



## The Road to the Digital Future of SMEs

We live in a world in which the headlines are often about global technology players like Google or Amazon Web Services and their role in driving "digital transformation" — leveraging digital technology to fundamentally change the way they do business. But small and medium enterprises (SMEs) are the cornerstone of national economies, including the UK's. These companies also have a key role to play in the shift towards a digital future.

This IDC White Paper investigates where SMEs (companies with fewer than 250 employees) are starting to make their digital footprint, where the obstacles lie and how to overcome them.

In June 2017, IDC conducted a survey of 300 SMEs, ranging from very small to large organisations, across the UK, from six key vertical markets — information technology and creative design, business/financial/professional services, skilled trades, health and beauty, hospitality and leisure, and retail. The results show that smaller businesses share the same strategic imperatives and digital future mindset as larger enterprises: they understand that investing in the most up-to-date ICT gives a competitive advantage and that first-rate connectivity is key in a world shaped by cloud and wireless/mobile technologies. Paradoxically, at the same time a lot of SMEs are held back by a lack of willingness and knowledge to invest in ICT to drive their digital transformation.

This means that UK SMEs run the risk of not having the right ICT infrastructure or internet connectivity and therefore cannot take advantage of the opportunities in a data-driven digital world. From voice-over-IP (VoIP) to accessing the cloud, the benefits of flexible working, improving digital marketing and enhancing customer experience mean that reliable, high internet connection speed is a necessity for the future. IDC believes that it is important for SMEs to embrace an investment strategy to drive growth.

### The SME Perspective

SMEs account for 51% of employment and 46% of turnover in the UK economy (Business Population Estimates, 2016).

The IDC survey showed a positive outlook among UK SMEs. While 54% of respondents said that year-over-year growth was roughly the same or flat, 29% of SMEs reported growth of up to 10%, and a further 13% reported growth of more than 10%. Only 3% of companies reported a revenue decline of up to 10%, and 1% said revenue declined by more than 10%.

Despite the majority of companies growing, the acquisition of new customers (51%) is still the biggest business challenge for SMEs, followed by finding the right staff skills (47%). See Figure 1 for an overview of key business challenges.

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*UK SMEs identified their key business challenges as being growth-related.*

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Figure 1

Q.: What are the key business challenges that your company faces?



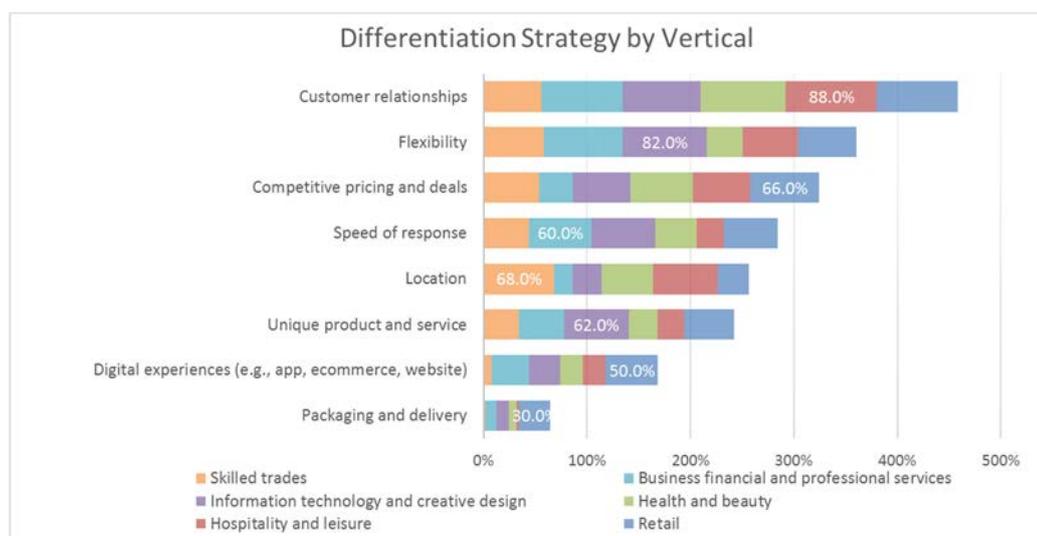
Source: IDC EMEA DX in UK SMEs Survey, 2017 (n = 300, all participants)

A key differentiator for SMEs that can help them win market share against larger organisations is the ability to form excellent customer relations. Figure 2 shows there are significant differences between vertical markets. Hospitality (88%), health and beauty (82%), and business and financial services (78%) were three vertical markets where the close relationship with the client was evident in the survey.

Related to this, SMEs prided themselves on their flexibility to ensure favourable customer experiences: this was especially evident with SMEs active in the IT sector (82%) and business and financial services (76%). IDC believes that UK SMEs can strengthen their advantage by investing in technologies to support their digital future. It will be all about an "experience economy" in which enterprises seek closer understanding of their customers by leveraging IT solutions featuring mobility, cloud, Big Data/analytics and social technologies.

Figure 2

Q.: How does your company mainly differentiate itself?



Source: IDC EMEA DX in UK SMEs Survey, 2017 (n = 300, all participants)

## SMEs and Digital Transformation

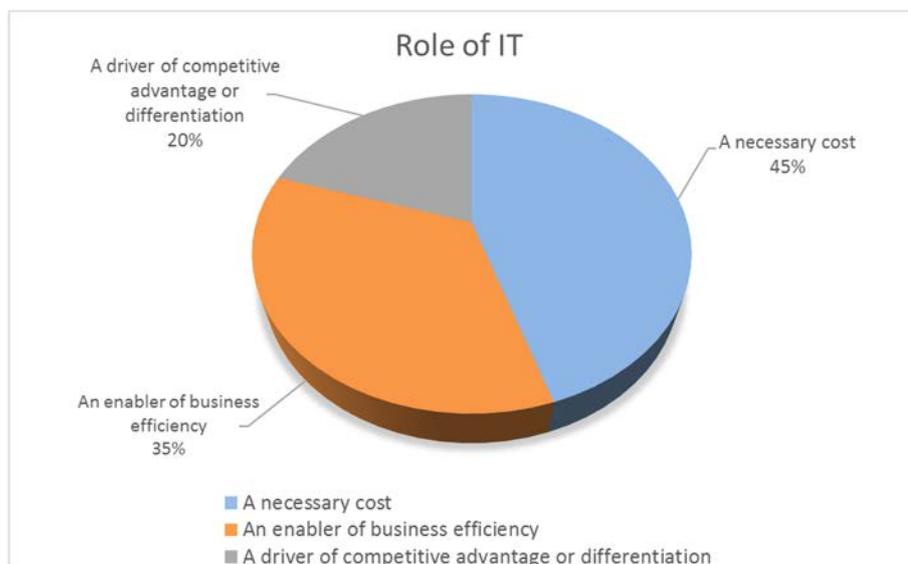
The IT industry is in the midst of a massive structural shift — from the PC-based era of innovation (1985–2005) to the current era (since 2005) built on the disruptive innovations of cloud, mobile and Big Data/analytics. A good example of this transformation is the stellar growth of Apple, Google and Facebook over the past decade — companies with a distinctly different focus compared with the likes of IBM or HPE. Today, businesses of all sizes are adopting these disruptive innovations to such an extent that these markets are growing at four to five times the rate of the overall IT market, according to IDC data. IDC therefore believes that the cloud and mobile platform are the foundation of business growth as part of a wider process called digital transformation. This will create value in all corners of the marketplace, especially by "democratising innovation". By this, IDC refers to the fact that in the past, only large organisations had the financial clout to invest in huge IT estates to drive efficiency and innovation. Today cloud technologies make similar IT firepower available to SMEs, enabling them to accelerate revenue growth and pull away from competitors that do not embrace a digital future.

The IDC survey results (see Figure 3) show a mixed picture about the current state of the UK SME market and the need to invest in a digital future. Despite their professed focus on growing the business, attracting quality staff and serving customers well, we see that they still view IT as a necessary cost (45%) as opposed to a driver of competitive advantage (20%). A further 35% of respondents see IT as an enabler of business efficiency. This means that the bulk of UK SMEs could find themselves not well positioned to grow their business in a world shaped by increased competition, not only from SMEs that *do* embrace ICT as a growth driver, but also from non-UK companies both small and large in a world where technology shrinks physical distance and barriers to entry.

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Figure 3

Q.: How does the management of your company tend to view the role of IT?



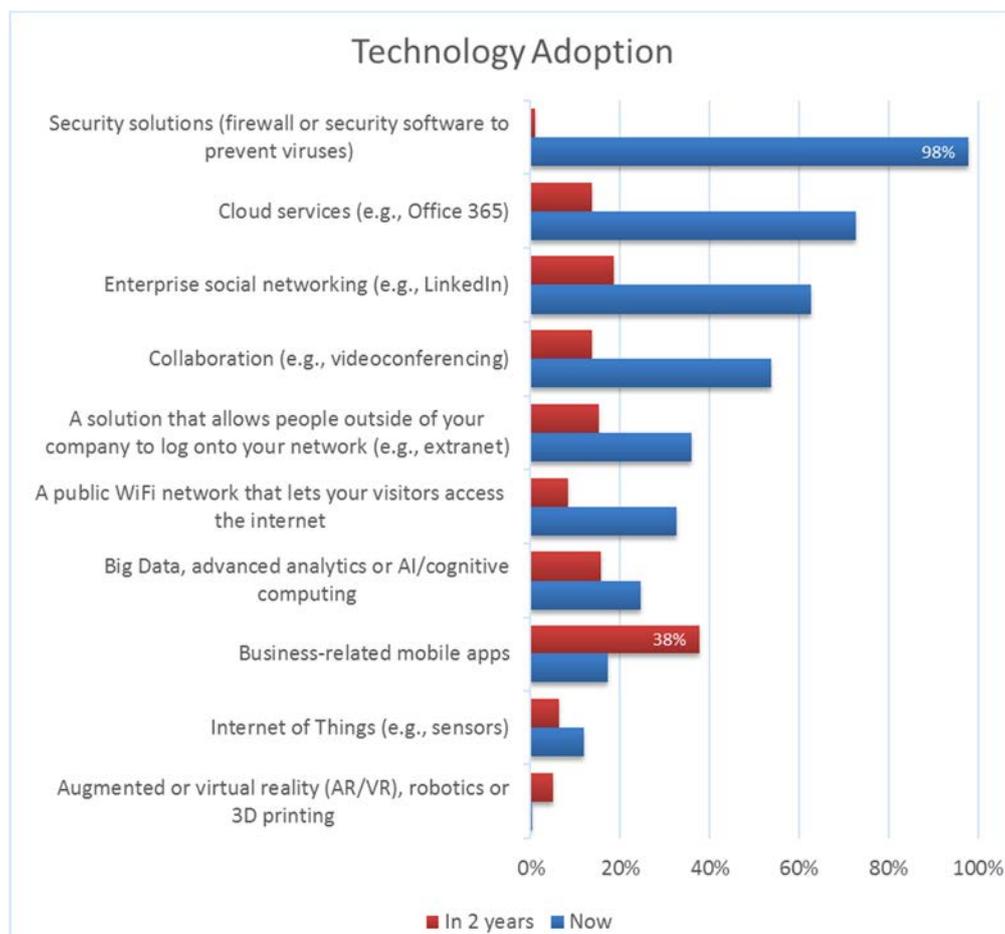
Source: IDC EMEA DX in UK SMEs Survey, 2017 (n = 300, all participants)

*UK SMEs are starting to invest or are planning to invest in certain digital technologies, predominantly security (98%), cloud (73%) and social technologies (63%).*

Looking at technology adoption (Figure 4), we see that UK SMEs are starting to invest or are planning to invest in certain digital technologies, predominantly security (98%), cloud (73%) and social technologies (63%). A deeper dive into the results shows significant discrepancies. The current investment in security is an entry-level commitment in a digital world, while the planned use of business related mobile apps (38%), IoT (6%) and AR/VR (5%) rank quite low, underscoring the earlier results pointing to at least a lack of ICT sophistication, if not a reluctance to invest across all types of digital innovation.

Figure 4

Q.: Which of the following technologies or services does your organisation use or plan to use within the next two years?

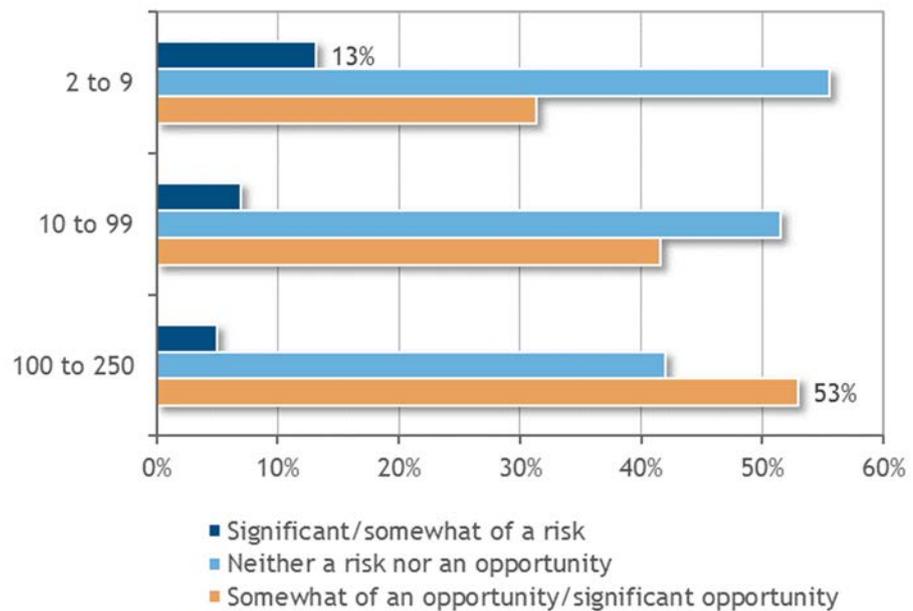


Source: IDC EMEA DX in UK SMEs Survey, 2017 (n = 300, all participants)

It is interesting to note in Figure 5 that smaller SMEs (2–9 employees) are more concerned about the potential risks of embracing digital business models, whereas 53% of larger SMEs (100–250 employees) see it as an opportunity. At the same time, the survey showed that management of larger SMEs tended to look more favourably at ICT investment: 34% see it as a necessary cost, compared with 69% of small SMEs (2–9 employees). 48% of large SMEs viewed IT as an enabler of business efficiency, compared with 16% of small SMEs. Larger SMEs are more likely to have such a positive view because they will engage more often and with more clients and partners, and will have more wide-ranging technology requirements. It is also interesting to note that larger SMEs (100–250 employees) reported the highest business growth numbers (41% said they grew revenue by more than 10%, compared with 24% of midsize SMEs and 23% of small SMEs).

Figure 5

Q.: To what degree do you believe new digital business models can be a risk or opportunity for your industry?



Source: IDC EMEA DX in UK SMEs Survey, 2017 (n = 300, all participants)

### Customer Experience

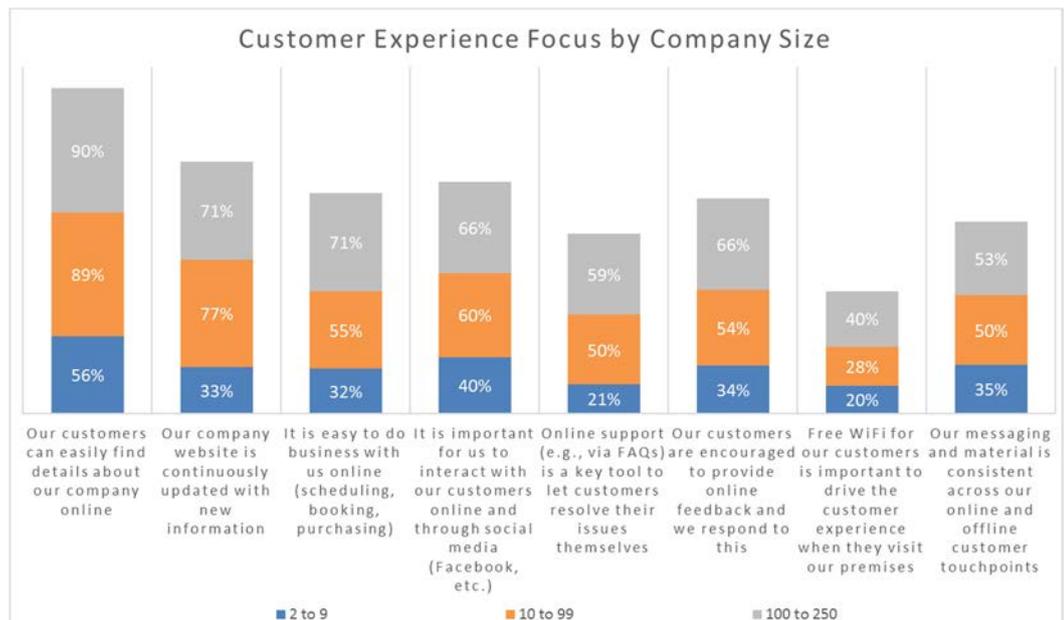
As shown in Figure 2, SMEs correctly point to their focus on customer relationships as a key differentiator. But, as Figure 6 shows, there is substantial room for improvement when it comes to digital customer experience, particularly among very small companies. They trail large and medium SMEs by a significant margin across all aspects of the digital customer experience: for example, 90% of SMEs with 100–250 employees feel that their company is easy to find online, but for SMEs with 2–9 employees this number is 56%. This should be a cause of concern for smaller SMEs. The same trend is visible across other areas related to customer experience: larger SMEs outscored smaller SMEs, in some cases by 2:1 in terms of likelihood to update their websites on an ongoing basis, providing online support via FAQs or a customer portal, social interaction and even willingness to provide free public WiFi for visitors.

From a vertical point of view, the differences were less pronounced than the SME company size segmentation outlined above, with one key exception. The skilled trades vertical lagged so far behind that it hardly provides a digital customer experience at all: only 6% of companies provide online support and free WiFi to visitors, 12% interact with customers via social media, 14% encourage online feedback from customers and only 20% update the company website. Based on these results, IDC believes that all SMEs (and small SMEs specifically) should focus on improving their customers' digital experience. For example, if small businesses are difficult to "find" online then they are limiting their audience and thus growth. This applies across all vertical markets, but the skilled trades category has the highest opportunity to offer an improved customer experience.

*There is substantial room for improvement when it comes to digital customer experience, particularly among very small companies.*

Figure 6

Q.: On a scale of 1 to 5, where 1 is completely disagree and 5 is completely agree, please indicate your level of agreement with the following statements regarding your customer experience.



Source: IDC EMEA DX in UK SMEs Survey, 2017 (n = 300, all participants)

### Employee Experience

Employee experience is often seen as the flipside of customer experience. As shown above, SMEs in the UK identified attracting and retaining staff as their second biggest challenge, right after growing the business. This means that it is vital to use the current resources available in the market as efficiently as possible, for example by promoting enterprise mobility and real-time collaboration tools. Whereas the use of the mobile phone as a business tool is very well established to support workers that are not at their desks (96%), the survey showed that SMEs are less inclined to use real-time collaboration tools (59%). This means that employees do not have a full, digital-first interaction experience and are instead forced to travel frequently to meet colleagues or partners (90%), which potentially leads to increased costs, reduced productivity and a weighted work life balance, leading to employee dissatisfaction.

A similar picture emerges in terms of employee training levels: only half of the respondents felt staff are well trained for use of IT tools, even less so in smaller businesses (40%). There was significant variation by vertical market: for example, SMEs in information technology and creative design scored 90% in terms of employee training, but skilled traders only 14%. Retail, as well as hospitality and leisure, reported a midway position, with 54% and 50% respectively. To IDC, the relatively low level of employee training is also indicative of under-investment in ICT: training should be part and parcel of any comprehensive digital strategy. This is especially the case in a world in which business intelligence and security are vital elements of the 24 x 7, borderless small enterprise of the future.

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*Most SMEs indicate that their online and offline systems are connected, but many do not fully use insight into customer data behaviour.*

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### *Business Intelligence*

In line with the high-level ICT investment strategies outlined in Figure 4, the survey showed that most SMEs indicate that their online and offline systems are connected, but many do not fully use insight into customer data behaviour. Nearly a third store customer data in the cloud, with larger SMEs (100–250 employees) being the most aggressive adopters (45%), compared with small SMEs (2–9 employees) at 16%. The use of cloud was also much more prevalent in the information technology and creative design vertical, at 52%. Well over half of SMEs use a customer relationship management system, but very small businesses are clearly lagging behind.

Figure 7 provides an interesting view by looking at approaches to data and security strategies against the backdrop of approaches to ICT investments outlined above. There is a very clear link between the 20% of organisations that see IT as a driver of competitive differentiation and their embracing of data analytics as well as a comprehensive security strategy.

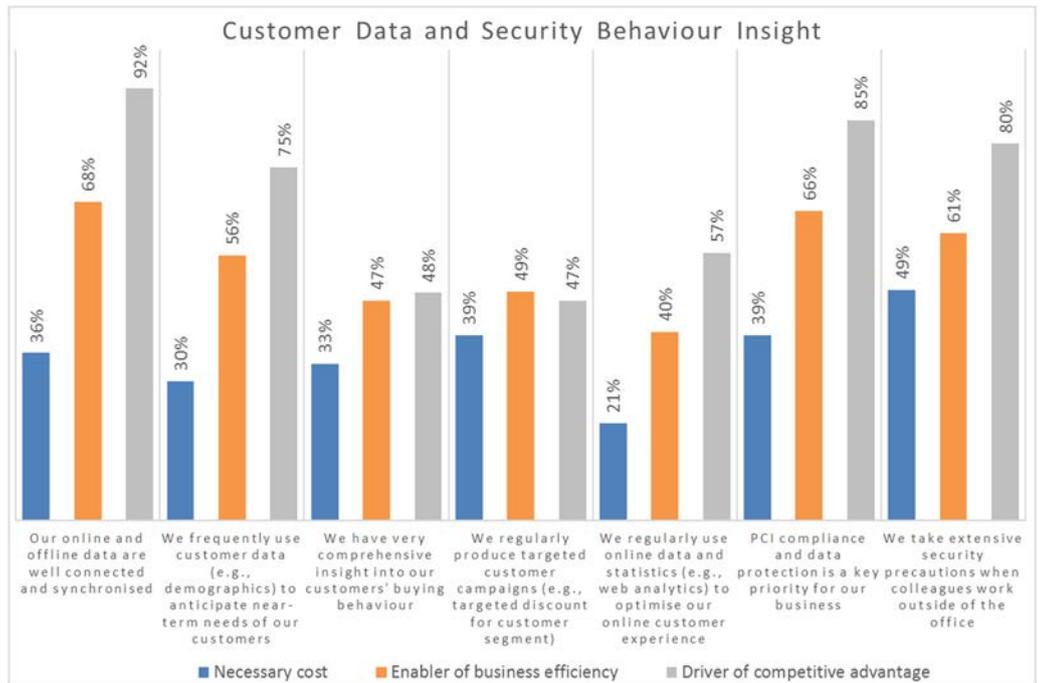
### *Security*

2017 has been a challenging year so far in terms of cybersecurity — there have already been two major global ransomware attacks, plus multiple hacking attacks. Although the estimates of damages vary widely, there is a consensus among security vendors that ransomware damages could be between £1 billion and £4 billion in 2017.

Security is relevant for all businesses, not just larger ones. It is therefore no surprise that security is another area where SMEs show similar behaviour to larger enterprises, with 80% of survey respondents pointing to security and compliance as a key objective and, as shown in Figure 4 earlier, their highest ICT investment priority to date. In the same vein, most UK SMEs are confident about meeting the requirements of the General Data Protection Regulation (GDPR), which comes into effect in May 2018. It is interesting to point to the significant differences between larger SMEs and small SMEs, though, with only 13% feeling that they are ready for GDPR. A further 21% believe that GDPR does not apply to them. There were also significant variations between vertical markets, with information technology again leading (46% said they are ready today) and hospitality and leisure scoring very high too (44%). Health and beauty only scored 8% in terms of being ready today, and skilled trades a disconcerting 0%. IDC believes that security will, and should, remain a key investment area for all companies, including SMEs, as the digital-centric nature of modern business grows — and attracts more people with criminal intentions.

Figure 7

Q.: On a scale of 1 to 5, where 1 is completely disagree and 5 is completely agree, please indicate your level of agreement with the following statements regarding data and security.



Source: IDC EMEA DX in UK SMEs Survey, 2017 (n = 300, all participants)

Infrastructure

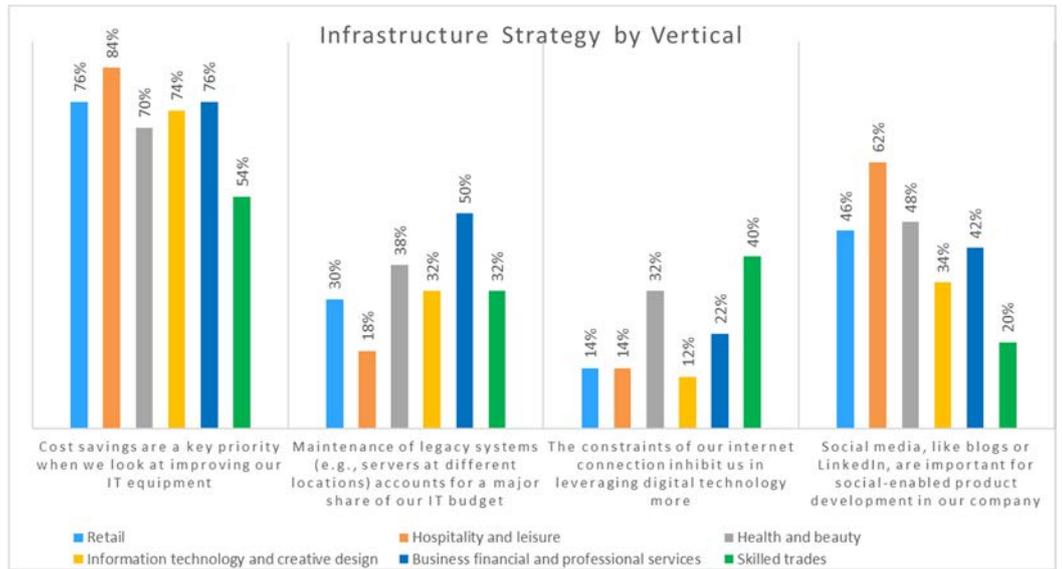
Connection speed and best-in-class infrastructure are a necessity for the digital future, due to the increase in flexible working, accessing the cloud and the use of VoIP. As shown in Figure 8, SMEs in the UK still look at cost savings first when reviewing new ICT investments, not future proofing their organisation for digital change. This holds true across key vertical markets. "Keeping the lights on", including the maintenance of current infrastructure, still occupies a lot of thought, especially in business/financial/professional services (50%). Internet connectivity is also on the minds of SMEs across vertical markets, especially health and beauty (32%) and skilled trades (40%). A large proportion of very small businesses still rely on standard broadband, with many having less than 30Mbps (see Figure 9).

These attitudes outlined above mean that the bulk of SMEs will continue to lag behind in their digital transformation, and companies that understand the value of moving beyond maintenance towards investing in ICT will move ahead. They will be able to be more responsive to market trends with increased productivity, offer a better customer experience, build on their already formed relationships and build new ones.

SMEs in the UK still look at cost savings first when reviewing new ICT investments.

Figure 8

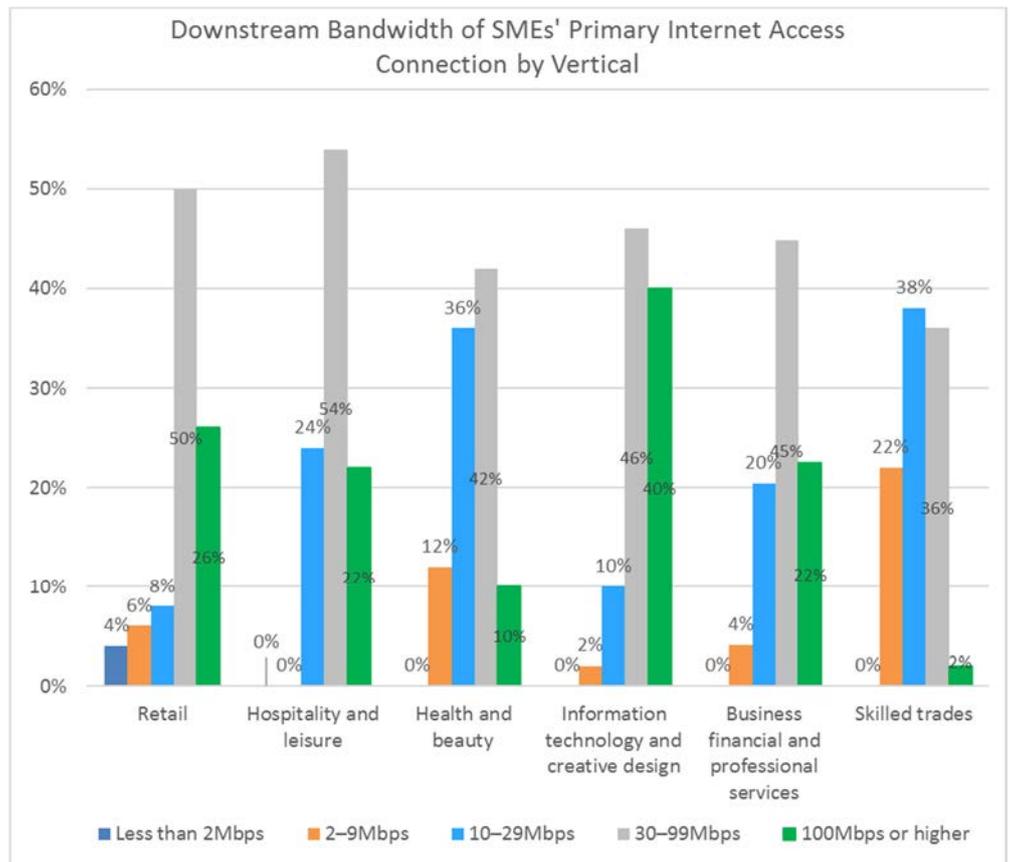
Q.: On a scale of 1 to 5, where 1 is completely disagree and 5 is completely agree, please indicate your level of agreement with the following statements regarding your IT equipment.



Source: IDC EMEA DX in UK SMEs Survey, 2017 (n = 300, all participants)

Figure 9

Q.: What is the downstream bandwidth of your primary internet access connection, in megabits per second (Mbps)?



Source: IDC EMEA DX in UK SMEs Survey, 2017 (n = 300, all participants)

## Obstacles in the Road

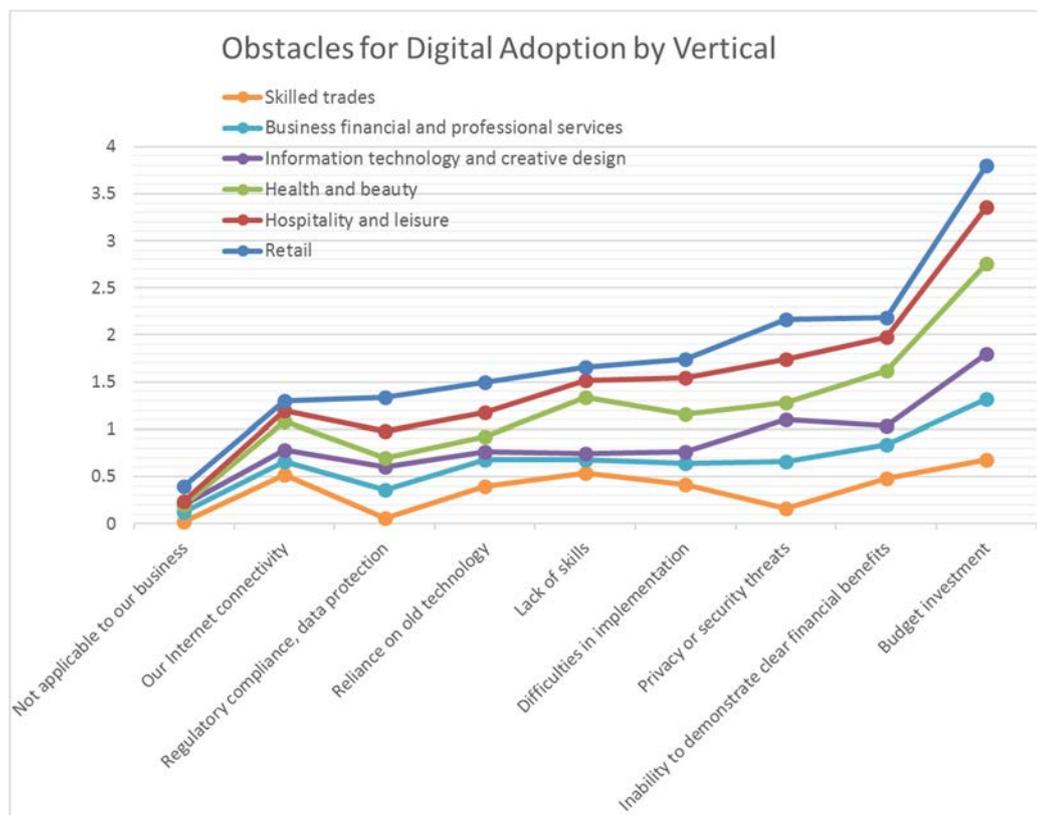
Figure 10 lists key issues limiting the adoption of digital technology, by vertical market. Budget is clearly the biggest issue that limits adoption of digital technology, especially for SMEs active in retail, hospitality, and health and leisure. The companies that see IT as a driver of competitive advantage are less concerned about budget (51% compared with 68% for SMEs that view IT as a necessary cost) and more concerned about privacy/security threats.

Inability to demonstrate clear financial benefits is the number 2 obstacle, also pointing to the importance of vendors selling based on use case and return on investment. More than 30% of very small businesses see internet connectivity as an inhibitor, which rises to 39% of companies with a service offering of less than 30Mbps. This means that by investing in internet connectivity they can improve the foundation of their company; customer experience, security and employee experience all improve with good connectivity.

*Budget is clearly the biggest issue that limits adoption of digital technology, especially for SMEs active in retail, hospitality, and health and leisure.*

Figure 10

Q.: What do you see as the key issues that are limiting your company's adoption of digital technologies?



Source: IDC EMEA DX in UK SMEs Survey, 2017 (n = 300, all participants)

## Conclusion

The survey showed that SMEs in the UK valued their key differentiators, such as strong customer relationships and flexibility. But overall the survey showed conservatism and a lack of pace when it comes to ICT investments, especially at a time when the world is becoming increasingly digital. Digital transformation will change each and every vertical industry, not just for larger enterprises, but also for SMEs. They will need to adapt to defend and improve their competitive position. The survey showed that the key business challenges for SMEs in the UK were identified as acquiring new customers, finding the right staff skills, innovating around products and services, managing suppliers and partners, and adapting to changing regulations. IDC believes that increased investment in ICT can play a key role in addressing these challenges, especially by taking the following steps:

- Understand how ICT can enhance the strong points of SMEs.** The survey showed the SMEs view their customer relationships and flexibility as key differentiators. This means that investments in customer interaction tools such as CRM and social technologies, and in Big Data/analytics, can play to their strengths. These solutions are all available from the cloud, which highlights the importance of having excellent and dependable connectivity services.

- **View technology as a key driver of competitive advantage, rather than a necessary cost or risk.** SMEs selectively use a range of technology tools today. Still, many see IT as a necessary cost rather than seeing it as an investment in their growth. This means that they typically fall behind on the adoption curve and report weaker business performance. SMEs that leverage digital technology to drive competitive advantage see the return in business results. As mentioned earlier, 48% of large SMEs see ICT as an enabler of business growth — and 41% of this segment managed to grow their revenue by more than 10%, performing better than other SMEs that did not view ICT investment in the same light. IDC advocates a change in mindset, where SMEs see investment in ICT as a must-have, competitive differentiator.
- **Prepare for the next wave of technology (such as Big Data/analytics), rather than simply focusing on IT security.** Although the survey showed that SMEs took IT security very seriously, it also pointed to the fact that they lag behind in embracing the next wave of technology innovation, such as Big Data/analytics, artificial intelligence and virtual reality. It is precisely these technologies that can play a crucial role in helping SMEs learn even more about their customers and provide a customer experience that is much more intuitive and immersive than it is today.
- **Connectivity is crucial in a world where SMEs operate in a 24 x 7 and potentially global marketplace.** As the importance of digital technology grows, the more critical the role of the network and connectivity becomes. Speed, security and scalability will be essential to cope with growing business requirements and enable SMEs to stay nimble, flexible and close to the customer and market. Connectivity will underpin everything in a cloud-centric world. SMEs should look for a partner that can help them take their business to the next level in the digital future.

## IDC UK

5th Floor, Ealing Cross,  
85 Uxbridge Road  
London  
W5 5TH, United Kingdom  
44.208.987.7100  
Twitter: @IDC  
idc-community.com  
www.idc.com

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Global Headquarters: 5 Speen Street Framingham, MA 01701  
USA P.508.872.8200  
F.508.935.4015 [www.idc.com](http://www.idc.com).

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