

Exploring the Digitalization of European SMEs



Intro

The digital era offers Small and Medium-sized Enterprises (SMEs) digital tools they can use to improve their performance and remain competitive in a fast-moving, more digitized, and global economy, in which customers are connected at all times and expect a seamless digital interaction that is accessible and responsive.

Digital tools are services, platforms, and marketplaces that businesses use for marketing and communicating with customers, managing internal processes and logistics, and executing sales and payments (e.g. email, websites, social media, cloud-based software, etc.).

SMBs already make some use of digital tools – 99% of all SMBs appear to use at least one. This said, not all SMBs use a wide range of digital tools with as much intensity; in fact, the level of digital engagement is varied.

The document is dedicated to the exploration of digital transformation across SMEs located in Europe.

We want to see the impact SMEs have on the European Economy, and get to know the current level of digitalization in such businesses. Following the digital journey modern SMEs are going through, we explore what perks it gives them as opposed to their non-digitized fellows.

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SMEs in the European Economy

Small and medium-sized enterprises are often referred to as the backbone of the European economy, providing a potential source for jobs and economic growth.

SMEs are **defined by the European Commission** as having less than 250 persons employed. They should also have an annual turnover of up to EUR 50 million or a balance sheet total of no more than EUR 43 million

These definitions are important when assessing which enterprises may benefit from EU funding programs aimed at promoting SMEs, as well as in relation to certain policies such as SME-specific competition rules.

European Commission policy in relation to SMEs is mainly concentrated in five priority areas, covering:



The development of small and medium-sized enterprises (SMEs) has been a focal point of interest of National Promotional Institutions (NPIs) for many years and will continue to be an important task. SMEs drive investment and innovation, create substantial value-added, and provide the majority of jobs in European countries, including France, Germany, Poland, and Spain.

To keep European SMEs viable and competitive, such banks as **Bpifrance, KfW, BGK, ICO** first and foremost strive to improve access to finance for SMEs. Despite generally favorable financing conditions and low-interest rates, young and innovative SMEs in particular experience financing difficulties.

The evidence suggests that promotional funds are able to cover a reasonable part of the financing gap. As SMEs' business environment changes, however, their financing needs also change. A development that does not only have a strong impact on SMEs' business environment but also creates completely **new business models is digitalization.**

Following the logic of the World Economic Forum, the invention of the steam engine was the beginning of the first industrial revolution, electrification started the second and automation symbolizes the third, then the integration of digital technologies is the main element of the fourth industrial revolution.

Against this background, it may come as a surprise that digitalization is a top priority for only one in three SMEs. Challenges related to the adoption of new technologies range from building up digital infrastructure to ensuring cybersecurity and overcoming a lack of employees' skills.

Competitive pressure is a key driver for the adoption of new technologies. Acting in global markets, many European SMEs will increasingly feel the need to step up their digitalization efforts. We are deeply convinced that the investment and educational needs of European SMEs related to digitalization will significantly increase in the near future, as will their need for appropriate financing solutions. We hope that our survey offers valuable information to design effective promotional policies to keep our SMEs a vital part of the economy in a digitalized world.

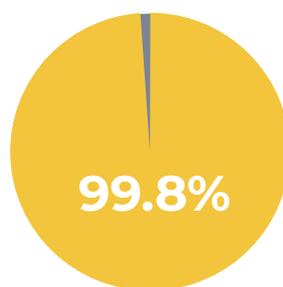
What is more, we hope that this report will increase the digital awareness of business communities, decision-makers and societies. After all – and this is perhaps the most important message of our survey – those who take up the challenge of digitalization are those who have particularly positive expectations regarding their future.

The role of SMEs in the European Economy

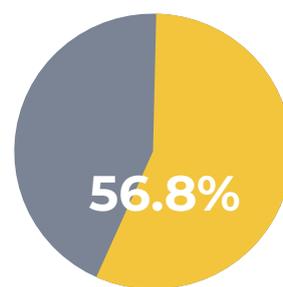
Small and medium-sized enterprises (SMEs) contribute significantly to European competitiveness as well as social well-being and represent a high share of employment and value-added across all European economies.

[SMEs in the EU28 account for 99.8% of the total number of enterprises](#) and 66.6% of total EU employment.

The sector generated €4,030 billion of value-added in 2016, which represents a share of 56.8% of total European value-added in that year.



of the total number of enterprises

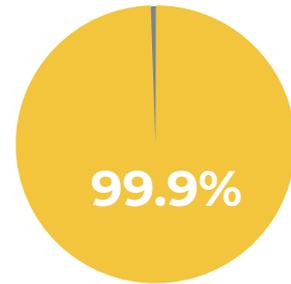


of total European value-added

It is documented that SMEs in Belgium contribute the largest share of value-added relative to the country's overall total, while SMEs in Turkey contribute the largest employment share.

For the comparison, here are the stats about the SMEs in the US

There are over 30 million Small and Medium-sized Enterprises of fewer than 500 employees in the US representing 99.9% of the total business community.



of the total business community in the US

The whitepaper contains the information about the [impact SMEs perceive from their use of digital tools](#) on their business, across areas such as customer engagement and satisfaction, the product and service offering, operating costs, and other operating practices, all of which affect business revenues, profitability and employment.

In particular, the white paper focuses on differences across four areas comprising customers, financial performance, jobs, and innovation. Finally, the white paper also explores barriers that SMBs face when considering the use of digital tools.

The Current Level of Digitalization in European SMEs

Level of digitalization falls behind other aspects of competitiveness.

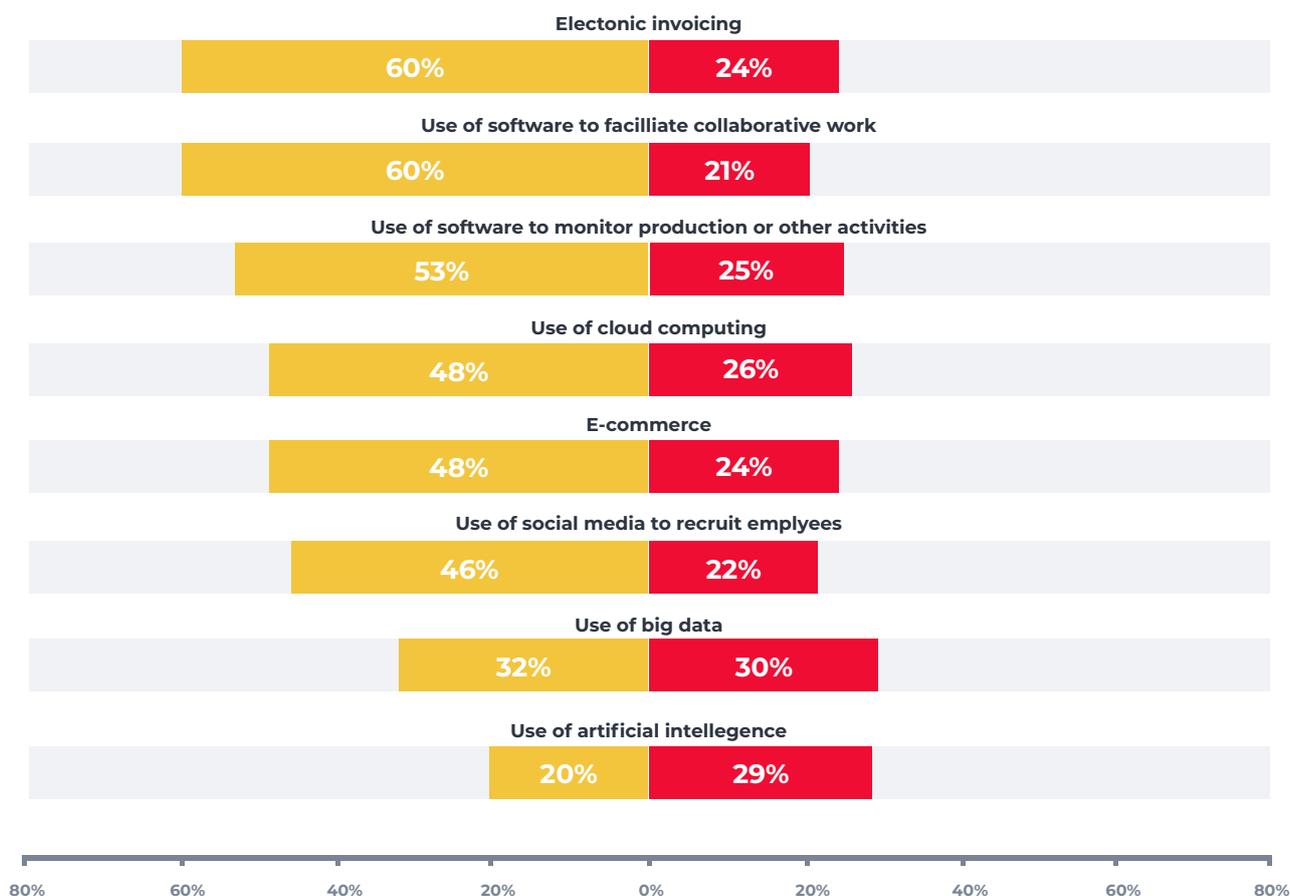
French SMEs, the high quality of their products and comprehensive customer service are those aspects where they see themselves performing best.

German and British SMEs, in contrast, consider themselves to be rather competitive in various regards.

However, while SMEs from the five countries view their competitiveness differently in various areas, **in none of the countries do SMEs indicate their level of digitalization to be a strong suit.**

Number of respondents using the technology

Respondents that plan on using the technology



High percentage of SMEs participating in the survey held by [the German bank group KfW](#) are involved in tech adoption to some extent.

The most common activities are **electronic invoicing** and **usage of the software for collaborative work** – approximately 60% of responding companies are using these technologies with 24% and 21% more respectively having plans to start doing that in the nearest future.

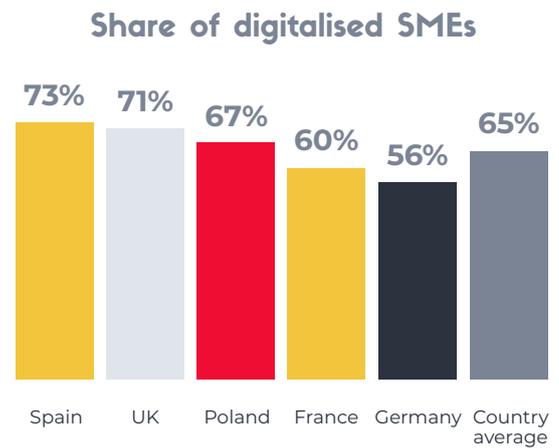
Less popular technologies are **using software to monitor production/other activities** (53%), **cloud computing** (48%), **e-commerce** (48%), **social media for recruitment** (46%).

At the same time, big data and artificial intelligence (AI) are used by less than third respondents with the other third part having an implementation plan to implement those technologies in the nearest future.

The survey showed that the more tech-savvy the management, the more likely employees use the tech to recruit the new employees. That makes sense and shows the close connection of technology adoption and willingness to innovate.

65% of SMEs are digitized (over 73% across Spain)

The criteria for SME to be considered digitized in the context is to be engaged in no less than three digital activities. 73% of the digitalized SMEs in Spain are at the top of the arch, and 56% of German SMEs at the other side of the spectrum.



Expectations are High

Most SMEs expect a positive impact of digitalization on their business. Overall, SMEs in the European Union are seeing more chances than risks of digitalization. On average, 57% of SMEs agree with the statement that digitalization will have a positive impact on their company's business over the next five years.

70% of respondents agree to some extent on the statement "All in all, digitalization will have a positive impact on our company's business" as opposed to 4% of those who strongly disagree on it.

SMEs need a broad range of digital skills

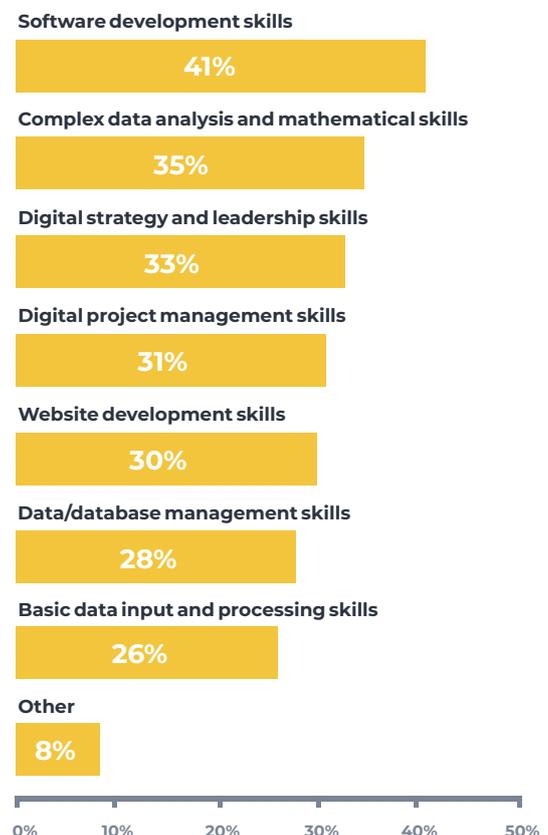
The OECD (Organisation for Economic Co-operation and Development) finds that SMEs have higher skill deficiencies than large firms and SMEs' training efforts are on average significantly weaker per employee than in larger firms.

A pervasive shortage of digital skills can severely impact SMEs in their efforts to adopt new technologies.

Thus, it is essential for SMEs to widen the skill set and competencies of existing staff and be able to recruit externally when investing in technology.

The survey shows that **software development skills** are ranking highest (lack the most at 41%). About one third of SMEs report insufficient skills in **complex data analysis** and **mathematics** - 25% each.

The full list is available on the graph:



The End Benefits of Digitalization

The data for this section is taken from [Deloitte research](#) of SMEs in the US. The respondents from the other side of the Atlantic have described the overall impact of digital transformation on their business.

Here are the major benefits achieved:

Bigger Number of Customers

40+% of SMEs report customer growth connected with the use of digital tools. The companies that use digital tools are statistically 5 times likelier to reach new customers as they have a wider range that allow reaching international clients. SMEs are three times likely to experience customer growth that tends to be twice higher.

Better Financial Results

70+% of all SMEs speak of revenue growth and attribute the most of this growth to the use of digital tools. More digitized SMEs have a higher likelihood of experiencing revenue growth than their less digital peers. Companies that digitize their activities tend to be twice as profitable as their less digital peers.

Bigger Employment Capacity

SMEs with more extensive use of digital tools report that they employ twice the number of people as SMBs with a more basic use of tools. These SMEs also exhibit higher employment growth than their less digitized peers. Twice a bigger number of jobs could be created after the digitalization.

More Innovation

Around 90% of all SMEs believe that digital tools have fostered innovation in their business, particularly in entering new markets and communicating with customers. SMEs with a more advanced use of digital tools report more innovative practices than their less digitalized peers. Digital peers are 3 times more likely to develop new products and services.



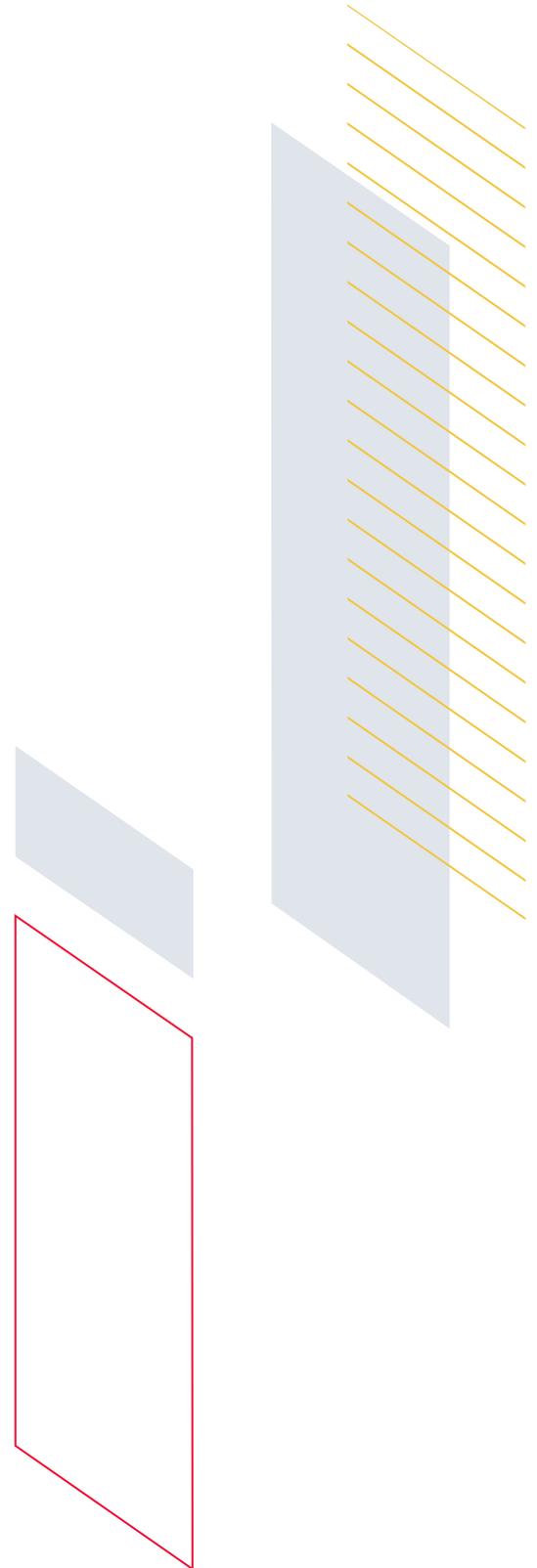
Businesses with higher levels of digital engagement are more likely to have a growing customer base and more access to customers internationally, a better financial performance, more employment growth, and more innovative practices. Given the positive effects digital tools have on business performance, it is no surprise that 70% of the SMEs have some plan for how they may use digital tools in the future, although only a third are looking into the next five or ten years. Having a clear approach for testing and using digital tools in a business is important to remain competitive, particularly when SMEs tend to face digital barriers.

More than 75% of all SMBs believe that they face at least one internal or external barrier to increasing their use of digital tools. Addressing the internal and external barriers faced by SMEs may enable them to use more digital tools, and offer them new opportunities to increase their size, productivity and profitability, and ultimately, their contribution to the economy.

More than 75% of SMEs report that they face at least one barrier to increasing the use of digital tools.

Resources:

- [European Digital SME Alliance](#)
- [Aircraft Related Technical Services Insights about Digital Transformation of SME](#)
- [EU Annual report on European SMEs 2018/2019](#)
- [StarHub Whitepaper on Putting Digital to Work](#)
- [SME Survey held by the German bank KfW](#)
- [The Performance of SMBs in digital world research by Deloitte](#)



About Us

Elinext is an outsource software development and consulting company that is presented on the market since 1997. We cover digital transformation for mid-sized and big enterprises across multiple domains, including healthcare, banking and finances, manufacturing, retail, and others. Don't hesitate to [contact us](#) if you have software projects in mind and want to discuss business opportunities or partnerships of any kind.