The Next Steps in Digital Transformation

How small and midsize companies are applying technology to meet key business goals

An IDC InfoBrief, sponsored by SAP | January 2017

IDC
Analyze the Future

Outline

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:

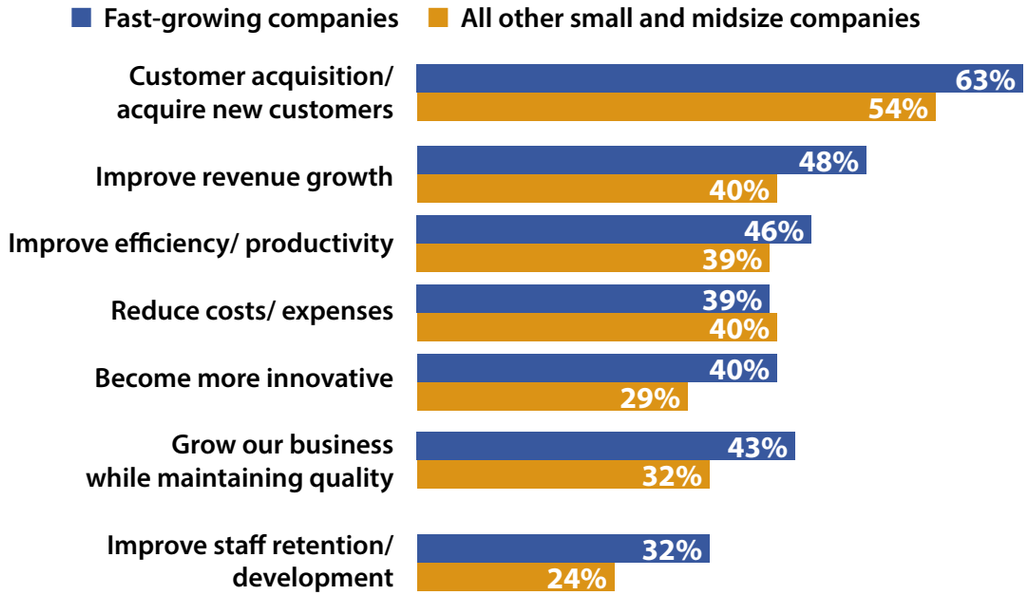
- Hyper-connectivity — the result of anytime/anywhere communications
- Unlimited computing power available though diverse platforms
- Cloud computing, with easy access to hosted software and services
- The proliferation of sensors and mobile devices, providing new and continuous streams of information 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.

Customer acquisition, revenue growth, and efficiency are top priorities for small and midsize firms worldwide

Around the world, small and midsize firms of different sizes and from various industries identify similar business priorities as most important. Looking in detail at faster-growing firms (those with 10%+ annual revenue growth) shows them to be especially ambitious in identifying multiple priorities such as driving revenue growth, improving productivity, and, above all, getting new customers. Many of these goals are interrelated and many are supported through advanced technology. The natural question is: What approach to the acquisition and use of technology can best support business objectives?

Top business priorities for next 12 months



2/3

of small and midsize firms in Germany and Brazil view customer acquisition as the top priority. See Appendix 1 for country details.

Growing use of software resources – 2016 versus 2017

The investments made by small and midsize firms in advanced software resources have been considerable and continue to grow. In just one year the average firm surveyed added a new application, with ecommerce and HR/Talent management showing the greatest increase in penetration. Larger firms and fast-growing ones tend to use more applications, but even the smallest firms are adding resources. Collaboration, CRM, and ecommerce all help internal productivity and efficiency. And when information in one application is shared and updated across others throughout the organization, significant performance gains can be achieved – the goal of digital transformation.

In 2016, survey respondents indicated that they were using an average of 3.8 solutions; in 2017, the number was 4.8.

See Appendix 3 for country details.

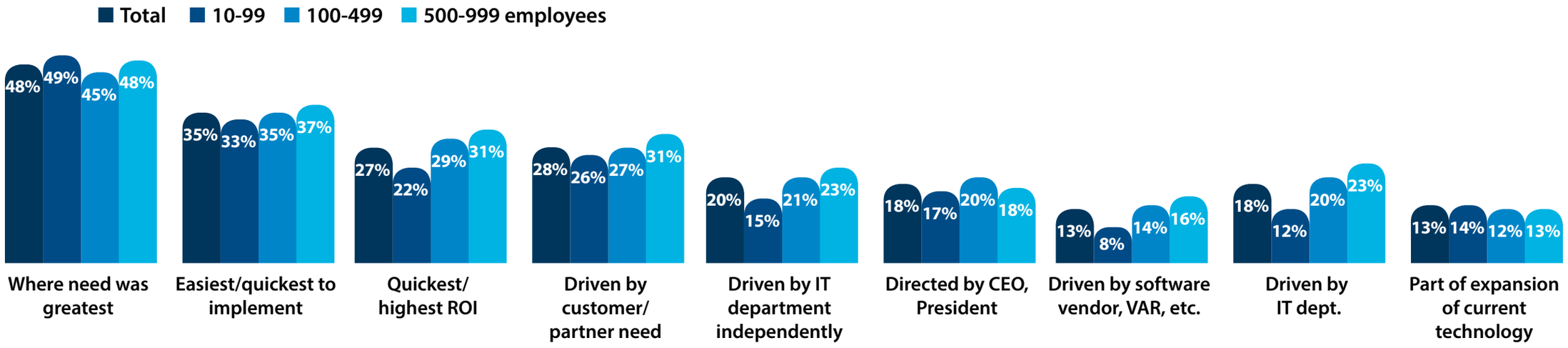
Top capabilities utilized

Practicality drives resource choice for small and midsize businesses

The most widely used software applications are also the ones both small and midsize firms implement first: collaboration, CRM, ecommerce. The drivers behind selection are obvious: the greatest need and the most immediate impact. Midsize firms are more likely to note partner or customer influence. While the basic forces for technology investment are typically internal in nature, outside encouragement is important as well. Keeping an eye on the needs and demands of the changing competitive environment is always a good idea as you refine your technology investment plans.

Over half of small and midsize firms in Korea and Brazil indicate "where need is greatest." See Appendix 4 for details by country.

Drivers for implementing software applications



Exceptional results: 70%+ say expectations met or exceeded for key technology investments

Between 73% and 87% of small and midsize businesses surveyed indicate that their expectations regarding technology investments were met or exceeded. This high level of success naturally paves the way for additional investment. In theory, building a successful portfolio of different technology components implies slightly lower marginal improvement for each additional investment. In reality, the effective coordination of new resources can bring greater performance impact than the sum of the parts: providing greater customer insight to bear on ecommerce engagement, for example.

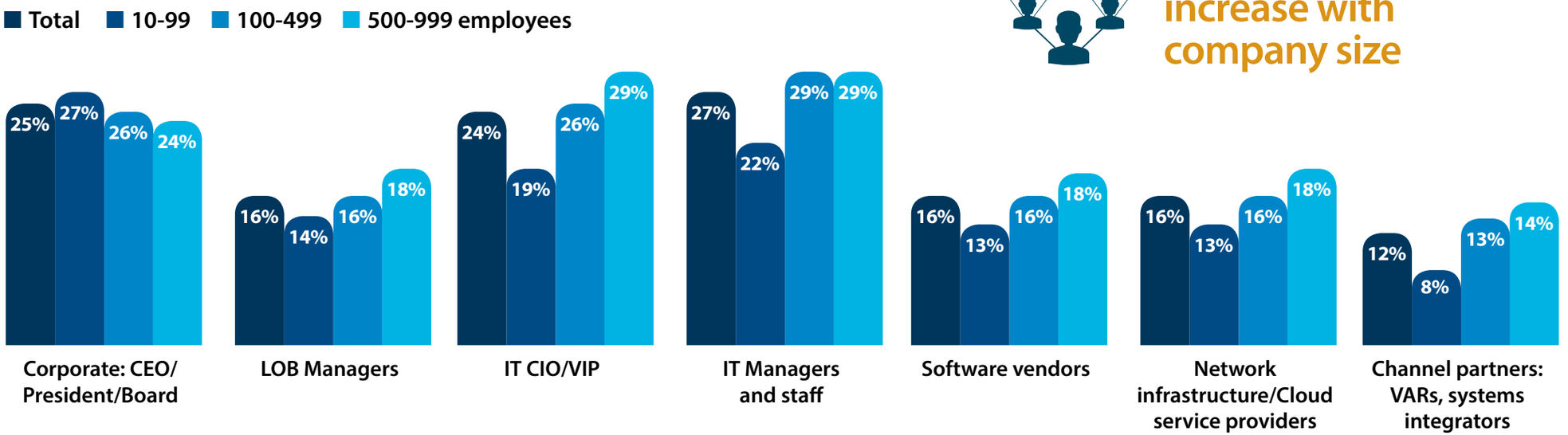
Coordination and consolidation of internal processes and external customer and partner engagement can help leverage the impact of technology investment.

Benefits achieved by key technology investments

Senior management and IT management lead in initiating technology purchases

Influence on technology acquisition decisions is divided between senior/LOB management and IT, with the influence of IT staff growing with company size. The real takeaway is the collaborative nature of the process, at least for more successful outcomes. Delivering near-term tactical benefits makes building consensus for acquisition easier. Ensuring that purchases meet the needs of multiple constituencies is also key to success. Being attentive to outside advice – from software vendors, cloud service providers, or other technology partners – can be an additional source of guidance when used with care.

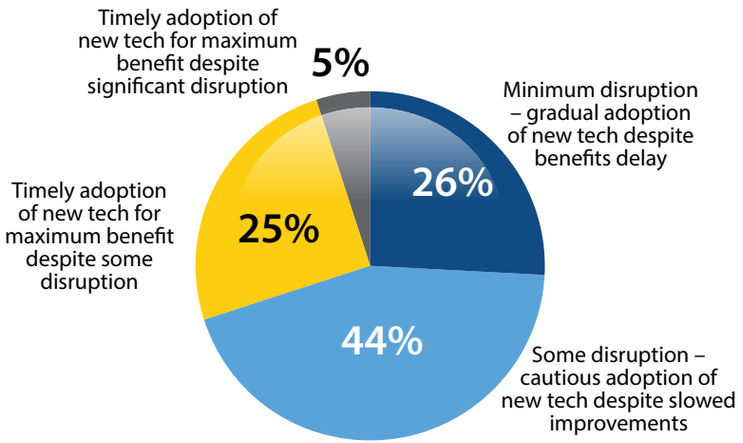
Groups influencing technology purchases by company size



External influences increase with company size

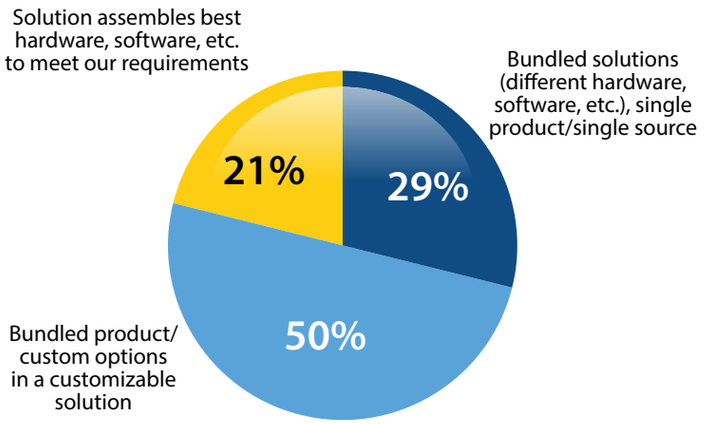
Deployment preferences reflect caution, convenience, and impact

Firms accept disruptions but are cautious



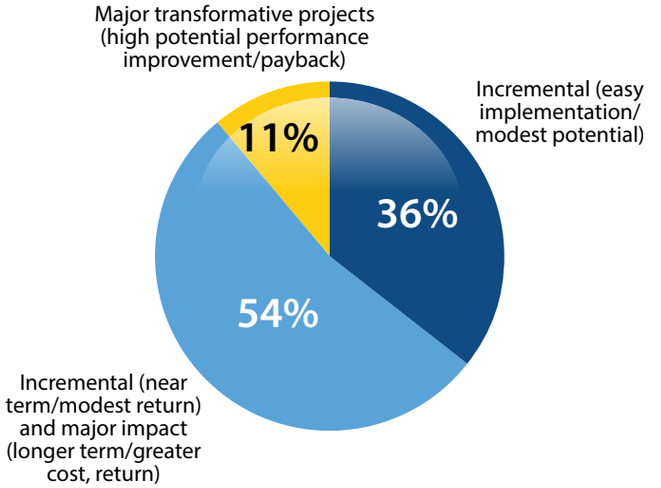
Companies prefer to move forward cautiously with new solutions. Effective integration with current operations is key.

Solutions combining bundles with some customization are preferred



Half of firms lean toward off the shelf rather than customized solutions. Modest fine tuning helps achieve performance objectives.

Firms favor quick and easy projects with impact



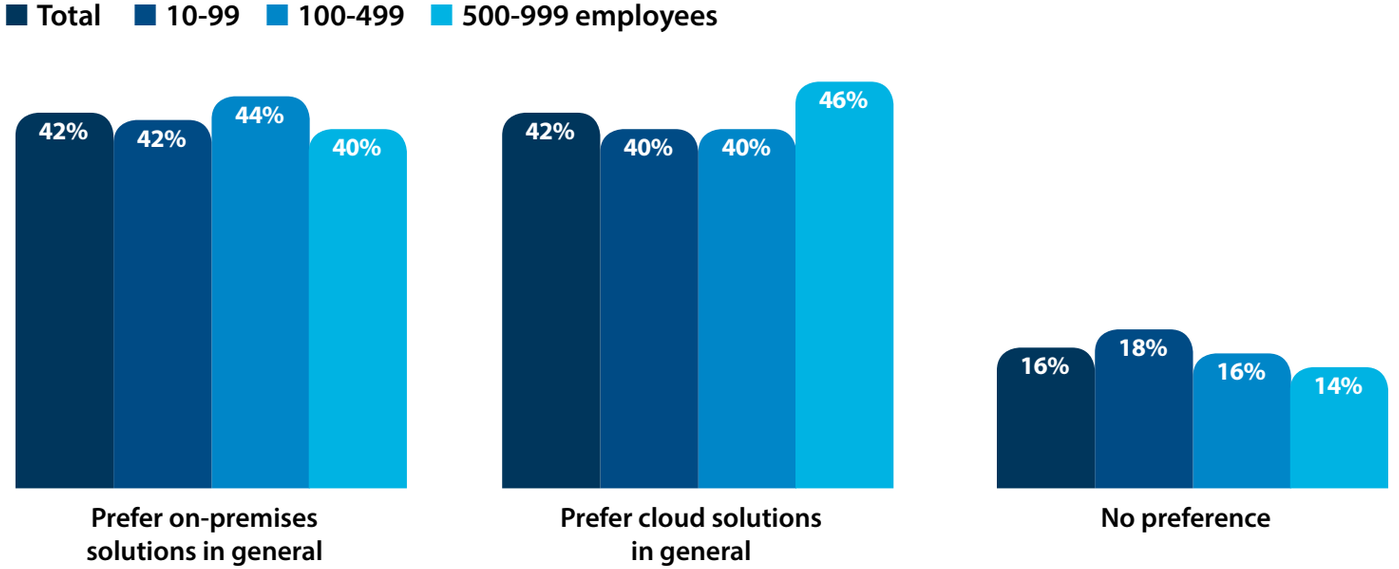
Investing in small, quick impact projects sets stage for more ambitious and demanding projects.

Numbers may add to more than 100 due to rounding

On-premise versus cloud preferences evenly divided

Cloud resources, which are hosted and accessed online, are an increasingly important part of how small and midsize businesses obtain technology. Over half of small businesses and three quarters of midsize firms worldwide use at least one cloud-based resource, and cloud engagements continue to grow. Fast-growing firms show the same level of cloud interest as small and midsize firms in general – all find cloud resources increasingly appealing.

Preferred application platform by company size



Cloud is of interest to firms in developed and developing countries, with greatest interest in China, India, and Brazil. See Appendix 5 for country details.

Cloud drivers and inhibitors are in transition

While cost savings drew initial interest in the cloud 5-10 years ago, the key reasons for using cloud capabilities today are convenience and ease of integration. Security is still a concern but less so than in the past. Management, control, and performance issues are all potential concerns whether firms are fast growing or not.

Key Factors/Benefits Encouraging Cloud Use

	Fast growing	All others
Ability to integrate into current apps/IT environment	35.8%	28.0%
Expand IT resources without adding staff	30.3%	34.3%
Add new users without difficulty	33.9%	24.7%
Have everyone use latest software	33.5%	26.0%
Remote management/ coordination	32.6%	25.0%
Pay only for what's used	29.6%	23.9%

Key Factors/Concerns Discouraging Cloud Use

	Fast growing	All others
Data security	44.9%	43.3%
Service reliability	31.1%	27.0%
Recurring cost of ownership	29.8%	25.9%
Don't want to be locked in to using single service provider	27.4%	24.2%
Loss of IT department control over apps	25.2%	21.2%
Potential regulatory/ compliance issues	24.9%	19.8%

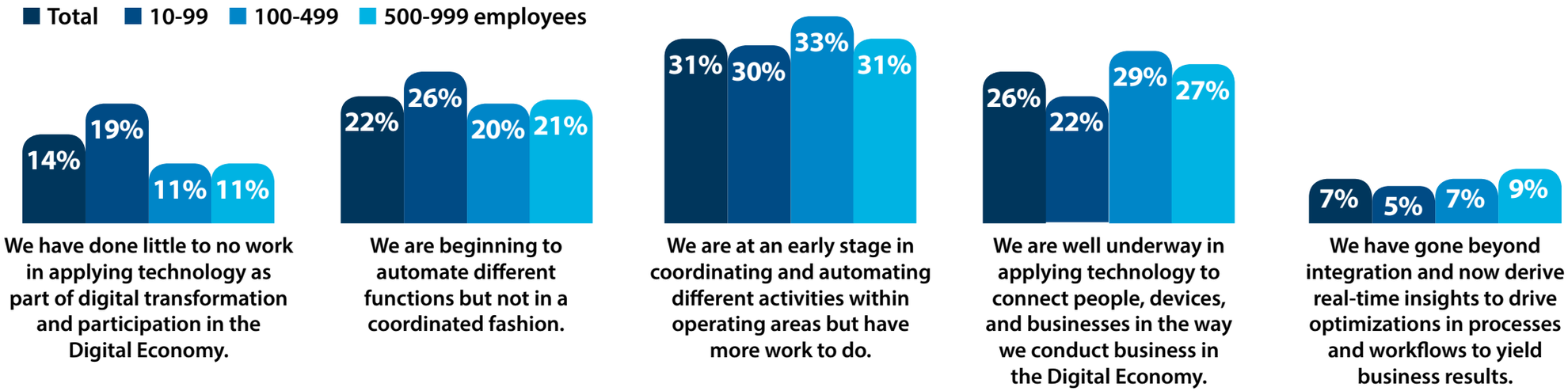
Fast-growing firms are more likely to note multiple cloud benefits and multiple cloud concerns.

Midsize firms more likely to indicate transformation progress, but there's work ahead

The majority of small and midsize firms say they are on the road to digital transformation, although for many the acquisition of key resources and their coordination is still at an early stage. For most firms, the awareness of the opportunity in aligning and leveraging technology assets is where real benefit can be found. Coordinating and updating customer information across CRM, financial, and other applications can improve internal efficiency and the quality of a customer's experience, for example.

of small and midsize firms say they are well underway or better. This increases to 40% among fast growing firms. There is a clear association between business success (revenue growth) and technology engagement and coordination, which is at the heart of digital transformation. See Appendix 2 for country details.

Digital transformation progress by company size



We have done little to no work in applying technology as part of digital transformation and participation in the Digital Economy.

We are beginning to automate different functions but not in a coordinated fashion.

We are at an early stage in coordinating and automating different activities within operating areas but have more work to do.

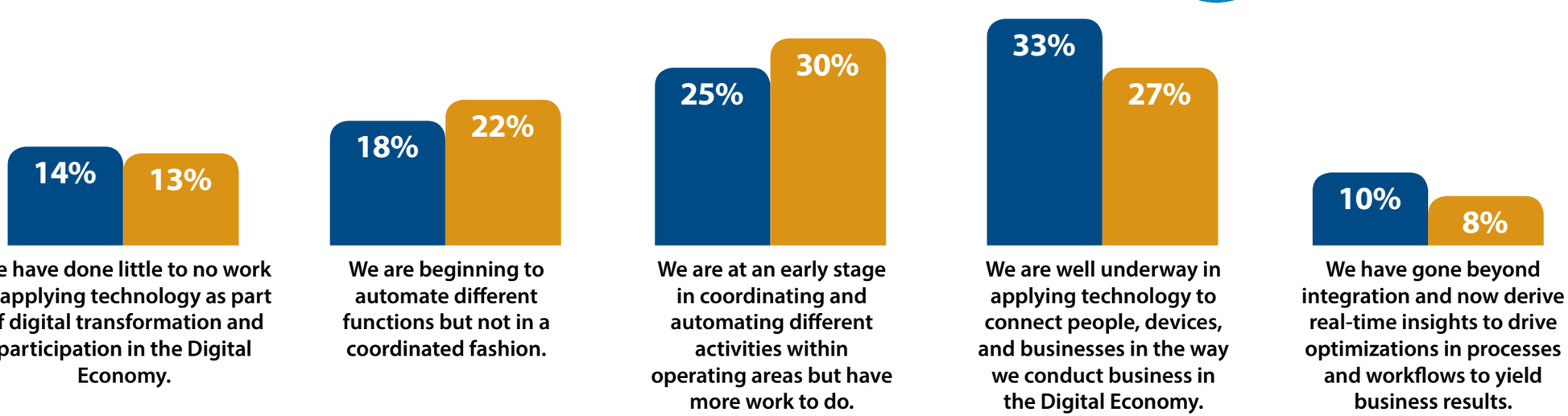
We are well underway in applying technology to connect people, devices, and businesses in the way we conduct business in the Digital Economy.

We have gone beyond integration and now derive real-time insights to drive optimizations in processes and workflows to yield business results.

Firms don't feel further along in digital transformation despite technology use

Compared to almost a year ago, the share of small to midsize companies that see themselves as well along in digital transformation is actually lower: while 43% considered themselves well underway or better a year ago, only 35% make that assessment today. IDC doesn't think firms have actually lost ground, but rather that they have a more realistic view of where they are and what they still have to do. After all, the use of different technology solutions has grown significantly. The increase in firms saying they are beginning the transformation journey reflects recognition of the complexity and continuing nature of the process.

Digital transformation stage by company size



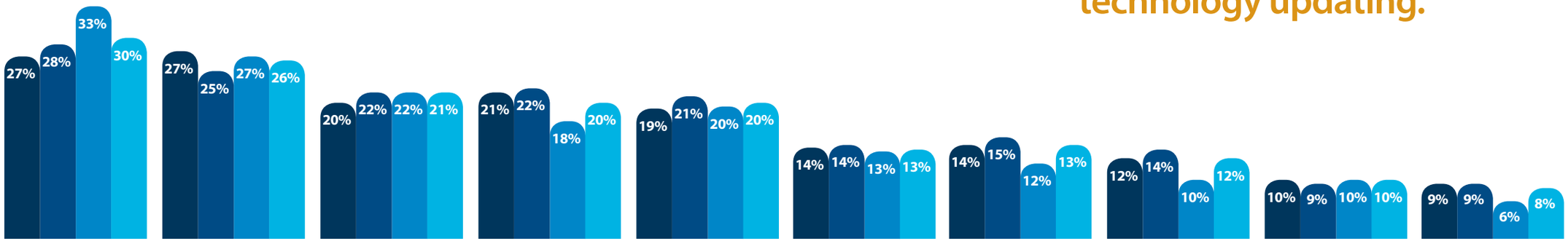
of all small and midsize firms say they are at the early stages of digital transformation.

Customer-facing teams most likely seen to benefit from digital transformation

Small and midsize businesses, independent of size and region, are remarkably consistent regarding the areas they consider the greatest potential beneficiaries of digital transformation. Sales and marketing are most often identified as areas that could benefit from technology updating, especially by fast-growing companies. Every major industry group, from services to manufacturing, also named sales and marketing as the top potential beneficiaries, especially wholesale and retail firms. While internal processes may be considered sufficient and even exceptional by many, external-facing sales and marketing are considered real opportunity areas for new investment.

Areas that benefit from leveraging technology by company size

Total **10-99** **100-499** **500-999 employees**



Independent of size, half of firms say sales or marketing could benefit from technology updating.

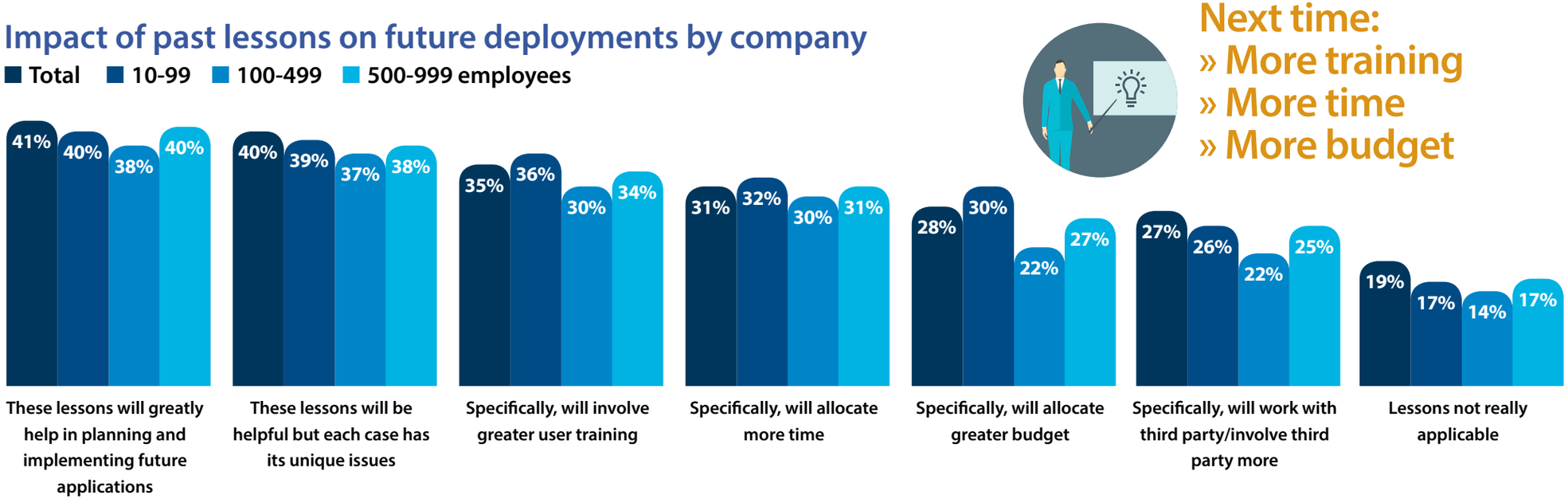
IDC Analyze the Future

See Appendix 3 for country details.

Lessons from past technology deployments will help in the future – up to a point

In keeping with the high levels of success (70%+) in achieving performance goals of technology investments, 4 out of 5 small and midsize firms also note that technology acquisition and deployment were no harder than anticipated. The implication? Firms tended to overestimate potential challenges in moving forward with new technology. Of course, preparation is critical. And in the future, most firms expect their past experiences to be helpful. Funding can be seen as the greatest challenge by those moving ahead with new technology; in retrospect, firms are more likely to call out training and execution timetables rather than budget as requiring more attention. Implementation may take longer and involve more staff training than anticipated.

Impact of past lessons on future deployments by company



Next time:
» More training
» More time
» More budget

See Appendix 3 for country details.

How to manage your digital transformation

Three takeaways

1. **Leveraging technology** to improve efficiency and competitive position is not enough. New technology should be integrated effectively, leveraging and contributing to key internal databases for maximum impact.
2. **Digital transformation is a process, not a destination.** It supports company business objectives at the highest level.
3. **Direct and continuing participation** of senior management and line-of-business executives as well as IT management is key. Flexibility and agility in technology investment is good, but it should contribute to digital transformation objectives.

Key questions to ask about your firm's transformation efforts

Benchmark your performance and get regular feedback from internal and external stakeholders. Given the pace of competitive change, customers and business partners may be aware of potential opportunities (or problems) before you are. **Do you know where you are falling short compared to competitors?**

Business best practices are now table stakes for successful small and midsize firms. **Do you have a technology investment road map in support of digital transformation to enable business strategy?**

High levels of satisfaction and performance gains are associated with digital transformation efforts – and concerns about potential difficulties were generally overestimated.

Small and midsize firms see clear results of their technology investments, with continued progress on the path to transformation.

Methodology

- For this report, IDC conducted a worldwide survey of 3,904 small and midsize business decision makers.
- The survey included companies with between 10 and 999 employees.
- The online survey was completed in November 2016.
- Countries in the survey include Australia/New Zealand, Brazil, China, France, Germany, India, Japan, Korea, Mexico, Singapore, South Africa, U.K., and the U.S.

Appendix: Details by country

- Top priorities for small and midsize businesses worldwide by country
- Digital transformation self-assessment
- Use of different software resources
- Key reasons for adding advanced technology solutions
- Cloud versus on-premise deployment preferences

1. Top priorities for small and midsize businesses worldwide by country (%)

	Australia/ New Zealand	Brazil	China	France	Germany	India	Japan	Korea	Mexico	Singapore	South Africa	U.K.	U.S.
Customer acquisition OR acquire new customers	52.0	65.8	53.3	57.0	66.0	59.7	44.7	47.7	60.3	53.3	58.5	58.3	54.0
Improve revenue growth	37.3	44.5	42.7	30.7	39.0	49.3	38.7	41.7	40.7	44.0	47.5	44.7	41.7
Improve efficiency/ productivity	39.7	48.5	45.7	37.0	35.0	43.3	28.7	37.3	43.7	40.3	44.9	44.7	40.1
Reduce costs/ expenses	39.0	50.2	31.3	38.3	36.3	38.7	41.0	31.7	43.0	42.0	39.5	44.3	41.4
Grow our business while maintaining the same level of quality	33.7	37.2	47.0	25.0	35.7	35.7	26.0	28.7	40.0	27.7	37.5	39.0	37.1
Become more innovative	32.0	33.9	51.0	26.3	18.0	46.0	13.3	28.7	40.0	29.0	41.2	26.0	27.8
Improve customer loyalty	27.7	36.9	35.3	26.7	31.7	42.7	13.0	14.7	23.0	25.0	36.9	30.3	24.5
Improve cash flow	27.0	29.6	25.7	15.0	20.0	35.0	16.0	19.3	28.7	29.7	37.9	32.7	26.8
Improve staff retention/ development	28.0	18.6	37.7	13.3	20.0	33.0	26.0	35.7	24.3	24.7	28.9	29.0	20.2
Improve competitive position with regard to larger competitors	21.3	26.6	30.3	18.3	18.3	30.0	17.7	21.7	29.0	22.3	27.6	20.7	20.2

2. Digital transformation self assessment by country (%)

	Australia/ New Zealand	Brazil	China	France	Germany	India	Japan	Korea	Mexico	Singapore	South Africa	U.K.	U.S.
We have done little to no work in applying technology as part of digital transformation and participation in the Digital Economy.	15.0	16.6	9.0	11.7	16.0	15.3	16.0	13.3	13.0	13.0	16.3	12.7	11.9
We are beginning to automate different functions but not in a coordinated fashion.	23.3	22.9	20.0	27.7	21.3	21.7	18.0	25.0	23.0	28.3	18.9	22.7	17.2
We are at an early stage in coordinating and automating different activities within operating areas but have more work to do.	33.7	29.9	31.7	23.0	30.0	27.3	30.7	38.3	34.7	35.0	26.9	29.0	34.8
We are well underway in applying technology to connect people, devices, and businesses in the way we conduct business in the Digital Economy.	23.0	24.6	20.7	33.0	28.7	28.0	29.7	20.0	24.3	18.0	29.9	30.0	26.8
We have gone beyond integration and now derive real-time insights to drive optimizations in processes and workflows to yield business results.	5.0	6.0	18.7	4.7	4.0	7.7	5.7	3.3	5.0	5.7	8.0	5.7	9.3

3. Small and midsize businesses use of different software by country (%)

	Australia/ New Zealand	Brazil	China	France	Germany	India	Japan	Korea	Mexico	Singapore	South Africa	U.K.	U.S.
Collaboration software	26.3	32.2	35.0	30.0	27.7	35.0	27.7	34.0	31.3	30.7	23.6	24.0	18.9
Customer relationship management (CRM)	31.7	34.9	37.7	28.3	27.7	29.0	25.7	35.0	34.3	31.7	35.2	25.0	25.2
Commerce/ecommerce including online order taking	28.0	25.9	27.3	27.7	25.7	28.3	28.0	31.0	30.7	35.0	28.9	27.0	21.2
HR/Talent management	32.3	31.2	25.3	33.7	26.0	29.3	30.0	32.7	34.3	33.3	36.9	30.3	25.8
Enterprise resource planning (ERP)	36.3	31.2	35.7	33.3	25.0	33.7	29.7	32.0	35.3	33.7	36.9	34.3	18.9
Business analytics/BI	33.7	41.9	38.0	29.7	33.7	32.0	38.0	45.3	43.3	37.7	32.9	31.0	26.2
Social media analytics	29.7	32.6	44.0	33.7	26.3	31.7	26.7	43.3	41.7	34.7	27.9	30.3	27.8
Planning/coordination solutions with partners/ suppliers	34.0	35.5	48.7	34.3	29.0	37.7	29.0	41.3	41.0	40.7	35.5	31.7	26.8
Advanced business networks	37.7	34.2	45.7	35.7	35.0	42.7	28.3	45.3	39.3	34.0	35.5	33.3	29.1
Internet of Things technololgies	29.7	33.9	43.7	32.3	32.0	37.7	32.7	45.0	38.0	36.0	33.9	36.3	28.8

4. Reasons for initial technology choice by country (%)

	Australia/ New Zealand	Brazil	China	France	Germany	India	Japan	Korea	Mexico	Singapore	South Africa	U.K.	U.S.
Where need was greatest	43.0	55.9	51.4	44.9	48.2	49.3	43.5	56.6	43.4	43.2	48.4	48.6	41.4
Easiest/quickest to implement	34.8	28.7	41.2	31.9	29.4	41.4	33.5	34.7	37.5	36.8	39.3	36.8	31.4
Quickest/highest ROI	24.1	21.9	50.3	31.2	12.5	41.1	17.6	27.0	23.5	23.3	27.4	28.6	23.1
Driven by customer/ partner need	27.4	22.2	43.6	18.5	16.1	40.1	24.7	28.1	26.8	34.2	32.3	20.4	25.5
Driven by department or group independently	17.4	16.5	30.4	14.9	9.4	33.6	18.8	21.2	18.8	17.7	19.3	17.5	16.2
Directed by CEO, President	19.3	13.3	25.0	18.8	14.5	30.1	10.5	17.2	16.9	19.5	18.2	17.5	15.2
Driven by software vendor, VAR, etc.	9.3	9.0	21.3	8.0	6.3	27.4	8.8	12.4	13.2	10.9	14.0	9.6	9.7
Driven by IT department	15.2	17.2	16.2	10.9	11.8	34.6	16.7	13.1	14.3	14.3	24.6	23.9	20.3
Part of expansion/upgrade of current technology	11.1	11.8	24.0	6.5	5.9	15.1	9.2	14.2	19.5	13.9	5.1	9.6	9.7

5. Cloud versus on-premise application deployment preferences by country (%)

	Australia/ New Zealand	Brazil	China	France	Germany	India	Japan	Korea	Mexico	Singapore	South Africa	U.K.	U.S.
Prefer on- premises solutions in general	40.3	37.2	28.7	38.3	58.3	44.0	33.3	43.0	45.3	40.3	46.5	47.0	42.4
Prefer cloud solutions in general	42.0	51.5	56.0	40.0	27.0	53.7	35.3	42.7	41.7	42.3	43.9	35.7	36.8
No preference	17.7	11.3	15.3	21.7	14.7	2.3	31.3	14.3	13.0	17.3	9.6	17.3	20.9