

Digital transformation

The path forward for small and midsize businesses



61% of CEOs plan to increase their technology spending in 2019.



51% of CEOs have a digital transformation strategy, but 15% have no strategy at all.



The No. 1 reason why CEOs want to embark on a digital transformation is to streamline operations.

Technology is the change agent of our generation. When history looks back on this period, it will equate the discovery of information technology with the discovery of fire, steam, electricity and the internal combustion engine.

A recent Vistage survey of 1,267 CEOs from small and midsize businesses (SMBs) found that, for the second year in a row, **technology was the No. 1 area of investment among firms of this size.** More than half (61%) of the CEOs surveyed said they planned to increase their spending on technology in 2019, with 32% planning to continue at their current rate of investment. Of these, 78% plan to invest in business applications.

The reason for this spending? CEOs want to achieve a competitive advantage. And yet, many SMBs aren't getting this result. Why? Because they haven't developed a digital-first technology strategy and they're unsure of how to leverage technology to truly transform their businesses.

In this report, we introduce the concept of digital transformation, take stock of the technology habits of SMBs, and **outline the steps that can kick-start a digital transformation.**

Defining digital transformation

In the early days of the technology revolution, businesses began a process of *digital transition*. By applying technology to analog processes, these firms realized incremental improvements in productivity.

As an example, the emergence of customer relationship management (CRM) applications began with simple contact-management systems, then quickly evolved into robust CRM applications. Although these applications were functional, they only automated the manual processes that most businesses used. This resulted in as much pain as gain, as these systems exposed process weaknesses and required significant change management.

In the years since, many businesses have advanced to the next stage of *digital transformation*. **Laurie McCabe, co-founder and partner of SMB Group**, defines this as “how businesses use digital technologies to create new or modify existing business processes, practices, models, culture and customer experiences to meet changing business and market dynamics. Simply stated, it’s about identifying how you must adapt your business to drive customer loyalty while maintaining a competitive edge in the digital age.”



Digital transformation requires more than a shift from 1980s paper to 1990s spreadsheets to 2000s stand-alone systems. It requires a rethinking of business processes based on how technology can best manage those processes — rather than based on how they’re manually performed.

For SMBs, this presents a rare competitive advantage. By embracing and executing the digital-first business processes that are hardwired into leading customer technologies, these businesses can take advantage of best practices embedded into these applications and systems. The decision to embrace these digital processes — versus trying to force-fit legacy workflows — helps CEOs skip the “learn ‘til you get burned” approach that is part of building homegrown or patchwork solutions.

Digital pioneers

In a separate study conducted by SMB Group, 218 CEOs who participated in the Vistage survey shared more details on their approach to digital transformation. The demographics of this study mirrored the Vistage survey with one exception: 83.5% of respondents said they expect their companies’ revenues to grow this year, compared to 61% of respondents in the Vistage survey.

We characterize the leaders who responded as representing companies that are “digital pioneers” because of their engagement in technology and digital transformation. **Digital pioneers use digital-first business applications to optimize or enhance business processes. They pursue new technologies and applications as a competitive advantage while they innovate through technology.**

The SMB Group study revealed a number of interesting insights about how SMBs are using technology. First, CEOs indicated that technology is changing their businesses in multiple and significant ways:

	Strongly Agree	Agree
Technological changes are reshaping our industry	54.6%	34.9%
Using new technology effectively is key to our company's survival and growth	53.2%	36.7%
Technological changes are reshaping our business practices/business model	50.5%	40.4%
Technological changes are reshaping our workplace and culture	48.2%	41.3%
Our company has a well-defined digital business strategy	12.4%	37.6%

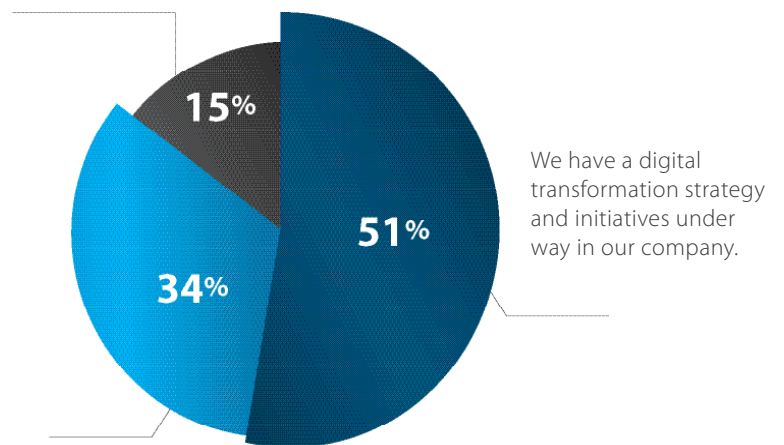
Source: SMB Group digital transformation study n=218

However, many CEOs of SMBs lack a well-defined strategy for digital transformation. Only 51% have a strategy under way. Another 34% plan to get started on a strategy in the next year, and another 15% don't have any plans to get started.



Just over half of SMBs have a digital transformation strategy in place.

We have no active or planned initiatives for digital transformation under way.

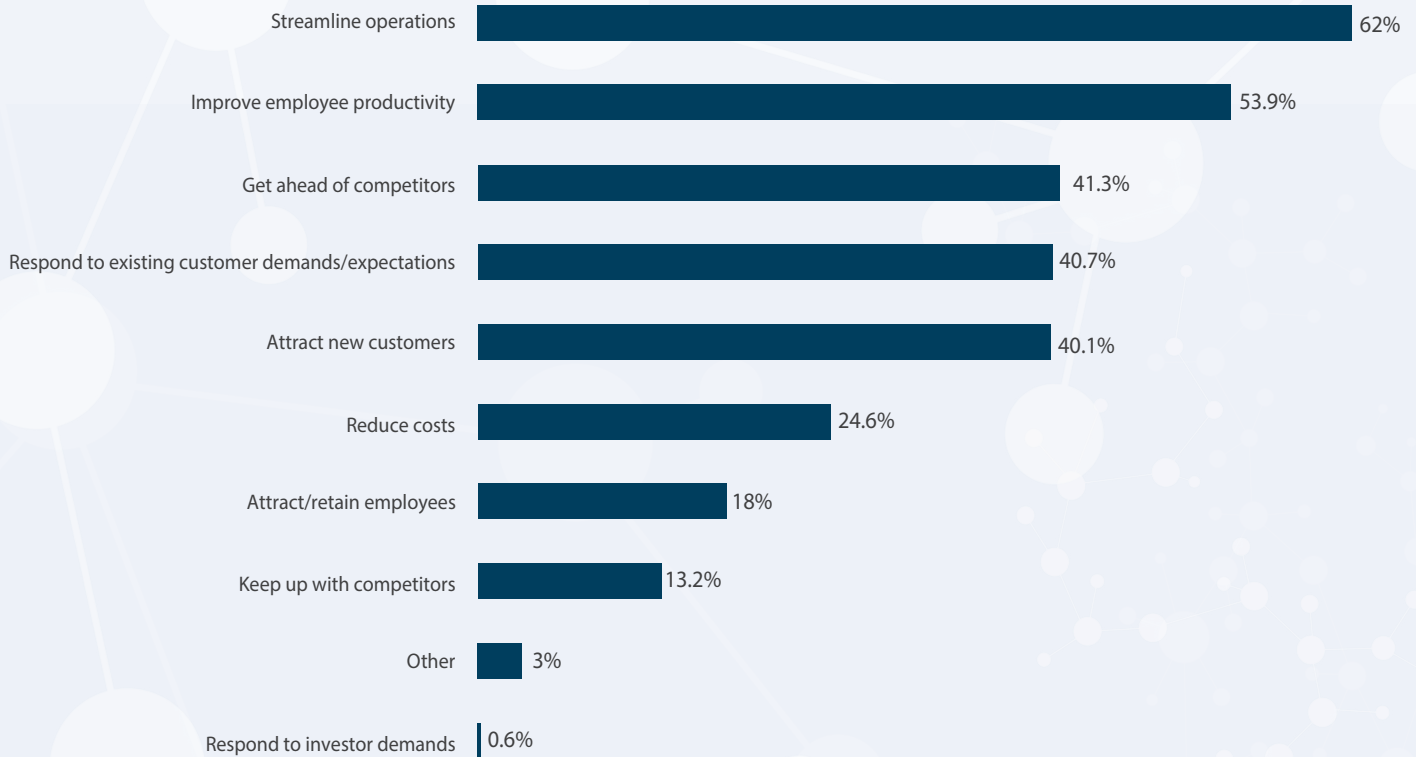


We are planning for a digital transformation and will begin initiatives within the next 12-24 months.

Source: SMB Group digital transformation study, n=218

CEOs have a number of reasons for embarking on a digital transformation, but most notably the value drivers are streamlining operations (62.9%), improving employee productivity (53.9%) and getting ahead of competitors (41.3%).

Top value drivers of technology for SMBs



Source: SMB Group digital transformation study, n=218

Companies undergo a digital transformation when they stop using analog-based, human-optimized workflows and start using digital design thinking that streamlines processes through technology.

Three steps to getting started with digital transformation

Step 1 | *Rethink analog*

Digital transformation is about more than buying technology. It is about embracing a digital-first mindset that looks at business applications and technologies in new ways. Companies undergo a digital transformation when they stop using analog-based, human-optimized workflows and start using digital design thinking that streamlines processes through technology.

How do you achieve this? First, you have to redesign your business processes and workflows to take advantage of the capabilities of technology. Try to work on this redesign in small work groups, where processes can be built as much around people as around workflow. By shifting to a digital-first process, you will realize greater efficiencies and generate data that improves your analysis and decision-making.

Reimagining interactions with your customers will help you to optimize the customer experience and reinforce your brand strengths. Inbound customer or prospect searches create a unique opportunity to engage and satisfy your customers. Outbound customer campaigns and interactions need to be different in the digital experience.

Seek to automate mundane, repetitive tasks or easily replicated processes in your business. Not only will automation improve the accuracy of your operations, it will generate new data and insights that can inform your business strategy. It will free up employees to create, connect and collaborate with each other — leading to improved productivity and a progressive work environment where employees can grow.

Step 2 | *Revisit technology*

The process of selecting, integrating and implementing technology is challenging. Few SMBs have the experience, knowledge or resources to specify their requirements, evaluate various options and providers, and negotiate a fair price with technology providers — especially if those providers come from large vendors like Microsoft, Salesforce, Oracle/Netsuite, Google or Dell EMC. Many of these big technology firms have developed specific capabilities, resources and support functions for SMBs. However, these major systems providers may be challenged to deliver relevant applications, support and resources for SMBs that have unique and different needs compared to enterprise clients.

The process of integrating new and old systems presents an IT challenge that persists as systems morph and new capabilities are introduced. Your applications must be seamlessly integrated so they can provide a single view of your people, customers, operations and finances. All of your systems — from CRM to enterprise resource planning (ERP) to billing — need to be able to pull from a common repository of data and communicate with one another.



Expert perspective: Dealing with integration challenges



As president and CEO of Confianz Global, Anoop Menon understands the integration challenges facing SMBs. His software solution company helps solve these problems on a routine basis as specialists in ERP implementation.

Often companies accumulate a number of stand-alone business systems as they grow — systems that don't always work together. Menon shares this example of a small business that was using 14 software products at once — all of which were disconnected.

“They started with QuickBooks and Salesforce, and then over time added more software for their inventory management, warehouse management, human resources, payroll and so on,” Menon says. “To effectively integrate the systems into one ERP, they needed to connect the dots between the data from all the different legacy systems. We helped them by developing a roadmap to meet their goal of improving how they ran their business. It leveraged best practices and automation to make each department more productive.”

Menon advises CEOs to ask hard questions about whether a technology is right for your company rather than rely on recommendations or assume that the most recognized solution will be the best fit.

Integration challenges are heightened by the fact that many SMBs don't have dedicated IT staff. In fact, just 37% of the digital pioneers Vistage surveyed reported having dedicated staff. Nearly half of CEOs (47%) indicated that they rely on external or third-party IT contractors or consultants to support the multitude of decisions that they face. But unforeseen challenges, driven by unrealistic deployment dates and underestimated integration complexities, will make the best of projects lag and add cost.

Once selected, the process of implementing a new technology can test even the strongest of companies. Many businesses struggle to adapt how they *have* done things to how they *will* do things. They attempt to force-fit highly customized, manual business processes — which are often developed over time and dependent on the people who developed them — into newly acquired technology.

The potential absence of experienced developers and IT resources in many SMBs further complicates integration. It often results in sub-optimal implementations, high levels of user frustration and negative customer experiences. Transitioning to any technology with the intent of automating manual processes is like “paving the goat path.” It tends to create illogical pathways instead of thoughtful plans.

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Anoop Menon, Confianz Global

Step 3 | Realize a change management strategy

People instinctively resist change, especially when radical changes might threaten or expose how they work. Your employees may struggle to adapt to changes within workflow systems and the introduction to new data — both of which require new ways of thinking.

The best way to avoid this problem is by having a strong change management strategy. In general, this strategy should abide by eight tenets:

1. Seek alignment among senior executives.

This will ensure that the end results are understood. It will also help coordinate communications about changes across the company so that employees can understand and embrace the new system.

2. Set clear standards and expectations. Defining expectations at the outset ensures that everyone feels informed and accountable from day one.

3. Outline milestones and metrics. Create a roadmap with clearly defined dates, utilization assessments and business metrics.

4. Develop a buy-in strategy. This will encourage cultural leaders and key stakeholders to become ambassadors for the broader organization.

5. Establish a marketing communications strategy. Each phase of the project should have an overarching message of strategic value.

6. Train your employees. Provide professional development to every employee, regardless of their role, to advance their skills and competencies. In addition, share best practices in real time as new lessons emerge.

7. Reach for quick wins. Establish a sense of momentum by achieving quick wins, making them visible and sharing progress toward the final goal.

8. Recognize key employees. Remember the importance of rewarding and recognizing employees throughout the journey. This is important to unlocking broader buy-in beyond management.

Expert perspective: Getting started with digital transformation

As co-founder and president of SMB Group, Laurie McCabe studies how SMBs are leveraging technology to fuel growth. She offers the following advice on getting started.



“Every business should do an internal assessment to identify gaps, problems and potential threats. What’s your biggest problem? What’s the key to your business’ survival?”

“I’m a big advocate for working with skilled consultants, partners and tech vendors to chart out the best paths to success. Working with an expert who has experience helping companies in the same situation can get your business moving in the right direction a lot more quickly and efficiently. It will also help you avoid some of those ‘rookie’ mistakes made by doing it on your own.”

“A common misconception among SMBs is that it’s too expensive to get expert help. The truth is, there are some great free and low-cost resources out there. For example, many tech companies will gladly offer SMBs some advice without charging. Dell’s Small Business Advisors and Salesforce’s Trailhead are a couple of great resources. Long story short: There are lots of ways to get advice on a budget.”

Research perspective: Technology powers productivity

Digital transformation is not an IT project. It is a leadership initiative that will only succeed if a CEO can create the behavioral change required to fully capitalize on digital-first processes and systems. It also requires members of management to be fully aligned on the messages and behavioral changes needed. Otherwise, end users will struggle to fully adopt and embrace the system.

Companies can measure adoption by looking at logins or usage of new technology. But the true potential of technology is only realized when end users embrace what the system can do and recognize how it positively changes the business.



Five truths about technology

1. Get used to this pace. Technological advancements will just continue to get faster. Blockchain, artificial intelligence and 5G networks are already here, ushering in the next seismic wave of change. The reality is, you will always be under pressure to keep up with the next best thing — but a clear strategy will help you know where to direct your investments.

2. Expect to spend. It's not a good idea to shortchange investments on infrastructure, applications and IT talent that are critical to your business. Technology will always cost more than you think. Accept the fact that quality comes with a cost. The alternative is automating chaos.

3. Transformation will be hard. IT projects will always take longer, cost more and be harder to complete than you think. The combination of shifting to digital-first thinking and transforming ingrained processes will test you and your employees in ways you never considered.

4. IT carries risk. Utilizing data to manage your customers, employees, operations and financials carry significant risk in the form of cyberthreats. Every day, cybercriminals are working to exploit vulnerabilities in your digital security. A digital business is all about your data. You need to protect it as vigilantly as your cash and investments, because hackers will never rest.

5. It's still about people. Technology can do amazing things. But it is only powerful when it empowers leaders, managers and workers to make better decisions, and when it provides data and information that improve productivity. It's still how customers use technology to engage with you — and how your people use technology to get closer to your customers — that propels a digital-first company into the future.

Contributors



Joe Galvin, Vistage Worldwide, Inc.

As chief research officer, for Vistage, Joe Galvin is responsible for providing Vistage members with the most current, compelling and actionable thought leadership on the strategic issues of small and midsize businesses. Joe is an established thought leader and analyst who has researched and presented to business leaders around the world on customer management, world-class sales performance and CRM-SFA technology.



Laurie McCabe, Co-founder and Partner, SMB Group, Inc.

Laurie brings more than 25 years of experience in the IT industry to her current role as co-founder and partner of SMB Group. Laurie has built widespread recognition through her insights in the small and midsize business (SMB) technology market. Prior to SMB Group, Laurie worked in analyst roles as a partner at Hurwitz & Associates; vice president of SMB Insights & Solutions at AMI-Partners; and vice president at Summit Strategies, where her original research on the emerging cloud computing model earned her broad recognition as a thought leader in this area.



Anoop Menon, President and CEO of [Confianz Global](#)

Anoop holds a bachelor's degree in computer science engineering and lives in McAdenville, North Carolina, with his family. He is an avid reader and mainly enjoys books on technology and leadership, as well as biographies. When not working, Anoop is active in local charity organizations in the Charlotte suburbs. Anoop is also a technology advisor to some successful businesses in South and North Carolina.



Anne Petrik, Vistage Worldwide, Inc.

As senior director of research, Anne Petrik leads the design, deployment and analysis of CEO surveys for Vistage, capturing the sentiment and practices of the Vistage CEO community. Using her analysis, in collaboration with perspectives from experts and partners, Anne directs the thought leadership published by Vistage to provide SMB CEOs with insights that inform decision-making about how to optimize their business or enhance their leadership.

About Vistage Worldwide

Vistage is the world's leading business performance and leadership advancement organization for small and midsize businesses. For more than 60 years, we've been helping CEOs, business owners and senior executives solve their greatest challenges through confidential peer advisory groups and one-to-one executive coaching sessions with accomplished business leaders. Today, more than 23,000 members in 20 countries rely on Vistage to help make better decisions for their companies, families and communities. The results prove it: Vistage member companies grow 2.2 times faster than average small and midsize U.S. businesses, according to a 2017 study of Dun & Bradstreet data.

Learn more at vistage.com.

About our research

Vistage Research curates subject matter from the Vistage community and collaborates with top thought leaders to create unique content. Vistage executives access actionable, thought-provoking insights from the Wall Street Journal/Vistage Small Business CEO Survey and Vistage CEO Confidence Index results, as well as national and local economic trends. Since it began in 2003, the Vistage CEO Confidence Index has been a proven predictor of GDP, two quarters in advance. Vistage Research provides the data and expert perspectives to help you make better decisions.

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SMB Group

[SMB Group](#) is an industry research, analysis and consulting firm focused on technology adoption and trends in the small and medium business (SMB) market. Founded in 2009, SMB Group helps clients to understand and segment the SMB market, identify and act on trends and opportunities, develop more compelling messaging, and more effectively serve SMB customers.



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