

SME Pulse 2019

Strategies to boost the bottom line

A global study to investigate how SMEs are adapting to disruption and economic uncertainty in 2019 and beyond





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About the study

In October and November 2018, Oxford Economics surveyed senior executives at 3,000 SMEs, ranging in size from 10 to 250 employees across 12 countries and 16 industries. Telephone interviews were used to explore opportunities and threats, business prospects, strategies, investments, and how SMEs could be better supported by changes to regulation, financing, and government support.

These survey respondents had the following characteristics:

TITLE		INDUSTRY	
Owner	5%	Financial services/Real estate/Insurance	7%
Chair/CEO/Managing Director/General Manager	55%	Auto/Industrial/Manufacturing	6%
CFO/Head of Finance	40%	Business/Professional services	7%
REVENUE		Wholesale/Retail trade	7%
\$3 million–\$4.9 million	18%	Construction	6%
\$5 million–\$9.9 million	21%	Technology	7%
\$10 million–\$14.9 million	18%	Media & Entertainment	7%
\$15 million–\$19.9 million	15%	Healthcare	6%
\$20 million–\$24.9 million	13%	Travel & Transportation	6%
\$25 million–\$30 million	15%	Hospitality & Leisure	6%
LOCATION		Food/Beverages/Consumer packaged goods	6%
North America		Telecommunications	7%
Canada	8%	Chemicals/Energy/Utilities	6%
United States	8%	Pharmaceuticals/Biotechnology/Life sciences	6%
Europe		Aerospace/Defence	6%
France	8%	Natural resources/Mining	6%
Germany	8%	Additionally, in-depth interviews were conducted with the following SME executives:	
Italy	8%	Yamini Bhat	Founder and CEO, Vymo, India
Spain	8%	Jacob Chang	Marketing and Trends Director, JUV Consulting, USA
United Kingdom	8%	Martin Knight	Owner, Knight Architects, UK
Latin America		Caitlin MacGregor	Owner, Plum, Canada
Argentina	8%	Stanislas Piot	CFO Balyo, France
Mexico	8%		
Asia-Pacific			
Australia	8%		
India	8%		
Japan	8%		

Foreword

2019 is undoubtedly set to be another year of change and opportunity for businesses, but not one without its challenges.

At American Express, we are proud to work with SMEs across every corner of the globe. By understanding the outlook of small businesses - the cornerstone of the global economy – we believe that we can better support them to foster growth over the months ahead.

American Express' 2019 Global SME Pulse, Strategies to Boost the Bottom Line, conducted by Oxford Economics, reveals that while SMEs remain positive about the economy and their strategies for the future, they also have a number of challenges to tackle in 2019.

These range from the perennial, such as navigating regulation and economic uncertainty to newer issues, such as having a plan in place to address cyber security and needing to better navigate digital disruption. All with only a fraction of the resources of their larger, corporate counterparts to draw on.

And yet, SMEs continue to feel positive about global and local economies and their role within them. They also recognise ways in which their unique capabilities - agility and innate innovation - help them thrive.

It is this resilience that gives SMEs their power to succeed. Many small and medium-sized businesses are born out of a determination to flourish. As we head into a year where the only constant is likely to be change, it is heartening to see SMEs around the world continue to face this head on. Indeed, SMEs have wide-ranging strategies in place to fuel their financial ambitions. The Strategies to Boost the Bottom Line report suggests that some will focus on boosting the role technology will play in their organisations, while others will prioritise areas such as productivity, innovation and talent. What will be crucial is for SMEs to consider their strengths and tailor their plans to suit their own goals.

Whatever the year ahead brings, I hope that our latest SME Pulse will be a useful tool for helping businesses remain resilient and find the right route to power their growth in the future.

Antonio Gagliardi

Vice President of Strategy, M&A and Alliances,
Global Commercial Services, American Express



Introduction

For the last three years, Oxford Economics has worked with American Express to gauge the sentiment and report the future plans of small and medium-sized enterprises (SMEs), the entrepreneurial heartbeat of global business. SMEs innovate, create new business models, and employ far more people than the world's largest companies, even if they often receive less media attention.

In October and November 2018, we surveyed 3,000 SMEs in 12 countries, and found their optimism in global economic prospects to be more robust than ever. Nevertheless, predictions about revenue and profit growth, though positive, are less rosy than in our last survey.

Despite this general optimism regarding prospects for 2019, clouds are undoubtedly forming on the horizon. At the time of our survey, steep falls in stock markets reflected wider fears about trade prospects and a diminished outlook for global growth.¹ Fears of further monetary tightening, a Sino-American trade war, and concerns about Brexit, were gaining traction. At the same time, companies everywhere, including SMEs, are adapting to continued digital disruption and the shifting values of consumers and employees.

Over the next three years, SMEs will need to work smarter to improve their top- and bottom-line performance. Our research highlights the ways in which SMEs are planning to achieve this, by playing to their unique strengths as SMEs. These include:

- Expanding revenues by keeping close to their customers, understanding their shifting demands and responding quickly to changing preferences. Many SMEs are regularly introducing innovative new products and services, and are collaborating with partners, including large companies, to access a larger market.
- Improving productivity and efficiency across their operations. Many SMEs are prioritising innovative ways to boost their efficiency and record significant year-on-year productivity gains, potentially helping to tackle the often-mentioned productivity challenge faced by many economies.

SMEs have long recognised the opportunities technology provides to foster growth and higher profits, but many have struggled to achieve the benefits. This year's survey and case studies demonstrate that SMEs are becoming more ambitious, moving from infrastructure spending to investments in value-added enterprise systems, and more sophisticated data analysis. SMEs are also prioritising innovation, particularly initiatives that nurture organic innovation among their own employees. This emphasizes the importance of attracting, retaining, and motivating a skilled workforce.

Our research showcases multiple paths to success. Not all SMEs aspire to rapid growth, nor need to deploy the latest technology. Yet a common feature of successful SMEs, as previous editions of the SME Pulse have shown, is that SMEs must take full advantage of the defining capabilities and competencies that make them special. Even as pressure on the bottom line grows intense, they must continually learn new ways to enhance their operations and adapt their propositions to the shifting demands of the marketplace.

¹ For example, see the IMF's World Economic Outlook and commentary, at <https://blogs.imf.org/2018/10/08/global-growth-plateaus-as-economic-risks-materialize/>.

The world according to SMEs

SMEs reported that they were more confident in the prospects for the global economy for 2019 (see Fig. 1). Confidence in the global economy increased to 61%, from 47% in 2017. Confidence in domestic economies is also higher, doubling over two years to a net positive score of 58%.

SMEs' confidence in both domestic and global economies has leapt forward again this year.

Fig. 1: SMEs' are growing more confident in domestic and global economies

How optimistic are you about the state of the local and global economy over the next 12 months? Net positive responses.

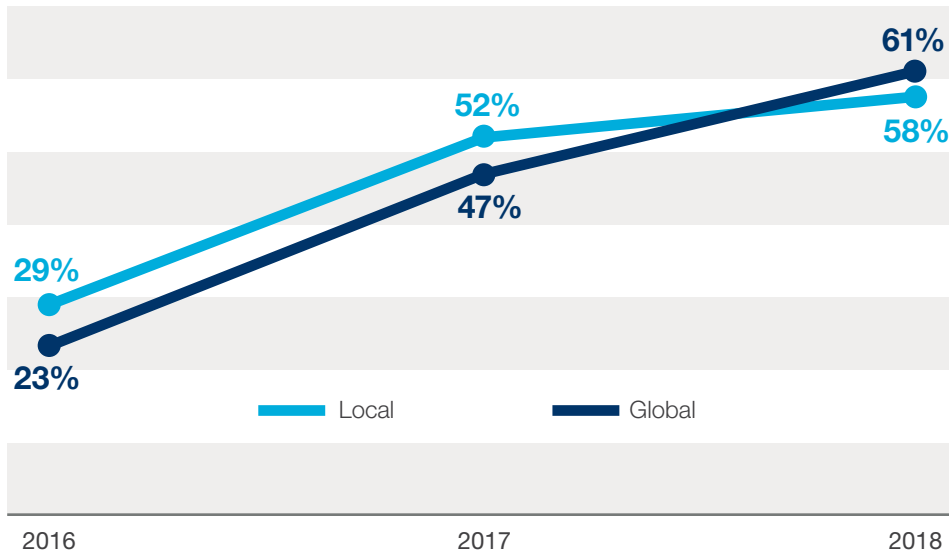
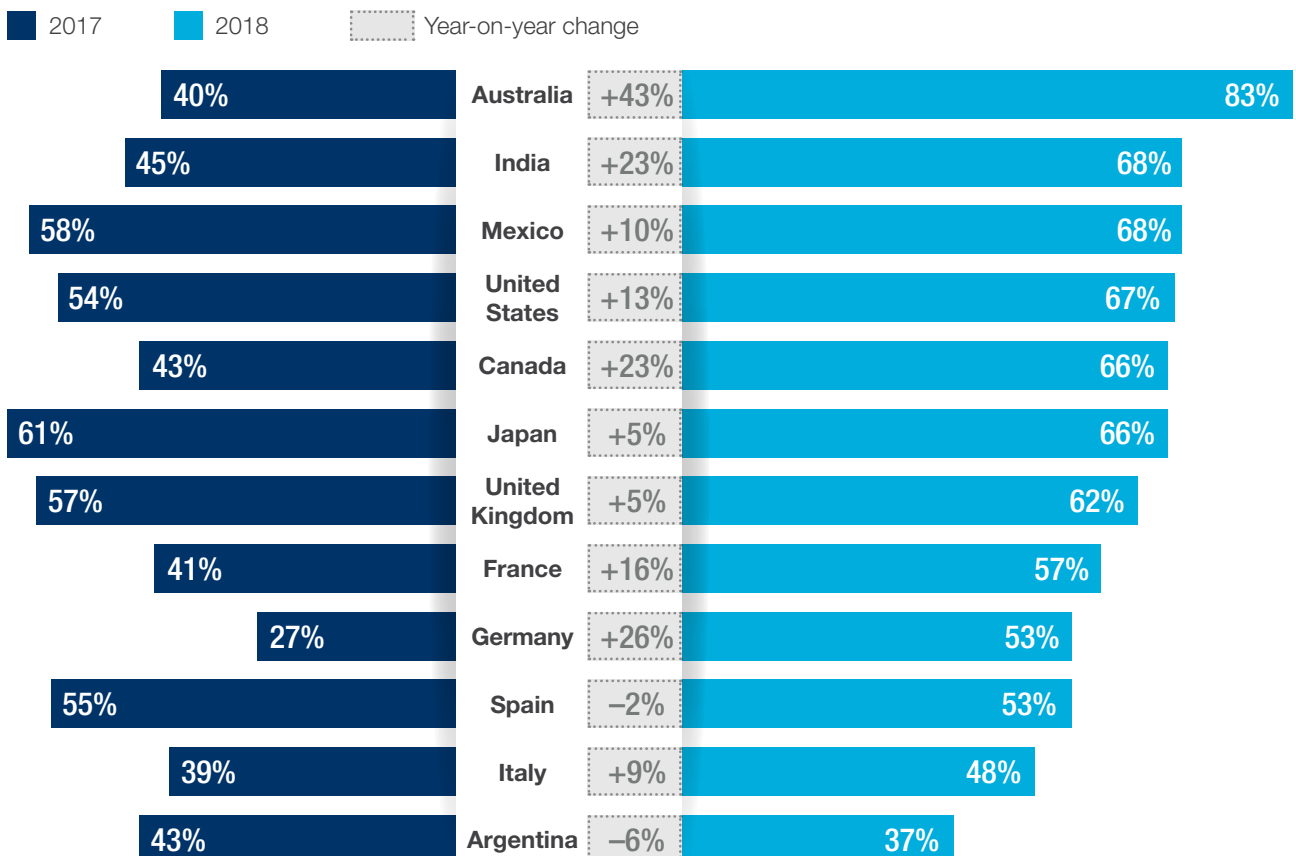


Fig. 2: Confidence in the global economy is increasing almost everywhere

How optimistic are you about the state of the global economy over the next 12 months? Net positive responses.



This confidence in the global economy is widely shared (see Fig. 2). Respondents in Australia, India, Mexico, and North America express strong optimism. The only declines since 2017 were recorded in Argentina, which faced a recession in 2018, and, marginally, Spain. SMEs' confidence has increased strongly across other European countries, and by 26 points in Germany. Confidence amongst SMEs is even growing in the UK, despite the uncertain outcome of Brexit.

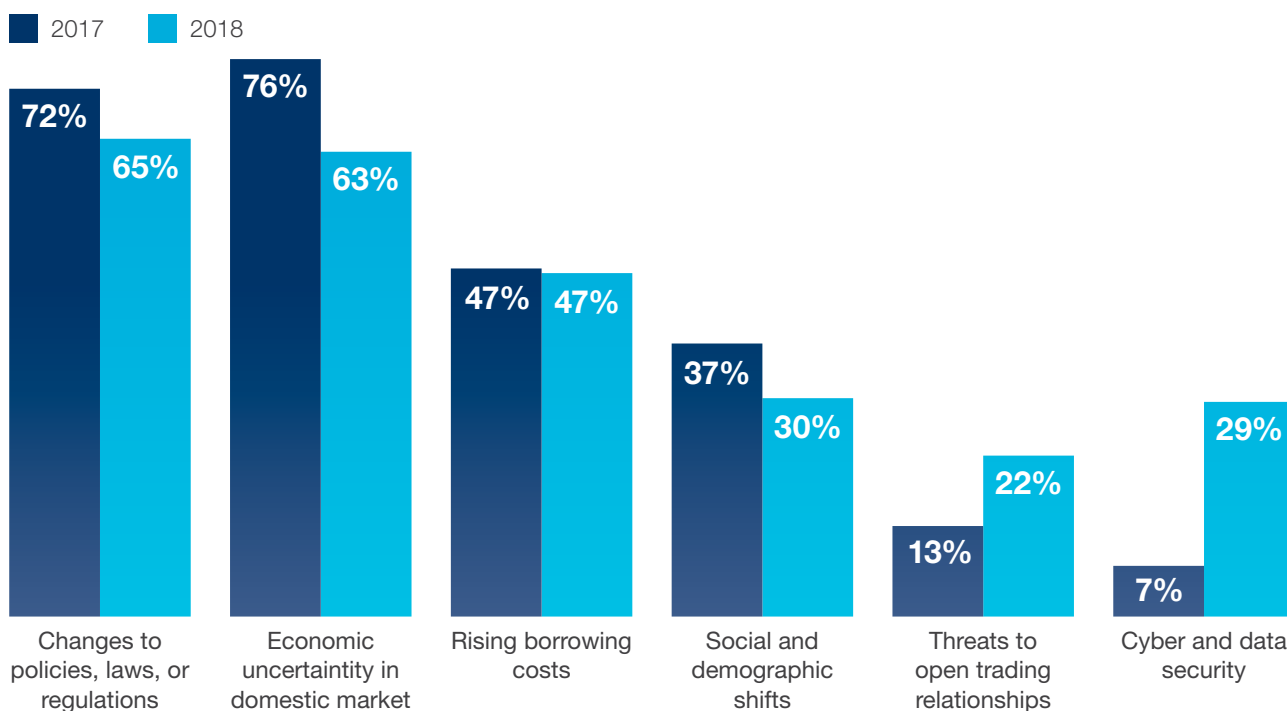
Sectors showing the highest levels of confidence are construction and aerospace/defence. Technology and data-intensive industries, like telecoms, life sciences, information technology, and media and entertainment, also express high and growing levels of confidence. Only mining and retail/wholesale show very slight declines.

Looking longer term, however, clear threats loom for SMEs (see Fig. 3). Naturally, smaller firms are more vulnerable to economic shifts or changes in regulation, and the outlook for rising interest rates and a potential downturn clearly concerns SMEs, as it did last year. Other threats facing SMEs have shifted in magnitude and nature since last year, notably regarding cybersecurity and potential trade restrictions, highlighting how SMEs must constantly adapt to the changing nature of the economy (see Fig. 3).

Concerns about cyber and data security, and threats to trading relationships, are both growing.

Fig. 3: SMEs' concerns on data and trade increase

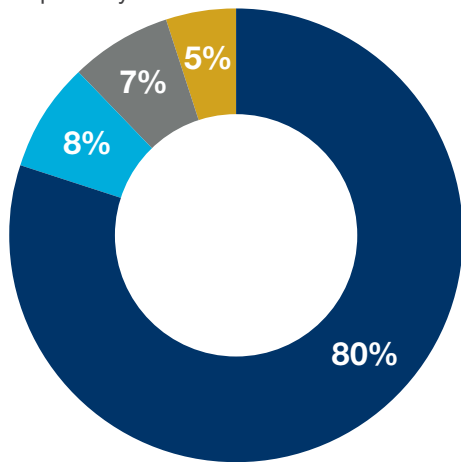
Please rank the top three external threats to your business. Top three responses.



The growing impact of **the digital economy** on SMEs is demonstrated by those who rank cyber and data security risks among their top three external threats, increasing to 29% from 7% last year, with higher concerns expressed in sectors like technology (49%), media and entertainment (44%), and business services (39%). Only a small minority of SMEs in our survey could be considered digital companies—i.e., those who provide some of their products and services in digital form (a combined 13% of SMEs). These digital SMEs are currently concentrated in a few high-tech sectors, like technology, media and entertainment, and telecoms (see Fig. 4). The vast majority of SMEs (some 80%) mainly use digital technologies to connect with customers and take care of internal functions. The 7% of SMEs that don't consider themselves users of technology at all are concentrated in a few sectors, like construction, retail, and food and drink.

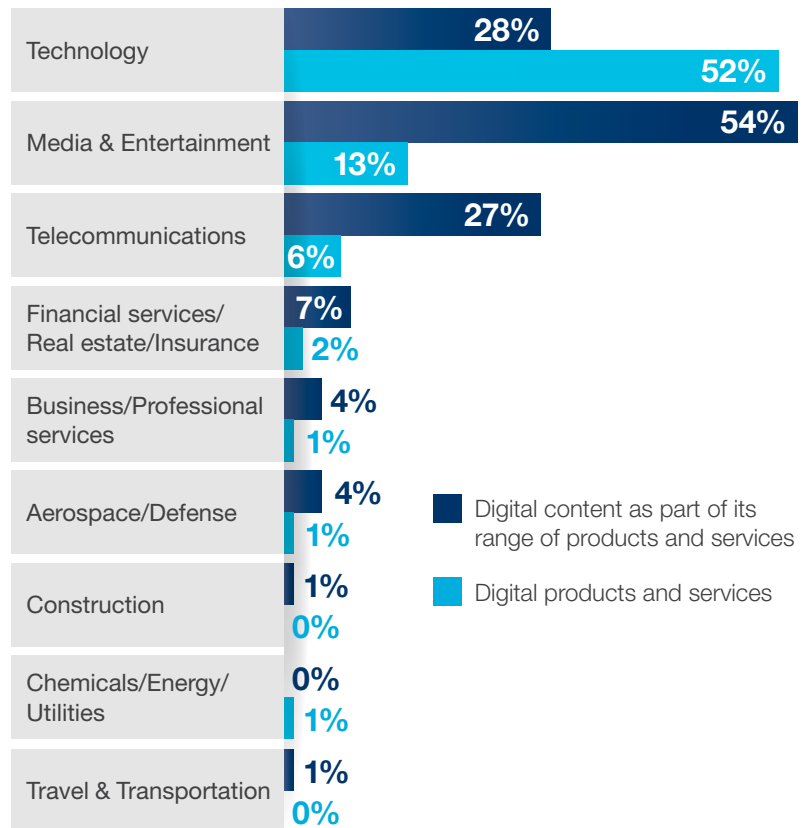
Fig. 4: Few SMEs describe themselves as “digital”, nearly all use technology

Would you describe your company as primarily...



- Non-digital products and services, but uses digital technologies
- Digital content as part of its range of products and services
- Neither digital products and services nor uses digital technologies
- Digital products and services

Industry analysis of companies delivering digital products/services



- Digital content as part of its range of products and services
- Digital products and services

However, the reach of the digital economy is expanding, with digital business models spreading to new sectors. Technology is becoming more affordable and capable, making it more accessible for SMEs. Our survey suggests that more SMEs are now viewing technology as an opportunity, with 60% seeing themselves as disruptors rather than the disrupted (an increase of 26 percentage points since last year).

Not all SMEs depend on technology. But more SMEs are viewing technology as an opportunity.

Threats to open trading relationships increased to 22% from 13%. Amongst our respondents, about a fifth export (22%), though many more will feel the effects of constraints on international trade, as they work with international suppliers or business partners through global supply chains. Our survey suggests that globalisation by SMEs is being held in check. The share of SMEs that export, and the share of total sales attributed to exports, declined slightly this year. Only 20% of SMEs say export markets are easier to access, and 13% report more international supply chains than three years ago, while those who disagreed equaled 69% and 80% respectively. A more encouraging finding is that many SMEs already exporting are enjoying success, with the majority (57%) planning to expand into new international markets.

Social and demographic shifts are considered a threat by 30% of SMEs this year, down from 37% last year. SMEs need to adapt to shifting values and attitudes among customers and employees. Millennials and Generation Z are becoming more influential and can hold contrasting attitudes from older generations on the workplace and motivations for buying products and services (see box below). SMEs insist that their customers seek more personalised products and services, and two-thirds say there is increased demand for ethical, sustainable, and locally sourced products and services. Despite this, only 19% of SMEs have strategies directed to address these generational preferences.

JUV Consulting: helping companies reach Generation Z

Businesses are taking more notice of Generation Z (those born from the mid-1990s), as they begin to enter the workforce and influence more spending decisions, including those of their parents. JUV Consulting, headquartered in New York City, has grown over the last four years to a team of 100, advising companies around the world on how to reach this group. Being Gen Z themselves, they are acutely aware of what works and what can go horribly wrong. Jacob Chang, their Director of Marketing and Trends, says one common mistake is to lump Gen Z together with Millennials as Digital Natives. “The Millennials grew up with technology and phones, but what makes Gen Z special is that we grew up into technology when it had already saturated, and we are characterised by the fact that social media defines our identity.”

Gen Z is a performative generation, and members build their identities through social media, using pictures, stories, and experiences to express themselves in ways different from past generations. They also grew up with ever-present multi-channel advertising, and will react negatively to ads they view as overly intrusive or obnoxious. However, messages that seem contextual, authentic, original, and tell

the story of a brand creatively, perhaps with the support of respected influencers, can succeed. If a Gen Z likes something she may share it across her network, potentially going viral. “We really value a brand that knows who it is and its story. It can then create content, perhaps similar to a meme, that resonates with our generation or aligns with people who fit its image and goals,” says Mr. Chang. Many companies get this badly wrong, he says, perhaps cutting and pasting a trending meme into their own marketing campaign or advertisement. These campaigns tend to fail. Mr. Chang believes that younger consumers would naturally prefer to buy from small and local suppliers, but as larger corporates become more sophisticated in targeting this important demographic, SMEs could miss out.

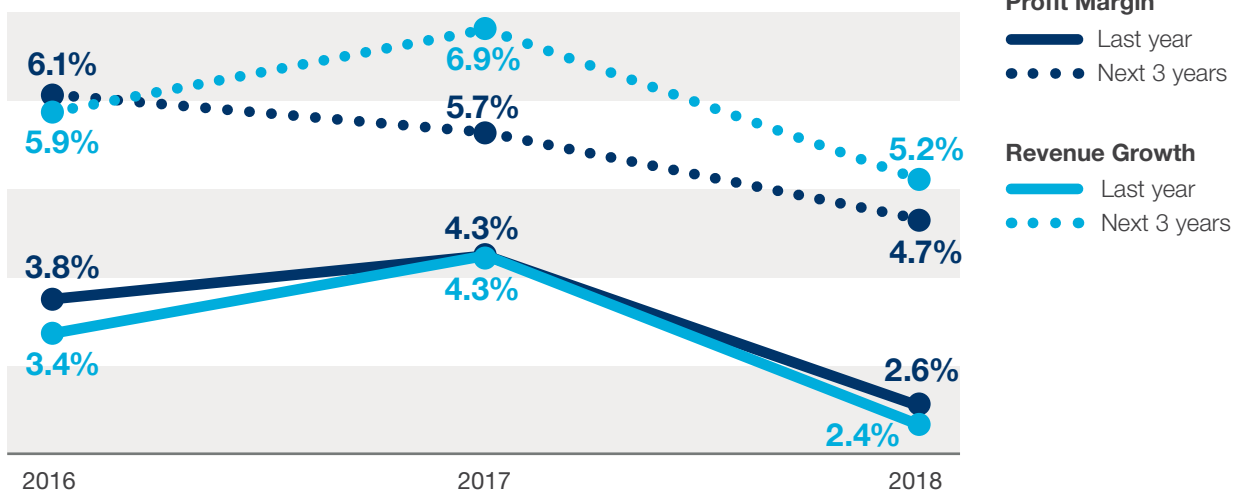
Gen Z also expresses different attitudes toward work. Members are looking for meaningful and collaborative work they can commit to passionately. This can help smaller companies attract talent, since they are more able to provide flexible opportunities, free of rigid guidelines. “If we ever feel stuck or trapped in a place, Gen Z employees are going to be out in a heartbeat,” says Mr. Chang.

SMEs’ financial performance under pressure

SMEs’ reported that both revenue growth and profit margin were lower in 2018 compared with 2017, and that the three-year forecast also declined (see Fig. 5). Predicted revenue growth is highest in the UK and US, closely followed by India, Spain, Germany, and France, and highest in construction and the retail sectors (both 5.6%). Estimated average profit margin over the next three years, highest in the UK and US, is also high in France (5.1%), along with the construction (5.2%) and media and entertainment (5.0%) sectors.

Fig. 5: SME revenue growth and profit margin are trending down

Average revenue growth/profit margin: last year and over the next three years. Mean.



What accounts for this gradual decline isn't clear, but it may reflect the more uncertain economic and political outlook, and fears of imminent recession. These findings suggest that SMEs will be under greater pressure to sustain their financial performance over the next three years.

SMEs have been criticised repeatedly for poor productivity.² Our research implies that SMEs themselves recognise that productivity needs to improve, and SMEs in all countries are, on average, promising improvements over the next three years. SMEs from the UK, Spain, and France are forecasting higher productivity growth, rising from 4% to 4.3% pa, with other countries' SMEs expecting a growth range between 3.4% and 3.7% pa.

The four SMEs that feature as case studies in this year's report (see the box below) have all achieved and are forecasting impressive top- and bottom-line growth. Their experiences, and the products and services they have developed, provide insights for SMEs into how they can develop strategies to improve their bottom line.

Faced with declining revenue growth and profit margin, SMEs are targeting productivity improvements.

Case studies on strategies to boost the bottom line

Vymo, an Indian provider of mobile personal sales assistants for enterprises, was co-founded by Yamini Bhat, after noticing that traditional CRM systems were set up to provide reports to management rather than serving the needs of the salesforce. By adding structure and analysis to business development activities, their technology aims to improve top-line growth.

Knight Associates, a UK architectural practice, identified a gap in the market for bridge design that played to owner Martin Knight's experience. As the company grows, they deploy digital tools to balance efficiency with high-quality design and a motivated, highly skilled workforce.

Plum, a Canadian provider of HR software, was started by Caitlin MacGregor to apply more data science to the job-selection process. The recent relaunch of her product using improved technology has opened up the huge enterprise market. A key turning point was viewing technology as a business development opportunity rather than a cost centre.

Balyo, a French robotics company, identified a growing market in warehouse automation. Their technology transforms standard forklift trucks into standalone intelligent robots that can navigate autonomously inside buildings. Critical to their success is innovative technology, and as growth continues, the company is focused on nurturing its R&D team.

² For example, in the UK, Andrew Haldane, Chief Economist of the Bank of England, attributed poor productivity to a long tail of unproductive SMEs who are slower to implement technology and the latest management practices. See his speech of August 2018 at <https://www.bankofengland.co.uk/-/media/boe/files/speech/2018/the-uks-productivity-problem-hub-no-spokes-speech-by-andy-haldane.pdf>

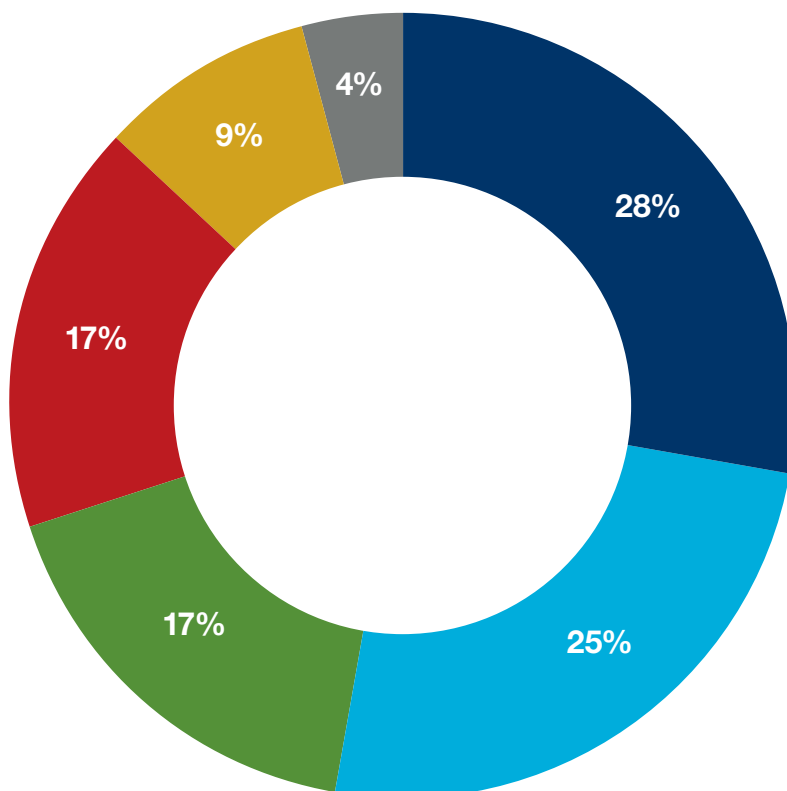


Strategies to boost the bottom line

The fact that SMEs cite efficiency savings as the most important contributor to financial performance this year, just ahead of growing the current market (see Fig. 6), demonstrates a new focus of SMEs on productivity. Expanding into new markets is less often cited. This does not seem to be the case for exporters,³ as 25% seek to expand into new international markets, which they say are their most important revenue generator.

Fig. 6: Boosting productivity is seen as SMEs' main contributor to financial performance

Which of the following do you think will contribute most to your company's financial performance over the next three years? Top-ranked responses.



- Increasing productivity and operational efficiency
- Growing share of current market
- Maintaining current company strengths/strategy
- Expanding into new domestic markets
- Expanding into new international markets
- Mergers and acquisitions activity

SMEs' strategies for top-line growth

To grow revenues, SMEs are keeping close to their customers, trying to anticipate their shifting demands and making sure they can respond quickly. This is a traditional strength for SMEs, though our research shows that many are updating their approaches to be even more nimble.

³ Defined as firms whose exports are more than 10% of total sales.

SMEs see efficiency savings as the most important contributor to future financial performance.

Fig. 7: Understanding customers is a key strategy for SME revenue growth

What other strategies are important to your company for revenue growth? Top three responses.



The SMEs featured in our case studies share common attributes, especially in their approaches to delivering top-line growth. They:

- Identify strong market opportunities.** The starting point is usually their market knowledge, experiences, and know-how, but they often need to evolve to maximise market opportunity. For example, Martin Knight realised that rather than wait for opportunities to design the few landmark bridge projects he was familiar with, he should concentrate his new architects' practice on the larger, yet under-served market for more routine bridges, where good design was still imperative, but its value had not been communicated. Plum, the Canadian HR technology firm, redesigned their product from the bottom up, based on feedback from their customers, to reach the larger, enterprise market.
- Develop innovative products and services** using technology, to create a strong value proposition for their customers. Balyo realised they could reach a bigger market by developing their software to integrate readily with others' hardware and navigate in all internal environments, giving customers a much less expensive solution with better ROI. Plum cite evidence showing that their software is four times more effective at identifying successful job candidates than traditional résumé filters. Vymo boast an ROI of 10x in the first year of using their software to improve business development (see case study on following page).

- **Use business partners and networks** to build effective routes to market. All the SMEs studied have partnered with larger companies to gain greater access to the enterprise market. As examples, Plum partnered with a large global enterprise software company; Knight Associates with global engineering companies; Balyo with market-leading hardware suppliers; and Vymo is partnering with advisory firms that have relationships with marquee clients in target markets.
- **Expand into new markets** in a measured way, building on an established base. All the SMEs in the case studies harbour ambitious plans for global growth, but they are moving one step at a time, leveraging channel partners and using technology to minimise costs. For example, Balyo is aiming to crack the lucrative US market with a measured strategy combining a small local office and a partnership with the leading provider of materials handling trucks. Vymo is expanding from its core market of Indian financial services, reaching out into pharma and the wider Asian region, establishing an office in Singapore, to be followed by a US launch.

Case Study: Vymo—intelligent sales

Yamini Bhat saw the opportunity to start Vymo when working as a management consultant. CRM systems were designed to supply reports to line managers but did very little for the sales force; in fact, by demanding lots of manual data input after a sales call, they were unloved and sometimes ignored. Established in 2014, Vymo now employs 80 and are doubling in size every six months.

Vymo developed their mobile sales assistant themselves. It sits on top of a business's existing CRM system, providing a mobile interface to collate additional information automatically from sales people. It then provides insights and reports to the sales person to improve effectiveness (e.g., suggested calls) and can generate more detailed reports on sales effectiveness to sales managers.

Ms. Bhat attributes their success to concentrating on particular markets the company knew well, where improved sales management was needed, and no established competitor existed. Their initial focus was on India and in the financial services segment, but they

have since expanded into other sectors, like pharma. They established an office in Singapore to manage expansion into the APAC and Middle East regions and are planning to launch soon in the US.

Vymo grew initially through outreach to top enterprises. Success with these early clients was essential, as it provided references and recommendations that passed by word of mouth. As they expand into new markets, Vymo rely more on business partners to establish those connections. "Customer engagement is our strength, and helps us grow," Ms. Bhat says.

Though larger enterprises represent the sweet spot, SMEs could also benefit from a more structured approach to developing sales. "Even with a limited team, it's important to keep focus, know what good, successful people on your team are doing, and be able to propagate that to the rest of your team, to instill continuous improvement without having to do it manually," Ms. Bhat explains.

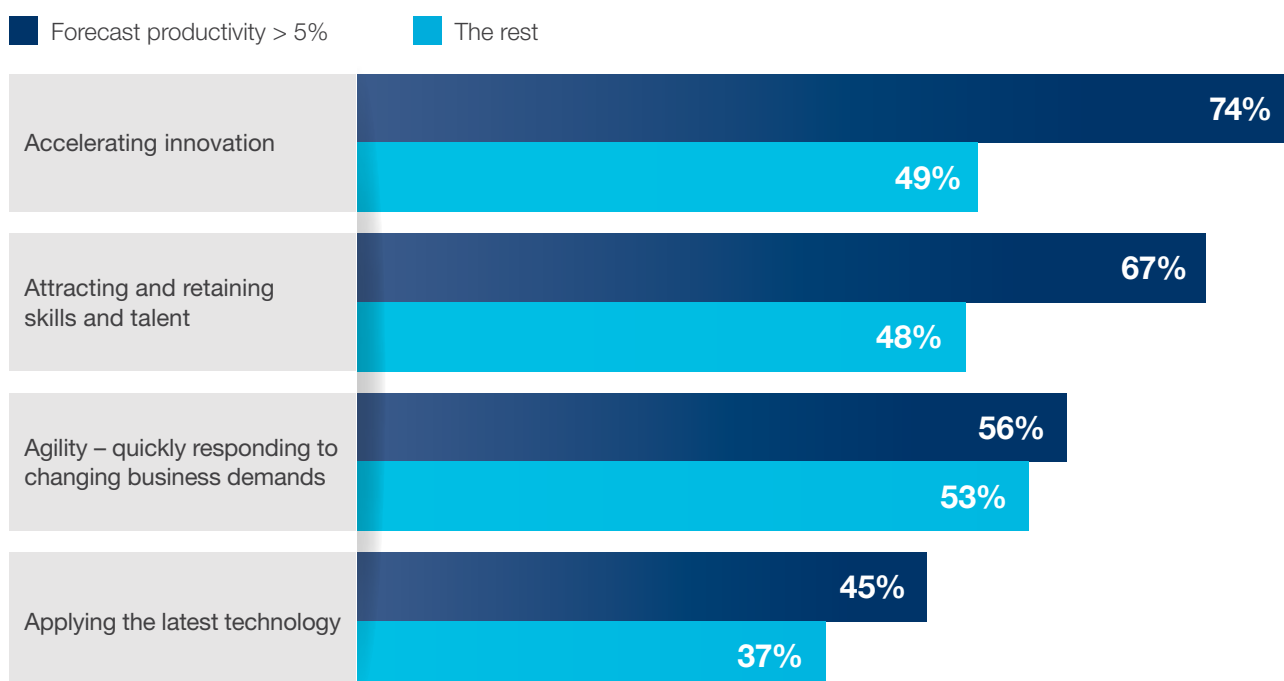
Strategies to improve productivity

Though overall SME productivity is often reported as being lower than in larger companies, it doesn't have to be. A great degree of variability applies, as recognised by the OECD study into SMEs and innovation, which showed that leading SMEs are often more productive than many large firms.⁴

Our survey confirms that innovation helps boost productivity. SMEs that forecast higher productivity (> 5% pa) over the next three years report being more effective today across all four key SME capabilities shown in Fig. 8, but particularly in innovation (74% vs. 49% for all other SMEs) and developing/retaining skills and talent (67% vs 48%).

Fig. 8: More productive SMEs have a stronger foundation in innovation, skills, and talent

Please rate your company's effectiveness in dealing with the following business challenges, compared with others in your industry today. Effective and very effective responses.



To improve operating efficiency, SMEs cite implementing cost-saving programs as the most popular, but other initiatives are close behind, including improving quality control and management decision-making (see Fig. 9).

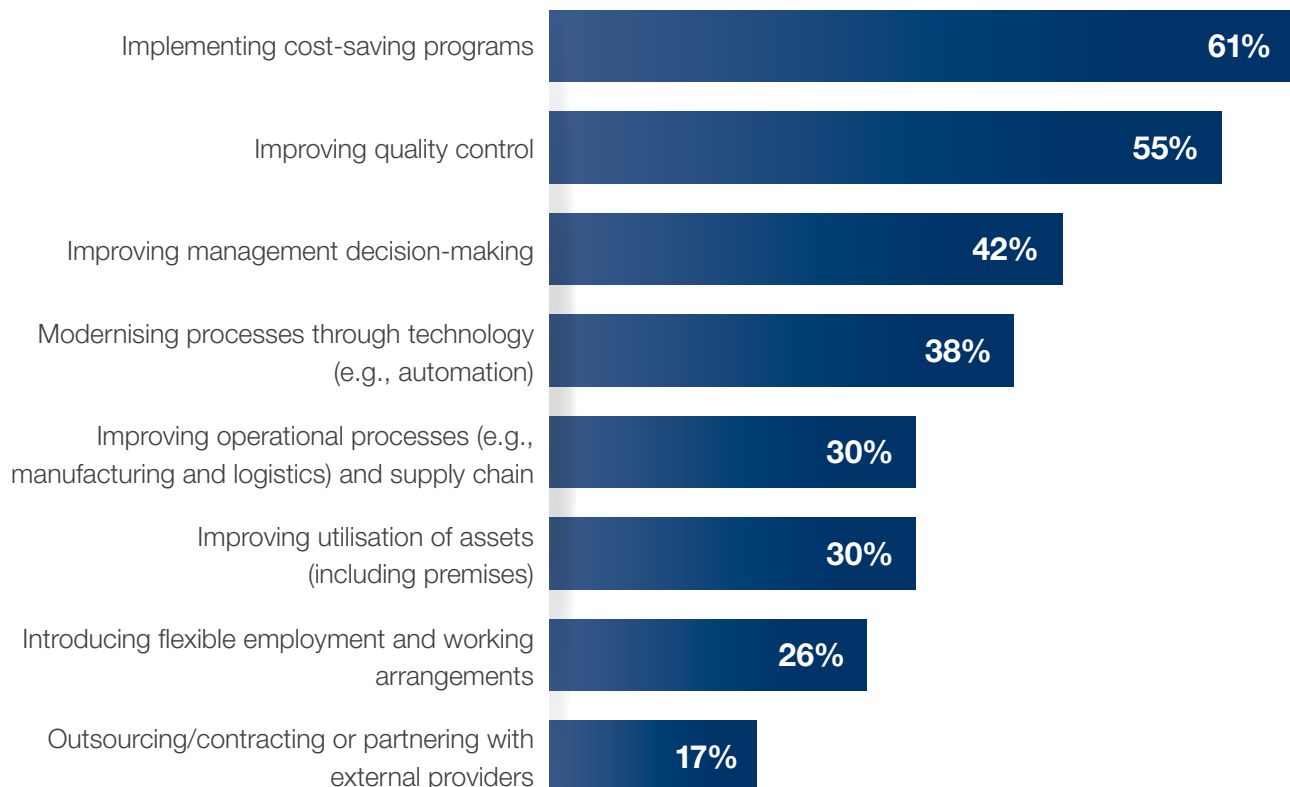
Technology plays an important role in helping to modernise and automate processes, particularly in sectors like technology (64%), aerospace/defence (58%), and telecoms (57%). Technology can contribute to almost all other initiatives below, as powerful, cost-effective software solutions are widely available to SMEs to improve decision-making, quality control, and asset utilisation.

Technology can contribute to almost all of the initiatives to improve productivity.

⁴ "Promoting innovation in established SMEs" OECD Policy Note, February 2018 at <https://www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Parallel-Session-4.pdf>

Fig. 9: Cost savings represent a key SME strategy for productivity improvement

What strategies are most important to you for improving productivity and operating efficiency over the next three years? Top three responses.



Case Study: Knight Associates—sustaining the bottom line

Martin Knight founded his practice in 2006, after spotting an opportunity for his expertise in designing bridges. After patiently building the brand, he has recently entered a period of rapid growth, doubling revenues to £1.6 million over the last two years. With a team of over 20 designers, he is preparing for the next stage of growth.

Key to his success has been establishing his firm's market position as a service provider to large, multinational engineering and consulting firms, who lead consortia delivering bridges to the ultimate client. By forging relationships with a few of these companies, they gain access to projects around the world. They work alongside the main bridge engineer on a project, providing a range of support services. Rather than fear their larger competitors, they see them as partners, working together to expand the size of the design-work market.

To manage the practice, Mr. Knight has identified three crucial pillars for success; design quality, a diverse and

happy team, and business stability—being well run, efficient, and profitable, with each given equal weighting. While a larger company could write this down as a corporate mission statement, it's easier for a company his size to sit around the table regularly and make sure it happens.

As an SME, though not a supporter of Brexit, he is determined to use Brexit as an opportunity, as it encourages his team to take bold decisions. "The losers will be those who are conservative and cannot react quickly," he says. "As an SME, we can be much lighter on our feet." Mr. Knight thinks they can also be more efficient than their larger competitors and can gain access to overseas clients through their business partners. Leading-edge IT can be hosted over the cloud, so models can be shared across the team. They are establishing an office on the continent, but it will be an economical, small office close to the European rail network and digitally connected to the UK office.



Building SME capabilities

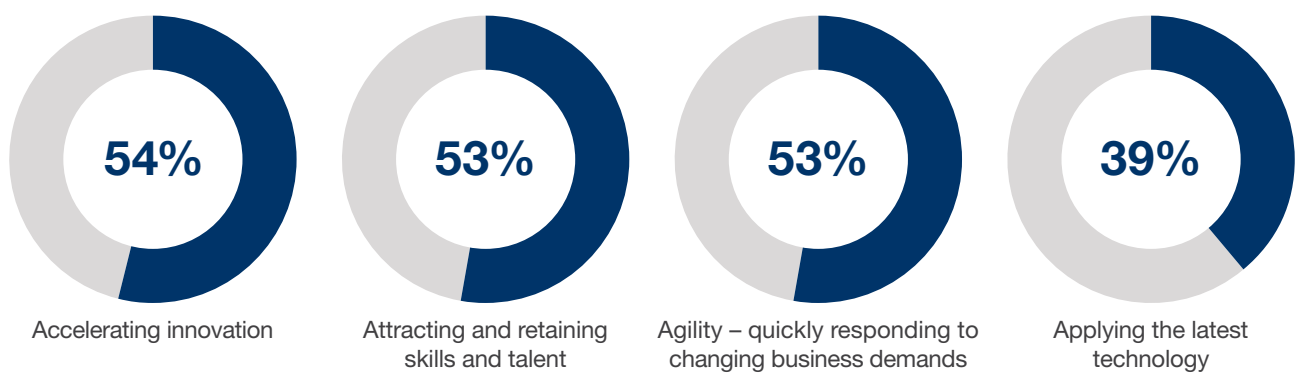
In previous editions of this survey, we traced four key capabilities SMEs can use to their advantage. We call them the four Aces: Accelerating Innovation, Agility, Applying the latest technology, and Attracting and retaining skills and talent.

This year, applying the latest technology stands out as the core capability SMEs are most concerned about and plan to focus on over the next three years. Accelerating Innovation and Agility are also priorities, just behind technology. Developing skills and talent remains a lower priority for the next three years (see Fig. 10).

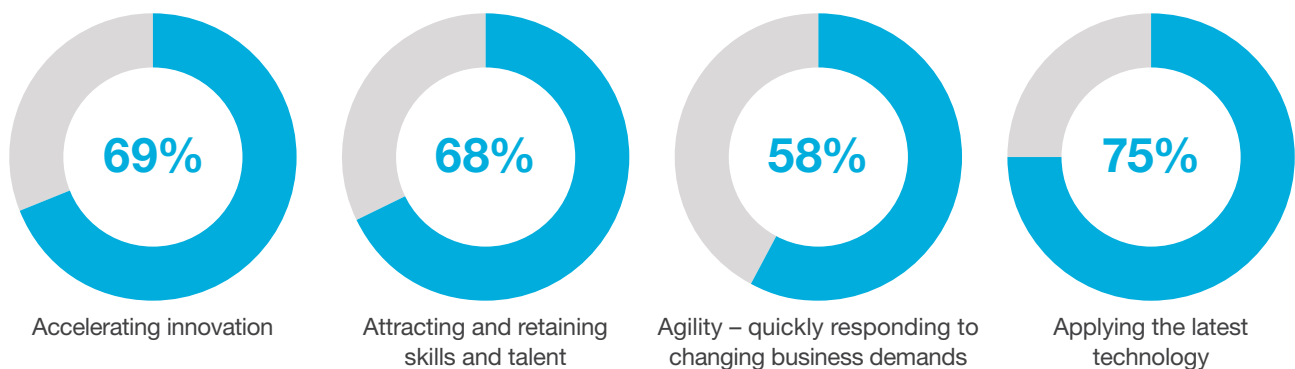
Technology stands out as a concern today and a priority to improve over the next three years.

Fig. 10: SMEs are planning to deploy the latest technology over the next three years

Please rate your company's effectiveness in dealing with the following business challenges, compared with others in your industry today. Top two responses.



Now, thinking ahead, which of these business challenges will you be working hardest to address over the next three years? Top three responses.



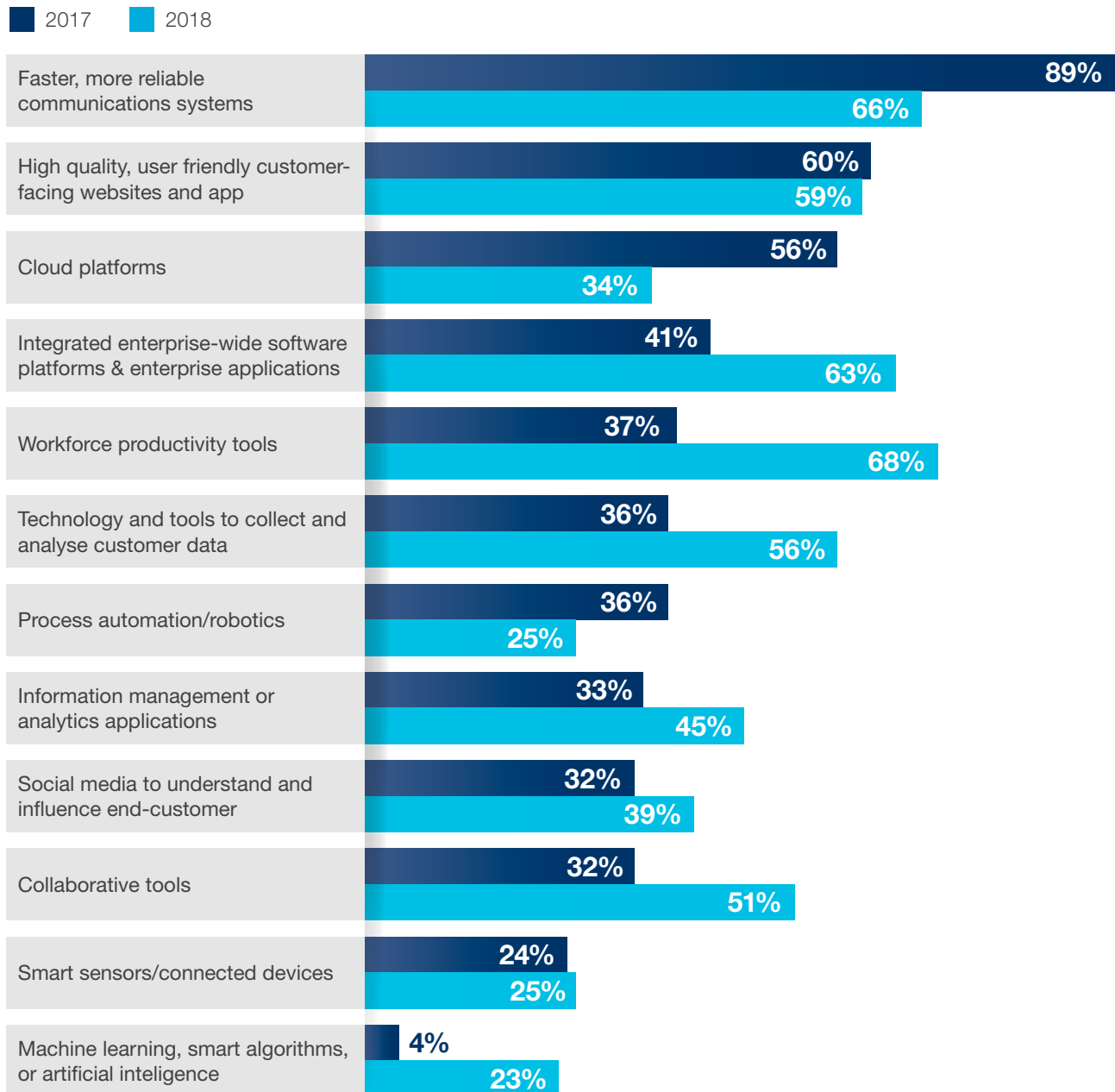
Adding value from technology

In previous surveys, SMEs prioritised spending on basic infrastructure, such as communications and cloud. A shift is apparent this year, as SMEs focus more on value-adding technologies, such as productivity tools, enterprise software platforms, technology to analyse customer data, and collaborative tools (see Fig. 11).

Leading-edge technologies, such as data analytics, connected devices, and machine learning/AI, are becoming more mainstream. Some 23% of SMEs are planning to use AI/machine learning in the next three years, compared with just 4% of last year's respondents.

Fig. 11: Technology priorities have shifted this year

Please rate in importance from 1–5 the following technologies your company plans to use in the next three years. Top two responses.



A much broader range of software tools is available today for SMEs to improve the management of their businesses. The latest software is cheaper and easier to use, usually provided “as a service” over the cloud. Help in implementing, maintaining, and getting the best out of technology is also easier to access through IT service providers. Knight Associates deploy sophisticated design tools over the cloud, so their architects can access models wherever they are located. They also use the latest business management tools to improve internal processes and decision-making.

Plum CEO Caitlin MacGregor thinks attitudes toward technology among SMEs are shifting (see the box below). Where technology was once seen as a cost to be avoided, more SMEs now recognise it as a value investment that drives greater efficiency and business growth.

More SMEs are seeing technology as a value investment, driving efficiency and business growth.

Case Study: Plum—applying data science to attract and retain talent

With revenues of over \$1 million and 21 employees, Plum is a small company with big ambitions. Having recently secured a partnership with global enterprise-software powerhouse SAP, owner Caitlin MacGregor is aiming for hockey-stick growth, tripling revenues every year for the next three years.

Ms. MacGregor has worked hard to develop this opportunity. A serial entrepreneur, she first had the idea of applying more data science to the recruitment process when she was recruiting “diamonds in the rough”—job candidates who would never have survived a résumé filter. Her initial software platform licensed some of its technology which prevented it from being able to iterate and scale quickly, so she decided to rebuild from the ground up.

Plum is now more secure, scalable, and will seamlessly integrate with a firm’s existing HR systems. She has also broadened it so its algorithms can also be used by company employees for their own career pathing and succession

planning. These changes drew attention in the enterprise market and attracted SAP, which invested in the company, initiating a couple of large-scale pilot projects. The past EVP of HR of SAP provides guidance through a seat on the corporate board. Importantly, Plum’s software is now available on SAP’s app store and is promoted by SAP’s salesforce to their existing clients in North America and Europe.

Ms. MacGregor views her creation as a technology company first and foremost, one that’s building a new category of “future of work” software, because it quantifies the soft skills required in the future workforce. Investing in enhancing the technology was critical, but it was difficult raising the funds, and Ms. MacGregor recognises many SMEs are discouraged. “Many SMEs will think if I add a sales person I can grow sales, not thinking if I add a developer I can automate this and achieve exponential growth.”

Improving in-house innovation

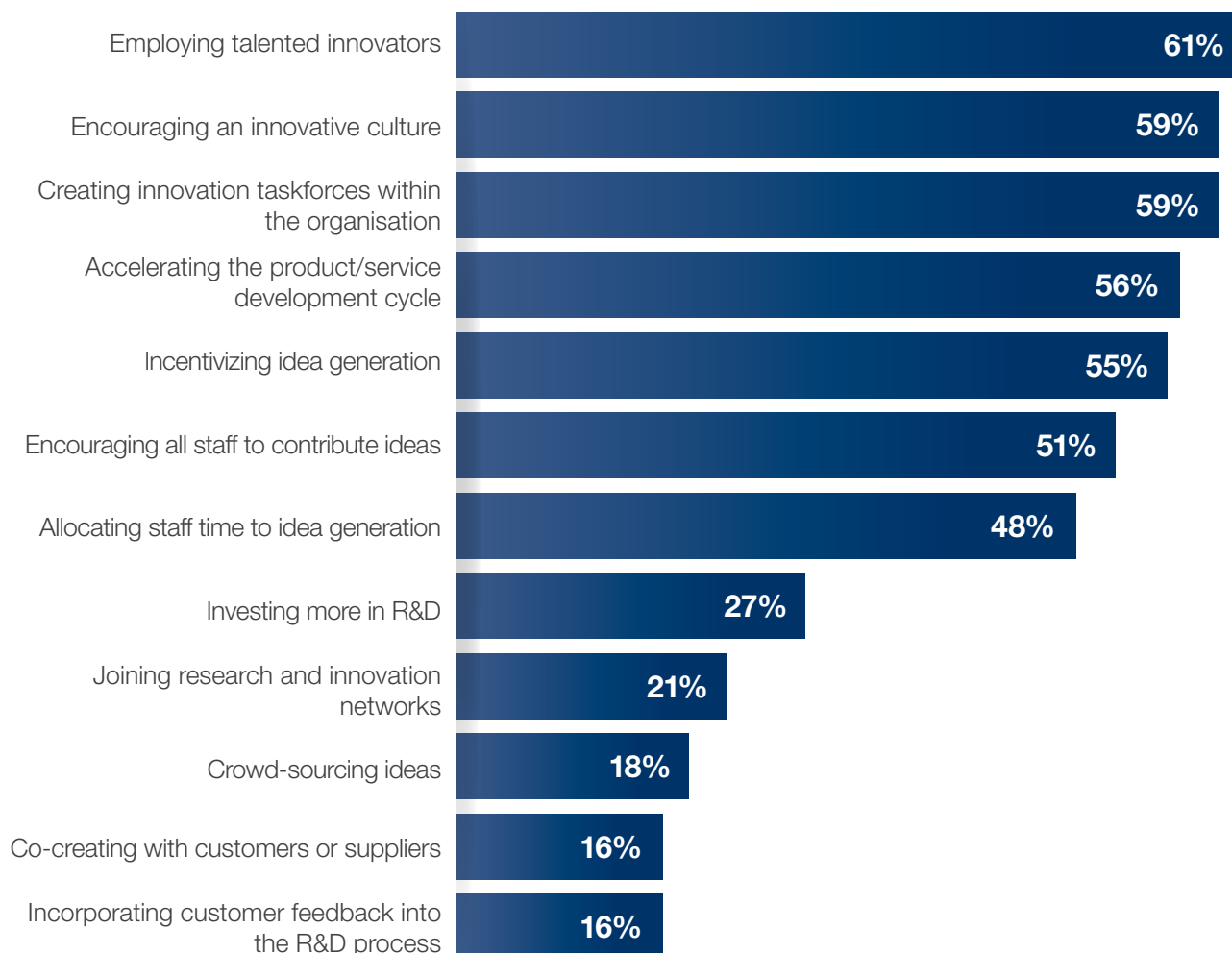
As SMEs prioritise accelerating innovation over the next three years, seven approaches are the most popular, ranging from 48% to 61% (see Fig. 12). These initiatives all aim to nurture creative output from employees, rather than spending on new R&D or buying up other firms. For example, creating innovative taskforces has jumped in popularity this year, from 40% to 59%.

This shift in approach reflects the rising impact of powerful new software to propel innovative business models, new products and services, and process improvements. In effect, this levels the playing field for SMEs, as large-scale investments or huge teams are no longer required to create path-breaking innovation. Many of the most successful global software platforms, such as Snapchat, WhatsApp, Spotify, and Airbnb, were developed by small software-development teams. Many large software houses prefer to outsource new product development to innovative and flexible SMEs. Small teams in SMEs can be co-located, with streamlined communication and fewer corporate restrictions on their creativity. The SMEs featured in our case studies emphasize that they see their small scale as an advantage in developing leading-edge technologies. Plum, Vymo, and Balyo all developed their state-of-the-art software products through small in-house development teams.

The most popular innovation initiatives all aim to nurture creative output from their employees.

Fig. 12: SMEs are looking inside for innovation

Please rate in importance from 1–5 the following approaches to your company plans to use in the next three years to improve its innovation. Top two responses.



Case Study: Growing through innovation at Balyo

Founded in 2005 by two engineers with a passion for robotic trucks, Balyo is experiencing rapid growth, doubling revenues and employees over the last year. They are expanding from their Paris base with new regional offices established in 2017 in Singapore and Boston. They now have over 200 employees worldwide.

Key to their success has been latching on to a fast-growing market opportunity, the rapid growth of Industry 4.0, and the automation of materials handling. They then focused on developing the software, where the greatest value lies. By designing it to work on any manual truck and in any warehouse, they dramatically improved their customers' return on investment (they estimate a typical payback of 12 to 18 months), opening a much larger market. They have also partnered with leading materials-handling truck providers in Europe and the USA. "It's a win-win," explains

CFO Stanislas Piot. "Our state-of-the-art software adds huge value to their trucks, and we get access to their global sales and after-sales network."

The quality of Balyo's technology is critical for their future success, as clients push for new innovation in robotic and autonomous solutions. All product development is the responsibility of a team, now 70 strong, based at a single site near Paris. Mr. Piot recognises the difficulties of attracting the talented engineers they need, when there is so much competition in the exciting field of robotics and artificial intelligence. But he feels that being an SME can help to attract the best. "We have nice facilities, in a good location," says Mr. Piot, "and when we are growing so fast it provides many, many, opportunities for someone with passion, wanting to develop their career in this field."

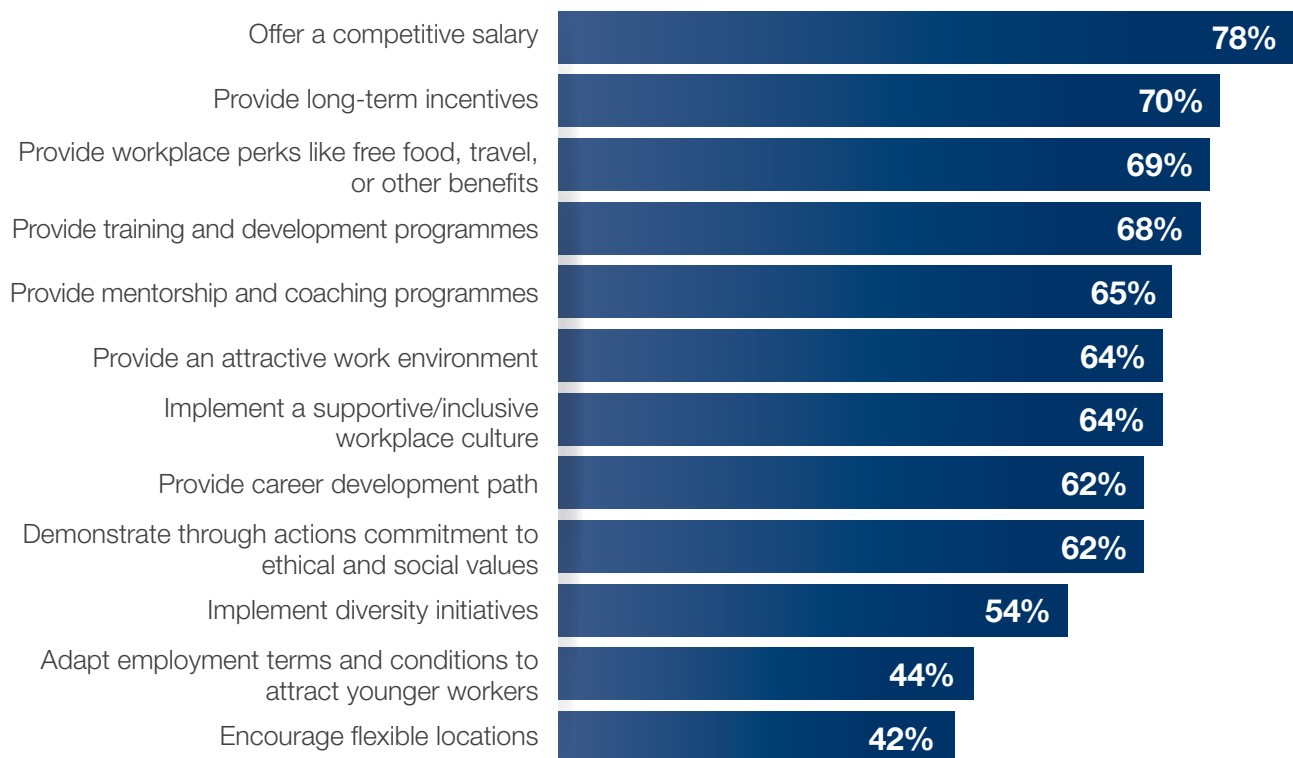
Securing a skilled workforce

Attracting and retaining talent was the least prioritised of the four key SME capabilities in this year's survey. This seems puzzling, as strong talent is an essential foundation. It's hard to develop new products, forge new client relationships, or build better business management without a talented workforce.

SMEs will need to continue the hard fight to attract and retain the best talent. A fast-growing SME that looks after and develops its employees can be an attractive destination for an ambitious young worker. However, many SMEs may need to revise their employment packages to attract talent from elsewhere. Though Fig. 13 shows that SMEs prioritise many people-related initiatives over the next three years, a closer look reveals some significant differences, particularly in compensation. Some sectors score higher (e.g., 91% for technology, 88% for aerospace and defence), with the potential for attracting talent away from other areas.

Fig. 13: Compensation leads initiatives to attract and retain skills and talent

Please rate in importance from 1–5 the following approaches your company plans to use in the next three years to improve its skills, culture and talent. Top two responses.



Though a similar number of SMEs overall are planning to implement diversity initiatives as last year (54% vs. 58%), a steeper decline is apparent in some mature economies (France, Germany, the US, Spain, the UK). For example, the number falls to 47% from 60% in Spain. One possible explanation is that many have already implemented some diversity initiatives and are unclear whether they need to embrace additional steps.

Diversity initiatives are becoming less popular for SMEs in several mature economies.

Ms. MacGregor at Plum suggests many SMEs wait too long before they take people issues seriously. "They may wait until they have 100 people, having only hired a junior HR person to look after recruitment, when they should really be hiring a head of people who sits at the executive level when they get above 30-40 people." She is optimistic that a general shift in employment values is taking place, as workers insist on respect in the workplace, greater accountability, and a focus on developing all employees.

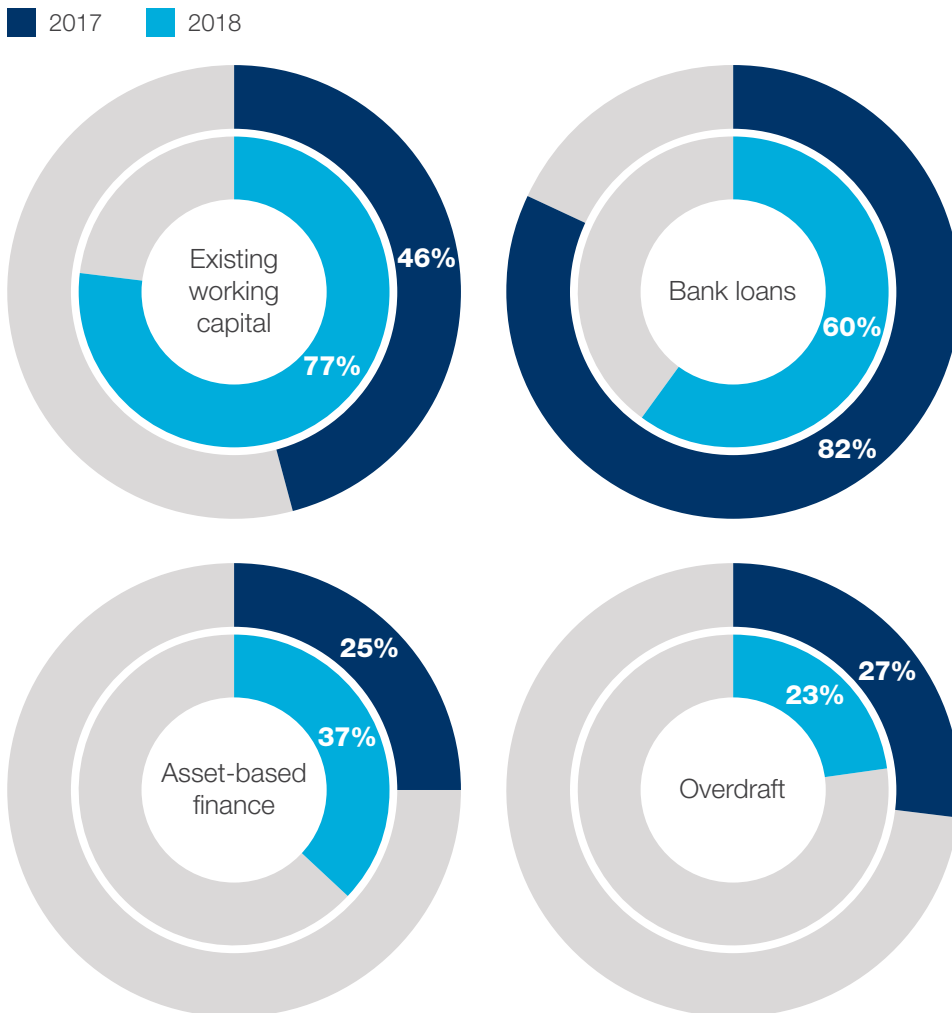
SME strategies to manage growth

The greatest barrier SMEs face as they grow is having the time needed to manage complex change, when they are already too busy running the day-to-day business (60% of respondents). Half that number say their organisational culture is change-averse, but only 4% says the management team lacks ambition.

In terms of financing growth, SMEs show a strong preference for relying on existing working capital, rather than bank loans (see Fig. 14). Asset-based finance is expected to be used by 37% of SMEs next year, up from 25% in 2017. Fintech is gradually becoming established but has yet to replace more traditional financing methods. As in previous years, SMEs value flexibility and responsiveness above all in their finance provider, and want their financial services to be provided at a fair price.

Fig. 14: SMEs prefer to finance growth from working capital

Which of the following sources of funds are you likely to use for financing over the next year?



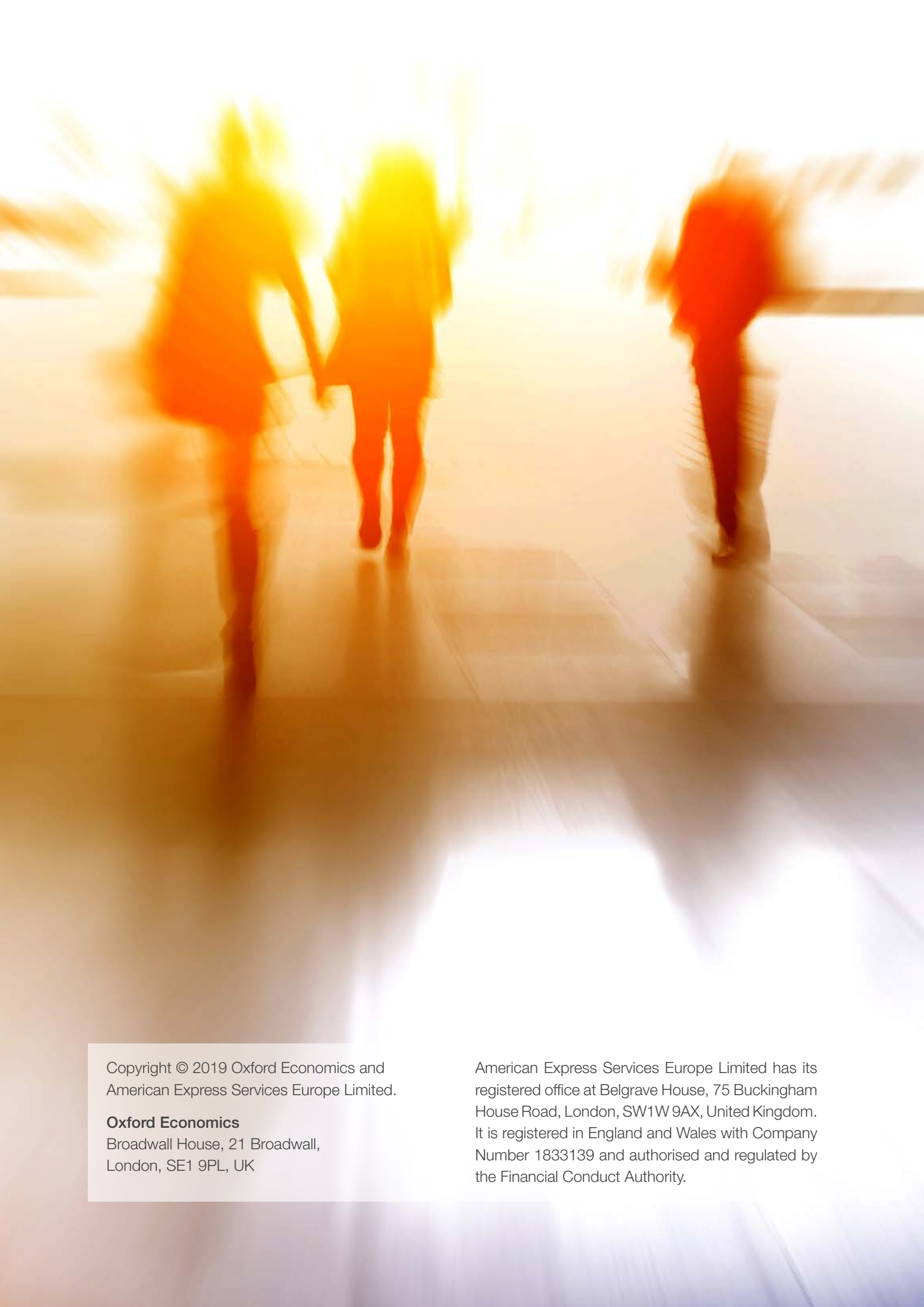
Conclusions and recommendations

Our survey shows that, approaching 2019, SMEs are confident they can continue to prosper, despite economic uncertainty, disruptive technologies, and threats to global trade. This year highlights a notable shift in attitudes toward technology, as SMEs deploy it to increase both top and bottom lines.

Under pressure to sustain performance, SMEs will need to continue to sharpen their key advantages by:

- Keeping close to customers and anticipating their shifting demands, recognising that new segments with different values, for example Gen Z consumers, are becoming more important.
- Responding quickly, across multiple channels, as customers and business partners adopt new ways of buying and working (e.g., using new digital platforms).
- Continuously improving their product/service offerings, including less tangible aspects like reinforcing brand values and enhancing customer experiences.
- Increasing market reach by forging alliances and joining networks.
- Controlling costs by looking for innovative ways to improve quality, decision-making, and business processes. SMEs may need support to learn how technology can unlock the opportunities.

Attracting and sustaining the skills and talent needed to implement these changes will be key. SMEs will need to match employees' changing demands with fresh initiatives covering terms and conditions, business values, longer-term career development, and the workplace environment.



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