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How Digital Services Empower SMEs and Start-Ups

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Digital services are the key to unlocking growth for small- and medium-sized enterprises in today's economy. They help firms overcome financial constraints, close skills gaps, and boost productivity. Policymakers should incentivize SMEs to capitalize on those opportunities.

KEY TAKEAWAYS

- SMEs tend to have fewer financial resources, face greater skills gaps, and have lower productivity, making it difficult to scale up. Digital services are the key to reducing, or possibly even resolving, many of these barriers to growth.
- Internet platforms lower overall transaction costs for both buyers and sellers by reducing search costs, streamlining communication, and facilitating payments. As a result, they help SMEs reach more customers.
- AI is boosting marketing performance for SMEs, helping them optimize ad campaigns, target the right customers, and generate content at scale. Generative AI is also boosting SMEs' productivity.
- Strong human resources and operations capabilities are essential drivers of SME growth and competitiveness. Digital payroll systems, employee onboarding tools, and HR management platforms play a critical role in these areas.
- E-commerce platforms are fundamentally reshaping how SMEs reach customers. On average, 26 percent of small businesses and 34 percent of medium-sized businesses in OECD countries were actively making e-commerce sales in 2023.
- To incentivize SMEs' adoption of digital services, policymakers should design targeted strategies to reduce adoption barriers and expand access to critical digital tools.

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INTRODUCTION

Digital services are the key to improving productivity, innovation, and competitiveness of small and medium-sized enterprises (SMEs) in today's economy. They help small firms overcome financial constraints, close skills gaps, and operate more efficiently. By going digital, SMEs can scale faster, compete globally, and drive broader economic development.

SMEs play a key role in national and global economies with their contributions to innovation, employment, and value added. Indeed, according to the Organization of Economic Cooperation and Development (OECD), SMEs make up 99 percent of all firms across the 38 OECD nations, generate 50 to 60 percent of value added on average, and are a main source of jobs.[1] Moreover, since start-ups tend to be SMEs, these firms also contribute significantly to innovation, particularly disruptive innovation. As research from the University of Texas, Austin analyzing 6,116 patents finds, start-up patents are cited 8.5 percent more annually than those of more established firms.[2] Meanwhile, another study notes that start-ups are particularly adept at disruptive innovation due to their ability to test ideas quickly, respond to market feedback, and refine their products.[3]

However, despite their contributions, SMEs face more challenges than their larger, more established counterparts do. SMEs tend to have more difficulties reaching customers, fewer financial resources, face greater skills gaps, and have lower productivity, leading to difficulties scaling their business. According to a survey by Goldman Sachs, more than 75 percent of U.S. small businesses surveyed in 2023 were concerned about their ability to access capital, while 61 percent of the small businesses that applied for a business loan found it challenging to find affordable financing.[4] More generally, the Future of Business Survey also highlights that firms with an online presence and that are younger than two years (which tend to fall into the SME

category) face challenges in securing financial expansion.[5] These challenges are only exacerbated with rising inflation.[6]

Additionally, SMEs also face greater skills gaps, particularly in the area of information technology (IT), that challenge their ability to remain competitive. Many smaller businesses struggle to find employees with the necessary expertise in areas such as data analysis, cybersecurity, and software use. Indeed, an OECD survey finds that 27 percent of surveyed SMEs asserted that the lack of talent and skills shortages is causing bottlenecks to digitalization.[7] Moreover, the survey further finds that 43 percent of SMEs asserted that the lack of time for training is also hindering their ability to digitalize.[8] As a result, these gaps limit SMEs' capacity to adopt innovative digital technologies, impeding their growth potential by reducing operational efficiency and customer engagement.

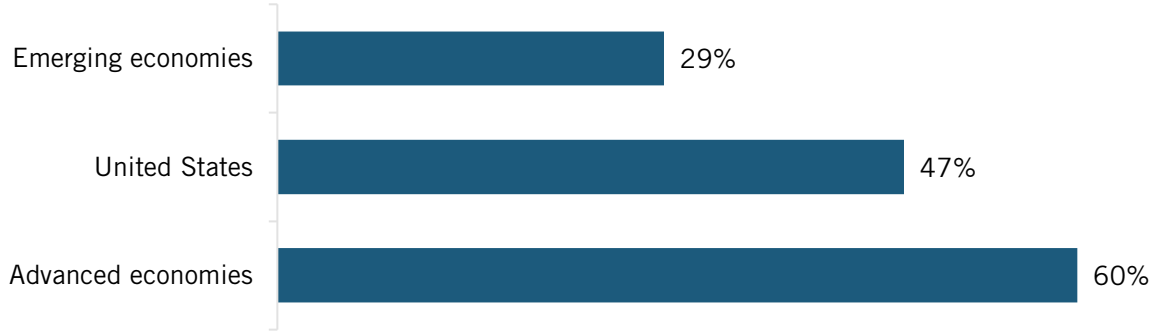
Further exacerbating SMEs' skills gap, these firms also face challenges in retaining and developing their existing staff. Indeed, the Future of Business Survey finds that SMEs with an online presence and that are older than two years have great difficulties with retaining staff.[9] Corroborating this, a study by the Aspen Institute finds that SMEs often have a more difficult time retaining and developing their workforce, especially as the necessary skills need changes.[10] This is because they often do not have the time or resources to support upskilling programs. Indeed, the study highlights that only 36 percent of businesses with fewer than 100 employees offer tuition assistance, compared with 50 percent or more for larger companies.[11] Only 18 percent of SMEs offer apprenticeships, compared with 44 percent for businesses with more than 1,000 employees.[12] Lastly, only 36 percent of SMEs offer internal training, compared with more than 50 percent for larger companies.[13]

Digital services play a crucial role in the success of SMEs, yet SMEs do not often adopt them.

As such, artificial intelligence (AI) offers promising solutions to help bridge these divides. For instance, AI could automate routine tasks such as data analysis, customer service, and inventory management, allowing SMEs to operate more efficiently without relying heavily on specialized IT expertise. This reduces the burden on SMEs, as they only need to find one employee with the necessary IT skills to deploy AI to fulfill tasks. Moreover, AI continuously updates its knowledge of skills and standards, allowing SMEs to save costs by reducing the need for employee retraining. This is not to say that firms should not invest in employee retraining and upskilling, but rather that SMEs have more challenges and may benefit from alternative solutions. Similarly, cloud tools play a key role in bridging the cybersecurity skills gap. These tools automate, standardize, and outsource critical security functions that would otherwise require SMEs to hire a team of highly trained personnel. Indeed, major providers such as AWS and Azure employ top-tier security teams, enabling SMEs to benefit from robust protection without maintaining an in-house cybersecurity department.

Finally, SMEs are undoubtedly less productive than their large counterparts. As a McKinsey report concludes, SMEs operate at just 60 percent of the productivity level of large firms in advanced economies and only 29 percent in emerging markets.[14] In the United States, SMEs are only 47 percent as productive as large firms.[15] (See figure 1.) Due to these challenges, SMEs have difficulties scaling in production and growing, leading to a lower likelihood of survival.[16]

Figure 1: SMEs' productivity as a share of large firms' productivity, measured in value added per worker[17]



The key to reducing, or possibly even resolving, many of these barriers for SMEs—and subsequently, leading to their growth—is digital services. Using AI to tackle SMEs' skills gap is one example of this. Digital services could include many IT services, ranging from AI and cloud services to social media, blockchain, and e-commerce. For instance, Internet platforms could play a crucial role in addressing business constraints posed by SMEs' limited customer reach and financial resources. Indeed, Internet platforms can provide SMEs with low-cost access to large, diverse markets. Online marketplaces like Amazon, eBay, Coupang, and Etsy enable SMEs to showcase their products to millions of potential buyers worldwide without the need for extensive marketing budgets or physical retail presence. Alternatively, SMEs could use cloud services, such as Microsoft 365 or Google Workspace, to enhance collaboration, increasing their overall productivity. Similarly, SMEs could use a cloud service such as Indeed for Employers to efficiently recruit new talent. Digital services play a crucial role in the success of SMEs, but SMEs do not often adopt them. As OECD noted, "Most SMEs, including micro firms, have access to basic broadband connections but are not engaged with the most advanced technologies."[18]

This report explores how digital services can empower SMEs and start-ups to grow and thrive in the digital economy. First, it focuses on how Internet platforms connect SMEs to more customers. Then, the report examines three functional business areas—advertising and marketing; HR and operations; and e-commerce and sales—and identifies key digital services such as AI, cloud computing, e-commerce platforms, and data analytics that enhance productivity and competitiveness. Real-world case studies highlight successful digital transformations, and recommendations guide policymakers on the path forward for supporting SMEs.

The report concludes with four recommendations for policymakers:

1. Provide public cloud credits and SME-focused AI toolkits from tech firms.
2. Support digital literacy and cybersecurity awareness and training.
3. Encourage SME experimentation with low-cost digital tools.
4. Promote public-private partnerships to scale digital transformation.

INTERNET PLATFORMS: CONNECTING SMALL BUSINESSES TO CUSTOMERS

Internet platforms have dramatically reduced the costs of connecting buyers and sellers, helping SMEs reach far more customers than they otherwise could. Internet platforms take different forms depending on the type of transaction they facilitate. Online marketplaces such as Amazon, eBay, and Coupang allow SMEs to list products for a broad audience to access while managing pricing, shipping, and customer communication efficiently. On-demand services, such as DoorDash, Uber Eats, Thumbtack, and Angi (formerly Angie's List) reduce the friction of connecting SMEs with consumers in real time. Moreover, business-to-business platforms, such as OroCommerce, WizCommerce, and Alibaba efficiently connect businesses with SME suppliers, manufacturers, and distributors. For instance, a small textile producer in Indonesia could list on Alibaba and easily connect with and provide textiles to a U.S. retailer. In sum, these platforms lower the overall transaction costs for both buyers and SMEs by reducing search costs, streamlining communication, and facilitating payments. Many of these platforms are also useful for freelancers or others working in the gig economy.

Indeed, studies have shown that one of the primary benefits of these platforms is their ability to efficiently connect buyers and sellers who might otherwise never meet. According to a study by Einav et al., peer-to-peer platforms improve matching efficiency by aggregating dispersed information about products, services, and user preferences.[19] For instance, Uber Eats introduced a multi-objective hierarchical recommendation system (MOHR) that improved matching efficiency between restaurants and consumers.[20] According to the study on MOHR, the recommendation system enhanced consumers' access to relevant information and recommendations about restaurants while simultaneously enabling restaurants to more effectively reach prospective customers.[21] As a result of the lower transaction costs, Internet platforms provide significant value to consumers. A study by Brynjolfsson et al. found that e-commerce platforms provide a $842 surplus to consumers—meaning consumers would be willing to pay $842 to use e-commerce platforms if they weren't freely accessible—while social media provide a $322 surplus.[22]

Moreover, these platforms have also implemented a variety of systems to build trust between buyers and SME sellers and facilitate more transactions in the economy. These systems include one- or two-party rating systems, written reviews, photos, video messages, self-descriptions, identity verification, status badges, insurance, warranties, and safe payment services.[23] For example, DoorDash builds trust by combining customer and driver ratings, verified identities, real-time order tracking, and secure payment and support systems to ensure reliable and transparent transactions. Amazon uses product reviews, seller ratings, and fulfillment guarantees to ensure that buyers can rely on the quality and timely delivery of goods. Coupang provides verified seller information, secure payment processing, and delivery guarantees to create confidence for both sellers and buyers. Shopee builds trust by holding payments in escrow through its Shopee Guarantee until buyers confirm receipt, verifying seller identities, and using product ratings and return policies to ensure secure and reliable transactions. Mercado Libre builds trust by promoting top-rated sellers through its MercadoLíder program, offering buyer protection and dispute resolution, and securely processing payments via Mercado Pago. These systems have proved to be effective. For example, studies by Jin and Kato and Resnick et al. found that ratings systems tend to work well as those with higher ratings tend to have more transactions.[24]

Finally, e-commerce services like Coupang illustrate how Internet platforms can catalyze small-business growth at scale. Over 75 percent of Coupang's sellers in South Korea are SMEs, and those that join the platform grow significantly faster than their offline peers—33 percent year-over-year from 2023 to 2024.[25] More than 10,000 small businesses have grown into larger firms through Coupang, supported by infrastructure investments such as Rocket Delivery—Coupang's "fast delivery" service where most product are delivered the same or next day—and promotional programs like "Good Shop"—a permanent promotional event to showcase high-quality SME products in Korea.[26] By leveraging logistics networks and promotional partnerships, Coupang allows SMEs to operate with the distribution capabilities of a large retailer.[27] This demonstrates how platforms not only reduce transaction costs and improve trust but also directly drive small-business growth at scale.

Case Study: How Amazon Enabled Jambalaya Girl to Expand Beyond Local Grocery Stores

Kristen Preau, founder and CEO of Jambalaya Girl, a small business selling New Orleans–style jambalaya rice boxes, launched her products on Amazon in 2013 after facing roadblocks that were preventing the company from expanding beyond local grocery stores.[28] By using Fulfillment by Amazon (FBA), she was able to ship in bulk to Amazon's fulfillment network while cutting costs and avoiding the high shipping fees that often deterred customers. This made her products more affordable and allowed her to focus on growing her brand instead of managing logistics. As a result, the business was able to expand far beyond the limits of traditional retail.

Amazon also gave Preau access to powerful customer insights through tools like Brand Analytics. Instead of paying thousands for retail data reports, she could see who her customers were, where they lived, and what they were searching for. That information, combined with Amazon's reach and logistics, enabled Jambalaya Girl to expand nationwide and connect directly with the people who loved her New Orleans–style recipes.

ADVERTISING AND MARKETING IN THE DIGITAL AGE FOCUS: AI TOOLS AND DIGITAL PLATFORMS

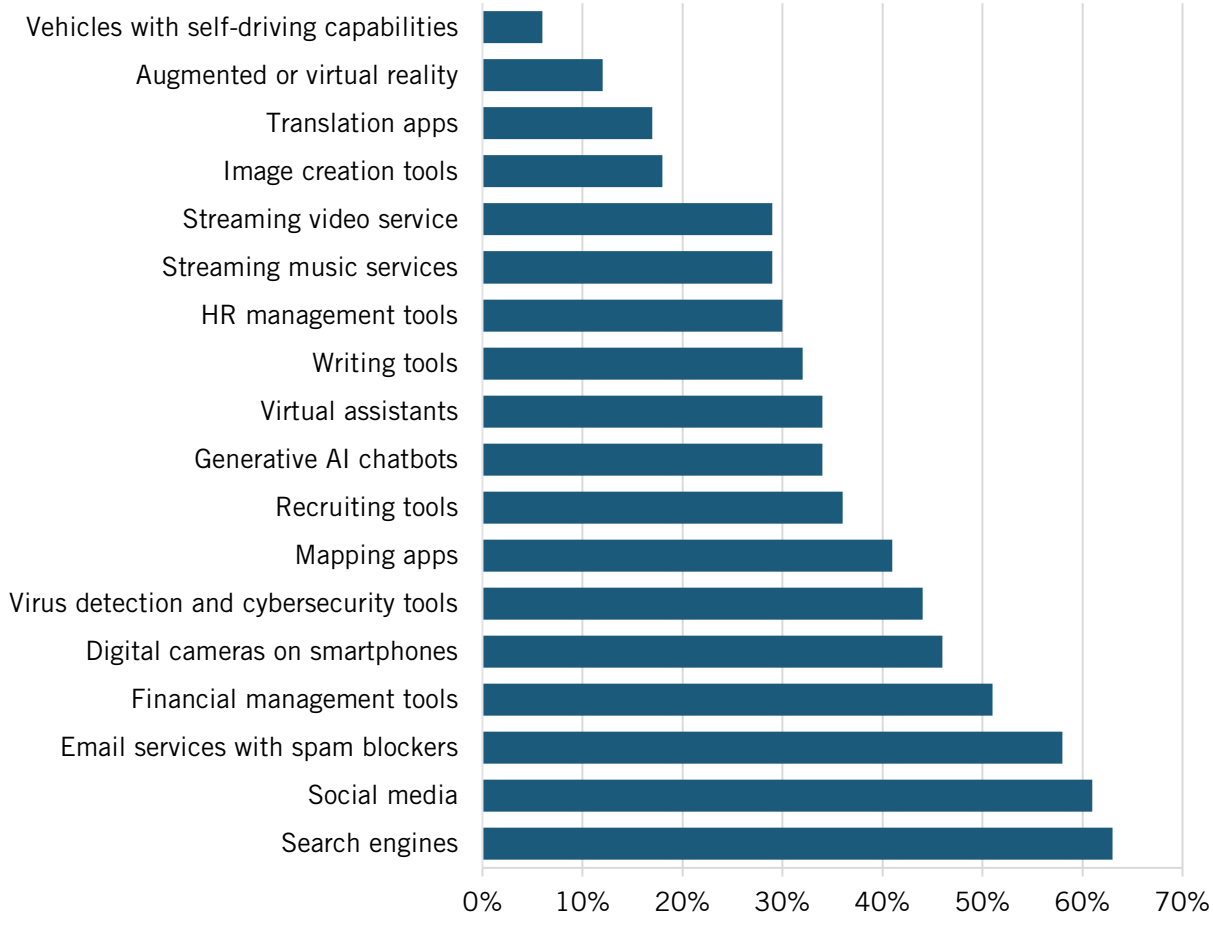
Advertising and marketing, particularly in digital forms, significantly enhance SME performance, delivering measurable returns even under resource constraints. Indeed, businesses generate $8 in profit for every dollar spent on Google Search and Ads.[29] Meanwhile, pay-per-click advertising can lead to a 200 percent return on investment—profit of $2 for every $1 spent.[30] As such, a 2022 survey finds that 8 in 10 U.S. SMEs asserted that digital advertising is critical to their business's success.[31] Meanwhile, 70 percent of SME owners or managers indicated that they planned to increase digital advertisement usage in the next two years.[32] Taken together, these findings underscore why SMEs require effective marketing to scale and grow in an economy.

AI is boosting marketing performance for SMEs, helping them optimize ad campaigns, target the right customers, and generate content at scale. Indeed, AI tools such as Google Smart Bidding and Meta Advantage+ automatically adjust ad variables in real time to maximize conversions, with some campaigns reporting improvements in cost per acquisition. For example, the data-driven digital marketing company Columbus adopted smart bidding and saw a 36 percent increase in conversion rate within the first two months.[33] Meanwhile, AI-driven customer segmentation, offered through platforms such as HubSpot, Zoho, and Salesforce, uses behavioral

and demographic data to identify high-value audiences and tailor outreach. According to McKinsey, companies using personalization tools, likely enhanced with AI, see 10 to 30 percent increases in marketing-spend efficiency.[34] Moreover, a recent study by Meta found that when advertisers used Meta's new AI-driven advertising tools, they experienced a 22 percent improvement in return on ad spend.[35] In other words, for every dollar U.S. advertisers spent, they received a $4.52 return.

Generative AI is further accelerating SME marketing productivity. Platforms such as Jasper, Copy.ai, and Canva's Magic Write allow teams to produce blogs, social posts, emails, and ad copy with minimal effort. According to a 2024 survey by ActiveCampaign, 82 percent of surveyed businesses find that AI is especially effective at content ideation, saving them time and financial resources that can be spent elsewhere.[36] As AI tools become embedded into platforms SMEs already use, such as Mailchimp, Shopify, and Wix, barriers to adoption are falling. In fact, 98 percent of small businesses now use at least one AI-enabled tool, and nearly 51 percent applied AI directly to marketing functions in 2024.[37] More specifically, depending on the technology, 6 to 63 percent of small businesses use AI-enabled tools, including generative AI.[38] (See figure 2.)

Figure 2: AI-enabled tool use by small businesses[39]



Building on this, many small businesses are using social media and automation tools to amplify their marketing efforts. According to the U.S. Chamber of Commerce's Impact of Technology on

Small Business Report 2024, 63 percent of small businesses use social media tools, making them the most widely adopted marketing technology across U.S. SMEs.[40] More generally, on average, more than 50 percent of small businesses in OECD are using social media, with 61.3 percent of firms with 10 to 49 employees and 74 percent of firms with 50 to 249 employees utilizing it.[41] These platforms allow businesses to engage directly with customers, promote offerings, and build brand presence at low cost. Indeed, a recent report by Meta finds that every dollar spent on Meta ads—ads for Facebook, Instagram, Messenger, etc.—led to $3.71 in revenue for U.S. advertisers in 2024.[42]

To manage the growing complexity of multiplatform engagement, many SMEs deploy automated ad-management tools, such as Meta Ads Manager, Buffer, or Hootsuite. These tools streamline content scheduling, targeting, and performance tracking, reducing manual workloads while improving efficiency. That report also finds that firms classified as "high-tech adopters" (using four or more technology platforms) are more likely to report increased sales and profits than are low adopters, highlighting the role of automation tools in driving business growth and competitiveness.[43]

Customer relationship management (CRM) platforms such as HubSpot, Salesforce, and Mailchimp are helping small businesses attract and retain more customers by automating outreach, personalizing engagement, and streamlining follow-up. For SMEs, these systems can deliver a 25 to 40 percent improvement in customer retention and a 15 to 30 percent boost in sales, making them powerful tools for scaling growth with limited resources.[44] By centralizing customer data and automating routine tasks, CRM adoption also improves operational efficiency by 20 to 35 percent, enabling SMEs to focus on other high-value activities.[45] Beyond efficiency, CRMs support better decision-making through analytics and lead tracking, helping SMEs target the right audiences and tailor communications effectively. Ultimately, CRM platforms serve as affordable, scalable infrastructure for SMEs to compete more effectively in digital markets.

Case Study: Amarra Using AI-Powered Marketing Tools to Boost Visibility

Amarra, a New Jersey-based wholesaler and manufacturer of dresses, provides a compelling example of how small businesses have integrated AI into their marketing workflows to enhance productivity and customer engagement.[46] To scale its e-commerce operations without significantly expanding staff, Amarra deployed generative AI tools such as ChatGPT to streamline the creation of product descriptions and digital content.[47] For example, the company reduced content development time by approximately 60 percent by automating initial draft of product descriptions based on product attributes such as fabric, silhouette, and design details. This efficiency gain enabled faster product turnover and more consistent messaging across its digital channels, which are critical in a fast-moving fashion market.

Moreover, Amarra used AI to analyze customer feedback and behavior data, enabling more-responsive marketing strategies aligned with consumer preferences. These tools helped the company detect shifts in consumer preferences and tailor its products accordingly. While early iterations of the AI-generated content required human oversight to maintain brand consistency and avoid generic language, the combination of automation and editorial review has proven effective. Amarra's approach underscores how accessible AI tools can help SMEs compete in digital marketplaces by augmenting creative and strategic marketing functions.

HR AND OPERATIONS TRANSFORMATION FOCUS: DATA ANALYTICS, CLOUD COMPUTING, AND HR TECH

Strong HR and operations capabilities are essential drivers of SME growth and competitiveness. Effective HR practices help small businesses attract and retain talent, boost employee engagement, and align workforce goals with broader business strategy. Indeed, the Society for Human Resource Management (SHRM) asserted that "implementing proven human resources practices is critical to small business growth and could even be the deciding factor between success and failure."[48] On the operations side, streamlined workflows and clearly defined roles are also critical to SME growth because they enhance efficiency, lower costs, and enable faster adaptation to market shifts. In sum, when HR and operations are executed well, they provide the internal structure SMEs need to scale, innovate, and boost economies.

Digital payroll systems, employee onboarding, and HR management platforms play a critical role in effective HR and operations for SMEs. These tools help small businesses automate repetitive tasks such as payroll processing, benefits administration, and time tracking, saving valuable hours and reducing the risk of costly errors. For example, platforms such as Gusto and BambooHR offer cloud-based solutions that streamline compliance and reporting without requiring SMEs to hire a dedicated HR team.[49] Employee onboarding features within these systems support smoother transitions for new hires, leading to increased retention and faster productivity ramp-up. Indeed, a *Harvard Business Review* article concludes that organizations with a standardized onboarding process have 50 percent greater new hire retention and a 62 percent greater productivity rate.[50] In other words, these platforms are enabling SMEs to build more professionalized and effective HR functions, increasing productivity and retention rates while also freeing up time and resources to focus on growth.

Platforms such as Workday People Analytics provide actionable insights across recruitment efficiency, internal mobility, skill gaps, performance patterns, and attrition trends, helping SMEs refine hiring strategies and proactively address turnover risks.

Cloud computing for affordable storage and collaborative workflows is playing an increasingly vital role in strengthening operations and boosting productivity for SMEs. Platforms such as Google Workspace and Microsoft 365 allow teams to collaborate in real time, access files remotely, and reduce reliance on costly in-house infrastructure, making them particularly valuable for SMEs with limited financial resources. In addition, cloud storage and file-sharing services such as Dropbox help streamline document workflows, reduce downtime, and improve organizational productivity. According to a literature review of 18,570 studies, 82 percent of the studies find that SMEs that adopt cloud computing experience operation efficiency gains, while 76 percent find that adoption leads to cost savings for SMEs.[51] Moreover, these cloud services are also beneficial to SME revenue growth because they promote collaboration. Indeed, a survey by Techaisle, a global small business IT market research and industry analysis organization, finds that 72 percent of small businesses note that collaboration is key to revenue growth.[52] As such, these tools are becoming essential infrastructure for SMEs seeking to scale operations, boost productivity, and remain competitive in a rapidly digitizing economy.

Workforce data analytics is increasingly vital for SMEs aiming to make smarter HR decisions that improve hiring, retention, and productivity. Platforms such as Workday People Analytics provide

actionable insights across recruitment efficiency, internal mobility, skill gaps, performance patterns, and attrition trends, helping SMEs refine hiring strategies and proactively address turnover risks.[53] According to SHRM research, 71 percent of HR executives say it is essential to their organization's HR strategy, while 42 percent of HR professionals find that people analytics help reduce potential bias in hiring decisions.[54] Corroborating this, a study by Ndwamai et al. finds that HR analytics is key to addressing SMEs' workforce issues because it allows these firms the ability to analyze trends related to turnover and absenteeism while also providing data-driven solutions.[55] Moreover, the study notes that workforce data analytics also ensures effective acquisition, retention of employees, and enhanced productivity.[56]

Case Study: Texas Credit Union Digitizing HR Processes

Texans Credit Union offers a practical example of how SMEs can increase efficiency by digitizing HR processes.[57] To streamline employee onboarding, the organization implemented robotic process automation to handle system logins and account setups. What previously took 15 to 20 minutes per new hire was reduced to under a minute, allowing HR staff to focus less on administrative tasks and more on employee engagement. The shift not only saved time but also ensured that new employees had immediate access to the tools they needed on day one, improving the overall onboarding experience.

A key factor in Texans Credit Union's success was customizing digital tools to fit its specific needs. It began by automating routine, time-consuming tasks such as setting up accounts and sending reminders, which are ideal for digitization. As its HR processes mature, the credit union plans to expand automation to tasks such as assigning desks and parking spaces, which currently requires multiple emails. This stepwise approach shows how SMEs can adopt digitization of the HR process gradually, improving efficiency while enhancing the new-hire experience and reducing HR departments' workloads.

E-COMMERCE AND SALES ENABLEMENT FOCUS: WEBSITE HOSTING, DIGITAL PLATFORMS, AND AI IN SALES

E-commerce platforms have become a cornerstone of sales operations for most SMEs, fundamentally reshaping how they reach customers, manage operations, and drive sales growth. As consumer preferences shift toward digital convenience, SMEs are increasingly adopting online sales channels to stay competitive and relevant. According to an OECD study, "Operating multiple sales channels, both online and offline, presents various opportunities such as increased sales, broadened customer base, and improved relationship with customers."[58] This multichannel approach not only allows SMEs to expand their geographic sales reach but also provides valuable data for targeted marketing and personalized customer experiences. In certain industries, an online platform presence also boosts productivity for SMEs, such as in the hotels, restaurants, taxis, and retail trade sectors.[59] Reflecting this trend, OECD data shows that, on average, 26 percent of all small businesses and 34 percent of all medium-sized businesses in OECD countries were actively making e-commerce sales in 2023.[60] (See figure 3.) In sum, these platforms are proving essential for SMEs that want to sustain growth, remain competitive, and scale in both local and global markets.

Figure 3: Share of SMEs making e-commerce sales in 2023[61]



Affordable e-commerce platforms such as Shopify, Wix, and BigCommerce have significantly lowered the barriers to entry for SMEs looking to establish an online presence. These platforms provide ready-to-use templates, integrated payment systems, mobile responsiveness, and marketing tools, easing the adoption process for SMEs. Moreover, these platforms offer affordable subscription prices. Shopify, for example, offers plans starting at $29 per month, and as of 2024, hosted over 45,000 Live Shopify Plus stores; the total general Shopify stores surpassed 5 million in the third quarter of 2024.[62] Wix, which offers e-commerce capabilities starting at $17 per month, has consistently grown and powers more than 85,000 new sites each day, many of which are online stores.[63] These cost-effective solutions are especially valuable for SMEs with limited budgets and technical resources, allowing them to launch fully functional online storefronts quickly and scale their digital operations over time. As e-commerce becomes more essential to business growth, the affordability and flexibility of these platforms make them a strategic investment for SMEs aiming to grow and boost their competitiveness.

In addition to these affordable e-commerce platforms, SMEs can also leverage social media platforms as a direct sales channel, enabling customers to discover, browse, and purchase products without leaving the app. Tools such as Instagram Shops, Facebook Marketplace, and TikTok Shop streamline transactions and reduce SMEs' need for separate online storefronts, cutting costs and simplifying operations. Moreover, SMEs can boost visibility, shorten the path to purchase, and use built-in analytics to refine their marketing by integrating sales directly into spaces where customers regularly visit and engage. A survey by Verizon and Morning Consult finds that 40 percent of surveyed SMEs are using social media platforms to sell directly to consumers.[64] These platforms not only make selling more efficient but also give SMEs another avenue for exposure that could boost their competitiveness and subsequently lead to higher growth.

In addition to e-commerce platforms, AI-powered chatbots play a crucial role in enhancing SMEs' sales by providing scalable, real-time customer engagement. These tools allow SMEs to offer 24/7 support, answer frequently asked questions, and assist with tasks such as order tracking and returns while reducing their labor costs. According to IBM, AI chatbots can handle 80 percent of routine tasks and customer queries and can reduce customer service costs by up to 30 percent.[65] As such, the study notes that virtual chatbots could reduce the average cost-per-customer-service interaction of $5 to $12 down to $1.55.[66] Moreover, HubSpot's 2024 State of Customer Service & CX report also finds that customers derived greater satisfaction from service teams using AI chatbots—86 percent of those using AI said it improved their satisfaction

score.[67] As consumer expectations for instant and tailored communication rise, chatbots are becoming a strategic advantage for SMEs looking to increase sales and growth.

SMEs also integrate inventory, logistics, and CRM tools to streamline backend operations and deliver a smoother customer experience, driving sales growth. The integration of these tools provides SMEs with real-time visibility into stock levels, automated order processing, and personalized customer interactions, ensuring order fulfillment efficiency, reducing costly errors, and improving the overall buying experience. For instance, integrated platforms such as Zoho Inventory, ShipStation, and HubSpot CRM help SMEs automate routine tasks such as syncing inventory, processing orders, and segmenting customer data. As such, SMEs that integrate their systems will likely remain competitive, scale more easily, and convert more customers without overloading their teams. Indeed, according to Salesforce's 2024 SMB Trends Report, 66 percent of small and medium-sized businesses use integrated tech stacks to increase efficiency.[68] Moreover, for even greater efficiency, SMEs have also turned to drop-shipping, which eliminates the need for SMEs to hold physical inventory, allowing for more seamless order fulfillment directly from suppliers. When combined with integrated inventory and CRM tools, drop-shipping enables SMEs to scale quickly while maintaining smooth operations and strong customer relationships.

AI-powered chatbots play a crucial role in enhancing SMEs' sales by providing scalable, real-time customer engagement.

Blockchain technologies play a key role in SME sales because these technologies reduce costs, increase transparency, and streamline operations. Many SMEs struggle to collect payments due to their dependence of third parties.[69] Smart contracts automate these processes by triggering payments upon delivery, significantly reducing delays and administrative burdens.[70] Moreover, SMEs using cryptocurrencies such as Bitcoin or stablecoins can generally settle transactions in seconds rather than days, and at lower fees.[71] The CHAI app, powered by Terra's blockchain and used by over 3 million users, is one example where instant merchant settlements have been achieved.[72] More broadly, blockchain adoption has been shown to improve firm-level productivity.[73] SMEs using blockchain technologies generally reduce transaction and agency costs because these technologies remove intermediaries, lowering verification and recordkeeping expenses.[74] These efficiencies can have immediate impacts on SMEs' business processes, allowing for faster sales cycles, more reliable payments, and greater customer trust.

Case Study: Marais USA Launching Direct-to-Consumer E-commerce Site

Marais USA, a small accessories brand founded by Haley Boyd, successfully launched its direct-to-consumer e-commerce site in 2013 as part of a strategic shift away from wholesale distribution.[75] The move allowed the company to regain creative control and build a closer relationship with customers by selling primarily through its own website. Boyd leveraged her personal Instagram presence to drive traffic and create an engaged online community, which became a key channel for marketing and sales. By focusing on e-commerce, Marais USA was able to release six product drops annually, produce styles she wanted to sell, and experiment with other product categories, such as ready-to-wear.

Launching the e-commerce site also enabled Marais USA to improve operational efficiency. This is because the brand no longer needed to focus on wholesale retail but rather on direct-to-consumer sales. As such, Marais USA moved production from China to a factory in downtown Los Angeles, reducing lead times by 50 percent and transit times from 30 days to as little as 10 minutes. Moreover, the shift to e-commerce, or direct-to-consumer retail, allowed Marais to keep costs stable and be more responsive to customer feedback. In sum, the e-commerce launch not only streamlined Marais USA's operations and sales but also reduced dependence on unreliable wholesale partners, positioning the company for growth in a competitive fashion market. Marais USA shows how SMEs can use e-commerce to reach customers directly and streamline product and inventory decisions, boosting sales and efficiency.

DIGITAL BUSINESS TRANSFORMATION: CASE STUDIES

Concord Pet Food & Supplies: Family-owned Business Transitioning to Digital Sales Channels

Concord Pet Food & Supplies, a family-owned legacy business founded in 1978, successfully transitioned from a traditional brick-and-mortar model to digital sales channels to remain competitive in an increasingly online retail landscape.[76] With over 30 physical locations across the Mid-Atlantic region, the company recognized the growing competition from large retailers with an online presence, such as Chewy and Petco. As such, Concord launched a fully merchandised online storefront in partnership with New Media Retailer, integrating its in-store inventory and pricing into a seamless digital shopping experience. The e-commerce platform enabled customers to access over 10,000 pet products.

The shift to e-commerce quickly proved effective. A Cyber Monday campaign early in the rollout brought in over $20,000 in online sales in a single day, signaling strong customer demand for digital access to Concord's offerings. While the company encountered initial challenges, such as damaged or delayed shipments, Concord addressed these issues directly by communicating with customers and offering quick resolutions such as coupons to displeased customers. Moreover, as it has continued to adapt to e-commerce, Concord has implemented systems to react quickly to shipping issues. In sum, Concord successfully transitioned from selling its products in brick-and-mortar stores to e-commerce, or selling online, leading to greater efficiency and new growth opportunities. This goes to show how even long-established SMEs can benefit from adopting digital services.

Hardware Retailer: Boosting Sales and Efficiency with Cloud-Based Marketing

A hardware retailer, operating both e-commerce and physical stores, faced challenges managing customer relationships across these channels.[77] The company struggled with fragmented customer data, inconsistent communication, and missed opportunities to adjust to customers' purchasing behavior changes due to separate systems for online and in-store sales. As such, the retailer implemented HubSpot CRM, a cloud-based platform that centralized customer information and automated marketing workflows, to address these issues. Using HubSpot's CRM, the hardware retailer was able to centralize its customer data, customize its marketing for online and in-store customers, and automate its workflows to respond to customer inquiries quickly.

By integrating HubSpot's CRM, the retailer improved operational efficiency and customer engagement. Indeed, HubSpot's CRM that enabled automated workflows triggering timely follow-

ups, personalized offers, and re-engagement campaigns led to a 25 percent increase in online sales conversions and a 15 percent rise in in-store upsells. Moreover, the retailer experienced a 20 percent growth in revenue from cross-selling and upselling efforts from data-driven product recommendations.[78] This transformation demonstrates how SMEs can leverage cloud-based marketing tools to become more efficient at reaching customers, unlock new growth opportunities, and scale their businesses effectively in a competitive market.

POLICY RECOMMENDATIONS

There is a range of measures governments can take to support the digital transformation of SMEs. To incentivize SMEs' adoption of digital services, policymakers should design targeted strategies to reduce adoption barriers and expand access to critical digital tools. They should start by implementing the five policy recommendations outlined below. Together, these strategies can create a thriving SME ecosystem that is digitally capable, resilient, and competitive.

1. **Provide public cloud credits and SME-focused AI tool kits from tech firms.** Governments should collaborate with major technology providers to expand access to digital infrastructure and tools. This includes offering public cloud credits, AI tool kits tailored for SMEs, and preconfigured software packages that are affordable, easy to use, and scalable. For instance, government could provide SMEs with cloud credits to incentivize their adoption. Such resources can dramatically lower the cost of experimenting with advanced technologies such as AI, automation, and data analytics. More importantly, these tools are essential for SMEs' competitiveness in both domestic and global markets. In sum, public programs can help SMEs transition from slower traditional infrastructure to more efficient digital ones.

2. **Support digital literacy and cybersecurity awareness and training.** The need to strengthen the foundational capabilities that support long-term digital resilience is equally important. Policymakers should support initiatives that improve digital literacy and cybersecurity awareness across the SME landscape. This could include funding local and regional training hubs that provide hands-on, industry-relevant courses in safe digital practices; embedding cybersecurity and data protection modules into vocational and workforce development programs; and offering targeted grants or tax incentives for SMEs to invest in secure IT systems and employee training. Moreover, policymakers should also expand access to affordable, high-speed broadband to ensure that SMEs in rural and underserved communities have digital access. Finally, they should also expand the digital literacy and cybersecurity training to these areas.

3. **Encourage SME experimentation with low-cost digital tools.** Governments should foster an environment wherein SMEs feel empowered to try out low-cost digital tools. Pilot programs, regulatory sandboxes, and innovation vouchers can reduce the perceived risks of trying new technologies. For example, government could partner with digital services companies to provide SMEs with a trial adoption of a digital service for six months to a year, allowing them to test whether these tools are beneficial to their business before fully committing.

4. **Promote public-private partnerships to scale digital transformation.** Public-private partnerships between SMEs and government can amplify these efforts by combining

government resources with industry know-how to further reduce the risk of digital services adoption, formulate solutions to adoption challenges, and find ways to scale digital services that are beneficial to SMEs.

CONCLUSION

Digital technologies are increasingly essential to the productivity and competitiveness of SMEs. Cloud-based HR systems, AI-enabled customer support, and integrated inventory and logistics platforms allow firms to streamline operations, reduce costs, and make more informed decisions. These efficiencies enable SMEs to better allocate limited resources, improve service quality, and adapt more quickly to shifts in demand. At scale, broader SME adoption of digital tools contributes to higher aggregate productivity and strengthens the economic fabric of key domestic industries.

In a global economy defined by rapid technological change and heightened competition, the extent to which SMEs adopt and integrate digital services will increasingly determine their ability to scale, compete, and contribute to long-term economic growth. Digital adoption enables firms to enter new markets, reach customers more effectively, and respond more efficiently to both supply and demand shifts. However, disparities in digital readiness, such as gaps in capital, skills, and infrastructure, limit the ability of many SMEs to fully benefit from these tools. Supporting SME digital adoption should therefore be a policy priority, not only to enhance individual firm performance, but also to strengthen national productivity, economic growth, and global competitiveness.

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The Information Technology and Innovation Foundation (ITIF) is an independent 501(c)(3) nonprofit, nonpartisan research and educational institute that has been recognized repeatedly as the world's leading think tank for science and technology policy. Its mission is to formulate, evaluate, and promote policy solutions that accelerate innovation and boost productivity to spur growth, opportunity, and progress. For more information, visit itif.org/about.

ERRATA

This report has been updated to clarify that over 75 percent of Coupang's sellers in South Korea are SMEs; Coupang also is growing internationally, notably in Taiwan.[79]

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