

SME Pulse 2018

Strategies for sustainable growth

A global study to investigate how SMEs are unlocking growth in 2018 and beyond



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About the study

In October and November 2017, Oxford Economics surveyed senior executives at 3,000 SMEs, ranging in size from 10 to 250 employees across 12 countries and 16 industries. Telephone interviews were used to explore opportunities and threats, business prospects, strategies, investments, and how SMEs manage the challenges of growth in a sustainable way.

These survey respondents had the following characteristics:

TITLE	
Owner	6%
Chair/CEO/Managing Director/General Manager	50%
CFO/Head of Finance	44%
REVENUE	
\$3 million–\$4.9 million	17%
\$5 million–\$9.9 million	17%
\$10 million–\$14.9 million	18%
\$15 million–\$19.9 million	17%
\$20 million–\$24.9 million	15%
\$25 million–\$29.9 million	17%
LOCATION	
North America	
Canada	8%
United States	8%
Europe	
France	8%
Germany	8%
Italy	8%
Spain	8%
United Kingdom	8%
Latin America	
Argentina	8%
Mexico	8%
Asia-Pacific	
Australia	8%
India	8%
Japan	8%

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

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

Mark Hebert, President and CEO, Cosmo Music, Canada
 V.G. Nirupama, Ad Astra Consultants, India
 Carlos Dumois Lopez, COO, Mobiliti, Mexico
 Paul Massey, CEO, Bluefruit Software, UK
 Kelly Leach, SVP and General Manager, Blurb, USA

Foreword

The American Express Global SME Pulse 2018, conducted by Oxford Economics, shows the world's SMEs are optimistic about the global economy and are resolutely focusing on unlocking growth opportunities for the year ahead and beyond.

Building on our previous 'SME Strategies For Success' report, we surveyed 3,000 senior executives across 12 countries and 16 industries, to explore how the current outlook of the world's SMEs differs to 12 months ago. We are seeing significantly higher confidence levels with SMEs leveraging what they see as their unique attributes of agility, innovation and strong customer relationships, to drive competitive advantage and serve as building blocks for growth.

'Fast-growing' SMEs, (those forecasting sales growth of at least 10% a year over the next three years) prioritise several initiatives to accelerate their growth – revealing insights that can benefit all companies. Chief amongst these was their commitment to understanding more about shifting customer demand; investing in better and faster information systems to improve decision making; and their commitment to identifying alternative sources of finance to fund their growth.

Another emerging theme from this year's report is how SMEs across the globe are also embracing responsible business practices as a way to attract more customers. Worldwide, customers are demanding more ethical and sustainable products and services. SMEs report that, as a result of their size and structure, they are able to move quickly to react to this customer requirement, and are generating strong financial results by tapping into this emerging customer trend.

Of course the year ahead isn't without its challenges for the SME community, and many report they face a degree of economic uncertainty within their home markets. However, they remain positive that they can meet any challenges head on, and are strongly committed to increase their operational efficiencies and to motor ahead and drive growth in 2018 and beyond.



Paul Abbott

Chief Commercial Officer, Global Commercial Services
American Express Company



Introduction

Last year's SME Pulse survey highlighted how enterprising SMEs around the world were crafting strategies for success and building strong capabilities to secure emerging opportunities at a time of considerable political and economic uncertainty. Our 2018 report, based on a survey of 3,000 SMEs in 12 countries, tracks how SMEs are moving on from a paradigm-shifting 2017 by playing to their unique strengths. SMEs are:

- Significantly more confident than last year about the overall economic outlook and their business prospects over the next three years, expecting strong revenue growth averaging 7%.
- Returning to more traditional, long-term domestic concerns about their business environment. Political uncertainty about export markets has steeply declined.
- Pursuing exciting opportunities that are ideally suited for SMEs' focus on customer relationships and shorter, more agile supply chains—particularly ethically, sustainably, transparently and locally sourced products.
- Balancing revenue growth with efficiency improvements. The 24% of SMEs that already export are seeing solid returns and planning further expansion, despite ongoing threats to international trading relationships.
- Amplifying their traditional strengths by investing in leading-edge techniques. In particular, they are extending their agility throughout their operations to react quicker to changes in customer needs.
- Aiming to secure talent by becoming even more attractive places to work and develop long-term careers.

Naturally, SMEs' prospects vary depending on factors like countries' different regulatory and business environments, and the pace of change across industry sectors. We highlight some of these differences. But there are some attributes many SMEs share: strong customer and community relationships; openness to new ideas; greater agility to implement the latest technology and techniques; fast-changing business models, products, and services; and workplaces that foster closer relationships and engagement.

These strengths provide SMEs with common causes as they seek opportunities to drive improved and sustainable financial performance in the years ahead. To analyse the successful strategies SMEs are following, this year we have identified three distinct groups: Fast-growing SMEs, Socially Responsible SMEs, and Exporters (see sidebar).

The world according to SMEs

The business environment facing SMEs in 2018 appears to be the most favourable in many years. Economic growth is accelerating simultaneously in markets around the world. The political risks that were so prominent last year are dissipating, and governments almost everywhere are extending policies to encourage SMEs and entrepreneurs. For example, Emmanuel Macron declared that he wants France to be a nation that “thinks and moves like a start-up.” Since his election as President of France, he is establishing a €10 billion fund and introducing new labour laws to encourage SMEs.¹

SMEs' confidence in both domestic and global economies has leaped forward since last year.

¹ Reported in Reuters Technology News, June 15 2017 at <https://www.reuters.com/article/us-france-tech-macron/macron-says-france-must-be-country-that-thinks-and-moves-like-a-startup-idUSKBN1962L3>

Three Common Causes for SMEs

To identify successful strategies in areas that are of interest to SMEs, we identified three distinct groups:

Fast-Growing SMEs forecast revenue growth averaging 10% or more over the next three years (19% of total respondents). We analyse their strategies to drive revenue growth and look at what they are doing to successfully manage the transition to becoming larger companies.

Socially Responsible SMEs are passionate about the importance of ethical and sustainable business values, and promote the majority of their products and services as transparently or locally sourced (18% of all respondents). SMEs identified these values, products, and services as a big business opportunity. We identify this group's attitudes, actions and plans.

Exporters already export more than 10% of revenues (24% of total respondents). Exports provide more than half of

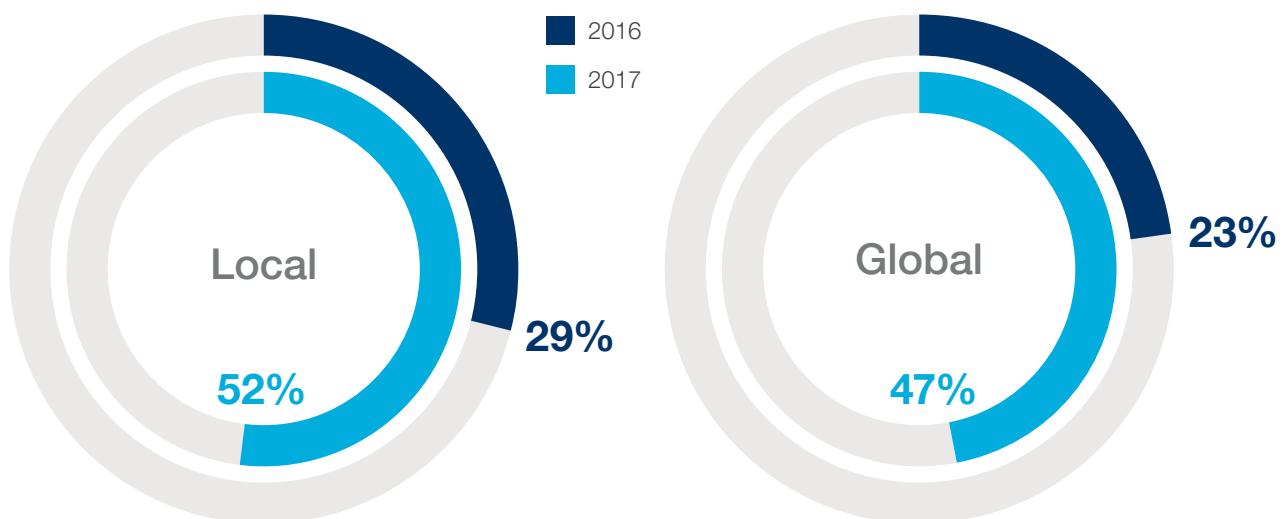
total revenues for 83% of this group. They are more likely to be producers of components (30% vs 15% for other SMEs), or finished products (45% vs 34%) rather than services (26% vs 51%). With a challenging trading environment, we analyse the strategies of those that already have an international footprint to increase exports.

This edition also includes insights from five SME leaders, representing different countries, continents, and industry sectors. Their stories demonstrate how they have applied these attributes to tackle their own challenging market conditions. They are also at different stages in their transition to larger businesses, aiming to grow without losing what helped them succeed as a smaller business. As SMEs continue to expand over the next three years—many at a quick pace—these insights can guide them to develop their own strategies to navigate sustainable growth.

This promising backdrop has helped boost SME confidence dramatically. Across nearly all countries, SMEs report a significant increase in confidence in the broader economy since last year's survey (see Fig. 1). Net positive confidence in the global economy has more than doubled, from 23% to 47%. Confidence in domestic economies is even higher, increasing from a net positive score of 29% last year to 52%.

Fig. 1: SMEs' confidence in domestic and global economies, 2016 vs 2017

Optimism over the next 12 months. Net positive responses.



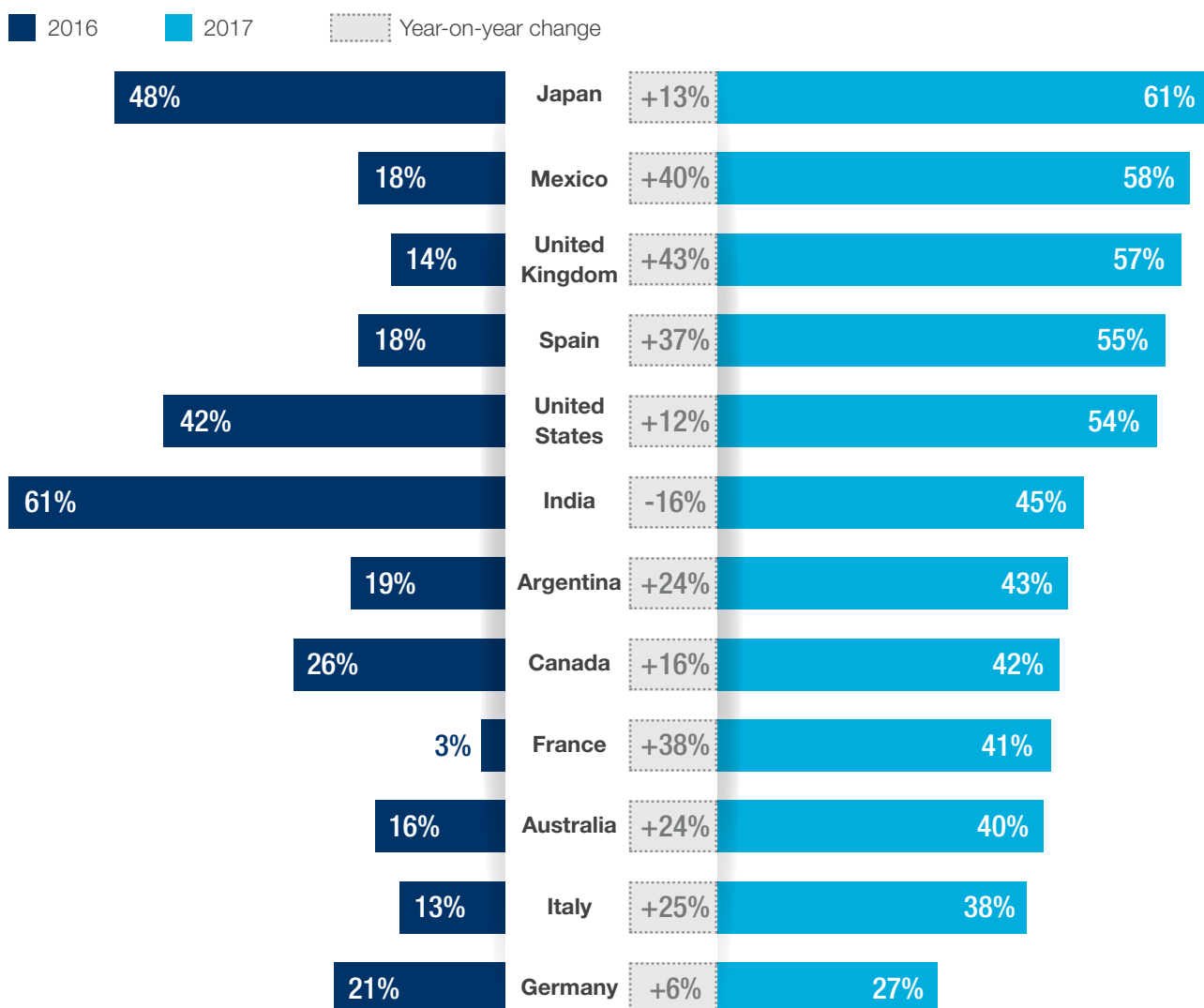
Confidence is increasing in the global economy almost everywhere (see Fig 2). The only decline since 2016 is seen in India, last year's leader (and still showing high positive score of +45%). Japan's SMEs are now the most confident.

There are large increases in SMEs' confidence across European countries, reflecting the improving economic outlook. There is a surprisingly large increase in the UK, perhaps demonstrating SMEs' interest in global markets after Brexit. The persistently subdued confidence levels in Germany compared with other nations (like France) reflects a pessimistic outlook among its SMEs, despite the strength of their domestic economy.

Across the Atlantic, there is strong confidence in Mexico, Argentina, and throughout North America. SMEs are getting down to business after the immediate uncertainty we reported last year following the 2016 US election. In Argentina, supportive policies for SMEs and entrepreneurs may be having an impact.

Fig. 2: Confidence in the global economy increases across the board

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

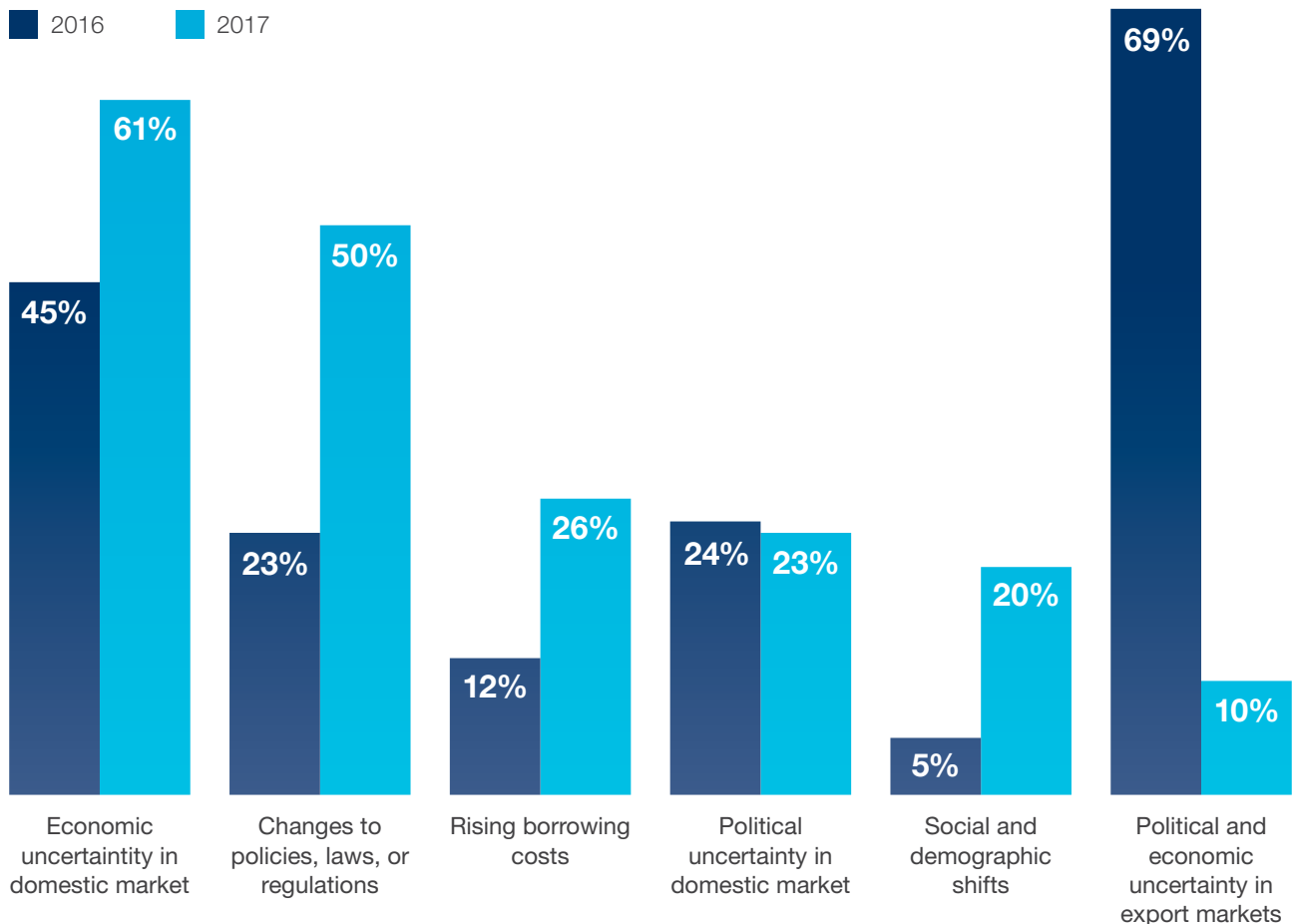


Despite the high levels of confidence in the broader economy, there are still plenty of threats SMEs are concerned about. Worries persist that globalisation is in retreat. The onset of monetary tightening in many markets and the introduction of new regulations (e.g., GDPR, MiFID II) can impose additional costs for SMEs. Large technology companies continue to threaten to disrupt new markets, but are themselves coming under scrutiny, leading to uncertainty about the regulatory environment in the coming year.

Last year's report highlighted deep concerns about political uncertainty following the Brexit vote, and the US and European elections. This year's worries have shifted back to longer-term concerns, such as the business environment in their domestic market, and social/demographic shifts (see Fig. 3).

Fig. 3: SME threats turn inward compared with 2016

External threats to business – top two responses.



These market conditions naturally vary considerably by industry sector. For example:

- Customer-facing sectors are focused more on social and demographic shifts. More than one-quarter of food, beverages and consumer packaged goods (CPG) companies rank social and demographic shifts as a top-ranked concern, along with 20% of hospitality companies.
- Political and economic uncertainty in export markets is the top concern of 17% of Exporters, and so registers with those sectors more engaged in international trade (manufacturing, travel & transportation, mining, chemicals, CPG, and pharma).
- Cyber threats are highlighted by 33% of tech SMEs as one of their top three threats, though only by 7% overall.

SMEs are anticipating impressive revenue growth over the next three years of almost 7% p.a., an increase of 1 percentage point from last year. SMEs expect profit margins to shrink slightly over the same period, from 6.1% last year to a still healthy 5.7%. Our research analyses the sources of this impressive forecast revenue growth and considers the implications on how SMEs manage themselves.

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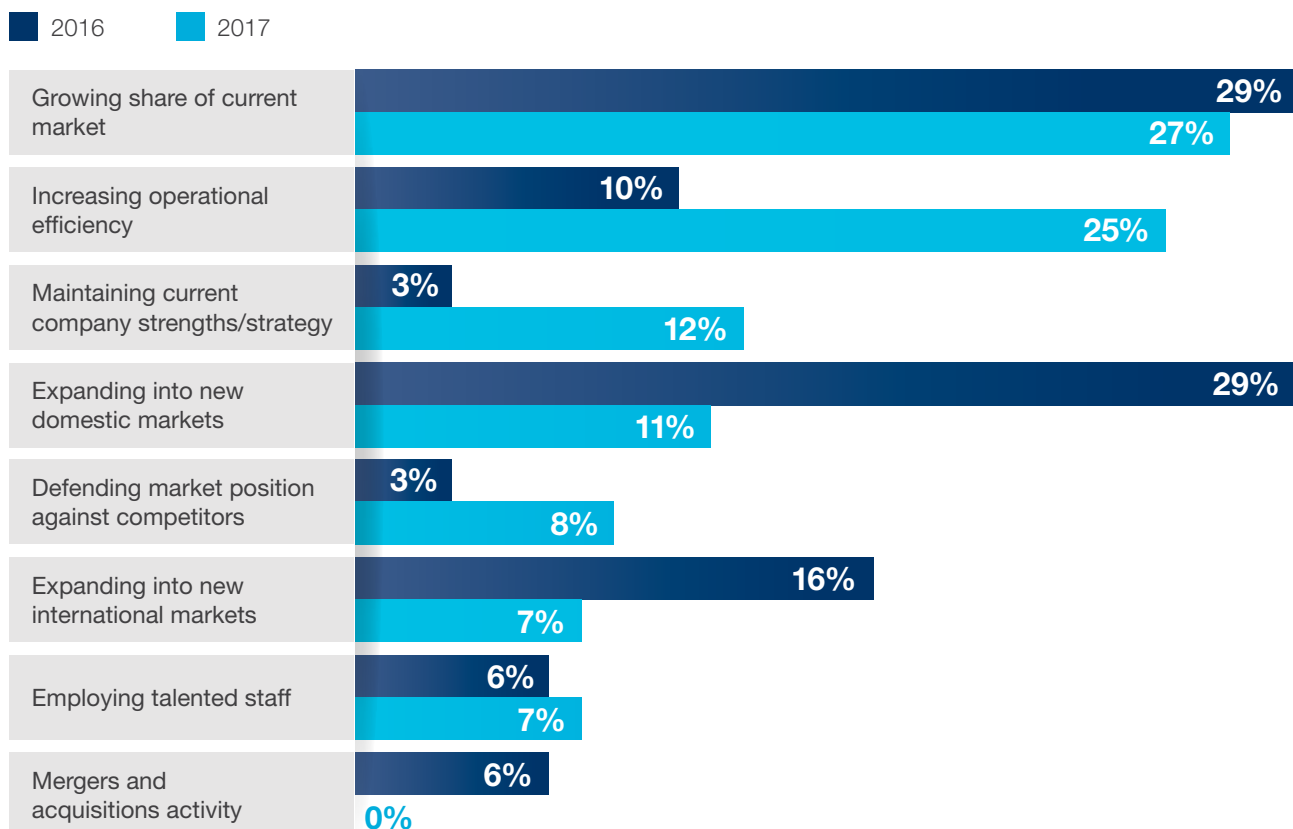


SME strategies for sustainable growth

Last year, in the face of overwhelming threats from international political uncertainty, SMEs sought to grow existing domestic markets and expand into new ones (see Fig. 4). This year we are seeing a return to a more balanced set of concerns. Revenue growth is still the main driver of improved financial performance. But there is more reliance on existing markets for growth. There is also a closer balance between revenue growth and cost control, with more SMEs seeking efficiency savings.

Fig. 4: SMEs' main contributor to financial performance, next three years

Top ranked responses.



There are also important influencing factors by country and sector:

- Many Argentinian SMEs (36%) are growing their current markets, compared with 15% in Mexico, where more SMEs (21%) are focusing on expanding into new domestic market segments.
- Many Australian SMEs (35%) prioritise efficiency improvements (reflecting the large number of mining SMEs) compared with 15% in the UK.
- Growing their existing customers and markets is the top priority for 35% of hospitality/leisure companies and 33% in financial services, but only 21% in mining, and food/beverages and CPG.
- 16% of both retail and media/entertainment SMEs are seeking to expand domestic markets, compared with just 4% in manufacturing.
- 23% of FMCG and 17% of manufacturers aim to expand internationally, vs just 1% in many domestic-focused sectors (e.g. construction, healthcare).

Fast-growing SMEs adapt to customers evolving needs

We looked at the strategies Fast-Growing SMEs are using to grow revenues over the next three years. These SMEs are combining an understanding of the shifts in their market (the highest priority for two-thirds), with new execution techniques that amplify their capabilities as SMEs, such as innovating, using technology to redesign processes, forming partnerships, and implementing new business models (see Fig. 5).

Fig. 5: Fast-Growing SMEs' strategies for revenue growth

Top three ranked responses



Blurb is a Silicon Valley-based SME that provides a platform for publishing, printing and distributing books and photography. Though larger than the other SMEs in this study, with revenues of nearly \$70 million, Blurb is an example of how SMEs need to adapt their strategies as they grow larger. As it enters a new phase with tougher market competitors along with threats from smaller disrupters, Blurb must look hard for new sources of revenue, adopting different strategies to reach new markets. “We have to think how we can help our customers accomplish their goals in a bigger way, introduce new services to them as well as look at completely new segments,” says General Manager Kelly Leach. The company has identified the recent rapid growth of creative prosumers using platforms like Instagram as a potential new customer segment revenue stream, offering products to help creatives build their brand and sell to their network of followers. Blurb is also looking to grow adjacent markets by creating Application Programming Interfaces (APIs), allowing other businesses to access Blurb’s print-on-demand infrastructure. By building on existing capabilities there is less execution risk.

Case Study: Cosmo Music—quickly acting on new opportunities

Founded in 1966 by Tom Hebert, Toronto-based Cosmo Music has grown from a small importer of affordable guitars from Italy and Japan to the largest independent single-location music retailer in Canada, and the largest online retailer dedicated to musical instruments. It's now run by Tom's son, Mark, who has overseen continued growth of the business, reaching \$28 million CAD in 2016.

Key to Cosmo Music's revenue growth has been its ability to quickly identify and adapt to new sales opportunities. In 2008, in response to the growth of e-commerce and online retailing, the company combined its two locations, providing sales, service, rentals, and lessons for all types of musical instruments in a single 56,000-square-foot megastore. That simplified inventory management and shifted the business focus to digital. They continue to invest in technology: "We are ahead of everyone digitally and there

is a lot of technology we are using now that is significantly more advanced than any of our close competitors," says Mr. Hebert. Cosmo Music was the first music retailer in the country to join digital marketplaces such as Amazon, Best Buy, and Shop.CA. Though they make less money working through online marketplaces, it's been an important channel to spread awareness across a much wider customer base; many of these new customers will then visit Cosmo Music's website and buy direct or discover additional services. This has allowed the company to expand geographically to serve the whole of Canada from its single location.

With social media and influencer groups increasingly used for retail marketing, the customer experience is paramount. Cosmo Music is considering the impact on its strategies and technology investments. "Businesses like ours can be more nimble in reacting to new market trends," says Mr. Hebert.

Socially Responsible SMEs are confident about business opportunities

Our analysis shows that SMEs are not waiting for government mandates to shift to socially responsible business practices. Customers are demanding more ethical and sustainable products, according to 80% of our respondents, and SMEs increasingly see meeting these needs as an important contributor to their growth—an increase of 15 percentage points, to 82% this year.

As Mr. Hebert of Cosmo Music notes, "We probably lead in our industry on ethics and sustainability. It helps distinguish ourselves with our customers, but it's also the right thing to do."

Managing Director V.G. Nirupama of Ad Astra Consultants, an Indian recruiter, describes how her company maintains a firm ethical position. The business is based on trust, and client retention is key to success. "We have given up clients because they were not aligned with our ethos, values and ethics," she says.

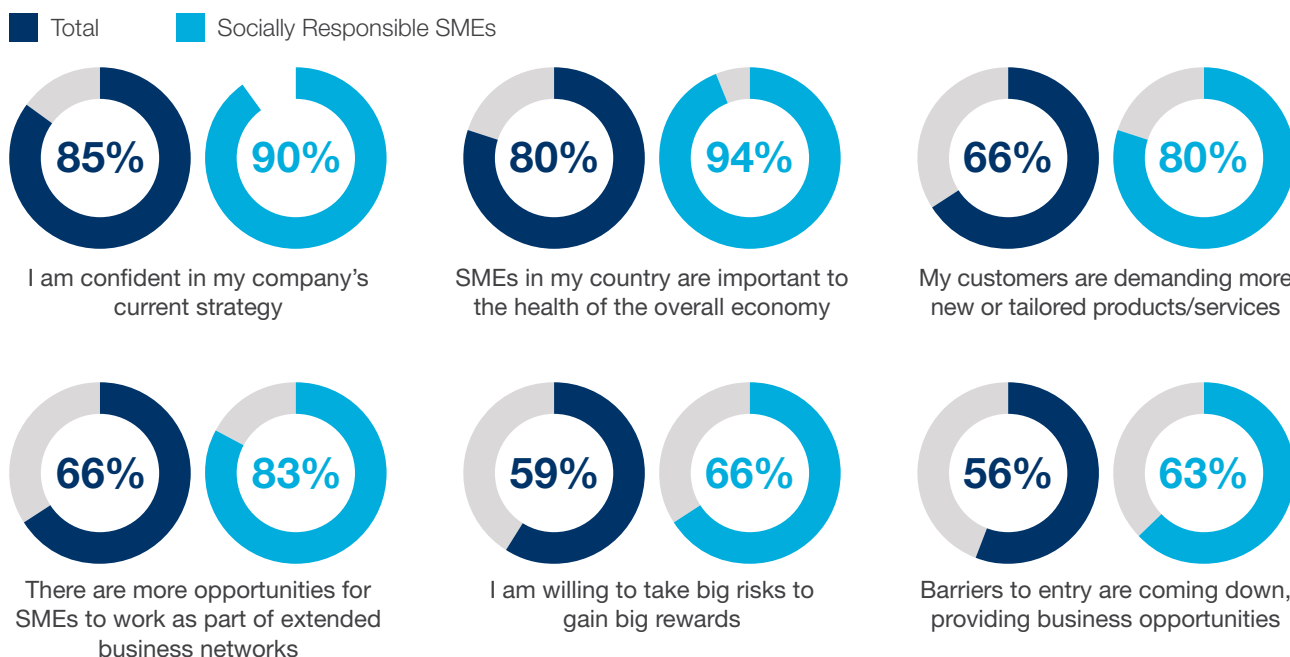
Many SMEs (73%) also see opportunities as providers of local and transparently sourced products and services. Almost two-thirds (65%) say the majority of their products and services today are promoted as such. Bluefruit Software, a UK-based embedded software firm, works transparently with customers: "We have a very open, honest approach in the way we estimate, schedule our work, show progress, and share the project's trajectory with our customers. Super transparency and a tight feedback loop helps to de-risk their business," says CEO Paul Massey.

In particular, Socially Responsible SMEs demonstrate high levels of confidence in their strategies and willingness to tackle emerging opportunities (see Fig. 6). They are confident about their ability to respond to customers' demands for new products and services, and are more willing than other respondents to take big risks to earn big rewards. They also welcome the lowering of industry barriers, the opportunity to collaborate across business networks, and are positive about the contribution SMEs make to the economy.

82% of SMEs say ethical and sustainable practices improve their financial performance – an increase of 15 percentage points on last year.

Fig. 6: Socially Responsible SMEs are confident risk-takers

Agree and Strongly agree responses.

**Case Study: Mobiliti—building trust with customers and allies**

Mobiliti, a 10-year-old furniture supplier based in Guadalajara, Mexico, has been growing revenues at double digits annually in recent years, and with 70 full-time employees plus a network of alliances with international manufacturers and distributors, is poised to break out of the SME bracket. It was founded by three entrepreneurs who sensed an unmet need for ergonomically designed and customised workplace furniture for corporations, industrial facilities, schools, hotels, and hospitals. It manufactures its own branded furniture and is also Mexico's second biggest dealer for US furniture manufacturer Steelcase. This combination, along with its customer-centric approach, is key to establishing its strong market position, "The local brands do not have the technology we have derived from Steelcase products, and the big brands cannot compete with our budget brands," says Chief Operating Officer Carlos Dumois.

Mobiliti consciously incorporates "socially responsible" practices in how it goes about its business. Transparency is particularly important in building trust with customers, suppliers and other business partners. The company openly shares details of operating costs and processes. This is unusual in the industry but according to Mr. Dumois provides a significant advantage: "Our suppliers need to understand our requirements, and be really honest and transparent about whether they can achieve it. It's a relationship that's built over time and helps develop win-win strategies and strike deals where both parties benefit." An ethical approach has to be set from the top, from the owners and senior management, and seen in every action. It can then be replicated throughout the company and in dealings with partners. The company steers clear of orders where it could profit, but at the cost of a conflict of interest. "If we make a mistake, we don't wash our hands of it—we always respond to client calls and try and amend it as best we can," says Mr. Dumois. "Clients understand our ethical values and commitment to service—it helps us a lot."

Exporters continue international growth

SMEs that are already exporting report stronger confidence and forecast better financial performance than non-exporters, with revenue growth over the next three years of 7.7% vs 6.7% and profit margins of 6.2% vs 5.6%. They identify further international expansion as their top priority to improve their performance over the next three years, above domestic sales and efficiency savings.

The leading technique Exporters are adopting to expand internationally is building market intelligence (selected by 79% of Exporters). Government advice and support is important for 40%. These SMEs are also establishing a presence in overseas markets by pursuing a variety of strategies; 47% are working with agents, 43% are opening a new branch or sales office, 32% are setting up a joint venture with a local company and 21% are partnering with a larger, multinational company.

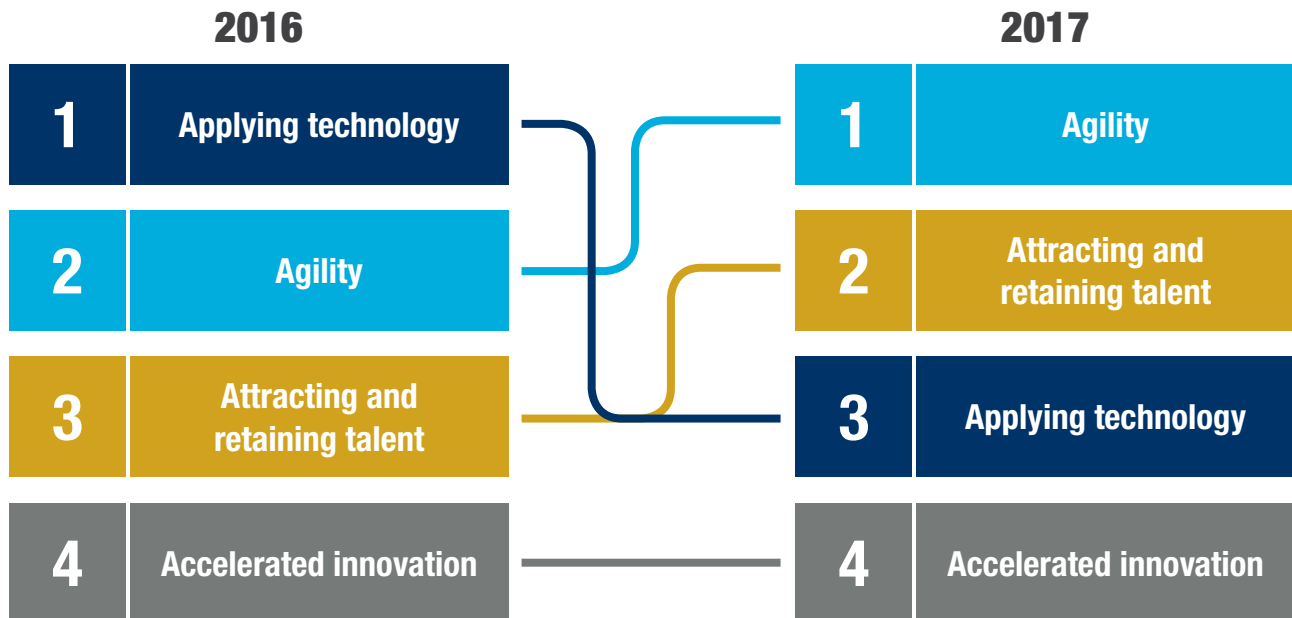
It is not easy however, and for many SMEs (e.g., in service industries, or where they have strong local customer relationships), new domestic markets may seem the more logical path to growth. Cosmo Music is concentrating on expanding its domestic customer base, but is very conscious of the international opportunity. Bluefruit Software sees huge potential for international growth, particularly with medical devices, but exports currently only make up 10% of sales. Last year it consulted on a few US projects as quality experts, ensuring the software within its clients' medical devices met the exacting US regulatory standards. After positive results, the company is now targeting the US and Europe in its 2018-19 expansion plans.



Building SME capabilities

Last year we highlighted four key capabilities SMEs can use to their advantage. In just a year, SMEs' overall strength in these areas have shifted somewhat, with agility now ranking as the top capability (see Fig. 7).

Fig. 7: SMEs' capabilities have shifted



Note: SMEs reporting "very strong" capability today, 2016 vs 2017

SMEs build agility throughout the business

Survey respondents mention the speed with which SMEs can make decisions and adapt quickly to shifts in market demands repeatedly as the factor that will give them a tangible edge over the next three years. As the owner of an Australian retail SME says, "SMEs have more flexibility and can cope with undesirable situations by changing their structure and business strategies easily."

But for many SMEs, agility is not merely a function of size, or a project management technique, but a philosophy built into their organisational fabric. SMEs are prioritising investing in multiple initiatives to improve their agility, from customer-facing activities through product development, operations, and management decision-making (see Fig. 8). For Mobiliti, agility means the company and its business partners must align to the needs of every customer. The sales department identifies customers' needs quickly and adapts to their budget, then operations talk regularly to their external partners; Steelcase, the manufacturing facility, the warehouse and distributors to ensure the project is on track. This approach has helped the company reduce the average delivery time to clients from eight weeks to five and a half. "We are more agile because we have a much closer relationship with our manufacturing facilities and other allies than our competitors," says COO Mr. Dumois.

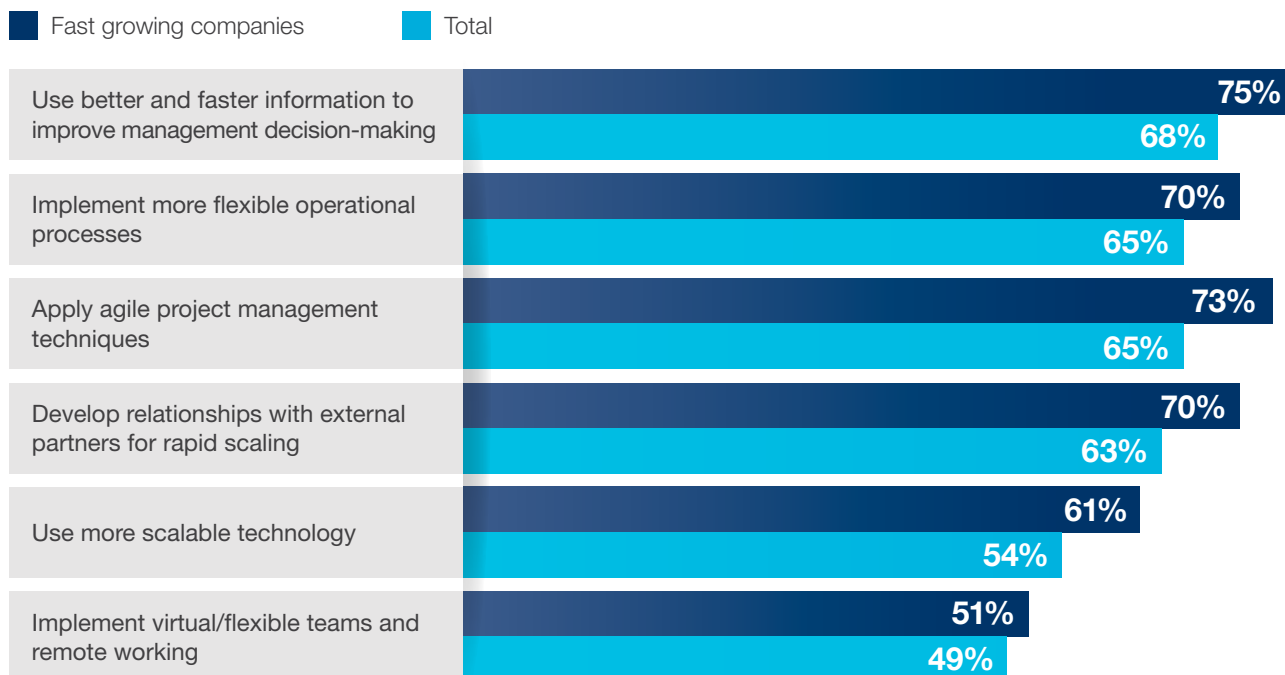
Fast-Growing SMEs prioritise agility significantly more than other companies (as do Socially Responsible SMEs and Exporters). As SMEs grow and become more complex, it becomes particularly important to make a more conscious effort to build agility into their business processes (see case study, page 15).

"SMEs have more flexibility and can cope with undesirable situations by changing their structure and business strategies."

Owner, Australian Retail SME

Fig. 8: Fast-Growing companies focus on improving agility

Initiatives planned in the next three years to improve ability to respond to market changes. Important and Essential responses.



Case Study: Agility with a capital “A” at Bluefruit

Bluefruit Software, a developer of embedded software in medical and aerospace instruments and some consumer products, has grown rapidly since it was formed in 2000, typically with sales growing at 50% a year. It’s based in Cornwall, a remote area of the UK better known to holiday makers than the business community. A key turning point in its history came in 2007, when the company recognised a need for more structure in its business. “We were agile with a small ‘a’ back then, but we needed a more formal approach. We researched the Agile movement and built it into our processes for developing embedded software, something quite new back then,” says CEO Paul Massey.

Mr. Massey describes the approach as having three layers: The top layer is a philosophy—to be responsive and adaptive to changing information. The philosophy is executed by a set of project management practices at the second layer, and supported by a third layer of technical practices. Bluefruit did a lot of work at the bottom two levels to make them work for embedded software and implemented this approach on a very successful project that won several Red Dot awards for product design. In 2012 important technical guidance was published, called TIR-45, setting out how agile processes could be applied for medical devices, a heavily regulated sector. “We were in the right place at the right time, being able to apply Agile as well as meet regulatory requirements. A lot of the big engineering firms were unable to adapt,” says Mr. Massey.

Agile philosophy informs the company’s management structure, how it selects, trains and empowers staff. It helps Bluefruit develop processes while maintaining strict quality control. It’s harder for larger, traditional competitors to embrace this approach: “They can change their project management practices, but to change the culture and philosophy of what’s going on in business is much harder,” says Mr. Massey.

Attracting skills and talent

“SMEs are in a better position to attract talent by offering what the new-age workforce needs,” notes the CFO of an Australian SME manufacturer. Large companies, however, are increasingly attracting talent by looking at the broader employment package, for example offering flexible workspaces. SMEs need to be similarly adaptable, while also providing a distinctive alternative. As the CEO of a Mexican technology SME explains: “SMEs provide more space for individuals to grow and build a positive career path. This builds employee loyalty and job satisfaction.”

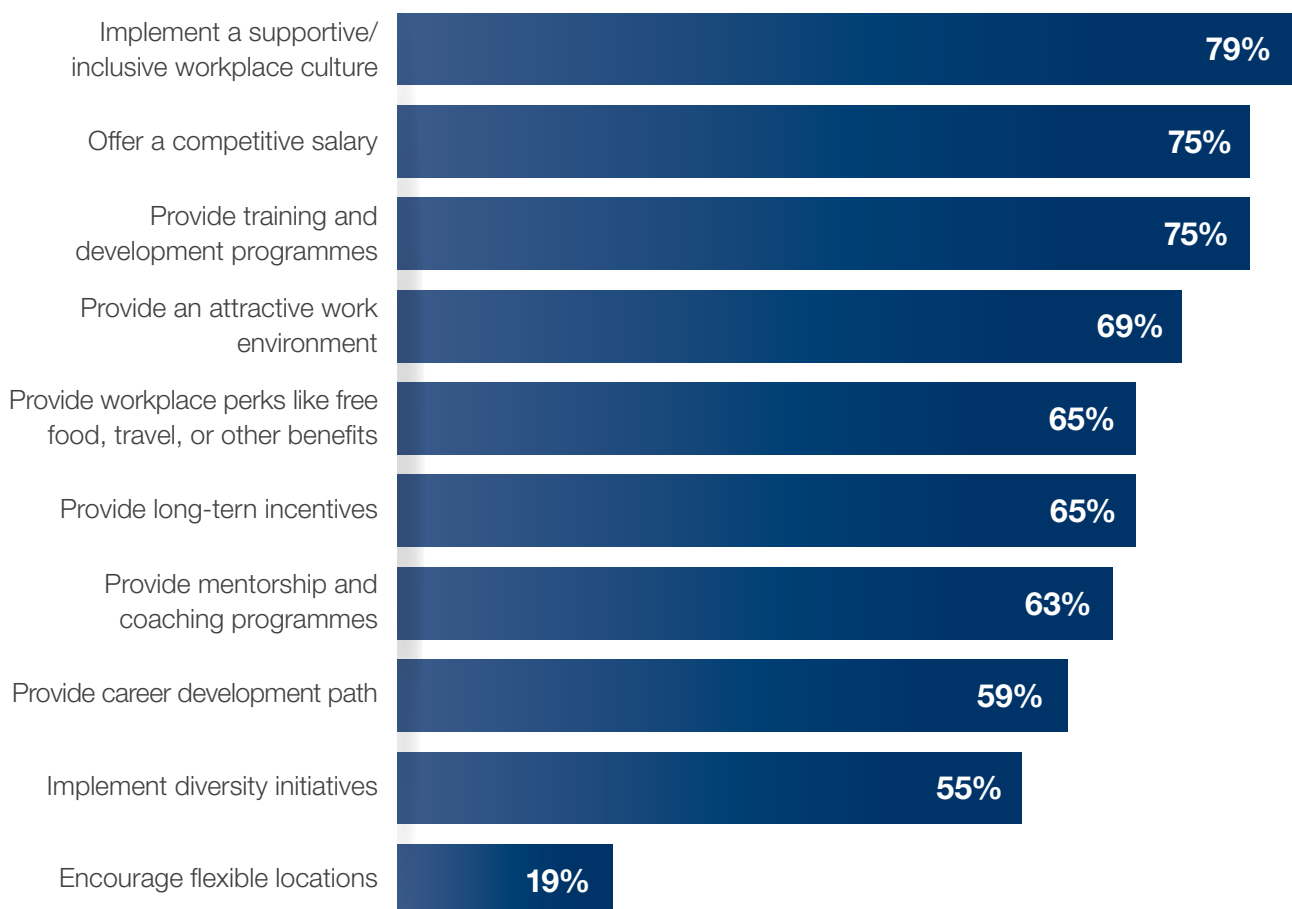
Creating the right workplace culture is increasingly important for SMEs, particularly Socially Responsible SMEs.

Responses this year on specific initiatives to attract and retain talent (see Fig. 9) are higher across the board than for other capabilities—suggesting that SMEs universally recognise the importance of talent. SMEs are focused on:

- Creating the right culture (particularly for Socially Responsible SMEs, at 86%).
- Investing in retaining talent for the long term and helping employees develop careers.
- Providing training and development (86% of Socially Responsible SMEs rate this as important).

Fig. 9: Planned actions in the next three years to attract and retain talent

Important and essential responses.



At Cosmo Music, workplace culture is “one of the things with the biggest return,” says Mr. Hebert. “We have a fantastic culture, we have employees who have been here for more than 30 years, with our longest with us for 43 years.”

In San Francisco, Blurb has to fight for talent with some mighty competitors—Facebook and Google, for instance—and sees providing employees with a voice that can be heard as a competitive advantage. Strong values are also hugely important. “It’s not only that diversity and being welcoming to all employees are the right things to do, but it helps us to have employees who are advocates for our company,” says Ms. Leach.

Bluefruit’s strategy is to develop its own pipeline of software developers, and retain them through creating a positive learning and working environment. Finding it difficult to source developers, it now recruits testers and provides on-the-job training. The company also works closely with the local community, offering summer schools, code clubs and a course at the local college to help develop the next generation of Cornish software engineers. To attract talent from other tech hotspots like London and Cambridge, Bluefruit provides something a bit different from other tech firms: “A number of our team leads come from big name tech companies where there was a culture of stress and overworking,” says Mr. Massey. “We actively encourage flexible working and it’s helped us to attract top tier talent from around the world.”

Case Study: Ad Astra secures talent for itself and clients

With the market for talent growing at over 20% a year in India, Bangalore-based Ad Astra Consultants has seen rapid sales growth from just over \$1 million in 2015 to around \$5 million today. More than 200 staff, based in five offices in India with another in Singapore, provide end-to-end recruitment services from executive search to servicing local and large multinational firms placing workers in factories and offices. The company helps many SMEs develop professional management strategies after rapid growth, and also assists in developing a client company’s incoming generation of leaders.

Managing director V.G. Nirupama sees staff retention as key to sustaining Ad Astra’s growth and is proud of the company’s track record of retaining staff for the long term. It provides continuity and depth of understanding in an industry where trust is essential and 90% of sales are based on referrals. It does this by empowering its staff to take decisions, and offers an equity scheme for strong-performing employees who have been with the company for more than three years. Performance is reported openly to all employees and a proportion of profits are shared. But the company needs to constantly innovate to understand what employees are looking for. “If you don’t do that, you’ll not only have high attrition, but you’ll have high-cost people who don’t deliver,” says Ms. Nirupama.

As the company grows, Ad Astra Consultants recognises the need to introduce more professional management, bring in new skills, create new layers and delegate responsibility. It aims to do this in a way that retains the lean structure, flexibility, and quick decision-making that served the company so well when it was smaller. “As we grow bigger,” says Ms. Nirupama, “we need the CEOs of our divisions to be empowered and ensure they have a roadmap that helps them grow.”

Investing in technology

For many SMEs, technology is no longer a barrier but an enabler to growth. Mr. Massey of Bluefruit describes how its IT-literate staff are able to access business software and productivity tools: “We’re light on admin and spend little on IT because we find techie solutions. We were using cloud-based accounting way before others, and time-sheeting and sharing files with customers.”

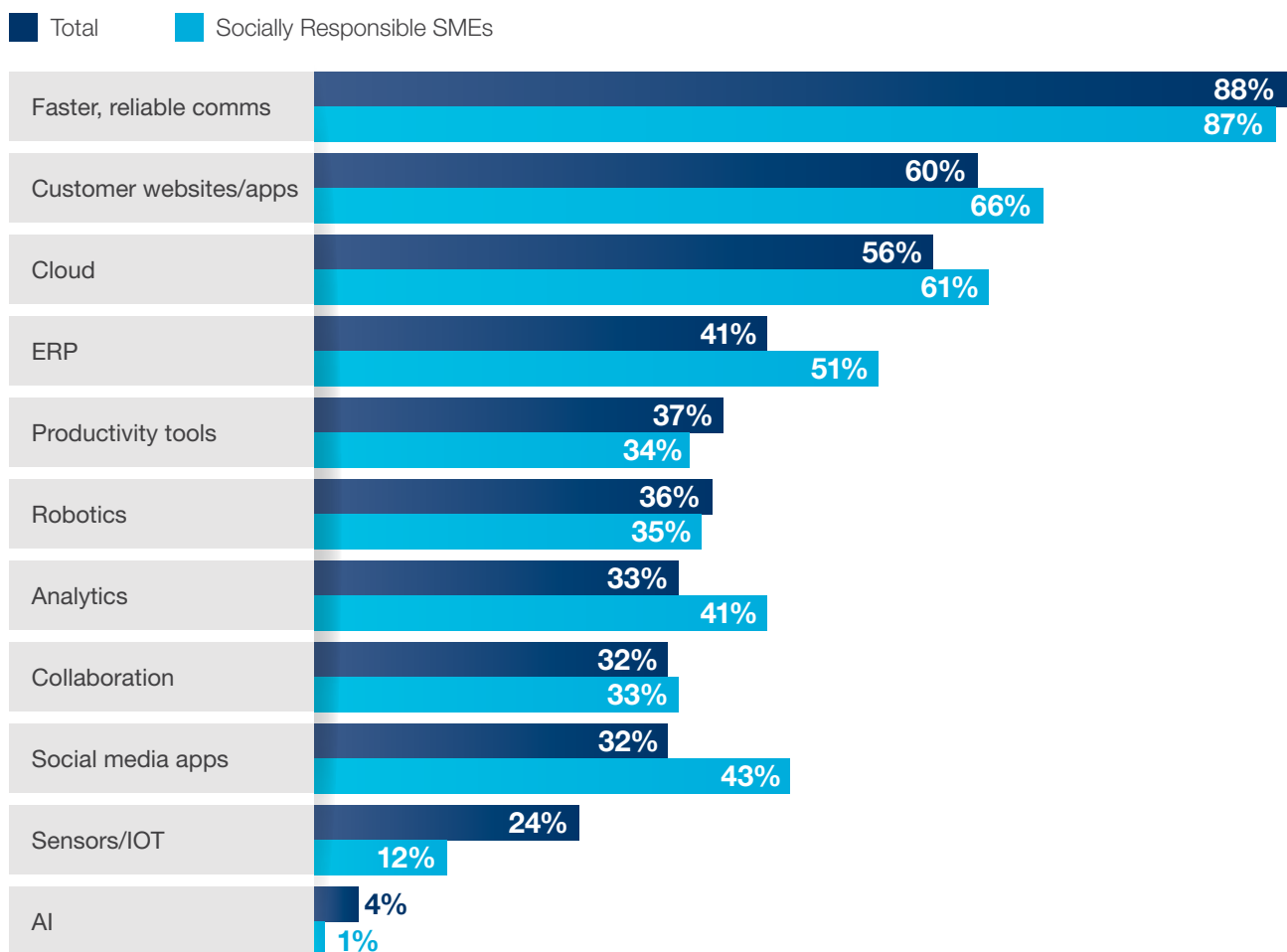
Our analysis shows that most SMEs are prioritising investments in basic infrastructure capabilities rather than emerging technologies. However, use of technology varies between our three identified groups of SMEs:

- **Exporters** are more likely to prioritise investment in advanced tech, particularly robotics (48%, vs 32% of all other respondents), analytics (41% vs 31%) and IoT (31% vs 21%).
- **Socially Responsible** SMEs score highly on almost all items, indicating that technology is a powerful enabler in understanding and responding to new customer needs.
- **Fast-Growing** SMEs are focused on efficiency. Over the next two years, they are more likely to prioritise investment in workforce productivity (52%, vs 33% for other respondents), enterprise-wide software platforms (51% vs 38%) and collaborative tools (44% vs 29%).

For many SMEs technology is no longer a barrier but an enabler for growth.

Fig. 10: Planned technology investments

Technologies to be used in the next three years. Important and Essential responses.



Innovation a priority for particular sectors

While ranking lower on average than other capabilities, innovation remains very important, particularly for SMEs in mining and consumer products (where it is the top-ranked capability), and financial services and hospitality/leisure (where it ranks second). In India, 67% of SMEs cite innovation as a top-three priority for investment, more than in any other country.



Successful SME strategies to manage growth

According to Bluefruit's Mr. Massey, it's important for SMEs to recognise the need to change as they grow, but remain committed to the core fundamentals of their business. "The real key is identifying the top three things and building on those, and letting go of things you may want for sentimental reasons but weren't a key ingredient for your success."

As SMEs grow, they will come across new management challenges, including a need to manage communications and processes across a larger team. They may need a more professional and consistent approach as they serve larger clients or expand into new products and markets. Fast-growing SMEs are more likely to highlight shortages of key management skills (47% vs 41% for all other respondents) and the challenges of adapting to new, large, or international clients (34% vs 16%). For Mobiliti's Mr Dumois, sustainable growth depends on the leadership team having both ambition and humility, to recognise the need to hire people with stronger skills than themselves for specific roles. "The owners have to be willing to climb very high but be aware of their limitations. Professionals can shed light in new areas. But you then need the reports, systems and controls to make sure the management team are on track."

Case study: Blurb navigates its teenage years

On the surface, Blurb, a platform for self-publishing to a global customer base using sophisticated print-on-demand technology, may appear to be the archetypical fast-growing, Silicon Valley-based tech company. But after rapid expansion since its formation 12 years ago, it is now entering what General Manager Kelly Leach describes as "more challenging teenage years," where it works to maintain growth rates on a larger base of business while managing increased complexity and new competitive threats and opportunities.

Ms. Leach was recruited into Blurb in recognition of the need for a different skill set as the company entered its next phase of growth. "We are now a kind of midsize business and need to manage the complexity, without the benefit of having the scale to have all the resources and capabilities of a large company for the global profile of the business," she says. "There is also complexity with the existing business that needs to be balanced while also reaching out into new market segments."

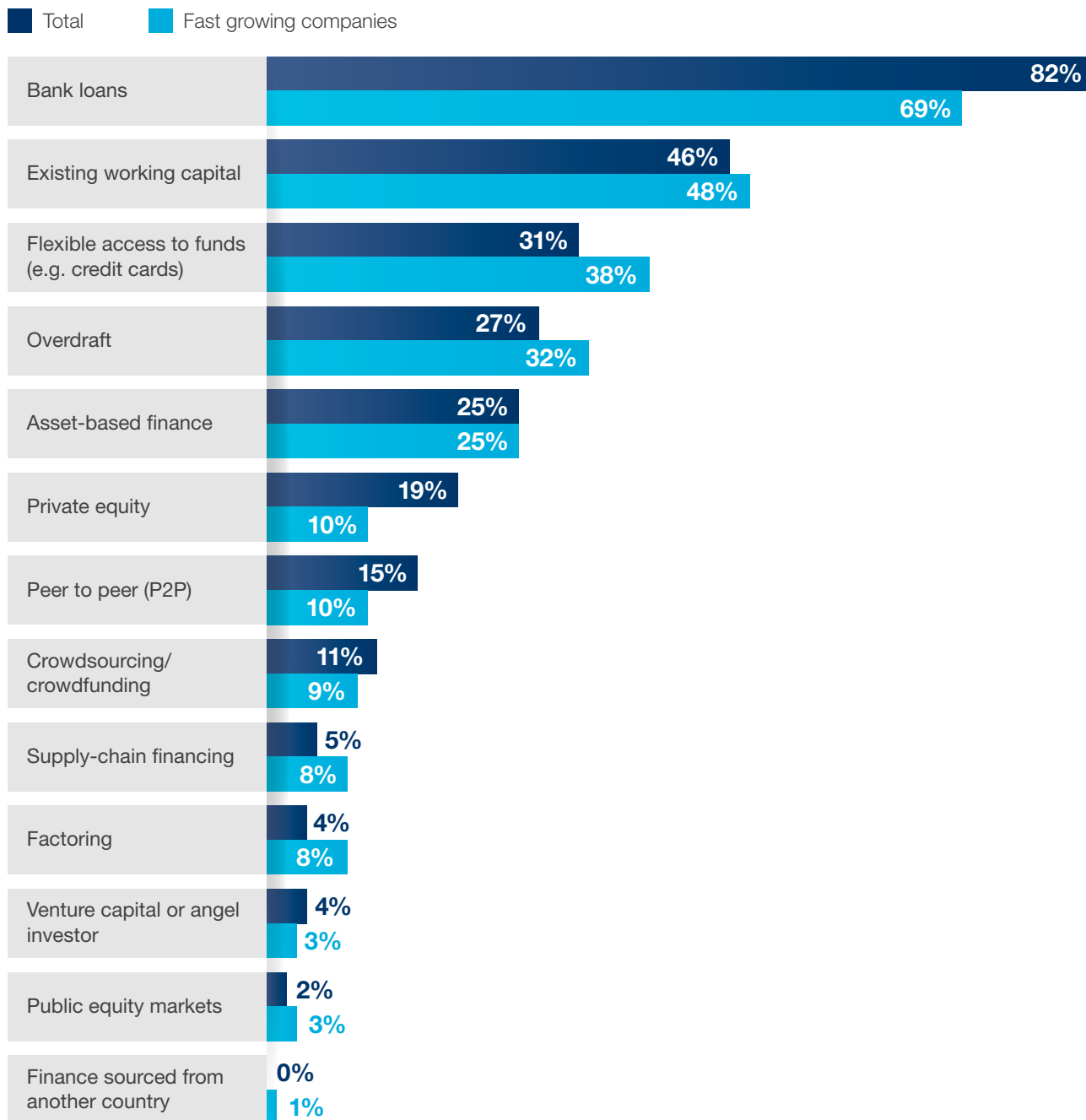
External funding can provide opportunity to accelerate the company's growth plans, she says. "If we self-fund it's a slower build," she says. Equally critical is the need to rigorously prioritise investments, assess risks, test ideas with customers, and maximize the return on the investment of resources. "As a smaller midsize business, it can be painful if something doesn't pan out as you're conscious of the tradeoffs and the other opportunities you did not pursue."

Fast-Growing SMEs have a greater need for financing, and are looking to more varied sources than other respondents. They have a greater need for flexible access to funds, and are more likely to use working capital (including cards, short-term loans and a variety of cash flow solutions) and an overdraft facility than more traditional bank loans.

Fast-growing SMEs have a greater need for flexible access to funds, and are more likely to use working capital and an overdraft than traditional bank loans.

Fig. 11: Financing growth

Finance sources to be used over the next three years. Important and essential responses.



At Ad Astra Consultants, Ms. Nirupama says external financing is essential to accelerate growth by making the big investments needed in marketing, branding, and setting up new offices. With sound financials and a track record of growth, “It is now time to take the plunge, to take external funding and scale the organisation,” she says.

Mobiliti uses its project business model to fund growth. “If a big client comes with a large multimillion dollar project, we go to a financial institution and ask for half and then turn to our suppliers and ask for the other half over the duration of the project,” says Mr. Dumois. Key to its success has been building trust with suppliers and financial institutions by knowing their financial limitations and always keeping up to date with payments.

Conclusions and recommendations

In 2018, SMEs have the advantage of a more favourable economic outlook and greater political stability, and can increasingly benefit from government support and incentives. Most SMEs (85%) are confident in their strategies, and 80% say SMEs play an important role in the health of the economy, both showing impressive increases of 20% from last year.

SMEs, however, face ongoing competitive threats from both larger and smaller companies. Many larger companies are using the latest technologies and techniques—such as social media analytics, agile project management, cloud computing or collaborative workspaces—to create the customer intimacy, creativity, flexibility, and responsiveness that SMEs have long considered their key strengths. Almost three-quarters of SMEs (74%) say that competition from large companies is intensifying, compared with two-thirds last year. At the same time, they face the threat of disruption from new entrants, with only one-third of SMEs describing themselves as more likely to be a disrupter than to be disrupted, compared with 46% last year.

For SMEs to thrive over the next few years, they will need to keep pushing the boundaries of their capabilities by:

- **Keeping close to their customers and understanding their changing demands,** through their traditional deep industry knowledge and customer contact combined with using social media, marketing intelligence and analytical tools.
- **Looking out for opportunities to expand into new markets.** SMEs can leverage their strong reputation and niche products through using online platforms or collaborating with partners to reach new markets, perhaps in adjacent sectors or other countries.
- **Excelling in execution by taking decisions and implementing them quickly.** SMEs need to be alert to the latest technologies, agile techniques and how they can add value to their business—and then be bold enough and secure the funding to invest in them.
- **Upgrading their employment offering, as other companies seek to replicate small company benefits.** SMEs need to keep abreast of what their employees want. Though they can promote the advantages of being close to decision-making and providing a good workplace culture, they need to tackle things like training and longer-term career development that are important to employees.
- **Adapting as they scale while keeping the core elements that helped them prosper as a SME.** This may mean, for example, looking at new ways of raising flexible finance. More structure, process and professionalism may be needed to satisfy regulators or larger international or government clients. These changes should be implemented in ways that amplify SMEs' traditional strengths.

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