Driving digital transformation in SME's

Neil Clarke, Innovation Connections ICT Facilitator
July-2017

Executive Summary
There is a need for Australian SME's to improve their current level of digital capability, but many businesses find it difficult to implement systems that affect the broader business due to disruption, cost and internal capability. It is difficult to find good, impartial advice and assistance for SME's due to cost constraints and availability, leading to a reluctance to undertake these transformative implementations. Additionally, many SME's do not understand the processes and methods to undertake these projects.

It would be possible to expand the existing Entrepreneurs' Programme Innovation Connections element with additional funded services and some additional matched funding to both assist these businesses upgrade their digital systems, and to address the current market failure that sees a lack of impartial services for SME businesses.

The problem
Most SMEs made a leap into digital technology over 20 years ago and implemented a small business accounting system such as MYOB or QuickBooks. These systems allowed the business to record and report on many areas of company performance as soon as the data was available and with a very low upfront cost and low disruption to the business, payback was almost immediate and the purchase and implementation was a 'no brainer'.

Likewise, email became a 'no brainer' to implement as it meant cost reductions, faster, easier communication and in some cases the ability to comply with requirements from a larger customer. This also required only a modest outlay and offered very low disruption to the day to day business operations.

In the late 90's and early 2000's most businesses realised the reach of the internet and for fear of being left out (and with availability of various state or federal incentives) most companies spent money on creating a web site and having it hosted – some were good some were awful. These also only required a modest outlay and meant very low disruption.

The common thread here is that all of these actions saw very quick return on investment, were driven by compliance of one form or another, generally offered almost zero disruption to normal business to implement and, had a modest up-front cost. For many Australian SME's this is where their digital transformation stopped.

Today a majority of SME businesses that I see in my role as an ICT Innovation Facilitator for the Entrepreneurs' Programme fall into the above category – MYOB is used for finance and payroll, spreadsheets and manual systems are used for everything else! This leads to multiple data entry, untimely data and poor analytic capabilities. Additionally, company web sites are generally static and rarely updated, and very little thought is given to online presence or marketing. Additionally, where the business also uses EDI or a web store, interfaces are typically manual.

Why transform?
There are (generally speaking) two types of businesses that attempt to realise the full potential of digital systems – those that plan and adopt new strategies as part of their culture and business model, and those that are forced to do so, typically by way of compliance or competition. Whether it is quality management, industry reporting, government requirements or any raft of other

compliance requirements, most businesses are driven to upgrade systems by the additional burdens of compliance. This can be a key to getting a business in the right mindset to consider digital systems properly. Where businesses are forced to implement through compliance, their mind set is usually less receptive than those that are choosing to upgrade. This can lead to failed or lengthy implementations.

There are however many other compelling reasons for a business to keep evolving its digital systems. When times become tougher and/or competition intensifies, the ability to analyse and respond to the profitability of each job becomes more critical. Most businesses rely on the accounting system and a collection of spreadsheets to collect and analyse job profitability. Whilst this requires little up-front expenditure it has hidden costs in the time taken to prepare these analyses and the inaccuracy of them. Equally, when business improves and more work comes in it can be easy to lose control of inventory, delivery times and invoicing without supportive systems. In this scenario it is typically easier to throw more resources at managing the issue than it is to implement better systems, but this has limits and higher costs over the longer term.

Other reasons to implement better digital systems include succession planning and the implementation of tighter workflows and controls. Also, with most small, job based businesses relying on the original business owner to prepare and revise quotations a point of risk is built around that person. An appropriate software system can alleviate a lot of these issues.

There are also several reasons that businesses are resistant to these systems too. Many SME's see it as an unnecessary expense with little or no ROI. These businesses vary widely, but even some larger businesses will not improve systems unless they see a positive ROI within 24 months. The ability to provide such an ROI is not always possible using the SME's own figures so the project is never undertaken. Factors such as growth in the business, or improvement in processes are rarely factored into these type of calculations, resulting in poorer than possible ROI. Other factors such as belief that there is no need to change also abound.

Typical issues stopping most businesses from implementing better systems include:

- Many SME's do not believe that the cost for these systems is justified, or that they will improve the bottom line. They are not seen as having an acceptable ROI.
- There is no compelling reason to change. There are no compliance issues to solve, and existing manual systems work well now.
- There is an (often substantial) up-front cost in time and money.
- It can drive the need for new hardware too, increasing the upfront cost.
- It disrupts normal business for a period of time.
- It takes time – up to 18 months to implement and become proficient.
- It requires analysis and documentation of the business processes, often requiring external assistance.
- It will not match the business processes 100% and some change may be required to current workflows

As well as compliance, there are many other benefits in improving digital systems in a business including:

- reduced order to cash cycle time;
- improved DIFOT through better planning and purchasing;
- reduced multiple data entry and information siloes;
- provides a whole of business view to all parties;
- provides real time view of profitability of jobs and quotes;
- reduces stock inventory holding;

- the availability of intelligent workflows that automate low value approvals but ensure higher value purchases or higher risk jobs are reviewed and protected;
- providing a platform for automated B2B and B2C transactions;
- improving the SME's capability to upgrade customer service in all areas. Leading to improved market share and better profitability.

Improving digital systems in an SME with poor existing processes or a borderline business model will not always help. Improving digital capability will not:

- decrease the necessity to enter information (often there is a higher amount of data entry and from different people than the business is accustomed to, such as field technicians updating timesheets and jobs;
- improve poor practices and processes – these must be ironed out BEFORE implementing;
- automatically improve poor inventory manage processes or bad stock control – again poor inventory management is usually a procedural issue and implementing poor procedures onto new systems will not change the outcomes. These systems will provide tools and accurate information to allow the business to improve stock management, or;
- improve social media, web marketing or web presence, unless specifically included as part of the project.

Getting assistance

Most SME's underestimate the amount of work involved in evaluating, selecting and implementing a new business system such as an ERP. Many start trying to do it internally, typically saddling an existing staff member with additional work to do the project. Typically, this leads to delays in the project, and a lack of continuity.

Reasons for wanting to retain this as an internal process vary, but the lack of affordable, impartial assistance is certainly a contributing factor. Sometimes it is possible to retain a consultant specific to an industry that can help with the selection and implementation of systems, though these are difficult to find and, in a smaller company, may still be cost prohibitive. Due to market conditions and the budgets available within smaller companies, most consulting companies and advisors focus on larger clients, where there is a reasonable budget available, as well as the understanding of the need for expert assistance.

In my role as an IT Facilitator, it has become clear that it is extremely difficult to find good, affordable, impartial assistance capable of working with SME's with smaller turnover. These businesses are typically low staffed, have people that perform multiple roles, and are in need of the most help, but, also suffer from reduced budget available to implement a new digital system. In many cases, following a cursory selection project, the planning and implementation of a new system is left to the vendor or reseller of the chosen package. Typically, these SME's are under prepared and do not (or cannot) nominate a single point of contact for the vendor to work through, leaving many things open to interpretation and delay. These issues can be mitigated if there is an experienced resource available to create, steer and manage the project, giving a much smoother and less disruptive implementation.

The reason that such resources are so hard to find is a market failure in the small business IT consulting sector brought about in part by the attitudes of the customer themselves, but also because of the budgets available for such work in an SME environment. For a small IT company to build a business around selling and implementing small ERP solutions, where a typical sale and implementation may be $30,000, it requires sales and implementations of around 1 per week to build a sustainable, profitable business. This is an impossible target in all but the largest Australian

cities, meaning that such companies need to diversify to maintain profitability to remain in business. This results in a watering down of their software focus and support capability as they bring multiple products to represent in to the business. It is these factors that have led to the difficulty in finding expert assistance for smaller businesses to implement better digital systems, whether product specific or agnostic.

In order to improve the uptake of better digital systems in these SME's it will be key to gain access to reliable, affordable people that can work with the SME to define a project, help with documentation of the business requirements, help with selection of vendors and reviews, manage the project and help the business through the implementation and go-live period. Typically, these resources are available in the big accounting practices but are scarce in smaller service providers. If there was sufficient funding available from an SME to engage these services, the availability of these resources would be likely to grow over time, most likely in existing businesses such as mid-level accounting firms, and boutique IT consulting companies. It is less desirable to engage these services from the software vendors or reseller themselves due to the lack of impartiality.

Expanding the Entrepreneurs' Programme offering through Innovation Connections.

To provide a platform for growth of the provision of these services, the SME community as a whole needs to be able to increase its expenditure on such services for these projects. One way that this could be assisted would be the provision of grant funding for the full or part amount of such an engagement. Such funding would help to build the availability of skilled consultants, as well as to increase the knowledge and maturity of the SME themselves as they learn the correct way to undertake a digital capability upgrade by working through a project with assistance from a skilled adviser. Innovation Connections should still provide the first step in the process via the existing Facilitation to match the business to several potential solutions.

The impediments to uptake of solutions mentioned above, particularly the lack of skills available in most SME's for a software selection and implementation project, also need to be addressed. While the availability of grant funding will help in the longer term, I suspect that more assistance will be needed to get projects underway. It is conceivable that the Entrepreneurs' Programme could expand the existing Innovation Connections (IC) IT Facilitation offering to provide deeper assistance. One such way would be to expand the number of facilitators to provide local representation in major areas, and to introduce a new tier of services, similar in some ways to the Business Services programme tier structure. The existing facilitation service and report could become a tier 1 service, and a second tier could be added to provide a deeper engagement with the Business. A tier 2 engagement could see time made available for the facilitator to work with the business to structure a project and assist with some project management, select an appropriate consultant and to monitor the progress of the Business. The Grant funding made available would help with the cost of professional services from providers specifically for the analysis, selection and implementation planning and execution.

An approach such as this (tentatively labelled the Digital Capability Improvement Programme (DCIP)) would provide impetus and leadership to assist the SME engage properly with service providers and software vendors. It should improve digital uptake amongst businesses that are currently laggards, by providing a much clearer path and incentive. With limited budget and resources, some form of project validation and grant entitlement would need to be provided and it is not felt that this would be an automatic entitlement, but rather should be more tightly administered to those Businesses that clearly identify a need and project.

About the author

Neil Clarke is an IT Systems Innovation Facilitator for the Australian Governments' Entrepreneurs' Programme with the Innovation Connections element. He can be contacted on 0408 280 601 or email at: nclarke@amtil.com.au