How can AI help small businesses grow?

BANK OF SCOTLAND

By the side of business

> ## "Artificial intelligence (AI) is a powerful tool that can help small businesses prosper, and its impact is becoming increasingly evident."
>
> Alex Cave, Head of Data Science, Bank of Scotland

AI explained

Alex Cave's avatar generated using AI.

Artificial intelligence (AI) is no longer just a buzzword. AI typically refers to software that performs automated tasks, which we would normally do ourselves. Tasks such as understanding language, recognising images, making decisions and solving issues. Instead of inputting data and manually completing tasks, AI automatically processes information and generates results. This frees up time for people to focus on more complex responsibilities such as sales, service or business strategy.

AI helps small businesses by automating routine and administrative tasks. Imagine a world where you have a digital helper by your side that does jobs quickly and accurately. For example, a small bakery owner or ecommerce store owner used to spend a lot of time manually writing down orders, counting inventory and scheduling deliveries. But with AI and automation, a smart computer program will automatically handle these tasks. This will free up the owner's time to focus on more important things like creating new recipes and improving customer service.

Another way AI can help small businesses is by analysing data and providing valuable insights. AI can quickly process substantial amounts of data and identify patterns that people might miss. For instance, consider a small retail store owner who wants to ensure they have enough products in stock to meet their customers' demands. At the same time, they also want to make sure they don't have too much inventory that won't sell. Using AI, they can track customer purchases and adjust their business inventory, ensuring they always have the right amount of stock on hand.

AI software to help run your business

Many modern accountancy packages are now supported by AI, including Business Finance Assistant from Bank of Scotland. AI is used to reconcile transactions, helping to match expenses and income received to invoices. It is also used for cash flow forecasting based on categorisation and algorithms.

One of the most significant breakthroughs in 2023 has been the development of generative AI powered by Large Language Models (LLMs), with ChatGPT being one of the most well-known. These models are trained on vast amounts of text data and can generate human-like language. This allows them to perform tasks such as drafting articles, creating chatbot responses and even composing personalised marketing materials tailored to specific customer segments.
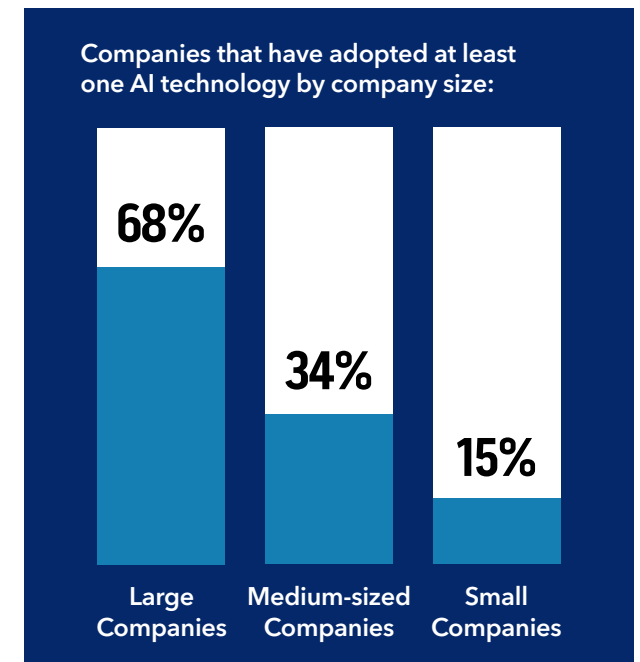
Generative AI can also help small businesses provide personalised experiences for customers. For example, **Fantastic Services** and **Doctaly** both use AI-powered chatbots within their retail and healthcare businesses respectively, to assist customers with queries and concerns. Their chatbots provide human-like instant assistance and save time for both customers and the organisation, helping to increase customer satisfaction and loyalty. Businesses like **Freshworks** and **Kustomer** provide the ability for SMEs to offer a similar experience for their customers quickly and easily.

Overall, AI can be a game-changer. By automating routine tasks, providing valuable insights, and enhancing customer experiences, AI helps small businesses grow and succeed in today's competitive marketplace. So, what could it do for yours?

According to a recent government report **(AI activity in UK businesses: Executive Summary)**, the adoption of AI within UK organisations is directly linked to the size of the business. 68% of large companies, 34% of medium-sized companies and 15% of small companies have adopted at least one AI technology. Across sectors, IT and legal firms have the highest adoption rates, whilst hospitality, health and retail have some of the lowest.

While its adoption is currently limited, the potential benefits of increased productivity, cost savings, and enhanced customer satisfaction to the business cannot be ignored. As the technology continues to evolve and become more accessible, businesses have become increasingly confident. **(Latest ONS data shows that 10% of UK businesses plan to adopt AI)**.

Companies that have adopted at least one AI technology by company size:

68%
Large Companies

34%
Medium-sized Companies

15%
Small Companies

"The UK government has taken a proactive approach to the use of AI. It's outlined plans to strengthen the country's position as a global leader through the creation of a 'pro-innovation' framework"

What are the risks of using AI?

It's important to be aware that using such technology comes with risks and challenges. For the larger SMEs, questions and concerns arise around the impact on the workforce, bias, data privacy, ethics, inaccurate results and legal implications **(15 AI risks businesses must confront and how to address them | TechTarget)**.

The best mitigation has been where the strategy is clear and transparent regarding the intention and use of AI within the organisation. Consulting your workforce on the use of AI and how it allows you to consider more information to make the best judgements will help to allay fears.

What are the challenges for small businesses when adopting AI?

Implementation can be cumbersome, as it would be rare for smaller SMEs to have a team of data scientists dedicated to solving business issues with AI. Coupled with the current economic backdrop of low growth, high inflation and higher interest rates, many small business owners are time poor as they navigate precarious trading conditions. However, there are opportunities to take advantage of benefits larger companies are experiencing by working with third-party software companies who are specialised in AI related to a specific part of your business. For example, transcribing your sales calls with a tool like **Otter**, or automated diary management with tools like **Motion** or **Akiflow**.

The UK government has taken a proactive approach to the use of AI. It's outlined plans to strengthen the country's position as a global leader through the creation of a 'pro-innovation' framework. By establishing principles and guidelines for the use of AI in all sectors of the economy, the aim is to minimise ambiguity whilst being flexible enough to foster widespread adoption. **(A pro-innovation approach to AI regulation)**.

Sectors becoming efficient with AI

Whilst administrative efficiencies have been well articulated, it's important to highlight the advances within sectors, which are resulting in dramatic operational transformations...

Click on each sector to find out more.

Getting started with AI

Be reflective

Taking a step back in your business is critical. Which areas do you find most challenging to run? Start with the parts you find the most time-consuming or can potentially deliver the biggest benefit.
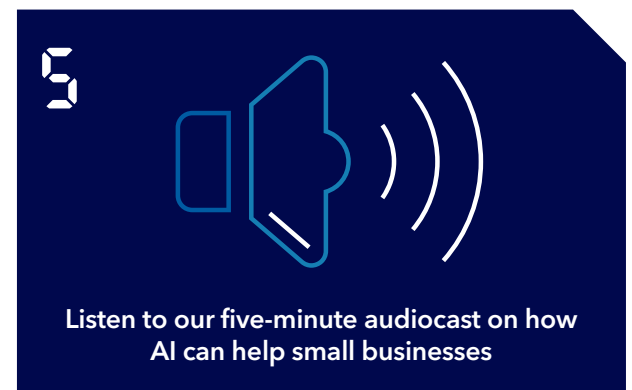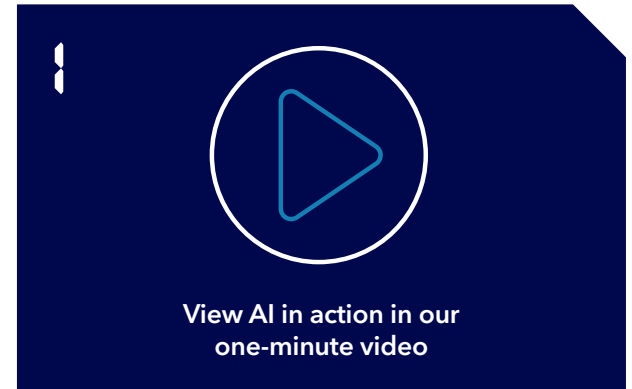
Be curious

Have a continual learning mindset. Take the most challenging areas of your business, research ways to automate those tasks, and find out which companies can help. The British Business Bank is a great place to start **(Free AI tools to help grow your business – Start Up Loans Company)**.

Start small

Taking the first step can be daunting, but being armed with knowledge and awareness of your business objectives will help you make the leap with confidence. Testing on a small part of your business allows you to monitor the change closely. If it doesn't work as intended, the consequence of failure is low. However, if the experiment is successful, you'll be well on the way to improved efficiency and success.

View AI in action in our one-minute video

Listen to our five-minute audiocast on how AI can help small businesses
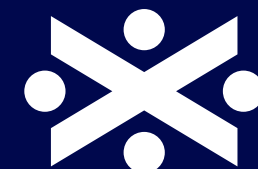
Important information

All lending is subject to status.

While all reasonable care has been taken to ensure that the information provided is correct, no liability is accepted by Bank of Scotland for any loss or damage caused to any person relying on any statement or omission. This is for information only and should not be relied upon as offering advice for any set of circumstances. Specific advice should always be sought in each instance.

Bank of Scotland plc. Registered Office: The Mound, Edinburgh EH1 1YZ. Registered in Scotland No. SC327000. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under registration number 169628.

BANK OF SCOTLAND

By the side of business