Making the most of Help to Grow.

Ensuring that small businesses get the help they need

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About Coadec

The Coalition for a Digital Economy (Coadec) is an independent advocacy group that serves as the policy voice for Britain's technology-led startups and scaleups.

Coadec was founded in 2010 by Mike Butcher, Editor-at-Large of technology news publisher TechCrunch, and Jeff Lynn, Executive Chairman and Co-Founder of online investment platform Seedrs.

Coadec works across a broad range of policy areas that matter the most to startups and scaleups: Access to Talent, Access to Finance & Technology Regulation. We represent the startup community on the Government's Digital Economy Council, and the UK on the international organisation Allied for Startups Board.

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Executive Summary

The Government's 'Help to Grow: Digital' scheme is a welcome intervention to boost productivity and support UK companies which would benefit most from access to software. With an estimated £92 billion worth of gains up for grabs in the UK, software can help us to finally crack this decades-long productivity puzzle.

Even with the scheme's great intentions, Help to Grow: Digital risks missing its full potential. The policy currently offers a narrow set of software services to a narrow set of SMEs. We believe that the scheme could better serve two purposes:

- Support more SMEs with a productivity boost by giving them access to subsidised and business-changing software.
- Support SMEs with the tools needed to develop more digital and efficient operations.

Coadec has commissioned research which shows the huge potential gains here. We have examined the impact of widening the scheme's scope to include companies from 2-249 employees, as well as widening the range of software to include other efficiency-boosting products and tools.

In short, our findings show that the Gross Value Add (GVA) would rise significantly with these changes. Furthermore, the benefit-to-cost ratio would remain largely constant. Costs would rise, but there are no appreciable diminishing returns in doing so.

This paper summarises our findings and covers five areas where the scheme can be improved.

Key Recommendations

1. Widen the scope of companies eligible for the scheme to include more small businesses
2. Broaden the range of software covered
3. Make sure that 'add on' products are included in the scheme
4. Avoid restrictive criteria for each software vertical
5. Set a simple, clear process for suppliers to be included in the scheme

1. Widen the scope of companies eligible for the scheme to include more small businesses

- The scheme only includes companies with 5-249 employees, meaning 95% of small businesses would not stand to benefit from the scheme.

- Widening the scope to 2-249 employee companies would deliver a GVA boost of £933.7m with the benefits spread across the country.

- Expanding the number of companies eligible will increase the absolute returns of the scheme.

As the scheme currently stands, 50% discount vouchers will only be available to SMEs with 5-249 employees who have been operating for over 12 months. We understand that the rationale is to ensure that the scheme is targeted at businesses that have sufficient scale for the scheme to be beneficial.

But targeting these incentives at the 'middle' of the long-tail misses the opportunity to boost productivity. The current scheme excludes the overwhelming majority of small businesses who have fewer than five employees, who are the very cohort which needs the most help. The Government must lower the scheme's eligibility criteria if the scheme is to achieve its full potential.

The findings from our research show that the annual GVA of the scheme in its current form is £867.6m for companies with 5-249 employees. Expanding the scheme to include smaller businesses so that it applies to 2-249 employees delivers a GVA of £933.7m.

There is a cost increase with this change, however the ratio of benefit-to cost increase remains largely constant so there is still incredible value achieved by expanding the scope. Our research shows that whilst an increase from 5-249 to 2-249 employees brings a cost increase from £131m to £147.2m, the ratio of benefit-to-cost remains largely unchanged from 6.6 to 6.3. By increasing the number of companies eligible, the government can increase the absolute returns of the scheme.

Case study:
Making Tax Digital

The Government's Making Tax Digital policy requires companies to keep digital records, using software, of their tax affairs. It applies to VAT where businesses are VAT registered with taxable turnover over £85,000, and may in future apply to all those paying corporation tax.

Companies that are VAT registered will likely have over 5 employees and will already use accounting software. Help to Grow: Digital with its 5-249 employee threshold would therefore be subsidising businesses for software that they already have.

Moreover, Help to Grow: Digital would effectively subsidise software needed under Making Tax Digital for some but leave out smaller companies with fewer than 5 employees. The cost of compliance is frequently cited as a major concern by small businesses towards Making Tax Digital.

The threshold for Help to Grow: Digital should be lowered to 2-249 employees. This change would encourage uptake of important software at an early stage by smaller companies, and ease compliance with the Government's Making Tax Digital policy. It will also level the playing field by enabling them to receive the same support that other larger businesses are receiving.

2. Broaden the range of products covered

- The scheme is limited and only applies to three types of software. This excludes other categories that would greatly improve companies' productivity.

- Expanding the scope of software available would provide a £2.77bn boost to GVA, at the same benefit-to-cost ratio for the taxpayer.

- Expanding the scope of software available *and* scope of eligible companies would deliver even greater absolute returns.

The initial design of the scheme has limited the 50% discount vouchers to just three types of software: Customer Relationship Management (CRM), e-commerce and accountancy software. These categories rightly point towards key business areas where software can improve a company's productivity. Yet there are three issues:

- The products that SMEs need vary depending on their business activity and their business models. Many will benefit from accountancy software, others will need access to more niche software verticals.
- This narrow list of software products is typically dominated by larger corporate suppliers - sticking with this narrow list risks cutting out UK providers whose products can deliver immense value.
- The scheme should be forward looking and consider what other software we want to equip our companies with - this should consider broader economic objectives, like growing high tech companies, rather than purely focusing on procedural efficiencies.

The research we commissioned modelled the impact of expanding this list to other categories of software, both under the current 5-249 employee threshold and a lower 2-249 employee threshold.

Increased software product scope but keep the scheme focused on businesses of 5-249 employees

The research looked at the impact of adding new categories of available products. This list includes the likes of cloud computing platforms (e.g. Google Cloud Platform, Amazon Web Services), instant messaging (e.g. Slack, Microsoft Teams), cloud storage (e.g. Dropbox, Google Drive), project management tools, Enterprise Resource Planning software, Artificial intelligence and/or machine learning, Computer Aided Design, human relationship management software, and electronic payments.

Adding these to the list of software products delivers a massive GVA boost for the UK economy. By broadening the available software, GVA rises from £867.6m to £2.77b. Again, whilst there is an increase in cost here, the Government still delivers a huge amount of value for money compared to its initial spend. The cost rises from £131m to £429.3m, but the ratio of GVA to cost is essentially flat from 6.6 to 6.5. Absolute returns are greater when the scope of available software is broadened.

Increased software product scope and increase the scope of the scheme to businesses of 2-249 employees

The most impactful change that the Government could make would be to expand the categories of software products available *and* to lower the employee threshold. With these changes, our commissioned research forecasts a GVA boost to £2.95b. Cost would rise to £484.8m with a benefit-to-cost ratio of 6.1.

It is important to stress that a benefit-to-cost ratio of 6.1 remains an extremely efficient use of taxpayer money. Furthemore, the underlying changes that this would bring to the economy is not fully appreciated in these figures and the level of GVA we are talking about would be transformative. Lowering the threshold so that SMEs in need will improve productivity and growth, whilst also offering a diverse set of products so that they get exactly what they need.

The geographic distribution of the economic impact is also fairly even, supporting the central ambition of the Government to level up the whole of the United Kingdom.

Deep Dive:
Where to expand the scheme?

We would strongly recommend a maximalist approach to Help to Grow.

Small businesses aren't all the same and the right kind of software or services for them to use to support their businesses won't be either. As you can see from the data on the next page - there are a wide range of services that will have a direct impact on the revenues of small businesses.

Some of these may be more directly impactful in some businesses - for example Computer Aided Design - which could be a boon for a small manufacturer but of course pointless to a shop. We have to acknowledge this in the design of the scheme.

However, given the Government has chosen to focus the scheme on certain sectors - we believe it is worth identifying areas that the scheme could be expanded to cover in order to add value. We think these should be the starting point - not the end point. And we would urge the Government to consider broadening the scheme further in due course.

Coadec has identified the following examples of software which under the current scope will be left out of the scheme but would massively benefit the companies the Government is aiming to support:

1. HR software

HR software typically provides systems for managing salaries, administration, allocating annual leave, organising documentation or added employee benefits.

How this helps:
The productivity gains for a small business which can streamline its HR processes are large. HR Software allows teams to focus on building the company and making it the best place to work that it can be, rather than spending time on administration.

Examples:

- Breathe provides HR software marketed for SMEs. Their products allow companies to track and manage annual leave, documents, absences from work, recruitment, expenses, payroll and a range of other information. They are based in Horsham.
- CharlieHR is a London-based company that provides HR functions targeted at startups. They provide systems for annual leave, onboarding appraisals, benefits. Clients include Bulb, Revolut, Bloom & Wild, BuzzFeed, Telegraph.
- CIPHR provides HR software and outsourcing services for HR and payroll. Their clients include the ICO, puregym, CitySprint etc. They are based in Marlow.
- IRIS offers HR services, payroll and also accounting software. They have products aimed specifically at companies under 250 employees. They are based in Slough.

	Current Uptake by Small Businesses		% impact on revenue (estimated)	
Type of Software	**2 to 4 Workers**	**5 to 249 workers**	**2 to 4 workers**	**5 to 249 workers**
Online accounting tools	30%	50%	5.9%	2.9%
Customer Relationship Management software	7%	28%	12.1%	6.7%
eCommerce	8%	18%	14.6%	6.3%
Cloud computing platforms (eg Google Cloud, Amazon Web Services, Microsoft Azure)	15%	37%	9.3%	4.7%
Instant messaging (eg Slack, Microsoft Teams)	22%	42%	3.2%	4.3%
Cloud storage (eg Dropbox, Google Drive)	38%	52%	2.2%	3.5%
Online office suite (eg Google Docs, Microsoft Office 365)	46%	62%	8.1%	4.9%
Online project management tools	8%	27%	3.9%	5.6%
Enterprise Resource Planning software	4%	9%	25.9%	5.4%
Artificial intelligence and/or machine learning	1%	6%	-7.1%	1.9%
Computer Aided Design	3%	6%	13.9%	6.0%
Human relationship management software	4%	9%	12.0%	5.2%
Electronic payments	14%	32%	12.0%	5.2%

Based on analysis conducted by Public First - full breakdowns of data can be found on the Coadec website.

2. Enterprise Resource Planning (ERP)

ERP software allows companies to manage and have an overview of business functions. It acts as an 'all in one' package. ERP can track resources like cash, production capacity, raw materials and consumer conversions to allow managers to run a company as one single system.

How this helps:
Companies with better visibility of their stock, bottlenecks, and where there are efficiencies to be made will have insights to help them grow. ERP helps in this regard, but also lays the foundation for better use of data which is precisely what we should be encouraging at an early stage of a company's development.

Examples:
- Veego offers an all-in-one planning and resource management platform for businesses in the retail industry. They are based in Swansea.
- Aqxalt helps SMEs to run their entire business, from Supply Chain, Manufacturing, Inventory to Warehouse Management, giving them a complete, real-time view. They are based in Reading.
- ERP Sirius offers fully integrated applications that provides a complete overview across: sales, procurement, inventory and financial accounting operations. They are based in Essex.

3. Roster management software

Roster management software allows companies to plan shifts and workforce allocation. It is particularly helpful in the hospitality and leisure sectors. It can track employee absences, annual leave, and lets companies minimise under or over-staffing.

How this helps:
Companies which require shift management, such as hospitality or leisure, have been particularly hard hit by the pandemic. Ensuring that they have the right staff at the right time is central to their success. Enabling companies to make better use of their workforce will help drive their recovery and focus on providing the services they provide.

Examples:
- Deputy is a London based company and their software is used by Amazon, Nike, Peloton, Boxpark.
- Planday is a London based company. It has a free demo service with additional add-on solutions. It is used by the likes of Just Eat, Europcar, Burger King.

4. Point-of-sale software

Point of sale software acts as a digital 'till' or cash register. It allows consumer facing companies to integrate a host of digital processes into their business. This could be payments, digital inventory or stock of items available on a menu.

How this helps:
Digitising sales is one of the easy wins in terms of efficiency gains. Furthermore, the pandemic has accelerated the use of digital payments and they have become a central part of doing business. Point-of-sale software addresses both of these points, whilst also lays the foundation for other benefits like online sales, so there is a reinforcing effect for companies.

Examples:
- Epos Now is a Norwich based company that provides software and terminals for POS. Their product integrates with Deliveroo, Mailchimp, Shopify, & Quickbooks.
- Erply is an Estonian company that provides point of sale software, as well as payments, inventory and e-commerce add ons.

5. Cloud Computing & Storage

A cloud first business is a more productive business - and it's important to acknowledge that many of the ideas, systems and software we are discussing in this report are built using the benefits of the cloud. Whilst the cloud markets is largely dominated by big players - they are a core enabler of a huge range of startup services built on top of the core products. So as well as offering small businesses a great service that boosts their productivity - it would also drive adoption and success of other tech products.

How this helps:
Once people are using the Cloud for the core of their business - it sets the table for a more digital and therefore a more productive approach to business overall. Whether it's the use of a cloud first filing system - or the use of cloud compute power itself - there is a huge opportunity to not just leverage adoption of the cloud itself but a more holistic digital-first approach through Help to Grow.

Examples:
- Dropbox
- Google Cloud & Google Drive
- Microsoft Azure
- AWS

3. Make sure that ‘add on’ products are included in the scheme

- One piece of software is rarely the one solution that a company needs. Equally, software providers rarely offer a single product that does everything.

- The scheme should allow vouchers to be used to purchase combinations of software so that recipients can get the solution that they need and not only part of the picture.

One piece of software is rarely the one solution that a company needs. Equally, software providers rarely offer one product that does everything. The norm is a building block model whereby a customer buys software product A, and then opts for additional options B and D but not C from different providers. Add-ons typically service niche requirements. Not only are they usually highly technical, but they deliver very specific value for companies who use them.

How this helps: Including add-ons would mean that companies eyeing a set of software products can benefit from tailored solutions that really deliver value. This would mean that the Help to Grow: Digital voucher could be used to give companies what they need, rather than only one piece of the puzzle.

Case study: *Blackcurve*

Blackcurve is a London based startup that provides e-commerce support. They offer different products that meet different requirements, each of which can be bought individually or together. These products include dynamic pricing, competitor price monitoring, or models to match prices to demand.

A company with a Help to Grow: Digital voucher would likely want to purchase one of Blackcurve’s bundled products or a variation, and not only one service. Vouchers should allow a customer to select product combinations and leave them to determine what they need rather than being restricted to one product.

This is particularly important where software products are complementary. Taking Blackcurve as an example, a customer can purchase a basic dashboard product that tracks prices online, but services which include automated prices are additional. A combination of the two would be most valuable for a company looking to expand their e-commerce business.

4. Avoid restrictive criteria for each software vertical

- The criteria for defining each type of software available under the scheme needs careful consideration.

- Criteria should be as broad as possible in order to capture all the beneficial elements that software can provide, such as e-commerce which requires multiple elements from stock management to logistics and payments.

The current verticals included in the scheme differ in clarity. Whilst accountancy software is self-explanatory, the others covering e-commerce and CRM could quite easily encompass a range of different products or exclude them (e.g. electronic payments, electronic wallets, stock management software, logistics platforms and much more).

The scope of products included in the scheme should be as broad as is reasonable - particularly where those products deliver value and efficiency gains for UK companies. The definitions used, whatever their final scope may be, should not inadvertently prevent access to great software that would otherwise benefit our SMEs.

Case study: *Sorted*

Sorted provides software products to help with logistics needed to operate an e-commerce function. Their products help with selecting delivery partners, providing more tailored checkout options for customers, and post-sale customer service.

The definitions used for each vertical need to be broad and consider the important elements that feed into each category. You cannot run a successful e-commerce offering without an effective logistics operation to meet online orders. The products that Sorted provides would be key to a small business that wants to improve its efficiency and quality of service.

Other verticals will have similar areas where the successful running of an area in scope, like e-commerce requiring logistics, will depend on other factors feeding into a company's process.

5. Set a simple, clear process for suppliers to be included in the scheme

- The process for software providers to join the scheme and be able to accept vouchers should be as easy as possible.

- This is important so that it is not only large companies that are able to navigate the system - smaller software companies should be able to easily offer their products.

The scheme needs to be designed as clearly and simply as possible for vendors to join. A complex process that goes beyond what is necessary will favour larger providers over innovative British startups, and the scheme needs to be designed with them in mind.

This goes back to the dual purpose that Help to Grow: Digital can serve - helping UK SMEs access productivity enhancing software whilst also powering the growth of British software companies by allowing them to join the list of providers.

A simple onboarding process should focus on ensuring clear information on the software being provided and its benefits to end users, rather than overly cumbersome compliance requirements that go beyond what is necessary.

Case study: *LeadGen*

LeadGen is a small software company that offers online forms with minimal consumer friction, so that companies can gather information more efficiently. They are a six person company with limited resources to go through an overly complicated procurement-style sign up process.

Help to Grow: Digital should be as easy as possible for companies like LeadGen to sign up to as providers. Lengthy and confusing steps would unnecessarily exclude smaller companies without the resources that larger businesses have. Government should be making sure that it avoids creating these sorts of barriers that prevent smaller businesses from competing.