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# SMB Financial Management Trends



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# SMB Financial Management Trends

Financials are the backbone of every business, and modern financial solutions and services are essential to power business growth and viability.

SMB Group's **What's Ahead for SMBs in Financial Management** survey examines trends in SMB financial management in detail. In May 2022, we surveyed 751 SMB financial decision-makers and influencers in SMB (1-999 employees) and midmarket (1,000-2,500 employees) organizations in the U.S.

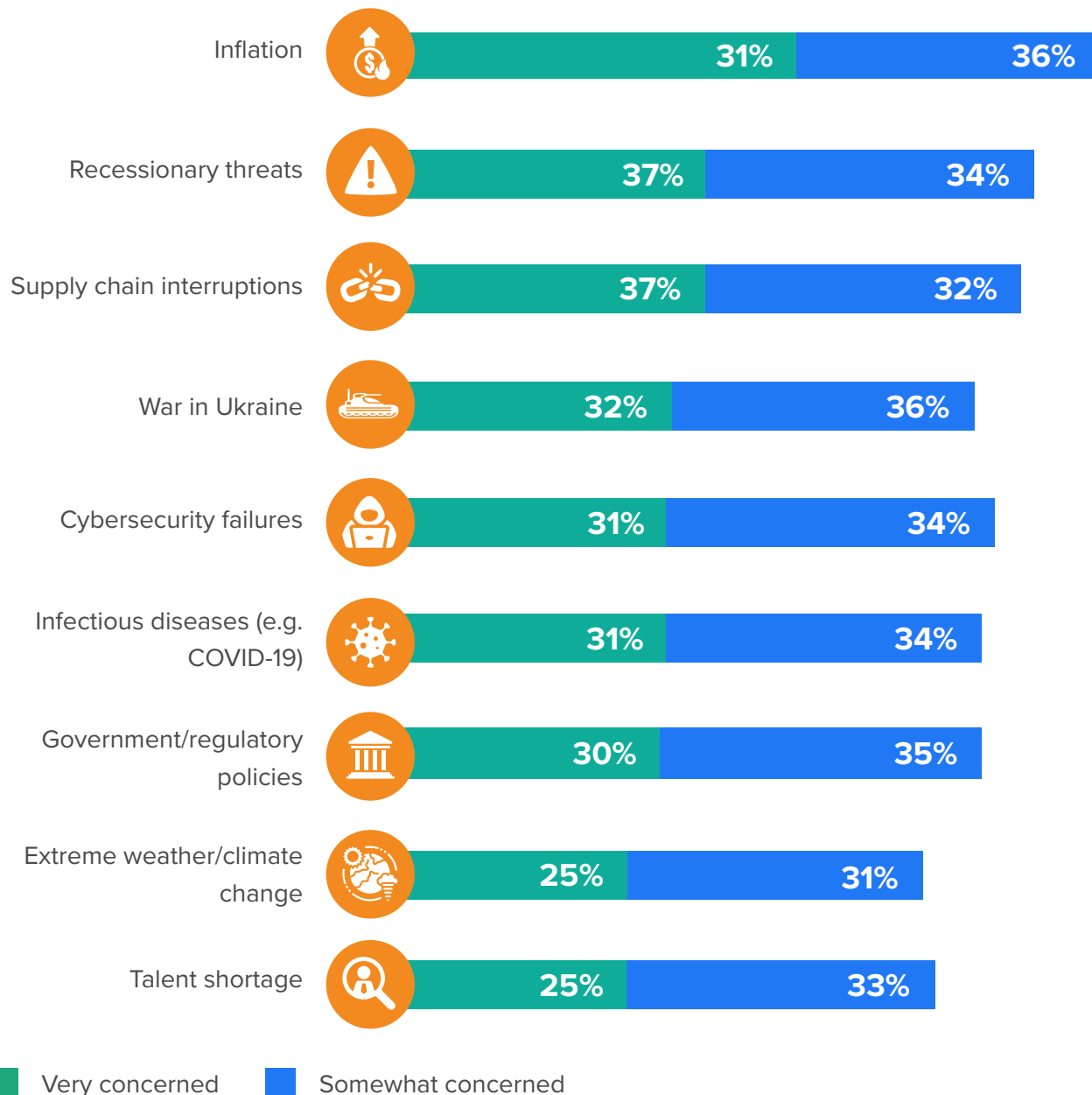
In this eBook, we share highlights from this study. For context, we look first at SMBs' take on trends that could affect their businesses, their ability to successfully adapt to unexpected changes, and their revenue expectations. Then, we look in detail at the tools, services, and people SMBs are using for financial management.

For the sake of brevity, we refer to the entire sample as "SMBs" in this eBook.



# Fears About Negative Economic Trends Are Widespread

How concerned are you about the following macro trends having a negative impact on your business in the next year? (All SMBs)



A large majority of SMBs said that they are worried that trends that are largely out of their control could have a negative impact on their businesses.

These concerns are widespread across businesses of all sizes, as inflation, supply chain disruptions, recessionary fears, the war in Ukraine, and other challenges persist.

Inflation tops the list of concerns: 83% of SMBs indicated that they are concerned it could adversely impact their businesses.

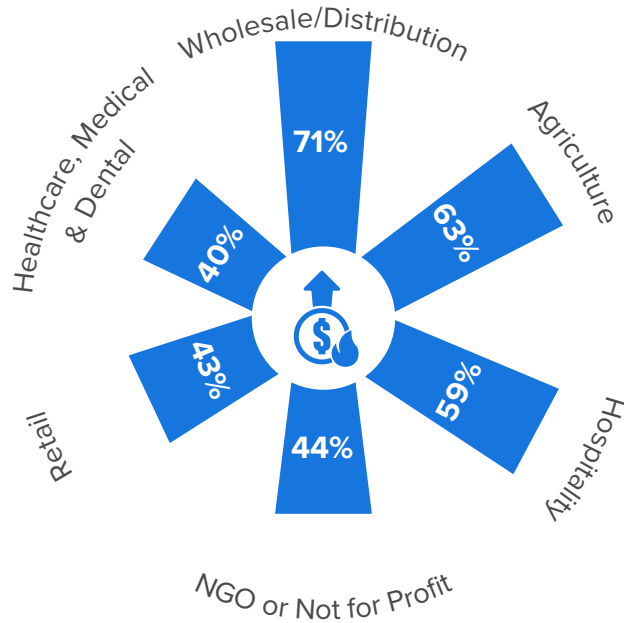
About three-quarters are worried that recession and supply chain interruptions could harm their businesses.



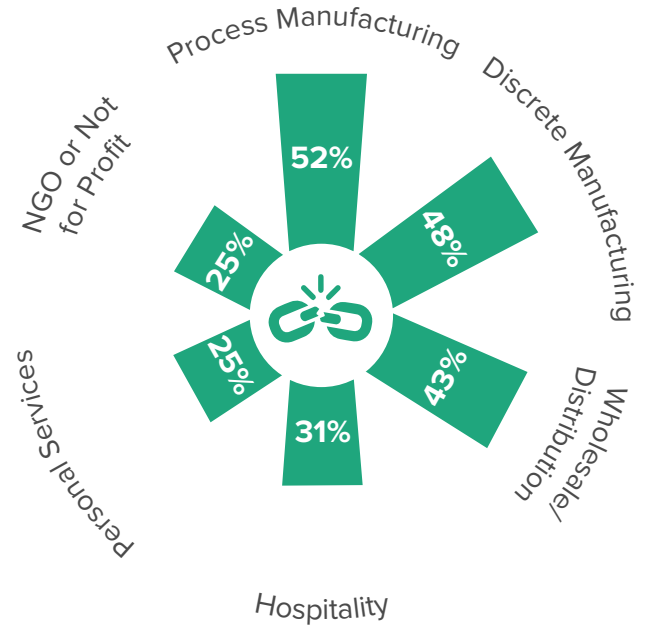
# Levels of Concern Vary by Industry

Top 3 Industries That Are Most and Least Likely to Be “Very Concerned” About Trends

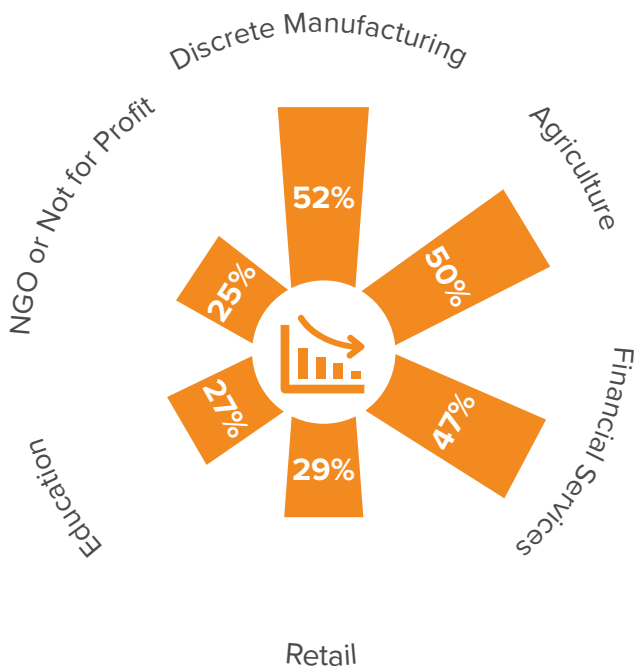
## Inflation



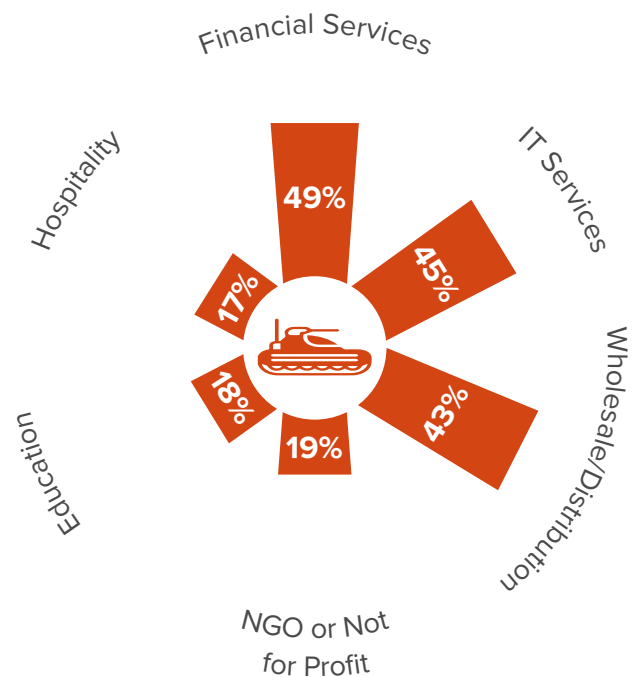
## Supply Chain Interruptions



## Recession



## War In Ukraine

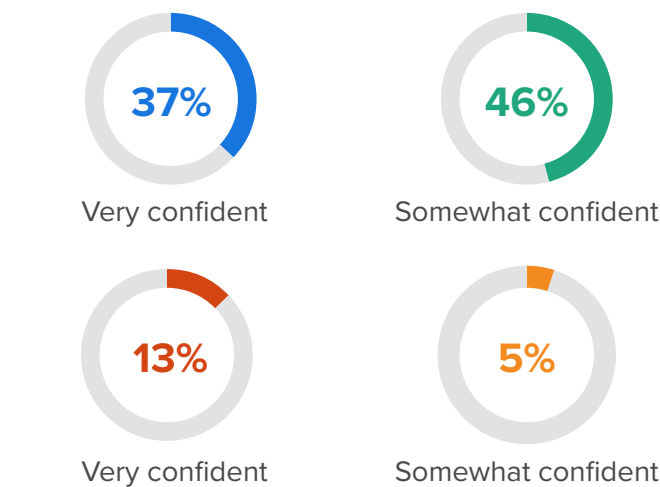


# Confidence About Navigating Through Changing Business Conditions Is Somewhat Tempered

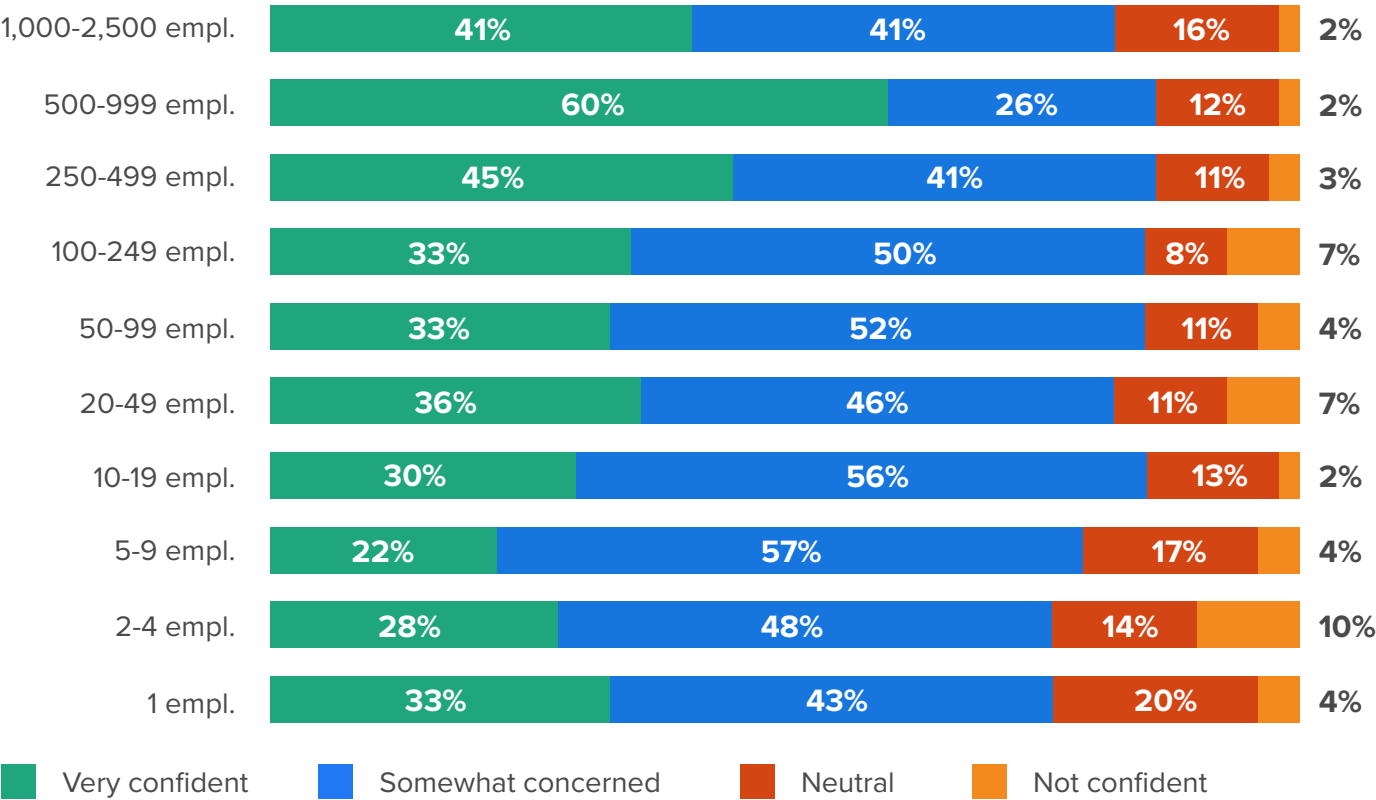
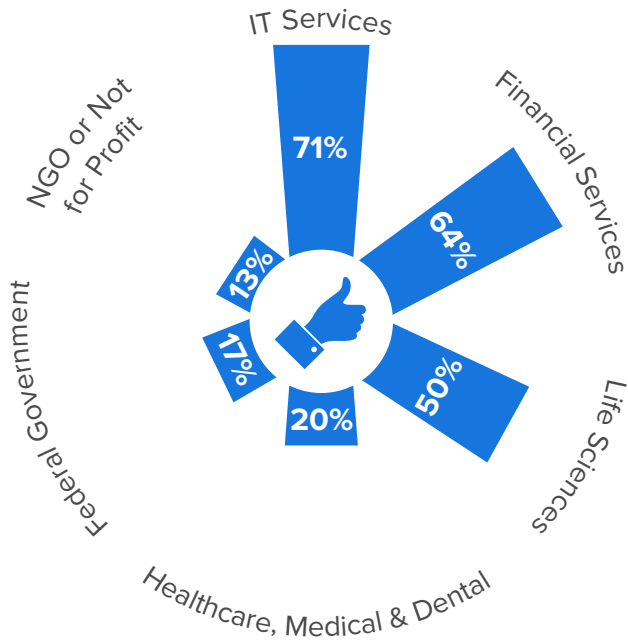
Faced with so much volatility on multiple fronts, SMB confidence about their ability to adapt to changing conditions is tempered: 46% said they are “somewhat confident.” Larger SMBs are generally more confident than smaller peers, and confidence varies greatly by industry.

How confident are you that your company can successfully adapt to unexpected/ changing business conditions?

All SMBs



Top 3 Most and Least Likely Industries to Be “Very Confident”



Very confident      Somewhat concerned      Neutral      Not confident

# A Majority of SMBs Forecast Revenue Increases Despite Looming Challenges

Do you expect revenues to increase, decrease, or remain the same in the next fiscal year?



**63%**

of all SMBs said they expected revenues to increase in the next fiscal year.

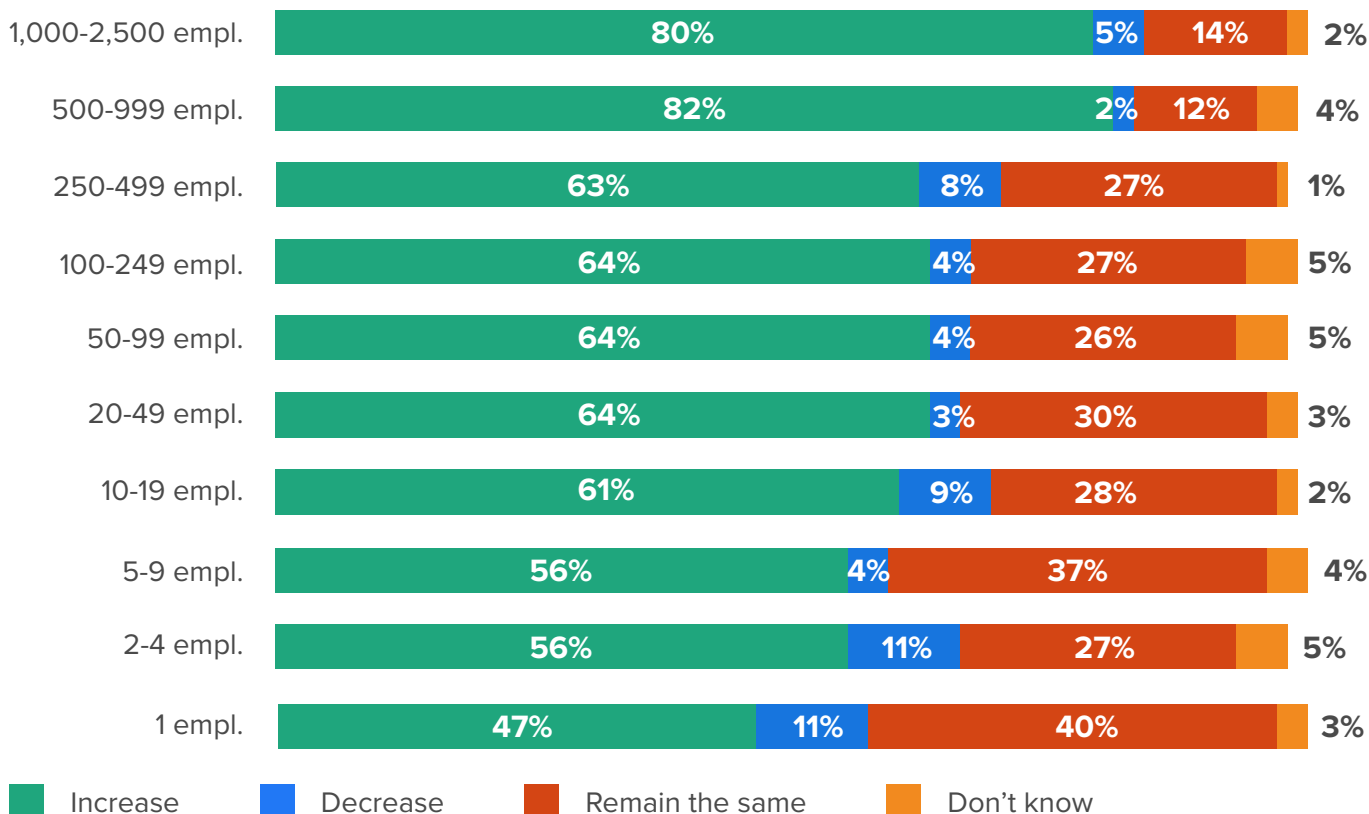
Although SMBs are concerned about macro economic challenges, they tend to be optimistic about their prospects to increase revenues.

**However, optimism correlates strongly with business size:**

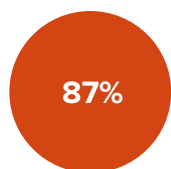


SMBs with more than 500 employees are about 1.5 times more likely to believe that revenues will increase than those with fewer than 10 employees.

There are also substantial differences by industry.



## Top 3 Most and Least Likely Industries to Expect Revenue Increases



Financial Services



Process Manufacturing



IT Services



Healthcare, Medical & Dental



NGO or Not for Profit



Education



# Top Financial Management Challenges Center on Staffing and Data Security

Amidst these uncertain conditions, SMBs rank difficulty in hiring and retaining staff, securing sensitive data, and reskilling staff for new requirements as their top financial management challenges. This is fairly consistent across industries.

Which of the following financial management issues pose significant challenges to your business? (All SMBs)

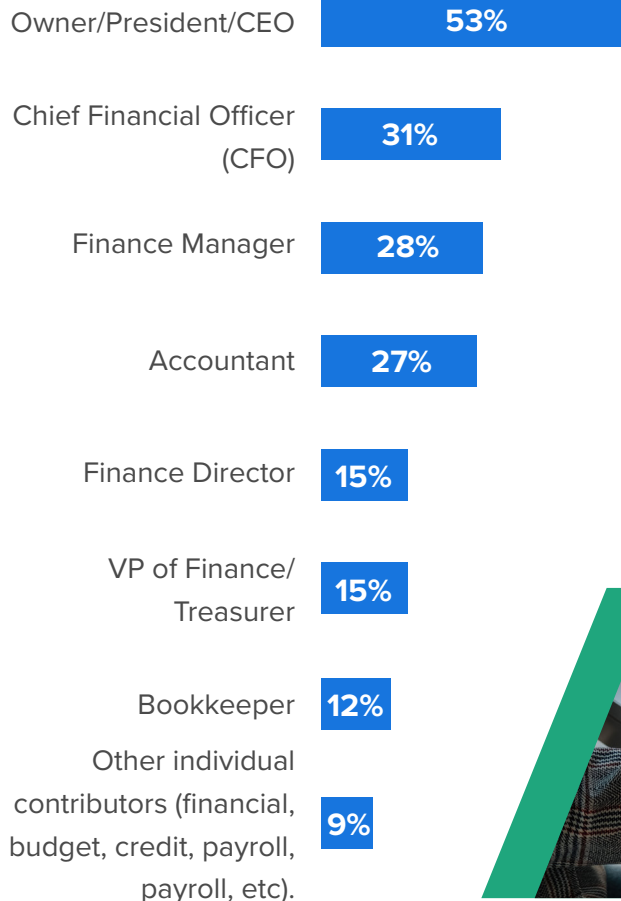


SMBs with fewer than 20 employees tend to be more concerned with the tactical chores of managing cash flow and reconciling financial information than larger peers—most likely because 51% of them are still using spreadsheets or manual methods for accounting functions.

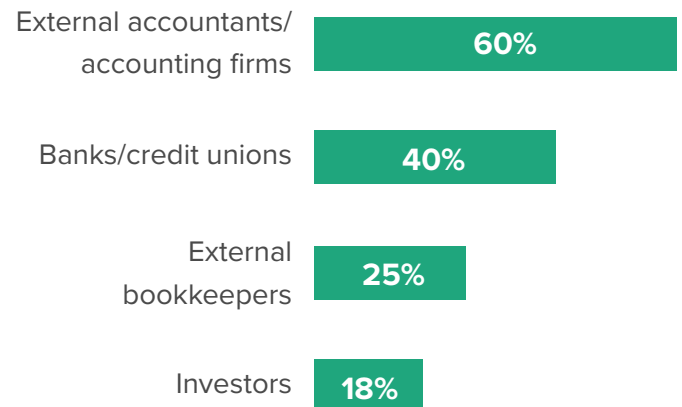
	#1	#2	#3
1-19 employees	Difficult to manage cash flow	Too much time/manual effort for reconciliation	Tough to hire/retain staff
20-99 employees	Tough to hire/retain staff	Reskilling staff for new requirements	Takes too long to produce reports
100-999 employees	Securing sensitive financial/customer data	Reskilling staff for new requirements	Tough to hire/retain staff
1,000-2,500 employees	Securing sensitive financial/customer data	Reskilling staff for new requirements	Tough to hire/retain staff

# SMBs Rely on Both Internal and External Resources for Financial Management

Which of the following types of salaried employees manage financials for your company? (All SMBs)



Which of the following third-parties provide your company with financial management services? (All SMBs)



Business owners/presidents are most likely to manage financials for 1-99 employee SMBs, but they continue to play a role in about one-third of larger businesses as well.

As companies grow, the greater the number and the types of employees that are involved in managing financials.

**The CFO title much more common once companies cross the 50 employee threshold:**



12% of SMBs with fewer than 50 employees have a CFO, while 53% of those with more than 50 employees have one.

**External accountants are the most frequently used third-party resource for SMBs of all sizes:**



Only 31% of one-employee businesses have an external accountant. This number jumps to 65% once businesses have 10-19 employees.

Larger SMBs use a greater percentage and a greater variety of all types of external service providers than smaller counterparts.

# The SMB Accounting/Financials Solution Trajectory Has Clear Break Points

There are clear break points for solutions to manage financials:



43% of solopreneurs manage this function without any software.



Once SMBs have 2-4 employees, the use of accounting software jumps to 48%.

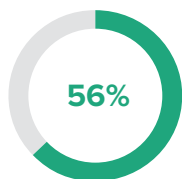


Almost all SMBs with 20 or more employees are using purpose-built accounting or financial management software.

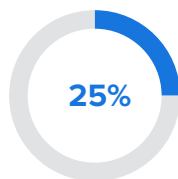


Financial management software becomes the norm for managing accounting and financials for SMBs with 250 or more employees.

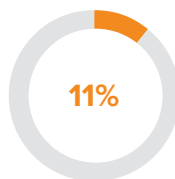
What is the primary software tool your company relies on to manage accounting/financials at your company? (All SMBs)



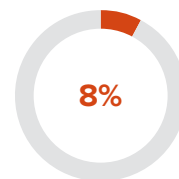
Accounting software  
(e.g., QuickBooks, Xero,  
etc.)



Financial management  
software that is part of a  
business management  
suite (e.g., Workday,  
Acumatica, etc.)



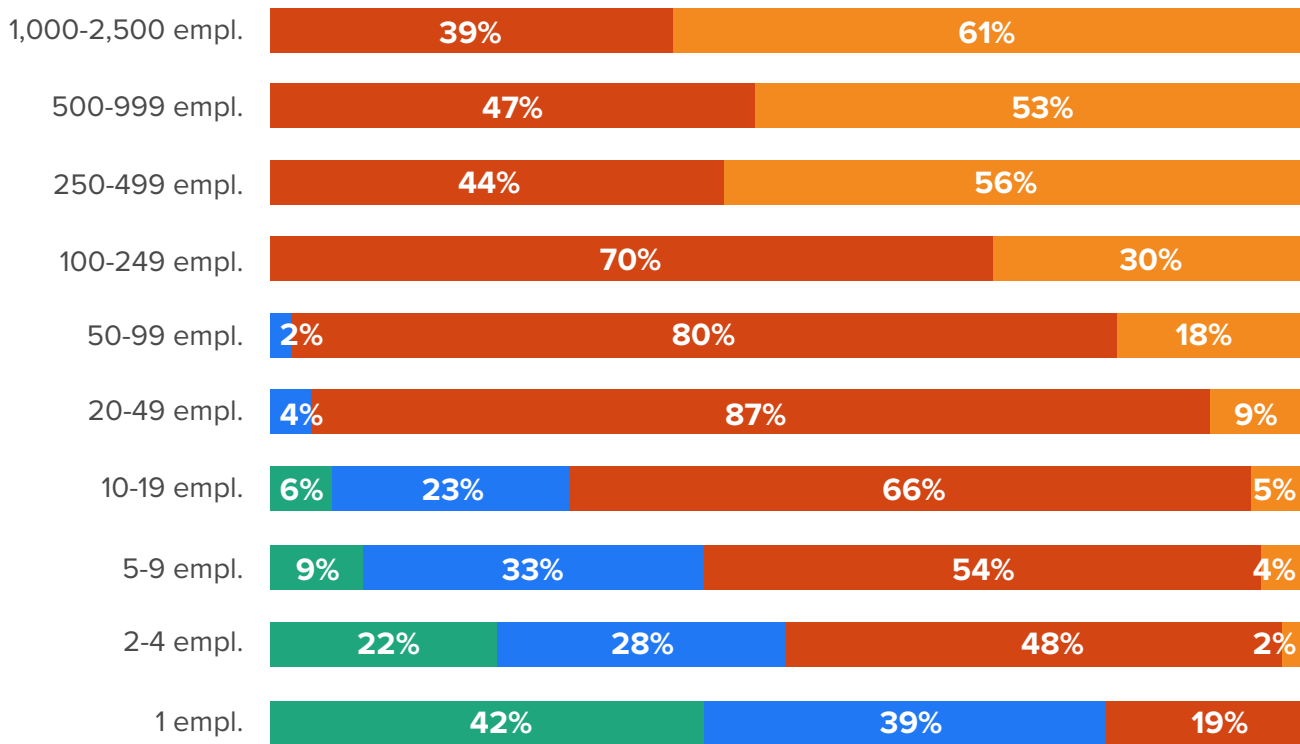
Microsoft Excel/  
Google Sheets/other  
spreadsheets



We don't use software  
to manage accounting/  
financials







- We don't use software to manage accounting/financials
- Microsoft Excel/Google Sheets/other spreadsheets
- Accounting software (e.g., QuickBooks, Xero, etc.)
- Financial management software that is part of a business management suite (e.g., Acumatica, NetSuite, etc.)



# Most SMBs Are Satisfied with Their Current Accounting/Financial Management Solution

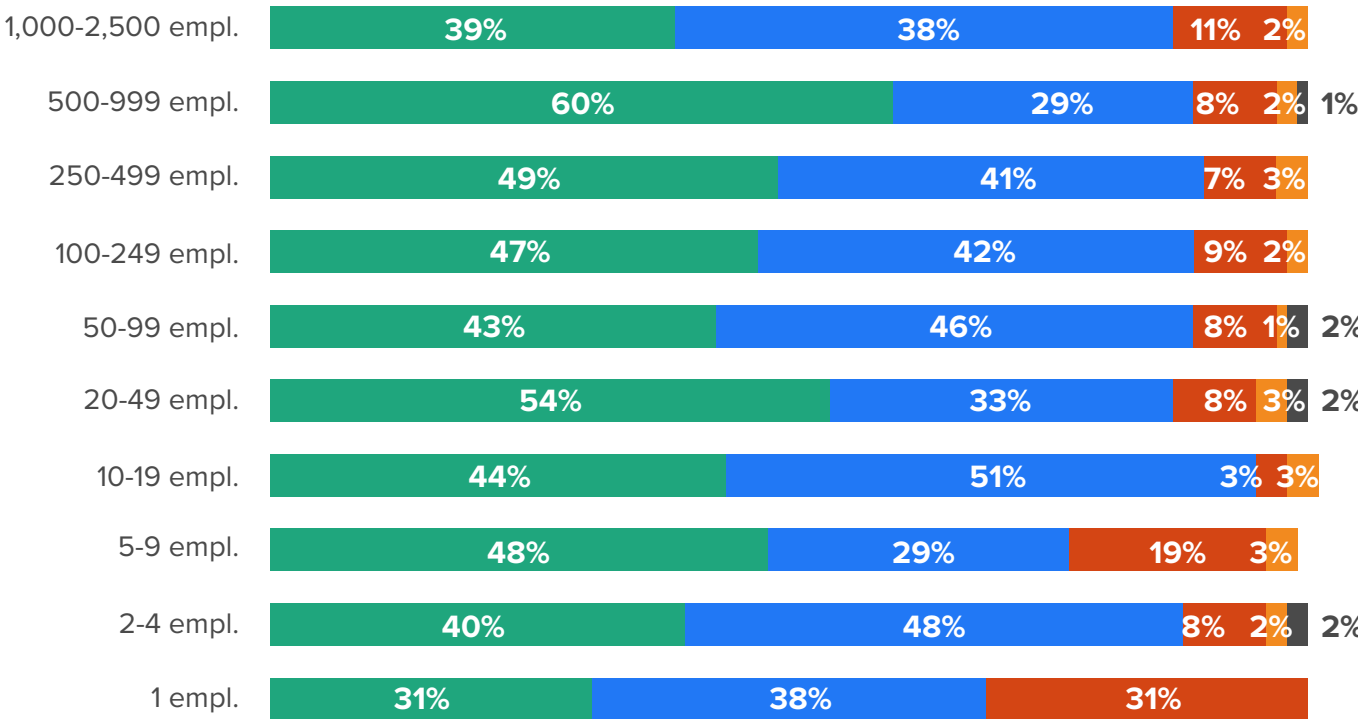
Most companies tend to stick with a tried-and-true method to manage accounting and financial functions until that method can no longer meet critical requirements. For the most part, SMBs are satisfied with how they're managing this aspect of their businesses.

As a result, they are unlikely to seek out and switch to new solutions unless they experience significant growth, change their business models, merge with or acquire other companies, or believe that a new solution will provide them with significantly greater automation, analytics, integration, time/labor savings, or other key benefits.

How satisfied are you that your accounting/financial management solution is helping you to meet your financial management goals? (All SMBs)



48% Very satisfied  
40% Somewhat satisfied  
9% Neutral  
3% Dissatisfied



Very satisfied   Somewhat satisfied   Neutral  
Somewhat dissatisfied   Very dissatisfied

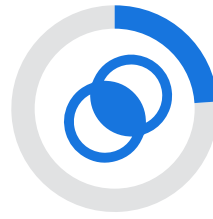
# The Move to the Cloud Is Well Underway

The migration to cloud-based accounting and financial management solutions is well underway in the SMB market:



**35%**

only use cloud-based software.

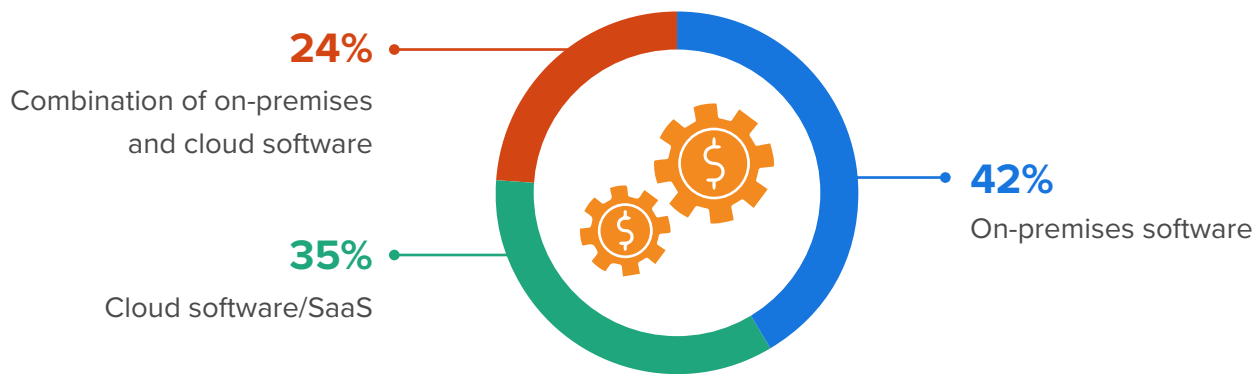


**24%**

use a combination of cloud and on-premises solutions.

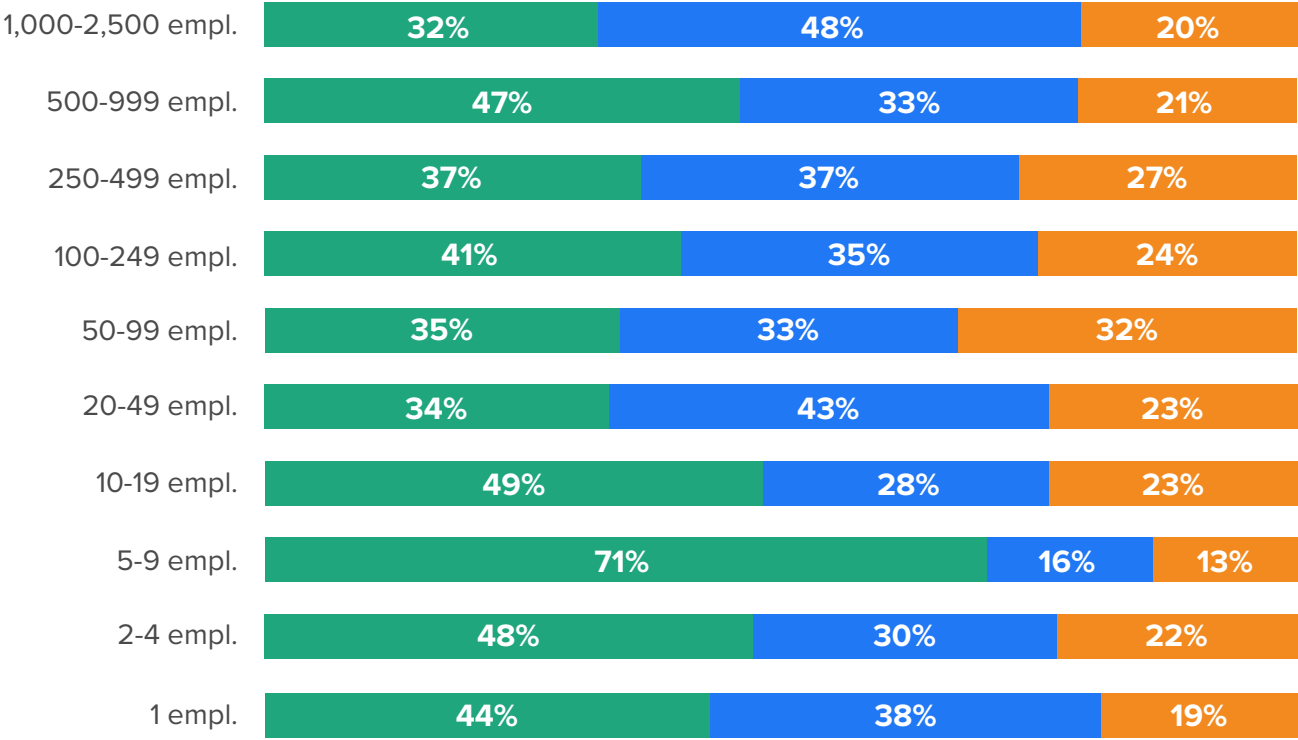
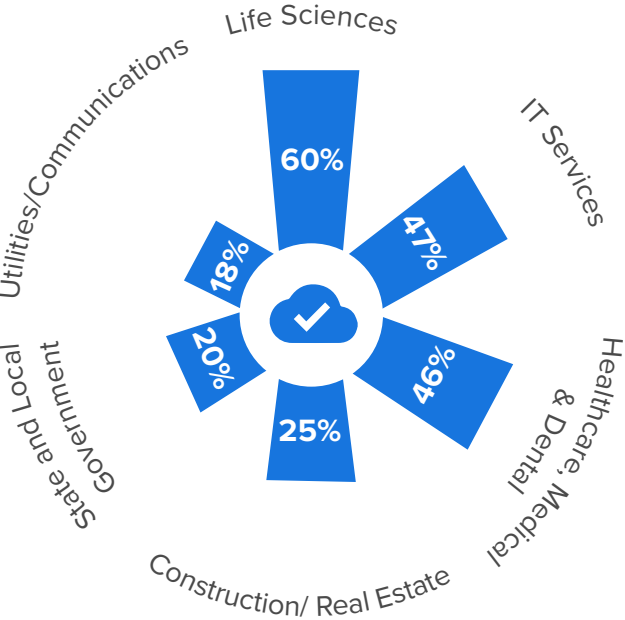
It's likely that in many cases, hybrid users are employing a cloud-based financial management solution, and also using spreadsheets. There's no definitive trend line for the cloud based on employee size, but some industries are clearly outpacing others in this journey.

**Do you currently use on-premises software, cloud software, or a combination of on-premises and cloud software to manage financial functions?\***





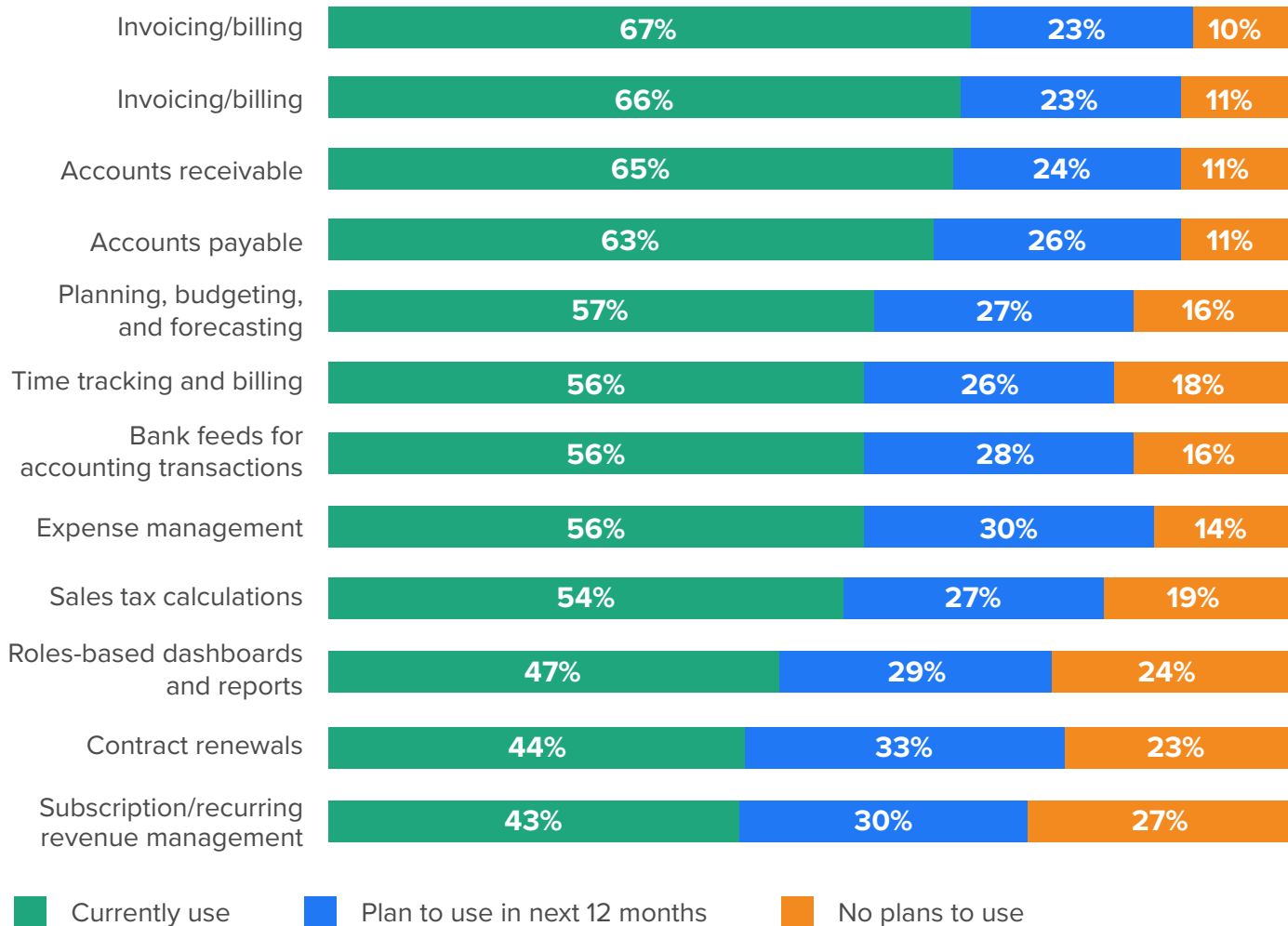
Top 3 Most and Least Likely Industries to Use Cloud Software



- On-premises software
- Cloud software/SaaS
- Combination of on-premises and cloud software

# Use of and Plans for Ancillary Financial Solutions Is High Among SMBs That Use Accounting/Financial Management Software

Does your company currently use, plan to deploy in the next 12 months, or have no plans to use software (EXCLUDING SPREADSHEETS) to automate and manage the following financial functions?\*



Most SMBs that use a dedicated accounting and financial management solution are also likely to be taking advantage of ancillary financial applications—whether the functionality is part of their core financial solution or purchased as an add-on.

As companies grow, so do the number and types of ancillary solutions that they deploy.

**The key reasons why SMBs don't use these solutions vary by solution. For example:**



“Manual methods/spreadsheets work well for us”: Accounts receivable, accounts payable, expense management, planning and budgeting.



“We outsource this to a third-party service provider”: Payroll.



“We don't have this function in our company”: Sales tax calculation, contract renewal, roles-based dashboards, revenue management.





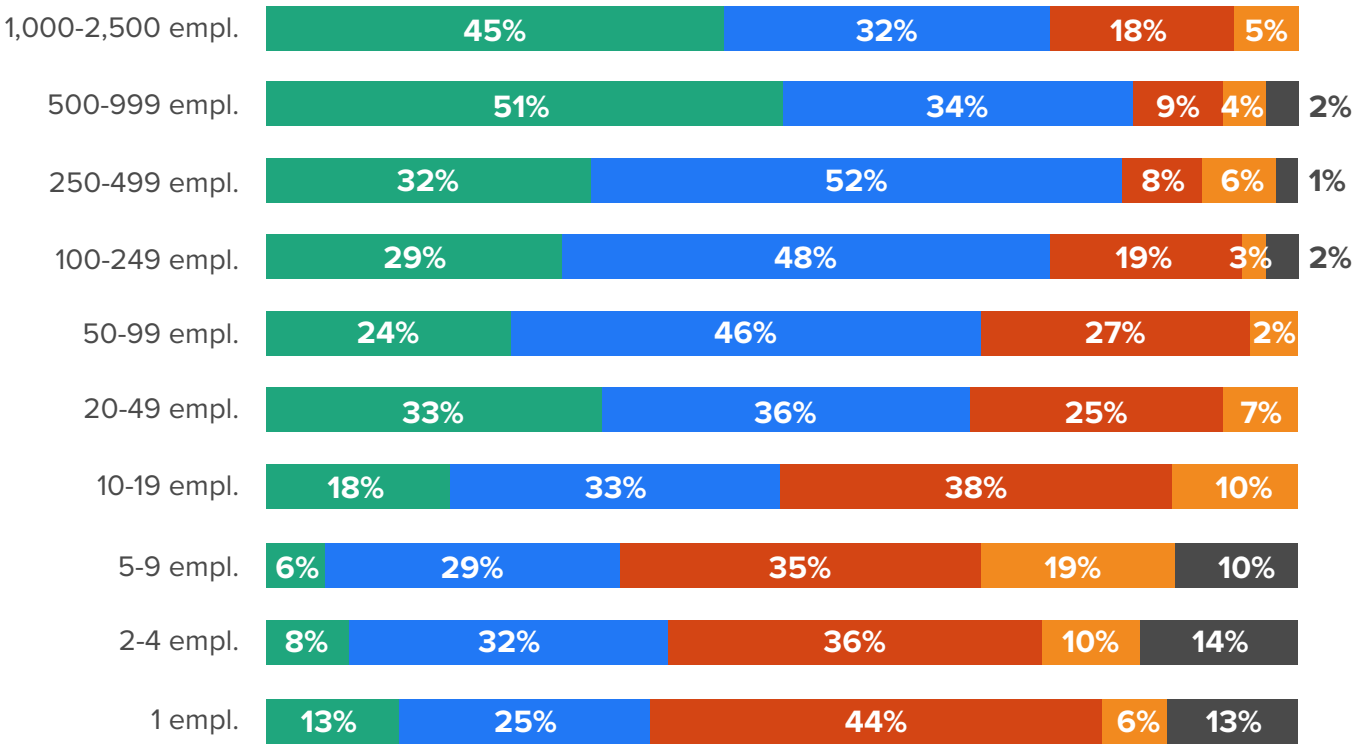
# SMBs Show a Strong Preference to Buy Cloud-based Financial Applications The Next Time They Need a New Solution



Cloud adoption will only continue to rise, with **70%** of SMBs expressing a preference for cloud solutions the next time they need a new financial application.



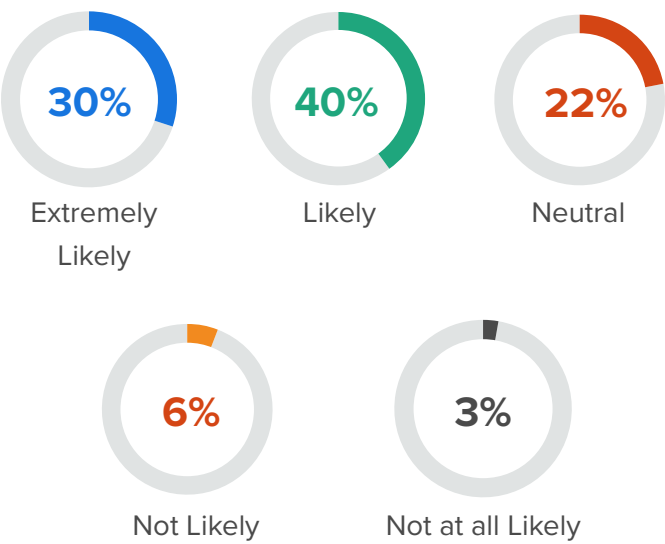
Larger SMBs are leading the charge, and some industries show a much stronger preference for the cloud than others



Extremely Likely    Likely    Neutral    Not Likely    Not at All Likely

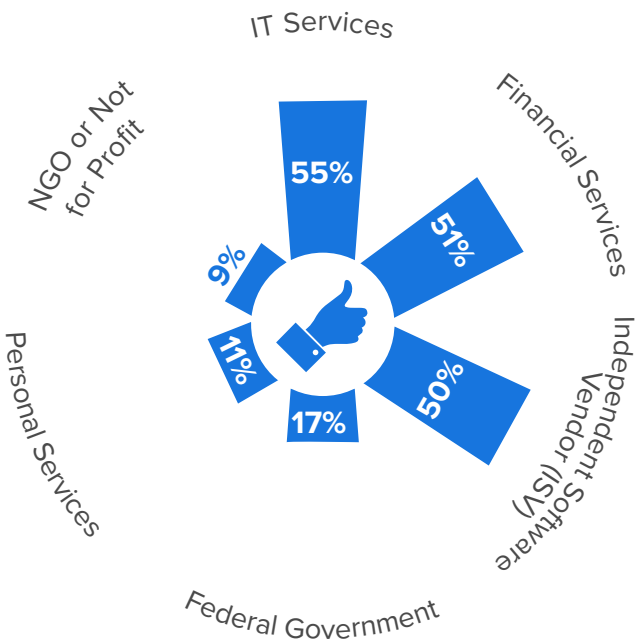


How likely is your business to select a cloud/ SaaS solution the next time you need to buy a new application to help you manage financial functions?\*



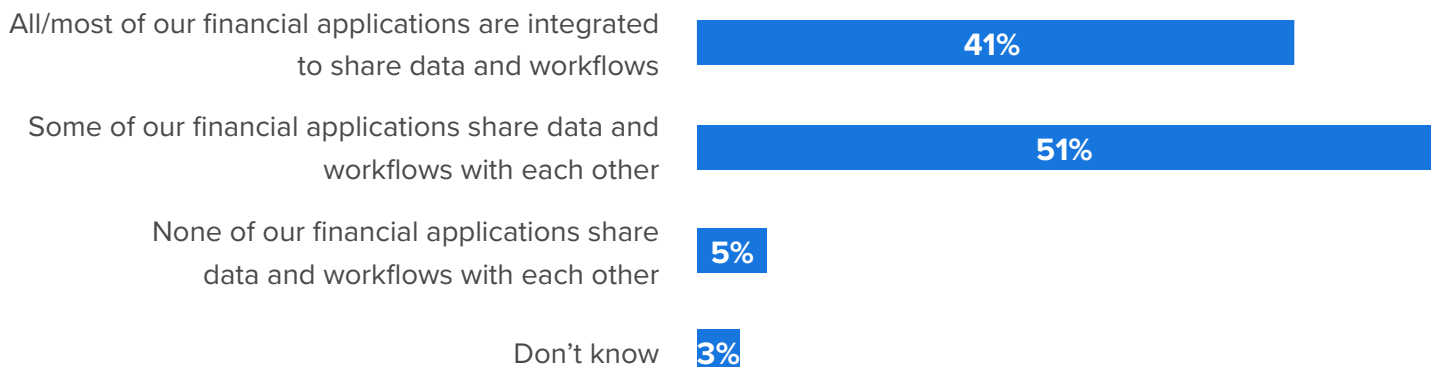
*\*SMBs that use accounting/financial management software*

Top 3 Most and Least Likely Industries to Select a Cloud Solution

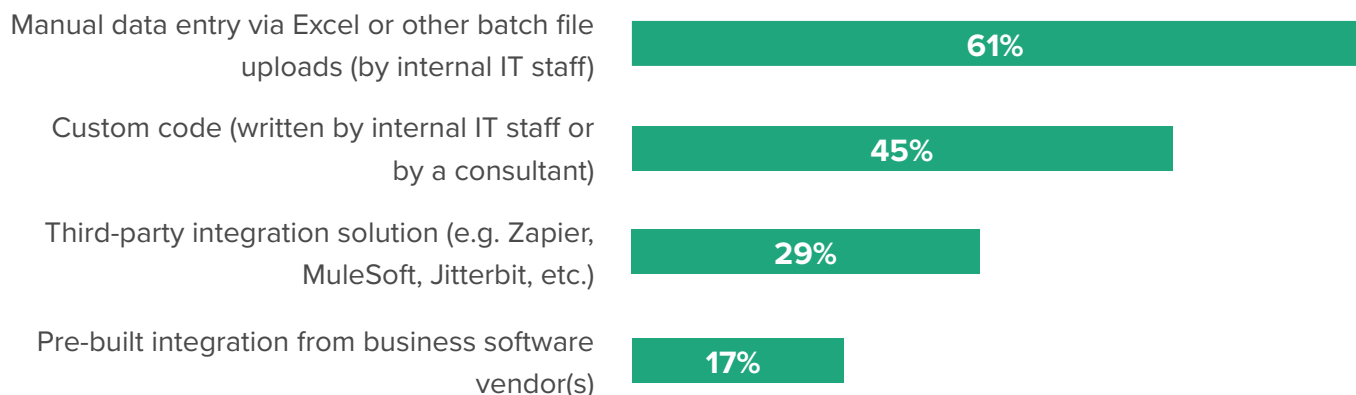


# SMBs Rely Heavily on Manual Methods and Custom Code to Integrate Financial Management Solutions

To what level are the financial management solutions your business uses integrated with each other?\*



To what level are the financial management solutions your business uses integrated with each other?\*



SMBs are very likely to have at least partially integrated the financial applications that they use.

The level of integration correlates closely with company size. In general, the bigger the SMB, the further along they are in integrating these applications. For instance:



Over **50%** of SMBs with more than 500 employees said almost all of these applications are integrated.



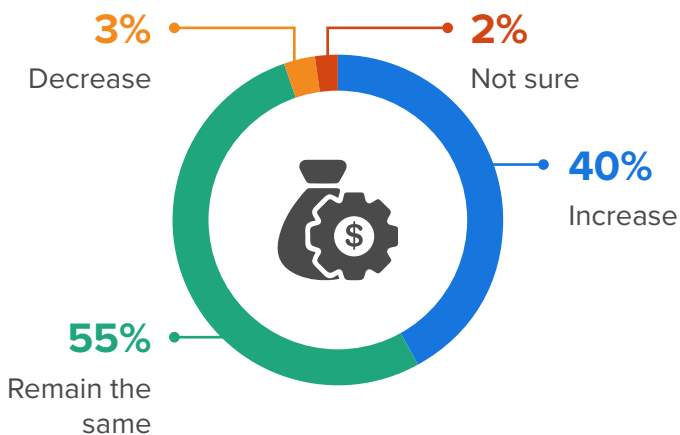
Only about one-quarter of SMBs with fewer than 20 employees said almost all of these applications are integrated.



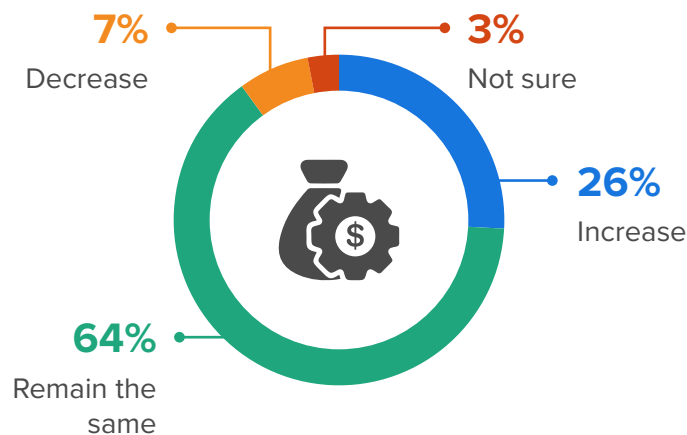
But, regardless of company size, the majority still depend on manual data entry and batch file uploads and/or custom code to accomplish this—leaving ample opportunity for vendors with more automated and streamlined integration solutions to make headway.

# SMB Budgets for Financial Management Software and Services Will Most Often Remain Flat

Do you expect your company's spending for financial management software to increase, remain the same, or decrease? (All SMBs)



Do you expect your company's spending for outsourced financial management services to increase, remain the same, or decrease? (All SMBs)



Spending for financial management software and outsourced financial management services will remain flat for most SMBs.

**SMBs are more likely to forecast spending increases for software than for services:**



**40%** expect to boost software spending, while just **26%** plan to raise spending for outsourced services.



As software continues to automate more of the accounting functions that accountants and other third-party providers have traditionally supplied, this trend will persist.

**These trends do vary by company size:**



Roughly two-thirds of SMBs with more than 250 employees plan to increase spending for financial management software. This percentage drops below **50%** for companies with 100-250 employees, and continues to decline with company size.

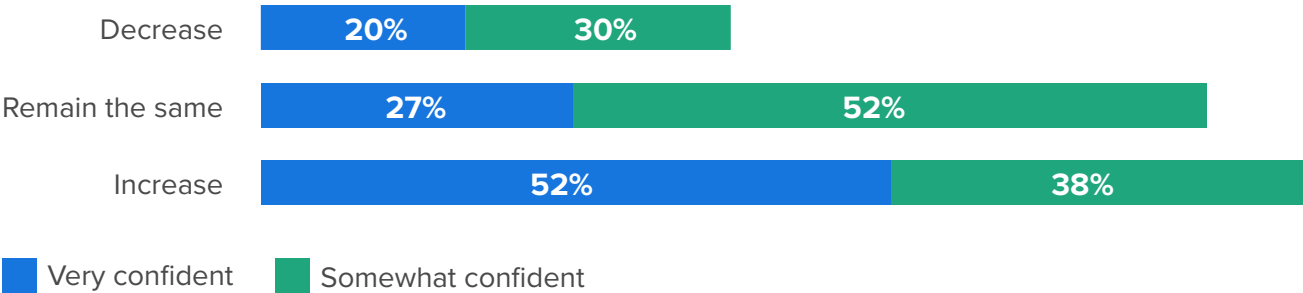


About one-third of SMBs with more than 50 employees plan to spend more on outsourced services. For those with 20-49 employees, this percentage drops to **26%**, and continues to shrink as company size decreases.

# SMBs That Plan to Increase Financial Management Software Are Much More Confident and Optimistic Than Other SMBs

## Confidence

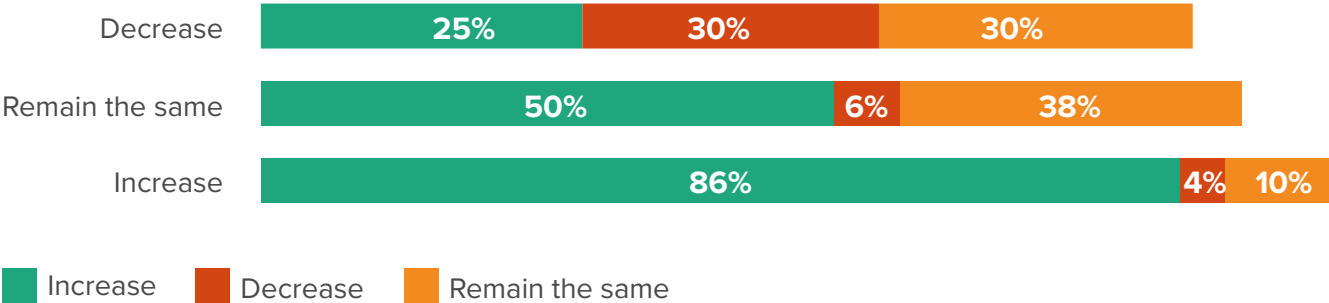
Expected spending change for financial management software



Confidence level to adapt to changing business conditions

## Optimism

Expected spending change for financial management software



Revenue expectations





SMBs that plan to increase spending for financial management software are significantly more likely to have confidence in their ability to adapt to unexpected or changing business than those that expect to decrease or make no adjustments to spending. They are also more prone to forecast an increase in revenues.



SMBs that expect to spend more on software are 2.6 times more likely to be very confident about their ability to navigate change than those planning to cut spending, and 1.9 times more likely to be very confident than those with flat spending plans.



SMBs that intend to boost software spending are 3.4 times more likely to expect revenues to rise in the next fiscal year than those planning to decrease spending, and 1.7 times more likely to anticipate revenue increases than those who expect that spending will remain the same.

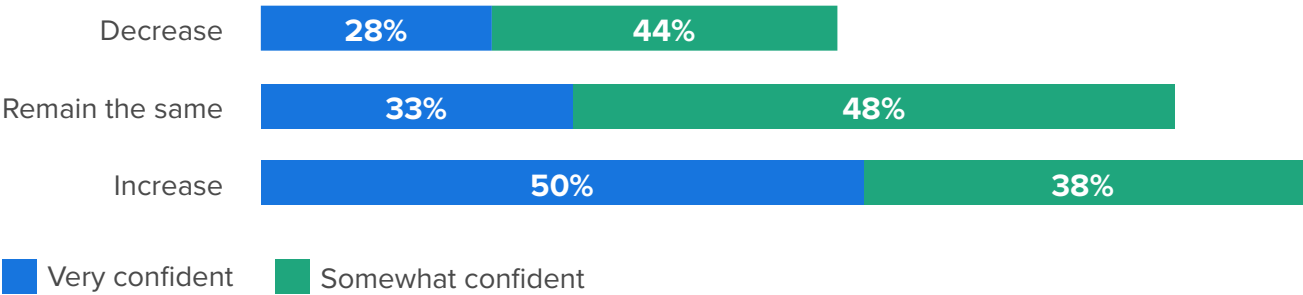
This correlation is likely because companies that invest more to automate financial workflows, reduce data conflicts and errors, support new business processes—and to get richer, more accurate, and more immediate access to information and insights—are more agile and better-equipped to make informed business decisions.



# Spending Plans for Outsourced Financial Management Services Also Correlate with Business Confidence and Optimism

## Confidence

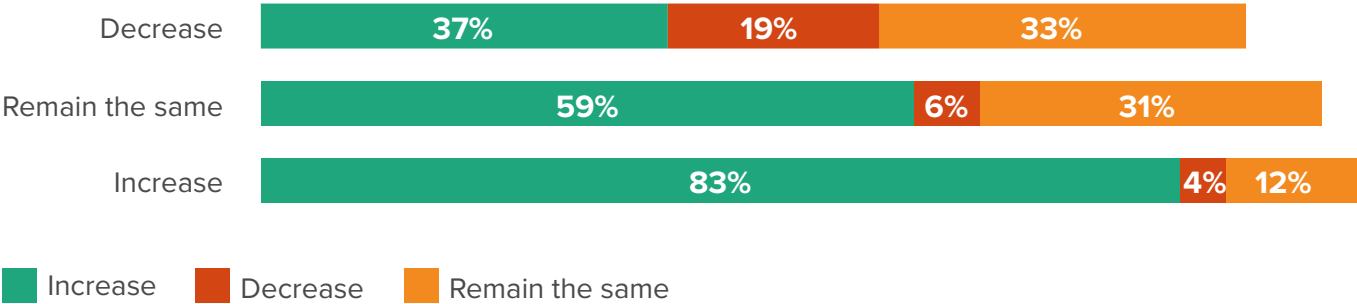
Expected spending change for financial management services



Confidence level to adapt to changing business conditions

## Optimism

Expected spending change for financial management services



Revenue expectations



SMBs that plan to increase spending for outsourced financial management services also have more confidence in their ability to adapt to unexpected/changing business conditions, and have higher revenue expectations, than those that plan to decrease or make no adjustments to spending. They are also more likely to predict that revenues will rise than other SMBs. Although these correlations are less pronounced than they are for software, they are still significant.



SMBs that expect to spend more on outsourced services are 1.8 times more likely to be very confident than those planning to cut spending, and 1.5 times more likely than those with flat spending plans.



SMBs that plan to boost outsourced services spending are 2.25 times more likely to expect revenues to rise in the next fiscal year than those planning to decrease spending, and 1.4 times more likely to anticipate increases than those who expect spending to remain the same.

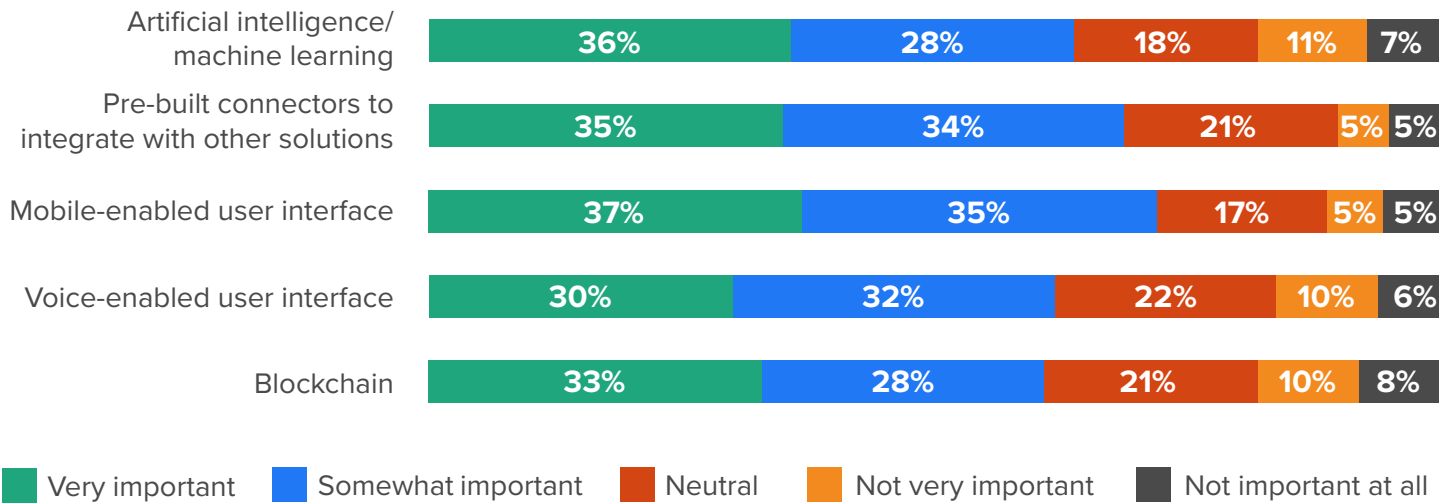
These differences may be because outsourcing services are providing businesses with guidance they need to solve new or complex financial problems without having to hire internal staff in a tight labor market. External experts may also provide deeper and more objective advice to help SMBs better respond to volatile market and economic conditions.





# New Technologies Are Much More Important to Larger SMBs Than Their Smaller Peers

How important do you think the following technologies will be to helping vendors to improve and modernize financial management solutions?\*



SMBs have a hard time deciding which technology is “most” important, as overall, about one-third rate each one as very important.

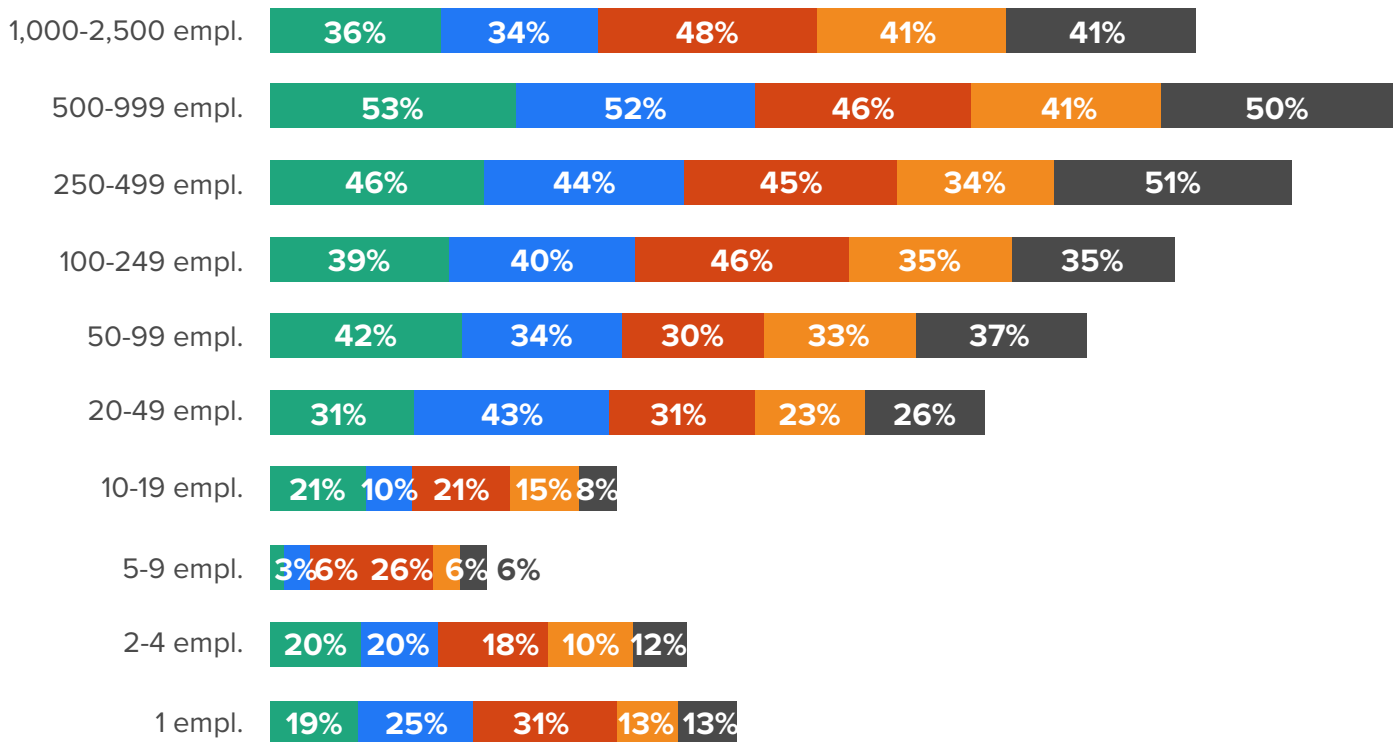


However, it’s clear that SMBs with 20 or more employees are much more likely to view all these technologies as very important than those with fewer than 20 employees.





## Percentage Viewing New Technologies as “Very Important” by Employee Size



■ Artificial intelligence/machine learning
 ■ Pre-built connectors to integrate with other solutions
 ■ Mobile-enabled user interface
 ■ Voice-enabled user interface
 ■ Blockchain



# Profile of Businesses Not Using Accounting/Financial Software

Overall, 19% of survey respondents reported that their companies did not use dedicated accounting/financial management software. All non-users of accounting/financial software had fewer than 20 employees.



**11%** said they use Microsoft Excel, Google Sheets, or other spreadsheets for this task.



**8%** said they don't use any software to manage this function.

The top reason cited for not using software is that “manual methods/spreadsheets have worked well for us.” Looking ahead:



33% of all non-users plan to deploy accounting/financial software in the next 12 months.



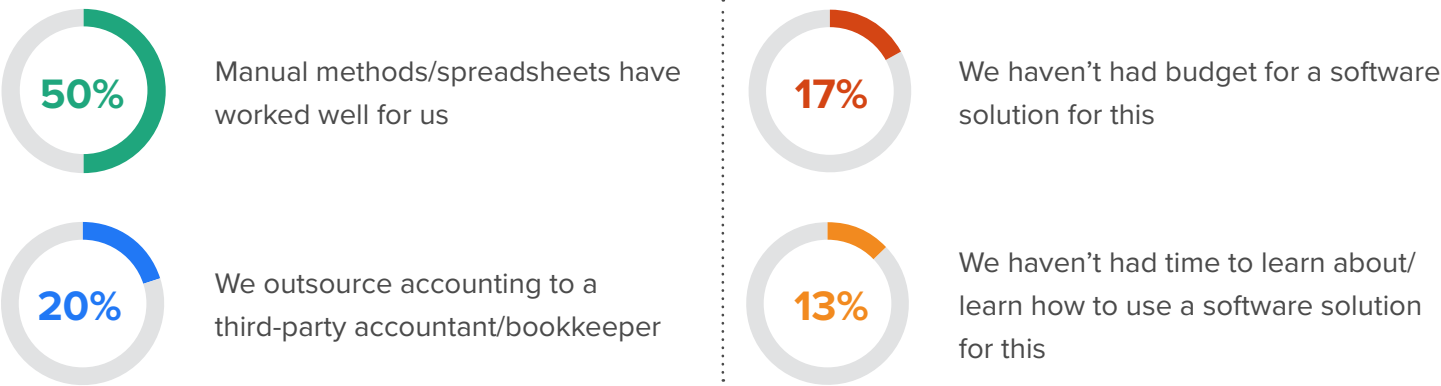
Companies with 5-20 employees are two to three times more likely to implement a dedicated accounting/financial management solution than those with 1-4 employees.



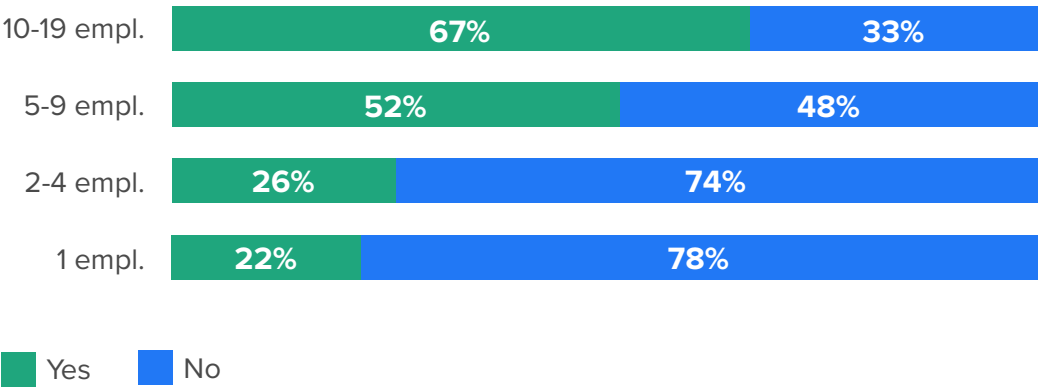
Intuit QuickBooks products (Self-Employed, Desktop, Online) are the top 3 brands being considered, followed by Xero.



What is the primary reason that you don't use accounting/financial management software?



Are you planning to deploy accounting/financial management software in the next 12 months?





## Takeaways



SMB fears about the potential negative impact that current macro trends may have on their businesses are widespread: 83% are concerned that inflation will adversely impact business, and three-quarters worry about recession and supply chain interruptions.



SMB confidence about their ability to successfully adapt to change is somewhat tempered overall. Larger SMBs are generally more confident than smaller ones, and there is significant variation by industry.



Despite the volatile business climate, 63% of SMBs expect revenues to rise in the next fiscal year. Optimism correlates closely with the number of employees, SMBs with more than 500 employees are roughly 1.5 times more likely to expect an increase than those with fewer than 10 employees.



Overall, top financial management challenges for SMBs focus on staffing issues and data security. However, SMBs with less than 20 employees said their biggest concerns are managing cash flow and reconciling financial information.



SMBs rely on a mix of internal and external resources for financial management. As companies grow, they use more and a greater variety of internal and external resources for this function.



There are clear break points for methods to manage financials: 43% of solopreneurs manage without any software. 48% of SMBs with 2-4 employees use dedicated financial software, and almost all SMBs with more than 20 employees use a dedicated solution. Once SMBs cross the 250 employee threshold, financial management software suites become the norm.







SMBs planning to spend more on financial management software and services are more confident in their ability to navigate change and more optimistic about future revenue performance than SMBs with decreasing or flat spending plans.



Migration to the cloud for financial management is well underway. 35% use a cloud-only solution, and 24% use a combination of cloud and on-premises software. 70% of SMBs are likely to select a cloud application the next time they need new financial management software.



The majority of SMBs have integrated at least some of their financial applications. But most continue to rely on custom code and manual data entry and batch file uploads to accomplish this.



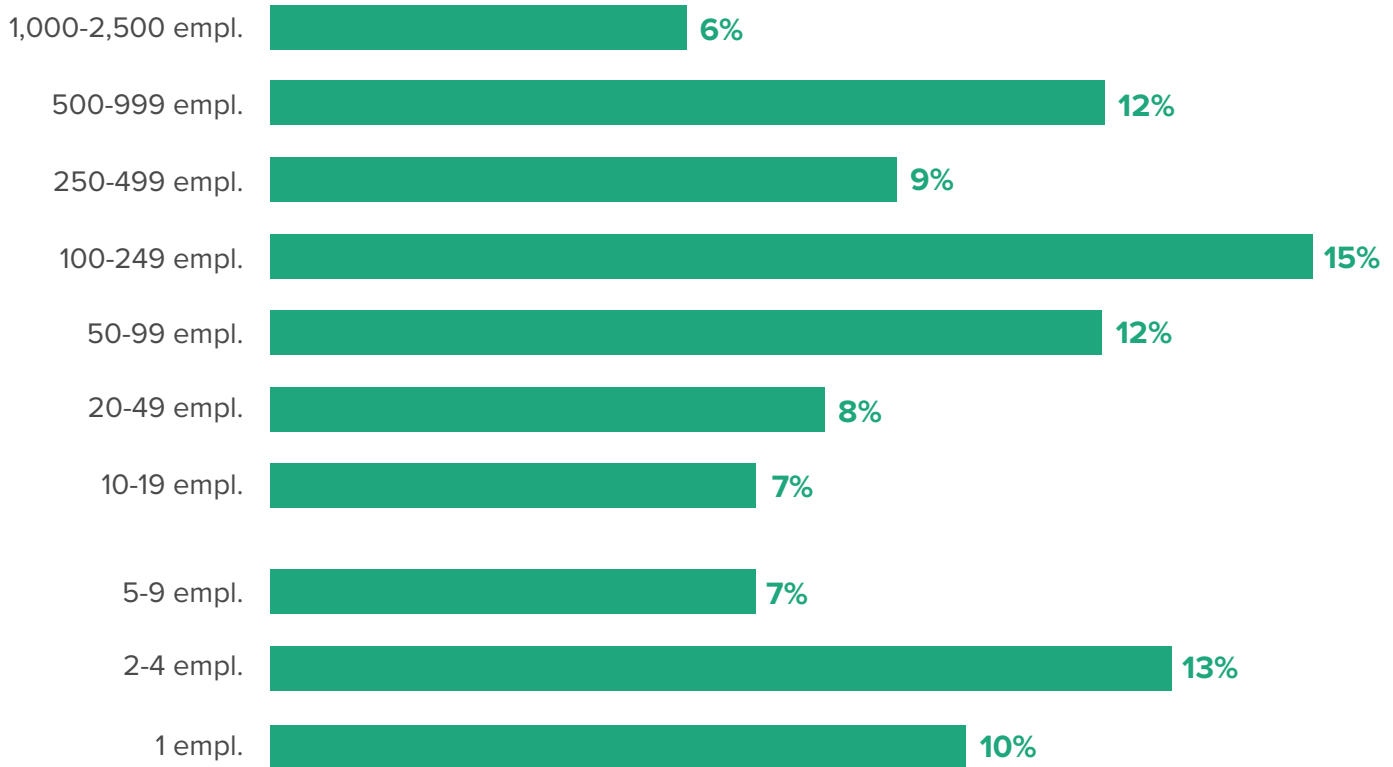
Larger SMBs view new technologies—e.g., AI/ML, mobile and voice-enabled interfaces, blockchain, etc.—as much more important to improving and modernizing financial management solutions than smaller peers.



## About the study

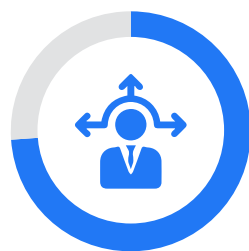
Unless otherwise noted, all data in this eBook is sourced from **SMB Group's What's Ahead for SMBs in Financial Management** survey. Data was collected in May 2022 via a web-based survey from a random sample of 751 completed survey responses.

### Employee Size Distribution\*



*\*Due to the nature of the study, respondents with 1-2 employees were screened out. For brevity, we will refer to the entire 1-2,500 group as SMB throughout this report.*

### Respondent Role in Financial Decision-Making



**74%**

Sole decision-maker



**19%**

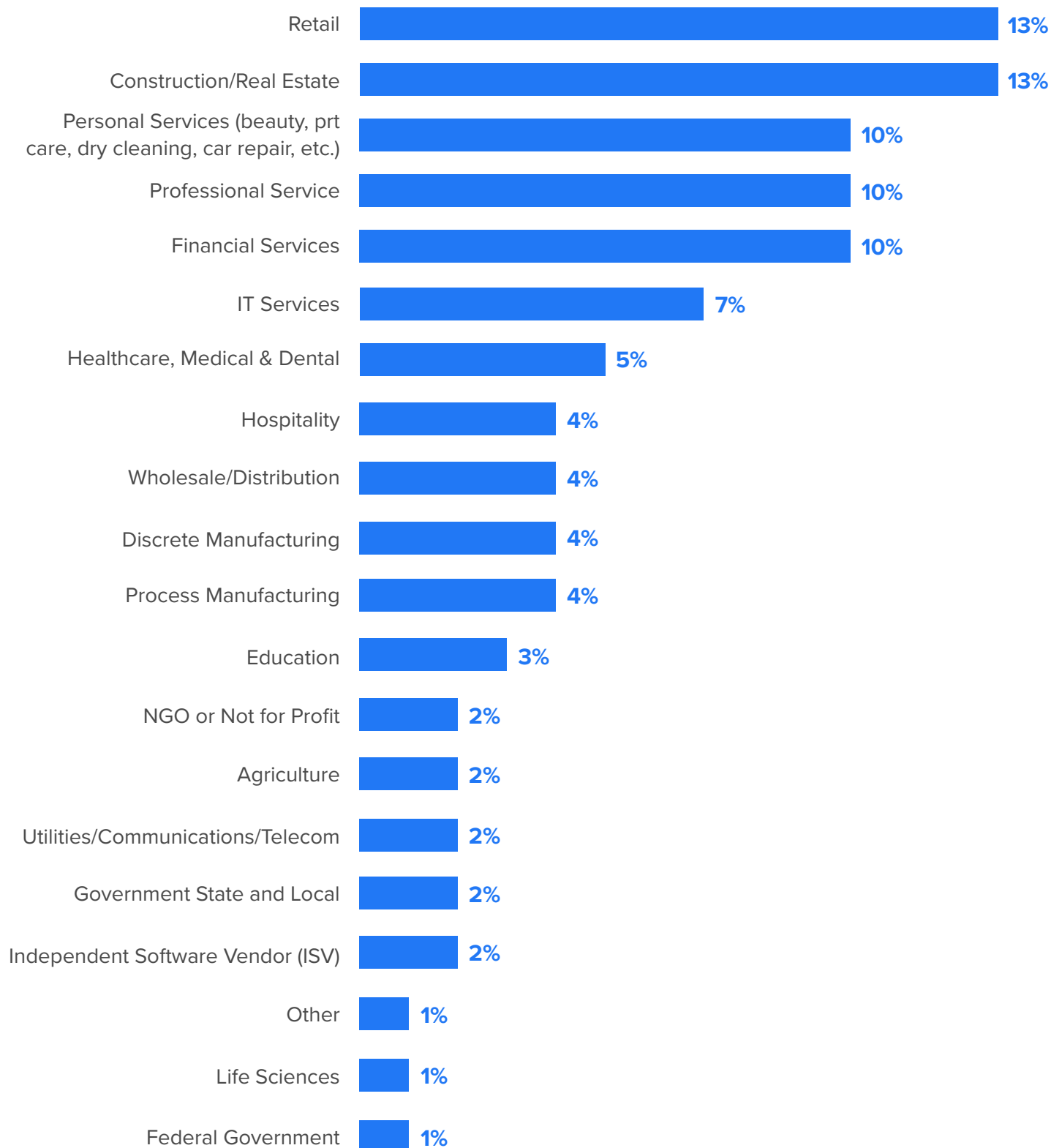
Joint decision-maker



**7%**

Influence/recommend

## Industry Distribution\*\*



**\*\*Low sample sizes in some industries; for directional guidance only. Industry charts show sample size of 670, excluding other and mining.**

SMB Group is a research, analysis, and consulting firm focused on technology adoption and trends among small and medium (1-999 employee size) and mid-market (1,000-2,500 employee size) businesses. Founded in 2009, SMB Group helps clients to understand and segment the SMB market, identify and act on trends and opportunities, develop more compelling messaging, and more effectively serve SMB customers.

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