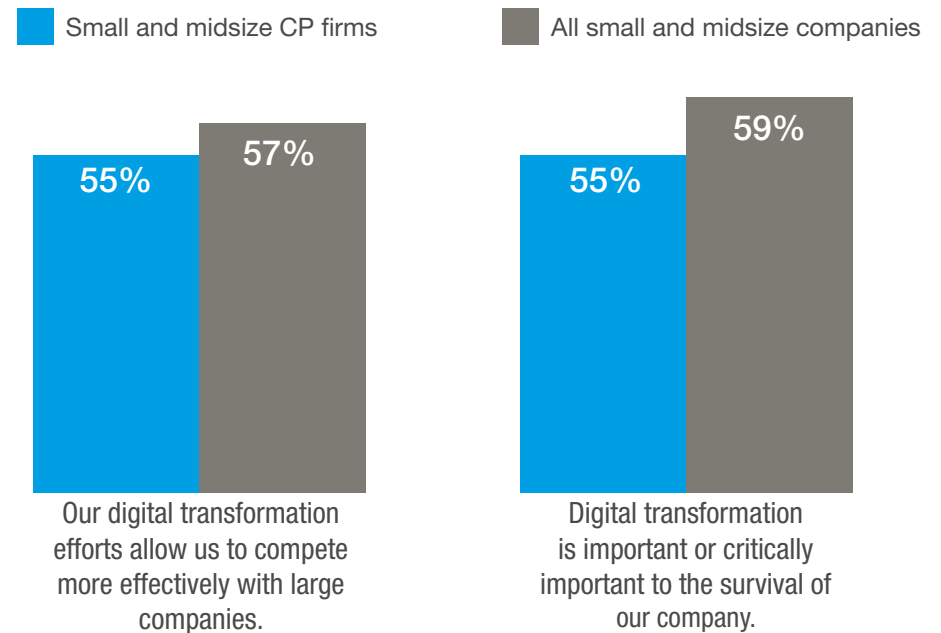


The Transformation Imperative for Small and Midsize Consumer Products Firms

Technology is transforming the way small and midsize organizations do business, and consumer products (CP) companies are no exception. Emerging digital tools—particularly the Internet of Things, analytics, and mobile—give CP firms the opportunity to offer increasingly personalized experiences for customers, improve their visibility and response time to supply and demand challenges, and address product maintenance issues before they happen.

Our global, cross-industry survey shows that CP companies 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. Although small and midsize CP companies are roughly on par with their peers from other industries in most aspects of digital transformation, they have lagged when it comes to investment in areas such as IoT, Big Data/analytics, and security platforms. Given the major role these emerging technologies are expected to play in the industry, their development should be prioritized.

Fortunately, the research shows that CP firms are increasing their focus on many of these technologies, illustrating their growing commitment to digital transformation. To make full use of these new technologies, CP companies—like those from other industries—need to prepare their organizations for sweeping changes to processes and workflows, and address talent gaps that threaten to impede progress.



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Consumer products companies are behind on technology spending

Digital transformation revolves around the successful integration of emerging technologies into all aspects of the business. Yet many businesses within the industry have not prioritized transformation as a strategic plan. Small and midsize consumer products firms—like their peers from other industries—are less likely than larger enterprises to say digital transformation is a core business goal (55%, vs. 83% of larger CP companies). While some smaller companies may be saddled with less legacy infrastructure than larger and more well-established businesses, transformation still requires a defined approach to maximize its benefits.

So far, small and midsize CP firms are less focused than similarly-sized companies in other industries on cutting-edge technology, especially in areas like Big Data and analytics and security platforms. The smallest CP companies are furthest behind, possibly due to budget and resource constraints.

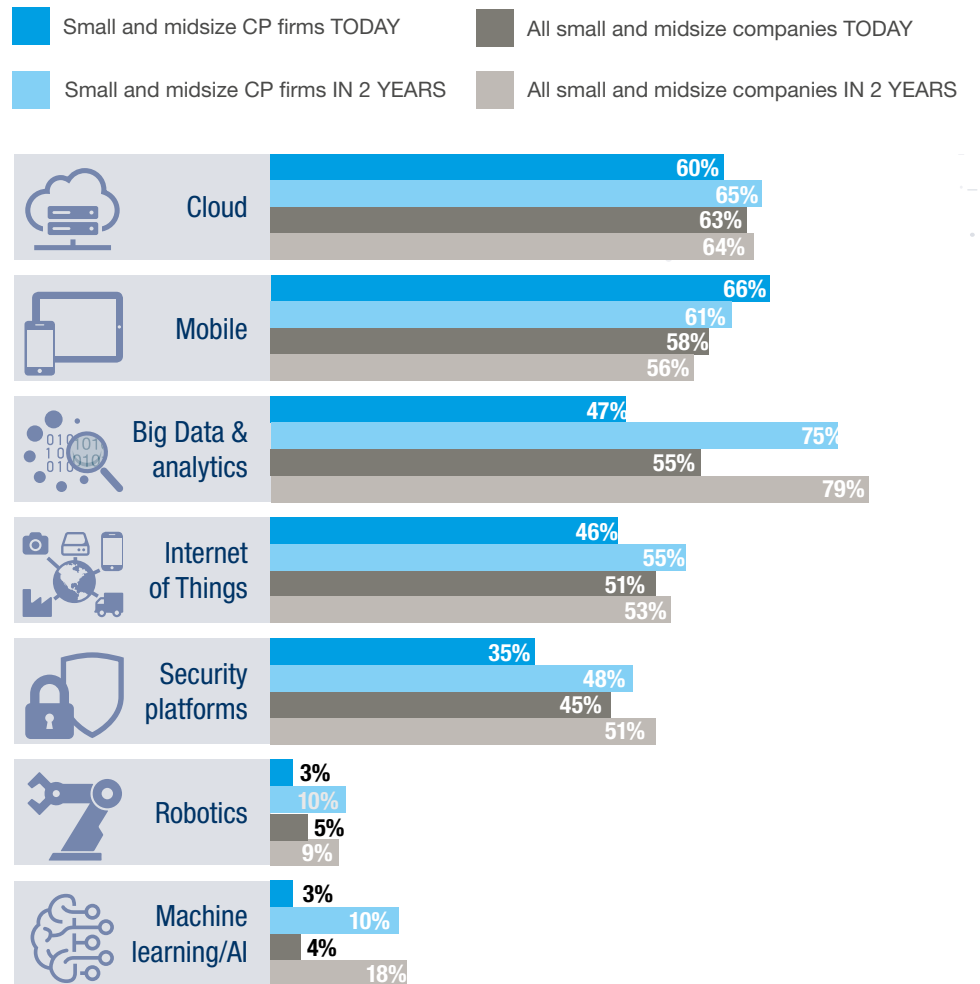
Meanwhile, spending on mobile is above average for small and midsize CP firms compared to other industries, and investment in cloud is near the middle of the pack. This indicates that small and midsize CP companies still are focused on building out the basic infrastructure of the digital era—the foundational tools that will serve as innovation platforms for more advanced technologies critical to their future.

Today’s investments will help CP companies catch up to their peers in other industries: 75% say they will be spending most heavily on Big Data and analytics in two years, vs. 76% overall, and 48% will invest more in security platforms. These are strategic moves for an industry that depends on building relationships with consumers by understanding their wants and needs—and protecting their information.

The smallest CP companies regard the push for digital transformation with some urgency. They are more likely than the largest small and midsize companies in the sector to say transformation is important or critically important to their survival today (63% of respondents with sales of \$100 million to \$250 million say this, vs. 50% of those between \$500 million and \$1 billion).

Q: Which technologies are you investing in most heavily, today and in two years?

Respondents could select all that apply.



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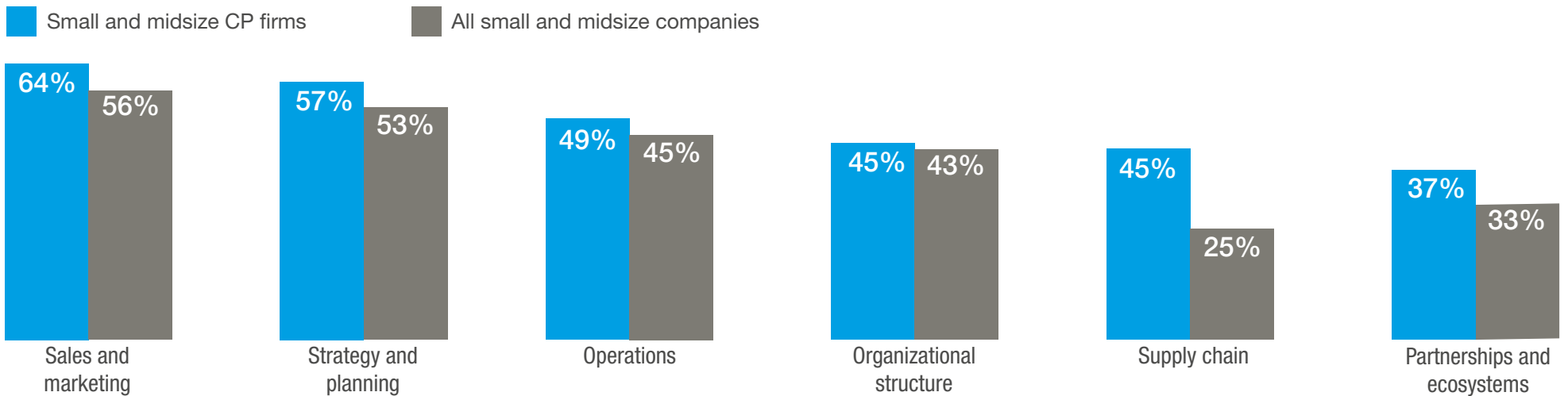
Technology investments are meant to support core business goals

Digital transformation efforts—involving the processes, functions, and business goals that surround technology investments—will affect business performance. Perhaps unsurprisingly, given their relative lack of investment, most small and midsize CP companies have not yet seen transformative change from their digital efforts: just one-quarter report dramatic improvements to sales and marketing, and even fewer say they have seen substantial or transformative change to strategy and planning (20%), operations (14%), or other areas of the business.

But change is on the way, as a growing focus on technology is expected to yield dividends in the next two years. Small and midsize CP companies expect to see the greatest value in terms of customer satisfaction and engagement (69%, vs. 63% across industries), data analysis (59% vs 54%), innovation (58% vs. 57%), and streamlining internal processes (56% vs. 53%). The middle band of small and midsize CP companies (those with revenues between \$250 million and \$500 million) are the most bullish on technology's impact. The technology focus is also expected to drive meaningful value in sales and marketing, strategy and planning,

Q: To what extent do you expect digitization to change the following areas of your organization?

“Substantially” and “It will be transformative” responses combined are shown here.



and operations over the next two years. Nearly half of small and midsize CP firms see big payoffs for supply chain—a critical area of the business for the industry.

Increasing speed to market and developing new products and services are seen as top revenue and profit drivers for CP companies over the next two years, even more than in other sectors. These technology-driven improvements to business functions will support core strategic goals—if they can build the culture to facilitate the necessary changes.

To get digital transformation right, small and midsize businesses must leverage their inherent strengths, including agility and the ability to build a strong and collaborative culture. CP firms, like their peers from other sectors, must prepare their organizations for this new era by creating a digital culture, developing change-management strategies, and equipping employees with the collaboration and technology platforms necessary to put strategy into action.

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Engineering a digital culture

To get digital transformation right, small and midsize companies must leverage their inherent strengths, including agility and the ability to build a strong and collaborative culture. Small and midsize CP firms, like those from other sectors, have work to do to prepare their organizations for the digital era.

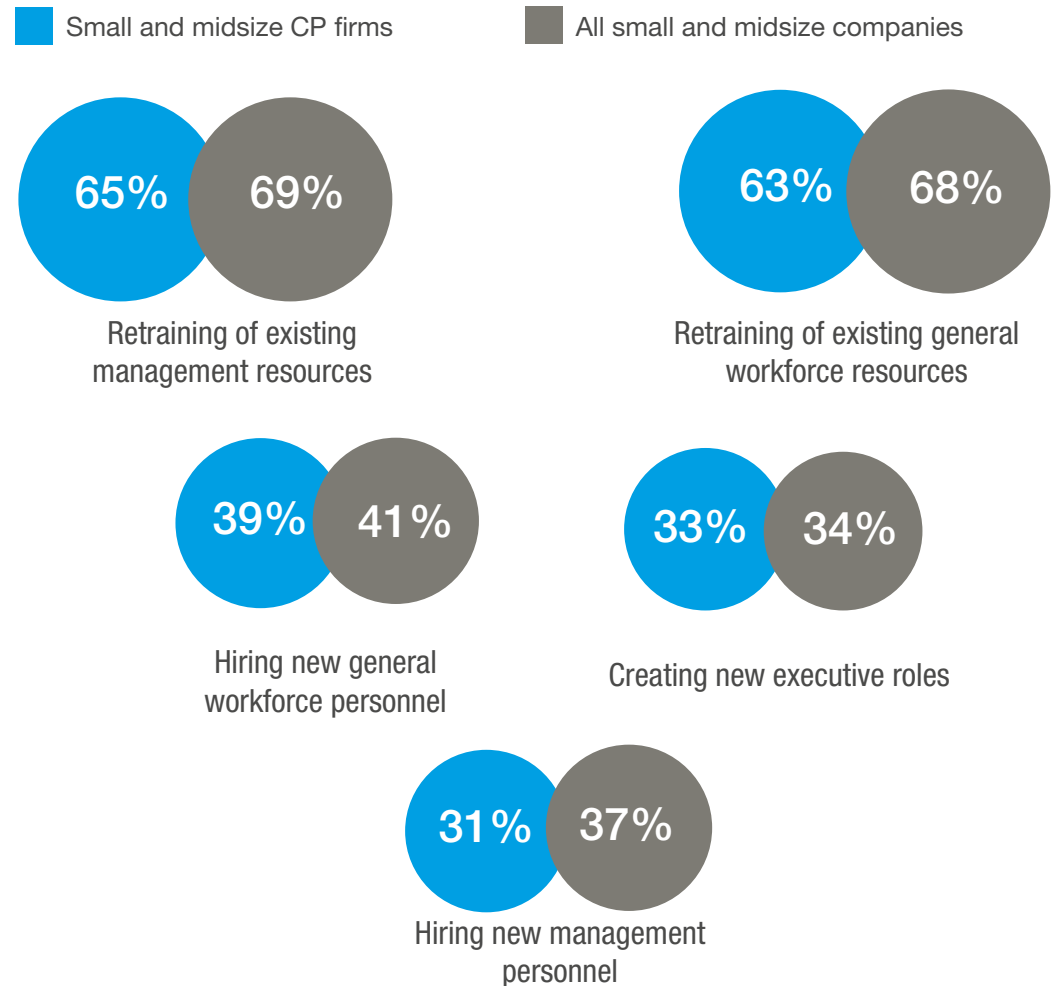
Changes must begin at the employee level. Small and midsize CP companies cite a lack of workforce skills as the top barrier to their digital-transformation initiatives—53% rank it as a top-three challenge, even ahead of lack of mature technology (51%) and budget (42%). CP firms expect their technology investments to help address this challenge (e.g., by providing online tools or games) through the retraining of general workforce resources (63%) and retraining of management resources (65%).

The consumer products industry has some particular needs in terms of talent. Data analytics skills, for example, will be critical to CP firms in the near future as they face pressure to translate massive quantities of data produced from connected devices and sensors into meaningful insight. They also must find and develop workers and leaders who can collaborate with other functions, redesign business processes to reflect new technologies, and adapt to the emerging demands of working with intelligent machines.

Most have been slow to address talent issues; just 10% report well-developed strategies for employee engagement, for example. Furthermore, many small and midsize enterprises still have complex and bureaucratic organizational structures that make it difficult to move quickly. While they are as likely as their peers from other industries to say their employees are getting value from simpler (and therefore faster) decision-making (69%, vs. 72% overall) and less bureaucracy (60% vs. 64%), there is room for improvement.

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

Digital transformation is understood as a survival-level issue for small and midsize enterprises. Leadership at consumer products organizations must continue to focus technology investments on the suite of emerging tools that will be most valuable to their business models over the next two years, 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; 284 of these small and midsize companies are from the consumer products sector. This paper includes our analysis of the consumer products 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: consumer products, professional services, manufacturing, retail, banking/insurance, healthcare, technology, public sector, and wholesale distribution.

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