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**SMALL BUSINESS
AND TECHNOLOGY**

SMALL BUSINESS AND TECHNOLOGY

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The adoption of new or updated technology by small businesses is crucial to increasing productivity, which is in turn crucial to their ability to compete and grow profit margins. However, many factors come into play on how successful small business owners are at incorporating new technologies into business operations.

Small businesses are our nation's top source of innovation, but that doesn't mean they are always tech leaders. Generally, small business owners try to "keep up" with their competitors, which they do to varying degrees of success. Some owners forge ahead of the curve while others fall behind the crowd. In fact, our new technology and AI survey shows in-detail that a driving factor in the technological uptake divide is the size of the business. Small businesses tend to lag behind larger businesses in technology adoption. Causes may include type of industry and the resource availability for technology investment.

Perhaps the best way to think about the relation between small business and innovation is that while their founding is inherently creative, keeping up is often difficult. All businesses start with a perceived market opportunity. Sometimes that opportunity is technologically innovative—e.g., a novel business structure based on leveraging AI—while other times it's much simpler— "Say, don't we need a neighborhood florist?" But after that initial entrepreneurial flourish, small businesses face significant challenges onboarding new technology.

The struggle for small businesses to keep up comes through in numerous areas: In their use of new or significantly improved technology, their use of AI, or even having a website. The trend also comes through in qualitative self-descriptions. Larger businesses are more likely to self-describe as early adopters of technology and to believe they have a technological advantage over competitors.

Overall, despite their deserved reputation for innovation, many small businesses face significant difficulties keeping up with technological advancements. This has critical competitiveness implications that people should be aware of, from small business owners to interested academics to those at relevant agencies and non-profits. As this survey highlights, the adoption of technological advancements by small businesses is varied, which may be affecting their ability to compete.

Use of New or Significantly Improved Technology

Over half (57%) of all small business owners have introduced new, or significantly improved, technologies (software, equipment, etc.) in their business within the last two years. As business size increased, so did the percent of those doing so. Fifty-one percent of businesses with 1-9 employees reported using new or significantly improved technology, compared to 75 percent of those with 50 or more employees. Notably, only 35% of non-employers have introduced new or significantly improved technologies in the last two years.

There are a variety of reasons small business owners have not introduced new technology in their business. Of those who have not introduced new, or significantly improved, technologies, a quarter reported it is because nothing on the market would meaningfully improve their business. Twenty percent reported they haven't because the cost of the new or improved technology is too expensive. Nineteen percent reported they haven't because they upgraded or bought new technology three to five years ago, and it is still working. Fifteen percent reported they don't think it is important or necessary for their

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business, 7% reported that new technology is too complicated to adopt in their business, and only 5% reported it is because financing new or improved technology is too expensive.

Fifty-four percent of small business owners who introduced new or significantly improved technology reported that both new and upgraded equipment and software offered the greatest benefit to their business. Twenty-two percent reported only software, and 22% reported only equipment upgrades.

About three-quarters (76%) of small businesses reported this new or improved technology was new to their business, and 17% reported it was new on the market. This was generally consistent across business size. The frequency that the technology is new to their business rather than the market is consistent with the general conclusion that existing small businesses are by and large not early adopters of new technology.

One reason small business owners may choose to introduce new technology is to improve their market competitiveness. Small business owners were asked if the technology introduced put them ahead of the competition, allowed them to stay competitive, or let them catch up to the competition. Sixty-five percent reported that the new technology introduced allowed them to stay competitive. Fourteen percent reported it let them catch up to the competition, and 11% reported it put them ahead of the competition. Note how this data signals that small businesses are onboarding new tech to keep up with the competition rather than find an edge or build a new advantage.

Small business owners hear about new technologies through a wide range of communication channels. Twenty-eight percent of small businesses got the idea for purchasing their new or improved technology from a vendor. As new products become available, the vendor is the typical communication channel for small business owners. Thirteen percent reported they got the idea from another business owner, and another 13% reported from an employee. Thirty-seven percent reported other sources. Owners of larger businesses were more likely to report that they got the idea from an employee. Eight percent of businesses with 1-9 employees reported they got the idea from an employee, along with 13% for businesses with 10-24 employees, and 21% for businesses with 25-49 employees.

Investments in the most sophisticated technologies tend to have a lengthy shelf life in small business. Only 1% of companies reported using their most sophisticated technology for less than one year. Forty percent reported one to five years for their technology's shelf life, 29% reported 6-10 years, 14% reported more than 10 years, and 6% reported indefinitely.

Most small business owners evaluate themselves as more or less in line with their competitors in terms of technology usage. Nearly half (48%) of small business owners believe they have no overall technological advantage over their primary competitors. Twenty-two percent believe they have a technological advantage, and 10% reported having a disadvantage. Non-employers and smaller businesses were far less likely to claim an advantage than larger ones. Fourteen percent of non-employers, and 19% of businesses with 1-9 employees, reported an advantage. This was nearly double that for businesses with 50 or more employees (44%). Eighteen percent of businesses with 10-24 employees reported an advantage, and 33% of businesses with 25-49 employees.

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Over half (59%) of surveyed businesses reported technological advancement in their industry was faster to some degree than it was five years ago, with 15% reporting it is significantly faster, and 44% reporting it is somewhat faster now. Thirty-seven percent reported the current pace of technological advancement in their industry is about the same as it was five years ago. Three percent reported it is somewhat slower now, and 1% reported it is significantly slower now. The idea that technological advancement is accelerating is critical in that it implies the difficulty for small businesses to stay up-to-date could become more challenging going forward.

When it comes to new technology in their business, over half (53%) of small business owners reported they generally use what is widely accepted and understood. Twenty-nine percent of all small business owners reported that “if the current stuff works, why mess with it.” This was more prevalent among non-employers and smaller businesses: 36% of non-employers, 33% of businesses with 1-9 employees, 28% of businesses with 10-24 employees, and 20% of businesses with 25-49 employees. Only 6% of businesses with 50 or more employees reported this reason. Eighteen percent of small business owners characterize themselves as an early adopter of new technology compared to their competitors.

Website

Overall, 82% of small businesses have their own website. Not surprisingly, larger businesses were more likely to have their own website. Of businesses surveyed, 75% with 1-9 employees had a website, along with 90% of businesses with 10-24 employees, 96% of businesses with 25-49 employees, and 97% of businesses with 50 or more employees. Only 66% of non-employers have a website.

Of those small businesses that have a website, about a fifth (19%) accept payments through their website, while 81% do not. Like owning a website, larger businesses were more likely to accept payments through their website. Businesses with 50 or more employees were twice as likely to accept website payments as the smallest employer businesses (37% vs. 15%).

Eighty-seven percent of small businesses that accept payments through their website reported that their website allows customers to select products and services to pay for through the website. This was consistent across business size.

AI

The rapid proliferation of AI technologies has altered the way business owners can perform many business tasks. However, the implementation of AI technologies is still limited among the smallest businesses. Small business owners were asked about their familiarity with AI technologies designed for operations or specifically to their industry. Overall, 58% of owners reported they were familiar with AI technologies to some degree: 5% reported very familiar, 15% reported moderately familiar, and 38% reported mildly familiar. Forty-two percent of small business owners reported they were not at all familiar. Larger businesses were more familiar with AI technologies designed for business operations or specific to their industry than smaller businesses. Forty-eight percent of non-employers were familiar to some degree, and 55% of businesses with 1-9 employees reported this. This compares to 82% of businesses with 50 or more employees.

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About half (54%) of all small business owners follow developments of AI technology in their industry to some degree. Six percent reported they follow these developments very closely, 12% moderately closely, and 36% somewhat closely. Forty-six percent do not follow developments of AI in their industry. Larger businesses were more likely to follow these developments closely or to some degree, with 49% of businesses with 1-9 employees reporting this compared to 82% of businesses with 50 or more employees.

Nearly a quarter (24%) of all small business owners currently use AI technologies (such as ChatGPT, Copilot, Grammarly, Canva, Lunmen5, etc.) for their business activity compared to 76% who do not.

Of those business owners who do not currently use any AI technology, 75% do not plan to use any AI technologies for business purposes in the next 12 months. Fourteen percent are planning to use an AI product soon.

Importance of AI

While most small business owners have yet to adopt AI technology into their business, they generally anticipate it evolving into a more important role in their industry and in operating their business.

When asked how important the utilization of AI technologies is in their industry right now, 42% of small business owners reported it is important to some degree. Of those business owners, 4% reported it extremely important, 10% reported it moderately important, and 28% reported it mildly important. Thirty-four percent reported it was not at all important, and 24% didn't know. By business size, larger businesses had a greater concentration reporting it is important to some degree than smaller businesses, with 37% of businesses with 1-9 employees reporting this as important to some degree compared to 69% of those with 50 or more employees.

When thinking about the importance of AI in their industry, more small business owners anticipate that AI technology will increase in importance over the next five years. Sixty-three percent of all small business owners think the utilization of AI technologies in their industry in the next five years will be important to some degree. Twelve percent reported it will be extremely important, 21% reported it will be moderately important, and 30% reported it will be mildly important. Fifteen percent reported it will not be important at all, and 23% didn't know.

Small businesses were asked how important they think AI technologies will be in operating their own business in the next five years, with 56% of all small business owners reporting it will be important to some degree. Ten percent reported it will be extremely important, 17% reported it will be moderately important, and 29% reported it will be mildly important. A fifth reported it will not be important at all, and 23% did not know.

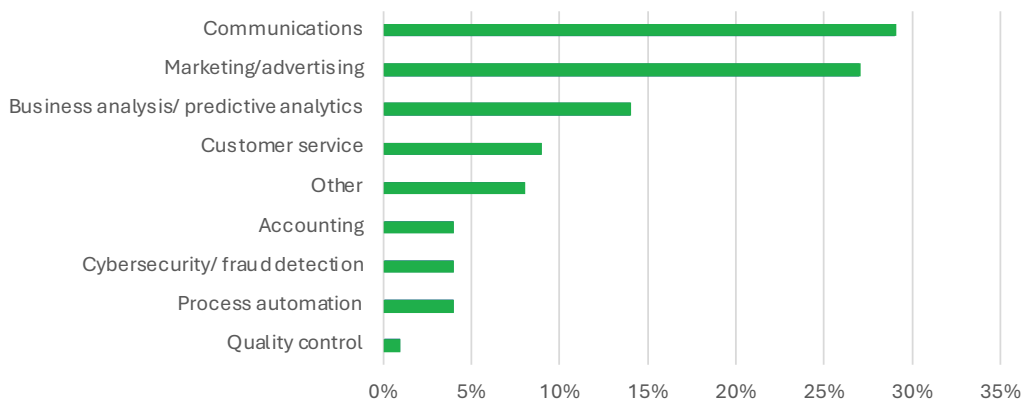
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Current Use of AI

Among those currently using AI technology, 57% of small business owners reported they purposely introduced AI in their business operations and 44% reported that AI technologies are now included in the products they have been using.

Small business owners use and plan to use AI technology for a variety of business operations. Twenty-nine percent reported they are using or planning to use AI technology for communications (email, memos, documents), and 27% reported using it for marketing or advertising. Fourteen percent reported business analysis or predictive analysis, 9% reported customer service, 4% reported accounting, 4% reported process automation, and another 4% reported cybersecurity or fraud detection. One percent reported they are using or planning to use AI technology for quality control and 8% reported other uses.

If you currently use an AI technology in your business,
which areas of business operation are you using or
planning to use AI technologies?

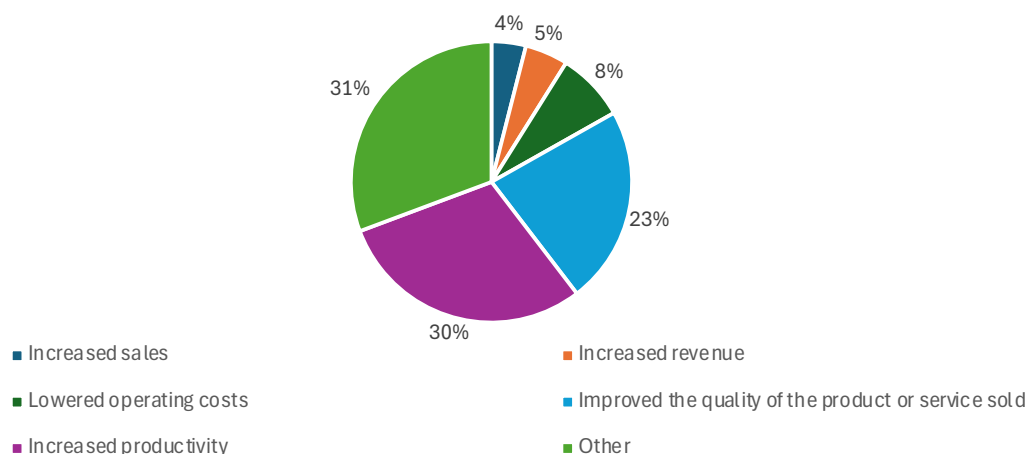


Nearly all (98%) of small business owners using AI technology reported that its use has had no change in the number of employees at their business.

Business owners were questioned about the impact the use of AI technology has had on their business, and 30% reported it increased productivity, with 23% reporting it has improved the quality of the product or service sold. Eight percent reported it has lowered operating costs, 5% reported it has increased revenue, and 4% reported it has increased sales. About a third (31%) of small business owners reported other impacts, underscoring the diverse capabilities under the umbrella of AI.

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If you currently use an AI technology in your business, how has the use of AI technologies impacted your business?



Conclusion

Though small businesses are the economy's mainspring of innovation, our new survey data makes it clear that for many, keeping up with their neighboring competitors is sufficient. For others, a variety of reasons make keeping up on technology a struggle. And, as our data shows on average, the smaller the business, the greater the struggle. This comes through in many ways, whether it's an open question about recent technology, a specific question about website usage, or one about AI.

This finding has critical implications for many stakeholders. For small business owners, awareness is important. Larger competitors are generally ahead on technology. Obviously, owners don't generally have the time or the financial resources to incorporate every shiny new toy that hits the market. And some small business owners are likely holding out to see which new or updated technology will produce the best ROI. However, a little extra time spent on technology (and perhaps especially AI) could be worthwhile.

For others interested in the small business sector, including academics, non-profits, and relevant agencies, there are some takeaways about supporting small businesses. Small businesses don't have an IT department, nor do they have the overhead or bandwidth to attend conferences that share the latest and greatest developments. Thinking through challenges, are there ways to help ease the adoption lag and level the usage rates by company size?

It may seem paradoxical that the most innovative segment of the economy is sometimes the farthest behind on technology, but the data show clearly that uptake for the smallest businesses lags substantially behind their larger competitors. This is the current status quo, but it is not permanent. With a little attention from all the relevant stakeholders, a more equal playing field is possible.

SURVEY QUESTIONS AND DATA

Note: Statistics were suppressed when the sample size was smaller than 30 (N<30)

	Non-employers	1-9 employees	10-24 employees	25-49 employees	50 or more employees	All employers
In the last two years, have you introduced any new, or significantly improved, technologies (software, equipment, etc.) in your business?						
Yes	35%	51%	60%	72%	75%	57%
No	65%	49%	40%	28%	25%	43%
Total	100%	100%	100%	100%	100%	100%
N	37	312	130	47	32	521

If not, why haven't you? (check all that apply)

Cost of new/improved technology is too expensive	–	21%	21%	–	–	20%
Financing new/improved technology is too expensive	–	7%	2%	–	–	5%
Nothing is on the market that would meaningfully improve your business?	–	26%	25%	–	–	25%
Upgraded or bought new technology 3-5 years ago and it's still working	–	17%	19%	–	–	19%
New technology is too complicated to adopt in your business	–	6%	12%	–	–	7%
Don't think it is important or necessary for your business	–	17%	12%	–	–	15%
Does not apply	–	7%	10%	–	–	8%
Total	100%	100%	100%	100%	100%	100%
N	27	181	69	19	15	284

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	Non-employers	1-9 employees	10-24 employees	25-49 employees	50 or more employees	All employers
If yes, was the technology introduced that offered the most benefit to your business related to new or upgraded equipment, software, or something else?						
Equipment	–	24%	22%	18%	–	22%
Software	–	20%	27%	24%	–	22%
Both equipment and software	–	54%	49%	56%	–	54%
Other	–	1%	3%	3%	–	1%
Does not apply	–	1%	0%	0%	–	1%
Total	100%	100%	100%	100%	100%	100%
N	13	160	78	34	24	296

Was this new or significantly improved technology new on the market or just new to your business?

New on the market	–	19%	16%	12%	–	17%
New to your business	–	76%	75%	79%	–	76%
Does not apply	–	5%	9%	9%	–	6%
Total	100%	100%	100%	100%	100%	100%
N	13	161	76	34	24	295

Did this new technology put you ahead of the competition, allow you to stay competitive, or let you catch up to the competition?

Ahead of the competition	–	11%	8%	15%	–	11%
Stay competitive	–	64%	64%	71%	–	65%
Catch up to the competition	–	15%	14%	9%	–	14%
Does not apply	–	11%	14%	6%	–	10%
Total	100%	100%	100%	100%	100%	100%
N	12	161	78	34	24	297

SURVEY QUESTIONS AND DATA

	Non- employers	1-9 employees	10-24 employees	25-49 employees	50 or more employees	All employers
Where did you get the idea for purchasing this new or improved technology?						
Vendor	–	28%	33%	18%	–	28%
Another business owner	–	12%	12%	15%	–	13%
Employee	–	8%	13%	21%	–	13%
Other	–	40%	36%	35%	–	37%
Does not apply	–	11%	6%	12%	–	10%
Total	100%	100%	100%	100%	100%	100%
N	13	159	78	34	24	295

What is the general lifespan of the most sophisticated technology you currently use for your business?

Less than 1 year	3%	1%	1%	0%	3%	1%
1 to 5 years	31%	42%	41%	30%	31%	40%
6 to 10 years	31%	26%	36%	33%	34%	29%
More than 10 years	9%	15%	9%	17%	16%	14%
Indefinitely	6%	4%	7%	13%	9%	6%
Does not apply	20%	13%	7%	7%	6%	11%
Total	100%	100%	100%	100%	100%	100%
N	35	303	123	46	32	504

Do you believe that you have an overall technological advantage over your primary competitors, a technological disadvantage with them, or does no technological advantage exists one way or another?

Advantage	14%	19%	18%	33%	44%	22%
Disadvantage	11%	10%	12%	9%	6%	10%
No advantage	51%	49%	51%	44%	41%	48%
Don't know	23%	22%	18%	15%	9%	20%
Total	100%	100%	100%	100%	100%	100%
N	35	305	125	46	32	508

SURVEY QUESTIONS AND DATA

	Non-employers	1-9 employees	10-24 employees	25-49 employees	50 or more employees	All employers
How would you rate the current pace of technological advancement in your industry compared to five years ago?						
Significantly faster now	22%	16%	11%	20%	16%	15%
Somewhat faster now	22%	41%	49%	39%	56%	44%
About the same	53%	38%	37%	37%	28%	37%
Somewhat slower now	3%	4%	3%	2%	0%	3%
Significantly slower now	0%	1%	0%	2%	0%	1%
Total	100%	100%	100%	100%	100%	100%
N	32	300	127	46	32	505

When it comes to new technology in your business, how would you characterize yourself?

Early adopter of new technology compared to your competitors	9%	18%	13%	24%	28%	18%
Generally use what's widely accepted and understood	55%	49%	59%	57%	66%	53%
If the current stuff works, why mess with it	36%	33%	28%	20%	6%	29%
Total	100%	100%	100%	100%	100%	100%
N	33	307	129	46	32	514

Does your business have its own website?

Yes	66%	75%	90%	96%	97%	82%
No	34%	25%	10%	4%	3%	18%
Total	100%	100%	100%	100%	100%	100%
N	35	308	129	47	32	516

SURVEY QUESTIONS AND DATA

	Non-employers	1-9 employees	10-24 employees	25-49 employees	50 or more employees	All employers
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If yes, do you accept payments through your website?

Yes	–	15%	22%	27%	37%	19%
No	–	85%	78%	73%	63%	81%
Total	100%	100%	100%	100%	100%	100%
N	23	233	116	45	30	424

If yes, can customers select products or services on your website and pay for them through your website?

Yes	–	88%	–	–	–	87%
No	–	12%	–	–	–	13%
Total	100%	100%	100%	100%	100%	100%
N	2	34	25	12	11	84

How familiar are you with AI technologies that are designed for general business operations or designed specifically to your industry?

Very familiar	0%	5%	5%	4%	13%	5%
Moderately familiar	14%	14%	11%	23%	31%	15%
Mildly familiar	34%	36%	46%	36%	38%	38%
Not at all familiar	51%	46%	38%	36%	19%	42%
Total	100%	100%	100%	100%	100%	100%
N	35	312	130	47	32	521

How closely do you follow developments of AI technologies in your industry?

Very closely	3%	6%	5%	4%	19%	6%
Moderately closely	12%	12%	12%	17%	13%	12%
Somewhat closely	32%	31%	43%	35%	50%	36%
Not at all	53%	51%	40%	44%	19%	46%
Total	100%	100%	100%	100%	100%	100%
N	34	313	130	46	32	521

SURVEY QUESTIONS AND DATA

	Non- employers	1-9 employees	10-24 employees	25-49 employees	50 or more employees	All employers
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Do you currently use any AI technologies for any business activities (ChatGPT, Copilot, Grammarly, Canva, Lumen5, etc.)?

Yes	18%	21%	24%	28%	48%	24%
No	82%	79%	76%	72%	52%	76%
Total	100%	100%	100%	100%	100%	100%
N	34	309	127	47	31	514

If no, are you planning to use any AI technologies for business purposes in the next 12 months?

Yes	–	8%	21%	18%	–	14%
No	–	81%	67%	76%	–	75%
Does not apply	–	11%	12%	6%	–	11%
Total	100%	100%	100%	100%	100%	100%
N	28	241	95	33	16	385

How important is the utilization of AI technologies in your industry right now?

Extremely important	6%	4%	6%	4%	0%	4%
Moderately important	3%	9%	7%	15%	25%	10%
Mildly important	29%	24%	34%	23%	44%	28%
Not at all important	37%	35%	32%	40%	25%	34%
Don't know	26%	28%	21%	17%	6%	24%
Total	100%	100%	100%	100%	100%	100%
N	35	312	128	47	32	519

SURVEY QUESTIONS AND DATA

	Non-employers	1-9 employees	10-24 employees	25-49 employees	50 or more employees	All employers
How important do you think the utilization of AI technologies will be for your industry in the next 5 years?						
Extremely important	6%	11%	11%	21%	19%	12%
Moderately important	26%	19%	26%	13%	25%	21%
Mildly important	23%	27%	29%	36%	44%	30%
Not at all important	20%	17%	14%	11%	3%	15%
Don't know	26%	26%	20%	19%	9%	23%
Total	100%	100%	100%	100%	100%	100%
N	35	310	129	47	32	518

How important do you think AI technologies will be in operating your business in the next 5 years?

Extremely important	3%	10%	9%	15%	13%	10%
Moderately important	29%	14%	22%	17%	31%	17%
Mildly important	17%	27%	32%	23%	44%	29%
Not at all important	26%	24%	18%	15%	3%	20%
Don't know	26%	25%	19%	30%	9%	23%
Total	100%	100%	100%	100%	100%	100%
N	35	313	129	47	32	521

If you currently use an AI technology in your business, how did you decide to use it?

Purposely introduced AI in business operations	–	55%	54%	–	–	57%
AI technologies are now included in products we've been using	–	46%	46%	–	–	44%
Total	100%	100%	100%	100%	100%	100%
N	5	55	28	12	13	108

SURVEY QUESTIONS AND DATA

	Non- employers	1-9 employees	10-24 employees	25-49 employees	50 or more employees	All employers
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If you currently use an AI technology in your business, which areas of business operation are you using or planning to use AI technologies? Please select all that apply.

Marketing/advertising	–	26%	33%	–	–	27%
Communications (email, memos, documents)	–	27%	33%	–	–	29%
Business analysis/ predictive analytics	–	19%	3%	–	–	14%
Process automation	–	3%	7%	–	–	4%
Customer service	–	8%	10%	–	–	9%
Cybersecurity/ fraud detection	–	2%	0%	–	–	4%
Accounting	–	5%	7%	–	–	4%
Supply-chain optimization	–	N/A	N/A	–	–	N/A
Quality control	–	2%	0%	–	–	1%
Other	–	8%	7%	–	–	8%
Total	100%	100%	100%	100%	100%	100%
N	5	62	30	12	14	118

If you currently use an AI technology in your business, what impact has the use of AI technology had on employeesoyment at your business?

Decreased the number of employeesoyees at your business	–	0%	0%	–	–	1%
Increased the number of employeesoyees at your business	–	N/A	N/A	–	–	N/A
No change in the number of employeesoyees at your business	–	98%	100%	–	–	98%
Other	–	2%	0%	–	–	1%
Total	100%	100%	100%	100%	100%	100%
N	5	62	30	12	15	119

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	Non- employers	1-9 employees	10-24 employees	25-49 employees	50 or more employees	All employers
If you currently use an AI technology in your business, how has the use of AI technologies impacted your business? Please select all that apply.						
Increased productivity	–	31%	–	–	–	30%
Increased sales	–	5%	–	–	–	4%
Increased revenue	–	3%	–	–	–	5%
Lowered operating costs	–	9%	–	–	–	8%
Improved the quality of the product or service sold	–	24%	–	–	–	23%
Other	–	29%	–	–	–	31%
Total	100%	100%	100%	100%	100%	100%
N	5	59	26	12	13	110

Please identify your primary business activity:

Construction	16%
Manufacturing	14%
Retail	16%
Restaurant	2%
Services	21%
Finance, Real Estate, Insurance	4%
Wholesale	4%
Agriculture	7%
Transportation	5%
Other	12%
Total	101
N	559