Thriving in the Digital Economy
How small and midsize enterprises are adapting to digital transformation

An IDC InfoBrief, sponsored by SAP | February 2016
Outline

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What is digital transformation?

Digital transformation is directly related to the changing digital economy with individuals, businesses, and society becoming interconnected in real-time, supported by technology. Think of the advanced capabilities that are changing the nature of business:

- Hyper-connectivity — the result of anytime/anywhere communications
- Unlimited computing power available though diverse platforms
- Cloud computing, with easy access to hosted software and services
- The proliferation of sensors and mobile devices, providing new and continuous streams of information as well as ways of accessing them
- Advances in cybersecurity that support reliable access and use of key information, minimizing internal and external vulnerability

Almost all small businesses (firms with 10-99 employees) and midsize firms (with 100-999 employees) have some of these digital transformation resources in place: collaboration software, powerful computing and communications resources, cloud computing. But effective deployment and integration are needed to bring your firm to the next level of business performance.
Digital transformation today

You may not realize it, but your company is already on the path towards digital transformation. Your attitudes, use of critical data, and refining of business process will all be part of your transformation. The pace and direction of your progress will help determine your business success in the coming years.

In order to understand more about the pace and nature of digital transformation, IDC conducted a survey of 3,210 small and midsize firms from 11 different countries. The goal was also to identify the different benefits and opportunities associated with digital transformation. We wanted to find out:

- How do attitudes and actions of companies set the stage for business success? Small and midsize firms agree that advanced technology can help improve performance and outcomes, but do business results support this view?
- How are successful firms leveraging advanced technology in the new digital economy? What can we learn?
- Where is digital transformation making a difference in different size firms and what steps should companies take to ensure success moving forward?
Faster growing companies are further along on the digital transformation journey

There is a clear connection between digital transformation and revenue growth. Fast growing small and midsize firms with 10%+ annual revenue are significantly more likely to indicate major progress towards transformation than slower growing firms. Over half of fast growing small and midsize firms are actively engaged with digital transformation. Using technology to automate functions and optimize processes is clearly associated with performance gains.

Digital transformation progress by annual revenue growth

- Flat/Declining growth
- Moderate growth (1-9%)
- High growth (10%+)

20% 26% 27%
11% 19% 28%
14% 13% 20%

We have done little to no work in applying technology as part of digital transformation
We are beginning to automate different functions
We are at an early stage in coordinating and automating different activities
We are well underway in applying technology
We have gone beyond integration and now derive real-time insights to drive optimizations in processes and workflows
Self assessment of digital transformation: Are you ahead, behind, or in between?

There is also a company size element to the digital transformation progress. Many companies, especially smaller ones, underestimate their digital transformation progress because they don’t realize that collaboration software, e-commerce, and other resources are important components of that journey. Other companies, notably midsize ones, may overestimate how far along they are in adding and aligning digital capabilities. Most firms, when looked at by company size or revenue growth, are actually in between. **Successful firms continually invest in improving their use of digital technology.** The key is to remember that there is always more work to be done.

### Digital transformation progress by company size

- **10 - 99 employees**
  - We have done little to no work in applying technology as part of digital transformation: 19% (12%) 10%
  - We are beginning to automate different functions: 21% (19%) 15%

- **100 - 499 employees**
  - We are at an early stage in coordinating and automating different activities: 29% (25%) 22%

- **500 - 999 employees**
  - We are well underway in applying technology: 41% (33%)
  - We have gone beyond integration: 12% (13%) 6%
Businesses are embracing digital transformation, but may not realize it

A quarter of all small firms and roughly 40% of midsize firms worldwide have deployed at least one digital technology component. Assembling resources is necessary but not sufficient. **The key is effectively adding to and coordinating your digital transformation portfolio.** Tap internal and external resources to identify IT solutions for your transformation’s next step.

**Technology resource utilized by company size**

- **10 - 99 employees**
  - Collaborative software for employees to share documents and calendars: 48%
  - Customer relationship management software (CRM): 40%
  - Business analytics/Business intelligence software (BI) for data analysis: 30%
  - E-commerce/online order taking and billing: 32%
  - Enterprise resource planning software (ERP): 25%

- **100 - 499 employees**
  - Collaborative software for employees to share documents and calendars: 57%
  - Customer relationship management software (CRM): 53%
  - Business analytics/Business intelligence software (BI) for data analysis: 49%
  - E-commerce/online order taking and billing: 39%
  - Enterprise resource planning software (ERP): 41%

- **500 - 999 employees**
  - Collaborative software for employees to share documents and calendars: 59%
  - Customer relationship management software (CRM): 57%
  - Business analytics/Business intelligence software (BI) for data analysis: 53%
  - E-commerce/online order taking and billing: 45%
  - Enterprise resource planning software (ERP): 47%
Thriving in the Digital Economy: Key findings

Optimistic about tech benefits, realistic about challenges

High-growth companies see digital transformation as both exciting and also daunting. They are excited about performance benefits and new ways of doing business. But these firms are also concerned about relying exclusively on data to make decisions, rather than experience as well, and fear that they will lose personal relationships with customers.

Attitude by revenue growth

- I am optimistic about the performance benefits made possible with advanced technology
- The way business is being done is changing in new and exciting ways as a result of the digital economy
- Adopting new technology for our business seems risky
- The next generation of company workers will not have the same kinds of relationships with customers we've had in the past
- Concern that we will rely too much on data to make effective business decisions

- Flat/Declining growth
  - I am optimistic about the performance benefits made possible with advanced technology: 62%
  - The way business is being done is changing in new and exciting ways as a result of the digital economy: 69%
  - Adopting new technology for our business seems risky: 21%
  - The next generation of company workers will not have the same kinds of relationships with customers we've had in the past: 34%
  - Concern that we will rely too much on data to make effective business decisions: 35%

- Moderate growth (1-9%)
  - I am optimistic about the performance benefits made possible with advanced technology: 57%
  - The way business is being done is changing in new and exciting ways as a result of the digital economy: 69%
  - Adopting new technology for our business seems risky: 25%
  - The next generation of company workers will not have the same kinds of relationships with customers we've had in the past: 34%
  - Concern that we will rely too much on data to make effective business decisions: 43%

- High growth (10%+)
  - I am optimistic about the performance benefits made possible with advanced technology: 69%
  - The way business is being done is changing in new and exciting ways as a result of the digital economy: 69%
  - Adopting new technology for our business seems risky: 34%
  - The next generation of company workers will not have the same kinds of relationships with customers we've had in the past: 41%
  - Concern that we will rely too much on data to make effective business decisions: 44%
Faster growing firms have positive attitudes regarding digital transformation’s benefits

Faster growing firms are more likely to appreciate digital transformation’s benefits, both their impact today and their potential for future growth. New technology related to digital transformation improves the ability of small and midsize companies to compete with larger firms. Active participation in the digital economy will be essential for success.

**Attitude by revenue growth**

- **Flat/Declining growth**
  - A mix of online resources and availability of personal assistance (online or via phone) has allowed us to expand customer engagement effectively
  - %

- **Moderate growth (1-9%)**
  - New technology solutions have allowed us to begin/continue revising our workflow and processes to streamline operations and improve productivity
  - %

- **High growth (10%+)**
  - Our active participation in the digital economy will be essential to our company’s survival in the next 3-5 years
  - %

- **We’re excited about the unique opportunities technology provides to expand our business geographically and compete. Effective use of business analytics can allow us to expand our business and compete in new growth areas**

- **New processes and advanced digital technology has helped free up resources and allow us to grow our business**

%
Advanced business analytics are key to success and transformation

Management may have a good “feel” for the business based on experience and instinct, but effective business intelligence can take planning and execution to the next level. **Performance measures can help track progress (rear view mirrors), but advanced predictive analytics can help firms see what is coming (headlights).** Firms can also benefit from the examination of social media data and even the rich sensor and mobile device data associated with the Internet of Things. These and other new data types can provide unique insights on customers’ thoughts and product usage.

### Resource usage by revenue growth

- **Flat/Declining growth**
  - Have some business intelligence/business analytics software but for descriptive comparisons only: 33%
  - Have business intelligence/business analytics software for descriptive as well as forecast purposes: 39%
  - Have business analytics for descriptive, forecasting and business analysis: 41%

- **Moderate growth (1-9%)**
  - Have some business intelligence/business analytics software but for descriptive comparisons only: 36%
  - Have business intelligence/business analytics software for descriptive as well as forecast purposes: 45%
  - Have business analytics for descriptive, forecasting and business analysis: 52%

- **High growth (10%+)**
  - Analyze social data, like online comments and postings: 19%
  - Have expanded use of information from sensors/other devices as part of ‘Internet of Things’: 17%
  - Have some business intelligence/business analytics software but for descriptive comparisons only: 10%
  - Have business intelligence/business analytics software for descriptive as well as forecast purposes: 26%
Streamlining business processes: The heart of business transformation

**Key findings**

New types of data can help you change the way you conduct business in innovative and effective ways. Leveraging new data insights and automation tools can sharpen business. The near-term benefits of greater internal efficiency can be compelling, but the longer-term insights related to external opportunities can drive business success.

**Benefits of new business intelligence/analytics by revenue growth**

- **Flat/Declining growth**
  - Streamlining business processes/practices: 39%
  - Business model transformation, changing how we do business: 28%
  - Support for data-driven decision making: 37%
  - Gain new insights on internal operations: 31%
  - Gain new insights on external operations (customers, supply chain): 25%

- **Moderate growth (1-9%)**
  - Streamlining business processes/practices: 53%
  - Business model transformation, changing how we do business: 42%
  - Support for data-driven decision making: 50%
  - Gain new insights on internal operations: 43%
  - Gain new insights on external operations (customers, supply chain): 37%

- **High growth (10%+)**
  - Streamlining business processes/practices: 54%
  - Business model transformation, changing how we do business: 46%
  - Support for data-driven decision making: 54%
  - Gain new insights on internal operations: 47%
  - Gain new insights on external operations (customers, supply chain): 41%
Major regional differences in how firms assess their digital transformation progress

Survey respondents worldwide vary in their digital transformation progress

» While 25% of North American firms are at the earliest stage of digital transformation, almost half have advanced significantly.
» Latin America and South Africa indicate strong progress, in keeping with many firms using assets like business intelligence software.
» One third of Asia/Pacific firms are well underway in their transformation but less likely to have gone beyond full integration.
» Western European firms are starting digital transformation, with 22% beginning to automate different functions and 23% at an early stage of automating and coordinating different activities.
Millennial and Gen X-led firms significantly ahead in digital transformation

» Firms led by Gen X (born 1965-1980) are slightly less advanced than Millennial-led ones, and over 60% are similarly optimistic and excited about digital transformation’s benefits.

» Firms led by Baby Boomers (born 1945-1964) are not much different than those with younger management when it comes to digital transformation progress, but they are less excited and more cautious in their attitudes and technology use.

» Finally, firms led by the Greatest Generation (born before 1945) are far less likely to be moving to digital transformation and not as likely to be optimistic or excited about potential business process enhancement.

Independent of senior management age, small and midsize firms would do well to embrace the positive outlook of Millennial-led firms and actively pursue digital transformation and resulting performance improvement.
Three critical digital transformation takeaways (and challenges for you)

1. **Digital transformation is continual**
   Don’t underestimate the need to coordinate a growing portfolio of digital assets even if you think you are well along in the process. Think journey, not destination (and make sure staff knows about the pace and nature of company progress. Their ongoing support is important).

2. **The benefits are clear: Generate insights and sharpen business processes**
   Integrating technology into business processes requires discipline, but it delivers clear and continuing benefits. Effective analytics can provide invaluable information about where business operations are strong and where they need improvement.

3. **Tap the thinking and guidance of external as well as internal resources**
   In addition to developing and refining internal metrics, make sure to capture less tangible information by listening to knowledgeable staff, customers, and technology sources. Put mechanisms in place to make this happen.
Guidance for small businesses moving cautiously towards digital transformation

**Compare your resources with those used by others**

Are you in step with industry standard practices or are you falling behind? Are you providing the kind of experiences your customers expect? Where can processes be improved?

**Where can the addition of new software and other resources make a difference?**

Think about improved coordination between resources you have and those you could be adding. Tap into IT partners who can identify ways to help your business run simpler. Removing complexity is a great way to delight customers and staff alike. Areas like e-commerce engagement (especially with mobile access) when combined with account management and information (with front office and back office coordination) can transform your business.
Guidance for midsize firms adopting digital transformation capabilities

**Identify processes/resources that aren’t keeping pace with transformation**

Many firms at this stage are underperforming and underinvesting in some areas (like analytics or customer engagement) while properly investing and succeeding in others. Coordination and alignment of advanced software is especially important at this stage.

**Address the “people” side of digital transformation**

Be aware that the “always on” and “always visible” nature of the digital economy means little room for error. At the same time companies can use the data available through new analytics to help personalize relationships with suppliers, partners, and customers. This can strengthen relationships even while allowing them to scale significantly. Make sure that there is effective training and support for new software. IT partners can play an important role in overcoming concerns about losing “personal touch” with customers with specific training programs. While roles and processes may change, improvements in productivity and performance will improve customer satisfaction.
Methodology

» For this report, IDC conducted a worldwide survey of 3,210 small and midsize business decision makers.

» The survey included companies with between 10 and 999 employees.

» The survey was conducted online in January 2016.

» Countries in the survey include the US, UK, France, Germany, China, Australia, India, Singapore, Brazil, Mexico, and South Africa.