

# SMEs: Equipped to Compete

2,100

SMEs surveyed

51%

Cite innovation as a top growth strategy

49%

Focus on developing new products and services

## Innovation and Differentiation

Innovation has never been more critical to SMEs. In a global economy driven by increasingly empowered consumers, small and mid-sized firms must find ways to stand out from their competitors and create tighter bonds with their customers. Technology is vital to success on these fronts, along with a focus on creating new products and services to meet evolving customer needs.

Our study of 2,100 executives from SMEs in 21 countries shows they grasp this changing reality. More than half (51%) of survey respondents cite driving innovation, cost reduction, and efficiencies as strategic initiatives most important to their future growth. Nearly as many (49%) specify a desire to develop new products and services, while 39% cite strengthening customer relationships as a key strategic initiative. More than one-third (34%) say that creating a culture of innovation is a top transformation priority.

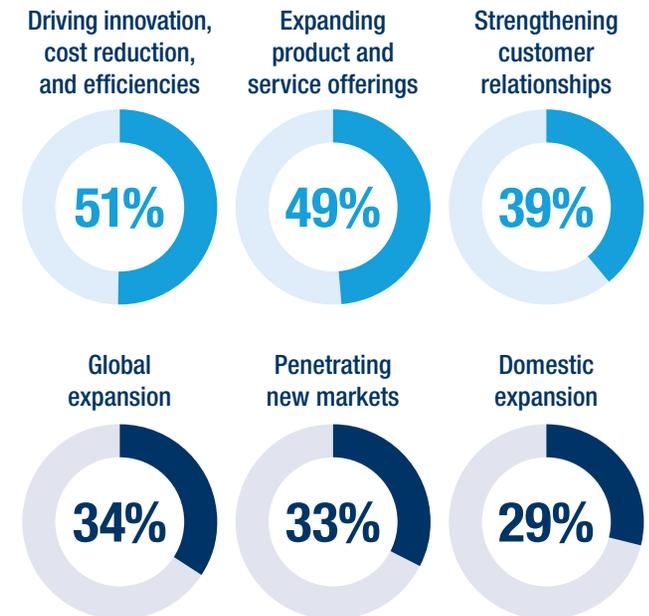
The quest for new sources of competitive advantage is driven by increased pressure from international rivals (61%), larger companies (59%), and firms with superior technology capabilities (48%). On the customer front, meanwhile, 47% say shifting customer expectations and demand (32%) and customer empowerment (15%) are among the trends most affecting their businesses today.

SMEs depend on technology to help them innovate. Well over half (59%) of respondents see technology as a key differentiator for their firms, and virtually the same number (57%) put technology at the heart of their business transformation efforts. There are, though, some notable variances by region, with Latin American firms most confident that technology sets them apart and Asia Pacific companies least likely to make this claim.

Ultimately, innovation is essential to business longevity, and also to a global economy that depends on SMEs for growth and vitality. "Innovation in all its aspects and forms is the key to sustainability," writes Sean Burke, a leader of a large European Union research project on SMEs, on the European Commission website. "Promoting SME growth through innovation and entrepreneurship should be done at every opportunity."

### Innovation, cost reduction, and efficiencies top strategic initiatives for SMEs

The most important strategic initiatives driving growth



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## Innovating for competitive advantage

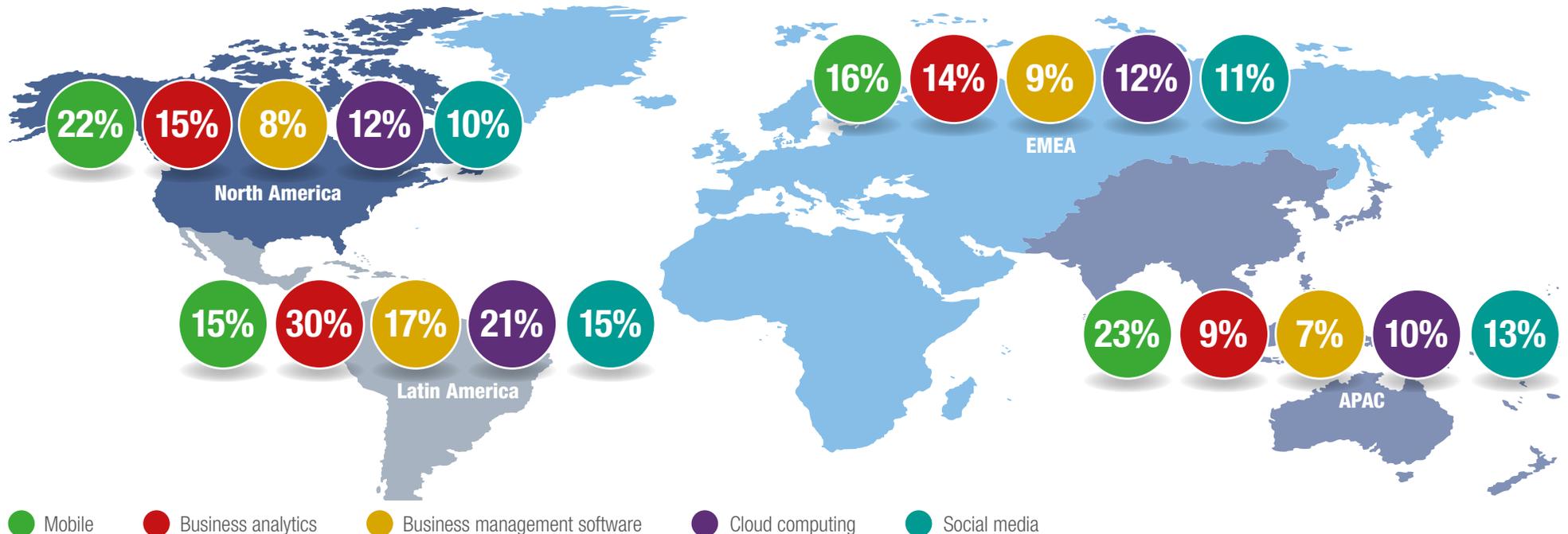
Innovation is critical to establishing and extending competitive advantage for SMEs, and technology plays a key role in innovation strategy. For Kogan Technologies, an Australian retailer and manufacturer, new products and services built with the help of digital tools help drive rapid growth. “Technology is one of our core competencies,” says executive director David Shafer.

Kogan, which has US\$185 million in annual revenue, uses different tools for the common purpose of meeting customer wants and needs. It crunches detailed information about its own production cycle to underpin a highly successful variable-pricing program. A pre-paid mobile service plan, meanwhile, fills a market niche while boosting Kogan’s cash flow. And the “lonely experience” of online shopping, says Mr. Shafer, is improved with an online feature that shows customers when and where other people are purchasing items like the ones they are researching; this “social proofing,” he says, encourages potential buyers by making internet commerce a shared experience.

And Kogan is far from alone. Technology is a big part of innovation culture for SMEs. Frequently, this starts at the top: Nearly two-thirds (63%) of respondents say their CEOs view technology as critical to future success, and more than one-third (35%) consider themselves early adopters of technology. The percentage of early adopters is highest in North America (47%), while Asia Pacific SMEs (24%) take a more cautious approach.

Specific technologies are seen as innovation drivers to a greater or lesser degree. Improved innovation is viewed as a major benefit of mobile adoption, followed by analytics and, to a somewhat lesser extent, cloud, social media, and business management software. Regional perspectives differ, with Latin American SMEs especially bullish on the ability of analytics, cloud, and business management software to improve innovation. Meanwhile, SMEs in Asia Pacific and North America are most likely to expect innovation benefits from mobile technology.

### Mobile and analytics are top drivers of innovation



And emphasis on innovation is correlated with superior business results: The most profitable firms are more likely to expect innovation benefits from adoption of each of the five key technologies than are their less-profitable peers.

Also notable is that 52% of SMEs say they are collaborating online more frequently with other firms to drive innovation and growth, indicating that technology is not only delivering direct innovation benefits, but also enabling SMEs to access additional sources of innovation.

## Customer-centric innovation

Customers around the world, from the rising middle classes of developing economies to the choice-saturated businesses and consumers in established markets, are more empowered today than ever before. This creates a two-headed innovation challenge

for SMEs: Not only must they work on getting closer to customers who have any number of other suitors, but they also must be prepared to satisfy their ever-changing demands. “You have got to have deep domain expertise,” says Esteban Reyes, CEO of Colombian professional services firm VSI Nearshore, which caters to the needs of banks and financial institutions. His clients “appreciate an immense level of customer service coupled with proven solutions to address the industry challenges and opportunities. That’s how we found a differentiator, despite the competition.”

For most SMEs, better customer service and improved product and service development are among the leading promises of technology adoption. This is especially true of social media and mobile technologies in terms of delivering customer service benefits, and of business analytics and the cloud for improved product and service development.

25%

Say top benefit of mobile is improved customer service

23%

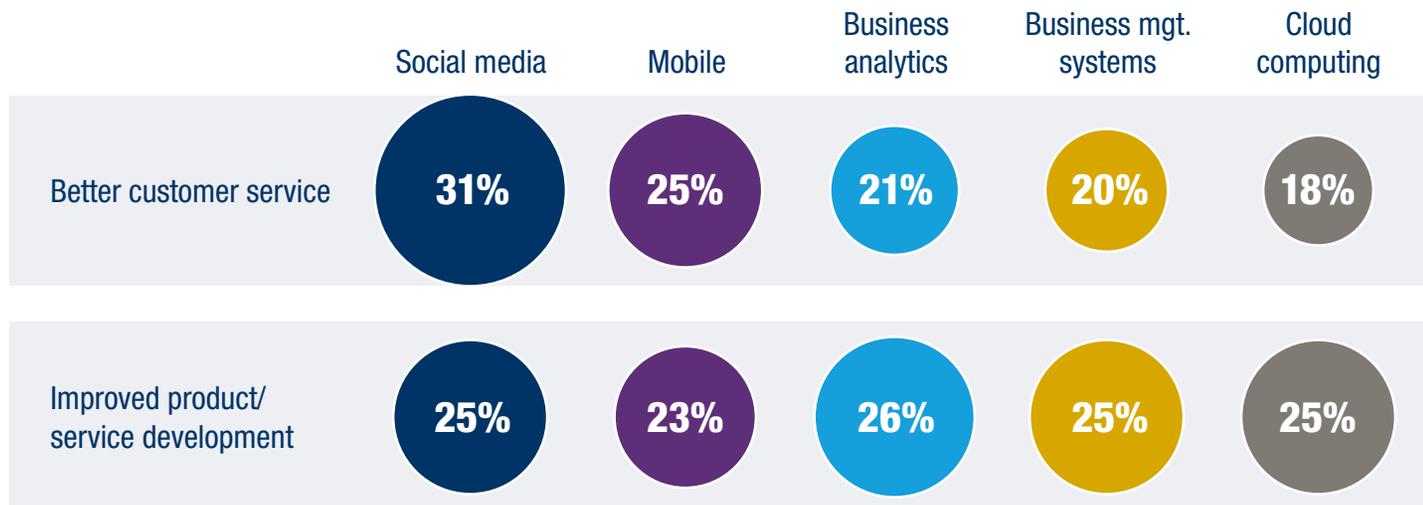
Cite better product/ service development

17%

Say enhanced innovation is the top benefit of mobile technology

## Better customer service and improved products/services drive adoption

The benefit of adoption of technologies on customer service and products/services



## Differentiation defines Avigilon

Innovation and differentiation are not new concepts for Canadian video surveillance-system provider Avigilon Corp; they are part of the company's DNA. From the way it engineers and manufactures products to its use of technology to promote new offerings and engage with customers, Avigilon aims to stand out from the competition.

This focus can be traced to the company's founding in 2004, when it took advantage of the widespread adoption of IP networks to build an end-to-end digital video surveillance solution that differentiated it from the field of analog competitors. Avigilon went on to design its surveillance cameras around a common structural foundation that enables it to meet the needs of various markets and industries. It also built its solution to be open, enabling the firm to easily partner with competitors to ensure its cameras work with their software and vice versa.

Where the company has really pushed the bar in terms of product development is in its unusual decision to manufacture its cameras itself, in Canada, creating a synergy between its engineering and manufacturing teams that results in process efficiency, superior quality, and high levels of control over the final product. "Our goal is to produce the best end-to-end surveillance solution in the industry," says Ian Povey, director of product management and product marketing. "Matching our customer's needs with product quality and product functionality is sort of core to what we do."

Emboldened by a young employee base that eagerly adopts new tools, the company has been increasingly turning to technologies like cloud, mobile, and social media to support its growing sales team, broaden its product portfolio, and increase brand awareness. In particular, says Mr. Povey, "The social aspect of our branding really has taken off in the last 12 months. We're able to communicate new products, create a community, engage with our customers and end users through social platforms, and educate them on what we're doing and what products we have to solve their problems."

The expected impact of a particular technology on each of these customer-centric areas often depends on the location of the companies surveyed. For instance, while SMEs in Asia Pacific (35%) are far more likely to expect improvements in product and service development from use of business analytics than their peers in Latin America (17%), Latin American firms are more likely to expect such improvement from mobile technologies (22%) than those in Asia Pacific (19%). The state of a region's economy also influences an SME's approach to customer-centric innovation. Specifically, SMEs in emerging markets are more likely to expect growth to be driven by new product and service offerings (54%) than those in developed markets (43%).

## Conclusion

Innovation is playing a vital role for SMEs as they find themselves compelled by global markets to generate new ideas and empowered by technology to establish competitive advantage and strengthen customer relationships. Expectations and emphases for particular technologies vary depending on industry and geography, but the overall trend lines are clear.

The extent to which SMEs can identify the right technologies to meet their specific innovation needs and then effectively apply those technologies will determine just how innovative—and thus successful—they can be in a fast-changing global marketplace. "We're constantly looking for things we can use to enhance our business," says Mr. Shafer of Kogan Technologies. "Companies that don't do that will miss out."

## Focus on product and service innovation

SMEs interested in innovation to spur growth are focused on expanding their product and service offerings. Every industry surveyed considers new offerings to be a critical growth initiative, with wholesale (58%) and retail (56%) putting them atop the list of growth strategies, and consumer goods (52%), manufacturing (45%), and professional services (38%) firms ranking them second.

Different technologies, though, suit different industries to varying degrees. Manufacturing firms are more likely to believe business analytics contribute product and service development benefits than other technologies, while retailers are most bullish on mobile technology. In wholesale, social media technology is seen as the killer app for product and service development, whereas more

professional services and consumer goods SMEs say that cloud computing delivers the desired benefits.

There is stronger agreement about the near-future potential of analytics, which can provide insight into customer needs—and thus the direction of product and service development. All of the industries surveyed are more likely to credit mobile technology or business management software with delivering competitive advantage than other technologies. But that answer will shift, across the board, to analytics in three years. By then, more than half of SMEs in manufacturing (56%), consumer goods (53%), and professional services (51%) expect analytics to provide a competitive edge, with retail (45%) and wholesale (44%) not far behind.

## Business analytics will create a competitive edge across industries

The competitive advantage created by business analytics



## About the research

*The Global SME Mindset* is one of four papers based on an online survey of 2,100 SME senior executives conducted in April 2013. Respondents came from 21 countries around the world. Industries represented include discrete manufacturing, professional services, consumer products, retail, and wholesale. Revenue at respondent firms ranged from US \$20 million to \$750 million. In addition to the survey, interviews were conducted with 12 SME executives around the world.