



Thriving in the Digital Economy

How small and midsize enterprises are adapting to digital transformation

An IDC InfoBrief, sponsored by SAP | February 2016

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 through 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.

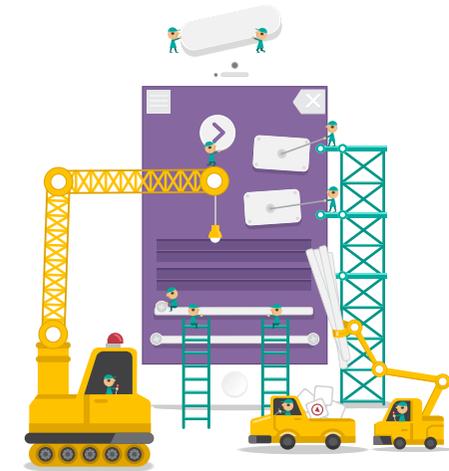


Digital transformation today

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?



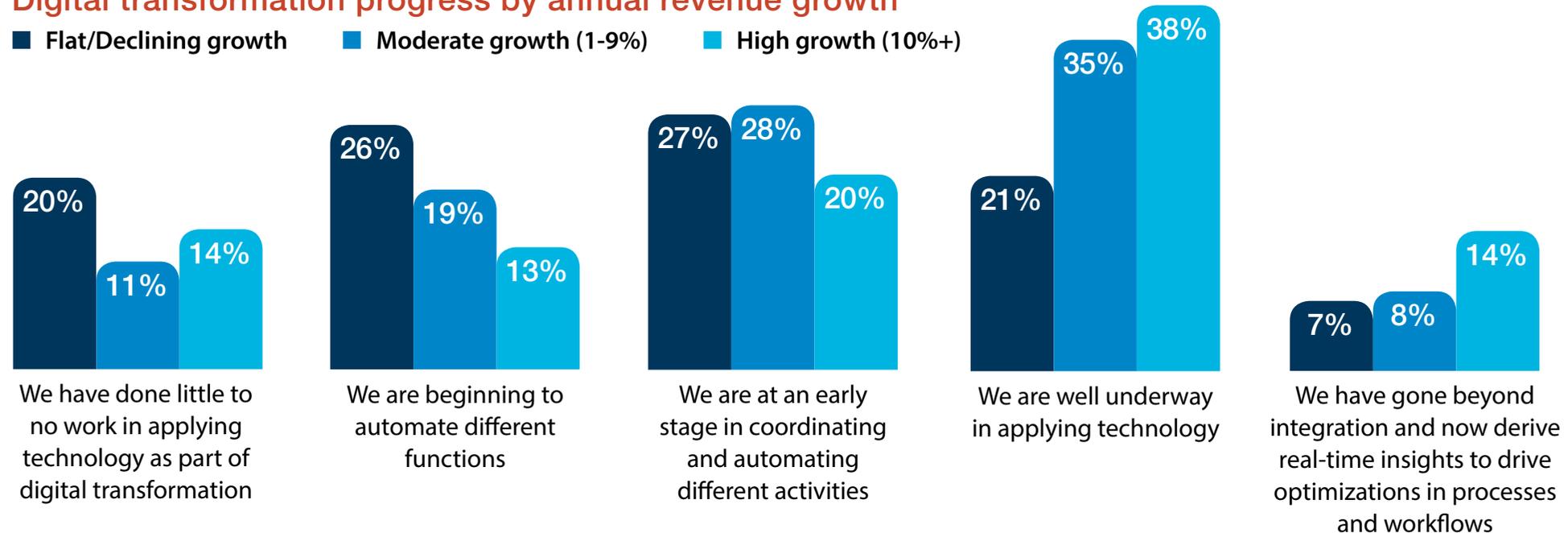
Faster growing companies are further along on the digital transformation journey



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%+)



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.

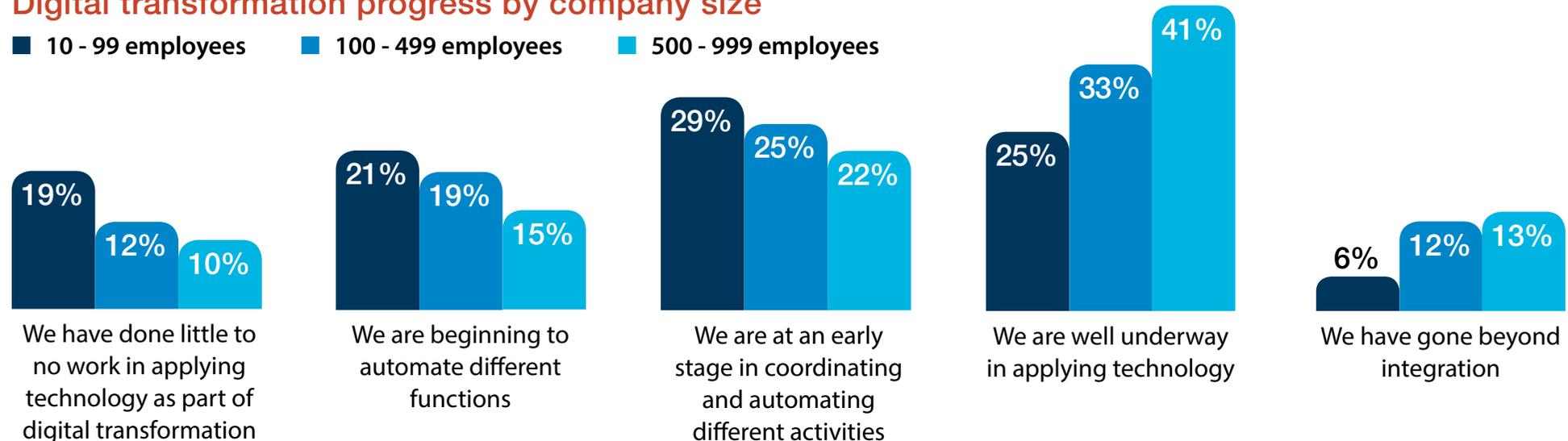
Successful firms continually invest in improving their use of digital technology. The key is to remember that there is always more work to be done.

Digital transformation progress by company size

■ 10 - 99 employees

■ 100 - 499 employees

■ 500 - 999 employees

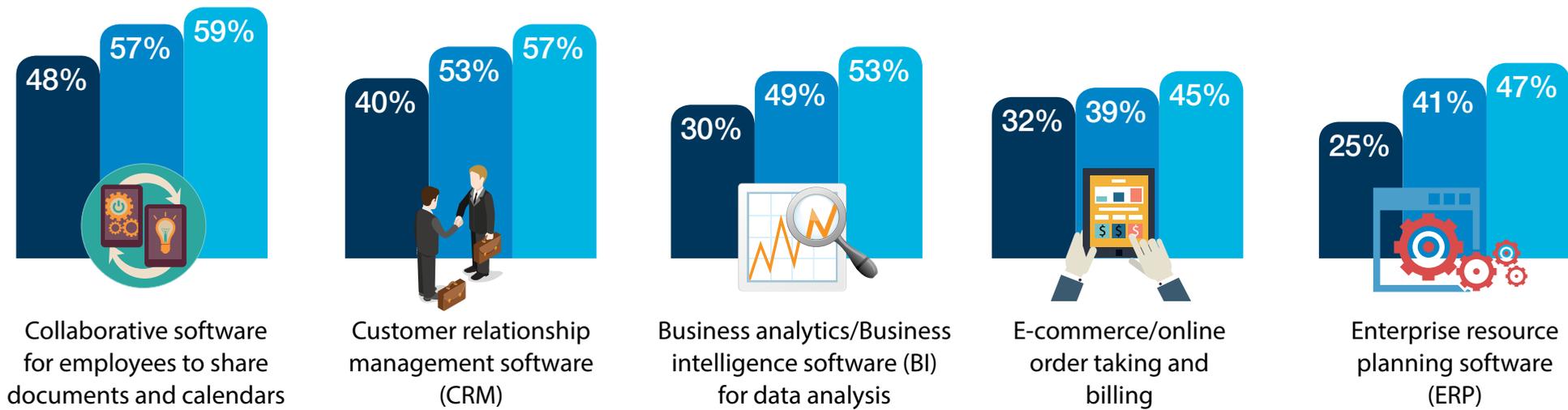


Businesses are embracing digital transformation, but may not realize it

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 ■ 100 - 499 employees ■ 500 - 999 employees

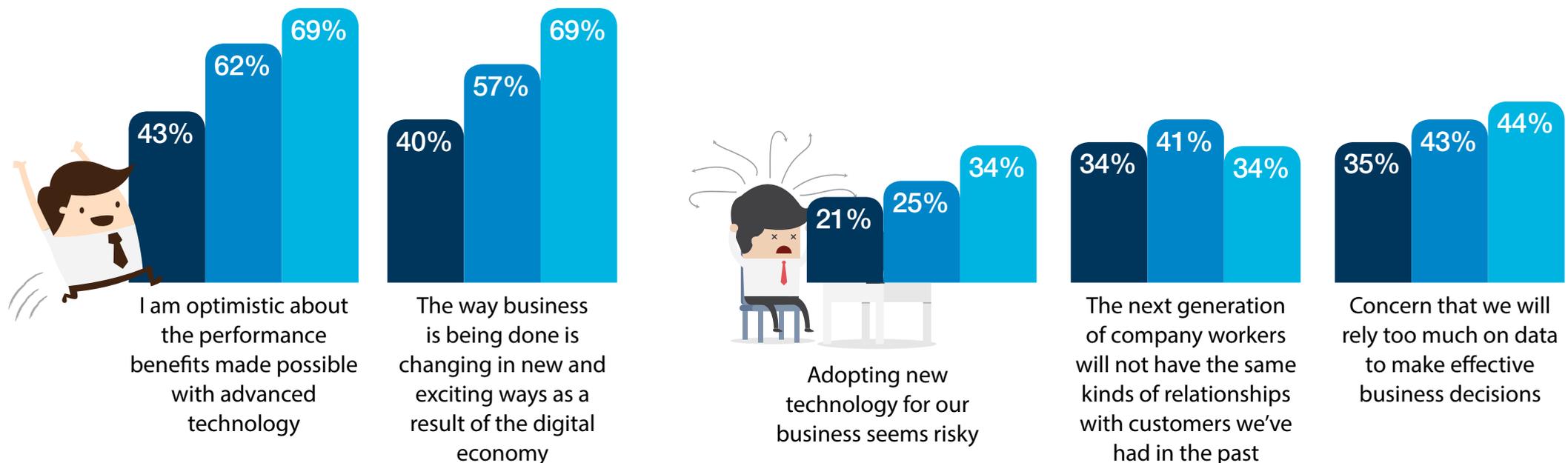


Optimistic about tech benefits, realistic about challenges

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

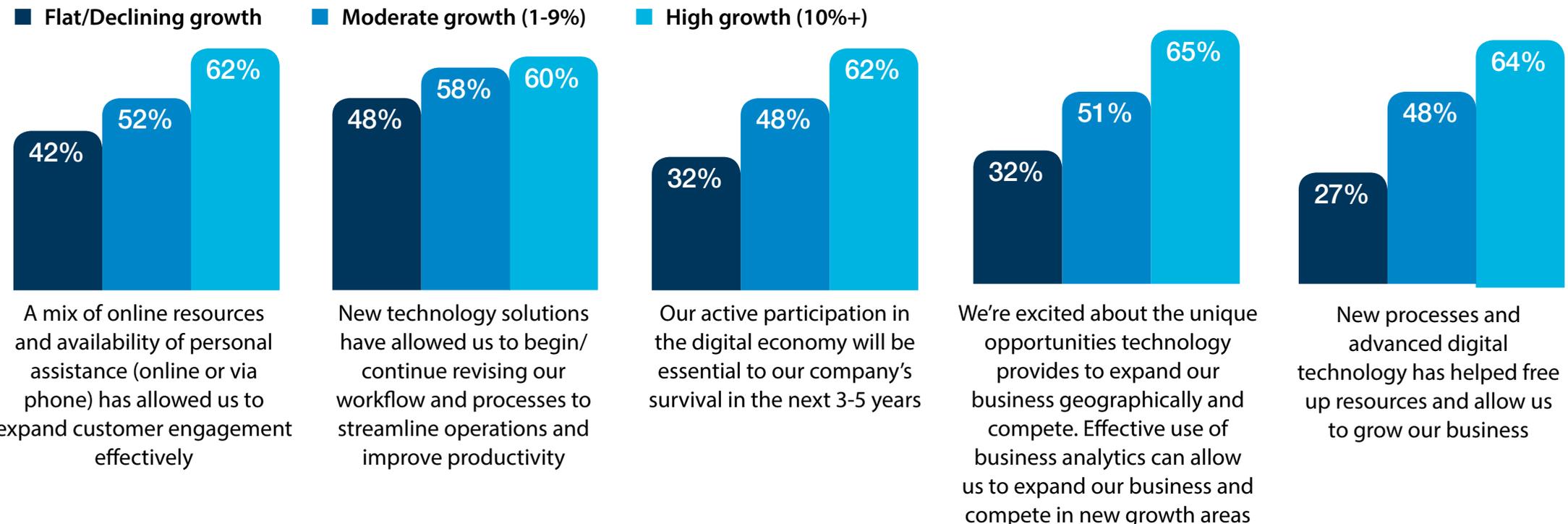
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Faster growing firms have positive attitudes regarding digital transformation's benefits

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

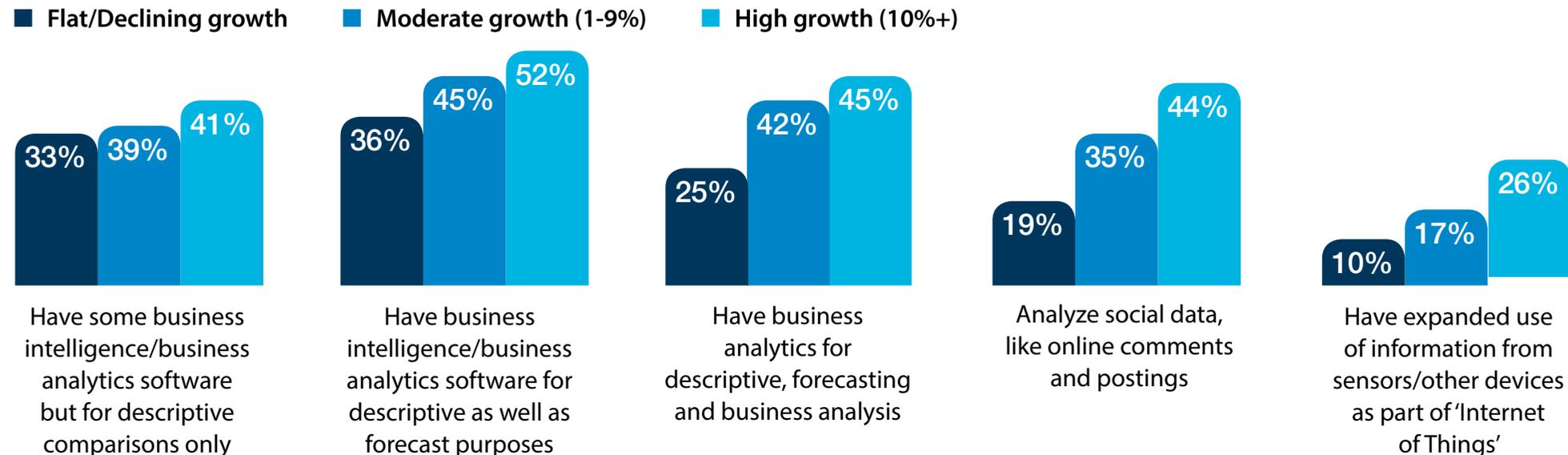


Advanced business analytics are key to success and transformation



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



Streamlining business processes: The heart of business transformation



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.

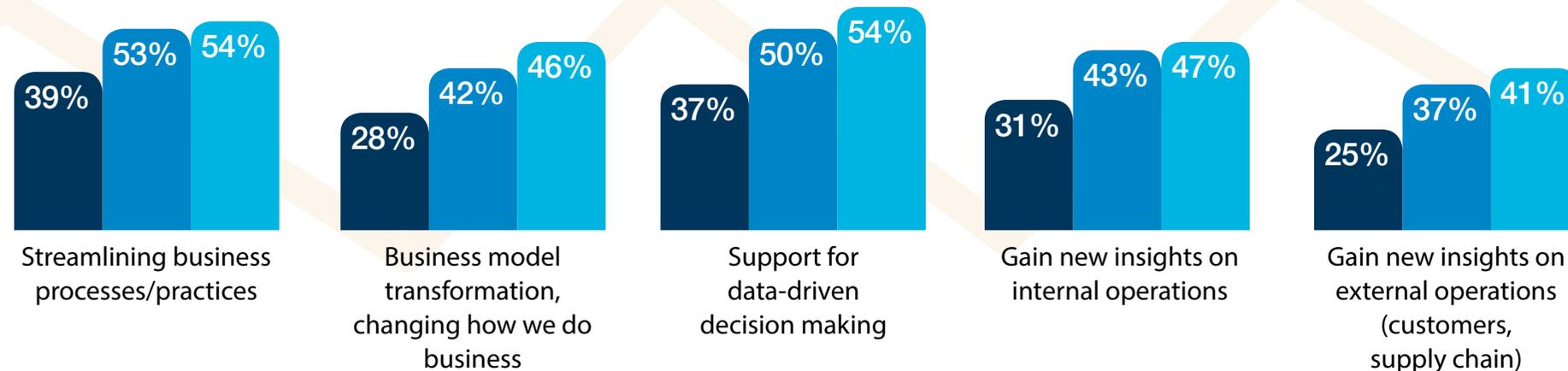
The near-term benefits of greater internal efficiency can be compelling, but the longer-term insights related to external opportunities can drive business success.

Benefits of new business intelligence/analytics by revenue growth

■ Flat/Declining growth

■ Moderate growth (1-9%)

■ High growth (10%+)



Major regional differences in how firms assess their digital transformation progress

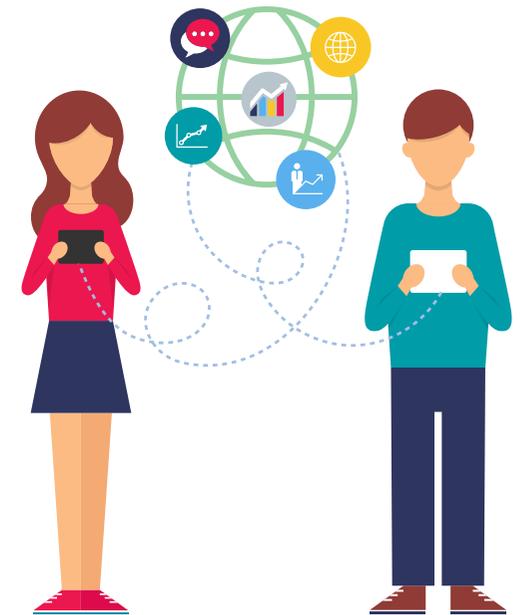
Survey respondents worldwide vary in their digital transformation progress

- » 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.