DIGITALIZATION OF PROCESSES IN SMALL SERVICE BUSINESSES

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Abstract. The article focuses on analyzing the digital transformation of processes in small service businesses in the United States within the context of the digital economy of 2025. The aim of the study is to examine the current state, key challenges, level of digitalization, and strategic directions for the development of small service enterprises in the U.S. in the context of the 2025 digital economy. The study employed general scientific methods of cognition, such as analysis and synthesis, induction and deduction, systematization, generalization, comparison, along with elements of structural-functional and forecasting approaches. The findings reveal that as of 2025, small service businesses in the U.S. demonstrate stable growth and make a significant contribution to the national economy. Out of over 34.8 million small enterprises, the majority operate in the service sector, particularly in retail (15%), food services (13%), and the beauty and fitness industries (10%). These businesses provide employment to nearly half of the country's working-age population, with over one-third being family-owned companies. At the same time, a number of critical issues were identified: limited access to funding (40% of businesses are unable to invest in digitalization), financial instability, weak internal customer service infrastructure, a shortage of skilled labor, and a lack of long-term digital planning. The most vulnerable category remains microbusinesses with fewer than 10 employees, accounting for over 90% of the sector. The study also examines the level of digitalization, which is generally high at the basic level – 95% of businesses use at least one digital platform. However, only 15% of microbusinesses can be classified as early technology adopters, while more than half of respondents believe digital solutions are financially out of reach. In 2025, a decline in the adoption of new digital tools was recorded due to inflation, rising IT infrastructure costs, and regulatory uncertainty. The practical value of the research lies in identifying strategic approaches to improving the digital maturity of small businesses, taking into account current barriers and opportunities.

Keywords: digitalization, small business, USA, service sector, digital transformation.

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Introduction

In 2025, small service businesses continue to play a crucial role in socio-economic development, particularly in the context of a post-pandemic economy and the growing demand for personalized services. At the same time, digital transformation has become a key factor in the competitiveness, resilience, and scalability of enterprises in this sector. The successful integration of digital technologies is no longer optional but a necessity for the survival of small businesses in a dynamic market environment, where customer expectations are constantly rising and operational efficiency defines profitability.

Despite the clear benefits of digitalization, small businesses, especially those in the service sector, face systemic barriers that hinder its full-scale implementation. Funding issues, technological inequality, limited resources, and workforce shortages create an asymmetry between the potential of digital tools and the actual state of digital adaptation. Analyzing the current state, challenges, and strategic development vectors of the digital environment in the small service business sector is a necessary step toward shaping effective support policies for this critically important segment of the economy.

Literature review

The issue of digitalizing processes in small service businesses remains underexplored in academic literature, so the study relies on statistical data and expert reviews. Significant contributions to the topic have been made by authors such as R. Faisal, C. Amekudzi, S. Kamran, B. Fonkem, O. Tawo, and M. Awofadeju [4], who highlight key opportunities and challenges faced by U.S. small and medium-sized enterprises in their digital transformation journey. An important addition to this topic is found in analytical reports by platforms like Shopify [1] and the Bipartisan Policy Center [10], which provide statistical insights into the rise of digitalization among small businesses, a trend that correlates with improved profitability. Meanwhile, the PartnerHero platform [2] focuses on customer service challenges that can be mitigated through digital tools such as CRM systems and chatbots. Websites like Exploding Topics [5] and Globis Insights [6] outline major business trends, among which digital adaptation of small businesses stands out as a leading trend in 2025.

Although a substantial number of review and journalistic publications address the digitalization of small service businesses, there is a lack of systematic academic material on the subject. Therefore, using various scientific research methods, the information was analyzed, grouped, and structured in line with the focus of this study.

Methodology and Methods

The study applied a general scientific approach that combines elements of systems thinking, structural-functional analysis, and comparative analysis to comprehensively examine the digitalization of small service businesses. The methodological foundation is based on the integration of deductive and inductive logical analysis, which helps identify general development trends and specify business operations at the micro level. Methods included secondary data analysis, generalization of empirical findings, content analysis of official reports and industry publications, and critical evaluation of available statistical sources. This approach ensures well-founded conclusions and enables the reflection of both the current state and future prospects of digital transformation in the target sector.

Purpose of the Study

The purpose of the article is to analyze the current state, key challenges, level of digitalization, and strategic development directions of small service businesses in the United

States within the digital economy of 2025. In order to achieve this goal, the study focuses on completing the following tasks:

- describe the general development trends of small service businesses;
- identify the main barriers and challenges limiting their growth;
- assess the actual level of digitalization across enterprises of different sizes;
- define the priority areas for digital transformation of small businesses in the medium term.

Research Results

Small businesses form the foundation of both national and global economies, playing a key role in employment, innovation, and economic growth. As of 2025, there are approximately 400 million small and medium-sized enterprises (SMEs) worldwide, representing around 90% of all businesses and providing more than 50% of global employment [1]. In the United States, small businesses account for nearly 99.9% of all companies, which equals more than 34.8 million enterprises [9]. Notably, over 61 million Americans, or nearly 47% of the working-age population, are employed in the small business sector. According to the Small Business Administration (SBA), small businesses are defined as independent companies with fewer than 500 employees [8].

Small service enterprises can be divided into several functional categories:

- personal services (e.g. trainers, childcare providers);
- home services (cleaning, repairs, landscaping);
- business services (accounting, virtual assistants);
- marketing services (copywriting, graphic design, SEO);
- tech services (website and app development, IT support);
- beauty and wellness services (yoga, makeup, coaching).

The main advantages of such businesses include low startup costs, high flexibility, the ability to work from home, and scalability—the business owner can gradually expand through customer base growth or service diversification [8].

The small service business sector is dominated by several key industries, including retail (15%), food and restaurant services (13%), and health, beauty, and fitness (10%) [1]. These industries exemplify the service segment of small businesses, where personalized services, flexible customer care, and close client interaction are critical. Around one-third of these enterprises are family-owned, which highlights their local focus and deep integration into communities [9].

Figure 1 illustrates the dynamics of the number of small businesses in the U.S. and their contribution to employment across selected years. These data help track the sector's steady growth within the broader context of economic development.

Development trends in the small business sector include the growth of digital transformation, the adoption of emerging technologies (particularly AI), and increasing involvement of entrepreneurs from diverse social backgrounds. For example, by 2025, nearly 25% of small businesses are already using artificial intelligence in daily operations, while another 51% are experimenting with related tools (Shopify, 2025). From a demographic perspective, Generation X owns nearly half of all small businesses in the U.S. (49%), and women account for 39.4% of business ownership [1].

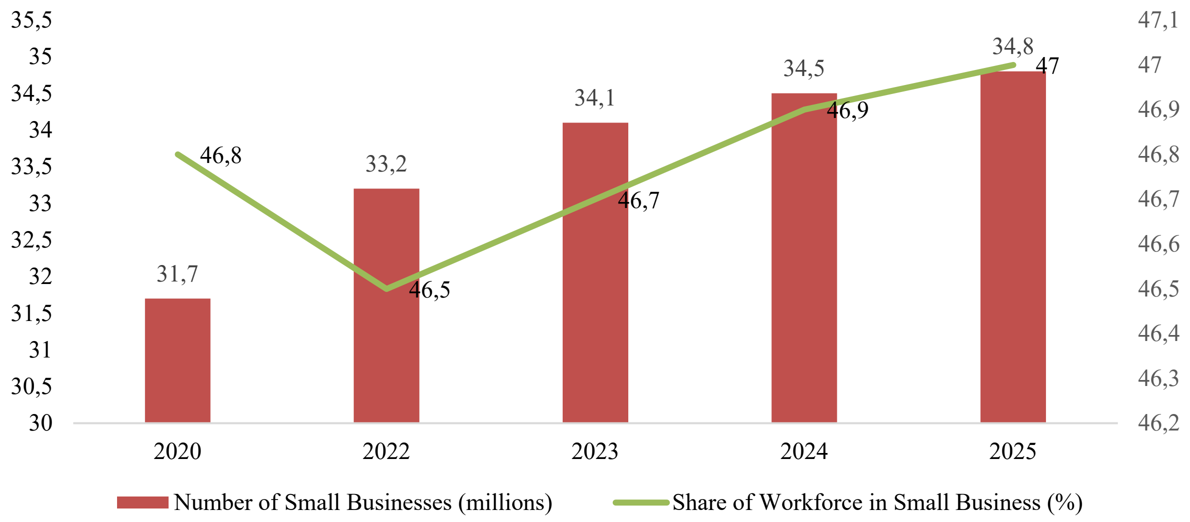

Figure 1. Dynamics of small service business development in the U.S. over the past 5 years

Note: data compiled based on sources [1, 9]

Despite the creation of favorable conditions for the development of small entrepreneurship in the U.S., many entrepreneurs face several critical challenges that hinder sustainable growth and scalability. One of the most significant issues is the insufficient level of digitalization, which is primarily caused by limited access to funding. According to Kapuscinski [7], a substantial portion of small businesses are unable to invest adequately in modern technologies due to cash flow gaps, high operating costs, and difficulties in securing financing. Specifically, up to 40% of small businesses in the U.S. report facing financing challenges, and over 56% believe digital transformation is financially out of reach [2].

This situation complicates the implementation of CRM systems, business process automation, marketing platforms, and AI solutions that could enhance productivity and customer service quality. The lack of financial resources prevents not only the acquisition of appropriate software but also staff training and the development of IT infrastructure. As a result, small businesses lose competitive advantages, show lower performance in customer relations, and respond more slowly to market changes.

Key challenges faced by small service businesses in the U.S. are summarized in Table 1.

Table 1. Key challenges of small service businesses in the U.S.

Problem	Description
Limited access to digital funding	Over 40% of small businesses face difficulties accessing capital for tech tools
Low level of digital adoption	56% of SMEs cite high cost of digital tools as a barrier
Cash flow instability	Irregular cash inflows impede investment in digitalization
Fragmented customer support tools	Lack of unified systems leads to inefficiency and customer dissatisfaction
Overwhelmed support teams	Small staff manage increasing volumes of client communication
Lack of internal knowledge infrastructure	Employees struggle to find accurate or up-to-date service information
Poor strategic planning for tech upgrades	Absence of digital strategy and scalable processes
Inability to hire/retain tech-savvy staff	Limited budget for competitive compensation packages

Note: compiled by the author based on sources [2,7]

Digital technologies remain the foundation of small service business operations in the U.S., yet the realities of 2025 reveal a growing gap between the potential of digital tools and their actual implementation. The data commonly used to assess digital transformation in this sector still largely relies on a large-scale study conducted in 2023 under the initiative of C_TEC and Teneo Research. At that time, 95% of small businesses in the U.S. were already using at least one technology platform in their operations, and 85% planned to expand their use over the following two to three years [3]. However, by 2025, there is a need to reassess this trajectory due to emerging challenges – inflation, regulatory uncertainty surrounding digital practices, unequal access to AI technologies, and the threat of data fragmentation [3].

Businesses that had actively implemented digital solutions in 2023 (using six or more platforms) demonstrated steady growth: over 80% reported increases in sales and profits, as well as team expansion. The integration of CRM systems, payment gateways, and AI modules in marketing and customer service had a particularly positive impact on performance. Nonetheless, in 2025, more entrepreneurs are reporting a decline in the pace of adopting new tools, citing regulatory ambiguity and rising costs of maintaining technological infrastructure, which is especially critical for microbusinesses [3].

Against this backdrop, existing digital practices have gained new importance. Social media, used by 87% of small businesses in 2023, remains the primary channel for service promotion and customer engagement, while digital payments and online communication continue to be key elements of service interaction [3].

Despite the national trend toward increasing digitalization of small businesses, microbusinesses (defined as firms with fewer than 10 employees, representing over 90% of all small businesses in the U.S.) show significantly lower rates of technology adoption. According to research by the Bipartisan Policy Center (Wiens, 2022), only 15% of micro-enterprises with up to 5 employees identify as early adopters of digital tools, compared to 35% among businesses with 50–100 employees. Moreover, only 42% of the smallest companies plan to implement new digital solutions within the next year, compared to 80% of larger small firms [10].

These findings highlight not only differences in capacity but also regional and socio-demographic disparities: businesses in states with lower digital density (such as Missouri or Iowa) are more cautious in adopting new technologies compared to firms in states like Maryland [10].

Based on the study by Faisal et al. [4], it can be concluded that while digital transformation is actively taking hold in the U.S. small and medium-sized enterprise (SME) sector, the level of implementation remains uneven across industries and regions. Specifically, SMEs in the tech sector demonstrate a significantly higher level of digitalization (75%), while in traditionally capital-intensive sectors like manufacturing, the figure reaches only 47%. This discrepancy can be attributed not only to sector-specific characteristics but also to limited access to technology investments, insufficient digital literacy among staff, and the lack of appropriate infrastructure in certain regions [4].

In addition, the absence of targeted public policy aimed at accelerating digitalization among the smallest businesses – particularly microbusinesses with fewer than 10 employees – creates a risk of digital polarization between high-tech firms and businesses operating in less digitally intensive sectors. This is further compounded by the fact that, according to the authors, only about 50% of SMEs systematically use CRM systems or engage in e-commerce. Thus, despite overall progress in digital adoption, there remains a pressing need for transformation support through funding, training, and regional development initiatives in order to prevent a widening gap between "digital leaders" and "digital laggards" among U.S. SMEs [4].

In summary, digitalization in the U.S. small service business sector has achieved high penetration at the basic level but is at risk of slowing in terms of strategic growth due to the lack of targeted government support, limited access to funding, outdated regulatory frameworks, and insufficient access to knowledge. The data once relevant for evaluating the effectiveness of technology implementation in 2023 increasingly require revision in light of the realities of 2025 – both in terms of new risks and opportunities facing small service businesses in the digital economy [3].

Looking ahead to the future of the small service business sector, it is important to note that the key digitalization trends for the next decade focus on integrating innovative technologies that transform both internal processes and customer interactions. According to the analysis of current business trends [5, 6], priority areas include the use of artificial intelligence, mobile technologies, digital communication channels, and sustainable development. Table 2 provides a summarized list of the main vectors of digital development for small service businesses from 2025 to 2035.

Table 2 – Main directions of digital development in small service businesses

Direction	Description
Integration of AI and automation	the use of generative AI, machine learning, and analytics to optimize operations, customer service, and strategic planning
Development of e-commerce	expansion of online sales, improvement of logistics, and enhancement of customer experience through digital platforms
Implementation of 5G and IoT	leveraging high-speed internet and connected devices to improve data collection, automation, and remote service delivery
Hybrid and remote work models	the use of cloud-based tools and productivity monitoring technologies to support flexible work formats
Social media and community building	engaging customers through digital platforms, micro-influencers, and social commerce
Sustainable development and circular economy	a shift toward environmentally safe, energy-efficient solutions and the reuse of resources
Immersive technologies (AR/VR/MR)	applying augmented and virtual reality for customer interaction, staff training, and product simulation
Subscription economy model	implementing recurring business models with AI-driven personalization and customer retention strategies
Digital payments and blockchain	integrating mobile wallets, cryptocurrencies, QR codes, and decentralized platforms for convenient and secure transactions

Note: compiled based on sources [5, 6]

The implementation of these directions requires a comprehensive policy focused on supporting digitalization specifically for the smallest businesses.

Conclusions

As of 2025, small service businesses in the U.S. show stable growth and make a significant contribution to the national economy. Out of more than 34.8 million small enterprises, the majority operate in service sectors such as retail (15%), food services (13%), and beauty and fitness (10%). These businesses provide employment for 47% of the working-age population, with more than one-third being family-owned. Despite positive growth trends, the sector faces critical barriers. The most systemic issues include limited access to funding (40% of businesses are unable to invest in digital solutions), unstable cash flow, weak internal customer support infrastructure, a shortage of skilled personnel, and the absence of strategic digital planning. Microbusinesses with fewer than 10 employees, which make up over 90% of the segment, remain the most vulnerable.

The level of digitalization is high at the basic level – 95% of small businesses use at least one digital platform. However, only 15% of microbusinesses are considered early adopters of technology, and more than 56% of respondents view digitalization as financially inaccessible. In 2025, the pace of adopting new tools has slowed due to inflation, regulatory uncertainty, and rising infrastructure maintenance costs. The most common digital technologies used in small businesses remain social media (87%), payment gateways, CRM systems, marketing automation platforms, cloud services, as well as video communication and analytics tools – however, only half of businesses apply these solutions systematically.

The further development of small service businesses will be shaped by nine priority areas of digital transformation: AI integration, e-commerce development, adoption of 5G and IoT, support for hybrid work, social marketing, sustainable practices, the use of AR/VR, subscription-based models, and blockchain payments.

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