

Managing SMB Growth

How Cost-Conscious Planning
Helps Businesses Scale Up





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Introduction

When a small or medium business (SMB) grows, its leadership often discovers pain points that did not exist before. Executives at growing SMBs may have to manage a workforce that has doubled in size or is scattered across distant locations. New regulations must be adhered to; executives and employees may need to travel more; visibility into spending may be clouded; and margins may suddenly seem that much tighter.

SAP Concur and Oxford Economics surveyed 500 decision-makers around the world at companies that have expanded in the past year. In this paper, we focus on the 150 responses from businesses with fewer than 1,000 employees, which we define as SMBs. Their growth could take the form of adding a new product or service, opening in a new location or industry, acquiring or merging with another organization, significantly boosting headcount, or increasing revenues by more than 15%. All SMB respondents were CFOs or other executives in the finance function.

We found that regardless of growth type, most SMB executives say they were able to keep within budget while they grew, but they are spending more time on day-to-day

tasks as well as in areas like strategic planning. We identified a group of respondents—cost-conscious SMBs—that say that spending and cash management were important factors in their business growth. While correlation does not imply causality, we found that the cost-conscious SMBs are less likely to experience challenges associated with expansion and are more likely to stay within their budget. These organizations also have more visibility into spending than less cost-conscious peers, which gives them more agility to react to market changes in real time. Regardless of their cost-consciousness, SMBs of all kinds cannot waste resources—neither time nor capital. To ignite and maintain successful growth, these organizations must perform a complex balancing act.

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Part I: Why are SMBs expanding?

In a competitive business environment, SMBs are eager to leverage their close connection to customers. When we asked executives to rank the top three reasons for their business expansion, one-third say they undertook it to meet increased competition from within their industry, and 15% gave that as the Number 1 reason. But the most frequently cited reason for growth is improving the customer experience or client satisfaction (see Fig. 1).

Companies can, of course, meet their objectives in a variety of ways. They can introduce new products, enhance services, hire more staff, or re-skill employees. Regardless of the approach they take, SMBs face more budget constraints. In fact, 85% of SMBs agree they would benefit from focusing more on efficiency and cost control. These organizations must be strategic about their expansion decisions. Reflecting their cost consciousness, 81% of SMBs say that spending and cash flow was a “somewhat” or “very important” factor in their growth decision-making. We call these respondents “cost-conscious SMBs.”

Generally speaking, these cost-conscious SMBs approach their expansions far differently—and see very different outcomes—than companies that say spending and cash flow were not important factors in their growth decisions. For instance, 93% of cost-conscious SMB executives agree they have the right platforms and systems in place to adapt to their growing organization, vs. 79% of less cost-conscious executives. These companies may be pursuing growth for growth’s sake, and that could lead to difficulties down the line.

But no matter the reasons for their company’s expansion, SMBs across the board report challenges and increased responsibilities since the growth took place.

Fig. 1: SMBs expand to meet competition and improve the customer experience

What were the top reasons your company underwent its recent expansion? (SMB responses)



Part II: Time and money get stretched when SMBs grow

Since they have grown, SMBs say they are spending more time on tasks, collecting more data, and collaborating more. Executives cannot choose between day-to-day responsibilities and strategic thinking—they have to balance both, and they must be agile enough to switch between the two at a moment’s notice. Our results show that for most SMBs, time and money are stretched to the limit after they grow.

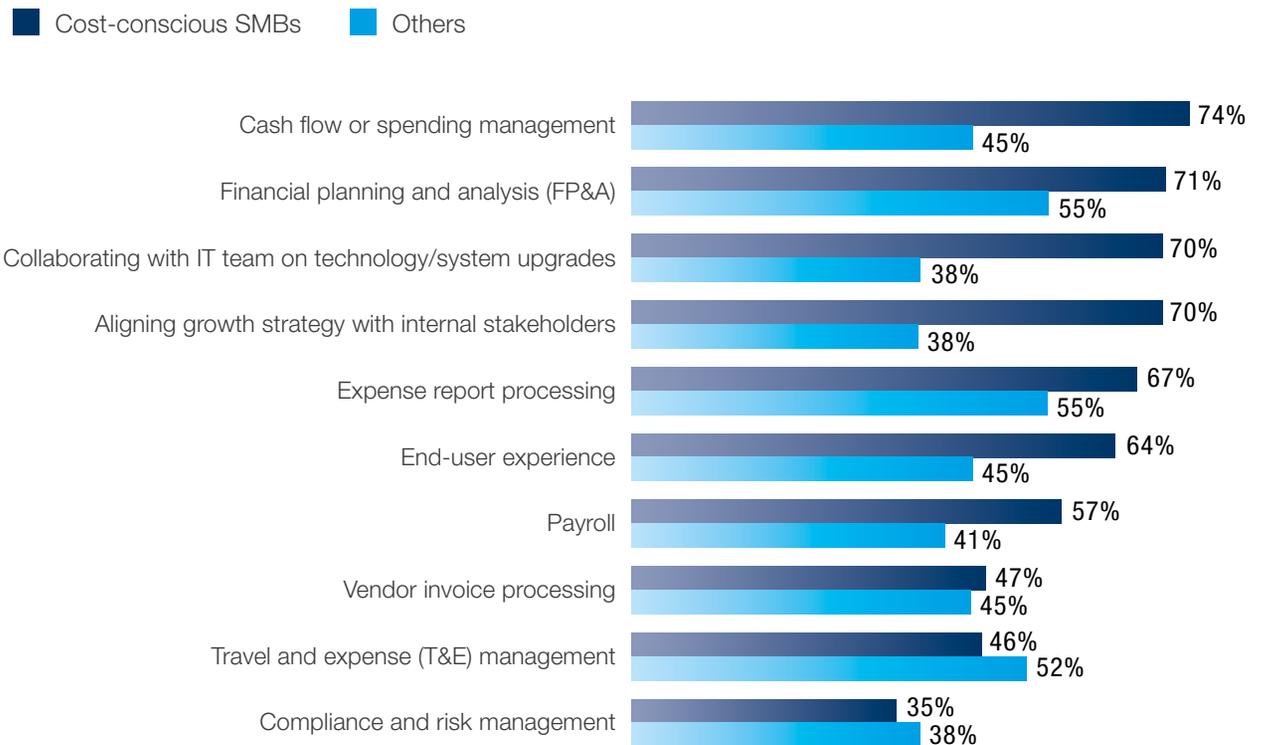
Finance executives seem especially sensitive to these post-growth burdens (see Fig. 2). Cost-conscious SMBs are significantly more likely than others to say they are spending more time on aligning growth strategy with internal stakeholders (70% vs. 38%); cash flow and spending management (74% vs. 45%); and financial planning and analysis (FP&A) (71% vs. 55%), among others. This could mean that cost-conscious SMBs are spending more time dotting their i’s and crossing their t’s, which leads to tighter performance, greater visibility over their spending, and more successful growth efforts.

As post-expansion workloads grow, so too do challenges. Our survey shows processes and activities like increases in travel and expense reports, administrative issues (including invoice reconciliation) compliance, leadership, and risk management are dramatically more challenging for less-cost-conscious SMBs than for the cost-conscious (see Fig. 3). It may be that these organizations face unexpected consequences from failing to prioritize spending and cash flow; or perhaps they have practices that cause problems when operations grow. Either way, the results suggest less-cost-conscious SMBs struggle to balance the needs of a growing company against tighter margins.

Fig. 2: Growth demands more from SMBs

Please indicate whether you or your team are spending more or less time on the following day-to-day tasks since your business expansion.

(“Slightly” and “significantly more” responses – SMB Finance respondents only)



While the majority of SMBs seem to be handling the challenges of growth, their plates are getting fuller. And a fuller plate raises the chances of making a mistake—which for margin-sensitive SMBs could lead to headaches. Executives at SMBs, especially

finance executives, would do well to ensure they have the right tools in place. Automation could help SMBs increase efficiency and agility, yet only 59% say that since expanding, they have automated more day-to-day processes.

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Fig. 3: SMBs that do not prioritize cash flow and spending are beset by more challenges

How challenging have the following processes and activities been since your organization expanded? (“Very” and “extremely challenging” responses)



Part III: Cost-conscious SMBs are better at budgeting

SMBs’ size may be a secret weapon for attacking some of the more pernicious problems associated with expansion, especially when it comes to budgeting. SMBs have to do more with less, and must be agile enough to anticipate changes or react quickly to the unexpected. Visibility and cost control are essential for growing businesses.

Although most SMBs we surveyed reported staying in budget during their growth initiatives, our less cost-conscious respondents were significantly less successful (see Fig. 4). These respondents are also far more likely than cost-conscious SMBs to say they have difficulty gaining visibility into spending at their organization (79% vs. 13%).

Cost-conscious SMBs are able to leverage their smaller footprint to encourage close collaboration between functions. Only 19% of cost-conscious, vs. nearly two-thirds (62%) of less-cost-conscious SMBs, say their organizations are siloed. Their siloed nature may partially explain why these organizations report more challenges and budget overruns than others. Closer collaboration and the breaking down of organizational silos create a virtuous cycle, giving the cost-conscious more visibility into spending and empowering employees to identify and react to opportunities or problem areas more nimbly.

Further, 87% of cost-conscious SMB finance executives say the finance function was a critical strategic partner in planning their growth efforts, and that the IT function was a critical strategic partner (76%). By contrast, only around two-thirds of less-cost-conscious SMBs said that finance or IT were critical strategic partners—which may have hamstrung their growth initiatives from the start. Close alignment between the two functional areas is essential for successful growth.

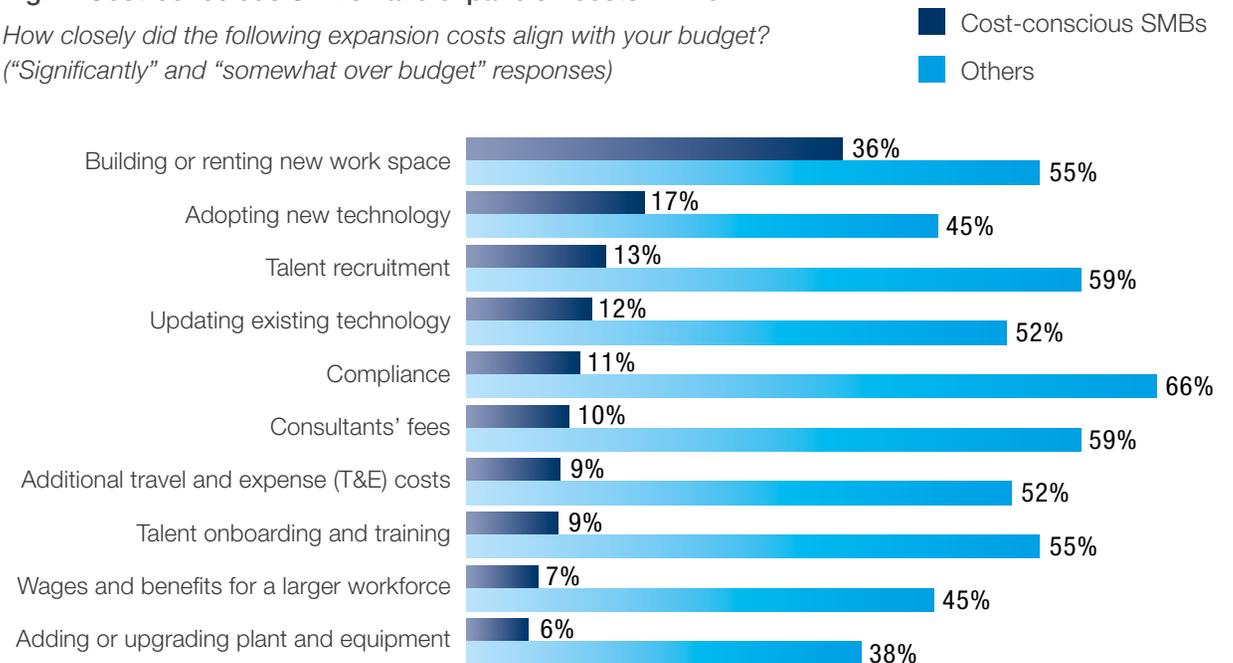
But the finance and IT departments are not alone in leading business growth. SMBs report close collaboration with several functions, especially with the CEO or equivalent (91%), HR (81%), and R&D (71%). There is room for improvement: 54% report close collaboration with Governance, Risk, and Compliance (GRC) and 58% with Customer

Service—both areas that are extremely important for SMBs post-expansion.

By working closely will all parts of the business, SMBs can have better control over costs, ensure their expansion strategy is working, and have their finger on the pulse of the business.

Fig. 4: Cost-conscious SMBs have expansion costs in line

How closely did the following expansion costs align with your budget? (“Significantly” and “somewhat over budget” responses)



Conclusion: Learning from cost-conscious SMBs

Growing SMBs take on increased workloads and face tighter margins. Yet they have an advantage over bigger companies when it comes to cross-functional collaboration and insight into spending. Our survey shows that prioritizing cash flow and spending in expansion decision-making may lead to better outcomes: greater agility, more visibility into spending, fewer cost overruns, more effective collaboration, and a focus on strategy rather than day-to-day tasks.

How can growing organizations learn from these cost-conscious SMBs to improve the odds of success and prepare for a smooth transition? We recommend the following:

- **Prioritize cash flow and spending.** Respondents who did not were more likely to go over budget, report less collaboration between functions, and face more challenges in a number of processes and activities. While cost-consciousness should not necessarily be the sole factor when expanding, better awareness of spending could prevent unexpected difficulties and costs.
- **To clear time for strategy, consider automation.** Automating processes like cash flow, expense management, and invoice processing can increase visibility into spending and free up more time to focus on strategy. Neglecting either could mean the failure of the core business or its expansion.
- **Maintain close collaboration.** Cost-conscious SMBs are more likely than others to say that finance and IT were strategic partners in their

expansion, and they are less likely to say their organizations are siloed. But collaboration could improve in some areas, especially GRC and customer service.

- **Above all, focus on efficiency and cost control.** Most SMBs (85%) agree their businesses could focus more on efficiency and cost control.

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Methodology

Oxford Economics and SAP Concur surveyed 500 finance and IT executives in the first quarter of 2019. Of those 500 respondents, 150 came from companies with less than 1,000 employees, defined here as small and medium businesses (SMBs). All SMB respondents were finance executives, or executives with responsibility over their company's finances, and all executives had a decision-making role in their company's expansion. Industries surveyed included Technology (29% of SMB respondents), Retail (14%), Healthcare (10%), Industrial manufacturing (10%). Automotive, Chemicals, Construction & Engineering, Life Sciences, Logistics, Media & Entertainment, Oil & Gas, Public Sector, Travel & Transportation, and Utilities & Waste all comprised less than 10% of respondents, respectively. SMB Respondents were located in Canada and the US (20% each); the UK (20%), Japan (20%), and Australia (20%).

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