



Challenges and opportunities in the digital transformation of Brazilian SMEs

10.56238/isevmjv1n1-005

Receipt of originals: 04/01/2023

Acceptance for publication: 15/01/2023

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ABSTRACT

The digital transformation of Brazilian SMEs is essential to maintain competitiveness in the current market, especially after the challenges imposed by the COVID-19 pandemic. Adopting digital technologies enables these businesses to better connect with customers, increase operational efficiency, and innovate quickly. However, the transition faces significant obstacles, such as a lack of skills and resistance to change. With well-planned strategies, digitalization can bring great economic benefits and sustainable growth in the future.

Keywords: Digitalization, Competitiveness, Technology, Innovation.

INTRODUCTION

Digital transformation in the business sector has become a central theme in the context of the evolution of markets and consumer behavior, especially in the face of the challenges imposed by the COVID-19 pandemic. This phenomenon has accelerated the adoption of digital technologies, driving companies to reevaluate their strategies and structures to maintain competitiveness and relevance in the market.

The current context is characterized by a fusion of physical and digital worlds, where activities such as work, shopping, education, and social interactions take place both in person and online. Digitalization is no longer a choice, but a necessity for the survival of companies. For small businesses, building resilience through digitalization is critical. However, the transition to digital maturity is not homogeneous, and many companies still face significant challenges in adapting to this new reality.

Micro and Small Enterprises (MSEs) play a key role in the economic and social development of Brazil, representing more than 90% of the enterprises in the country. They contribute 30% of GDP and are responsible for more than 50% of jobs. However, when it comes to digital maturity, these companies still have a long way to go. According to the Digitalization Map of Brazilian MSEs, about 66% of MSEs are at levels 1 and 2 of digital maturity, with 18% considered analog (level 1) and 48% emerging (level 2). The average digital maturity of Brazilian SMEs is 40.77 points on a scale of 0 to 100.



Digital maturity is defined as the stage at which SMEs are in the digital transformation process, which involves the adoption of digital tools and adaptation to new consumption profiles and formats of products and services. Among the main digital practices, the use of social media to connect and engage customers stands out, implemented by 81% of companies. However, many SMEs still do not advance in practices that require the use of applications or APIs for personalization of the experience, multichannel performance and automation of customer service, showing a significant need for evolution to achieve higher levels of digital maturity.

Small and medium-sized enterprises (SMEs) around the world face common challenges in digital transformation. Data from a Cisco survey, conducted in Germany, Brazil, Canada, Chile, France, Mexico, the United Kingdom, and the United States, reveal that the lack of digital skills, cultural resistance to change, and lack of commitment from management are the main obstacles to digital transformation.

In Brazil, these challenges are even more pronounced. The digitalization of Brazilian SMEs faces significant obstacles, with cultural resistance to change being the main challenge, followed by the shortage of skills and technologies needed for digital transformation. These obstacles make it difficult to implement and take full advantage of digital technologies, preventing companies from reaching their full potential for growth and innovation.

Despite these challenges, the potential for growth and economic impact of digitalization is significant. In 2019, small businesses contributed 48%, or \$17 trillion, to the GDP of these economies. The additional digital transformation of small businesses could increase the GDP growth of these countries by an additional \$2.3 trillion, or up to 5.6% additional GDP, by 2024. This growth potential highlights the importance of well-planned strategies for integrating different digital systems and processes.

Digitalization offers SMEs an opportunity to get closer to their customers, especially in the post-pandemic context, where consumer behavior has changed significantly. The Top 10 Global Consumer Trends 2021 revealed that the COVID-19 pandemic has driven the adoption of practices that combine the digital and the physical, known as "phygital". This approach allows people to carry out day-to-day activities, such as working, learning, shopping, and socializing, in an integrated way between the physical and virtual worlds. Companies have been incorporating digital processes into their physical environments to provide a safer and more efficient experience for consumers. Examples of these innovations include mobile booking systems, QR codes for menus and contactless payments, and virtual fitting rooms. This movement not only



makes it easier for consumers to return to physical locations, but also boosts online sales and the collection of relevant data.

In Brazil, small and medium-sized enterprises (SMEs) have demonstrated growing digital maturity, adapting quickly to these changes. These companies are implementing technologies such as mobile booking systems, QR codes for contactless payments, and e-commerce platforms to meet consumer demand for convenience and security. The ability of SMEs to adopt and integrate these digital solutions not only increases their competitiveness in the market but also improves the customer experience by fostering a closer and more efficient relationship with their consumers. The digital maturity of Brazilian SMEs is, therefore, a crucial factor for adapting to new consumer trends and for sustainable growth in the post-pandemic scenario.

Digital transformation is essential to increase productivity and competitiveness. To achieve digital maturity, SMEs can follow a few steps, according to the Digitalization Map of Brazilian SMEs:

1) Connect and Engage Customers

The first step is to connect and engage customers. Businesses should utilize social media, create interactive websites, and develop an omnichannel experience that integrates different communication channels. Personalization tools, automated service, and the creation of relevant content are key to establishing an effective digital presence. These strategies do not require complex technologies and are the gateway to the digital universe.

2) Establishing New Bases of Competition

To remain competitive, SMEs need to review their strategies and business models, adopting digital tools and technologies. Participating in marketplaces, accessing specialists in Information and Communication Technologies (ICT) and implementing teleworking with management tools are important steps. Digitizing and integrating business processes can increase operational efficiency, but many companies still face difficulties in adopting these practices, requiring constant reevaluation to adapt to the digital market.

3) Building a Data-Driven Organization

Data collection, storage, and analysis are crucial for making informed decisions. MSEs must develop procedures to collect data in the supply chain and customer relationships, explore data from various sources, and use it to identify insights and develop new



products and services. Upskilling employees for the effective use of data is essential, although adoption of these practices is still low.

4) Innovate Faster and Collaboratively

Rapid and collaborative innovation is vital to respond to the needs of customers and markets. Companies must create an environment that encourages risk-taking and innovation by utilizing iterative approaches to building, measuring, and learning. Interacting with the local innovation ecosystem and utilizing the network of partners and suppliers to innovate are best practices. Additive manufacturing technologies and mass customization enable rapid testing, accelerating the innovation cycle.

5) Generate More Value for Customers

Digital transformation requires companies to continually rethink whether their business models are delivering value to customers. Using online feedback to develop new products, implementing rapid testing business models, and adopting technologies to understand the value perceived by the customer are essential. These practices help companies stay competitive and capture some of the value generated in the process.

6) Use of Enabling Technologies

Access to enabling technologies is crucial for digitalization. Ensuring access to high-speed internet, adopting cloud computing services, using e-learning platforms for staff qualification, implementing cybersecurity tools, and developing data storage and backup strategies are essential. It is necessary to demystify the idea that these technologies are expensive and inaccessible to MSEs.

7) Use of Digital Learning Technologies

Brazilian MSEs are more open to new learning formats. Participating in online courses, using tutorial videos, adopting gamified content, and participating in online mentoring programs are effective strategies to qualify the team and implement innovations. The acceptance of these digital learning tools indicates that business owners are ready to participate in programs that accelerate the digital transformation of their businesses. The digital transformation of Brazilian SMEs is a path of no return and essential for the survival and growth of these companies. While there are challenges, such as a lack of resources and clear strategies, the willingness of business owners to adopt new digital technologies and practices is promising. Digital transformation is a complex process that requires cultural, organizational, and technical changes. For SMEs, the key to success lies in the understanding and effective application of digital resources, accompanied by a



predisposition to evolve internal operations. Digital transformation is not just a matter of technology, but also of business mindset and strategy.



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