Top Midmarket Tech Trends for 2019

And what it means for growing small-to-medium businesses

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SMB Group
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SMB Group
Actionable Market Insight

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Introductions

Moderator:

Indy Bains

Sr. Director, ERP Cloud Product Marketing Oracle

Laurie McCabe

Co-founder/Partner

Introduction

Founded in 2010, SMB Group is a technology industry research, analysis and consulting firm, focusing exclusively on the small and medium business (SMB) market.

We help our clients to:
- Identify trends and opportunities
- Understand and segment the SMB market
- Evaluate and act upon opportunities, threats and disruptive trends
- Develop more compelling messaging and content
- Position solutions for growth and competitive advantage
- Find us: www.smb-gr.com, @smbgroup

Laurie McCabe, Cofounder & Partner
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http://lauriemccabe.wordpress.com
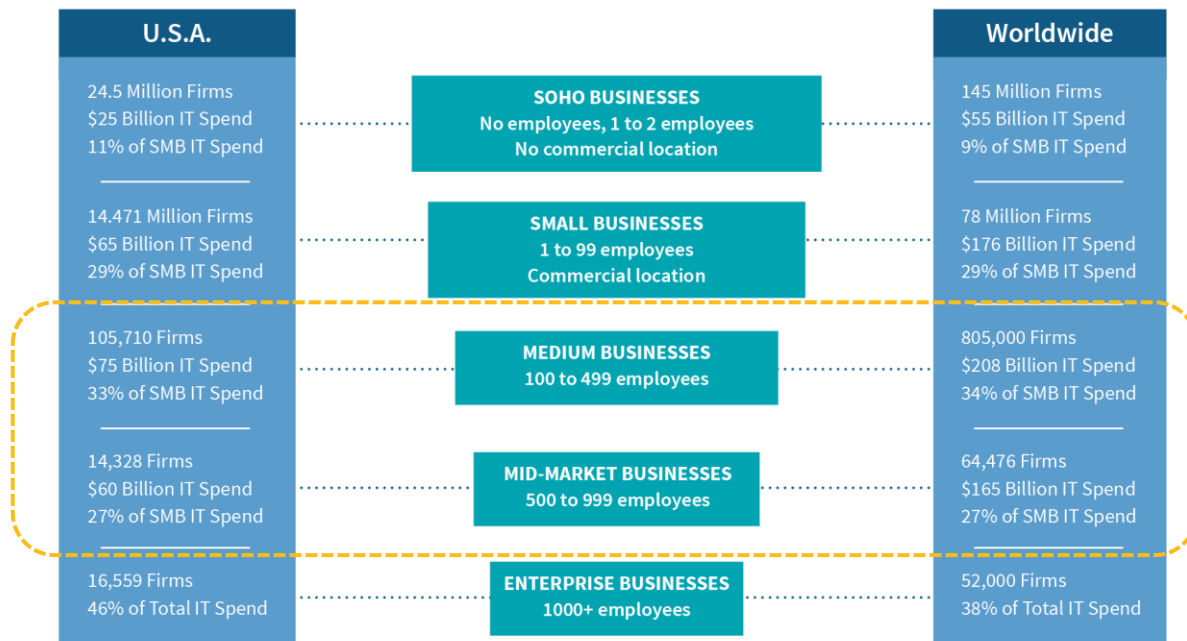
Top Midmarket Tech Trends

- The SMB Market: Drawing the Line Between Small and Medium Businesses

- Business as Usual: A Recipe for Failure

- Top Midmarket Business and Tech Trends

- Summary

The SMB Market: Drawing the Line Between Small and Medium Businesses

THE SMB MARKET

Highly fragmented and very diverse

Source: SMB Group estimates based on SMB Group, U.S. Census Bureau, World Bank, NAICS Association, and IDC data.

U.S.A.		Worldwide
24.5 Million Firms $25 Billion IT Spend 11% of SMB IT Spend	**SOHO BUSINESSES** No employees, 1 to 2 employees No commercial location	145 Million Firms $55 Billion IT Spend 9% of SMB IT Spend
14.471 Million Firms $65 Billion IT Spend 29% of SMB IT Spend	**SMALL BUSINESSES** 1 to 99 employees Commercial location	78 Million Firms $176 Billion IT Spend 29% of SMB IT Spend
105,710 Firms $75 Billion IT Spend 33% of SMB IT Spend	**MEDIUM BUSINESSES** 100 to 499 employees	805,000 Firms $208 Billion IT Spend 34% of SMB IT Spend
14,328 Firms $60 Billion IT Spend 27% of SMB IT Spend	**MID-MARKET BUSINESSES** 500 to 999 employees	64,476 Firms $165 Billion IT Spend 27% of SMB IT Spend
16,559 Firms 46% of Total IT Spend	**ENTERPRISE BUSINESSES** 1000+ employees	52,000 Firms 38% of Total IT Spend

Small and Medium Businesses Share Similar Expectations for Growth

Expected Revenue Change:
Small Business (1-99 employees):

Decrease 5%
Stay the same 42%
Increase 53%
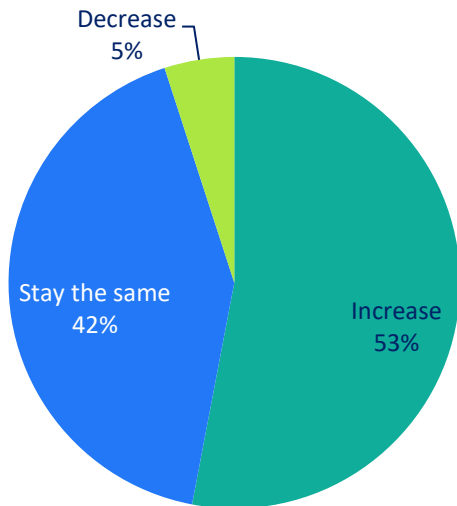
Expected Revenue Change:
Medium Business (100-1000 employees):
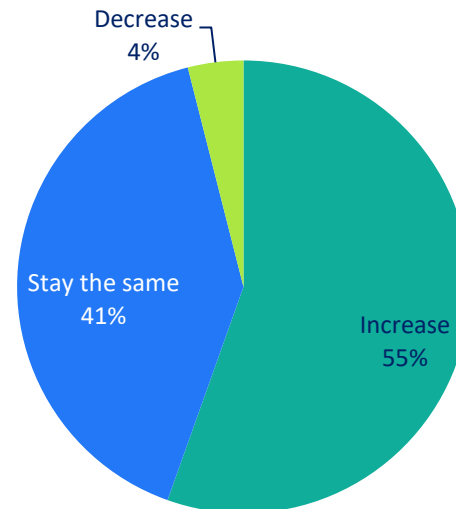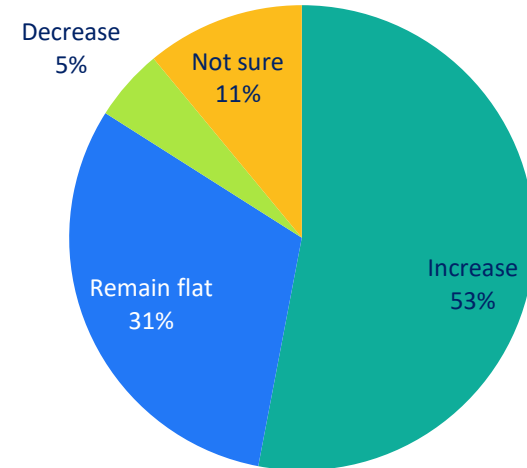
Decrease 4%
Stay the same 41%
Increase 55%

Source: SMB 360: Connecting the Dots Between Business and Technology Study, 2019

Medium Businesses More Likely to Increase Tech Spending than Small Businesses

Expected Technology Spending Change:
Small Business (1-99 employees):

Decrease
7%

Not sure
13%

Increase
37%

Remain flat
43%
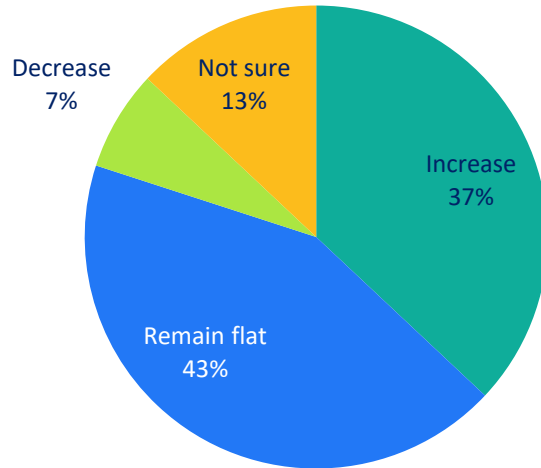
Expected Technology Spending Change:
Medium Business (100-1000 employees):

Decrease
5%

Not sure
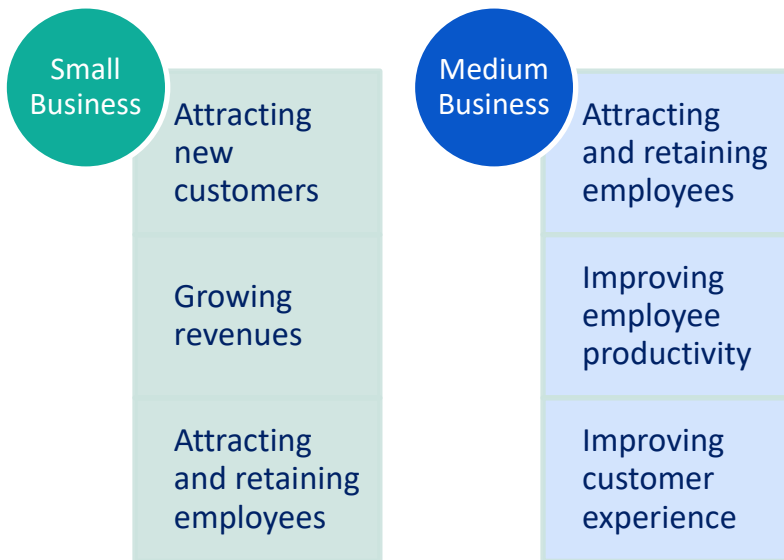11%

Increase
53%

Remain flat
31%

Source: SMB 360: Connecting the Dots Between Business and Technology Study, 2019

Complexity Rises as Businesses Grow

Challenges Shift as Businesses Grow
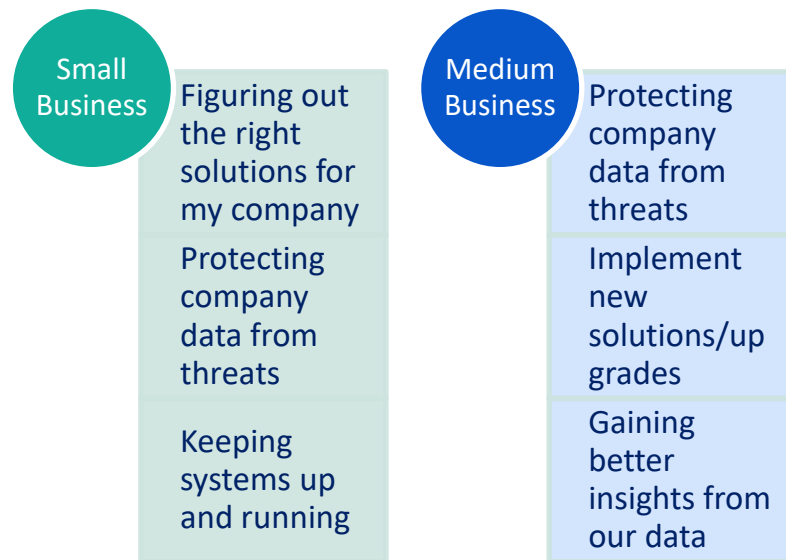
Top Business Challenges

Small Business
- Attracting new customers
- Growing revenues
- Attracting and retaining employees

Medium Business
- Attracting and retaining employees
- Improving employee productivity
- Improving customer experience

Top Technology Challenges

Small Business
- Figuring out the right solutions for my company
- Protecting company data from threats
- Keeping systems up and running

Medium Business
- Protecting company data from threats
- Implement new solutions/up grades
- Gaining better insights from our data

WORLDWIDE SMB PUBLIC CLOUD

Spending forecast

CAGR

Year	Cloud Business Process Services (Bpaas)	Cloud Application Infrastructure Services (PaaS)	Cloud Application Servies (SaaS)	Cloud Management and Security Services	Cloud System Infrastructure Services (IaaS)
2017	13		24		12
2018	14	15	29		16
2019	15	19	34		20
2020	16	23	40		25
2021	17	28	45		32

CAGR: 8%, 22%, 18%, 17%, 28%

$ Billion

Legend:
- Cloud Business Process Services (Bpaas)
- Cloud Application Infrastructure Services (PaaS)
- Cloud Application Servies (SaaS)
- Cloud Management and Security Services
- Cloud System Infrastructure Services (IaaS)
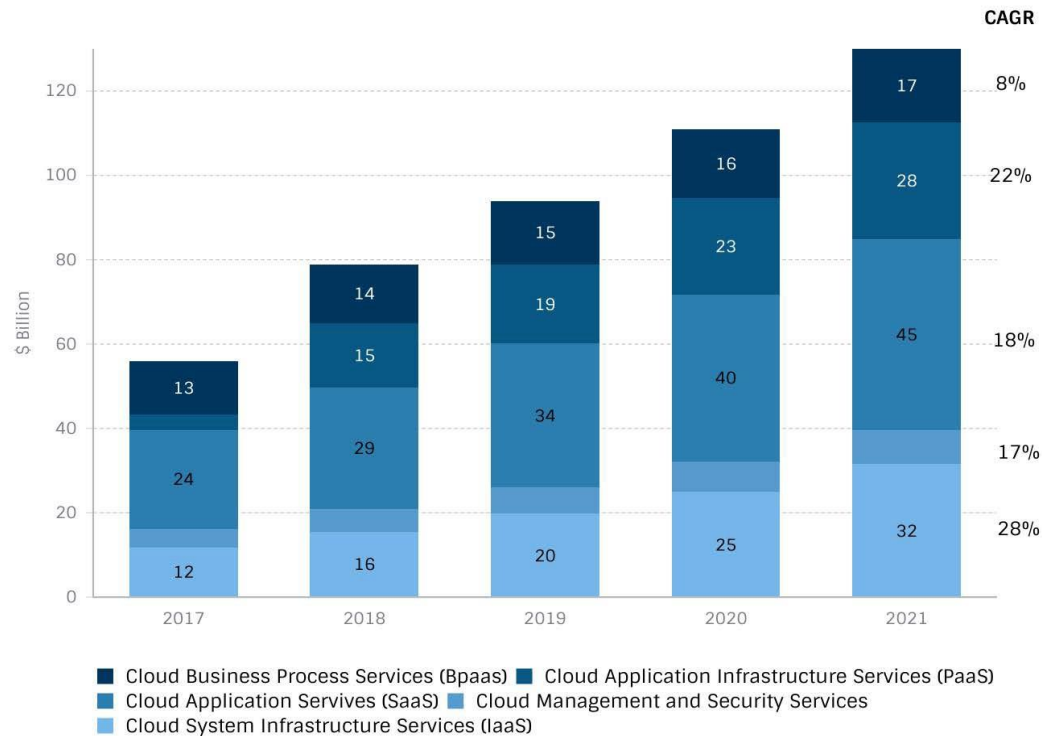
Business as Usual: A Recipe for Failure

Disruptions Are Multiplying

Using technology to provide convenience, lower prices and faster fulfillment than incumbents

Happening in every industry

- o Apparel: StitchFix, Rent the Runway
- o Manufacturing/Retail: Select Comfort
- o Transportation: Lyft, Uber
- o Payments: Venmo/Zelle
- o Hotel/Lodging: Airbnb
- o Home improvement: Houzz

- Rate and pace of disruption will only accelerate

The Creative Destruction Cycle Keeps Speeding Up

Average company lifespan on S&P Index
(in years; rolling 7-year average)

40
35
30
25
20
15
10
5
0

1965 1970 1975 1980 1985 1990 1995 2000 2005 2010 2015 2020 2025 2030
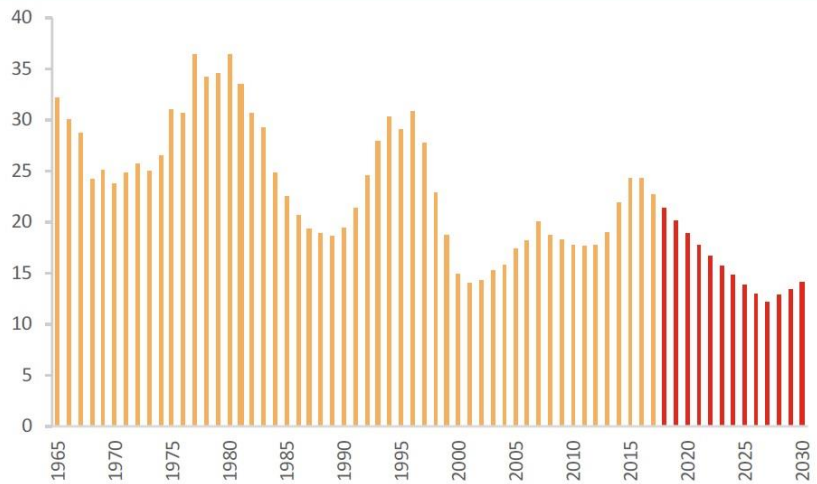
Data: Innosight analysis based on public S&P 500 data sources. See endnote on methodology. www.innosight.com

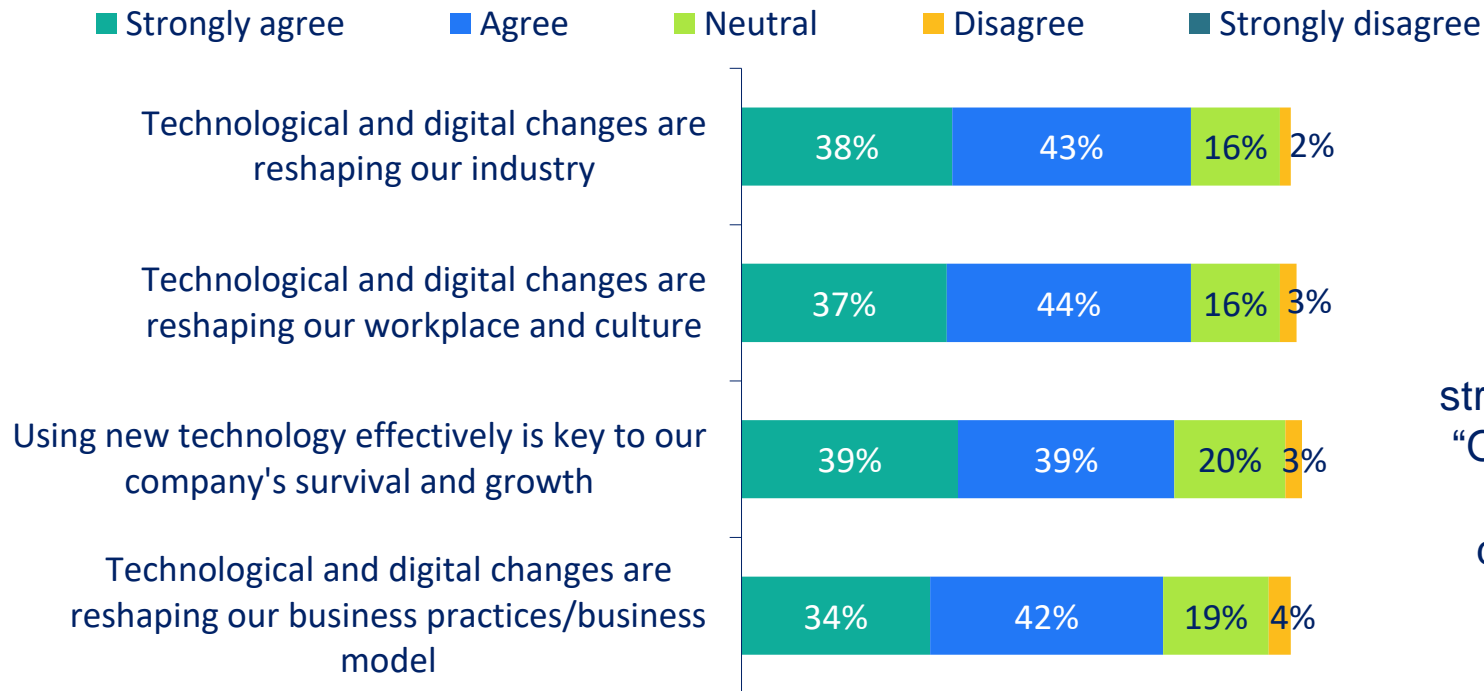## Sample companies entering and exiting the S&P 500 between 2013 - 2017

IN

Facebook
Regeneron
MGM Resorts
PayPal
UnderArmour
???

OUT

Yahoo!
Dupont
Staples
Urban Outfitters
Starwood Hotels
???

Medium Businesses See Change Coming, But Often Are Not Well-Prepared For It

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■ Strongly agree   ■ Agree   ■ Neutral   ■ Disagree   ■ Strongly disagree

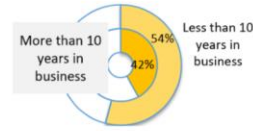| Statement	Strongly agree	Agree	Neutral	Disagree
Technological and digital changes are reshaping our industry	38%	43%	16%	2%
Technological and digital changes are reshaping our workplace and culture	37%	44%	16%	3%
Using new technology effectively is key to our company's survival and growth	39%	39%	20%	3%
Technological and digital changes are reshaping our business practices/business model	34%	42%	19%	4%

24%

of medium businesses strongly agree that: "Our company has a well-defined digital business strategy"

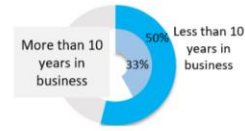Do you agree or disagree with the following statements?

Younger Businesses Leapfrog Older Ones

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- Compared to older companies, those that have been in business ↓10 years are
  - 2.2x more likely to plan to ↑ their technology spending
  - 1.4x more likely to forecast revenue growth
  - More likely to use social media to engage with customers/prospects
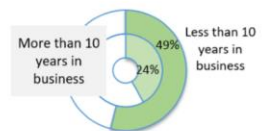 - Sell through digital channels

Digital adoption correlates with growth

Top Current Digital Sales Channels

More than 10 years in business — 42% / 54% Less than 10 years in business
Facebook/Pinterest/ other social media site

More than 10 years in business — 33% / 50% Less than 10 years in business
Ecommerce storefront

More than 10 years in business — 24% / 49% Less than 10 years in business
Third-party ecommerce storefront (e.g. Amazon, etc.)

Top 3 Current Growth Initiatives

More than 10 years in business — 26% / 48% Less than 10 years in business
Launch a new product or service offering

More than 10 years in business — 23% / 41% Less than 10 years in business
Add a new sales channel

More than 10 years in business — 22% / 40% Less than 10 years in business
Start selling to a new target market in the U.S.

Source: SMB 360: Connecting the Dots Between Business and Technology Study, 2019
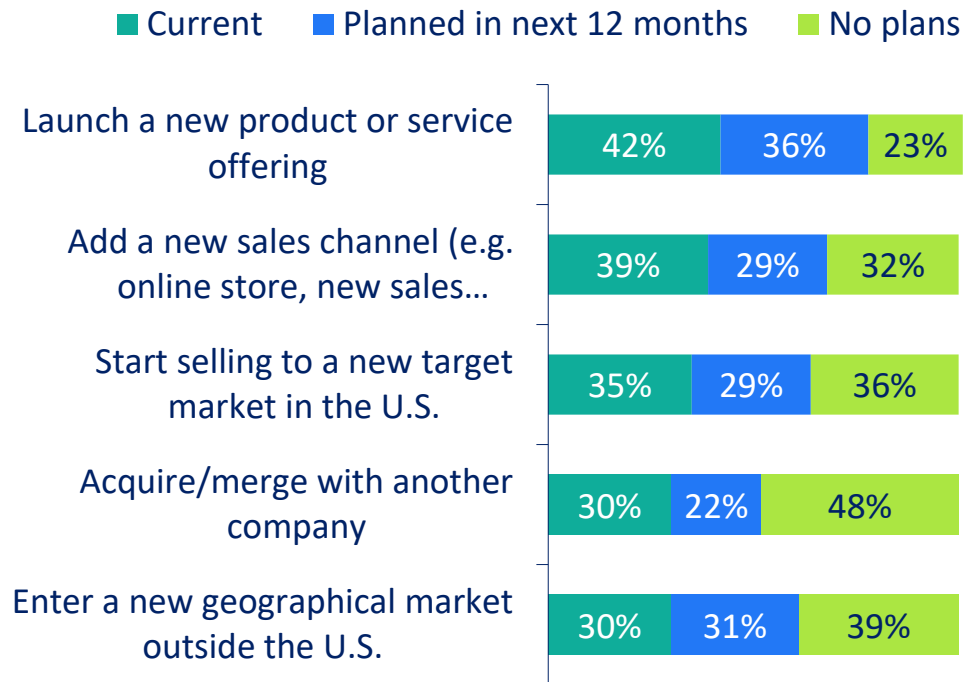
Under Pressure!

- From larger companies with:
  - o Better brand recognition
  - o More resources, customers, scale
- From smaller companies with:
  - o Less dependence on legacy processes and infrastructure
  - o More agility
- From customers that:
  - o Expect businesses to understand and anticipate their needs
  - o Demand streamlined experiences

Top Midmarket Business and Tech Trends

Doubling Down on Growth Initiatives

■ Current   ■ Planned in next 12 months   ■ No plans

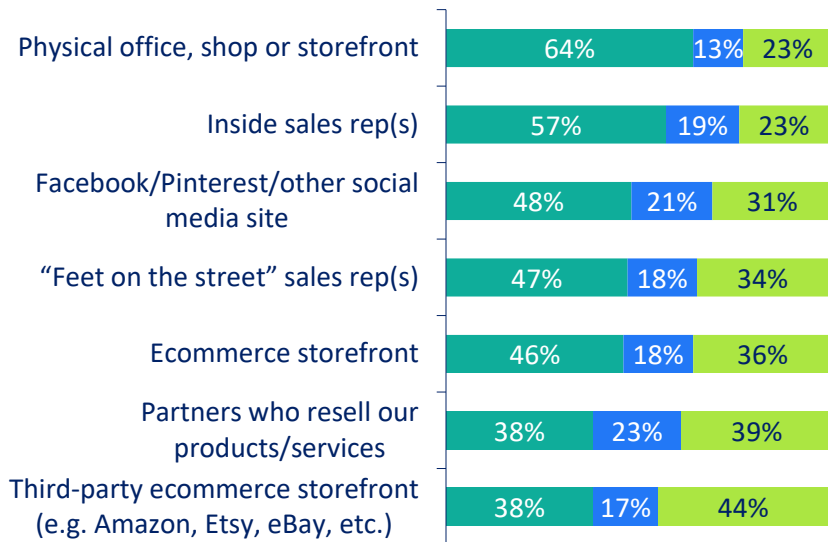| Initiative	Current	Planned	No plans
Launch a new product or service offering	42%	36%	23%
Add a new sales channel (e.g. online store, new sales…)	39%	29%	32%
Start selling to a new target market in the U.S.	35%	29%	36%
Acquire/merge with another company	30%	22%	48%
Enter a new geographical market outside the U.S.	30%	31%	39%

- 66% of medium businesses have at least one major growth initiative under way; 49% have two or more

- 68% have at least one major growth initiative planned; 47% have two or more

Source: SMB 360: Connecting the Dots Between Business and Technology Study, 2019 (Medium Business respondents, 100-1,000 employees)

Turning to Digital Sales Channels for Growth

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Current and Planned Sales Channels

■ Currently use   ■ Plan to use   ■ No plans to use

Channel	Currently use	Plan to use	No plans to use
Physical office, shop or storefront	64%	13%	23%
Inside sales rep(s)	57%	19%	23%
Facebook/Pinterest/other social media site	48%	21%	31%
"Feet on the street" sales rep(s)	47%	18%	34%
Ecommerce storefront	46%	18%	36%
Partners who resell our products/services	38%	23%	39%
Third-party ecommerce storefront (e.g. Amazon, Etsy, eBay, etc.)	38%	17%	44%

Expected Change in Sales by Channel

■ Increase   ■ Remain same   ■ Decrease

Channel	Increase	Remain same	Decrease
Ecommerce storefront	70%	29%	1%
Third-party ecommerce storefront (e.g. Amazon, Etsy, eBay, etc.)	66%	34%	
Partners who resell our products/services	63%	37%	
Facebook/Pinterest/other social media site	63%	36%	1%
"Feet on the street" sales rep(s)	56%	40%	4%
Inside sales rep(s)	53%	46%	1%
Physical office, shop or storefront	52%	47%	1%

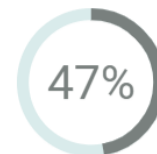*Source: SMB 360: Connecting the Dots Between Business and Technology Study, 2019 (Medium Business respondents, 100-1,000 employees)*

Modernizing the Workplace for a More Flexible Workforce

- Tech, demographic and cultural shifts are reshaping the workplace

- SMBs need solutions that make it easier to:
  - Attract a modern workforce
  - Work remotely on any device
  - Collaborate more effectively

47% 47% expect to hire more external contractors/freelancers in the next year

SMB Current and Planned Remote Workforce Trends

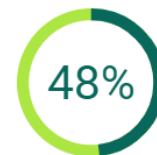**32%** of MBs say 20% or more of the workforce telecommutes at least one day a week ▶ **32%** expect this to increase in the next year

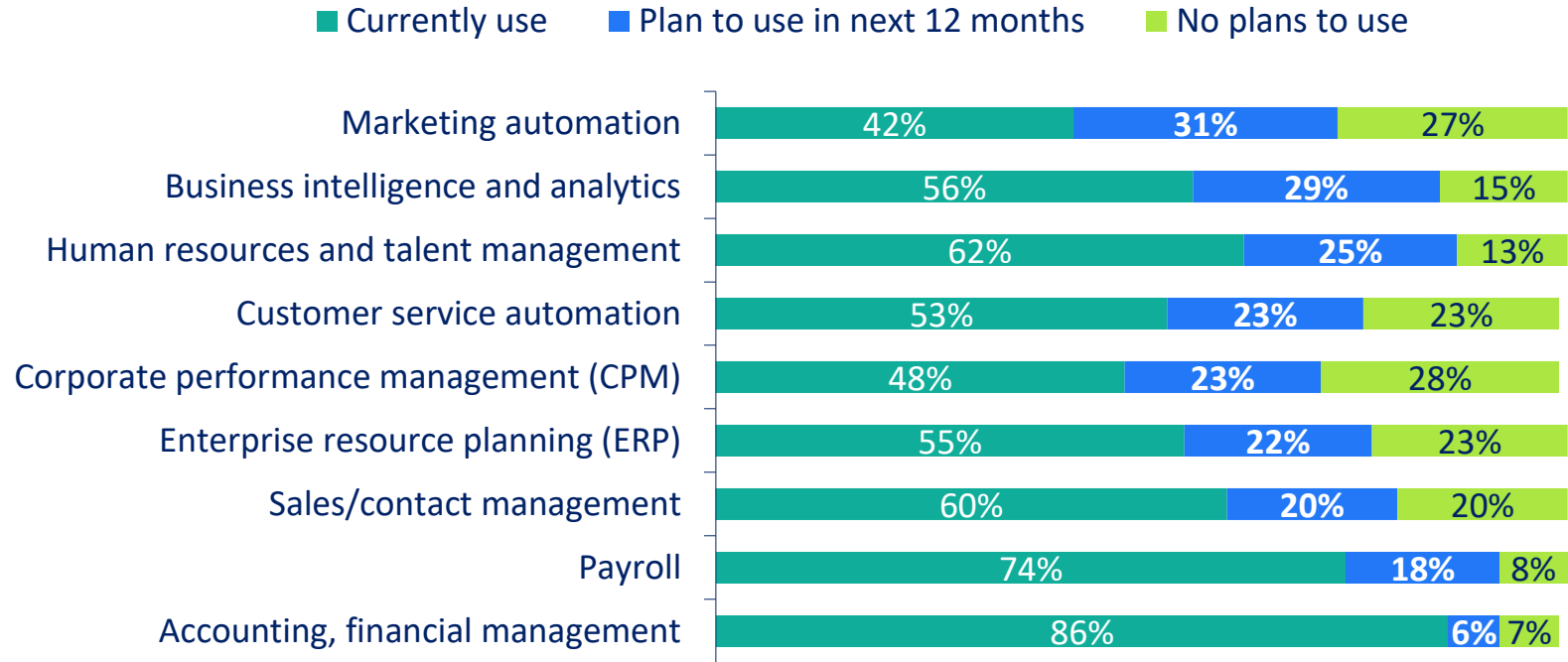**52%** of MBs say 20% or more of the workforce travels for work ▶ **27%** expect this to increase in the next year

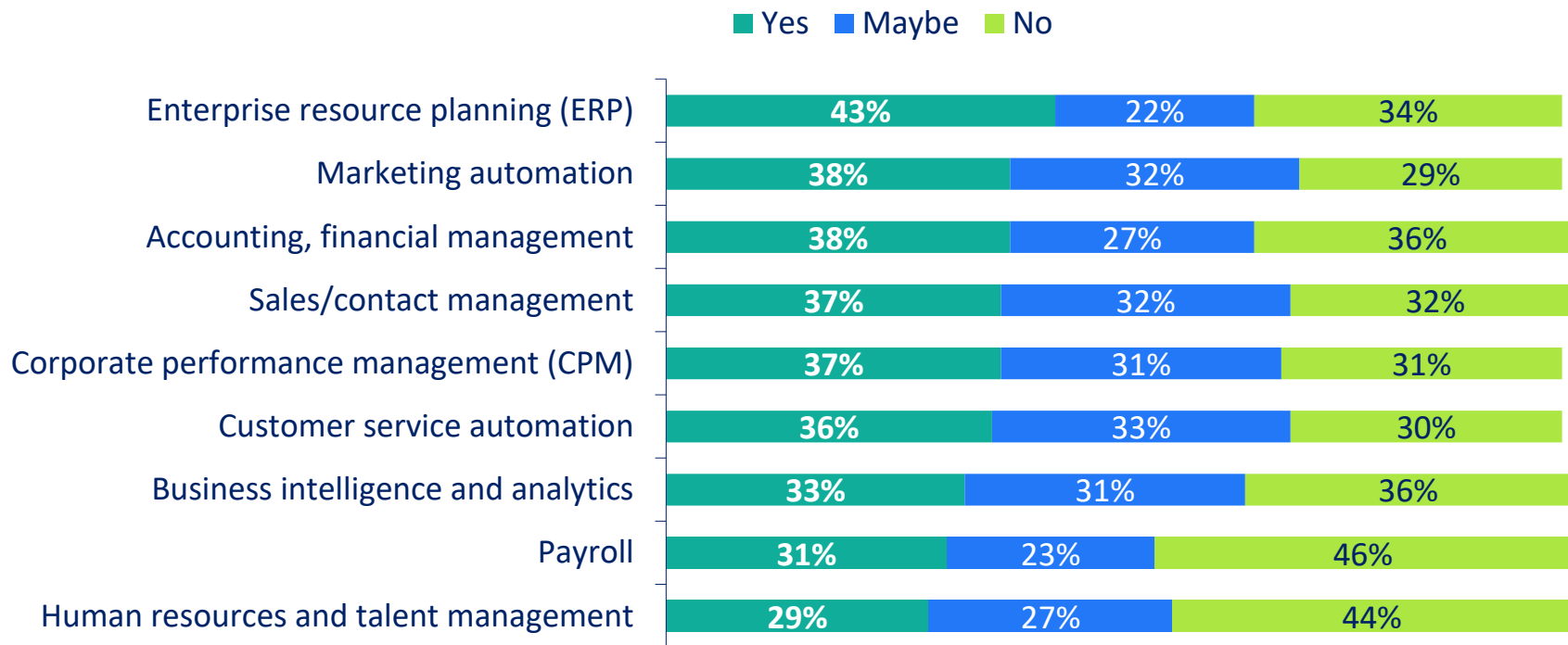**48%** 48% of MBs say that mobile devices have decreased their use of traditional PCs and laptops

Source: SMB 360: Connecting the Dots Between Business and Technology Study, 2019 (Medium Business respondents, 100-1,000 employees)

Adding New Applications to Meet New Requirements

Currently use   **Plan to use in next 12 months**   **No plans to use**

Application	Currently use	Plan to use in next 12 months	No plans to use
Marketing automation	42%	31%	27%
Business intelligence and analytics	56%	29%	15%
Human resources and talent management	62%	25%	13%
Customer service automation	53%	23%	23%
Corporate performance management (CPM)	48%	23%	28%
Enterprise resource planning (ERP)	55%	22%	23%
Sales/contact management	60%	20%	20%
Payroll	74%	18%	8%
Accounting, financial management	86%	6%	7%

Source: SMB 360: Connecting the Dots Between Business and Technology Study, 2019 (Medium Business respondents,100-1,000 employees)

Replacing Existing Applications to Meet Evolving Requirements

Legend: ■ Yes ■ Maybe ■ No

Application	Yes	Maybe	No
Enterprise resource planning (ERP)	43%	22%	34%
Marketing automation	38%	32%	29%
Accounting, financial management	38%	27%	36%
Sales/contact management	37%	32%	32%
Corporate performance management (CPM)	37%	31%	31%
Customer service automation	36%	33%	30%
Business intelligence and analytics	33%	31%	36%
Payroll	31%	23%	46%
Human resources and talent management	29%	27%	44%

Top Reasons to Consider Replacing Existing Applications

Accounting/Financials

- Need more/better functionality
- Need more innovative solutions to support growth
- Need better reporting/analytics
- Need better integration with other solutions

ERP

- Solution we use is too complex
- Need better reporting/analytics
- Want to move from on-premises to cloud
- Need better integration with other solutions

Marketing

- Want to move from on-premises to cloud
- New managers want to switch
- Need a more innovative solution to support growth
- Need better integration with other solutions

Source: SMB 360: Connecting the Dots Between Business and Technology Study, 2019 (Medium Business respondents, 100-1,000 employees)

Turning to New HR/HCM Solutions to Help Ease the Talent Crunch

- Medium businesses hit especially hard by the talent crunch

- Top **2** business challenges are "attracting and retaining quality employees" & "improving employee productivity"

- Compared to small businesses, medium businesses are:
  - 53% more likely to plan to hire more salaried employees
  - 42% more likely to plan to hire more contractors

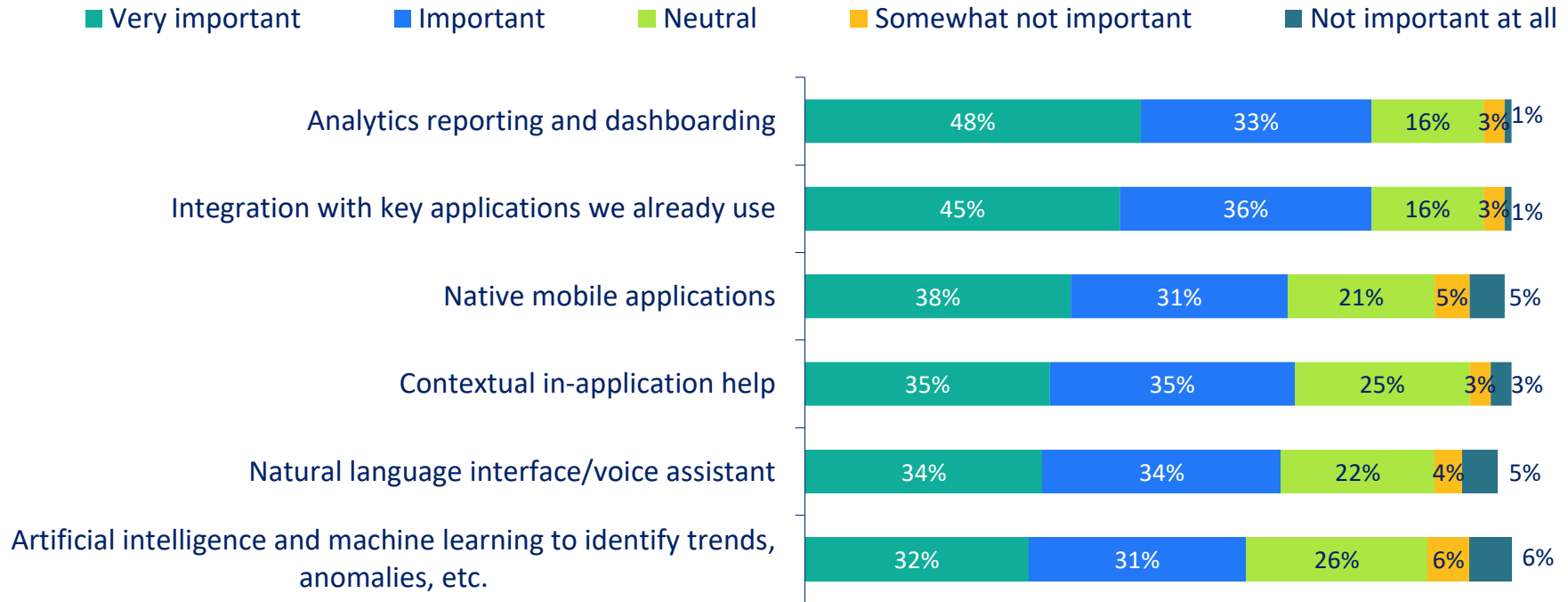- 1/3 say they are considering replacing their current HR/HCM solution

29%, Yes

27%, Maybe

44%, No
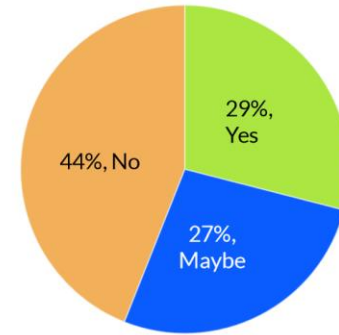
Medium business plans to replace current HR/talent management solution

Top 3 Reasons Why Medium Businesses are Considering Replacing Current HR and/or Talent Management Solutions

#1 We need a more innovative solution to support growth

#2 Want to move from on-premises to cloud-based solution

#3 The solution is too hard to use

Source: SMB 360: Connecting the Dots Between Business and Technology Study, 2019 (Medium Business respondents, 100-1,000 employees)

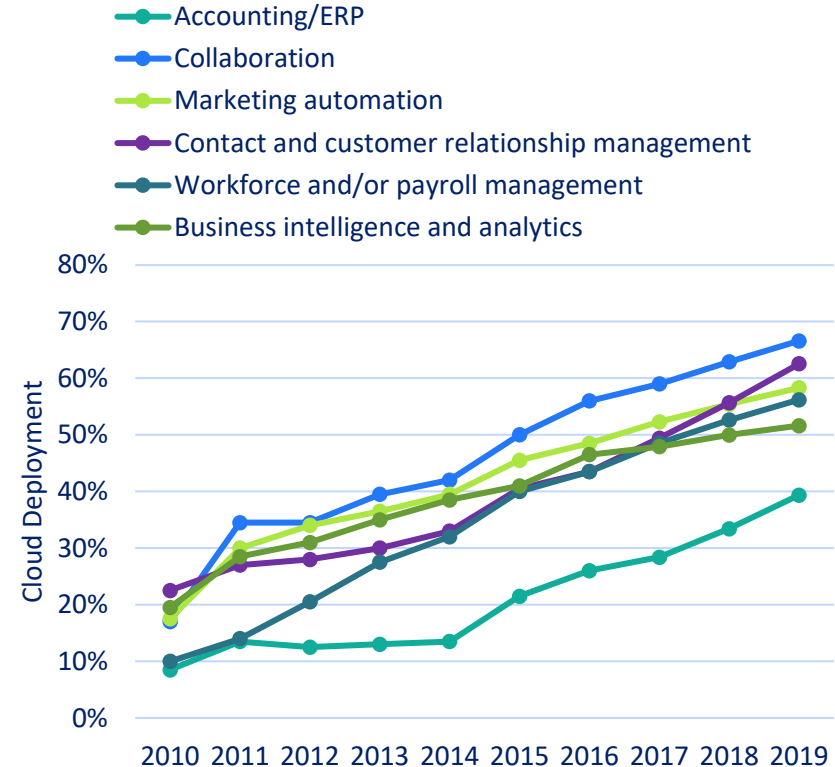# Turning to New Technology Capabilities to Improve Business Processes and Outcomes

Legend: ■ Very important ■ Important ■ Neutral ■ Somewhat not important ■ Not important at all

Capability	Very important	Important	Neutral	Somewhat not important	Not important at all
Analytics reporting and dashboarding	48%	33%	16%	3%	1%
Integration with key applications we already use	45%	36%	16%	3%	1%
Native mobile applications	38%	31%	21%	5%	5%
Contextual in-application help	35%	35%	25%	3%	3%
Natural language interface/voice assistant	34%	34%	22%	4%	5%
Artificial intelligence and machine learning to identify trends, anomalies, etc.	32%	31%	26%	6%	6%

Source: SMB 360: Connecting the Dots Between Business and Technology Study, 2019 (Medium Business respondents, 100-1,000 employees)

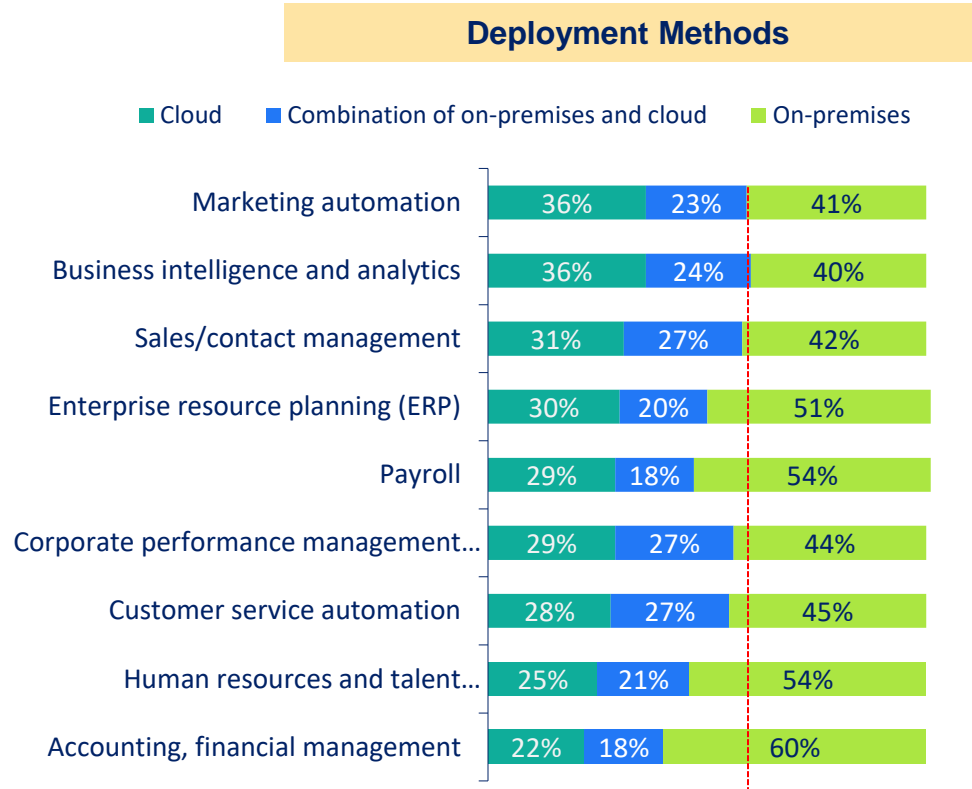# Using the Cloud as the Platform for Business Transformation

- Adoption of cloud and hybrid solutions continues to rise

- Trend seems irreversible—companies that have been in business less than 5 years favor the cloud in every category

- Original "faster, cheaper, easier" value prop still resonates

- New cloud value proposition as the on-ramp to new technologies (AI, ML, NLP, etc.) taking hold

- Automation + springboard to new technologies

Legend:
- Accounting/ERP
- Collaboration
- Marketing automation
- Contact and customer relationship management
- Workforce and/or payroll management
- Business intelligence and analytics

Source: SMB Group survey studies, 2010-2019
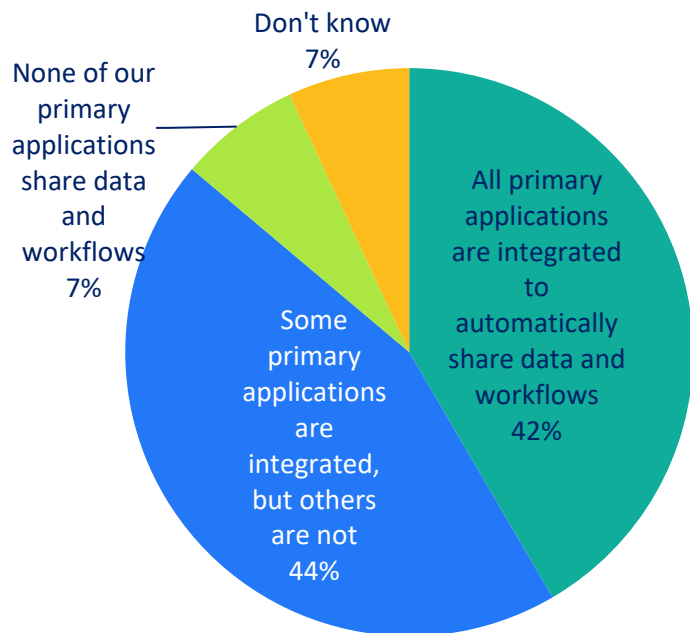
One Cloud Does Not Fit All

- Different strategies based on different requirements

- Hybrid allows SMBs to shift to cloud at their pace

- Speed of innovation in the public cloud gets increasingly tough for SMBs to match in "lift and shift" cloud deployments

- Multi-cloud will be the norm: SMBs will rely on multiple vendors, solutions and platforms
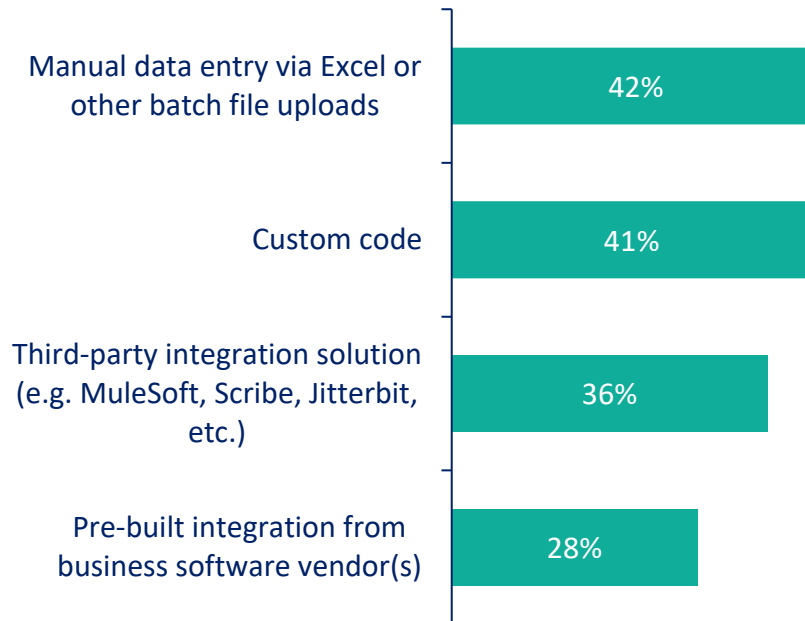
Deployment Methods

■ Cloud ■ Combination of on-premises and cloud ■ On-premises

Category	Cloud	Combination	On-premises
Marketing automation	36%	23%	41%
Business intelligence and analytics	36%	24%	40%
Sales/contact management	31%	27%	42%
Enterprise resource planning (ERP)	30%	20%	51%
Payroll	29%	18%	54%
Corporate performance management...	29%	27%	44%
Customer service automation	28%	27%	45%
Human resources and talent...	25%	21%	54%
Accounting, financial management	22%	18%	60%

Source: SMB 360: Connecting the Dots Between Business and Technology Study, 2019 (Medium Business respondents, 100-1,000 employees)

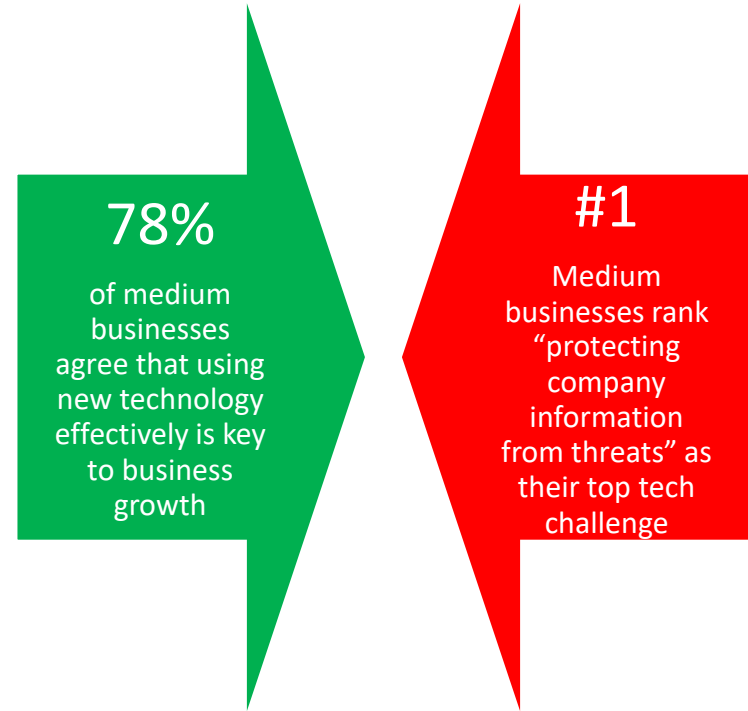# Integration Challenges Remain a Barrier to Achieving Operational Agility

Level of Integration

- Don't know 7%
- None of our primary applications share data and workflows 7%
- Some primary applications are integrated, but others are not 44%
- All primary applications are integrated to automatically share data and workflows 42%

Integration Method

Method	Percentage
Manual data entry via Excel or other batch file uploads	42%
Custom code	41%
Third-party integration solution (e.g. MuleSoft, Scribe, Jitterbit, etc.)	36%
Pre-built integration from business software vendor(s)	28%

Pressure to Balance Digital Innovation with Cyber Security Requirements Continues to Rise

- As technology adoption rises, data lives in more places, devices and clouds

- SMB cyber risk is rising—as is security skills shortage

- Stricter regulations—such as GDPR—make the security and privacy even more difficult to navigate

- Multi-layered security approach is critical

- Cloud-based business application vendors can leverage deep technology resources and expertise to "bake in" data security and protection measures that most businesses are not equipped to implement themselves

78%
of medium businesses agree that using new technology effectively is key to business growth

#1
Medium businesses rank "protecting company information from threats" as their top tech challenge

Summary

Summary

Business as usual is not a viable option

New growth initiatives, channels and workforce strategies are required

Cloud is the on-ramp to new solutions and technologies

Rethink/replace/add applications to modernize the business

Integrate business applications to focus on growth not grind

Make security a top priority in selecting new business applications

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Questions?

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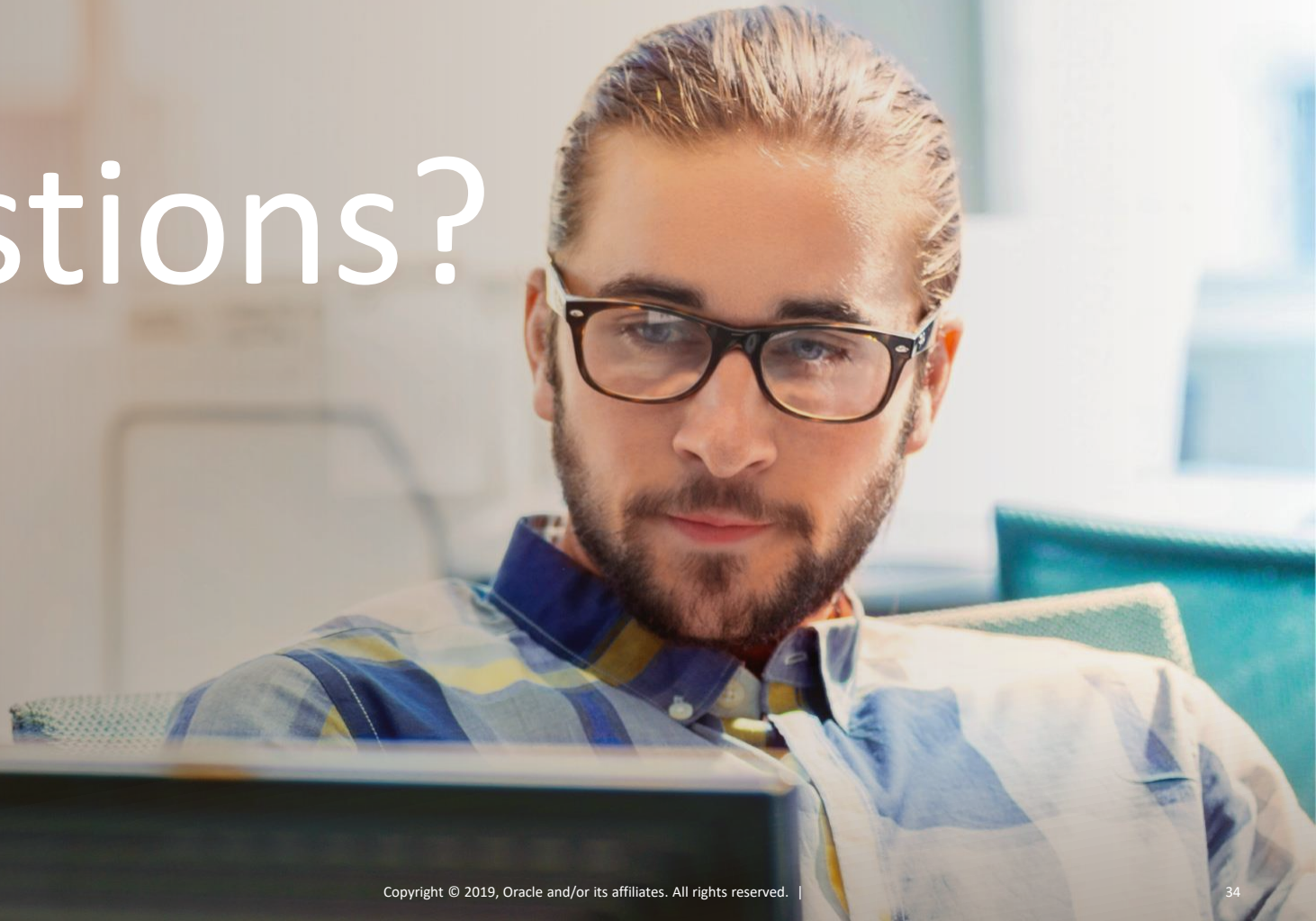
Appendix

Information Sources

Information Sources

All data is sourced from the following SMB Group survey studies, unless otherwise noted:

- SMB Group *2019 Top Ten SMB Technology Trends*
- SMB Group *SMB 360: Connecting the Dots Between Business and Technology Study*
- SMB Group *SMB Digital Transformation Study*

About SMB Group

Founded in 2010, SMB Group is a technology industry research, analysis and consulting firm, focusing exclusively on the small and medium business (SMB) market.

We help our clients to:

- Identify trends and opportunities
- Understand and segment the SMB market
- Evaluate and act upon opportunities, threats and disruptive trends
- Develop more compelling messaging and content
- Position solutions for growth and competitive advantage

SMBs Defined

Small Business

- Fewer than 100 employees (full-time) across entire corporation
  - Education, government, non-profit organizations are included
- **Location:**
  - Home-based businesses (Soho) are included
  - Non-profits are included
  - Located in North America
- Franchises are not included
  - Purchase decisions driven by business/location being surveyed

Medium Business

- 100 – 999 employees (full-time) across entire corporation
  - Education, government, non-profit organizations are included
- **Location:**
  - Home-based businesses (Soho) are included
  - Non-profits are included
  - Located in North America
- Franchises are not included
  - Purchase decisions driven by business/location being surveyed

Upper Mid-market Business

- 1,000 – 2,500 employees (full-time) across entire corporation
  - Education, government, non-profit organizations are included
- **Location:**
  - Commercial location
  - Non-profits are included
  - Located in North America
- Franchises are not included
  - Purchase decisions driven by business/location being surveyed