

Business Health & Digital Enablement Research

Key Findings
December 2020



About

This research was initiated by the Better for Business (B4B) team within the Ministry of Business, Innovation and Employment (MBIE) and Research New Zealand. The findings illuminate New Zealand's business landscape, their struggles during the COVID-19 pandemic, and the current digital capabilities of businesses. This builds on our earlier research in May 2020 to assess how businesses were faring during and following lockdown.

The Research

The purpose of this research was twofold – to get an update on the overall health of New Zealand businesses from the impact of COVID-19, and to better understand the digital capabilities of businesses and their motivations and / or barriers to becoming more digitally enabled.

The research was conducted between 9 September and 18 October 2020. n=2,280 New Zealand businesses were interviewed. Answers are weighted to be representative of both industry category and business size (by number of staff). Businesses were selected from both a pool of previous respondents to the biannual B4B Research Monitor as well as a randomised selection of new respondents. The margin of error on the total achieved sample (n=2,280) is $\pm 3.3\%$ at the 95 confidence level. Sub-samples (eg. by region or industry) generally have a larger margin of error depending sample size.

Better for Business

Better for Business regularly coordinates research with businesses, as one of our key roles is to represent the voice of New Zealand businesses and understand how we can improve their experience of government and/or support them better. Led by MBIE, B4B works with a collective of agencies, which represent 83% of the interactions a business normally has with government. Together our vision is to make it easier and more seamless for business to deal with government.



In this report

NZ businesses and the impact of COVID-19 and digital capability

This report has three sections:

1. **The current state and health of NZ businesses** – this includes the ongoing revenue impacts relating to COVID-19, uptake of wage subsidies at different alert levels, their confidence of survival, financial and mental resilience and similar metrics;
2. **The digital state of NZ businesses** – this includes a range of metrics illustrating the varying degrees of both interest and usage of digital technologies within NZ businesses; and
3. **The exploratory development of a digital index ‘score’ for NZ businesses** as a benchmark to track the changing interest and usage of digital technologies by NZ businesses.

Key takeaways

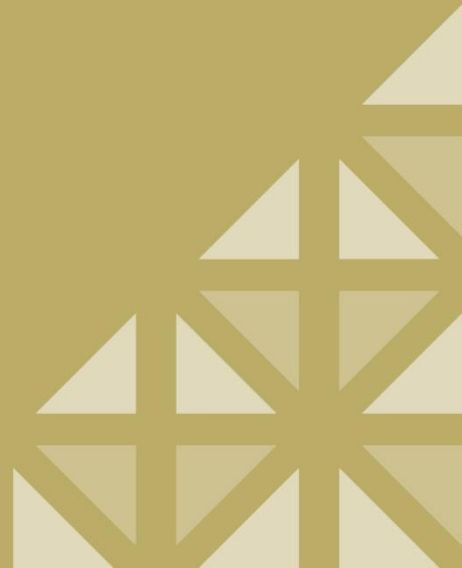
There are continued signs of recovery – though larger businesses appear to be more likely to lay off staff

The Auckland region is similar on many metrics, but businesses are less confident of survival in the next 6 months*

A preliminary digital capability index of NZ businesses resulted in a modest 51 out of a potential 100

* Note: This survey was in the field while Auckland was in Alert level Three lockdown.

BUSINESSES HEALTH UPDATE



Business Health

Key results and updates since May 2020

Several of the indicators in this follow-up research reinforce data from other sources that – generally speaking – businesses are demonstrating some recovery compared to May.

However, despite the positives – eg. 81% are confident they'll still be operating in six months' time – there are clearly still major impacts on revenues and business owner wellbeing.

Notably, the confidence of Auckland businesses operating in six months' time was significantly lower at 72%.

	May 2020	Oct 2020	
Businesses operating with lower revenue	82%	62%	↓
Businesses that received the wage subsidy	75%	75%	→
Businesses that retained 100% of their staff	87%	-	
Business that intend to continue operating with the same number of staff during the next three months	-	83%	
Businesses who are 'frustrated and worried' and have no or a low sense of 'optimism or hope'	42%	28%	↓
Businesses who are confident they will still be operating in six months' time	78%	81%	↑

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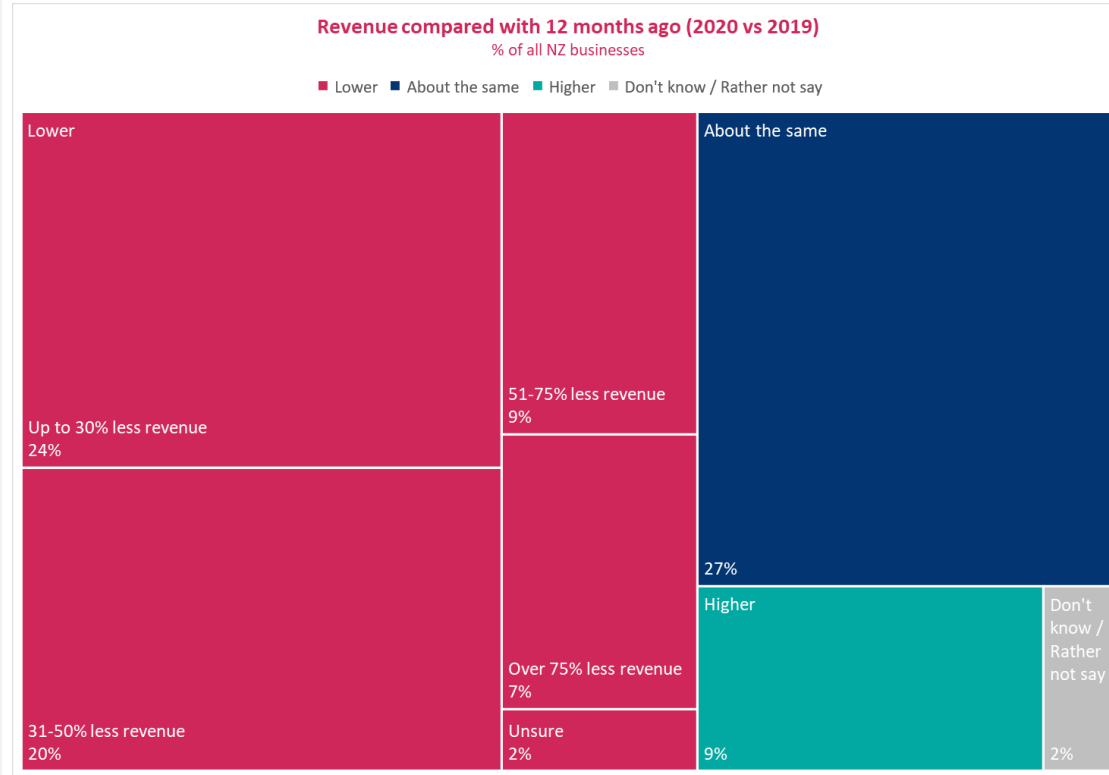
Revenue Impacts

Of all NZ Businesses...

A total of 62% of businesses reported revenues being lower than 12 months ago.

- In May, 82% of businesses reported lower revenue than prior to the initial lockdown (note a slightly different question).

16% of businesses are operating at 50% or lower revenues, 27% of businesses reported relatively similar revenue levels than a year ago and 9% of businesses stated their revenues are up from 12 months ago.



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Business Health

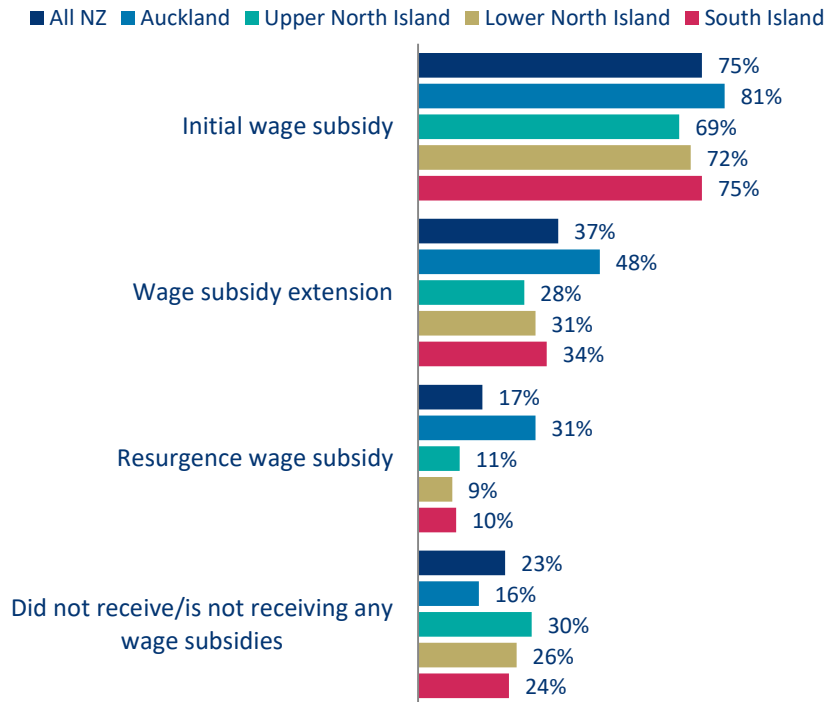
Regional differences in wage subsidy

As with the May 2020 research, a total of 75% of businesses made use of the first wage subsidy, with progressively fewer availing themselves of the extension and resurgence wage subsidy – with the obvious exception of Auckland.

Uptake of subsequent wage subsidies dropped sequentially.*

Progressive wage subsidy uptake

% of all businesses



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* Note: This survey was in the field while Auckland was in Alert Level Three lockdown.

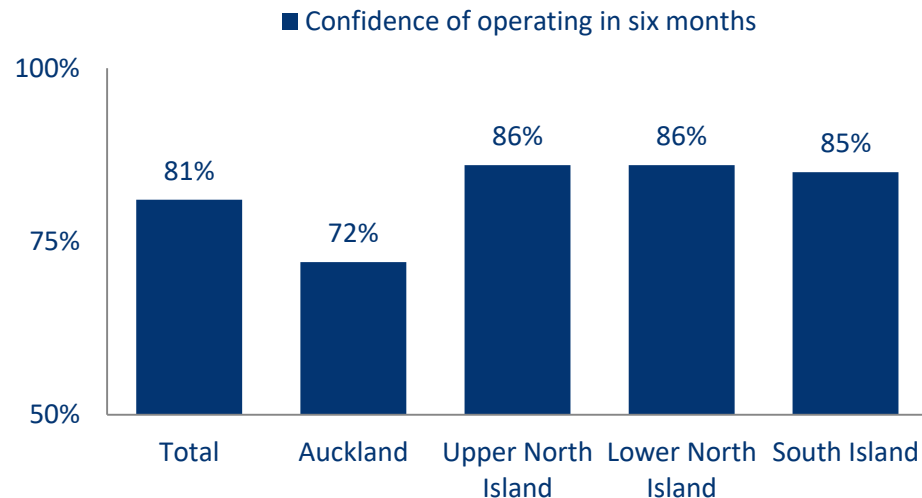
Business Health

Confidence of still operating in six months' time

81% of business were “reasonably or extremely confident” their business would still be operating in six months' time. This was notably lower in Auckland at 72% – and relatively consistent elsewhere across the country at around 86%.*

Just 2% were ‘not at all confident’ – though this was higher in Auckland at 5%.

Confidence of operating in six months' time % of all businesses



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* Note: This survey was in the field while Auckland was in Alert Level Three lockdown.

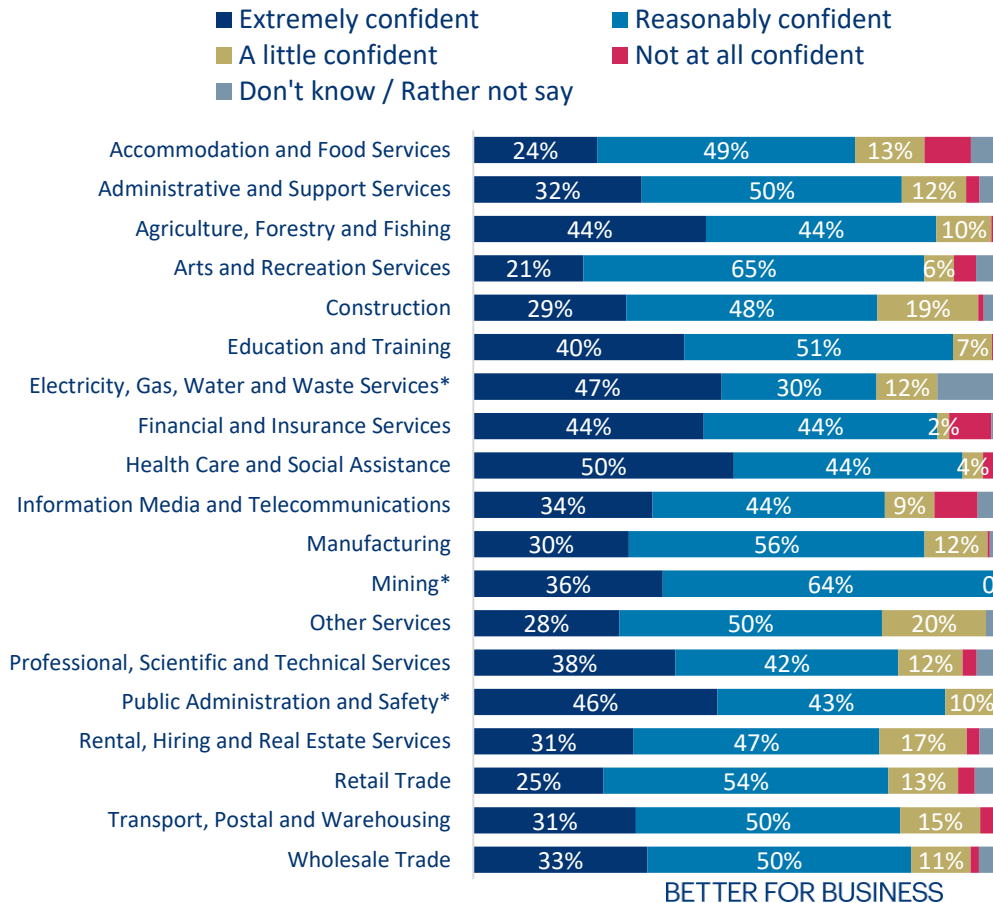
Business Health

An industry perspective

Despite the challenges many businesses face, those reasonably or extremely confident remain relatively high when looking at different industries— with lower results in Hospitality (73%), Construction (77%) and Rental, Hiring and Real Estate Services (78%); the latter hinting at the impact on commercial property owners.

The most confident industries included those considered more “essential” businesses such as Education and Training (91%), Health Care and Social Assistance (94%) and Agriculture, Forestry and Fishing (88%).

Confidence of operating in six months' time by industry



* Indicates very small sample size, therefore results are indicative only

Business Health

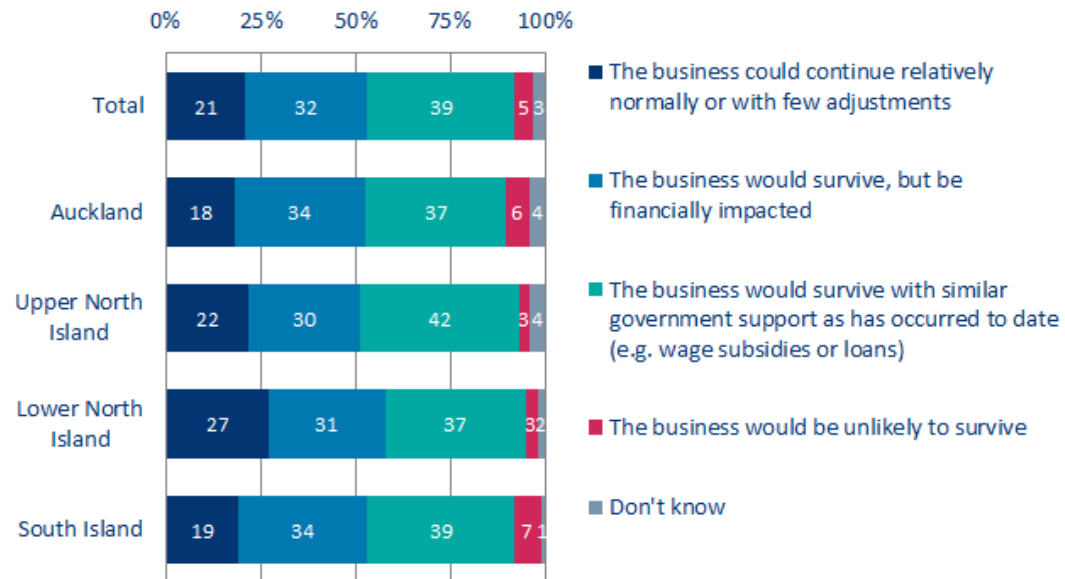
Resilience

92% of all businesses state they would likely survive a further lockdown – though 39% of these stated that they would only survive with similar government support.

Just over half of all businesses confirmed that they would survive 'on their own steam' – even though many indicated they would be financially impacted.

Overall, there appears to be relatively strong resilience – though we don't have a good comparator. However, a significant proportion (39%) appear reliant on government financial support to survive another lockdown.

Looking ahead - what would happen in level three/level four again?



Business Health

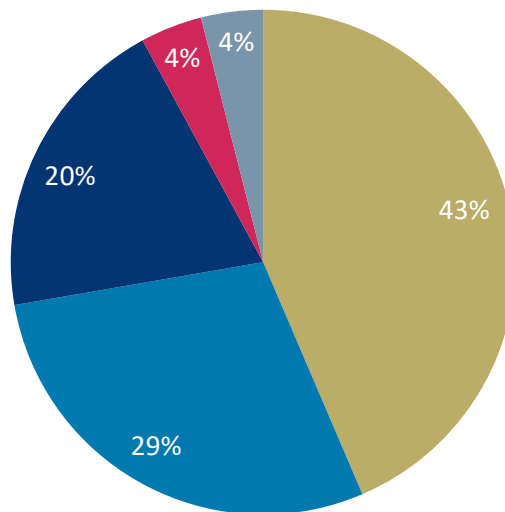
Financial Resilience

Perhaps contributing to the results on the prior slide, 43% of businesses state that they have suitable financial reserves to continue operating for several months.

However, a further 29% indicated their reserves would last only a matter of weeks – and a concerning 20% of businesses have no cash or financial reserves available to them.

Financial reserves

% of businesses



■ Continue operating for several months

■ Continue operating, but only for a matter of weeks

■ Business has no cash or financial reserves

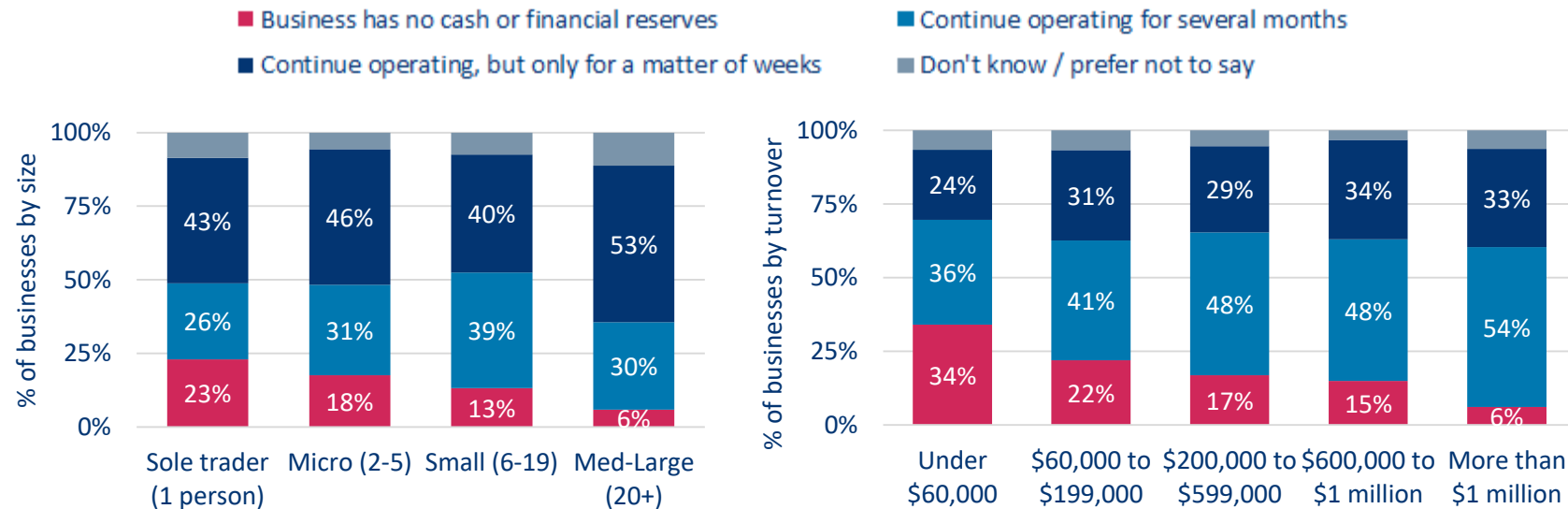
■ Don't know

■ Prefer not to say

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When asked about cash reserves or finance to survive further restrictions



Smaller businesses or businesses with lower levels of turnover are considerably more likely to have no cash or financial reserves. One-person and Micro businesses make up the majority of all NZ businesses (87%*) – making them both a sizeable and more vulnerable group. Based on these statistics, over 116,000 one-person / Micro businesses have no cash or financial reserves.

*Source: Stats NZ business demography (2019)

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Business Health

Employment intentions

NZ's smallest businesses appear the most likely to retain their existing levels of employment.*

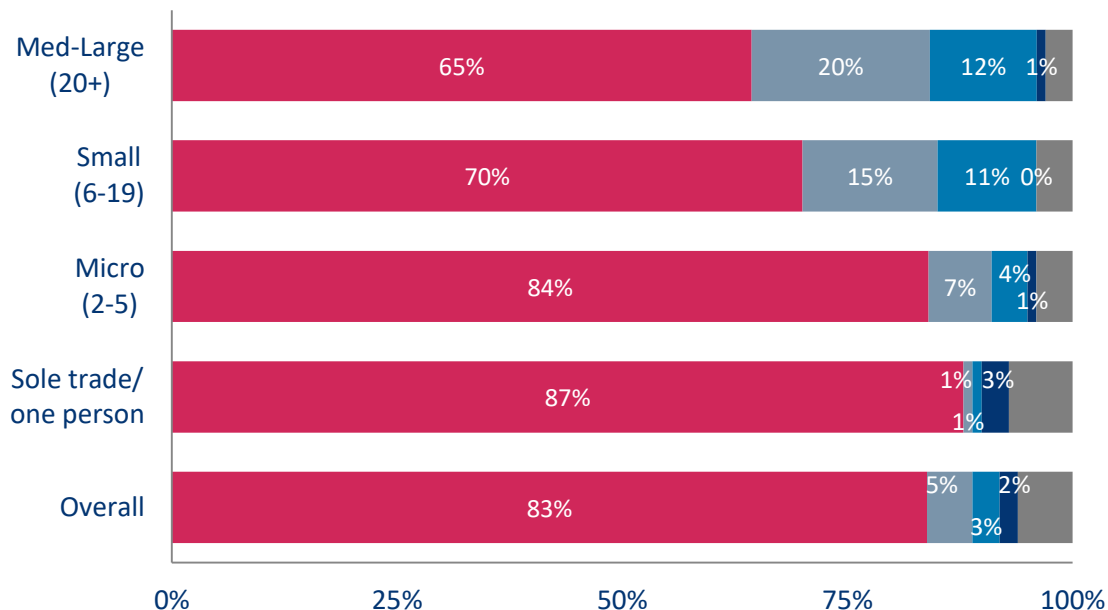
However, the likelihood of intending to operate with fewer staff increases with business size.

The intention to operate with more staff also increases with business size; but not quite to the same degree.

This suggests a net increase in unemployment is likely and it will be mostly from medium-larger employers.

Employment intentions during next three months

- With the same number of staff as now
- Continue to operate with reduced staff
- Continue to operate with more staff
- Cease to operate
- Don't know/rather not say



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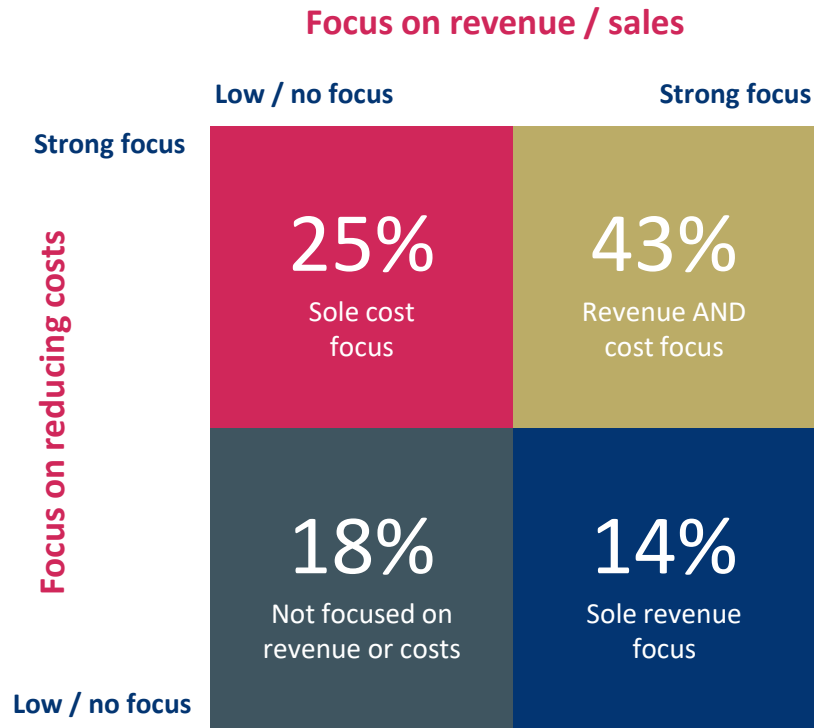
* Note: for further information on employer intentions, please have a look at [our website](#).

Financial Focus

Costs vs. revenue

Businesses were asked to rate to what degree they were focusing on increasing revenue / sales and to what extent they were focused on reducing costs.

There is a mix – with most (43%) indicating they are focused on both – but notable proportions with just a cost reduction (25%) or increase revenue (14%) focus... and some (18%) who aren't focussed on either of these things.



NB. Excludes "don't know" responses.

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Business Health

Wellbeing

Though a slight improvement since May 2020, over a third of all businesses reported feelings of frustration and worry either all the time or many times in the two weeks' prior (to their participation in the research).

On the other hand, a similar number of businesses expressed feelings of optimism and hope.

The following slide illustrates how some businesses feel both / neither – of these key wellbeing indicators.

Businesses were asked how often they had felt frustration, worry or optimism and hope in the past two weeks. The percentages below are those who felt this “all the time” or “many times”:

Frustration and worry 36%

Optimism and hope 36%

Wellbeing

The shifting of business wellbeing

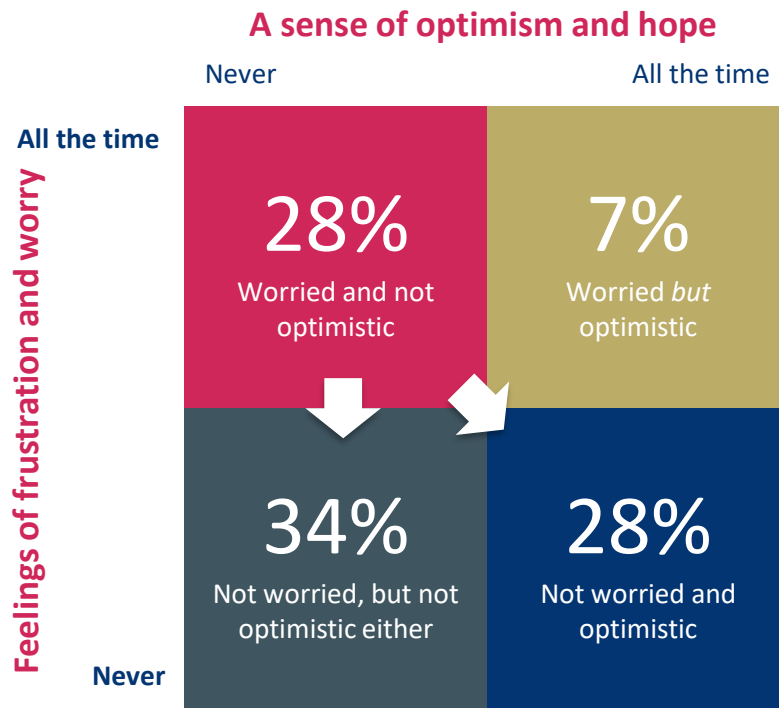
We asked businesses to tell us how often in the past two weeks they had experienced feelings of frustration and worry, or a sense of optimism and hope.

May results

A large proportion (42%) of businesses were distressed both now and for future prospects – and just 23% appeared in the most resilient quadrant.

October update

The arrows illustrate movement since May. Little has changed in the resilient quadrant at bottom. Yet, more businesses are optimistic despite being worried – with fewer in the worried and not optimistic quadrant. There's a significant increase of those who aren't worried, but aren't optimistic either – up 14% since May.



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Wellbeing

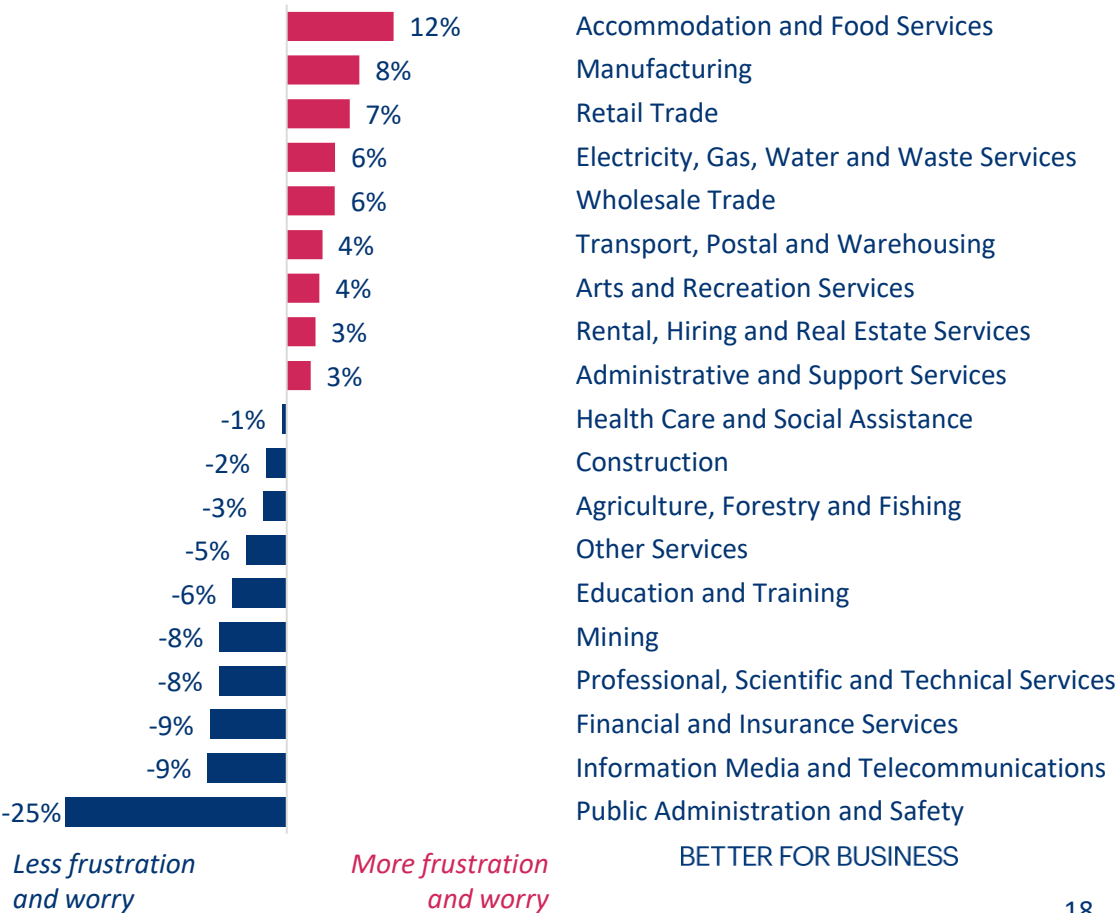
Results by industry

When comparing frustration and worry across industry categories, we see that Hospitality (Accommodation and Food) exhibits the highest relative frustration and worry, with a total of 48% frustrated and worried. Manufacturing and Retail are the next most frustrated and worried.

The least worried are those in the Public Sector (where job security has been a focus), Information Media and Telco, and Financial and Insurance services.

By observation, these are all predominantly office based businesses, with a higher likelihood of being able to work from home at any restriction level.

Frustration and worry vs. average
Average is 36% which is indexed to 0 in this chart



Summary

Business Health is mostly good, with some underlying concerns

A subsequent outbreak and lockdown would be quite severe for small businesses

20% of NZ's larger employers are likely to lay off staff in the coming months

Some quotes from Businesses – the good

“We would like to thank the government for the financial help we have received during the Covid-19 response, without it we would be struggling to stay trading and retain our employees. Ongoing work for our business is looking promising.”

“Thank you for the wage subsidy. This allowed me to interact in complete confidence with my team as we all knew where the business stood and reduced stress. It was paid efficiently and my questions were answered succinctly by government agencies.”

“I feel it would be helpful to acknowledge that there are many business doing well in these times. We are not all struggling. Good news would be good for boosting business confidence, both for the customer and the business sector. I do sometimes feel the 'survivor guilt' when I continually hear the big bad news every day.”

“The business loan scheme was good and a reserve fund option would be good for the business if another lockdown occurred.”



Some quotes from Businesses – the not so good

“Although revenue is in line with last year April - August 2020, it is expected to be down on last year from Sept 2020 - March 2021. Clients are not buying additional services and we have been working through our annual workload faster, so are likely to be short of work in several months time.”

“As a business which has suffered greatly from the COVID-19 lockdowns and the ongoing lack of business confidence in our industry market, we have done our utmost to keep our employees employed and the wage subsidy has been a great tool for this, but when your business has a large portion of revenue removed from the balance sheet every time a lockdown happens and it affects your cashflow, the wage subsidy is not enough, a business needs access to interest free loans or reduced interest loans to help the business pay for its expenses and weather the storms to get through the periods of no or very little income. Business need access to more funding for set expenses.”

“As a cafe my business relies on tourists. Many of my customers are middle aged or elderly and they do have concerns about coming out in public. COVID-19 has affected throughput in more ways than one. If it doesn't rain it pours. It's very stressful at present and I am about to put my business on the market - I think it's time to retire!”



DIGITAL CAPABILITIES OF NZ BUSINESSES

Why measure digital?

During the COVID-19 lockdown and the subsequent level restrictions in early-mid 2020, a range of anecdotal and industry feedback suggested that many businesses had 'pivoted' to remain operating. In so doing, many had to embrace new or different technologies to communicate, sell goods and/or promote their business.

With significant interest from both the private and public sector to both understand and support digital capability, and awareness that relatively little was known about the full current state of the digital capabilities of NZ businesses, B4B included a robust digital section in our research.

As mentioned in the introduction of this report, there were two main focus areas for the digital research:

1. **The digital state of NZ businesses** – a range of metrics illustrating the varying degrees of both interest and usage of digital technologies in NZ businesses; and
2. **The exploratory development of a digital index 'score' for NZ businesses** as a benchmark to track the changing interest and usage of digital technologies by NZ businesses.

The following slides reveal the key findings of this research as at December 2020. Note that further measurement and analysis into the digital capabilities of NZ businesses is ongoing.

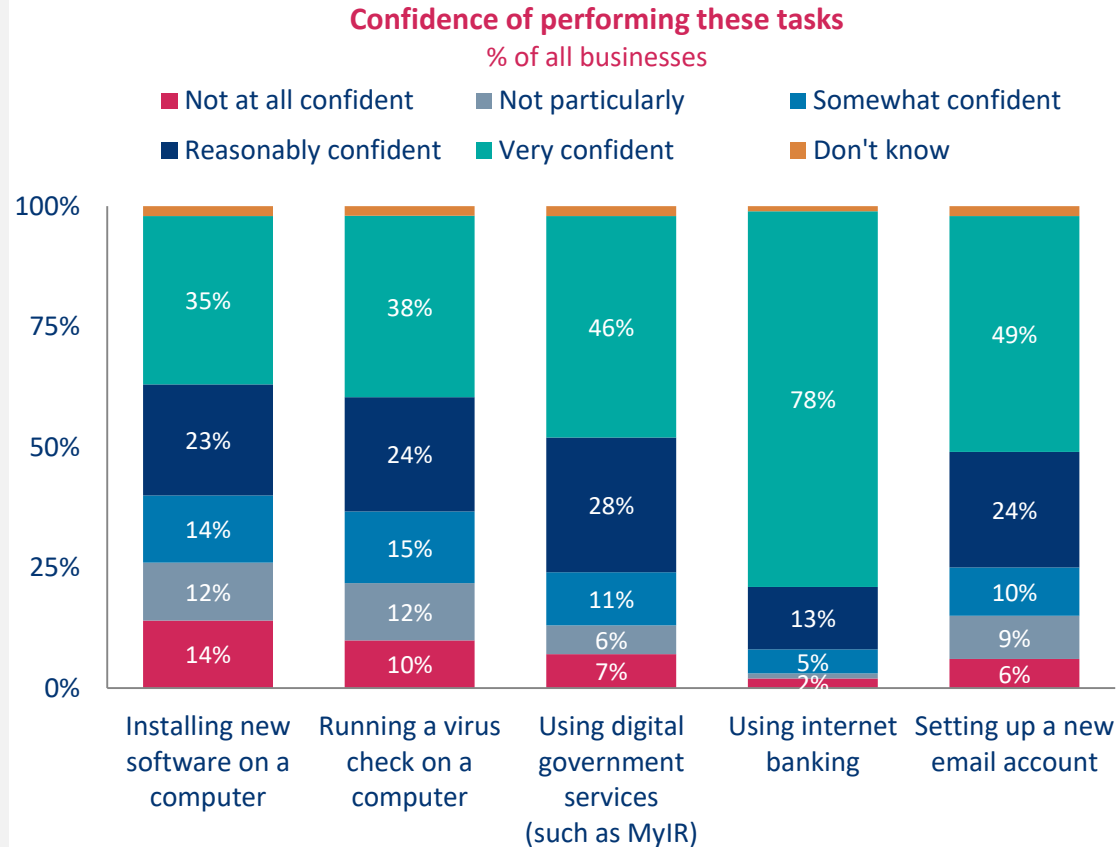
Digital Capability

Confidence with a few of the basics

As part of developing a Digital Index Score for NZ businesses, a small set of questions was asked regarding the confidence of performing relatively straight-forward and/or everyday digital tasks.

Though the majority indicated they were confident or very confident to do most of these things – a notable 26% of all businesses stated they were not particularly or not at all confident to install new software on a computer.

22% of businesses also stated they wouldn't be confident in running a virus check on a computer.



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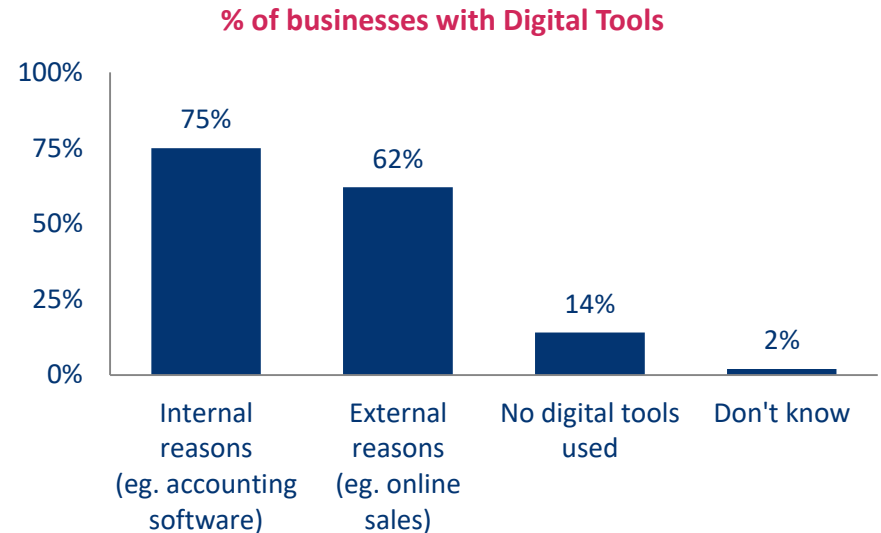
Digital Capability

Business usage of digital tools

75% of all businesses state they use digital tools of some nature for internal business purposes (this could range from using a smartphone or cloud services like accounting).

62% state they use digital tools for more external – or ‘customer focused’ – reasons, such as having a website for online sales or promotion via social media.

Just 14% of businesses said they had no digital tools in their business presently and were not online.



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Digital Capability

Current capabilities – internal tools

Of the tools asked about in the research, unsurprisingly mobile or smartphones are used by most businesses.

Potentially due to COVID-19 and lockdown, online communications and messaging tools are now used by half of all businesses.

Cloud accounting appears to have reached similar levels at 49%, with many employers also using cloud payroll (38% of employers).

Internal digital tools used by NZ businesses



Digital Capability

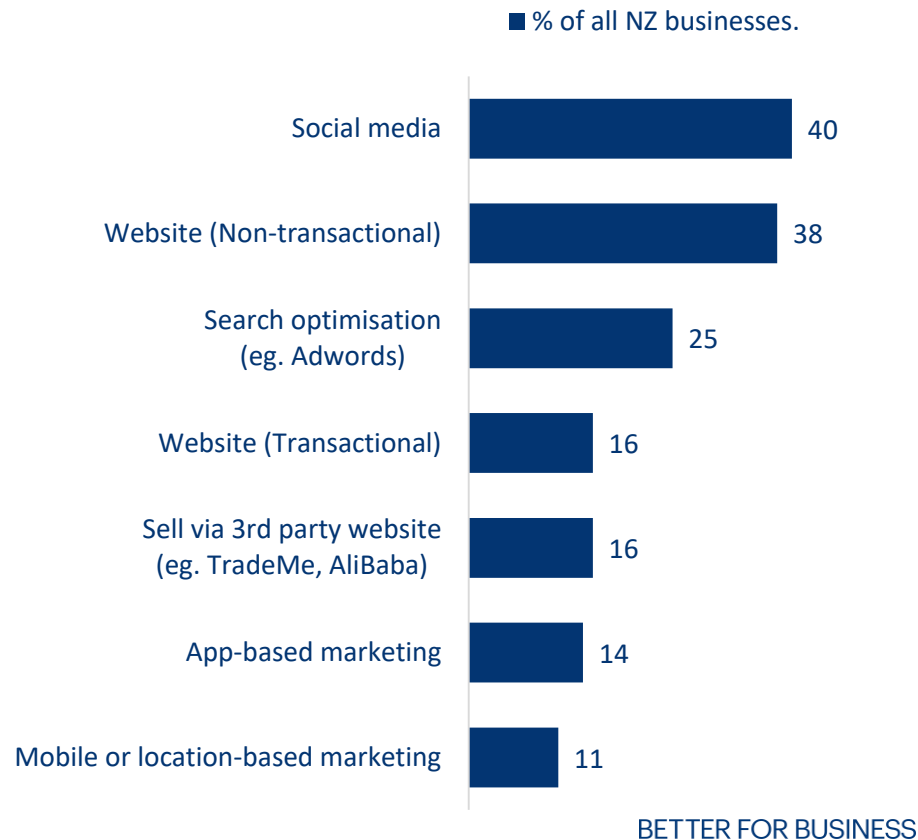
Current capabilities – external tools

Though many businesses have websites, slightly more are using social media to promote and/or sell.

A net total of 43% of businesses have a website of some sort (either transactional or non-transactional) – and some businesses report having both.

Relatively few are using mobile or location based marketing – though it should be remembered not all industries and business types would benefit from this approach or have the same need for external tools. For example, a dairy farm that sells to Fonterra has limited need for self-promotion other than perhaps to attract staff.

External/customer facing digital tools used by NZ businesses

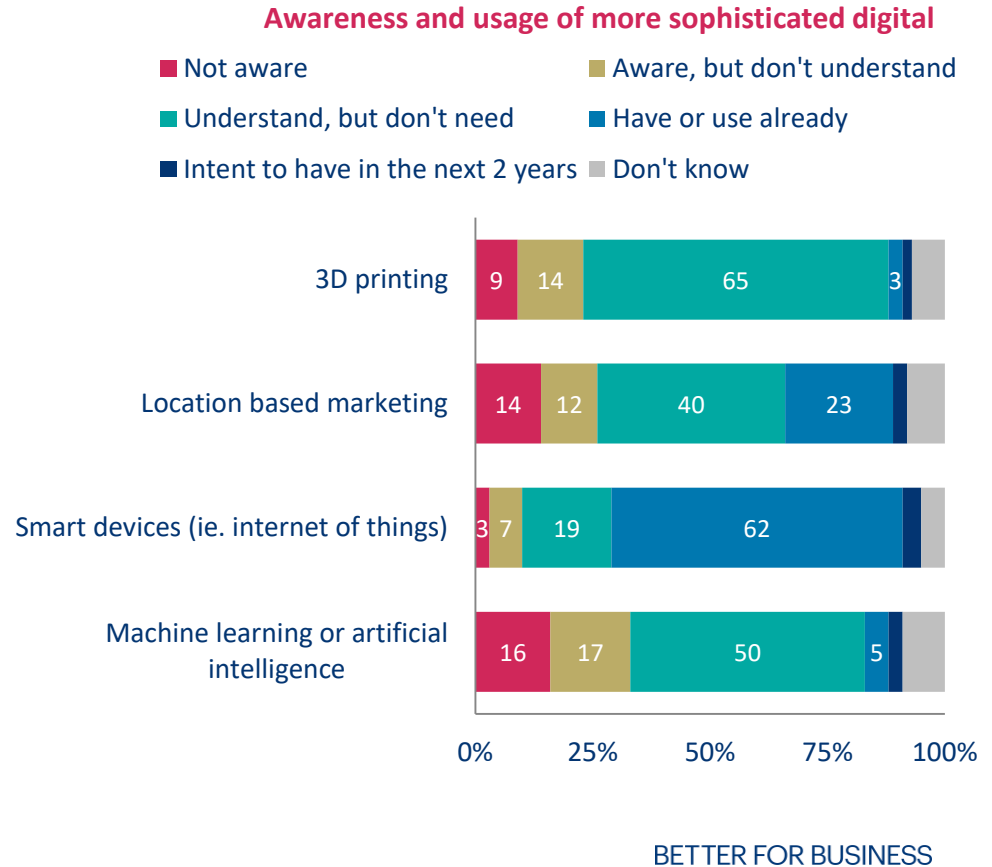


Digital Capability

More advanced digital

As a litmus test of the awareness and usage of more advanced digital technology and tools, businesses were asked about four digital areas that have more sophistication.

- 3D printing
- Location based marketing
- Machine learning/AI
- The internet of things (IoT).



Digital Capability

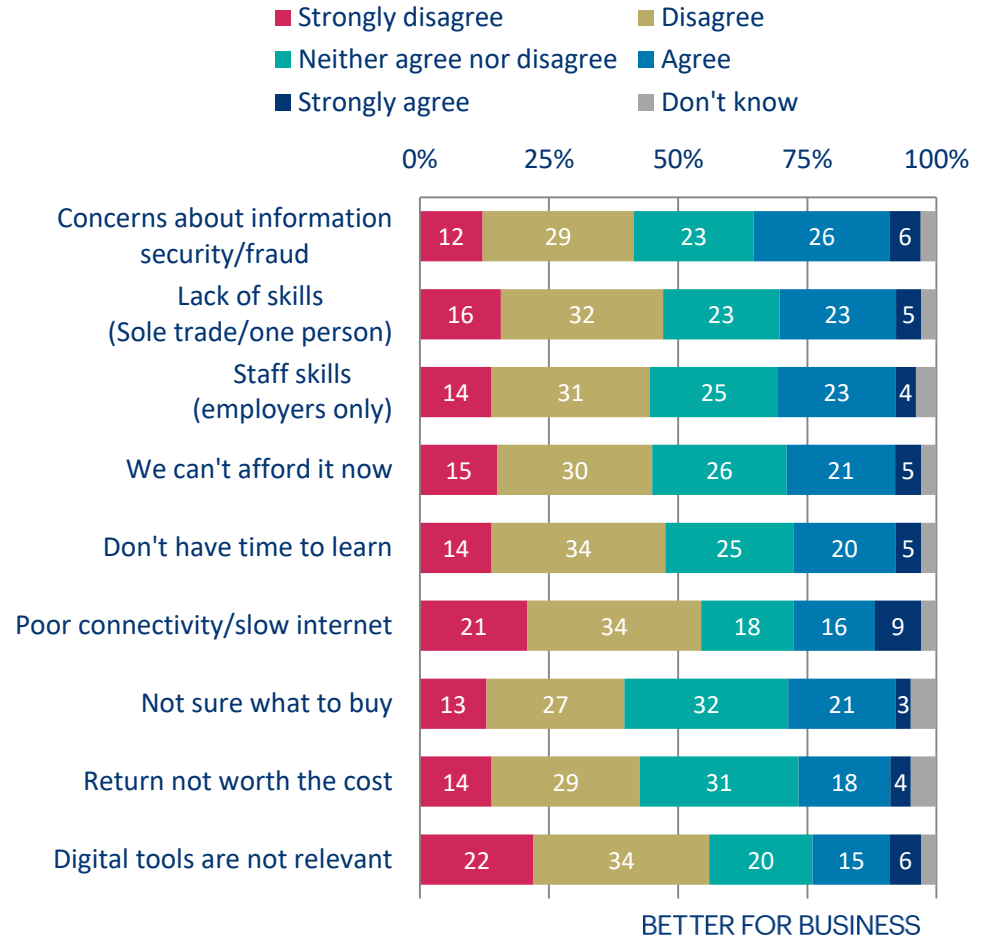
Barriers to digital uptake

Generally speaking, no *one* barrier appeared to stand out – with the majority of businesses seeing digital tools as relevant.

The main stated reason was a concern about internet security or fraud (32% agreed or strongly agreed).

However, their own skills (28% for sole traders and 27% for employers respectively) and concerns about affordability (26%) followed by not having time (25%) were the other main reasons.

Potential barriers to making greater use of digital tools



Digital Capability

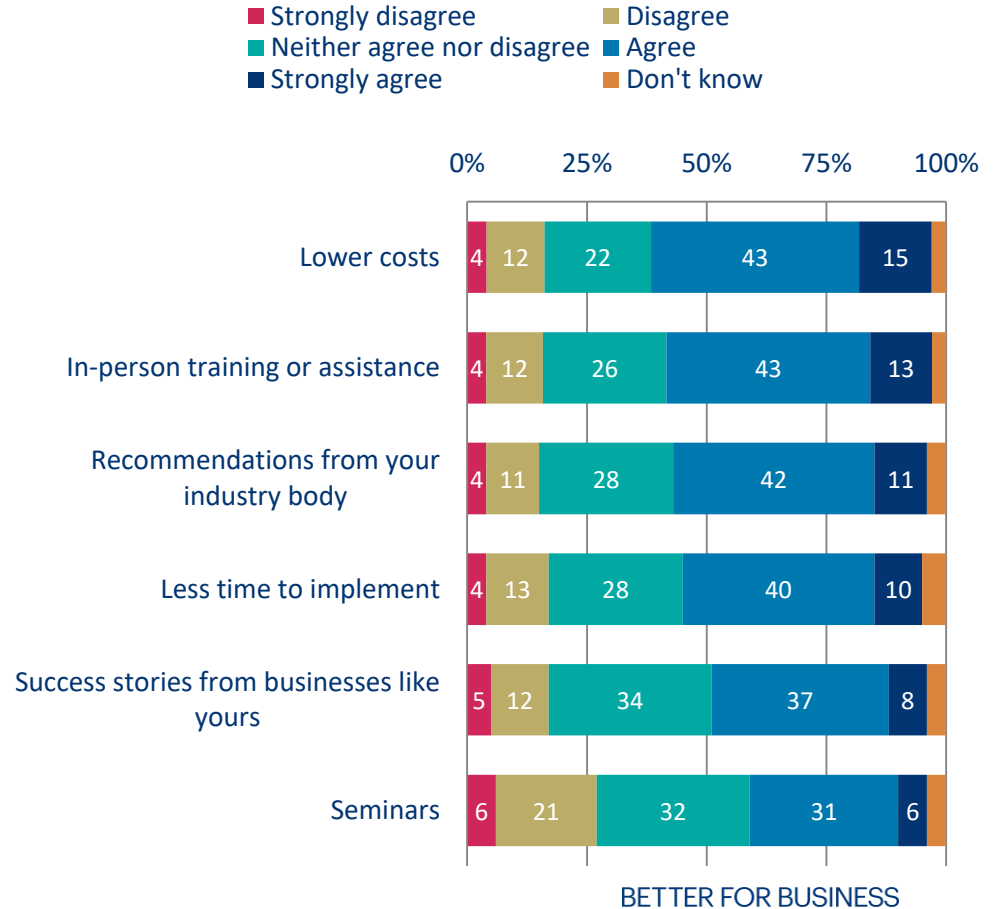
Opportunities and methods

58% of businesses agreed or strongly agreed that lower costs (of the tools) would help increase their usage of digital tools.

However, in-person training was a close second at 56%; recommendations from an industry body at 53%; and less time to implement at 50%.

Though lower, there was still moderate interest in digital success stories (45%), but only 37% agreed seminars would help.

What would help to increase use of digital tools



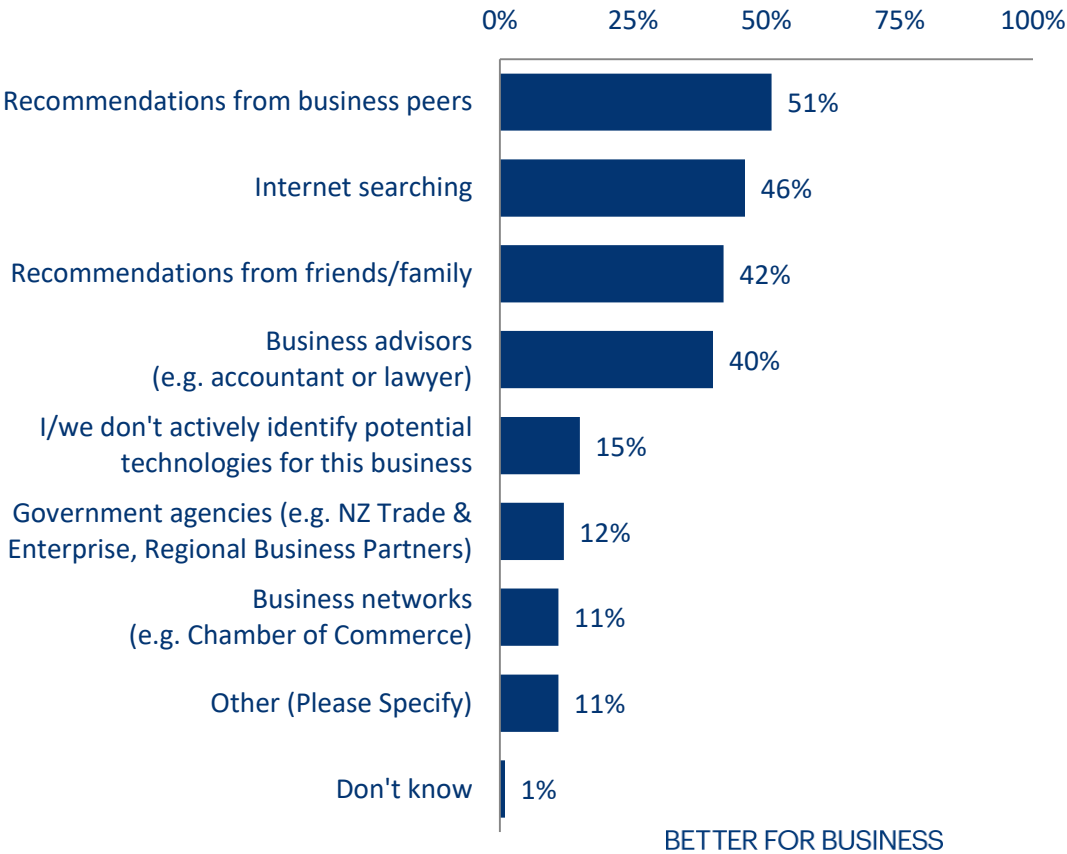
Digital Capability

Where do businesses go for advice?

The results are clear – businesses want advice from people they trust and their advisors; or by searching the internet, thereby finding the information they require and any endorsements thereof.

There is low interest in digital advice or recommendations being delivered by government agencies or business networks such as Chambers of Commerce.

Sources of advice/recommendations for digital tools



Choosing Digital

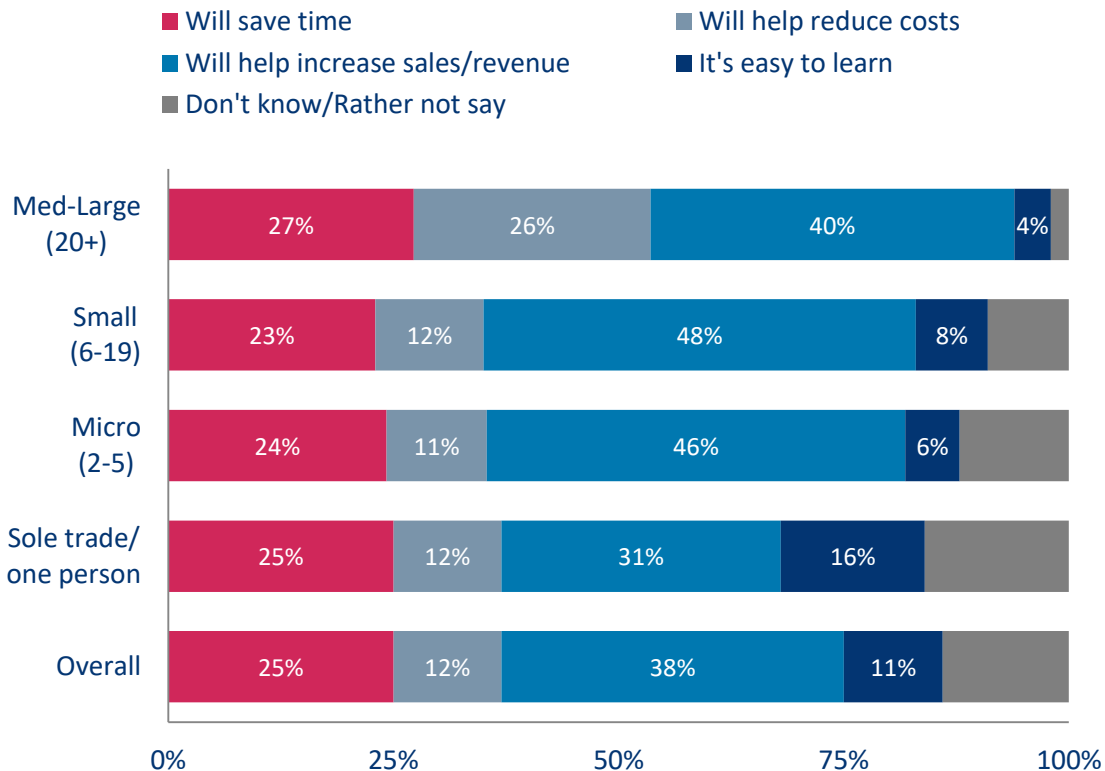
One main difference

Overall, increasing sales/revenue is important for most businesses (38%), followed by saving time.

By size, motivations don't appear to vary that much – with the exception of medium-larger businesses who are more likely to want to reduce costs using digital tools than those employing 19 or fewer.

One person/sole trade businesses were relatively more likely to want it to be easy to learn, since it's only them running the business.

Most important attribute when choosing digital tools



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Becoming more digital quotes

The most common considerations are cost, time and training / skills

"Affordability and practicality of tools and applications to farm and orchard, and overall business management and communication."

"Lower cost of virtual platforms for virtual consultations."

"Yes, financial assistance and training."

"Obviously lower costs in terms in purchasing hardware, software and training."

"Encouragement from government by way of tax deductibility or financial incentives."

"Time to understand and affordable cost to implement in this time where extra funds are not available."

"We need a better website but I don't have the time to make one at the moment."

"Time, knowledge, help from people with knowledge."

"Websites that are accessible from a digital library would give you 24 / 7 access and allow you to manage your time to watch and learn on topics / apps / tools of relevance to the business."



Key digital points

42% of businesses agree they want to be more digital. Security, skills, cost and time are the key barriers

In terms of advice, businesses want recommendations from business peers, from the internet or other trusted advisors

Uptake of digital tools will be best received through reducing cost, in-person training and providing recommendations

A DIGITAL CAPABILITY INDEX

Preliminary findings

The Digital Capability Index

What it's all about

B4B's Digital Capability Index is based on frameworks created by the OECD and by Lloyds Bank UK. These frameworks view digital as a multi-faceted construct by capturing businesses' digital involvement around access, use, investment, transactions and skills. By having different dimensions, we are able to look at the index as a whole, or at the individual component level.

At the component level, we get a better picture of how digital strengths and weaknesses vary across businesses. In understanding these strengths and weaknesses, both public and private organisations are better informed about where they should allocate resources when choosing to improve digital capabilities.



Scoring Digital

Preliminary findings

To enable us to construct a baseline Digital Index Score of all NZ businesses – where 100 is the most digital – businesses were asked 20 questions.

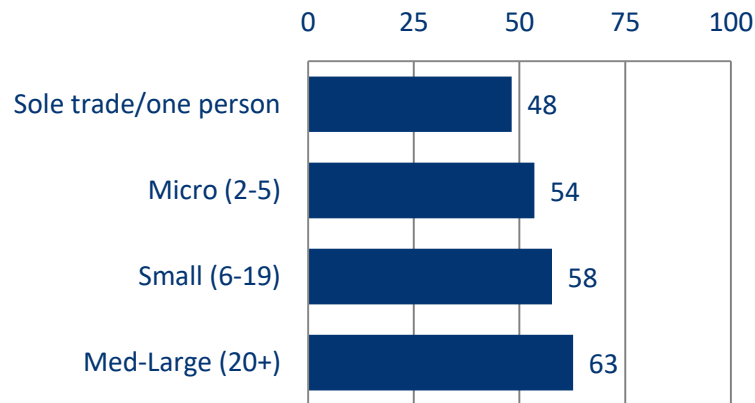
The Digital Index Score varies by many dimensions, for example business size (see graph on the right).

It should be noted that due to different business needs and application of digital technologies, a higher score may not necessarily mean 'better'.

For example, a retail business may have a variety of online, point of sale and inventory management systems and have a high index score. Whereas a dairy farm might have less need for this range of technology, so may naturally score lower, despite having very specific technologies employed in their operation.

The preliminary baseline digital index score for all NZ businesses is **51**/₁₀₀

Digital Index Score by size of business



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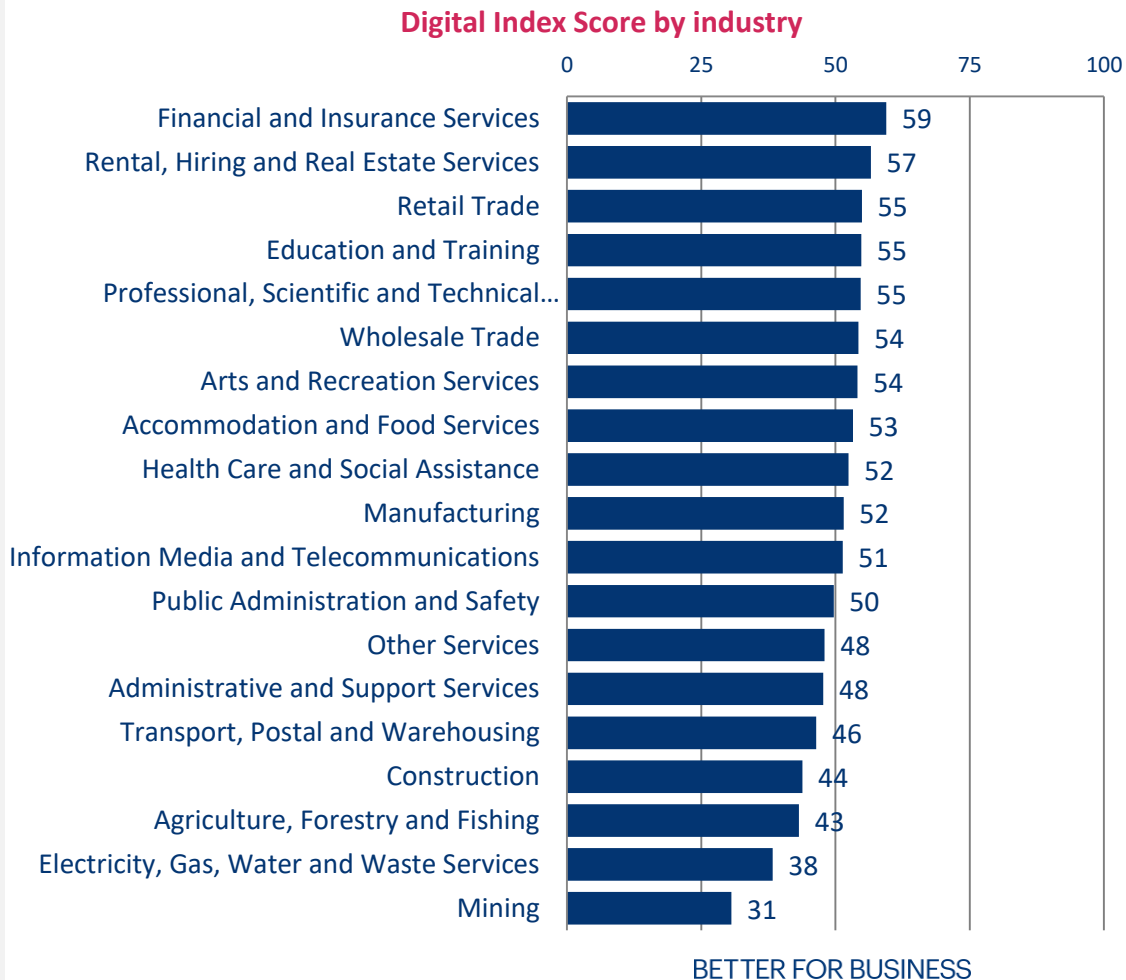
Digital Index Score

By industry

The Digital Index Score varies by industry. Though these results are preliminary, they support other research and anecdotes as to the digital capability, or lack thereof, in particular sectors.

Consideration should be given to the size of business and industry (amongst other things) in supporting their digital enablement.

A fuller and deeper summary of the digital index and its methodology will be developed subsequent to this report.



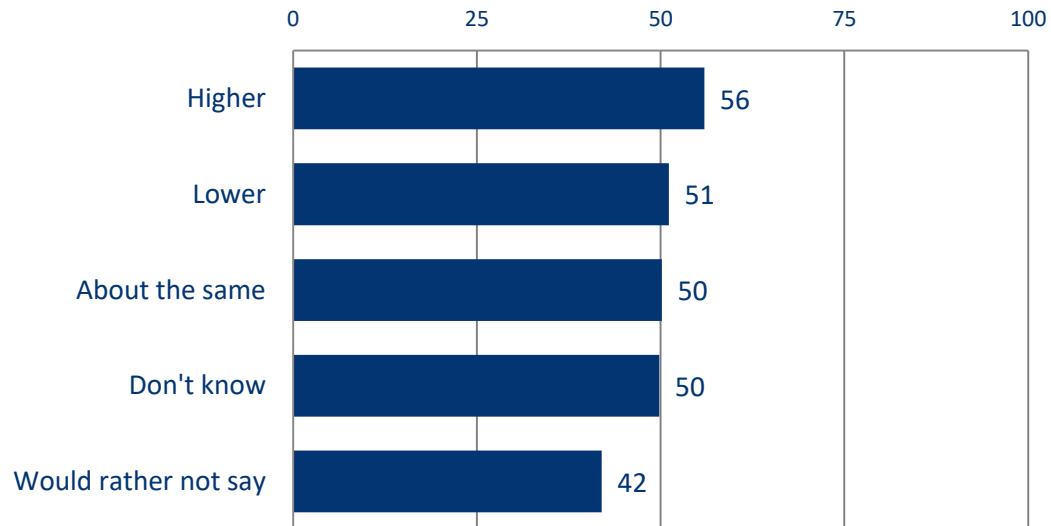
Health + Digital

Some clues already emerging

Although it's too early to tell if there is a productivity relationship between being more digital and increased revenues, when comparing the relative health of businesses (in terms of revenue) we see that higher revenues are associated with a higher Digital Index Score.

Further work is required to test if this is anything more than a correlation – such as the function of size and growth aspiration.

Digital Index Score by revenue change from 12 months ago



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FURTHER FINDINGS

The raw data

The questionnaire

And the raw data

If you have future questions or are interested in the raw (anonymised) data, please talk to the Better for Business team. We're happy to help.

The full set of tables with responses to each question produced by Research NZ is also available on request. These are broken down by high level industry, size and NZ geographic region.

Email: betterforbusiness@mbie.govt.nz