

REPORT

Small Business, Big Opportunity?

*A global study of over 13,000 SMB
decision makers on their long-term
outlook for the future.*





The past couple of years have been a testing time for everyone; in particular, the small and mid-sized businesses (SMBs) that we serve.

Yet when I've spoken to customers around the world, the optimism and resilience they've displayed in the face of significant challenges has been incredibly inspiring.

It's no surprise to me that Sage's **'Small Business, Big Opportunity?'** report highlights that the pandemic has changed SMBs for good. They have emerged tougher and ready to face the future. 65% of SMBs globally are optimistic about the success of their business right now, rising to 69% when thinking about their business in 12 months' time, while the majority say that their business coped with the barriers they faced well (59%).

But their optimism and resilience must not be mistaken for invincibility. With world leaders and economists turning their attention from COVID to rising costs of living, SMBs' fight to keep their heads above water is by no means over. Over the next few months, we are likely to see many forced to choose between protecting people and protecting profits.

Our purpose at Sage is to knock down barriers so that everyone can thrive. The goal of this study is to listen to our customers and use the insights to ensure that we are playing our part to help SMBs navigate what's ahead.

We want to use our voice to highlight the obstacles facing SMBs and call on governments to keep them at the forefront of decision-making as we enter another difficult period. Otherwise, we risk losing the significant momentum we have made towards global economic recovery.

— Steve Hare, CEO, Sage

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Overview

Our world faces increasingly difficult and intertwined public health, economic, societal and environmental challenges. The barriers created by these multiple crises, especially the COVID-19 pandemic, have fallen disproportionately on small and mid-sized businesses (SMBs) – all while they account for over two billion jobs worldwide (over two-thirds) \$44 trillion (over half of global GDP)¹.

Sage is a global leader in accounting, financial, HR and payroll technology for SMBs. We believe that these businesses have the power to enable more people and communities to thrive. Our purpose is to knock down the barriers that stand in their way, removing friction and delivering insights.

That's why we launched the largest global study of its kind into SMB long-term perceptions, surveying over 13,000 SMBs in markets across the world, to understand their experiences in the past 12 months and their outlook for the future.

See page 22 for further details on methodology.

We found that:

- **The pandemic has brought about dramatic changes for how SMBs do business globally, many of which are here to stay.** Despite widespread crises, the changes SMBs made during the pandemic have set many up for stronger growth in 2022 and beyond. A clear majority of SMBs globally feel more resilient and better prepared to overcome major barriers now than before the pandemic.
- **These changes have been made in the face of strong headwinds, which many SMBs expect to continue in the next year.** Over a third of SMBs still say that they have not been able to operate their business as normal due to the pandemic and 9% of SMBs report financial outlooks which put them at risk of going out of business. Going forward, SMBs are particularly concerned about the challenge of inflation.
- **SMBs are a critical engine for overcoming global economic problems.** Even with the pandemic still raging, there are green shoots of optimism in every market. Large majorities of SMBs are optimistic about the long-term success of their business, their ability to hire, and strong financial growth for the years ahead.
- The majority of SMBs believe that the aftermath of the pandemic can be an opportunity to **promote more sustainable development** in their countries and local communities. They are committed to embedding these values in their own businesses.
- **COVID has unleashed a new generation of entrepreneurs.** While they report facing greater challenges in starting up, they are also more optimistic than other SMBs about overcoming them and could hire millions of new employees by the end of 2022 and potentially generate hundreds of billions of pounds in new revenue.

¹ International Labour Organisation Report, The Power of Small, https://www.ilo.org/infostories/en-GB/Stories/Employment_SMEs#engines

This study has uncovered the diversity of experiences SMBs have faced in the past 12 months. Four segments stood out of this survey²:

- The Adaptors (27%): emerging out of the pandemic stronger with optimism. We've uncovered the five changes they've made to stay ahead.
- Generation COVID (14%): founded during the pandemic. Facing significant barriers but more confident of overcoming them.
- Resilient (18%): hit hard by the pandemic and are cautious about business' future.
- Left Behind (9%): struggling to keep their heads above water and in need of support.

(For more details on the above, please turn to page 14)

Our findings in four numbers...

Over **one-third** of SMBs are still not operating normally due to the pandemic

9% of SMBs are 'left behind' and are at serious risk of going out of business in the coming months

Yet, **69%** of SMBs feel confident that their business will be successful in 12 months' time.

Five key changes are setting Adaptor SMBs up for success

² Note: these segments are not mutually exclusive.

Big barriers remain in the way of SMBs succeeding

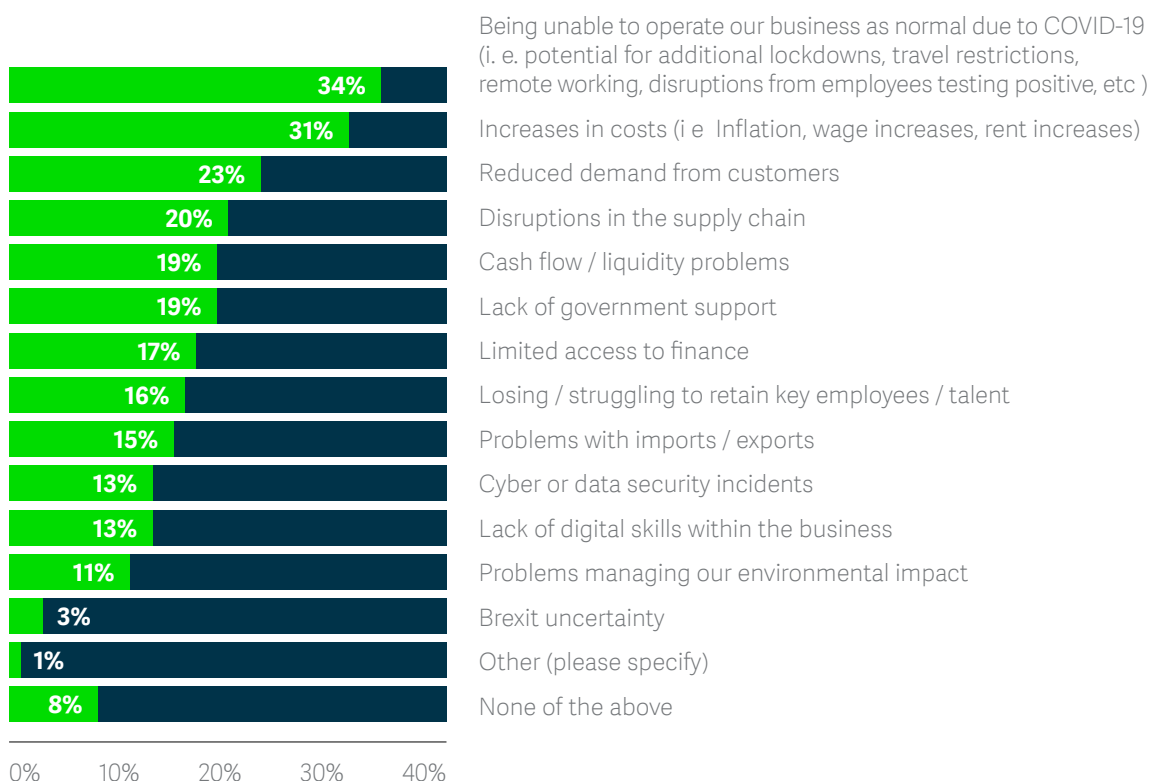
Globally, SMB decision makers report facing multiple critical barriers in the past 12 months because of the pandemic. One in ten SMBs report financial outlooks which put them at risk of going out of business, and most of these businesses note their barriers increasing – not decreasing – in size.

Despite COVID restrictions changing throughout the year and varying dramatically by market, over a third of SMBs still say that they have not been able to operate their business as normal due to the pandemic.

Against this background, SMBs are particularly concerned about the new challenge of inflation, where significant numbers worry it could persist and worsen into the year ahead.

Biggest barriers facing SMBs

What barriers, if any, are most negatively impacting your business today?

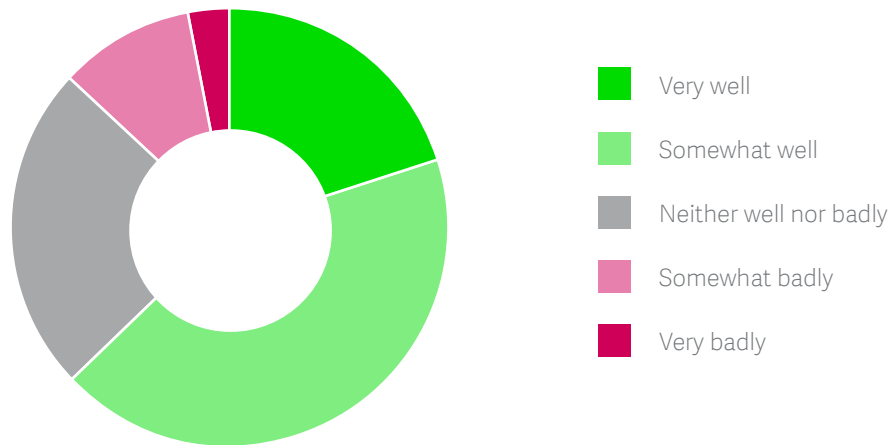


- SMBs have faced many barriers in the past year and a significant proportion worry that these could persist into the year ahead. COVID-19 has had a negative impact on SMBs globally and it continues to be the primary barrier for the year ahead, highlighting the uncertainty many face. Another key area negatively impacting the confidence of SMBs is an increase in costs, with many expressing concerns that increased costs due to things like inflation or rent will not get better.

A majority of SMBs say that they are coping well

Coping well

Overall, how well or not would you say that your business is currently coping with these barriers?

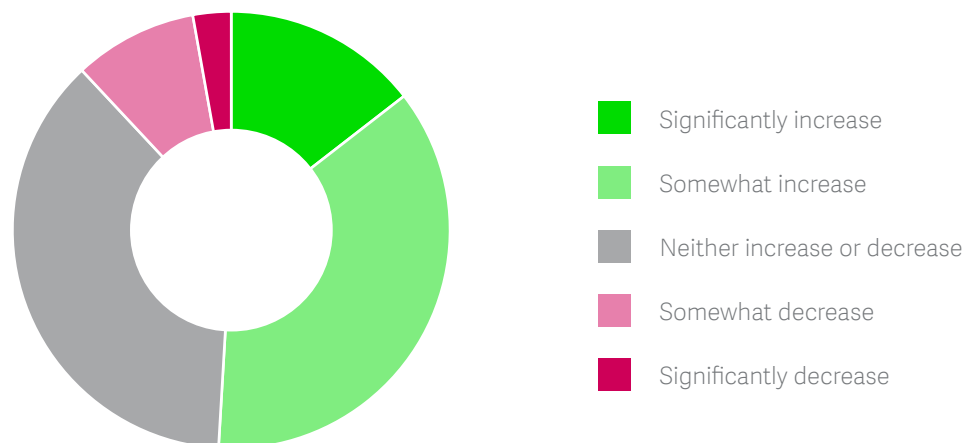


- Encouragingly, despite the barriers faced, SMB decision makers feel like they are coping well – they feel more resilient and are confident in their ability to combat future risks. As many as 59% feel like they have coped well with the barriers they faced, most often by cutting costs, relying on savings, offering new products or through the adoption of new technology. SMBs are expecting to see improvements over the next 12 months in various areas, including better cash flow.

Technology is viewed as a key way to overcome barriers

Coping well vs. technology investment

Compared to the past 12 months, how do you expect your investment in technology to change over the next year?



- With a significant proportion of SMB decision makers expecting to further increase their investment in technology, there is overwhelming agreement that this trend is here to stay. Technology played a key role in helping businesses globally overcome the barriers they were facing – therefore, it is perhaps unsurprising that most SMB decision makers think the pandemic has permanently increased how reliant their business is on technology. Going forward, another 51% expect to invest in technology even more than they did over the past year.

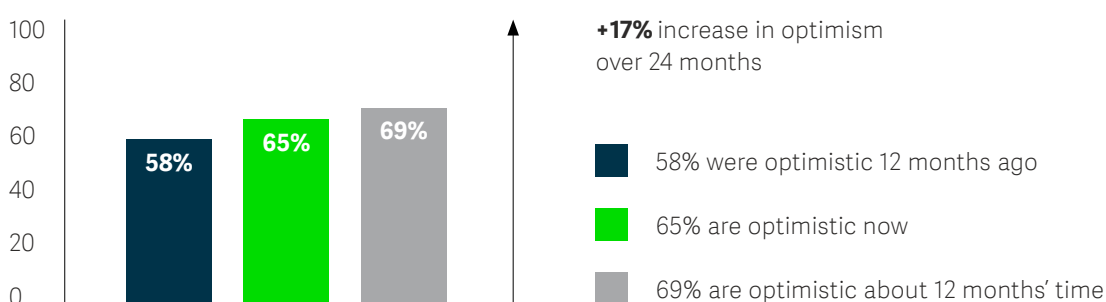
Key findings:

Green shoots of optimism

Despite the barriers posed by the pandemic, there are green shoots of optimism. SMBs globally are increasingly optimistic about the success of their businesses, and many expect strong financial growth in the year ahead.

69% of SMBs feel confident about the success of their businesses in 12 months' time.

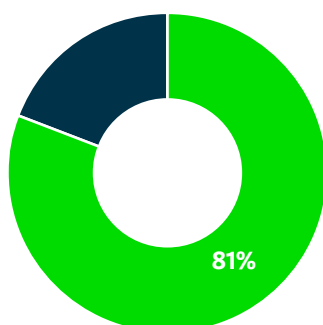
SMBs' optimism levels are significantly increasing over time.



Green shoots driven by increasing customer bases and high-quality workforces

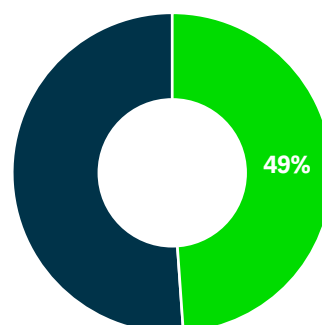
A clear majority of SMB decision makers (69%) feel confident that their business will be successful 12 months from now. This optimism is starting to filter through into profitability, with 81% of SMBs expecting to be at least somewhat back to pre-pandemic levels of profitability and almost half (49%) expecting their revenue to increase in the coming months.

When thinking about the next 12 months, to what extent do you think that your business will be back to normal profitability (i.e. levels just before the COVID-19 pandemic)?



- **81%** of SMBs expect to be at least somewhat back to pre-pandemic levels of profitability 12 months from now.

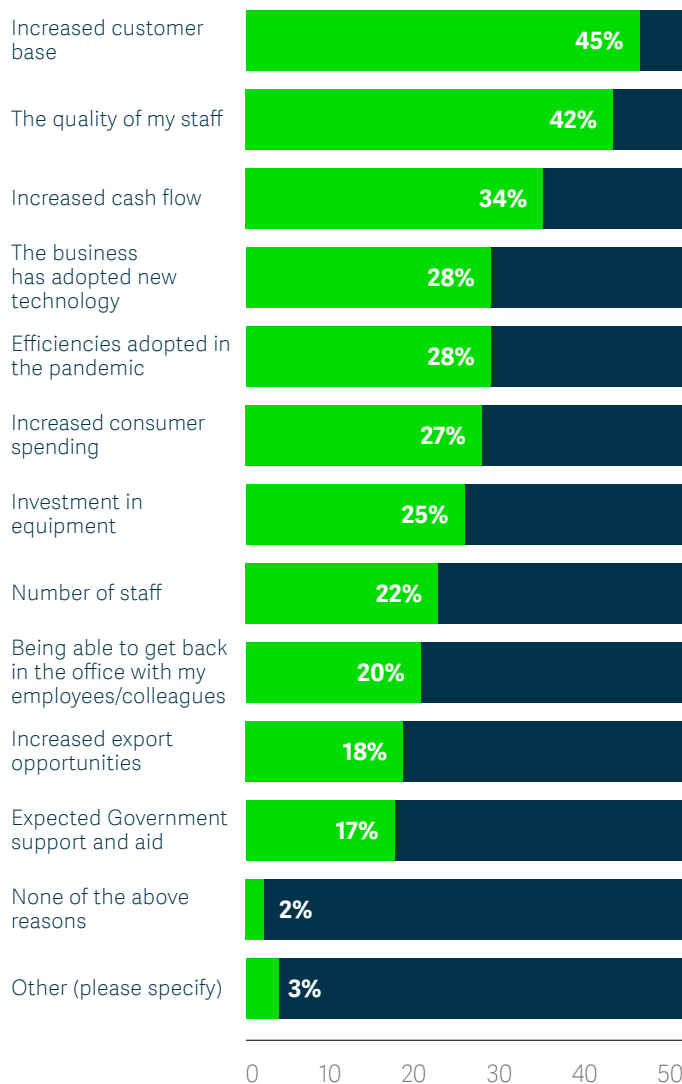
Compared to now, how do you expect your revenue to change in the next 6 months?



- Half of SMBs (**49%**) expect their revenue to increase in the next six months.

Of those who say they are feeling confident in their business' success right now, the most common factors contributing to their confidence are having an **increased customer base** (45%) and the **quality of their staff** (42%).

**You said you feel confident in your business' success right now.
What is contributing to your confidence about your business' success?**



Improved consumer sentiment and macroeconomic conditions are feeding through into better financial outcomes for SMBs.

Four in five (81%) SMBs say that their business will be somewhat back to normal levels of profitability in the next 12 months.

Of those who expect their revenue to rise in the next six months (49%), almost one in ten expect their revenue to increase by more than 60%, just under a quarter (23%) expect to see an increase of between 31-60% and 68% expect an increase by up to 30%.

Talent is a clear pillar of optimism for SMBs.

SMBs generally are satisfied with their current ability to recruit talent (57%). Only 17% are dissatisfied with recruiting talent, while over a quarter (26%) are neither satisfied nor dissatisfied.

This means that SMBs are gearing up for growth in the year to come

SMBs plan to increase the size of their workforce in the post-pandemic recovery, with 46% expecting to increase staffing levels. Among them, there is an average expected increase by **+12% of their current workforce**.

In each market surveyed, this would mean:

Country	New jobs created by SMBs (based on their predictions)
USA	1.6 million
France	336k
Spain	235k
Germany	421k
Canada	190k
Australia	130k
South Africa	295k
United Kingdom	321k
Malaysia	160k
Portugal	50k
Singapore	28k

- Almost half (49%) of SMBs expect their revenues to grow in the next 6 months. Among this group, they expect their revenue grow by +14% on average.

In each market surveyed, this would mean in extra GDP per year (above trend growth rates):

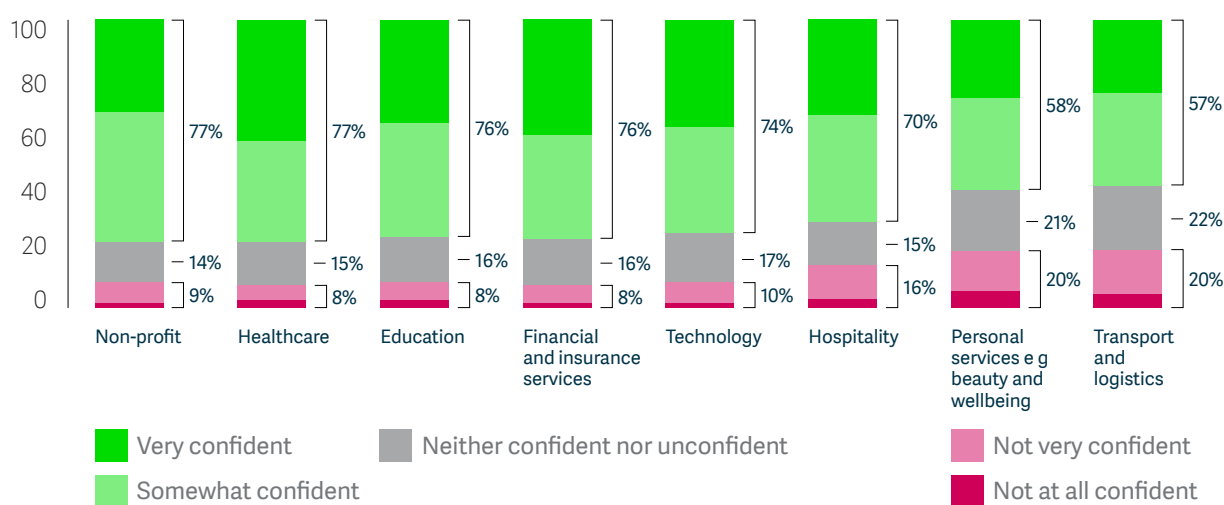
Country	Economic growth created by SMBs (based on their predictions)	(As a % of annual growth)
USA	\$452 billion per year	+2.2%
France	\$42 billion per year	+1.6%
Spain	\$24 billion per year	+1.9%
Germany	\$65 billion per year	+2.0%
Canada	\$35 billion per year	+2.1%
Australia	\$31 billion per year	+2.0%
South Africa	\$9 billion per year	+3.2%
United Kingdom	\$72 billion per year	+2.5%
Malaysia	\$12 billion per year	+2.6%
Portugal	\$5 billion per year	+2.1%
Singapore	\$6 billion per year	+1.9%

Uneven optimism

These green shoots of optimism are uneven - especially by sector, business size and market*.

By sector: the most significant variation.

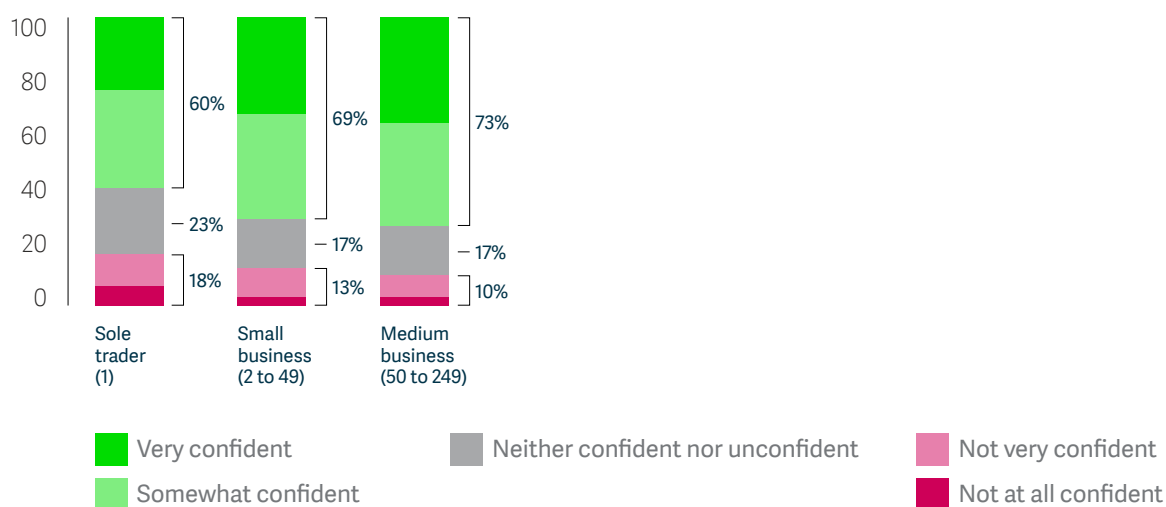
How confident, or not, do you feel about the success of your business 12 months from now?



- Most confident: non-profit, healthcare, education, financial services and technology.
- Least confident: personal services, transportation and hospitality.

By business size: the smallest SMBs are much less likely to be confident.

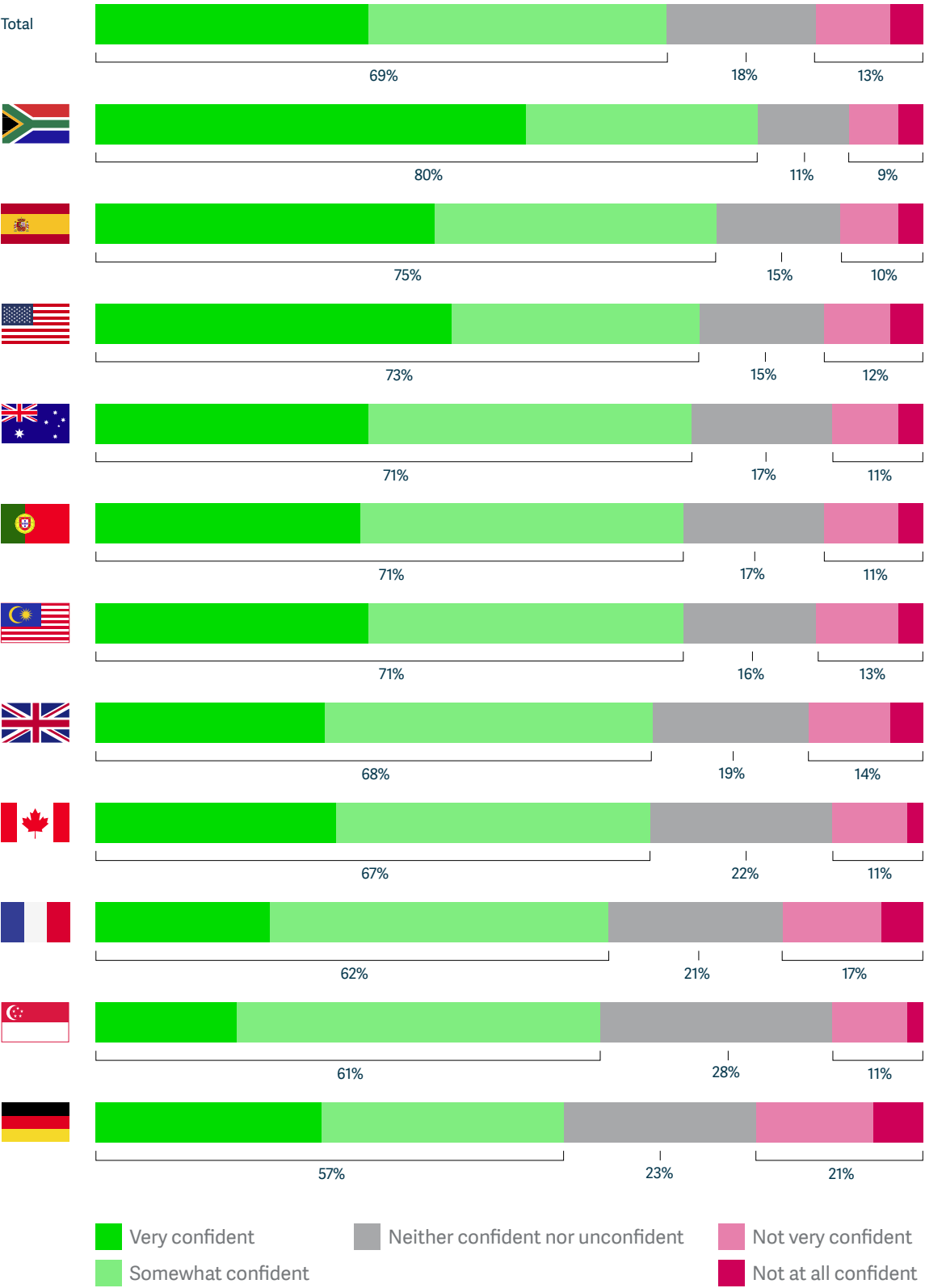
How confident, or not, do you feel about the success of your business 12 months from now?



* These charts show the confidence SMBs have in the success of their business 12 months from now.

By market: very significant variation.

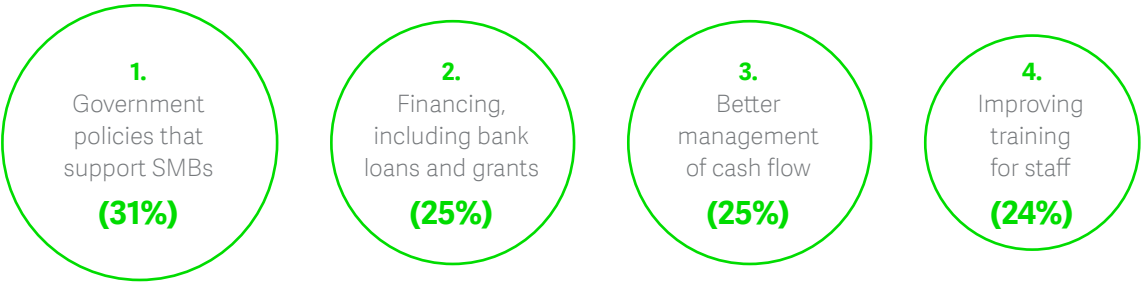
How confident, or not, do you feel about the success of your business 12 months from now?



Government support is viewed as a crucial resource for SMBs

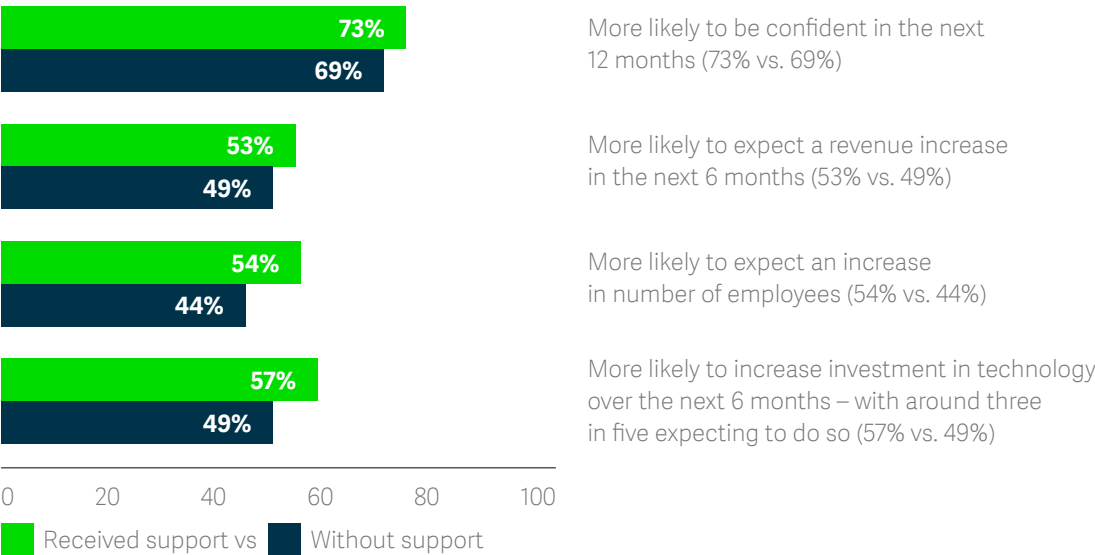
SMBs globally show a strong desire for more government support; it is considered the **most important** single resource that could contribute to their growth in the next 12 months.

The most important resources that would contribute to the growth and success of their business next year:



SMBs that have received government funding report a more positive outlook for the year ahead.

SMBs who received government grants in the past 12 months have a more positive outlook and feel slightly more confident in their business in the next 12 months.



When thinking about barriers facing their business over the past 12 months, one in five (19%) say a lack of government support was a challenge for them.

The pandemic has changed how SMBs do business

This study shows that the big changes SMBs have made during the course of the pandemic years will start to see a significant return from their efforts in 2022.

Furthermore, the SMBs which changed the most (and set up during the pandemic) are the best set for 2022.

We have analysed four SMB segments:

Segment 1. **The Adaptors (27%)**

Segment 2. **The COVID Generation (14%)**

Segment 3. **Resilient (18%)**

Segment 4. **Left Behind (9%)**





Segment 1. **The Adaptors (27%)**

Adaptors are characterised by having faced a wide range of barriers but they are particularly likely to say they have coped well.

- This segment has faced more barriers in the past year than average, yet they still feel confident in their future success. A key driving factor behind this optimism is their adaptability – these SMBs have used more strategies and external resources than most in order to overcome their barriers.

The Adaptors are:

- More likely male (58%) than any other gender.
- Often medium sized (50-249 employees) (53%).
- Most likely medium sized businesses to have received government funding (31%).

Have greater levels of confidence:

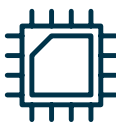
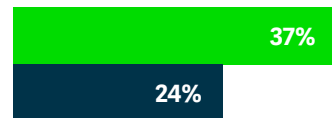
- 4 in 5 (76%) feel confident they will meet their staffing levels over the next 12 months.
- Over 3 in 4 (79%) are confident in the digital skills of their workforce over the next 12 months.

The four changes the Adaptors made to overcome their barriers:



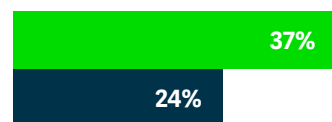
Adopting more new technology to sell more and stay connected with their customers.

- 37% Adaptors vs. 24% average.



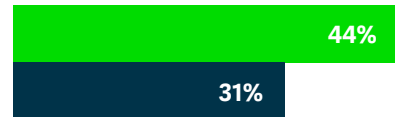
Improving the way they operate through technology.

- 37% Adaptors vs. 24% average.



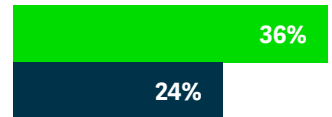
Cutting overheads / costs.

- 44% Adaptors vs. 31% average.



Adding new products or services for their customers.

- 36% Adaptors vs. 24% average.



0 10 20 30 40 50

Adaptors vs Average



Segment 2. **The COVID Generation (14%)**

These businesses launched during COVID-19 and despite reporting larger than average barriers to success, they have big plans for growth in the years ahead.*

Five key facts about them:

- 57% expect their revenue to grow in the next six months, ahead of those founded before the pandemic (48%)
- 71% have already hired at least one person.
- They are much more adaptable to COVID-19 restrictions (only 29% say that the pandemic very negatively impacted their business in the past 12 months e.g. in reduced footfall, travel restrictions).
- 58% expect to increase their tech investment over the next year, 32% expect to maintain it.
- More likely than average to expect to make a change to become more sustainable (91% vs. 86%).

The COVID Generation are facing larger than average barriers to success:

- Only 56% are satisfied with their current staffing levels, compared to 65% of SMBs set up before the pandemic.
- Only 51% are satisfied with their ability to recruit talent, compared with 58% set up before.
- Only 58% are satisfied with their levels of productivity, compared with 68% set up before.
- Despite these challenges, only 13% say that they are coping with their challenges badly.

But they are much more likely to expect their barriers to get better in the next 12 months:

- 53% expect to be better able to deal with increased costs (compared with 35%).
- 66% expect to be better able to deal with cash flow (compared with 51% pre-pandemic)
- 63% expect to be better able to operate with COVID (compared with 55% pre-pandemic)

Much more likely than average to be in the following sectors.



+94% more likely to be in personal services e.g. fitness, wellbeing



+24% more likely to be in manufacturing



+41% more likely to be in creative industries

Much less likely than average to be in the following sectors.



-51% less likely to be in education



-28% less likely to be in hospitality



-45% less likely to be in professional services

*

This group relates to businesses who were started in 2020 and 2021, and is not a mutually exclusive segment against The Adaptors, Resilient and Left Behind groups.



Segment 3. **Resilient (18%)**

Resilient SMBs have been hard hit by the pandemic and think about their business' future with caution.

They are neither confident nor unconfident in the success of their business 12 months from now, and rather than trying to grow, they are still focused on overcoming the challenges they have faced in the last year.

The Resilient SMBs are:

- More likely to be young (41% of them are in the 18-34 age bracket).
- Less likely than average to have received Government funding.
- More likely to work in technology (11%) and professional services (11%).

Facing the future with less certainty:

- Only 1 in 4 Resilient (26%) were confident in the success of their business 12 months ago.
- Confidence in their business' success is only slightly higher now (27%).
- Most expect **no changes** in their staffing levels (59%), investment in tech (52%) and revenue (50%).





Segment 4. **Left Behind (9%)**

SMBs within this segment are struggling to keep their heads above water and some report a business performance which may force them to close in 2022.

All these SMBs are unconfident in the success of their business 12 months from now and none expect any growth in revenue.

The Left Behind SMBs are:



More likely to be the smallest businesses.



More likely to run a small business (employ between two and 49 people).



Less likely than average to have received Government funding.



More likely to be in transport and logistics (11%) and personal services (11%).

Have faced business critical barriers:

- 4 in 10 say that in the past 12 months, they were not able to operate their business as normal due to COVID-19 (39%).
- 26% were negatively affected by increases in costs over the past 12 months.
- 27% have experienced significantly reduced demand from customers.
- 23% experienced key cash flow and liquidity problems.

Worryingly, the Left Behind largely expect these barriers to get worse in the next year

Seriously at risk going forward:

- Over half (54%) think customer demand will become worse in the next 12 months.
- Almost 6 in 10 (58%) think that their cash flow/liquidity problems will become worse in the next 12 months.



Country breakdowns

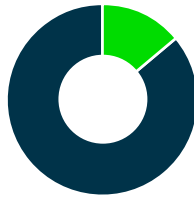
Persona populations³

Adaptors



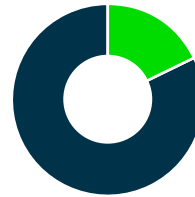
27% of global population

COVID generation



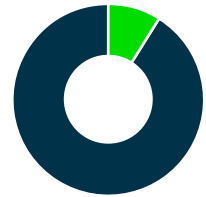
14% of global population

Resilient



18% of global population

Left Behind



9% of global population

DEEP DIVE: REGIONAL HIGHLIGHTS



Deep dive. South Africa: leading global optimism

Confidence in South African SMBs is higher than average and the majority of SMBs expect both their employee numbers and revenue to increase next year.

- **75%** of South African SMBs are confident about the success of their business right now, 10% higher than the global average (65%).
- **80%** feel confident about the success of their business over the next 12 months (vs. 69% globally).
- Over half (**56%**) expect their employee numbers to increase over the next year – significantly higher than the global average of 46%.



Deep dive. United States of America (USA): SMBs driving the recovery

- Confidence is high among US decision makers regarding the upcoming 12 months, whereby almost three quarters (**73%**) feel confident about the success of their business, four percentage points higher than the global average (69%).
- In terms of revenue over the next 6 months, SMB decision makers in the US are more positive than the global average: a majority of **54%** expect their revenue to increase, compared to 49% on average.
- Moreover, **54%** expect to see their employee numbers increase over the next year, which is clearly higher than a global average of 46%. This includes as many as 22% who expect to see a significant increase, while only 13% of SMBs globally expect the same.

³ Due to method of segmentation, segments do not add up to 100%.



Deep dive.

United Kingdom (UK): Immediate headwinds but optimistic about the future

- **64%** of SMBs in the UK feel confident in the success of their business right now, just below the global average (65%).
- SMBs report facing significant barriers. **26%** say they are unable to operate their business normally due to COVID-19 globally. 25% say they're impacted by increases in costs.
- This optimism is stronger towards the future, with **68%** reporting confidence in their success 12 months from now.



Deep dive.

Germany: Less confident in future growth

- Just over half (**52%**) of German SMBs feel confident in the success of their business right now, which is significantly lower than the global average (65%).
- This lack of confidence is connected to low expectations for revenue growth as only two in five (39%) expect their revenue to increase in the next six months whereas globally, **49%** expect increases.
- As they look to the future, just **38%** expect their investment in technology to increase over the next year whereas 51% of SMBs globally do.



Deep dive.

France: Fears about productivity and staffing impacting outlooks

- SMBs in France are less confident than the global average in their outlook for success in the next 12 months (62% vs. 69% globally).
- This is in part driven by increased levels of dissatisfaction with the productivity of their business (28% vs. 16% globally) and with their ability to recruit talent (31% vs. 17% globally).
- Crucially, the above leads SMBs in France to be more dissatisfied with their current staffing levels overall (29% dissatisfied vs. 16% globally).



Deep dive.

Spain: Higher levels of satisfaction about workforces improving outlooks

- SMBs in Spain are more confident than the global average in the success of their business currently (73% vs. 65% globally).
- This is in part driven by higher levels of satisfaction with the quality of their workforce (46% vs. 42% globally) and higher levels of preparedness to manage staff wellbeing (50% vs. 45% globally).
- Overall, 70% of SMBs are satisfied with their current staffing levels, versus 64% globally.



Deep dive.

Canada: A recovery delayed by lower consumer sentiment

- SMBs in Canada are expecting their business to recover from the pandemic somewhat below global averages.
- Only 74% of SMBs expect to return, at least somewhat, to pre-pandemic levels of profitability, below the global average of 81%.
- 41% of SMBs who aren't confident about the success of their business right now say that reduced consumer spending is negatively impacting them vs. 29% globally. 41% of the same SMBs say that a limited customer base is negatively impacting them vs. 28% globally.



Deep dive.

Australia: In line with global averages, supported by higher productivity

- Confidence among Australian SMBs is consistent with global trends, with 71% feeling confident about the success of their business in the next 12 months vs. 69% globally.
- Satisfaction with productivity is significantly higher in Australia (72%) than global averages (66%).



Deep dive.

Portugal: resilience emerging from the pandemic

- Almost two thirds (64%) of Portuguese SMBs believe that the pandemic has made their business more resilient, significantly more positive than the global average (50%).
- SMBs in Portugal say that they were less likely than in any other market surveyed to have needed financial support in the past 12 months (35% vs. 46% globally).



Deep dive.

Malaysia: positive outlooks despite high barriers

- SMBs in Malaysia are more likely than the global average to name a range of barriers that are impacting their business, most notably being unable to operate as normal due to COVID (50% vs. 34% globally) and increases in costs (42% vs. 31% globally).
- However, they name a wide range of strategies that have helped them overcome these, including cutting costs (44% vs. 31% globally) and adopting technology to operate better (39% vs. 24% globally).



Deep dive.

Singapore: less confident than global averages

- SMBs in Singapore are much less likely to feel confident right now (53%) compared to the global average (65%).
- Decreased cash flow is the most common reason for this lack of confidence and is much more significantly affecting SMBs in Singapore in comparison to the global average (55% vs. 32% globally).



Methodology

- Portland Communications' specialist research team conducted an online survey of 13,118 'SMB Decision Makers' in 11 markets between Thursday 25th November 2021 and Thursday 2nd December 2021.
- The markets included as part of this study are the UK, USA, France, Spain, Germany, Canada, Australia, South Africa, Portugal, Malaysia and Singapore. In each market, we spoke specifically to decision makers at businesses employing fewer than 250 people.
- Portland Communications' online polling studies are accredited by the British Polling Council.

Sample details

Our sample includes a diverse range of SMB decision makers globally.
The sample size for each market is as follows:

Country Sample size

UK	2,040
USA	2,034
France	1,082
Spain	1,057
Germany	1,039
Canada	1,087
Australia	1,079
South Africa	1,056
Portugal	1,046
Malaysia	1,070
Singapore	528



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