



2021 State of SMB Digital Transformation

SURVEY REPORT



Overview

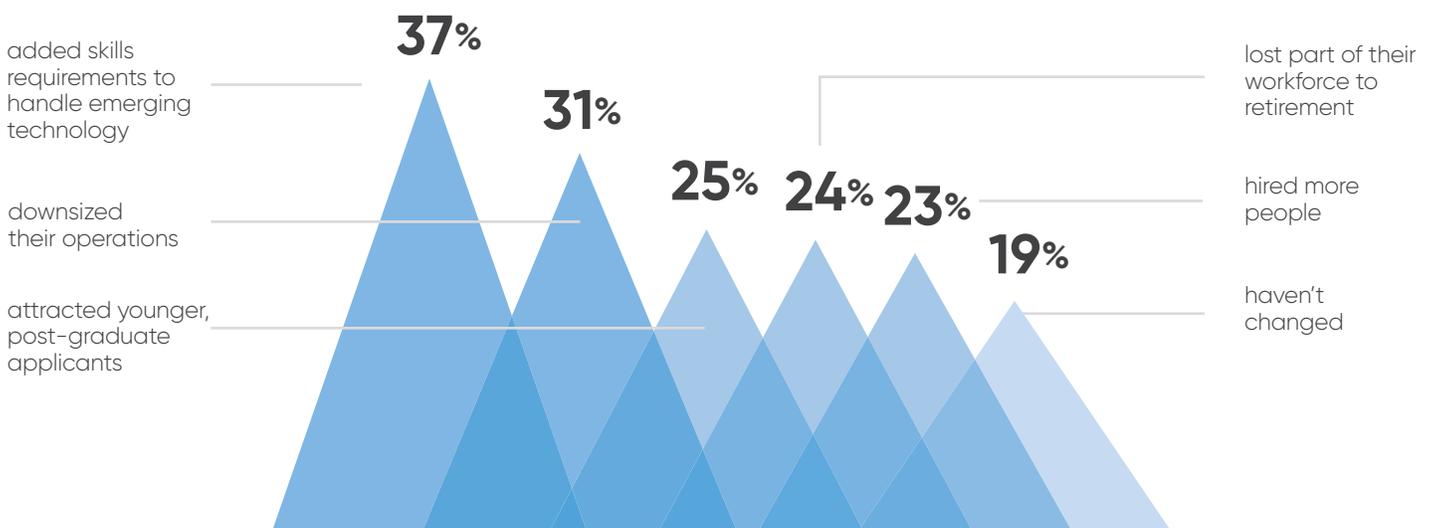
Small and medium-sized businesses (SMBs) have been hit particularly hard by the COVID-19 pandemic. For more than a year, supply chains, revenue, and employee wellness hung in the balance of a wounded economy. Many SMBs though, faced an industries-wide inflection point of rapid growth and increasing vulnerability even before COVID-19 introduced complexity. Escalating consumer expectations in the age of Amazon, global supply tensions and policies impacting all industries, and the pressure of digital transformation did not dissipate when the pandemic hit—and in many cases, were exacerbated.

To understand how SMBs are leveraging technology to respond to these challenges and recover from the pandemic, ECI surveyed 500 SMB IT decision-makers across the manufacturing, lumber and building materials (LBM), wholesale/retail, residential home construction, and field services verticals in March 2021 asking questions about the prior 12 months, and compared those results to our previous **State of U.S. SMB Digital Transformation survey**, which covered November 2018–November 2019. The findings show that the pandemic is top of mind for SMBs and has directly impacted revenue, hiring, and spending. To respond to these challenges, SMBs are investing in technology as a strategy to manage budgets, maximize employees, enable remote work, and improve cybersecurity. Read on to learn how SMBs have navigated the uncertainty brought on by the coronavirus and how these strategies can lay the groundwork not only for a post-pandemic economy but for a more resilient future.

The state of small and medium-sized businesses

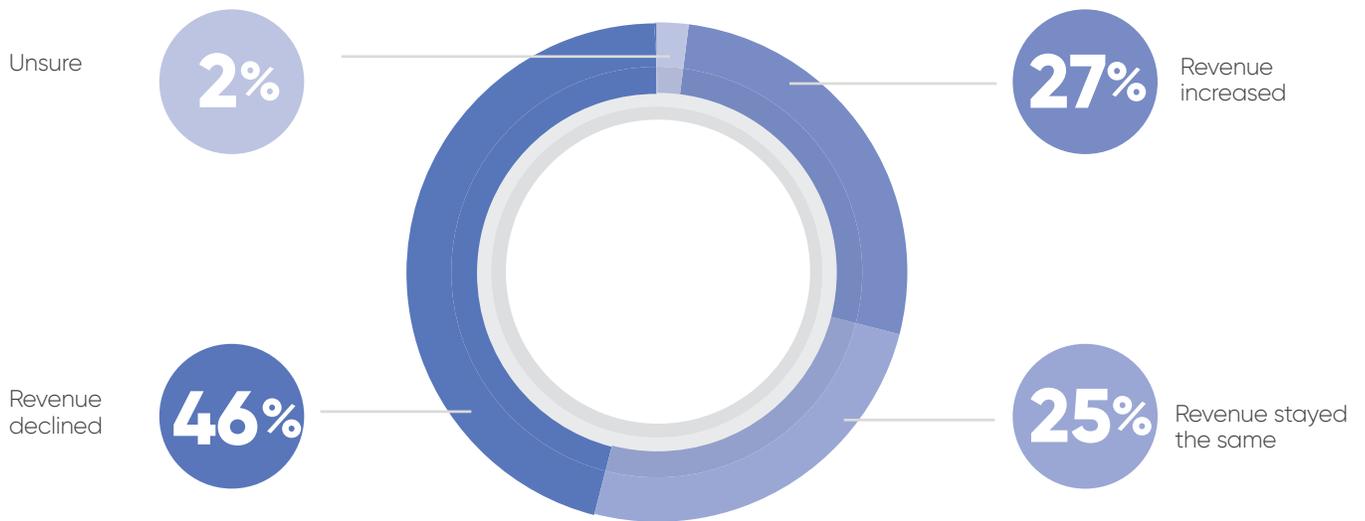
2020 was a challenging year for SMBs across industries. As expected, hiring was down, with only 23% of SMBs saying they hired more employees over the past 12 months, compared to 44% of SMBs who hired new talent in 2019. The fact that employee acquisition dropped by nearly half remains consistent with trends in pandemic employment in the U.S. Another 31% of SMBs downsized their operations, jumping up from the 20% of respondents that did so in 2019. This conservative spending and acquisition strategy would keep margins tight amid continuing economic uncertainty.

Workforce changes:



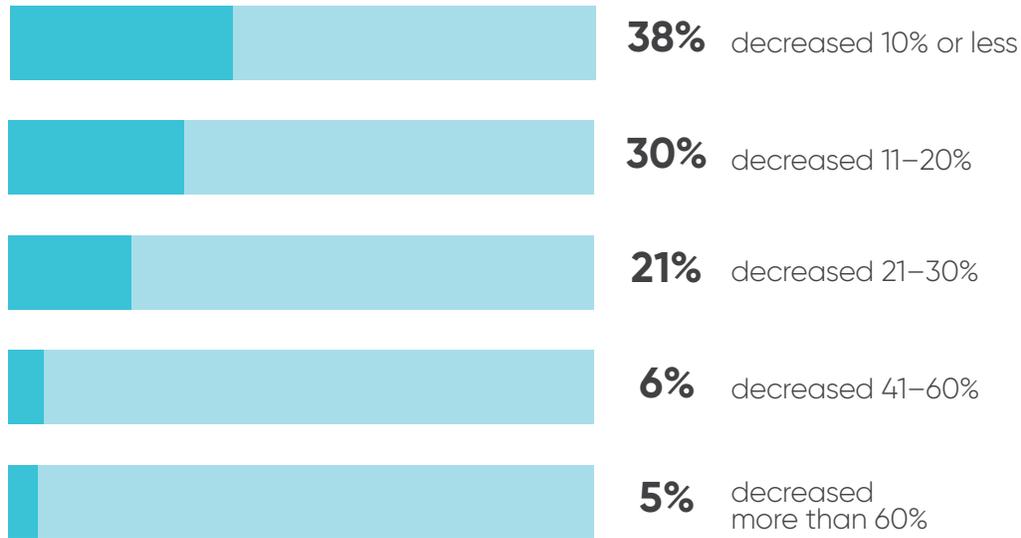
Revenue experienced a similar hit. After a solid 2019, during which 65% of SMBs reported revenue growth, only 27% reported an increase in revenue over the last 12 months, and 46% reported a decline in revenue, up from 13% in 2019. Of those whose revenue decreased, 51% reported a drop of 11–40%. Taking a closer look at individual industries, LBM and hardware businesses, which were in most cases considered essential, surpassed the average financial performance, with 36% reporting a revenue increase. However, only 15% of residential construction respondents saw revenue grow and were the largest number of respondents (61%) reporting a decline—indicating that this industry was perhaps hit the hardest.

Revenue growth over 12 months:



36% of LBM and Hardware business respondents reported an increase in revenue, surpassing the industries average of only 27%.

SMB revenue decreases:



Top threats to SMB success

To no surprise, when asked to define the biggest threat to their business growth, the top two threats are related to the current pandemic climate—COVID-19 and the supply chain. However, these concerns quickly give way to business challenges that predate COVID-19. Concerns #4 and #5 (skills shortages and cybercrime) were ranked in the same positions in 2019.

Top Threats to SMBs:

1. COVID-19
2. Supply chain
3. Skills shortages due to retirement
4. Skills shortages due to lack of applicants/interest in their industry
5. Cybercrime

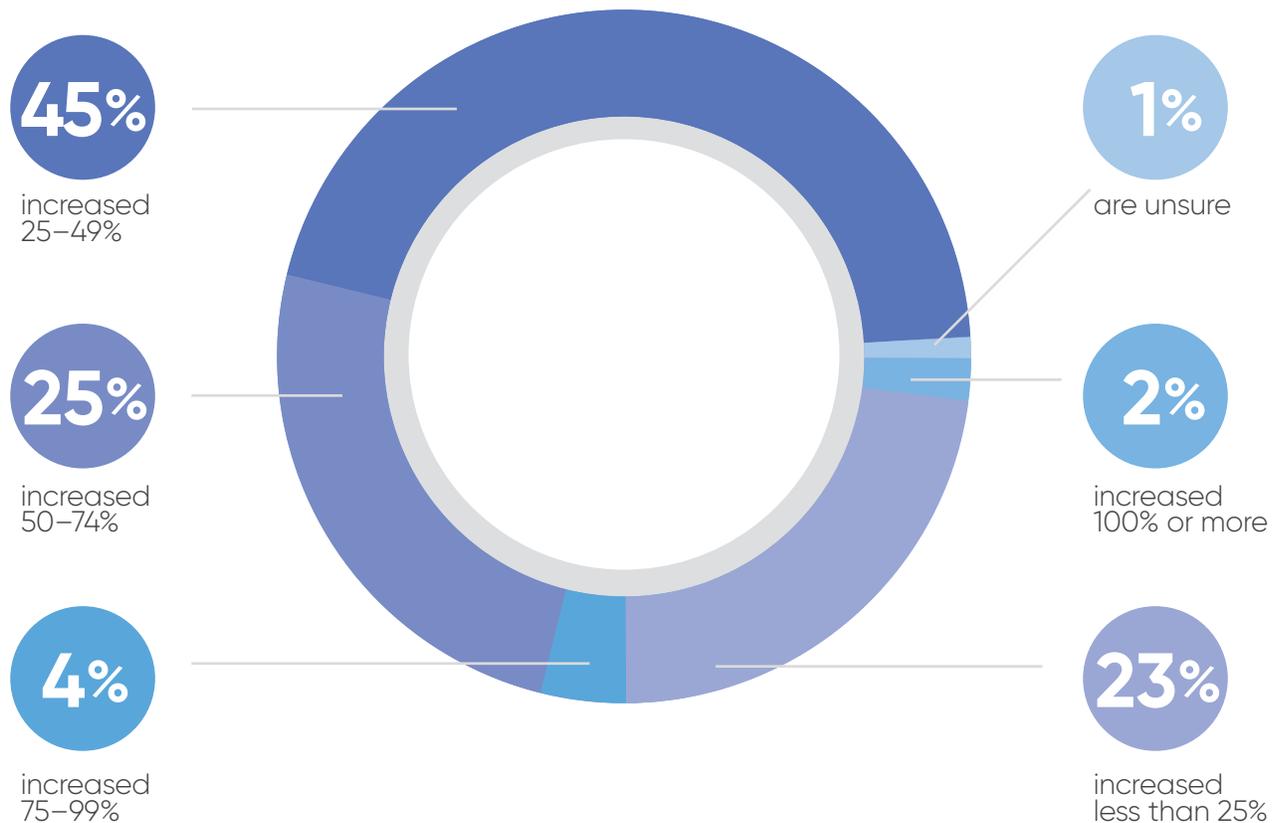
In 2019, the #1 concern for SMBs was government regulations on trade. Yet, in 2021, this issue did not make the list. In fact, SMBs are cautiously optimistic about the new administration. Only 26% think the Biden administration will negatively affect their bottom line over the next four years, and 42% believe it will affect their bottom lines positively.

How are businesses managing these threats? A majority are turning to technology. Sixty-four percent of SMBs increased their technology investments in the nine months prior to and including Q1 2021, compared to only 32% in 2019, doubling the number of SMBs focused on growing their tech stacks. In particular, the LBM and hardware industries have made technology a priority, with 78% having increased investments in 2019. Residential construction, on the other hand, has moved in the opposite direction—with 10% of respondents reporting their business decreased investment, compared to only 5% of general respondents.

Twice as many SMBs invested in technology

by Q1 2021, growing from 32% in 2019 to 64%.

Increases in technology investments:
MARCH 2020–2021



SMB responses to the pandemic

As the dust settles, there is no doubt that COVID-19 has had an impact on businesses. Fifty-nine percent of respondents say it has impacted their bottom line negatively, though 20% reported a positive change in their bottom line. While this latter finding is somewhat surprising, it goes to show that SMBs are resilient in times of crisis.

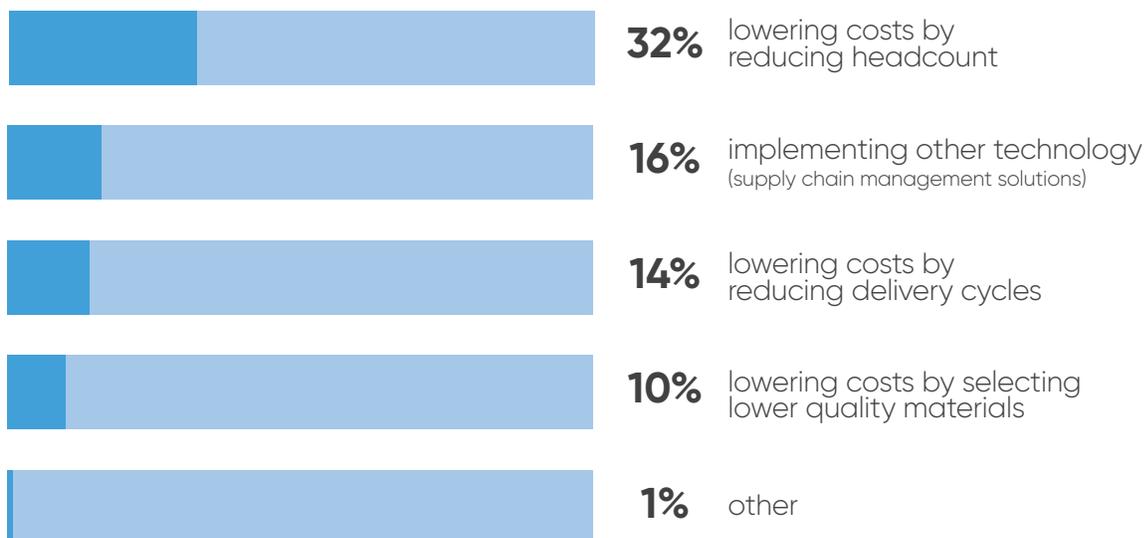
Regardless of bottom lines, SMBs made changes in response to their perceived #1 threat going into 2021. To note, 45% of SMBs made more financially conservative decisions.

This trend may explain why technology adoption is down from 2019—with 64% of respondents saying their business adopted new technology over the last 12 months, compared to 82% the prior year. However, this is not to say technology was not a priority in pandemic responses. Forty-two percent of respondents adopted a remote working model over the last 12 months, which is contingent on technology, and another 32% increased investment in technology infrastructure.

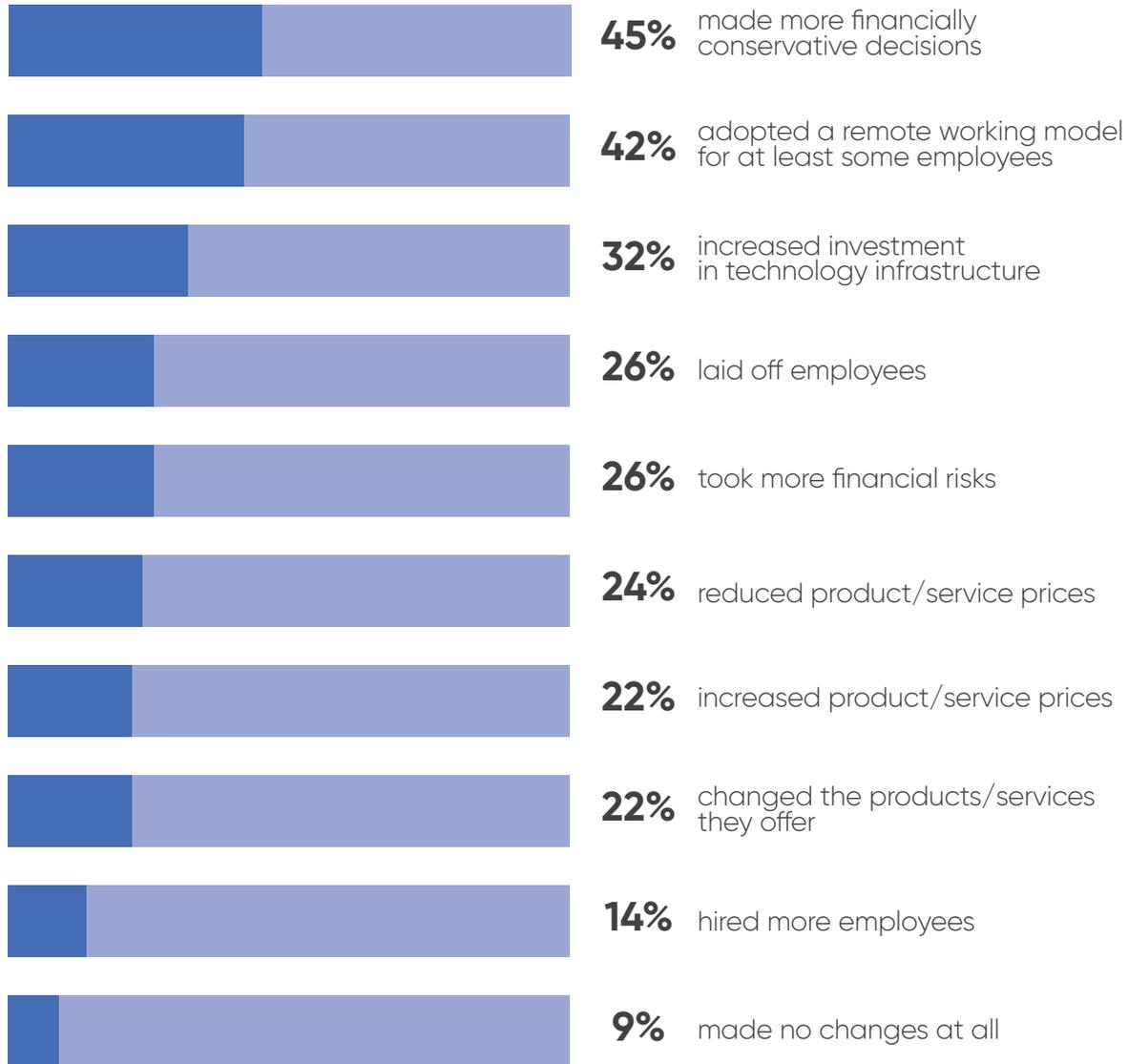
At this point, the time for making coronavirus-related adjustments is likely over. Moving forward, 45% of respondents say they are not making any other immediate changes to mitigate the pandemic's impact. That said, 32% are still considering lowering costs by reducing headcount—a lingering effect of the pandemic.

59%
of respondents
say the **pandemic**
negatively impacted
their bottom line.

SMB plans to manage the impact(s) of the pandemic:



SMB responses to the pandemic:



For businesses that use it, ERP has emerged as an essential resource during these difficult times. Seventy-five percent of respondents say that ERP was either effective or very effective in helping them manage the impacts of the pandemic. For LBM and hardware business respondents, the sentiment jumps to 86% who say ERP is effective or very effective. For manufacturing, an industry in the spotlight for the last year, that percentage drops down to 64%.

75%

of respondents say **ERP was effective** in helping to manage pandemic impacts.

Respondents used ERP chiefly for creating a better workflow for remote employees (56%), resource planning (48%), and improved customer delivery performance (43%). In addition to supply chain visibility (42%) and lower production costs (37%), these use cases relate directly to managing the impacts of the pandemic—from optimizing work to shrinking margins.

How ERP is used by SMBs:



56%
Remote
employee
workflow



48%
Resource
planning



43%
Improved customer
delivery performance



42%
Supply chain
visibility



37%
Lower production
costs



30%
Job
costing

ERP remains mission-critical

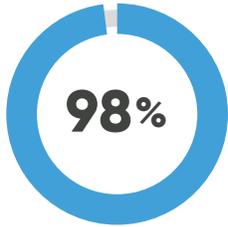
ERP continues to be a staple of the SMB IT infrastructure. Seventy-nine percent of all SMBs surveyed use an ERP, up from 76% in 2019. Of those who do not, a further 26% are planning to implement an ERP system in the next 12 months. The percentage of respondents planning to implement ERP jumps to 50% for the field services industry and 40% for LBM and hardware, but only 10% for manufacturing and 6% for office/business products. As some sectors pull ahead in ERP adoption, the pressure will only build for sectors lagging behind. Consumers and buyers that become accustomed to a certain level of technological sophistication in one area of their life soon come to expect it across the board.

79%

of SMBs **use an ERP** to help run their business.

In addition to keeping a competitive edge, SMBs that have an ERP system experience many valuable benefits, including document management (98%), business process management (98%), real-time data (97%), and inventory management (97%). Each of these features is critical to knowing and understanding the business—from identifying opportunities for growth, to pinpointing issues, and managing spending.

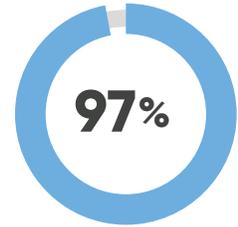
The most valuable ERP features for SMBs:



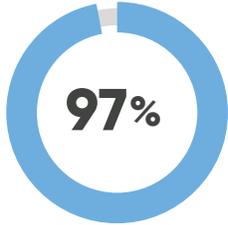
Document management



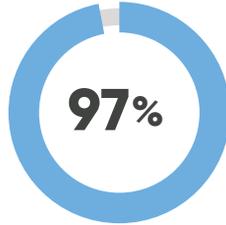
Business process management



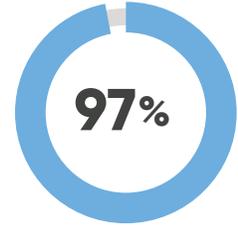
Business intelligence



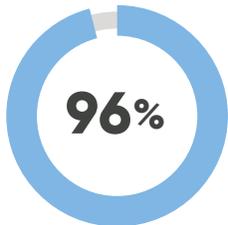
Quality assurance



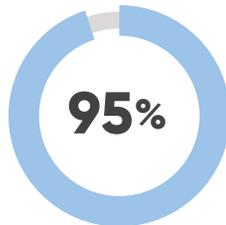
Real-time data



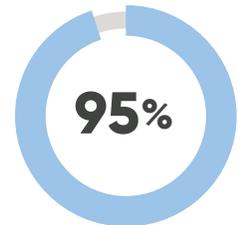
Inventory management



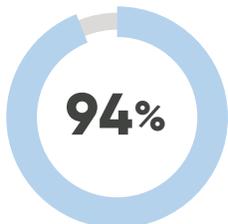
Activity process management



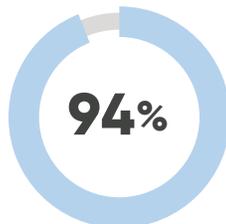
Built-in CRM



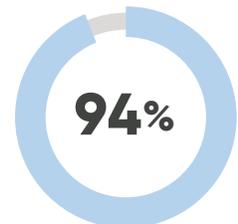
Web and mobile accessibility



Automated workflows



Configurable role-based workspaces



Ecommerce capabilities

ERPs serve several different functions and a wide variety of purposes for SMBs. Similar to 2019, SMBs use ERP most to reduce manual effort and paperwork (63%). They also use ERP to streamline workflows (59%), gain insights that inform smarter decisions (59%), and automate processes for increased efficiency (57%). These tasks help SMBs run tighter ships—and budgets—which helps ensure inefficiencies and bottlenecks don't weigh them down further when disruption hits.

63%

of SMBs use ERP to **reduce manual effort and paperwork.**

85%

of respondents say their **ERP is at least partially in the cloud.**

SMB uses for ERP software:



63%
reduce manual effort and paperwork



59%
streamline workflows



58%
gain insights that inform smarter decisions



57%
automate processes



56%
streamline transactions with customers



55%
improve visibility and control of enterprise processes

Despite being a longtime cornerstone for SMBs, ERP is far from a legacy product. Eighty-five percent of respondents report that their ERPs are wholly (35%) or partially (50%) in the cloud. Only 16% maintain on-premise ERPs—likely because SMBs see the missed opportunity of not being in the cloud. The top benefit of a cloud-based ERP is improved data access (59%), followed closely by improved data security (57%), increased flexibility (57%), and improved productivity (56%). Again, each of these benefits is crucial in building a more resilient business for the post-pandemic economy.

Benefits of cloud-based ERP:



Cybersecurity stays center stage for SMBs

Cybersecurity risk remains the top challenge that SMBs experience when adopting technology, the same from 2019. Especially true in the manufacturing and residential construction industries—45% and 46% of respondents, respectively, identified cybersecurity as a concern, compared to 39% of the general respondent pool.

While many organizations have taken strides and put best practices in place, many still doubt whether these measures are enough. Seventy-seven percent of SMB respondents believe their organization is doing everything it can to remain safe—yet 59% still think they're at risk, and 80% think cybercrime is a greater threat than in the past.

Seventy-four percent of respondents are updating their security software to ensure their company doesn't fall victim to a cyberattack—up slightly from 68%. Respondents are also taking other measures, such as training employees on the types of digital attacks and how to avoid them (57%), limiting employee access to critical data (52%), and moving their data to the cloud (49%). Only 3% of respondents have not taken any steps to prevent a cyberattack. As a result, education is taking hold and may be making a difference. Despite the publicity around an uptick in cybersecurity threats during the pandemic, only 20% of SMBs report falling victim to an attack in the last 12 months, holding steady from 2019.

91%

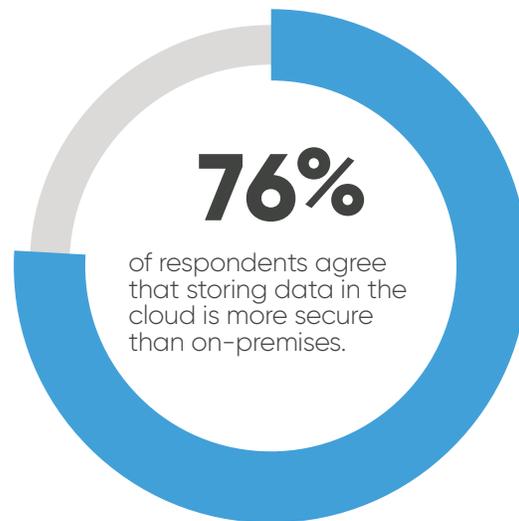
say they **know where sensitive data is stored**—up from 88%.

92%

say they **know who has access to that sensitive data**—up from 89%.

Even so, when attacks occur, they create significant issues for SMBs. Ninety percent reported business impacts as a result of a cyberattack, chiefly that they were forced to shut down operations for at least a day (48%) or a week (35%), and they lost money (41%). Twenty-six percent of respondents say they still have not fully recovered from their cyberattack.

In response, the cloud is considered a safe alternative. Forty-nine percent of SMB respondents are taking action and turning to the cloud as a cybersecurity measure. Another 76% of respondents agree that storing data in the cloud is more secure than storing it in their own on-premise system, up from 71% in 2019. Trust in the cloud is especially high in the LBM and hardware industries, with 49% strongly agreeing cloud is more secure, as compared with 38% who strongly agree across industries. Conversely, distrust in the cloud is especially high in manufacturing, with 18% of manufacturers distrusting cloud security, compared to only 10% of the general respondent pool. Given 85% of all respondents have ERP at least partially in the cloud, this distrust clearly does not outweigh the other proven benefits.



Industry snapshots

ERP software has been a longtime staple of the SMB IT ecosystem. In fact, 76% of respondents say they use ERP or business software. ERP may be so widely implemented because it offers several of the features that SMBs find most valuable such as inventory management (90%), document management (90%), real-time data (89%), and activity process management (89%). ERP/business software is also used for a wide variety of purposes across operations—most popularly to reduce manual effort and paperwork (62%).

Additionally, the majority of respondents feel it is “important” or “very important” for ERP to integrate with most of their other software solutions. This includes accounting software (88%), payroll software (85%), CRM software (84%), marketing software (80%), ecommerce software (80%), HR software (78%) and CAD/CAM software (72%). As ERP remains the central component of SMB IT systems, it’s critical that SMBs have solutions that can easily integrate with ERP to improve collaboration across the business.

Manufacturing

Despite the pandemic, 35% of manufacturer respondents believe the manufacturing industry is growing, though 53% believe it is stagnant or declining. When asked for the top reason behind the decline or stagnation, respondents reported the pandemic (57%), the Biden administration (40%), and the current regulatory climate (26%).

Fifty-one percent of respondents agree that American manufacturing is in the midst of a resurgence—crediting emerging technology (42%) and the Trump administration (40%) for the revival. The pandemic itself is also cited as a resurgence factor by 30% of respondents—underscoring, yet again, the resilience of American manufacturers.

Lumber, building materials, and hardware

LBM and hardware retailer respondents are slightly more optimistic than manufacturing respondents when it comes to the state of their industry. Sixty-six percent of respondents believe the Biden administration will have a positive impact on their industry.

Despite, or perhaps because of, their essential worker status, SMBs in this vertical made several changes to their businesses in 2020. Forty-seven percent of respondents reported increasing technology investments to maintain a competitive advantage. Half of respondents expanded or implemented a Buy Online, Pickup In Store (BOPIS) process, and 38% created or expanded delivery services.

Forty-three percent of respondents created or expanded their ecommerce offering—and 56% noted that ecommerce is now 25–49% of their business, a percentage that will likely continue to grow in today’s increasingly remote, virtual world. In fact, 71% of respondents saw an increase in online sales, and only 16% will rule out selling through Amazon’s marketplace.

Due to price variability, 64% of respondents made changes to their business, including requiring deposits (37%), paying in advance (22%) and purchase limits (22%). Each of these adaptations showcases how these types of businesses are pivoting in the post-pandemic economy.

66%

of LBM and hardware
retailer respondents
**believe the Biden
administration will
have a positive impact
on their industry.**

Residential construction

The residential construction industry is marginally more optimistic about the future, but is still an industry in flux. Fifty-five percent of respondents think President Biden will have a positive impact on the industry, compared with 46% who said the Trump Administration had a positive impact on the industry. Respondents are equally split on the direction of the industry, with 46% thinking the industry is growing, compared to 41% who categorize it as stagnant.

While 65% of respondents reported a dip in revenue during the pandemic, respondents only took one of two actions to compensate: no action at all (47%) or reducing headcount (53%).

95% of respondents indicated that their ERP was effective in helping them manage the impact of the pandemic, especially where it came to resource planning (53%) and a better workflow for remote employees (46%). Job costing (45%), supply chain visibility (43%), and improved customer delivery performance (43%) were also top use cases.

The need to better manage resource planning, communication, and better workflows transcends just ERP, however—when asked what software features were most valuable to their businesses, respondents identified contractor management/communication (61%) and accounting (59%).

Field service

The pandemic has not discouraged the field service market – this industry has its mind set on expansion. Over the next five years, 63% of field service respondents expect to purchase technology to expand their offerings. Another 58% expect to hire additional staff, reversing the employment trends of 2020. Sixty-five percent expect to acquire another business, while 22% expect to be acquired themselves.

Forty-five percent of respondents' businesses have already increased technology investments to maintain their competitive advantage—necessary, since 34% say customers are demanding smaller orders, and 28% say customers want faster orders. These investments will go a long way as the industry divides itself into the disruptors and the disrupted.

Office products

Online sales remain important for the office products industry. Forty-seven percent of office product dealer respondents saw an increase in online sales—64% of whom saw an increase of at least 21%, which is significant. Another 31% held steady in their online sales compared to 2019. That being said, Amazon is putting less pressure on the office products industry than it does on field service, with 39% reporting that Amazon has had no impact on their business.

With the emphasis on online sales—and with 45% reporting that at least some of their employees are working remotely—it's not surprising that respondents' minds also turned to security. While cybercrime was the #5 top threat overall, it was the #2 threat identified by this industry. That concern, however, has not necessarily translated to an outsized response. A quarter—24%—report that their employees are not trained on cybersecurity best practices, on par with the general industry findings.

A large, bold, blue percentage graphic '63%' is positioned on the right side of the page, serving as a visual anchor for the field service statistics.

of field service
respondents
**expect to purchase
technology to expand
their offerings** over
the next five years.



Conclusion

SMBs have a lot on their plates—from cyberthreats, to a fluctuating workforce, to the ongoing pandemic. While challenges seem to be multiplying, one solution to address them all emerges: a stronger, more sustainable IT infrastructure. When SMBs are technologically sound, they are resilient. After a year like 2020, SMBs across industries are hungry for technology that can help them take control of their budgets, optimize their workflows, maximize their employees, and capture the power of data. In other words, SMBs understand the importance of being equipped to adapt when disruption strikes.

For this reason, SMBs are turning to ERP. ERP provides the tried-and-true capabilities that SMBs rely on, while still modernizing to keep pace with current needs. ERP lives in the cloud to improve cybersecurity. It enhances supply chain visibility to keep SMBs nimble. It reduces manual effort and paperwork in an increasingly digital world and it delivers real-time data to inform business decisions in the face of change. Looking closely at each industry, it's clear that SMBs leveraging these modern functionalities are gaining a competitive edge. Consumers, buyers, and employees have grown accustomed to modern experiences—once they experience it, they expect it. SMBs that invest in technology are investing in their longevity.

Contact us today to learn more about how an ERP solution can benefit your business.

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