



IE Domain Registry



SME Digital Health Index 2018



IE Domain Registry

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Download the IE Domain Registry SME Digital Health Index
2018 appendices and your region's factsheet here



Foreword

IE Domain Registry is proud to present the 2018 edition of its SME Digital Health Index.

The SME DHI provides an analysis of usage and attitudes towards digital assets by SMEs. This year, we surveyed 1,000 SMEs rather than 500 in two biannual waves as per previous reports. We believe this new annual format will give us a greater insight into the business landscape and allow for more comparable year-on-year data going forward.

In addition, we have developed the Digital Skills Assessment framework which is a new approach to measuring and analysing SMEs' digital skills. We award an overall grade for SMEs' ability to communicate with their customers online, facilitate transactions, and enhance or 'boost' their online presence using software and analytics.

The results are intriguing. While more SMEs have digital assets than ever before, e-commerce adoption remains low. SMEs generally grade well in terms of communicating but rank poorly for transacting and boosting their digital presence. SMEs understand the benefits of digital and online, but struggle with barriers, such as a lack of time, a lack of understanding of the skills needed for website-building and e-commerce integration, and concerns about cost.

It is clear that if we are to have a truly digital economy, industry and policymakers must no longer focus solely on *raising awareness* of the benefits of an online presence and e-commerce, but rather on better targeting digital skills training and funding opportunities at specific sectors and industries.

David Curtin.

David Curtin

Chief Executive, IE Domain Registry



Executive summary

Being able to buy and sell online is a critical part of doing business in an age where practically everyone has access to and uses the internet on a daily basis. E-commerce is transforming industry sectors and disrupting business models. It is an integral part of the Irish economy worth at least €12.3 billion in 2017, or 6% of GDP⁽¹⁾ and is growing exponentially.

Consumers expect Irish businesses to be online. They want to be able to browse and shop online 24/7. 54% are more than happy to shop with a competitor if their preferred retailer doesn't have an online presence.⁽²⁾

Is Ireland really an e-commerce powerhouse?

According to the European Commission's latest DESI (Digital Economy and Society Index), Ireland's SMEs outperform every other EU member state in e-commerce.⁽³⁾ While this is of course good news on paper, the findings are misleading. The report excludes micro-businesses, SMEs of ten employees or less that make up 92% of the economy. With such a significant demographic missing from the EC's DESI, can we say with confidence that we are getting an accurate picture of Ireland's e-commerce landscape?

The answer is no. The IE Domain Registry SME Digital Health Index sample includes a large cohort of micro-businesses (83% in this wave). It shows that even though just 12% of SMEs can process sales online, 25% believe they are already doing all they can on the web. Clearly we still have work to do.

Irish SME attitudes to digital

Getting Irish businesses to make the most of an online presence is no longer a case of simply raising awareness. The vast majority of SMEs in our surveys appreciate the value and convenience of online services – they are not technophobes.

Most have some degree of online skill and knowledge. The number of SMEs without any digital assets whatsoever has declined to its lowest ever level (15%). SME owners bank online, order supplies online and make payments online.

However, they are failing to provide the same level of service to their own customers. Website functionality remains basic: 34% allow customers to make an appointment or book a reservation through their website; 30% can take sales orders through it; and just 26% can process customers' payments online. It should come as no surprise, then, that the bulk of e-commerce spend in Ireland is with foreign companies.⁽⁴⁾

No time to lose

Anyone who has run or worked in a small business knows how demanding an environment it is. Owners and employees juggle the roles and responsibilities of multiple people simultaneously.

Time is short, and naturally, this relegates much of what isn't in the here and now to the bottom of the to-do list – and that includes a long-term digital strategy. The payoffs of an online presence seem too remote, with too much up-front investment of money and effort.

However, building a basic website with a modern, professional design can be a simple process using one of the many DIY website builders provided by companies like Wix and Weebly. Getting e-commerce enabled is just as straightforward. PayPal and card payment integration into a website or signing up to a third-party platform like Amazon, Etsy or Ebay is designed to be as quick and user-friendly as possible. No knowledge of programming or web design is required, and most solutions are inexpensive.

A new approach is vital

IE Domain Registry has been working at the coalface of SME e-commerce since 2011. Through our OPTIMISE Programme, which provides digital supports and services

to Irish SMEs, we have seen how a website and e-commerce can totally transform a business, enabling it to advertise and sell online not just to customers in Ireland, but across the world. This SME Digital Health Index, too, consistently shows that SMEs with digital skills make more money, reach more customers, and gain deeper insights into their market.

These digital realities are difficult to relay to SMEs on a large scale. Time-poor business owners simply don't have the opportunity to research the steps involved in digital and e-commerce, and thus many of their misconceptions about the cost, time and skills required go unchallenged.

This needs to change. IE Domain Registry is calling for the rollout of a national Digital Activation Campaign, as well as State funding targeted at SMEs in high-growth sectors, routed through their trusted representative bodies. You can read more about these recommendations in this report's Action Points on page 4.

Digital can't be kept separate from an SME's daily business activity – it is an inextricable part of it. SMEs need to swap short-term thinking for a long-term strategic mindset. It's in their interests, and their customers'.



Sources:

- (1) Wolfgang Digital 2018 Irish Online Economy Report
- (2) IE Domain Registry Digital Health Index Q4 2017
- (3) Digital Economy and Society Index (DESI) 2018
- (4) Virgin Media Digital Insights Report 2016

Key findings

PRIORITY FINDINGS



Digital Skills Assessment

The majority of SMEs are relatively good communicators online. However, only a third achieve an A or a B grade in transacting online and less than 2 in 10 SMEs are boosting their online presence. These grades demonstrate that SMEs need assistance in getting digitally upskilled in order to compete in the global e-commerce marketplace.



72%

of SMEs have a website. Nearly three-quarters are mobile optimised

More SMEs have websites than ever before. Crucially, almost three-quarters of these websites are optimised for smartphone viewing. Today, the majority of web traffic originates from mobile devices. Customers demand a positive user experience that is in line with their browsing habits.



Just 3 in 10

SMEs can take sales orders through their website

E-commerce is worth €12.3bn to the Irish economy. Although nearly three-quarters of SMEs have websites, few use them to sell goods or services online. SMEs need to respond urgently. Consumers will happily shop with rival businesses or foreign retailers to find the goods that they want.



24%

say lack of time is a barrier to doing more online

Running a small business is no easy feat. With so much to do, digital planning often falls by the wayside. In reality, building a website or adding e-commerce has never been easier or more affordable. SMEs need to have their misconceptions about online investment challenged.

SECONDARY FINDINGS



89%

of SMEs say their website plays an important role in driving new business

At the very least, a website is a digital business card that allows customers to learn more about their products and business information. With e-commerce, a website can become an online store open 24/7.



€180

the average yearly micro-business spend on digital skills training

SMEs are spending very small sums on digital skills training. Less than 1 in 10 have taken part in a digital skills training or business funding programme. Government assistance needs to be targeted at specific SME sectors and administered by trusted sector representative bodies for maximum effectiveness.

Action points

While the SME Digital Health Index reflects some improvements in the digital health of SMEs, many of Ireland's small businesses struggle with digital skills, or with investments of time and money. Government needs to provide leadership and funding – the Irish internet services industry, SME organisations and the Government can collectively take positive steps now to address these issues and build a more competitive digital economy.



Launch a national Digital Activation Campaign

SMEs that trade online achieve more success. However, nearly a quarter are 'time-poor' and don't know where to turn for help. They need to be guided to the resources most relevant to their business sector.

WE RECOMMEND:

- ▶ A Government-led nationwide Digital Activation Campaign that demonstrates the value of online and e-commerce.
- ▶ Commission a 'one-stop shop' online resource with comprehensive, step-by-step guides to building a website, integrating e-commerce, digital marketing, and analytics and software usage – a digital 'Citizens' Information' guide for SMEs.
- ▶ Hold practical and interactive 'Building an online presence' workshops for SMEs hosted by LEOs and digital consultants. These workshops would teach SMEs' staff how to build the presence and manage the relevant digital tools.
- ▶ Set a national goal to have the majority of Ireland's SMEs reach an 'A' grade in 'transacting' in the Digital Skills Assessment by 2023.

Targeted sector funding

92% of all Irish businesses are micro-businesses. This is a large and diverse demographic. A broad funding programme, like the Trading Online Voucher Scheme, cannot effectively meet each industry's specific needs for digital skills and online activation.

WE RECOMMEND:

- ▶ Target grants and new funding at specific high-growth industries set to benefit most from e-commerce, such as retail and B2B professional services.
- ▶ Industry sector bodies and representative organisations are trusted by their members. Encourage leadership and allow them to facilitate and administer these funds.
- ▶ Use existing programmes as templates. IE Domain Registry's OPTIMISE Programme and Fáilte Ireland's 'Market Your Business Online' resources are targeted at specific sectors. Their focus has generated successful outcomes for less digitally savvy micro-businesses and SMEs.

SME mentorship from sector specialists

SMEs value guidance from people and organisations that they know and trust. 27% of SMEs go to a friend, colleague or relative for digital advice. This needs to be replicated at a sectoral and representative level.

WE RECOMMEND:

- ▶ Digitally upskill industry sector bodies and representative organisations so they can confidently provide and organise expert guidance for their members on building an online presence to drive customer acquisition and grow revenue.
- ▶ Encourage industry sector bodies and representative organisations to work with selected trusted service providers to identify tools, applications and software products that are suitable for the relevant sector. The objective being to increase business productivity and digital sales.

Prioritise infrastructural spend

Connection speeds remain a problem in regions such as Connacht-Ulster where only 39% percent of SMEs rate their internet connection as excellent or very good.

WE RECOMMEND:

- ▶ Re-prioritise the National Broadband Plan focusing on SMEs with a view to completing work by 2021.
- ▶ Streamline the tendering process and reduce regulatory complexity. Incentivise more providers to put forward broadband solutions for SMEs, including fibre optic, fixed wireless and satellite.
- ▶ Fast-track rural connectivity by creating new digital hubs in regional centres with high-growth potential. The Ludgate Hub has transformed Skibbereen into Ireland's first gigabit community, enabling business growth and digital learning.

1

Ireland's Digital Skills Assessment

Digital skills are critical to the success of Ireland's increasingly knowledge-based economy. In this chapter, we provide an assessment of SMEs' digital skills, focusing on e-commerce and online sales ability.

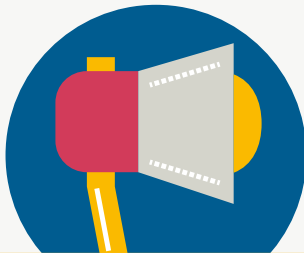


Digital Skills Assessment Overview

In this edition of the SME Digital Health Index, we have introduced a new way of measuring SMEs' digital health: the 'Digital Skills Assessment'.

Digital skills help SMEs navigate the online world so they can better interact with, sell to, and research their customers. This assessment provides a broad overview of Irish SMEs' digital skills based on size, industry and region (see Chapter 5 for full demographic breakdown). Across three categories, using a simple ABC grading system, we have rated SMEs on their ability to **communicate** online, **transact** online, and **boost** their online presence. You can read more about the methodology at the end of this report.

CATEGORIES – HOW IT WORKS



COMMUNICATING

An ability to connect with customers through a website, social media platform or messaging software.

- ▶ Having a digital asset
- ▶ Having a mobile optimised website
- ▶ Using digital tools to communicate



TRANSACTIONING

An ability to facilitate e-commerce and manage other business transactions online.

- ▶ Ability for customers to purchase products/make appointments/book services online through a business's website, click and collect and/or third-party platform
- ▶ Owners digitally managing their business through online banking, ordering supplies online, making bookings/appointments online



BOOSTING

An ability to use software and digital skills to improve business productivity, analyse customer data and promote an online presence.

- ▶ Using productivity software
- ▶ Using analytics software
- ▶ Investing budget to promote their services online
- ▶ Upskilling staff
- ▶ Availing of digital supports

GRADING – HOW IT WORKS



70% or more

SMEs with an A grade excel in their understanding and use of multiple digital assets. They use this knowledge to improve business outcomes.



51% to 69%

SMEs with a B grade demonstrate fair to good use of digital assets.



50% or less

SMEs with a C grade generally show poor use or understanding of digital assets.

► Key results ◀

COMMUNICATING



70%

of Irish SMEs achieved an A or B grade for communicating

- Larger SMEs tend to be better communicators: 60% with more than 16 employees have an A grade
- Travel & Tourism has the highest proportion of A-grade communicators, followed by Pharma and Food & Drink

TRANSACTIONING



32%

of Irish SMEs achieved an A or B grade for transacting

- Top-scoring Irish SMEs in the transacting category are more confident in their business than their lower scoring peers
- The smallest companies have the highest percentage of A and B grades for transacting

BOOSTING



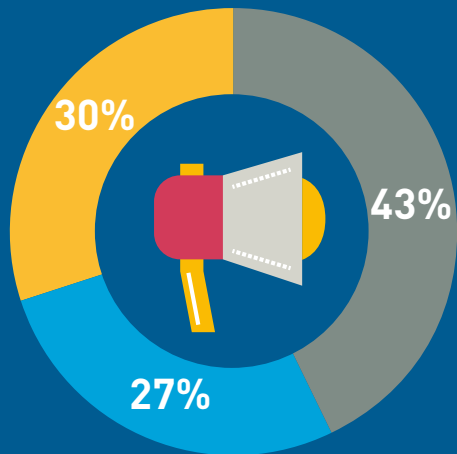
18%

of SMEs achieved a B grade for boosting

- These SMEs are using productivity software and analytics to improve their business operations
- SMEs who score well in this category believe their website is important in bringing in new sales or business

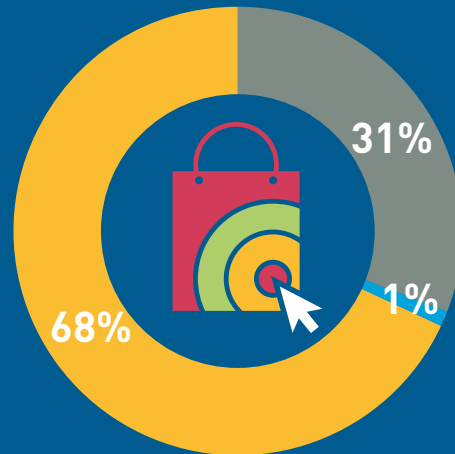
► Overview grades ◀

COMMUNICATING



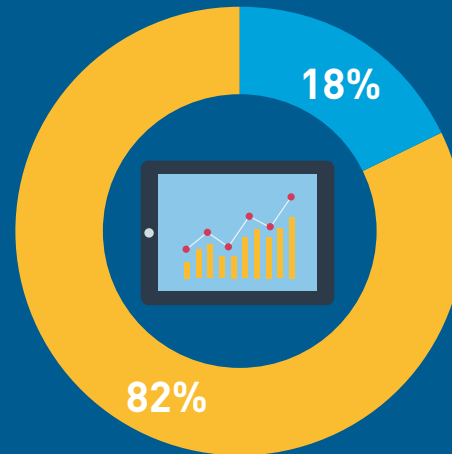
AVERAGE
GRADE*
B

TRANSACTIONING



AVERAGE
GRADE*
B

BOOSTING



AVERAGE
GRADE*
C

- A** 70% +
- B** 51-69%
- C** 50% or lower

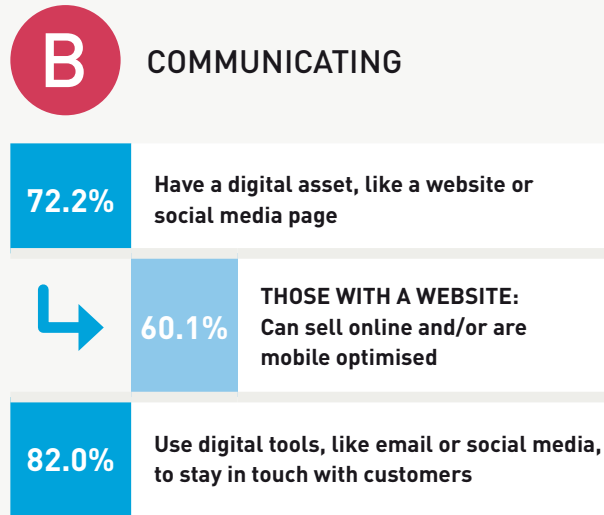
* Average grades are calculated based on the cumulative scores from each participant for each of the questions assigned to each of the 3 categories.

Average grades for each category

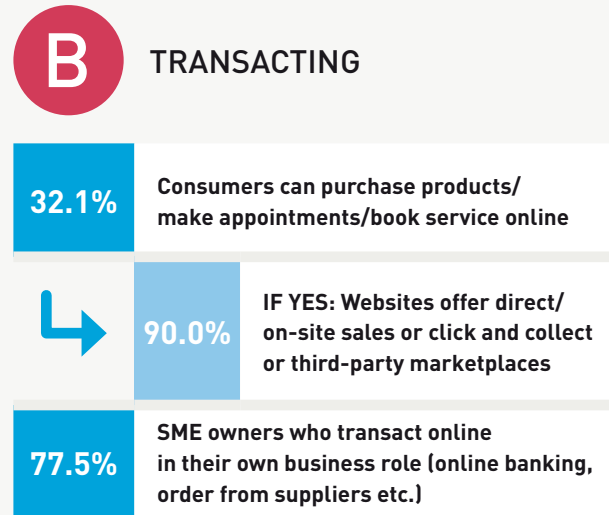
Digital Skills Assessment results outlined below are the **average category grades and percentage scores for each question** achieved by SMEs that *met the criteria of the questions* in each category. See page 31 for more detail.

AVERAGE
CATEGORY
GRADE

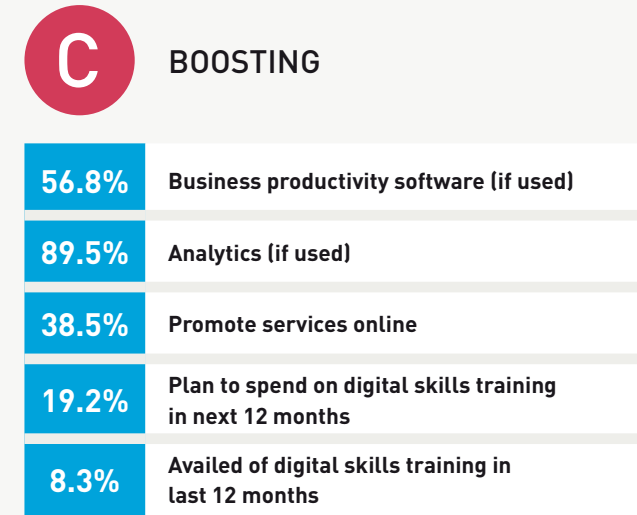
AVERAGE SCORES FOR EACH QUESTION



- ▶ Most Irish SMEs (70%) have an A or B grade for communicating.
- ▶ Larger SMEs tend to be good communicators – 60% of those with 16+ employees have an A grade.
- ▶ Travel & Tourism has the highest proportion of A-grade communicators (52%), followed by Pharma and Food & Drink (both 46%).
- ▶ SMEs between 3-5 years old have the highest proportion of A grades.
- ▶ A-rated SMEs are more likely to provide online purchasing and bookings to their customers (47%).
- ▶ Conversely, SMEs with a C grade are less likely to have e-commerce: just 10% provide online purchasing and bookings to their customers.
- ▶ Nearly 8 in 10 (77%) top-rated communicators say that their website plays an important role in new business or sales.
- ▶ 1 in 3 C-grade communicators report that being online is not a priority for their business.



- ▶ Just under a third (32%) of Irish SMEs have an A or B grade for transacting.
- ▶ The smallest companies – those with 1-2 employees – have the highest percentage of A and B grades for transacting (39%), compared to 28% of those with 16+ employees.
- ▶ Travel & Tourism has the highest proportion of A grades, 60%. This is nearly double the national average.
- ▶ SMEs with an A grade in transacting are more confident in their business. Half (49%) expect their revenues to increase over the coming 12 months.
- ▶ C-grade SMEs, however, are far less confident. Only a third expect revenues to increase.
- ▶ 58% of A-grader transactors promote their services online compared to 31% of C-graders.
- ▶ More than three-quarters (77%) of A-grade transactors SMEs believe that their website contributes to their offline or face-to-face sales.
- ▶ In comparison, fewer than two-thirds (62%) of C-graders believe that their website contributes to their business offline.



- ▶ 18% of SMEs have a B grade for boosting. No SMEs achieved an A grade.
- ▶ Micro-businesses (SMEs with fewer than 10 employees) are more likely to boost and have slightly better grades than their larger peers.
- ▶ Older SMEs tend to boost more and have higher scores.
- ▶ Dublin-based SMEs are slightly better at boosting than their peers in other regions, but the differences are small.
- ▶ B-grade boosters are more likely to update their website at least weekly (47%), compared to 30% of C-graders.
- ▶ 82% of B-grade boosters believe their website plays an important role in bringing in new sales or business, compared to 70% of C-graders.
- ▶ B- and C-graders are similar (37% and 32%) in their desire for online e-commerce or digital supports. Clearly there is a cohort of SMEs that wants to know more about customer analytics and business-enhancing software.

2

SME attitudes to digital

It is said that success is about attitude, not aptitude. SMEs are digital users, but our research shows that they treat their own website as *just* a digital business card. It finds that SME websites are optimised for mobile, but not for e-commerce.

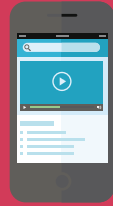


SME attitudes to digital



85%

of Irish SMEs
have at least one
digital asset



73%

of SME websites are
optimised for mobile
devices



**ONLY
30%**

of SMEs can take
sales orders through
their website



**JUST
€180**

spent every year by
micro-businesses on
digital skills training

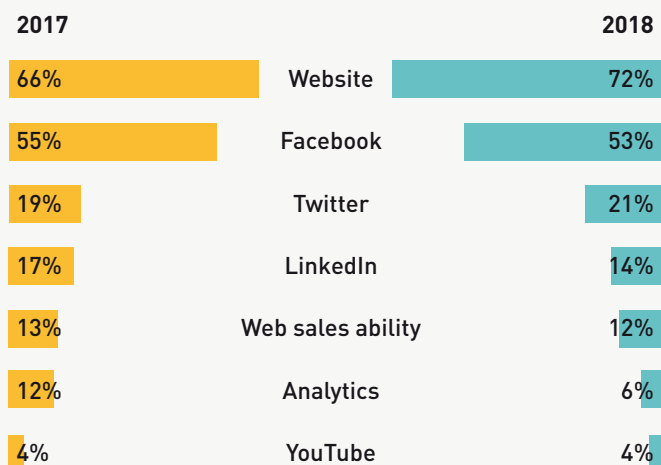
2 SME ATTITUDES TO DIGITAL [CONTINUED]

A digital asset is any tool or software that allows an SME to interact with the online world, such as a website, a social media page, an e-commerce platform, or data analytics. The more digital assets an SME has, the more success it is likely to have in finding new customers and generating revenue.

The number of SMEs with no digital assets whatsoever has dropped to just 15%, the lowest ever. Nearly three-quarters (72%) of all Irish SMEs have a website. This is the highest figure recorded since our research began in 2014 when website ownership was just 63%.

While websites have stood the test of time, broader digital asset ownership has actually decreased – albeit marginally in most cases – in nearly every other field. Facebook ownership decreased by 9% to just over half of SMEs compared to last year. The number of SMEs with web sales ability dropped to just 12%. Disappointingly, fewer SMEs can run analytics, dropping from 12% in 2017 to just 6% in 2018.

Digital asset ownership among Irish SMEs Base: 1,000



Websites are optimised for mobile but not e-commerce

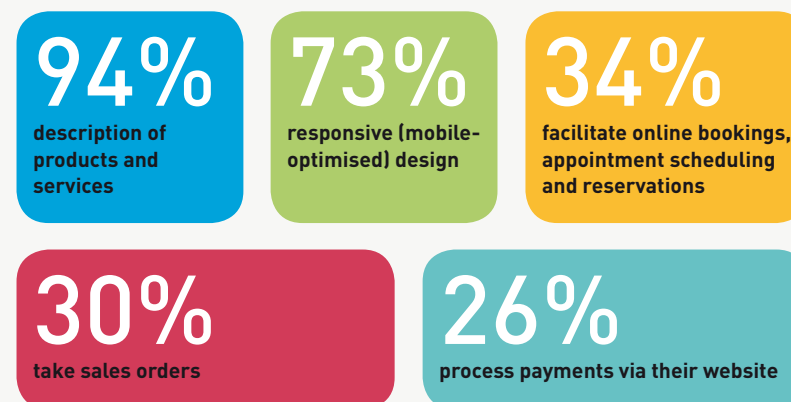
Three-quarters of SMEs have a website, but how do they use them? 94% have at the very least a basic description of their services.

In an encouraging trend, nearly three-quarters have a website optimised for mobile devices, a figure up from just over half (53%) last year and only 27% in 2014. In an era of declining desktop and laptop usage, having a mobile-optimised website is essential. Globally, phones have overtaken desktop computers as the primary means of browsing the internet. Few customers will waste time pinching and zooming around a poorly designed website.

Despite these improvements, most SME websites are simply 'digital business cards'. Just 34% allow customers to book a service or make an appointment or reservation through their website. Less than a third (30%) can take sales orders, while even fewer, 26%, can process payments.

When we asked SMEs with a website why they don't have e-commerce capabilities, the answers were mixed: 15% said they don't have the volume of sales to justify having an online store, while a combined 24% are concerned about data protection and regulation, credit card fraud, and cybersecurity. SMEs need greater guidance from their sector's industry bodies and representative organisations so these concerns can be addressed.

How SMEs use their websites Base: 723, all SMEs with a website



SMEs spend online – so why can't their customers?

Ireland buys digital. E-commerce is worth €12.3 billion to the Irish economy and online consumer spending is rising ten times faster than traditional face-to-face sales.⁽¹⁾⁽²⁾

It's not just high street shoppers fuelling this boom. Most SME owners conduct their business online: 76% use online banking, 70% make online payments, 66% order from their suppliers online, and 57% shop online.

The majority of SMEs appreciate the value and convenience of doing these tasks online, but paradoxically only 12% of all SMEs have full web sales functionality for their own customers.

Most consumers will struggle to even find Irish SMEs on the web: 61% do not promote their services online. Among those that do, the average monthly spend is €140, although as many as 76% spend less than €100 a month.

A key priority for Government and industry groups must be to show SME owners that building a website and selling online have long-term, sustainable pay-offs that far outweigh the small, short-term costs of time and money. See Chapter 3 for the benefits of an online presence.

How e-commerce-enabled SMEs do business with their customers

Base: 321, all e-commerce-enabled SMEs



80%

Customers can make a purchase or book an appointment, reservation or service directly through my website

8%

Other

18%

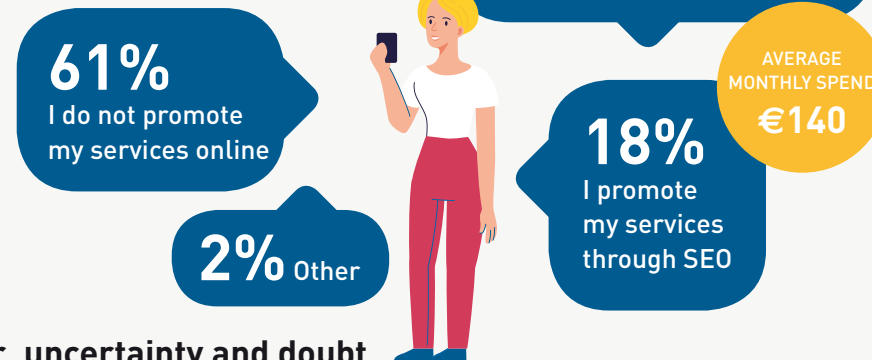
Use a third-party platform, e.g. Amazon, Ebay, Etsy, Just Eat

2%

Offer click-and-collect

SME attitudes to online promotion

Base: 1,000



Fear, uncertainty and doubt

Many SMEs cite reasons of small sales volumes or dependency on word-of-mouth business to justify not investing in e-commerce. After all, they might say, why put precious funds into an online store if the demand isn't certain, or if most of the business might remain local?

This fear, uncertainty and doubt masks the reality of digital. In many cases, building an e-commerce-enabled website or using a third-party platform like Amazon, Etsy or Just Eat actually *increases* sales volumes and expands a business's reach. An SME that has an online store remains open 24/7, 365 days a year to consumers not just in the same county, but across the country and beyond.

In fact, this report's Digital Skills Assessment shows that the SMEs rated highest for their ability to transact online were far more confident in their overall business outlook, while over three-quarters believe that their website contributes not only to online sales, but offline, face-to-face sales.

A short-term outlook damages SMEs: 55% of start-up businesses fail within the first five years.⁽³⁾ Investing in a website and e-commerce is a sound long-term business strategy that helps an SME open up new revenue streams, build customer relations, and understand their target markets.

Sources:

(1) Wolfgang Digital 2018 Irish Online Economy Report

(2) Visa Irish Consumer Spending Index May 2018

(3) RSA Growing Pains Report, 2014 (UK figures)

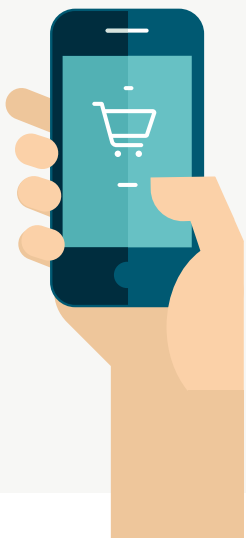
SMEs want to learn but aren't taking action

Investment in digital skills training is a low priority for most SMEs. For micro-businesses with up to ten employees, average yearly spend on training is just €180 per company. This figure rises to €1,250 for SMEs with more than 21 employees.

Just short of 1 in 10 SMEs claim to have availed of private or public digital skills training or funds, like the Government's Trading Online Voucher Scheme or the IE Domain Registry OPTIMISE Programme. However, the appetite for knowledge is there: 44% of all SMEs said they would prefer one-on-one mentoring in digital skills training, while a third would go online for training.

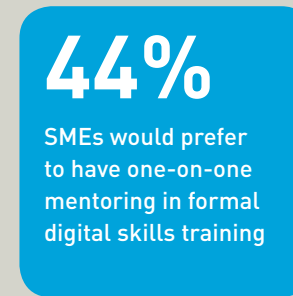
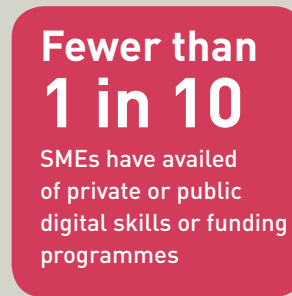
It is clear that access to or awareness of digital skills training and funding remains a problem. 27% of SMEs go to a friend, relative or colleague for support or assistance in digital, compared to just 7% to their local business network and 2% to their sectoral organisation.

The latter number shows that sectoral organisations aren't the first port of call for SMEs in search of digital supports, despite being trusted to provide guidance and information in other business-critical areas. In this report's Action Points, we encourage industry sector bodies and representative organisations to take on a greater leadership role in the digital space by providing oversight and administration of SME programmes and funding.



“[Being online] is the future. You have to have your website. There has to be e-commerce and there has to be selling.”

Christina Sanne, designer and founder of Red Rufus, a Dublin-based micro-business that sells handmade sock toys (www.redrufus.ie)



Where do SMEs go for help with digital skills? Base: 1,000



3

The benefits of an online presence

In this chapter, our research shows high and increasing levels of SME awareness of the benefits of an online presence: productivity, cost control and sales growth.



The benefits of an online presence



77%

of SMEs say being online and digitally savvy has raised awareness of their business



89%

of SMEs say their website plays an important role in driving new business



4 in 10

SMEs generate work through their website

3 THE BENEFITS OF AN ONLINE PRESENCE [CONTINUED]

Irish people check their phones 57 times a day on average. Nearly half check their phone in the middle of the night, and 40% check it within five minutes of waking up.⁽¹⁾ Simply put, life is increasingly a connected, mobile experience.

For SMEs, long-term growth and sustainability hinge on being online and digitally savvy. Among the SMEs with digital assets that we surveyed, more than three-quarters (77%) say that having an online presence and an understanding of the digital world has helped them raise awareness of their business.

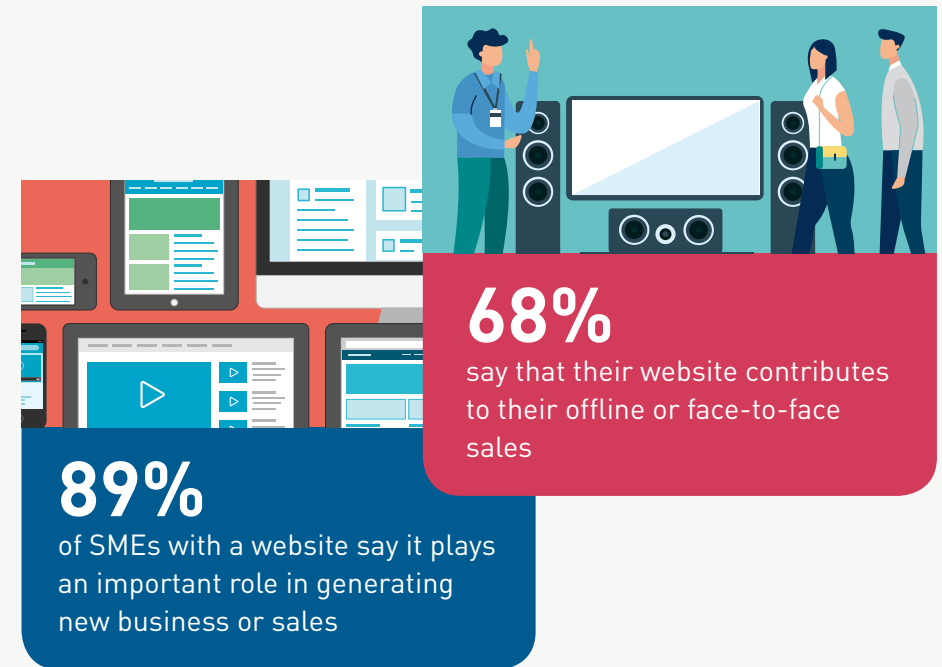
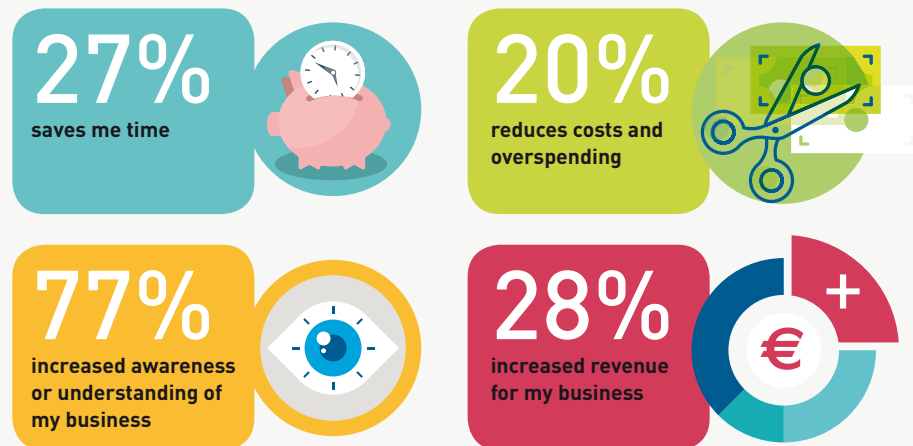
Nearly 3 in 10 SMEs (28%) say that being digitally savvy has increased their business's revenue. This appears to have translated into online success: 4 in 10 SMEs (41%) generate work through their website.

Being online also saves an SME time (27%) and reduces costs (20%). Whereas a non-digital SME might have to physically travel to raise awareness of their product, or spend hours fielding customer queries by phone, having a website means that the owner can relay product and business information to consumers at little to no cost.

Source: (1) Deloitte Mobile Consumer Survey 2017

SMEs on the biggest benefits to being online or digitally savvy

Base: 846, all SMEs with a digital asset



The vast majority of SMEs (89%) say that their website plays an important role in generating new business or sales. This is up on 2017 (82%).

More than two-thirds (68%) believe that their website contributes to their offline or face-to-face sales. Websites introduce customers to a business – a customer who has visited your website is more likely to visit you in store.

Customers increasingly demand a full 'omni-channel experience' – they want to be able to visit a store in person, examine a product that they like, then seamlessly purchase it online, or vice versa. SMEs that fail to view their website as an essential touchpoint on the customer journey risk losing out to their competitors.

Social media: crucial, but not controllable

65% of Irish people use Facebook, 32% use Instagram, and 29% use Twitter.^[2] Consumers live on social networks, and that makes social media an invaluable tool in an SME's online and e-commerce strategy.

Overall, more than two-thirds (67%) of SMEs believe that having a social media presence contributes to their offline sales. However, compared to last year, many SMEs are more sceptical of social media's day-to-day benefits.

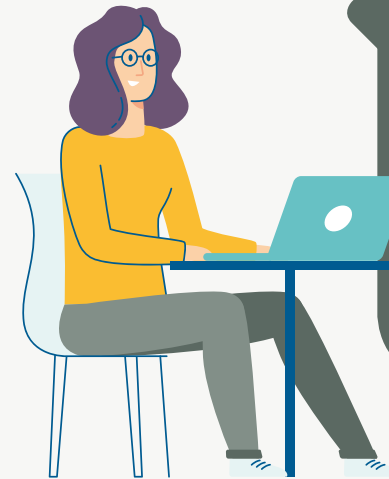
83% of SMEs believe that social media has raised awareness of their business (94% in 2017), while 73% say it has enhanced interaction with their customers (81% in 2017). Interestingly, the number of SMEs that believe social media has helped their business, but don't know how to track its contribution, has risen from 58% in 2017 to 70% in 2018.

SMEs tend to regard their website as more important than their social media profiles (35% compared to 27% who think the contrary), but nearly 4 in 10 (38%) view them as equally important.

Unlike a website, SMEs don't own their social media profiles. A social network can at any time change its terms and conditions, restrict access to followers, or increase fees for advertising.

Events like the recent Cambridge Analytica scandal can also damage user confidence in these platforms. When fewer users log on to social networks, SMEs will struggle to engage with their audience.

Source: [2] IPSOS MRBI Social Networking Report, November 2017



“[An American customer] saw my jewellery in a Galway store, but wanted a piece in a different style. She went home, logged onto my site, and was easily able to find what she wanted. That’s proof that you need to omni-channel – you need to have a web presence as well as wholesale.”

Áine Breen, founder of Liwu Jewellery, a Wexford-based designer of handmade jewellery (www.liwujewellery.ie)

SMEs on why their website is more important than their social media presence

Base: 171, all SMEs that said their website is more important than their social media



4

The barriers to doing more online

The barriers facing online SMEs are very different to those cited by the entrenched, offline minority. Time-poor onliners need expert guidance on prioritising their next steps online, and inspiration of what's possible from sector leaders.



Barriers keeping SMEs offline



43%

Too expensive



43%

No time



39%

Lack of skills

Base: 154, all SMEs with no digital assets

Many SMEs acknowledge the importance of doing more online, but for various reasons stop short of putting their good intentions into action.

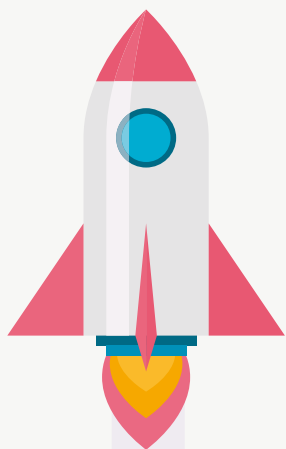
The majority (24%) report a lack of time as a significant barrier. This is not a surprise. SME owners are time-poor. They are managing directors, recruiters, salespeople, delivery drivers and all-round grafters. Building an online presence is often at the bottom of their to-do list.

A quarter say that they are already “doing all they can” online, but our Digital Skills Assessment says otherwise (Chapter 1) and points to unfulfilled potential. Many SMEs only achieve a C grade for transacting online and boosting their digital assets. Clearly there is a difference between what they are doing and what the industry leaders demonstrate is possible online.

Among those 15% of SMEs with no digital assets whatsoever – neither website nor social media presence – 43% say cost is a major barrier to going online, and 39% say a lack of digital skills. A quarter admit to simply not knowing where to begin.

Don't worry – it's not rocket science!

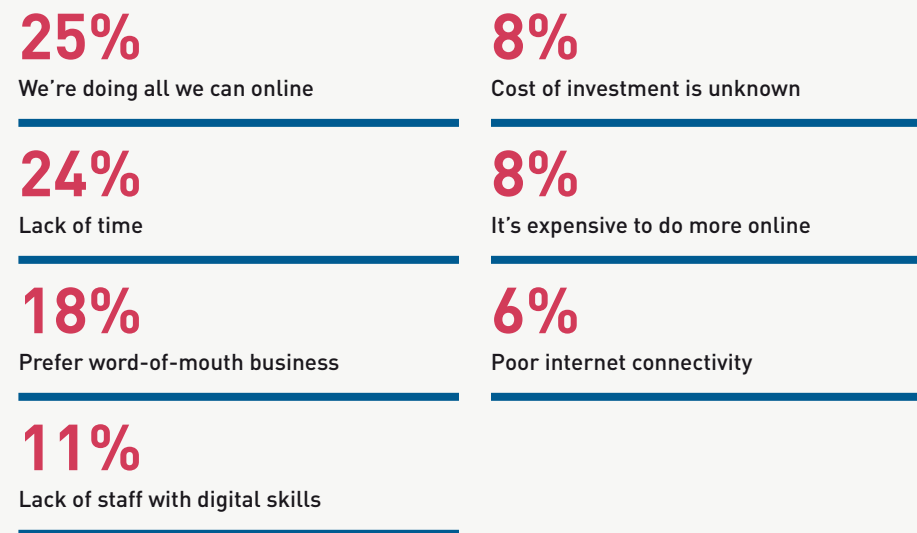
Many of these responses are grounded in misconceptions. “Doesn't it take months of planning and programming to build a website? I don't have those kinds of skills. And won't I be spending a fortune to get it up and running?”



Today, professional websites are simple to build using DIY tools like Wix, Smm, Weebly and WordPress. They are designed to be used by amateurs, cost little, and require no understanding of programming.

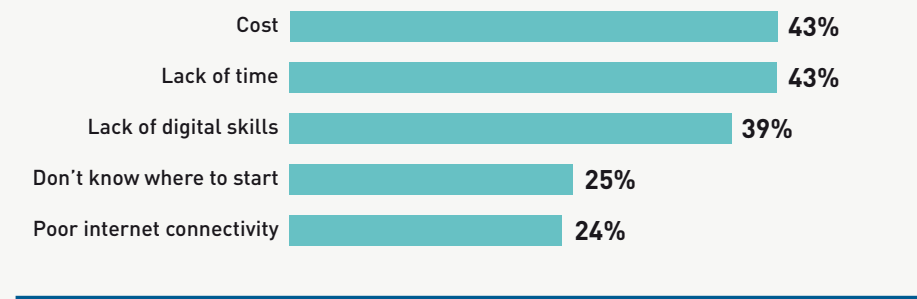
It's crucial that SMEs understand this message. IE Domain Registry is calling for a nationwide Digital Activation Campaign. This would involve the creation of an online resource that includes easy-to-understand guides to web design and e-commerce, and interactive 'Building an online presence' workshops which would teach SMEs how to build a presence and manage the relevant digital tools. See this report's Action Points on page 4.

Factors preventing SMEs from doing more online Base: 1,000



The major barriers preventing offline SMEs from going online

Base: 154, all SMEs with no digital assets



No need for a website? Hardly!

In today's digital world, more SMEs have websites than ever before. Compared to previous research waves, of those SMEs that don't have a website, fewer believe that there is no need to have a website in their industry (49%, compared to 60% in 2017 and a high of 69% in 2014).

Despite this, a stubborn cohort of SMEs is happy to go without. Among those SMEs that say there's no need to have a website, more than half (53%) say they don't see the advantage and 43% say that the majority of their business is word of mouth.

A website always has benefits, even for SMEs that don't have physical goods to sell or rely mostly on word-of-mouth business. Previous IE Domain Registry research shows that consumers expect businesses to be online. Nearly 7 in 10 find it frustrating or extremely frustrating when an SME doesn't have an online presence.⁽¹⁾

At the very least, a website can be just your digital business card, one that you can give away without ever even meeting your customer in person. A website is a way for your local customers to know you exist. Online search is the first port of call for many consumers. If you can't be found online, your customers will go elsewhere.

SMEs on why there's no need for them to have a website.

Base: 137, all SMEs without a website that say there is no need to have one



Sources:
(1) IE Domain Registry Digital Health Index Q4 2017

4 THE BARRIERS TO DOING MORE ONLINE [CONTINUED]

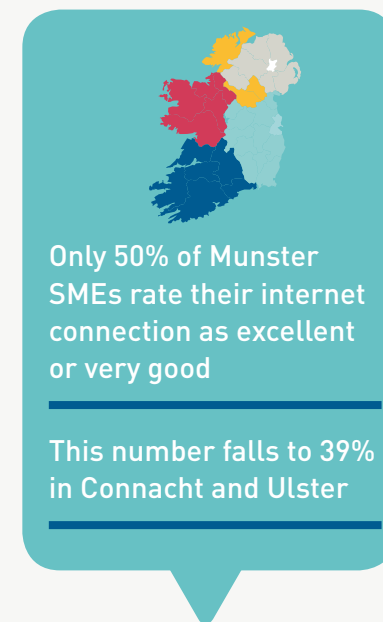
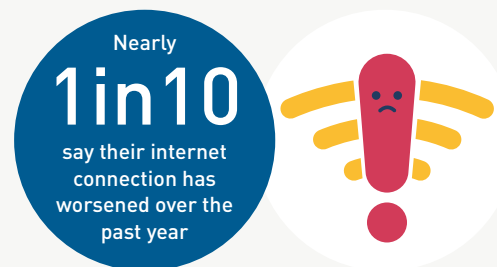
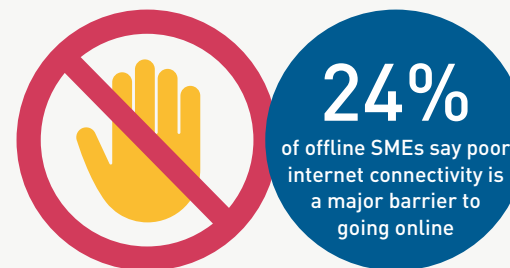
A changing society

Ireland's fast-growing population is younger and increasingly multi-ethnic. As communities change, through demographics and technology, traditional ways of doing business, like word of mouth, will become less relevant. Generation Z, and their successors 'Generation Alpha' (those born after 2010), are true digital natives.

Two-thirds of Gen Z-ers purchase online, and more than half of those purchases are made via phones.^[2] On average, Gen Z-ers spend nearly 11 hours online every day.^[3]

By 2051, Ireland's population could reach 6.7 million with net migration of 30,000 per year.^[4] Residents who are new arrivals to Ireland will not have access to the same word-of-mouth networks as a family that has lived in a rural town, or even a city suburb, for decades.

Websites allow SMEs to transcend traditional, offline social networks. For the majority of word-of-mouth businesses, being online provides a way to connect with and sell to consumers in a changing society and economy.



Life in the slow lane

Poor or non-existent access to high-speed internet remains a problem in many parts of Ireland. With continuous delays to the National Broadband Plan, some of the most rural SMEs simply cannot operate a business online and, in some extreme cases, even connect to the internet.

6% of all Irish SMEs say poor connectivity is preventing them doing more online, while just under a quarter of all *offline* SMEs say it is a major barrier to going digital.

70% of all Dublin SMEs rate their internet connection as excellent or very good, but this number drops to 50% in Munster and just 39% in Connacht and Ulster. Just under 1 in 10 of all SMEs say that their internet connection has worsened either somewhat or significantly over the last year, while 61% say it has remained the same.

Sources:

[2] David Staley, Columbus Futurists, April 2017

[3] Adobe Digital Experience research, February 2018

[4] CSO, Population and Labour Force Projections 2017-2051, June 2018



5

SME digital demographics

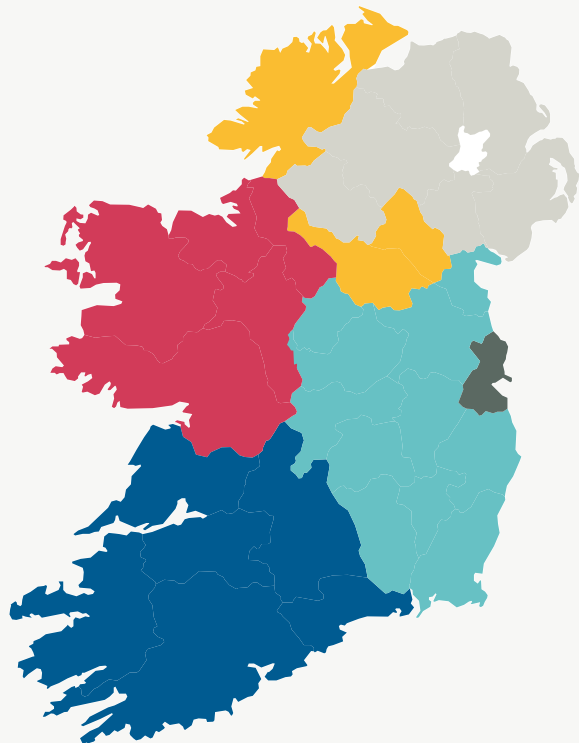
Breakdown of the Digital Skills Assessment by region, industry and size. It would appear that the Digital Divide is closing rapidly, while some industry sectors are digital leaders.



5 SME DIGITAL DEMOGRAPHICS [CONTINUED]

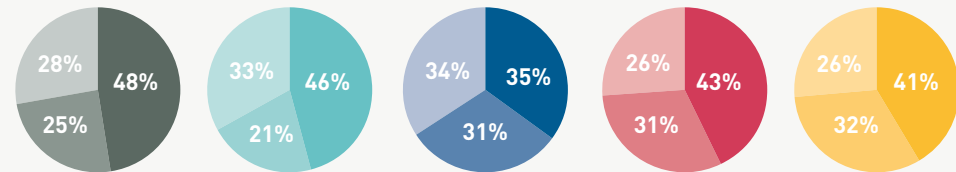
The SME Digital Health Index surveys SMEs from across Ireland. In this wave of research, 30% of respondents were Dublin-based, 25% were from the rest of Leinster, 24% from Munster, and 22% from Connacht and Ulster.

The Digital Skills Assessment (see Chapter 1) shows that broadly speaking, Irish SMEs rate well for communicating, fair to poor for transacting, and overwhelmingly poor for boosting as indicated by the 80%-85% getting a C grade. The regional breakdown highlights some small but interesting variations in grading. Dublin, unsurprisingly, leads the pack, but never by a huge margin. This suggests that supports for SMEs must be evenly spread across the whole country, and not just limited to traditionally rural or less developed regions.

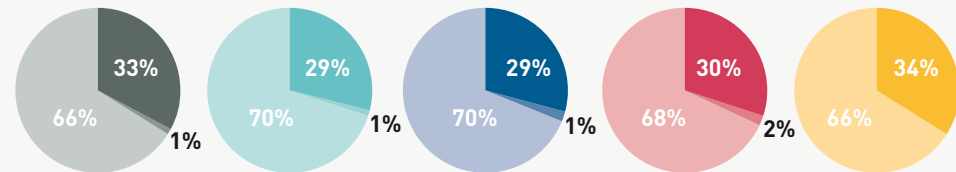


DUBLIN	REST OF LEINSTER	MUNSTER	CONNACHT	ULSTER
A	A	A	A	A
B	B	B	B	B
C	C	C	C	C

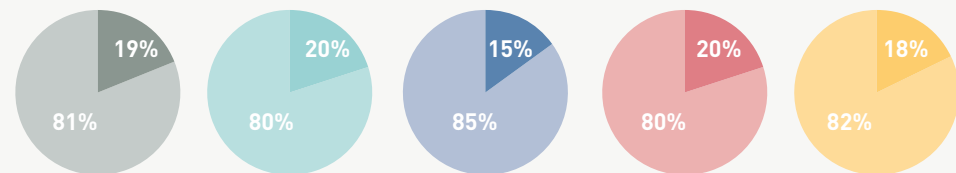
COMMUNICATING



TRANSACTIONING



BOOSTING



5 SME DIGITAL DEMOGRAPHICS [CONTINUED]

Digital and online activity varies from industry to industry. Naturally, some businesses are more consumer-facing (B2C) than others.

However, this report demonstrates that there are digital and online opportunities for businesses in every industry, including those that are predominantly B2B like construction and pharmaceuticals.

SME size, too, plays a role in influencing digital success. Generally, SMEs with more than ten employees are better communicators and boosters.

However, micro-businesses are marginally better at transacting online.

While larger SMEs may have the extra manpower to better communicate and enhance their digital services, the smallest SMEs may have greater flexibility to experiment with e-commerce.

Restrictive or risk-averse attitudes to all aspects of digital and online experimentation can lead to stagnation and a lack of innovation. Flexibility is a key part of staying competitive.

Top 5 industries by % of A-B grade

COMMUNICATING

80%
Education



76%
Financial services



74%
Retail



73%
Travel & Tourism



71%
Construction



TRANSACTIONING

64%
Travel & Tourism



44%
Retail



40%
Food & Drink



32%
Construction



31%
Pharmaceuticals



BOOSTING

29%
Food & Drink



24%
Pharmaceuticals



23%
Financial services



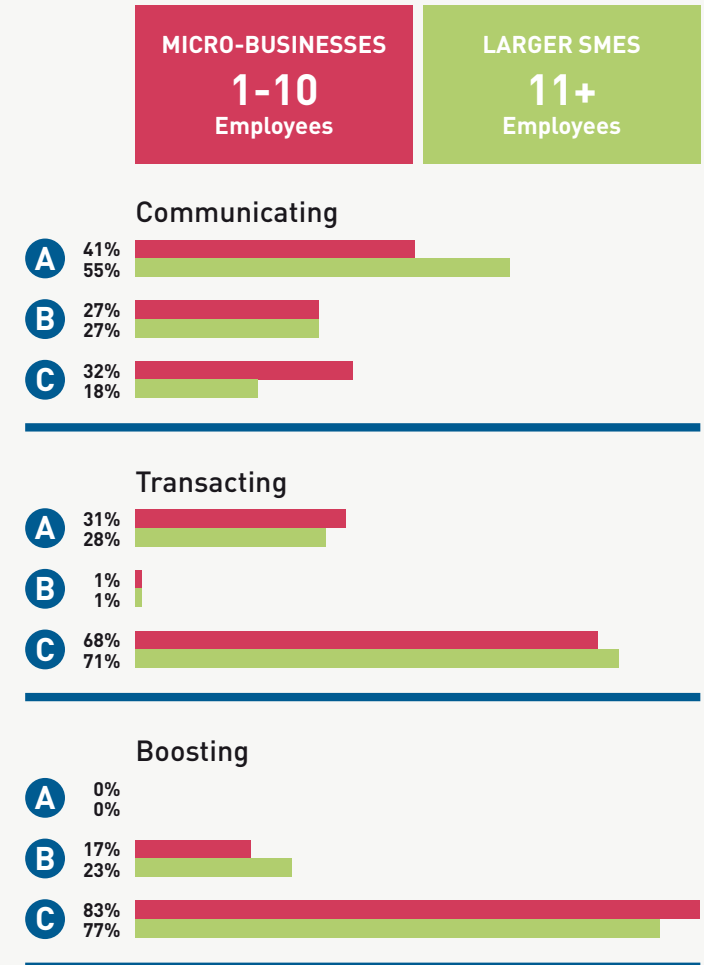
19%
Travel & Tourism



17%
Education



Digital skills grades by SME size



Methodology and Index score



Survey methodology

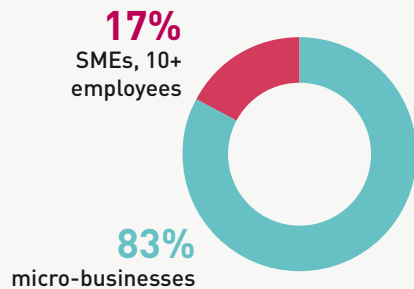
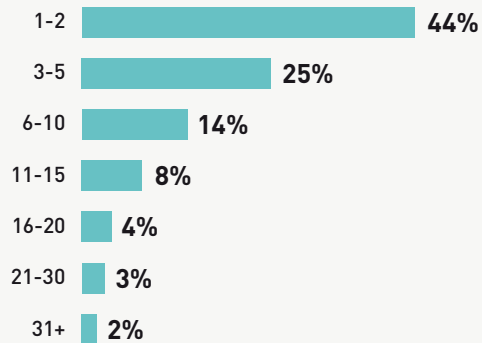
The SME Digital Health Index has been conducted on behalf of IE Domain Registry by Core Research among 4,514 SMEs across eight waves of fieldwork over a four-year period. Previously, 500 SMEs were surveyed in each wave of research. For the 2018 report, this number has increased to 1,000.

Waves of fieldwork were carried out in June 2018, October 2017, March 2017, October 2016, April 2016, September 2015, December 2014 and May 2014.

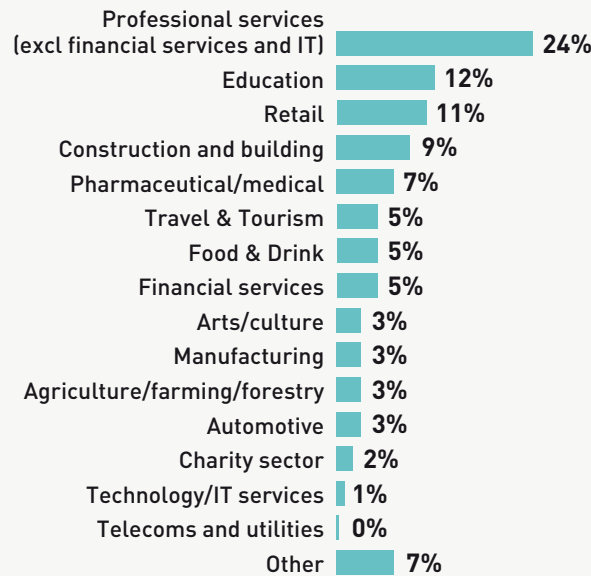
Of those surveyed in the June 2018 wave, 83% were micro-businesses with 1-10 employees. This is in line with the latest CSO business demography, which reports that SMEs account for 99.8% of the total enterprise population. 92% of all Irish businesses are micro-businesses.⁽¹⁾

Source: [1] CSO Business Demography 2016

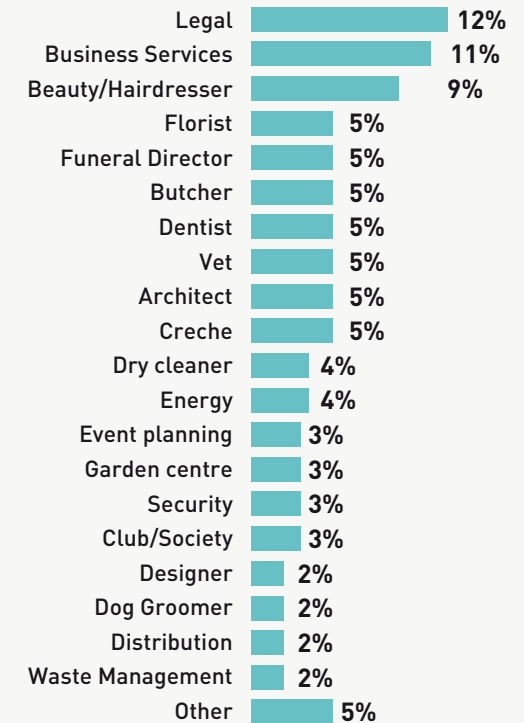
M1.1 SME survey sample by number of employees



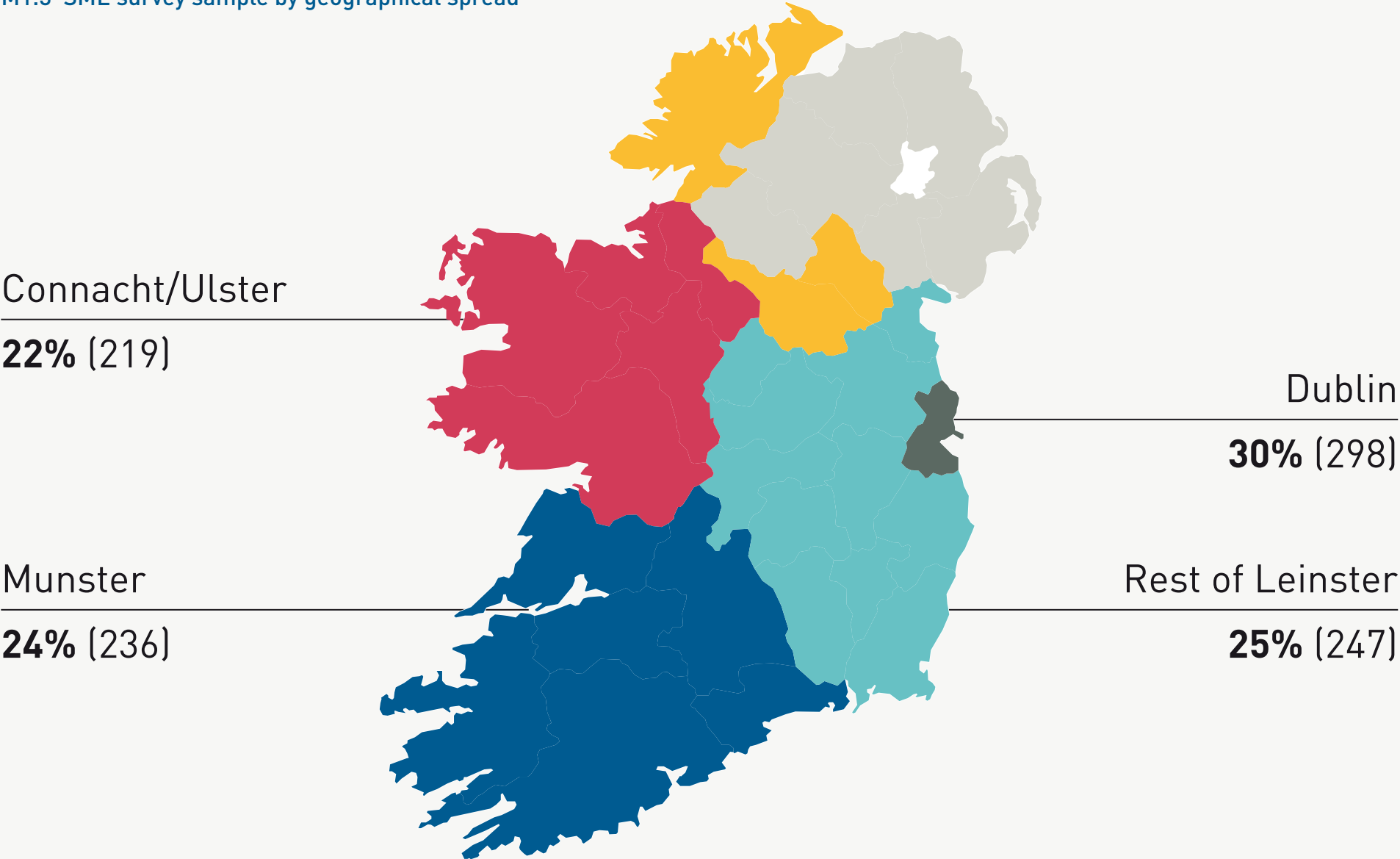
M1.2 SME survey sample by sector



M1.2.1 SME survey sample by sector – professional services breakdown



M1.3 SME survey sample by geographical spread



Construction of SME Digital Health Index score

Scored out of 100, the overall digital health of Ireland's SMEs is calculated by analysing their use and perceived quality of nine digital assets:

- ▶ Website
- ▶ Facebook
- ▶ Twitter
- ▶ LinkedIn
- ▶ YouTube
- ▶ Blog or content marketing
- ▶ Mobile or tablet app
- ▶ Web sales ability
- ▶ Data analytics from online assets

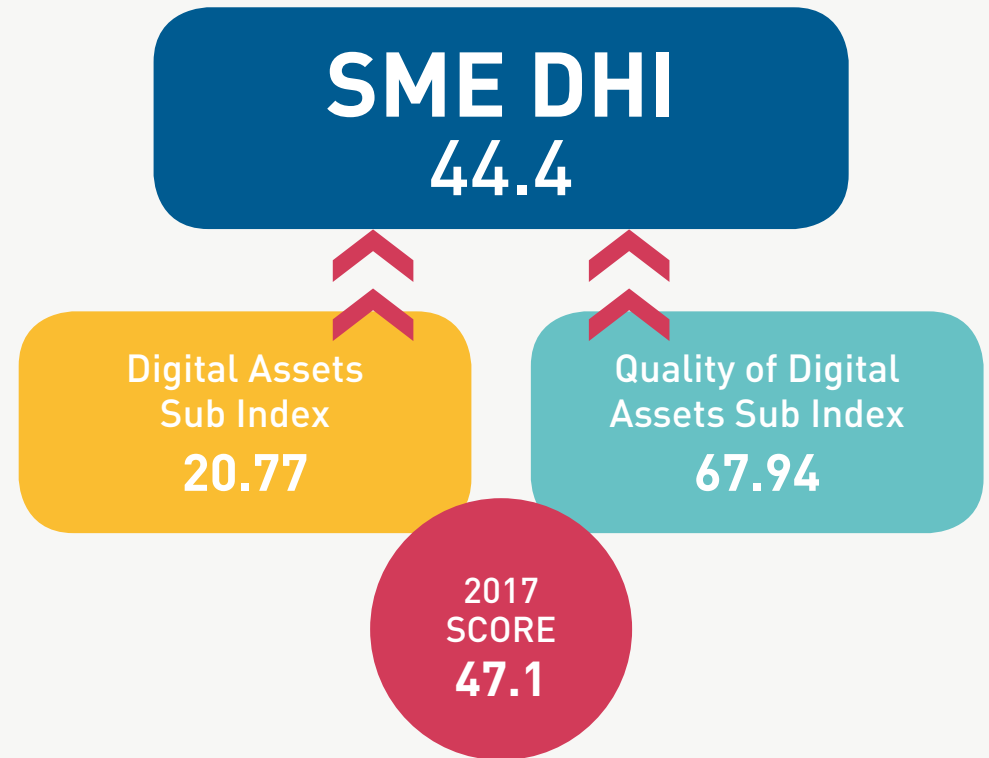
Two key question sets are asked of each SME to determine the overall index score:

- ▶ From the range of nine digital assets and activities, have you or do you use the digital asset?
- ▶ What is your perceived quality of the digital asset used?

Equal weighting of each of the two question sets and each of the nine categories then feed into a composite index score of digital health.

For additional information on methodology and historical scores, please download the supplementary appendices.

M1.4 2018 SME Digital Health Index score



Digital Skills Assessment methodology

The Digital Skills Assessment, which has been included for the first time in this SME Digital Health Index, measures Irish SMEs' digital skills across three categories – communicating, transacting and boosting – and grades them using an ABC system.

SMEs that reach more than 70% of the criteria in a particular category are awarded an 'A' grade. Those with a score between 51% and 69% receive a 'B' grade. SMEs with a score of 50% or below are awarded a 'C' grade. SMEs were graded based on their responses to particular questions in the SME Digital Health Index survey.

Digital Skills Assessment grading criteria (max score per question is 100)

COMMUNICATING

- ▶ Which of the following does your business have?
 - Website plus any other digital asset (100)
 - Website only (80)
 - Facebook only (60)
 - Any other digital asset (50)
 - No digital asset (0)
- ▶ On SME website functionality
 - If mobile optimised and has ability to take sales orders OR process payments (100)
 - If mobile optimised (80)
 - None of these (0)
- ▶ Use of digital to communicate
 - Use any form of digital to communicate (100)
 - Don't use any (0)

TRANSACTIONING

- ▶ Can consumers purchase your products/ make appointments/book your services online?
 - Yes (100)
 - No (0)
- ▶ How can consumers purchase your products online?
 - Direct from my website (100)
 - Can't ship but offer a click-and-collect service (50)
 - Use a third-party platform (50)
 - Other (50)
- ▶ In your business role, do you do any of the following (online banking, make payments online, order from suppliers online, shop online, make bookings/appointments online, click and collect)?
 - Yes to 2 or more (100)
 - Yes to 1 (80)
 - No (0)

BOOSTING

- ▶ What type of programs (CRM, project management, workflow management, internal messaging platforms, other) do you use for your business internally?
 - Uses any software (100)
 - Doesn't use software (0)
- ▶ SME use of analytics
 - To track visits to and usage of my website plus social media (100)
 - To learn more about my competitors, to understand my customers' preferences, other (75)
 - Have analytics software but not sure how to use it properly (50)
- ▶ Do you promote your services online?
 - Yes, through SEO (100)
 - Through paid advertising (100)
 - Other (50)
 - No (0)
- ▶ Are you planning to spend more on digital skills?
 - Yes (100)
 - No (0)
- ▶ Have you availed of digital supports or training?
 - Yes (100)
 - No (0)

About IE Domain Registry



IE Domain Registry is the national registry for .ie domain names and is responsible for the management and administration of Ireland's official internet domain, .ie, in the interest of the Irish and global internet communities. It operates the domain name system (DNS) for the .ie namespace, facilitates an independent dispute resolution service with WIPO, and operates a public WHOIS lookup service for .ie domains.



Its mission is to provide unique, identifiably Irish domain names, along with registry and related services to the local and international internet community. Currently, there are over 250,000 registered .ie domain names.



The company is committed to being a digital advocate for the SME community. Through the OPTIMISE Programme and stakeholder engagement initiatives, the company works with, and supports, SMEs to improve their online presence and e-commerce capabilities.



IE Domain Registry produces fact-based research for the business community and policymakers, such as the annual SME Digital Health Index, which provides key insights into the digital health of SMEs.



The company is focused on providing excellence in customer service through its ongoing customer experience (CX) innovation and improvement programmes. Since March 2018, it is now easier and faster to register a .ie domain name.

Based in Dun Laoghaire, Co Dublin, IE Domain Registry employs 22 people.

www.iedr.ie

About Core Research

Core Research is part of Core, Ireland's largest marketing communications company.

Core is made up of nine specialist practices united together by one single objective: we collaborate to expand the possibilities of what the clients we work with can achieve.

We're about action, driven by insight. We are a dynamic team of experienced researchers. We navigate the noise, understand the context and find truth. We analyse the data from every source to truly understand people and brands. Our insights lead to smarter, more accurate and successful decisions.



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