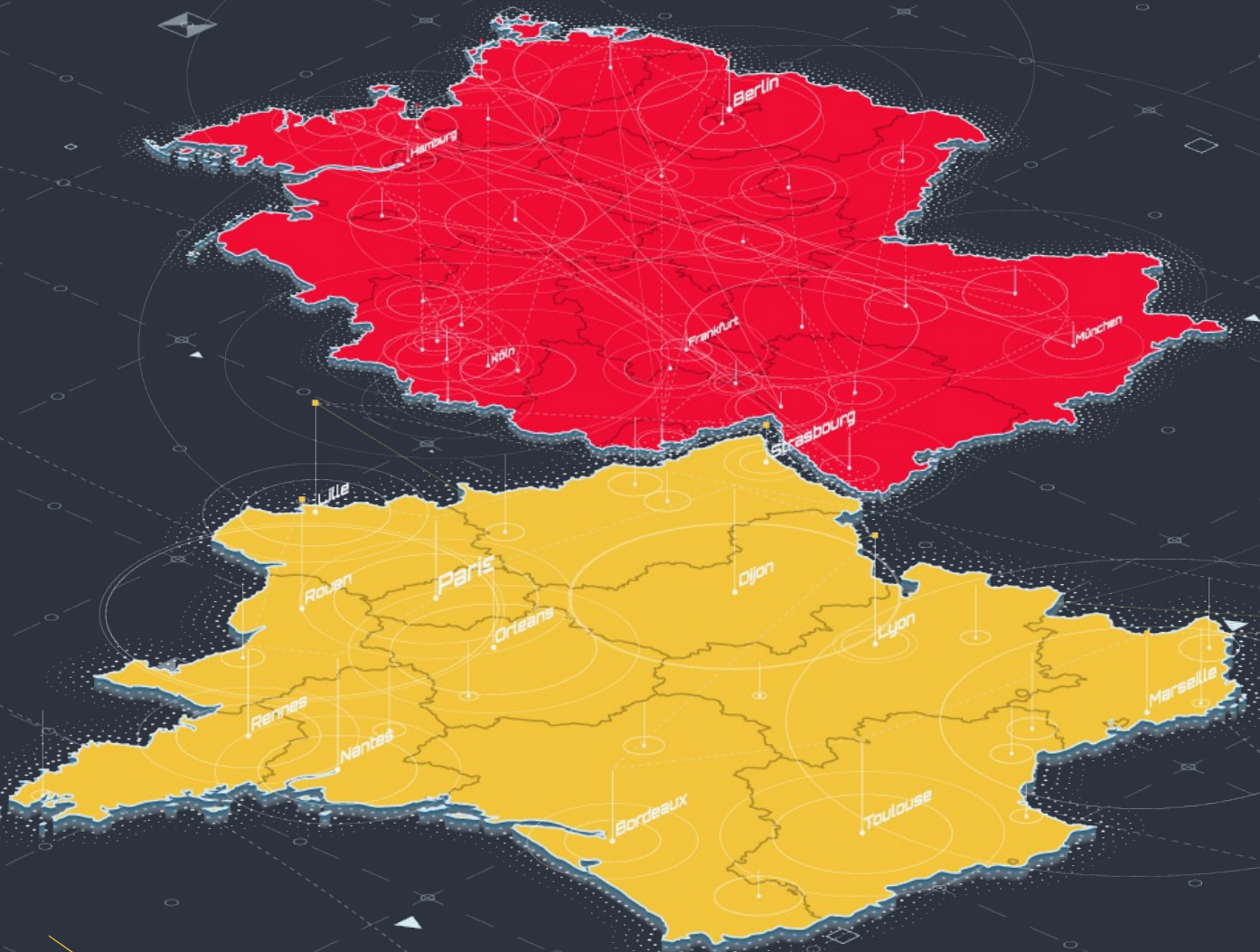


# Digitalization of SMEs in France and Germany

Digital Journeys and In-Depth Analysis



# Intro

This document continues to explore European SME businesses and their digitalization.

We continue to explore the trends of digitalization but this time focus on the Small and Medium-Sized Enterprises in France and Germany.

Also, as was promised in the whitepaper “Exploring the Digitalization of European SMEs”, we focus closely on the digital journey modern SMEs face.

We divide the companies on their path to digitalization into four categories: from basic to advanced ones. The detailed information is available in the first section of the white paper.

As for the situation with digital transformation among small and medium-sized businesses in France, section number two is dedicated to the current situation

The same goes for the third section of the document, with the only difference that the country in question is Germany.

The whitepaper is based mostly on marketing materials, surveys, and researches of Deloitte, PwC, and KfW bank.

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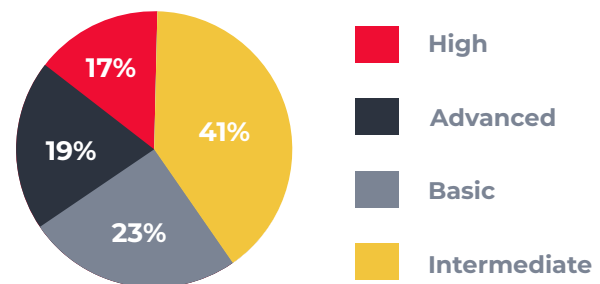
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# Digital Journey of Modern SMEs

## Characterization of the Four Stages of SMB Digitalization

Every SME, judging by their current level of digitalization is situated on a certain level. Deloitte has [conducted research](#) last year where they've asked the representatives of SMEs from European countries about their level of digitalization. The results are the ones that follow.

Percentage of companies at each stage of the digital journey



### Basic

**23% of businesses, a little less than a quarter are at the basic stage in their digital journey.**

Such companies tend to have a low online presence. Usually, they have an email address and the plainest website imaginable (at best). Half of SMEs in this category do not have a website at all, and 60% of them have zero presence on social media.

Around the third of SMEs in this category are engaged in PPC online advertisement, or search-related ads, and all of their sales are made offline.

The businesses in this category are not likely to use any digital tools for internal management, for example, only 6% report using enterprise resource planning tools and 10% software to connect sales with supply chain operations.

### Intermediate

**41% of businesses** are at an intermediate level of digital engagement.

Around 70% of these “intermediate” businesses had a website, a third had a website with some level of customer interaction, and a fifth can sell products and services from their website.

Almost half of SMBs in this category engaged in online forms of marketing such as ad banners on websites or search-related advertising, and 40% of these businesses had most of their sales come from online channels.

The businesses in this category have a low likelihood of using digital tools for internal management, for example, only 16% report using enterprise resource planning tools and 20% software to connect sales with supply chain operations.

## High

**17% of businesses** have a high digital engagement.

More than 70% of the businesses in this category had a website, almost 40% had a website with some level of customer interaction, and a fifth sold their products and services from their website.

Almost 60% of SMBs in this category engaged in online marketing such as ad banners on websites and more than 50% of these businesses had most of their sales come from online channels.

The businesses in this category have a low likelihood of using digital tools for internal management, for example, 30% report using enterprise resource planning tools and 20% software to connect sales with supply chain operations.

## Advanced

**19% of businesses** are at an advanced stage in their digital journeys. Around 80% of these businesses had a website, 50% had a website with some level of customer interaction, and a third sold their products and services from their website.

More than 75% collect data of visitors to their website, and many use this data to personalize their products and services. Almost 75% of SMBs at this “advanced” stage engaged in online marketing and more than 65% of these “advanced” businesses had most of their sales come from online channels.

These “advanced” businesses have the highest likelihood of using digital tools for internal management, for example, a 40% report using enterprise resource planning tools and software to connect sales with supply chain operations.

In addition, there are distinct differences in the way an SME operates at these different stages, which can be exemplified with five day-to-day activities across their communications—their own website and advertising; internal management and logistics— data insights to inform business decisions and resource planning tools; and sales management— sales channels.

Firms with more advanced use of digital tools are, on average, around twice more likely to have a website that allows customers to buy products and services than more basic SMEs.

# Digitalization of SMEs in France

French SMEs experienced robust growth during the latest financial years and are confident about their future activities.

-  Digitalization is one of the few aspects where French SMEs don't seem to have a competitive advantage over their peers from other European countries.
-  The majority of French SMEs are aware that they need digitalization in order to stay competitive, have a great impact on their future business activities.
-  There is a broad range of obstacles to digitalization. Among them are cybersecurity concerns, low Internet connection speed, and lack of digital skills.
-  French SMEs also report missing digital leadership capabilities. Hence the importance of supporting business owners in the digital transformation of their companies.
-  Investment in digital infrastructure is a precondition and an obligation to the digitalization of SMEs

In short, French SMEs are supported by favorable financial conditions. The vast majority of the companies in question: 84% of [French SMEs surveyed](#) report stable or increasing revenue for the last financial year.

About a third of the total SMEs report revenue increase by 5% or more. There are stats below that ensure the fact that innovative and international companies statistically perform better.

41% of SMEs active abroad and 40% of innovative SMEs experienced robust revenue growth.

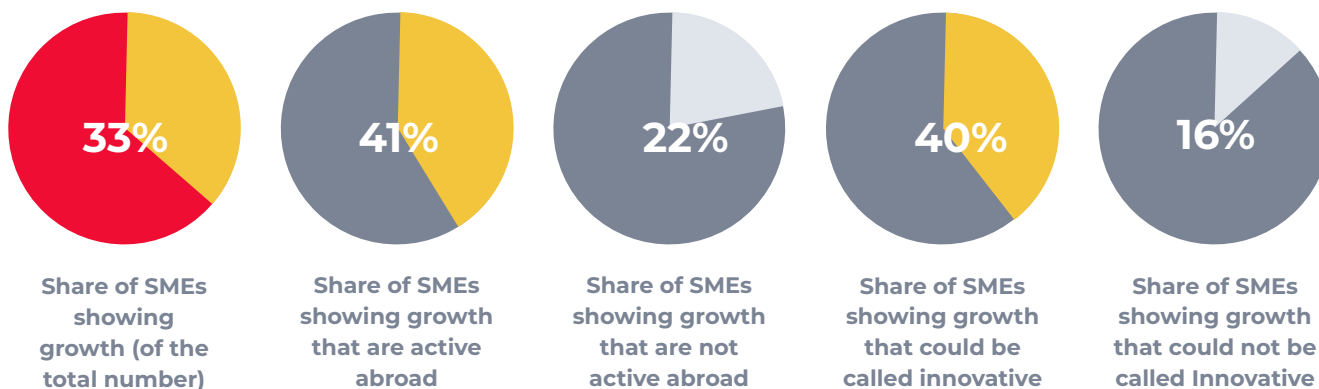
Bank financing remains the main source of funding for French SMEs, with about 76% of them using bank loans and other forms of debt to finance their activities.

It may be noted that the use of bank loans is more common in France than in the other European countries: 61% of the companies to 46% overall across Europe.

Equity capital, including retained earnings, is also broadly mentioned by French SMEs (68%) but less than the average observed in the outer EU (74%).

It is interesting to note that 30% of French SMEs report using promotional funds, such as subsidized or guaranteed loans, to finance their projects.

## Share of French SMEs showing revenue growth



## Competitiveness is Still a Major Challenge for French SMEs

French exporters have a working space to improve on non-price competitiveness (we are talking about product quality, innovations, and organizational efficiency).

According to a [survey from Rexecode](#), French products are still considered abroad as more expensive on average than competitors' products of similar quality - that is an alarming factor for French SMEs.

French companies are quite pessimistic about their performance relative to their main competitors, perceiving themselves most critically in many aspects, including the level of digitalization.

The quality of their products and services is the aspect in which they see themselves performing best. The average firm performance score reaches 3.2 of 5, much lower than the one of British and outer EU companies.

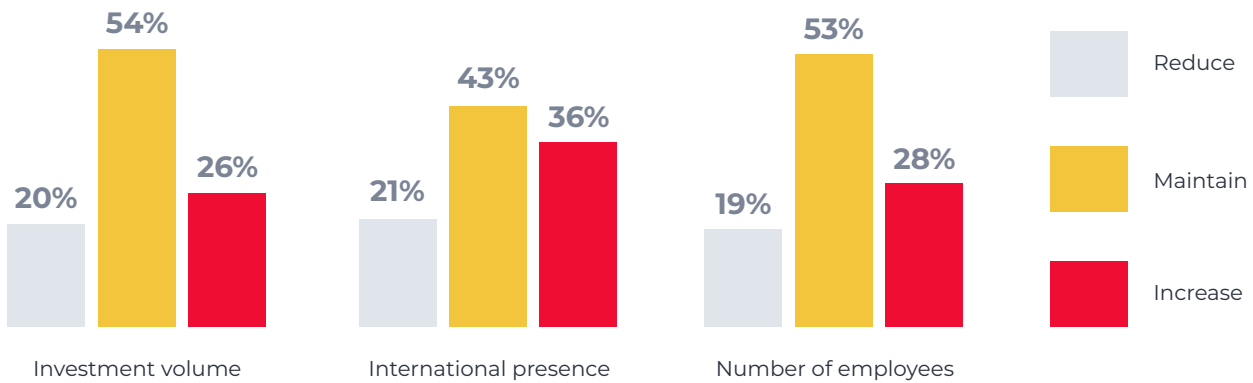
On the other side of spectre, French SMEs are relatively positive about the general conditions in their country.

Compared to other European countries, they especially feel **less affected by corruption, bureaucracy, and lack of infrastructure.**

The major barriers identified are **high taxes**, and skills shortage. On this latter issue, a Bpifrance survey shows that 82% of SMEs with recruitment needs in the period between May 2018 to May 2019 met difficulties in recruiting.

Nevertheless, French SMEs remain confident about their future business activity In the next two years The stats on French SME are available in the image below

## Share of French SMEs intentions



Almost three quarters (73%) of French SMEs intend to introduce either process or product innovations in the next two years.

This result appears relatively high as only slightly more than half of French firms with 10 or more employees have innovated over the 2014-2016 period.

Almost a quarter (24%) of SMEs intend to introduce both.

**Most French SMEs are aware of the need to digitize but don't put a high priority on it.**

## Digitalization forms at French SMEs



**Digitalization is a key challenge** for France as on this topic the country lags behind the European average. According to the European Commission's Digital Economy and Society Index (DESI), France ranks only **15th out of the 28 EU Member States in terms of digital performance.**

The digital transformation is thus a major issue for French SMEs. The French government is aware of this challenge and has implemented an [internet portal dedicated to the digital transformation](#) of SMEs and micro-enterprises.

In contrast, 70% of French SMEs' business leaders do not consider the digital transformation of their company as a top priority, the highest share among the five countries of the study.

This result may seem surprising as the level of digitalization is the topic on which French firms feel less competitive relative to their main partners.

However, most French SMEs have begun their digital transformation.

According to BpFinance survey, in Q3 2019, 53% of SMEs have started their digital transformation.

**60% of French SMEs are digitalized.**

## Digitalization of SMEs in Germany

- German SMEs have experienced revenue and employment growth in the last financial year and were successful at the international level
- Digitalization is gaining a foothold among German SMEs, but it can't be called its competitive strength, according to their own assessment. In many digital activities, they are behind their competitors from the outer EU.
- Important obstacles include the lack of digital infrastructure, cybersecurity issues, and the lack of digital skills
- German SMEs are missing a broad spectrum of skills among their employees, ranging from basic digital competencies to advanced programming skills and digital leadership capabilities
- SMEs in Germany train their employee, more than their peers in France, Poland, Spain, or the UK.

### In international competition, German SMEs are well-positioned

Germany is characterized by a diverse and internationally competitive SME sector, providing nearly two-thirds of the economy's jobs and generating more than half of its value-added.

German SMEs continue to see their strengths in producing high quality, innovative goods, along with comprehensive customer services. In international comparison, they still benefit from favorable location conditions. In particular, SMEs judge access to finance to be better in Germany than in any other of the five countries



## Digitalization forms at German SMEs



German SMEs face the following challenges. The business climate is starting to cloud over and export growth has been rather weak from January to July 2019 year-on-year.

German SMEs face important structural changes.

In particular, demographic development will likely reinforce the skills shortage, which many companies already see as a competitive disadvantage. The digital transformation will also continue to impact SMEs, creating opportunities but also entailing risks for their future business.

Digitalization is increasingly gaining a foothold in the German SME sector.

More and more companies are successfully completing digitalization projects. The use of software to facilitate collaborative work is most common, with 62% of SMEs currently being engaged in this activity. Nearly as many SMEs rely on electronic invoicing, that is they transmit structured invoice data that can be automatically processed by their customers.

## 37% of German SMEs consider digitalization as a top priority

While not being among the digital leaders, many German SMEs have realized the importance of making progress in this regard. About 48% of the surveyed enterprises are convinced that they need to adopt new digital technologies to remain competitive. In about 37% of German SMEs, the management attaches a top priority to digitalization, slightly more than the European average. No priority is given to digitalization in only 8% of the surveyed enterprises.

Making digitalization a strategic issue pays off. At 11%, the share of SMEs experiencing a robust revenue growth is twice as high among those SMEs that attach a high priority to digitalization than among those that do not.

As in other European countries, SMEs in Germany are more likely to invest and innovate if they embrace digitalization and they are more inclined to create new jobs.

While being slightly less optimistic than European colleagues, more than half of German SMEs expect that digitalization will have a positive impact on their business within the next five years.

[Lack of digital infrastructure and skills](#) are key obstacles. To design effective policies, it is important to understand what actually hinders SMEs in their digital transformation process. The results of our survey suggest that in the largest European economy, the low speed of the internet is the most important barrier to digitalization in SMEs.

About 27% of the enterprises surveyed in Germany perceive it as a major or even very severe obstacle, which corresponds to the average across the five countries considered in this study.

Also in the EU at large, Germany currently ranks **only 11th among the 28 Member States** in terms of internet connectivity, as indicated by the European Commission's Digital Economy and Society Index (DESI).

In 2017, the German government, as well as telecommunication and network companies, agreed on the Gigabit Initiative for Germany, which defines ambitious targets to make the country one of the leading nations regarding digital infrastructure by 2025.

Nearly one-quarter of German SMEs perceives the shortage of IT specialists on the external labor market to be a serious constraint to the digitalization of their business.

It is to be expected that this shortage will further increase as digitalization proceeds, underlining the need to take action.

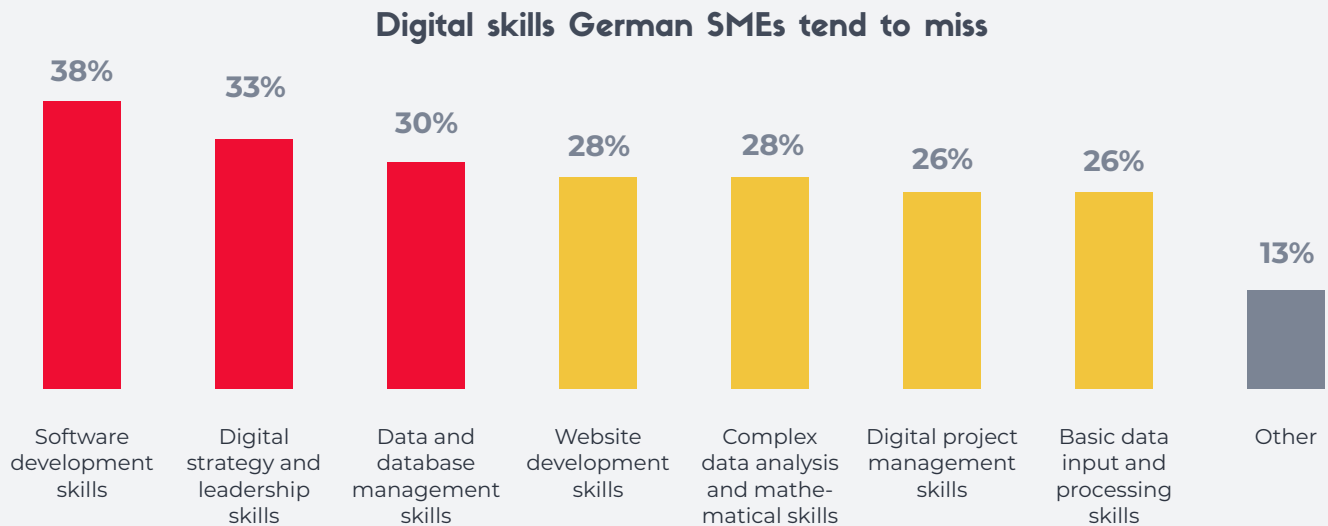
IT security concerns are slightly less important for German SMEs, in particular in comparison with their European peers. While in all other countries, IT security concerns are among the most commonly reported obstacles to digitalization, they are placed only fourth in Germany.

### Major obstacles to digitalization that German SMEs Face



## German SMEs are missing a variety of digital skills

Insufficient digital skills as a key obstacle, what are the specific competencies that are missing? In fact, German SMEs are missing a broad spectrum of hard and soft digital skills among their employees.



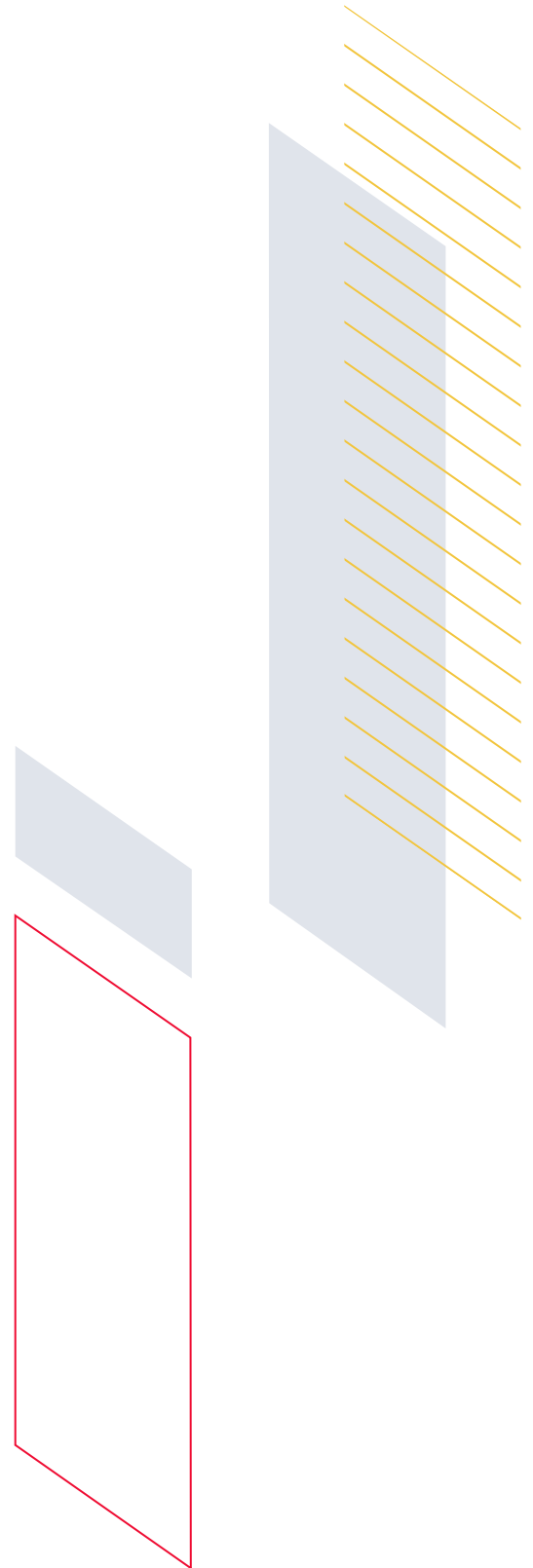
About 38% of German SMEs consider the lack of digital skills among their employees the main obstacle to digitalization, see a special need in software development skills.

Nearly as important, however, would be digital strategy and leadership skills, which about 33% of the surveyed German SMEs miss in their workforce.

Other difficulties are listed in the image above.

# Resources:

- [The Performance of SMBs in Digital World Research by Deloitte](#)
- [SME Survey Held by the German bank KfW](#)
- [French Government Portal on Digital Transformation of SMEs and Micro Enterprises](#)
- [Various SME Academy Reports](#)
- [Industry 4.0 Annual Report of European SMEs](#)
- [SME Banking Report on SME Digital Transformation Challenges](#)



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