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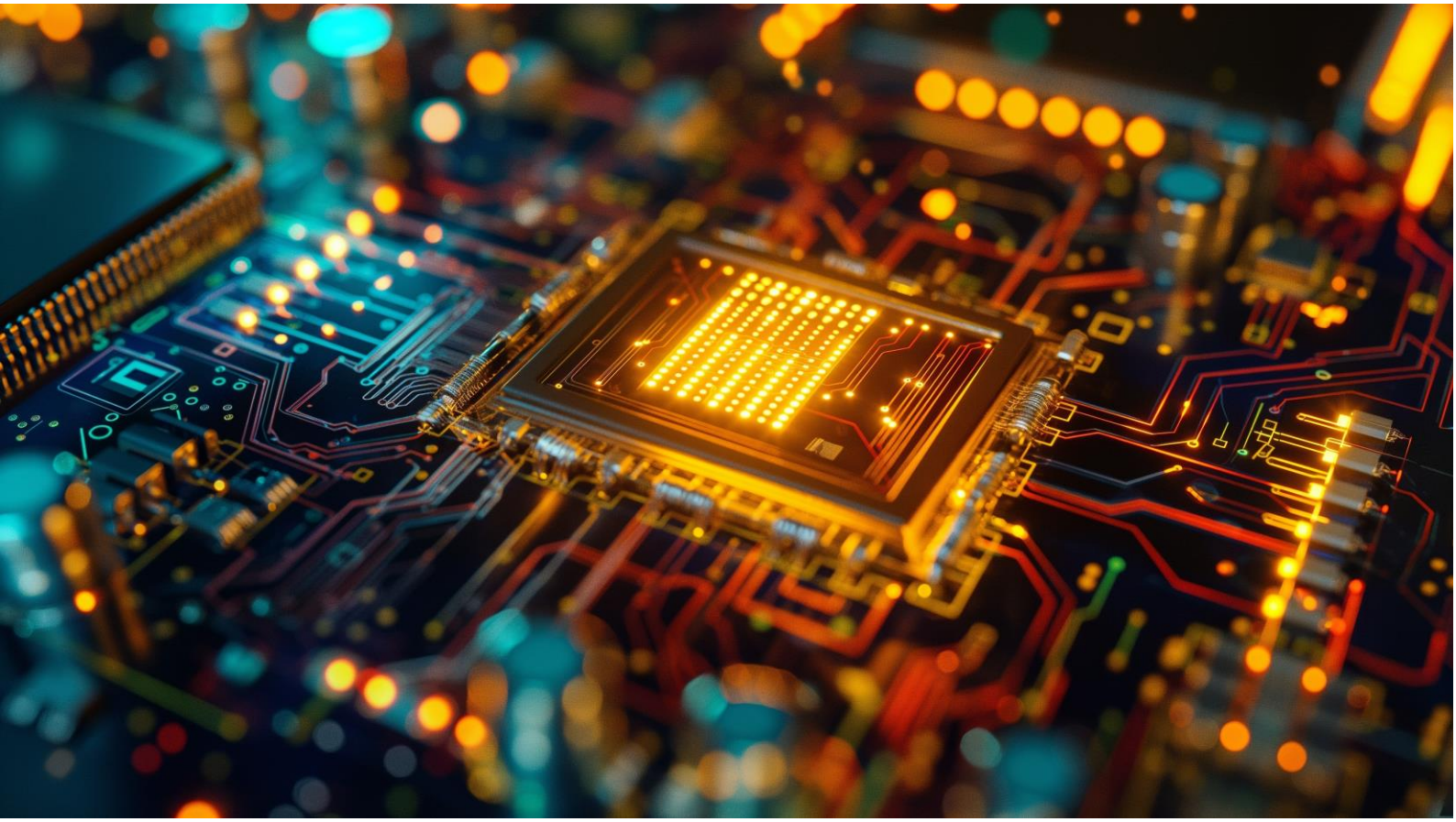

Going digital in 2025

The economic benefits of digital tools

NZIER report to Xero NZ

May 2025

About NZIER

New Zealand Institute of Economic Research (NZIER) is an independent, not-for-profit economic consultancy that has been informing and encouraging debate on issues affecting Aotearoa New Zealand, for more than 65 years.

Our core values of independence and promoting better outcomes for all New Zealanders are the driving force behind why we exist and how we work today. We aim to help our clients and members make better business and policy decisions and provide valuable insights and leadership on important public issues affecting our future.

We are unique in that we reinvest our returns into public good research for the betterment of Aotearoa New Zealand.

Our expert team is based in Auckland and Wellington and operates across all sectors of the New Zealand economy. They combine their sector knowledge with the application of robust economic logic, models and data and understanding of the linkages between government and business to help our clients and tackle complex issues.

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Key points

Accelerating small and medium size enterprises (SMEs) digitalisation presents a major economic opportunity and has the potential to boost New Zealand's gross domestic product (GDP) by up to NZ$8.6 billion in 2025. Digitalisation enhances how businesses operate, innovate and compete. Globally and locally, SMEs face growing pressure to adopt digital tools to scale, innovate, and remain competitive. To seize this opportunity, New Zealand should introduce scalable financial incentives, strengthen digital advisory support, target sector-specific initiatives, integrate digital skills training, invest in SME-focused innovation hubs, and systematically track progress. A coordinated strategy will drive productivity, resilience, and sustained economic growth.

Global and local trends

The rapid advancement of digital technologies is fundamentally reshaping business models and value creation. For SMEs, digitalisation offers significant opportunities to scale, innovate, and access new markets, but also introduces greater competitive pressures. While many New Zealand SMEs have adopted basic digital tools, the uptake of advanced technologies such as AI (artificial intelligence), cloud enterprise solutions, and digital platforms remains uneven. Addressing capability gaps, cost barriers, and skills shortages will be critical to fully realising the benefits of digitalisation.

The policy prescription for New Zealand

A targeted, coordinated strategy is essential to accelerate SME digitalisation. Policy priorities should include:

- **Reform and formalise the Small Business Advisory Group (SBAG):** expanding its membership to include industry and academia.
- **Financial incentives**: Introduce scalable grants or matched funding to reduce the cost of digital adoption.
- **Advisory support**: Establish a national network of accredited digital advisors to guide SMEs through their digital transition.
- **Sector focus**: Develop sector-specific digitalisation programmes aligned with high-potential industries such as agritech, tourism and manufacturing.
- **Skills development**: Integrate digital capability-building into workforce training and tertiary education frameworks.
- **Innovation ecosystem**: Invest in SME-focused digital innovation hubs and field labs to foster experimentation and collaboration.
- **Measurement**: Implement systematic tracking of SME digital maturity and outcomes to inform continuous policy refinement.

A comprehensive approach across these areas will help unlock the economic potential of New Zealand's SMEs, enhancing productivity, competitiveness, and resilience in the global digital economy.

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1 Introduction

This research explores the potential of digital business tools and emerging technologies, such as artificial intelligence (AI), to enhance business performance in New Zealand, particularly among small and medium size enterprises (SMEs). It proposes contemporary policy measures informed by international practice, supports alignment with Xero's digitalisation framework and aims to catalyse industry, policy, and media engagement.

Research aims:

- Demonstrate the potential of cloud-based business tools, including the emergence of technological advancements, such as AI, for business in New Zealand.
- Offer contemporary policy solutions for supporting adoption among SMEs, drawing on the experience of the Netherlands and other countries.

1.1 Digitalisation is an increasingly important tool for SME success

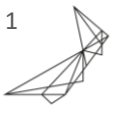
Digitalisation is increasingly recognised as a critical driver of SMEs' growth, productivity, and resilience. As the global economy becomes more digitised, the ability of SMEs to adopt and integrate digital tools, such as cloud computing, AI, and data analytics, has become essential to their competitiveness and sustainability.

SMEs that embrace digital technologies are better positioned to innovate, access new markets, and improve operational efficiency (OECD 2024). Digital adoption can lower transaction costs, streamline business processes, and enable more responsive customer engagement. Furthermore, it helps SMEs build resilience against external shocks, such as those experienced during the COVID-19 pandemic, when digitally enabled firms were more agile in pivoting operations or moving to remote delivery models (OECD 2024).

The WEF also emphasises that digitalisation is no longer optional for SMEs; it is a core element of modern business strategy (World Economic Forum 2024). In its 2024 report *Digital Transformation for SMEs: A Strategic Framework*, the WEF argues that digital capabilities are now fundamental to survival and growth, particularly as customers, suppliers, and regulatory environments shift toward digital platforms. The report outlines that digital tools help SMEs improve productivity by automating routine tasks, enhancing data-driven decision-making, and facilitating collaboration within and across enterprises.

Importantly, the benefits of digitalisation extend beyond efficiency gains. Digitally mature SMEs tend to have higher rates of innovation, are more likely to export, and exhibit stronger growth trajectories. These outcomes contribute to individual firms' success and support broader economic development and labour market dynamism. The OECD notes that SMEs contribute significantly to employment growth in digitally advanced economies and increasingly participate in global value chains (OECD 2021).

However, the path to digitalisation is not without challenges. Many SMEs face structural constraints, such as limited financial resources, a lack of digital skills, and uncertainty about the return on investment in new technologies. These barriers are especially pronounced in smaller firms and sectors with traditionally low digital intensity.



Addressing these gaps requires coordinated policy action. Government initiatives such as digital capability building, co-funding schemes for tech adoption, and partnerships with technology providers have proven effective in countries like Canada, the Netherlands, and Singapore. As the OECD and WEF stress, digital policy for SMEs must be about access to technology and enabling the mindset and skills needed to use it effectively. Digitalisation is a key enabler of SME growth and resilience in the modern economy. By investing in digital capacity and fostering enabling environments, policymakers and industry actors can unlock the potential of SMEs to contribute more fully to innovation, employment, and economic prosperity.

1.2 Global digital technology trends

Global digitalisation is accelerating and reshaping industries and economies. Key trends include:

- Cloud-based business tools enable small enterprises to access software, storage, and computing power over the internet, offering scalability, cost-efficiency, and flexibility without substantial infrastructure investment (OECD 2024). These tools allow small businesses to streamline operations, enhance collaboration, and respond more quickly to market opportunities, levelling the playing field with larger competitors.
- AI and machine learning (ML): AI and ML are increasingly integral to business operations, enhancing decision-making, customer experiences, and operational efficiency. For instance, AI-driven predictive maintenance in manufacturing reduces downtime and costs.
- Cybersecurity and digital trust are fundamentally important: As digital ecosystems expand, so do security concerns. Organisations are prioritising cybersecurity measures and building digital trust to protect data and maintain customer confidence.
- Digital inclusion and infrastructure: Efforts are underway to bridge the digital divide, ensuring equitable access to digital tools and infrastructure, particularly in developing regions. This includes investments in broadband expansion and digital literacy programs.
- Sustainability and green technology, as businesses leverage technology to reduce carbon footprints, optimise resource use, and promote environmental responsibility.

These trends underscore the multifaceted nature of digitalisation, encompassing technological advancement, security, sustainability, and inclusivity. Organisations that proactively embrace these trends are better positioned to thrive in the evolving digital landscape.

2 Business potential from digitalisation

The rapid advancement of digital technologies is reshaping the business environment, fundamentally altering how value is created, delivered, and captured. For SMEs, digitalisation offers both significant opportunities and new competitive pressures. This section examines how digital technologies are transforming business models, the broader implications for firm productivity, scalability, and competitiveness, and the specific relevance of these trends to SMEs in the New Zealand context. It highlights the strategic potential of digital adoption and the barriers that must be addressed to realise these gains fully.

2.1 How digital technologies are reshaping business models

Digital technologies are fundamentally altering business models, shifting firms away from traditional linear value chains towards platform-based and data-driven structures. Cloud computing, AI, and data analytics have enabled businesses to reduce transaction costs, expand reach, and create new revenue models. Platforms benefit from strong network effects, economies of scale, and the ability to serve vast customer bases at near-zero marginal cost (OECD, 2024).

Firms are increasingly bundling products with digital services, adopting subscription models and focusing on continuous customer engagement. The servitisation[1] of manufacturing – offering 'outcomes-as-a-service' – exemplifies this shift. Data collection and real-time analytics have become critical assets, enabling firms to personalise offerings and drive innovation cycles. According to the OECD (2023), businesses performing big data analytics are significantly more likely to introduce new products or processes.

From an economic standpoint, digitalisation lowers search, information, and coordination costs, enabling more market-based exchanges. Smaller firms now access global talent, customers, and suppliers via digital platforms without significant scale disadvantages. This dynamic supports Schumpeterian competition[2] when digital innovation drives market disruption. Sectors such as transport, retail, and media have already witnessed transformational change led by digitally native entrants. In this context, agility and digital readiness are becoming central to sustaining competitive advantage.

2.2 Implications for productivity, scalability, performance, and competitiveness

Digital technologies have substantial implications for firm-level productivity. Automation, streamlined processes, and data-driven decision-making allow firms to produce more with fewer inputs. OECD's (2024) analysis suggests a 10-percentage-point increase in cloud adoption is associated with a 3.5 percent uplift in average firm productivity. However, realising these gains often requires complementary investments in skills, organisational

[1] Servitisation is when a business that traditionally sells products starts offering services alongside — or even instead of — those products. Instead of just selling a machine, for example, a company might offer a full package where they maintain, monitor, and optimise the machine for the customer. Customers pay not just for the product itself, but for the ongoing value and outcomes the product delivers (Blesa-Pérez et al. 2023).

[2] Schumpeterian competition describes the dynamic process where innovation and new technologies displace and disrupt outdated ones, driving economic renewal and growth. This continuous cycle of 'creative destruction' pushes businesses to adapt, invest, and innovate to maintain competitiveness in rapidly evolving markets (Spencer and Kirchhoff 2006).

change, and process redesign, without which technology adoption may have a limited impact.

Scalability is another critical benefit. Cloud computing, software-as-a-service, and digital platforms allow firms to expand operations rapidly without proportional increases in fixed costs. Digital businesses, particularly those in software and e-commerce, experience declining average costs as they grow, enhancing profitability and competitiveness. Scalability also fosters resilience, enabling firms to adjust operations in response to market shifts or demand shocks with greater flexibility.

Performance improvements extend beyond efficiency. Firms that harness digital technologies report enhanced accuracy, faster product development, and improved customer satisfaction. Data from the World Economic Forum (2024) shows that over 70 percent of SMEs using digital analytics report stronger strategic decision-making capabilities.

Competitiveness increasingly hinges on digital capability. Early adopters of digital tools gain first-mover advantages, while laggards risk market marginalisation. Digital platforms exhibit strong winner-takes-most dynamics, where network effects entrench the position of leading firms. The OECD (2023) notes that digital divides between firms are strongly associated with widening productivity and profitability gaps. As such, digitalisation is becoming a necessary, though not sufficient, condition for firm survival and growth in modern economies.

At the national level, digital readiness influences global competitiveness. Countries investing in digital infrastructure, innovation ecosystems, and digital skills development are better positioned to foster high-growth firms and attract investment.

2.3 Specific relevance to SMEs in the New Zealand context

In New Zealand, SMEs comprise 97 percent of all businesses and are central to employment and regional development. However, New Zealand's productivity levels have historically lagged behind other advanced economies(OECD 2022). Digitalisation presents a strategic opportunity for SMEs to overcome structural constraints such as small domestic market size and geographic isolation.

Cloud-based business tools allow SMEs to access global markets, diversify revenue streams, and enhance operational efficiency. Digital tools can mitigate the disadvantages of distance by enabling SMEs to reach global customers with minimal physical infrastructure investment. The review of the benefits of digital trade for SMEs in New Zealand found the benefits of digital trade are (Ministry of Foreign Affairs and Trade 2025):

- **Enhanced Market Access**: Digital trade agreements like DEPA open up new markets for New Zealand businesses, especially in the Asia-Pacific region, by reducing digital trade barriers.
- **Support for SMEs**: By simplifying digital trade processes and providing clear guidelines, these initiatives help New Zealand's SMEs to participate more effectively in global digital markets.
- **Promotion of Innovation:** Engagement in digital trade encourages the adoption of new technologies and innovative business models, fostering economic growth and diversification.

Digital adoption among New Zealand SMEs remains uneven. While many SMEs use basic digital tools such as websites and email, fewer adopt advanced technologies such as cloud enterprise solutions, e-commerce platforms, or AI analytics (MBIE 2024). Xero (2021) behavioural research identifies the major barriers to adoption to be:

- **Perceived sufficiency**: Many small business owners believed their current solutions were adequate, leading to reluctance to adopt new technologies.
- **Risk aversion**: Concerns about potential risks and short-term losses associated with change deterred some businesses from embracing new technologies.
- **Decision paralysis**: The overwhelming number of technology options made it challenging for some businesses to compare, understand, and choose the right solutions.

Financial constraints also present challenges. Although cloud services reduce upfront capital requirements, subscription costs, implementation complexity, and a lack of tailored solutions for smaller firms can inhibit uptake. Furthermore, many SMEs lack access to the digital skills necessary to maximise the benefits of technology adoption. Nonetheless, the potential returns are significant. NZIER (2020) estimated that greater SME digital adoption could boost New Zealand's GDP by up to NZ$6.2 billion. In 2025, an equivalent macroeconomic effect would be an increase in GDP of up to NZ$8.6 billion. Analysis by MYOB (2022) indicated that SMEs investing in digital tools report returns between NZ$2.40 and NZ$3.10 for every dollar spent. These figures underline that even modest digital upgrades can generate meaningful economic benefits.

Recognising this, New Zealand policymakers have introduced initiatives such as the Digital Boost programme, offering SMEs free access to digital training and tools. Internationally, frameworks like the Digital Economy Partnership Agreement (DEPA) are designed to facilitate SME participation in global digital trade, helping New Zealand firms compete internationally.

Policy recommendations from the OECD (2024) suggest that targeted support measures, such as digital capability building, financial incentives for technology adoption, and infrastructure investment, are essential to bridge digital divides among SMEs. Efforts should focus on access to technology and encouraging organisational change and skills development to fully realise productivity and competitiveness gains.

Digitalisation offers New Zealand SMEs a pathway to enhance scale, productivity, and resilience in a competitive global economy. However, targeted interventions are required to address persistent barriers, ensuring that the benefits of digitalisation are broadly distributed across the SME sector and contribute meaningfully to national economic performance.

3 Comparing leading SME digitalisation policies

This section reviews how Finland, the Netherlands, Denmark, Canada, South Korea, and Singapore have designed and implemented policies to support SMEs' digitalisation. These examples offer insights into effective models for encouraging technology adoption, skills development, and innovation in the SME sector.

Finland

Finland is a global leader in SME digital integration, underpinned by a strategy focused on infrastructure, skills development, and targeted support. Initiatives such as Business Finland's Innovation Vouchers and Tempo Funding offer SMEs grants of up to €50,000 for piloting digital projects and market expansion, focusing on cloud computing, cybersecurity, and AI.

The Digital Compass 2030, aligned with the EU Digital Decade, aims for 90 percent of SMEs to achieve basic digital intensity by 2030. The Digital Intensity Index defines digital intensity based on the adoption of at least four out of twelve technologies: internet access, broadband connection, having a website, using social media, engaging in e-commerce, implementing enterprise resource planning or customer relationship management systems, electronic information sharing, cloud computing, big data analysis, artificial intelligence, and employing ICT specialists (Eurostat 2025). Regional Ecosystem Agreements foster collaboration between businesses, cities, and research institutions to create innovation environments.

Finland's education system embeds digital skills early, supported by initiatives such as the AI Academy. Combining infrastructure, funding, and workforce readiness, this comprehensive model creates a strong foundation for SME digitalisation.

The Netherlands

The Netherlands takes a targeted, pragmatic approach to SME digital adoption through its SME Action Plan. The Mijn Digitale Zaak programme provides SMEs with subsidies of up to €2,500 for investments in digital tools such as e-commerce platforms and cybersecurity, using a simplified application process to maximise uptake.

Digital Innovation Hubs and Field Labs allow SMEs to experiment with technologies like AI, robotics, and IoT (Internet of Things) in controlled environments. Sector-specific initiatives, including Smart Industry and Digital Agriculture, address the particular needs of the manufacturing and agribusiness sectors.

The Dutch model demonstrates that financial incentives, practical experimentation spaces, and sectoral targeting accelerate SME digitalisation.

Denmark

Denmark adopts a structured, holistic approach, integrating SME digitalisation into broader industrial policies. The SMV:Digital programme offers grants (DKK25,000–DKK100,000) to fund both advisory services and implementation projects, supporting the adoption of enterprise resource planning (ERP) systems, AI, and digital marketing tools.

The Digital Growth Strategy promotes "digital by default" for business-government interactions, simplifying compliance and reducing transaction costs. A network of Digital

Lead Advisors provides SMEs with tailored guidance, recognising that behavioural as well as financial barriers must be addressed.

Denmark's model highlights the importance of combining accessible financial support, personalised advisory services, and digitally enabled public services.

Canada

Canada's Canada Digital Adoption Program (CDAP) offers one of the most comprehensive national frameworks for SME digitalisation. CDAP is divided into two streams:

- Grow Your Business Online: grants up to CAD$2,400 to support e-commerce development.
- Boost Your Business Technology: grants up to CAD$15,000 for digital advisory services, plus access to interest-free loans up to CAD$100,000 via the Business Development Bank of Canada (BDC).

Over 11,000 accredited Digital Advisors assist SMEs in developing tailored adoption plans. CDAP also aligns with broader innovation initiatives like the Innovation Superclusters Initiative, linking SMEs to major research and industrial partners. Micro-credential training programmes further close digital skills gaps.

Canada's approach effectively combines funding, advisory support, and systemic innovation ecosystem development.

South Korea

South Korea's digitalisation policies form part of its broader Digital New Deal strategy to lead the Fourth Industrial Revolution. Key measures include:

- Subsidies for SME adoption of cloud, AI, and big data solutions.
- Creation of Smart factories — aiming to establish 30,000 by 2030 — providing financial and technical support to integrate digital technologies into production.

SMEs also benefit from the Big Data Platform Project, which democratises access to data resources, and from accelerators like the K-Startup Grand Challenge. Investment in 5G and next-generation infrastructure ensures SMEs can fully leverage emerging technologies.

South Korea's proactive, investment-driven model shows how large-scale government intervention can catalyse SME digitalisation.

Singapore

Singapore's SME digitalisation strategy is built on clarity, structure, and strong incentives. The SMEs Go Digital programme offers a step-by-step roadmap, with the Productivity Solutions Grant (PSG) subsidising up to 80 percent of costs for pre-approved accounting, inventory management, CRM, and cybersecurity solutions.

For more advanced needs, the Advanced Digital Solutions (ADS) scheme funds the implementation of AI, data analytics, and robotics. The Chief Technology Officer-as-a-Service platform provides SMEs with free consultancy to identify suitable solutions, reducing decision-making barriers.

The Enterprise Development Grant (EDG) supports broader business transformation initiatives, offering co-funding for process redesign and innovation projects.

Singapore's experience illustrates that structured guidance, substantial funding, and risk reduction mechanisms can drive widespread SME digital adoption.

3.1 Overall summary of international experience on digitalisation policy

The experiences of Finland, the Netherlands, Denmark, Canada, South Korea, and Singapore highlight several best practices for promoting SME digitalisation:

- Integrated support: Combining financial incentives with advisory and training services ensures technology investments are effective.
- Sector targeting: Tailoring initiatives to specific industries increases relevance and impact.
- Infrastructure and skills: Building strong digital foundations through connectivity and workforce development sustains long-term transformation.
- Streamlined processes: Simplified application and support processes lower barriers to adoption.

Countries that embed digitalisation across funding, advisory, education, and innovation systems achieve faster, deeper SME transformation, positioning their economies for resilience and competitiveness in a digital future. The table below compares the key features of SME digitalisation policies across Finland, the Netherlands, Denmark, Canada, South Korea, Singapore, Australia, and New Zealand. It highlights both convergence and points of differentiation, providing a useful reference for identifying policy gaps and opportunities for New Zealand.

Table 1 Comparison of digitalisation support and acceleration policies

Country	Financial incentives	Advisory support	Skills development	Digital infrastructure	Sector-specific initiatives
Finland	Grants for pilots and innovation	AI Academy, regional hubs	Integrated from early education	Strong broadband, AI roadmap	Manufacturing, ICT
Netherlands	Subsidies for digital tools	Digital Innovation Hubs, Field Labs	Targeted SME training	Broadband coverage, EU Digital Compass	Smart manufacturing, agritech
Denmark	Advisory and implementation grants	National Digital Lead Advisors	Lifelong learning initiatives	E-government, smart cities	Manufacturing, logistics
Canada	Grants and interest-free loans	Accredited Digital Advisors	Micro-credentials for digital	Innovation Superclusters	Advanced manufacturing, clean tech
South Korea	Smart Factory subsidies, cloud adoption support	Big Data Platform access, mentoring	Workforce reskilling programmes	5G leadership, AI investments	Smart manufacturing, fintech
United Kingdom	Funding for training and equipment	SME Digital Adoption Taskforce	Local hubs, training programmes	Nationwide upgrades	Fintech, digital banking, Made Smarter

Country	Financial incentives	Advisory support	Skills development	Digital infrastructure	Sector-specific initiatives
Singapore	Up to 80% subsidies for pre-approved solutions	SME Digital Roadmaps	SkillsFuture Digital Workplace	Smart Nation Initiative	Retail, logistics, finance
Australia	Small Business Technology Investment Boost (tax-based)	Digital Solutions Advisors (pilot-level)	Digital Skills Organisation programmes	NBN rollout, 5G expansion	Health, agri-tech, advanced manufacturing
New Zealand	No tailored schemes since the disestablishment of the prior programme	Limited resources at Business.govt.nz	Siloed training, no integrated system	UFB broadband, regional access upgrades	Tourism, agri-tech, creative industries

Source NZIER

International evidence highlights that governments can play a critical role in accelerating SME digitalisation by adopting coordinated, multi-level strategies. The OECD identifies a set of high-impact policy approaches that focus on reducing barriers, enabling capability-building, and fostering supportive business environments. The table below summarises these strategies and their practical applications, offering a useful reference point for shaping effective digitalisation policy in New Zealand.

Table 2 Strategic government policies to encourage SME digitalisation

Strategy	Implementation
Focus on SMEs	Encourage upskilling for staff and management through recommended training pathways and cost incentives Build the data culture of SMEs through awareness campaigns, financial support and technical assistance Raise the profile of cybersecurity and privacy management
Lower barriers to digitalisation	Promote solutions that lower the transaction costs of digital and participating in the digital economy, e.g. mobile banking costs Encourage digital innovation as a source of digital tools that progressively lower costs through financial incentives for digital R&D Support SME knowledge-sharing networks, collaborative programmes and centres of excellence Provide SME open-access technology and research on digitalisation
Create a business environment that supports SME digitalisation	Set a supportive regulatory framework that sets standards on intellectual property rights, data privacy and enforcement of digital regulation Promote e-government and e-services for SMEs Develop high-quality digital infrastructure networks
Promoting a whole-of-government approach	Develop strategic action plans with coordinated actions Manage the governance of emerging policy areas such as artificial intelligence or blockchain Facilitate collaborative and advisory groups

Source: OECD (2021)

3.2 Lessons for New Zealand

Comprehensive support frameworks work best

Countries like Canada, Singapore, and Denmark demonstrate that combining financial support with advisory services, skills development, and infrastructure investment creates stronger SME digitalisation outcomes. Programmes integrating grants, expert advice, and skills training into a single pathway reduce friction and increase uptake. New Zealand should offer more integrated support models, making it easier for SMEs to move from awareness to adoption with minimal administrative burden.

Advisory services are critical, not optional

Evidence from Denmark and Singapore shows that SMEs often need practical guidance to select and implement digital solutions, not just funding. Many SMEs lack the internal capacity to scope, evaluate, and manage digital projects. Advisory support should be formalised and scaled nationally, with sector-specific expertise available to SMEs at low or no cost.

Targeted sector initiatives increase impact

Sector-specific programmes (e.g. Smart Industry in the Netherlands, Smart Factories in South Korea) help ensure digitalisation initiatives address real operational challenges and opportunities. New Zealand could tailor digitalisation support to key export and growth sectors, such as agritech, tourism, creative industries, and manufacturing, rather than using a one-size-fits-all model.

Financial incentives matter

SMEs are highly sensitive to investment costs. Where governments provide meaningful co-funding (e.g. up to 80 percent in Singapore), uptake rates are significantly higher. In contrast, small grants or subsidies of modest value. There is a need to introduce meaningful financial incentives for SMEs investing in digital tools, systems, and skills, particularly where upfront costs are high.

Skills development must be embedded

Finland and Singapore show that embedding digital skills development into broader workforce planning ensures a sustainable digital transition. Standalone training programmes have limited long-term effects without integration into national upskilling systems. What's needed is to align SME digital training with national workforce development initiatives (e.g. vocational education reforms, apprenticeships) to build a stronger base of digital skills across the economy.

4 Bringing it all together

Digitalisation is required to stay competitive globally and locally

Digitalisation is no longer optional for SMEs. It is essential for productivity, competitiveness, and resilience in a rapidly evolving global economy. International experience shows that strategic investment in digital adoption can deliver substantial economic gains, with estimates suggesting a potential boost of up to **NZ$8.6 billion** to New Zealand's GDP in 2025.

Digitalisation is a strategic imperative for SMEs

The rapid advancement of digital technologies is fundamentally reshaping business models, shifting firms towards platform-based, data-driven structures and creating new opportunities and competitive pressures. Digitalisation enables SMEs to reduce costs, scale operations, and innovate, but realising these gains depends on complementary investments in skills, organisational change, and digital infrastructure. Globally, early digital adopters are achieving productivity and performance advantages, while laggards risk marginalisation. In New Zealand, SMEs form the backbone of the economy, yet digital adoption remains uneven and constrained by financial barriers, capability gaps, and skills shortages.

New Zealand SMEs have made important progress

New Zealand SMEs have made important progress in adopting basic digital tools. However, uptake of advanced technologies remains uneven, constrained by financial barriers, capability gaps, and the absence of structured advisory and sector-specific support. Without targeted intervention, the risk is that these gaps will widen, reducing SME competitiveness nationally and internationally.

International experience shows SMEs need sustained support to digitalise

The experiences of countries such as Finland, the Netherlands, Denmark, Canada, South Korea, and Singapore demonstrate that comprehensive policy frameworks combining financial incentives, advisory services, sectoral targeting, workforce development, and innovation ecosystem support are most effective in driving digitalisation at scale. Raising awareness is insufficient; practical, accessible, and sustained support is required to move SMEs from incremental digitalisation to deep, strategic transformation.

Adopting a UK-style SME Digital Adoption Taskforce

Adopting a UK-style SME Digital Adoption Taskforce in New Zealand would provide a focused, collaborative mechanism to accelerate digital uptake among small and medium-sized enterprises. By bringing together government, industry, and technology experts, the taskforce could systematically identify adoption barriers, such as affordability, digital capability gaps, and perceived risk, and co-design practical policy solutions. This model would build on the lessons of previous strategies, aligning them with a broader strategy to promote the use of proven productivity tools such as cloud software, e-commerce platforms, and digital accounting systems.

The taskforce would also foster stronger public–private collaboration, enabling faster, more coordinated responses to SME needs, and facilitating cross-sector alignment around shared goals for productivity, innovation, and growth.

4.1 Recommendations

The productivity benefits of increased small business innovation are well established, and a number of international policy initiatives have been designed to achieve this outcome. New Zealand can learn from others.

Before jumping to a solution, Xero believes foundational work is required. To sustainably support small business digitalisation, stakeholders must align on a clear, shared outcome, gain a deeper understanding of the underlying problems, and assess the range of policy options available.

Xero recommends that the Government reform and formalise the SBAG, including expanding its membership to include industry and academia. The SBAG should be specifically tasked with providing advice to the Minister to drive increased digital adoption among kiwi small businesses. A useful precedent is the UK's SME Digital Adoption Taskforce, a government–industry partnership that aims to identify barriers and co-design effective strategies to accelerate SME digitalisation and, in turn, boost national productivity. Xero proposes the reformed SBAG is supported by a Government secretariat with sufficient resources and expertise to effectively support the SBAG's work.

Table 3 outlines potential policy prescriptions and prioritisations the SBAG will consider when developing advice to accelerate digitalisation in New Zealand. This policy suite is based on a comparison with a range of the most successful countries in actively supporting SMEs with digitalisation. Types of policies to be considered by the SBAG include financial incentives, digital infrastructure investment, skills development and access to professional advice, spanning public and private sectors.

Table 3 Actions for accelerating digitalisation in New Zealand

Action	Timing	Priority	Actions for government
Adopting a UK-style SME Digital Adoption Taskforce	Immediate	High	Reform and formalise the SBAG, including expanding its membership to include industry and academia.
Encourage upskilling for staff and management through recommended training pathways and cost incentives	Immediate	High	Develop industry-specific training pathways for digitalisation Assess and recommend specific training solutions Provide financial assistance for professional development
Invest in developing digital literacy	Immediate	High	Embed digital literacy in core education Provide community-based training for adults
Raise the profile of cyber security and privacy management	Immediate	High	Demonstrate good practice Assess and identify the needs of small business
Support SME knowledge-sharing networks, collaborative programmes and centres of excellence	Immediate	High	Lower behavioural barriers to digitalisation by facilitating SME networks
Facilitate collaborative and advisory groups	Immediate	High	Follow Singapore's example of providing access to low-cost advisor services on digitalisation for small business
Promote solutions that lower the transactions costs of digital and participating in the digital economy, e.g. mobile banking costs	Immediate	Medium	Identify lower-cost solutions to lower behavioural barriers
Encourage digital innovation as a source of digital tools that progressively lower costs through financial incentives for digital R&D	Immediate	Medium	Investment in digital innovation and a digital innovation strategy
Provide SME open-access technology and research on digitalisation	Ongoing	High	Facilitate open-access solutions via digital R&D funding
Reform immigration law to attract and retain skilled people	Ongoing	High	Develop efficient pathways for skilled labour from abroad to arrive and stay
Promote e-government and e-services for SMEs	Ongoing	Medium	Digital leadership from all of government
Develop high-quality digital infrastructure networks	Ongoing	Medium	Assess, identify and fund future digital infrastructure needs
Develop strategic action plans with coordinated actions	Ongoing	Medium	Develop a digitalisation plan that actively seeks to invest in digitalisation and lower the barriers to digitalisation
Manage the governance of emerging policy areas such as artificial intelligence or blockchain	Ongoing	Medium	Facilitate multi-lateral collaboration between research, business and government to identify future governance needs

Source: NZIER

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