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## "Digital transformation: Italian SMEs and the challenges of the Information Age"

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Anno accademico 2018/2019



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# Introduction

In this day and age every person, and by extension every consumer, is conscious of the massive changes, both technological and social, which, creating a more globalized and interconnected world have affected the society and the economy in the last two decades, to be unaware of this is to be unaware of the world and the reality that surrounds us.

Change is a fundamental aspect of our society, just as important as communication and interpersonal relationships, and it dictates the rhythm at which we, as a human race, move forward into the future. This change, or rather, this perception of change, permeates all things and can act as an exceptional drive towards innovation and technological progress, obviously creating new problems and challenges along the way. Many people refuse, in a way, to accept what is de facto an unavoidable change, a shift in every aspect of our lives. It would be easy to assume that these people are few and isolated, but things turn out to be completely different.

In many countries, especially in Italy, the majority of the working class still refuses to adapt to this process of evolution towards the adoption of these new tools and devices that empower the organization in which they work and that could even determine its fate. Not being up to date with the latest trends and technological advancements can yield disastrous results, which obviously will produce negative effects on the economic and social tissue of their respective context.

For this very the present thesis will focus on the main opportunities and challenges that Italian Small and Medium-sized enterprises (hereafter SMEs) have to deal with when facing a process of digital transformation. In order to deeply understand the issue under investigation, it could be useful to start with a detailed description of its title and the main ideas behind it

Digital transformation may sound like a somewhat dry topic and, in a way, it is; what valuable work could be added to such an important discussion? The work on this thesis started with this question, and a satisfying answer soon came up: a precise context, built around a defined environment and an analytical take on the way Digital transformation affects the aforementioned.

The selected environment is Italy, traditionally characterized by a great prevalence of SMEs, moreover this thesis will focus on the SME since it's the type of business that faces the greatest challenges and potential threats and owes a limited amount of resources to face said challenges, thus lending itself to a much more interesting and, hopefully, useful, analysis

To conclude this brief look at the title a definition of “information age” is in order. To put it simply, the information age is the natural outcome of the digital revolution<sup>1</sup> which took place throughout the last half of the 20th century, and is still in motion to this day.

*“(The information age) is the modern age regarded as a time in which information has become a commodity that is quickly and widely disseminated and easily available especially through the use of computer technology.”*<sup>2</sup>

The changes mentioned in the beginning of the introduction are a necessary consequence of the age we live in, but alone they are not enough to define it.

The main concept is information itself, if we can understand how it has become the most valuable commodity in the world, it should be easy to realize why this age of information has come about. The way information is produced and consumed in a seemingly ever-growing fashion is at the same time worrying and fascinating, but the core concept that we can work out from this is that information, in its widest meaning possible, is the key component of the contemporary economy, and thus of the contemporary world. We can henceforth define the information age by exclusion: set it apart from every other period where the idea of information (not to be intended merely as knowledge) does not play a key part in the way the world works and moves forward.

As a last point, I feel the need to explain the more personal reasons behind this thesis. As an Italian, and an economics student, I feel a connection to our businesses, a flagship of our unique economy, which at the same time is threatened and full of potential. If I, through what I hope will be a clear and detailed work, can help the reader understand the turbulent and awe-inspiring times we live in, then it’s going to be my duty as well as my pleasure to do so.

The present work will be divided into three main parts, an introduction on the themes and challenges detailed by Chapter 1, a theoretical explanation of potential solution to the problems introduced in Chapter 2, and an empirical analysis revolving around two case studies in Chapter 3.

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<sup>1</sup> For a detailed timeline (up to the year 1999) and definition: Schoenherr, Steven (2004). "The Digital Revolution"

<sup>2</sup> As defined by the Merriam-Webster

# Chapter 1

## SME's history, context and weaknesses

## 1.1 The foundations of the contemporary context

Italy is a complex country, and even though, truth be told, every country is a complex manifestation of years upon years of history, evolution, and economic phenomena, few places in the world can rival the sheer variety and sophistication of Italy.

The country as we know it is fairly young, having existed for only 158 years, but the history of the land itself is incredibly long and detailed. In this ample framework there are very precise reasons that explain how the economic tissue of Italy has come to be, and they present roots which dig deeper than many may think, thus an appropriate time to start our recollection would be around 1500 A.D.

During this timeframe, Italy was splintered into multiple states and regional entities, which engaged with each other in war as much as commerce, corporations called “*gilde*” and banks were among the most prominent economic actors of the time; because of its position, Italy was cut off from the colonial run which involved Spain and Portugal, the conquest of the new world. This forced the various corporations to band together and specialize to remain competitive, since they lacked the access to the new world and thus the capability to maintain a perpetual growth without the right resources. This situation went on for many years, and since Italy remained divided these local economic activities remained relevant well into the 18<sup>th</sup> and 19<sup>th</sup> century. This doesn't mean that Italy's economy was completely unique (the bulk of the workforce and production was still geared toward subsistence agriculture) but there was already an established tradition of high-end products, such as books, dresses and art, that, at the time, represented a sizeable portion of the total exports. After the unification the transition from a series of local powers to a single state was far from smooth, in many cases the changes were so sudden that a relevant part of the economy suffered from it, especially in the south. Yet this allowed the establishment of an actual industrial network, and while the industrial revolution was already in full swing in England and the Netherlands, Italy did not lack that far behind, despite the political turmoil. So, we can see how the productive tissue shifted from isolated centres of excellence to a more modern configuration, which allowed nonetheless the possibility to reach a competitive status. These traditional activities acted as magnet for the new emerging industries, and in the most natural way possible a multitude of small businesses was born in the areas which traditionally were already specialized in various fields. The new industries which could not use older local traditions as a catalyst simply abided by the model which had successfully carried the Italian economy for hundreds of years, occupying what free

space was available and creating district which shared a common layer of their production, be it chemical components, iron and steel, or other industrial materials.

## 1.2 How the SME came into being

To analyse the development of the modern SME it is important to understand what is a district, namely an industrial area made up of smaller businesses that organically band together for various reasons and benefits. District are present in many countries, but in Italy they were, and still are, especially relevant. They formed early in the 20<sup>th</sup> century, and developed massively after the second world war.

A district can be defined as an array of businesses, located in the same area and united by a sophisticated network of socio-economical relationship; these businesses are specialized into one or more phases of a production process, and usually whichever kind of specialization they have also has an historical tradition belonging to the area they occupy.

The creation of most districts was as much a natural phenomenon as it was a deliberate choice, to reap the many benefits that such a disposition produces, an important driver in this decision and the way to apply it was the IRI (industrial reconstruction institute). The IRI was created in 1933 by the fascist regime, but its most important contribute to the economy (which made it one of the protagonist of the “miracle” that happened during the 60’s) came much later, the IRI was seen as a successful way for the state to intervene in the economy in a much subtler way than what many European countries had experienced.

Now, it would be a mistake to seek the origin of the SME starting from the development of the first districts, as we said before its roots are quite ancient, but in order to be precise we need to recognize and explain what has been fore decades a mutually beneficial relationship. This relationship was helped gradually by the state via many successful industrial plans. It’s worth mentioning the most relevant, the Piano Vanoni, which set very ambitious goals, such as the reduction of the gap between north and south, attempts to reach full employment and the creation of 4million jobs. These goals were only partially fulfilled, and the success of the plan was thereby relative. What is really interesting to us is the operative logic behind Vanoni’s scheme, which tried to leverage on the strengths of the economic centres already present, subsidizing the districts and emphasizing what industrial power was already available at the time. This, in way, crystallized the industrial structure, paving the way for the rise of the districts, and the SME’s, in the 60’s which led to the contemporary situation. To

this day in many relevant markets, Italy presents a surprisingly low concentration<sup>3</sup>, and, although there are meaningful exceptions (ENI, FCA and similar enormous industrial ventures), this appears to prove our points that a relevant portion of the country's industrial output comes from SME and local realities.

### 1.3 The position of the SMEs in the modern context

The position of the SMEs is very delicate in the contemporary age. The 2008 crisis showed the many flaws that this system has, exposing some of its most critical weaknesses. Italy was hit by the ripple effect of the actual crisis, which originated in the USA, but still it was one of the worst hit economy in Europe, and the consequence are relevant to this day<sup>4</sup>.

Although the loss of GDP had been huge, the worst effect of the crisis was the direct failure of many of the weaker businesses. Some may define this phenomenon as some kind of natural selection, but the truth is that most of the business were actually competitive and functional, and only perished because they lacked the necessary resources needed to come up with a structured plan to avoid failure. At the time, the number spoke for themselves<sup>5</sup>, so it seems obvious that the position of the SME's in Italy after the crisis has been somewhat weakened, but the data available today can help us get a better understanding of the situation. Of the businesses present in Italy, more than 99.9% are SME's, and more than 95% of them involve less than 10 people<sup>6</sup>. How can such a fragmented and frail reality remain relevant and competitive in a world that seems to be revolving around the centralization of the economic resources in the hands of few powerful companies? The imperative for every business is to survive and turn a profit while doing so, hence the most important short-term objective for every "weak" business should be survival, which in the 21<sup>st</sup> century means developing a capability to act and adapt at a quick pace to remain a competitive force. The modern scenario requires resources and investments, to be sure, but also emphasizes a more organic capability to seize the moment and take advantage of the innovations that follow one another every day.

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<sup>3</sup> Carlo Scognamiglio Pasini, *Economia Industriale*, LUISS University Press, 2006

<sup>4</sup> Paolo Brisco, *A 10 anni dalla crisi il mondo è ripartito, l'Italia resta in affanno*, Sole 24ore, 2017

<sup>5</sup> Noemi Ricci, *Nel 2008 337mila imprese chiuse per la crisi*, PMI.it, 2008

<sup>6</sup> Ufficio Studi ConfCommercio, *Le PMI in Italia*, 2009

## 1.4 Problems and challenges brought about by the digital transformation

After our brief historical analysis, the next logical step would be to examine what new business models and options are present for today's businesses, as well as the problem that arise the more modern technology and solutions get implemented. For the purpose of this thesis, although a brief discussion of the challenges that are presented is in order, an extensive analysis of the opportunities and novelties will be more prevalent.

### 1.4.1 The challenges

An excellent analysis on this topic is provided by Erich Hoch<sup>7</sup>, who identifies five major challenges, or rather resistance factors, that prevent a more complete acceptance of the Digital Transformation.

#### Employee pushback

As briefly mentioned in the introduction, many workers are refractory to change, and this is especially true in countries like Italy, where the population is old and there is quite a lack of generational interchange in the workspaces. Employees like their routines, predetermined pattern that allow them to operate on an almost automatic level, any change (and not only those digital in nature) will bring a more or less intense amount of disruption. It's only natural that many workers will try to avoid this, and preserve their hard built routines and habits, so, when trying to introduce any innovation, a certain degree of resistance is always to be expected.

#### Lack of expertise to lead digitalization initiatives

Another very important setback to many digitalization efforts, the lack of guide and direction can hinder any progress. Many companies commit the error of dumping huge amounts of time and resources into directionless programs that will almost never yield the desired results. In truth most companies don't have the expertise or capability to drive these efforts from within, so their best bet is to assume an external consultant that will help with the whole process

#### Lack of overarching strategy

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<sup>7</sup> Erich Hoch's analysis: Top 5 Digital transformation challenges (and how to overcome them), iotforall, 2018

Even with the right amount of resources, after having won the resistance of the workers, a process of digital transformation needs to have precise goals and intermediate objectives, in the context of an overarching strategy. Without these elements any effort is doomed to fail. Every aspect of a business need planning and strategies to succeed or perform adequately, and the strategy behind a successful approach to digital transformation needs to be even more precisely defined and smartly put into motion.

### Organizational Structure

A flexible organizational structure may be able to adapt quickly to many changes, but a more crystallized or bureaucratic one will find itself unable to shift its position around quickly enough to be competitive. This is true especially for companies that are either very old or very large. The result of a simple equation explains that the more elements are involved in the transformation process, and the less adapt they are to be transformed, the longer the process will take. Business partner can also hinder the process, by refusing to adapt and be up to the new standards, they may act as an obstacle an prevent a more complete transformation from taking place.

### Limited Budget

A more transversal issue than it may appear in the first place, bigger and smaller companies face different problems regarding their budget. For a bigger company it may be difficult to work out a precise estimate of the costs they will be facing undergoing such a process, for smaller companies the funds required may not be available without external credit, which is a risky activity if the transformation process does not turn out the way it was expected, potentially costing a lot more than its actual worth, so a careful implementation policy is in order. The dimension of the company plays an important role in defining what is the priority of each critical factor.

Less than 100 Employees	100-1,000 Employees
<ol style="list-style-type: none"> <li>1. Lack of Expertise to Lead Digitization Initiatives</li> <li>2. Employee Pushback</li> <li>3. No Overarching Strategy for Digitization</li> <li>4. Business Partners Unable to Support</li> <li>5. Limited Budget</li> </ol>	<ol style="list-style-type: none"> <li>1. Employee Pushback</li> <li>2. Organizational Structure Gets in the Way</li> <li>3. No Overarching Strategy for Digitization</li> <li>4. Limited Budget</li> <li>5. Lack of Expertise to Lead Digitization Initiatives</li> </ol>

Table 1.1, different priorities of the different challenges of a digital business , from IOTforall

## 1.5 Aspects touched by the Digital Transformation

We talked about the challenges and risks involved in the digital transformation process. Obviously, companies would not undergo such a delicate operation if they couldn't reap great benefits from a correct implementation of these innovations. In this section we'll examine what are the opportunities and the new business models. In order to do so we may divide these digital transformation models into categories, and then look at each in more detail. There are obviously many different and various way in which a digital transformation process can affect a business, and just as many are the functional dimensions which can be involved in this process, there are three main ones: Cultural, Organizational, Communicational.

### 1.5.1 Digital Transformation and corporate culture

Our first dimension is corporate culture, a topic so huge it could be the object of a thesis in and of itself, of course I'll try my best to summarize every important point without dwelling too much on the matter. Corporate culture existed alongside corporations and business for hundreds of years, it's the most natural and obvious projection of the common ideas and practices that emerge from a socio-economic group. Corporate culture has many faces, from rituals, to disciplinary codes, to ethics and other aspects. Every single one of them can be influenced, in a way or another, by a transformation process, there can be no modern corporate culture without it being also a digital culture, this is not just an abstract advantage, according to a recent analysis by the Boston Consulting Group<sup>8</sup> more than 80% of the companies that experienced a recent breakthrough in performance were focusing on corporate culture, so there are very real incentives to pursue an improvement of this social environment. The BCG identifies some core traits of a digital culture:

- Promotion of an external rather than internal orientation

A digital culture typically encourages the worker to develop an outside leaning network of knowledge and relations, not limited to their colleagues, but rather focused towards the customer. This is reflected by an increase in customer-centric processes, and the workers are driven to see things from another perspective.

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<sup>8</sup> <https://www.bcg.com/it-it/publications/2018/not-digital-transformation-without-digital-culture.aspx>

- Emphasis on delegation over control

This trait allows the organization to be much more seamless and flexible, prioritizing a fast and effective approach and avoiding an excessive crystallization of roles and power structures.

- Collaboration instead of individual effort

While individual drive and productivity will always be valued, a modern company must be able to bring together its human resources in order to maximize their potential output, and level any critical point through a mutually beneficial comparison.

It's easy to see how a company investing in a healthy and modern development of its culture may gain huge benefits in the long term, despite some probable difficulties while implementing actual changes. In a contemporary perspective, corporate culture is an everchanging and sophisticated ground, but it's worth investing in for many companies. These technical traits certainly deserve an explanation, but the biggest changes that a digital transformation process brings to corporate culture are more organic, and involve first and foremost the relationships between workers. There are some vital points however, that must not be left behind when we consider a digitalized work environment. The right environment empowers a workforce, so internal controls and a positive attitude must be maintained through a digital workplace, as if it was a physical one.

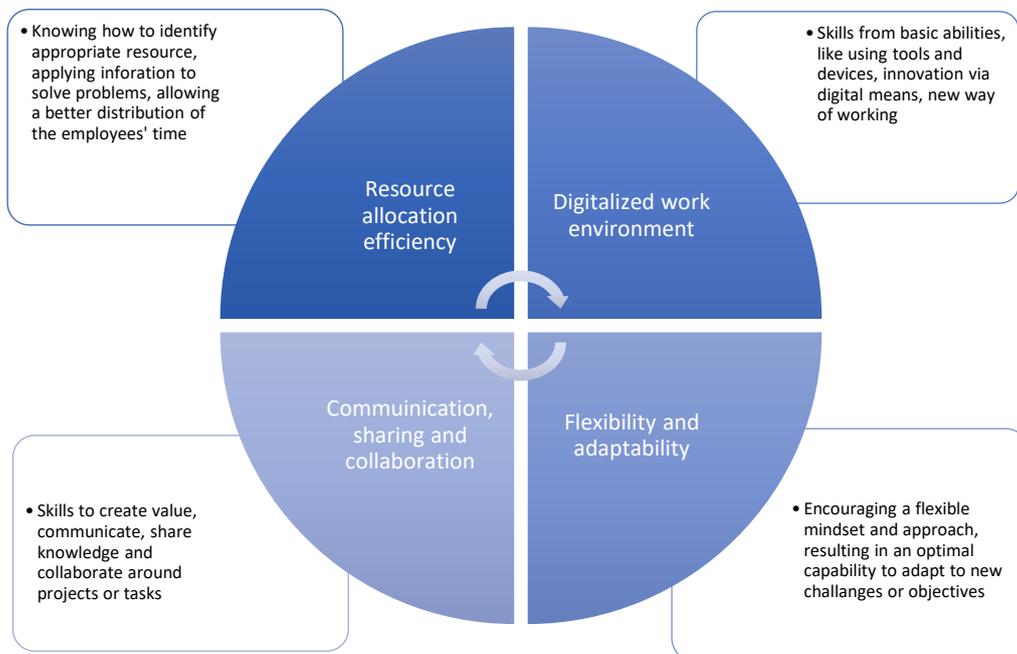


Table 1.2, Crucial effects of the digital transformation process on a business, [source: personal elaboration](#)

## 1.5.2 Digital transformation and Organization

Digital Organisation is the meeting point between traditional organization and digital transformation, it's the integration of digital and innovative processes into the more standard mechanisms that usually take care of day to day operative tasks.

The possibilities are almost endless, and most business already put into practice one form or another of digital organization, since it's been the first and most logical sector of a business's components where digital transformation may occur, even unintentionally, just by environmental osmosis, acquiring and implementing new knowledge and techniques into a renewed business model.

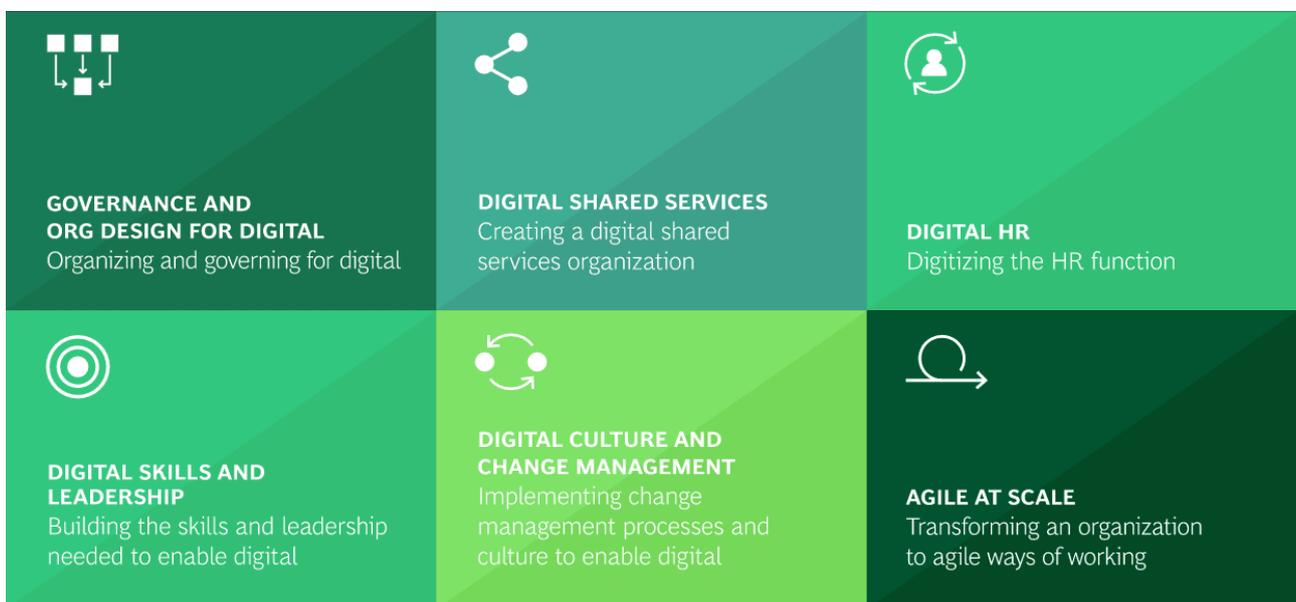


Table 1.3, Building blocks of a digital organization, source: Boston Consulting Group

This is one of the most critical sectors, since the benefits from a correct implementation are huge and the SME is structurally quite capable of adopting these kinds of innovations.

## 1.5.3 Digital Transformation and Communication

Of all the aspects of a modern business, communication (both internal and external) is probably the most prone to innovation. Communication plays a pivotal role in the socio-economic life of any individual, to such a degree that *“it's impossible not to communicate”*<sup>9</sup>.

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<sup>9</sup> the first axiom of communication by Paul Watzlawick

So many things have changed in the way we, as people, or as part of a business, communicate, from the cell-phone, to the first forms of internet, to social networks. This continuous transformation has made communication and the exchange of information more important and relevant than ever.

There are many ways in which digital transformation may affect the way a business communicates, with itself or with customers. The rise of Digital Marketing techniques is but a reflection of this newfound willingness to communicate and share information, with the customer in the first place.

Digital growth strategies, social media presence, online customer involvement, these processes are vital to a modern business, and they are very much digital in nature and communicational in purpose.

Bigger companies acquired a new platform (a multitude of new platforms to be precise) to exert their influence on the customers, maximizing their influence via a smart social media strategy. Smaller businesses now have the ability to leverage on their strengths and excellences, being noticed in an online environment whereas a physical one would have left them into obscurity.

It's not easy to the full extent of possibilities that modern communication techniques offer, but through a careful and deliberated strategy or approach the benefits can be both varied and enormous, from brand recognition to carving a literal niche in the online environment, from streamlining internal communication processes to influencing a customer's perception of a product.

## 1.6 SME's and new models of digital business

In the contemporary context several new business models are emerging, and SMEs could adopt and implement these new trends into their traditional structure. New technologies and innovations are paving the way for some interesting variations on existing models. Not all of these models are actually useful or applicable to the average SME based around its traditional structure, the digital transformation should not alter the core components of a business, but rather improve those that are lagging behind and potentially promote change based around these core components.

The digital revolution is allowing many businesses to be a competitive force despite their small dimension, through a fundamental shift of what is considered a viable business model. Where once physical retail and single purchase products were unchallenged, now online stores and subscription-based models are gradually becoming more and more relevant. This kind of business models are, in

many instances, perfectly suitable for a small company, and due to their innovative nature can result in a strong competitive edge.

If small businesses will be able to incorporate even parts of these new and more optimized business model into theirs the benefits will be great. Small companies and start-ups are becoming an increasingly competitive reality.

## Chapter 2

Points of strength of the SME model and  
differences with bigger businesses

## 2.1 Which elements may allow the SMEs to thrive

While in the previous chapter we analysed some of the critical points of a digital transition, in this instance the focus of our analysis will be to prove how, and in which ways, the SME model is actually suited to benefit greatly from the digital transformation process. There are, of course, some structural properties that could make this transition easy and beneficial, namely the small dimensions, the low number of employees, the flexibility that can emerge in some instances and the localized context, a more detailed examination will prove our points.

- **Small dimensions:** Many SMEs are used to operate on a small scale, with a limited amount of revenue and transactions to control on a daily basis. This makes it easier to implement any digital element into the day by day management, be it an improved communication network between employees or, for example, an innovative method to organize the productive structure. Since the changes only affect a contained economic reality, they are less likely to cause troubles that could happen in a bigger environment.
- **Low Employee count:** if the number of employees affected is small, it will be much easier to realize any change or implement any innovation that the digital transformation process could cause. Furthermore, training costs will be severely reduced, in such a context even training a single worker may prove sufficient, since, once received the training, that single worker may prove able to transmit the knowledge obtained to the others without much effort.
- **Flexibility:** an SME is very different from a big business, and though this distinction will be examined in details later, one key factor is immediately evident: even the most horizontal and loosely organized company cannot hope to compete with a SME when it comes down to flexibility, an SME is a much more organic reality and will prove itself able to react to changes or threat much faster than its bigger, more bureaucratized counterpart.
- **Localized context:** we need to keep firmly in mind that many SMEs (this is especially true for those business on the smallest end of the scale, the microbusinesses) operate in a very localized and small context. This can surprisingly prove beneficial, since the businesses can take advantage of ripple effects and word of mouth when it comes to spreading the word about innovations or improvement caused by their digital transformation efforts: a localized market

and “provincial” context will react quickly to any change on the SME’s part, allowing for an almost real-time feedback that may prove invaluable in driving their digital transformation efforts toward a purposeful end.

## 2.2 A comparison between the traditional SME model and the changes needed for the digital age

Many SME’s in Italy are quite old and have been active for more than ten years. So, in a way, most have a very well defined structure that may not be very much prone to change in its core mechanics, which can and should be affected by the digital transformation process: these business have the adaptability and capability to change, but often they lack the drive or will to do so, until they are forced to either adapt or close. The classic SME model is very much family based, and though they may not look impressive we need to keep in mind that this kind of venture represents more than 98% of the national businesses. Some of the factors that are common among many SME are worth discussing.

Like we mentioned, the core structure of these business is based around a familiar group, where older approaches to many aspects of the business’ life are still rampant. This includes a very traditional perception of what the value of a company are, and, especially, the way knowledge is transmitted and managed through the business itself, via a transversal axis that rarely proves to be an efficient method to preserve and spread the capability and know-how of older employees to the new generations. The whole process needs to be formalized at least in some capacity, or these business risk to be penalized by learning periods that are too long and not efficient. Another problem may arise if we take into account the average age of the employees, which is on the rise and already quite advanced in many businesses. Apart from the obvious problems with having older employees, this may also hinder the application of a digital transformation process, since many older workers are unwilling to adopt new technologies or change anything of the productive processes<sup>10</sup> they are used to, thus slowing down the whole industrial system they are a part of.

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<sup>10</sup> Page 22 of the linked research paper

[https://oa.inapp.org/bitstream/handle/123456789/18/INAPP\\_Aversa\\_Gestione%20et%20C3%A0%20imprese%20italiane\\_2017.pdf?sequence=1](https://oa.inapp.org/bitstream/handle/123456789/18/INAPP_Aversa_Gestione%20et%20C3%A0%20imprese%20italiane_2017.pdf?sequence=1)

SMEs also have very often deep ties with the city or area in which they are active, and while we mentioned before that this may prove helpful during the implementation phase, it's true that, on the other hand, a fiercely localized mentality and culture may make things difficult when it comes to dealing with international customer or tackling new problems that may emerge when the digital transformation affects the workers.

Obviously time and resources need to be invested to prevent any negative impact that the process may have on the company's culture and work ethics, and to make the corporate culture more open minded and capable of dealing with new challenges, not necessarily dismantling every element of the old mentality, but rather selecting what parts of it can be used in the modern scenario.

There are some key components of the traditional model that may not be able to survive the transition, but rather need to be adapted and corrected in order to change and be useful in the digital age.

### 2.3 An ideal model of SME ready for the digital age

We have analysed enough elements to be able to outline what the general profile of a SME ready for the digital age should be: a successful new economic reality which merges the best traits from both the traditional and digital model.

Such a business would most definitely require a structured approach, and it's quite unlikely that many SMEs will respond to the outside change in this optimal way, until said changes actually begin to threaten the business itself, something which, all over the country, is happening in this very moment.

There are many things that are worth saving in the traditional SME model, approaches and traditions that if treated carefully may turn into point of strengths and excellence that will provide a valuable contribution to the digital model. Traditional working techniques, a physical social network or relationship and acquaintances, attention to the customer experience, these are all traits that must not be lost during the transition, but rather need to be updated and enhanced by the modern techniques that digital age has brought forth.

To summarize what we said, the ideal digital SME model should formalize its learning process, to exploit the knowledge of its most veteran workers, but at the same time focus on assuming younger people who are digital natives and will eagerly accept any future change or innovation that may be required for the company to remain operational.

In order to take advantage of the opportunities of the digital transformation process a SME must be carefully led through the transition, so a strong leadership is necessary to prevent the process from straying from its set path, a hierarchical structure of some kind needs to be already present before the process is set to start.

The SME needs to approach its own digitalization with regard to both an external and internal perspective, to guarantee that, while it should be able to optimize its processes where the adoption of innovative techniques will allow it, it must not lose its own identity and network of customers, if these elements are already present, since these assets will have a great value even after the transition itself is completed.

### 2.3.1 Aspects of a business model that are affected by the Digital transformation

The following analysis will elaborate on the base concepts expressed by David Rogers in his Digital transformation playbook.<sup>11</sup> Starting from the general framework, a business model can be affected in different measures by the digital transformation process, but what we hope to deduce from this general ideas is the precise way in which the core components of a traditional SME's business model interact with the aforementioned digitalization.

### 2.3.2 Customer care and service

An SME's customer care is, often, quite a rudimentary process, based around traditional relationship of trust and reciprocal knowledge. This is not a weakness per se, but there are many opportunities, thanks to the contemporary technological processes, to improve and expand upon this existing substructure, improving the quality and quantity of interactions with a client. There are simple examples that immediately come to mind, such as using social media to manage booking, reservations and orders, or to promote, in a simple and organic way, the latest products and services that a PMI may be trying to sell. There is also a new set of problems that arise from a digitalized customer service, online complaints and negative reviews may have a crippling effect on some businesses but these are, often, just a symptom of underlying problems with the core experience of the business

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<sup>11</sup> Rogers, D. (2018), The digital transformation playbook, Columbia Business school publishing

itself, and not a completely new group of challenges that arises after the enterprise adopted a more digitalized approach with regard to customer service and care.

### 2.3.3 Value perception and creation

Digital Marketing techniques can play a huge role in improving a customer's perception of value, creating a more positive image of a product or service. In the SME context, the correct application of these techniques can be vital when it comes to escaping a failing market, by changing what is traditionally expected by a certain product and thus appealing to new customers, or renewing the interest of the old ones. When we talk about value creation the importance of a correct placement for any product or service cannot be understated, value creation is not a limited concept that refers only to a mere monetary value, but a general one that also includes the value of something related to its precise intended consumer. A small business can use these general ideas to gain a better understanding of what it's trying to sell to whom, and what is the place of its offer in a broader context, thus enabling a more detailed analysis that can strongly optimize the business' targeting efforts and returns.

### 2.3.4 Competition and context

The introduction of most modern innovations has increased the speed at which smaller business compete to gain an advantage, thus making each relevant market a more dangerous environment where the conditions are rarely stable on the long term, and most businesses have found it hard to maintain this new and faster pace, which requires a more flexible and generally seamless approach to many aspects of their business model. A strong competitive factor can also be beneficial, it surely is a strong driving force behind every business' will to adapt and innovate. Often businesses are strongly incentivized to merge and band together in order to survive a rapid change in their contextual market, and consequentially often improve their previous position, gaining a strong edge over the competitors that did not react as quickly when faced with new challenges and problems.

### 2.3.5 Data storage and usage

As we mentioned in the introduction, information and data are the real protagonist of the modern economy, and are being produced and stored at exponential rate. With regard to a SME, data storage can prove incredibly useful, allowing the creation of times series and an improvement of predictive capability and performance through an analytical approach to many components of a regular business model. These are the benefits possible without taking into consideration more sophisticated method of data usage and manipulation, from advanced business-related data analytics to the development of dedicated machine learning programs. Most business owner have access to some basic capability to store digital data, usually thanks to a cloud storage platform, and can successively capitalize on the wealth of information collected through basic empirical method, optimizing, just to give a few example, their pricing models or products design in order to maximize their return based on the prediction coming from their data analysis.

### 2.3.6 Innovation and processes

The most interesting part of some upcoming business models is the way the innovative processes themselves are being improved and changed. Examples such as the bottom up approach offer new and useful takes on what used to be a straightforward concept, when only business innovated and customers could only receive passively the products of these innovative processes. Now customers can themselves be a part of this process and influence what the companies will be looking for through the most recent digital means. The rate at which new inventions are created and implemented has sped up enormously in the last twenty years, and now a new product or process can be rapidly examined and influenced by a huge number of customers in just a few hours. What used to be a simple top-down process is now a cycle of innovation and experimentation, leading to a greater degree of participation and involvement from the customers.

## 2.4 Differences Between SMEs and big Business regarding the digital transformation process

The following analysis is extremely important, we talked extensively of the points of strengths and weakness of the SME model, but a comparison with bigger companies will surely offer a clearer explanation of the precise position of these smaller businesses. We will focus on five core digital transformation elements, and then summarise these points into a dedicated table.

- Ease of implementation: the SME may face some problems since the work environment is prone to traditionalism and static, but its small dimension may help the transition, whereas the company won't be able to implement things quickly unless a strong direction is present and working proactively toward the transition, even then the high number of employees and different branches will make it difficult to really permeate the culture that existed before and fully implement the desired changes.
- Effect on the work environment: with regard to a smaller business, a more complete level of cooperation can be reached in a shorter time, with huge benefits for the employees and the company, even though some degree of initial confusion is to be expected. In a bigger enterprise the work environment, once digitalized, will allow a greater collaboration between branches of the business, reducing internal transaction costs. An overreliance on digital means may become problematic in the long term though, stressing the employees and making some processes longer than they need to.
- Operational advantages: Efficiency should be a priority for any business, when it comes to smaller ones there is lot to be saved with a careful usage of digital techniques, which should easily optimize many parts of the more mundane tasks. A bigger business instead will try to obtain an overall streamlining of many operative situations, which is very appealing, but the costs of the investment necessary will not immediately be recovered.
- External approach: An optimal implementation of digital marketing techniques can increase the relative exposure and capability to influence a customer by a huge margin, especially compared with the comparatively small investment required, so small business are definitely encouraged to try out the most recent techniques, but will probably need the help of a professional consultant to do so successfully. A bigger business has the capability to launch enormous and cheap marketing campaigns via digital means, or preserving a business's brand recognition with a reduced amount of resources, this acts as a huge driving factor and leads many big companies to invest into digital transformation
- Budget barrier: Many useful skills can be learned and implemented in the day by day routine of a SME, the cost is relatively contained, the real change must happen in the mindset of the owner and the employees, if these skills are implemented correctly the results will be

encouraging. In order to digitalize a big company a consistent expenditure is required, together with a precise direction and coordination, and despite the access to any useful technology or innovation the investment will only be worth after some time, and still potentially not worth it.

Digital transformation elements	SME	Big Business
<b>Ease of implementation</b>	<b>Pros:</b> Small dimensions <b>Cons:</b> Traditionalism and static environment	<b>Pros:</b> none <b>Cons:</b> Needs strong direction and drive to succeed
<b>Effect on the work environment</b>	<b>Pros:</b> Complete reception of the positive effects on a smaller scale <b>Cons:</b> disorientation if some employees do not receive assistance	<b>Pros:</b> Huge benefits from increased cooperation <b>Cons:</b> potentially devolving in a more bureaucratic organization after a long period
<b>Operational advantages</b>	<b>Pros:</b> optimizing many small and time-consuming tasks <b>Cons:</b> none	<b>Pros:</b> overall streamlining <b>Cons:</b> high costs will take years to be reabsorbed
<b>External Approach</b>	<b>Pros:</b> low cost, high return <b>Cons:</b> may require an external consultant	<b>Pros:</b> cheap investment compared to traditional marketing <b>Cons:</b> none
<b>Budget barrier</b>	<b>Pros:</b> many useful information are accessible with little to no investment <b>Cons:</b> can't really invest into the most advanced techniques and innovations	<b>Pros:</b> access to any potentially useful innovation or technology. <b>Cons:</b> the costs are still relevant and the investment potentially risky

Table 2.1, Comparison of the key digital transformation elements between an SME and a big company

The table above is a synthesis of the main difference that occurs during a digital transformation process if we confront a SME with a big company, ideally both belonging to the same sector.

What we can hopefully deduce from this analysis is that, while it's not easy for a SME to adopt a process of digital transformation, the factors examined should make it easier to implement said process, and to radically alter the structure of the company itself to accommodate the innovations adopted, sporting great advantages once the process is complete. Bigger companies are obviously encouraged to undergo a deep transformation of their structure and processes, but are not as organically capable of doing so: their huge bureaucratic infrastructure and number of employees makes it hard for the new digital methods and techniques to effectively permeate the company's structure, needing a consistent and protracted investment to be finally successful, and draining a lot of resources while doing so.

## Chapter 3

# Opportunities and risks of the digital transformation process: an analysis of two case studies

### 3.1 Reasoning behind the case choices

An analysis of real example will prove invaluable to gain a better understanding of the phenomena treated in this instance: The main goal of the present essay is to gain a deeper understanding of the digital transformation process of Small and Medium Enterprises (SMEs). To that purpose, a real case analysis will allow for a more detailed comprehension of the topic under investigation through the analysis of empirical data.

The most effective way to perform this analysis is selecting a successful example of a SME that managed to adapt and gain a competitive advantage through the use of digital transformation, and a SME whose business model and existence was jeopardized by the innovations of the digital age.

After a careful selection process two very peculiar business seemed especially appropriate with regard to our analysis: Meccanica Verghera (MV) Agusta and Libraccio.

The first one will provide us with an excellent example of a company that greatly benefitted from the adoption of new marketing techniques, managing to adapt and launch what was an historic brand on the international markets, and avert the possibility of failure that was very real just a few years ago. The second case, Libraccio, has been struggling in recent years because of the popularity of more digital oriented competitors like amazon, but our analysis will underline some peculiar element which may be leveraged to obtain a consistent advantage if supported by adequate digital transformation techniques and supported by a competent direction.

## 3.2 MV Agusta

MV Agusta was born in 1945 near the small town of Samarate, like many others motorbike factories (Motoguzzi, Piaggio) of the time the first models find their origin among the recycled components once belonging to military planes. In the post-war context MV quickly gained some notoriety, and its popularity boomed after the first competitive successes in the 50's<sup>12</sup>. In the following decade the brand focused on more sporty models, trying to carve itself a niche after its five consecutive victories in the world championship.

In the early 70's there were many financial troubles, and the brand tried to get some assistance by the EFIM (manufacturing business financing body), but the deal required MV to abandon any participation in the motorsport, thus alienating many loyal customers. MV closed in 1977 after a period of stagnation and poor sales.

The brand was resurrected by the Cagiva group, which had recently acquired both Ducati and Husqvarna, in 1991, and helped keep MV afloat up to the early 00's, after which new financial troubles lead to a difficult period in which the brand changed owner multiple time, shifting from Cagiva, to Proton (after the dissolution of the group) to Harley Davidson<sup>13</sup>, even seeing a participation from Mercedes AMG.

The situation was difficult in 2016, and the company looked for an arrangement with creditors, to avoid bankruptcy. Things looked grim, but through careful management and improvements in the productive structure MV managed to turn a profit and remain operational.

Our analysis will focus on these last years, trying to understand how MV was able to turn things around and change to remain relevant and profitable in the next decade.

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<sup>12</sup> Detailed timeline on the official website <https://www.mvagusta.com/history>

<sup>13</sup> Acquisition by the Harley Davidson Group reported by Il sole 24ore <https://www.ilsole24ore.com/art/SoleOnline4/Finanza%20e%20Mercati/2008/07/harley-davidson-agusta-mv.shtml?uuid=7f4121a4-4f46-11dd-9d8b-8f9714c30f74&DocRulesView=Libero>

### 3.2.1 MV Agusta's success

We can define some key factors that were pivotal in MV's success.

- A well-defined corporate culture, based around the long history of the brand and the enthusiasm of the workers that feel part of a blazoned and traditional company, this cohesive culture proved able to carry the business through difficult times, when the company went through multiple acquisition, or risked failure on an almost yearly basis. This care for the brand and its history produced an ethic and philosophy that has met resounding success when presented to the right customers through online marketing techniques.
- A refined productive process that has the best characteristics of both the traditional and modern approach, resulting in an appealing and advanced final product that has merged a handcrafted feeling which customer love and the accuracy and precision of a modern process, projecting what used to be an almost artisanal reality onto the international scene
- An exemplar case of correct SMM, proving invaluable in approaching the right customer through social networks like Instagram and Facebook, and developing a strong recognizable brand.
- A professional looking site, which is assured to impress the customer, full of useful information, history, and detail on the way the company works and what its values are. It plays a big role in improving the brand's online presence, since for many potential customers it's either the first or second point of contact with the company.

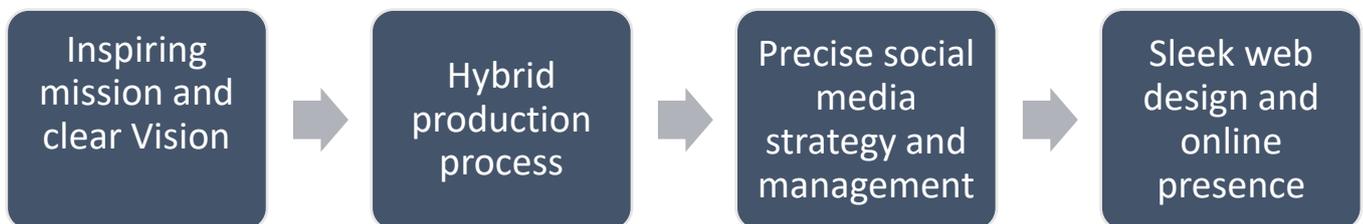


Chart 3.1, Four core components of MV Agusta's success

### 3.2.2 Inspiring mission and clear vision

*“Our mission is to design, develop and build the most advanced motorbikes in the world. Motorbikes that have an iconic design, top-notch performance and the most advanced materials and technologies. In pursuing this mission, we stay loyal to our values of craftsmanship, innovation and total dedication to excellency”<sup>14</sup>*

It certainly sounds brilliant. Admittedly, MV Agusta’s mission is not quite on the humble side of things, but that plays to the company’s advantage.

Such an inspiring message has a big role in motivating employees and establishing the brand as an absolute excellence of its sector, which is absolutely crucial, given that the motorbikes produced are most definitely high end and expensive, thus they need to justify their price range, and the brand does that brilliantly. MV’s brand succeeds in presenting itself as an elite one thanks to a couple of factors, namely its long (albeit not easy) history, competitive success and high value production techniques. The brand vision cements what its objectives are, and the general philosophy behind the product they sell:

*“We don’t simply build motorbikes, we create emotions, we look ahead to deliver something that is always one step ahead”<sup>15</sup>*

So immediately the product is defined as something more than a simple physical object, it’s both an experience and the culmination of years of research and tradition, merged into one perfect idea that the customer is driven to admire and desire.

### 3.2.3 Hybrid production process

MV’s has radically changed its old production process, moving away from a completely handmade approach that, albeit in line with tradition, was prone to error and time consuming, raising the price of the final product.

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<sup>14</sup> 13 MV’s Mission, translated from the official site <https://www.mvagusta.com/about-us>

<sup>15</sup> The company’s vision, translated from the official site <https://www.mvagusta.com/about-us>

This old method cannot work in a modern market, where accuracy and speed are required for a manufacturing business to succeed, the company adopted a combination of modern technology and human interaction that is yielding great success.

With a careful approach, MV has managed to satisfy the customers that wanted something more than a simple mass-produced vehicle, while containing costs and manpower usage. This could not be done simply by exploiting scale economies increasing the number of bikes produced, since a similar attempt at saving that took place in 2014 almost caused the failure of the company, which does not have an appropriate infrastructure to support such a volume of transactions.<sup>16</sup>

The lead designer, Adrian Morton, talked about the concept of “*Innovation, respecting the MV Agusta DNA*”. This created a new way of thinking which resulted into a modular assembly process. The process is based around a key idea, using the assistance of machines only when necessary, for example while securing the finest component of the engine block. The overall work is still for the great part done by hand. Every part of an MV Agusta is a result of this process, which is a huge selling point.

Even during the delicate development phase, the new motorbikes are first modelled with clay, then the components are digitalized and refined by the engineers. An intense cooperation between teams is required, and those people working on separate components need to be working closely together to guarantee a satisfying final result.

### 3.2.4 Social Media Management

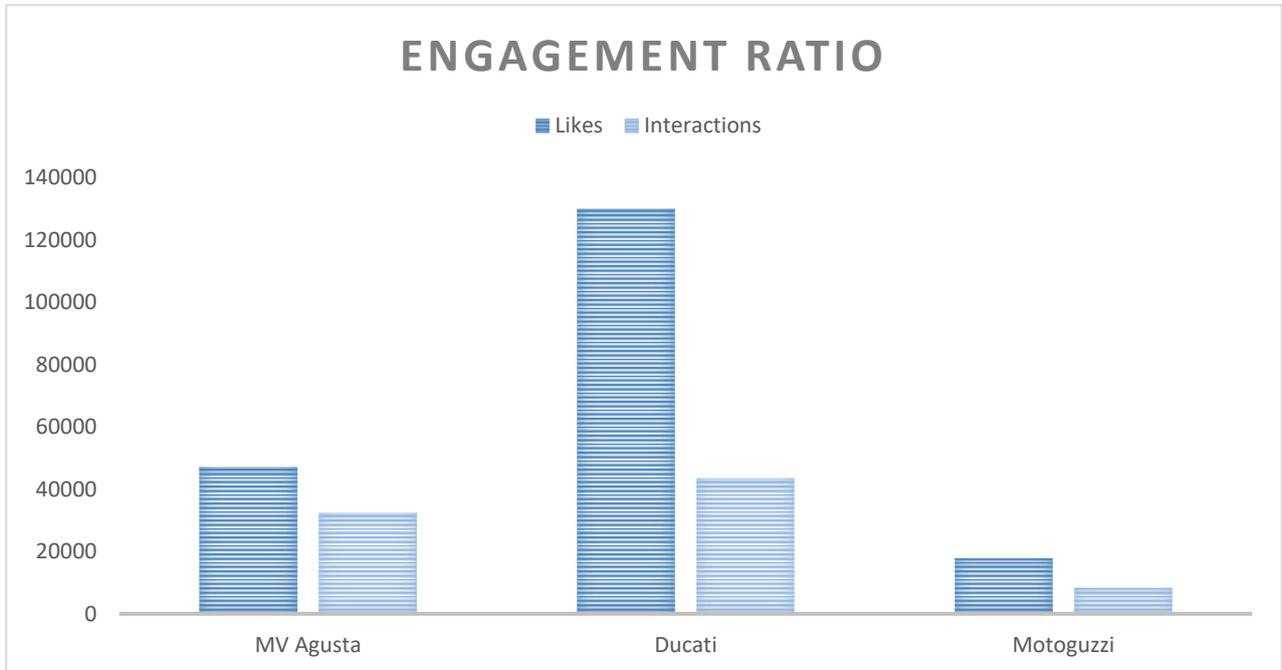
MV has developed a strong social presence, with a good number of followers, in the recent years, showing a great attention to detail when it comes to its online brand. Aside from the basic elements, MV’s Social Media Management has taken advantage of all the possibilities offered by platform such as Instagram and Facebook, where, on the official pages, the content is both varied and top-notch.

On Instagram there are many videos published on IGTV, detailing the technical data of the most recent models, and allowing the users to engage directly with the company and its philosophy. In the past year MV launched the aMVassador program, where the company cooperates with influencers and famous customers to explain what brought them to buy an MV, and what owning this kind of

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<sup>16</sup> The liquidity crisis of 2014 is explained here <https://www.motociclismo.it/crisi-mv-agusta-nuove-moto-2017-entro-fine-2016-ripresa-la-piena-produzione-66121>

motorbike it's all about, effectively explaining the company's vision in a way that feels authentic and is immediately comprehensible for a user that just happens to come across the video. Stories are archived and accurately labelled, and the official page broadcasts several live videos when there are important events or announcements. The engagement rate is very high, most post have a high comment/like ratio, and the official page is very proactive in answering and interacting with its

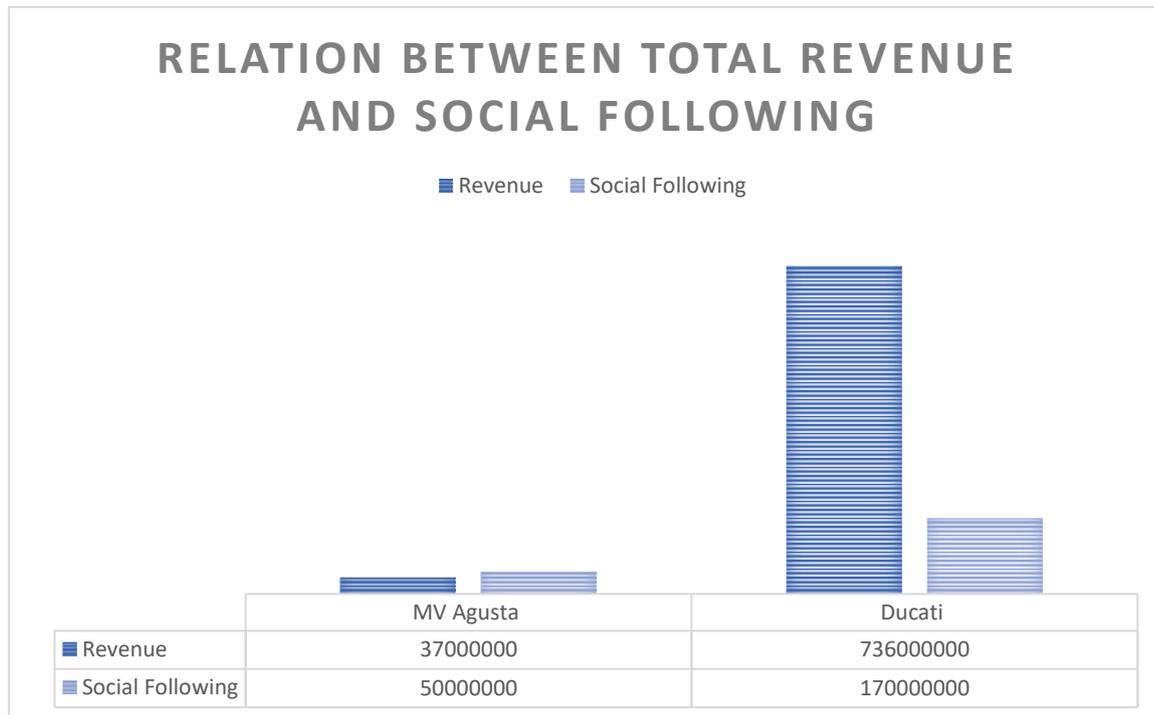


customer. In a way, this echoes the way a small business would build a network of personal relationship in a physical environment, and the social media users love the feeling of talking with an actual person instead of some bot or a sterile page that doesn't engage them in any way.

Graphic 3.2 Data acquired directly from the three companies' official social media accounts

The graph compares MV to its rivals, and shows the ratio of awareness through likes and interactions through comments, highlighting how MV maintains an excellent level of engagement. (the number of comments has been multiplied evenly in order to make the depiction clear)

Another interesting performance indicator is the ratio between a company's dimension (its revenue) and its online following (expressed by the total number of users following its official pages).



Graph 3.3 Data from the companies' official accounts and financial reports

The interesting thing to notice is that, although MV's<sup>17</sup> is dwarfed by Ducati's total Revenue<sup>18</sup>, its evenly multiplied social following is, as a ratio, way higher than its rival's. MV succeeded where its competitor failed, at creating, through a careful use of social media, a dedicated network of supporters and enthusiasts that spreads beyond the official pages, exploiting the outlandish looks of its products to get what is essentially free advertising through other pages and communities.

<sup>17</sup> 16 Data from [https://www.reportaziende.it/m\\_v\\_agusta\\_motor\\_spa](https://www.reportaziende.it/m_v_agusta_motor_spa)

<sup>18</sup> Data from <https://www.ilsole24ore.com/art/motori/2018-03-15/ducati-fatturato-2017-736-milioni-30percento-cinque-anni-125452.shtml?uuid=AEqw4SHE>

### 3.2.5 Sleek Web Design

The official site of any company it's incredibly important, but even more so when the product they sell is a combination of design, functionality and status. Luckily MV's official site delivers<sup>19</sup>, and it presents itself as exemplar on many levels when it comes to web design.

The main page is elegant and easy to navigate, presenting the four main sections in a very intuitive way, the latest product (the superveloce 800 serie oro) is proudly on display, and is immediately able to catch the eye of the user, but there are many more things the site can help somebody with.

A user can spend some minutes to learn about the company's ethics, mission and vision, or watch a flawless presentation that can introduce them to MV Agusta's blazoned history, look for the closest store or get access to a detailed catalogue, which delivers a lot of technical data for each model browsed delivered in a readily comprehensible way. The site acts as a great introduction to MV's world, and, most importantly, acts as a central hub that can point a customer towards many other parts of the company.

As a side note, the website is fully optimized for usage on a mobile device, showing dedicated graphics and working smoothly.

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<sup>19</sup> The frontpage of MV's official website <https://www.mvagusta.com/>

## 3.3 Libraccio

Libraccio is a store-based books retailer, specialized in selling used books and textbooks. Libraccio was born in 1979, from the brilliant idea of four university students that found themselves working part-time for a thrift shop in Milan.

The company saw a rapid expansion, especially throughout the north-western area of Italy, in 2019 Libraccio owns forty-seven stores in more than thirty cities, lends its brand to an online retailer (libraccio.it) and participates in IBS.it and other companies of the sector<sup>20</sup>

Libraccio operates through a loosely organized distribution chain, where single shops have a great degree of autonomy and can operate almost independently from one another.

The company is independent, that is not associated with any major publisher like Feltrinelli or Mondadori, and this has huge implications on the offer of books that is present in every Libraccio store, which ranges from textbooks to old valuable edition of classic literature.

In the modern context, Libraccio may struggle with stronger competitors that are either more developed in their online retailing or implement more modern techniques to encourage their customer to take part in a structured and pleasant experience.

### 3.3.1 Critical aspects of Libraccio's business model

There are many problems with the way Libraccio works in the contemporary context, problems that are worth examining in order to get a better chance at coming up with a satisfying solution.

To make a final comparison easier, we'll mirror the structure of the previous analysis to make some counterpoints, henceforth we'll start by identifying four of these critical points.

- Weak cohesion between the various stores: a customer does not know what to expect when he walks into a Libraccio store he's never been in, there is such a variety in the way they are organized and managed that it can be unfamiliar and even confusing. A flexible approach, structurally speaking, can be turned into a valuable asset for a company, but this must be

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<sup>20</sup> Detailed history of the company <https://www.ilpost.it/2015/10/21/la-storia-del-libraccio/>

managed carefully in order not to damage the overall brand image. As a side note, this approach often turns the buyer experience into an unfocused and confusing experience

- Lacking digitalization: Libraccio is a physical vendor in a marketplace dominated by digital retailers, this is an opportunity to carve a niche in the national market, but currently it is only a source of weakness for the company, which struggles in capturing new customers and maintaining old ones.
- Scarce Online presence: the company doesn't seem to focus enough for its social following, and the website itself is not up to standard for 2019. These fallacies may cause problems in the near future, when a weak online strategy won't be able to secure a loyal customer base, or captivate any who come across the retailer via its digital presence.
- Marginal online retailing: with competitors like Amazon, Libraccio can't afford to remain a marginalized reality when it comes to online retailing.

These aspects will be examined in detail in the following pages.

### 3.3.2 Weak cohesion between stores

Libraccio operates forty-seven stores, each one, in many way, unique and different from the others, since they are granted a great deal of autonomy on many important matters, such as initiatives, personnel, price managing, internal disposition and decoration and other things.

This flexibility is not inherently bad, the idea of a chains of bookstores capable of fitting in every context and city is brilliant in 2019, but it comes at the price of standardization and diminishes the brand strength, since the customer does not have a precise and definite idea of what he can expect from a store.

At the moment, the various stores are divided by regions, and each group of stores is managed by a dedicated regional management. This leaves room for different approaches and a flexibility-oriented direction philosophy, but may be problematic if any operation requires the involvement of all of the middle-management and the underlying stores simultaneously.

In order to incentivize a stronger feeling of belonging and creating a community, a focal aspect of every store should be the attention to its physical network of customers, cultivating and sustaining a lively community that can thrive inside a familiar environment. This is not really possible if Libraccio

continues to brand itself simply as a place a client visits sparingly just to sell his old books. A more considerate and careful approach with regard to brand preservation is the preferable option,

There are already two main types of stores, the ones specialized in older and rarer books, and the ones that focus on reselling used books and textbooks: these two categories aren't formalized though, it's more of a difference in philosophy. A rebranding of part of the stores could help in setting a more precise boundary between the two kinds of experience that Libraccio may propose.

Employees should be subjected to a more specialized training, that should focus on customer care and experience, thus every store would have, at least on a fundamental and basic level, some elements that a customer will be able to recognize as a trademark, some common denominator, the professionalism and capability of the employees.

### 3.3.3. Lacking Digitalization

At the moment Libraccio doesn't have a precise strategy with regards to digitalization, and while it sells eBooks and audiobooks, it doesn't seem to put any emphasis on these formats.

e-books represent an ever-increasing percentage of total book sales, totalling at an average of around 9% throughout last year, a sizeable part of the revenues of the sector<sup>21</sup>, but the company is failing at exploiting this shift in the readers preference. Libraccio offers many discounts, usually by publisher or genre, but a really simple and effective way of digitalizing its readers and customers would be to offer a free e-book copy of any book sold for a symbolic price of a single euro. This, united with limited time offerings on kindles and e-readers during the appropriate periods, could greatly increase the number of eBooks sold: the customer should be conditioned into seeing a digital book as an extension of a physical one, and vice versa, not an alternate and mutually exclusive product like it tends to happen.

The in-store experience should be more digital as well, people love to browse old books and get lost into the corners of a beautiful book store, but they also desire a seamless experience, and many customers can't afford to spend twenty minutes looking for something specific or waiting for an employee to do that for them: a better use of digital storage and inventory management techniques

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<sup>21</sup> Data on page seven of the following study

[https://www.bookwire.de/fileadmin/customer/documents/Barometer\\_Brochure\\_18\\_10\\_01\\_kl.pdf](https://www.bookwire.de/fileadmin/customer/documents/Barometer_Brochure_18_10_01_kl.pdf)

will make it easier for anybody to obtain what they were looking for, without damaging the experience for the clients who like snoop around the store.

Dedicated areas with headphones and e-readers could be installed to allow the customers to try audiobooks on the fly and see if they like the voice acting and effects, like one is expected to check out a book by reading the back cover.

### 3.3.4 Scarce web presence

Libraccio has a really weak online following and social media presence, a huge missed opportunity.

A bookstore should be a place of gathering for book-lovers and enthusiasts, both in a physical and virtual way. The creation, via the right social media platforms, of groups and communities, could strengthen the sense of belonging that customers feel towards the bookstore.

A more focused social strategy could serve as a starting point for a whole new series of initiatives and projects: the core experience of the store is the social interaction between customers as much as the decision process involved behind each book purchase, capitalizing on such a simple idea could prove hugely beneficial.

This is not to say that Libraccio does not organize any event, there are plenty, but they come across as a marginal activity. Each store should have its own official account, extensively promoting the many activities and initiatives that take place in the outlets. Moreover, the only official page (which in and of itself is a problem considering there are 47 shops) doesn't use its following to promote discounts or activities, but rather tells via its posts the story of the company, some of the shops, or books it sells.

While this is not a bad idea (it's actually quite an elegant way to present themselves on the internet) it should probably be confined to a separate, dedicated account: Libraccio stories (just to imagine a possible name) could be a side account focused on transmitting the experience and core values of the company, but it should be sided by the main one, which should aim at creating high engagement with its followers and be a useful informative tool regarding the more commercial part of the business, promoting books, discounts, bundles and many other important aspects of a bookstore that aren't really taken care of at the moment.

A study by Vox<sup>22</sup> suggests that a more involved approach could increase enormously the participation of every single customer in what is effectively a hybrid social environment, Libraccio is the perfect fit for this, it may not be an independent retailer, but it's something even better, a chain of bookstores with a very consistently independent feeling to it.

### 3.3.5 Marginal online retailing

If there is one critical issue that needs to be addressed more than any other point it's online retailing: to put it bluntly, Libraccio offers a service that is definitely not up to standard for 2019.

The front page of the website looks like it was made in 2004, the catalogue is confusing and hard to navigate, and there is literally no incentive in buying from libraccio.it.

If we're dealing with new books, where amazon offers a wider choice and cheaper and faster delivery options, or used books, where online store or private users on e-bay can offer lower prices and rarer products that Libraccio can't keep in stock and maintain.

In order to improve the weak online retailing performance Libraccio could offer some forms of incentive, for example a bundling campaign that could offer some discount or a small gift, if the customer chooses the option to retire his purchases from a shop, thus encouraging the potential client to enter in contact with the physical store, one of the stronger aspects of the chain.

Although the aforementioned solution could be an improvement, it doesn't actually deal with the online retailing component itself, that would need a different approach. The official site would need a total makeover, the catalogue needs to be radically altered, to be more easily comprehensible and improve the experience. The whole experience at the moment is clunky and dispersive, especially navigating through special offerings and categories. An overall streamlining process would be really helpful to begin with.

More emphasis should be put on bundles of used books, tailoring them to appeal to specific courses and offering sizeable discounts for big purchases, providing a strong advantage compared to the others competitors, who do not present themselves as textbooks retailers. If Libraccio focuses around its strength, it may very well gain the competitive edge it needs to thrive in the coming years, consolidating its position among strong competitors.

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<sup>22</sup> Instagram is helping save the indie bookstore <https://www.vox.com/the-goods/2018/12/19/18146500/independent-bookstores-instagram-social-media-growth>

## 3.4 Comparison of the two cases

In this chapter we analysed two very different cases with the aim of getting to a conclusion about the opportunities that digital transformation has brought up into the Italian context.

MV and Libraccio's analysis has offered us an opportunity to elaborate and reflect on the data gathered, but it's important to specify that such a broad and varied phenomenon, and all the complex questions that arise in its wake, can't possibly receive a final a univocal answer. Even then, it's worthwhile to conclude the two studies with a careful comparison. MV succeeded in many areas where Libraccio isn't trying to improve, the successful direction that the company has taken should be providing an example to many other businesses, even if they belong to completely different sector. MV was chosen as an example because the way the implemented the digital transformation process in every aspect of their business makes it able to resonate with an enormous variety of other companies that should follow their excellent lead. So, on one side we can find the missed opportunities of a business that is successful and established, but risks losing its stable position if the world keeps rapidly changing in the next future, on the other hand a shining example of what the digital transformation process can do to benefit a capable enterprise, in order to provide a constructive commentary we need a further examination of each critical point, side by side.

These critical points include all of the aspects we already examined in each case study, but we need to introduce these broader ideas and categories to make the comparison more useful.

In detail these areas are: operational implementation, brand recognition and value creation through networking.

### 3.4.1 Operational Implementation

Many SMEs could use some kind of improvement to their operative structure, meaning both their decision-making and productive process. As of now, we established how efforts towards the streamlining of this core component of every business can play a vital role in gaining a competitive advantage, cutting costs and improving the overall efficiency.

MV has managed to adapt and involve a strong digital component into its operative structure, Libraccio, and many other businesses are still not willing of operating such an effort, thus losing potential revenue and lagging behind in the global scenario.

In various way, small businesses fail to implement key digital element into their structure because of a lack of resources and expertise, but, as we discussed in Chapter 2, these difficulties are only superficial, and the SME model is actually quite suitable with regard to a digital transformation process.

Our second case study especially highlighted how even a solid and affirmed business can make huge improvements. If we confront MV and Libraccio the differences in the operative area are enormous, while the first adopts a focused approach that encourages efficiency and resource saving on many levels, the second appears dispersive and wasteful.

As I had the possibility to verify personally, Libraccio uses twenty years old methods to manage storage and supply, resulting in an overall disorganized and slow approach which won't be able to carry the company for long, if it were to persist.

### 3.4.2 Brand Recognition

MV has managed to extend its influence on the international scene, becoming a sensation among enthusiasts in just a few years, exploiting the best digital marketing techniques to earn a competitive advantage through brand recognition. Obviously Libraccio's core product doesn't have such an international appeal, but the company could go a long way in building up its brand's credibility and strength.

What we witness is an old logic, where a company, just because it does not own an already famous brand such as Ferrari, or Coca-Cola, resort to simply treating its own brand as a mere label, abandoning every attempt at improving its reputation. This approach is obviously wrong and counterproductive, as our analysis of MV's rise to fame can prove.

What smaller business can do is creating what would be appropriately named a "localized brand", not focusing on immediately getting nation-wide recognition, but rather on building a reality deeply rooted into its core environment and thus creating a brand that is precisely "local", known by a small but important group of people which will be incredibly helpful throughout its evolution.

If businesses like Libraccio tried harder to sell not only basic products, but also a pleasant and customer-centric experience, the creation of this stronger localized brands would come almost naturally, and act as the fundamental building block from which to expand and realize their idea of brand.

### 3.4.3 Value creation (through networking)

The idea of networking is especially important in the modern, digitalized context. We need to keep in mind two things: first this is a broad term that encompasses most aspects of social media marketing and secondly that the idea of networking is not restricted to a single level, but it can happen physically, digitally or through a mixture of both.

Networking, the creation of groups and link between them, is a core component of many businesses' experience, be it through online platforms or in a more personal way. MV has managed to create a strong community online, Libraccio should ensure that it can allow its customers to form similar communities in its bookstores, these groups could greatly boost the appeal of a simple visit to a store for many other customers, who don't see any point in choosing a physical retailer over an online one.

## 3.5 Summary of the information gathered

We have seen how digital tools and techniques were used to a surprisingly good effect with regard to MV's brand strength and renown, and this could obviously translate well into the broader context of many SME's, if these businesses will be able to leverage their traditions, history and ethic (which are, arguably, the point of strength of many small enterprises) the way we have discussed, surely the ensuing changes will be beneficial to them and to the entire Italian economy.

Throughout our analysis we have extensively examined many parts of two very different business, and, despite their structural and sectorial differences, found some common ground for a comparison that hopefully explained in detail what the changes brought about by the digital transformation, on the most fundamental level, are, and how they are affecting the many and faceted aspects of every business.

In this last addendum, leading into the conclusion of the thesis, we can affirm that, thanks to the data gathered and their elaboration, we now possess enough material to produce a convincing argument on the matter of digital transformation.

### 3.5.1 Comparative SWOT analysis

We will now confront the two case studies through a comparative SWOT<sup>23</sup> analysis.

MV AGUSTA	Helpful	Harmful
Internal factors	<p style="text-align: center;"><b>Strengths</b></p> <p>Efficient productive process, strong corporate culture, focused direction.</p>	<p style="text-align: center;"><b>Weaknesses</b></p> <p>Strongly familiar component in the directional structure, possible overload of the top management.</p>
External factors	<p style="text-align: center;"><b>Opportunities</b></p> <p>Market receptive to the peculiar product, enthusiastic community, demand for a continuous technological innovation.</p>	<p style="text-align: center;"><b>Threats</b></p> <p>Strong national and international competitors, high end niche product without a perfectly stable demand curve.</p>

Table.3.3, MV Agusta SWOT Analysis

Libraccio	Helpful	Harmful
Internal factors	<p style="text-align: center;"><b>Strengths</b></p> <p>Pleasant experience, beautiful stores, competent employees.</p>	<p style="text-align: center;"><b>Weaknesses</b></p> <p>Weak use of web instruments, reluctance to accept digitalization, bad website and scarce social media usage, non-standardized stores.</p>
External factors	<p style="text-align: center;"><b>Opportunities</b></p> <p>Huge changes in its sector, shift to online retail and digitalized products, potential involvement of younger readers, creation of communities.</p>	<p style="text-align: center;"><b>Threats</b></p> <p>Fierce competitors, especially with regards to online retail, dated business model, loss of appeal of the core product (physical book).</p>

Table 3.4, Libraccio SWOT Analysis

<sup>23</sup> Strengths, Weaknesses, Opportunities, Threats, multi-level analysis, commonly attributed to Albert Humphrey

We can understand, from this last analysis that we are looking at two very different business, but the true difference lies in the mindset that defined each of them. Where Libraccio is strongly traditional and remains bound to its original business model, MV managed to reshape its original values and vision in a way that is capable of surviving the digital age and all its threats. This is not to say that MV is flawless as it is, there are still many components of its model that can be improved and could benefit greatly from a further implementation of digital techniques and approaches, but it's undeniable that the work done up to this day is commendable.

The SWOT comparison highlighted the immobility that affects Libraccio's management, and, although the enterprise is not literally on the brink of failure, the threats we located are indeed very real, and could potentially bring about huge problems in the coming years, if there aren't at least some attempts to shift the old business model around and improve the overall situation of the company.

# Conclusion

In our analysis we highlighted many important aspects of the digital transformation process and how it is affecting the fundamental components of the Italian economy, the SMEs. If there is one crucial point that this thesis has produced it is the absolute necessity, with regard to the smaller businesses, to grow accustomed to the changes of the digital age and adopt as much innovations as possible into their management.

We explained how information is the key element of the modern international markets, and how data and innovation are a driving factor of the contemporary economic reality. We examined in detail what is the potential and what are the problems of the SME model. What we gathered with our comparative analysis of two cases and with the previous discussion on the strengths and weaknesses of small businesses is a precise idea of a complex system, made of networks and interactions that take place on many different and interconnected levels.

This complex system is being presented with an enormous opportunity, these businesses can become an international leading force by operating a careful merging process between their traditional strengths and the most advanced digital techniques, and survive the massive changes that are affecting every enterprise worldwide.

The conclusion we can draw is that the Digital Revolution is a double-edged sword, dangerous, but necessary for the survival of SMEs as we know them, bringer of huge opportunities that smart businesses will be able to take, and that will allow them to survive and dominate the market for many years to come.

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