

DIGITAL, RESILIENT, AND EXPERIENCE-DRIVEN

How small and midsize organizations can prepare for the new economy

Introduction

Small and midsize organizations have certain advantages over their larger rivals. They can forge close bonds with customers and employees, adapt readily to subtle shifts in market sentiment, develop innovative services and products at speed, and modify their business models to avoid disruption.

But the current economic environment now threatens the success—and perhaps even the survival—of many small and midsize organizations. Transforming operations around new technologies and human experiences will be critical to resilience and growth in the years ahead.

SAP and Oxford Economics surveyed 2,000 executives in 19 countries to understand their priorities, challenges, and digital maturity. We also analyzed responses from top-performing firms—those with the strongest reported revenue growth over the past year and profit margin increases over the past three years—to identify best practices that other organizations might emulate.

Key findings:

- **Customer experience matters most.** The data was consistent throughout the survey, even during the pandemic: customer experience outranks even increased profitability and risk mitigation as a top priority.
- **Employee experience is also critical.** Improving employee performance and retaining top talent are even more important in a crisis, which may be why top performers cite improved employee experiences as their second-highest strategic goal (though, like others, they have work to do in this area). Other respondents also rank employee experience high on their list of strategic priorities.
- **Data to support decision-making is a weak point.** Gaps in data collection and analysis hinder the ability to improve experiences for customers and employees, to respond to changes in the market, and to get full value from technology investments. As the pandemic progressed, surveyed executives were even more likely to cite data analytics shortages in a range of areas.
- **Digital transformation is a priority for small and midsize organizations.** Respondents expect major progress toward digital transformation in the near future, with nearly all saying they will make at least moderate progress within three years. Top financial performers are further ahead, which should allow them to be more flexible in adapting to a challenging and ever-changing environment.

A focus on experiences

Widespread operational disruptions and market volatility have reemphasized the importance of effectively serving customers, engaging employees, and building trust with partners. These deep and personalized connections ultimately support resiliency and agility—critical for smaller organizations that may not have the financial reserves to weather hard times—as well as long-term growth.

The organizations in our survey understand this imperative, citing improved customer experiences as a top strategic priority over the next three years (see Fig. 1). It is unsurprising, then, they also consider service excellence as the top source of value and differentiation for their organization (Fig. 2).

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The three industries most likely to list improving customer experience as a top priority:

- Retail – 48%
- Logistics – 47%
- Banking/Financial Services – 40%

Fig. 1: Experience is a top priority—especially for top financial performers

Q: What are your organization's strategic priorities over the next three years?
Select all that apply; top five responses

base=135 top financial performers; 1,865 others

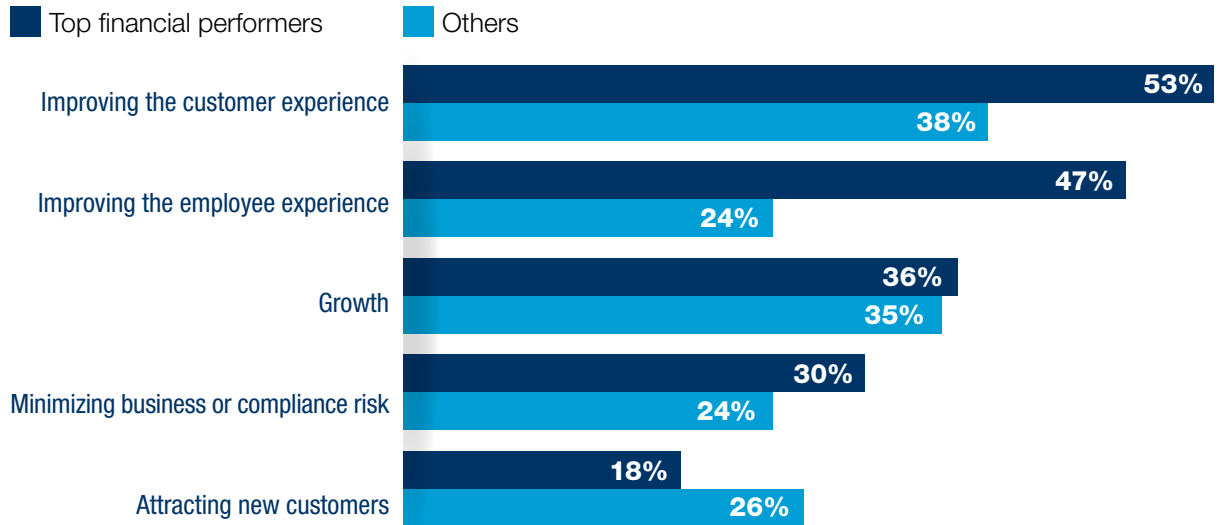


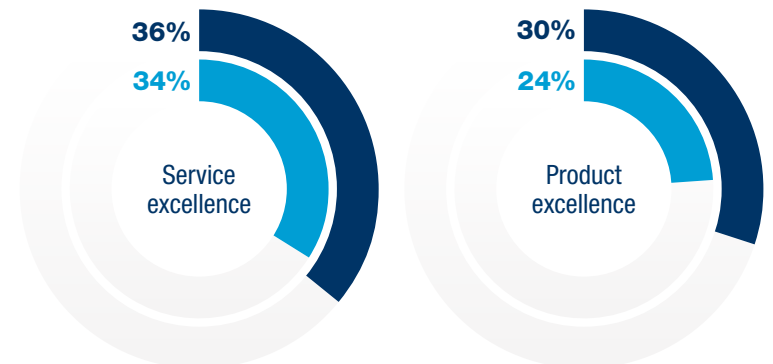
Fig. 2: Product and service excellence define small and midsize organizations

Q: Which best describes your organization's primary source of value and differentiation?

Select one; top two responses

base=135 top financial performers; 1,865 others

- Top financial performers
- Others



Respondents from top financial performers (those with reported revenue growth above 15% for the last fiscal year and profit margin change above 15% for the past three years) are even more likely to prioritize customer experiences. Critically, they also are much more likely to emphasize the importance of improved employee experiences. This focus on talent retention may ultimately support other goals as well, including both short-term agility and long-term growth.

What matters most for customer experiences?

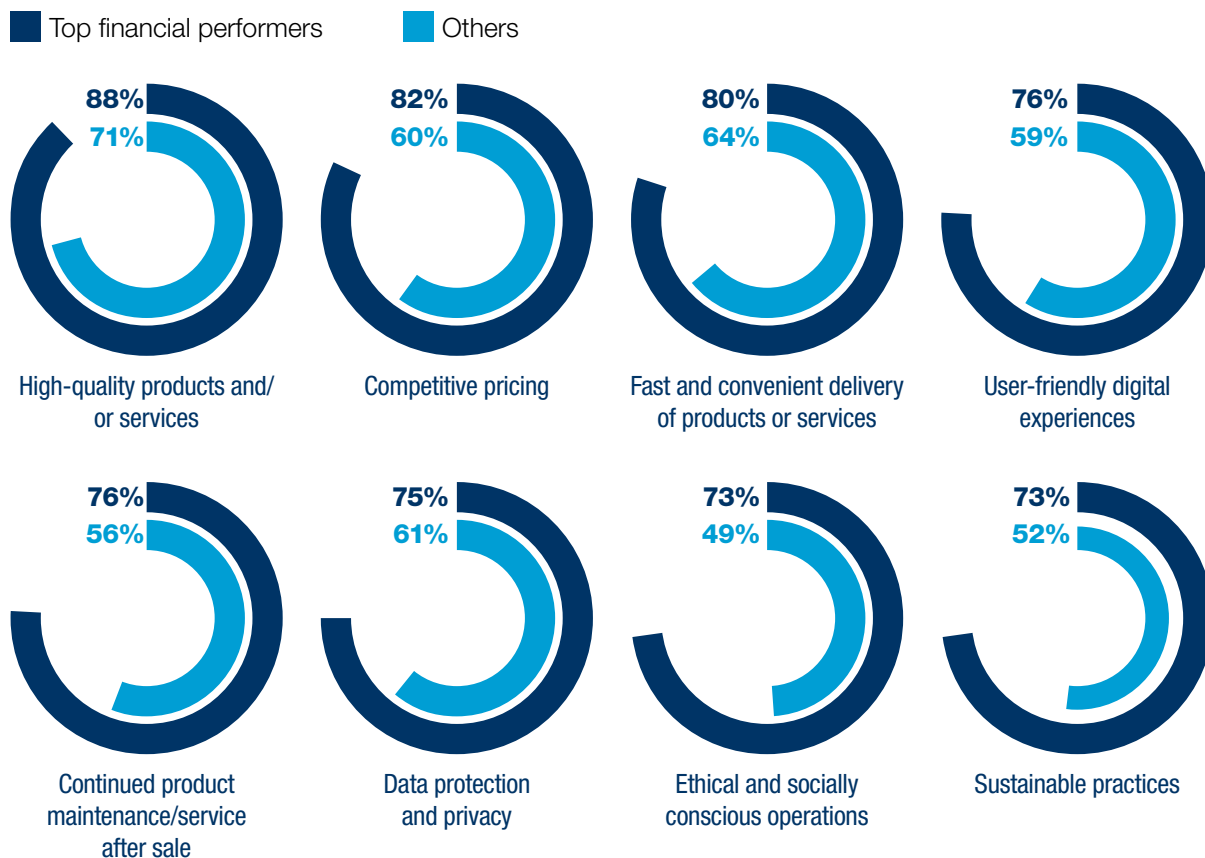
A range of factors goes into improving experiences for customers (Fig. 3). Our respondents cite high-quality products and services as the most important feature, followed by convenient delivery, data protection, and competitive pricing. Personalized experiences, however, may be undervalued, as this factor does not register as a top-eight response. Top financial performers are more likely to rate every factor we asked about as important.

But executing on these factors is no easy task, especially as consumer demands evolve quickly and constantly. In fact, 42% cite changing consumer wants and needs as a top external challenge to meeting strategic goals. A lack of real-time data about shifts in the market—or the analytical skills to make sense of it—may make this even more difficult.

Fig. 3: Key drivers of customer experiences

Q: How important are the following factors to providing a high-quality customer experience? “Moderately important” and “Critical” responses; top eight responses

base=135 top financial performers; 1,865 others



What matters most for employee experiences?

Purpose is nearly as important as pay when it comes to generating employee engagement and satisfaction, according to executives in our survey (Fig. 4). Training and development opportunities, flexible work arrangements, and easy-to-use technology—all essential in the wake of the global pandemic—are also seen as important to a large majority. Top financial performers are even more likely to emphasize the importance of all these factors.

What holds small and midsize organizations back from improving the employee experience? Generational differences, difficulty scaling for growth, and difficulty changing organizational culture are the top barriers, each cited by 32% of respondents.

Smaller organizations in our survey—those with less than \$50 million in revenue—are more likely to cite a lack of analytics for insight into employee wants and needs as a barrier to improving their experiences. Meanwhile, the largest organizations are more likely to struggle with generational differences, likely because they have a broader set of employees to satisfy. Regardless of organization size, stronger platforms for collecting and analyzing information about employees—along with management that listens to and reports on worker feedback—can help mitigate these issues.

INDUSTRY INSIGHT

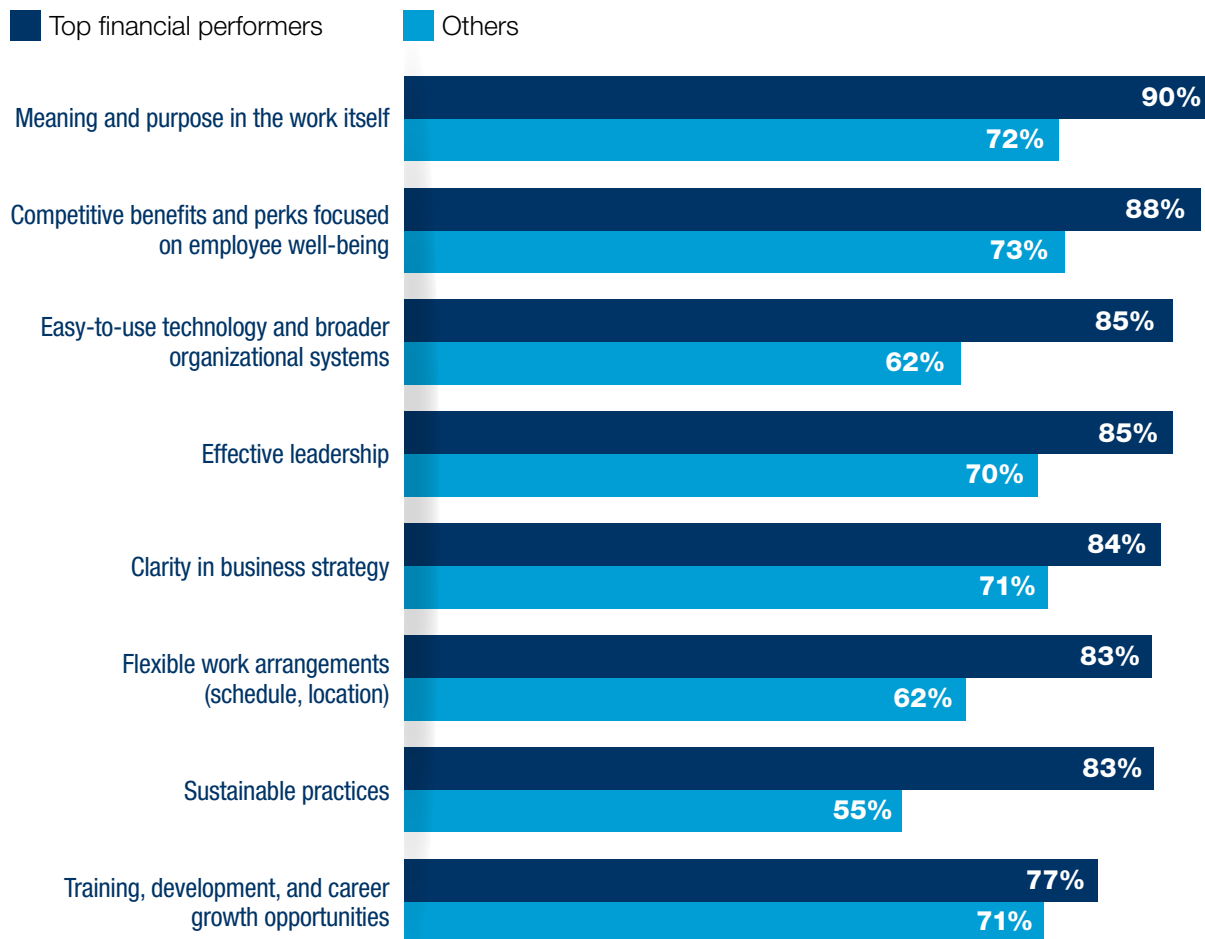
The three industries most likely to list improving the employee experience as a top priority:

- Retail – 33%
- Professional Services – 31%
- High Tech – 28%

Fig. 4: Executives say purpose is as important as pay

Q: How important are the following factors to providing a high-quality employee experience? “Moderately important” and “Critical” responses; top eight responses

base=135 Top financial performers; 1,865 others



Emerging from the COVID-19 pandemic

Our survey was fielded in March and April 2020, after the onset of the COVID-19 pandemic and resulting disruptions.

The crisis has brought some business goals and operational shortcomings to light. For example, respondents who completed the survey in April were somewhat more focused on efficiency and productivity as payoffs of automation, compared with those who filled out the survey in March. Later respondents also were likely to cite a shortage of data in capital spending and risk reduction, among other areas.

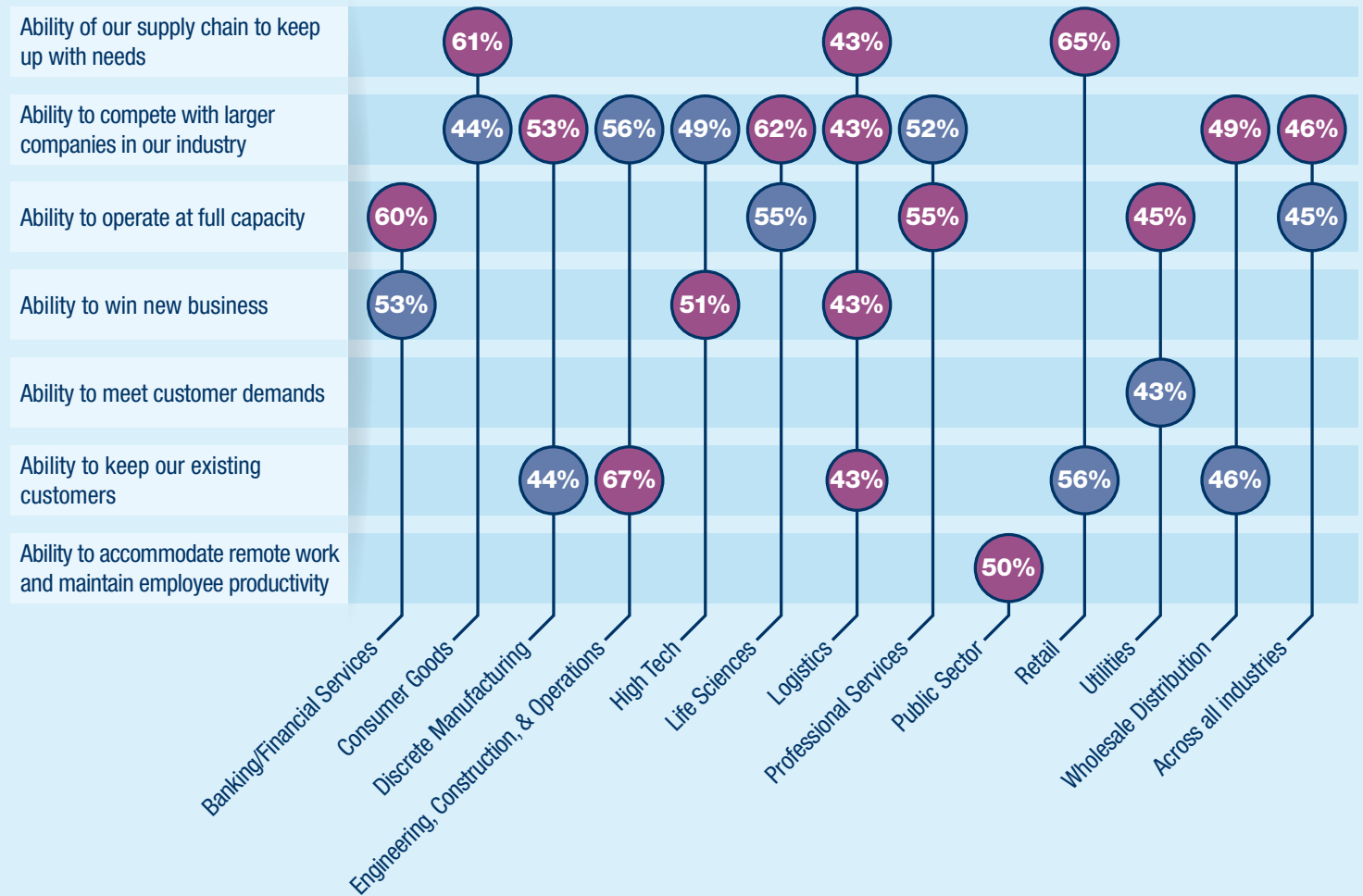
We also added two questions to the survey while it was in the field to understand responses to the pandemic. Unsurprisingly, the 506 executives who responded to these additional questions report significant impacts to their business from COVID-19. Supply-chain issues, competition with larger organizations, and the ability to operate at full capacity were among their top challenges. Not all sectors are feeling the effects of pandemic the same way (Fig. 5).

Fig. 5: Effects of COVID-19 across surveyed sectors

Q: To what extent has the COVID-19 pandemic affected your business operations and strategies in the following areas? “COVID-19 has forced us to completely revisit and restructure our business operations/strategies” and “COVID-19 has had a significant effect” responses; top responses for each industry

base=506

● Largest disruptor ● Second largest disruptor



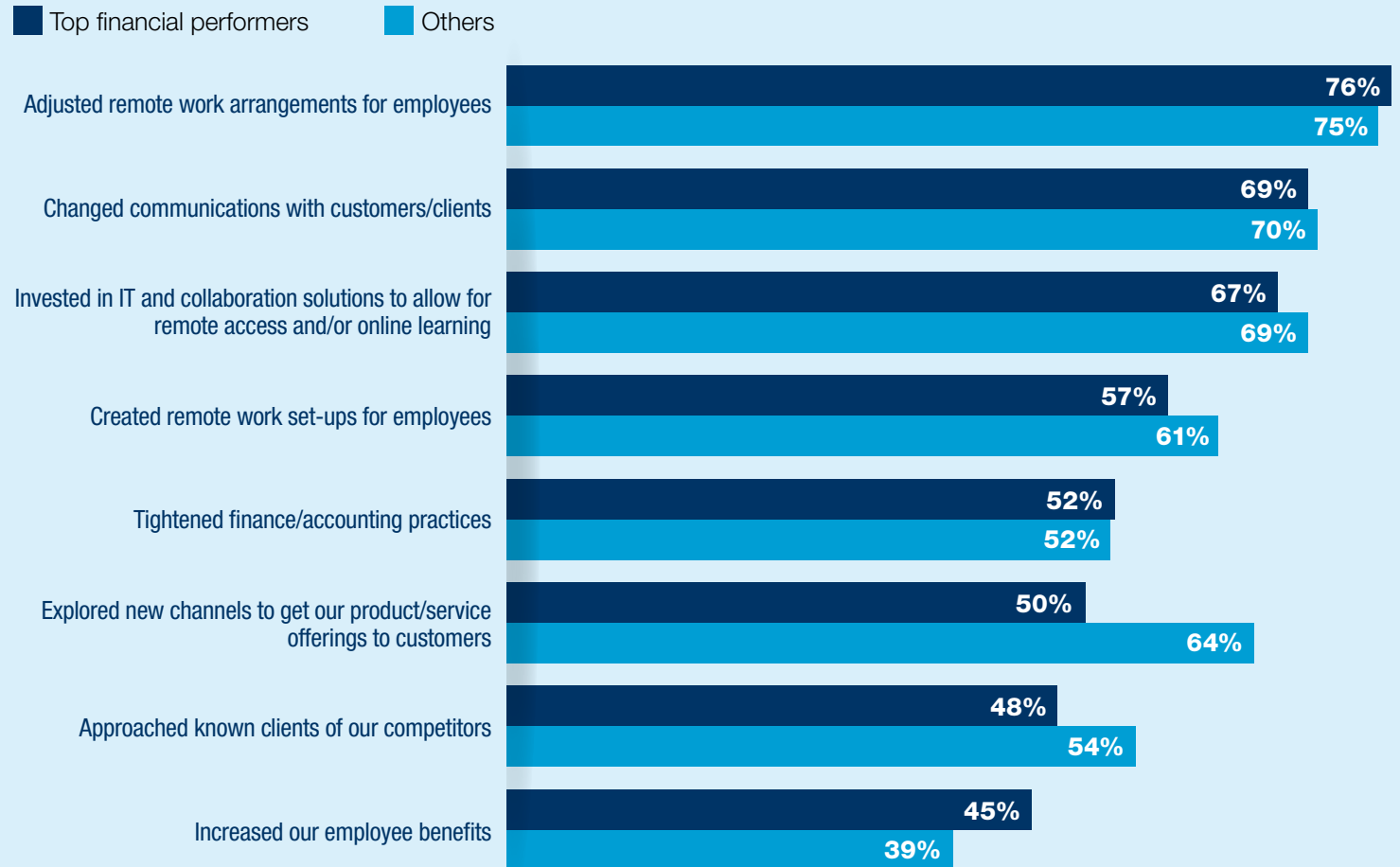
The small and midsize organizations we surveyed are taking a number of steps to respond to the pandemic, including adjusting remote work arrangements, exploring new ways to meet supply chain demands, and even developing new product and service offerings (Fig. 6).

For more research results related to organizational responses to COVID-19, see our [interim report on crisis management](#).

Fig. 6: Small and midsize organizations are making changes across the business

Q: Which of the following steps have you taken to respond to COVID-19? Select all that apply; top eight responses

base=42 top financial performers; 464 others



Transforming the organization

Better experiences for customers and employees will not come from running business as usual. Every function—from supply chain and inventory to marketing and billing—must standardize processes; enhance communication; and look for ways to boost efficiency, growth, and innovation.

Making these types of improvements at an organization-wide level is challenging, even for smaller operations. Coordination among departments is a big issue, cited as a challenge to meeting strategic goals by 29% of respondents. This may in part be because organizations count on different functions to enhance customer and employee satisfaction: a majority look to their customer service, sales, and marketing functions for leadership in managing customer experiences, while HR and operations tend to take the lead in employee experiences.

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Banking/Financial Services (56%), High Tech (52%), and Life Sciences (46%) are more likely than other sectors to say they have increased their focus on data protection and privacy across the business to improve customer experiences.

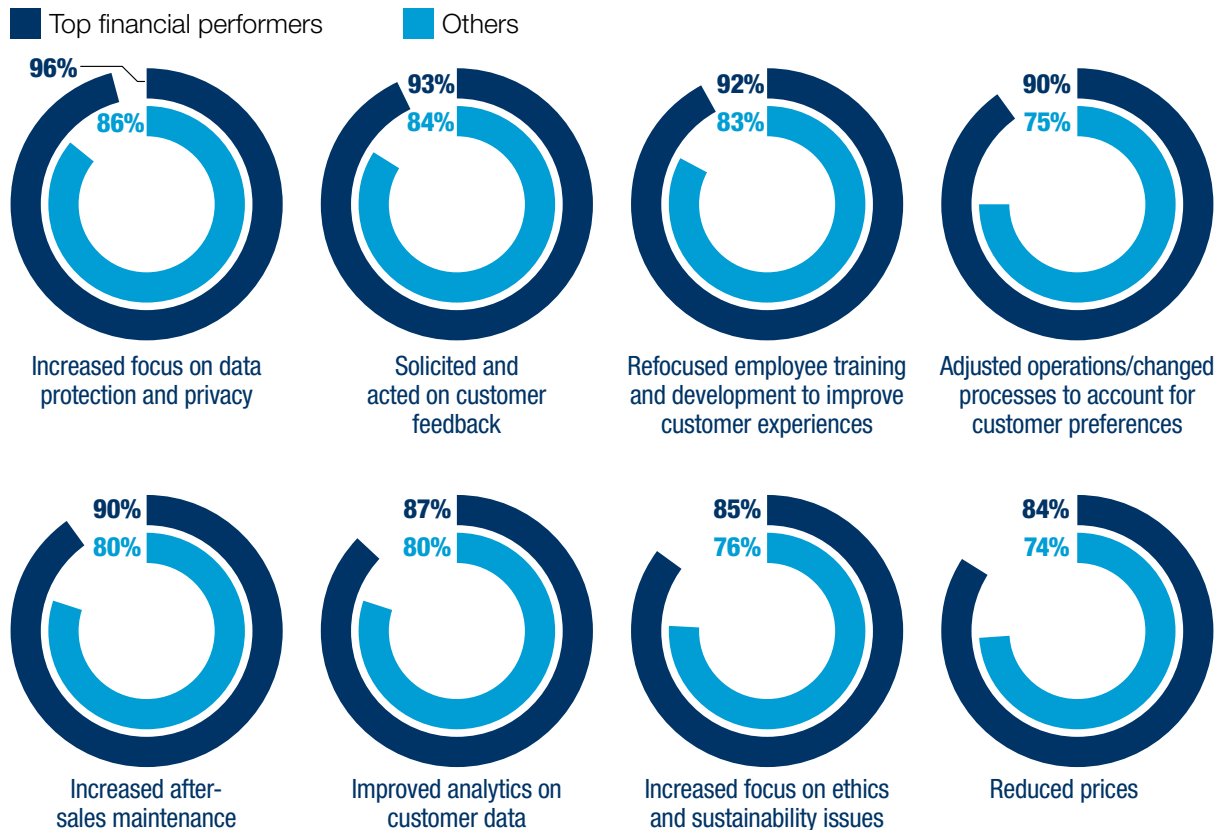
Upgrading processes for better customer experiences

Many respondents are taking active steps to make their customers happier: 85% have begun soliciting and acting on customer feedback, which should support their goals of providing high-quality products and convenient delivery (Fig. 7). However, many have work to do to ensure these changes are made across the organization.

Fig. 7: Small and midsize organizations are taking steps to improve customer experiences

Q: To what extent have you taken the following steps to improve the customer experience? “We have started this” and “We have done this across the organization” responses

base=135 top financial performers; 1,865 others



Upgrading processes for better employee experiences

Although respondents say purpose and pay are most important to employee satisfaction, they are much more likely to have increased training and development than to have invested in additional benefits, emphasized organizational culture and corporate values, or increased their focus on ethics and sustainability. Only about 25% have revamped the HR organization to better serve employees, or taken major steps to promote diversity and inclusion (Fig. 8).

The pandemic may change the way executives update processes around talent management and employee engagement. The responses to our survey from late March through April suggest an increased emphasis on effective leadership, meaning and purpose, clarity of business strategy, and socially conscious operations.

INDUSTRY INSIGHT

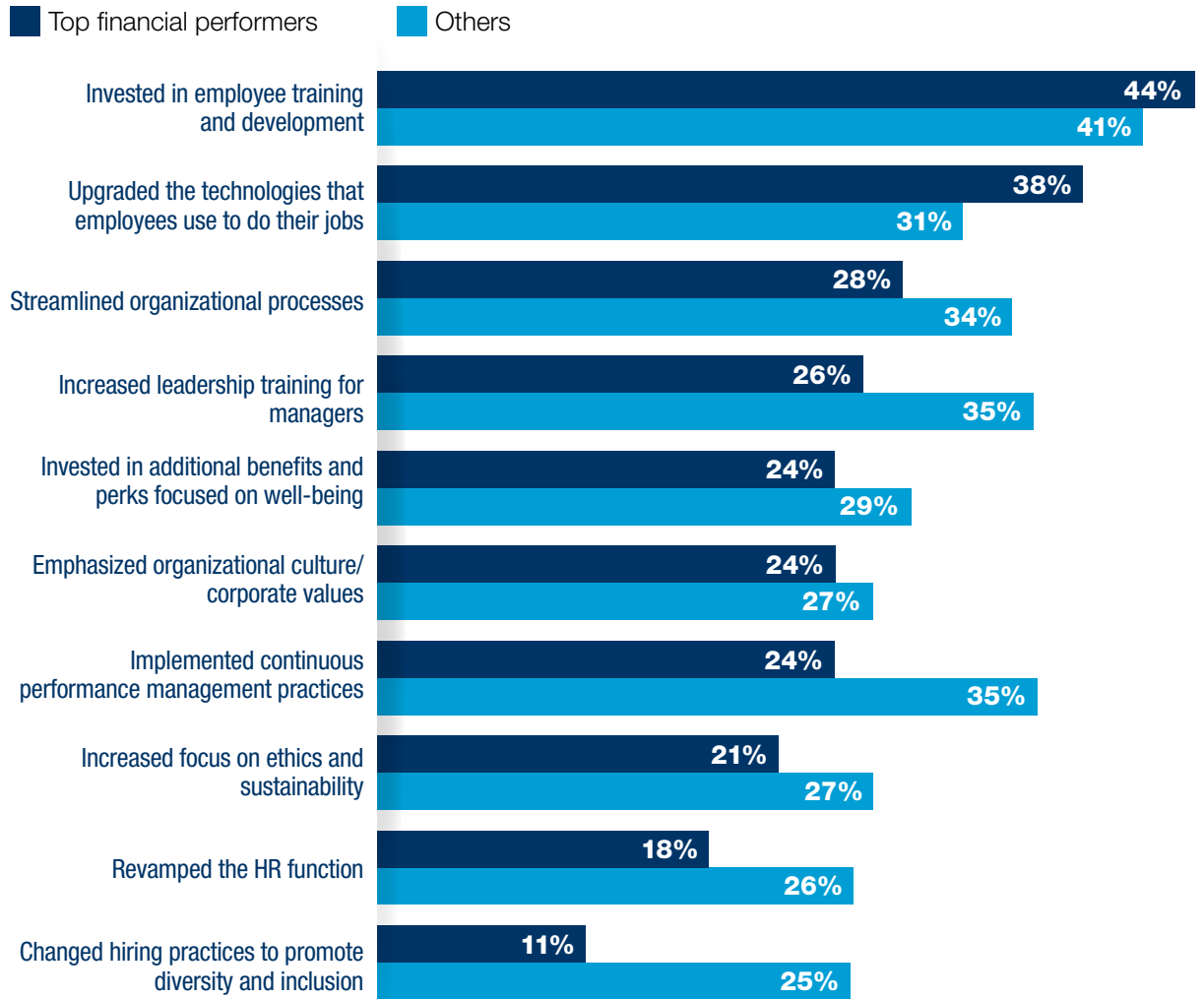
The industries most likely to have invested in employee training and development to improve the employee experience:

- Banking/Financial Services – 50%
- Retail – 45%
- Logistics – 45%

Fig. 8: Training and development is the top tactic for improving employee experiences

Q: Which of the following steps have you taken to improve the employee experience?
Select all that apply

base=135 top financial performers; 1,865 others



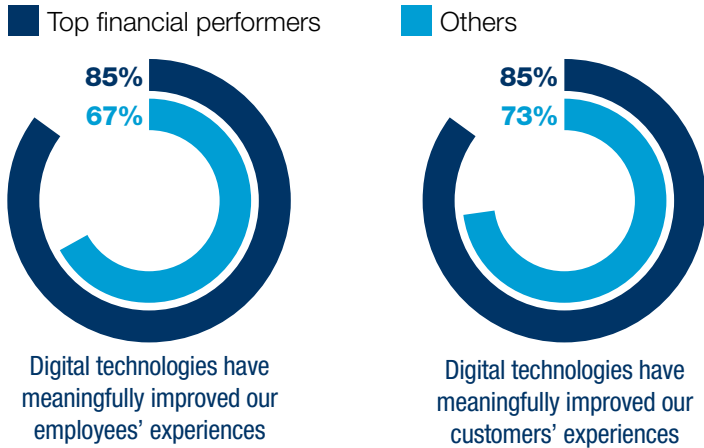
Technology enhances the human experience

It may seem like a paradox, but advances in technology can meaningfully extend our human connections. New breakthroughs in fields like data analytics, automation, and artificial intelligence will become increasingly essential for small and midsize organizations that aim to develop both personalized and economically efficient relationships with customers and employees. In fact, two-thirds to three-quarters of respondents believe that digital technologies have already meaningfully improved the experiences of their customers and employees, and top financial performers are even more likely to say so (Fig. 9).

Fig. 9: Digital technologies are shaping experiences

Q: To what extent do you agree with the following statements about your organization and your industry? "Agree" and "Strongly agree" responses

base=135 top financial performers; 1,865 others



As these emerging technologies become more effective and less demanding to deploy, small and midsize organizations will feel the pressure to keep pace with their larger peers in order to safeguard their reputations and market status.

Small and midsize organizations expect major progress toward transformation in the years ahead, with nearly all predicting steps forward over the next three years. While only 19% report having made substantial progress toward or completely transforming around digital technologies today, over half (56%) say they will have within three years' time. Top financial performers are ahead of the pack when it comes to the pace of their digital investments, and they expect to maintain their lead in the years ahead (Fig. 10).

Fig. 10: Top financial performers lead the way in digital transformation

Q: How would you describe your organization's current and planned progress toward digital transformation?

Current state: base=135 top financial performers; 1,865 others

Expected state in three years: base=122 top financial performers; 1,770 others

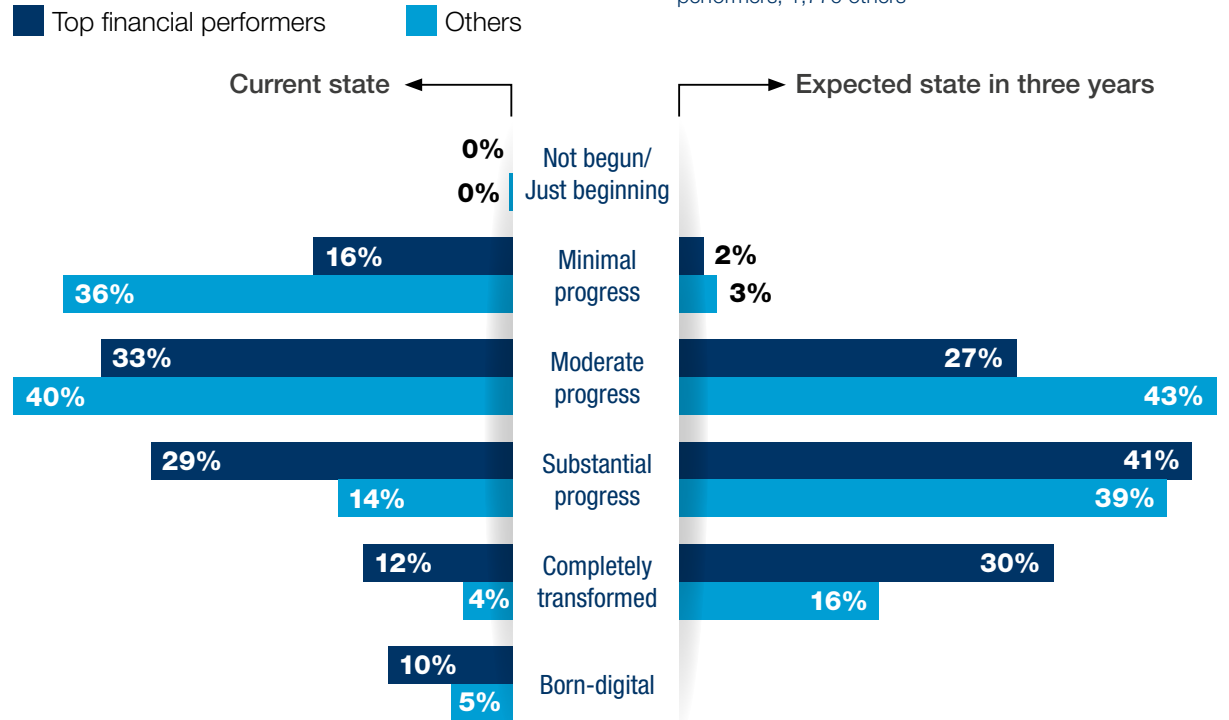
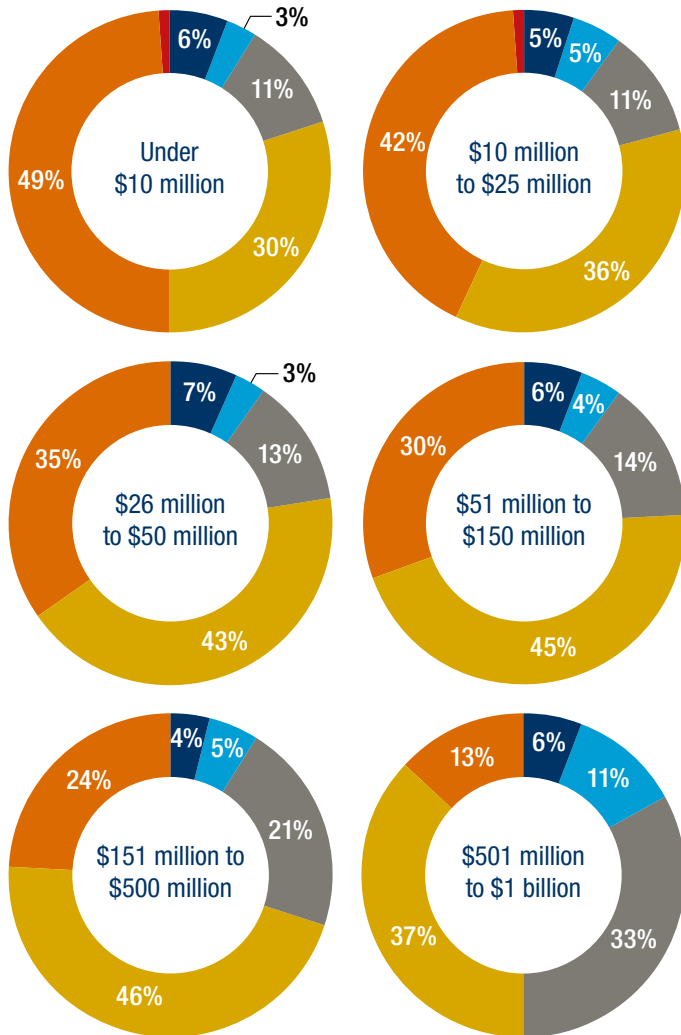


Fig. 11: Larger organizations are further ahead in technology transformation

Q: How would you describe your organization's current and planned progress toward digital transformation? base=2,000



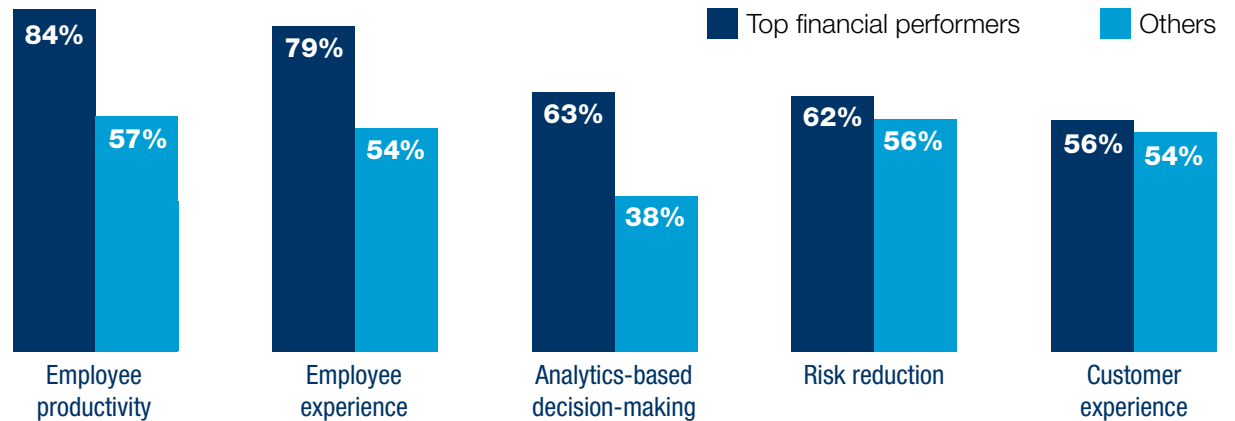
Larger organizations in our sample tend to be more digital. Nearly half of organizations with less than \$25 million in revenue say they have made minimal progress toward transformation, vs. just 13% of larger organizations with \$500 m to \$1 bn in revenue (Fig. 11).

Most organizations in our sample need more information to support their business goals and digital transformation efforts. For example, fewer than 40% of the respondents say they have the data to support analytics-based decision-making, while just half are fully equipped with data on capital spending (Fig. 12). This means that many cannot make informed decisions about the best way to boost growth, drive efficiency, or operate in a crisis. To solve the problem, small and midsize organizations must reevaluate the scope and scale of information collected from customers, internal sources, and third parties—and ensure they have the tools and skills they need to make proper use of it.

Fig. 12: Less than half have the data they need to make analytics-based decisions, but top financial performers are better equipped

Q: To what extent do you have the data you need to support improvements in the following areas? "We have what we need" responses; select answers shown

base=135 top financial performers; 1,865 others



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Industries that have made substantial progress toward transformation:

- High Tech – 35%; another 14% are born-digital
- Banking/Financial Services – 26%; another 8% are born-digital
- Engineering/Construction/Operations – 28%; another 3% are born-digital

Industries that are lagging on digital transformation, reporting minimal progress:

- Retail – 44%
- Consumer Goods – 43%

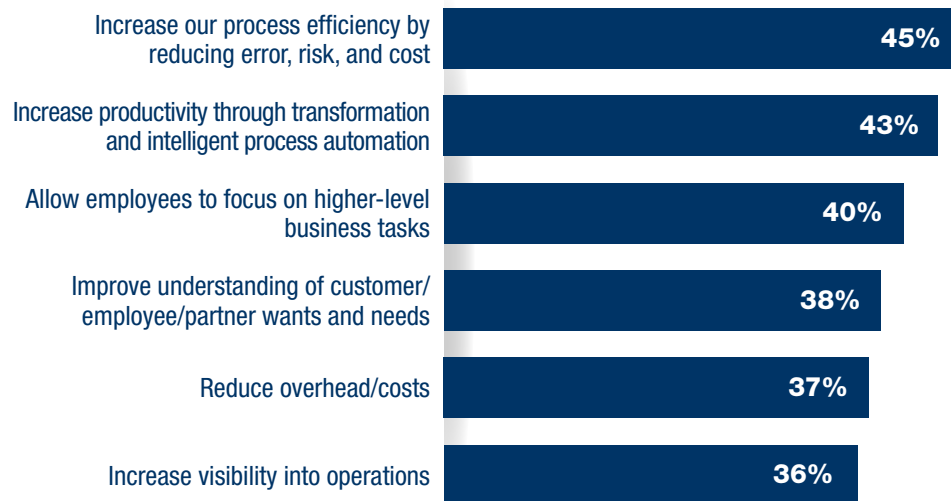
Where are small and midsize organizations focusing their digital investments? Most are integrating new technologies across a broad canvas of business functions, but software for HR, governance and cybersecurity, customer relationship management (CRM), enterprise resource planning (ERP), and finance and risk are in widest use. And while AI and predictive analytics are not yet widely deployed, smaller organizations should aim to adopt these tools over the coming years—especially as competitors begin to personalize customer interactions using AI-driven software and chatbots and increase efficiency with robotic process automation. (Top financial performers are more likely to say these technologies are in use at scale—another sign of their digital maturity and ability to successfully make changes across the organization.)

Executives have high hopes for technology investments. Nearly half expect automation and digital technologies to support process efficiency and productivity; increased visibility into operations and improved understanding of their networks are other top benefits (Fig. 13).

Fig. 13: Technology drives process efficiency and other goals

Q: In which of the following ways do you expect automation and digital technologies to support your organization's business goals? Select all that apply; top six responses

base=2,000



Conclusion

Small and midsize organizations are balancing short-term problem-solving with longer-term, more strategic initiatives like sustained customer and employee satisfaction and future growth. Meeting these goals depends on coordinating across departments to avoid silos, using data analytics to support decision-making and investments, and maintaining personal relationships with customers and employees even as operations scale up.

How can small and midsize organizations continue to provide high-quality experiences even as they navigate recovery from a crisis?

- **Organize for agility.** Coordination across the business—facilitated by rapid communication and information-sharing—can help small and midsize organizations respond to challenges quickly and effectively.
- **Put people at the center.** Business processes, organizational structures, and digital investments should all support customer and employee engagement, whether through real-time insight into wants and needs or innovations that improve convenience and quality.
- **Become data-driven.** Analytics for decision-making can transform every aspect of operations, from insights that affect supply-chain sourcing to alerts that support predictive maintenance after sales.

Message from our sponsor

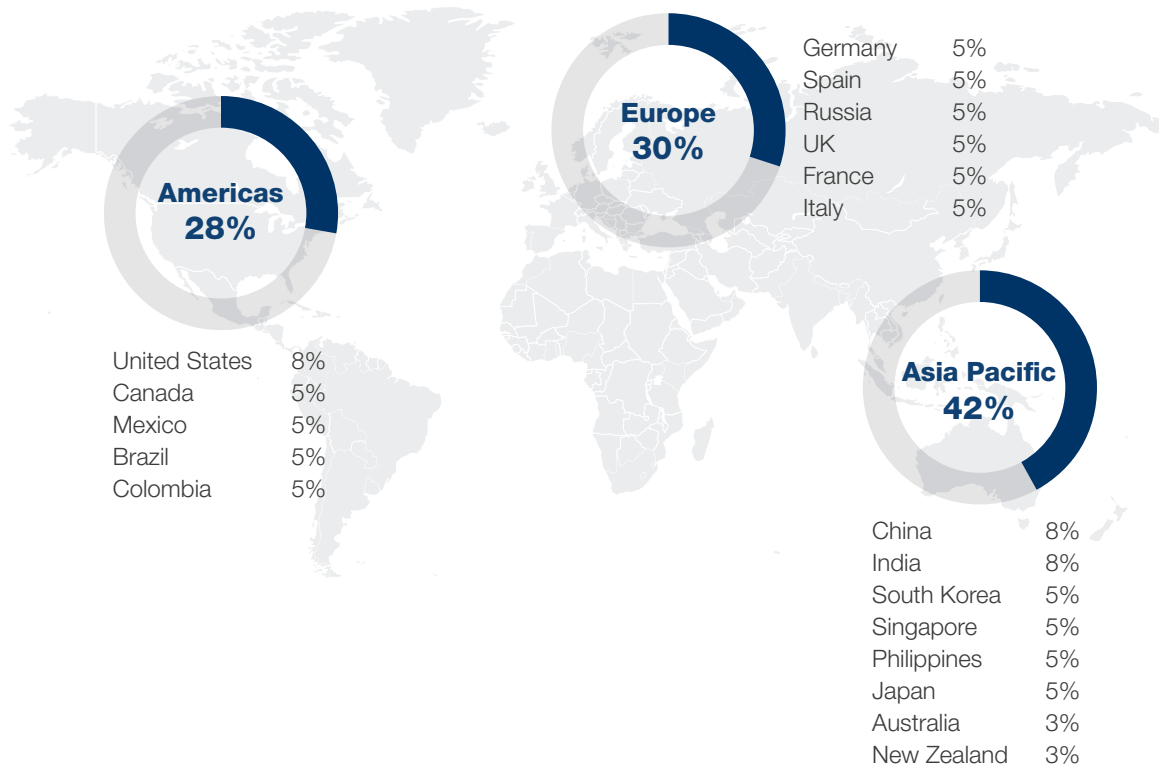
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About the research

Oxford Economics and SAP surveyed 2,000 senior executives from small and midsize organizations around the world and across industries. Each respondent organization in our survey reported annual revenues or budgets ranging from just under \$10 million to just below \$1 billion, as well as employee headcounts below 1,000 employees; in India, some respondents had up to 2,000 employees. The survey was administered via a mix of computer-assisted telephone interviewing and online links between February 27 and April 30, 2020.

Geography

Our survey covered the Americas, Europe, and Asia Pacific.



Executive role

Respondents are senior executives from across functions, including operations (18%), management (17%), finance (13%), technology (11%), sales (10%), human resources (9%), marketing (8%), legal/risk (7%), and customer service (7%).

Industry breakdown

Respondents represent a range of industry sectors.

- 10% each from wholesale distribution, professional services, banking and financial services, consumer goods, retail, discrete manufacturing, high tech, and life sciences
- 6% each from utilities and engineering/construction/operations
- 4% each from public sector and logistics

Organization size

All organizations in our survey report under \$1 billion in revenue. In all countries except India, all have fewer than 1,000 employees; in India, some have between 1,000 and 2,000 employees.

- 20% under \$10 million in revenue
- 31% \$10 million to \$50 million in revenue
- 23% \$51 million to \$150 million in revenue
- 26% \$151 million to \$1 billion in revenue