



The small business revolution: trends in SMB cloud adoption



Gartner analysts predict **cloud services** will grow to **\$244 billion** by 2017¹

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Cloud-based services are increasingly providing a **viable solution** to SMB needs

Foreword



John Davis, Managing Director, BCSG

The small business (SMB) sector is one that's growing in size and value. World Bank research has estimated that it accounts for 95% of existing businesses², and its products and services make up around 49.8% of the global economy. Yet this is a sector that faces many challenges. Getting a business off the ground means hard work, difficult decisions and learning on the job. Access to much-needed expertise and support can be hard to find. However, cloud-based services are increasingly providing a viable solution to these problems.

Gartner analysts predict that cloud services will grow to \$244 billion by 2017, representing a compound annual growth rate of 17.1% from 2013¹. Our research shows that nearly two-thirds (64%) of small business owners already have an average of three solutions in place. These are currently addressing such well-established needs as email and websites. As awareness grows and software solutions become more effective at meeting SMB needs, these numbers are set to increase with a potential overall market growth of 72% in the next 3 years. Our research examines where the opportunities lie right now and how to harness them to best effect.

1. Gartner 'Forecast Overview: Public Cloud Services, Worldwide, 2Q13 Update, Gartner, 2013

2. 'Counting the value of SMEs to the global economy', Baker Tilly International, August 2014, www.bakertillyinternational.com/web/insights/counting-the-value-of-smes-to-the-global-economy.aspx (accessed 7 October 2014)

Introduction

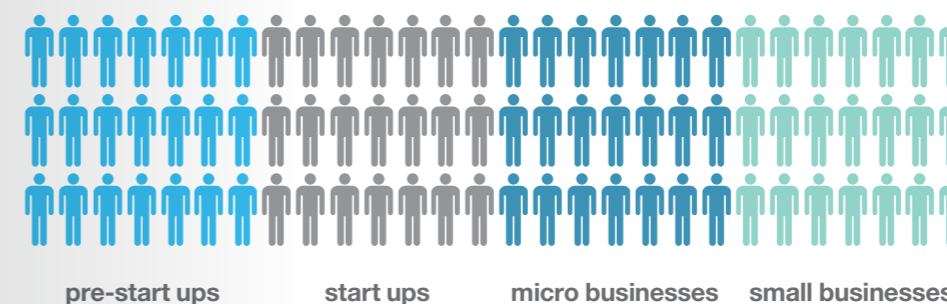
BCSG builds and runs business application marketplaces for leading brands. Our partnerships with these leading brands provide a reach to SMBs worldwide. Through these relationships we've seen SMBs increasingly appreciating the value of cloud-based services in helping to address key challenges.

More and more software solutions are being developed for this market, aimed at supporting a broad range of small business needs, from staying on top of their finances to acquiring new customers. This technology is setting business owners free from the office, enabling them to work flexibly, and do away with the upfront cost of purchasing software. In its own way, cloud-based software is revolutionising the way that SMBs do business.

Analysts see this market has huge potential for growth, and our research looks at the opportunity in detail. By surveying small businesses across their lifecycle, we've gained key insights into current use of cloud-based software, and where we might be in three years' time.

About our research

This report is based on a survey that we commissioned from Illuminas which was carried out in the second half of 2014. Responses were drawn from 600 participants in Western Europe, spread across the business lifecycle:



Pre-start ups have taken significant steps towards starting their business (e.g. opening a business bank account) but haven't started trading.

Start ups have been operational for up to twelve months.

Micro businesses have been trading for over twelve months and have a turnover below £500,000.

Small businesses have been trading for over twelve months and have a turnover between £500,000 and £5 million.

This report focuses on the businesses that are currently operational.

Software for SMBs is increasingly available

A growing segment of the technology sector is focused on building software that purely addresses the needs of small businesses. For example, in October 2014, the online directory of business applications, GetApp, lists 5,896 solutions for SMBs – a figure that's grown by over 20% in the previous six months.

This cloud-based software can be broadly grouped by activity into the following categories:

Marketing

E.g. Building websites, managing social media and sending email campaigns

IT support

E.g. Keeping data safe and protecting against viruses

Working together

E.g. Communicating using email or web conferencing and sharing and collaborating on files

Managing customers

E.g. Recording new contacts and dealing with enquiries

Financial management

E.g. Recording expenses and bookkeeping

Legislation

E.g. Putting legal docs in place like contracts or a website privacy policy and staying compliant with regulation like health and safety

Managing projects & tasks

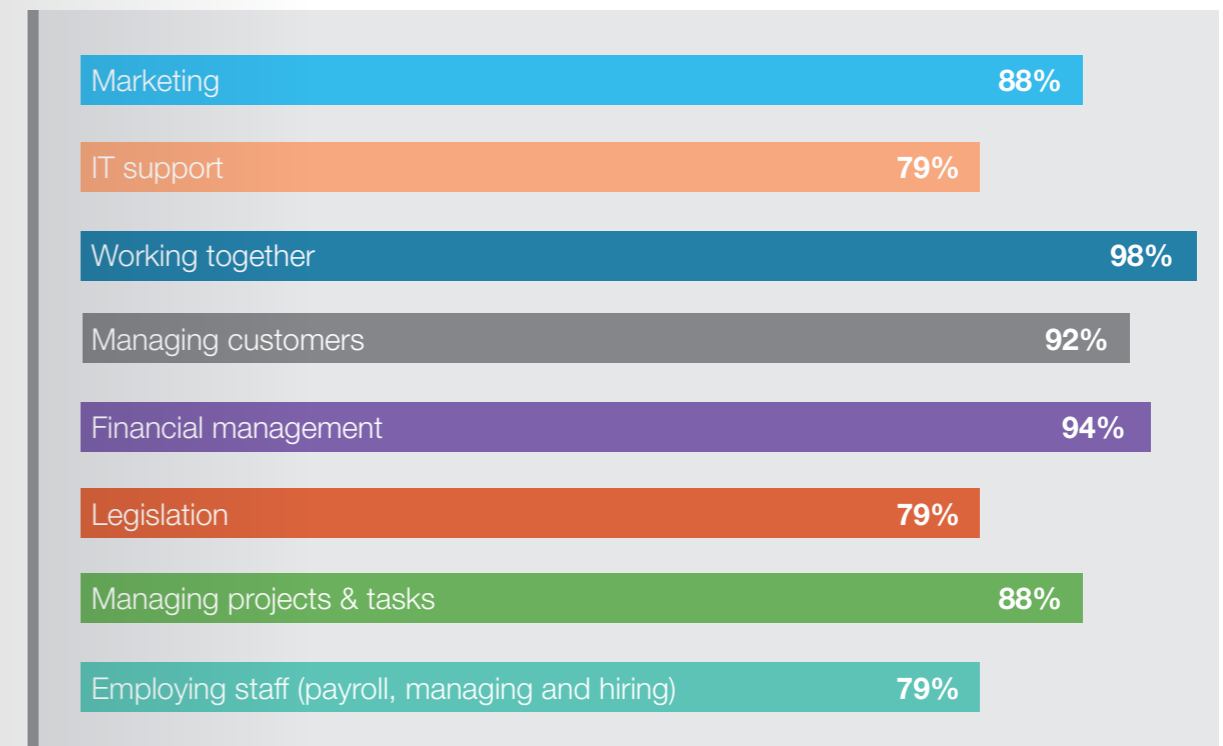
E.g. Scoping, scheduling and monitoring projects

Employing staff

E.g. Running a payroll and creating rotas

SMB activity in those categories

While the SMB sector is a diverse one, its businesses share many of the same needs. These are the areas where they will be looking for support.



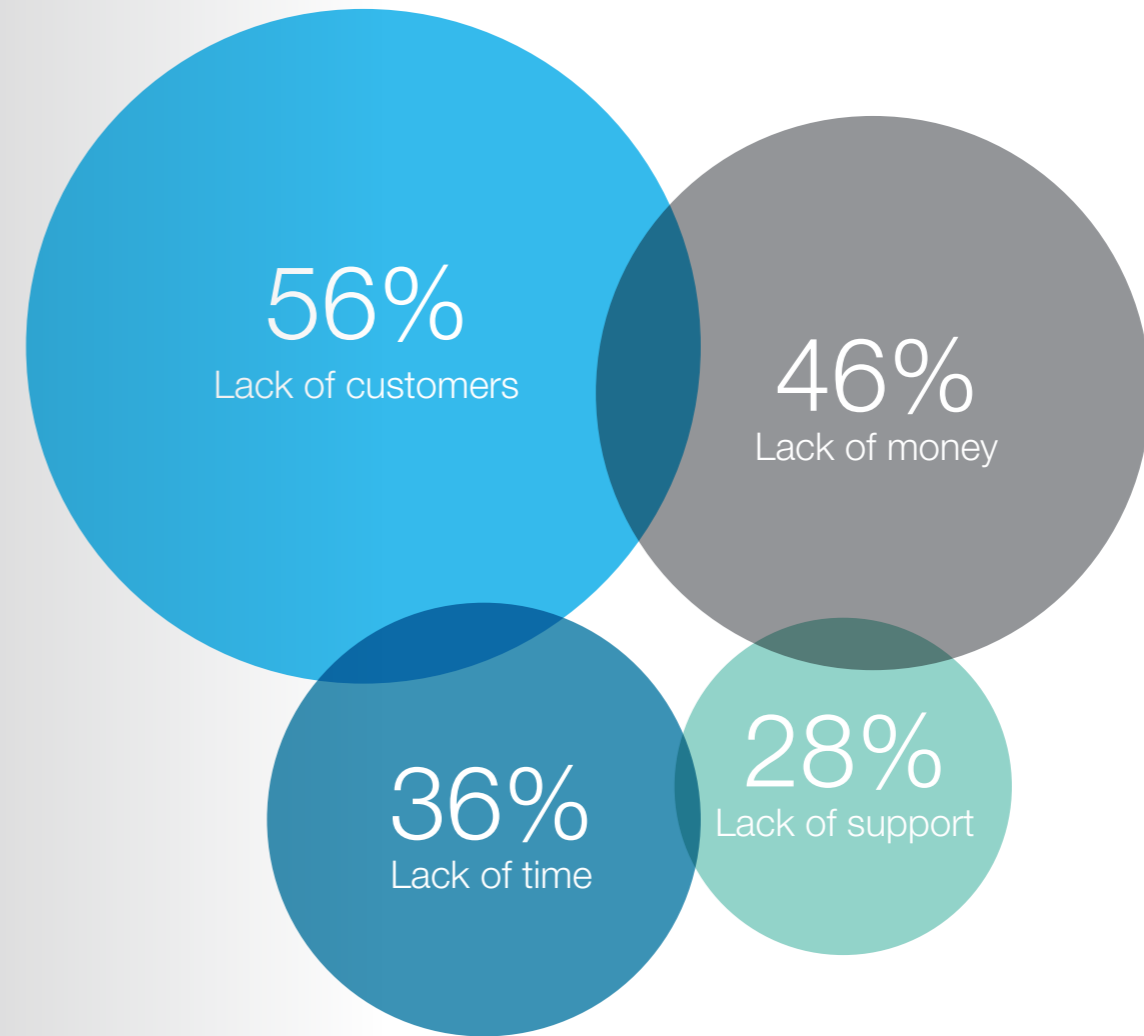
The challenges of running a small business

Access to the advice needed to succeed with a small business can be hard to find. In our first survey of SMBs in 2012, 70% considered themselves beginners in areas like financial management, marketing and HR when they first got started. Yet they're likely to be fulfilling all these roles, and more, as they work to build up a customer base and get money in the bank. Admin features high in their lives, too. And as a result, 66% are putting in more than 40 hours a week at work.

66% are putting in more than 40 hours a week at work



With so much to do, lack of time becomes a real risk to the success of their business, and of course it's not the only one. Others identified in our research were lack of customers, money and support.



It's these risks that technology can help to alleviate. For example, applications that can manage email campaigns or build and run websites not only remove the need for businesses to work with expensive agencies but also help them attract and hold on to customers. Similarly, getting a fast, up-to-date view of money coming in and going out can help a business stay on top of cash flow. And the flexible, access-anywhere nature of cloud services mean that businesses can make better use of time.

Rising levels of SMB adoption

Awareness of cloud services is growing in the small business community. Nearly two-thirds of those surveyed are already using at least one solution to help them run their business.

- **64%** of SMBs are already using cloud-based software
- The average number of applications in use is **3**

Most of these applications provide well-established services, like email, creating a website and accepting payment.

This situation looks likely to change, as consideration levels are high.

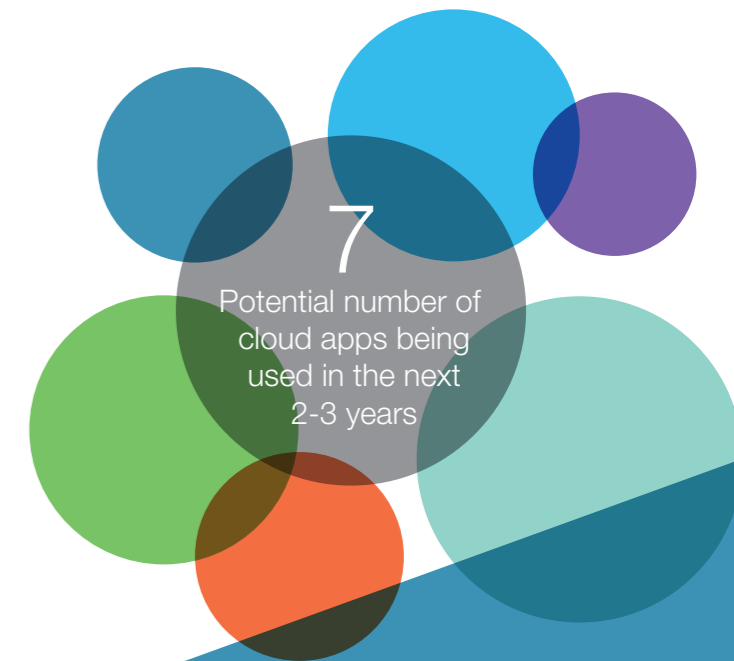
78% of businesses indicate that they are considering purchasing new solutions in the next 2-3 years creating the potential to move the average number of applications used to **7**, with **88%** consuming at least one service.

These levels of adoption create the opportunity for the total market for cloud-based software to grow by over **70%** by 2017.

Now



By 2017



64%
Already using cloud-based software

88%
Indicate they are considering using at least one cloud app in the next 2-3 years



A market moving to **maturity** by 2017

Our research indicates that the adoption of cloud services is expanding to include not just early adopters but the mass market, thanks to solutions that have broad-based appeal and a greater level of connectivity.

New applications are continually coming to the market and technological developments are steadily improving connectivity, which means we're likely to see businesses using more applications at every stage of their lifecycle.

With more applications being used, businesses will find it harder to manage access, subscriptions and support. As a result, they're likely to turn to application marketplaces, to centralise and simplify these tasks.

Better solutions

As competition intensifies and application providers continue to learn more about the support SMBs need and the ways they use software, their solutions will become ever more targeted, easy to use and effective. New services will continue to be introduced to support niche tasks, and consolidation will start to take place amongst the most competitive categories.

Where does the opportunity lie?

A more detailed look at the way businesses approach the following tasks highlights the areas that are likely to see a significant uptake of cloud services.

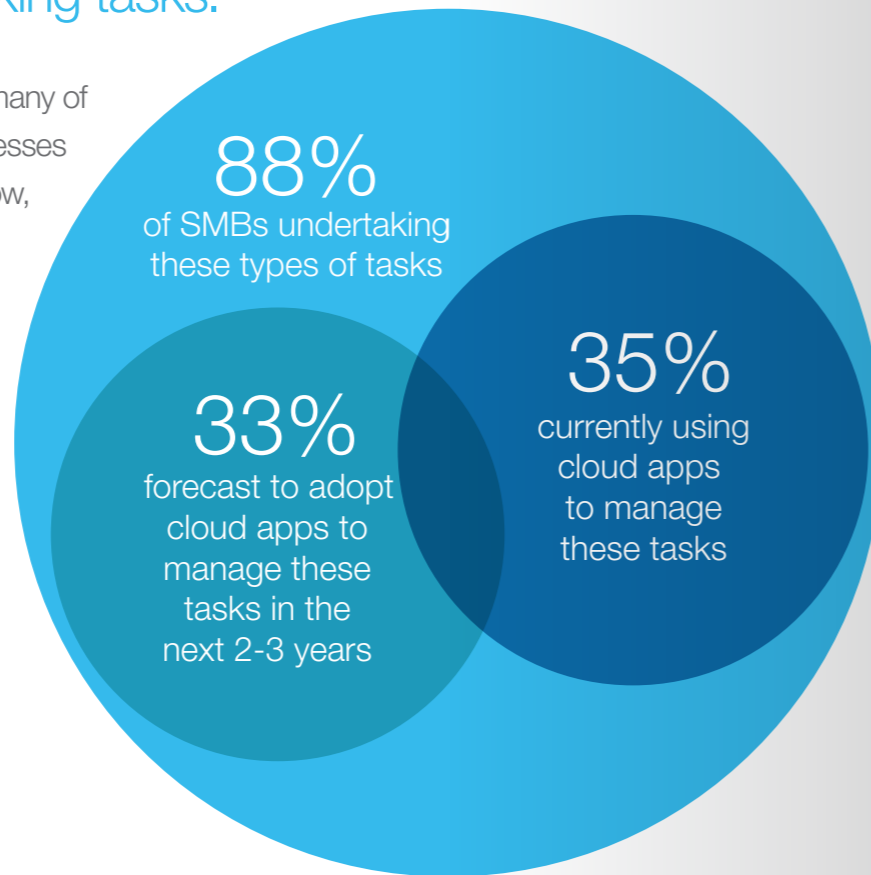
- Marketing
- Financial management
- Staff employment
- Legislation
- Working together
- Managing projects and tasks
- Managing customers
- IT support



Marketing

This is an area where 88% of small business are undertaking tasks.

It includes a broad range of tasks, many of which grow in importance as businesses become more established. Right now, software use is focused on website builds, but other solutions are increasingly popular. And a significant number of SMBs are considering using software to help support key tasks in the next three years, including bookings, directory management and email marketing.



The types of tasks involved

Directories:

Adding their company details to online directories like yell.co.uk and thomsonlocal.com.

PR:

Producing and publishing press releases and blogs and tracking PR activity.

Search engines:

Advertising on search engines like Google and Bing, to make sure their company can be found quickly and easily online.

Social media:

Managing social presences, creating campaigns, measuring their success and analysing their results, recording and scheduling all posts, for example.

Online sales:

Selling products or services online, which would include ordering and payment.

Bookings:

Taking customer appointments, reservations and payments.

Email marketing:

Compiling a contact list, creating email templates and sending professional-looking emails to customers.

Website:

Designing, developing and maintaining an online presence.

Research:

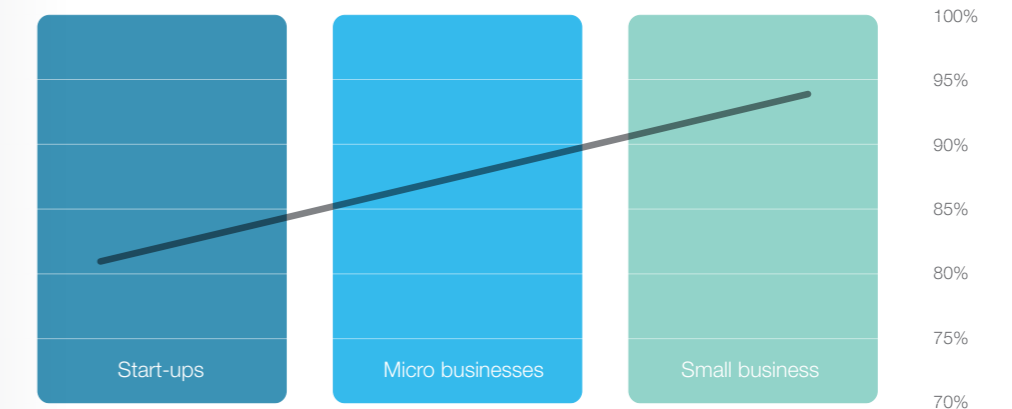
Getting to know customers and their needs, segmenting and targeting specific groups and getting customer feedback.

The most common activities are:

- Building and managing their own website
- Managing customer bookings
- Creating and scheduling email campaigns.

How this changes through the SMB lifecycle

This is a category that demonstrates a clear increase in activity as businesses move through the lifecycle stages, with engagement levels in most tasks rising as the business grows.

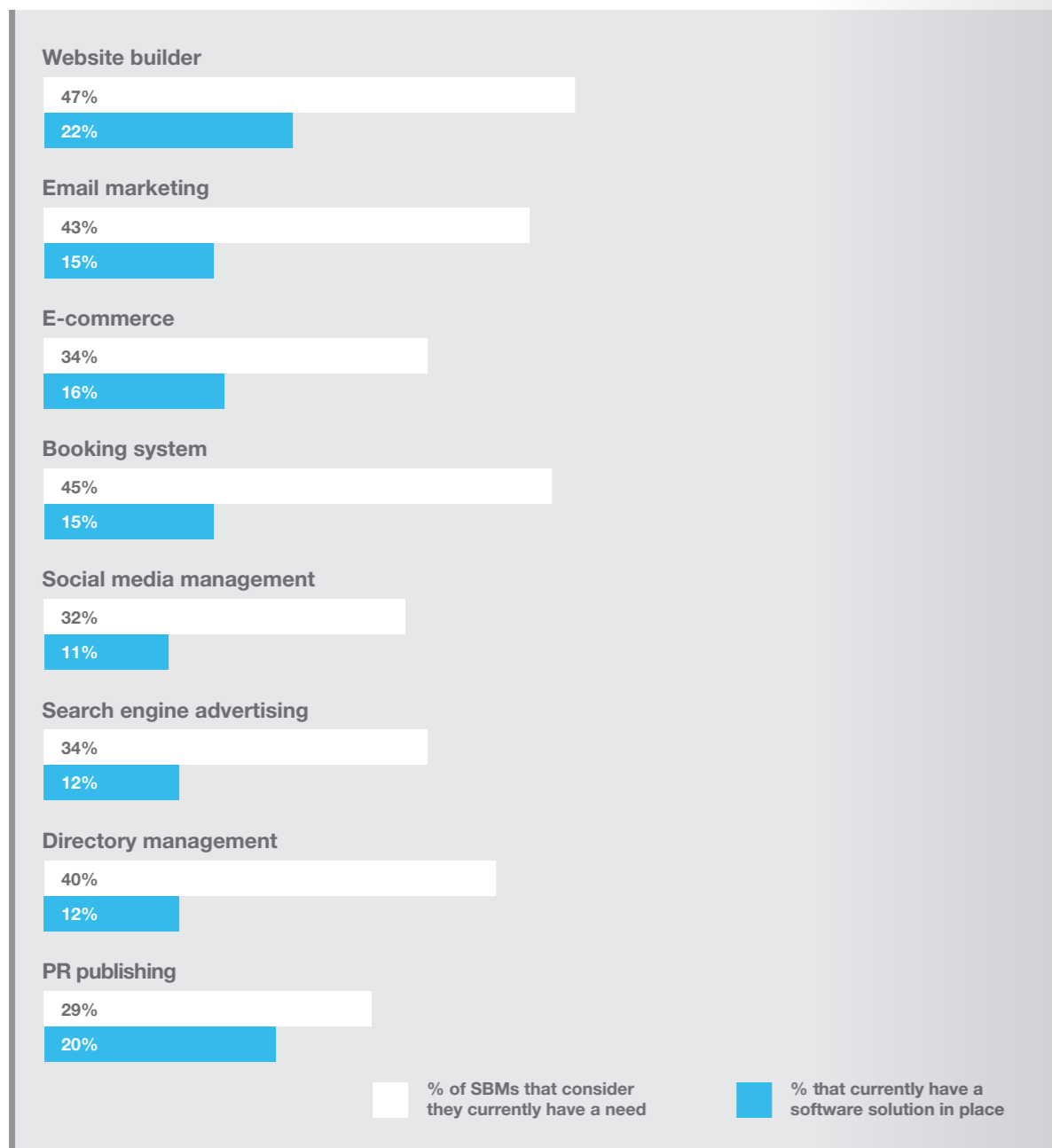


The tasks that become increasingly relevant over time are:

- Managing PR
- Running email campaigns.

How businesses are currently handling these tasks

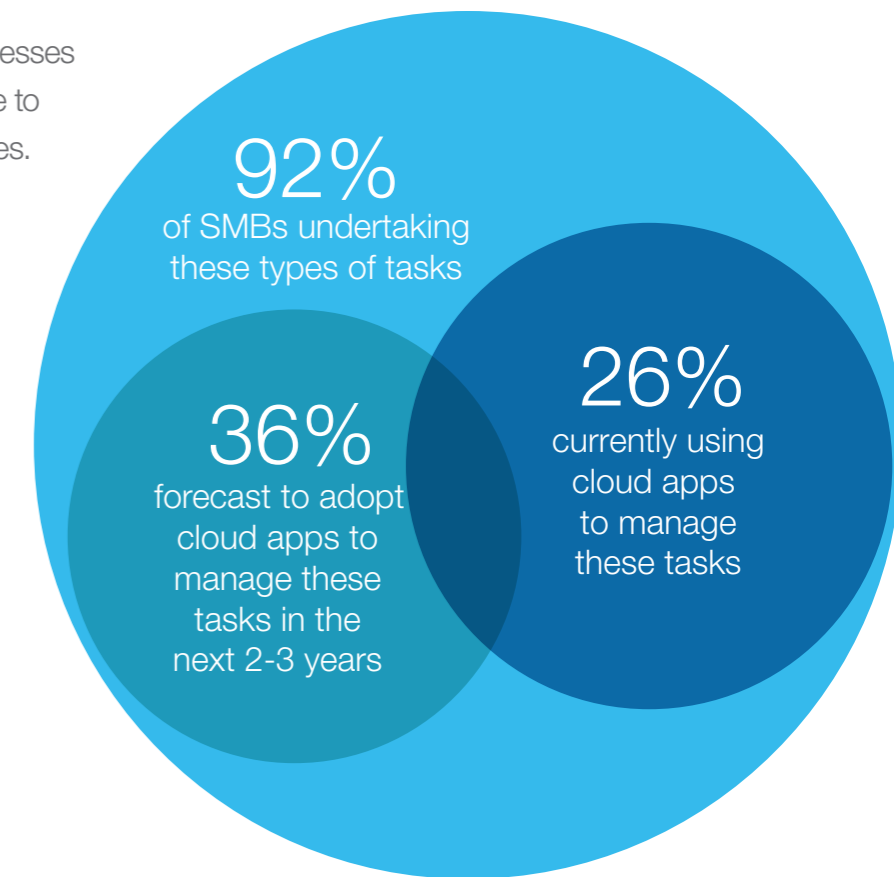
33% of SMBs not currently using software in this category are considering adopting it in the next 2-3 years. This represents a growth opportunity of 65%, with particularly strong growth in social media and customer service tools. The main applications include:



IT support

This is an area where over 9 out of 10 small businesses are undertaking tasks.

A good percentage of these businesses currently have applications in place to protect them from computer viruses. This is likely to continue growing. Data back up is also growing in importance. Bigger businesses are looking for more dedicated support, to help with more varied needs and complex systems.



The types of tasks involved

Data back-up:

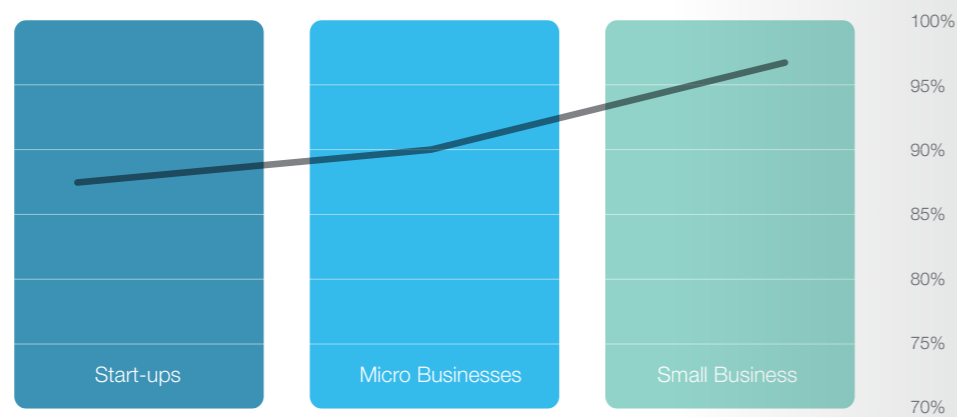
Making sure data is recoverable if systems crash, or hardware is lost or stolen.

Anti-virus:

Detecting, preventing and removing damaging software programs.

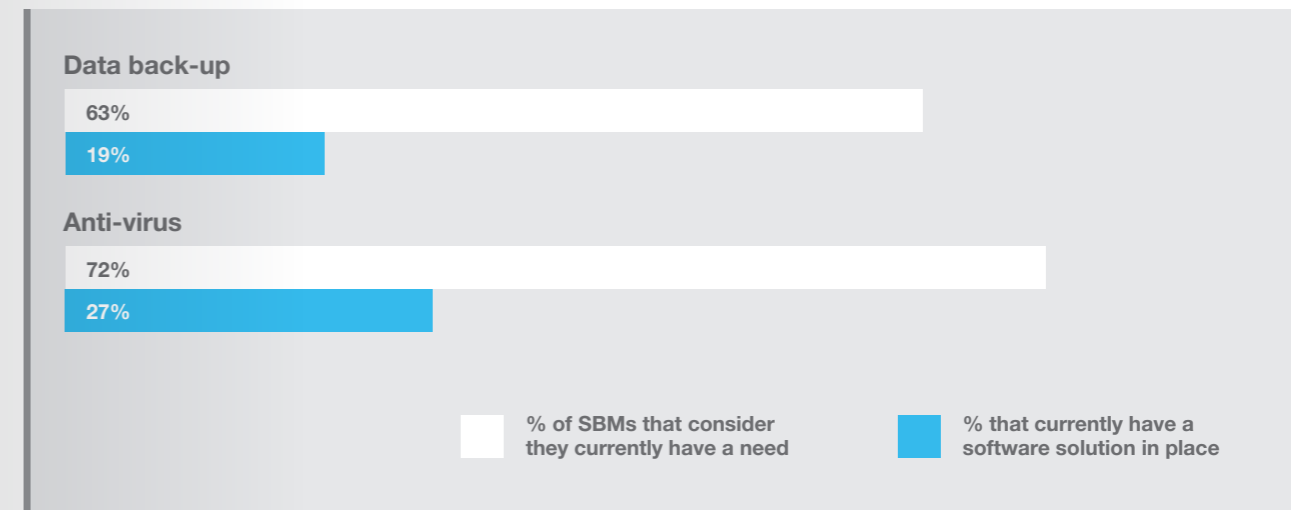
How this changes through the SMB lifecycle

IT is important to SMBs from start-up, but as they become bigger and more established their needs increase in complexity, making dedicated support more relevant.



How businesses are currently handling these tasks

30% of SMBs not currently using software in this category are considering adopting it in the next **2-3 years**. This represents a growth opportunity of **74%**, with particularly strong growth in data back-up tools. The main applications include:

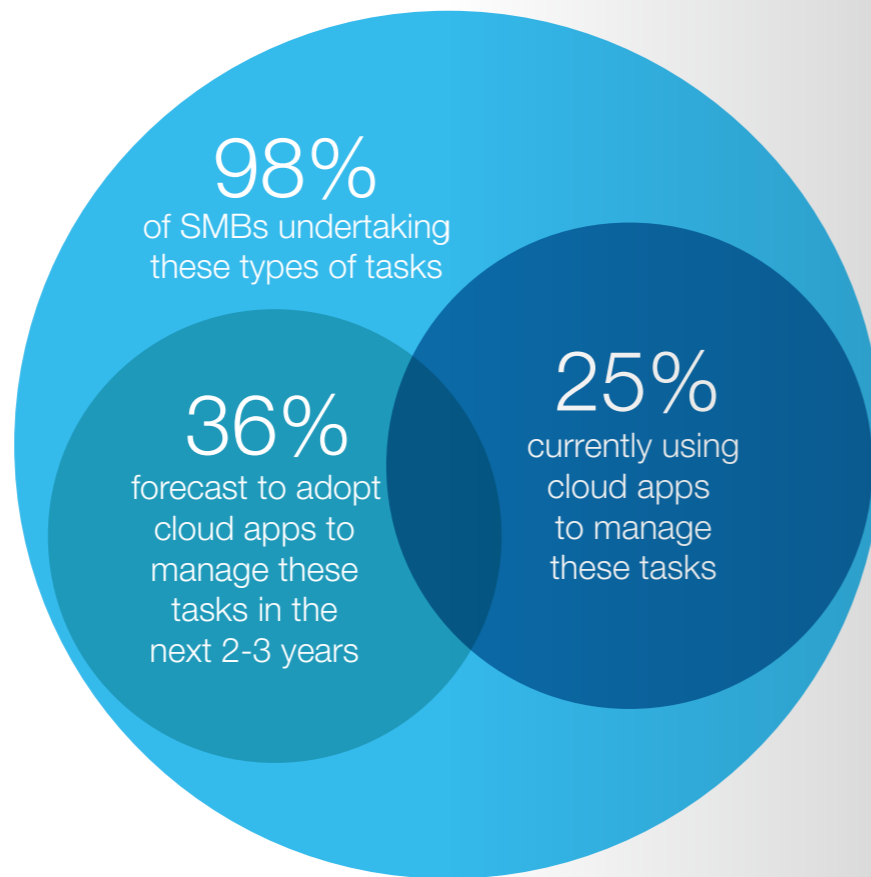


A significant proportion are putting data and processes at risk by not having solutions in place.

Working together

This is an area where nearly 10 out of 10 small businesses are undertaking tasks.

Collaboration grows in importance as businesses grow, and take on staff. Email is of course an essential tool for working together and over half of businesses have moved over to hosted email applications. File sharing is likely to be increasingly supported by software in the next three years.



The types of tasks involved

Email:

Sending and receiving email using a company domain name, archiving emails, sharing calendars and contacts.

Sharing files:

Working on the same files, accessing them from anywhere, then synchronising files so everyone can see the latest versions.

Communication:

Using web, video or phone conferencing.

Document collaboration:

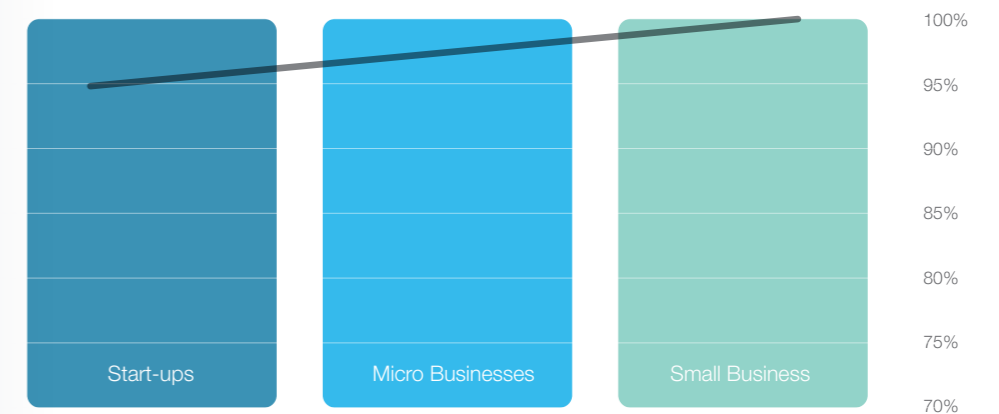
Working on the same files and leaving comments for other users to see.

The most common activities are:

- Using email
- Sharing files with others.

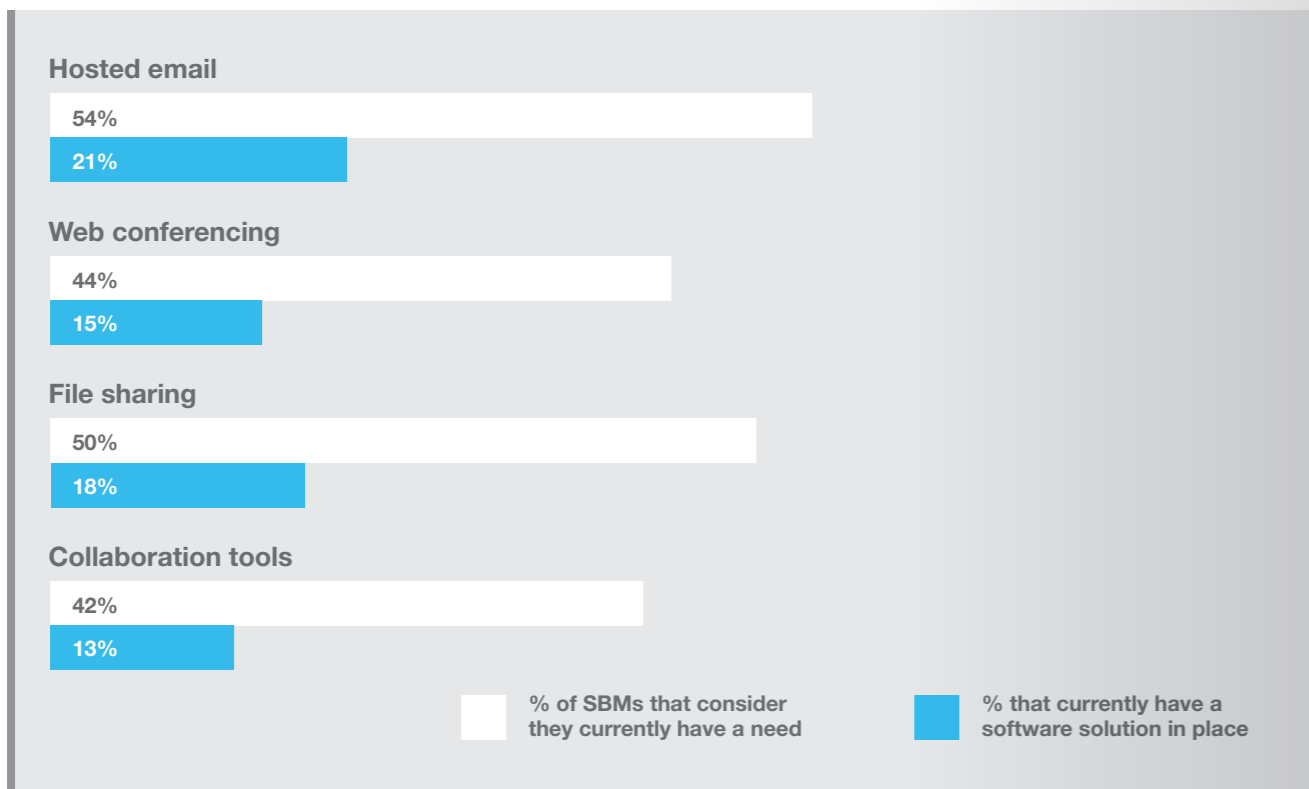
How this changes through the SMB lifecycle

The importance of working together rises as a business's staff numbers grow. The tasks that show a significant rise in engagement are hosted email and sharing files.



How businesses are currently handling these tasks

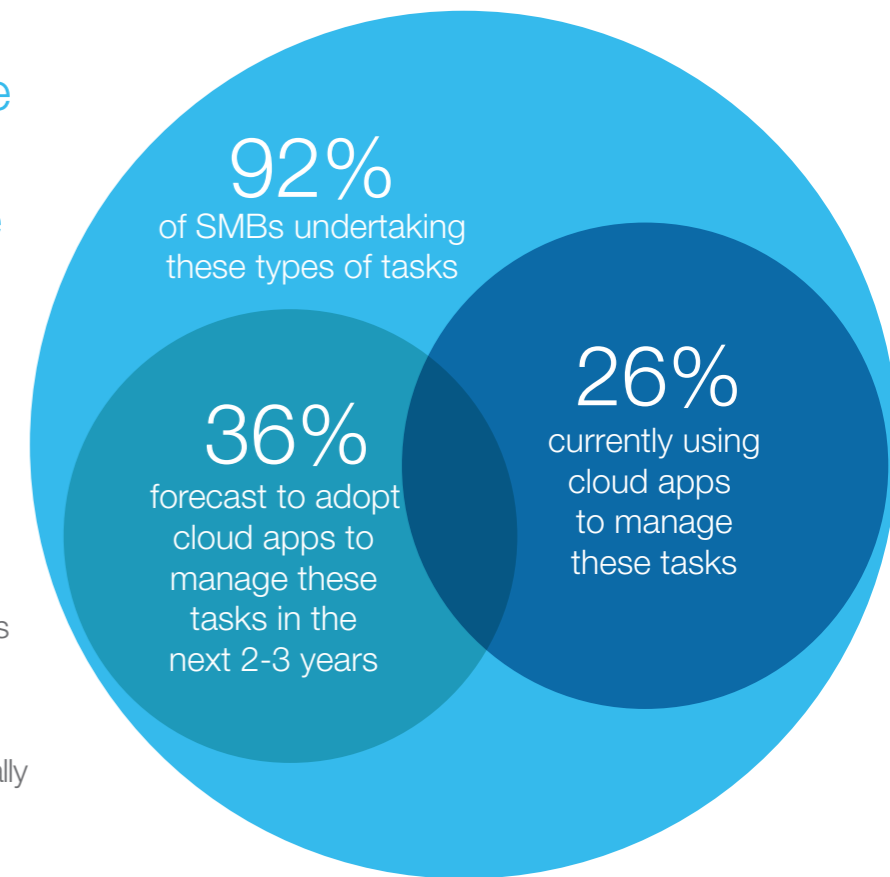
36% of SMBs not currently using software in this category are considering adopting it in the next 2-3 years. This represents a growth opportunity of 64%, with particularly strong growth in file sharing and communication tools. The main applications include:



Managing customers

This is an area where over 9 out of 10 small businesses are undertaking tasks.

Customers are important to businesses from their earliest days. However it's currently the more established businesses that are using software to support activities in this area. But this status quo is likely to change in the next three years, with a high number of SMBs looking for support, especially with CRM systems.



The types of tasks involved

Managing leads:

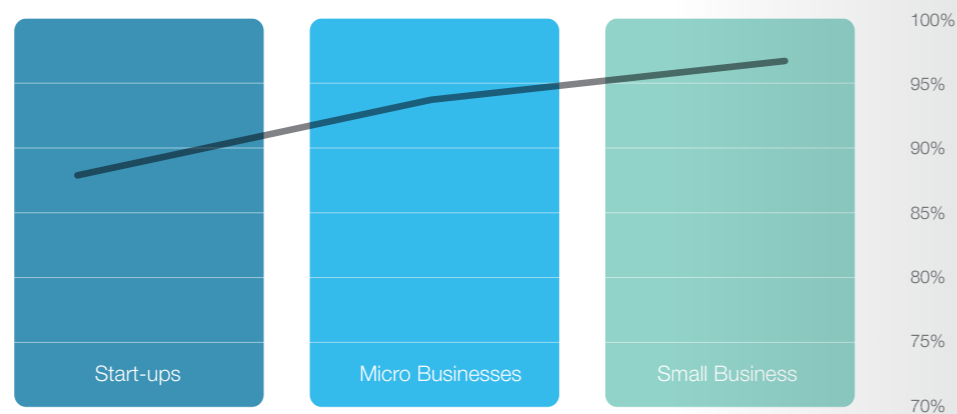
Recording new contacts, scheduling follow-up tasks, tracking customer statuses.

Managing customer relations:

Dealing with customer enquiries and complaints, keeping customers engaged.

How this changes through the SMB lifecycle

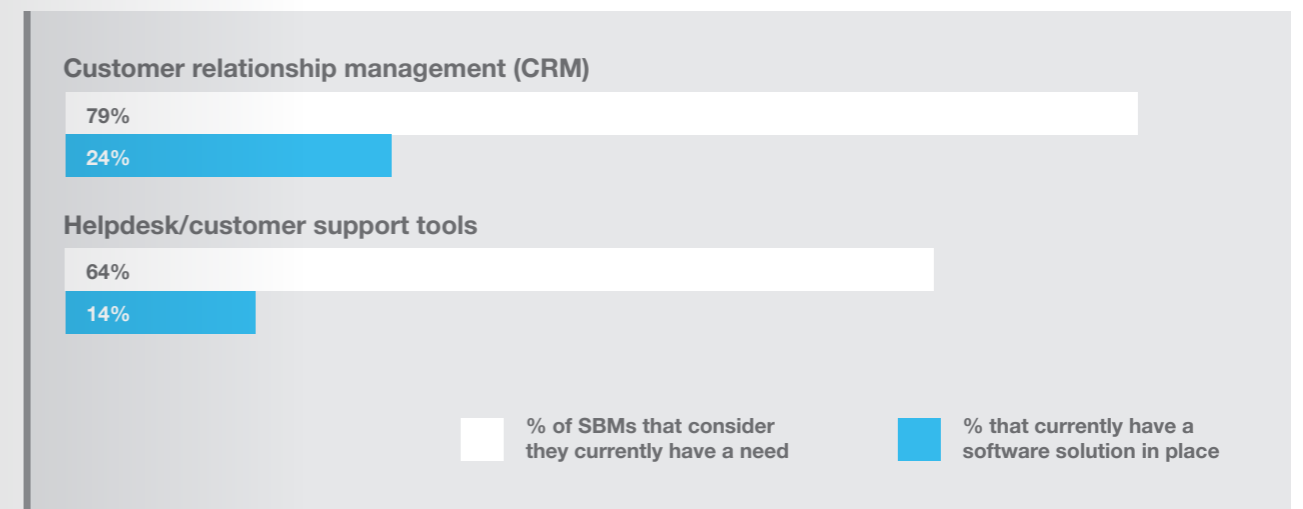
Customers are important to small businesses from the earliest stages of the lifecycle. Once a business has got off the ground and is trading it needs to coordinate all activities associated with finding new and managing existing customers.



How businesses are currently handling these tasks

36% of SMBs not currently using software in this category are considering adopting it in the next **2-3 years**. This represents a growth opportunity of **64%**, with particularly strong growth in CRM tools.

The main applications include:

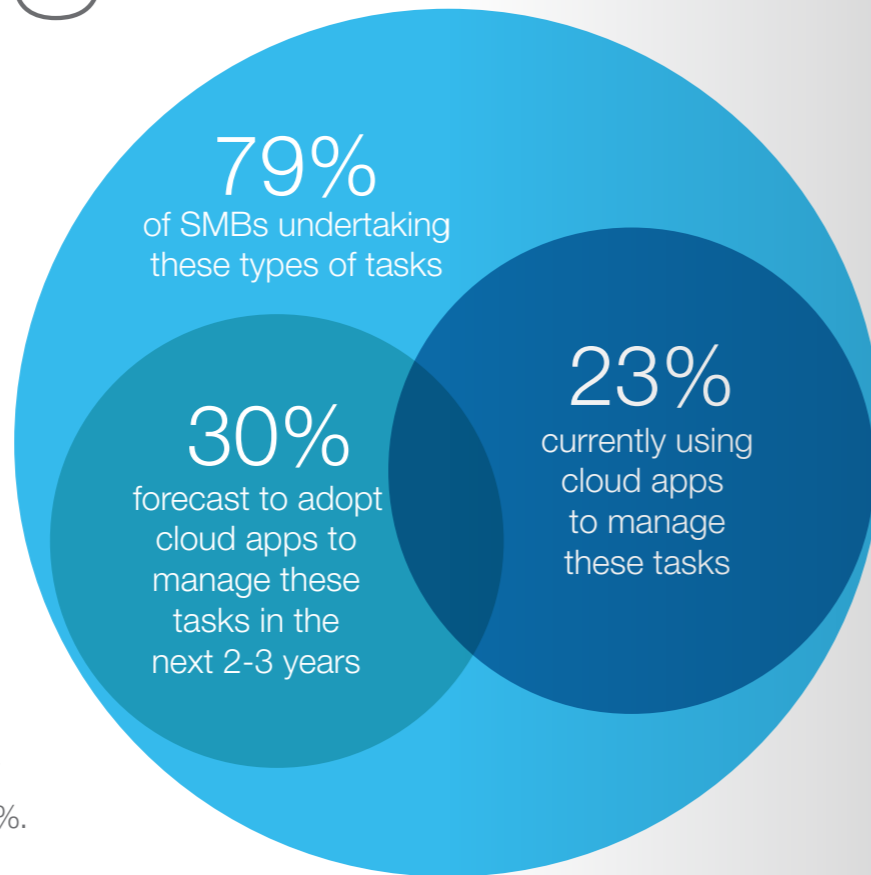


The research shows that it's the most established small businesses that are using these tools, with others reliant on spreadsheets, filing systems and manual record keeping.

Financial management

This is an area where nearly 8 out of 10 small businesses are undertaking tasks.

Small business engagement in this category is consistently high at all stages of the lifecycle. And software use is growing. Nearly a third of these businesses are already using applications to manage bookkeeping tasks (29%), for example. Other solutions are gaining traction, giving this category a sizeable growth opportunity of 75%.



The types of tasks involved

Forecasting cash flow:

Calculating their cash position, knowing who needs paying and what is owed.

Invoicing:

Creating invoice templates, adding customer details, sending invoices.

Tracking performance:

Producing balance sheet and profit and loss reports, income and cost breakdowns and cash flow statements.

Credit management:

Understanding a customer's credit risk, setting out conditions and credit limits, issuing invoice reminders and recovering debt.

Managing tax returns:

Calculating income tax, filing income tax returns.

Recording expenses:

Reporting and tracking expenses, receipts and bills.

Business planning:

Setting a strategy, describing the business and vision.

Managing VAT:

Producing reports and filing returns.

Filing financial statements:

Keeping company records, auditing accounts and filing statements.

Taking payments:

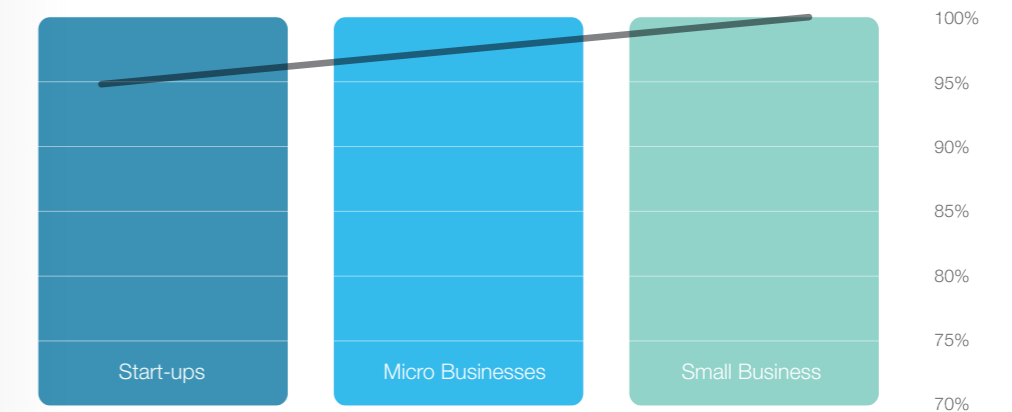
Using a till, e/PDQ, or direct debits.

The most common activities are:

- Recording business expenses
- Issuing invoices to customers and clients
- Taking payments.

How this changes through the SMB lifecycle

Financial management is important right from the start of a business lifecycle, which is demonstrated by the consistent levels of engagement shown at every stage.



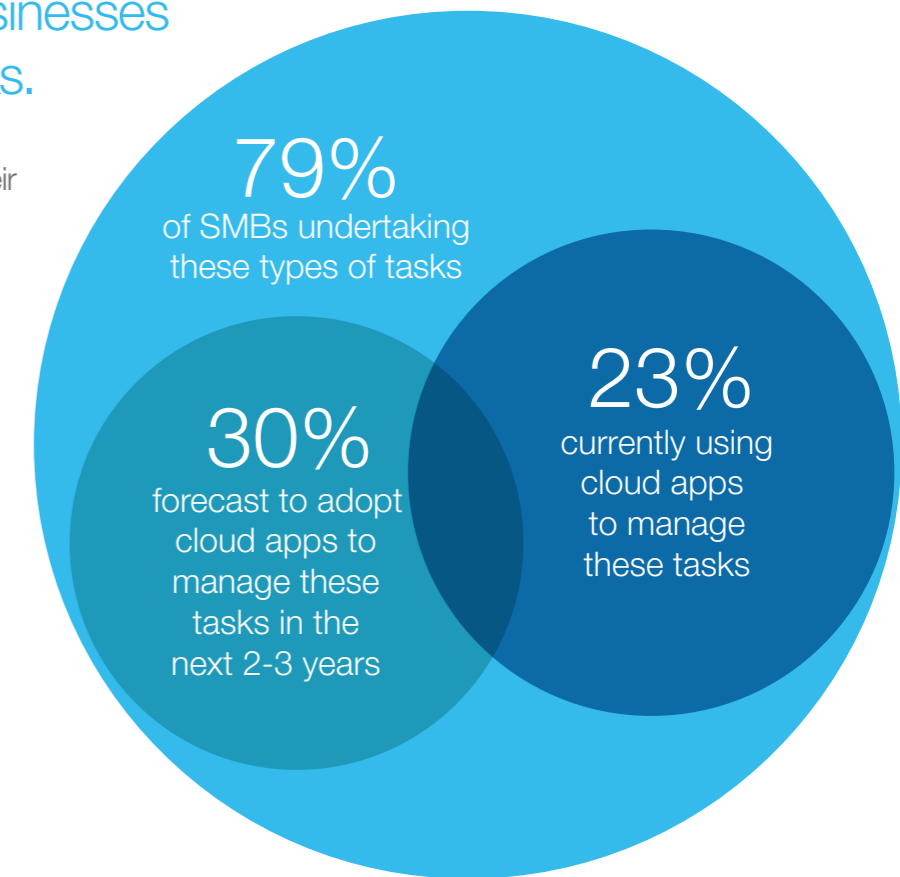
However there are some activities that become increasingly significant as a business's turnover grows, as shown below.

- Managing VAT
- Business planning
- Credit management.

Legislation

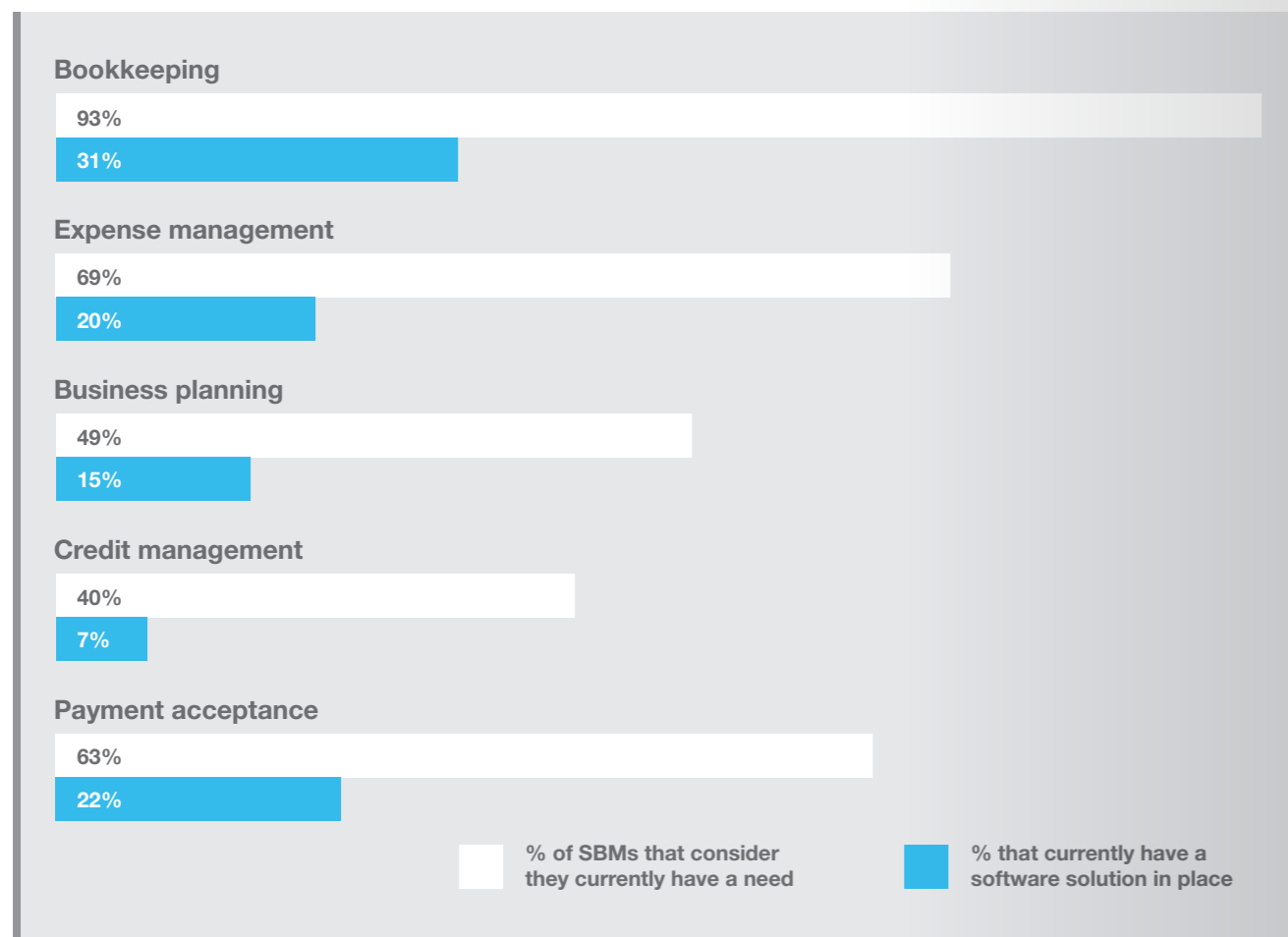
This is an area where nearly 8 out of 10 small businesses are undertaking tasks.

As businesses mature through their lifecycle, they're more likely to look for support with legislation. Right now a small number have discovered that this help is available through software solutions. However consideration is high, giving this area a growth opportunity of 102%.



How businesses are currently handling these tasks

30% of SMBs not currently using software in this category are considering adopting it in the next 2-3 years. This represents a growth opportunity of 60%, with particularly strong growth in bookkeeping and expense management tools. The main applications include:



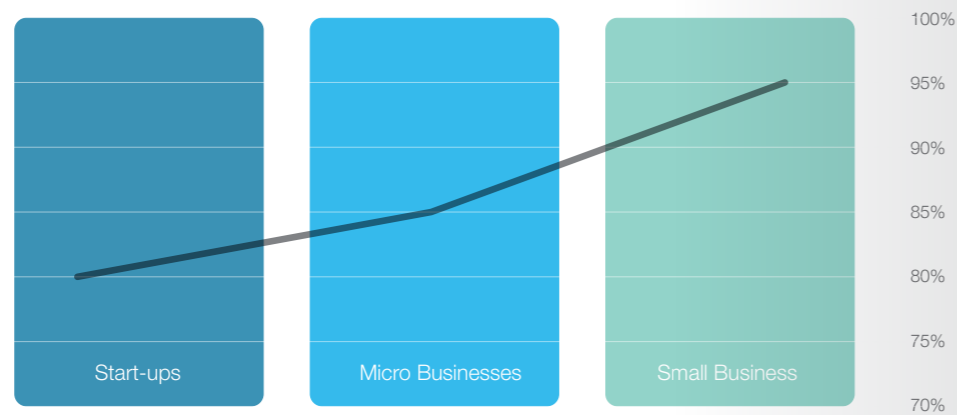
A significant number of SMBs clearly remain reliant on spreadsheets, complex filing systems and manual record keeping. These are both time-consuming and risky.

The types of tasks involved

- Complying with employment legislation:** Creating a health and safety policy, generating staff handbooks, drawing up employment contracts.
- Stay legally compliant:** Producing legal documents including contracts and terms and conditions, generating legal templates, putting processes and procedures in place.
- Understanding company legislation:** Receiving updates on changes that need to be considered, obtaining legal guidance.

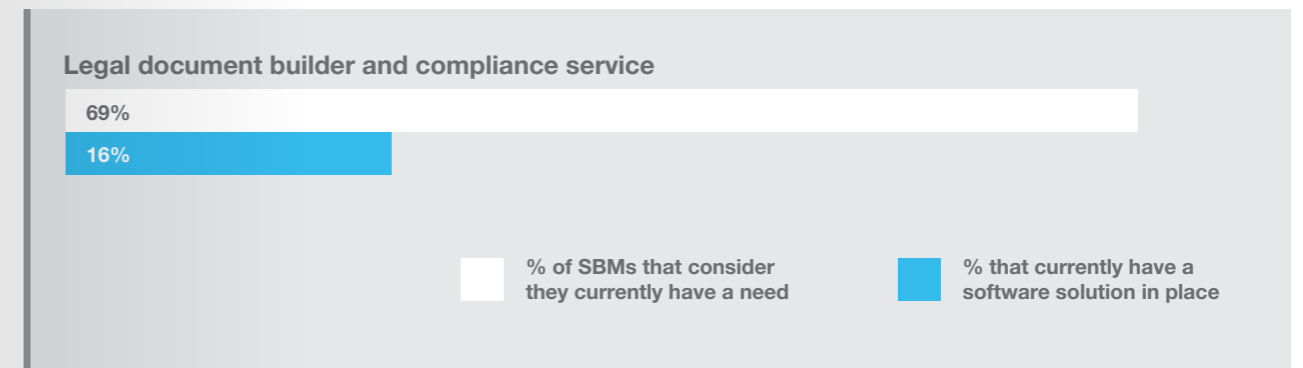
How this changes through the SMB lifecycle

Small businesses place increasing importance on legislation as they become more established. In the days of starting up their focus is on getting basic operational elements in place. As businesses mature their awareness grows, both of the legislation and its associated risks, which directs their attention to compliance.



How businesses are currently handling these tasks

30% of SMBs not currently using software in this category are considering adopting it in the next **2-3 years**. This represents a growth opportunity of **76%**. The main application is:

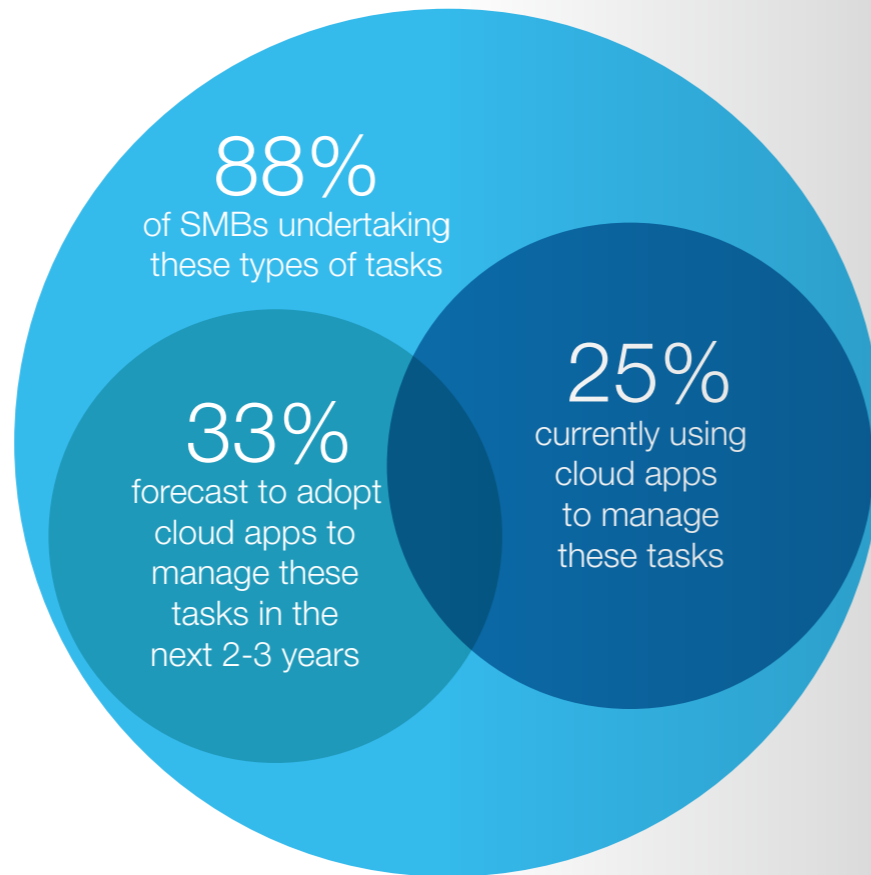


A legal document builder gives businesses the documentation they need and keeps them up to date with changes in legislation. Those without software will be reliant on potentially costly advice from solicitors.

Managing projects & tasks

This is an area where nearly 9 out of 10 small businesses are undertaking tasks.

The management of people, projects and everyday tasks all fall into this category. These activities can be very specific to business type, although involvement does typically rise as a business grows. Around 14% of businesses are currently using software in this category but consideration is high, especially for project and workforce management applications.



The types of tasks involved

Project management:

Planning and managing the completion of tasks, monitoring a schedule and budget, costing and quoting for tasks.

Coordinating people and jobs:

Planning and managing jobs, coordinating staff, tracking time.

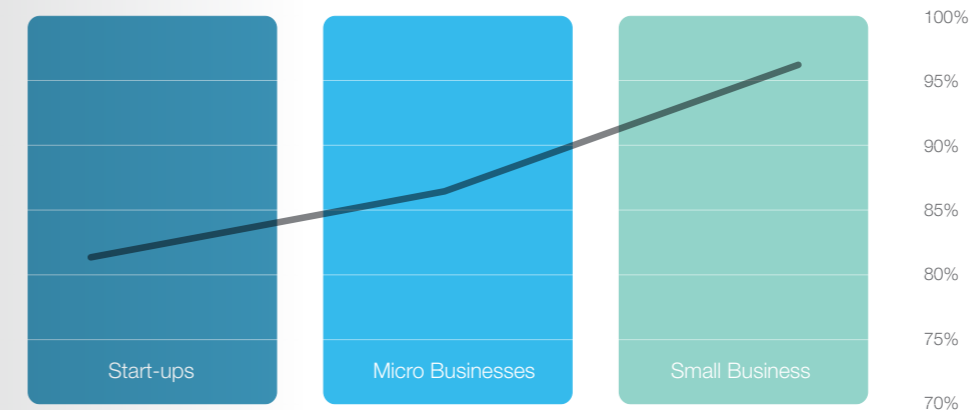
Knowledge management:

Sharing knowledge and information internally, collaborating as a team.

How this changes through the SMB lifecycle

As a business gets bigger and employs more staff, coordination and knowledge management become more important. There's a big jump in engagement in these activities with businesses turning over £500,000 plus.

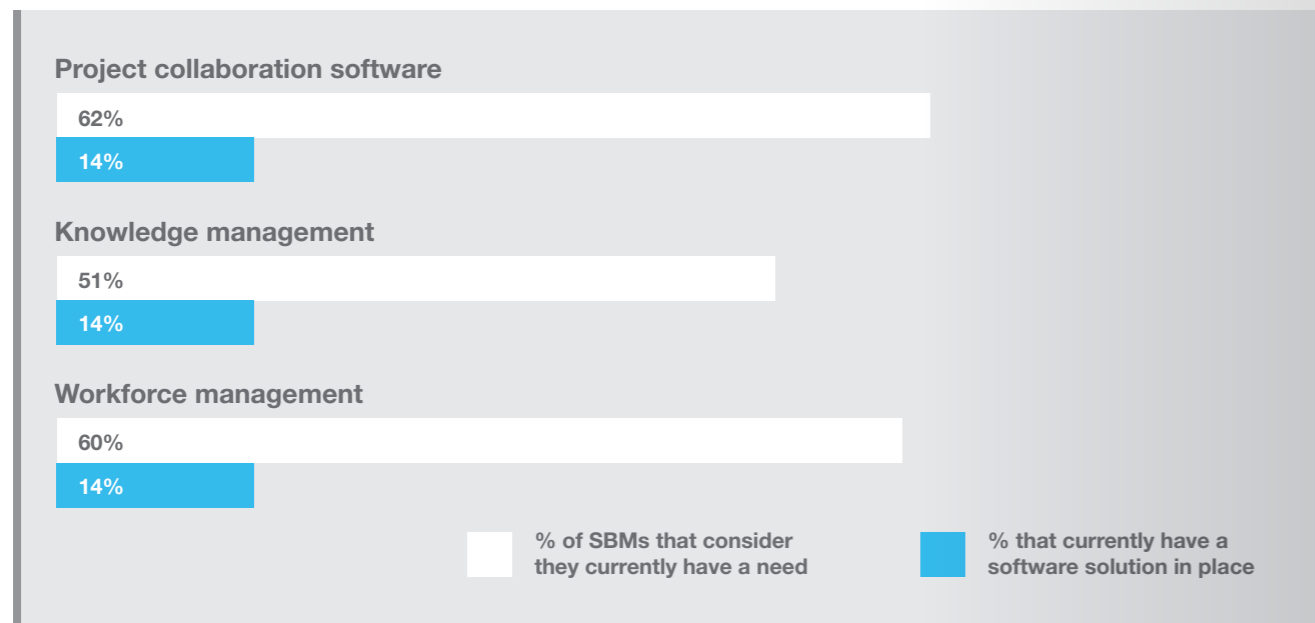
Project management stays relatively flat across the lifecycle, highlighting how this is an activity that's specific to business type, rather than lifestage.



Employing staff

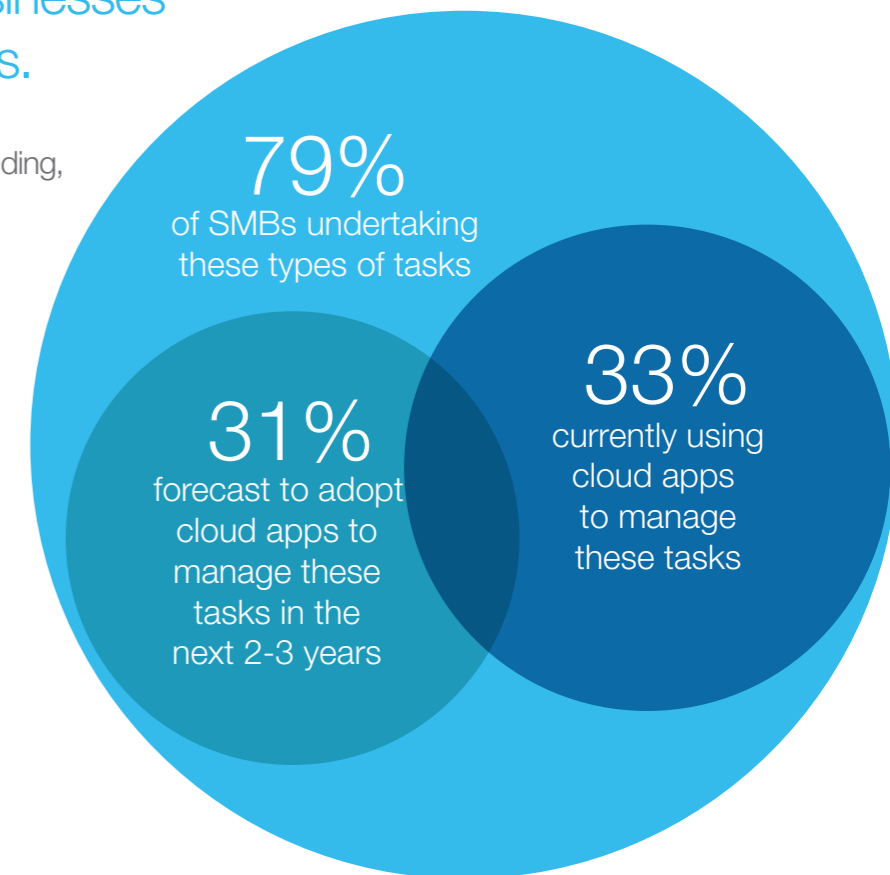
How businesses are currently handling these tasks

33% of SMBs not currently using software in this category are considering adopting it in the next 2-3 years. This represents a growth opportunity of 64%, with particularly strong growth in project collaboration tools. The main applications include:



This is an area where nearly 8 out of 10 small businesses are undertaking tasks.

Tasks in this category centre on finding, managing and paying staff. The businesses involved are likely to be established, with a turnover high enough to be hiring. Payroll is the activity where software is currently most in use. However all tasks will see a rise in software adoption of 31% within the next three years.



The types of tasks involved

Recruiting employees:

Advertising the role, identifying a suitable candidate and offering the job.

Paying employees:

Running payroll, submitting information to HMRC, making PAYE payments,

Managing employee:

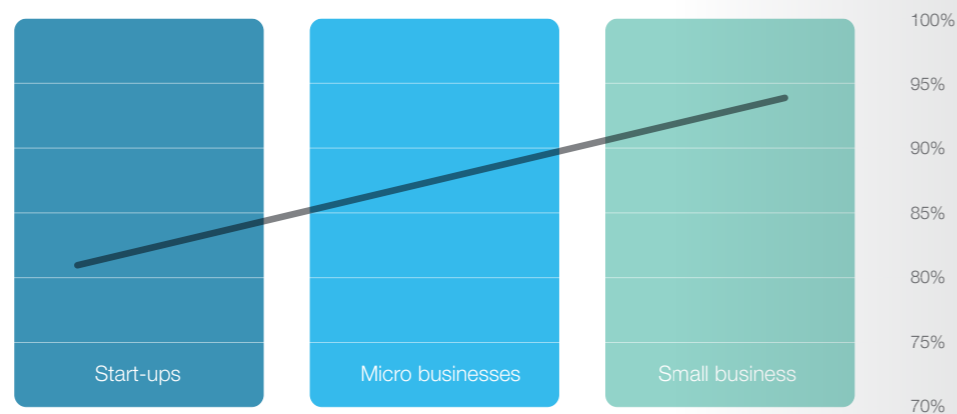
Keeping employment files, carrying out appraisals and training, creating rotas and schedules, recording holidays.

The most common activities are:

- Managing employees
- Paying employees.

How this changes through the SMB lifecycle

SMBs become increasingly engaged in these activities as they grow larger and more established. Some tasks, like payroll, are still relevant to start-ups, whose owners pay themselves salaries.



How businesses are currently handling these tasks

31% of SMBs not currently using software in this category are considering adopting it in the next **2-3 years**. This represents a growth opportunity of **62%**, with particularly strong growth in recruiting and performance appraisal tools. The main applications include:



It's clear that many SMBs are still reliant on paper files for managing staff, outsourced providers for payment, and local press or agencies for recruitment.

Harnessing these opportunities

The current market might be described as one characterized by early adoption. The very small number of SMBs that have more than five applications in place are potentially at ease with assembling their own toolkit of software solutions. But as we move into mass market adoption for cloud services, small businesses will want simpler and easier access to a set of solutions that clearly address their needs.

Relevance is key. The most popular applications in the future will be those that help with common tasks and activities. These types of solution are already showing solid rates of consideration. They can also form the basis of a strong cloud service proposition: one that delivers what customers need, while aligning to the brand in question.

Established brands have a clear role to play in offering cloud-based services to SMBs. They can:

- Find the most appropriate solutions for SMB needs
- Put together a marketplace that's well-curated and easy to use
- Offer the reassurance that these solutions have been quality checked.

Small businesses have told us that they are 45% more likely to consider cloud services if a big, established organisation is involved.

And by getting involved, brands can become known as the 'go-to' organisation for this kind of support. That then opens up many more opportunities.



Small businesses have told us that they are **45% more likely** to consider cloud services if a big, **established organisation** was involved

BCSG builds and runs business application marketplaces for leading brands.

Our partnerships with leading brands provide a reach to millions of small businesses worldwide.

Speak to us to see how we help large brands change the way in which they engage their small business customers, to grasp the opportunities available and support them in their success.

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