

DIGITAL, RESILIENT, & EXPERIENCE-DRIVEN

How small and midsize organizations in Southeast Asia can prepare for the new economy

Introduction

Small and midsize organizations often can leverage distinct advantages to succeed against larger, better-resourced rivals. They can forge closer bonds with customers and employees, adapt readily to subtle shifts in market sentiment, develop innovative services and products at speed, and nimbly modify their business models to avoid unforeseen disruptions.

Yet the fast-rising primacy of digital platforms, the increasing use of mobile phones to drive e-commerce, and the growing power of data analytics to drive business decisions is increasing the competitive pressure on small and midsize enterprises across Southeast Asia, which find their markets rapidly evolving before their eyes. Investing in new technologies and developing digital business models can put pressure on a smaller firm's resources, even as it faces the constant imperative to boost growth. How can leaders make the right technology investments—and make sure they pay off?

SAP and Oxford Economics surveyed 400 executives from small and midsize organizations in Southeast Asia in the final days of 2020, following a larger global survey of 2,000 executives in 19 countries earlier in the year. In Southeast Asia and around the world, customer and employee experiences are an increasing focus for firms for small and midsize enterprises, even as many grapple with upgrading organizational strategies.

Key findings

- **Attention to talent issues will be critical to supporting agility and transformation.** Surveyed SMEs in Southeast Asia cite challenges finding and training the IT talent needed to execute digital transformation. Upskilling talent is cited as the top internal challenge to meeting strategic goals, yet less than one-third of regional SMEs have invested in employee training and development to boost employee experiences, below global averages.
- **High-quality customer experiences are in focus—but hard to achieve in an ever-changing marketplace.** Improving the customer experience ranks as the top strategic priority for SMEs across Southeast Asia, ahead of other initiatives like overall growth and efficiency—a trend that was clear in our global survey, but even more pronounced in Southeast Asia. Ever-evolving customer needs make this a hard goal to accomplish: 40% of SMEs in Southeast Asia say they face difficulty adapting to a rapidly changing marketplace, compared to just 31% in our global sample.
- **Many small and midsize enterprises are playing catch-up on digital transformation.** Our data shows that any digital transformation has yet to gain momentum for small and midsize enterprises in Southeast Asia, results that significantly lag the assessment of larger firms across the global sample. Increasing the pace of digital adoption will be critical to adapting to a challenging and ever-changing environment.
- **A targeted focus on data and specific digital tools is needed to support long-term strategy.** Lagging investment in data analytics and other IT solutions may hinder strategic goals. Even though some Asian markets are at the leading edge of e-commerce adoption and use of social media, surveyed SMEs in Southeast Asia significantly trail global averages in using social media or e-commerce to boost sales. Many firms cite shortages in data in decision-making, which could become more problematic as e-commerce and rising use of mobile phones increasingly drive the customer experience.

A focus on experiences

Meeting changing customer needs has become even more important—and more difficult—as the world responds to market volatility and widespread operational disruptions. Building trust with customers, which smaller firms tend to see as their inherent competitive advantage, can ultimately support resiliency and give SMEs the strong foundation they need to securely experiment with new technologies and business models.

Across our global surveys, firms large and small consistently have said that improving the customer experience is their top strategic goal. Among SMEs in Southeast Asia, however, the response is even more robust: 45% cite it as their top strategic goal (compared with 39% of the global sample from earlier in the year).

Positive customer experiences start with a high-quality product or service—which may be why excellence in those areas is cited as the primary sources of value and differentiation for SMEs in our Southeast Asia sample. (See Fig. 2.) Because they are smaller, and in theory more agile, SMEs in the region also tend to emphasize their focus on innovation. And while their larger competitors may focus more on geographic reach, smaller firms are more likely to say pricing represents a strategic differentiator.

The overwhelming focus on experiences and service excellence has so far not expanded to include employees in a meaningful way. Among our survey respondents in Southeast Asia, small and midsize enterprises place significantly less emphasis on boosting their employee experiences than they do on attracting and retaining potential customers.

Fig. 1: Boosting customer experiences is a top priority

Q: What are your organization's strategic priorities over the next three years? Select all that apply; top seven responses shown

base = 400 SMEs in Southeast Asia

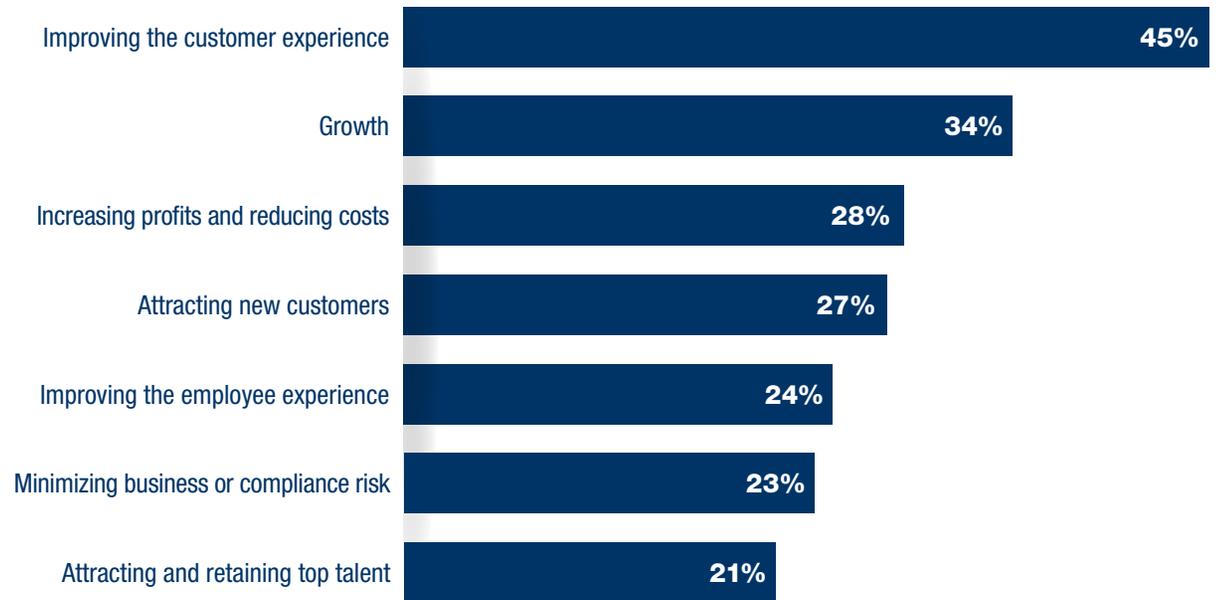
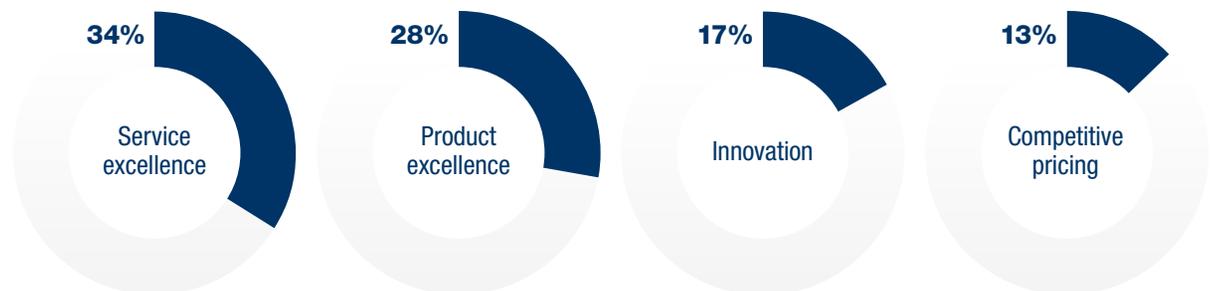


Fig. 2: Customer experiences start with product and service excellence

Q: Which best describes your organization's primary source of value and differentiation? Select one

base = 400 SMEs in Southeast Asia



This may reflect the fact that managers with a smaller workforce feel more capable of staying abreast of their smaller team of employees, or that many face resource constraints in uncertain economic conditions. However, managers should not neglect the employee experience, as satisfied employees are a key component of making sure the organization gets customer satisfaction right, too.

What matters most for employee experiences?

Just a quarter of SMEs (24%) in Southeast Asia say they provide a high-quality experience to their employees, far below the 41% of firms in our global sample who say they do. They also are less likely than firms in the global average to count a number of factors as important to providing a high-quality experience, such as competitive benefits and perks (16%, vs. 74% in the global sample), effective leadership (49% vs. 71%), or meaning and purpose in work (41% vs. 74%).

SMEs in the region believe investments in easy-to-use technologies will help them deliver a better employee experience. Some 61% of our respondents cited this, far more than any other steps taken to boost the employee experience. But without a focus on training, flexible work options, and broader organizational culture, achieving that level of personalization may not be feasible.

Across our global survey, small and midsize enterprises cite a lack of analytics for insight into employee wants and needs as a barrier to improving their workers' experiences. The same holds true in Southeast Asia: about one-third say lack of analytics into employee wants and needs or workforce needs pose challenges to improving the employee experience, ranking only behind difficulty scaling for growth.

Fig. 3: Changes are needed to support improved employee experiences

Q: Which of the following steps have you taken to improve the employee experience? Choose all that apply; select answers shown

base = 400 SMEs in Southeast Asia



What matters most for customer experiences?

When we surveyed SMEs around the world, the results show that there is no single driver of high-quality customer experiences. A range of factors, from developing the best products to providing competitive pricing and superior service, have surfaced as important to the respondents in our surveys.

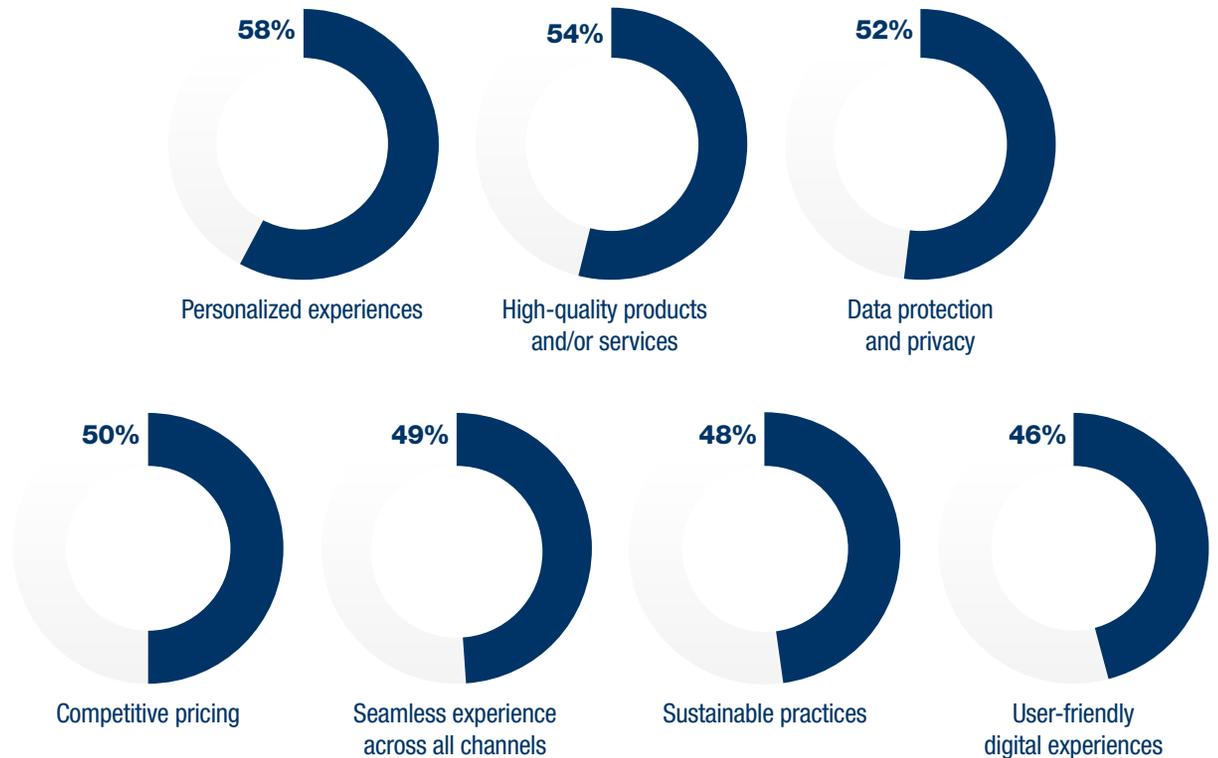
Small and midsize enterprises in Southeast Asia cite personalized experiences and high-quality products and services as the most important features enhancing the customer experience, followed by data protection and competitive pricing. (Even so, personalized experiences may be undervalued: though smaller organizations often differentiate themselves based on deep customer relationships, the executives we surveyed are somewhat less likely to cite this factor as important compared to larger firms in the region.)

The emergence of new online consumer technologies and the influence of social media and mobile phones pose stiff challenges to SMEs as they look to upgrade customer experiences. Far more than larger firms in our survey, small and midsize enterprises in Southeast Asia cite difficulty adapting to a rapidly changing marketplace as the top external challenge threatening their progress toward meeting strategic goals—40% say so, vs. 29% of larger firms in the region.

Fig. 4: Key drivers of customer experiences

Q: How important are the following factors to providing a high-quality customer experience? “Moderately important” and “Critical” responses; top seven responses shown

base = 400 SMEs in Southeast Asia



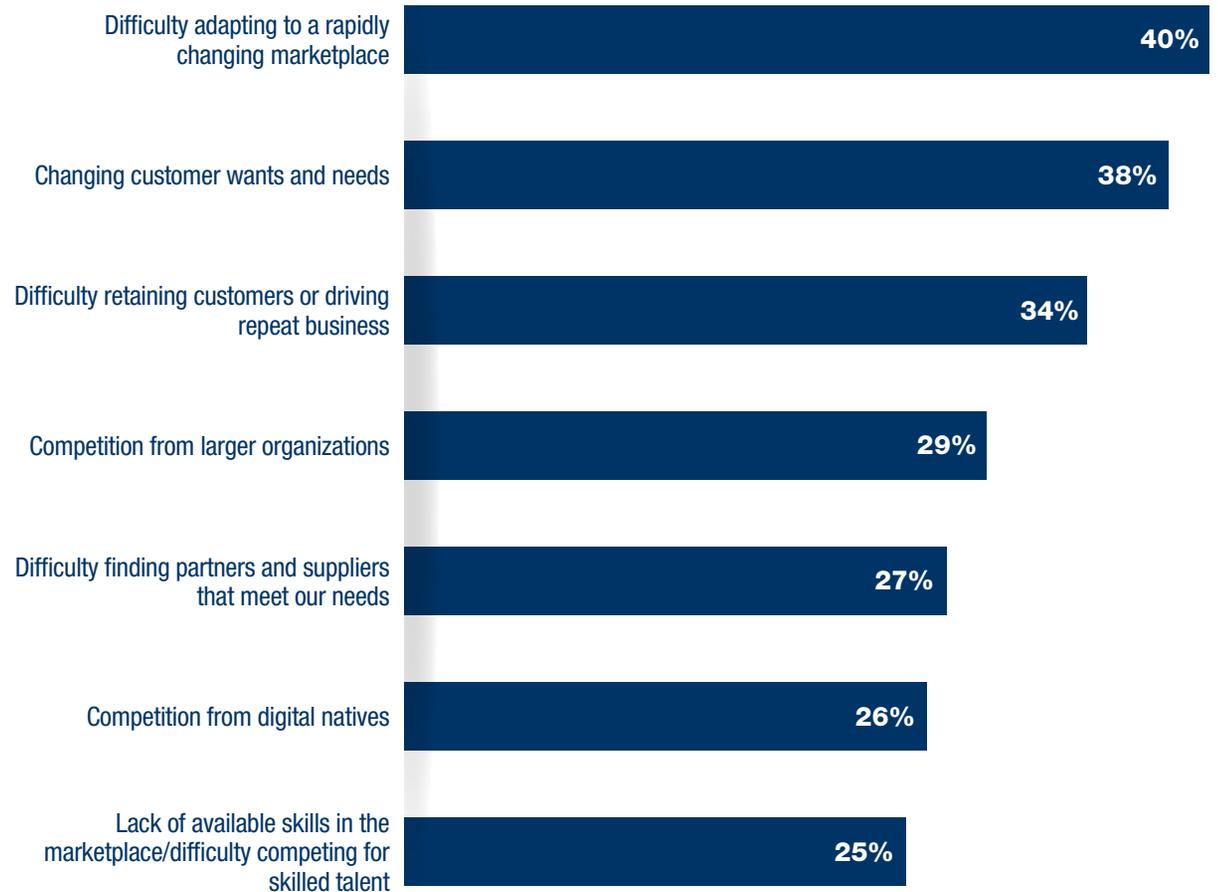
Internal issues threaten progress too. Well over one-third (37%) say that upskilling of the current workforce is the top internal challenge to meeting strategic priorities, suggesting the onslaught of new technologies is causing stress within the organization, and may be a factor in delaying their investment in digital technologies.

The lag in employee skills and adapting to the rapidly changing world of consumer behavior—where technologies like smartphones are beginning to play an outsized role in ordering and paying for goods and services, and where consumers want immediate fulfillment on their orders—means SMEs may not have the capabilities to meet customers where they are. SMEs in the region need to transform the organization to deliver the high-quality, personalized customer experiences that are competitive differentiators in today’s market.

Fig. 5: Adapting to a changing marketplace

Q: What are the current top external challenges to meeting your organization’s strategic priorities? Select all that apply; top seven responses shown

base = 400 SMEs in Southeast Asia



Transforming the organization

Capitalizing on digital technologies to improve customer and employee experiences depends on more than IT spending. Organizations must also change their processes and data strategies—and consider how data and processes are interconnected—to get full value from their investments.

Compared to SMEs across the globe, however, smaller enterprises in Southeast Asia are less fluent in the use of technological solutions to transform the organization. Perhaps because they are starting from a lower base and must ensure that the technological investments are well spent, many are still emphasizing the basics when it comes to building an organization that can maintain close relationships with customers.

For example, while our global sample cited soliciting and acting on customer feedback and enhancing customer privacy as linchpins to improving their customer-facing strategies, these techniques are further down on the list of priorities for SMEs in Southeast Asia. Instead, Southeast Asian firms are focused on cutting prices or increasing after-sales maintenance of their goods and services. This focus on efficiency will likely endure as organizations deal with fallout from the global pandemic, which has intensified the need for small as well as large enterprises to find effective strategies to keep the company functioning even as they deal with ongoing disruptions to their supply chains, work processes, and other operational factors.

Process change will be required to meet these goals and improve customer experiences. Firms in our global survey were quite likely to say they solicited and acted on customer feedback and increased a focus on data privacy and protection to improve the customer experience, but these responses are far down the list among SMEs in Southeast Asia.

Fig. 6: Small and midsize organizations are taking steps to improve customer experiences

Q: To what extent have you taken the following steps to improve the customer experience? “We have started this” and “We have done this across the organization” responses

base = 400 SMEs in Southeast Asia



Instead, smaller firms tend to concentrate their efforts on tried-and-true, often low-tech, formulas. For example, they are more likely than larger organizations to have added additional customer-facing employees (30% vs. 23% for larger firms).

Similarly, to transform the employee experience, smaller firms are sticking to the fundamentals, including modifying flexible work practices (27%) or streamlining organizational process (26%). It is striking that fewer than one-third have invested in employee training and development, even though SMEs have identified improved training of their workforce as a key challenge to growth. In order to compete with larger rivals and deliver the experiences customers expect, SMEs in the region may have to accelerate their digital transformations beyond the basics.

Technology enhances the human experience

Technology is rapidly changing work processes across industries, and new collaboration technologies, which gained both new urgency and greater popularity during the COVID-19 pandemic, can help build and meaningfully extend human connections.

New breakthroughs in fields like data analytics, automation, and artificial intelligence will become increasingly essential for small and midsize organizations that aim to develop both personalized and economically efficient relationships with customers and employees. Yet investments in these new technologies can pose significant barriers to smaller companies that may be reluctant to invest in new fields until their utility and return on investment (ROI), can be shown to be meaningful. Smaller firms simply have a smaller margin for error.

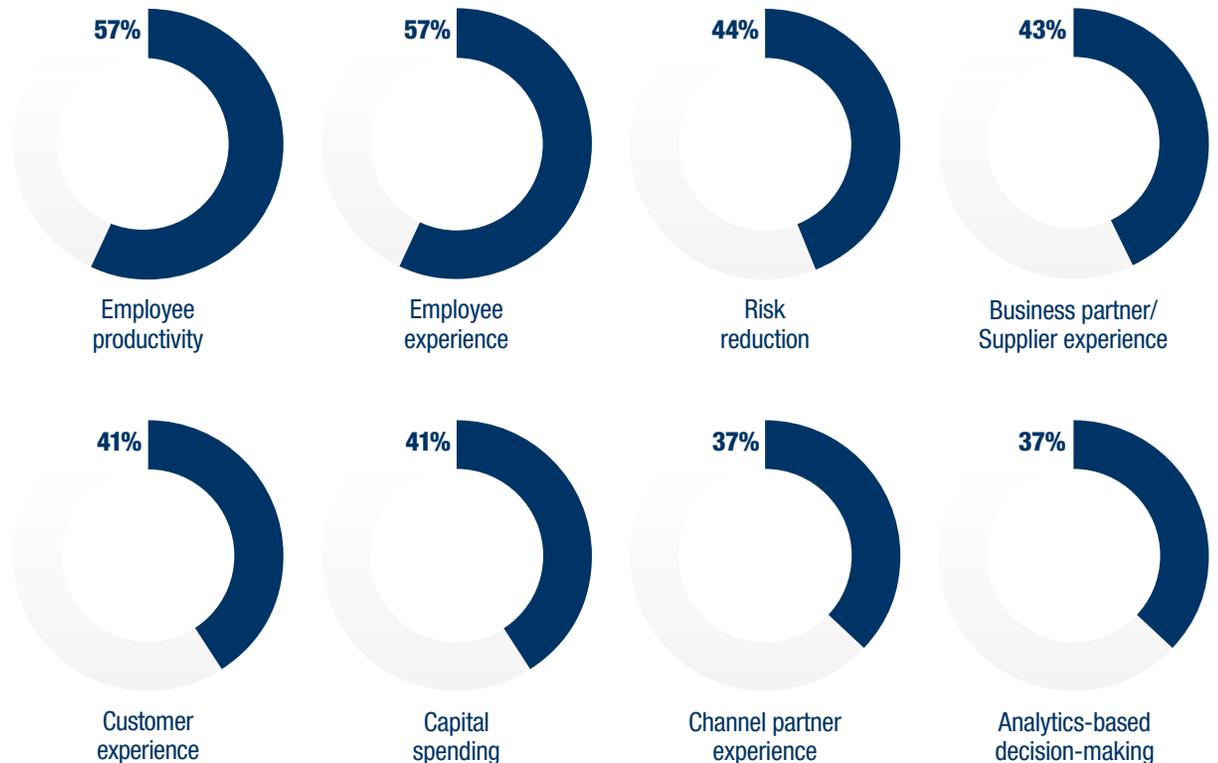
So, while it is broadly understood that digital technologies can meaningfully improve the experiences for both customers and employees, adoption rates for smaller firms across Southeast Asia seem to lag their larger counterparts in the region and when compared to global metrics. For example, less than 5% have made substantial progress along that journey, compared to 39% of larger companies in the region and 8% of our global sample.

And while 61% of larger firms project that they will have substantially or completely transformed around digital within three years, just 28% of SMEs in Southeast Asia say they will be that far along, with only 2% saying their transformation will be complete. This is in sharp contrast to the results of our global findings, which found that 56% of all firms expected to make a substantial or complete digital transformation in that time.

Fig. 7: Many small and midsize firms lack data to improve decision-making

Q: To what extent do you have the data you need to support improvements in the following areas?
 “We have what we need” responses

base = 400 SMEs in Southeast Asia



The relatively slow pace of adoption may reflect the fact that SMEs are not yet fully convinced that investments in digital technologies have boosted their firm's ability to improve the customer or employee experience. For example, just 41% of SMEs say that investments in digital technologies have meaningfully improved their employees' experiences, and less than half (47%) say that investments in digital technologies have improved their customers' experience.

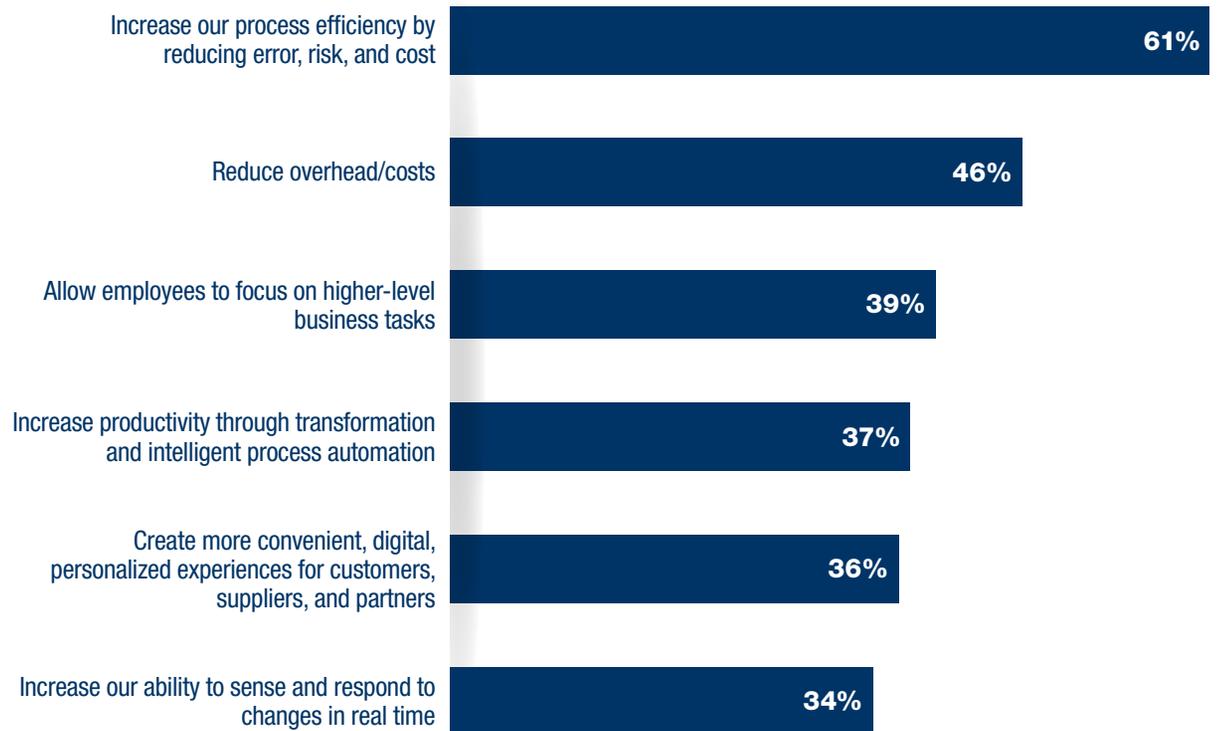
Because of their smaller footprint, SMEs seem to feel they have adequate technological resources to handle employee productivity and employee experiences; where they seem particularly vulnerable is outside the four walls of their enterprise. Just 43% of SMEs say they have adequate data to improve business partner and supplier relations, while only 41% say they have sufficient data to improve their customers' experiences. And just over one-third believe they have adequate tools to develop sufficient analytics-based decision-making.

Can digital solutions improve the competitive landscape for SMEs across Southeast Asia? While larger companies see technology as helping empower several growth strategies—for instance, by helping them better understand the emerging preferences of their customer base—SMEs in the region are more focused on harnessing technology to reduce expenses (Fig 8). For example, 61% of regional SMEs in the region see new technologies as improving their process efficiency by reducing errors and cost, and 37% see automation as improving productivity, while just 27% see it improving transparency into operations and 36% see these investments as creating more convenient or personalized digital experiences for customers and suppliers.

Fig. 8: Small and midsize firms want technology to improve efficiency

Q: In which of the following ways do you expect automation and digital technologies to support your organization's business goals? Select all that apply; top six responses

base = 400 SMEs in Southeast Asia



It is possible that SMEs are small enough to believe that personal connections to suppliers and customers are more cost-effective than deploying sophisticated digital technologies, especially in a region of the world where labor costs, outside of Singapore, remain very competitive. But the fact remains that how customers interact with businesses—and what they expect in terms of service—is changing, and SMEs will need to move quickly to keep pace.

Conclusion

Small and midsize organizations in Southeast Asia face the challenge of mastering tectonic shifts in the consumer landscape while facing the traditional resource constraints that often challenge small firms. They cannot make dozens of bets on emerging technologies; they must make cost-effective choices that will bring visible return to their bottom lines. In a region where cloud technologies and “always on” internet access cannot always be assumed, the risk profile for SMEs becomes even more complex: SMEs need pragmatic solutions that work.

So while they recognize they must develop more technological prowess to meet the rapidly expanding demands of their increasingly digital customer base, they need to proceed slowly and methodically. This will involve reducing costs to enable the next step of technological investment, balancing short-term problem-solving with longer-term, more strategic initiatives focused on sustained customer and employee satisfaction and future growth. Meeting these goals depends on coordinating across departments to avoid silos, using data analytics to support decision-making and investments, and maintaining personal relationships with customers and employees even as operations scale up.

How can small and midsize organizations continue to provide high-quality experiences even as they navigate recovery from a crisis?

- **Organize for agility.** Coordination across the business—facilitated by rapid communication and information-sharing—can help small and midsize organizations respond to challenges quickly and effectively, and compete more effectively against larger rivals.
- **Put people at the center.** Business processes, organizational structures, and digital investments should all support customer and employee engagement, whether through real-time insight into wants and needs or innovations that improve convenience and quality.
- **Become more data-driven.** Analytics for decision-making can transform every aspect of operations, from insights that affect supply-chain sourcing to alerts that support predictive maintenance after sales.

Oxford Economics and SAP surveyed 600 respondents across six Southeast Asian countries—Singapore, Malaysia, Indonesia, Philippines, Vietnam, Thailand—including 400 from small and midsize enterprises with less than \$500 million revenue and 200 from larger organizations. This survey was administered via a mix of computer-assisted telephone interviewing and online links between December 2020 and January 2021. This followed a global study of SMEs conducted between February and April 2020. Respondents are senior executives (director and above) from a diverse range of industries including retail, financial services, manufacturing, high tech, wholesale distribution, engineering, construction, logistics and the public sector.

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