



2023 Small Business Growth in the Age of AI

Trends, opportunities
and challenges

Prepared for Microsoft by
Connect Sparks Advisors and
AI4SP.org

AI is revolutionizing how businesses operate by allowing machines to learn and solve problems in ways similar to humans.

With the help of conversational AI (humans talking to chatbots and virtual agents) machines can now communicate with humans in a natural and human-like way. Meanwhile, generative AI can create content that closely resembles human-made work.

Bing Chat, Chat GPT, and Google Bard are examples of AI-powered intelligent interactions that utilize both types of AI.

We use AI in our daily lives without even realizing it. The autocorrect feature in our phones, recommendations from our favorite e-commerce sites, the ads we see when streaming videos, and the optimization of delivery routes from our favorite carriers are powered by some form of AI.

One of the most significant benefits of AI is its ability to automate repetitive and time-consuming tasks, freeing up employees to focus on more complex and high-level work. AI can also help businesses make more-informed decisions by analyzing vast amounts of data and providing actionable insights.

However, there are also potential downsides to consider, such as data privacy, compliance, bias in decision-making, or the potential for job loss due to automation.

We created this document to get you started on a journey to the responsible use of AI to empower your business.

77%

Individuals use a service or device that is AI-powered^[1]

Small Businesses (SBs) in the United States are the heart of the economy and are embracing AI at a rapid pace to help them reduce costs; increase revenues; facilitate decision making; and hire, develop, and retain team members.

To better understand the challenges and opportunities of AI for SBs, we commissioned a comprehensive analysis—based on focus groups with small businesses, analysis of research published by world-leading research organizations, and direct surveys—of a balanced sample of 550 businesses with less than 250 employees across the 50 states.

Respondents were between the ages of 24 and 75. 46 percent identified themselves as female, 47 percent as male, and 7 percent as other.

In addition to our SB research, we analyzed over 8,000 AI tools, apps, and companies that cater to the needs of the SB sector.

5.5M

US Businesses with fewer than 250 employees^[2]

Executive Summary

SBs are rapidly embracing AI and are satisfied:

72 percent of SBs in the United States are familiar with AI solutions. Half actively use and enjoy them, with a 72 percent satisfaction rate. These businesses use AI to automate marketing, sales, and customer interactions; streamline business operations; and enhance analytics and finance automation. They also utilize AI tools for employee recruitment, retention, and scheduling.

Focusing on three priorities in 2023-2024: The adoption of AI focuses on three key areas including revenue growth, cost savings, and talent management and retention.

Reskilling the workforce is a priority: Half of SBs in the United States expect that some job functions will be reduced due to the automation of repetitive tasks. This could impact around three million individuals, making it crucial to consider ways to reskill and re-deploy them in other capacities to meet business needs and demands.

Growing pains related to compliance, privacy, and skills: SBs seek guidance to fully utilize AI due to challenges like compliance, privacy, skills, and integration with existing processes and tools.

Influencing Factors for AI adoption include: 1) Ease of use, 2) Integration with existing software solutions, 3) Skills 4) Pricing 5) Free trials, and 6) Help with data privacy and compliance issues.

AI creators are empowering SBs: With over 8,000 AI tools developed by these creators, spanning more than 130 use-case scenarios, SBs are experiencing AI's transformative advantages without in-house data scientists.

Companies with fewer than 250 employees make up*

45%

of the private sector jobs in the US ^[2]

Over

56M

employees ^[2]

SBs in the United States are rapidly adopting AI tools to help them with their business needs.

Impact on labor and retraining the workforce: We must recognize the transformative impact of AI on the labor market. Our research found that 48 percent of SBs anticipate cost savings by reducing their workforce with the help of AI tools.

Among SBs already using AI tools, 71 percent expect a reduction in some jobs and the emergence of new ones. This represents close to three million individuals that will need reskilling. Proactive workforce development strategies are critical for the sustainability of small and medium-sized enterprises and the economy's overall health.

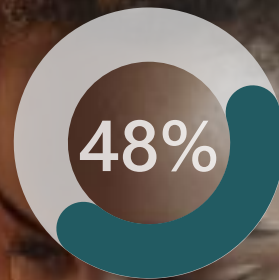
It is a bottom-up adoption model: Interestingly, 60 percent of AI solutions are introduced to organizations by team members seeking to enhance their job performance rather than by IT or management.

While this bottom-up approach can foster innovation and growth, it also presents security, privacy, and compliance risks as employees grant AI access to sensitive customer and business data.

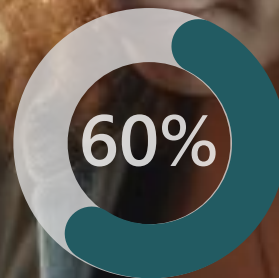
Focus on business value: Our study highlights that SBs articulate the value of AI in tangible business outcomes, such as bolstering customer service, aiding retention, reducing expenditures, increasing profits, and automating marketing efforts.



Familiar with AI



Using AI Solutions



AI Tools brought by employees

3M

SB employees will need reskilling and training

2023-2024 is a year of growth, cost reduction, and employee engagement: SBs in the United States will prioritize revenue growth and cost reduction in 2023 and 2024, with team retention, engagement, and management coming in third, followed by security and risk mitigation.

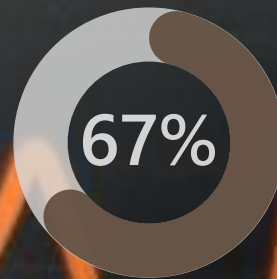
SBs believe AI will help them achieve their business goals: SBs recognize the potential benefits of AI tools in their operations, with 67 percent of AI-adopting companies believing that these tools can help them achieve their goals.

This finding underscores the importance of firsthand experience in shaping SB's perceptions and confidence in AI's potential to drive success.

Focus Areas in 2023-2024: On a forward-looking basis, SBs indicated that AI-driven automation of marketing, lead generation, customer service, and retention are the top priorities, while financial forecasting and revenue growth highlight the growing importance of AI in strategic decision-making processes.

Customized AI Solutions for SBs Success: Given the needs of SBs are diverse, it is crucial to provide customized solutions that address their specific requirements and industry jargon rather than generic, broad-based options.

For instance, SBs are more inclined to adopt AI tools that streamline communication with dental patients, retail customers, or restaurant guests rather than using generic chatbots that cater to a wide range of industries.



Think AI helps reach goals

AI Focus for 2023-2024

Chatbots for pre-sales and post-sales support, including scheduling and e-commerce

Analytics and business intelligence

Business operations automation

Employee recruitment, management, and scheduling

Advertising, sales, and marketing automation

How SBs learn about AI solutions: The most prevalent method for SBs to discover AI tools is through online searches and marketplaces, accounting for 41% of information sourcing.

Personal recommendations from colleagues, team members, or friends also play a substantial role, contributing to 30 percent of SB's AI discovery process. Given this is often the driving force behind the adoption of AI, it's critical for vendors to establish a strong online presence in social media channels, collaborate with influencers, and cultivate positive word-of-mouth marketing by providing excellent product experiences and easy-to-try solutions.

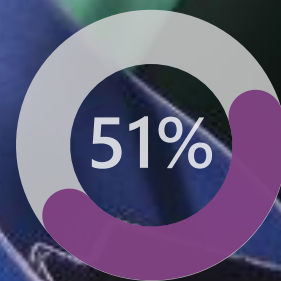
Key factors: Over 50 percent of SBs identified the lack of skills in effectively using AI as the primary barrier to adoption.

Among the key drivers influencing AI tool adoption are pricing, ease of use (to overcome the lack of skills), and online reviews or recommendations from peers and friends.

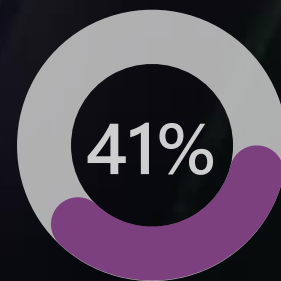
When searching for new AI tools, 41 percent of SBs prefer add-ons to their existing software, such as video conferencing, accounting, customer relationship management (CRM), human-resource (HR) systems, e-commerce, or productivity. 23 percent opt for single-purpose solutions that address specific pain points or operational needs.

Business Models: The most prevalent business models for AI include subscription-based and usage-based pricing. An emerging trend in usage-based models involves charging for the business value delivered rather than merely counting executed tasks—further aligning the cost structure with tangible outcomes.

Pricing is a critical barrier to AI tool adoption. Freemium models play a significant role in overcoming this hurdle, particularly in the 60 percent of cases where employees introduce AI solutions to their organizations.



Said lack of skills is a key barrier to AI adoption



Prefer AI as an add-on to existing software

Ethical, Privacy, and Security Risks and Concerns

Introducing AI tools into a business can also create privacy and compliance issues.

52 percent of SBs seek guidance, frameworks, and tools to help them strike the right balance between harnessing the business value of AI and remaining compliant and secure.

Data privacy is a primary concern. As SBs gather and utilize more data with their AI Tools, there is an inherent risk of breaches and misuse of sensitive information.

Compliance with data privacy regulations and adopting appropriate security measures are essential to safeguarding customer data.

In addition, SBs should be transparent about how they collect and use customer data and obtain their consent before doing so. This can help build customer trust and demonstrate a commitment to protecting their privacy.

Additionally, the lack of transparency and perpetuation of bias in AI algorithms is a growing ethical concern.


To mitigate potential problems, SBs can engage a reputable value-added AI reseller or a consultant to audit tools, processes, and integration with sensitive data used by the business.



Seek guidance on
privacy and
compliance

Key Actions

- Audit how AI tools use, save, and share data.
- Train employees on AI and data privacy.
- Review workflows to ensure compliance.
- Implement data encryption and security to protect sensitive customer data.
- Develop a privacy policy outlining how AI Tools collect and use data.
- Obtain explicit customer consent before collecting or sharing data.



Leveraging AI for small-business growth, customer attraction, and efficiency: Examples

Disclaimer: The use cases presented in this document are not based on a specific small business but are hypothetical derived from data collected through focus groups, interviews, and primary and secondary research conducted in March 2023. These examples illustrate how small businesses in the United States utilize AI to drive growth and streamline operations while maintaining customer and team member satisfaction. The scenarios described may not be universally applicable or representative of every small business' experience with AI.

AI-Assisted marketing for art school increased lead generation, while saving money.

The Organization

A small, art education business offers classes and workshops and connects young people to enriching artistic experiences. With an annual budget of \$2M, the 10-member team has ambitious goals to double their income, elevate their social media presence to engage with potential clients and sponsors, and inspire their team and the community.

The Challenge

The team used an AI-powered marketing content generation tool to meet their objectives.

The software generated personalized social media posts, recommended high-performing hashtags, pinpointed optimal posting times, and tailored the tone for a diverse target audience.

How AI Helped

The team used an AI-powered marketing content generation tool to meet their objectives. The software crafts personalized social media posts, recommends high-performing hashtags, pinpoints optimal posting times, and tailors the tone for diverse target audiences.



Microsoft is continuously adding AI-assisted features to the tools small businesses use daily. With [Microsoft 365](#), team members can develop, messaging, create presentations, draft emails, and generate marketing materials that are tailored to specific audiences for maximum impact.

Average Results

600

Hours saved per year

\$18K

Annual savings

35%

Uplift in lead generation and social media engagement

AI-Driven Virtual Customer Service Increased the Efficiency of a Dental Group's Operations

The Organization

The dental group operates 10 dental practices with a dedicated team of over 100 professionals. Their mission is to provide exceptional dental care while ensuring a seamless experience for their patients.

The Challenge

The dental group faced challenges with patient no-shows, appointment scheduling, and staff frustration related to repetitive tasks. The high patient-no-show rate took a toll on their operations and revenue; national statistics indicate that no-shows can result in a loss of \$20K to \$70K annually.

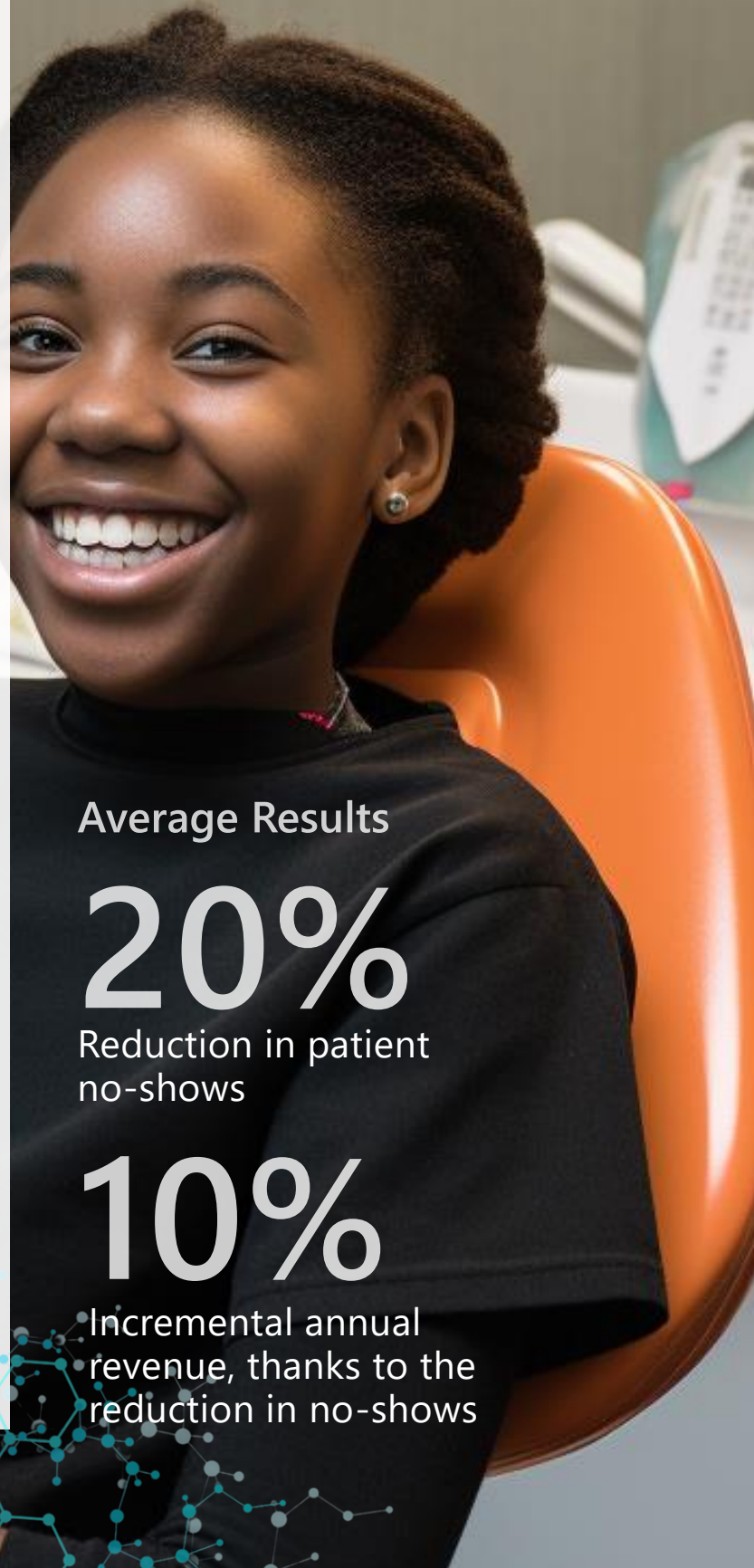
Patients frequently complained about difficulty setting up appointments or missing reminder calls from the admin office.

How AI Made a Difference

A sales team member introduced an AI assistant that integrated with the company's CRM software. The AI assistant used internal and external data to customize emails and analyze customer sentiment. It also used past sales data to improve sales forecasts.



Microsoft added AI features to [Microsoft Dynamics 365](#) for customer segmentation, email campaigns, and sales automation.



Average Results

20%

Reduction in patient no-shows

10%

Incremental annual revenue, thanks to the reduction in no-shows

AI-driven customer relationship management tools boosted consulting firm's revenue and Improved the accuracy of its sales pipeline

The Organization

A professional services company with a team of 110 skilled professionals, sought to improve their bottom line, decrease customer turnover, and increase the precision of their sales projections.

The Challenge

The company needed help to boost revenue, retain customers and make its sales forecasts more precise.

How AI Helped

A sales team member introduced an AI assistant seamlessly integrated with the company's CRM software.

The AI assistant utilized internal CRM data and external information, such as relevant industry events or the client's preferences, to tailor engaging and meaningful emails.

The software analyzed sentiment in client interactions through sales or support channels, alerting the team when customers appeared frustrated and allowing for timely intervention.

In addition, the AI Tool leveraged historical sales data and closing rates to increase the accuracy of sales forecasts.



Microsoft is continuously adding AI-assisted features to [Microsoft Dynamics 365](#) to create customer segments, generate inspired email campaigns informed by their preferences and interactions with the company, and automate common sales activities and more.

Average Results

70%

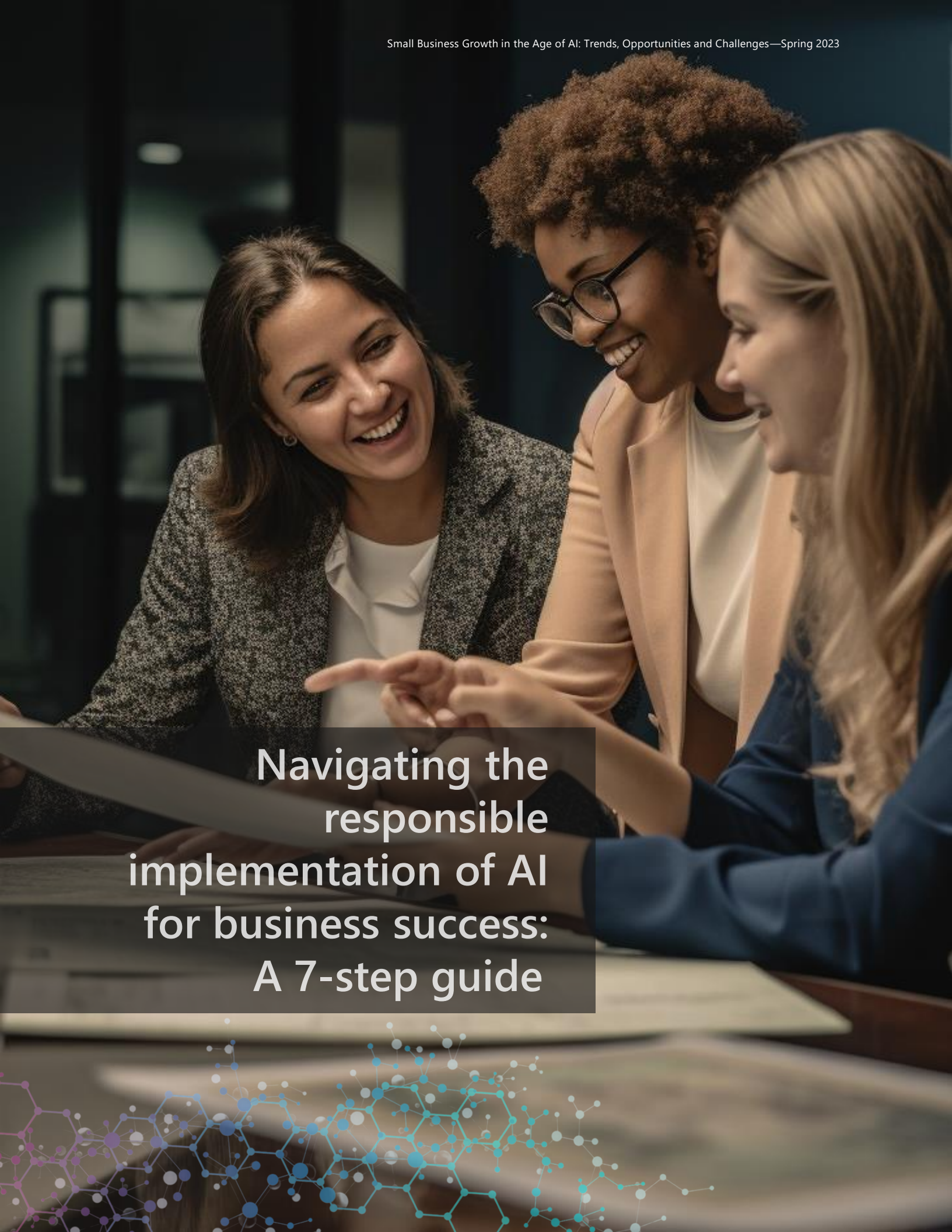
Increase in email open rate thanks to personalized content

24%

Increase in sales conversion rate


33%

Improvement in customer retention



**Navigating the
responsible
implementation of AI
for business success:
A 7-step guide**





As more and more businesses turn to AI technologies to meet their objectives, it becomes vital to prioritize ethical and responsible practices to prevent unintended consequences.

To assist businesses in responsible implementation of AI technologies, we have put together a comprehensive 7-step guide, which covers everything from comprehending the potential of AI for your business, setting clear goals, choosing the right tools, and training your team to implement and streamlined processes and continuously evaluate outcomes.

By following this guide, businesses can take actionable steps toward implementing AI technologies responsibly—helping to ensure that they achieve their objectives while maintaining ethical and responsible practices.

AI awareness and education

1. Start by gaining an understanding of AI and its potential benefits for small businesses.
2. Learn about the ways in which AI can automate and improve repetitive tasks, drive revenue growth, reduce costs, and provide better analytics and business intelligence.
3. Explore AI use cases in your industry to see how AI can be applied to your business operations.
4. Utilize resources such as the [Microsoft Small Businesses AI Center](#)

By following this process, you can gain a strong foundation in AI awareness and education, helping you to better understand the potential benefits and applications of AI in your business—and make informed decisions about how to implement AI and take advantage of its capabilities.

Identify opportunities for AI integration

Start by assessing your business processes to identify areas that could benefit from AI.

1. Consider different aspects of your business, such as customer service, marketing, inventory management, finances, accounting, and sales forecasting.
2. Consult with your team members to gather insights and ideas on areas where there are a high number of repetitive and time-consuming tasks that are core to the operation of the business.
3. Evaluate the identified areas and prioritize them based on potential impact and feasibility of AI integration.
4. Consider working with a value-added technology reseller or consultant to facilitate this process and provide expertise on the best AI solutions for your business.
5. Schedule a [free consultation](#) with Microsoft to explore AI integration options and determine the best course of action for your business.

By following this process, you can identify specific areas of your business that could benefit from AI integration, prioritize them based on potential impact, and consult with experts to determine the best AI solutions for their unique business needs. This can ultimately lead to improved efficiency, cost savings, and increased revenue growth.

Select Appropriate AI Tools and Solutions

1. Research and evaluate AI tools based on your specific needs and industry.
2. Compare the features, pricing, and reviews of different AI tools to determine which are the most suitable for your business.
3. Seek recommendations from industry peers or tech consultants who have experience with AI tools in your industry.
4. Utilize resources such as the [Microsoft Small Businesses AI Apps Center](#), Capterra, G2, and Product Hunt to compare different AI tools and solutions.
5. Test and trial the selected AI tools before fully implementing them in your business operations to ensure that they meet your expectations and needs.

By following this process, you can select the most appropriate AI tools and solutions for your business needs, which can lead to improved efficiency, increased productivity, and better decision-making. It's crucial to thoroughly research, evaluate and compare different AI tools and solutions before committing to one to ensure that it aligns with your business needs and provides the most value.

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AI security, compliance, privacy, and ethics

1. Verify that AI tools are compliant with regulations, such as data protection and privacy laws, and have robust privacy policies and data protection measures.
2. Ensure that all AI tools used by employees or that integrate with your systems handle data under the same privacy and ethical principles that your business follows, including regulations such as HIPAA when applicable.
3. Evaluate the ethical implications of using AI, including potential biases in the algorithms used by the AI tools adopted by your company.
4. Utilize resources such as the [Microsoft Security Center for Small Businesses](#), OpenAI, and Partnership on AI to stay informed about best practices and guidelines for AI ethics.

By following this process, you can ensure that their AI tools and solutions comply with regulations, have robust privacy policies and data protection measures, and align with your company's privacy and ethical principles. Evaluating the ethical implications of using AI can help avoid potential bias and discrimination in the AI algorithms used by the company. It is important to stay informed about best practices and guidelines for AI ethics to ensure that your business is using AI in an ethical and responsible manner.

Implement AI solutions

1. Develop a detailed implementation plan for the selected AI tools, including timelines and milestones for each stage of implementation.
2. Allocate resources, including contractors, vendors, and consultants, as needed to ensure successful implementation of the AI tools.
3. Test integrations with other tools using a subset of your data or demo data to avoid data loss or data-breach-related issues.
4. Train team members on using the AI tools and understanding their benefits.
5. Update your Terms of Use and Privacy Policy as applicable to reflect the use of AI tools and the data they collect.
6. Consider bringing a Value-Added Technology Reseller or Consultant to facilitate this process and provide guidance on implementation best practices.

By following this process, you can successfully implement AI solutions, a detailed implementation plan, and the allocation of resources.

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Monitor and Evaluate AI Performance

1. Define clear goals and key performance indicators (KPIs) associated with how you expect the AI tool to help your business reduce costs, increase revenues, retain team members and clients, or enhance operations.
2. Regularly assess the effectiveness of the AI tool in achieving the desired outcomes, using the established KPIs.
3. Gather feedback from customers and team members on the AI tool's performance and usability.
4. Adjust as needed to optimize the AI tool's performance and usability.

By following this process, you can monitor and evaluate the performance of your AI tools to ensure that they are meeting your desired outcomes.

Clear goals and KPIs can help to establish measurable benchmarks for success, and regular assessments can help to identify areas for improvement. Gathering feedback from customers and team members can also provide valuable insights into the AI tool's performance and usability, which can inform adjustments and improvements to optimize its effectiveness.

Stay up to date on AI developments

1. Determine your learning objectives: Identify the specific areas of AI you want to learn more about and set clear goals for your learning journey.
2. Attend industry events, webinars, and workshops: Join conferences, webinars, and workshops to stay current with the latest AI advancements and best practices. Network with other professionals in the field to gain insights on new AI tools and techniques.
3. Utilize reliable sources: Stay informed by following trustworthy sources such as [BingChat](#), [ChatGPT](#), [Microsoft AI Center](#), and other reputable sources that can provide accurate and up-to-date information on AI.
4. Participate in hands-on activities: Experience AI tools firsthand to better understand their capabilities and limitations. Participate in hackathons, coding challenges, and other activities to apply your newfound knowledge.
5. Continuously learn and adapt: Keep up with the rapid evolution of AI by continuously learning and adapting to new advancements and emerging technologies. Collaborate with other experts in the field to share knowledge and stay at the forefront of AI developments.

Prepared for Microsoft by Connect Sparks and AI4SP.org

Connect Sparks is a boutique advisory firm with a team of experts dedicated to delivering strategic guidance and operational support in a hands-on model.

We leverage our experience as Fortune 500 executives, tech entrepreneurs, and creators of socially impactful organizations to help your organization succeed through purpose, innovation, and operational-excellence principles.

ConnectSparks.com

AI4SP.org

References

[1] Zippia. "25 Artificial Intelligence Statistics [2023]: Key Facts About AI And The AI Industry" Zippia.com. Nov. 9, 2022,

[2] *U.S. Bureau of Labor Statistics 2022 - Organizations with less than 250 employees

The images featured in this document were generated using AI technology.

Commissioned by Microsoft and conducted by Connect Sparks ("CS") this report uses information from CS conducted interviews with industry thought leaders, ISVs, as well as focus groups and quantitative research targeting US Small Businesses. It also integrates independent third-party research on key trends and market shaping factors of the small business segment and Artificial Intelligence industry sector. CS proposes no opinions or other form of assurance with respect to this information.

Start an AI Consultation

