

SMEs: Equipped to Compete

2,100

SMEs surveyed

64%

Call transformation a competitive necessity

67%

Are engaged in the transformation process

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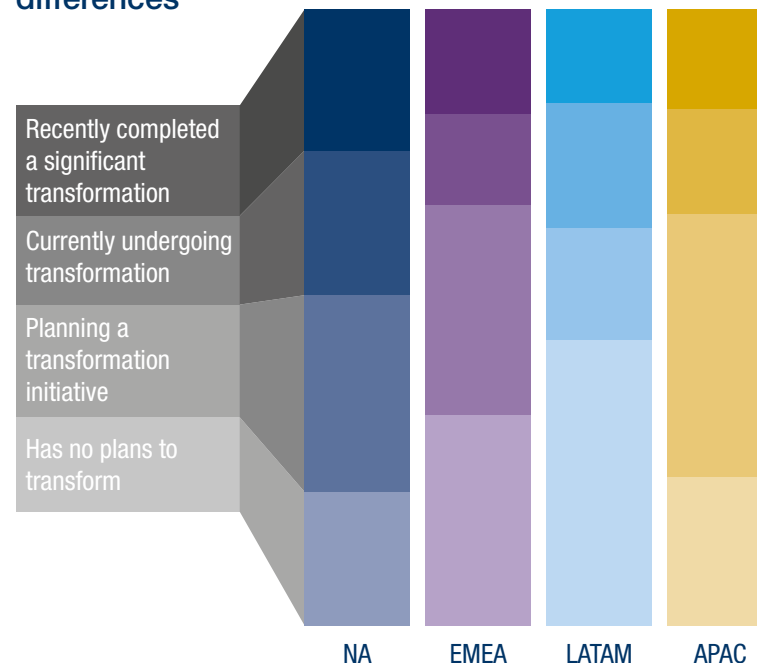


Transformation and Technology

Business transformation has become an imperative for growth-minded SMEs. To compete with global rivals—including larger firms—they must do things differently than in the past. That means adopting technologies that once were out of their reach. It means rethinking business models and go-to-market strategies to enhance growth prospects. And it may mean enduring some growing pains.

Our survey of 2,100 SMEs in 21 countries, conducted in the second quarter of 2013, clearly indicates that transformation has become a strategic necessity and, for many companies, a key to survival. (Transformation is defined here as a major change in approach to a firm's business model, technology, products, and markets, not simply upgrading or adding technology.)

Transformation is a major SME trend, with regional differences



Nearly two-thirds (64%) of survey respondents say they must transform to stay ahead of the competition, and approximately the same percentage (67%) have either recently completed, are currently undergoing, or are planning a transformation initiative. How far along they are varies by industry, region, and size. For example, 80% of North American SMEs are engaged at some point in the process, while 46% of Latin American firms have no transformation plans.

One indication of transformation's importance to SMEs is that more than 40% of these initiatives are driven by the CEO or owner—by far the most common response. This indicates that transformation is an enterprise-level concern, as it must be if it is to succeed. Andrew McAfee, a principal research scientist for the Center for Digital Business at MIT's Sloan School of Management, compared the impact of digital transformation to the industrial-era shift from steam to electric power during a recent presentation for *Harvard Business Review* titled "Leveraging Technology for Business Transformation." Said McAfee, "The more integrated and coherent a strategy is, the better it seems to be working."

SMEs of all sizes and across industries are confident they can make the changes needed to compete. Yet they also acknowledge challenges, ranging from identifying optimal transformation strategies to determining how to allocate technology budgets.

41%

Of SME transformations
are driven by CEO/owner

64%

Say technology is critical
to longevity and growth

57%

Say technology is at the
heart of transformation

New tools for new times

A significant force driving transformation—along with increased global competition and supply chain complexity—is the democratization of technologies like business management software and business analytics, which previously were too expensive and complex for many SMEs. Together with newer tools like mobile, social media, and cloud, they support international expansion and provide the capabilities needed for growth and competitiveness.

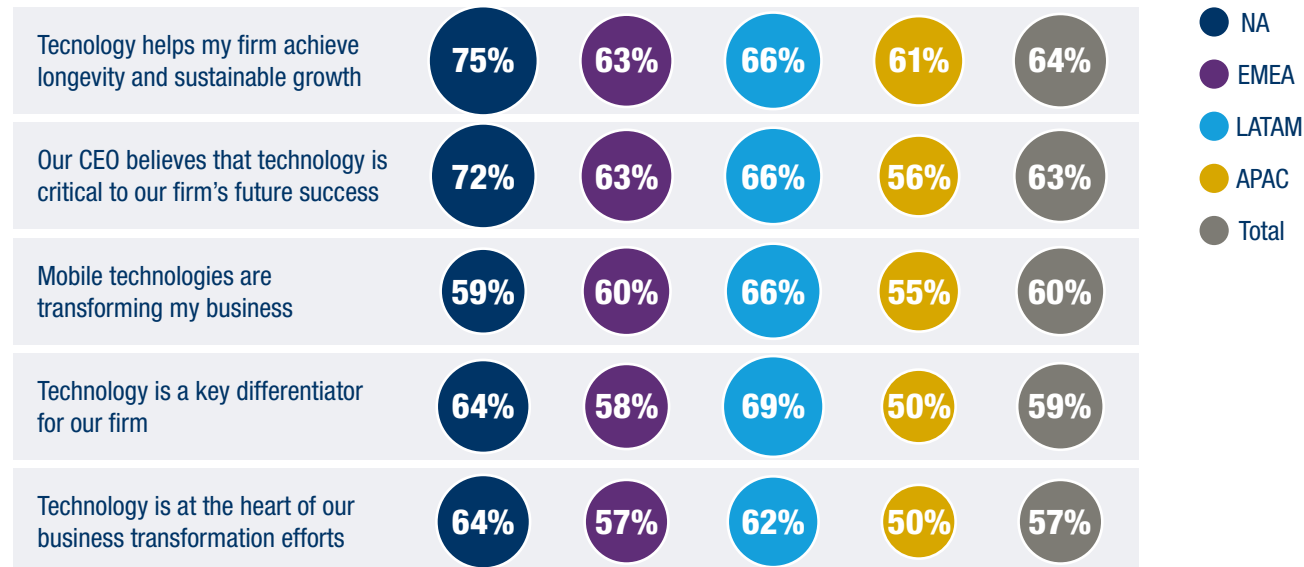
More than one-third (35%) of SMEs say they are early adopters of technology, and just 13% say they are reluctant adopters; 52% invest only when they see clear ROI. Almost two-thirds (64%) of SMEs believe technology is critical to sustaining the growth necessary for achieving long-term viability, and well over than half (57%) say technology is at the heart of their transformation efforts.

There are, however, notable contrasts in how different regions view transformation. For instance, North American SMEs are far more likely to have recently completed a transformation effort (23%) than their peers in EMEA (17%), Asia Pacific (16%), and Latin America (15%). SMEs in EMEA (58%) and Asia Pacific (40%) are less likely to consider technology a key differentiator than their peers in North America (64%). (Latin America lags in embracing transformation but is the most bullish on its technology capabilities, with 69% of SMEs there viewing their technology as a differentiator.)

Regional differences are sharpest when it comes to who is overseeing transformation efforts at SMEs. While the CEO/owner is the clear choice in North America (52%) and Latin America (51%), SMEs in EMEA (34%) and Asia Pacific (45%) are more likely to push that responsibility down the corporate chain of command, indicating either a less CEO-centric corporate culture or a lesser focus on transformation in those geographies.

Transformation is powered by technology

% who agree or strongly agree with the following statements



Drivers and initiatives

For large SMEs such as Hibbett Sports, a small-market retailer based in Birmingham, Alabama, with 880 stores across 29 US states, transformation may be driven by the increasing complexity—and capabilities—of a growing company. With Hibbett’s annual revenue expected to reach \$1 billion in the next few years, CEO Jeff Rosenthal says the company is investing in technologies that will allow it to make more sophisticated use of its data, a critical move for maintaining its growth trajectory.

This focus on growth is a common theme among SMEs. In fact, the largest portion of respondents (41%) cited the need to capitalize on growth opportunities in expanding markets as a strategic priority of their transformation efforts, followed by entering new geographic markets (36%) and creating a culture of innovation (35%)

But while expansion is a focus of transformation initiatives, it typically takes more than an appetite for growth to push SMEs down the transformation path. When asked about what’s driving their transformation efforts, two-thirds (64%) of SMEs said they must transform to stay ahead of their rivals, more than half (53%) said technology has rendered traditional business strategies obsolete, and 52% cited growing supply chain complexity.

Growth is a strategic priority of transformation



Schumacher transforms again

Schumacher Group, a Lafayette, Louisiana, company that provides contract emergency-room medical staff for hospitals in 26 states, has long used technology to redefine itself. That approach has helped the firm outmaneuver larger rivals for much of its nearly 20-year history. “Transformation happens every day at Schumacher,” says CIO Douglas Menefee. “It’s a company that changes on a very frequent and regular basis.”

Now, as it needs to manage ongoing growth, Schumacher has ramped up its transformation efforts, evaluating everything from its business processes to its data practices, and moving one application after another into the cloud. With health-care reform bearing down on it in the form of the Patient Protection and Affordable Care Act (known in the US as “ObamaCare”), the company is also working on establishing a culture of accountability around things such as cost controls and approval processes.

Learning how to communicate in new ways is another part of this mandate. No longer can executive leadership just push messages down through the ranks; with increasing size comes the need to establish a new kind of feedback loop. This has led to the adoption of new technologies, such as an internal social platform, video conferencing, and additional tools for promoting the exchange of ideas.

But communication is about more than technology, which is why the company has focused on improving its managers’ communication and collaboration skills. For instance, it has been conducting sessions in which top executives meet with managers to discuss methods for fostering and generating ideas. It also has established a “communication impact team” of non-managers that acts like a focus group, with participants describing their experiences with communications within the company and providing feedback.

Confident, yet challenged

Change has become a constant for SMEs. Michael Hecken, Head of Marketing and Strategy for German bicycle-maker MIFA AG, sees technology continuing to transform his company for years to come. “I think there will be seamless integration of the whole value chain,” he says. “That will mean more just-in-time delivery, where suppliers share systems to feed you information.” Customers, too, may use technology to configure products to their liking. “You click a button on the Internet and it combines with the ERP system.”

SMEs exude confidence that they can transform effectively, yet still fret over a number of potential obstacles that could trip up their efforts. Nearly two-thirds (64%) say their senior management is adequately equipped to lead successful transformation initiatives, and nearly as many believe they are more innovative (59%) and nimbler (56%) than their rivals.

Despite this belief in their transformation preparedness, SMEs face numerous challenges. The most dramatic example of this is the nearly half (47%) of respondents who say they struggle to determine the best transformation strategy, an indication that they may be overestimating their senior management's readiness. SMEs in Latin America cite this issue more frequently (61%) than other regions, despite high levels of confidence in their agility and innovativeness.

And technology is a two-edged sword: Nearly one-third of SMEs cite increasing competition from rivals with superior technology and

difficulty determining the right mix of technology investments as key challenges. Despite the awareness of business analytics as critical to post-transformation success, more than half of SMEs (52%) say they struggle with data accuracy and quality, and more than one-third (37%) are having difficulty with data collection. Similarly, despite clear indications that they consider social media an important transformation tool, 43% say they struggle in getting employees to embrace social technologies, 40% are concerned they don't have the resources required to commit to a viable social media strategy, and 35% say they are unsure how to calculate social technologies' return on investment.

Conclusion

The numbers are clear: Transformation is an increasingly important part of the SME experience. While attitudes vary somewhat across geographies and industries, there is a prevailing view that correlates effective transformation with long-term growth and profitability.

The relentless globalization of markets will intensify the pressure on SMEs to transform for the foreseeable future. And as current technologies mature and newer ones are introduced, SMEs will have more tools to support their changing strategies. The extent to which SMEs are able to overcome numerous challenges along the way will determine the success of their transformation efforts.

Industry focus

SMEs in various industries undertake transformation initiatives for many reasons, but there is one they agree on across the board: the evolving expectations and demands of the customer.

Our survey shows changing customer wants and needs to be a major trend affecting businesses, in a virtual tie (with economic uncertainty) for the top spot on the list. Add in a related response, customer empowerment, and customer issues are by far the most powerful influence.

Evolving customer expectations are seen as having the greatest impact in the retail (41.7%) and wholesale (34.3%) industries, but even the industry that is cited least, professional services (23.8%), ranks it as the second-biggest trend. Given their focus on shifting customer expectations, it is not surprising that consumer products, retail, and wholesale companies are predicting the fastest growth in the use of analytics to help improve customer insight and meet dynamic customer demands.

SMEs identify social media (31%) and mobile technology (25%) as the technologies that deliver the most dramatic improvements in customer service. Consumer products and manufacturing firms (33% each) are especially bullish on social media technologies, while SMEs in the consumer products industry (29%) get the biggest bang out of mobile investments. Mobile (41.7%) and social media (40.1%) will drive revenue growth over the next three years, ahead of business management software (38.7%)—a finding that's relatively consistent across industries. Still, a majority of SMEs (50.2%) expect to invest in BMS during that time frame, versus 36.7% for mobile and 35.9% for social media.