SME strategies for success

A global study that reveals the key drivers of success for SMEs in 2017 and beyond



OXFORD ECONOMICS

AMERICAN EXPRESS®



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About the study

In October and November 2016, Oxford Economics was commissioned by American Express to survey senior executives at over 3,200 SMEs, ranging in size from 10 to 250 employees across 15 countries and 16 industries. Telephone interviews were used to explore opportunities and threats, business prospects, strategies and investments and how SMEs could be better supported by changes to regulation, financing, and government support.

These survey respondents had the following characteristics:

TITLE	
Owner	32%
Chair/CEO/Managing Director/General Manager	46%
CFO/Head of Finance	22%
REVENUE	
$3 million–$4.9 million	13%
$5 million–$9.9 million	20%
$10 million–$14.9 million	32%
$15 million–$19.9 million	17%
$20 million–$24.9 million	12%
$25 million–$29.9 million	6%
LOCATION	
Asia-Pacific	
China	3%
India	9%
Japan	2%
Singapore	2%
Australia	3%
Latin America	
Argentina	8%
Brazil	2%
Mexico	9%
North America	
Canada	9%
United States	10%
Europe	
Italy	8%
Germany	9%
France	9%
Spain	8%
United Kingdom	9%

INDUSTRY	
Financial services/Real estate/Insurance	9%
Auto/Industrial/Manufacturing	9%
Business/Professional services	9%
Wholesale/Retail trade	9%
Construction	8%
Technology	8%
Media & Entertainment	8%
Healthcare	7%
Travel & Transportation	7%
Hospitality & Leisure	6%
Food/Beverages/Consumer packaged goods	5%
Telecommunications	4%
Chemicals/Energy/Utilities	3%
Pharmaceuticals/Biotechnology/Life sciences	3%
Aerospace/Defence	3%
Natural resources/Mining	2%

Additionally, in-depth interviews were conducted with the following SME executives and experts:

Adam Smith	Director of Partnerships, Kakaxi
Peta Jurd	Chief Commercial Officer, Simavita
John Hartner	Chief Operating Officer, EnvisionTEC
Marcelo Schiaffino	Commercial Director, WebRadar
Alex Shashou	President, ALICE
Simone Lini	CEO, Waynaut
Jenny Biggam	Owner, the7stars media agency
Professor Luca Iandoli	University of Naples Federico II, and President of the International Council for Small Business
Tom Thackray	Director of Innovation, UK Confederation of British Industry (CBI)
Dr. Mariano Mayer	Secretary for SMEs and Entrepreneurship, Argentina

Foreword

The 2017 American Express Global SME Pulse Report, conducted by Oxford Economics, reveals that SMEs are entering a new realm of optimism, determined to deftly navigate through challenges as they plot their path to growth.

Our inaugural Global SME study, which surveyed opinions of 3,200 business leaders around the globe, showed that while business leaders are concerned about economic and political volatility, they are resolute about readying themselves for expansion, with their sights firmly set on entering new domestic and overseas markets.

Nonetheless, SME leaders report on a number of obstacles that impede their momentum. Access to finance was seen as a significant impediment by many of the survey respondents; one in two of SME leaders say they struggle to access finance to grow. Similarly 60% admit that working capital difficulties cause problems paying their suppliers on time. However, they are optimistic about the future availability of funding. Over the next year, SMEs plan to spread their funding sources, making greater use of alternative sources, in particular cards, crowd funding and private equity.

The Pulse Report also revealed that SMEs possess intrinsic advantages due to their scale. Their agility is playing a major role in helping them to surge ahead. SMEs are able to quickly adapt to shifting trends across the gamut of business operations, from innovating through to the deployment of technology and, perhaps most importantly, to making the time available to focus on the recruitment and retention of talent.

Finally, perhaps the most important finding of the Global Pulse Report is that while SMEs from around the globe are each navigating through a fairly bespoke set of challenges, they share much in common, not least of which is their optimism about the future and a firm commitment to making the investments they need to accelerate growth.



Paul Abbott
Executive Vice President, Global Commercial Payments
American Express Company



Introduction

The world in 2017 is a very different place than it was just a year ago. History-making events like Brexit and the US presidential election have dominated global headlines. Change swept across the world, populist movements swelled, trade agreements were cancelled, commodity, currency and asset prices fluctuated erratically, and the potential for major policy shifts rattled boardrooms and markets. At the same time, technology continues to disrupt entire industries, raising future concerns about employment, productivity, and global growth.

A healthy economy demands a balance of small as well as large firms. In advanced economies, Small and Medium sized Enterprises (SMEs) typically generate more than half of GDP.[1] They often generate new ideas and innovation. Start-ups, however, represent just a small proportion of SMEs. In fact many SMEs are long-established family businesses or are managed by the founder and owners to achieve personal objectives beyond shareholder return. Often, they have strong ties to their local communities.

Small businesses—not big companies—are the largest employers in most countries, and their importance is likely to increase as automation continues to threaten routine jobs and countries struggle to achieve full employment.

This study, conducted by Oxford Economics, surveyed 3,200 senior executives of SMEs in 15 countries to identify how they can prosper amid uncertainty. The results showed:

- Though SMEs are concerned about the threat of political and economic uncertainty, their business outlook is generally optimistic.
- Many view technology as a positive force for disruption, presenting new opportunities.
- SMEs thrive by exploiting key advantages, which we describe as their Four Aces: Applying technology, Agility, Accelerated innovation and Attracting talent.
- Many SMEs are developing growth strategies by focusing their expertise in niche markets, driving sales growth at home and abroad.
- Finance remains a key challenge for SMEs—and a significant opportunity exists for financial providers to assist growing SMEs.
- Governments, policy-makers and other agencies can help create conditions that help SMEs prosper. To be effective, however, governments need to understand that different kinds of SMEs have different needs.

This study provides a comprehensive snapshot of SME sentiment at a moment of heightened global uncertainty. The survey results, supported by in-depth interviews with successful SMEs, show that SMEs are optimistic about their prospects for their businesses, looking forward to opportunities and developing strategies to grow their revenues and profits in an uncertain world.

1 OECD, "G20/OECD high level principles of SME Financing", November 2015 at https://www.oecd.org/finance/G20-OECD-High-Level-%20Principles-on-SME-Financing.pdf

The world according to SMEs

Because of their smaller size, SMEs are naturally more vulnerable to uncertainty than larger, more established firms. So it's no surprise that economic uncertainty (37%) and political uncertainty (15%) represent the top concerns for SMEs globally. Exporters are more concerned about the outlook for Europe (13% of all respondents) than other regions (from 3% to 8%). These concerns are likely to be heightened by recent events (see sidebar).

Adapting to political and economic uncertainty—the US elections and Brexit

The US presidential election took place mid-way through this research, so it was possible to compare how the outcome changed attitudes. US-based SMEs are generally among the most optimistic about economic prospects, but there was a noticeable shift in mood following the election. The threat of political uncertainty increased by 14 percentage points, from 24% to 38%. When asked if political changes will have a positive impact on SMEs, the US scored highly compared with other countries, with only a slight decline from 69% pre-election to 64% afterwards. Mexican SMEs are increasingly concerned about political and economic uncertainty in their region – the figure rose from 21% to 30% after the US election.

According to the research, Brexit is still a concern among UK SMEs. It is highlighted as a threat by 34% of UK companies (compared with 15% of the global sample). This is a high percentage, given only 32% of UK respondents are exporters.

Politics can affect confidence

These results demonstrate that political events, like the US Presidential election and Brexit, can raise uncertainty even when underlying economic confidence is generally high. SMEs may have specific concerns about the potential impact of these events on international trade or their ability to recruit and hire staff. However, general uncertainty may have the greatest economic impact as it causes some SMEs to delay or postpone their investment plans until greater clarity emerges. However recent indicators[2] and UK government announcements on Brexit suggest that SMEs are coming to terms with these events.

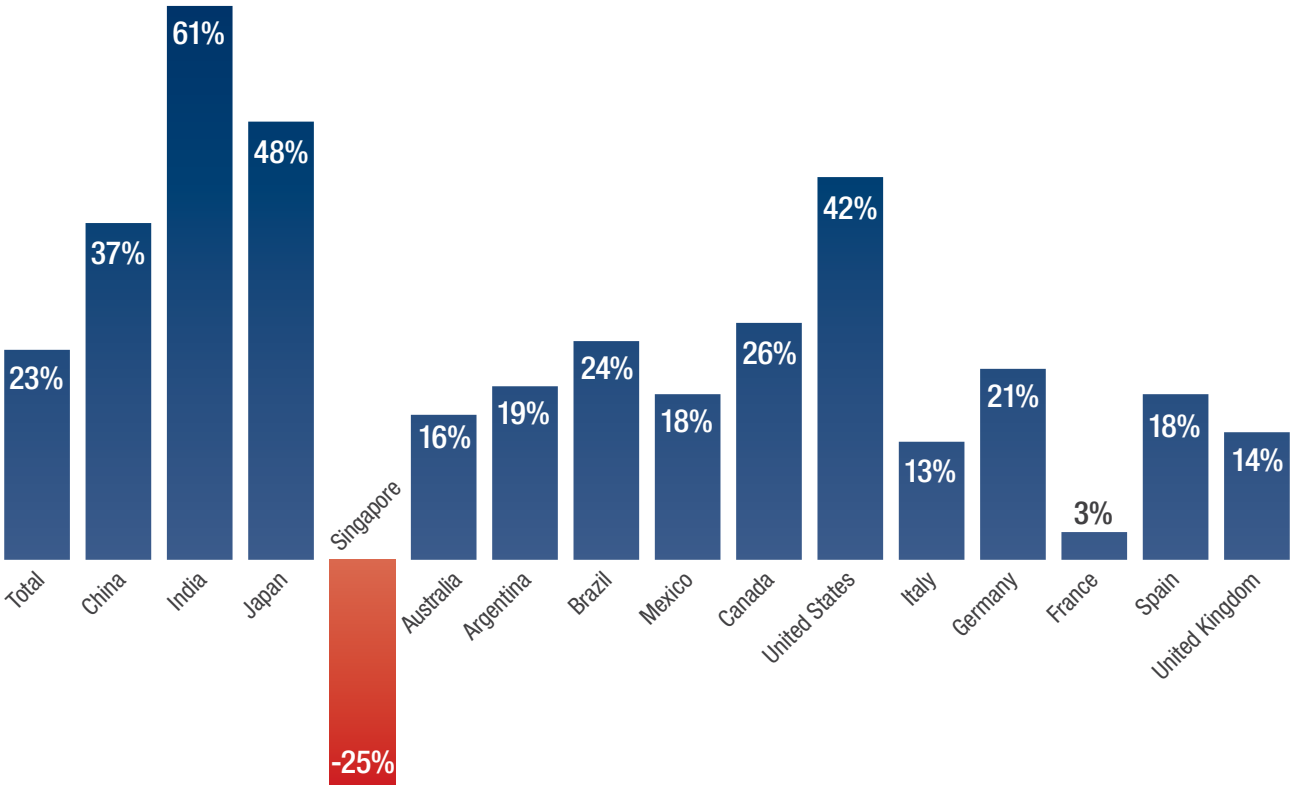
SMEs express confidence in the future economic outlook

SMEs overall expressed high confidence in the state of the global economy over the next year (see Fig. 1), though the optimism wasn't shared equally among all countries and regions. Singapore's results appear to be an outlier. They are likely to reflect SMEs' reaction to transient factors, including recent economic performance and changes to business and regulatory policy. SMEs from other Asian countries express high confidence in the future, as do those in the US and Canada. Europeans, however, are more subdued, with all countries' SMEs reporting confidence levels below the global average, reflecting the region's prospect for slower growth and a higher level of economic uncertainty as a result of the Brexit vote.

2 The NFIB US Business Optimism Index, published in December 2016 records particularly high levels of business confidence among US SMEs, the highest levels recorded since 2004, with a large increase since the November elections. See http://www.nfib.com/surveys/small-business-economic-trends.

Fig. 1: Confidence in the global economy

Net "positive" responses about the state of the global economy over the next 12 months



Naturally these differences in attitude influence the willingness of SMEs to invest in new opportunities. As Professor Luca Iandoli, from University of Naples Federico II, and President of the International Council for Small Business, argues, "Events don't drive optimism or pessimism. I think it's the other way round. Trust and optimism in the future are essential for SMEs to develop."

Most SMEs (71%) see technology disruption not as a threat but as an opportunity, with 46% seeing themselves as a disrupter (vs. 18% disrupted). Many SMEs (58%) say barriers to entry are coming down. As technology advances, it becomes more affordable and accessible. SMEs envision working in extended networks and supply chains—63% say this provides new opportunities. Technology also opens up global markets, with 59% saying it is becoming easier to export.

Many SMEs also see themselves in tune with changing attitudes. As sustainability has become a priority for many consumers, 67% of SMEs identify it as a business opportunity. A similar number recognise that their customers are increasingly asking for more personalised products and services, which offers advantage to SMEs over large, less-agile corporates, a trend exemplified by the growing artisan and craft movement.

> *"Trust and optimism in the future are essential for SMEs to develop."*
>
> *Professor Luca Iandoli, University of Naples Frederico II*



SME strategies for success

SMEs are responding to uncertainty by developing effective strategies that build their competitive strengths. They are also developing strategies to build from this strength and expand into new domestic and export markets (see Fig. 2).

Fig. 2: SME strategies for success



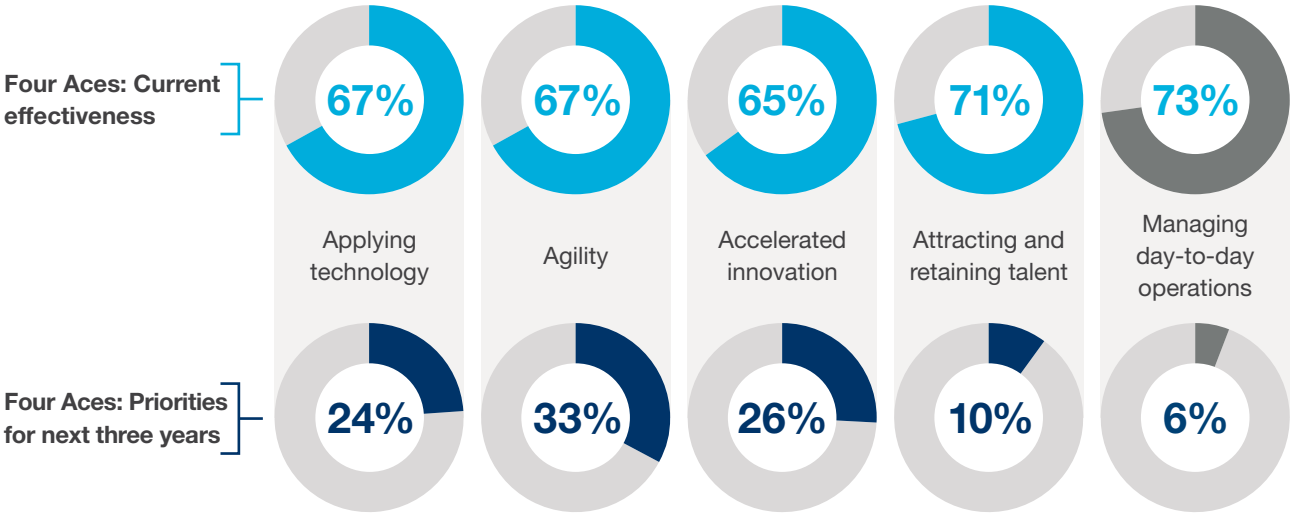
Strategies to build competitive strength

SMEs are prioritising four areas critical for future success:

- Applying technology
- Agility
- Accelerated innovation
- Attracting and retaining talent

While large firms also focus on these strategies, SMEs possess distinct advantages in each of these areas, which they can exploit to strengthen their market position. For this reason, we describe them as the Four Aces for SMEs. SMEs are already confident in their capabilities in these four areas, and plan further improvement in the next three years. Indeed, making investments to build these forward-looking capabilities is considered a higher priority than managing day-to-day operations (see Fig. 3).

Fig. 3: SME Four Aces vs managing day-to-day operations: effectiveness today, priorities in the next three years



Applying technology

Effective use of technology is increasingly important for SMEs, as more and more industries digitise. According to Dr. Mariano Mayer, Secretary for SMEs and Entrepreneurship, Argentina, "In a knowledge economy, an SME that does not embrace technology and the digital agenda will have serious problems."

The good news is that technology is becoming rapidly more affordable. Cloud-based technologies allow SMEs to invest incrementally in IT without the huge investment and risk of an in-house IT department. SMEs can also use partners to access leading technologies. As Adam Smith, Director of Partnerships at Kakaxi, an agro-tech start-up, says, "As a start-up it's impossible to do everything, which is why partnerships and collaborations are so necessary. For example, we are not looking to develop our own image recognition technology, but partner with organizations where there is overlay in objectives."

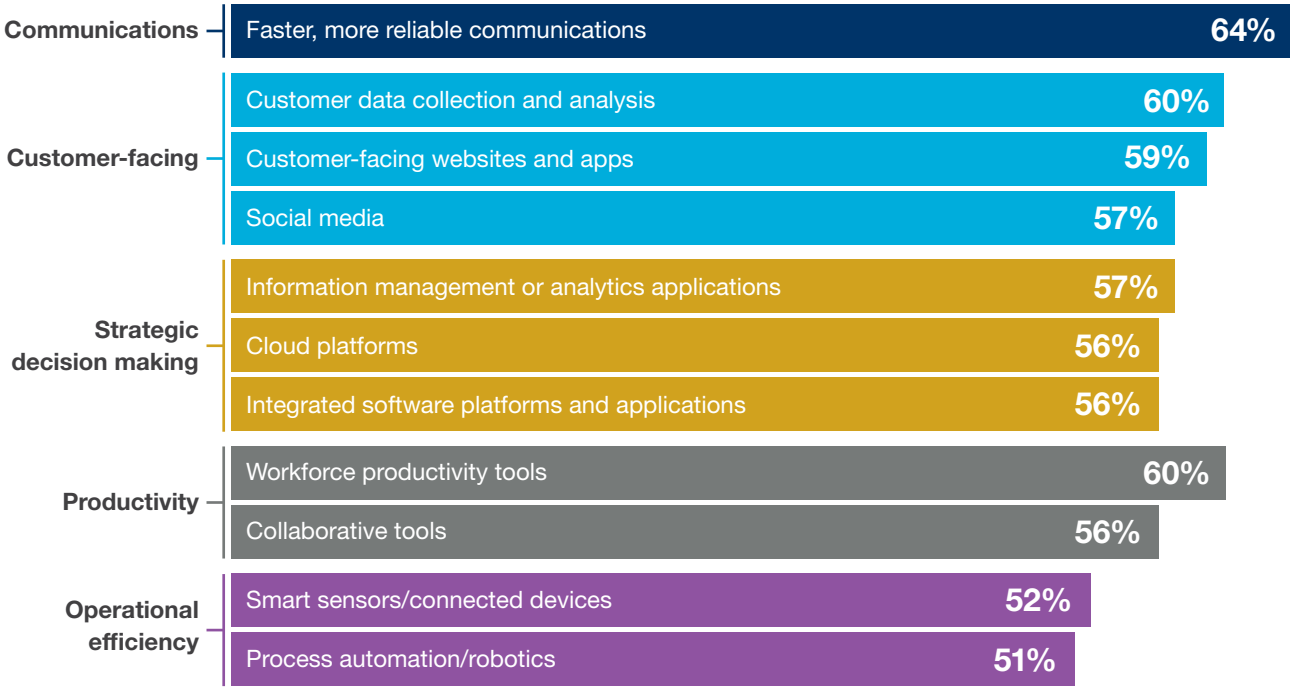
Information is also becoming a commodity, more widely available through open application programming interfaces (APIs). Simone Lini, CEO of Waynaut, an Italian start-up in the B2B transportation sector, identifies this as an opportunity to add value, because data from different sources can be smartly integrated to enable multi-modal transport solutions—to book a multi-step journey with one click. "In a few years we will get wide access to a huge number of APIs from pretty much all the most important providers," he says.

SMEs are deploying technology across their businesses to drive new sales and improve efficiency (see Fig. 5). Improving the reliability of communications is the highest priority for SMEs (64%). Other investment priorities include developing customer-facing mobile apps and technologies to analyse customer data. Technology to improve decision-making, including data analytics, enterprise systems, and workforce productivity is a priority for 56%–57% of SMEs. Technology more likely to improve operational efficiency, like the Internet of Things (IoT), process automation, and robotics, is a priority for just over half of SMEs.

> *"An SME that does not embrace technology and the digital agenda will have serious problems."*
>
> *Dr. Mariano Mayer, Secretary for SMEs and Entrepreneurship, Argentina*

Fig. 4: SMEs important technologies, today

Most important technologies today



When it comes to SME adaption of digital technology however, a divide remains. "Some SMEs are aware of the potential of technology but are less sure of how it can be applied in business," says Tom Thackray, Director of Innovation at the UK's Confederation of British Industry (CBI). It's also easier to access technology know-how in a large city in a developed economy, where clusters of technology firms offer their services, rather than in a remote location in a developing country, with limited access to the internet.

Agility

In a period of rapid disruption, where customers are increasingly demanding new, bespoke products and services delivered nearly instantly, companies must adjust course and scale operations quickly. Large incumbents with outdated, complex IT systems, established bureaucracies and standardised regimes for managing planning, budgeting, and performance management naturally find it difficult to change course on the fly.

SMEs have a built-in agility advantage, so it's no surprise that many recognise it as their top priority for investment. According to the study, SMEs are streamlining processes, with two-thirds introducing lean and agile techniques, virtual teams, and using information to enhance and accelerate decision-making.

With the growth of online platforms, virtual networks, and communities of interest, it is also increasingly easy to work collaboratively with others. New flexible workspaces are becoming popular in many cities, where start-ups and SMEs can work in close proximity. Sixty-five per cent of SMEs see networks of partners as important to help them scale operations.

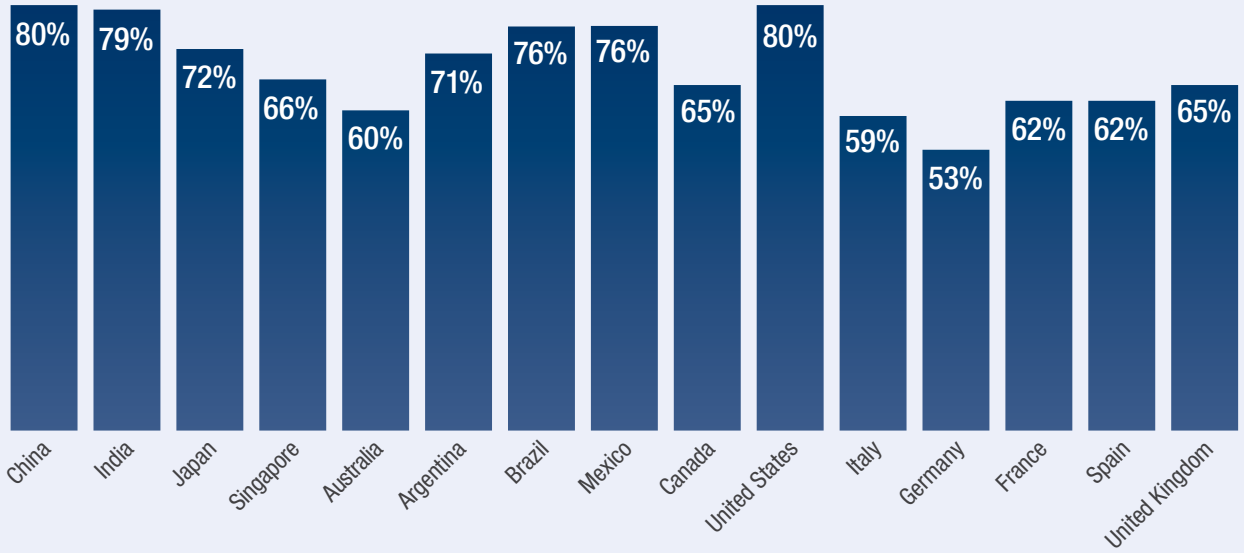
Many large companies seek partnerships with smaller SMEs to build more agility into their own operations. As Adam Smith, Director of Partnerships at Kakaxi, explains, "Small companies are able to be more flexible, and many larger companies—say, conglomerates in food or transportation—are trying to pivot their models. It's a really positive thing right now for SMEs, as it leads to more partnerships and funding opportunities."

The SME Four Aces—country analysis

A country-by-country analysis yields only minor differences, with SMEs giving themselves relatively high scores for the Four Aces, as Fig. 5 illustrates. These assessments seem closely linked to SME confidence in their domestic political and economic environment, with the US and China scoring highest (80%), closely followed by Indian, Japanese and Latin American SMEs. European SMEs, though the least confident in their capabilities today, still score themselves quite highly, from 65% in the UK to 53% in Germany.

Fig. 5: SME Four Aces, by country

The Four Aces: Effectiveness today
(Aggregated "effective" and "very effective" responses across all Four Aces)



Accelerated innovation

Speed to market with distinctive new products and services can be a critical advantage for SMEs. "If you don't innovate, you are dead," says Dr. Mariano Mayer, the Argentine secretary for SMEs and Entrepreneurship. "And it's very difficult for big companies to innovate—it's another opportunity for SMEs."

Moreover, technology is disrupting the very process of innovation. Today invention is less dependent on huge capital investments and more dependent on talent and flexibility—to the benefit of SMEs. Increasingly, innovation can be achieved through software design, which is dependent on smaller teams of software engineers, often using agile development techniques, cloud services and a flexible, supportive corporate culture, which can be easier for SMEs to provide. "Technology democratises innovation," says Professor Iandoli. Whereas Peta Jurd, Chief Commercial Officer of Simavita, an Australian healthcare products start-up, notes, "There's an advantage in having the development team working in the one location with the clinical team in that the team can be put together in one room, so they stay connected, with the same information, and can make changes to the product development in real time."

The growing trend for open approaches to innovation works to advantage SMEs. As universities become increasingly important components of the innovation ecosystem, the more proactive, business-focused institutions are developing relationships with businesses and venture investors. Likewise, in their search for innovation, large companies are seeking to invest and partner with SMEs that can be more agile,

experimental, and risk-tolerant. Such collaborative approaches make innovation affordable for SMEs, as costs are shared among partners. It's also proving very effective. As Tom Thackray of the UK's CBI explains, "It's exciting because you see innovators building on each other's ideas, and it grows exponentially."

Many SMEs (59%) are using customer feedback to nurture product development. More than half are co-creating with customers. For example, EnvisionTEC, a US-based 3D manufacturer, describes how their customers regularly come to them with new ideas, new opportunities to convert analogue processes to digital. "Every day we get, 'can we do this?'" says COO, John Hartner.

Creating an innovative culture across the organisation is critical; 61% of SMEs in our survey encourage all staff to contribute to innovation. Other techniques include recruiting high-calibre innovators or making a team responsible for driving innovation. WebRadar, a Brazilian data analytics provider to mobile operators, logistics companies and governments, has more than 50 staff focused on research and development out of their total headcount of 82. "We have a team focused on innovating, on incubating new products using the market as inputs and working with academic institutions in Brazil and overseas, and also with investors," explains Commercial Director, Marcelo Schiaffino. "The market demands more and more creativity, innovation and flexibility. It's hard to promote off-the-shelf solutions nowadays."

Attracting and retaining talent

SMEs need to attract top talent to boost their competitiveness. This can be difficult, as graduates from top business schools and universities are often attracted to high-paying careers in finance or in larger corporations. Attitudes, though, may be changing. Entrepreneurship is becoming cool. As Tom Thackray remarks, "It's a generational shift. People are looking for different things."

SMEs can design attractive alternatives to life in the big corporation. In addition to offering early responsibility and the potential for rapid career advancement, fast-growing SMEs can offer flexible work arrangements, attractive stock options and other perquisites for creative spirits that large firms can't. Some SMEs offer an empowering vision or values that appeal to their employees and help build commitment to a cause, that a large corporate may find much harder. For example:

- Simavita, the healthcare start-up, develops products that provide caregivers an evidence based care plan to manage incontinence, a problem affecting 400 million people worldwide. The positive impact of the projects helps them attract talented software developers. "Part of what motivates them is the opportunity to make a really big difference in an area that can help a lot of people," says Peta Jurd.
- WebRadar also uses the technical challenges it faces to attract highly qualified technical staff. New innovations include extracting data from taxis in Brazil to get up-to-date information on mobile network coverage in major cities. "WebRadar presents a very interesting challenge for tech-savvy employees," says Marcelo Schiaffino, "And to present WebRadar as an exciting company, it's enough to tell them our story." They can also offer the prospect of exciting times ahead, as they are expanding into new sectors and internationally.
- ALICE is a software company that has built an operations platform for the hospitality industry. It started four years ago in the US. According to founder and company President Alex Shashou, ALICE concentrates above all on building a rigorous hiring process. "We're a people company," says Alex Shashou. "Every

company today is. We've read good process books, focused our culture to ensure information flows through the company, and have paid for the right tools." The firm developed a very complex code base, so its design and development teams need at least five years' post-college experience. The company has set up a design team in Brazil and a development team in Eastern Europe, many hired from the Russian equivalent of MIT.

While SMEs identify good salaries as the most important factor in attracting skills and talent (63% of SMEs), qualitative aspects, like providing an attractive working environment, a supportive and inclusive culture, and providing training and development opportunities, follow close behind. The latter was identified as important by more than 60% in our survey. At WebRadar, for example, a focus on culture is used to integrate staff. Music and philosophy classes help nurture creativity, and a running team helps build teamwork.

the7stars media agency—the Four Aces in action

Jenny Biggam started the7stars media agency in 2005 after identifying an under-served gap in the market for a more personal service to smaller domestic clients close to their UK base, while the large agencies were focused on global campaigns. The business has grown organically every year, and now has 160 employees, up from 125 last year. For the last couple of years, it has been recognised in the Top 3 of the Sunday Times list of best small companies to work for.

Attracting and retaining talent is central to the agency's strategy. "Talent is the single most important thing now, particularly in media planning and buying, and probably any creative service," Jenny Biggam explains. "It's the difference between winning and losing a pitch, and it's the reason clients stay with us." Accordingly, they've worked hard to create a unique culture and build a reputation as a great place to work, taking many of the good things that the big agencies provide, like training schemes and staff wellbeing programmes, but adding some new ideas of their own. For example, staff:

- don't fill in forms to record holidays; they're trusted to work hard when needed.
- don't have job titles, but call each other by their names, to avoid internal politics and competitiveness.
- receive the same annual bonus as a cash sum, to encourage the idea that all contribute toward success whatever their role in the agency. Staff blog about how they intend to spend their bonuses and the best blogger gets their bonus doubled as an additional reward for their creativity.

Innovation is encouraged by creating rotating project teams to focus on issues critical to the firm's values. The company also runs an "idea of the week" scheme, where small cash prizes are paid to the winning idea at the weekly all-staff meeting.

Technology is massively important in the industry, with vast amounts of data available. Jenny Biggam feels that it's now becoming easier for small agencies to compete since they can access high-quality platforms from Google and other large suppliers and can offer an agnostic service, whereas large agencies may be tied to a particular platform. So the7stars can be faster and more flexible in responding to client needs.

This **agility** is another key reason Jenny Biggam thinks clients work with the7stars. "When you get to a certain size you have to break down roles into departments and silos. We have the advantage of being fleeter of foot. And we're working hard to keep that," she says.

"Talent is the single most important thing now… probably for any creative service."

Jenny Biggam, Owner, the7stars media agency

SME strategies for growth

Employing their Four Aces—Applying technology, Agility, Accelerating innovation and Acquiring top talent—SMEs can position themselves to deliver sustained financial performance and compete successfully against larger or more-established firms.

To expand sales, for example, many SMEs target specific niche markets where they offer distinct advantages and can avoid having to compete solely on cost against larger enterprises with greater economies of scale. "If SMEs can identify a specific niche and deliver high-quality products, they can thrive on small volumes with high margins," says Professor Iandoli.

WebRadar, for example, knows its market extremely well, as the founder was an experienced executive at a large mobile operator. "A good strategy for an SME is to excel in one industry vertical," says Commercial Director, Marcelo Schiaffino. "We are doing that by building a very strong and robust infrastructure and then getting more specialised in a specific niche. That's the only way to fight the IBMs and HPs."

"We are building a very strong, robust infrastructure and then getting more specialised in a specific niche. It's the only way to compete with the IBMs and HPs."

Marcelo Schiaffino, Commercial Director, WebRadar

Having successfully established itself in a particular niche, an SME can use that foundation as a base for expanding into adjacent sectors, or other geographies, either through organic growth or by acquisition. This step-by-step approach, builds from core strengths, and responds flexibly to new opportunities allowing a company to adjust as needed in uncertain times (see the ALICE case study below). "Some SMEs fall down by trying to run before they can walk," says the CBI's Tom Thackray. "Sometimes it's better to make it in one market, and from there you can build it up."

For example, EnvisionTEC, the 3D manufacturer, started out in jewellery and then moved into other sectors, including healthcare. It recently acquired an innovative start-up to enter the oil and gas, automotive, and aerospace markets. "We look for opportunities for our differentiated technology that will have high-value applications and can scale," says COO, John Hartner.

"You need to grab opportunities … sometimes straying from the plan to grow a billion-dollar unicorn."

Alex Shasou, Founder, Alice

ALICE: flexible and practical about strategy

Alex Shashou started ALICE back in 2012, with his co-founders, Justin Effron and Dmitry Koltunov, by building a platform to join up service-delivery functions, including guest communications, concierge services, maintenance, housekeepers, and other front desk services. The aim was to develop a hotel platform that would provide the guest with complete visibility of all hotel services and help the hospitality sector compete with AirBnB by using technology to combine siloed functions. After just four years, the New York-based company has 50 employees, with a design team in Brazil and a development team in Eastern Europe. After growing five-fold last year, Alice is expanding into adjacent markets (like their new residential platform services for upscale residential blocks) and in different countries.

The founding team leveraged thorough research to start the company. For 10 months they visited hotels and envisaged every interaction for hotels of different sizes and configurations. He started a book club to discuss and learn from other companies at similar stages about what could be brought across to ALICE. But he views the biggest success factor as hiring a great team, one "that's smarter than yourself," and then giving them "the autonomy to figure it out."

When it comes to strategy, Alex Shashou is a pragmatist. The strategy was first to develop the product and then go out and sell it. "The reality is you don't have the luxury of a ten-year vision." The team forecasts out three years, and typically funding covers two years. But even in the four years of Alice's existence the environment has changed significantly. "You can't be tunnel-visioned as a small business," he says. "As a start-up, you need to grab opportunities to keep going, sometimes taking decisions that stray from the plan to grow a billion-dollar unicorn." But that's natural," he says. "It's management's job to balance that."

Strategies to expand revenues

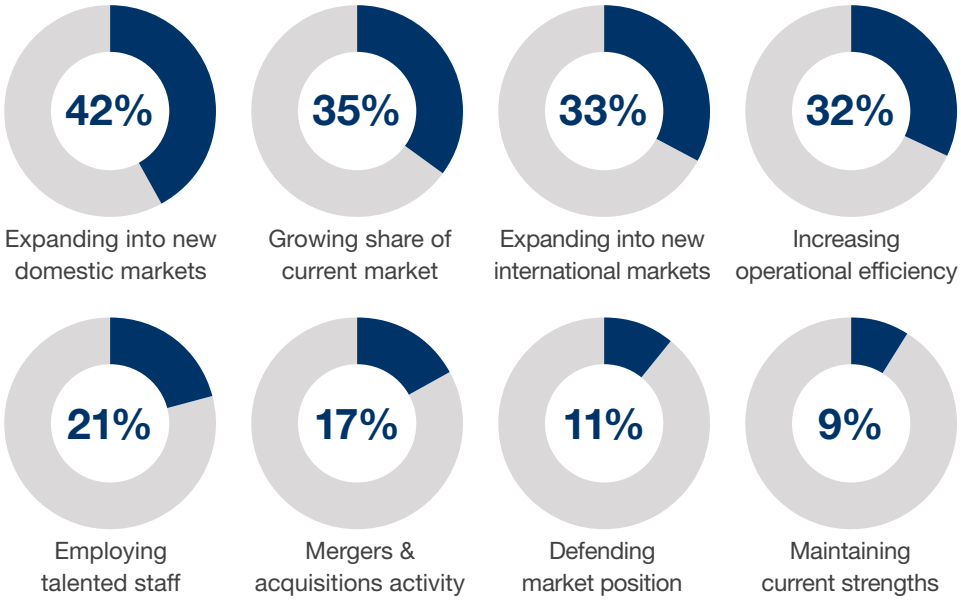
SMEs express ambitious plans to expand their revenues over the next three years in both domestic and international markets. They are also forecasting improved profitability, with improvements in operating efficiency (see Fig. 6).

To accomplish this, many are turning to exports as a focus for growth. Respondents expect exports as a share of total sales to grow from 22% to 31% over the next three years. To boost export sales, SMEs are investing in digital platforms, developing marketing intelligence in overseas markets, and partnering with established multinationals. To a lesser extent, SMEs are also setting up local branches and working with local agents to expand internationally, though these can require significant investment and local knowledge.

Exports as a share of total sales are expected to grow to 31% from 22% over the next three years.

Fig. 6: Contributors to SME financial performance, next three years

Top-ranked contributors to financial performance in three years (sum of top two responses)



Some examples include:

- EnvisionTEC, the 3D manufacturer, now sells to 112 countries. It helps that its staff is spread geographically, with HQs and development teams in the US and Germany. The marketing effort is focused on using case studies to help customers understand the value and the unique qualities of its products. “Many customers around the world haven’t even considered the possibility of how 3D printing could help them, so it’s really about getting that message out,” says COO, John Hartner.
- WebRadar received investments from Qualcomm and Intel, and used these connections to boost credibility and name recognition, helping the company expand into new markets. It also employs local representatives to bring in local intelligence about market demand and plans to set up a local commercial and marketing office as well as a research and development team in Europe. The company uses its cloud-based solution to expand into new territories by renting space in local data centres and operating remotely, if needed, to meet local regulations on holding personal data (as it did in Canada).
- Simavita, the Australian start-up selling innovative healthcare products, recognises that it doesn’t have a large marketing budget. Instead, it relies on niche distributors of healthcare products to identify opportunities in other geographies.

SME growth strategies—country analysis

SMEs' growth strategies will be influenced by many factors, including their stage of development, the extent to which they are already assured and experienced exporters, confidence about prospects for the domestic economy, and the supportiveness of the business and regulatory environment. However, the survey highlighted significant country differences. In developing economies, many SMEs project dramatic growth. More than half of SMEs in Argentina, Brazil, Mexico, and China plan rapid expansion in domestic markets, compared with only 34%–36% in the mature economies of the US, Germany, and Italy.

Chinese and Japanese SMEs are more likely to rely on export growth to expand sales, with almost half saying that international sales will contribute most to improved financial performance compared with just 25%–26% in the US, Canada, and Brazil, countries that all have large domestic markets to serve.

SMEs in countries expecting lagging growth tend to adopt more defensive strategies. Maintaining a current position is most popular in Italy (27%) and Singapore (24%). However a quarter of US SMEs are also pursuing defensive strategies, perhaps reflecting political and economic uncertainty.

To improve operating efficiency, UK and Australia respondents favour cost-reduction programmes. Half of Mexican firms prioritise using technology to modernise processes, compared with just 29% in Germany.

In developing economies, many SMEs project dramatic growth. More than half of SMEs in Argentina, Brazil, Mexico, and China plan rapid expansion in domestic markets.

Successful SME strategies drive improved financial performance

Generally, SMEs express optimism about their business prospects, and project their revenue growth will increase from 5% next year to 6% over the next three years. Profit margins are forecast to grow from 3.8% to 6.3% over the same period.

However, SMEs that rate themselves highly on the Four Aces and have developed effective strategies[3] are forecasting even stronger financial performance, with net profit margins growing to 9% per year within three years' time, more than 50% higher than the rest of the population. This group of confident SMEs is found in all countries and sectors, though there is a slightly higher share among older, more established companies and in sectors that have already been subject to disruption, such as telecoms. They are far more likely to identify business opportunities arising from disruption (see Fig 7). In addition, they:

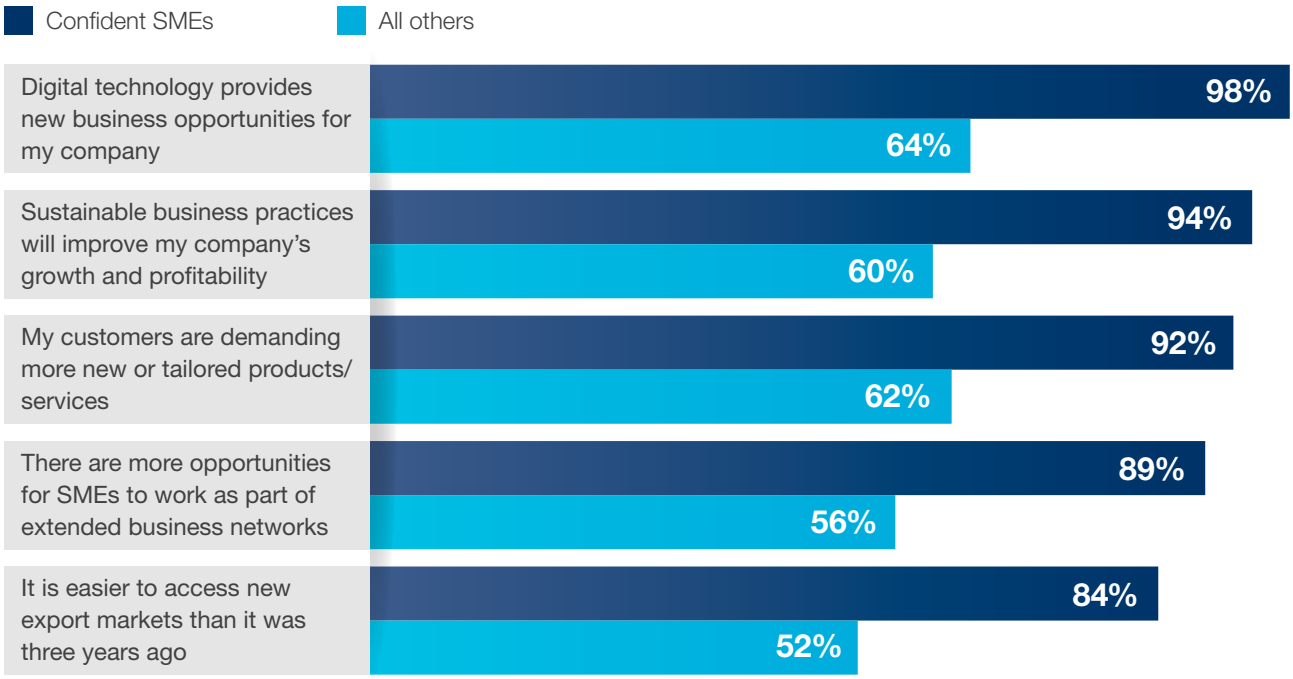
- Rate economic uncertainty as a greater threat, yet have more confidence in the global and local economic outlook.
- Are much more positive about technology and significantly more likely (69% vs 40%) to see themselves as a disruptor rather than someone to be disrupted.
- See intensifying of competition in their industry but more opportunities as barriers to entry come down.
- Are more willing to take big risks to gain big rewards (85% vs 51%).
- Are more concerned with getting access to finance to support their growth plans (93% highlight cash flow as important vs 63% other SMEs).
- Are far more at ease with business regulation and working with government (79% say regulations are easy to navigate, compared with 40% of other SMEs).

SMEs express optimism about their business prospects, and project revenue and profit margin growth over the next three years.

3 The research identified a group that combined rating themselves highly (the upper quartile) against the Four Aces and saying they have confidence in their company's strategies.

Fig. 7: Confident SMEs and business opportunities

"Agree" and Strongly agree" responses





Financing evolving needs

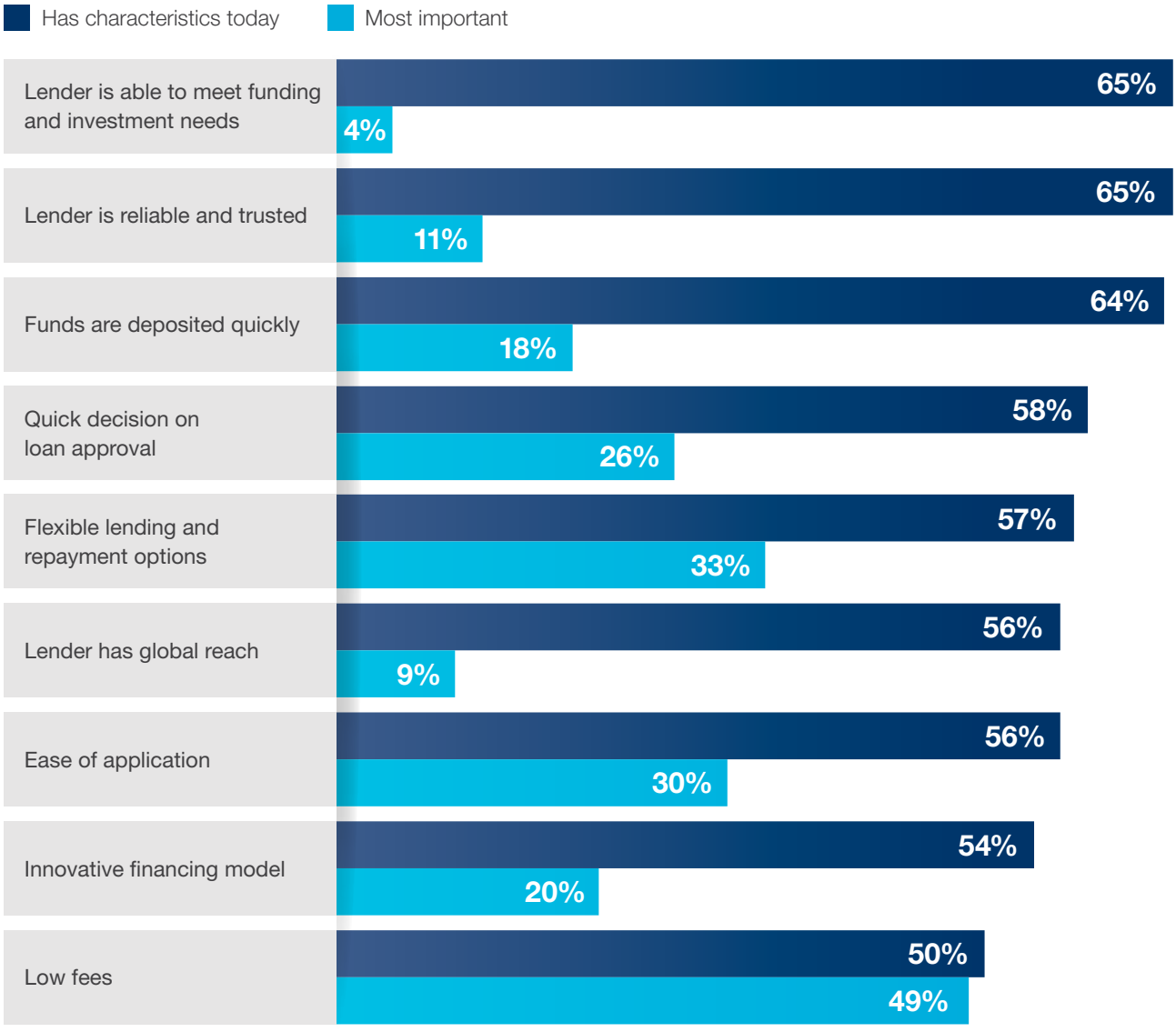
To build their capabilities, implement their strategies and pursue further growth, SMEs need to access finance on reasonable and convenient terms. More than half of SMEs (53%) report that it is difficult to get sufficient access to capital for expansion.

SME financing needs largely depend on their stage of development. Start-ups will look to capital markets, angel investors and venture capital to fund their early stages. Different funding sources have their own particular advantages and disadvantages: Public equity markets can be expensive and impose demanding reporting requirements. Private sources may mean ceding some control over the company's decision-making. SMEs will need to find the funding mix that best meets their particular needs. SMEs that place big bets on developing technology solutions to disrupt industries will need to attract patient investors able to wait for their returns. For example, Waynaut ran a couple of funding rounds to find private investors to develop its B2B online travel platform. As it expands and requires additional funds to market its solution, it is partnering with a more established online provider.

SMEs are seeking to diversify their funding sources as their needs change and more innovative solutions become available.

Fig. 8: Importance of different financing features vs. availability today

Most important characteristics when deciding on future financing



SMEs will have different funding needs once established, to cover working capital and fund their growth strategies. The study shows that SMEs seek to diversify their funding sources from beyond traditional bank lending sources as their needs change and more innovative solutions become available. Today bank loans are the most common source of funding, used by 56% of SMEs overall, although there are marked differences by country, e.g., only 38% in Brazil use them. In the future, while traditional financing will remain important, SMEs plan to diversify their sources of funds including other options such as cards, peer-to-peer lending and crowdsourcing. The CBI's Tom Thackray welcomes the additional financing choices now being provided to extra competition and innovation in providing finance to SMEs. "They need to look beyond the bank for finance," he notes, there has been lots of innovation providing extra choice for SMEs. It's been a positive development."

While SMEs are relatively positive about their current financing options, the most important option to them (low fees, at 49%) is among the least available. The next two most important features, flexible lending and repayment options, and ease of application, are also features that are less available. This suggests a gap in the market that other entrants could address.

Financing—country analysis

Some noticeable differences exist across countries, reflecting the relative development and maturity of the finance sector. The US, Canada, UK, Singapore, Japan, and Australia offer more financing options. European SMEs in Italy, France, Spain, and Germany are less likely to access private equity or public equity markets, or to use techniques like asset-based finance, factoring, or crowdsourcing.

The extent to which SMEs are satisfied with financing follows a similar pattern, but also appears to be influenced by the overall economic confidence of smaller firms. The US has the most SMEs (78%) satisfied with funding sources, followed by the UK, Canada, Japan, China, and India, all with more than 60% satisfied. The lowest levels of satisfaction are in Singapore (41%), Italy, Brazil, France and Spain (all below 50%). SMEs in Germany, France, Italy, and Spain rank access to more flexible financing as a higher priority than SMEs in other countries.

Supportive business and regulatory environment

To some extent the prospects SMEs encounter will be influenced by a business and regulatory environment that is largely outside their control. Our survey asked SMEs to identify where support would be most helpful.

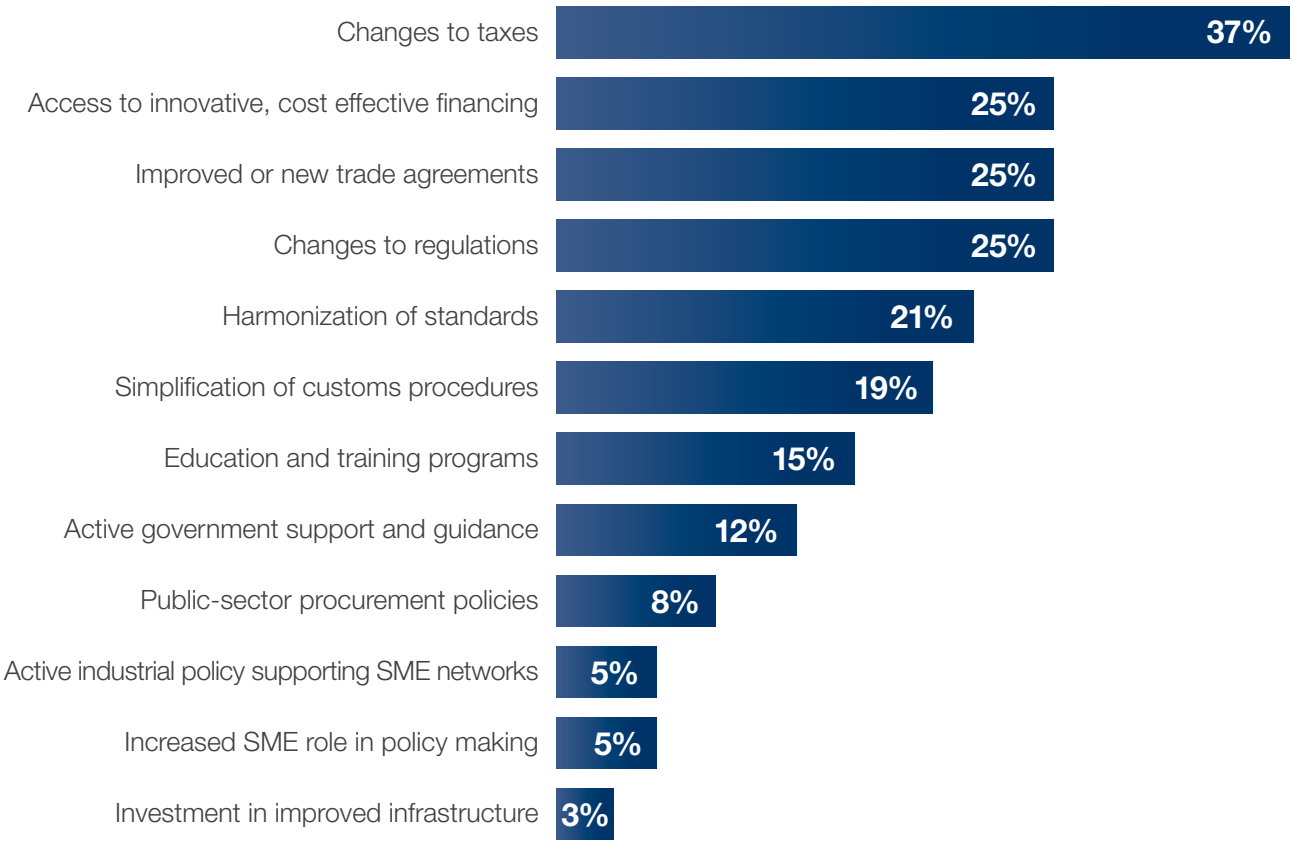
Naturally the needs of SMEs will vary, depending on their maturity, size, and stage of development and the company's motivations. A tech-heavy start-up will have different needs than those of a long-established family businesses serving a traditional customer base. Policy-makers need to recognise this heterogeneity. More than 20% of SMEs surveyed listed non-financial objectives as their primary motivation for being in business, with large variations among countries.

More than 20% of SMEs list non-financial objectives as their primary motivation for being in business

SMEs generally seek help from policy-makers to reduce barriers to business, rather than proactive support (see Fig. 9). Tax reform is the most popular solution, followed by regulatory change, improved trade agreements, harmonised standards, and reduced customs procedures.

Fig. 9: SMEs seek help from policy-makers to reduce barriers to business

Priority actions to support SMEs (Sum of top 2 ranked responses)



SMEs lack the resources of large, global companies to lobby policy-makers and optimise their taxes. Many governments, keen to attract global businesses, are reducing taxes on corporate profits and raising taxes elsewhere, on property, business rates and wages. Professor Iandoli sees this as a growing problem that needs to be addressed. "The fiscal balance is shifting too much toward employees and small companies," he says. SMEs would also benefit from regulatory reform and simplification that opens more sectors to wider competition.

Many countries are recognising the importance of their SMEs and are developing policy to support SMEs and entrepreneurship (see the Argentina and UK case studies below). Initiatives can include:

- Improving the business environment, including regulations, access to funding, harmonising standards, trade agreements, reviewing employment legislation etc.
- Developing an industrial policy in support of SMEs, e.g., providing tax incentives, encouraging particular sectors, or using public sector procurement to favour SMEs.
- Supporting SMEs' innovation efforts, by providing funding, competitions, or cultivating innovation partnerships between SMEs and large businesses.
- Providing institutional support and guidance, e.g., advice and financing to support exporters.
- Improving infrastructure, both hard and soft, such as transport systems and effective educational systems. Investment is needed to ensure SMEs have access to the infrastructure needed for the modern economy, like fast, reliable internet connectivity, 5G networks, and coding, data science, and science, technology, engineering and maths (STEM) skills.
- Ultimately, countries aim to create effective innovation ecosystems, where clusters of innovative companies, universities and research institutions, financiers, and established large companies collaborate with each other. These tend to work best in large cities, with San Francisco, New York, London, and Berlin notable examples.

"All countries need to develop entrepreneurship ecosystems… Everyone is talking about these things, but of course it isn't easy."

Dr. Mariano Mayer, Secretary for SMEs and Entrepreneurship, Argentina

Designing policy to support SMEs – two contrasting countries

Argentina faces a serious employment problem, with an estimated 10 million unemployed. The government inherited many barriers facing SMEs, including high taxes, an unstable economic environment buffeted by high inflation, restrictions on international trade and currency, very limited access to finance, a rigid bureaucracy with restrictive legal frameworks, and tough labour laws. The country recently passed an SME law, and Dr. Mariano Mayer, Secretary for SMEs and Entrepreneurship, is now working on an Entrepreneurship law.

His aim is to provide opportunities for existing SMEs to thrive, but also for a large number of new SMEs, to create jobs. Policy is aimed at all SME's, not just start-ups, a small share of the total. The government has started stripping back the tax burden, and also plan to simplify regulations and address labour law, trade agreements, export financing, and bureaucracy. Expert support and guidance is offered to SMEs and a digital platform provided to simplify reporting and communication. Dr. Mayer is also working on encouraging SME activity through clusters and value chains. "All countries need to develop entrepreneurship ecosystems," he explains. "We have a good culture here in Argentina, but we have got lots of work to create the supporting institutions. Everyone is talking about these things, but of course it isn't easy."

The UK's SMEs face different challenges. Though there has been considerable success in building thriving start-ups across the UK over the last 5 years, continued success is not assured. The CBI's Tom Thackray notes that the UK is not yet as advanced as it should be in adopting some new technologies, like automation and robotics. It's a challenge to get SMEs to commit significant resources to research and development, particularly given the often large-scale and risky nature of the investment.

The government, supporting agencies and organizations like the CBI are trying to encourage more SMEs to innovate, through effective ways of collaborating and sharing risk and reward. Government investment in R&D projects can create spillover benefits with private-sector firms joining in. Innovate UK, a government agency, runs competitions for funding in priority areas, with the participation of the business community. The track record of their investments is, according to Mr. Thackray, "strikingly good." The UK Government also incentivises research spending through an R&D tax credit.

The UK is encouraging thriving start-up communities with supporting ecosystems with the support of government sponsored agencies, universities, private investors and membership bodies.

Conclusions and recommendations

SMEs are particularly exposed to growing political and economic uncertainty. Each SME's circumstance will be unique, but the analysis suggests some recommendations all should consider:

- Don't be deterred by an uncertain business landscape. A volatile environment can actually play to the agility and risk appetite of SMEs, which often can respond more quickly in a changing world than large corporations. SMEs should assess their specific appetite for risk, and act accordingly.
- SMEs should assess their current strength in the Four Aces and determine where investment is needed to build their capabilities in Applying technology, Agility, Accelerating innovation, and Attracting talent.
- Building capabilities will not be simple for many SMEs. Smaller and younger companies don't have the resources to invest in all areas, and will have to develop the Four Aces over time, while managing a growing business. More established businesses can use a structured change programme to tackle entrenched ways of working and shift organisational culture.
- SMEs should focus on particular market niches to expand into new market segments. For some firms this can also encompass international expansion.
- To build these operating capabilities, SMEs will need to find new financing. SMEs should look beyond traditional bank lending and see if the range of new sources could better meet their needs for flexible and cost effective finance.
- Government policy interventions need to look beyond the tried and tested and focus on the support SMEs will need for future development. To do this, they need to understand the evolving needs of their diverse SME community.

SMEs play an essential role in generating wealth, providing employment and sustaining communities. There is a strong case to be argued that, more than ever, they need to play their full role in economic development. This study has highlighted the many opportunities opening up to SMEs and the actions successful SMEs are taking to take advantage of them. Financial providers, governments, and regulators also share an important role in nurturing and helping them thrive.



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