

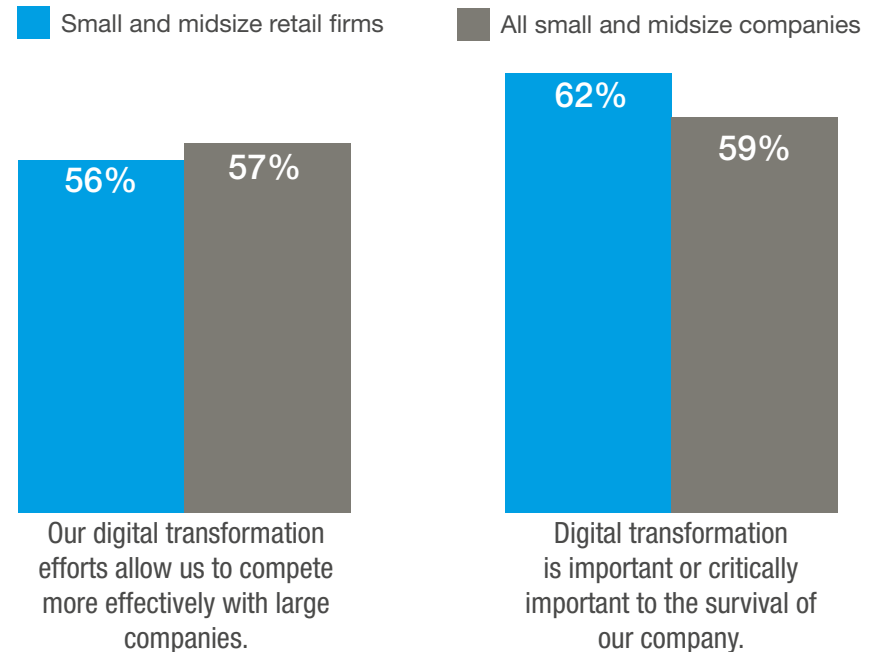
## The Transformation Imperative for Small and Midsize Retailers

Technology is transforming the way small and midsize companies do business. Our global, cross-industry survey shows that retailers with less than \$1 billion in revenue are committed to digital transformation and optimistic about the payoffs they will see from their efforts in the next two years.

Small and midsize retailers are roughly on par with their peers from other sectors in most aspects of digital transformation we measured: they are investing heavily in foundational technologies such as mobile and Big Data and are developing processes and strategies around the application of these technologies. These investments will support the adoption of emerging technologies—such as machine learning, artificial intelligence, voice-controlled user interfaces, 3D printing, augmented reality, blockchain, and robotics—that are changing the way business is done.

Retailers of all sizes face the threat of disruption by new market entrants and other digitally-savvy competitors, especially as younger consumers, who grew up in an era of constant connectivity, demand seamless shopping experiences across channels and tailored offerings that reflect their personal preferences. Meeting these expectations requires the effective use of technology that helps retailers understand and predict individual consumer behavior, upgrade online and in-store experiences, and connect supply chains to serve growing demands across platforms.

While smaller retailers may lack the financial resources of larger competitors, they can take advantage of their greater agility and cohesive cultures to quicken the pace of technology adoption. But as they increase their investments in emerging technologies and hone digital strategies, they also must prepare their workforces for the sweeping changes that will accompany digital transformation.



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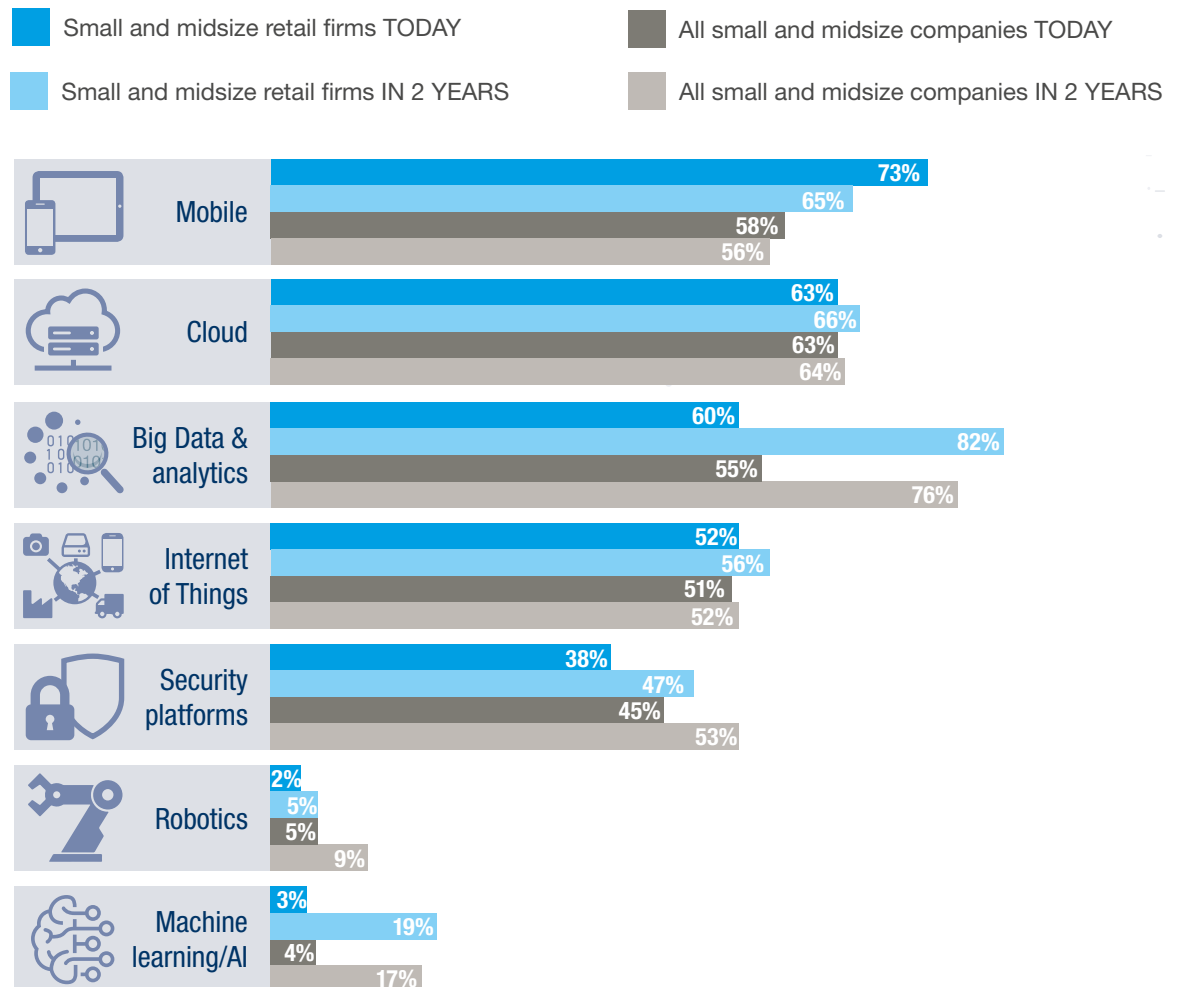
## Small and midsize retailers are focused on mobile

Digital transformation revolves around investment in emerging technologies. For the most part, small and midsize retailers are directing IT budgets toward foundational tools, such as mobile, cloud, and Big Data. These tools are changing every aspect of the retail business, from supply-chain operations to interactions with customers.

Mobile is an investment priority for small and midsize businesses overall, but even more so for retailers, who must constantly develop new channels of communication with customers. Nearly three-quarters (73%) are investing in mobile today, compared with 58% overall. In two years, retailers say they will invest in mobile at a greater rate than their peers (65% vs. 56%), but their primary focus will shift to Big Data and analytics (82%) as they endeavor to gain meaningful insights from vast amounts of customer data. Few small and midsize retailers are planning near-term investments in newer emerging technologies such as machine learning, virtual reality, and conversational applications—but if the enthusiasm of larger retailers is any indication, these tools will soon come into play across the retail sector.

Nearly two-thirds (62%) of small and midsize retailers say digital transformation is critical to their organization’s survival today, and 84% say it will be in five years’ time. Yet many still have not prioritized transformation as a strategic plan. Smaller retailers—like their peers in other sectors—are less likely than larger enterprises to say digital transformation is a core business goal (61%, vs. 83% of larger retailers).

**Q:** Which technologies are you investing in most heavily, today and in two years?  
Respondents could select all that apply.



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## Technology investment will support core business goals

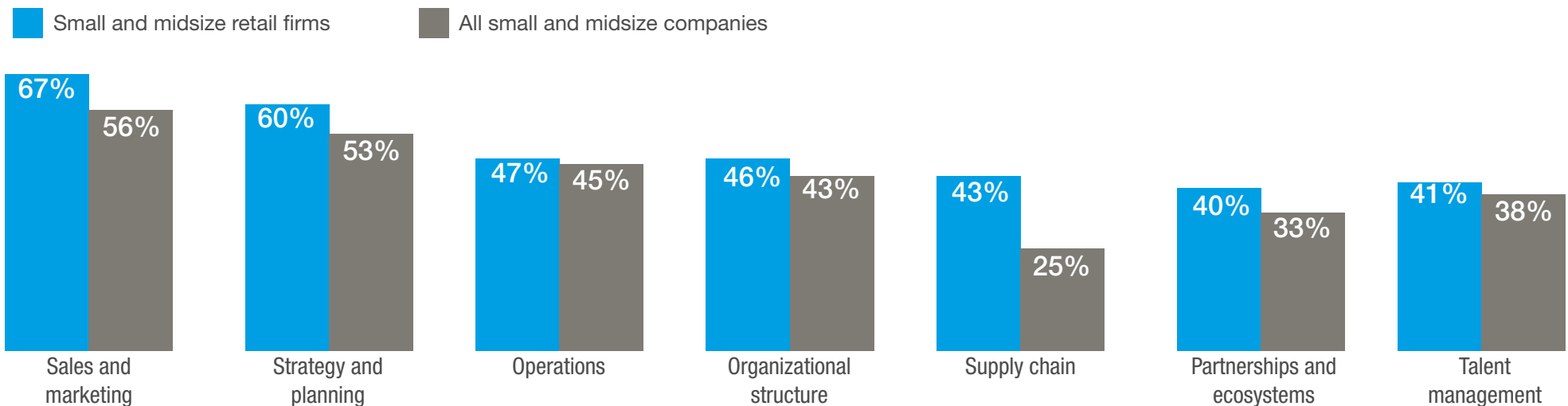
Technology is the starting point for digital transformation, but the related changes to process and strategy will have an equally profound effect on business performance—particularly for retailers who are managing complex operations and supply chain issues behind the scenes. Most small and midsize retailers have not yet seen transformative change from their digital efforts in these areas. Less than one-quarter report dramatic improvements to strategy and planning (23% say digitization has led to substantial or transformative change), operations (11%), supply chain (8%), and other business functions.

But change is on the way. Well over half of small and midsize retailers expect digitization to improve functions ranging from sales and marketing (67%, vs. 56% overall) to strategy and planning (60% vs. 53%). And, critically, retailers are more likely than other industries to expect improvements to supply chain (43%, vs. 25% overall).

Such improvements could have a meaningful effect on quality and service, which translate into happier customers. Small and midsize retailers anticipate the greatest value in terms of customer satisfaction and engagement (67%, vs. 63% overall), brand value (60% vs. 50%), and streamlining internal processes (58% vs. 54%)—all critical business goals for the industry.

Perhaps unsurprisingly, increasing speed to market and brand recognition are seen as top revenue drivers for small and midsize retailers over the next two years. Technology-driven improvements to business functions will support these core strategic goals—if they can build the culture to facilitate the necessary changes.

**Q:** To what extent do you expect digitization to change the following areas of your organization over the next two years? “Substantially” and “It will be transformative” responses combined are shown here.



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## Workforce issues hold back retail's digital transformation

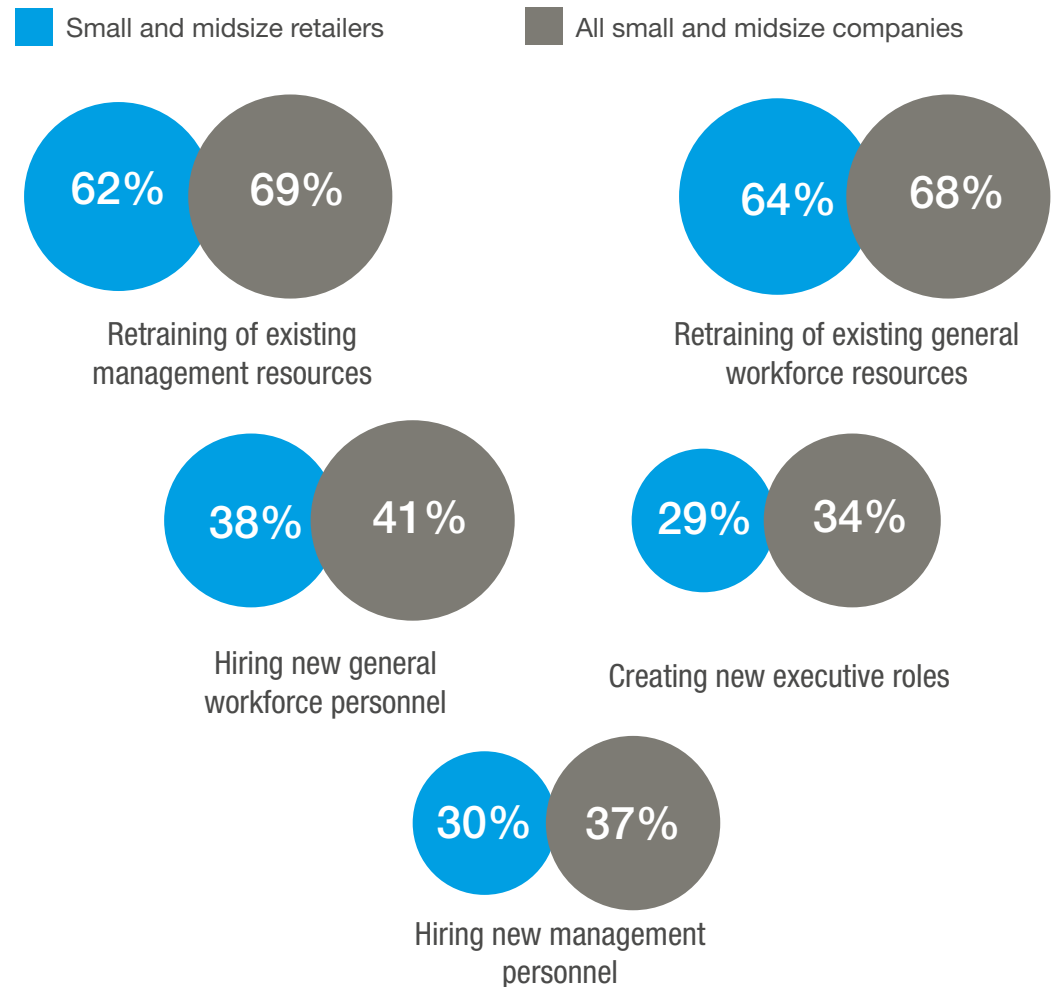
Small and midsize companies have inherent strengths that can help them prosper in the digital era, including agility and the ability to build a strong and collaborative culture. Retailers are leaders in many aspects of digital culture. For example, they are more likely than small and midsize companies from other industries to report capitalizing on size-based advantages such as greater agility in the marketplace (83%, vs. 78% overall), strong relationships within their business ecosystem (78% vs. 74%), and simpler decision-making (76% vs. 72%). And the smallest companies in our sample are even more likely to say these qualities provide them with competitive advantage.

Yet—like their peers from other sectors—retailers have work to do to prepare their organizations for the digital era. They cite a lack of workforce skills as the top barrier to their digital-transformation initiatives (56% rank it as a top-three challenge, vs. 49% overall)—far ahead of the other barriers such as lack of mature technology (46% vs. 47%) or budget (42% vs. 38%).

Most are not focused enough on talent issues. Just 15% report well-developed strategies for employee engagement, and only 23% say their technology investments have provided value in this area—possibly because they lack the culture and processes to get full value from these tools. And while 64% plan to retrain their workforce for new technology investments, this number is lower for the smallest retailers (51%). Addressing these workforce issues could help close the competitive gap with larger retailers.

**Q:** Thinking about the technologies you are investing in, to what extent do you expect them to affect your human capital and HR strategy?

“Minimal increase” and “substantial increase” responses combined are shown here.



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## Conclusion

Retailers of all sizes—not just the largest, legacy companies—are under pressure to transform as technology-proficient consumers demand new, personalized offering and seamless experiences across online and physical platforms.

Small and midsize retailers view digital transformation as a survival-level issue, yet they need to approach the work of transformation with greater urgency to make it happen. Leadership at retail companies must continue to focus technology investments on the suite of tools that will be most valuable to their business models over the next two years, such as Big Data, security, and mobile. They also must develop processes and strategies around the application of these technologies, and build a workforce that can adapt to these changes—and the changes that follow them.

**Get the complete story in our [executive summary on small and midsize companies](#).**

### About the research

Oxford Economics was commissioned by the SAP Center for Business Insight to conduct and analyze a survey of over 3,100 executives around the world about the opportunities and challenges facing companies as they attempt digital transformation.

Our sample includes nearly 2,600 companies with revenues of less than \$1 billion; 286 of these small and midsize companies are from the retail sector. This paper includes our analysis of the retail industry survey results.

Fieldwork took place in 2017 by computer-assisted telephone interviewing. Respondents come from 17 countries or regional groupings, with a significant sample of small, midsize, and large enterprises within each area. Geographies covered were Brazil, Mexico, Australia/New Zealand, Japan, Southeast Asia, India, Greater China, Canada, the US, Germany, Switzerland, Russia/Ukraine, France, the Nordics, the Netherlands, the UK, and the Middle East/North Africa.

Companies surveyed represent a range of industries: manufacturing, retail, banking/insurance, healthcare, professional services, technology, consumer goods, public sector, and wholesale distribution.

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