

SMB BUSINESS AND TECHNOLOGY CHALLENGES AND PRIORITIES FOR 2023

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2022 was a turbulent year for SMBs. Even as many challenges resulting from the COVID-19 pandemic receded, others, including inflation and recession, have become top SMB concerns.

Amidst this continued volatility, SMB Group examines U.S. SMBs' challenges and priorities for 2023 in our SMB Business and Technology Priorities for 2023 survey. In November 2022, we surveyed 743 SMB decision-makers and influencers in SMBs (1-999 employees) and mid-market (1,000-2,500 employees) to understand their:

- Business outlook, concerns, and priorities.
- Plans to support business priorities with technology investments.
- Attitudes about the role and value of technology in their businesses, and challenges for technology adoption.

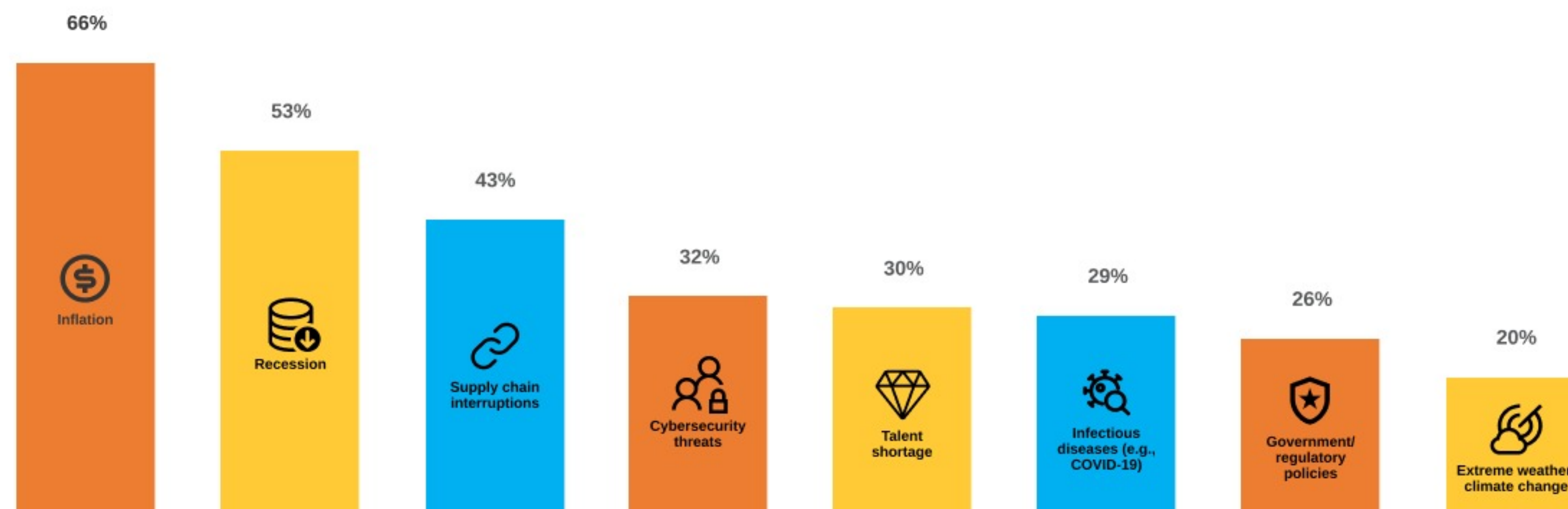
In this eBook, we share some of the key highlights from the study. For the sake of brevity, we refer to the entire sample as "SMBs" throughout this eBook.

SMBS COMBAT NEGATIVE HEADWINDS IN 2023

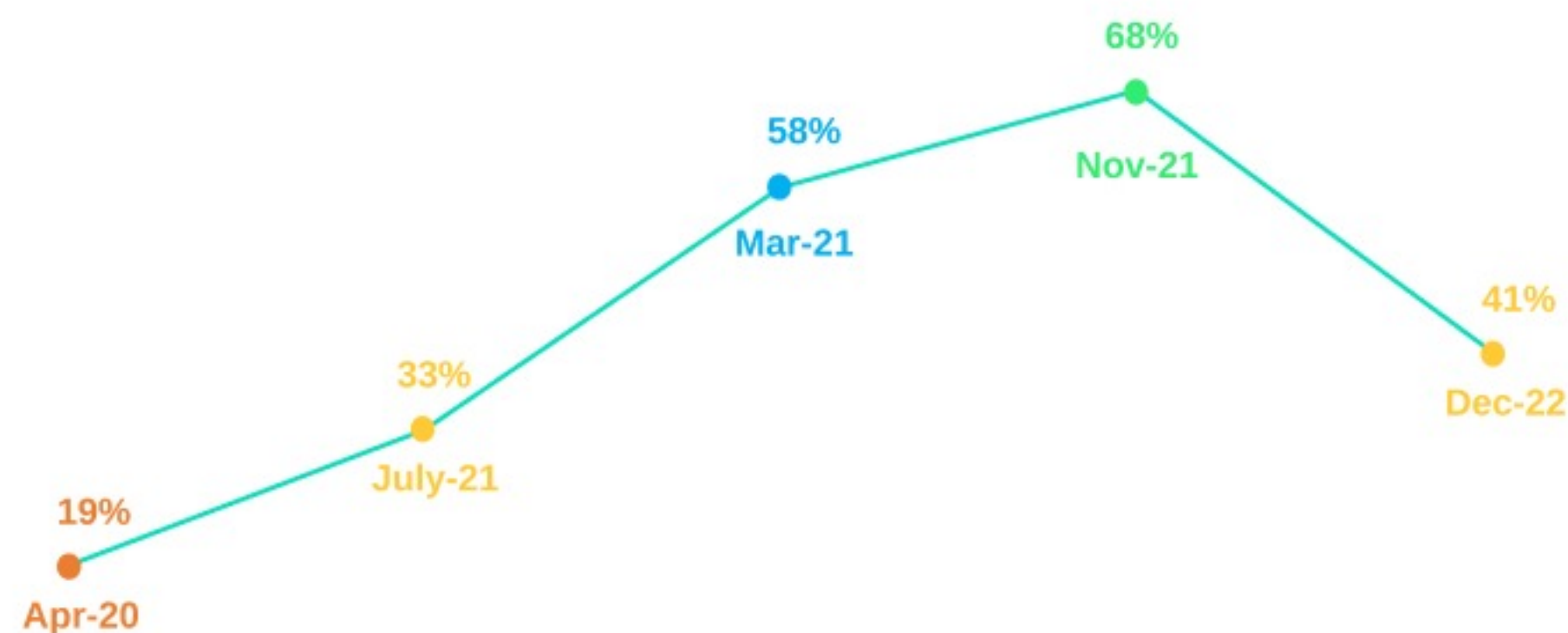
Concerns about inflation and recession dominate for SMBs, considerably overshadowing other worries about events beyond their control. These sentiments hold true for SMBs regardless of employee size or industry.

This has deflated SMB optimism about revenue performance—which had been steadily rising since the COVID-19 pandemic first struck. Heading into 2023, just 41% of SMBs forecast that revenues would rise, while 45% expected revenues to remain flat, 10% predicted they would decline, and 4% said they didn't know. Larger businesses were more likely predict a revenue uptick than smaller ones, with wide variations by industry as well.

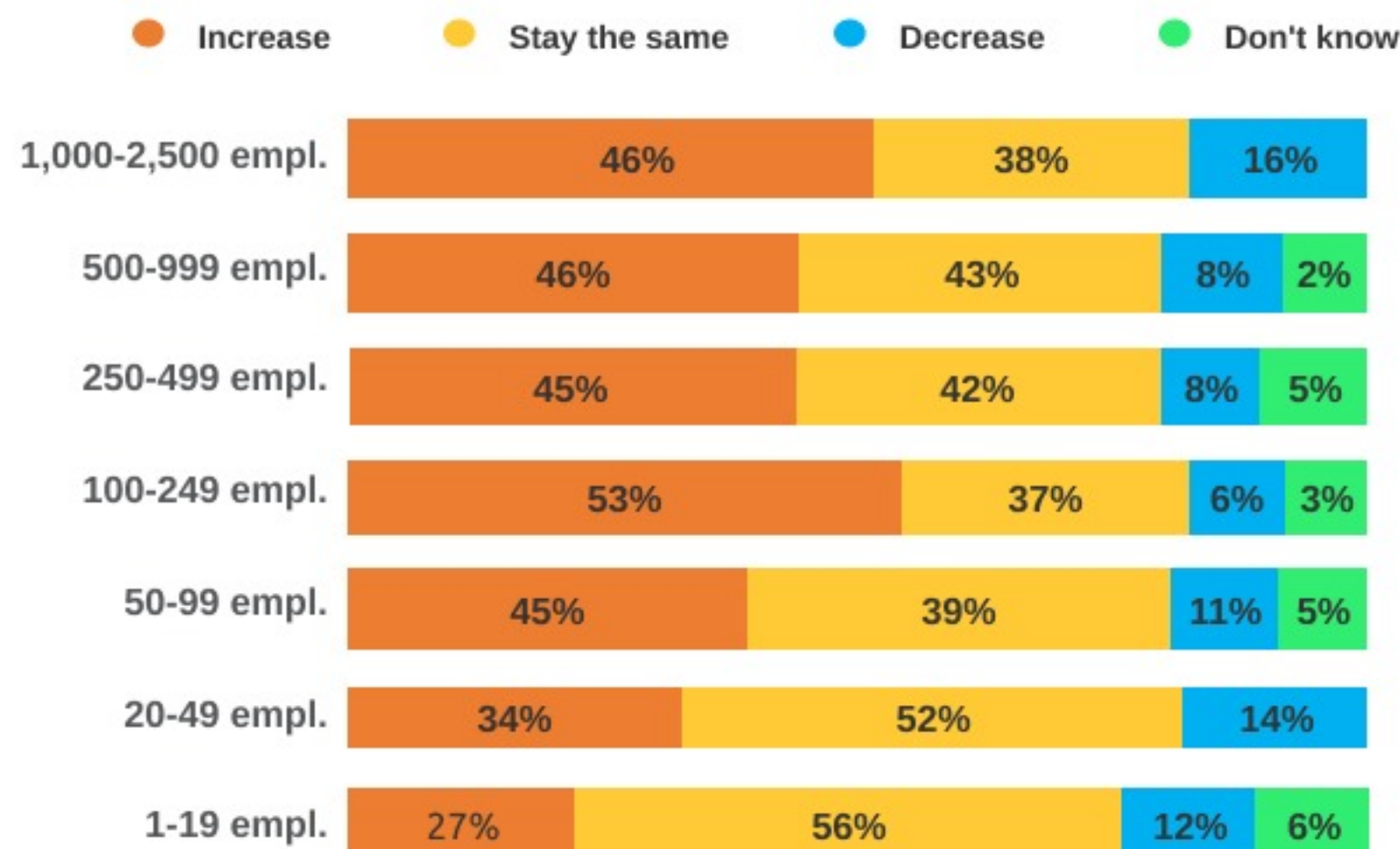
PERCENTAGE OF SMBS THAT ARE VERY CONCERNED THAT MACRO TRENDS WILL HAVE A NEGATIVE IMPACT ON THEIR BUSINESSES IN 2023



COMPARISON OF SMBS EXPECTING REVENUE INCREASES FROM APRIL 2020 – DECEMBER 2022



DO YOU EXPECT 2023 REVENUES TO INCREASE, DECREASE, OR REMAIN THE SAME WHEN COMPARED TO 2022 REVENUES?



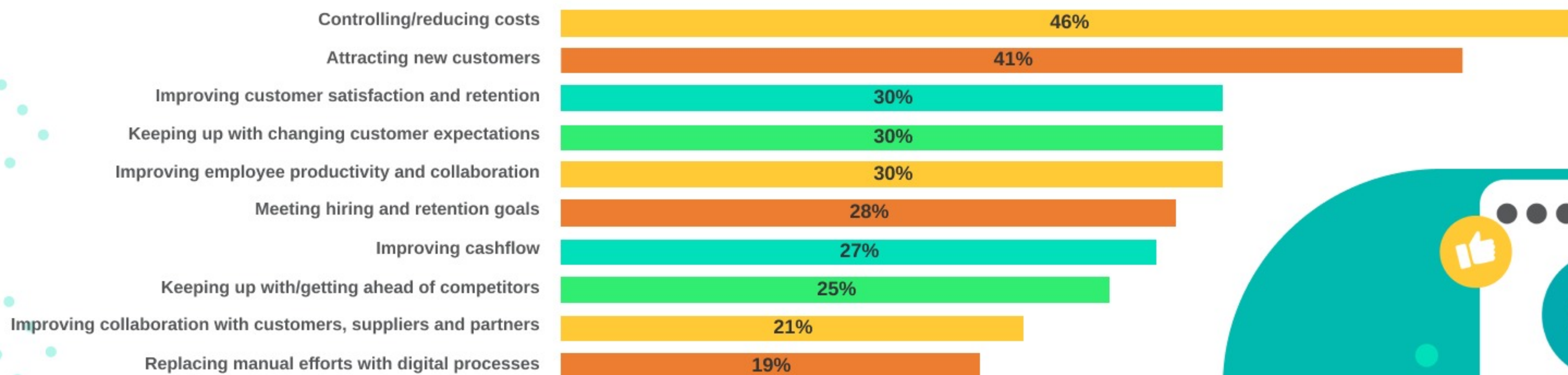
TOP BUSINESS CHALLENGES FACING SMBS IN 2023

SMBs are always cost-conscious. But for the first time in several years, they rank controlling and reducing costs as their top business concern. Customer issues—attracting new business, improving satisfaction, and keeping up with changing expectations—underscore growth challenges SMBs currently face, as do their needs to improve employee productivity and secure talent.

Smaller SMBs are most concerned with cost control and attracting new customers. As employee size grows, improving employee productivity and collaboration become a higher priority.

SMBs will place a premium on cost-effective solutions that can quickly deliver tangible improvements in targeted areas. To capture SMB consideration in the current cost-conscious environment, vendors will need to work extra hard to craft tailored marketing strategies and offer evidence—such as customer stories and key performance indicator studies—that demonstrate that their solutions provide SMBs with measurable results.

WHAT ARE THE TOP THREE OPERATIONAL CHALLENGES YOUR BUSINESS FACES?



SMB WORKPLACE LOCATIONS STABILIZE AND HIRING SLOWS

Due to the COVID-19 pandemic, remote working boomed. As the pandemic has receded, just over half SMB employees are working solely from company locations. But many SMBs and their employees discovered the benefits of hybrid and remote work models, and many SMBs continue to provide the rest of their employees with these options.

As important, about three-quarters of SMBs have settled into a fairly stable mix of remote, onsite, and hybrid work locations. This holds true across SMB employee size bands.

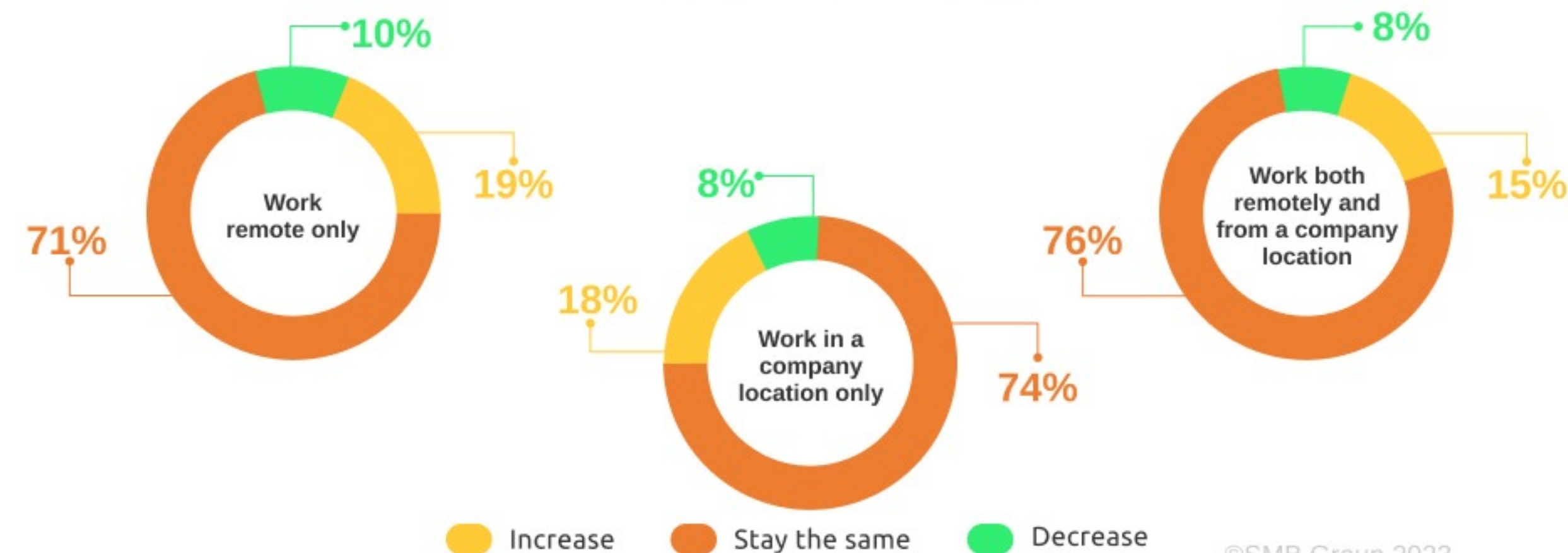
Meanwhile, hiring plans are slowing down amidst inflation and recession worries, coupled with the ongoing talent shortage. Overall, only about one-third of SMBs plan to hire additional employees in 2023. Larger businesses are much more likely to plan to increase their workforces than smaller ones:

- 44% of businesses with 100-2,500 employees said they plan to hire more employees.
- 20% of businesses with 1-99 employees said they expect to expand the workforce.

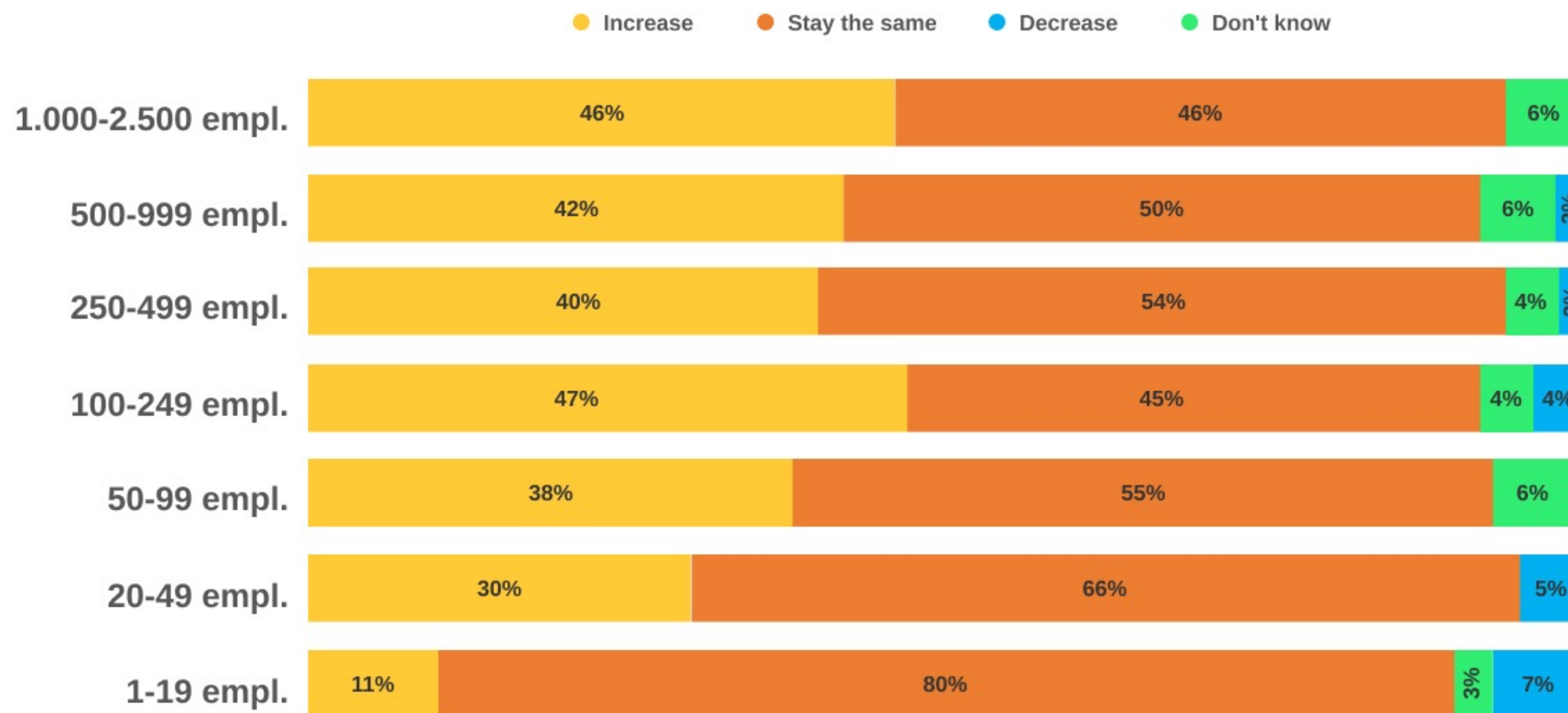
PERCENTAGE OF EMPLOYEES THAT WORK IN DIFFERENT LOCATIONS



DO YOU EXPECT THE PERCENTAGE OF EMPLOYEES WORKING IN EACH LOCATION TO INCREASE, DECREASE, OR REMAIN THE SAME?



DO YOU PLAN TO INCREASE, DECREASE, OR MAKE NO CHANGES TO STAFFING IN 2023?



30%

OF ALL SMBS PLAN TO HIRE ADDITIONAL EMPLOYEES IN 2023



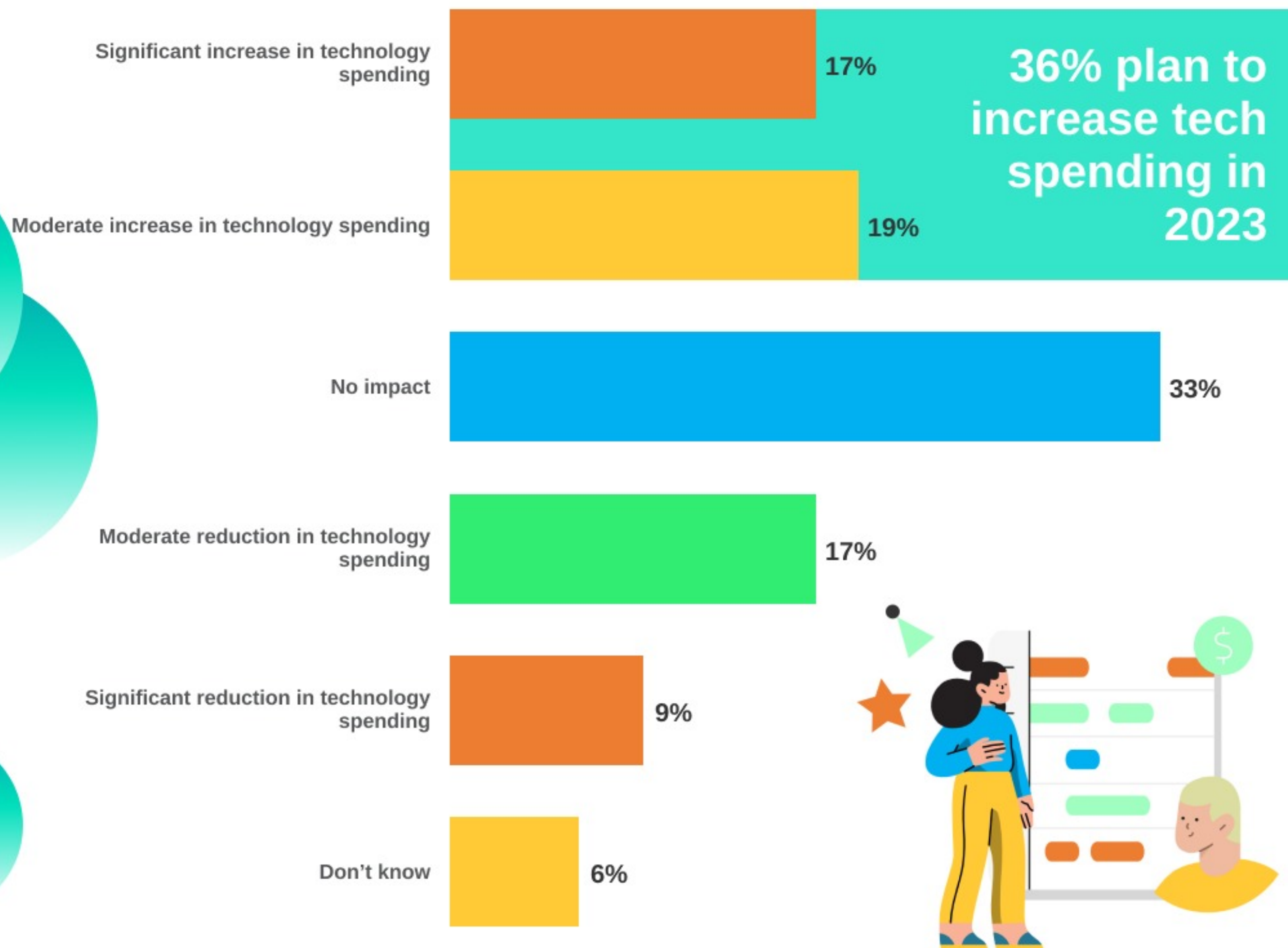
SMBS PLACE THEIR TECHNOLOGY BETS MORE CAREFULLY

79% of SMBs agree that the right technology solutions can help their businesses navigate through turbulent times. SMB enthusiasm for technology has grown partly as a result of the COVID-19 pandemic, when those that digitized key aspects of their businesses reaped many positive benefits—from automating business processes to save time and money, to reaching new markets and customers.

79%

OF SMBS AGREE THAT THE RIGHT TECHNOLOGY SOLUTIONS CAN HELP IMPROVE FINANCIAL PERFORMANCE IN UNCERTAIN TIMES

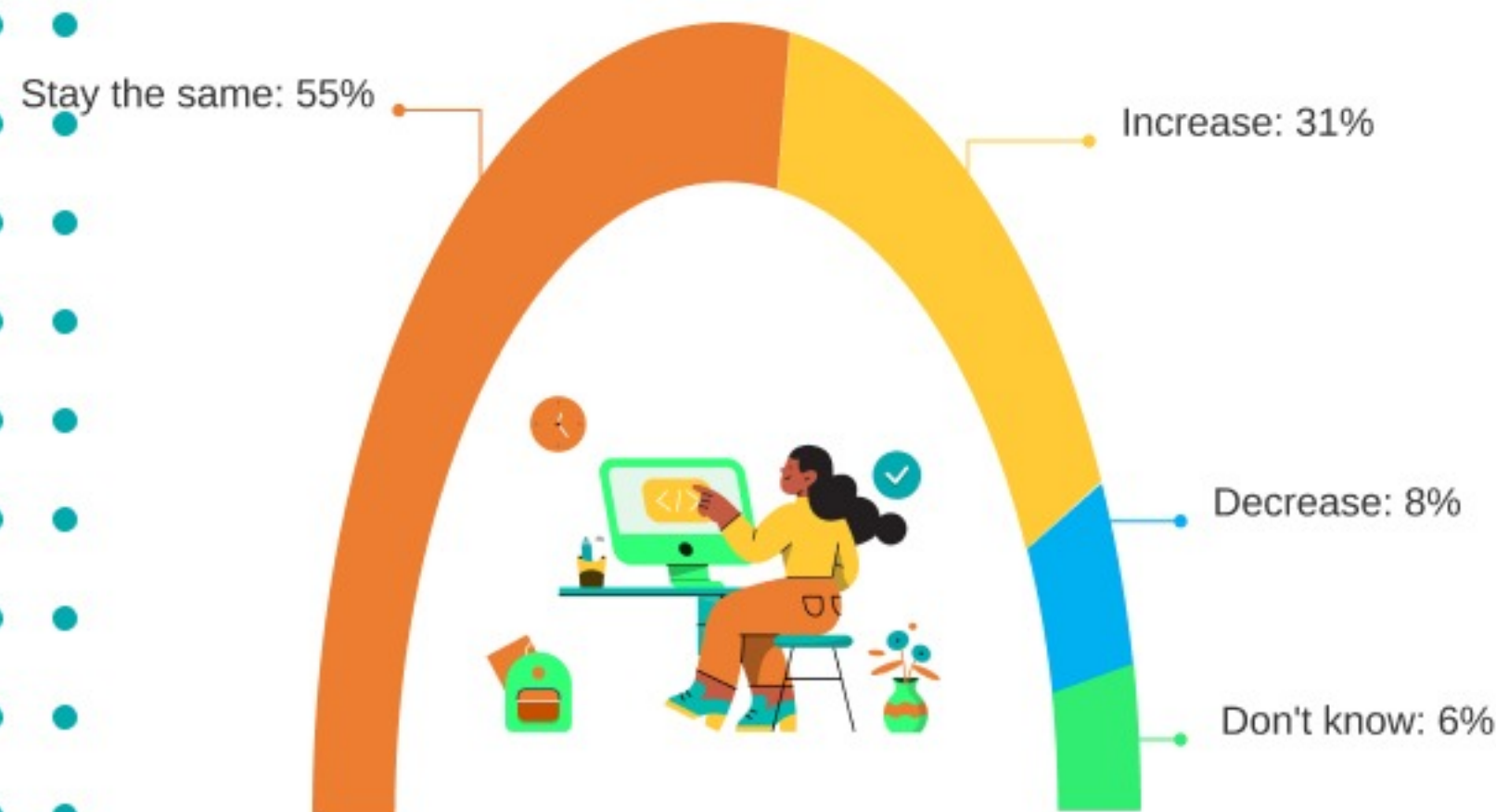
WHAT IMPACT ARE INFLATION AND RECESSIONARY TRENDS HAVING ON YOUR COMPANY'S 2023 TECHNOLOGY SPENDING PLANS?



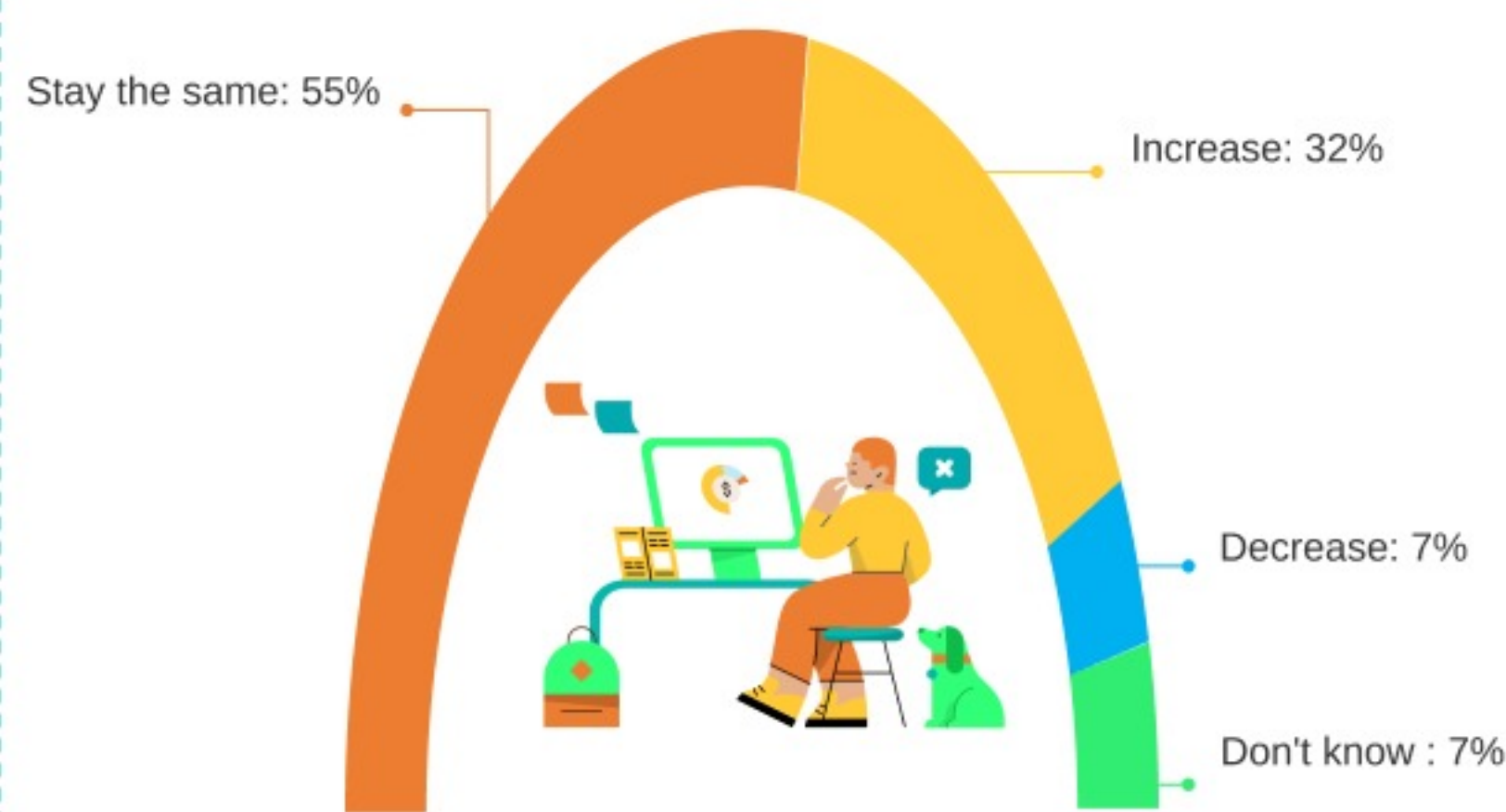


However, inflation and recessionary pressures are dampening tech spending: only 36% plan to increase technology spending in 2023. Economic concerns and a shortage of IT staff and expertise—especially in smaller companies—will make SMBs more selective about their technology investments in 2023 than they have been in the last few years. Technology vendors will need to present solid evidence that their solutions will provide substantive advantages and a strong—and fast—return on investment to get serious consideration from SMB prospects

DO YOU EXPECT YOUR COMPANY'S SPENDING ON TECHNOLOGY SOLUTIONS IN EACH OF THESE CATEGORIES TO INCREASE, DECREASE, OR REMAIN FLAT IN 2023 AS COMPARED TO 2022?



Hardware (PCs, servers, peripherals, networking gear, storage systems, etc.)



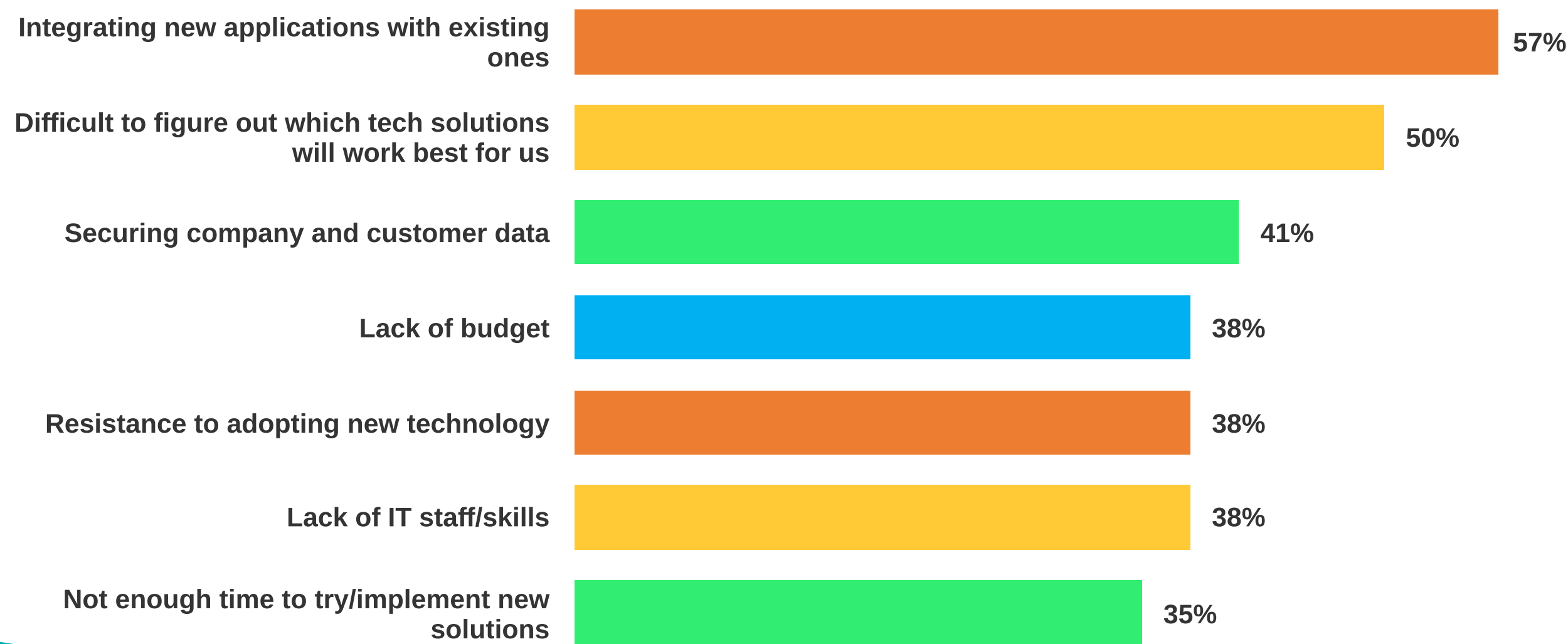
Software (on-premises, cloud, software-as-a-service (SaaS))



Outsourced services (Managed services, consulting services, break/fix services, etc.)

TOP TECHNOLOGY CHALLENGES FACING SMBS IN 2023

WHAT ARE THE TOP TECHNOLOGY CHALLENGES YOUR BUSINESS FACES WHEN CONSIDERING NEW TECHNOLOGY SOLUTIONS?

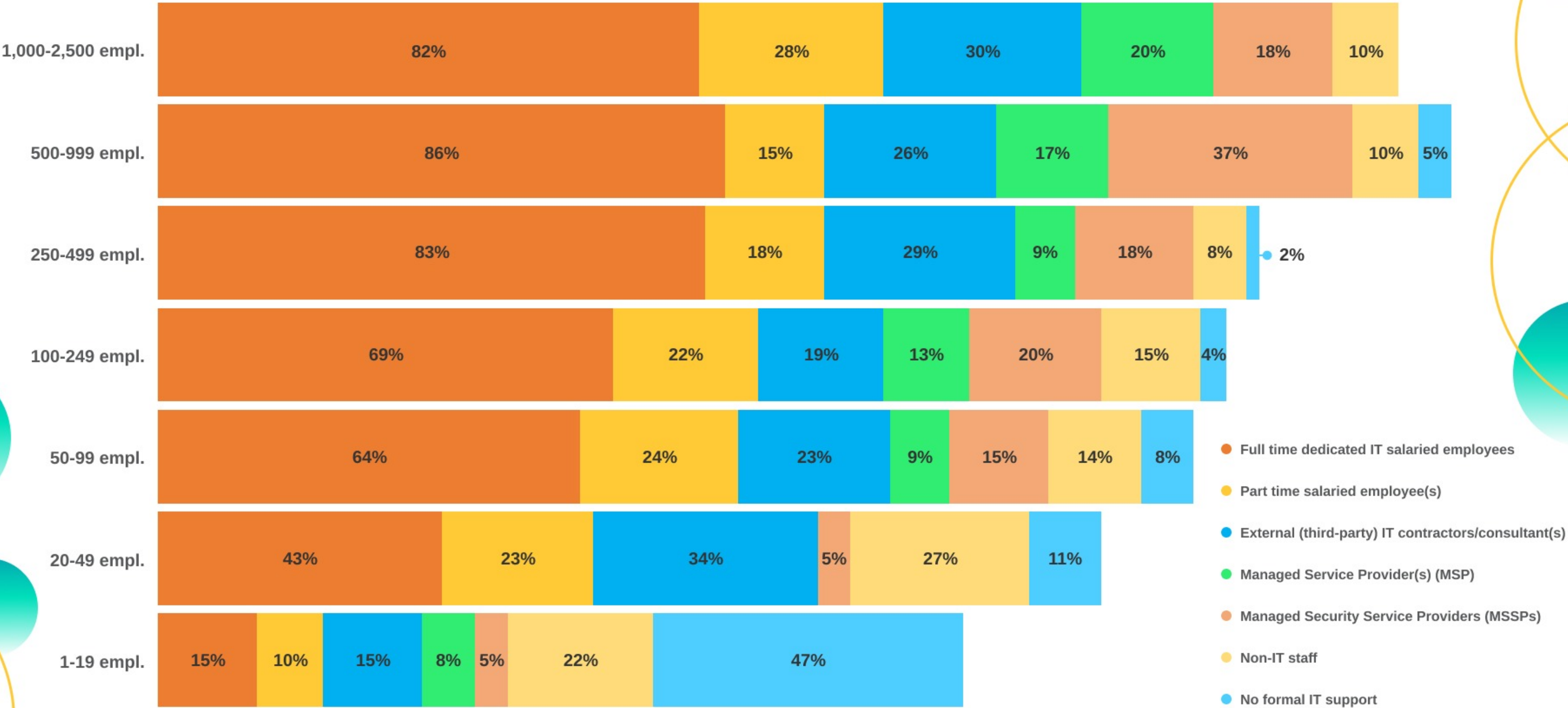


55% of SMBs employ full-time, dedicated IT staff

Integration (for the first time since we started surveying SMBs in 2010) now tops the list of technology barriers, underscoring that while the cloud or software-as-a-service (SaaS) model has made it easier to deploy new solutions, integrating them with existing software is still too difficult and costly for many SMBs. Their second most pressing challenge is just figuring out which tech solutions will work best for them. These challenges will drive more SMBs to shop for new solutions via application marketplaces that provide vetted, pre-integrated solutions.

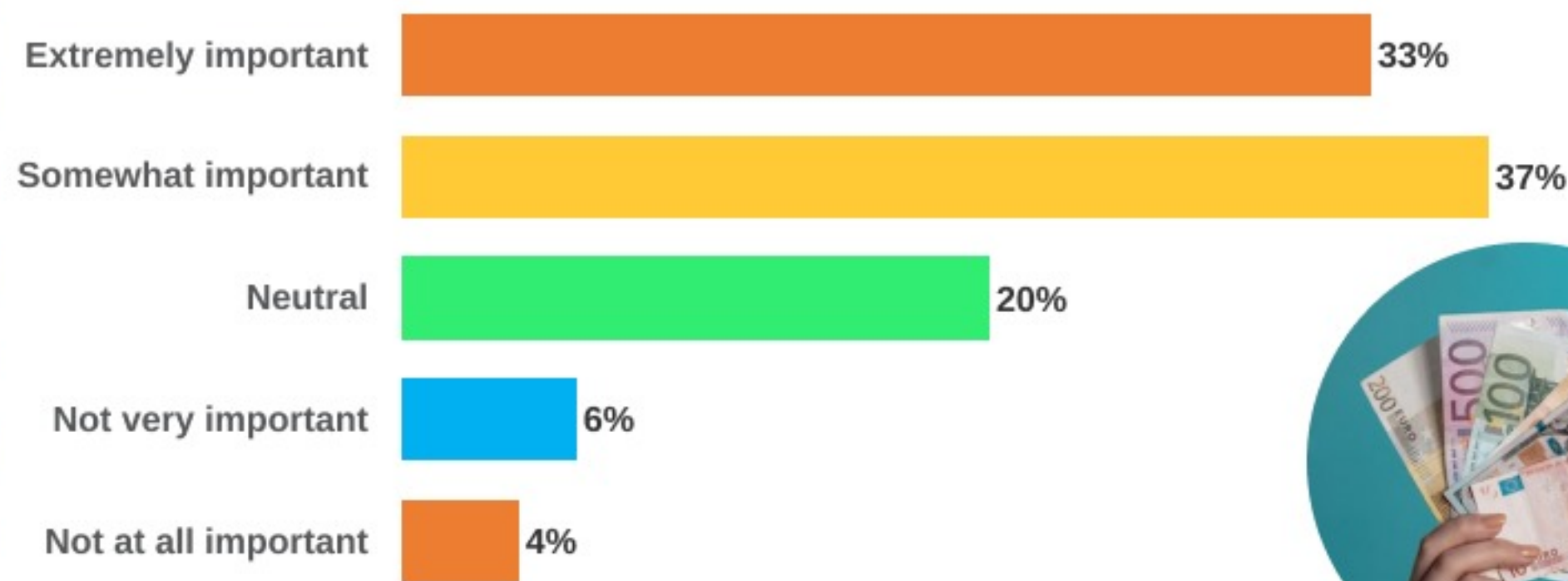
Other hurdles—from security to perpetual “lack of” issues—lack of time, budget, IT expertise—exacerbate these challenges. Very small companies suffer the most when it comes to lack of IT expertise—47% of companies with 1-19 employees say that they have no formal IT support. Clearly, vendors need to ensure that any tech solutions they’re aiming at the lower end of the market require little to no IT expertise to successfully deploy.

WHO IS RESPONSIBLE FOR SUPPORTING IT AND COMMUNICATIONS SOLUTIONS AT YOUR COMPANY?*

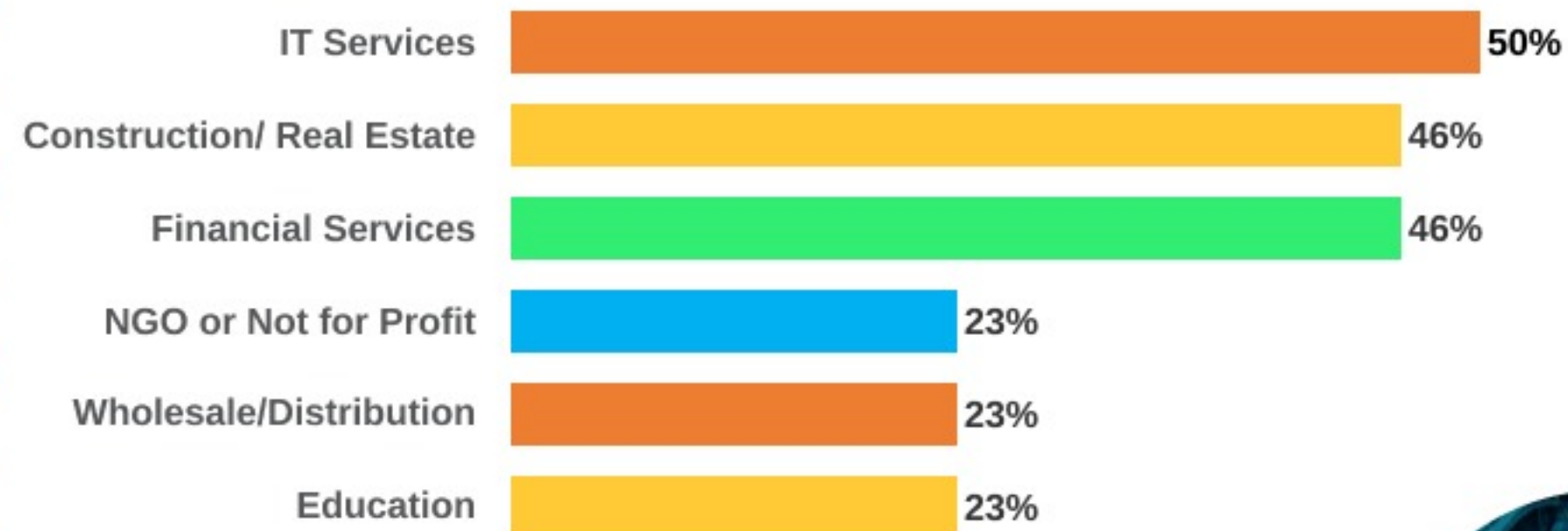


MORE SMBS SEEK INDUSTRY-SPECIFIC FUNCTIONALITY WHEN BUYING NEW BUSINESS SOLUTIONS

WHAT IMPACT ARE INFLATION AND RECESSIONARY TRENDS HAVING ON YOUR COMPANY'S 2023 TECHNOLOGY SPENDING PLANS?



INDUSTRIES MOST AND LEAST LIKELY TO SAY INDUSTRY-SPECIFIC FUNCTIONALITY IS EXTREMELY IMPORTANT



Industry-specific functionality is becoming an increasingly important factor for SMBs that are shopping for new business solutions, with 70% rating it as extremely or somewhat important.

Applications that are tailored to industry requirements are likely to satisfy more of a company's needs out-of-the-box, providing some key benefits, such as:

- Built-in best practices
- Faster implementation
- Partners with in-depth industry knowledge
- Deeper support for industry-specific regulations
- Ongoing development of industry-specific functionality

As companies grow, industry-specific functionality becomes much more important, especially in areas such as financial management and enterprise resource planning, where different industries have very different needs. For instance:

- **25% of SMBs with less than 100 employees rate industry-specific functionality as extremely important.**
- **40% of those with 100-2,500 employees say that it is extremely important.**

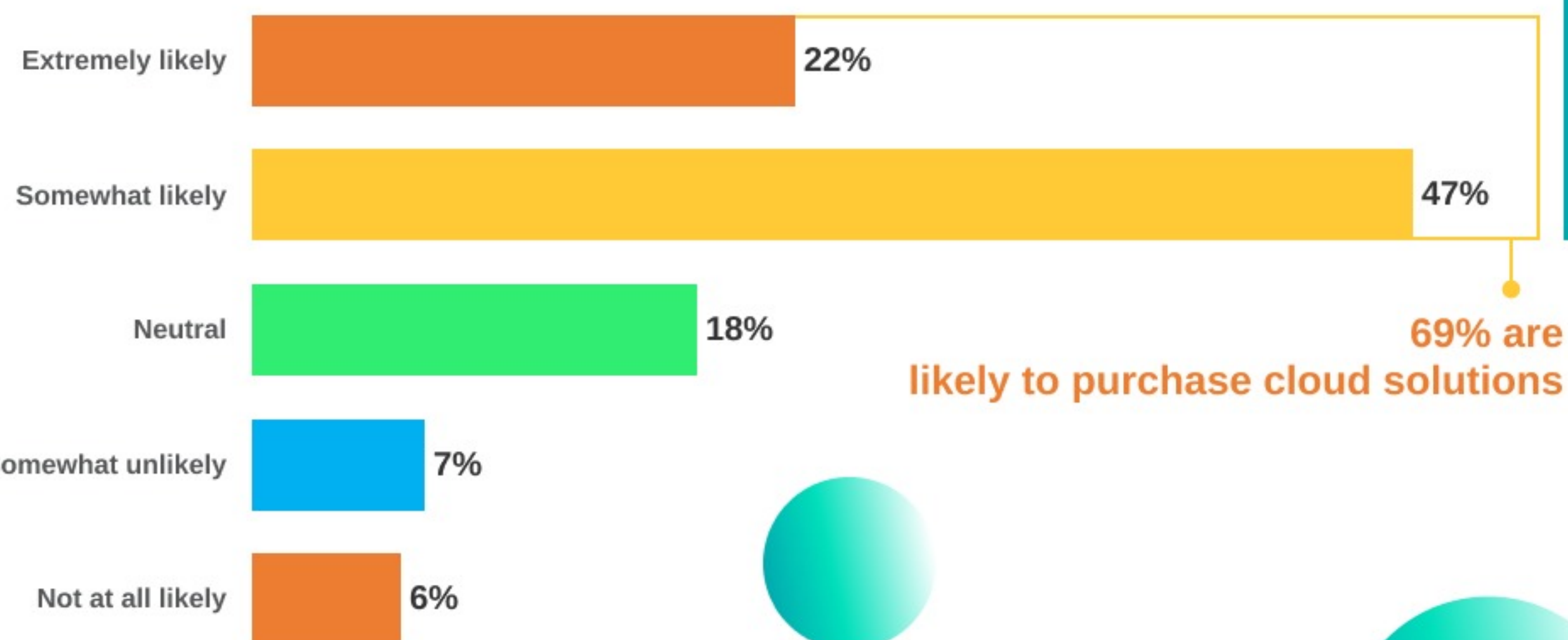
This importance of industry-specific functionality also varies widely by industry. Those with very specific regulatory and logistical requirements are much more likely to prioritize this factor.

SMBS CONTINUE TO FAVOR CLOUD COMPUTING TO FUEL DIGITAL TRANSFORMATION

79%

of SMBs agree that the right technology solutions can help improve financial performance in uncertain times

HOW LIKELY ARE YOU TO BUY A CLOUD-BASED OR SOFTWARE-AS-A-SERVICE (SAAS) SOLUTION THE NEXT TIME YOU PURCHASE A NEW SOFTWARE SOLUTION?



SMBs value the benefits that the right technology solutions provide to their businesses. Over the past twenty-plus years, cloud computing made it possible for SMBs to implement technology solutions that would have been out of reach in an on-premises deployment. During the pandemic, SMBs accelerated their adoption of cloud computing solutions to support remote employees and keep their businesses up and running.

In 2023, 69% of SMBs say they are likely to purchase cloud solutions to help them automate, modernize, and transform their businesses. Given current cash flow constraints, cloud computing's subscription-based, OPEX model should become even more compelling for SMBs. Meanwhile, the value that cloud solutions provide back to SMBs will continue to grow. As vendors embed more artificial intelligence, machine learning, low code/no code, and augmented and virtual reality capabilities into their solutions, they provide SMBs with a ready-made on-ramp to reap the benefits that these new technologies offer.

However, SMBs are laser-focused on cost control. New cloud solutions must help them to optimize spending, reduce risks, and provide faster time to solution value. As SMBs scrutinize pricing and contracts more carefully, they will favor vendors that offer true pay-as-you go pricing (via monthly or annual contracts) over competitors that require customers to lock into three-year contracts. SMBs will also be seeking cloud vendors and partners that help them to the friction out of the implementation process and get up and running quickly.

OVERCONFIDENCE AND LACK OF SECURITY EXPERTISE MAKES SMBS MORE VULNERABLE TO CYBER ATTACKS



41%

of SMBs say securing company and customer data is one of their top three technology challenges

63%

of SMBs plan no change or to decrease spending on security solutions in 2023

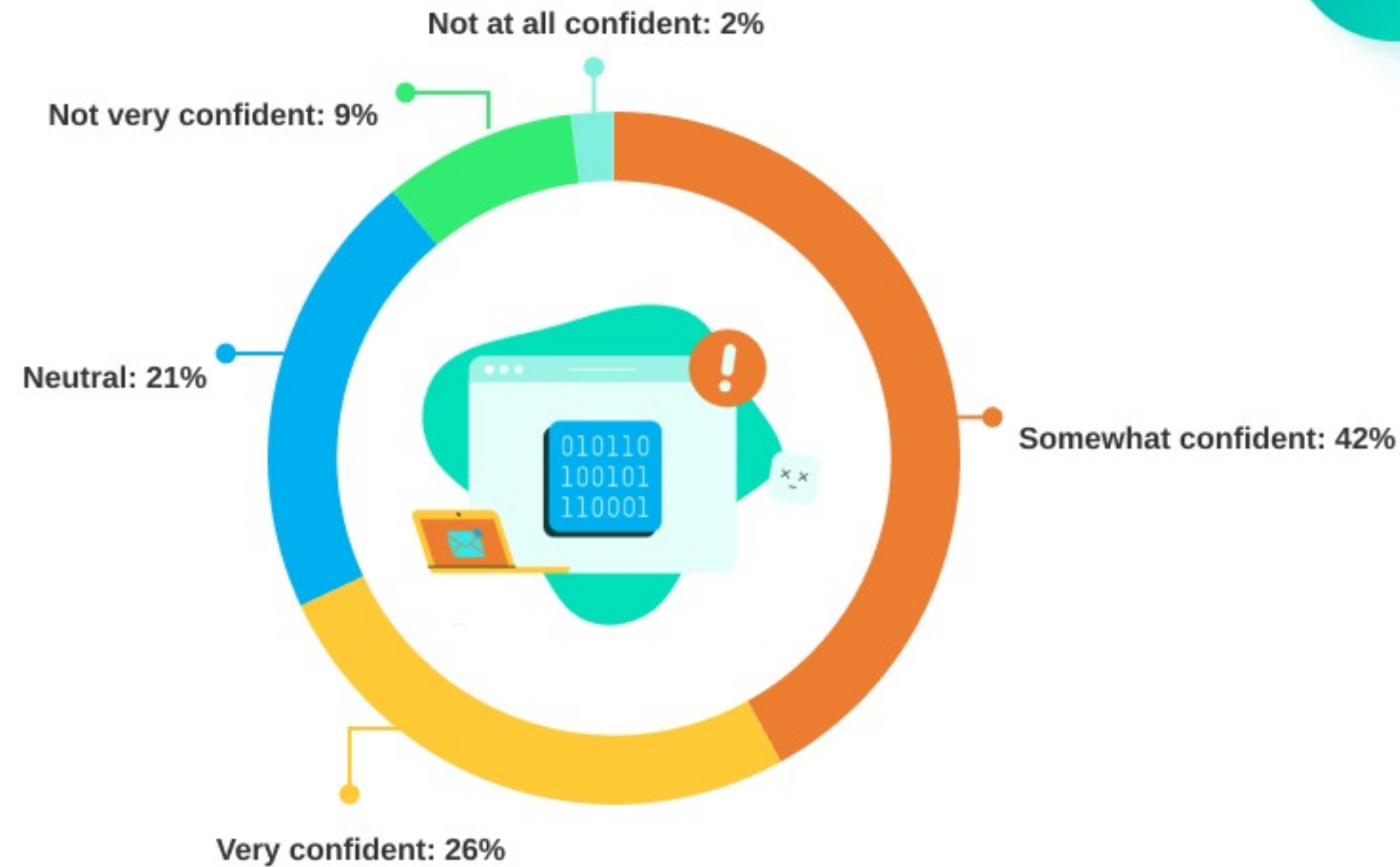
As cybersecurity threats continue to grow in size and complexity, it's no wonder that securing company and customer data is a top concern for many SMBs.

But most plan to hold spending flat or decrease spending for security solutions in 2023, making them increasingly vulnerable to ever-more sophisticated attacks. Many SMBs also lack a thorough understanding or—or even interest in—how their technology providers protect their data, and only 17% contract with a Managed Security Service Provider (MSSP).

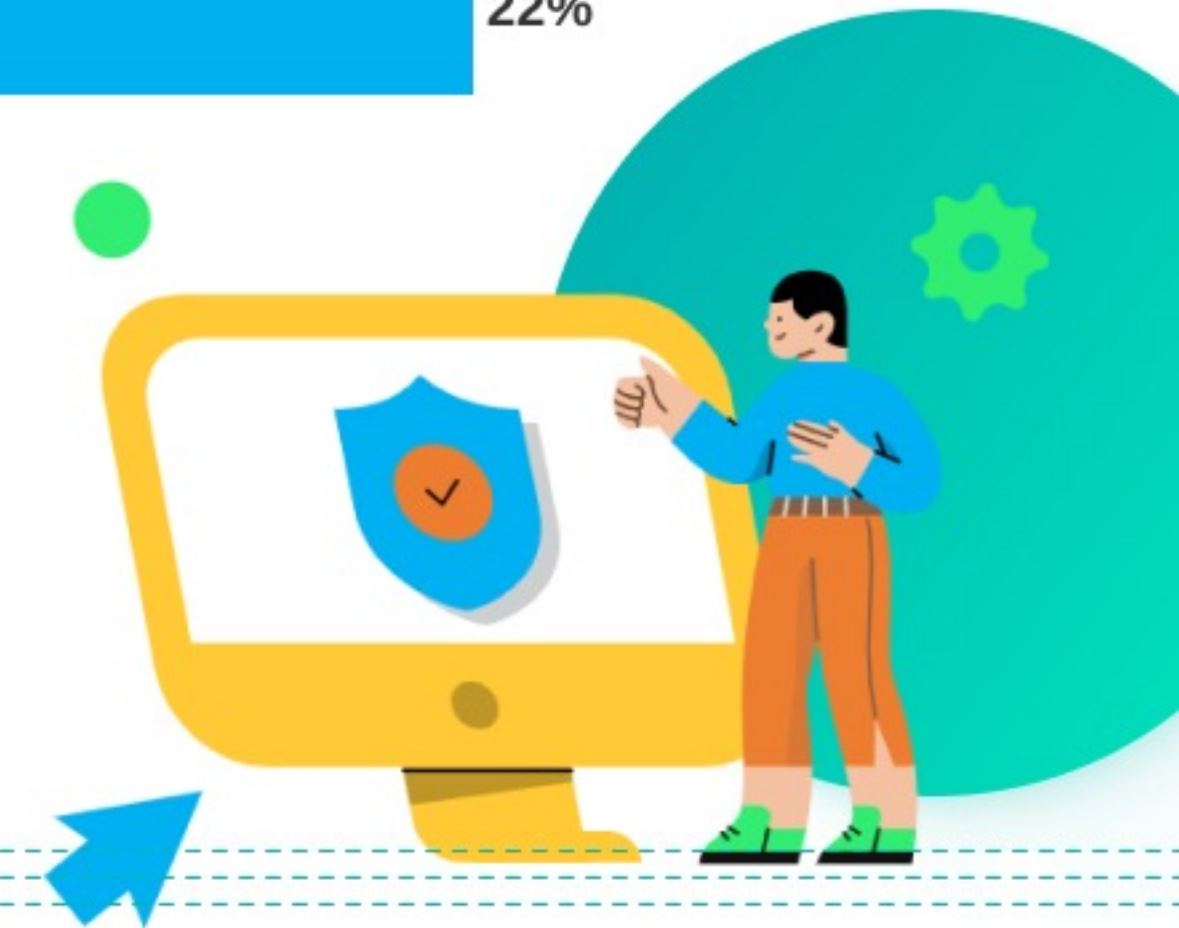
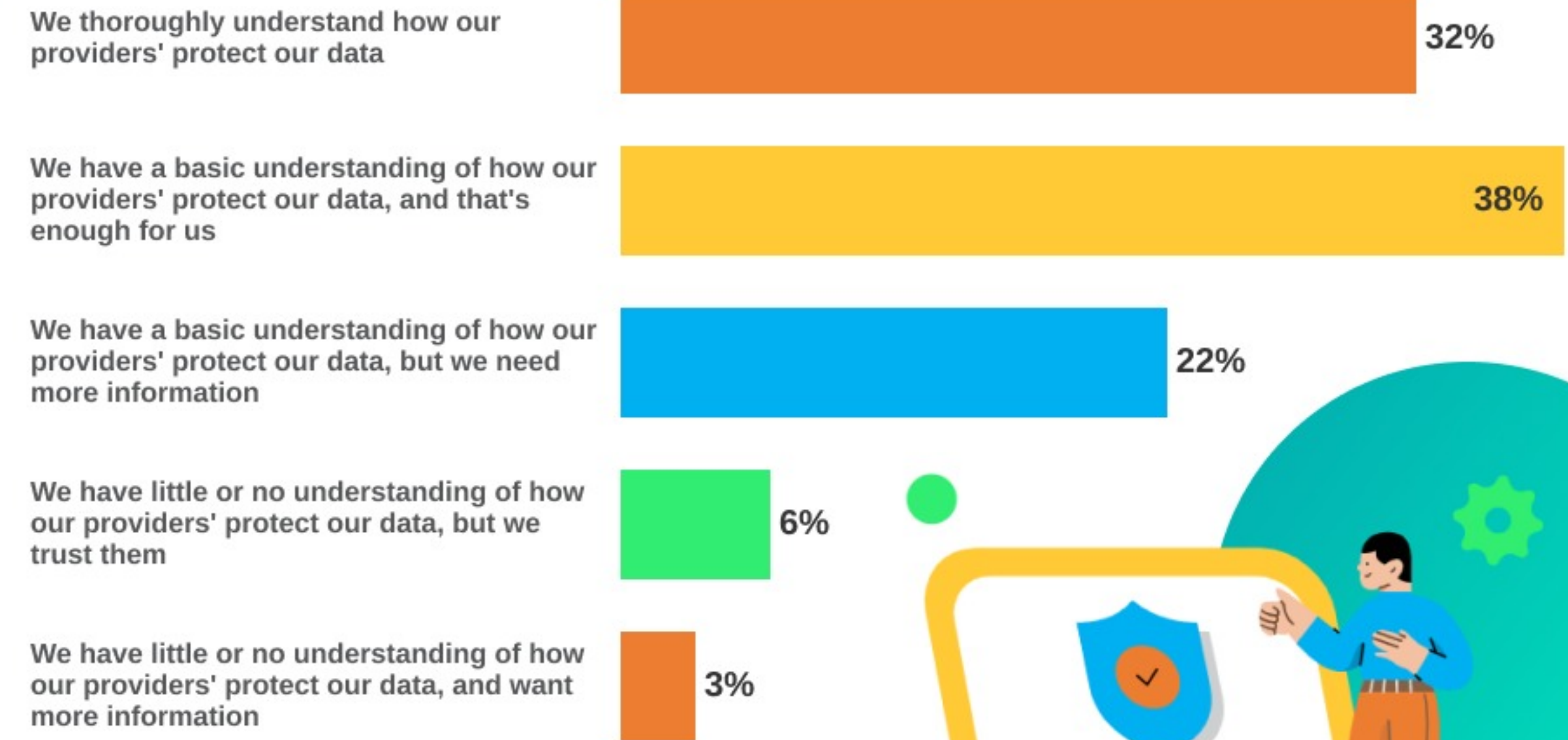
Despite these shortfalls, a majority of SMBs are at least fairly confident that they could adequately combat a cyber attack, pointing to overconfidence. Lacking security expertise, and unaware of what their vulnerabilities are, many think that firewalls and anti-virus solutions are enough to protect them.

But these tools can't alert users to zero day or social engineering attacks, or other types of damaging intrusions. To safeguard their data, SMBs need to deploy extended detection and response (XDR) solutions and become more knowledgeable about how tech providers protect their data. Fortunately, about one-quarter of SMBs say that they plan to contract with MSSPs in 2023.

CONFIDENCE IN ABILITY TO RESPOND TO A CYBER ATTACK



WHICH OF THE FOLLOWING BEST CHARACTERIZES YOUR UNDERSTANDING OF HOW YOUR TECH PROVIDERS PROTECT YOUR COMPANY AND CUSTOMER DATA?



17%

of SMBs currently
contract with an
MSSP



23%

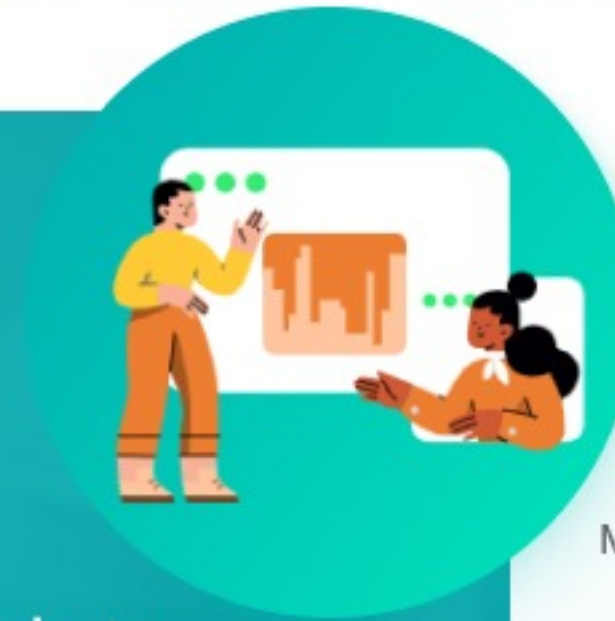
of SMBs plan to
contract with an
MSSP

SMBS PRIORITIZE MORE PRODUCTIVE MEETINGS, IMPROVING PROJECT MANAGEMENT AND IMPROVING EXTERNAL COLLABORATION

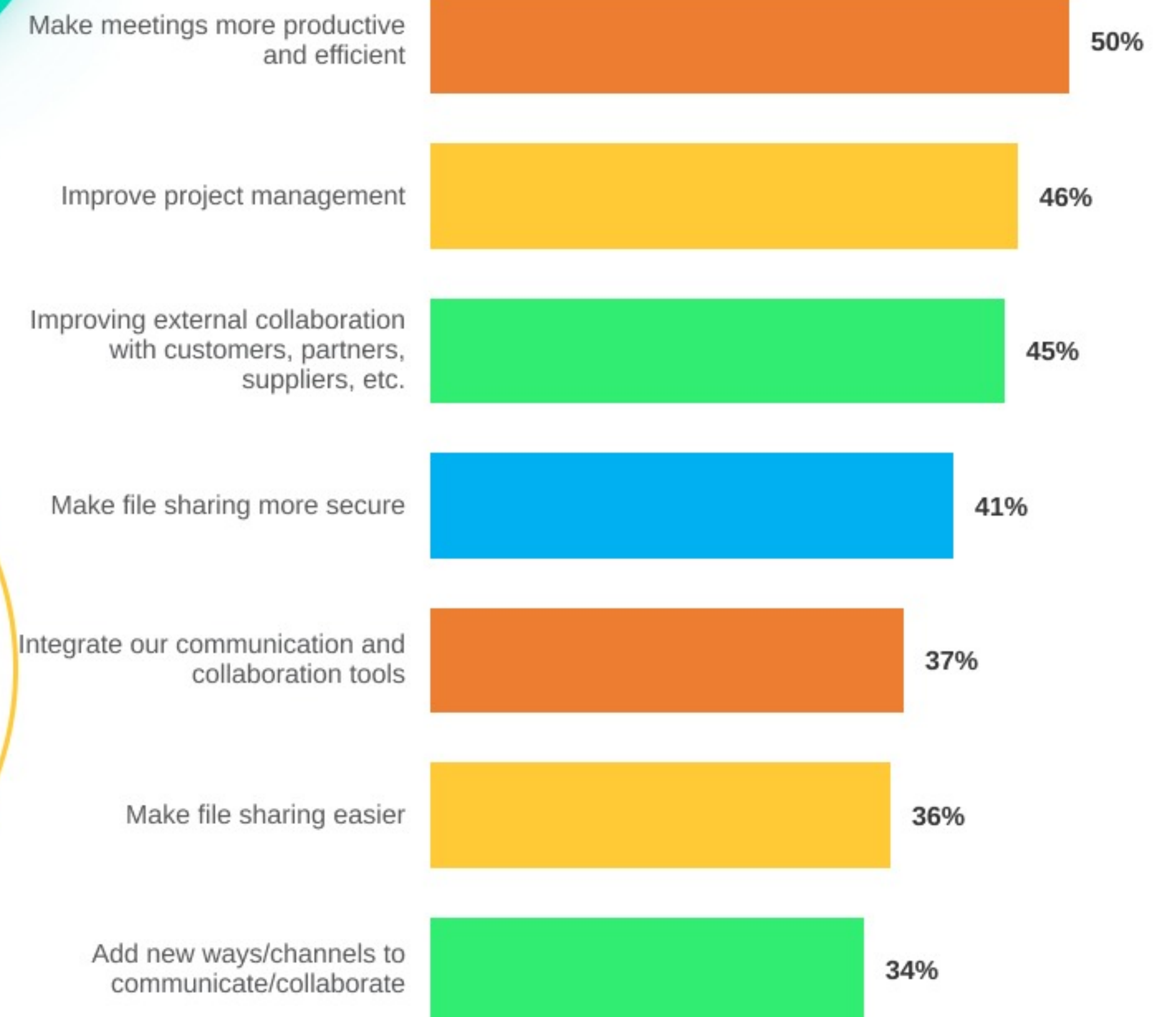
Over the past couple of years, many SMBs have embraced new tools to help employees collaborate more effectively regardless of where they work from. In addition to email, tools such as web and video conferencing, online document creation, online file sharing and shared calendars, and real-time chat/messaging are now deployed by the majority of SMBS.

But many are still looking to enhance collaboration capabilities to further streamline how work gets done. Key priorities include making meetings more productive, improving project management, and improving external collaboration. The top areas for new solutions are in the areas that are currently least penetrated: online project management, real-time chat/messaging, and VoIP.

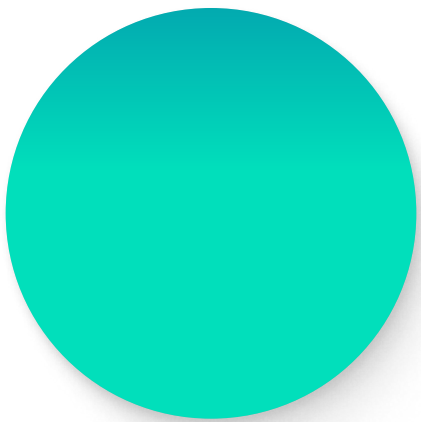
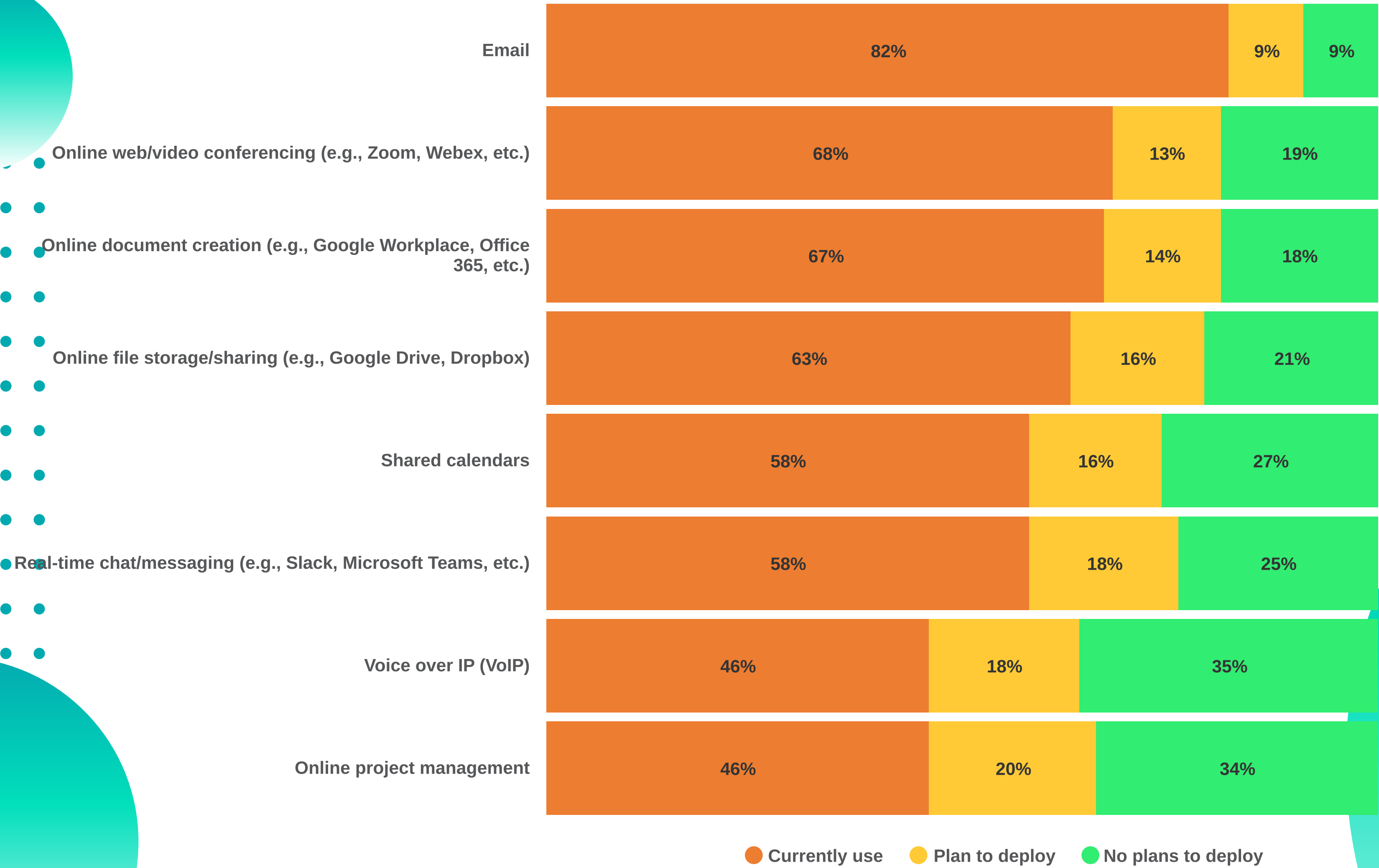
Across all of these areas, SMBs are most likely to either upgrade or extend an existing solution, or replace their existing solution with something new.



WHAT ARE THE TOP COLLABORATION AND COMMUNICATION PRIORITIES THAT YOUR COMPANY WILL INVEST IN FOR 2023?



WHAT SOFTWARE DOES YOUR COMPANY CURRENTLY USE, PLAN TO USE, OR HAVE NO PLANS TO USE TO MANAGE/SUPPORT COLLABORATION AND COMMUNICATION INITIATIVES?



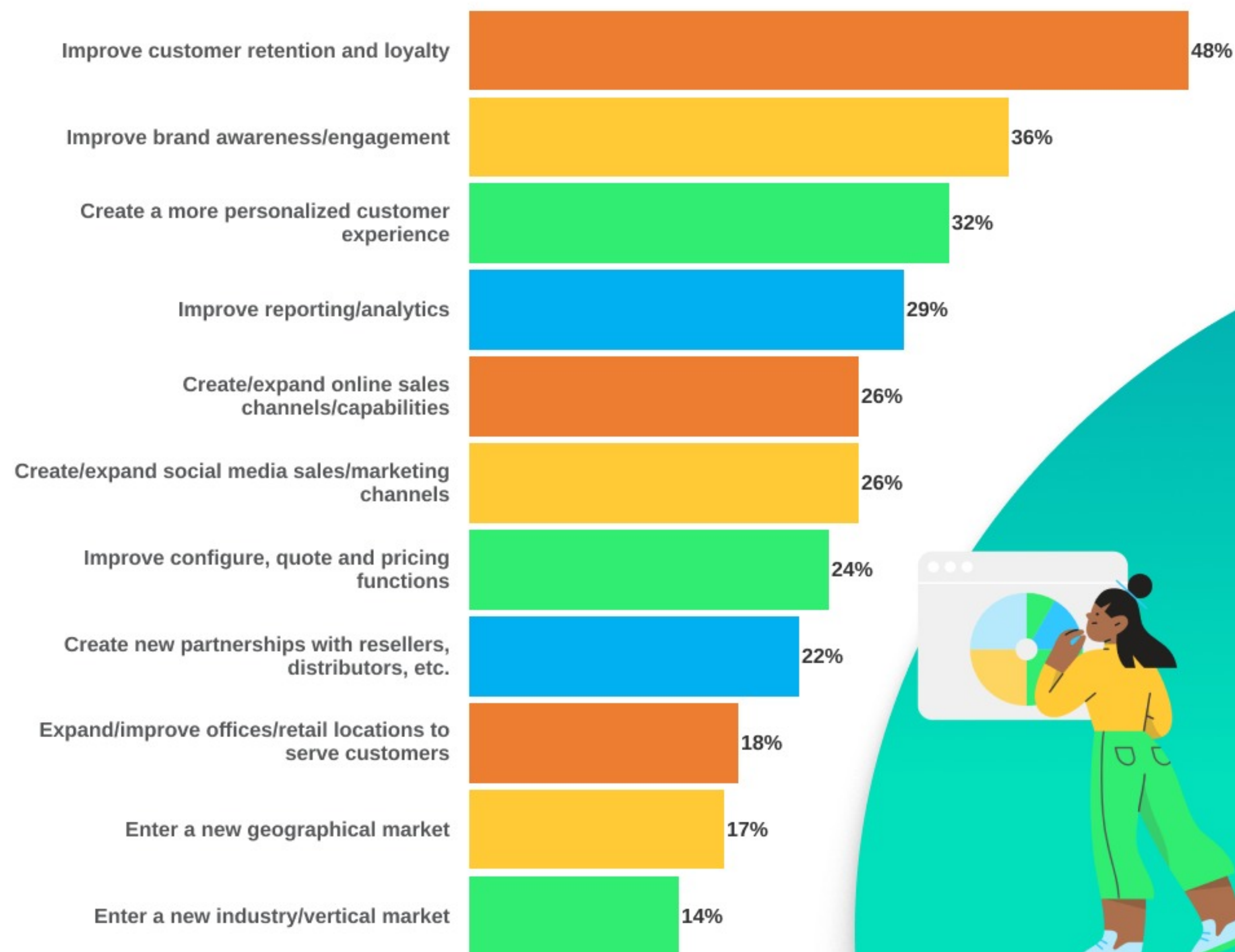
CUSTOMER RETENTION AND BRAND AWARENESS TOP THE LIST OF SMB SALES, MARKETING AND SERVICE PRIORITIES

As discussed earlier, SMBs ranked controlling costs as their top operational challenge for 2023. However, customer issues—attracting new business, improving satisfaction and keeping up with changing expectations—followed closely behind in the number 2, 3 and 4 spots.

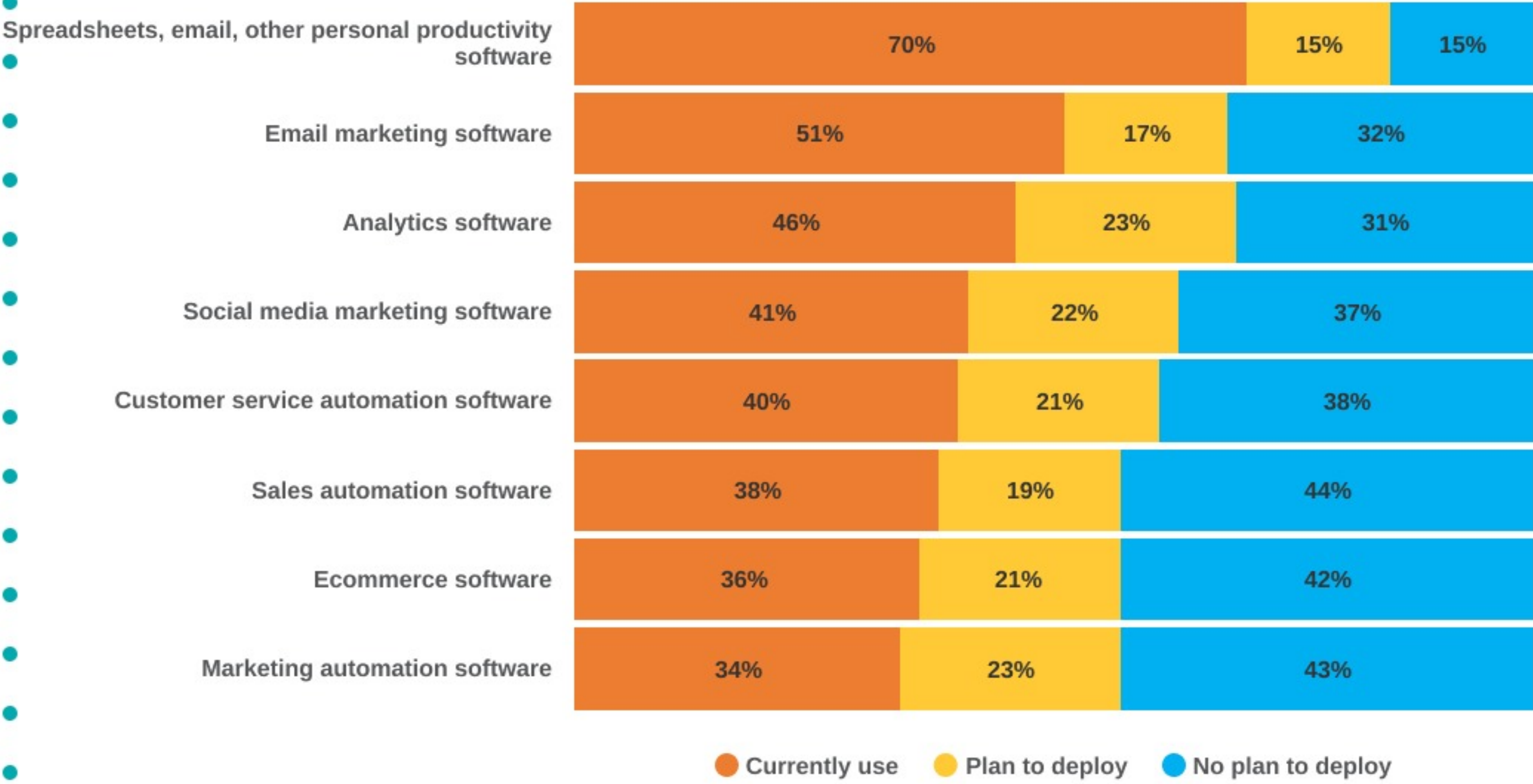
To help address these issues, SMBs are prioritizing customer retention, brand awareness, creating a more personalized customer experience, improving reporting/analytics and creating and expanding online sales channels for 2023. Interestingly, SMBs of across all size bands rank the top two priorities--improving customer retention and improving brand awareness among their top three goals.

SMBs often use spreadsheets, email and personal productivity software to manage some or many customer-facing functions. But many are planning to deploy new solutions to elevate customer engagement throughout the customer lifecycle—and gain the agility they required to shift gears as customer preferences change.

TOP SALES, MARKETING, AND CUSTOMER SERVICE PRIORITIES FOR 2023

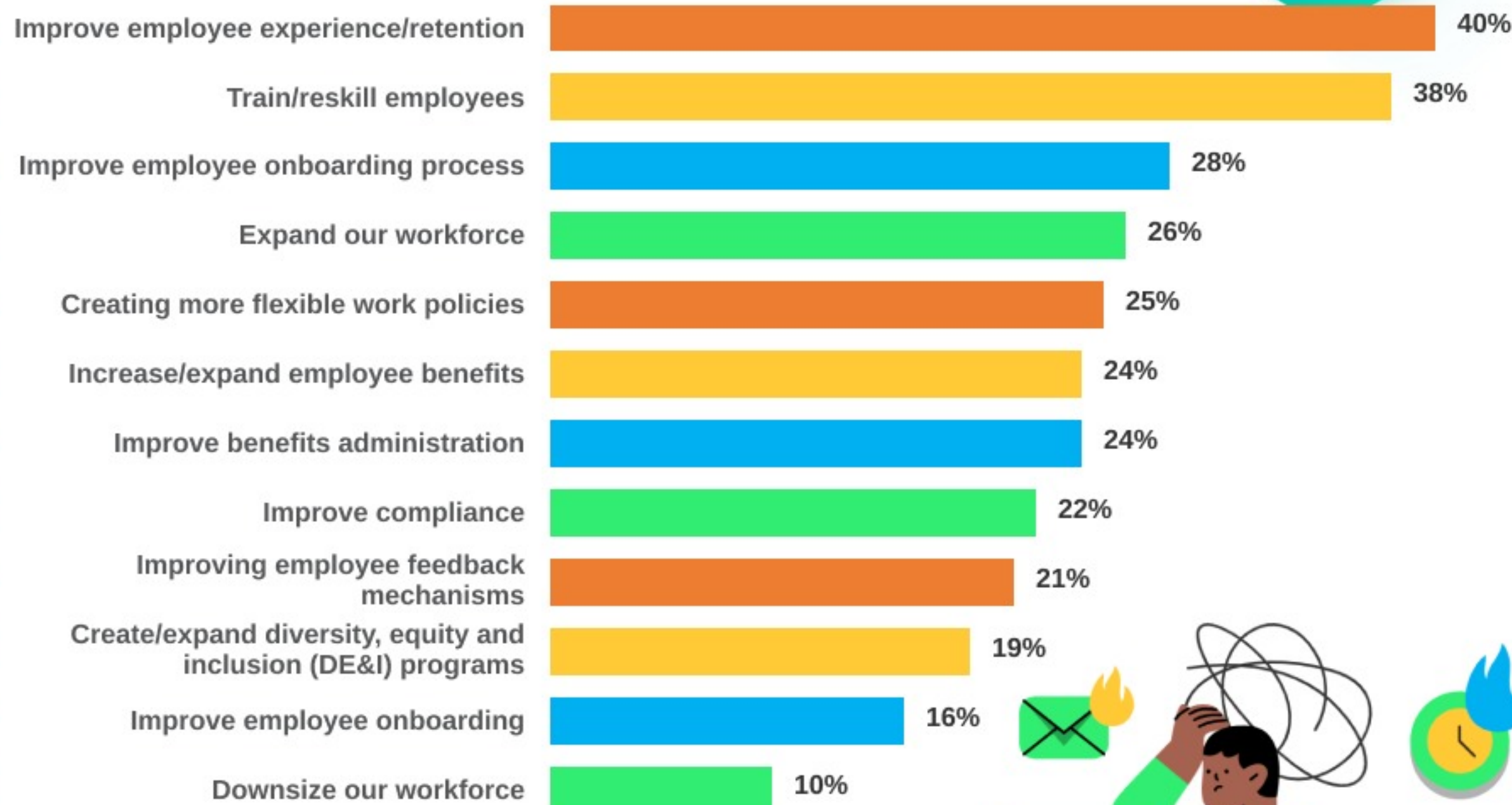


WHAT SOFTWARE DOES YOUR COMPANY CURRENTLY USE, PLAN TO USE, OR HAVE NO PLANS TO USE TO MANAGE/SUPPORT SALES, MARKETING, AND CUSTOMER SERVICE INITIATIVES?



SMB WORKFORCE MANAGEMENT AND HR PRIORITIES CENTER ON RETENTION, RESKILLING, AND ONBOARDING

WHAT ARE THE TOP WORKFORCE MANAGEMENT/HUMAN RESOURCES PRIORITIES THAT YOUR COMPANY WILL INVEST IN FOR 2023?*

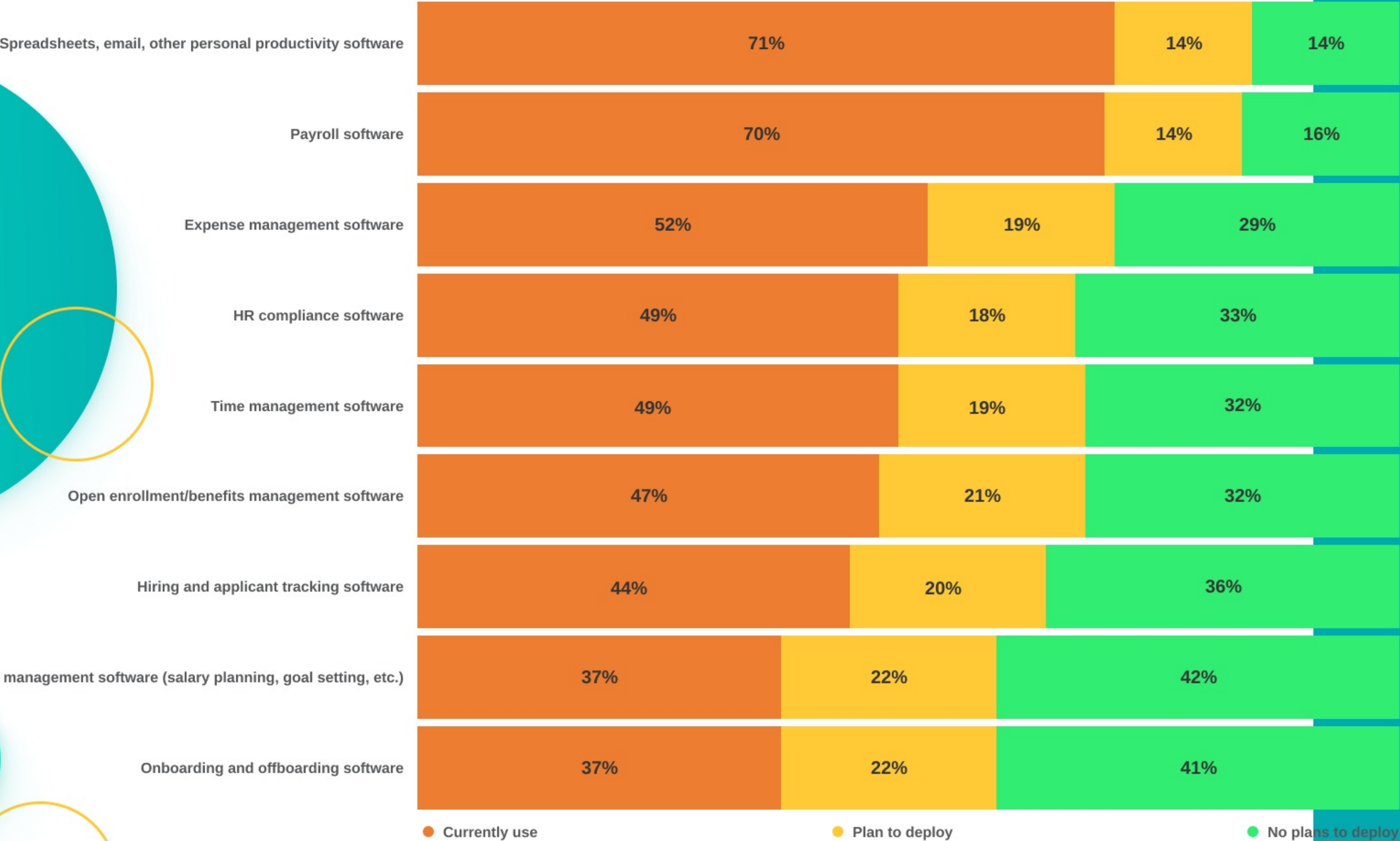


*Businesses with 1 employee were not asked these questions

As noted previously, only 30% of SMBs plan to hire more employees in 2023. But the talent shortage remains with us, making employee retention and reskilling investments top priorities for SMBs. They will seek to improve employee experience and retention by creating more opportunities for career advancement, developing better onboarding and performance review processes, establishing more flexible work policies that support work-life balance, and providing better benefits.

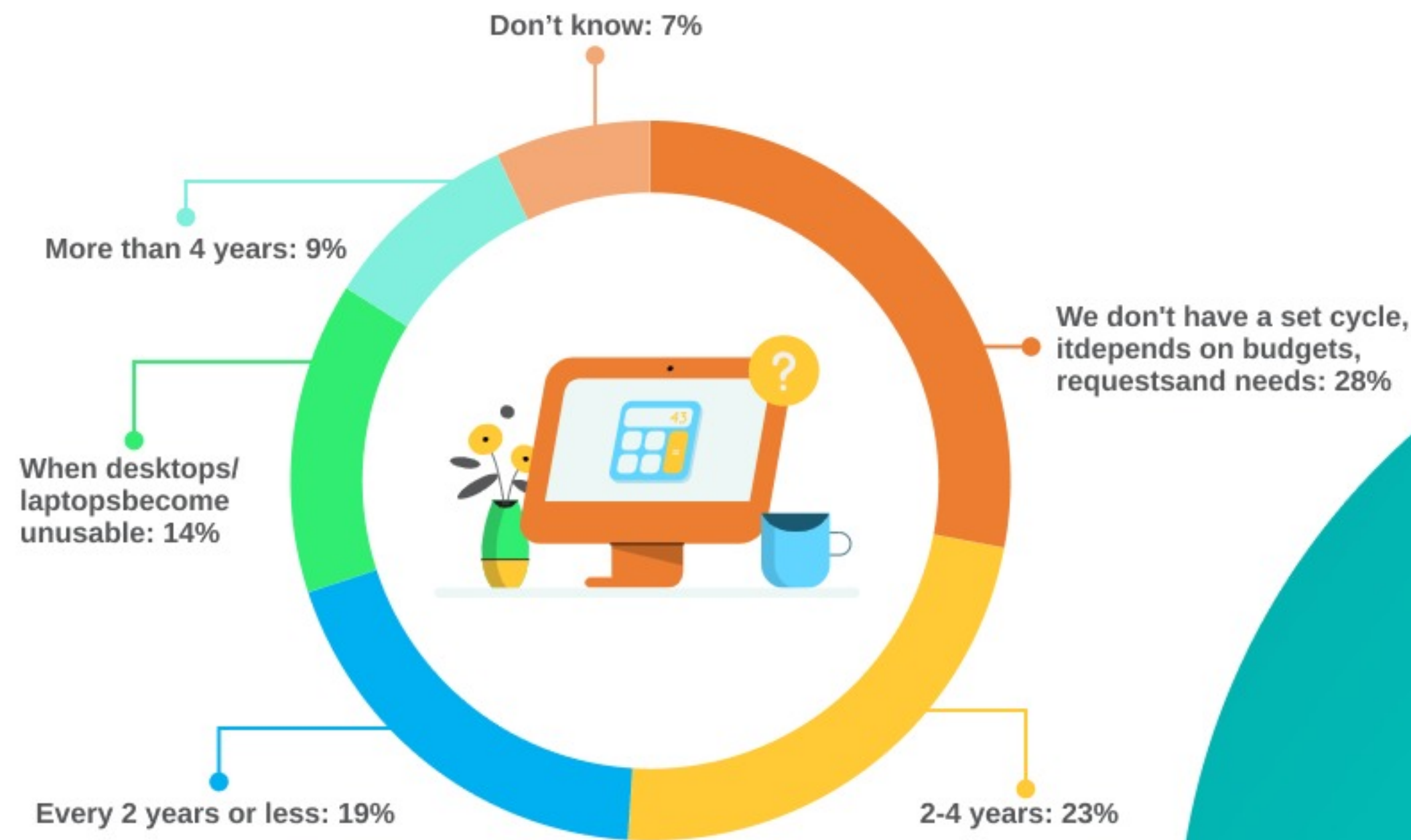
Many SMBs currently use spreadsheets, email and personal productivity software to support some HR and workforce management functions. However, roughly 20% are considering deploying purpose-built solutions for onboarding and offboarding, talent management, hiring and applicant tracking, and open enrollment and benefits management,

WHAT SOFTWARE DOES YOUR COMPANY CURRENTLY USE, PLAN TO USE, OR HAVE NO PLANS TO USE TO MANAGE/SUPPORT WORKFORCE MANAGEMENT/HR INITIATIVES?*



ALMOST HALF OF SMBS PLAN TO PURCHASE NEW DESKTOPS/LAPTOPS OUTSIDE OF THE REGULAR REFRESH CYCLE—WITH LITTLE INTEREST IN PC-AS-A-SERVICE

WHAT'S YOUR COMPANY'S DESKTOP/LAPTOP REFRESH CYCLE?



Overall, 25% of SMBs have a 2–4-year refresh cycle for desktops and laptops. However, this varies greatly by company size:

- 42% of SMBs with fewer than 20 employees don't have a set refresh cycle; instead, they buy based on budgets, requests and needs.
- About one-quarter of SMBs with more than 100 employees refresh every two years or less.



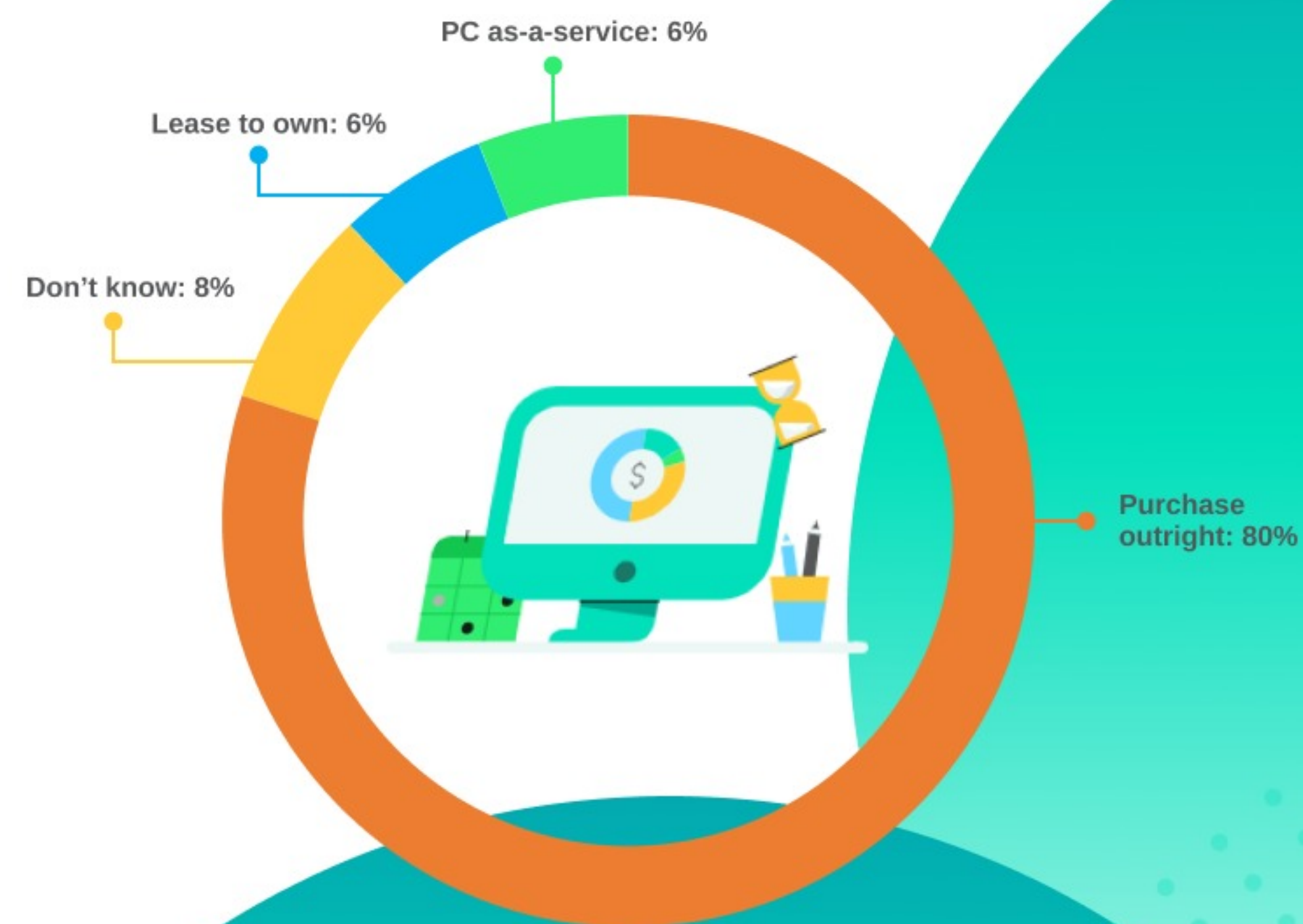
42% of all SMBs plan to buy additional desktops/laptops outside of the regular refresh cycle in 2023, reflecting that many are still gearing up to fully equip employees to work anywhere, in or out of the office.

80% of SMBs purchase these devices outright; only 6% buy via a PC-as-a-service model, indicating the industry still has a lot of work to do to educate SMBs about the benefits of this model. Larger companies are only slightly more likely to use the as-a-service model than smaller SMBs.

42%

of SMBs plan to purchase additional desktops/laptops outside of their regular refresh cycle

HOW DO YOU PROCURE DESKTOPS/LAPTOPS FOR YOUR COMPANY?

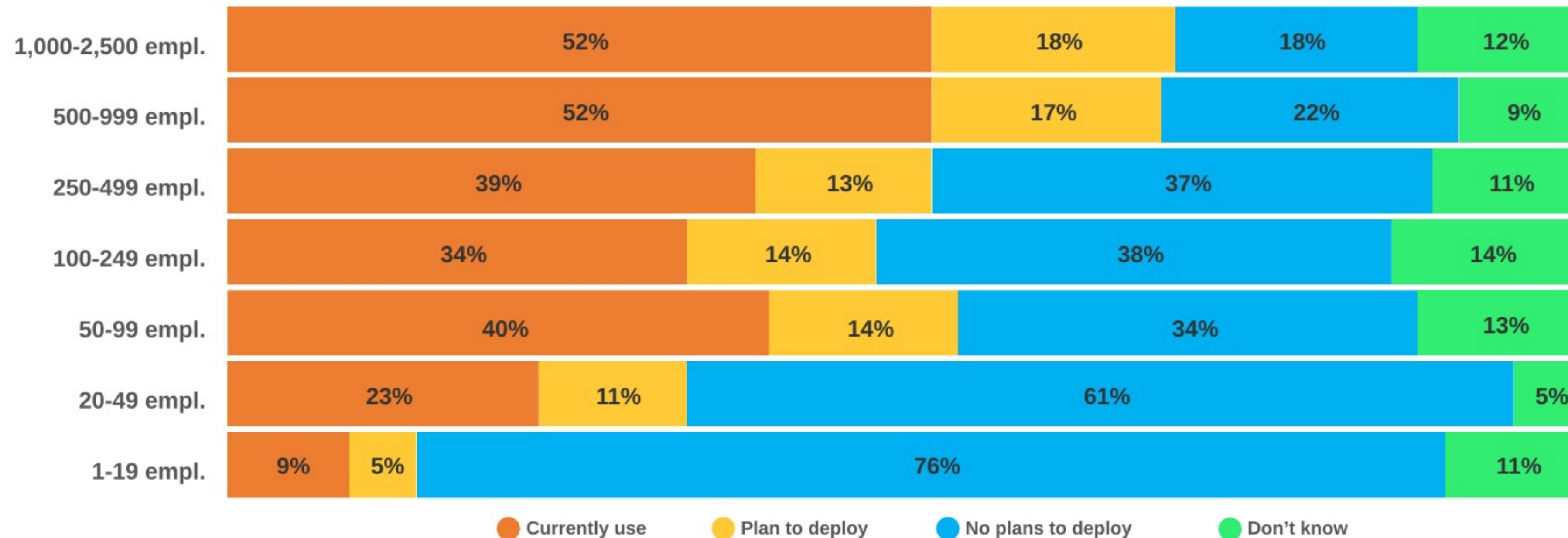


VIRTUAL DESKTOPS ARE MAKING SIGNIFICANT HEADWAY AMONG MEDIUM AND MIDMARKET BUSINESSES

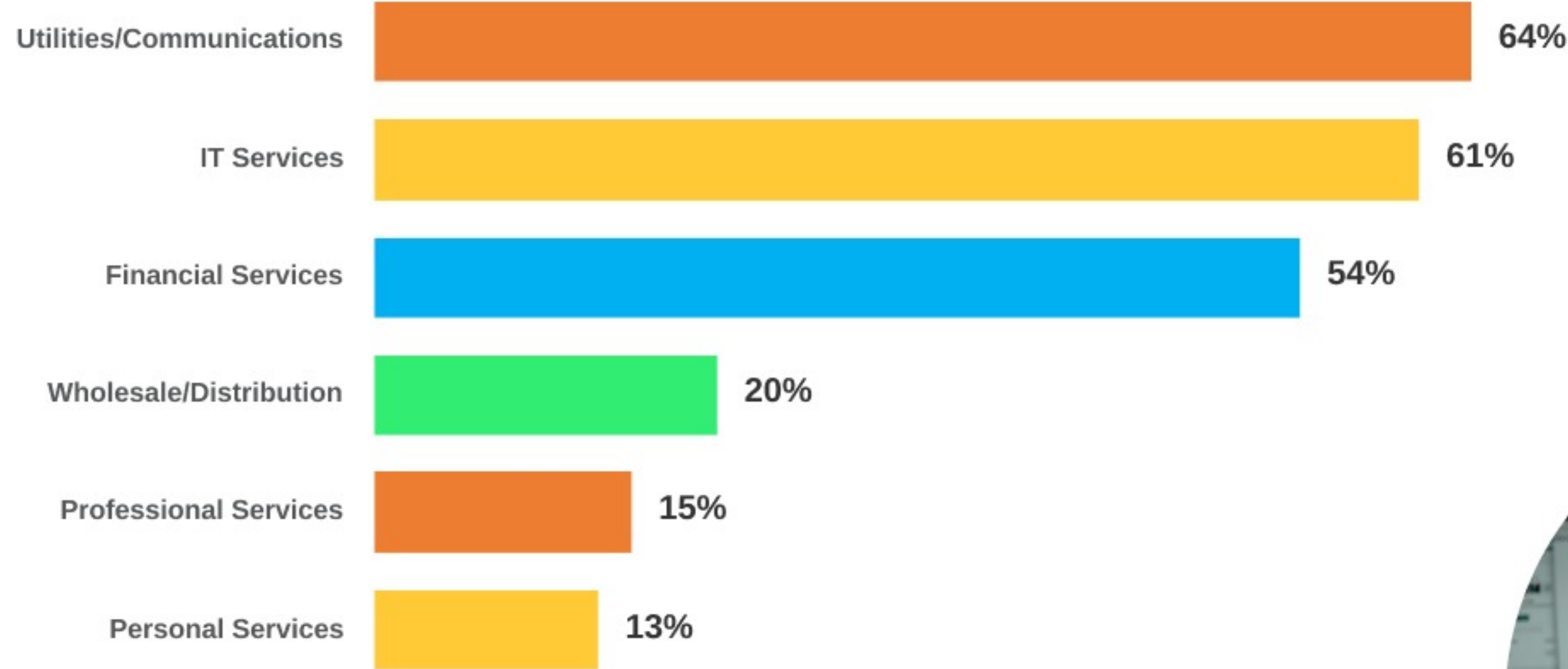
Medium and midmarket businesses are gravitating towards virtual desktop infrastructures (VDIs) to gain security, reliability and support advantages. More than half of businesses with over 500 employees are using virtual desktops, and about one-third of those with 50 or more employees have deployed them. Industries with more stringent security and privacy requirements are most likely to be using virtual desktops.

The benefits of VDI became more apparent during the pandemic. When more employees started working remotely, virtual desktops provided them secure access to company data, systems, eliminating the need for employees to physically bring programs, files, and data (which could get lost or stolen) home with them. In addition, if an employee's device needs repair, he or she can access virtual desktops from a different device.

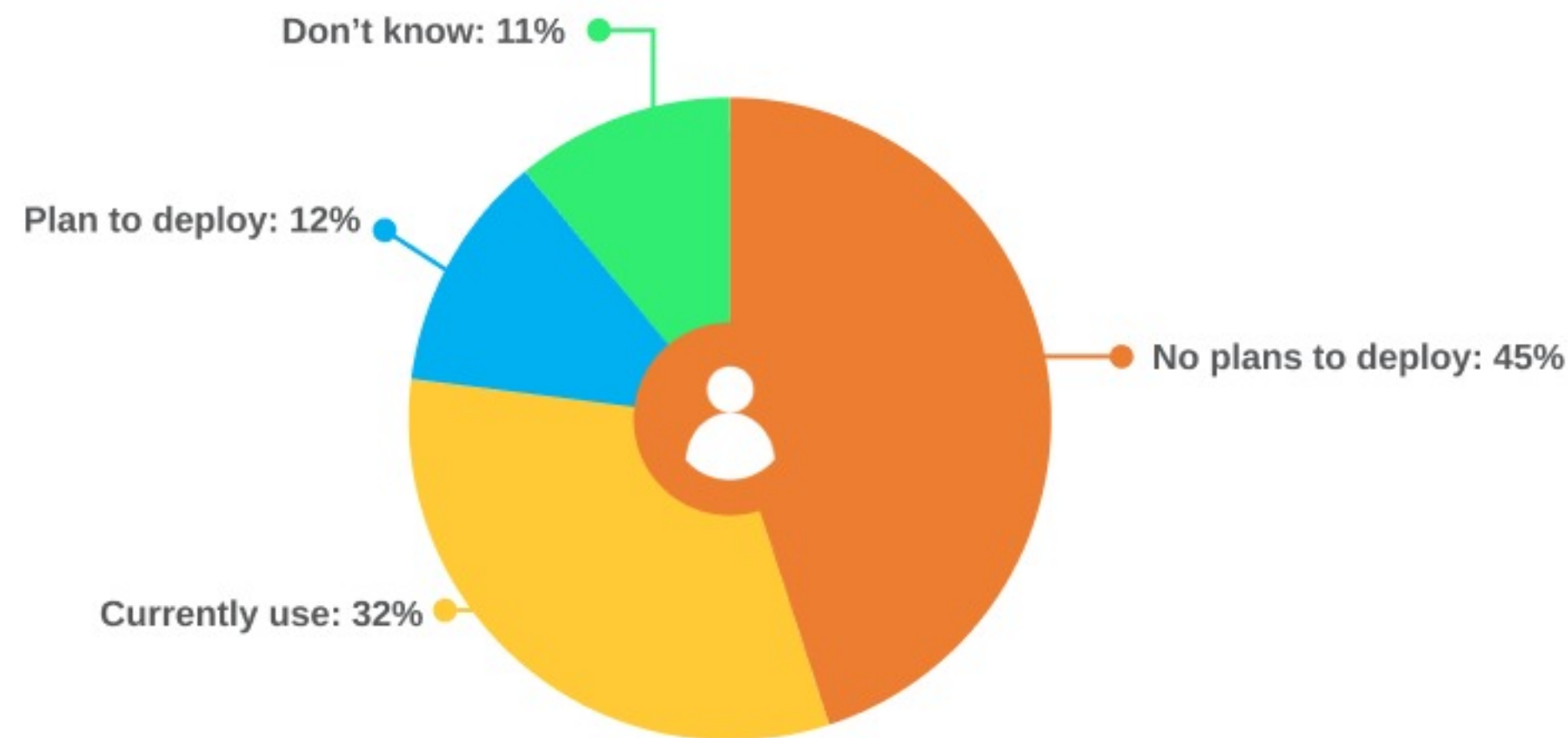
DOES YOUR COMPANY CURRENTLY USE, PLAN TO DEPLOY, OR HAVE NO PLANS TO DEPLOY VIRTUAL DESKTOPS



INDUSTRIES MOST AND LEAST LIKELY TO USE VIRTUAL DESKTOPS



DOES YOUR COMPANY CURRENTLY USE, PLAN TO DEPLOY, OR HAVE NO PLANS TO DEPLOY VIRTUAL DESKTOPS?



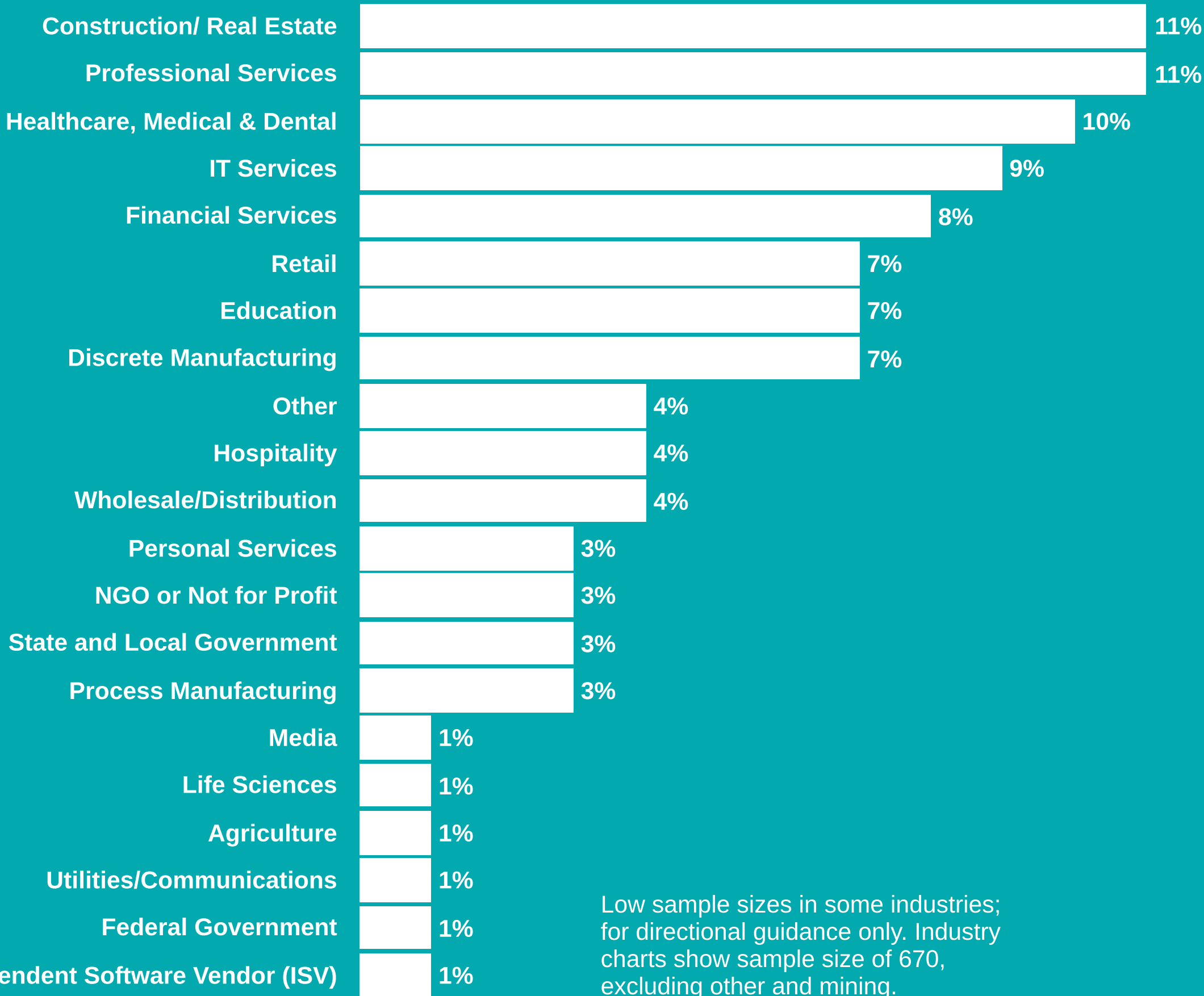
On the management and support side, virtual desktops also help IT staff to manage client devices centrally, easing backups, updates and other tasks. Since all data and files are centrally stored, VDI also provides an extra layer of security.

In our current cost-conscious, resource constrained environment, interest in virtual desktops is likely to rise as this approach can help SMBs to reduce hardware procurement, management and support costs.

ABOUT THE STUDY

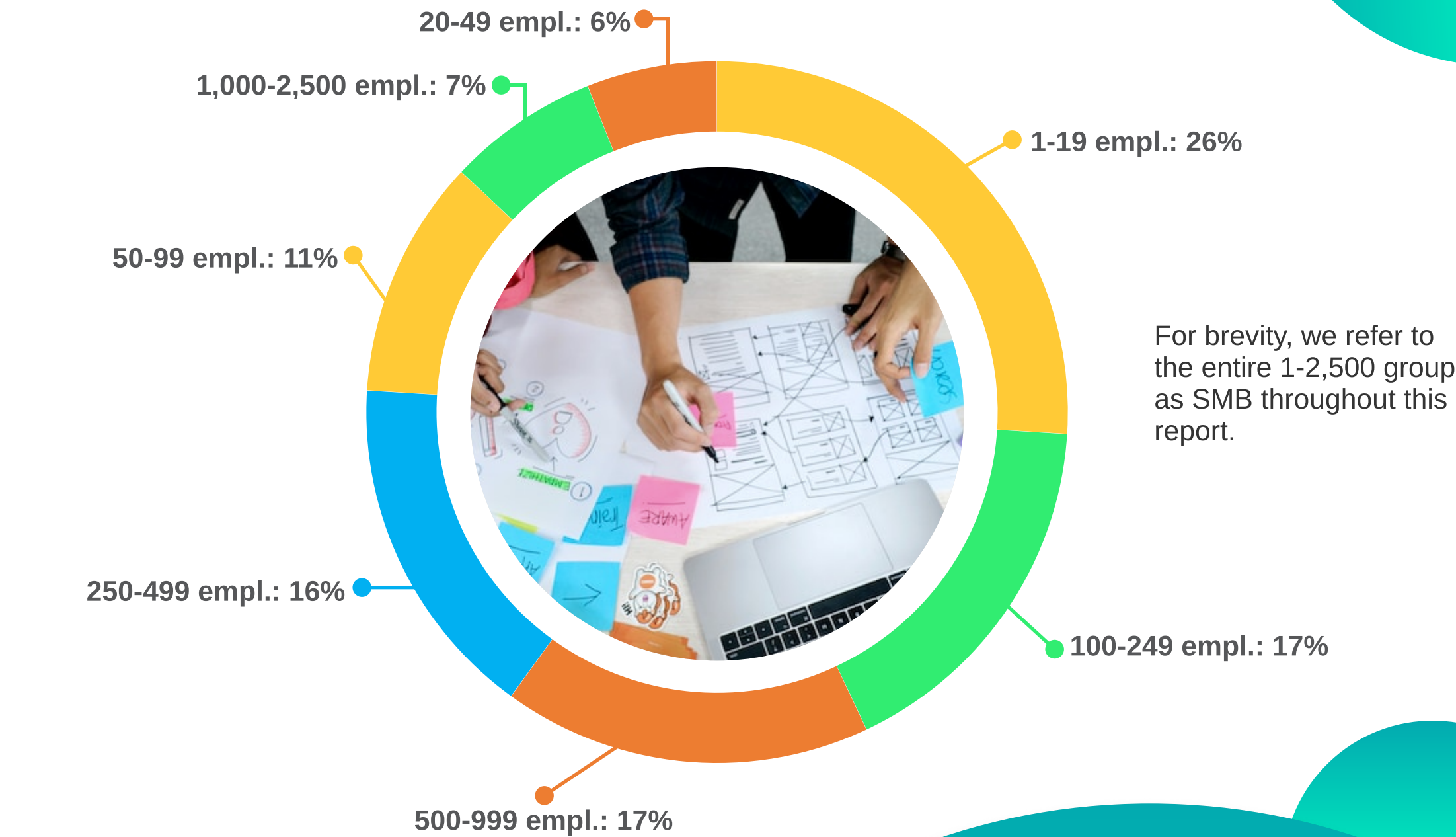
Unless otherwise noted, all data in this eBook is sourced from SMB Group’s SMB Business and Technology Priorities for 2023 Survey. Data was collected in November, 2022 via a web-based survey from a random sample of 743 survey respondents.

INDUSTRY DISTRIBUTION



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

EMPLOYEE SIZE DISTRIBUTION





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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