

How successful SMEs are reinventing global business



Introduction

Small and medium-sized enterprises (SMEs) are operating in an extraordinary business environment. Increasing globalization, heavy competition, newly empowered customers in new markets, and fast-changing technologies—SMEs are no more immune to these issues than large multinational corporations. Even firms that do not seek geographic expansion must contend with increased competition at home from rivals based outside their domestic markets.

To prepare for this new environment, SMEs are transforming themselves in fundamental ways. Around the world and across industries, they are making major changes to their business models, products, and go-to-market strategies, and using technology to level the playing field with bigger companies. Many SMEs believe they not only are equipped to compete with larger firms, but actually have some advantages over them.

This thinking defies some entrenched stereotypes of smaller companies, which often are perceived as local or regional entities that are largely technophobic, and have at best only a supporting role in international trade. Indeed, “Even in this age of globalization, SMEs . . . are seen acting merely as suppliers to multinational companies,” wrote Bright Simons, president of the mPedigree Network and social entrepreneur, in a February 2013 blog post for *Harvard Business Review*.

SMEs are thinking and acting globally, competing with rivals of all sizes, and investing aggressively in technology to improve operations and make themselves more nimble.

Our study of 2,100 SMEs in 21 countries reverses all of these notions. SMEs are thinking and acting globally, competing with rivals of all sizes—including much larger firms—and investing aggressively in technology to improve operations and make themselves more nimble. Among the key findings of our research:

- Only one-quarter of surveyed SMEs currently generate no revenue outside of their home country—and that figure is expected to drop to 17% in three years. In fact, one-third now generate over 20% of revenue internationally, rising to nearly half (47%) in three years.
- Similarly, just a third of SMEs currently do business only in their headquarters country. In three years, the number of small firms that do business in six or more countries will more than double—from 15% today to 35%.
- Transformation—a major change to a firm’s business model, operations, or go-to-market strategy—is a major trend for all types of SMEs. Only one-third have not engaged in transformation and have no plans to do so, and more than one-third have already done it or are doing it now. The most profitable firms tend to be further along in the transformation process than their less-profitable peers.
- Human factors, including culture and personnel matters, play a significant role in SME strategy. More than one-quarter of respondents cite rising labor costs as an important trend, and nearly half (46%) are actively hiring employees to support growth activities—yet 39% are finding it increasingly difficult to recruit people with the right skills for their business.

SMEs are confident in their technology prowess, and highly focused on adopting enterprise-wide business management software (BMS) and business analytics software, which have become more accessible to smaller firms. They also look to mobile technology to transform their businesses, and are investing in social and cloud platforms as well—although their relatively tepid embrace of the cloud, which could make business management and analytics software easier and less expensive to implement, remains a significant opportunity yet to be realized.

Around the world, the SME sector is a vital engine of innovation and job creation. Understanding the real opportunities and challenges shaping the future of SMEs, then, is a matter of the highest importance.

About the research

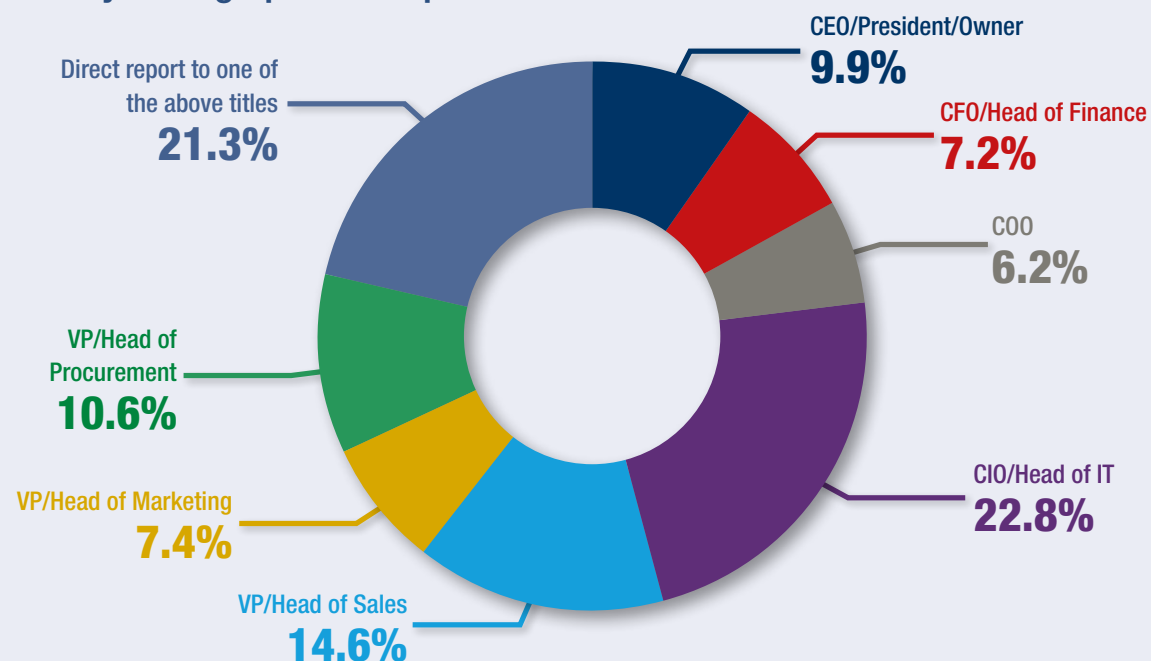
This research program is based on an online survey conducted in April 2013. Survey respondents came from 21 countries around the world, with the total of 2,100 responses evenly divided (100 respondents each) among the following: Australia, Brazil, Canada, Chile, China, Colombia, the Czech Republic, France, Germany, Hungary, India, Indonesia, Italy, Mexico, Poland, Portugal, Russia, South Africa, Spain, the United Kingdom, and the United States.

Industries represented include discrete manufacturing (25%), professional services (21%), consumer products (22%), retail (17%), and wholesale (16%). Respondents are C-level executives or direct reports, including CEO/President/Owner (10%) and a broad mix of senior leaders from IT, sales, finance, operations, marketing, and procurement.

Revenue at respondent firms ranges from \$20 million–\$99 million (27%) to \$100 million–\$249 million (23%), to \$250 million–\$499 million (29%), and \$500 million–\$750 million (20%).

Interviews were conducted with 12 SME executives around the world, providing critical qualitative insight to support our quantitative findings.

Survey demographics: Respondent title



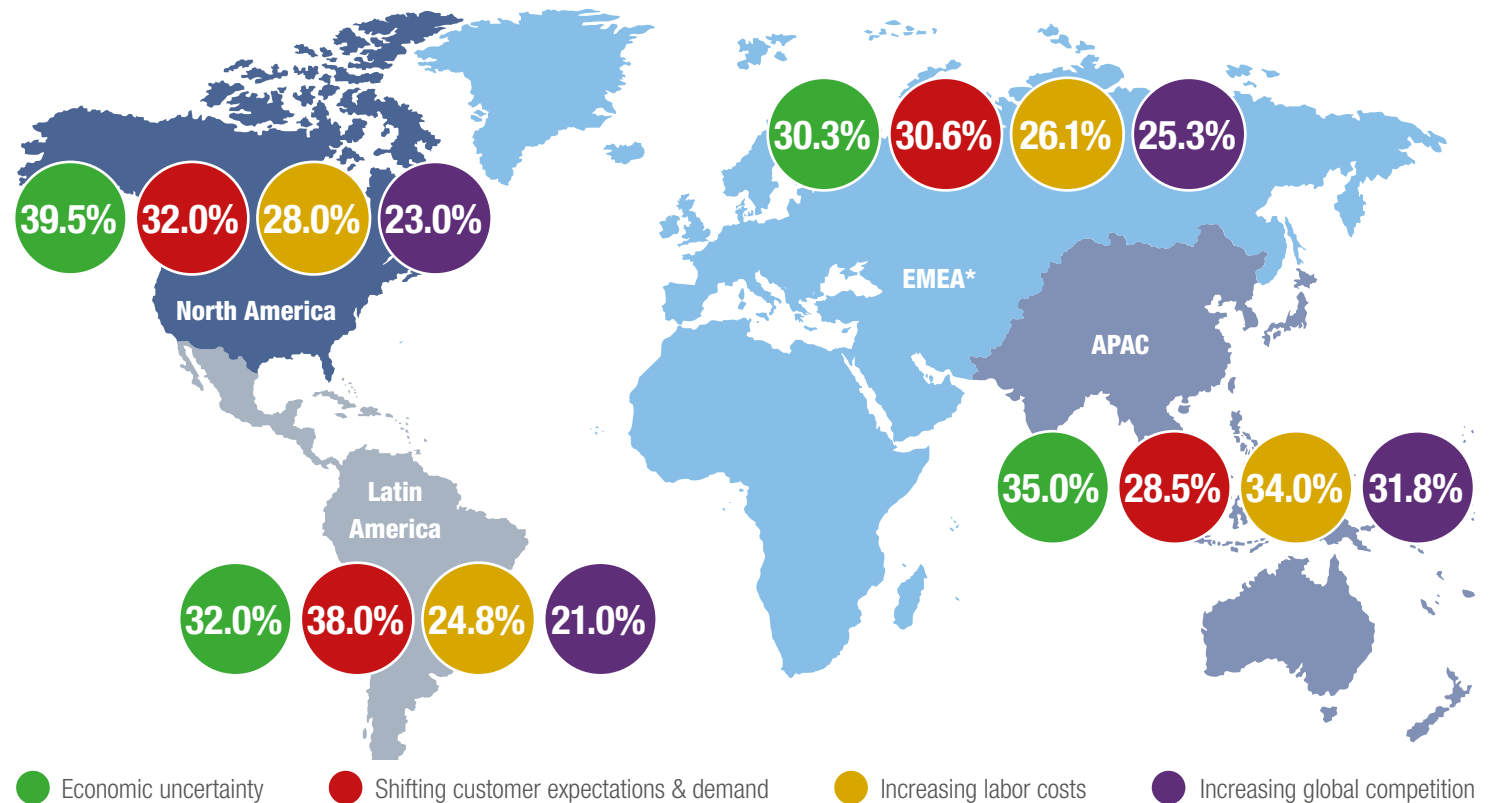
Global trends

Increasing global competition is cited as a top trend for roughly one in four companies across all categories.

A variety of forces are reshaping the business landscape, chief among them ongoing economic uncertainty and shifting customer demands. Other factors at work include rising labor costs, increasing global competition, growth opportunities in regional or wider markets, greater supply chain complexity, and increasing regulatory and compliance issues. The impact of these trends is felt across industries, regions, and company sizes, but there are some variances in their relative weight and intensity.

Economic uncertainty is a weightier concern for companies based in developed markets than for those in emerging markets, reflecting different rates of recovery from the global recession. Other trends also are felt more or less keenly in different areas. Changing customer expectations and demand are larger concerns for retail firms, for example, while rising wages are an especially resonant issue in the Asia Pacific region, which has boomed in part due to the influx of developed-market companies in pursuit of low-cost labor. Increasing global competition is cited as a top trend for roughly one in four companies across industries, regions, revenue levels, and degrees of profitability.

Economic concerns top the list of trends



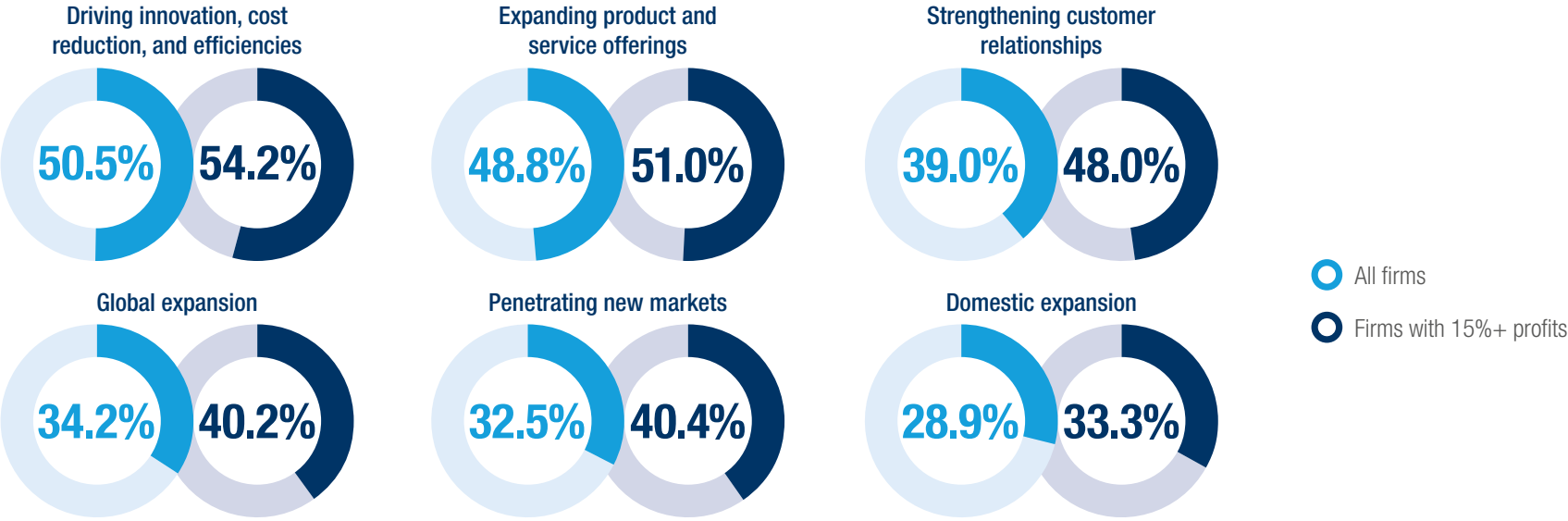
* Includes South Africa

SMEs are responding to these challenges with several strategic initiatives. More than half cite driving innovation, cost reduction, and efficiencies as the most important of these efforts, with emerging markets and Latin American companies placing an especially high emphasis on these areas. Close behind is expanding product and service development, another area emphasized more in emerging markets than developed ones, followed by strengthening customer relationships. Global expansion (34%) and penetrating new markets (33%) come out ahead of domestic expansion (29%), with new markets particularly important for manufacturers (42%) and highly profitable firms (40%). Responses also vary by the amount of time firms have been operating, with those in business for at least seven years more likely than their younger peers to emphasize domestic expansion. Interestingly, those in business from seven to ten years stand out from both younger and older companies in several areas, especially emphasis on driving innovation, cost reductions, and efficiencies.

Retail companies expect higher revenue growth in the next three years (19% anticipate sales to increase more than 10% year-over-year) than other industries surveyed. Along with wholesalers, they are more likely to see expanding product and service offerings as important to driving growth.

Innovation and efficiency drive growth

The most important initiatives driving growth



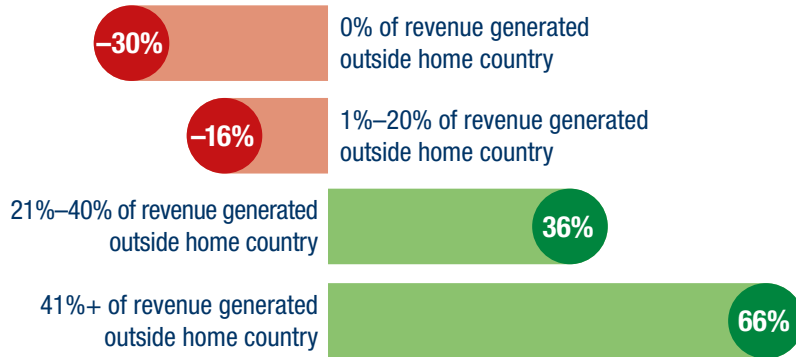
SMEs across the board recognize they must prepare for both domestic and international growth—and competition. For example, the Polish manufacturer Solaris Bus & Coach is seeing an influx of Chinese firms into its core European markets, even as it expands into the Middle East. To strengthen its competitive position in multiple countries, says director Zbigniew Palenica, the \$410 million company focuses on local partnerships that simplify supply chains and improve service delivery.

Latin American companies (71%) are by far the most concerned of any region about an increase in competition from companies in other countries. Increased competition from larger companies is cited as a major concern by Asia Pacific companies (68%) and the largest SMEs (71%).

The trend toward internationalization is illustrated dramatically by changes expected in the amount of revenue generated in markets outside of SMEs’ home countries, and by the number of countries in which SMEs do business. Only one-quarter of SMEs currently generate no revenue outside their home market, dropping to 17% in three years. Asia Pacific firms are ahead of the curve—just 12% get revenue exclusively at home, dropping to just 4% in three years; Latin American companies lag markedly, although they will make progress over the next three years.

Cross-border revenue will boom

Change in percentage of revenue generated outside firms' home country over the next three years



SMEs are going international

Change in percentage of the number of countries in which firms trade



Just under one-third of respondents currently generate more than 20% of revenue outside their home market, while nearly half will do so in three years. Larger SMEs lead smaller ones, with 64% getting more than 20% of revenue from outside their home country in three years. Smaller firms are part of the trend, just moving at a slower pace.

One-third currently do business only in their headquarters country, dropping to 20% in three years, while just 15% currently do business in six or more countries, rising to 35% in three years. Emerging-market companies trail developed-market firms now, but will expand across borders almost as rapidly in the next three years; Asia Pacific companies are moving fastest.

Prospering in this increasingly borderless world requires new ways of thinking—a global mindset that accounts for opportunities in far-flung international markets as well as increased competition at home from firms based in other countries. For Octo Technologies, a French consulting firm with revenues of about €22 million (\$28.5 million), the global mindset includes a big cultural change. During the period when the company expanded into other French-speaking countries (Morocco, Switzerland, and Belgium), problem-solving was relatively straightforward. But a move into Brazil in 2010 brought fresh challenges that could have snowballed as globalization continued to pick up pace. “As soon as you have one Brazilian on your team, you’re no longer all French speakers, so you have to communicate in English—otherwise your Brazilian guy is lost,” says CEO Francois Hisquin. “That’s a big change for a French company.” But the bet is paying off, as the firm started winning contracts in Brazil even as the European economy remains slow; Octo now generates about 16% of revenues abroad and, says Mr. Hisquin, “We think we have a model we can export to other countries.”

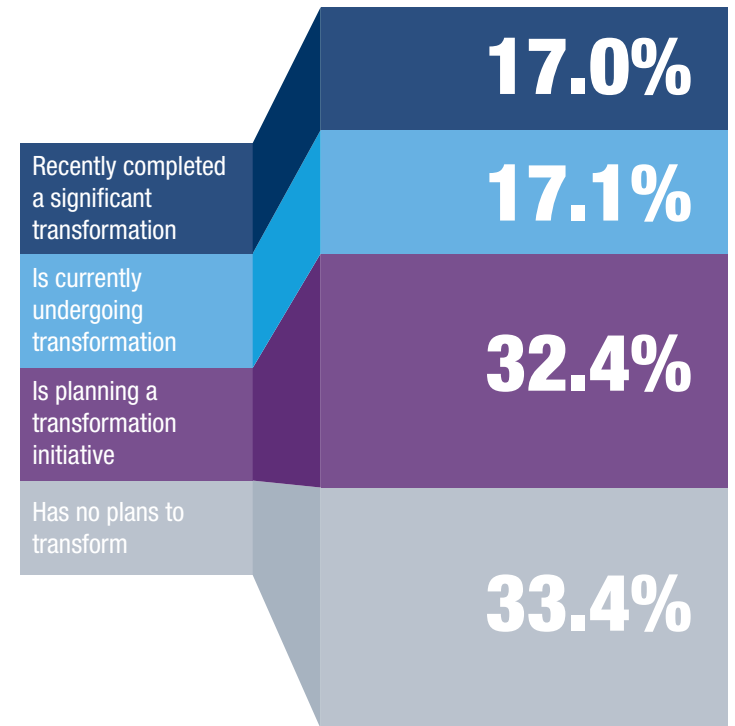
Embracing business transformation

One sign of transformation's importance: The person with primary responsibility for driving it is most often the CEO/owner.

Competing in the global economy demands much more from SMEs than setting up shop in new countries, and they are well aware of the magnitude of the task at hand. In response, SMEs are engaging in transformation, a term that indicates a major change in approach to a firm's business model, technology, products, and markets, and should not be understood as simply upgrading or adding technology. One sign of transformation's importance: The person with primary responsibility for driving it is most often the CEO/owner (41%), indicating that this is an enterprise-level concern. Only one-third of respondents have not undergone a significant transformation nor have plans to; more than one-third have already done so or are doing so now.

How far companies have advanced along the transformation curve varies by region and size. Nearly 80% of North American SMEs are at some point in the journey, while 46% of companies in Latin America have no plans to undertake transformation initiatives. SMEs of all revenue sizes express interest in business transformation, but larger firms are more likely to have actually done so, with 43% saying they are currently undergoing or recently completed a transformation. That compares with just 28% of companies with less than \$100 million in revenues. Firms in business for ten years or longer are most likely to be engaged in transformation; those in business for less than three years are most likely to be planning for transformation.

Transformation is a major trend

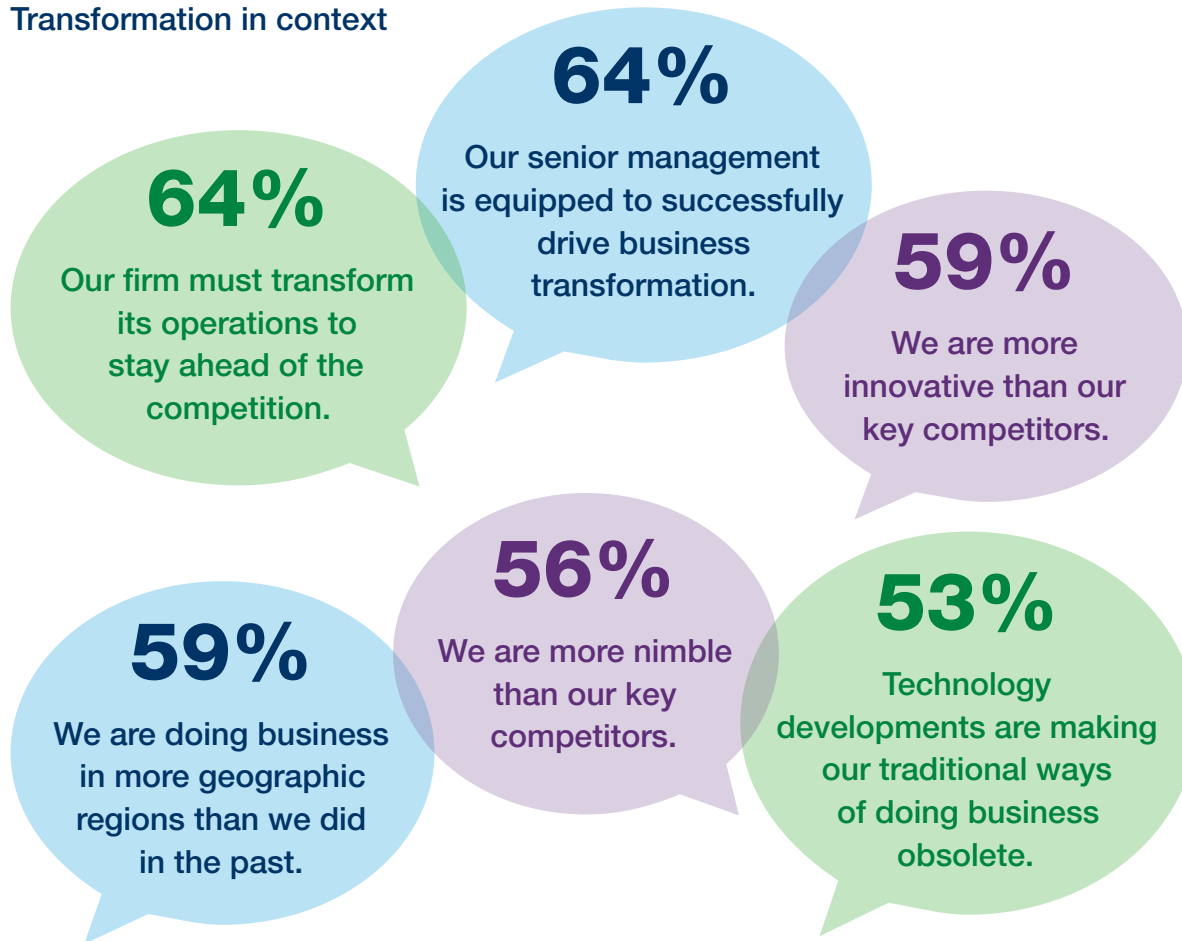


Transformation priorities include capitalizing on growth opportunities in expanding markets (41%) and entering new geographic markets (36%), followed by creating a culture of innovation (34%) and investing in new technologies (26%). The emphasis on geography extends across virtually all industries, regions, and company sizes. However, retailers and wholesalers are somewhat less focused on growth opportunities in expanding markets than other sectors, and larger SMEs are more focused than smaller ones on entering new geographic markets. Focus on technology correlates with a better bottom line, with the most profitable firms more likely to see technology transformation as a strategic priority in business transformation, and placing a higher priority (26%) on acquiring digital skills than less profitable SMEs (17%).

SMEs: Equipped to Compete

For most SMEs, transformation is understood as a strategic necessity, and perhaps as a key to survival. Nearly two-thirds say they must transform to stay ahead of the competition, and over half say that technology developments are making traditional ways of doing business obsolete. Most SMEs are confident their organization can make necessary changes, and nearly two-thirds say senior management is equipped to lead the charge. Confidence in their own abilities is high: 59% say they are more innovative than key competitors, and almost as many say they are more nimble, with Latin American firms especially sure of their abilities. Still, nearly half of SMEs struggle to determine the best transformation strategy, indicating that respondents may be overconfident about their transformation efforts.

Transformation in context



National boundaries

Regional overviews carry weight, but regions are not monolithic. Each country should be considered separately to gain a precise understanding of its particular situation (individual country fact sheets for each of the 21 nations in the survey have been developed as companion pieces to this report). Mr. Palenica of Solaris, the Polish bus-maker, says his firm has prospered by offering the right products for specific markets, in which needs are driven by everything from local public transportation budgets to environmental concerns. “We have been able to adjust to customer needs in every corner of Europe,” he says.

A given country may have some things more in common with nations in other regions than with its geographic neighbors. For example, Indonesia looks much more like Chile in terms of investment priorities for business management software (42% vs. 41%) and business analytics (30% vs. 35%) than it does India or China, although it diverges sharply from the Latin American nation on investments in mobile, social, and cloud. Even countries with much in common can show wide variances on key issues. The US expects significantly higher growth due to mobile technology (50%) than does Canada (39%), for example, while Canadian firms emphasize transformation as a means of entering new geographical markets to a much greater degree (44%) than their southern neighbors (26%).

And regions have complexities deeply rooted in political and economic history. EMEA, for example, is in many ways divided between the emerging economies of Eastern Europe and South Africa, the more established economies of France, Germany, and the UK, and the stricken economies of the Mediterranean rim. Yet sharp differences exist within these groupings as well.

The tech-savvy SME

A majority of SMEs are prudent investors in technology, and more than one-third identify themselves as early adopters—undoing the notion that small firms are technology laggards.

SMEs often are assumed to be behind the curve on technology, but the data show them to be quite active, if prudent, in this vital area. While a majority of SMEs (52%) say they invest in technology only when there is a clear ROI, more than one-third identify themselves as early adopters. “We were one of the French pioneers for digital technology,” says Octo’s Mr. Hisquin. “Agility is a key to our business.”

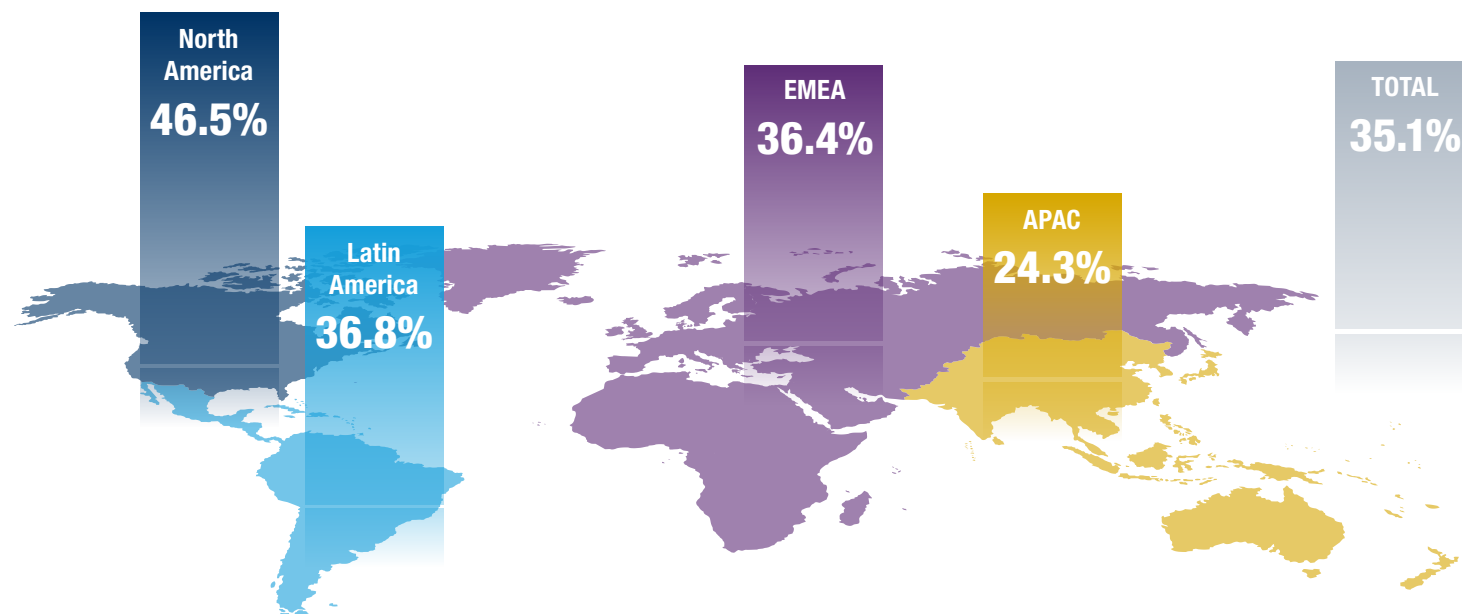
Only 13% of SMEs say they are reluctant to adopt new technologies. Manufacturers are more likely to be early adopters (42%), while retailers and wholesalers are less so (under 30% each). Geographic differences are more emphatic: Almost 47% of North American SMEs call themselves early adopters, contrasted with less than one-quarter of Asia Pacific firms. And almost two out of three Asia Pacific companies say their technology investment is

contingent on clear ROI. The largest firms are much more likely (42%) to be early adopters than the smallest (28%), and the most profitable SMEs are considerably more likely than their less-profitable peers to be early adopters.

In fact, SMEs see technology as key to business success. Almost two-thirds strongly believe technology helps them achieve longevity and sustainable growth (the number rises to 75% for North American companies), and well over half say technology is at the heart of their business transformation efforts. Mobile technologies are seen as transformational by 60% of SMEs—and by 70% of the most profitable firms. Almost 60% of respondents agree that technology is a key differentiator for their firm, with North American (64%) and Latin American (62%) firms more likely to agree than those in EMEA or APAC.

Many SMEs are early adopters of technology

Early adopters of technology by region

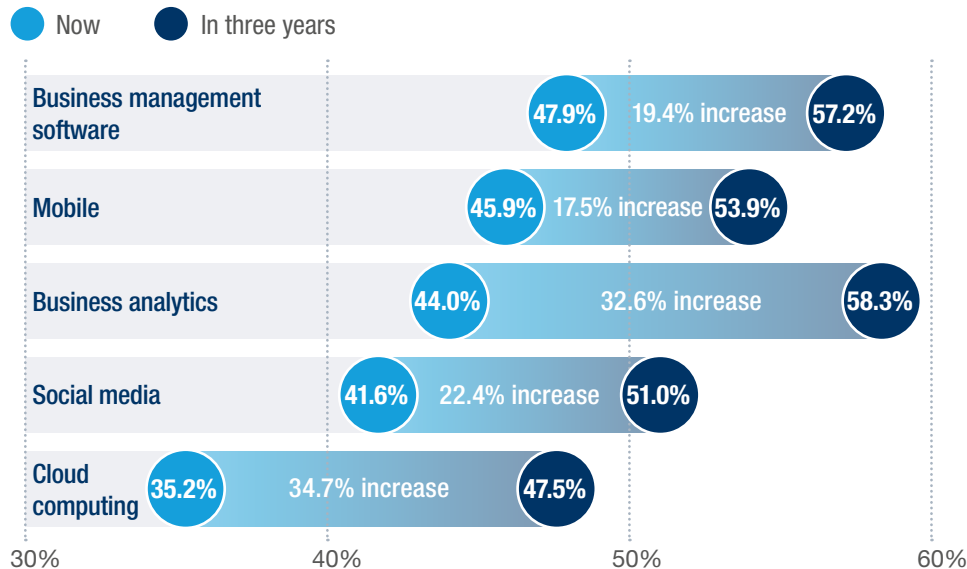


SMEs: Equipped to Compete

SMEs are confident they can go head-to-head with bigger companies on the technology front. Less than one-third say their firm lacks the technology capabilities of larger competitors, and barely one-quarter say they struggle to understand how technology can create measurable benefits for their firm. Even the smallest companies are confident they can handle technology and understand its relevance—just 32% say they struggle to understand how technology can create measurable benefits. Hot new technologies are on the table, too; only about one-third of SMEs say Big Data is not relevant to their business performance.

SMEs will increase their use of technology across the board over the next three years. The tools most commonly deployed today are business management software (48%), mobile (46%), and analytics (44%). Only cloud computing is expected to remain at less than 50% adoption, although it will jump from 35% to 47% in three years (the largest SMEs will hit 64% on cloud adoption in three years, while the smallest will be at just 40%). Smaller firms are expanding their use of analytics; more than half of those with sales under \$100 million will use these tools in three years, a jump of 43%. In general, the longer a firm has been in business, the more likely it is to have deployed all the key technologies; this gap is narrowest in social media, and persists across all categories in three years.

Use of key technologies is on the rise

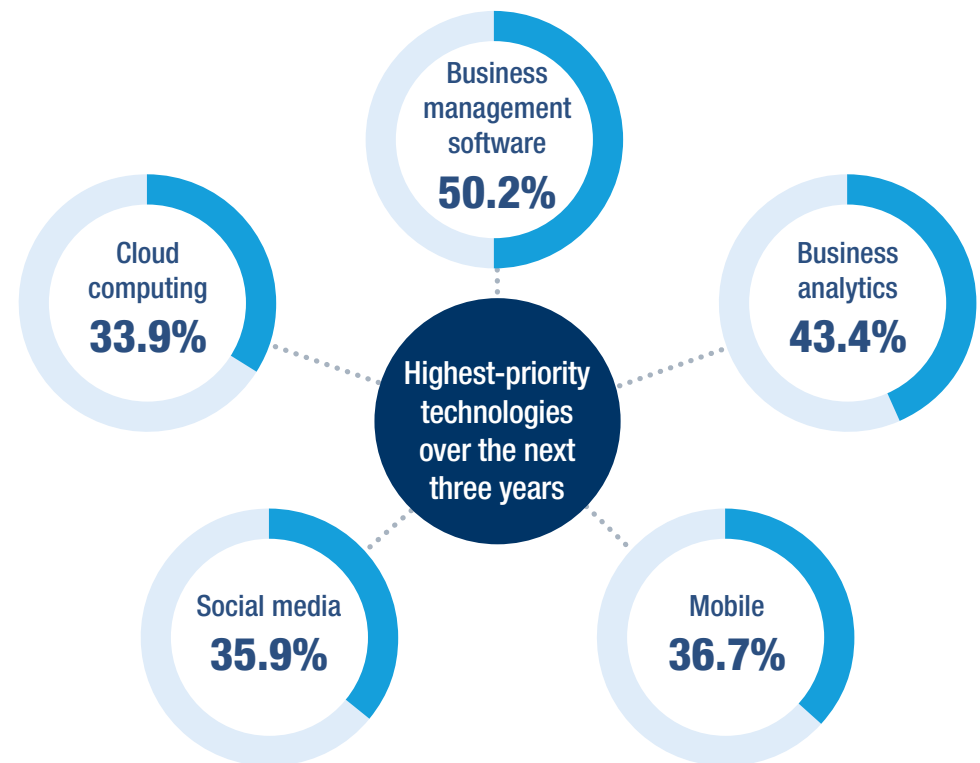


When it comes to investment strategy, SMEs are prioritizing technologies that enable them to gain better understanding and insight across the enterprise—business management software (50%) is the top focus, followed by business analytics (43%), mobile (37%), social media (36%), and cloud computing (34%). North American companies are markedly more focused on business analytics (58%) than other regions, including EMEA (40%), Latin America (45%), and Asia Pacific (44%).

Smaller companies are emphasizing investment in business analytics (52%) and business management software (58%)—catching up on these established enterprise tools—while their larger peers are more focused on mobile (41%), social media (44%), and the cloud (40%).

SMEs see a number of benefits for each of the five technologies considered in this study—and also a variety of challenges.

Business management software is the top budget priority

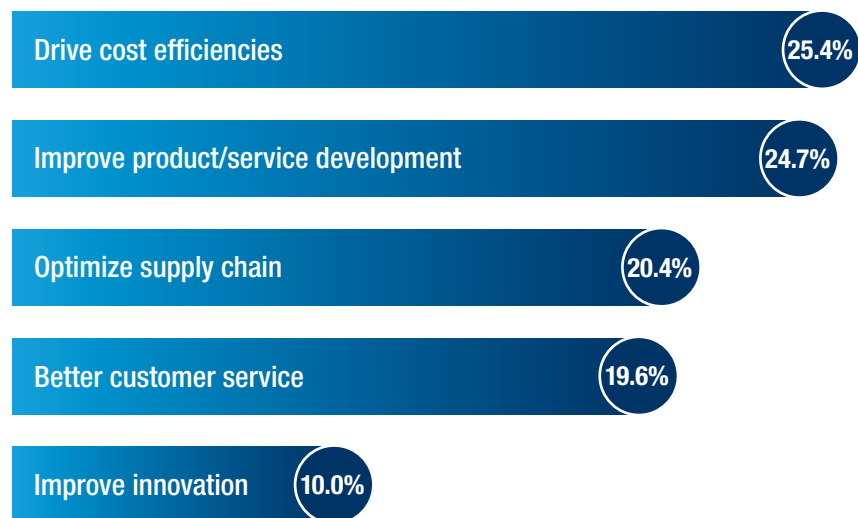


Business management software

SMEs are investing in business management software because they understand the need to build a technology foundation that can support long-term growth in a global marketplace. BMS offers numerous benefits, led by cost efficiencies and improved product and service development (25% each). Closely following are supply chain optimization and better customer service (20% each). Larger SMEs (31%) are more likely than smaller companies (23%) to cite cost efficiencies as a top benefit, while North American companies cite supply chain optimization as their largest benefit.

The leading challenge for companies interested in BMS is the cost of new platforms, cited by more than one-third of respondents (especially those in Latin America and Asia Pacific). Other worries include determining the best solutions (33%), integrating new software with existing systems (32%), determining ROI (29%), and achieving senior-level buy-in (26%).

SMEs see cost efficiencies and improved product/service development leading BMS adoption

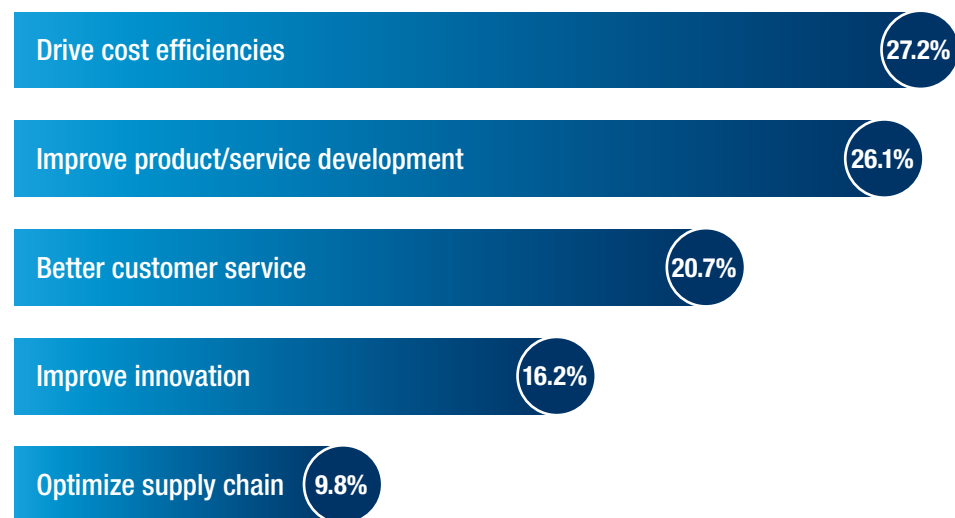


Data analytics

Transformation requires a thorough understanding of business performance, making analytics a prized addition to the SME toolkit. The technology is valued as a means to drive cost efficiencies (27%) and improve product and service development (26%), with North American and Asia Pacific countries most emphatic about the latter. Larger companies and those in developed economies are more likely to view business analytics as a tool for improving customer service. 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.

Yet many SMEs still struggle with a core competency of analytics: Ensuring that information is accurate and reliable. This is cited as a top concern across all industries. Other challenges include collecting data (37%)—an especially large problem for Asia Pacific firms (46%) and lower-revenue firms (42%)—and obtaining data rights (32%), which is of special focus in Latin America (40%). Also of particular concern to the largest companies is developing internal skills to analyze data (39%).

Cost efficiencies are the top benefit of analytics

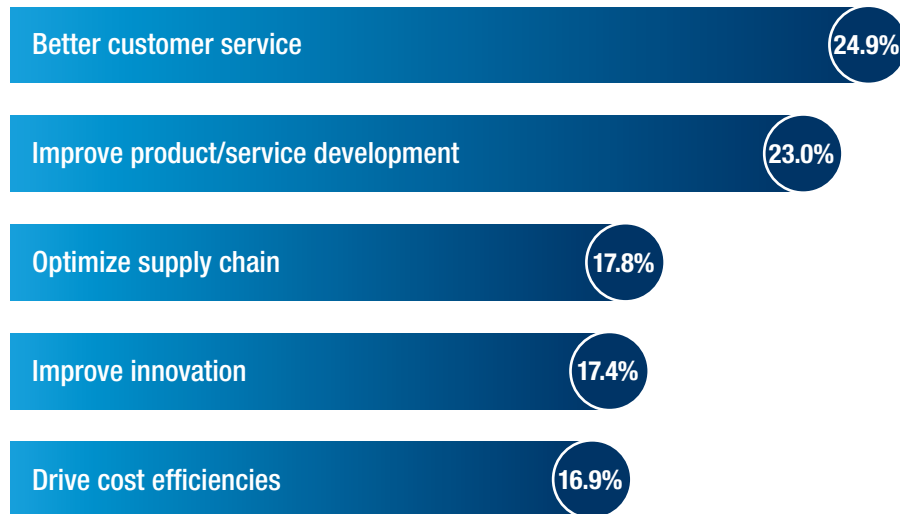


Mobile technology

Mobility drives innovation. It pays off in terms of better customer service (25%) and improved product and service development (23%). North American (22%) and Asia Pacific (23%) companies emphasize mobility's role in improving innovation to a greater degree than other regions.

Mobile challenges include significant human factors connected to both customers and employees. Security and privacy issues, along with the proliferation of platforms and devices, are the biggest challenges (both at 34%). This is especially true for smaller firms (39%). Almost one-third of SMEs face difficulties encouraging employees to use mobile technology and solutions, with Asia Pacific firms (39%) ranking this slightly higher than firms in other regions, although mobile culture continues to grow rapidly in the region and around the world.

Mobile leads to better customer service

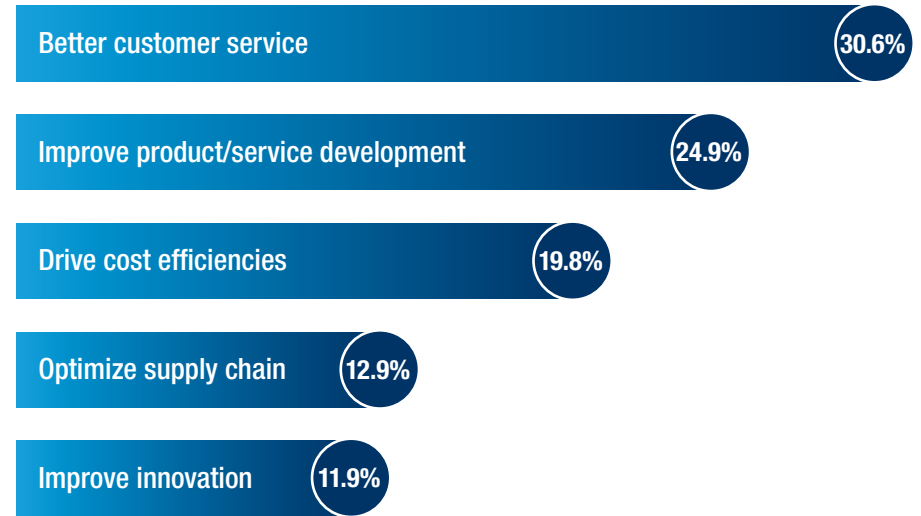


Social media

Social media is by definition a people-oriented technology, although its benefits transcend any single category. It is seen as a way to provide better customer service (31%) and improved product and service development (25%). North American companies (43%) are especially emphatic about its impact on customer service, while companies almost across the board also say they are finding cost efficiencies from social media. Given the low ranking innovation gets on the benefits list (12%), SMEs may be missing an opportunity to better leverage it for internal collaboration and communication.

Social challenges start with cultural issues, as 43% of respondents say encouraging employees to embrace social media is a key challenge; this obstacle is most onerous in Asia Pacific (58%). Again, broader acceptance of the technology over time may make this less of an issue. Following closely is the amount of effort needed to commit to a viable social media strategy (40%), with Asia Pacific (49%) again the most beset. Calculating ROI (35%) is another significant challenge, especially for professional service firms (44%).

Social media means better customer service to SMEs



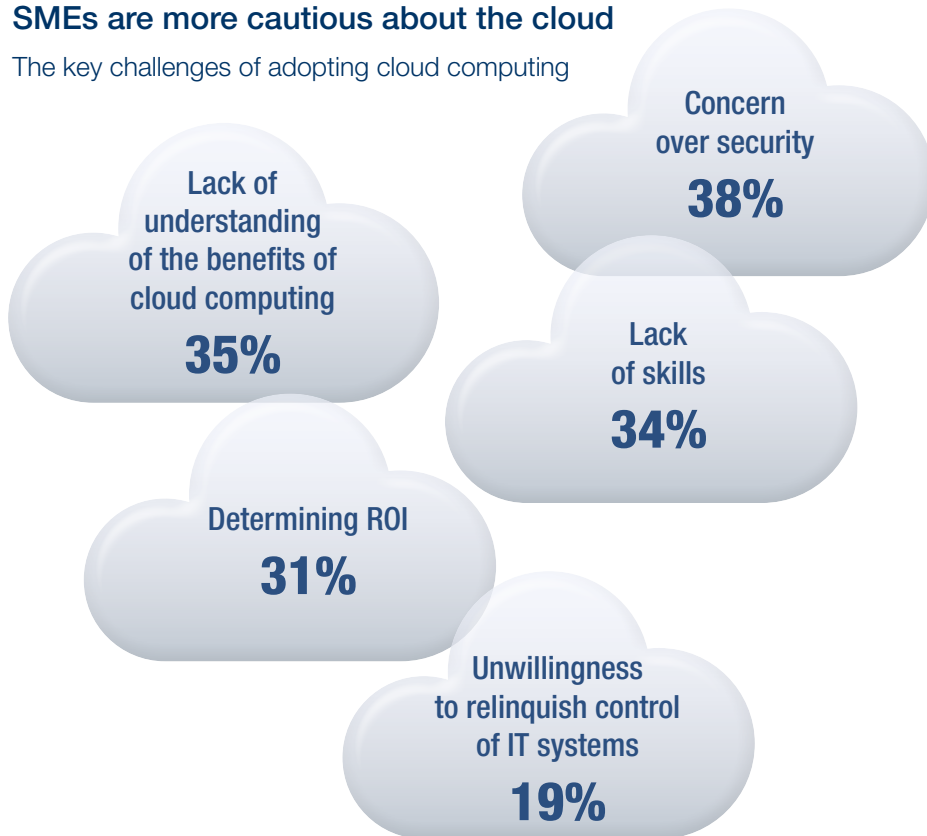
Cloud computing

The cloud promises cost efficiencies (30%) and improved product and service development (25%). Retailers (34%), wholesalers (36%), and Asia Pacific companies (42%) especially emphasize the importance of cloud computing to driving down costs.

Cloud challenges include security (38%), lack of understanding of the benefits of the technology (35%), lack of skills (34%), and determining ROI (31%). This broad range of concerns helps explain why SMEs are slow to leverage the obvious benefits of cloud computing. As long as those benefits—including simpler and less-expensive implementation of BMS and analytics software—remain untapped, SMEs risk operating at less than full potential.

SMEs are more cautious about the cloud

The key challenges of adopting cloud computing



Conclusion

In order to thrive, SMEs must be equipped to contend in the new competitive arena. This requires them to take meaningful action on four fronts, with technology deeply embedded across all of them. The successful SME will:

- **Adopt a global mindset**, whether preparing to grow into new markets or defend its home turf from international competitors; this requires changes in technology, culture, and strategy.
- **Focus on transformation**, with a holistic view of change across the enterprise and strategy, including technology; for many firms, transformation is essential not just to growth but survival.
- **Deal with the human factors** of skills, hiring, and culture, which touch on nearly every part of the business; technology offers some important ways to manage and optimize global people issues.
- **Plan for innovation and differentiation**, keys to reaching the empowered customers and rising markets that define the new global economy; the winners will be those who stand out in a world of competitors.

www.oxfordeconomics.com

OXFORD

Abbey House, 121 St Aldates
Oxford, OX1 1HB, UK
Tel: +44 1865 268900

LONDON

Broadwall House, 21 Broadwall
London, SE1 9PL, UK
Tel: +44 207 803 1400

BELFAST

Lagan House, Sackville Street
Lisburn, BT27 4AB, UK
Tel: +44 28 9266 0669

NEW YORK

5 Hanover Square, 19th Floor
New York, NY 10004, USA
Tel: +1 646 786 1879

PHILADELPHIA

303 Lancaster Avenue, Suite 1b
Wayne PA 19087, USA
Tel: +1 610 995 9600

SINGAPORE

Singapore Land Tower, 37th Floor
50 Raffles Place
Singapore 048623
Tel: +65 6829 7068

PARIS

9 rue Huysmans
75006 Paris, France
Tel: + 33 6 79 900 846

email: mailbox@oxfordeconomics.com

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