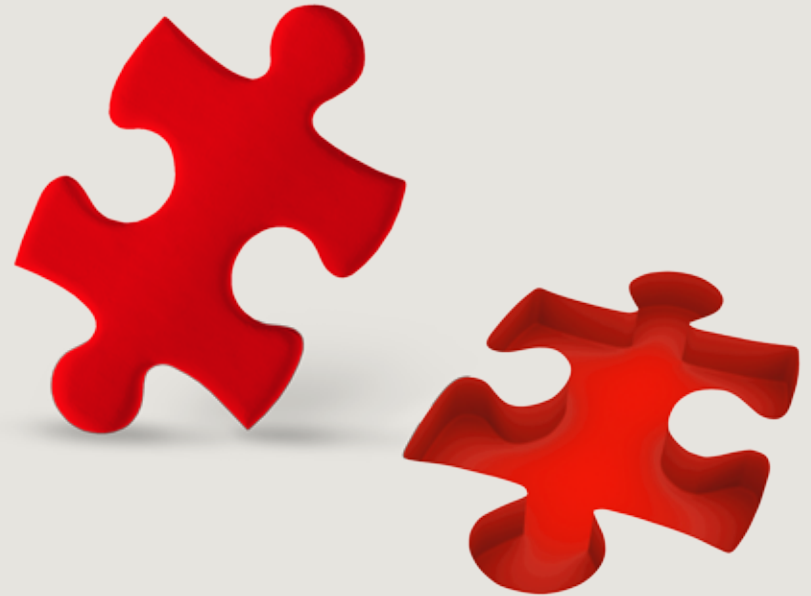


In today's tough times,  
how do you not only  
survive but succeed?



Working smarter with the right kind of communications can be a great help...

*power to you*



As the recession continues across Europe, the importance of Small Medium Enterprises (SMEs) to drive economic growth has never been greater.

With this increased pressure on them to succeed, have European SMEs got access to the resources they need to expand?

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## Foreword by Tom Craig

**In a challenging economic environment, businesses both large and small must work smarter to survive. The need to manage costs and to exploit every single opportunity to sell to and serve their customers has never been more important. The ability to communicate effectively with customers, suppliers and employees is an integral part of working smarter, and for over five million small business users across Europe that link is provided by Vodafone.**

**From my conversations with these small firms it is clear that their success stems from their ability to offer customer intimacy, services not only tailored to the specific needs of their customers, but delivered with a high degree of flexibility and responsiveness.**

As business culture has evolved, face to face engagement has been increasingly replaced for many of these small firms with telephone calls and email exchanges. Whilst this has permitted a significant increase in productivity and profits, the availability of this technology has been very much top down. Rather than solutions that have been built for the specific needs of the small business, they have been offered cut down solutions designed for large corporations or revamped consumer offerings. As a result the telecoms industry has poorly served smaller firms in the past.

This report has been commissioned to remedy this disconnect and to better understand the needs of such small firms, and the part Vodafone might play in boosting their business success. In partnership with leading research firm Vanson Bourne we have surveyed 1,000 SMEs across Europe to examine the role telecommunications can play in allowing them to work smarter.

Encouragingly this report reveals there are now signs of a real step change, catalysed by current economic conditions. A lack of availability of investment funding for small businesses is encouraging SMEs to seek more cost effective and less capital intensive methods of improving the efficiency of their communications. Similarly telecommunications providers such as Vodafone have listened to the market and are focused on improving the delivery of tools that will allow small business to work smarter. For instance, the provision of a single number and a single voicemail for fixed and mobile lines can have a disproportionately large impact on the quality of service that SMEs are able to deliver to their customers. It sounds very basic, but it is surprising how many of us still give out two or three telephone numbers.

I hope that this report shows both my peers within the telecoms industry and the small firms they support that with the right tools and strategy, European SMEs have the drive and determination to secure a successful future for us all.



Tom Craig  
Director, Vodafone Business Services  
Vodafone Group

## Executive Summary

**Small and medium sized firms (SMEs) are the backbone of the European economy and a major source of entrepreneurial innovation and skills. Nine out of ten SMEs employ fewer than ten employees and are a mainstay of the economy. More than 99% of all European businesses are, in fact, SMEs. They provide two out of three of private sector jobs and are responsible for half of Europe's economic productivity.<sup>1</sup>**

To better understand the challenges SMEs face Vodafone surveyed a representative spread of 1,000 SMEs across key European markets such as Spain, Italy, Germany and the UK. The research was carried out and evaluated by Vanson Bourne, a leading technology market research company, via telephone interviews between November 2010 and January 2011 and covers SME issues and concerns such as:

- Current economic environment and business confidence.
- The cost and impact of bureaucracy and red tape.
- The challenges in accessing finance for essential investment.
- The role of technology as an efficiency and growth driver.

This research shows a broadly optimistic picture for the future, but it is evident that many smaller firms are being challenged by the evolving demands of their customers. Seven out of ten of the small firms we spoke to highlighted that today's modern customer expected a response to a social media query in under two hours. We find that SMEs are struggling to match these expectations, and the failure to hit that "tweet spot" is undermining customer trust and confidence.

- The ability to provide an instant response to a customer query was reported as the top factor in helping small firms maintain their competitive edge. Overall 78% highlighted this, edging just ahead of having a good reputation (76%) and almost doubling those that flagged marketing campaigns (39%).

Despite understanding the importance of rapidly responding to customer requests the small firms we spoke to reported having their hands tied by red tape and a lack of access to finance, preventing them from investing in measures to become more intimate with their customers.

- Nearly a third of SMEs (30%) struggle to manage and make sense of business 'red tape', regulations and bureaucracy.

It is clear from this research that SMEs in Europe need more financially acceptable routes to access the tools they require to work smarter and respond to evolving customer needs. It is for the telecoms industry to respond to this challenge and meet it head on with better targeted SME offerings.

<sup>1</sup>: European Commission – [http://ec.europa.eu/research/fp7/index\\_en.cfm?pg=sme](http://ec.europa.eu/research/fp7/index_en.cfm?pg=sme)

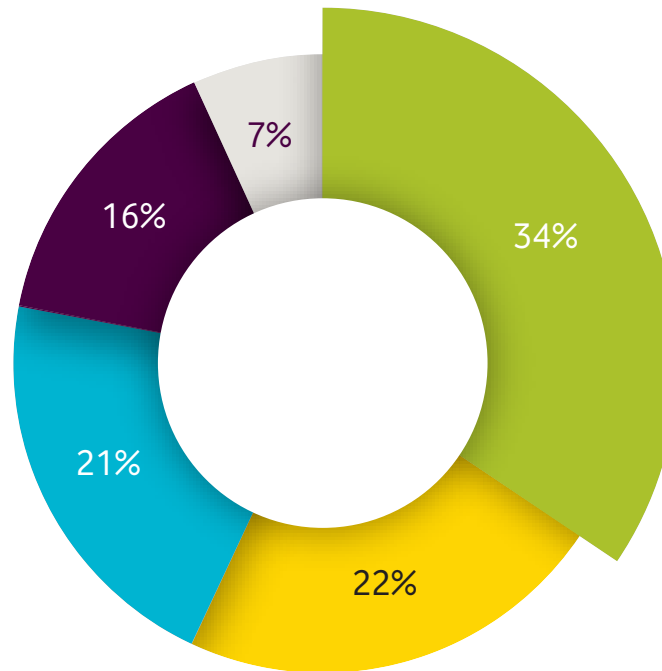
## Chapter 1 : SMEs and their place in the market

In the last decade, European SMEs have seen strong growth. Between 2002 and 2008,<sup>2</sup> the number of SMEs increased by 2.4 million. Unfortunately, since the economic downturn in 2008 and subsequent recession, Europe's financial situation has worsened, and this had a negative effect on such firms. SME expansion has been affected, leading to productivity and progress made in the last decade slowing down. European banks are working with their respective treasuries on plans to increase business lending, but the benefits of this are taking time to filter through to the market. Recent research by the European Central Bank, focusing on the second half of 2009, found that 42% of SMEs experienced deterioration in the number of bank loans available to them.<sup>3</sup>






As well as issues with funding expansion, SMEs are also lacking confidence to operate. According the UK-based Federation of Small Businesses (FSB), SMEs ended 2010 feeling less confident than at the beginning of the year.<sup>4</sup> This research found that in the fourth quarter of 2010 business confidence fell for a third successive quarter. Overall, FSB market intelligence showed that the private sector recovery lost momentum in 2010, and as the constraints on businesses' cash-flow increased due to utility bills, fuel duty and increased VAT, growth in 2011 is likely to be sluggish at best.

Our research shows that adaptability in day-to-day operations is central to the success of SMEs. In fact higher expectations from customers than ever before, coupled with the 24/7 nature of today's society, twice outweighs economic pressures as a key factor driving SMEs. This means that smaller firms recognise that they must strategically exploit the areas where large organisations fall behind on. It is this ability to outmanoeuvre larger firms that provides SMEs with the opportunity to compete effectively in the market. Our research identifies four key drivers for SMEs looking to expand: regulation, reputation, familiarity and flexibility.

### Key factors driving European SMEs to change their processes



#### Key

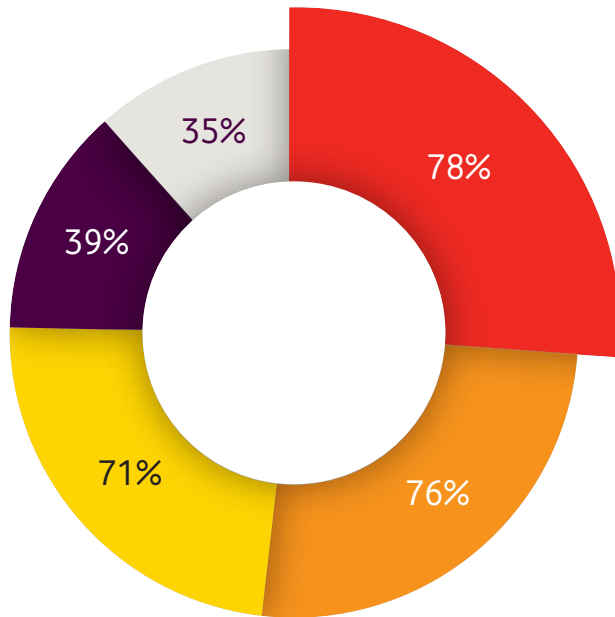
-  Higher expectations than ever before from customers (more demanding customers)
-  Competition from other SMEs
-  Economic pressures
-  24 hour society
-  International business

2: [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/dgentr\\_annual\\_report2010\\_100511.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/dgentr_annual_report2010_100511.pdf)

3: <http://www.ecb.europa.eu/press/pr/date/2010/html/pr100216.en.html>

4: <http://www.fsb.org.uk/news.aspx?REC=6873>

### Key factors delivering competitive edge for European SMEs



**Key**

- The ability to provide instant response to phone and email enquiries
- A reputation for excellence
- Having one central point of contact for customers
- Marketing campaigns
- The ability to rapidly scale your operations up or down

NB: Respondents were able to select more than one response

#### Regulation

The ability for small companies to make decisions quickly in contrast to the bureaucracy of larger firms is identified by over half of all European SMEs (59%) as a key attribute to their business. However, in recent years business culture and regulation has transformed the way such firms operate. Nearly a third of SMEs (30%) are currently struggling with their ability to manage and make sense of business 'red tape', regulations and bureaucracy. This reinforces the need for SMEs to find new avenues to work smarter and secure their competitive edge against larger rivals.

#### Reputation

Alongside flexibility and responsiveness the management and maintenance of reputation is unanimously regarded as key to small firms' success. Now that anybody can go online and look up a business at the click of a button a robust reputation is essential. 76% of SMEs we surveyed agreed that having a strong business reputation is key to success.

#### Familiarity

Intrinsically linked to reputation is the ability for small companies to provide a more personalised service. Although small businesses may not be able to leverage scale of resources or people they can provide exceptional customer service. Truly remarkable companies plan and deliver stand out customer experiences with interaction. Ultimately this is where business is going to be won or lost. Today, SMEs see a real advantage in this, with 37% reporting that the ability to provide their customers with real people, rather than automated, unfriendly automated systems, set them aside from the competition.

#### Flexibility

If a personalised service provides a fundamental advantage for SMEs in securing business, the ability to swiftly adapt to customer needs closes the transaction. An instant response to customer and supplier queries is cited by 78% of European SMEs as a key benefit to their business.

Forward thinking SMEs, able to rapidly scale operations up or down to suit market conditions whilst maintaining these four drivers of success are likely to be those that will succeed in today's unpredictable business climate.

“You can please some of the people all of the time, you can please all of the people some of the time, but you can’t please all of the people all of the time”

## Chapter 2: Customer intimacy, use it or lose it

**Familiarity with, and flexibility in dealing with, customer requirements, is clearly identified by small businesses as their major competitive advantage. Over three quarters (77%) of UK SMEs cite this as an advantage, and across Europe it is flagged by well over half of those we spoke to (59%). Overall small businesses believe customer responsiveness is three times more important than the state of the economy to their ongoing success.**

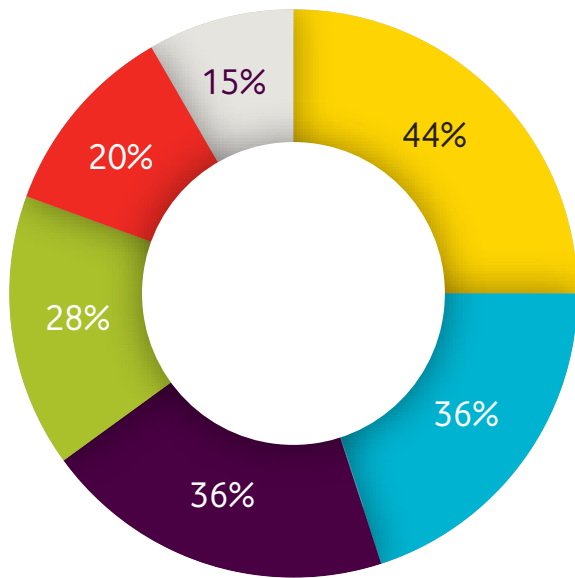
Similarly small firms believe their ability to make decisions quickly, and to be nimble in tailoring services to the changing needs of clients (62% and 57% respectively) are crucial to their ongoing success in maintaining market share against much larger competitors. Overall the ability to provide an instant response to a customer query was reported as the top factor in helping small firms maintain their competitive edge, with 8 in 10 (78%) highlighting this, edging just ahead of having a good reputation (76%) and almost doubling those that flagged marketing campaigns (39%).

The challenges of offering such intimate services clearly increase as the scale of the business grows, most notably captured in the sentiment of much paraphrased poet John Lydgate.

“You can please some of the people all of the time, you can please all of the people some of the time, but you can’t please all of the people all of the time”

What is surprising is that despite the advantages of being smaller many of those we spoke to were concerned about their ability to deliver on this point of differentiation. Three fifths (60%) of European SMEs highlight that speed of response to customer enquiries is their biggest challenge. Many further report that through a lack of effective response they have failed meet customer requirements in time. 85% of the businesses we spoke to flagged at least one such instance. But what are the consequences of failing to please some of the people all of the time, and how does it affect customer intimacy?

## Business consequences of failing to respond in time



### Key

- Loss of customer confidence
- Loss of a new business opportunity
- Loss of business to a competitor
- Loss of an incremental business opportunity
- Loss of repeat business
- No such failure has ever occurred

NB: Respondents were able to select more than one response

## Chapter 2: Customer intimacy, use it or lose it (Continued)

The top consequence of failing to respond in time was loss of client confidence and business reputation with almost half (44%) of small businesses reporting they had suffered from this. More concerning in these cruel economic conditions was that over a third of small businesses reported a direct financial loss as a result of a failure to turn around a customer response quickly enough. This loss might arise from missed new business opportunities, estimated to be worth €14,551 on average. More concerning is the potential loss of existing business to a competitor, an estimation of €16,909 each time a critical call is missed, and at its worst an average of €18,653 for incremental or repeat business from a client.

Across the different sectors we studied, the relative consequences of failing to respond effectively varied greatly. Perhaps unsurprisingly professional services firms and consumer services firms emerged as the most robust at responding to their clients. Almost a fifth of professional services (19%) and over a sixth (17%) of consumer services firms were pleased to report that had never once experienced an instance of failing to speak to a customer or prospective customer in good time. In contrast 93% of small firms working in the utilities sector, likely due to on-site nature of much of their work, flagged they'd let a customer down in this manner. The consequences of this are clear with almost half (46%) of utility firms reporting such a breach in service had caused them to lose out on new business opportunities.

Interesting differences emerged between different sectors when it came to the likelihood of a failure to respond in time causing the loss of repeat business. Here almost a quarter of retail (24%) and professional services (23%) reported such a situation in contrast to far lower figures (14% and 13%) in the manufacturing and entertainment sectors. Clearly where a small firm is selected on the quality of its intellectual property, rather than physical product, the importance of always meeting customer demands is crucial.

Across Europe, some fascinating cultural differences emerged. In the UK whilst customers were quick to lose confidence, they were evidently more forgiving. A mere 30% of UK firms reported the loss of business to a competitor despite half (50%) reporting a loss of trust. In contrast 46% of German firms had forfeited business to a competitor despite the likelihood of a loss of trust being marginally lower at 46%.

It is clear therefore that a time when European SMEs are experiencing tough economic conditions the need to respond effectively to new business opportunities is key. To survive in this economic climate SMEs must ask themselves: 'How do I stay ahead of the competition?' and 'Can I afford not to invest in better customer service?'

### Chapter 3: SMEs serving their customers better

As we have seen in the previous chapter, SMEs must ensure they are responsive to customers, suppliers and business partners' needs. However, with traditional forms of communication evolving and new channels of customer engagement such as social media becoming ever more popular, the ability to respond promptly and effectively to customers, no matter the medium, is a real challenge for SMEs short on manpower but strong in delivery.

Customers and in consequence business managers across small firms have heightened expectations of their workforce. Nearly eight out of ten (79%) SME managers expect staff to respond to customer, supplier and business partner phone calls immediately during office hours alongside the day to day demands of their job and these expectations are reflected in the mobile workforce. Nearly six out of ten (56%) SMEs expect staff to respond promptly to a business call on their mobile outside of working hours.

In addition to this, the influx and rise of instant written communications such as email means that nearly half of European SMEs we surveyed (43%) encourage employees to respond to customer emails within an hour.

The rise of Social CRM, customer interaction via channels such as Facebook and Twitter, continues apace. Currently, just over a third (32%) of SMEs based in Europe expect staff to respond immediately to social media requests during office hours.

The ambitious challenge to live up to expectations of responding promptly to phone calls, texts, e-mails and social media is widely reflected in European SMEs concerns and overall performance. Our research shows that 36% of SMEs admitted that an inability to respond to customer enquiries on time had resulted in lost contracts. A further third of European SMEs admit to regularly turning away business opportunities because they are unable to respond to prospective customers in time. It is the cost of this failure that we will examine in the next chapter.

### Managerial expectations of response times across European SMEs



## Chapter 4: Responding to the challenge

European SMEs face a range of challenges in the future in order to survive, become more mobile in their operations, compete with others, and ultimately expand. These challenges are underpinned by investment concerns and the need to deploy simple, effective communications tools in the future.

Providing a simple, yet effective, single central point of contact for customers is deemed a key factor for business success, say seven in ten European SMEs (71%). Additionally, the provision of a single contact number for customers, known as 'unified communications', is seen as a business benefit by nearly a third of SMEs (28%).

By definition, SMEs ought to be able to draw from the strengths that come from being small and nimble. These qualities in theory allow SMEs to adapt faster to the changing market environment and make decisions more quickly as they are not weighed down with the same levels of protocol and bureaucracy experienced by bigger enterprises. In terms of the challenges associated with communication tools, just over a fifth of SMEs (21%) see a major challenge as gaining access to affordable and hassle-free telecommunications equipment.

## The Tools European SMEs need to compete



## Chapter 4: Responding to the challenge (Continued)

The ability to compete against the reputation and awareness of larger competitors is a major challenge cited by nearly half (45%) of SMEs. Linked to this is the fact that just under half of European SMEs (40%) are concerned that they don't have access to sufficient resources to quickly scale up business operations to compete on a higher business plateau. The hard economic realities of this economy mean that many SMEs are unable to leverage their natural advantages when it comes to customer service. According to our research less than half of SMEs (42%) have the financial confidence for capital expenditure on communications technology.

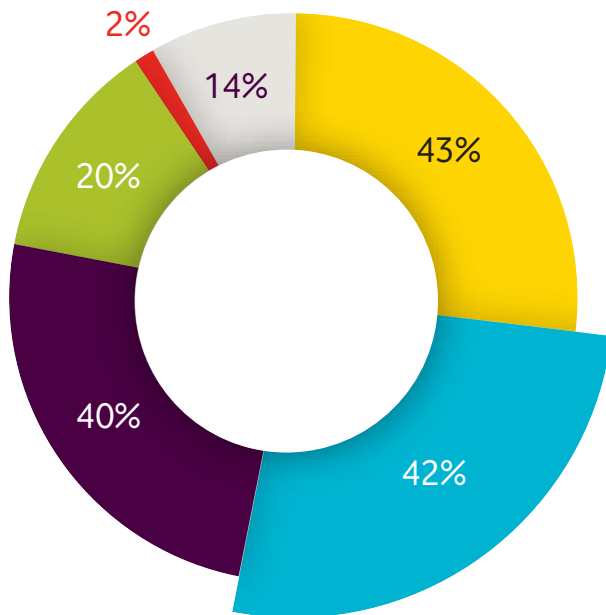
On the flip side, our polling reveals that small firms are willing to make the hard decisions necessary to reduce costs. Nearly four in ten (37%) SMEs we spoke to have made the decision to renegotiate supplier contracts to save money. In terms of telecom and phone systems, nearly a third (29%) of SMEs wants to reduce fixed costs on telecoms equipment, whilst nearly a fifth (18%) will outsource support services such as phone systems to reduce overheads in the future.

Answering this need are a range of new services designed to provide SMEs with access to more cost effective and less capital intensive communications services. Services such as Vodafone One Net, with services hosted in the cloud for telephony and IT services, free SMEs from up-front capital payments and allow them to pay for only what they use. SMEs can also enjoy the advantages of cloud-based service freeing them from capital investment in expensive technology. Similarly a single phone number and voicemail across fixed and mobile lines can be easily delivered without investment in expensive packet based exchanges.

To effectively leverage such tools however depends on effective staff knowledge and training of staff. This is identified as a priority by a significant minority of SMEs we surveyed with nearly half (40%) of SMEs planning investment in this area. In contrast, when it comes to hiring more staff over the next two years to support new business drives, only a fifth (20%) of SMEs see this as a priority.

As SMEs consider the benefits of equipping staff with more effective mobile working tools, nearly half (43%) admit that they will need to overcome the physical challenges of managing a mobile workforce, especially in the context of the decision-making process. Mobile working also raises a worry that business operations may appear disjointed in the eyes of customers, with over a third of SMEs (35%) showing concerns for adopting this approach.

### Investment priorities for European SMEs



**Key**

- Marketing
- Introduction of new technology to improve staff efficiency
- Staff training to improve efficiency
- Hiring more staff
- Other
- We are not planning to invest in anything in the next 24 months

NB: Respondents were able to select more than one response

### Conclusions and recommendations

**SMEs have a significant advantage over larger competitors in their ability to respond flexibly and rapidly to changing business conditions. This competitive edge must not be sacrificed for the want of effective tools to keep in touch with customers.**

It is clear that the future will be dominated by communications channels and ways of working unhindered by time and place. Such new working practices however will need to be matched with processes that ensure trust and confidence between employees and their employers. These cultural changes will filter down, as employees change their own attitudes to "office life" and enjoy the added flexibility that new technologies can bring.

One of the simplest communication channels is revealed by this report as the most crucial, the ability for a customer to reliably reach an individual via a single telephone number wherever they are. Similarly, looking to the future, SMEs that do not already understand the potential impact of social CRM must do so before competitors leave them behind.

SMEs must maintain their ability to service new business leads from both existing and new customers. Such firms if hampered by a lack of small business finance are encouraged to look at investment in technologies that are capital expenditure neutral as a viable route to allow them to work smarter.

Investment in cost effective communications financed from operational expenditure is shown by this report to provide SMEs with the business tools they need to secure business contracts in today's ultra-competitive market. As the demands of customers, suppliers and business partners evolve, European SMEs must maintain pace with larger firms to stay in touch with the competition.

This culture shift, combined with the right technology, has been shown by this report to directly boost the bottom line by avoiding businesses closing the door on potential new business. Proven technologies such as the telephone, when supported with effective pricing plans are shown to provide a key foothold on the road to economic growth that will ensure SMEs continues to act as a powerhouse of the European economy.

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