Europe's SMEs in the Digital Decade 2030:

Building Cyber-resilience, Overcoming Uncertainty



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Foreword

How does a small business cope with today's significant global challenges — the war and resulting humanitarian crisis in Ukraine, the rising cost of living, an energy crisis, the climate emergency, increasing inequality? Our latest report: Europe's SMEs in the Digital Decade 2030: Building Cyber-resilience, Overcoming Uncertainty seeks to better understand the situation and opportunities for small and medium sized businesses in Europe.

The business leaders we spoke to were clear in telling us that digital tools helped them to be more resilient during the pandemic. In fact, SMEs say they started using twice as many digital tools in the past two years to advance their businesses. While recognising the benefits brought by increased digitisation, it does not come without challenges. Our data shows 43% of SMEs experienced a cyberattack in the past two years alone. For SMEs, advancing their capacity, in particular their cybersecurity skills, to prevent and respond to cybersecurity threats, is now seen as one of the key priorities for business leaders and the policymakers that we have listened to.



Providing the right tools is only helpful if businesses are able to use them. According to the European Commission, only 54% of Europe's workforce had at least basic digital skills in 2022 — showing there is still a way to go towards achieving the EU's Digital Decade goals. Digital skills are no longer just valuable - they're necessary.

As more business is conducted digitally, the nature of support and skills provided will naturally need to evolve to reflect growing challenges about cyber security and the need to build cyber-resilience. This is something that we have already started to do with the partners that we work with.

I first started this role in 2015 - the same year the EU released a report highlighting a digital skills gap that threatened to leave a million jobs unfilled. Seeing a unique challenge and opportunity for Google to help, we launched Grow with Google. Working with tens of government bodies, hundreds of partner organisations, and millions of people, Grow with Google has trained 88 million people around the world in the digital skills they need to build their career, launch or grow their own business. Meeting just a fraction of those people as they've grown personally and created jobs and prosperity has been a highlight of my career.

Supporting small businesses is a team game — and the right skills and tools need to be underpinned by the right policies. We are lucky to work closely with governments, charities, industry experts and community organisations across Europe - and find that the best solutions come when we collaborate with local and regional partners across sectors. We are here to help governments, businesses and communities to build a stronger and more digital European economy.

Matt Brittin, President of Google EMEA

Executive Summary

SMEs are the backbone of the continent's economy, employing 100 million people across Europe – and the current geopolitical and macroeconomic situation presents a risk to their business. Significant energy price rises and the ongoing war in Ukraine mean the latest European Commission growth projections show a gloomy outlook.¹ At the same time rising cyber threats are eroding trust in digital technologies. Malicious cyber activity has grown more frequent and disruptive, costing European businesses billions of euros each year.

In light of the challenges Europe's SMEs are facing, Google partnered with Kantar to identify their priorities and concerns across 10 countries. They surveyed 2,000 SMEs across Europe in the third quarter of 2022. The results provide a snapshot of their expectations, priorities, and reservations about going digital, in a context where reaching the Digital Decade goals is a priority.

We categorised SMEs by their level of digital transformation. Our research found that around 77% of SMEs have already achieved "medium to high" digital intensity, having adopted four or more tools. Of the SMEs surveyed, half had adopted cloud computing, and four in 10 use high-speed internet infrastructure. However, only around 20% of SMEs were using "advanced" digital technologies such as Big Data analytics, Al and robotics.

In times of crisis, digitalisation enabled European SMEs to continue to thrive. 60% of the SMEs we spoke to feel digitalisation helped them during the pandemic. A third of European SMEs adopted communications and collaboration tools between 2020 and 2022. The impact of the digital transformation is more pronounced in industries such as finance, logistics and technology.

The more digital, the more confident. 59% of SMEs say higher levels of digitalisation are an important enabler of business plans. Highly-digitalised SMEs are 78% more confident of achieving their goals over the next five years than low-digitalised peers are, and 40% more likely to expect double-digit revenue growth in the coming year.

Highly Digital SMEs feel they are more resilient. Faced with the prospect of further inflation and recession, SMEs' confidence drops substantially, with 3 in 10 SMEs lacking confidence that they could achieve their goals. However, highly-digitalised SMEs feel more confident about doing business in the event of a recession (60%), despite rising costs (50%) and while dealing with a new public health emergency (40%), compared to low-digitalised SMEs.

What is the benchmark for progress? The EU's Digital Decade goals provide a clear framework, with an aim for 90% of SMEs to reach basic digital intensity by 2030, and 75% using cloud/AI/Big Data.

While our survey shows SME digitalisation doubled in the past two years, there is still a way to go towards achieving the Digital Decade goals. The European Commission's Digital Economy and Society Index (DESI) 2022 suggests that significant progress needs to be made in digital skills, digital transformation of SMEs and the roll-out of advanced 5G networks to attain the Digital Decade goals by 2030. The deteriorating macroeconomic situation and the rise of cyberthreats represent a major threat to the positive momentum of SME digitalisation and the benefits it brings.

In our research, SMEs named three main barriers to starting, or continuing, their digital journey. They expressed concern about cybersecurity, along with ongoing issues relating to the digital skills shortage and funding. When it comes to cybersecurity, the majority of SMEs currently back up their data, ensure software is updated and follow best practices on password management, but lack strategies to protect and respond to attacks. Our data shows 43% of SMEs experienced a cyberattack in the past two years alone.

SMEs continue to face a lack of digital skills and talent. This reflects three issues: first, a lack of basic digital skills in the general population, in a world where most jobs now contain some element of ICT. Second, a shortage of qualified ICT talent and expertise to pursue digitalisation, both within the enterprise and externally. Finally, while two-thirds of SMEs perceive cybersecurity as a priority, there are major difficulties in attracting, retaining and contracting cybersecurity experts.

Hiring isn't the only expense for SMEs: investment in digital generally is perceived to be expensive, so funding showed up as a concern. While a wide range of EU, national and regional funds (along with diverse private-sector funding mechanisms) exist, around a third of EU SMEs said lack of funding is a barrier to pursuing digitalisation, hinting at a problem worth a closer look.

Our report identifies five key areas for policymakers and SME stakeholders to discuss further:

- As they scale up, how can we advance SMEs' cybersecurity know-how, so they can protect themselves against online threats?
- What are the digital and cybersecurity **skills** that SMEs need, in terms of both internal staff and hiring expert talent? How can stakeholders ensure this support reflects SMEs' diverse needs?
- Are the EU and national **financial support** mechanisms reaching the SMEs that need them most? Are SMEs aware of the resources on offer and is access simple?
- How can the administrative burden and compliance costs for SMEs be minimised?
- What are the most useful ways to support SMEs in their digital journey? How can we
 develop appropriate initiatives based on SMEs' actual requirements and on their digital
 maturity level?

Delivering an effective response to these questions will require partnerships across governments, SMEs, tech companies, academia, advocacy groups and trade associations, through formats such as multi-stakeholder forums. With a new round of European elections coming, it is a timely moment for open discussions and exchange of expertise, in order to ensure every European SME gets the right support on its digital journey.

1. Why Digital Matters For SMEs

Europe's small and medium-sized enterprises (SMEs) are the powerhouse of the continent's economy. From Germany's thriving Mittelstand, to entrepreneurial startups in urban tech hubs, SMEs represent 99% of all businesses in the EU, generate 56% of GDP² and employ around 100 million people.

They also face a time of great challenge. As the COVID-19 pandemic subsides, harsh economic headwinds are blowing. Energy prices are soaring, and inflation is high in many member states. Cyber criminals increasingly see SMEs as attractive targets.

The EU's Digital Decade Goals recognise the importance of SMEs' contribution, and aim for 90% of SMEs to reach basic digital intensity by 2030³, with 75% using Cloud/Al/Big Data. However, in the **Digital Economy and Society Index (DESI) 2022**, the Commission identified three areas where member states are struggling: the digital transformation of SMEs, closing the digital skills gap, and the roll-out of advanced 5G networks.

To understand the turbulence facing SMEs in Europe, **Google partnered with Kantar** to identify trends and concerns across 10 European countries. They surveyed 2,000 companies in the third quarter of 2022. The result is **Europe's SMEs in the Digital Decade 2030: Building Cyber-resilience, Overcoming Uncertainty.**

The picture that emerged is one of digitally driven resilience: 60% of the SMEs we spoke to feel digitalisation helped them during the pandemic. Digitalisation is a key enabler of competitiveness and resilience: SMEs spoke to us about how it helped them to reach new customers, become more efficient, and improve work-life balance.

They also shared their thoughts on the future, and told us what was holding them back from investing further – including concerns about cybersecurity, which prompted us to ask an extra round of questions on the issue. How can we make sure this economic uncertainty doesn't slow Europe's digital momentum, preventing SMEs from starting or continuing their digitalisation journey?

The three sections of this report explore our findings. State of Play: Pandemic Survivors, Digital Thrivers shares quantitative and qualitative insights into how companies are feeling about the present and future. Cyber Threats, Digital Skills, Funding Issues: Digital Obstacles covers SMEs' view of the challenges including the darkening cyber threat landscape. We conclude with Areas for Discussion based on what SMEs said.

The snapshot provided in this survey builds on a decade of grassroots dialogue with Europe's SMEs. We hope it can be a useful resource for partners throughout the SME ecosystem. Now, more than ever, these companies need the right support to meet the goals of the Digital Decade.

2. State of Play: Pandemic Survivors, Digital Thrivers

From Lockdown, to Learning Digital Skills - What Going Digital Did for Europe's SMEs

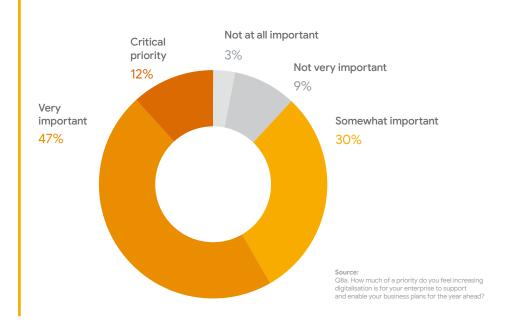
The pandemic was a time of global upheaval; Europeans found their way of life transformed. Since 2020, SMEs have displayed the entrepreneurial spirit they are renowned for, and transformed the way they do business.

Many used their time during lockdown to go online and learn new skills⁴ in marketing, SEO, customer relationship management, and analytics. "We become experts in social media... it opened up a whole new way of working to us and we got new customers," one SME owner (France, 1-9, Manufacturing) told us. With these new tools, SMEs could offer customers a holistic digital journey.

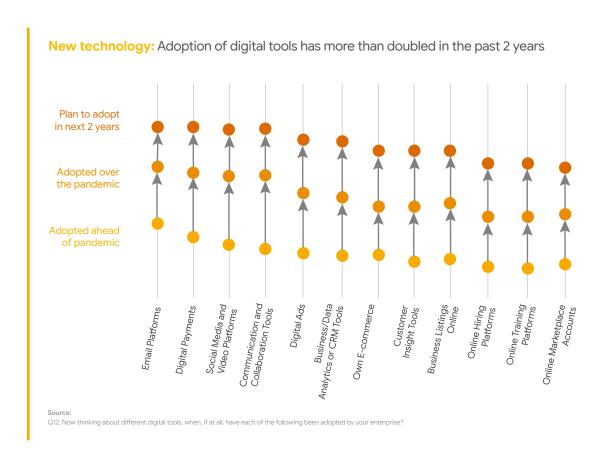
89%

of SMEs believe that increasing digitalisation is important to support and enable their business plans in the year ahead – and 59% say it's very important or critical.

Importance of digitalisation in enabling business plans in next year (%)



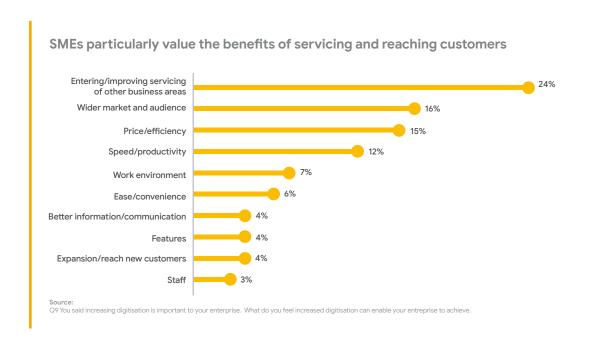
SMEs also sought out productivity gains. They moved routine admin and payment tasks online, and integrated supply chain platforms with financial systems. This allowed them to focus on core business priorities, improve stock efficiency, and reduce costs.



In addition, the remote working revolution arrived in earnest. Online meetings and collaborative tools propelled innovation. At the same time, online recruitment gave SMEs access to a more diverse talent pool that can be quickly accessed.

It was all so much easier, we were working flexible hours and had the ability to connect more easily. It made things better for everybody, and made it a better place to work.

Polish SME Owner



European SMEs have used digital business partners such as Google to build capacity, upskill their workforce and improve security. Digitalisation means SMEs no longer have to do everything in-house.

Digitalisation is very important and brings success... collaborative tools allow us to do a series of things that would have been unthinkable a few years ago. We carry out digitalisation processes that do not require firing people, and these people do other tasks that are of value, such as interacting with the customer.

Spanish SME Owner

In a nutshell: The pandemic got SMEs to go online, learn digital skills, make productivity gains and improved work-life balance for many employees.

SMEs and Digital: A Classification - Where are EU SMEs on their Digital Journey?

For this research, we classified SMEs into three groups based on their digital tool adoption. Those using 0-3 digital tools are "low" intensity, 4-7 tools equate to a "medium" ranking and "highly digital" SMEs use 8 or more of the tools surveyed (see annexe).

Currently, 22% of surveyed SMEs were low intensity, using mainstream technology for marketing and internal operations. Some 40% had made the leap to medium, advancing into marketing and sales. Finally, 37% of surveyed SMEs are highly-digitalised enterprises – often evangelists, they are embedding digital tools across their businesses.

During the past two years, the majority of SMEs have achieved at least medium levels of digitialsation



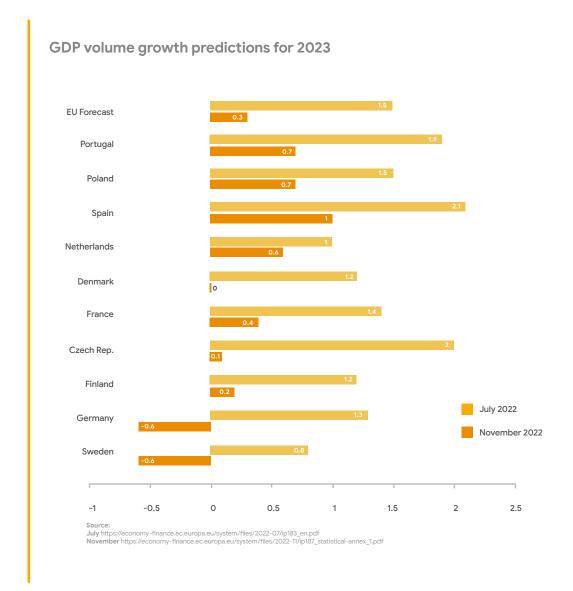
Low-digitalised enterprises need encouragement to take their first digital steps. Many of them do not see this as a priority, and almost two-thirds of them are not planning to accelerate digitalisation in future. These companies need support: empowering them could bring economic benefits while supporting the entire SME sector in reaching the Digital Decade goals.

In a nutshell: European SMEs can be split into three levels of digital intensity: 22% are low intensity, 40% are medium, and 37% of those surveyed are highly digitalised.

Digital Resilience for Challenging Times - Confidence in Growth and Digitalisation Levels

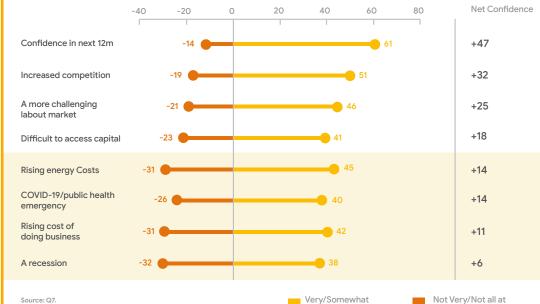
High digital intensity SMEs quickly adjusted to the pandemic and made changes to their business model. Leaner and more efficient, 60% of them predict revenue growth in 2023, with 35% of them predicting double-digit growth.

However, the European Commission recently downgraded its economic forecasts. To understand the impact of this on SMEs, we asked them how confident they are when it comes to achieving their growth predictions in various scenarios. While overall net confidence in achieving business goals was +47 (those responding "very" or "somewhat" confident they would achieve their goals) this drops to +14 in the face of rising energy costs, +11 for a rise in the cost of doing business, and just +6 in the case of a recession.



SMEs' confidence drops even further when considering aggravating conditions of continued inflation and recession.





Source: Q/.

To what extent are you confident in your enterprise's
ability to achieve your goals in these potential circumstances?

Net confidence = [Very/Somewhat Confident] - [Not very/Not at all Confident]



+

Danish SMEs feel the most resilient – they are 1.3x more confident in the event of a recession than EU average.

German and **French SMEs** are the least confident in the event of rising **energy costs**, a challenging **labour market** and rising costs of doing **business** – more SMEs lack confidence than feel positive about managing in these circumstances.

Overall, only 17% of the SMEs we spoke to are "very confident" of achieving their business goals during the next 12 months. However, digitally advanced SMEs are significantly more confident of achieving their future business goals. As the chart shows, highly-digitalised SMEs are 73% more net confident in achieving their business goals in the next year, compared to low-digitalised enterprises.



And that confidence gap is still present in the longer term. They are 78% more likely to be confident in achieving their goals in the next five years.

These seemingly contradictory viewpoints on growth and confidence can coexist. Digitally advanced SMEs can simultaneously see the coming turbulence, and know they've invested in the digital tools which improve resilience.

In a nutshell: Digitally advanced SMEs are significantly more confident of achieving their business goals, both now and over the next five years.

Going Global, Fighting Inflation - Positive Effect of Online Trade

Over 600,000 European SMEs sell their products and services across borders using e-commerce platforms, app stores like Google Play, cross-border advertising, and Google Translate to provide multilingual customer support. According to the OECD,⁵ going digital reduces the costs associated with exports and customs operations, and increases the tradability of services.

Embracing e-commerce across Europe also appears to have slightly reduced inflation. A recent European Central Bank (ECB) occasional paper estimates that "e-commerce has had a small but statistically significant disinflationary impact in the Euro Area." According to the paper,⁷ for most euro area countries, online sales as a share of total retail sales more than doubled over the last 10 years.

Compared with offline distribution channels, e-commerce is less costly for businesses and allows them to offer lower prices to customers. In addition, the ECB study found that greater transparency and competition leads to lower prices, which forces both traditional and online suppliers to keep prices under control. Altogether, online shopping had a negative cumulative impact on inflation of 0.8 percentage points from 2006 to 2018, the paper concludes.⁸

In a nutshell: Digital SMEs may find it easier to become exporters, as digital tools help reduce the costs associated with exporting.



Katia Da Veiga, Founder of Indira De Paris

Through Grow with Google, we've helped entrepreneurs across Europe expand abroad. One example is Indira de Paris.⁶ Designer Katia Da Veiga started her own business making bright, beautiful hair wraps. With a business model that combines a Paris⁶ shop to attract tourists and online sales, her website's global reach has translated to 15% of sales coming from abroad.

Different Sectors, Different Priorities - Digital Profiles Vary By Industry

Progress in digitalisation is being made across Europe, but not at the same rate across all sectors. Our research showed that technology companies (69%) and finance and insurance (72%) firms are most likely to have a digital strategy. Logistics businesses are 1.3x more likely to want to accelerate their use of digital than the average EU SME, possibly due to potential cost efficiencies. Meanwhile, hospitality and the arts sector are half as likely to see digitalisation as important, even though it can play a vital role.

Support for SME digitalisation therefore needs to recognise and work with sector specifics. Stakeholders should take care to frame the discussion around business benefits: concrete tools to reduce pain points resonate more than just "going digital."

In a nutshell: Digitalisation varies massively by sector: Tech and finance have gone furthest, while arts and hospitality lag behind.



Antonio Gonzalez (R) owner of Casa Botin, in his Madrid restaurant

Restaurant Casa Botín° has been a Madrid institution since 1725, and is a survivor of more than one pandemic. Owner Antonio González set up a website about 15 years ago and used more online products to get through the latest one.

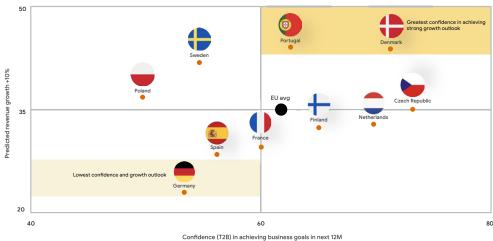
When COVID-19 struck, the restaurant quickly implemented online delivery, kept in touch with Google Meet, and used digital tools to let customers know that this culinary institution wasn't finished.

National Differences in Digital Development - Digital Maturity of SMEs Varies by Country

Europe, and Europeans, are united in diversity, and SME ecosystems vary by country. The chart below maps the predicted revenue growth for 2023 and confidence in achieving this prediction for the SMEs we surveyed. Finland, the Netherlands and Denmark are in the top right quadrant, all countries that also performed well in DESI.

Meanwhile, when it comes to growth forecasts, SMEs in Portugal and Denmark are 1.3 times more likely to predict growth of more than 10% in the coming year. Following a challenging year with substantial reductions in economic forecasts and facing recession in 2023, SMEs in Germany are 1.3x less likely to predict growth of 10% or more.

Denmark and Portugal's SMEs are more likely to predict double digit growth, whilst German SMEs are least optimistic



Portugal is something of an outlier: SMEs there place the highest level of importance on digitalisation in the EU. They are most likely to have a strategy/action plan to digitalise. With innovation hubs such as the smart city of Cascais,10 Portugal's work to create and attract digital entrepreneurs seems to have paid off. Meanwhile, SMEs in the Netherlands, Czechia and Germany are significantly less likely than the EU average to have a digital strategy.

Portuguese and Polish SMEs have a strong appetite to upskill and are more likely to be investing in digital skills (Portuguese SMEs: 78%, Polish SMEs: 71%). Conversely, German SMEs are significantly less likely to be investing in digital skills (50%). When it comes to digitising business processes, SMEs in Spain and Portugal are most ambitious. DESI also shows pronounced differences in national progress, making this an important area for discussion when it comes to supporting SMEs.

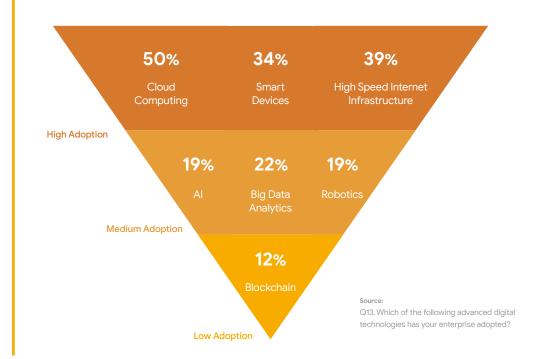
In a nutshell: With diverse starting points and economic prospects, reaching Digital Decade goals will require targeted efforts in each member state.

Top Tier Tools for SMEs Everywhere - Encouraging the Adoption of Advanced Digital Technologies

What are the technologies that Europe's digital leaders are using? Forward-focused SMEs have already embraced cloud computing (50%) and high-speed internet (39%). A smaller proportion are using Big Data analytics, Al, robotics and blockchain.

High digital intensity SMEs are twice as likely to have adopted advanced technologies (according to the DESI definition) compared to low digital intensity peers, particularly in the middle tier of Big Data analytics (3.5x), AI (2.2x) and robotics (2.1x). When we spoke to SMEs who weren't using them, they sometimes perceived AI as intimidating, niche, or too advanced to be relevant. Businesses may therefore need support in understanding the benefits these tools offer, and advice on integrating them.





Meanwhile, solutions which were the preserve of multinationals a few years ago are now affordable and practical for SMEs. Cloud infrastructure is scalable, reduces costs for SMEs and can have a lever effect for the adoption of other digital tools and technologies. In our survey, 50% of respondents were using the cloud – a promising sign for the future.

While many SMEs are using these solutions to expand their business, for some SMEs, it is their business. Across the EU, many SMEs are developing tools based on advanced technologies, often with EU support. Earlier this year, the European Commission adopted a New European Innovation Agenda¹¹ to position Europe at the forefront of the new wave of deep tech innovation and start-ups.

SMEs have a vital role to play in this: big ideas often start out small, and the EU has supported this through the Innovative Europe pillar of Horizon Europe. Meanwhile, the European Innovation Council (EIC) has a budget of €10 billion, and aims to support innovation from the early stages of research to scaling up SMEs.

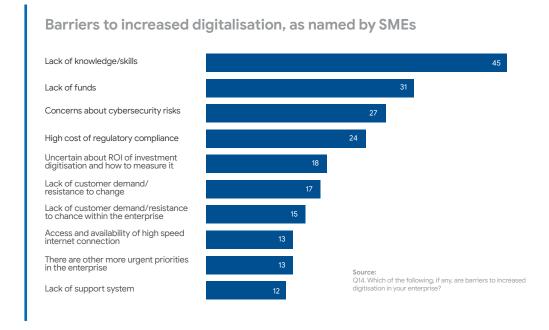
Advanced digital tools should be open to everyone: Google has been a long-standing advocate for interoperability¹² and our products work easily across different platforms. Cloud is a versatile platform for a host of digital tools: SMEs can benefits from basic applications like storage and documents, or host more advanced technologies such as AI, Big Data analytics or blockchain applications on their cloud.

3. Cyber Threats, Digital Skills, Funding Issues: Obstacles to Digital

Europe's SMEs have cut costs, increased productivity and gained new customers through digital transformation. The Digital Decade goals provide a clear benchmark for progress. So what is threatening the positive momentum of further digitalisation for Europe's small businesses?

SMEs' responses show they know a strong digital presence brings advantages. At the same time, decision-makers can feel frustrated and overwhelmed by the transformation process. They named growing concerns about cybersecurity, a lack of digital skills and funding issues as the most significant barriers.

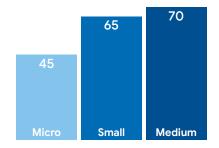
This section therefore explores these three main obstacles to further investment in digital transition in SMEs' own words, tackling cybersecurity first given its new emergence as a threat. While the digital skills shortage and lack of funds remain SMEs' biggest concerns, numerous efforts at EU, national and regional levels, and private sector initiatives are already in play to address them.



Our survey showed that size matters. Accelerating digitalisation becomes more important as businesses grow in size: medium-sized enterprises (those with 10-50 employees) are more than 1.6x as likely to consider digitalisation as a key priority than micro enterprises (those with fewer than 10 employees).

For each challenge, we highlight the issues, then share potential remedies as suggested by low, medium and highly digitalised SMEs.

Accelerating digitalisation becomes more important as enterprises grow in size



Source:

G3. Which of the following are the top priorities for your enterprise to achieve its goals in the year ahead?

In a nutshell: There are three main obstacles to SMEs investing in digital transition: digital skills, funding and cybersecurity, which is covered first given its new emergence as a threat.

Cyber Threats: Small Business, Big Targets

27%

of SMEs surveyed cited cybersecurity as a barrier to digitalisation

Digitalisation offers businesses of every size immense benefits in scale, speed, and worldwide reach. Attackers targeting unprepared companies can get more data in less time than ever before, thanks to even small cybersecurity lapses. European businesses, large and small, are at particular risk from bad actors; the EU's technological and financial strength attracts cybercriminals of all kinds.

Europe's SMEs need to be proactive rather than reactive when countering threats. Putting off further digitalisation because of worries about vulnerability is getting things the wrong way round – SMEs should use the tools available so that a single compromise does not cause lasting or widespread damage.

Christopher Porter, Google Cloud Head of Threat Intelligence

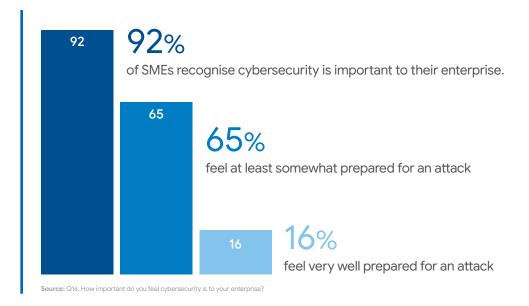
Online Crime, Real World Damage

SMEs are increasingly of interest to cybercriminals, according to the European Union Agency for Cybersecurity (ENISA)¹³: bad actors know many SMEs have staff working remotely, "have deployed systems quickly rather than securely" to keep business running, and often don't have adequate protection. In addition, as many SMEs provide services to larger organisations, criminals can gain access to targets through the SME supply chain.

43%

of EU SMEs told us they had experienced a cyberattack in the last 24 months

Cybersecurity is now a more significant barrier than the cost of compliance and was named as the second biggest obstacle to digitalisation by, for instance, Dutch and French SMEs. Of the companies we spoke to, 43% had experienced a cyberattack in the last two years. SMEs discussed a deep fear of cyberattacks, especially if they led to loss of business. They also expressed a genuine desire for adequate protection to mitigate risk.



SMEs' concerns about cybersecurity cover a wide range of factors. For some, there is a worry about expanding their digital presence: the more digital they become, the more vulnerable they are. Others believe they are too small, or not lucrative enough to even attract cyber criminals.

Some good news emerged: the survey shows that most SMEs are getting the basics right. More than half back up their data, ensure software is regularly updated, use antivirus or firewalls and best-practice password management. With specialist talent difficult to hire, it is reassuring to see SMEs are taking steps to protect themselves independently.

In qualitative research, SME owners mentioned the importance of human behaviour in cybercrime (phishing attempts, suspect email attachments) which can lead to a feeling the whole issue is intractable. Finally, for some, a focus on day-to-day business means cybersecurity gets put on the back burner.

The value of cybersecurity is only realised when it is too late. You should have paid for 'nothing'. You can continue without paying until you realise you should have paid.

Finnish SME Owner

Possible solutions include appropriate cybersecurity skills training: SMEs recognise the role of human error but only 1 in 3 currently run security awareness training to educate employees on cybersecurity risks. And stakeholders should reframe the discussion around business benefits: the risk of financial losses and reputational damage resonates more with SME staff than the abstract threat of "cybercrime."

Sliced By Scale: Cyber Threats as a Barrier

Low Digital Intensity SMEs (Using 0-3 digital tools):

Just 22% of low digital intensity SMEs see cybersecurity as an obstacle to going digital. At the same time almost two-thirds of low-digitalised SMEs are not planning to accelerate digitalisation in future. This needs a multi-pronged approach: these SMEs need both education and implementation support. They need to be informed about the benefits of digital on their own terms, and support to build their toolkit.

Medium Digital Intensity SMEs (Using 4-7 digital tools):

As their digital journey continues, awareness increases slightly: 24% of SMEs in this category cited concerns about cybercrime as a barrier to digitalisation. However, they can see the benefits: nearly two thirds of those we surveyed want to accelerate the use of digital technology in their enterprise. So tailored support is vital.

• High Digital Intensity SMEs (Using 8+ digital tools):

This group is at greater risk of cybercrime: they are 30% more likely to have experienced an attack than SMEs with limited digitalisation. With greater vulnerability, they see the risks of going further: 36% of highly-digitalised SMEs see cybersecurity as a barrier to digitalisation.

In a nutshell: Cyber threats are surfacing as an important challenge that could hold SMEs back in their digital journey. This is especially worrying for low digital intensity SMEs.

In Short Supply: Digital Skills and ICT Experts

45%

of SMEs surveyed cited lack of knowledge/skills as a barrier to digitalisation

It's nearly a decade since the European Commission first raised the alarm about the digital skills gap, with a landmark speech in Davos. Since then, the EU has been prioritising digital skills training, and the gap is gradually closing. The challenges SMEs are currently facing comprise three areas.

- Basic digital skills for general workforce
- Advanced digital skills for professionals
- Cybersecurity experts

Digital skills:

European SMEs feel confident in their digital skills, but are clear on the ongoing need to upskill further...



believe that their enterprise has the digital skills it needs to support their business plans.



say they are **investing to strengthen digital skills** in their enterprise.



of SMEs surveyed said they had been unable to hire cybersecurity experts due to lack of qualified specialists/cost of hiring

Source:

7010. To what extent do you agree with each of the following statements? [Our enterprise has the digital skills it needs to support our business plans]: [We are investing to strengthen digital skills in our enterprise]

Basic digital skills are now a prerequisite for many jobs, with ICT in use in more than 90% of workplaces, including sectors it isn't traditionally associated with, such as farming and construction. However, according to the latest DESI, only 54% of Europeans have at least basic digital skills.

Lack of skills is a primary barrier across all stages of digitalisation, but particularly relevant for medium/highly digitalised businesses. 50% of medium and 46% of highly-digitised SMEs mention it as an issue, vs just 38% of low-digitised SMEs.

There is therefore an urgent need to strengthen basic digital skills among general workers, including the use of mainstream back office technology, sales tools, basic cybersecurity practices and the reality of lifelong learning.

Advanced digital skills for professionals matter because SMEs can find it particularly hard to hire people in a competitive market. "ICT specialists are worth their weight in gold," one German SME owner told us, and it's a theme that resonates across Europe.

According to the latest DESI report, during 2020, 55% of EU enterprises (of all sizes, not just SMEs) reported difficulties in filling ICT specialist vacancies. In addition, although 500,000 ICT specialists entered the labour market between 2020 and 2021, the EU's 9 million ICT specialists fall far short of the EU target of 20 million specialists by 2030.

The situation is particularly tough for SMEs. Nearly half cite a lack of ICT talent and expertise as a barrier to going digital, both within the enterprise and externally. SMEs we spoke to said that when they find someone and train them, they often end up leaving to work for a larger competitor.

Cybersecurity experts are a specialised group within ICT professionals, and in particularly short supply: 46% of SMEs surveyed told us they have been unable to hire cybersecurity specialists due to lack of qualified specialists, the cost of hiring them, or SMEs not being attractive workplaces for cyber experts. Cybersecurity training and certification programs could ease this talent shortage.



Ahmet Taskan with a range of his products

Ahmet Taskan, owner of Honingwinkel,¹⁷ is a great example of how gaining digital skills can unlock opportunity. Ahmet is a Dutch beekeeper who turned his hobby into a business in 2019. During the pandemic, Ahmet and his family found themselves at home with a lot of free time.

Ahmet took care of the honey, his wife packaged it, his daughter ran the website, and his sons helped him handle the marketing. They took Google Digital Workshop webinars and began using tools in the Google Workspace, Google Ads, and Google Analytics, which increased web traffic by over 60%, customers by more than 150%, and revenue by nearly 200% in just four months.

SMEs are totally abandoned by the ICT consulting companies, as they don't enable them to make a profit. They are focused on large firms, even though SMEs make up 98% of French companies. For ICT consultancies, they're not seen as profitable.

French SME owner

SMEs know that going digital is a process, not an endpoint, and continuous training is part of this. Although 67% of SMEs surveyed agree or somewhat agree that their enterprise has the digital skills it needs to support their business plans, almost the same number (64%) are investing to strengthen them. Tellingly, the markets with greatest confidence in their skills are also the most committed to upskilling further.

Sliced By Scale: Lack of Digital Skills

Low Digital Intensity SMEs (Using 0-3 digital tools):

A lack of knowledge and skills is the number one barrier to further digitalisation for low-digitalised SMEs (38%). SMEs in this category lack official ICT support and a digital transformation plan.

In addition, the research identified a group of SMEs who show limited appetite for transformation: 14% are still at low levels of digitalisation and do not see it as a priority. These "laggards" are often smaller, or self-employed, and are twice as likely to focus resources on other, more urgent business priorities, making them less likely to devote time and resources to training.

Medium Digital Intensity SMEs (Using 4-7 digital tools):

Some 50% of medium intensity SMEs cite knowledge/skills as a challenge, the highest proportion of the three groups. And 57% want upskilling programmes to help accelerate digitalisation. They are looking for experts who can source, adopt and embed the more sophisticated digital tools they aspire to use – such as digital ads, data analytics and e-commerce.

Medium-digitalised SMEs want external partners to help them grow: 58% look to tech companies to offer partnership facilitation, such as innovation hubs or workshops with larger companies.

High Digital Intensity SMEs (Using 8+ digital tools):

Ambitious development goals mean knowledge and skills are important for this group: 46% cite this as a key barrier to further digitalisation. They also need access to advanced skills and expertise to realise their ambitions. They are most likely (99%) to look for support from tech companies and policymakers to realise these ambitions.

In a nutshell: SMEs find it hard to hire people with digital skills, whether that's an entry-level role or a cybersecurity expert. Tackling this requires lifelong learning and constant upskilling.

Funding: From Survival, to Investment

The gloomy economic outlook across Europe is causing companies to rein in spending, and SMEs are no exception. And for SMEs with fewer than 10 employees, funding is the number one barrier to digitalisation; the day-to-day needs of running their business take priority. Interestingly, unlike the other barriers, it doesn't vary with level of digital intensity – funding was a challenge for high (31%), medium (32%) and low (32%) digital intensity companies alike.

31% of SMEs surveyed cited lack of funds as a barrier to digitalisation

SMEs in Poland (40%) and Portugal (42%) are more likely to cite funds as a barrier than counterparts in France (23%), Germany (26%) and the Netherlands (24%). Concerns about funding include the need for expertise to help develop vision and strategy, the cost of software and hardware, getting tied into digital subscription services, and the price of training on new systems.

SMEs expect policymakers to show leadership in making digitalisation easier through access to finance, with 47% wanting to see direct support. With multiple EU programmes and initiatives already providing support from tackling late payments to improve cash flow for SMEs¹8 to direct support through the EU Recovery and Resilience Facility, which offers €44 billion of measures to support SMEs, help is available. One area for further research could be to undertake a comprehensive performance evaluation of the financial assistance mechanisms across Europe.

Our research shows the majority of SMEs are aware that going digital brings better business prospects, So how can they break the cycle and get out of survival mode?

In a nutshell: Lack of funding is an obstacle to investing in digital for many SMEs because they are focused on day-to-day business rather than investing in new tools and capacity.

Compliance Can Be Costly

24%

of SMEs surveyed cited cost of compliance as a barrier to digitalisation

SMEs, particularly in Spain, France and Germany, **view "compliance" as a major barrier to increased digitalisation.** They perceive this as compliance with regulations, but also costs and effort related to "data compliance," such as GDPR and procurement protocols with larger corporates, and additional requirements of tech start-ups and data agencies in the EU.

In our conversation with SMEs, they spoke of regulatory compliance and procurement as a frustration rather than a roadblock. Everyone has a part to play in tackling this: 48% of SME owners surveyed want policymakers to provide compliance guidance, while 43% want tech companies to provide this.

The EU already offers a range of support for businesses, from COSME and SOLVIT to improvements in cross-border VAT systems. This includes a number of initiatives to help SMEs¹⁹, including, but not limited to, support for start-ups and scale-ups, trade support, cross-border VAT improvements, intellectual property rights (IPR) and networks and funding.

And this conversation is happening on both sides of the Atlantic. To encourage SMEs to export their products and services, rules should be interoperable or mutually recognised across borders. When the US-EU Trade and Technology Council (TTC) met for the first time, in summer 2021, they said there should be a "particular focus on opportunities for SMEs" within the overall vision of deepening transatlantic trade and economic relations, through policies on shared democratic values.

Working together to support Europe's Digital Decade goals

Technology plays a pivotal role in helping businesses adapt and be more resilient, and Google is committed to play its part in supporting European SMEs in their quest for growth through digital tools and training. With help from our tools, small and medium businesses are finding new audiences, entering new markets, building brand awareness or increasing productivity.

To make the most of technology, people and businesses also need the right set of digital skills. In close collaboration with local and regional partners across sectors, we have been training millions of Europeans since 2015, through the Grow with Google programme.²⁰ People used their new knowledge in inspiring ways - from taking their businesses online, to turning a hobby into a new venture, or finding a new job – all of which has contributed to the growth of Europe's digital economy.

Google is committed to continue playing its part in supporting the EU's Digital Decade goals, partnering closely with governments, industry experts and local organisations to understand where the greatest needs lie and tailoring our initiatives to meet them.

Through Google for Startups, we support local entrepreneurs and under-represented founders. From levelling the playing field with Black Founders Fund Europe to supporting the growth of the local innovators who are leveraging technology to solve the regions' biggest challenges in areas such as Health, Cybersecurity or Climate Change.

58% of the SMEs we surveyed across Europe expect tech companies to support digital training programs and 34% expect the same from governments.

We are here to play our role and help governments, businesses and communities to build a stronger and more digital economy.

4. Areas for Discussion and Partnership: Together for the Future of Europe's SMEs

The backdrop of economic uncertainty makes this a critical moment to evaluate the current status of Europe's SMEs and their ecosystem. The survey results underscore the value of going digital: doing so enabled many SMEs to survive and thrive during the pandemic, and is now empowering them to better withstand economic headwinds.

At the same time, the positive momentum of SME digitalisation is under threat. To tackle the barriers outlined by SME decision makers, the research points to the following areas for further discussion:

- Cyber threats emerged as one of top barriers to further digitalisation for SMEs, with concern increasing as SMEs grow in digital maturity. It may therefore make sense to discuss which programs are helpful for SMEs in scaling their cybersecurity. These could include basic workforce training, adopting advanced cybersecurity tools and incident response plans – depending on digital maturity.
- 2. The 2023 European Year of Skills provides an excellent opportunity to focus on SMEs. The survey identified lack of digital skills as the most significant barrier to digitalisation, so support is needed in new, and familiar, areas:

Basic digital skills for the general workforce – how can SMEs be made aware of the importance of basic digital skills training, foundational cybersecurity practices and continuous upskilling? What could make this need resonate with SME owners and employees?

Advanced digital skills for professionals – what can be done to invest in, and promote, widespread ICT training programs? How can we effectively design and develop programs for SME digital transformation professionals with a particular focus on applying advanced technologies such as AI, Big Data, cloud and robotics?

Cybersecurity experts – How can Europe grow its pool of cybersecurity professionals? Is there a role for Europe-wide recognised training and certification programs alongside existing courses, and how should they best be administered, funded and promoted?

3. SMEs named funding as an obstacle to further digitalization. There is therefore space for a comprehensive discussion regarding the awareness of financial support mechanisms and their accessibility for SMEs that need them the most. A performance evaluation of existing financial support mechanisms, such as the Recovery and Resilience Facility and EU structural funds, as well as national programs could pinpoint ways to further target support.

- 4. The survey indicates that administrative burden and compliance costs are an issue for SMEs. How can these be assessed when developing regulation? Other areas for discussion in this context could encompass interoperability with other regulatory frameworks, e.g. privacy, alignment with global standards regarding e-commerce and digital trade; and open and rules-based trade principles such as non-discrimination and national treatment.
- 5. There's no one-size-fits-all solution. Discussions about support programs and initiatives need to reflect where SMEs are on their digital journey. Low digitalised enterprises and micro SMEs need to be made aware of the basics, and hands-on help to access available resources. Larger and more digitally advanced enterprises need sector-specific expert advice, access to ideas and a larger pool of ICT professionals to hire from. And SMEs of every size need support to integrate advanced technologies, making Al, Big Data analytics, cloud and robotics part of their digital transformation plans.

Partnerships between governments, SMEs and tech companies, academia, advocacy groups and trade associations have proved their value in this space and will be crucial to achieve the ambitious 2030 Digital Decade goals. A rich support ecosystem has trained millions of Europeans, provided funding for SMEs to go digital and forged connections between entrepreneurs.

The DESI results and our survey showed that the nature and allocation of this support might require fine-tuning. It revealed that while SMEs look towards tech companies for digital transformation support, they also expect governments, academia, advocacy groups and trade associations to address pain points and develop effective responses, through formats such as multi-stakeholder forums.

With a new round of European elections coming, it is a timely moment for open discussions and exchange of expertise in order to ensure every European SME gets the right support on its digital journey.

Footnotes

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ANNEXE: Survey Methodology

This information is from a new research study conducted by Kantar on behalf of Google.

The purpose of the study was to understand European SMEs' outlook and challenges, the role for digitisation, and explore a hot topic (cybersecurity).

All information in this report is derived or estimated by Kantar's analysis using both non-Google proprietary and publicly available information. Google has not supplied any additional data, nor does it endorse any estimates made in this report. Where information has been obtained from third party sources and proprietary research, this is clearly referenced in the footnotes.

Sample

Interviews have been conducted with a sample of 2000 decision makers within small and medium-sized enterprises (SMEs) in the European Union.

SMEs were recruited from 10 different countries across Europe to represent different regions and throughout this report we refer to an EU score which is an average of the following markets

Germany Czechia France Portugal Spain Sweden Netherlands Denmark Poland Finland

Fieldwork dates and Methodology

Interviews were conducted between September & October 2022.

Quantitative: A 15 minute survey, self-completed via online interviews (CAWI)

Qualitative: In depth exploration via 60 minute online interviews with 3 pairs of decision-makers per market (pairs had SME size in common)

Categorisation of SMEs

SMEs are classified in three groups based on their adoption of the following 12 digital tools:

Email platforms

Own E-commerce

Digital payments

Customer insight tools

Social media and video platforms

Business listings online

Communication and collaboration tools

Online hiring platforms

Digital ads

Online training platforms

Business/ data analytics or CRM tools

Online marketplace accounts

Those using

0-3 tools: low

4-7 tools: medium

8 or more of the tools: high