

The digital capability of New Zealand businesses in 2021

AN UPDATE ON THE NEW ZEALAND BUSINESS DIGITAL INDEX



Background

Understanding business digital capability

Based on research carried out in late 2020, Better for Business established the **New Zealand Business Digital Index**: a baseline measure of the digital capability, uptake, and adaptability of New Zealand businesses.

New research was carried out in November 2021 to determine whether there had been any changes in businesses' attitudes and behaviours – and, therefore, the Digital Index – one year on from the initial measurement.

For much of 2021, New Zealand managed to avoid the level of disruption caused by COVID-19 that most other countries had experienced. However, at the time of the research the pandemic had taken its toll, with many businesses reporting significant impacts to their income, ability to operate and wellbeing. (Our research also covered these issues – and they are summarised in a separate report).¹ For some, it meant that making their business more digitally enabled became a priority.

About this report

This report provides a brief update on the topics covered in our comprehensive benchmark report, published in 2021.² It also provides a focus on:

- Businesses' digital enablement in relation to their individual context and needs,
- Specific sectors and groups of businesses.

The research is again complemented by some high-level analysis conducted by BNZ, a member of the Digital Boost Alliance Aotearoa, examining recent trends in the uptake of different types of digital tools.



“As digital technology becomes more and more embedded in our economy, businesses must be supported to evolve with it and adapt their business models accordingly.”

Towards a Digital Strategy for Aotearoa ³

¹ Better for Business, 2022. *Business Health Update*. Available on request (betterforbusiness@mbie.govt.nz)

² Better for Business, 2021. *Understanding the digital capability of New Zealand businesses – A Digital Index benchmark*. Available at: <https://www.betterforbusiness.govt.nz/dmsdocument/17055-understanding-the-digital-capability-of-new-zealand-businesses>

³ Digital.govt.nz, 2021. *Towards a Digital Strategy for Aotearoa*, Available at: <https://www.digital.govt.nz/dmsdocument/193~towards-a-digital-strategy-for-aotearoa/html>

Background

About B4B

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 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.

B4B is currently focused on supporting small businesses to realise the benefits of digitalising their business, and working with other agencies and key digital influencers in the private sector to enable the delivery of digital skills training and support to small businesses as part of the Digital Boost™ programme. The insights generated from this digital research will continue to help inform and shape this activity.

About the research

A survey was conducted by Research New Zealand on behalf of B4B in November 2021.

2,212 New Zealand businesses and business-like entities such as trusts, clubs, societies, and charitable organisations – of all sizes and from all industries – were interviewed using both online and phone-based interviewing to ensure less digitally enabled businesses were included. The research used a new sample, i.e. it did not include respondents from the previous year's survey.

Answers are weighted to be representative of all New Zealand businesses, by industry category and business size (number of staff).



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³ Digital.govt.nz, 2021. *Towards a Digital Strategy for Aotearoa*, Available at: <https://www.digital.govt.nz/dmsdocument/193~towards-a-digital-strategy-for-aotearoa/html>

About the NZ Business Digital Index

A REMINDER

Responses provided by businesses to 20 critical questions are used to construct a Digital Index score of all NZ businesses – where 100 is the most digital and zero is the least digital.

This diagram shows how those 20 questions form part of a framework of dimensions, with ‘actual’ use – across 10 key types of digital tools – and ‘aptitude’, or potential for future use – derived from 10 attitudinal statements – providing a similar contribution to the overall score.

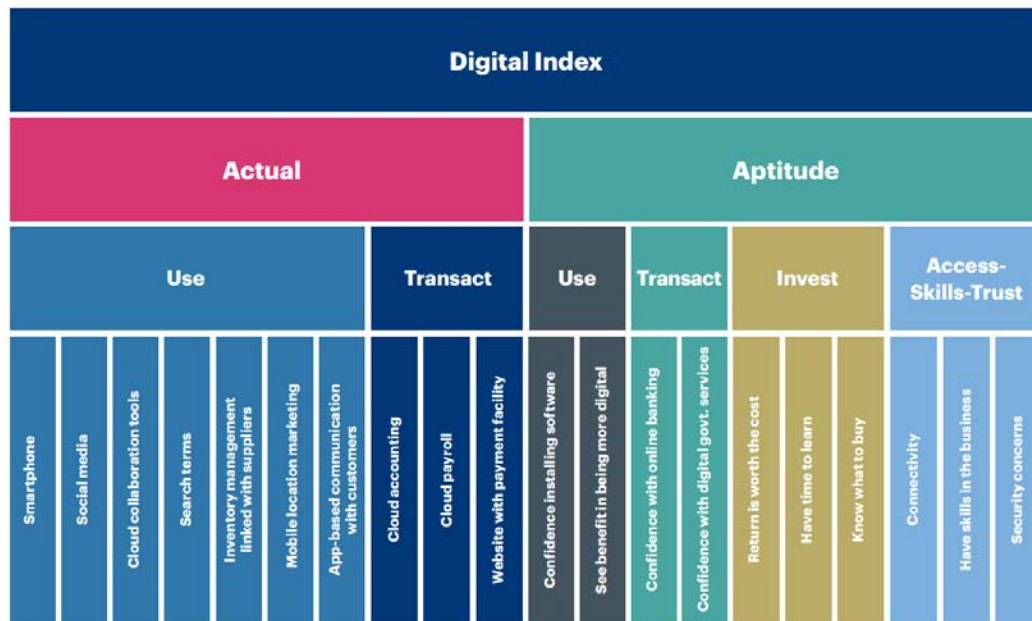
The dimensions shown here are partly aligned with the policy dimensions of the OECD’s *Going Digital Integrated Policy Framework*.⁴

The index methodology is unchanged from the initial approach used in 2020, but there were some minor questionnaire improvements in 2021 to address suspected under-reporting of digital tool usage in the initial survey. The index methodology may still evolve and be subject to revisions over time as we learn more about digital enablement, given the rapid pace of change happening in this arena.

The index serves as a barometer of the digital behaviours and attitudes of New Zealand businesses. It allows us to track changes over time, and the individual components of the index allow us to understand where to focus our efforts to support businesses.

To date, our research has not focused on the economic impacts of business digitalisation (including productivity improvements and other benefits achieved by businesses) and because it seeks to represent a broad range of businesses, it does not provide a deep understanding of the highest intensity technology sectors. Additional research would be needed to address these information gaps.

Basic overview of the Digital Index components



⁴ OECD (2020), *Going Digital integrated policy framework*, OECD Digital Economy Papers, No. 292, OECD Publishing, Paris, <https://doi.org/10.1787/dc930adc-en>

Executive Summary

What has changed since 2020?

Businesses are making greater use of productivity-enhancing tools

BNZ's supporting analysis confirms B4B's findings that uptake of tools such as cloud accounting and cloud payroll continued to increase in 2021. Uptake remains a function of scale for many small businesses, but we have seen increases in most industry sectors.

Most businesses are visible online, but they are not necessarily actively promoting themselves

Most businesses are now 'discoverable' online; but our findings suggest that many still have a passive rather than active presence. There was some under-reporting of use of websites and social media in 2020 and we are now seeing a more accurate picture.

Confidence and motivation have lifted slightly

Perhaps reflecting the greater use of digital tools, more businesses are now confident with the basics of operating digitally and more see the benefits of further growth.

But some significant concerns are holding businesses back ...

Increasing levels of concern about information security and lack of skills have had a negative effect on the Digital Index.

The Digital Index score has increased

Our initial exploration of businesses' digital enablement in 2020 produced a baseline Digital Index score of 51/100. The increasing prevalence of barriers has a negative impact on the overall score, while improvements in aptitude and uptake have a positive impact. The net result of the key changes shown to the right is a 7-point uplift to **58/100** in 2021.

Reflections on 2021 findings

Wide-ranging support and a compelling story are still needed

While our overall measures of digital motivation and adoption are moving in the right direction, we do, of course, continue to see a range of attitudes and behaviours.

However, it is worth noting that almost all businesses would be likely to benefit from some type of support to help them maximise the benefits of digitalisation. 88% can identify at least one barrier to further digital enablement. A third can identify at least one critical barrier.

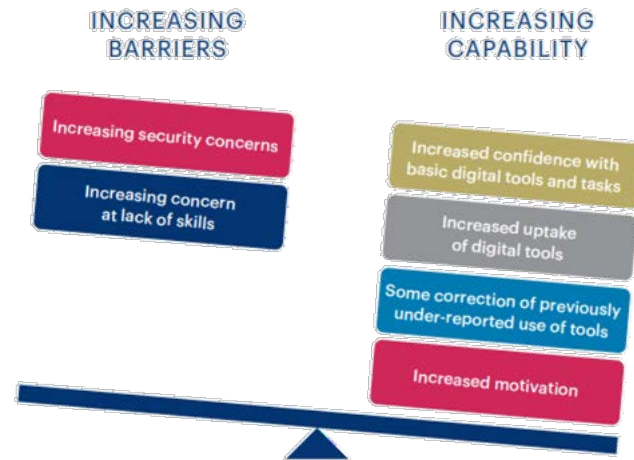
A quarter of our most digitally advanced businesses agree that they are being held back by a lack of skills, while others in this group are severely restrained by security concerns, internet connectivity or cost pressures. And many still struggle to make the right decision about which tools they should invest in.

At the other end of the spectrum, we have businesses who are held back by all these things, along with low confidence and low awareness – and for some, a limited understanding of what 'digital' really means and why it's relevant.

There remains a strong need to reach all corners of the business community with:

- A compelling story of what 'digital' is and the benefits it can bring
- An awareness of what support is available – communicated in a way that talks to individual needs and motivations
- The ongoing development of tailored support that reflects the varying needs of businesses and their stages of digital adoption – and addresses critical barriers.

Changes impacting the Digital Index



Overall Digital Index score



Executive Summary (cont'd)

Helping businesses take the next step

This report examines the differences between businesses that have different levels of adoption and 'aptitude' for digital, to help us understand where different types of support are needed.

It reveals that having your own website, or using cloud accounting and cloud storage, is no longer enough to count yourself as a truly 'digital' business. More than half of our 'Late Majority' businesses already use these tools.

These tools could represent building blocks for further additional adoption – helping businesses to gain confidence and start realising benefits – as well as potential channels through which to reach later-adopting groups with further support.

This also reminds us that the goalposts are shifting and there is a danger that some businesses could still easily be left behind.

At the same time, we see a discrepancy between current recognition of the benefits of being more digital, and acknowledgement that digital needs will be different in five years' time – the latter, of course, being significantly greater. 43% of businesses haven't yet given their digital needs much consideration.

Xero's *One step* report provides useful insights into the common mindsets and behavioural behaviours of business owners that prevent them from taking action to improve their digital enablement, and advice on how to support those businesses.⁵

Lenses on different sectors/business types

Although needs and attitudes vary significantly within each industry, an industry lens (as offered in the third section of this report) can still be useful. For example, we see that:

- The retail and hospitality sectors are relatively digital but are particularly likely to be held back by a lack of skills – often among staff as well as the business owner themselves. Cafes and restaurants, for example, could be making more advanced use of online platforms to drive sales.
- Agriculture is not necessarily lagging other sectors – and improved rural internet connectivity could even see it leaping ahead.
- In the currently in-demand construction sector, there are many who still don't see the relevance and value of going digital – particularly sole traders. But for some, an underlying lack of awareness and lack of confidence could be the causes of these attitudes.

In its latest report on the digital enablement of UK small businesses, Lloyds Bank recommends that sole traders should be prioritised as they are 'an overlooked group' that is lagging in digital enablement.⁶ We see a similar trend in New Zealand and have included a more detailed look at sole traders in this report – identifying three different groups with different needs and behaviours.



⁵ Xero, 2021. *One step: Behavioural barriers to technology adoption amongst small businesses – and how to overcome them*. Available at: <https://www.xero.com/content/dam/xero/images/xsbi/one-step-report-nov-2021.pdf>

⁶ Lloyds Bank, 2022. *UK Business Digital Index: How digital are small businesses?* Available at: <https://www.lloydsbank.com/assets/resource-centre/pdf/businessdigitalindexreport.pdf>

Current use of 'internal' digital tools

We suspect some under-reporting on the use of cloud accounting and online communications tools in 2020 (hence a survey improvement in 2021).

But BNZ's supporting analysis (see next page) indicates that uptake of productivity-focused digital tools has genuinely increased in the past year.

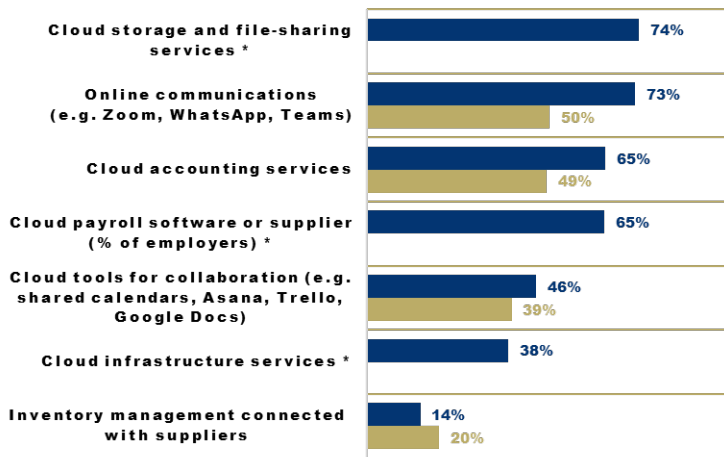
Cloud storage and file-sharing services are now widely used by businesses.

As we saw in 2020, usage of the tools shown here is often related to size and annual turnover, and it is also strongly related to a business's desire to grow.

59% of sole traders who want their business to grow are using cloud accounting software (vs. 45% of sole traders who do not want to grow)

The hospitality and retail sectors are not only using digital tools for sales and marketing purposes – they're also the most likely industries to use cloud accounting

% of businesses using each tool: 2020 vs. 2021



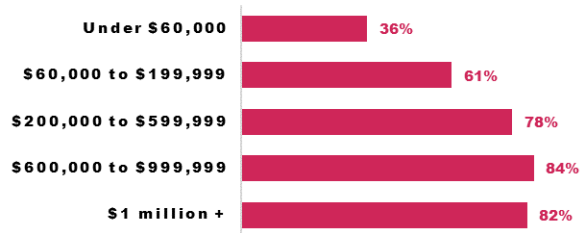
* Results only available for 2021

■ 2021 ■ 2020

Usage by size and industry: 2021

	Sole traders	Small (2-5)	Medium (6-19)	Large (20+)	Highest industry	Lowest industry
	70%	78%	78%	80%	IT, media, telco (95%)	Construction (54%)
	72%	70%	76%	94%	Education and training (94%)	Transport, postal (50%)
	52%	81%	85%	79%	Hospitality (78%)	Recreation & arts (48%)
	-	59%	78%	79%	Health care & social (80%)	Real estate, rental (54%)
	45%	43%	54%	69%	IT, media, telco (76%)	Ag., forestry, fishing (20%)
	38%	36%	44%	61%	Insurance, finance (65%)	Construction (20%)
	11%	15%	26%	34%	Retail (37%)	Prof., science, tech. (6%)

Use of cloud accounting by annual turnover



Use of cloud payroll by annual turnover (employers)



Uptake of cloud accounting services continues to grow

BNZ's supporting analysis tracks the proportion of their business customers that have spent money with selected providers of cloud accounting services, over time.

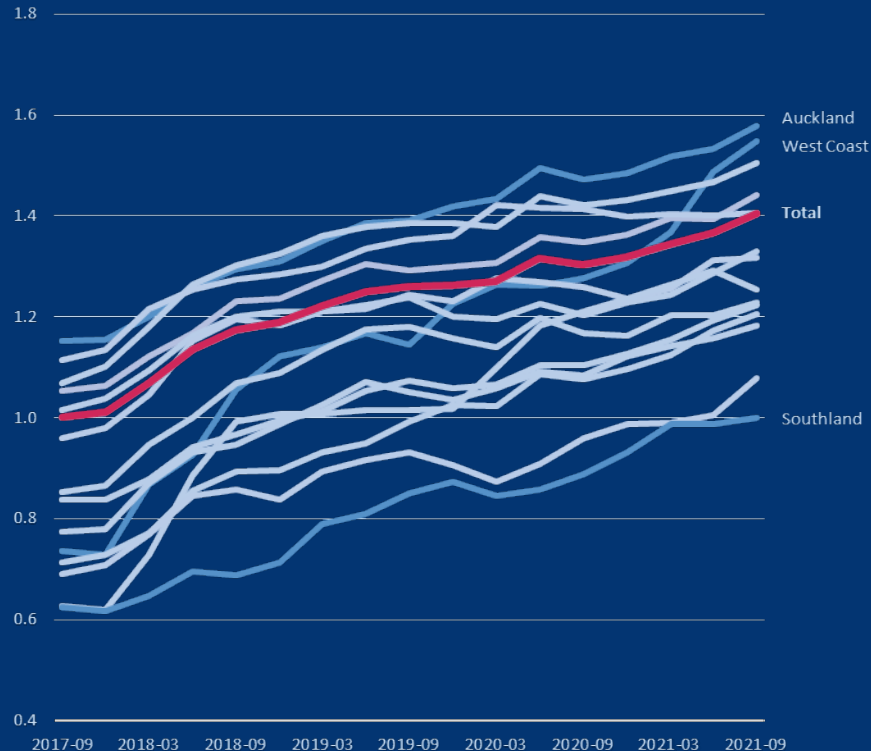
To protect the commercial sensitivity of BNZ's data, this chart shows the relative increase in uptake of these services between the baseline period – the quarter ending 30 September 2017 – and the quarter ending 30 September 2021.

It also shows regional uptake relative to the September 2017 result for all businesses.

These results indicate that businesses' use of cloud accounting has continued to grow and is now 40% higher than it was four years ago.

Most regions have followed a similar pattern over time except for the West Coast, which has seen accelerated growth in the last 12 months.

Auckland, Canterbury, Hawkes Bay and Wellington continue to show above-average uptake, while the Gisborne and Southland regions are lowest.



Source: BNZ

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Cloud payroll usage also continues to rise

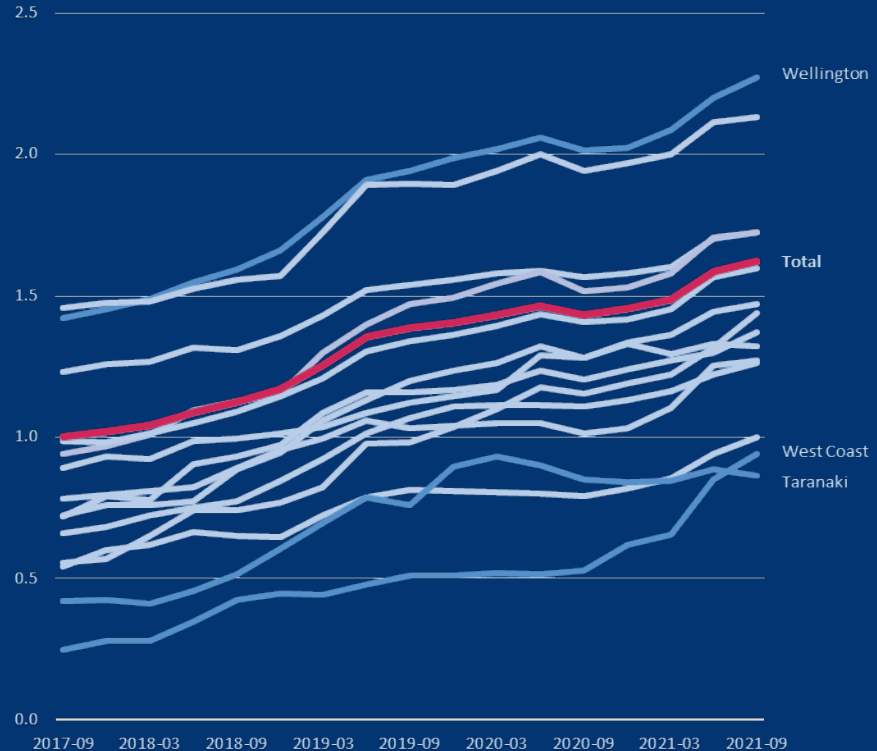
The proportion of BNZ business customers showing evidence of spending with cloud payroll software providers was also compared against the September 2017 baseline result.

Although the rate of uptake has slowed since early 2019, it continues to grow and is now 62% higher than it was in 2017.

Source: BNZ

The Wellington and Bay of Plenty regions continue to show the highest rates of uptake, while Taranaki, West Coast and Southland remain the lowest-scoring regions.

However, as we saw with cloud accounting services, West Coast has shown accelerated growth in the past 12 months.



Current use of 'external' digital tools

We suspected some under-reporting of social media and basic website use in 2020.

But 2021 results illustrate that the vast majority of NZ businesses have at least some form of online presence: 79% use at least one of the tools shown here and 63% have their own website.

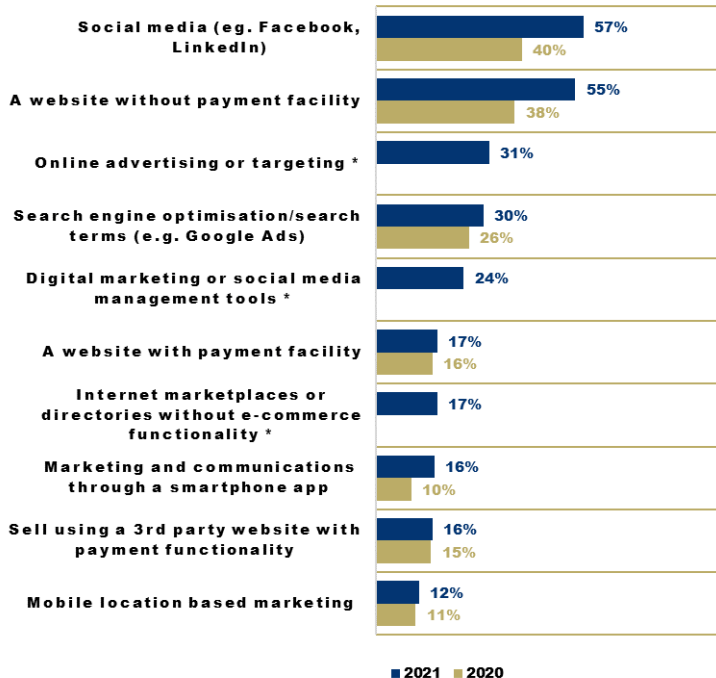
However, while most businesses are now visible online, many are unlikely to be actively promoting themselves online:

- Only 24% are using digital marketing or social media management tools.
- And when we surveyed businesses in early 2021, less than 40% said they were actively promoting themselves on social media.

20% of businesses use **none** of these tools.
17% use only one (typically a website or social media or an internet marketplace)

47% of hospitality businesses and 44% of retail businesses are using **five or more** of these tools

% of businesses using each tool: 2020 vs. 2021



* Results only available for 2021

Usage by size and industry

Sole traders	Small (2-5)	Medium (6-19)	Large (20+)	Highest industry	Lowest industry
51%	61%	77%	81%	Hospitality (82%)	Ag., forestry, fishing (42%)
44%	66%	76%	80%	Insurance, finance (73%)	Ag., forestry, fishing (27%)
23%	38%	47%	55%	Retail (53%)	Prof., science, tech. (15%)
23%	34%	48%	55%	Retail (47%)	IT, media, telco (15%)
17%	31%	40%	45%	Hospitality, retail (43%)	Construction (6%)
14%	18%	25%	31%	Hospitality (44%)	Construction (6%)
15%	18%	22%	22%	Construction (23%)	Transport, postal (9%)
17%	13%	20%	23%	Hospitality (34%)	Wholesale trade (7%)
14%	19%	17%	16%	Retail (46%)	Insurance, finance (3%)
9%	13%	20%	24%	Hospitality (29%)	Prof., science, tech. (4%)

Some businesses reported having both a *website with payment facility* and a *website without payment facility*, and therefore the total number of businesses with a website (63%) is less than the sum of those two scores.

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More businesses are spending on social media when COVID restrictions are in place

The proportion of BNZ business customers showing evidence of spending on social media was also compared against the September 2017 baseline result.

Analysis is based on spending with native platform providers (i.e. it does not include use of social media management tools).

Because it is possible to use social media platforms without paying for them, this analysis is necessarily focused

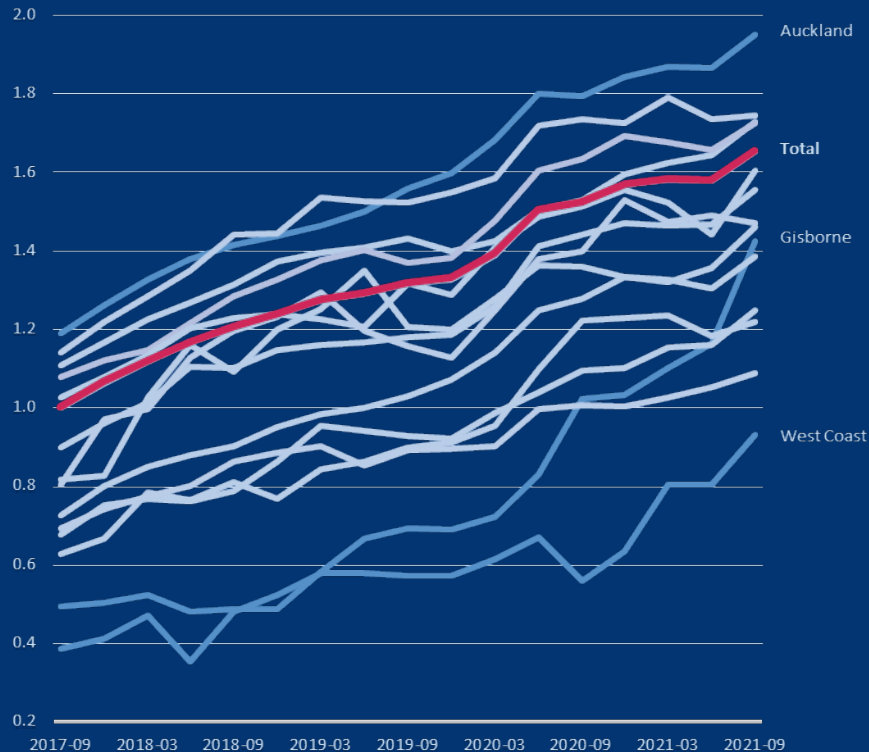
on businesses that are making the most use of these technologies.

Uptake is up 65% compared to 2017.

We can see marked upturns at the time of COVID-19 lockdowns – particularly in some regions like Gisborne and Auckland.

Auckland, Otago, Canterbury, and Wellington have above-average uptake of paid social media.

Source: BNZ



'Other' digital tools

The 2021 survey invited businesses to describe other types of digital tools they were using, that were not covered by the options listed in the questionnaire.

The types of digital tools mentioned most frequently were:

- Customer Relationship Management (CRM) solutions
- Industry-specific work management software (e.g. Fergus, WorkflowMax, Gensolve)
- Specialist software required to perform core activity (e.g. CAD, analytics software)
- Online booking and application systems
- Digital point-of-sale solutions
- Adobe and Google products
- Software developed in house.

Most businesses that are using these other types of digital tools are already using many of the basic types covered in the survey.

This means that the new question did not uncover any further digitally-enabled businesses other than those already identified using the existing tool options.

"As a result of COVID-19, we have invested significantly in cloud-based technology including a specific designed client management system using Microsoft Azure."

"The business is currently investing in dedicated marketing resource to drive use of this technology and social media."

"I use WhatsApp for sending-receiving sketches & pictures from builders & site-contractors frequently."

"As dairy farmers we use a lot of apps specific to our industry e.g. MINDA, Fonterra's app, etc."

"We use integrated systems for online ordering (takeaway food and click & collect). We are also trialling a table ordering system for customers to use smart phones to access our menu and order from the table using QR codes, including an option to pay direct on order."

Barriers to digital enablement

Security concerns have risen sharply in prevalence since 2020, amid a backdrop of multiple high-profile breaches in the last year. However, only 12% 'strongly agree' this is holding them back.

A lack of skills is also creating increasing concern for businesses – particularly larger employers. As we saw last year, this is generally perceived to be less of a problem for sole traders, although one in three still consider it a barrier.

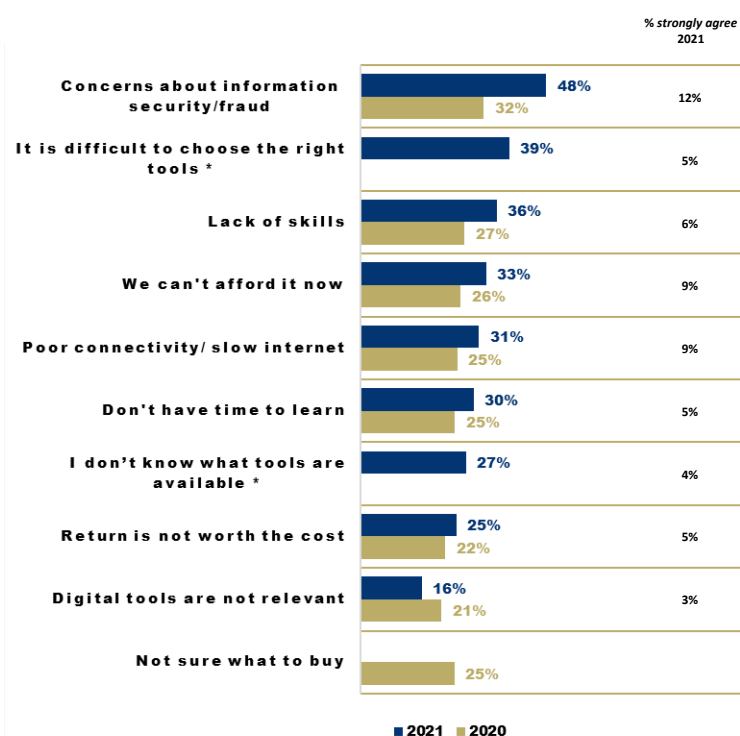
As business digital enablement grows, the lack of skills required to get the most out of digital tools may be becoming more apparent. And we know that businesses are experiencing skill shortages more generally.

Affordability concerns have grown, and this is particularly evident among those whose financial reserves have been stretched during COVID-related restrictions and those who have lower turnover.

The increase in **security concerns** between 2020 and 2021 was relatively universal across industries

The retail sector remains the most concerned about **lack of skills**. However, the health/social and education/training sectors are, unfortunately, catching up

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



* Results only available for 2021

Most likely to see this as a barrier	Least likely to see this as a barrier
Hospitality	IT sector
Education and training	Hospitality
Retail Larger employers	Sole traders Manufacturing, IT sector
Arts & recreation, Admin & support services, Other	Finance/insurance
Agriculture/Forestry/Fishing, Transport, Accommodation	Finance/insurance
Retail	
Construction, Arts & recreation	
Construction	
Construction	Finance/insurance, Retail, Property

88% of businesses identify at least one barrier to digital enablement. 34% *strongly agree* with at least one of the barrier statements listed here

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Confidence using digital tools

The measures below of business confidence in using digital tools also form part of the Digital Index. They tell us the extent to which businesses are getting to grips with the 'basics' of operating in a digital environment.

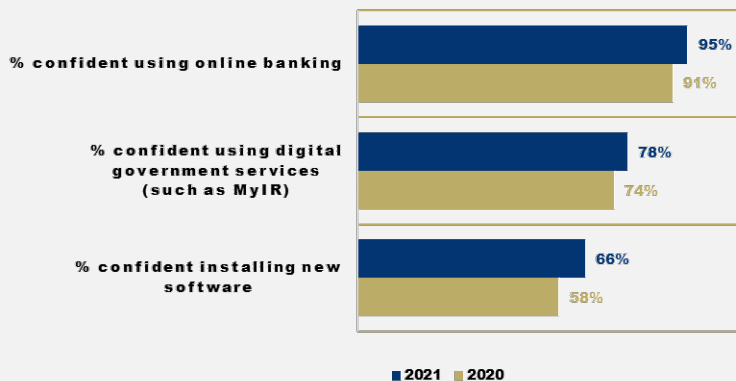
Almost all businesses are now confident using online banking and we have also seen a significant increase in the proportion of businesses stating they are confident installing new software – perhaps reflecting the increased use of digital tools in general.

Survey responses suggest that behaviours are changing when it comes to business engagement with **government services**. If we exclude those who are not registered for GST, 69% of businesses filed their GST returns using digital channels in 2021 – up from 60% in 2020.

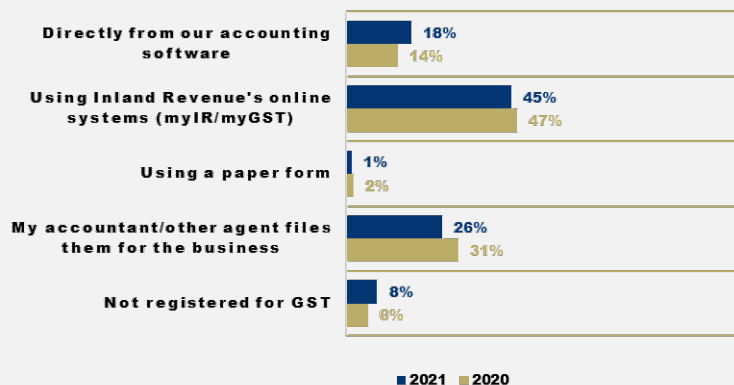
While sole traders are less likely than other businesses to regard their own skills as a barrier to being more digital, they are also less likely to be confident installing new software. And this is true of both motivated and unmotivated sole traders (although the former are more confident than the latter).

We should not underestimate the need for sole traders to improve their skills and confidence using digital tools.

Confidence in using digital tools



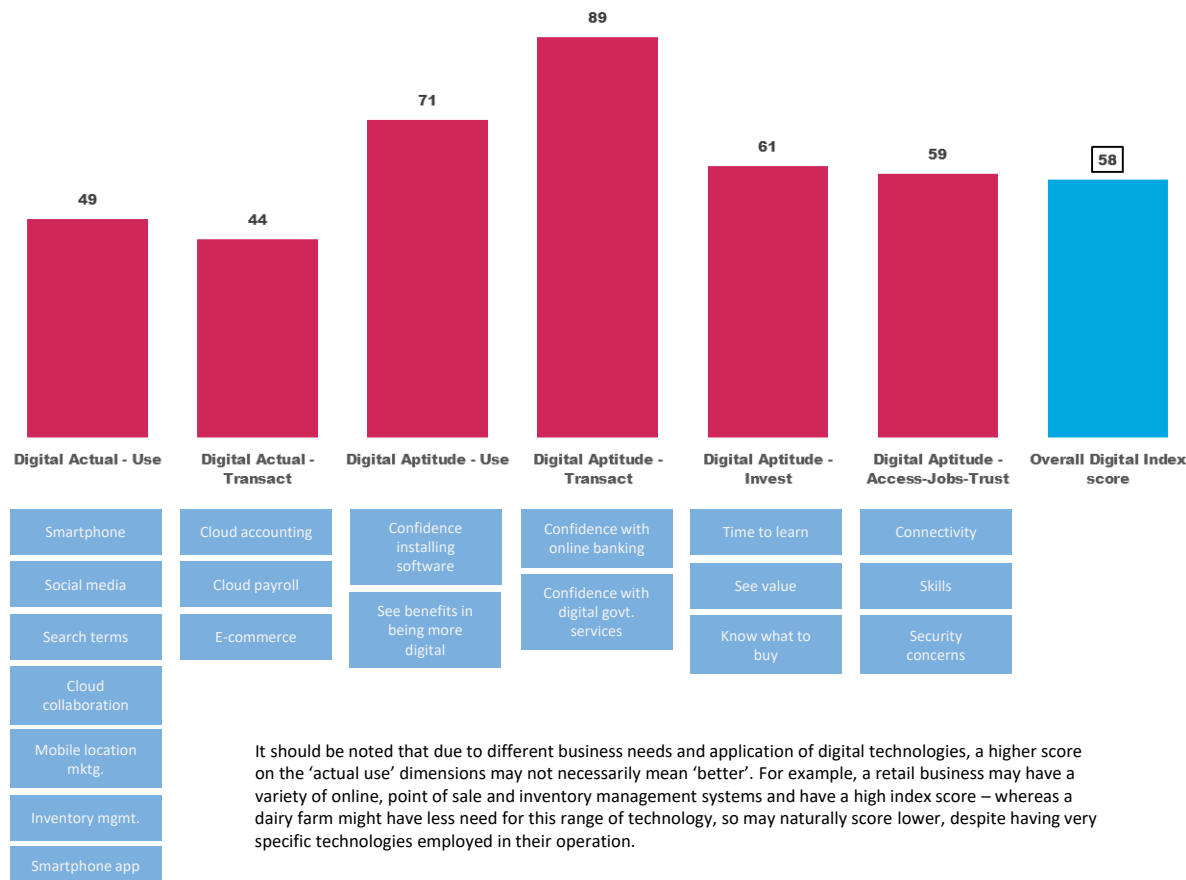
How GST returns are currently filed



% confident using digital government services (2021)

86%
85%
52%
65%
69%

The current state of the Digital Index



It should be noted that due to different business needs and application of digital technologies, a higher score on the 'actual use' dimensions 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.

This chart shows the latest scores for the different dimensions of the Digital Index. Each dimension has a maximum score of 100.

Digital 'Actual' dimensions

There is still scope for increased use of common tools such as social media (currently used by 57% of businesses) and cloud accounting (65%) – even though they are now used by more than half of businesses.

Most businesses still only have a basic online presence and are not yet making the most of digital tools to connect with customers.

Digital 'Aptitude' dimensions

As we saw previously, 30% of businesses are still 'on the fence' when it comes to seeing the benefits of being more digital, and this presents an opportunity.

Efforts to help businesses recognise the benefits of digital enablement will need to directly address some key barriers, which have increased in prevalence this year. There is still considerable scope to reduce the level of concern businesses have about information security, for example.

Confidence using basic digital services like online banking and government services is high and there is little room to improve. However, 22% of businesses are not yet confident using digital government services.

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Current index scores by industry, size, turnover

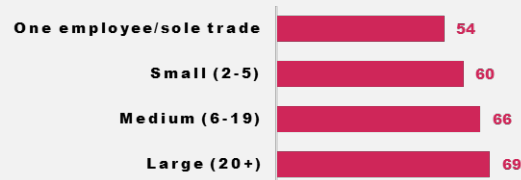
Average index score by industry



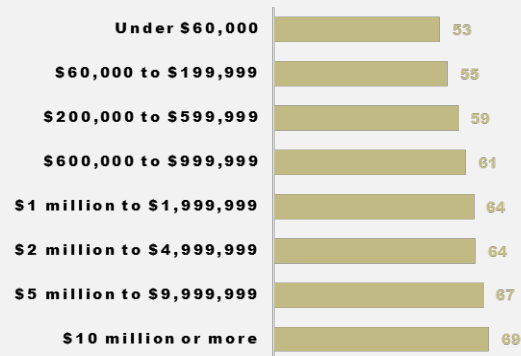
Most industry sectors have relatively similar Digital Index scores – with a few exceptions at the higher and lower ends of the scale. Some of these exceptions are examined in more depth later in this report.

The relationship between size/turnover and digital capability is evident across all dimensions of the Digital Index. However, the difference between small and large businesses is far more pronounced on the dimensions relating to current use of digital tools (as opposed to the 'aptitude' dimensions).

Average index score by size



Average index score by turnover



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UNDERSTANDING DIGITAL ADOPTION

Checking in on the 'digital divide'

Our 2020 report warned of the dangers of a 'digital divide' opening among New Zealand businesses; because those who were most digitally enabled were also the most motivated to do more.

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:

- Eight times more likely to use social media
- Four times as likely to have their own website
- Three times as likely to perceive benefits in making greater use of digital tools
- Almost three times as likely to be confident installing new software.

These differences illustrate a clear gulf between the most and least digitally enabled businesses in New Zealand.

However, there are some promising signs:

- More than a third of Final Adopters and most Late Majority businesses are already making use of productivity-enhancing tools such as cloud accounting and cloud storage/file-sharing. These represent building blocks for further digital adoption, and potential channels through which to reach later-adopting groups with further support.
- Confidence is likely to play a significant and perhaps underestimated part in slowing uptake among Final Adopters. This is something that can be directly addressed through initiatives such as Digital Boost.

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

	Innovators and Early Adopters	Early Majority	Late Majority	Final Adopters
Index range	70-100	58-69	46-57	0-45
Number of businesses	90,000	190,000	190,000	90,000
Use of tools				
Cloud accounting services	90%	77%	55%	34%
Cloud storage and file-sharing	96%	83%	70%	42%
Own website	96%	75%	53%	24%
Social media	94%	74%	44%	11%
Search engine optimisation	79%	35%	14%	2%
Attitudes and behaviours				
See benefits of being more digital	70%	56%	45%	22%
Confident installing new software	88%	75%	61%	31%
Want the business to grow	80%	62%	48%	33%
Key characteristics				
Sole traders	28%	50%	64%	77%
Stand-out industries	Hospitality Retail Trade	Property/real estate	Arts & recreation services	Construction Agriculture Transport
Office or home-based	61%	59%	52%	34%

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, 56% of businesses want to grow and 54% are 'actively looking for new customers'.

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, seeking new customers and need to communicate frequently – all areas that digital tools can support.

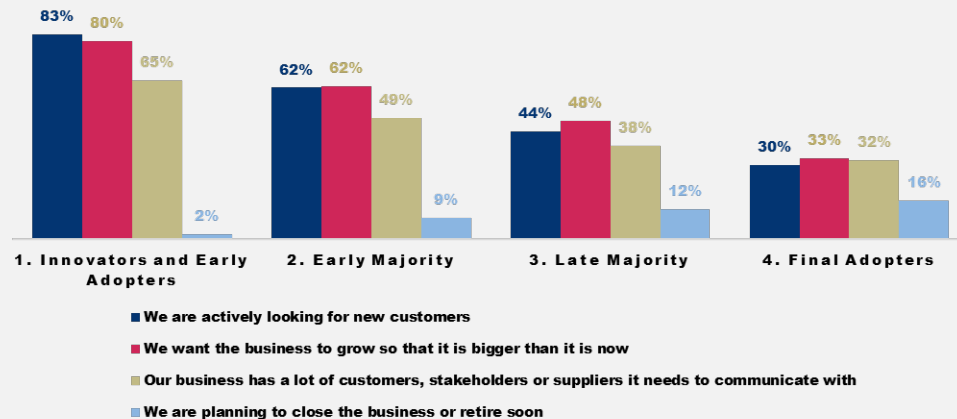
Construction businesses are over-represented among those who are seeking new customers yet do not have their own website.

Mindset: perceptions of scope for improvement

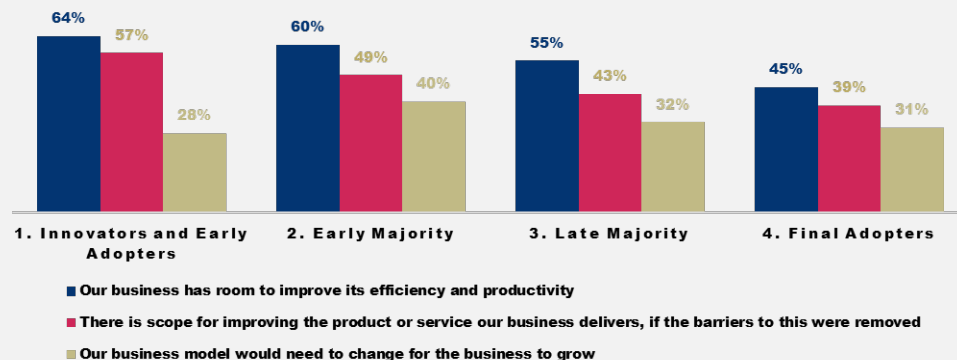
Overall, 57% of businesses acknowledge that they have room to improve their efficiency/productivity and 47% believe they have room to improve the product or service they provide. 34% would need to change their business model to grow.

Late Majority businesses are relatively similar to the Early Majority in terms of the degree to which they acknowledge room for improvement in their business and their desire for growth.

Within the Early and Late Majority groups, recognising the need to improve efficiency/productivity is a key differentiator between those who are motivated and not motivated to become more digital.



39% of Late Majority businesses and 59% of Final Adopters who are actively seeking new customers do not have their own website

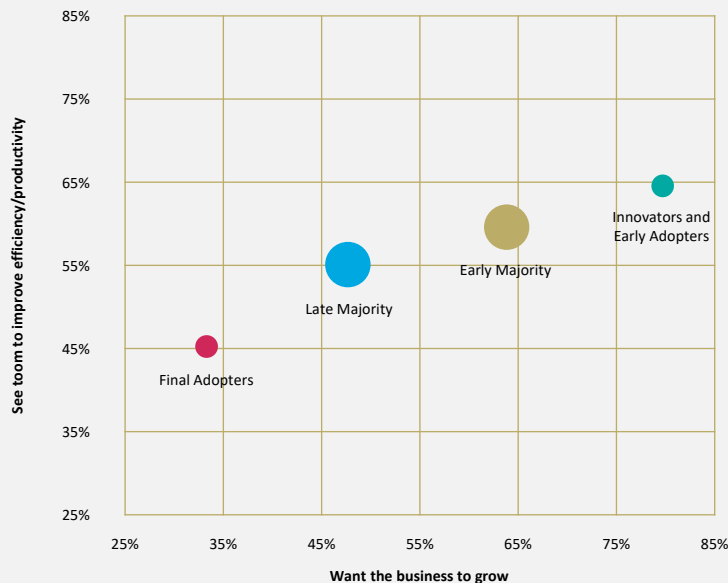


Growth and productivity-seeking as drivers of uptake

Whether or not a business is looking to grow is one of the strongest differentiators between the most and least digitally enabled. It is a particularly good predictor of whether the business is already using digital tools for 'internal' purposes such as cloud accounting or payroll. Businesses that are seeking growth are also particularly likely to report being held back by a lack of skills.

As we see in the chart below, there is less differentiation between the adoption groups when it comes to the perception that the 'business has room to improve its efficiency or productivity'. But this perception is strongly linked to the perception that the business would benefit from making greater use of digital tools. It may hint at an 'improvement mindset' in the context of running a business.

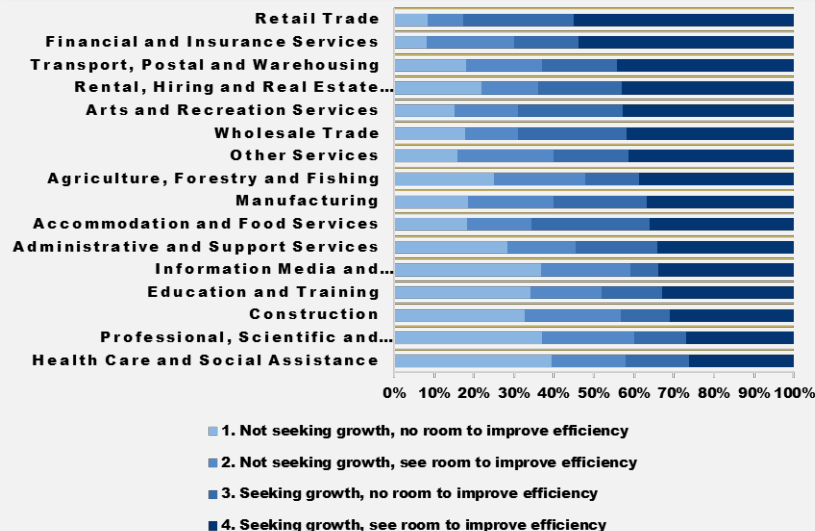
Businesses that see benefits of being more digital but are not particularly advanced on their digitalisation journey, are typically smaller businesses that recognise a need to work smarter.



The chart below shows that there are a range of attitudes within each industry, with some clearly more geared towards growth than others.

Businesses that seek growth *and* acknowledge room to improve productivity (41% of all businesses) have strong potential to maximise the benefits of digitalisation.

These businesses can be found in a range of industries (as the chart below shows) but are particularly well-represented in the retail and finance/insurance sectors. Half of employers (49%) fall into this group, compared with 32% of sole traders. As we might expect, these ambitious businesses were more likely than others to be frustrated by the COVID-19 situation – particularly the inability to operate fully and the inability to invest in their business due to income losses. They are already more digitally enabled than average but see cost as a barrier to further enablement.



Perspectives on digital

Basic awareness

Exploring a theme that emerged in the qualitative aspects of last year's research, we can see that self-assessed basic awareness of what 'digital' means is only an issue for some businesses – but it is especially relevant to the Final Adopter group (only 61% understand what is meant by 'digital' tools).

As we suggested last year, lifting awareness is one of the key things that can be done to support this group initially. Consideration should be given to how we can help businesses understand what 'digital' really is and the many things it can offer; to dispel misconceptions while driving interest from different quarters.

Consideration of business digital needs

Half of the Late Majority group have given the subject of digitalisation some consideration. Those who have not yet given it much thought are typically 'on the fence' about their digital motivation, while others are more divided. Even among Early Majority businesses, a significant minority have not yet paused to think about their future digital enablement.

Overall, 57% of all businesses have considered their digital needs.

Looking ahead

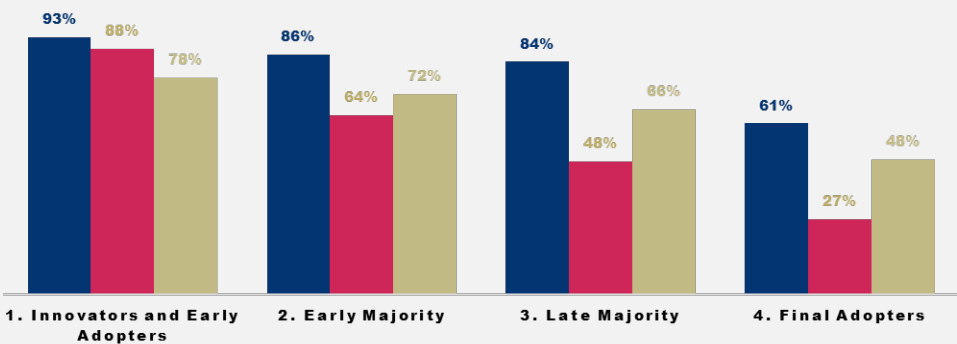
Most businesses acknowledge that things will be different in five years – and Early and Late Majority businesses are similar in this regard. Even amongst those who do not see benefits in further digitalisation at the present time, at least half acknowledge that things will be different in five years' time.

Grouping businesses based on their attitudes

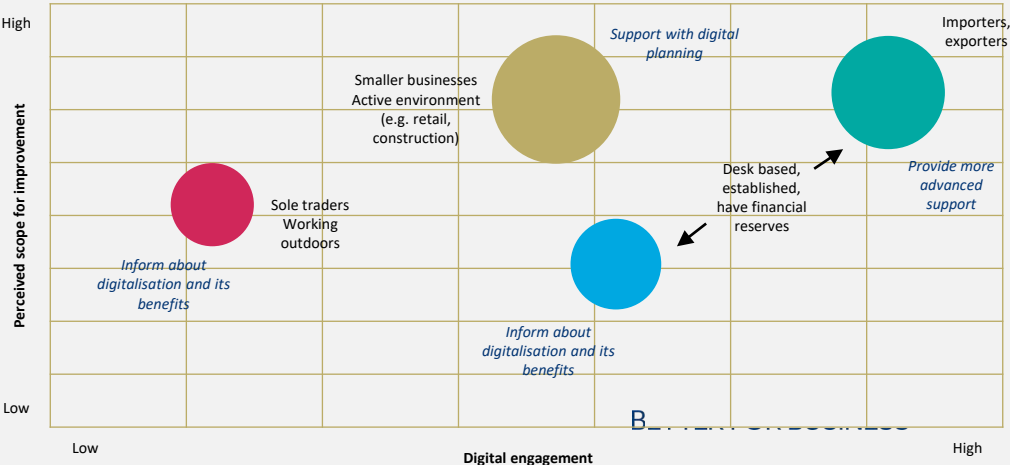
Four 'clusters' of businesses emerge when we look at the way they answered questions about their perceived scope for improvement (improving efficiency, product/service) and the above questions about engagement with the subject of digitalisation.

There are some slight tendencies towards certain industries and business sizes in each cluster but, as is often the case, the views of the business owner are not strongly related to the characteristics of the business itself.

The largest group of businesses has plenty of scope for improvement but only a moderate amount of engagement.



- I understand what is meant when people talk about 'digital' tools
- We have given a lot of thought to how the business can make the best use of digital tools
- My business's need for digital tools is likely to be different in 5 years from now



Becoming more digital

Half (49%) of all New Zealand businesses believe they would benefit from being more digital – up slightly from 45% in 2020.

15% – or around 85,000 business – *strongly agree* that this is the case.

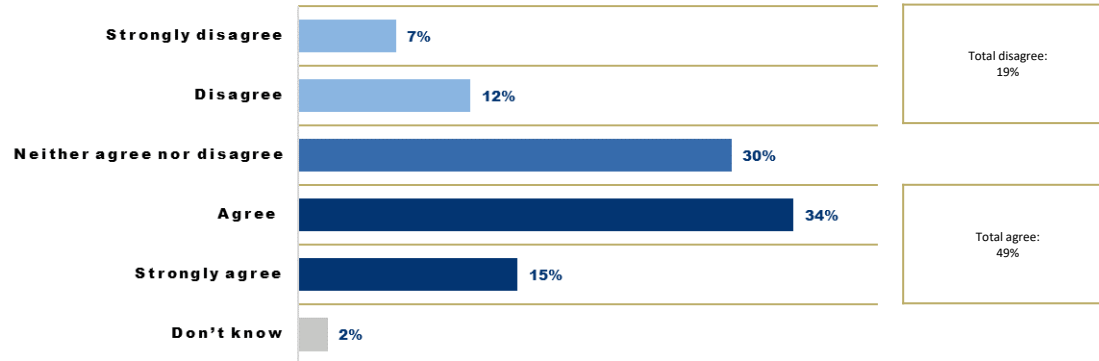
Hospitality and finance/insurance businesses are over-represented in the group of businesses that see the most benefit in being more digital

Auckland businesses are also over-represented in this group – which may in part reflect their greater exposure to COVID-19 restrictions

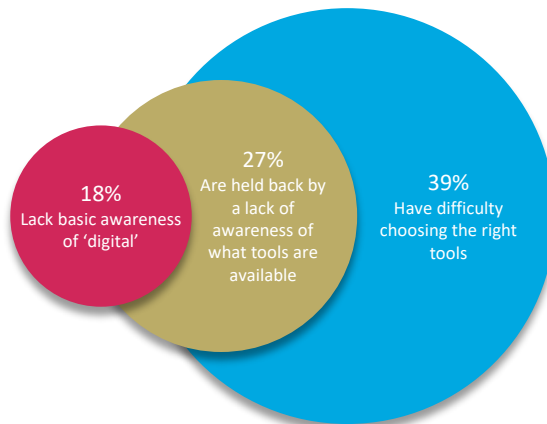
Most other businesses remain 'on the fence' regarding the benefits of digitalisation.

Those who *strongly disagree* they would benefit from being more digital are generally making reasonable use of productivity-enhancing, internally focused tools – and some use of externally focused tools – but feel they are already doing enough

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



Awareness and knowledge – and how they relate to motivation



53% of businesses are affected by at least one of the awareness/knowledge issues shown here.

Of those who lack a basic understanding of what 'digital' tools means, only 36% see benefits of being more digital. Of those who have difficulty choosing the right tools, 62% see the benefits. The latter is clearly an issue affecting the more digitally motivated businesses.

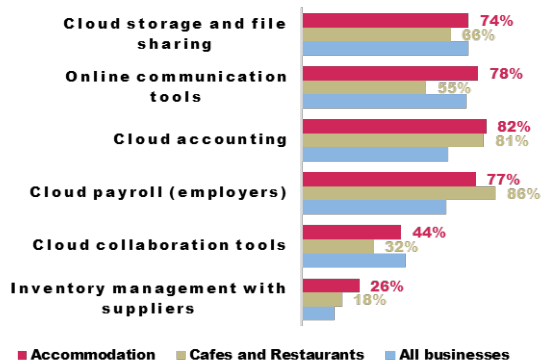
There is still some work to do to improve awareness – especially among the least engaged. As part of improving that engagement, businesses need a clear understanding of:

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

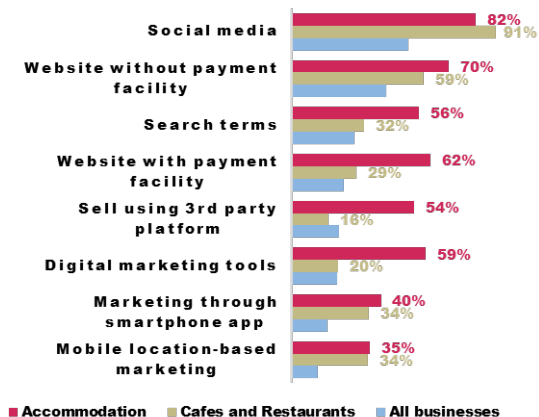
LENSES ON DIFFERENT TYPES OF BUSINESSES

A focus on hospitality

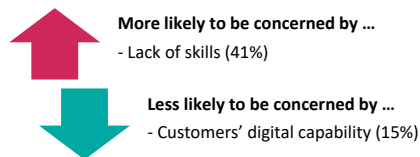
Use of 'internal' tools



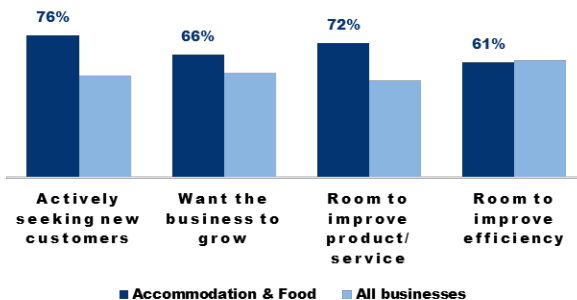
Use of 'external' tools



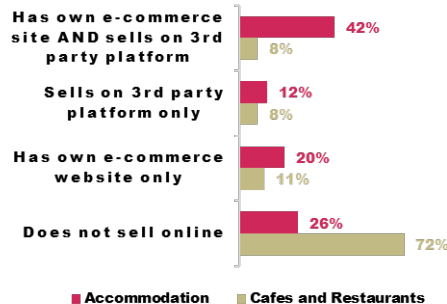
Barriers to digital enablement



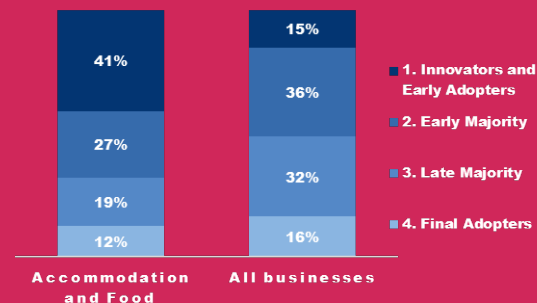
Business context/attitudes



Selling online



Digital adoption



Hospitality (Accommodation and Food Services) is one of the sectors that has been hit hardest by the COVID-19 pandemic. 31% of businesses in this sector had low confidence in their future survival at the time of surveying.

However, the industry has the highest Digital Index score of all sectors. Use of internally-focused, productivity-enhancing tools is high, and the Accommodation sector in particular is making relatively strong use of digital technologies for sales and marketing.

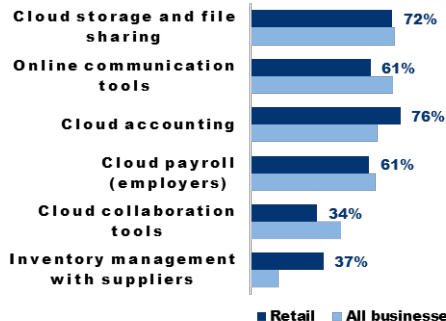
62% see the benefits of making greater use of digital tools in future.

A lack of skills is a relatively large barrier to further digital enablement for this sector. And many businesses could still make greater use of the tools available to enhance their online presence – especially in the cafes and restaurants sector.

Results for Cafes and Restaurants are indicative due to a small sample size. Other sub-sectors such as takeaway services and pubs/clubs are not able to be analysed separately.

A focus on retail

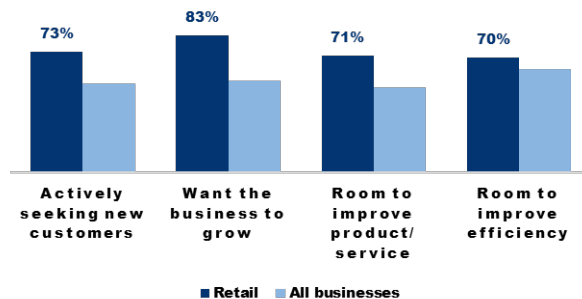
Use of 'internal' tools



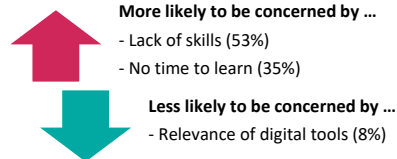
Use of 'external' tools



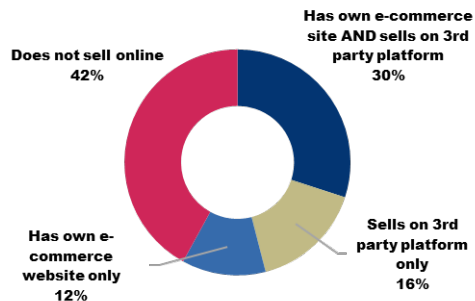
Business context/attitudes



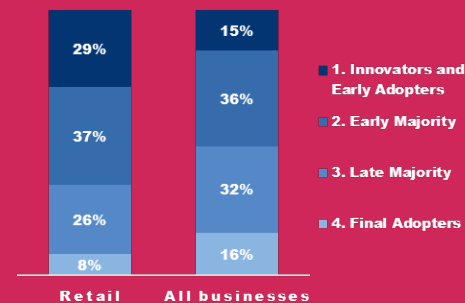
Barriers to digital enablement



Selling online



Digital adoption



82% of retail businesses have their own website: with 41% having a website that allows payment.

Overall, 58% of retail businesses now sell their products online

According to NZPost⁷, 2021 saw 21% annual growth in online spending by NZ consumers; and as a result, 13% of all retail spend is now online – up from 9% in 2020. 70% of that online spend is with local retailers, and to maintain that proportion it is important that NZ retailers are able to meet the growing online needs of consumers.

Compared to the average NZ business, retail businesses are more likely to use cloud accounting services – and, unsurprisingly, are also making far greater use of most external-facing digital tools. However, we can see that there is still considerable potential for further uptake of those tools. A lack of skills is a significant barrier to this.

⁷ NZPost, February 2022. *eCommerce Spotlight February 2022*. Available at: <https://ecommercespotlight.co.nz/February-2022/2021s-seismic-shopping-shift>.

A focus on sole traders

Growth seeking vs. benefits in being more digital

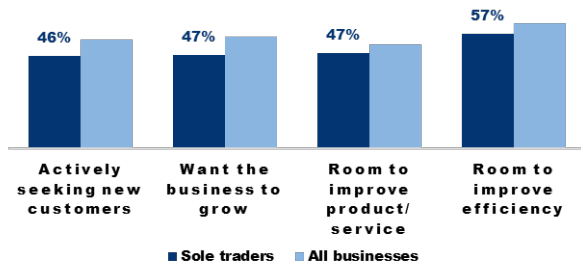
Table adds to 100%

	Not seeking growth	Seeking growth
See benefits of being more digital	21%	26%
Neutral	20%	12%
Do not see benefits of being more digital	12%	9%

"It's not all about growth or efficiency but I do need to keep up with the times"

- More likely to be professional/scientific/technical contractors
- Cost constraints and difficulty choosing tools are barriers
- Slightly above-average use of internal tools
- More confident installing their own software
- Above-average use of intermediaries

Business context/attitudes



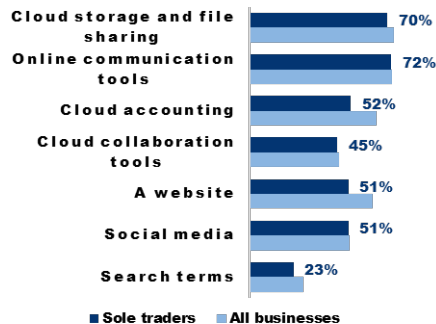
"I want to be more digital but need help"

- Strong recognition that they have room to improve efficiency
- Actively seeking new customers. 69% have a website
- Particularly likely to be held back by own lack of skills, cost constraints and difficulty choosing the right tools
- Above-average use of intermediaries
- Over-represented in real estate, finance, retail
- Have given digital a lot of consideration and more likely than other non-employers to be using key tools – support needs are likely intermediate to advanced rather than beginner

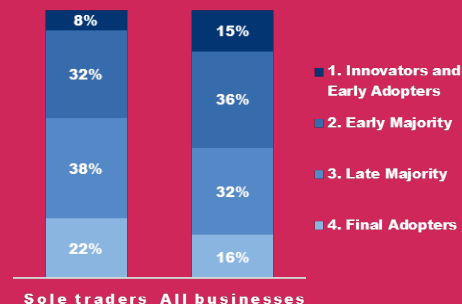
"I'm comfortable with my current approach"

- Already making slightly above-average use of digital, including sales and marketing tools. 60% have a website
- No pressing need to change the way the business is operating
- May have ROI concerns about further investment
- Less likely to use intermediaries

Use of digital tools



Digital adoption



Sole traders All businesses

Previous research has shown us that sole traders can be particularly time poor – often having to manage all aspects of the business themselves – and lacking in financial resources.

This means that time and cost-saving benefits of digital tools can be compelling, but sole traders can also be more price-sensitive.

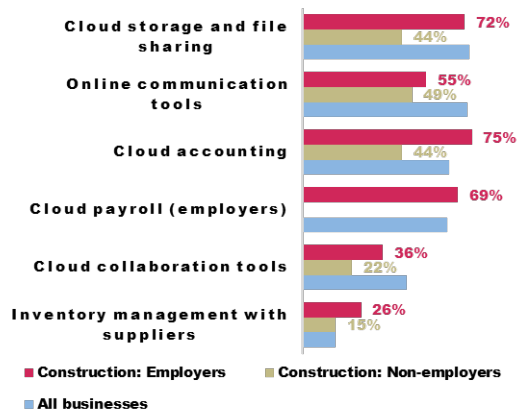
Overall, sole traders experience the same barriers to digital enablement as other businesses and to a similar extent – although we typically see that sole traders are less likely to regard their own skills as a barrier.

And while sole traders score relatively strongly on their 'aptitude' for being more digital, we know that actual use is often about scale – including current income levels and desire to grow the business.

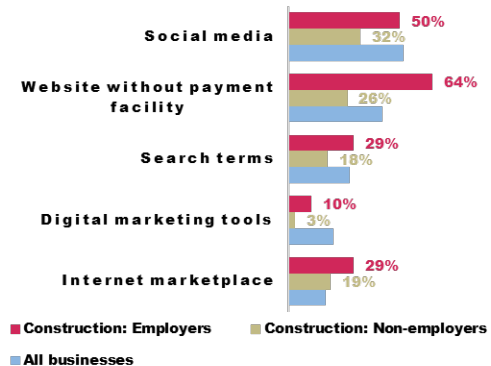
When we compare sole traders who are seeking growth and those who are not, some other differences in attitudes and behaviours emerge.

A focus on construction

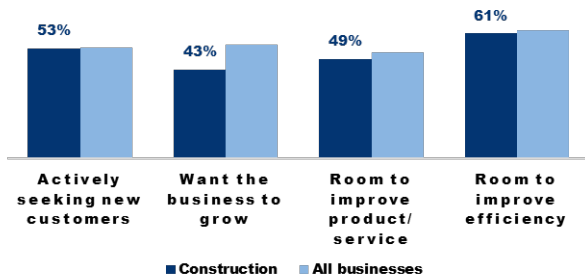
Use of 'internal' tools



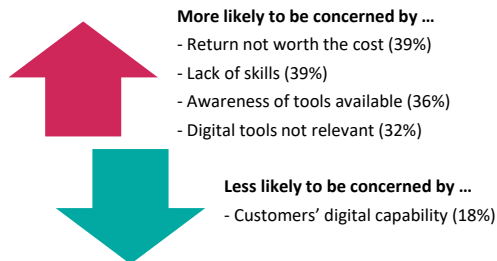
Use of 'external' tools



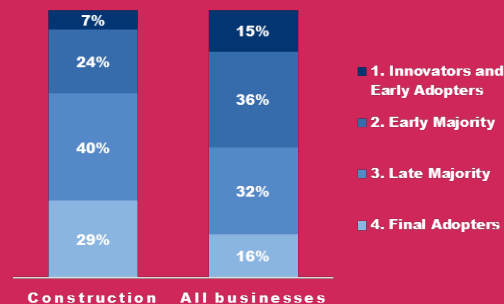
Business context/attitudes



Barriers to digital enablement



Digital adoption



While there are some early adopters in the construction sector, they are still in the minority.

There are some significant differences between employers and non-employing businesses in the sector, with 51% of the former seeing benefits in being more digital compared with 29% of the latter.

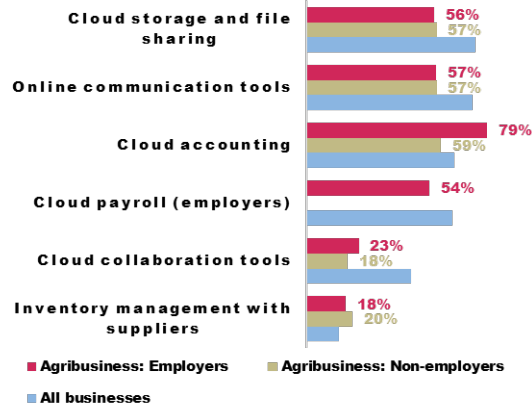
This relatively low level of motivation, and the prevalence of concerns about relevance and value, may partly be a function of the construction industry having been in heavy demand in recent years – with many being able to rely on word-of-mouth referrals or a passive online presence to generate new business. A lack of awareness and lack of skills are also key barriers.

Construction businesses are over-represented among those who are seeking new customers yet do not have their own website.

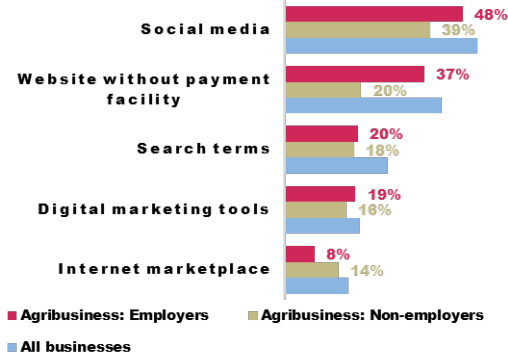
A focus on farmers and growers

AGRICULTURE, HORTICULTURE, VITICULTURE AND RELATED SERVICES

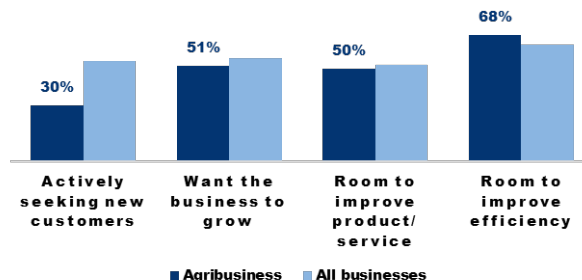
Use of 'internal' tools



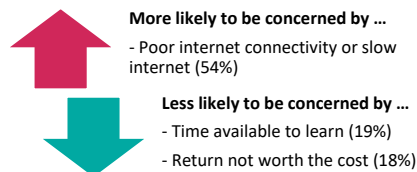
Use of 'external' tools



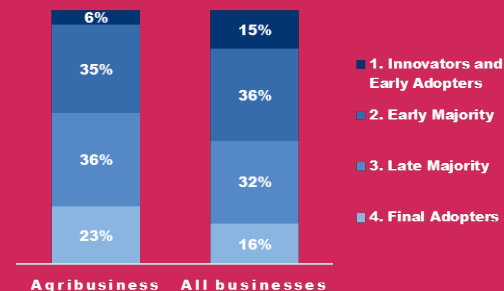
Business context/attitudes



Barriers to digital enablement



Digital adoption



There are many businesses in this sector that wish to grow, and even more that recognise they have room to improve their efficiency – which suggests a high degree of openness to change. Agriculture businesses are already more likely to use cloud accounting than the average NZ business.

However, 20% of businesses 'strongly agree' that internet connectivity is holding back their digital enablement, with 54% agreeing in total – making it the most significant barrier for this sector. This aligns with the findings of BNZ's latest *Shift Happens* report, in which 54% of agribusinesses said 'rural connectivity' would have a strong or extreme influence on the sector's future.⁸

The differences in digital tool usage between employers and non-employers are not as pronounced in this sector as in some others. Their attitudes and context are also very similar, although motivation is somewhat different: 53% of the former group see benefits in being more digital, compared to 37% of the latter.

⁸ BNZ, December 2021. *Shift Happens 2021 – Who is the Farmer of 2030?* Available at: <https://www.bnz.co.nz/assets/bnz/business-banking/Agribusiness/pdfs/BNZ-Shift-Happens-Agri-Report-2021.pdf>.