears to be slowing – but desire to become more digitally enabled has increased slightly

Accurately gauging digital tool usage has proven to be problematic in this survey (see page 8) but results suggest uptake across a range of tools may have plateaued in 2022 – reflecting the findings of Yellow's recent [small business nation report](#).

Despite the uncertainties ahead, more than half of businesses surveyed are certain about the value of digital transformation and its ability to support acceleration of their business strategy. Half (52%) of all New Zealand businesses believe they would benefit from being more digital – up slightly from 49% in 2021.

OUR CURRENT DIGITAL LANDSCAPE

Confidence using digital tools

The measurements portrayed here tell us the extent to which businesses are getting to grips with the 'basics' of operating in a digital environment.

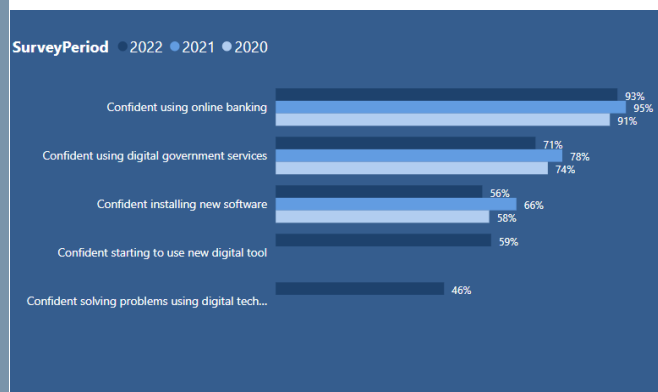
Almost all businesses across New Zealand reported strong confidence in using online banking, suggesting a high level of trust in the services offered as well as ease of use. However, there have been year-on-year declines in confidence relating to:

- Installing new software. This may reflect higher levels of concern about cybersecurity and a greater range of new tools available.
- Digital government services. There have been changes in the design of some key services, which may take time for some businesses to adapt to.

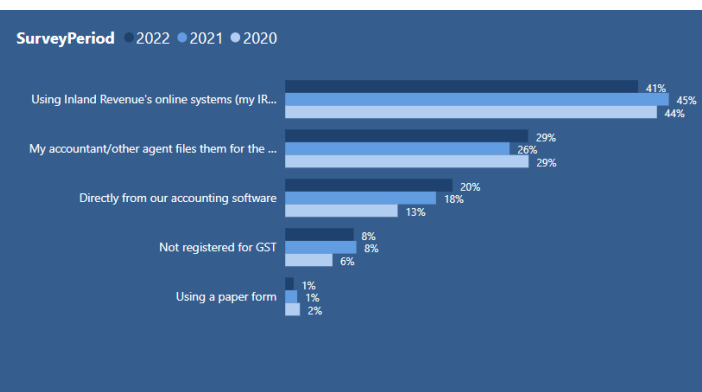
Two new confidence measures were included in 2022 to help improve our understanding of the digital skills of responding business owners/managers, going beyond the 'basics':

- At 46%, confidence 'solving problems with digital technology yourself' shows clear room for improvement.
- Six out of 10 businesses are generally confident when starting to use a new digital tool, suggesting a potential support need.

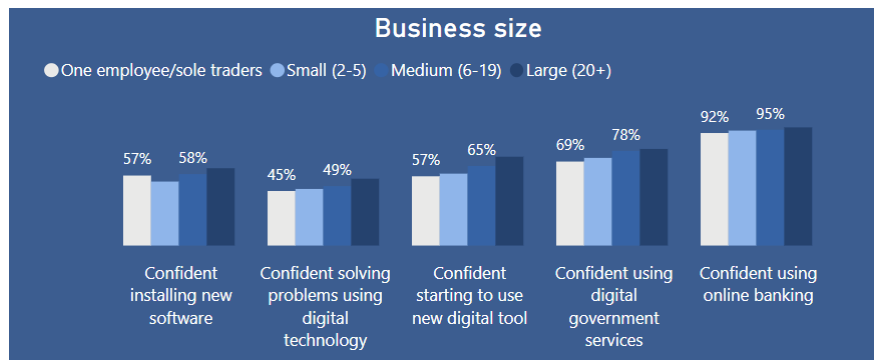
Confidence in using digital tools



How GST returns are currently filed



Confidence in using digital tools by Business Size



BETTER FOR BUSINESS



A note on measurement of digital tool usage

As many of us know, survey research has its limitations. But it often helps to efficiently fill gaps where other information is not readily available – and this is certainly true of the topic covered by this report.

Last year, when we asked businesses whether they used a number of different digital tools, they had to provide an answer – ‘yes’, ‘no’ or ‘don’t know’ – for each one, before they were able to proceed to the next digital tool.

This year, we wanted to gain new insights and make room for new questions – so the decision was made to convert those questions to lists, using a ‘tick all that apply’ approach – thus reducing the time burden on respondents for these particular questions.

This has led to a change in behaviour (i.e. selecting fewer options) by some respondents.

As an unintended result, reported rates of usage have ‘fallen’ by much more than we would reasonably expect, between 2021 and 2022, across most digital tools. We suspect that there was some potential over-reporting last year, and likely a degree of under-reporting this year.

In the following pages, the true degree of current usage of each tool probably lies somewhere in the middle of each year’s result.

While surveying remains an imperfect method of collecting information, asking questions in a consistent way from this point forward will at least give us a more reliable indication of the trends we are so keen to understand.

Current use of 'internal' digital tools

Usage of two types of internal digital tool was measured for the first time in 2022:

- 28% of all businesses said they were using project management software
- 19% said they were using bespoke software developed 'by or for their business'.

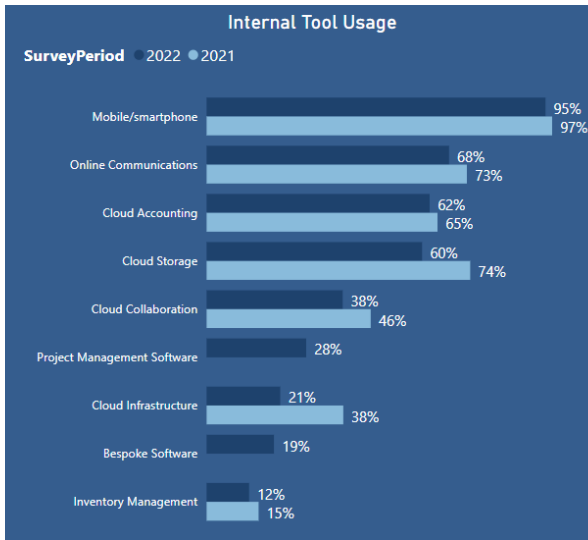
Usage of both increases with business size, as we might expect. Businesses in the 'Wholesale Trade' sector are particularly likely to use bespoke software (32%).

As we saw in 2021, usage of most other tools shown here is also often related to size and annual turnover, and it is also strongly related to a business's desire to grow.

67% of sole traders who want their business to grow are using cloud accounting software (vs. 46% of sole traders who do not want to grow)

The 'Education and Training' and 'Financial Insurance Services' sectors ranked the highest in the usage of digital tools i.e. adoption of cloud technologies in their businesses.

% of businesses using each tool: 2021 vs. 2022

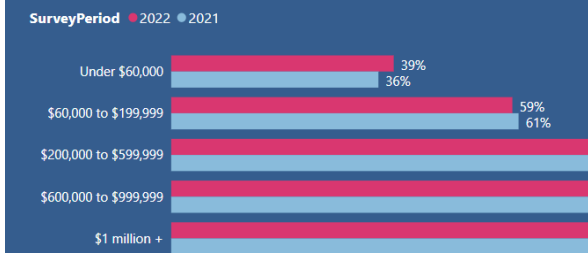


* Results only available for 2022

Usage by size and industry: 2022

Internal Tools	One employee/sole traders	Small (2-5)	Medium (6-19)	Large (20+)
Mobile/smartphone	95%	94%	93%	95%
Online Communications	67%	64%	74%	90%
Cloud Accounting	52%	75%	87%	78%
Cloud Storage	56%	63%	72%	83%
Cloud Collaboration	33%	40%	51%	68%
Cloud Payroll		34%	47%	42%
Project Management Software	23%	29%	45%	60%
Cloud Infrastructure	19%	19%	27%	40%
Bespoke Software	15%	23%	24%	43%
Inventory Management	8%	14%	23%	29%

Use of cloud accounting by annual turnover



Use of online communication tools by turnover



Regional use of 'internal' tools'

2022 saw an increase across all regions on the usage of at least one internal tool by businesses when compared to 2021. Specifically, cloud infrastructure adoption by respondents in the Gisborne, West Coast, Auckland and Tasman regions.

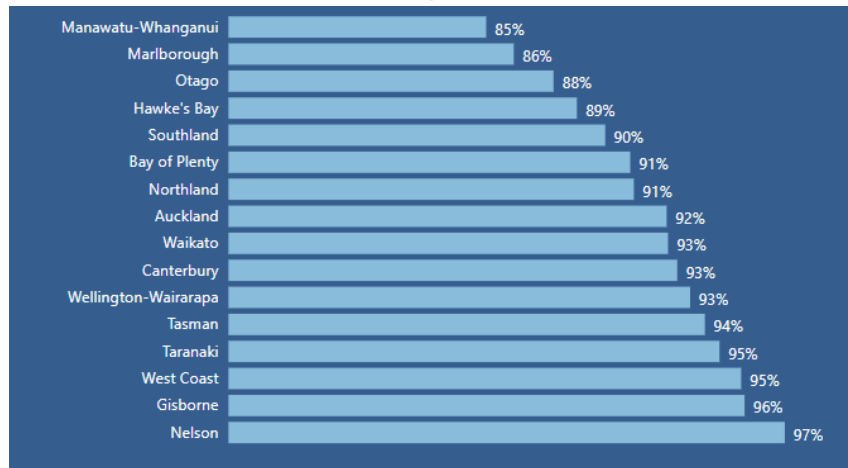
It is important to note that the sample sizes of each region are quite different due to the number of survey respondents received. For instance, the data shows that 97% of businesses in the Nelson region utilizes at least one internal tool in their business. However, this only represents a total of 41 businesses.

Cloud payroll usage remains low across all regions – with the highest being Nelson (26% of respondents) and Tasman regions (21% of respondents).

64% of respondents in the Financial Services industry and 54% of respondents in the Professional, Scientific and Technical Services industry are using **five or more** of these tools

% use of at least one internal tool by Regions (excluding mobile/smartphone usage)

2022



Total number of respondents by Region

2022

Region	Res_count
Auckland	741
Wellington-Wairarapa	369
Canterbury	360
Waikato	305
Bay of Plenty	188
Otago	161
Northland	120
Manawatu-Whanganui	108
Hawke's Bay	87
Taranaki	65
Southland	57
Nelson	41
Tasman	38
Marlborough	23
Gisborne	21
West Coast	18
Total	2702

% use of type of internal tools by Region

2022

Region	Online Communications	Cloud Accounting	Cloud Storage	Cloud Collaboration	Cloud Payroll	Project Management Software	Cloud Infrastructure	Bespoke Software	Inventory Management
Auckland	69%	59%	63%	41%	15%	29%	26%	19%	10%
Bay of Plenty	65%	69%	61%	44%	16%	25%	22%	18%	18%
Canterbury	67%	63%	65%	38%	17%	21%	16%	16%	10%
Gisborne	75%	73%	62%	42%	18%	37%	22%	7%	19%
Hawke's Bay	62%	69%	57%	35%	19%	33%	16%	20%	9%
Manawatu-Whanganui	53%	58%	33%	20%	15%	19%	11%	17%	10%
Marlborough	74%	54%	73%	31%	18%	20%	25%	16%	2%
Nelson	65%	72%	65%	32%	26%	34%	16%	15%	13%
Northland	68%	58%	48%	27%	17%	28%	18%	15%	18%
Otago	66%	68%	51%	31%	13%	26%	13%	17%	9%
Southland	58%	64%	40%	24%	15%	40%	13%	10%	30%
Taranaki	62%	62%	56%	34%	12%	24%	11%	23%	18%
Tasman	80%	67%	67%	38%	21%	42%	30%	22%	7%
Waikato	68%	66%	54%	34%	15%	32%	20%	20%	13%
Wellington-Wairarapa	74%	58%	72%	48%	13%	29%	24%	25%	10%
West Coast	85%	50%	75%	15%	17%	21%	33%	6%	6%

Current use of 'external' digital tools

2022 results illustrate that the vast majority of NZ businesses have at least some form of online presence: 75% use at least one of the tools shown here and 56% have their own website.

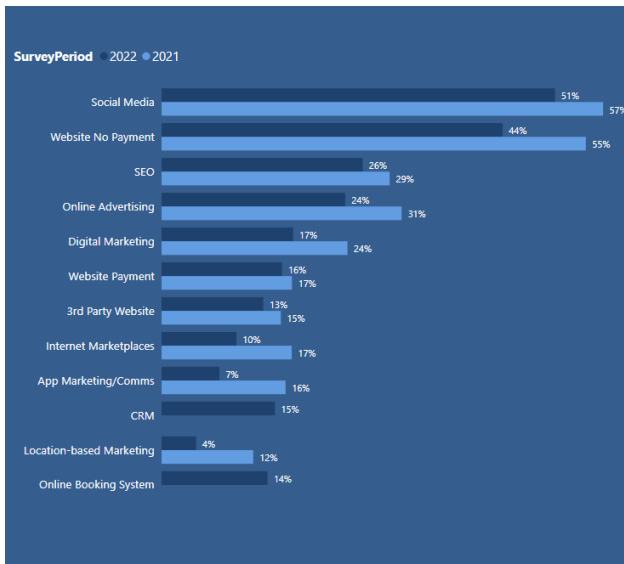
However, while most businesses are now visible online, many are unlikely to be actively promoting themselves online: only 17% are using digital marketing or social media management tools.

Included for the first time in 2022, Customer Relationship Management (CRM) systems and online booking systems are each used by around 15% of all businesses.

25% of businesses use **none** of these tools.
17% use only one (typically a website **or** social media **or** an internet marketplace)

Businesses in the 'Financial and Insurance Services' sector (61%) are by far the most likely to use CRM systems

% of businesses using each tool: 2021 vs. 2022



Usage by size

External Tools	One employee/sole traders	Small (2-5)	Medium (6-19)	Large (20+)
Social Media	43%	57%	71%	79%
Website No Payment	35%	53%	65%	70%
SEO	20%	31%	42%	50%
Online Advertising	19%	26%	42%	49%
Digital Marketing	12%	21%	29%	37%
Website Payment	11%	20%	28%	30%
CRM	11%	16%	25%	41%
Online Booking System	10%	16%	22%	32%
3rd Party Website	11%	18%	15%	13%
Internet Marketplaces	9%	10%	14%	9%
App Marketing/Comms	7%	7%	10%	14%
Location-based Marketing	4%	4%	6%	11%

Businesses in the 'Wholesale trade' industry (30%) ranked the top in digital marketing usage when compared to other industries

The top 3 industries for social media usage are:
1) Retail Trade 2) Accommodation and Food Services 3) Arts and Recreation Services

Regional use of 'external' tools'

Even though we see a relatively strong usage of at least one external tool by all regions, the reported figures are slightly less than 2021 - this is likely due to the implementation of new questionnaire design in 2022. However, digital tools' confidence across regions are likely to remain positive moving forward.

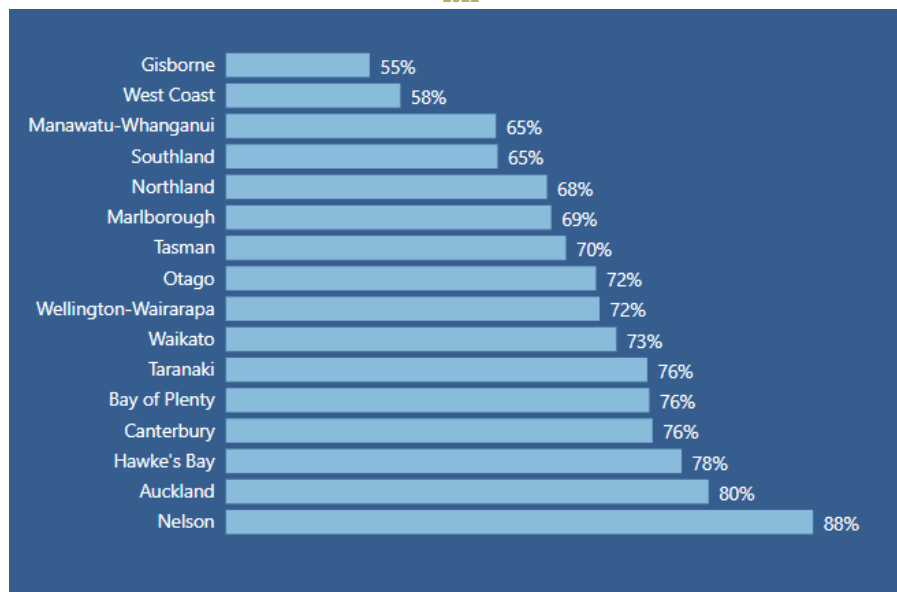
Specifically, the adoption of digital marketing tools and SEO mechanics have significantly increased for respondents from the Bay of Plenty, Auckland and West Coast regions.

Increasing reliance on having payment gateways on websites was specifically observed for respondents in the West Coast and Wellington regions.

However, the usage of location marketing in particular, has fallen significantly for respondents in the Marlborough, Wellington and Northland regions.

% use of at least one external tool by Regions

2022



Type of External Tool	Highest Usage by Region
Social Media	Tasman
Website no payment	Nelson
SEO	Bay of Plenty
Online Advertising	Tasman
Website with payment	West Coast
3rd Party Website	Bay of Plenty
Digital Marketing	Auckland
App Marketing/Comms	Nelson
Internet Marketplace	Gisborne
Location marketing	Tasman
CRM	Tasman
Online Booking	West Coast

Online booking usage remains low across all regions – with the highest being West Coast (37% of respondents) and Tasman regions (20% of respondents).

36% of respondents in the Financial Insurance Services industry and 35% of respondents in the Rental, Hiring & Real Estate Services industry are using **five or more** of these tools

Reliance on digital tools in running business

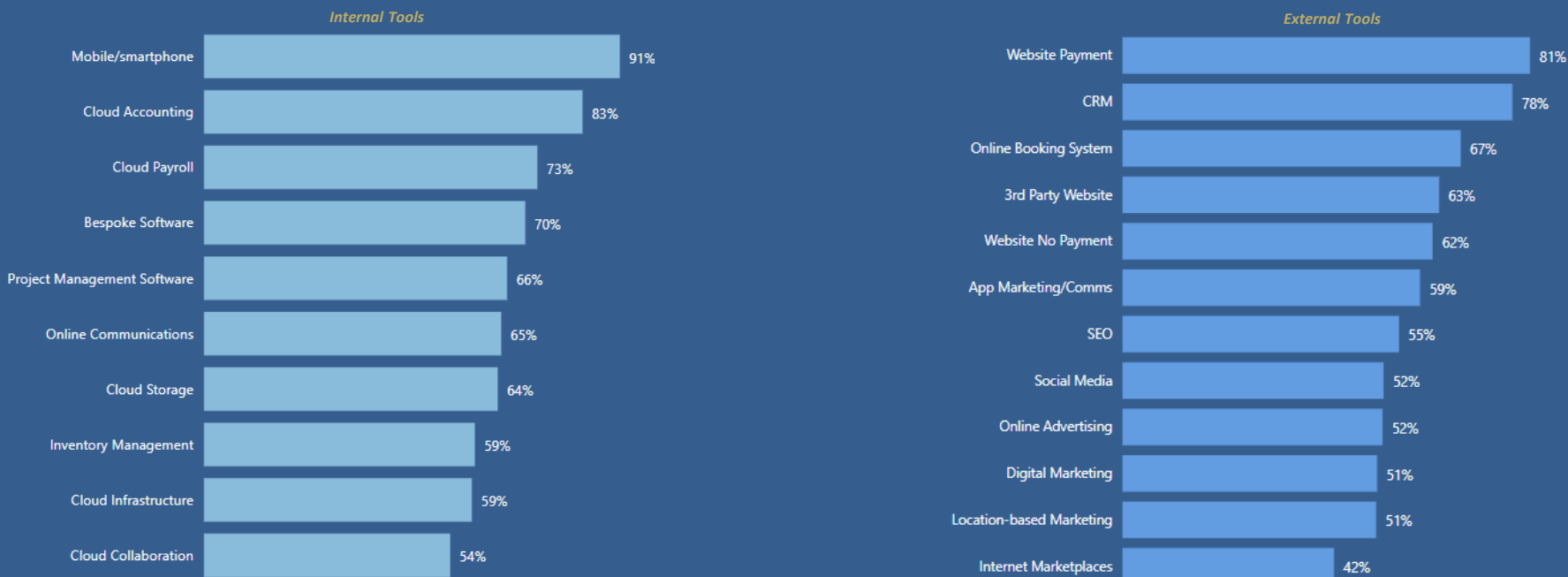
In an attempt to move beyond binary measurement of whether or not different digital tools are being used, users of each tool were asked whether they considered it 'essential to the running of their business' currently.

It might be heartening to those trying to encourage uptake of certain productivity-enhancing tools to discover that the majority of businesses using them consider them to be essential.

These results also hint at the extent to which businesses are embracing and embedding these tools, and/or getting the most out of them. They also raise questions about the extent to which the impact (i.e. return on investment) is being measured or at least understood by the business.

There is room for growth in terms of the extent to which many externally facing tools are considered 'essential' to running the business.

% of users that consider each tool to be 'essential' to the running of their business



BARRIERS TO DIGITAL ENABLEMENT

Barriers to digital enablement

% of businesses agreeing these are barriers to making greater use of digital tools

Survey Period ● 2022 ● 2021



87% of businesses identify at least one barrier to digital enablement.
34% *strongly agree* with at least one of the barrier statements listed here

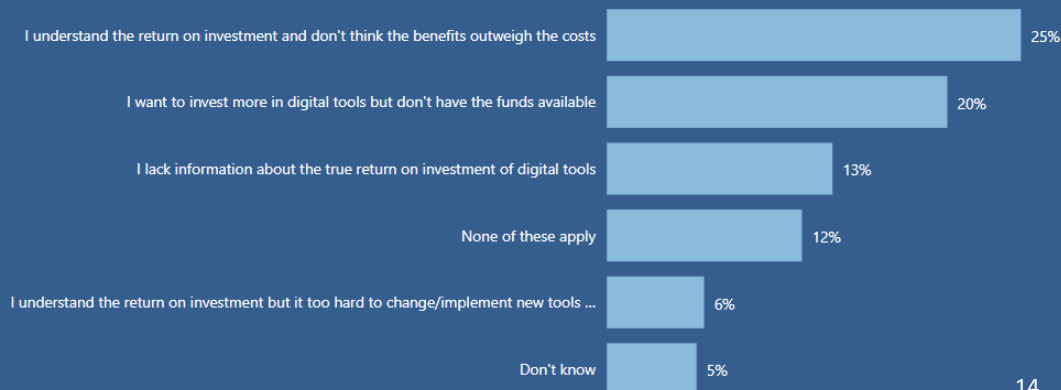
A lack of time to acquire new skills is an increasing concern for businesses – particularly for those in the 'Information Media and Telecommunications' industry. Difficulty choosing the right digital tool also remains problematic for many.

Security concerns remain prominent. The COVID-19 pandemic prompted an explosion in cyberattacks, leading to loss of personal data globally. And we know that businesses are experiencing skill shortages in the cybersecurity domain more generally. However, cybersecurity concerns are not specific to one industry – they are relatively universal across all industries.

Concerns about the affordability of digital adoption are also gradually increasing, and this can be seen across most industries. A new question was included in the 2022 survey, asked of all respondents who highlighted cost or value concerns as a barrier to enablement, to help us better understand the true cause of those concerns.

The causes are mixed: for many, the return on investment does not add up. For others, the return is not clear. Some believe investment is worthwhile but don't have funds available, while a small minority face implementation challenges.

Main reason for cost or value concerns



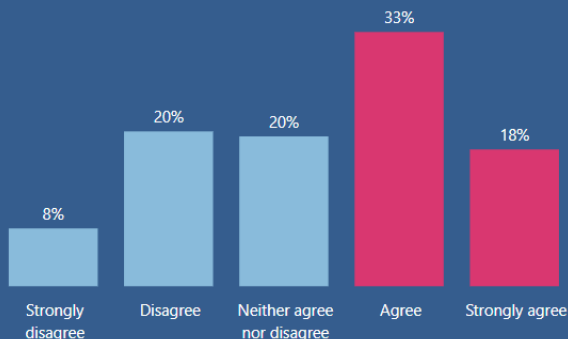
A focus on cybersecurity

Following a significant increase between 2020 and 2021 in the proportion of businesses identifying 'concerns about information security/fraud' as a barrier to them making greater use of digital tools, the latest survey took a closer look at the issue of cybersecurity.

First, it examined the amount of consideration that owners and managers are giving to cybersecurity threats as they run their business. 52% appear to be taking the threat seriously, agreeing that they consider it frequently.

This does not vary as much as might be expected by industry, with 'Arts and Recreation Services' lowest at 40% and 'Financial and Insurance Services' highest at 66%.

% frequently thinking about cybersecurity as a threat



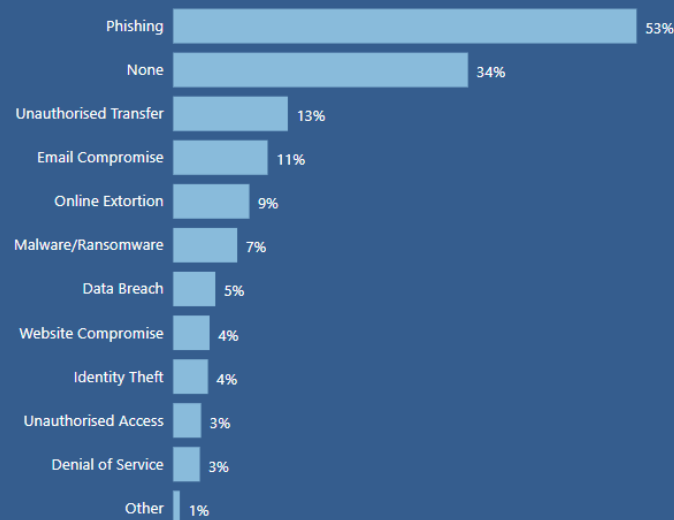
Two thirds of large businesses are considering this threat frequently, while consideration levels are similar between sole traders, small and medium businesses

Only a third of businesses report that they didn't experience any of the threats, attacks or crimes listed in the chart below, in the last 12 months. Each term shown was presented to respondents with a brief description.

Phishing is the most commonly reported attack, or at least attack *attempt*. In future research it might be useful to understand the extent to which those threats were successful in luring the recipient to click on a link.

While much lower at 13%, the extent to which business email accounts are being compromised still appears to be a significant cause for concern.

% of businesses experiencing each threat in last 12 months



UNDERSTANDING DIGITAL ADOPTION

Checking in on the 'digital divide'

Our 2021 report took a new look at the digital adoption groups, dividing up businesses based on their current index score.

The Innovators and Early Adopter businesses have relatively high digital tool usage and confidence, whereas businesses in the Final Adopter group have a relatively low Digital Index score and have been more hesitant in their digital adoption

This section takes a fresh look at the digital adoption groups, dividing up businesses based on their current index score.

We can see from this summary that Innovators and Early Adopters, when compared to Final Adopters, are:

- Nine times more likely to use social media
- Four times as likely to choose cloud for data storage
- Almost five times as likely to be confident installing new software
- And over 30 times as likely to use a website with e-commerce facilities in their business.

These differences illustrate stark contrast between the most and least digitally enabled businesses in New Zealand.

However, there are some promising signs:

- About a third of Final Adopters and most Late Majority businesses are already confident using digital government services. This may represent the increased attention of many government agencies on creating accessible and user-friendly digital tools and services. These can also provide potential channels through which to reach later-adopting groups with further support.
- More than a quarter of Final Adopter and over sixty percent of Late Majority businesses are currently using productivity-enhancing tools such as online communication or cloud accounting software in their business. Usage of these tools may lead to uptake of further digital tools due to familiarity and confidence in general digitisation.

The following pages place a particular emphasis on helping to better understand later-adopting groups of businesses.

	1. Innovators and Early Adopters	2. Early Majority	3. Late Majority	4. Final Adopters
Cloud Accounting	89%	84%	61%	25%
Cloud Storage	95%	86%	57%	22%
Website Payment	63%	29%	9%	2%
SEO	91%	51%	15%	3%
Social Media	97%	86%	43%	10%
Confident installing new software	92%	76%	56%	19%
Confident solving problems using digital technology	85%	65%	44%	13%
Confident starting to use new digital tool	94%	80%	58%	19%
Confident using digital government services	95%	88%	73%	32%
Confident using online banking	100%	99%	95%	77%

BETTER FOR BUSINESS

Business context and scope for improvement

Some new, basic questions about businesses' context and goals were included in the latest survey, to help us understand the potential for further digital enablement in our later-adopting groups of businesses.

These were asked before the subject of digital enablement was introduced to respondents.

Context and ambition

Overall, 31% of businesses are currently focused on growth.

As we might have expected, later-adopting businesses have less of an obvious 'need' for digital tools than others – on average. And, therefore, the fact they have lower digital enablement should not be as much of a concern.

However, there are many Late Majority and Final Adopter businesses that are looking to grow or maintain the same size and need to communicate frequently, increase productivity and reduce costs – all areas that digital tools can support.

Agriculture businesses are over-represented among those who are seeking to grow, yet do not have a social media presence.

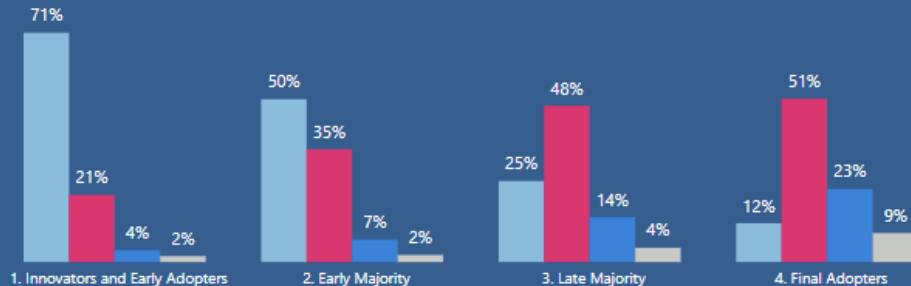
Mindset: perceptions of digitisation

Overall, 52% of businesses acknowledge that they would benefit from being more digital.

Within the Early and Late Majority groups, seeking to grow the business is a key differentiator between those who are increasing their digital investment or not.

Growth Focus by Adoption Group

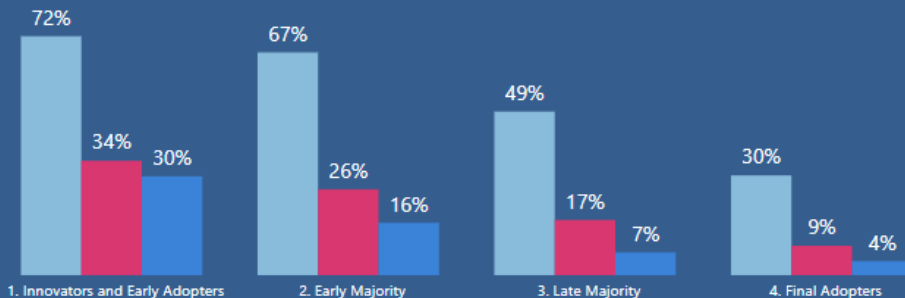
● % Growing/Developing Business ● % Maintaining the business ● % Business slowing down ● % Business closing down



44% of Late Majority businesses and 86% of Final Adopters who are actively seeking growth do not have a social media presence.

Digital Motivation by Adoption Group

● % Agree would benefit from digital ● % Online revenue (>30%) ● % Digital investment increasing



Becoming more digital

Half (52%) of all New Zealand businesses believe they would benefit from being more digital – up slightly from 49% in 2021.

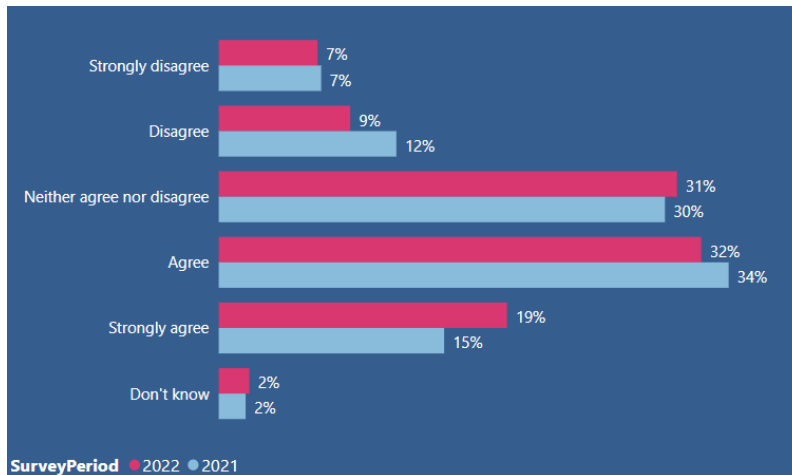
19% *strongly agree* that this is the case.

Most other businesses remain 'on the fence' regarding the benefits of digitalisation. However, we do see a trend toward businesses agreeing with the benefits of digital rather than dismissing them.

Finance/insurance, wholesale trade and education businesses are over-represented in the group of businesses that see the most benefit in being more digital. Over two thirds of businesses in wholesale trade see the benefit of digitisation.

Businesses in main cities are also over-represented in this group – Auckland in particular with 59% of businesses believing in the benefits of digital

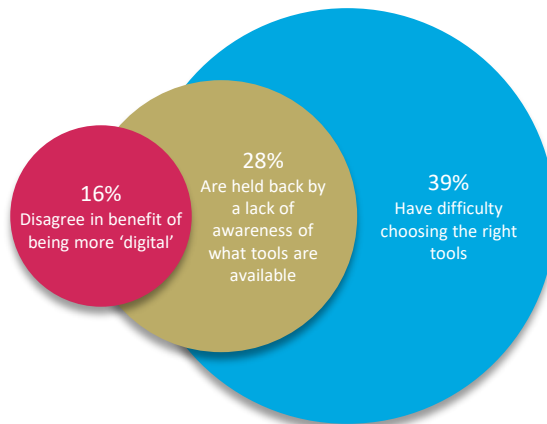
% agreeing that: *This business would benefit from making greater use of digital tools or being more online*



Total disagree
(2022):
16%

Total agree
(2022):
52%

Awareness and knowledge – and how they relate to motivation



55% of businesses are affected by at least one of the awareness/knowledge issues shown here.

Of those who cannot see the benefit in being more digital, seeing the return is not worth the cost and thinking digital tools are not relevant are their two main barriers. This suggests there is still a need to communicate the relative benefits of becoming more digital and making connections to a diverse range of business contexts.

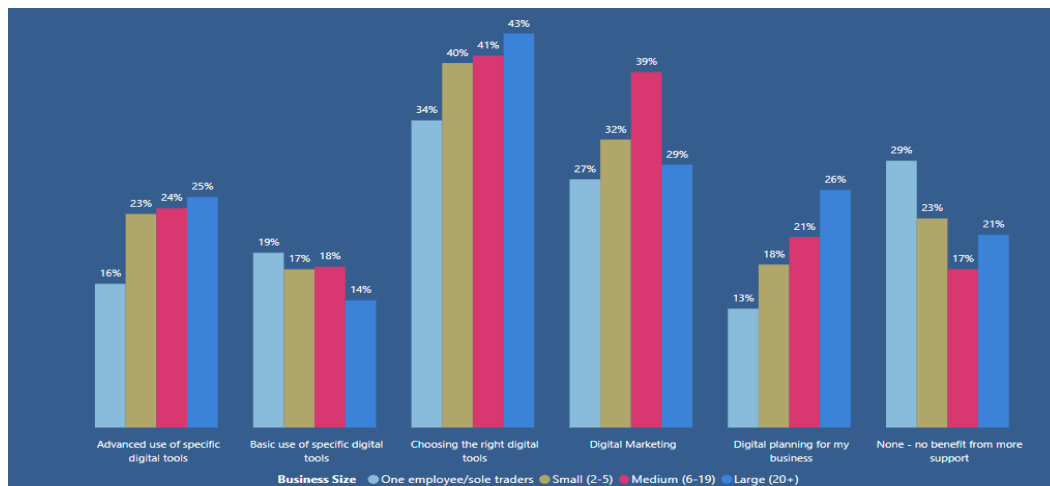
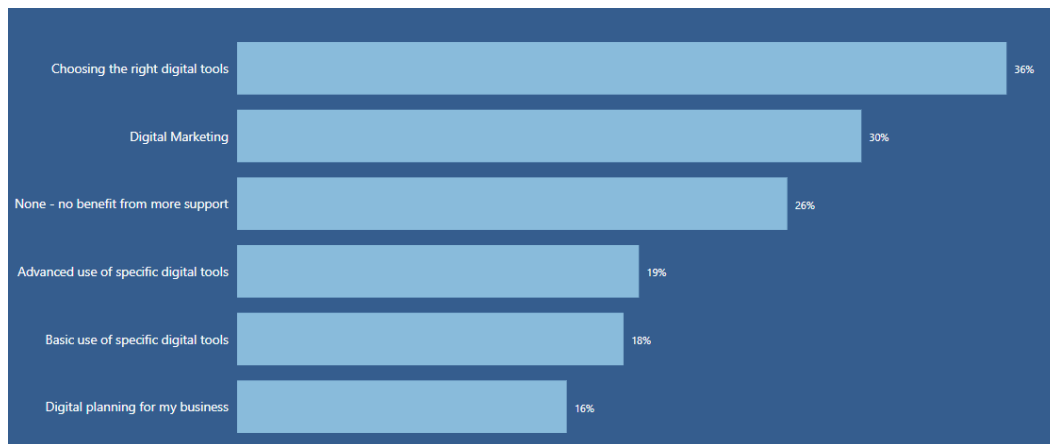
Of those who have difficulty choosing the right tools, 62% see the benefits in being more digital. This is clearly an issue affecting the more digitally motivated businesses.

There is still some work to do to improve awareness – especially among the least engaged. As part of improving that engagement, businesses need a clear understanding of:

- What 'digital' means, in its broadest sense
- What kind of tools would help their particular business
- What kind of benefits those tools will bring.

OUR FUTURE DIGITAL LANDSCAPE

Future support needs and investment



In a new question for 2022, responding business owners were asked, ‘*when it comes to digital tools, in which of the following areas would your business benefit from more support or advice?*’.

Overall, almost two-thirds (62%) of businesses were able to identify at least one type of support need.

Over one-third of businesses would like to see further support for choosing the right digital tool (or combination of tools) for their business. We would expect this, as four in ten businesses see it as a barrier to further digital enablement.

There is also considerable demand for digital marketing support and advice – one of the many types of support offered by the Digital Boost programme.

The need for support in selecting tools, advanced use of specific digital tools and digital planning tend to increase with business size.

Overall, over a quarter of businesses report increasing their investment in digital tools in the past 12 months, with 10% significantly.

Of businesses that are significantly increasing their digital investment, help with digital marketing is the main support they need.

Barriers and needs of Digital Adoption groups

Barriers to digital uptake

As we would expect, Final Adopter businesses have the highest levels of reported digital barriers. Over a half of these businesses express that they don't have enough time to learn about becoming more digital. This is especially prominent among businesses that would like to grow - over two-thirds of Final Adopter businesses that would like to grow see lack of time to learn as a barrier.

However, for businesses in the Early Adopter group, the main reason holding back their digital progress is they cannot afford to make greater use of digital tools. Of the Early Adopter businesses that state this is a barrier, the majority confirm they would like to invest more in digital tools but don't have the funds available at the moment.

As we suggested last year, lifting awareness and ease of access to digital learning is one of the key things that can be done to support the Final Adopter group. However, for business that are further along their digitalisation journey, providing additional funding support could increase uptake of digital tools.

Consideration of business digital needs

Overall, 54% of all businesses have provided at least one digital support need.

Businesses within the Early Adopters and Early Majority groups have a similar profile of support needs, with help with digital marketing and choosing the right tools featuring prominently. Over two-thirds businesses in these adoption groups have reported at least one of these support needs.

One third of Late Majority businesses have also said they would like help choosing the right tool. Support with basic tool usage becomes more prevalent within the Late Majority and Final Adopter groups, with twenty percent of Final Adopter businesses reporting they would like help with this.

