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Thinking Bigger

The SME Growth Imperative

June 2012



THE BIGGER

Table of contents

Executive Summary.....	3
The SME Growth Imperative.....	7
Thinking Bigger: the four pillars of growth	9
Thinking Bigger with money and finance	11
Thinking Bigger with Innovation.....	13
Thinking Bigger with management	15
Thinking Bigger with technology.....	17
Conclusion	19

Executive Summary

The research assesses the extent to which four key pillars of growth are being managed and exploited by SMEs

In 1919, a man started a small business selling surplus groceries from a market stall in Hackney, East London. His first day's sales were £4 giving a profit of £1. Just over ninety years later, this business is generating more than £65 billion in turnover and employs around 472,000 people worldwide. This business is Tesco plc. The vast majority of the largest companies in the world began life as small enterprises and whilst only a few will experience this kind of growth, the fact remains that small and medium sized enterprises (SMEs) are the lifeblood of the UK economy, providing over two-thirds of the UK's private sector jobs and contributing over 50% of UK GDP.

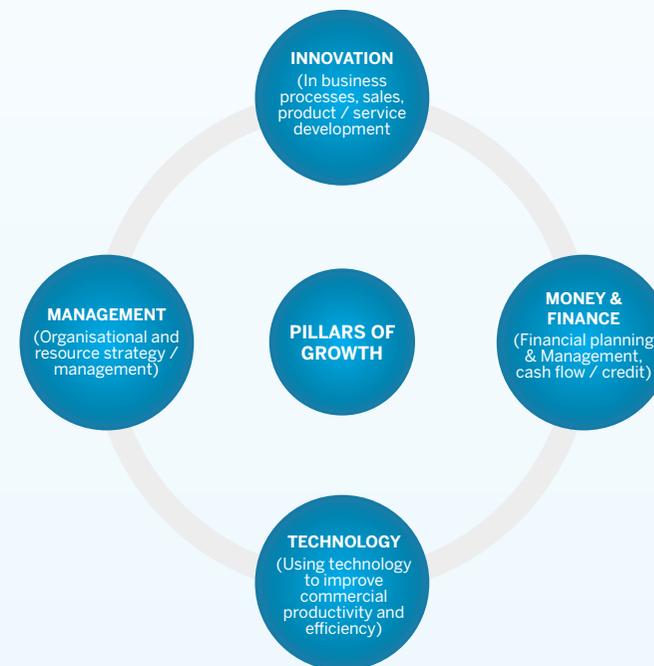
The economic downturn is now the "new norm" and those businesses that respond proactively to the challenges that this presents are best placed to not only survive, but to thrive and grow. 'Thinking bigger;' refers to an organisations' aspiration for growth, and what drives them to achieve their goals in the "new norm". Against this backdrop, the SAP Thinking Bigger survey explores the appetite and capabilities within SMEs for growth. The SAP Thinking Bigger survey was conducted by Loudhouse during June 2012. 250 senior managers within UK businesses employing 50-250 employees were surveyed.

The SAP Thinking Bigger survey finds UK SMEs in a confident and optimistic mood – generally positive about their prospects for growth, yet also aware of the challenges this involves. Whilst growth is an aspiration for more than 95% of UK companies, the extent to which companies are seeking to grow, relative to their

competitors and the industry standard varies. Two distinct types of SME are highlighted: 'Accelerators' who are more bullish, aiming to grow their business at a faster rate than the industry standard, and 'Stabilisers' who are relatively less ambitious, and aim to grow in line with others or at their own pace.

The research assesses the extent to which four key pillars of growth are being managed and exploited by SMEs in order to achieve competitive advantage. These pillars are money and finance, innovation, management and technology.

Figure A. The four pillars of growth



Key highlights

The SME growth imperative

- 96% of UK SMEs are looking to grow their businesses
- 30% of UK SMEs are seeking to grow at a faster rate than their competitors / the industry standard (these are known as 'Accelerators') whilst 66% are aiming to grow in line with their competitors or at their own rate ('Stabilisers') – 4% are not looking to grow
- On average, SMEs expect to grow by 20% in the next 2 years, 48% expecting to grow by more than this
- Confidence in growth predictions is high – 81% are confident that they will achieve their planned growth objectives
- 41% of SMEs rate growth over commercial stability, seeing this as a greater priority over the coming two years

Thinking Bigger: the four pillars of growth

- SMEs are most likely to rate money and finance as key drivers of growth (62%), followed by innovation (56%), management (49%) and technology (33%)
- In terms of the relative challenge each of the pillars presents – money and finance is seen as the biggest challenge (49%), followed by innovation (23%), with management (14%) and technology (14%) seen as less problematic
- SMEs feel strongest, compared to their competitors, when it comes to management (67%) and money and finance (64%) and less strong in technology (56%) and innovation (57%)
- SMEs are more likely to have invested in technology in the last six months (62%) than financial operations (54%) or business management (55%). Looking ahead to the next six months, technology is poised for more investment (56%), just ahead of business management (51%) and financial operations (51%)



Thinking Bigger with Money & Finance

- Money and finance is seen as the biggest driver of growth (62%) but also the most problematic area (49%) for SMEs
- 44% of SMEs are reliant on credit from a third party bank or building society in order to operate whilst 63% hold an overdraft facility
- 54% have invested in finance in the last six months, whilst 51% plan investment in the next six months – key areas of investment so far are cash flow management (54%) followed by financial software / technology (36%)

Thinking Bigger with Innovation

- Innovation is seen as the second biggest driver of growth (56%) but is exposed as an area of relative weakness compared to competitors (57% feeling strong)
- The biggest drivers of innovation within SMEs are the economic climate (42%), cost reduction (40%), changing customer demands (37%) and increasing sales (36%)

Thinking Bigger with Management

- Management is the area in which SMEs feel most confident - 67% feel strong compared to competitors
- The key ways in which SMEs feel they can improve productivity are through employee training / coaching (45%), employee benefits / incentives (32%) and by adopting the latest technology (32%)

- Two thirds of SMEs (66%) see evaluating and challenging business processes as important to achieving growth
- 55% have invested in management in the last six months, whilst 51% plan investment in the next six months – key areas of investment so far are business organisation / planning (45%) and company restructuring (36%)

Thinking Bigger with Technology

- Technology is the pillar which SMEs least consciously associate with growth (33%). Reliance on technology amongst SMEs, however, is very high – 88% are reliant on technology in order to operate day-to-day whilst 83% rely on technology in order to achieve long term growth
- Technology is, however, an area in which SMEs feel relatively weak (56% feel strong in this area)
- Technological capabilities are most likely to be reviewed by SMEs when new technologies are launched (39%) and to support the need for business growth (39%), rather than simply when existing systems fail to work (35%)
- The single biggest barrier to adopting the latest technologies in SMEs is cost (57%), ahead of systems integration issues (33%) and the time required to update systems / processes (33%)

Money and Finance is the greatest challenge, more so amongst Stabilisers (52%) than Accelerators (39%)

In the last six months, 76% of Accelerators have invested in technology, with 75% planning to do so in the next six months

Increasing sales is the biggest driver for innovation amongst Accelerators (53%)

The biggest driver for innovation amongst Stabilisers is the economic climate (39%)

The positive attitude of SMEs is a refreshing antidote to the economic doom and gloom that dominates business stories in the media. Often overshadowed by the attention given to larger companies during the economic downturn, SMEs are in fact the UK's unsung heroes and their focus on Thinking Bigger is inspiring to businesses of all shapes and sizes. Viewing a business as a building essentially supported by the four pillars of growth is the key to successful Thinking Bigger – take away one of these pillars and any drive for growth will wobble, if not collapse. Accelerators, those who seek to grow faster than their competitors, share some common characteristics including being technology-focused, regarding themselves as innovative, being less risk averse and willing to take financial risks.

But regardless of what speed an SME wishes to grow finance, innovation, technology and management need to be aligned and given equal attention to make Thinking Bigger aspirations a reality.



30%

of UK SMEs are seeking to grow at a faster rate than their competitors/the industry standard (Accelerators)

66%

aim to grow in line with their competitors or at their own pace (Stabilisers)

43%

of Stabilisers plan to invest in business management in the next six months, compared with 69% of Accelerators

The SME growth imperative

The SAP Thinking Bigger survey reveals that more than 90% of UK SMEs are looking at growing their business

Despite the economic gloom and doom dominating the headlines, SMEs are showing strong resilience and fighting spirit. No longer just focused on survival, SMEs have lifted their spirits, upped their game and now have their eyes firmly set on growth and success.

The SAP Thinking Bigger survey reveals that more than 90% of UK SMEs are looking at growing their business (96%). Indeed, 41% of SMEs prioritise growth over commercial stability – not that these are mutually exclusive objectives. This focus on growth paints a very encouraging picture given the pivotal role SMEs play in the economy today. The extent to which businesses are seeking to grow compared to their competitors does vary as shown in **Figure 1**. A core 30% of SMEs are focused on growing faster than their competitors – these make up the Accelerators and have several characteristics that set them apart from other SMEs. The majority of SMEs are looking to grow in line with their competitors (43%) or at their own pace (23%) – these two groups comprise the Stabilisers. Two thirds of SMEs (66%) fall into this latter category and it should be pointed out that this group is still focused on growth, just not at the same speed as the Accelerators. Only time will tell whether the Hares or the Tortoises actually end up experiencing the most significant growth and how sustainable this is over the longer term.

On average, SMEs are looking to grow by 20% over the next two years – this figure climbs to 26% amongst the Accelerator SMEs. Overall, almost half of SMEs (48%) expect to grow their business by 20% or more during this two year period. These are ambitious growth

targets for any business and reflect the opportunistic and proactive attitude that characterises the leaders of many SMEs. These, however, are not just empty sentiments – more than eight in ten (81%) of SMEs are confident that they will achieve these planned growth objectives. Confidence, as you would perhaps expect is even higher amongst Accelerators (89%).

Against this backdrop, the SAP Thinking Bigger survey explores what growth means to SMEs and how effectively they are balancing the four key pillars of growth.

Figure 1. Growth ambitions of SMEs today

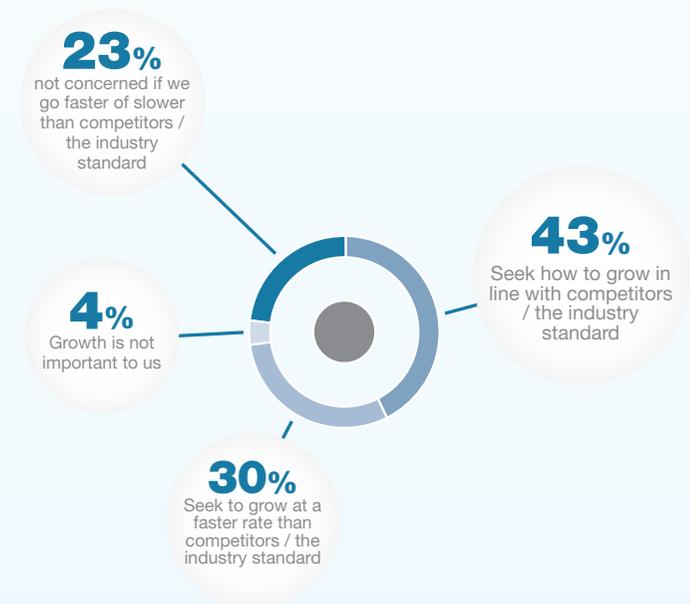
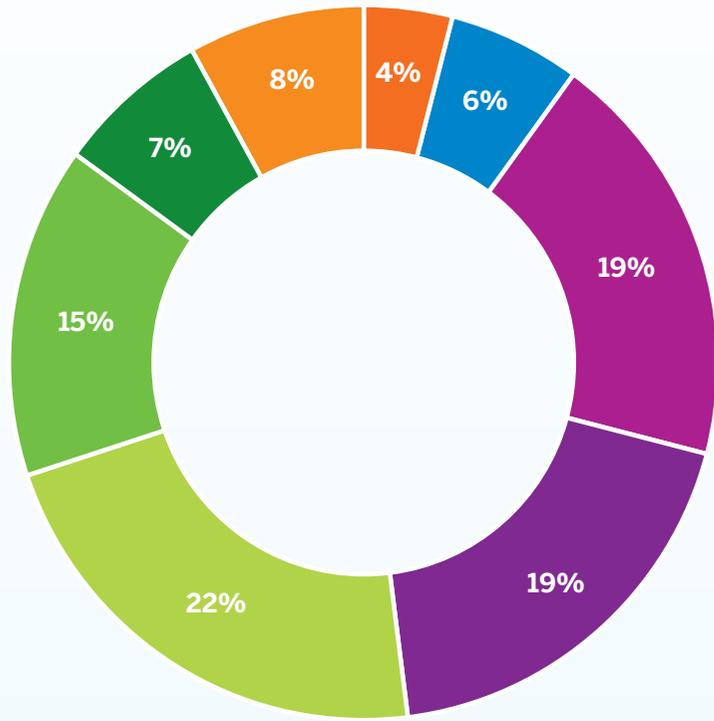


Figure 2. Anticipated rate of organisational growth over the next two years



- | | |
|-------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
|  More than 50% |  Between 10% - 19% |
|  Between 40% - 50% |  Between 5% - 9% |
|  Between 30% - 39% |  Between 1% - 4% |
|  Between 20% - 29% |  Expect a flat rate of growth |



Thinking Bigger: the four pillars of growth

The research seeks to establish the relative weight that SMEs attribute to each of these pillars in their pursuit of growth

Four key pillars of growth form the basis of the SAP Thinking Bigger survey. These are:

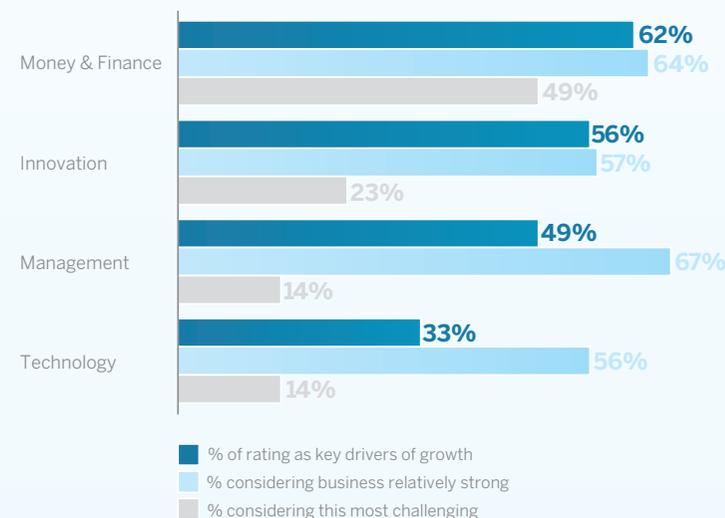
- **Money & finance** financial planning and management / cash flow / credit
- **Innovation** innovation in business processes / sales / product and service development
- **Management** organisational and resource strategy / management
- **Technology** using technology to improve commercial productivity and efficiency

The research seeks to establish the relative weight that SMEs attribute to each of these pillars in their pursuit of growth, as well as exploring the extent to which SMEs feel “strong” in these areas and which pillar presents the single biggest challenge. The report goes on to explore each of these pillars in turn, looking at SME priorities within each area as they focus on Thinking Bigger.

Figure 3 reveals that when it comes to the top of mind drivers of business growth – SMEs are most likely to rate Money and Finance as the most critical driver of growth (62%), followed by innovation (56%), management (49%) and then technology (33%). This is not to discount technology as a driver of growth but rather to see it in the context of other drivers that are perhaps jostling for the more immediate attention of SMEs. Money and finance also represents the single most challenging area for SMEs in their quest for growth,

despite SMEs feeling that they are faring relatively well compared to competitors, 64% considering themselves strong in this respect. Innovation is considered the second biggest driver of growth (56%) but an area of relatively less strength (57%) and one of the key challenges for SMEs (23%). Management is the area of greatest perceived strength amongst SMEs (49%). In contrast, SMEs see themselves as relatively weak in the area of Technology (56%) but this is not considered a priority or an immediate challenge.

Figure 3. Relative importance to growth, challenges and performance across the four key pillars



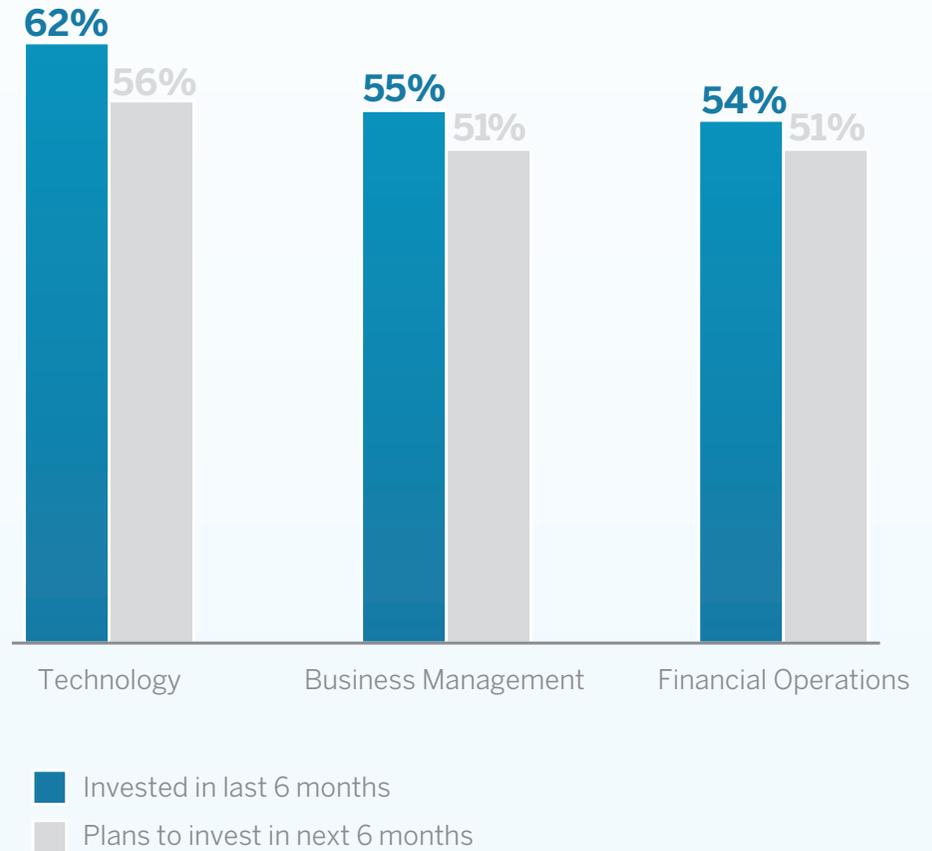
This is perhaps because technology has enjoyed relatively more investment in the last six months (62% of SMEs have invested in technology), compared to business management (55%) or financial operations (54%). This trend looks set to continue over the next six months, as shown in **Figure 4**.

Each of these pillars is critical in its own right to supporting the fabric of an SME – Accelerators, Stabilisers and even those who aren't opting for growth – or indeed actually spearheading growth initiatives as is more likely the case with innovation, for example. How SMEs manage these pillars individually and collectively will determine ultimately how successful they are in Thinking Bigger.

62%

of SMEs rate Money and Finance as the most critical driver for growth

Figure 4. % of SME investing in key areas in last 6 months / next 6 months



Thinking Bigger with Money & Finance

Aside from ever present cash flow issues, SMEs also need to invest in order to grow and reach their Thinking Bigger potential.

Access to finance is a key determinant for SME start-up, and development as well as growth; SMEs have very different challenges with regard to money and finance compared to their larger counterparts.

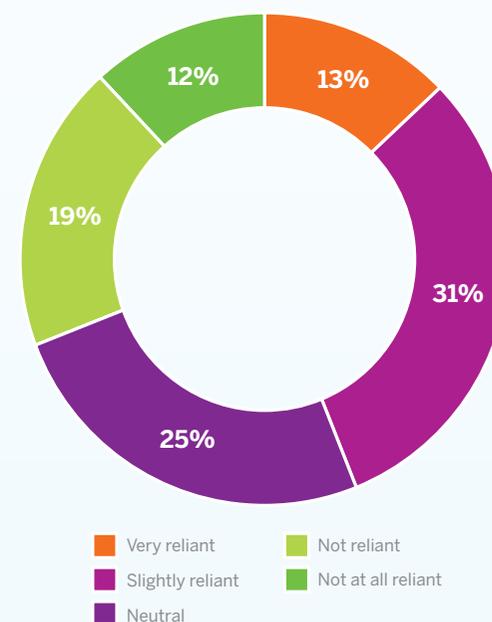
Money and finance emerges as the single biggest driver of growth (62%) but it is also the most problematic area for almost half of SMEs (49%). **Figure 5** shows that 44% are reliant on credit from a third party bank or building society in order to operate whilst almost two thirds (63%) hold an overdraft facility with their bank or building society. There is a strong reliance on external sources of funding and, for many SMEs, access to these services is the only way they can effectively manage their cash flow and continue trading. Accelerators, those with more aggressive growth plans, are more likely to rely on overdraft facilities (72%) than SMEs more generally, suggesting that when it comes to money and finance they are less risk-averse and more willing to take financial risks to achieve growth.

Aside from ever present cash flow issues, SMEs also need to invest in order to grow and reach their Thinking Bigger potential. Recent reports suggest that difficulties in accessing finance have resulted in a number of SMEs turning their backs on banks and seeking out alternative funding from private individuals or investors.

Figure 6 shows the financial operations areas in which SMEs have invested in order to improve business performance. It is not really surprising that cash flow management tops the list, more than half of SMEs (54%) having invested in improvements in this area. Following this, around a third of SMEs have invested

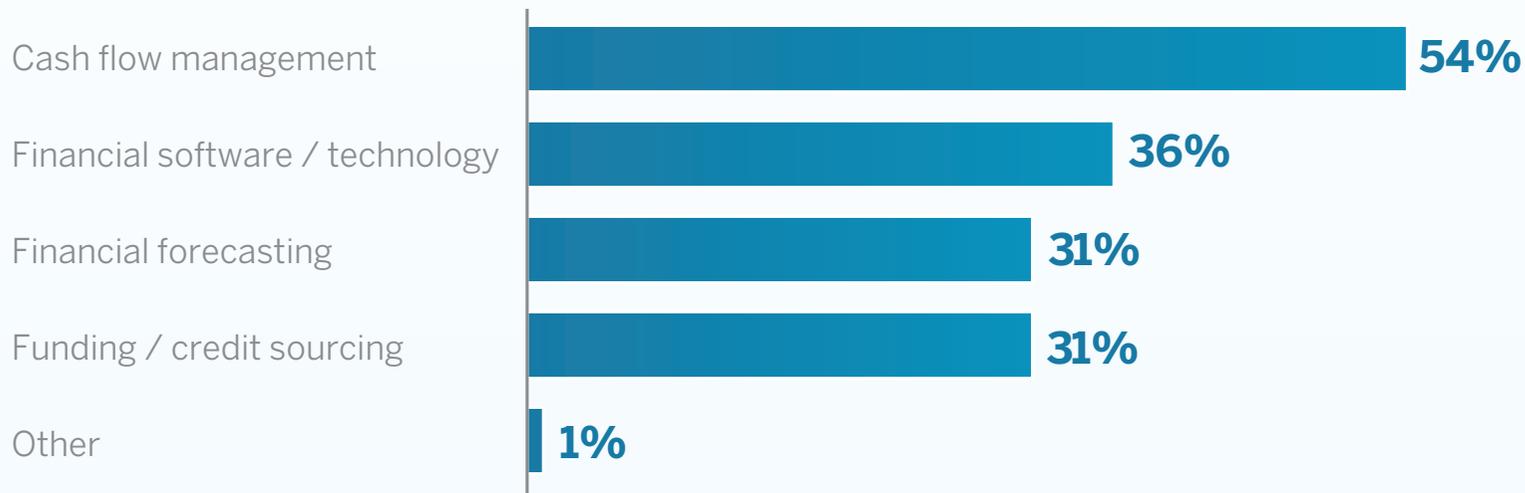
in each of the following areas – financial software / technology (36%), financial forecasting (31%) and funding / credit sourcing (31%) – demonstrating an attitude of Thinking Bigger within their business operations.

Figure 5. Reliance on credit and overdrafts amongst SMEs



2 in 3 SMEs (63%) holds an overdraft facility

Figure 6. Where SMEs have invested in financial operations in order to improve business performance



Money and finance emerges as the single biggest driver of growth (62%) but it is also the most problematic area for almost half of SMEs (49%).



Thinking Bigger with Innovation

Innovation very much represents the heart and spirit of Thinking Bigger and whilst its intangibility can make it challenging for businesses of all sizes

Innovation is often something more readily associated with large enterprises with massive budgets and dedicated R&D departments than with SMEs. This is certainly a misconception as SMEs are a significant source of innovation in most industry sectors and have the added benefit of greater agility in bringing products and services to market. Innovation itself is quite an ethereal concept, but in this context refers to a willingness to exploit the full range of options outside current products, services and business models.

Innovation is perceived as the second biggest driver of growth (56%) for SMEs but is exposed as an area of relative weakness compared to competitors. Accelerators are more likely to view innovation as a driver of growth (64%) than SMEs generally, suggesting this is very much seen as offering a competitive advantage and enabling faster growth than otherwise possible. **Figure 7** shows that only 57% of SMEs feel strong when it comes to innovation, lower than both finance and business management. Part of this perceived inadequacy is due to the fact that the very nature of innovation means that competitor successes are often shouted about, and more than any other pillar this can impact brand perceptions and employee engagement very rapidly. Innovation is one area in which Accelerators have a greater confidence (67%) than SMEs more generally (57%).

Figure 7. Faster growers are more confident innovators

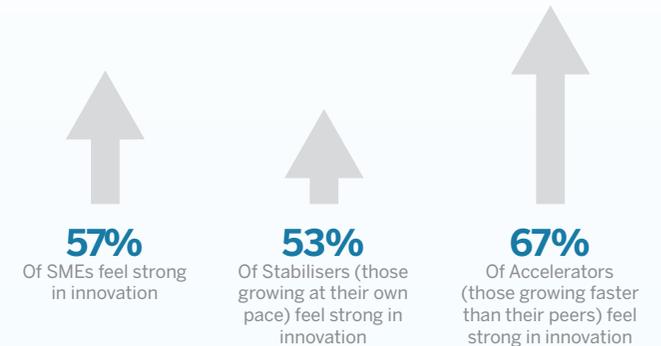
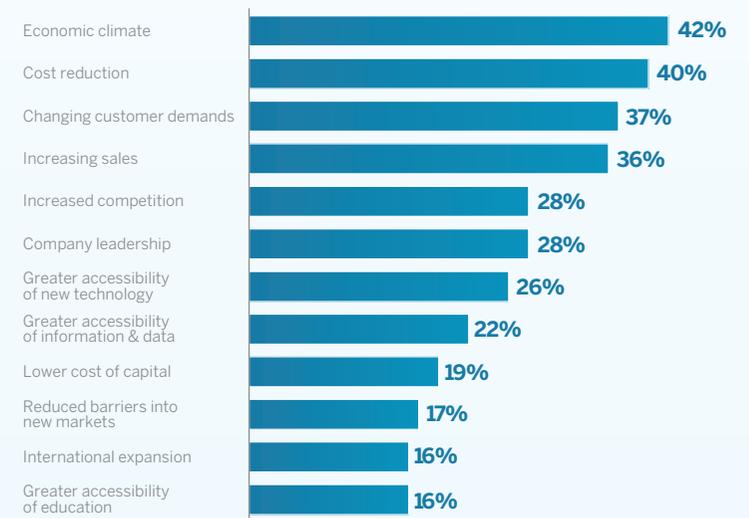


Figure 8. Key drivers of innovation



Innovation is not always something that is proactively pursued by SMEs. Indeed, **Figure 8** shows that the three key drivers of innovation today are the economic climate (42%), cost reduction (40%) and changing customer demands (37%). It is encouraging, however, that these external forces are resulting in a positive force for change amongst SMEs and fostering an entrepreneurial reaction whether this be an appetite for new product development, alternative routes to market, different customers or fresh ways of working. It is worth noting that Accelerators, focused on rapid growth, are more likely than other SMEs to cite company leadership / organisational culture (43%), greater accessibility of new technology (40%) and greater accessibility of information and data (32%) as drivers of innovation, suggesting a more proactive approach to innovation across the business. Stabilisers on the other hand, who are focused on growth at a more conservative level, cite company leadership / organisational culture (20%), greater accessibility of new technology (19%) and greater accessibility of information and data (17%) as innovation drivers.

Innovation very much represents the heart and spirit of Thinking Bigger and whilst its intangibility can make it challenging for businesses of all sizes, focusing on this pillar can help SMEs to accelerate growth and secure competitive advantage.

57%

of SMEs feel strong when it comes to innovation, lower than both finance and business management

Innovation is perceived as the second biggest driver of growth (56%) for SMEs but is exposed as an area of relative weakness compared to competitors.

Thinking Bigger with Management

The SAP Thinking Bigger survey reveals that management is the area in which SMEs feel most confident

The quality of management is especially important for SMEs who must be able to adapt quickly to changing market conditions and make the most of every opportunity. They are, however, often constrained by limited resource and once a business reaches a certain size it can be hard to keep track of what is happening across all business operations. Indeed, two thirds of SMEs (66%) see evaluating and challenging business processes as important to achieving growth.

The SAP Thinking Bigger survey reveals that management is the area in which SMEs feel most confident – 67% say they feel strong compared to their competitors. However, given that the vast majority of SMEs are focused on growth – many with growth targets in excess of 20% over the next two years – whether classed as an Accelerator or a Stabiliser, this will demand significant increases in workforce productivity and Thinking Bigger in management strategies. **Figure 9** shows the ways in which SMEs feel that they can improve productivity in their businesses. Employee training / coaching (45%) emerges as the single biggest route to enhanced productivity – SMEs readily recognising that upgrading the skills of all kinds of workers is central to business performance. The reality, however, is that in prosperous and busy times, training is often put on the back burner to attend to immediate business needs and in times when cost-cutting becomes the prime focus, training and coaching programmes are usually the first casualty. Thinking Bigger requires SMEs to prioritise productivity and the enhancement of employee skills in good times and bad.

One third of companies (32%) see employee benefits and incentives as the route to increased productivity. Incentives, however, do need to be carefully designed to avoid increased production speed negatively impacting quality and derailing growth efforts in the longer term. Adopting technology (32%) is often seen as a quick win when it comes to enhancing productivity – the right technology can automate processes, remove duplication and improve customer service whilst technologies such as business analytics and mobile applications can support SMEs in making quick decisions, thereby maximising business opportunities.

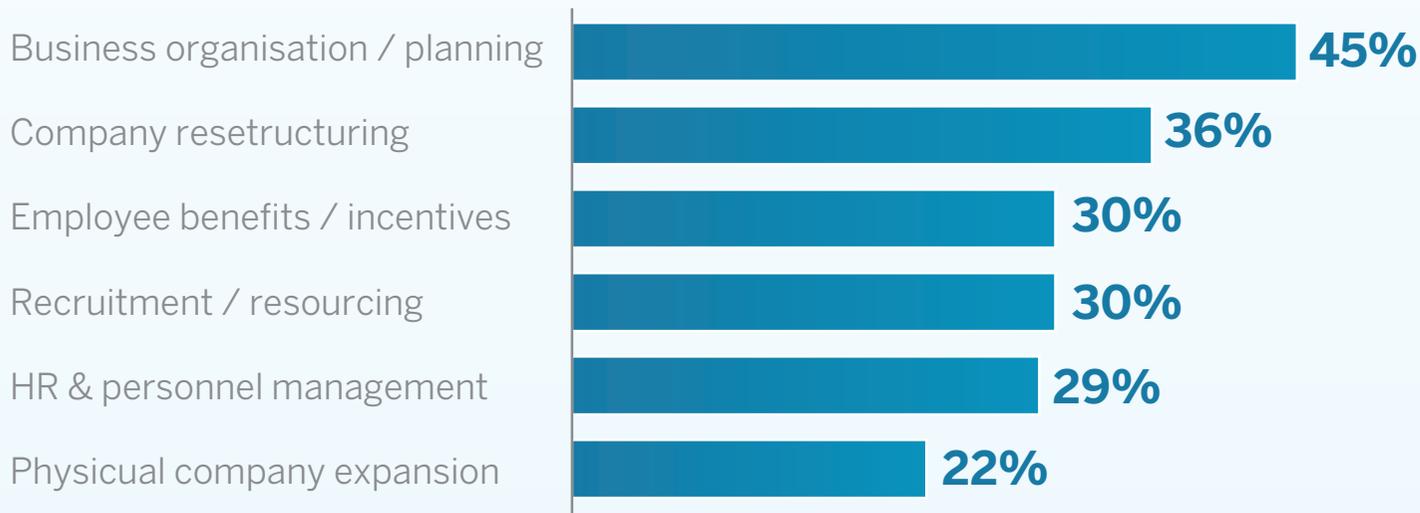
Figure 9. How SMEs feel they can improve productivity



Just over half of SMEs (55%) have invested in business management to improve performance in the last six months whilst 51% plan investment in the next six months. The key areas of investment so far are business organisation and planning (45%) and company restructuring (36%). Interestingly, despite seeing people development as the key way SMEs can improve productivity there is something of a disconnect here as just 29% have actually invested in HR and personnel management.

Thinking Bigger requires companies to think more effectively and to think faster. Good quality business information, strong leadership and the optimisation of skills and technologies available are pivotal in achieving growth, at any pace.

Figure 10. Where SMEs have invested in management in order to improve business performance



Thinking Bigger with Technology

Reliance on technology is very high amongst SMEs – 88% stating they are reliant on technology in order to operate day-to-day

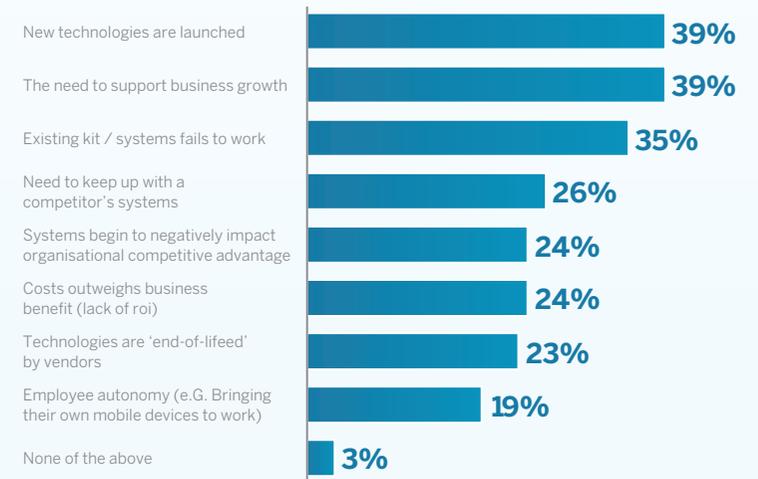
The last five to ten years have seen an explosion of technology tools and solutions available to companies of all sizes designed to improve the way they do business. The advent of agile, bespoke technologies tailored to SMEs serve to level the playing field between smaller and larger companies in key areas such as customer service, business insight, collaboration, standardisation of processes and facilitating flexible or mobile working.

Reliance on technology is very high amongst SMEs – 88% stating they are reliant on technology in order to operate day-to-day, whilst 83% rely on technology in order to achieve long term growth. This figure increases to 93% amongst Accelerators, the fastest growing SMEs. Technology, however, when reviewed alongside the other pillars in the survey, emerges as the factor which SMEs least consciously associate with growth (33%). It is also an area in which SMEs feel relatively weak, just 56% saying they feel strong in this area. Highlighting the importance of technology in adopting a Thinking Bigger mindset.

SMEs are more likely to have invested in technology in the last six months (62%) than in either business management or finance operations, and, similarly, a greater proportion plan to invest in the coming six months (56%). Plans to invest in technology in the next six months are more likely amongst Accelerators looking for faster business growth (75%). The key drivers for SMEs to review their technological capabilities are shown in **Figure 11**. Encouragingly, SMEs are more motivated by the launch of new technologies (39%) and the need to support business growth (39%) than when

existing kit / systems fail to work (35%), suggesting that technology investment is more proactive than reactive and in line with a Thinking Bigger mentality. Key areas of technology investment are shown in **Figure 12** – hardware being most likely to have attracted investment (54%), followed by broadband, internet and networking (41%). Access to high speed broadband can ensure that SMEs deploy the latest technologies, drive efficiency gains and accelerate business growth.

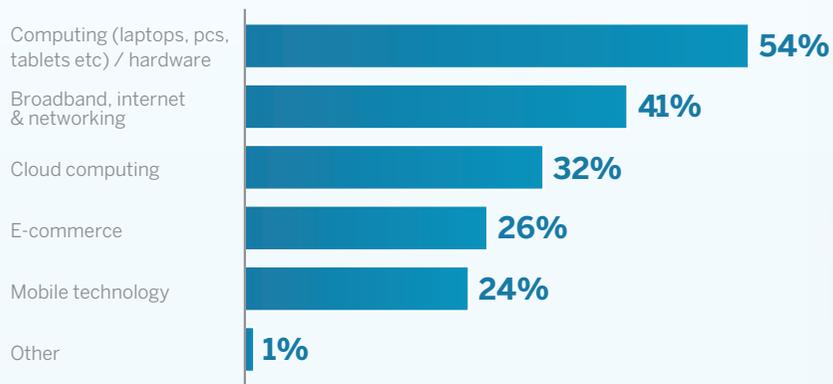
Figure 11. What drives SMEs to review their technological capabilities



One in three SMEs have invested in cloud computing – this shift to cloud computing is likely to be happening as businesses refresh their technology and as new solutions become available. With cost the single biggest barrier to adopting the latest technologies (57%), cloud computing offers a scalable environment that can meet the expanding needs of growth companies on a pay-as-you-go basis helping to improve all important cash flow.

Technology investment may not be at the top of every SME's priority list, but those who are unwilling to embrace technology and use it to support their finance, management and innovation goals may well find opportunities for growth diminishing, affecting both fast and steady growth plans.

Figure 10. Where SMEs have invested in technology in order to improve business performance



Conclusion

Thinking Bigger is the mantra for SMEs today – the majority have set themselves ambitious growth targets and are confident they can achieve these

Small is the new big. SMEs that have survived the economic downturn are feeling excited about the future, their products and services are clearly robust and in demand, and these businesses are now in pursuit of growth. An economy grows when its SME sector is vibrant. A recent report by the CBI suggested that if we could get more SMEs to grow and more to grow fast, they could add up to £50 billion to the economy by 2020.

Thinking Bigger is the mantra for SMEs today – the majority have set themselves ambitious growth targets and are confident they can achieve these. Growth, however, isn't always easy and striking an effective balance between fast growth and long term sustainability can be a challenge. Whether an Accelerator – more bullish, aiming to grow at a faster rate than the industry standard – or Stabiliser – more conservative, aiming to grow in line with others or at their own pace – SMEs must find the correct path that will lead to sustained business growth.

With Government unveiling a number of initiatives to provide genuine support to SMEs, the time is ripe for businesses to evaluate their growth strategies. Thinking Bigger involves spending valuable resource wisely in key areas that will have the maximum impact on business performance. This research explores SMEs strategies and activities within four key pillars of growth - access to finance, slick and effective business management, a focus on innovation and investment in technology.

Each of these pillars supports and enables improvements in the others and those companies best placed for growth are those that recognise the sum to be greater than the parts.

Whilst access to finance is seen to represent the biggest driver of growth and a very real challenge for growing SMEs, improvements to business processes and management, and the adoption of agile, scalable technologies can help improve cash flow issues. Similarly, technology can help improve business productivity and, itself, be a source of innovation. Innovation can be seen as any new product, service, channel or way of working so again spans the other pillars of growth.

Growth takes more than just ambition. Having a set of clear, achievable strategies across a number of key pillars allows businesses to capitalise on potential growth opportunities. Via technology, SMEs now have access to the power, scale and flexibility they need to compete effectively with their larger counterparts. Their drive for growth, however, must go hand-in-hand with the development of people, process and systems to ensure the business can cope with rising demand that effective Thinking Bigger will bring. Growth, of course, is just one factor that drives overall business success, innovation, for example, is an area that can greatly improve business performance, as does mastering finance, management and technology.

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