

SMBS: NAVIGATING A PATH FORWARD

How Will SMBs Get to the Next Normal?

Authored by



© SMB Group, 2020

Sponsored by



COVID-19 continues to take a toll on SMBs	04
SMBs are feeling more optimistic about the future.....	05
Smaller businesses have been hit harder and are less optimistic about the future than larger ones.....	06
No industry is immune to COVID-19, but impacts and outlooks vary significantly by sector.....	07
Uncertainty, operating under new safety requirements and sustaining revenues are keeping SMBs up at night	08
Many SMBs are dealing with staffing volatility	09
Despite strong headwinds, most SMBs lean toward long-term optimism.....	10
SMBs turn to their customers and advisors to help chart a course to recovery.....	11
SMBs are pivoting to adjust and recover.....	12
Working from home has become widespread and is here to stay.....	13
SMBs are concerned about WFH security.....	14
Cloud solutions have been a lifesaver for SMBs.....	15
Most SMBs will maintain or accelerate technology investments—with a focus on customers and employees.....	16
Takeaways for SMBs.....	17
About the study.....	18

The **COVID-19 pandemic** has disrupted any notion of business as usual. To understand the pandemic's immediate impact on small and medium businesses (SMBs), SMB Group fielded its first survey study on this topic in March: **Impact of COVID-19 on Small and Medium Businesses.**

This new, follow-up survey study, *SMBs: Navigating a Path Forward*, examines how SMBs that have stayed afloat during the first few months of the pandemic are faring. The study also explores the paths these SMBs are taking to sustain their businesses amid the continuing uncertainty.

SMB Group surveyed decision makers and influencers in more than 750 North American SMBs (1 to 1,000 employees) and midmarket organizations (1,000 to 2,500 employees). For the purposes of this eBook, we refer to the entire sample as "SMBs."

We fielded the survey from mid-June to early July 2020, acknowledging this timeline is critical to interpreting the results, as COVID-19's trajectory and impact are constantly changing. At the time of the study, respondents were working for companies that were still in business.

In this eBook, we share key highlights from the study, along with selected data from prior SMB Group studies, to deliver insights into the business, workforce and technology implications of COVID-19 for SMBs and how they're navigating to sustain their organizations.



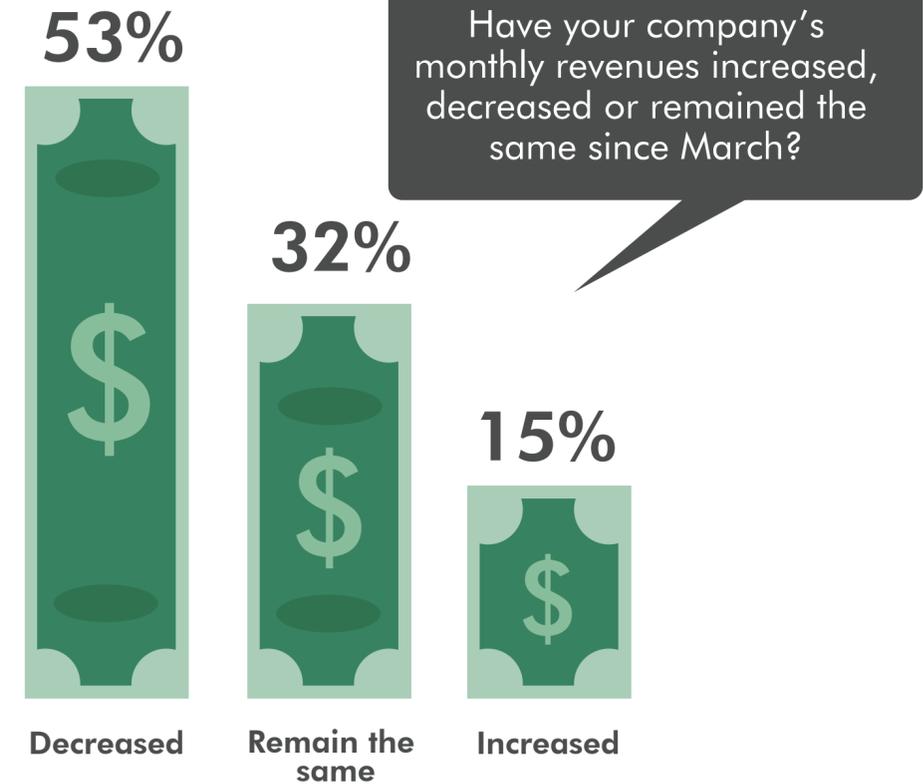
COVID-19 continues to take a toll on SMBs

In SMB Group’s **Impact of COVID-19 on Small and Medium Businesses** study, fielded in late March to early April 2020, 75% of SMBs reported that COVID-19 has had a negative impact on their businesses.

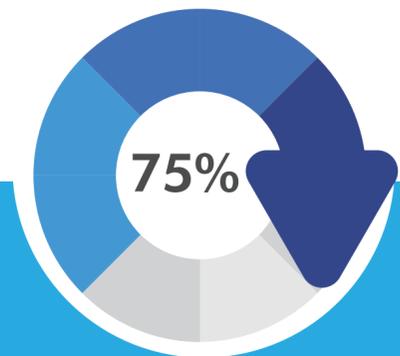
Unfortunately, some of these SMBs were unable to survive. An April 2020 **study** conducted by researchers at the University of Illinois, Harvard Business School, Harvard University and the University of Chicago suggests that at least 2% of small businesses had already closed permanently at that time as a result of the pandemic.

Most SMBs that have been able to sustain their businesses are still battling strong headwinds. In SMB Group’s **SMBs: Navigating a Path Forward** study, which we fielded from late June to early July 2020, 78% of SMBs said COVID-19 has negatively impacted their businesses.

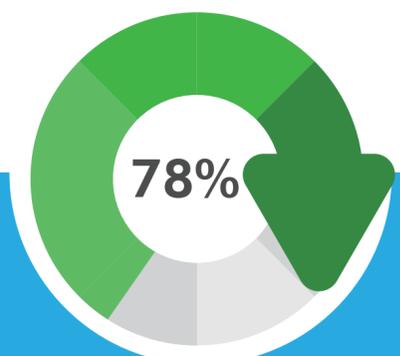
Furthermore, over half of SMBs surveyed reported that they’d experienced a revenue decline in the past four months, with the median decrease between 31% and 40%. While almost half have been able to continue operations, 51% have had to close temporarily—and 18% had yet to reopen at the time this survey was fielded.



As a result of the COVID-19 pandemic, has your business closed for a period of time?



Percentage of SMBs reporting COVID-19 has had a negative impact on their business in late March to early April 2020

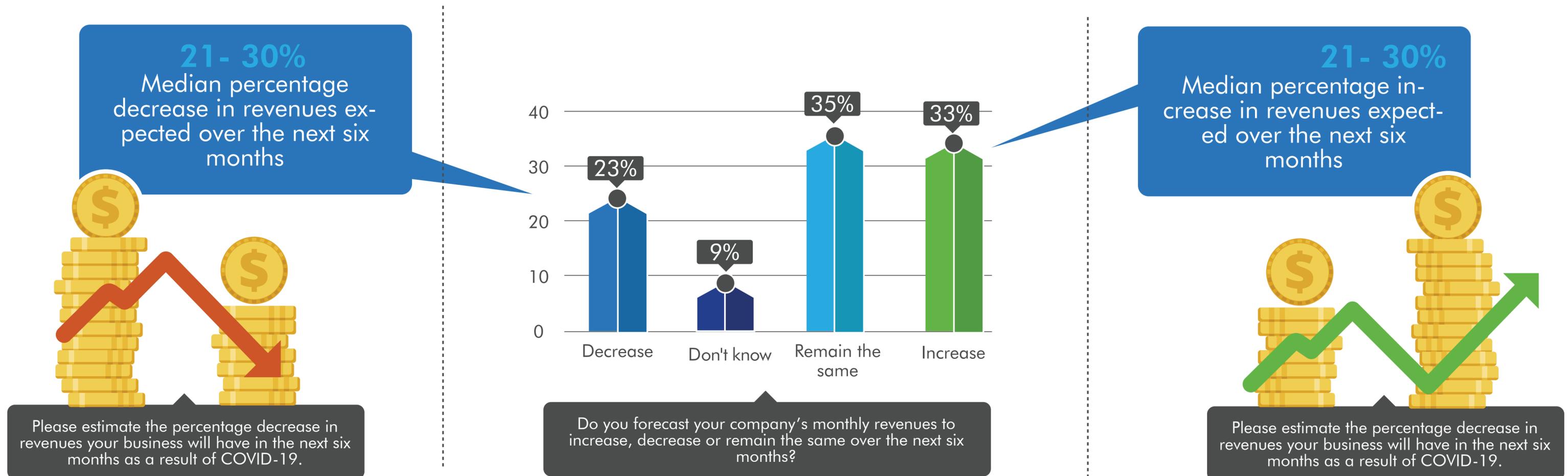


Percentage of SMBs reporting COVID-19 has had a negative impact on their business in late June to early July 2020

SMBs are feeling more optimistic about the future

Looking ahead, SMBs' expectations for the future are becoming a bit more optimistic. One-third of respondents are forecasting revenues to increase in the next six months, while only 23% are expecting revenues to fall.

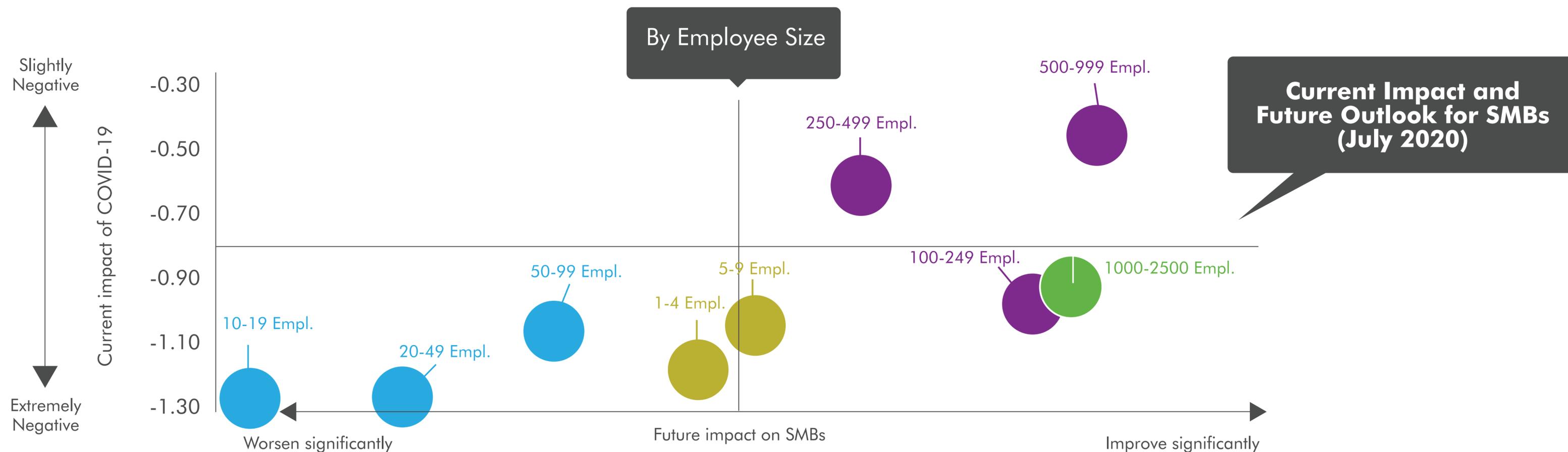
However, over half of respondents have seen revenues fall since the pandemic began—lowering their baseline for future growth. Keep in mind as well that SMBs' sentiments about their business prospects are likely to ebb and flow along with the pandemic, changing government regulations and adjustments that customers make in response to shifting conditions.



Smaller businesses have been hit harder and are less optimistic about the future than larger ones

Smaller companies are more likely to have suffered negative effects to date as a result of COVID-19 than their larger counterparts. Medium businesses (100 to 999 employees) and midmarket firms (1,000 to 2,500 employees) are also most bullish about their prospects for the future than small businesses (1 to 99 employees).

Interestingly, however, very small businesses (those with fewer than 10 employees) are a bit more hopeful about their prospects over the next six months than small businesses (10 to 99 employees). This may be because very small businesses that have survived to date are already very lean, and therefore it might have been easier for them to pivot in order to survive in the future.

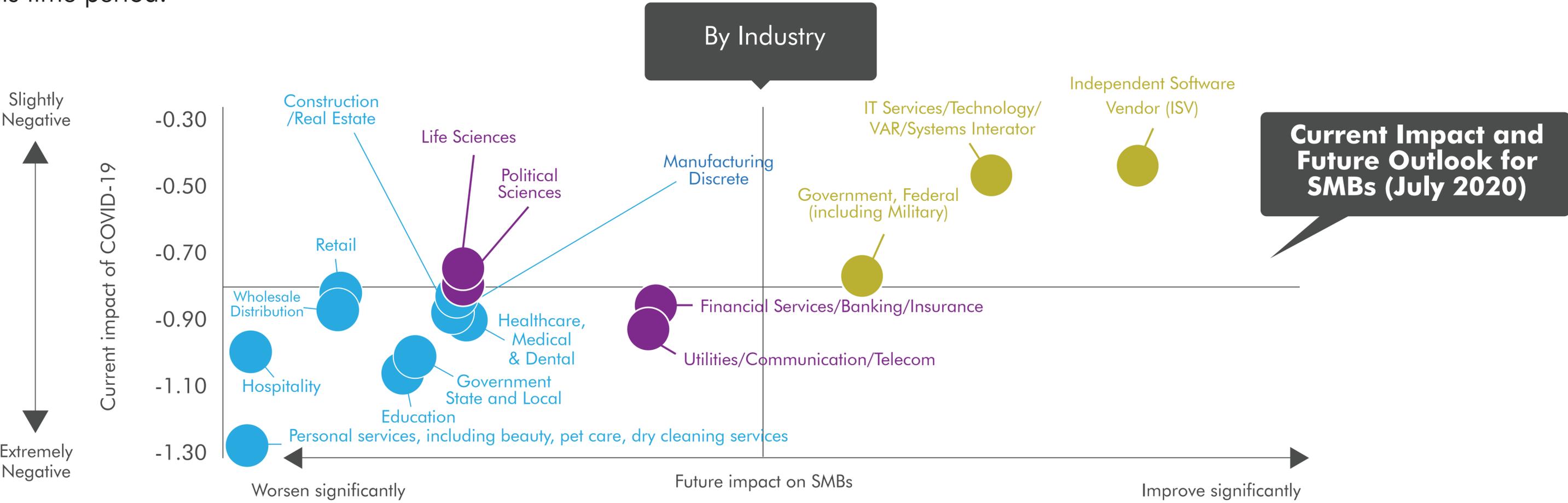


No industry is immune to COVID-19, but impacts and outlooks vary significantly by sector

About two-thirds or more of respondents across industries reported that COVID-19 has negatively impacted their businesses. However, the severity varies by industry. Sectors such as hospitality, personal services, education, healthcare and manufacturing have been hit especially hard because they rely heavily on in-person, physical locations, and many have had to close and/or adjust to new government safety mandates.

In contrast, construction/real estate, utilities/communications/telecom and financial services/banking/insurance have fared a bit better to date. Industry outlooks for the future are somewhat in flux. Federal and state/local and wholesale join personal services and retail on top of the list of industries that are most likely to expect conditions to worsen significantly in the next six months.

Agriculture, IT services, utilities, independent software vendors (ISVs) and manufacturing industries are most likely to expect significant improvement over this time period.

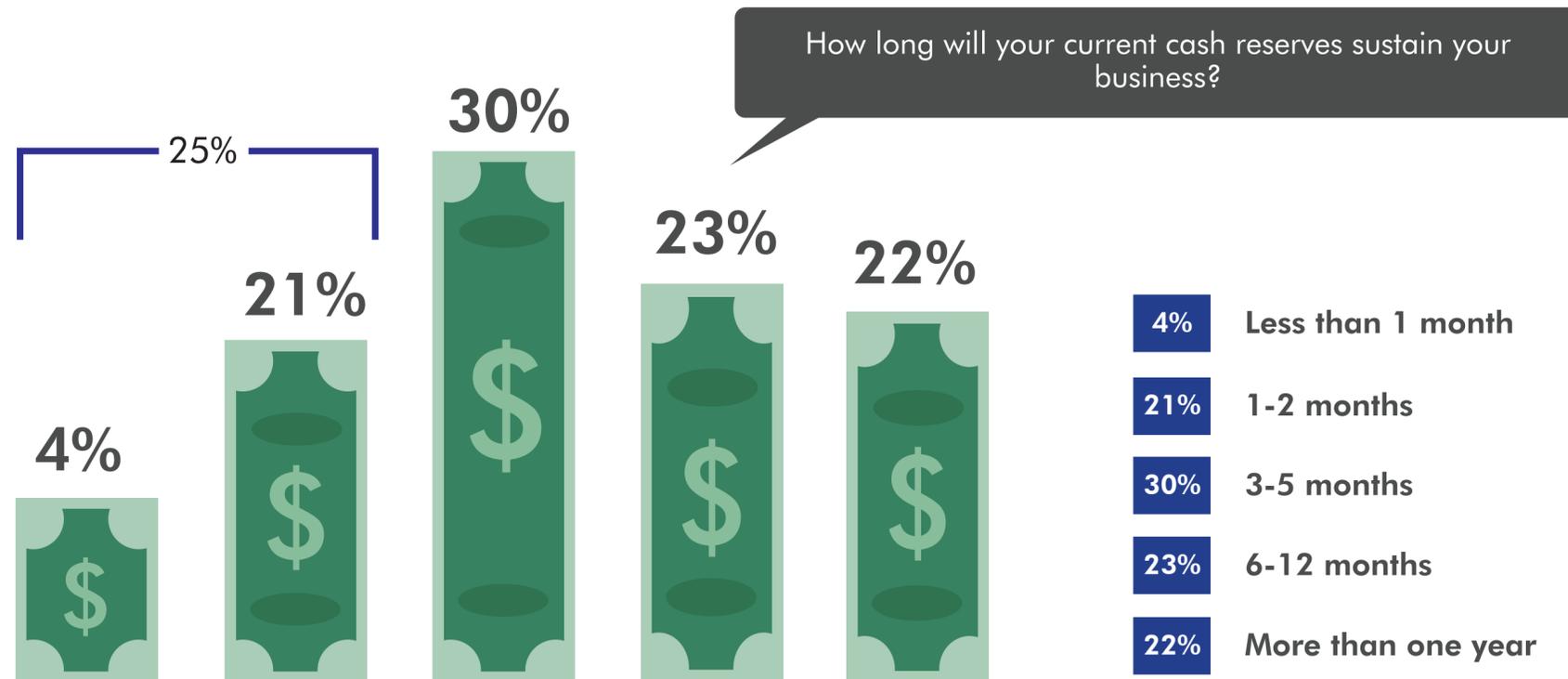


Uncertainty, operating under new safety requirements and sustaining revenues are keeping SMBs up at night

COVID-19 has created a period of unprecedented uncertainty. The ebb and flow of the pandemic, changing government mandates and changing market priorities all contribute to this overriding concern: SMBs rank dealing with this uncertainty as their top challenge in the current environment.

SMBs' second most pressing concern is adapting their businesses to operate under social distancing and safety requirements—which, for many, necessitates new capital outlays.

Sustaining revenues is number three on the list—followed closely by attracting new customers. These two concerns are very intertwined—especially for the 25% of SMBs with less than two months of cash on hand that must generate new business in order to continue operating.



What are the top three challenges facing your business?



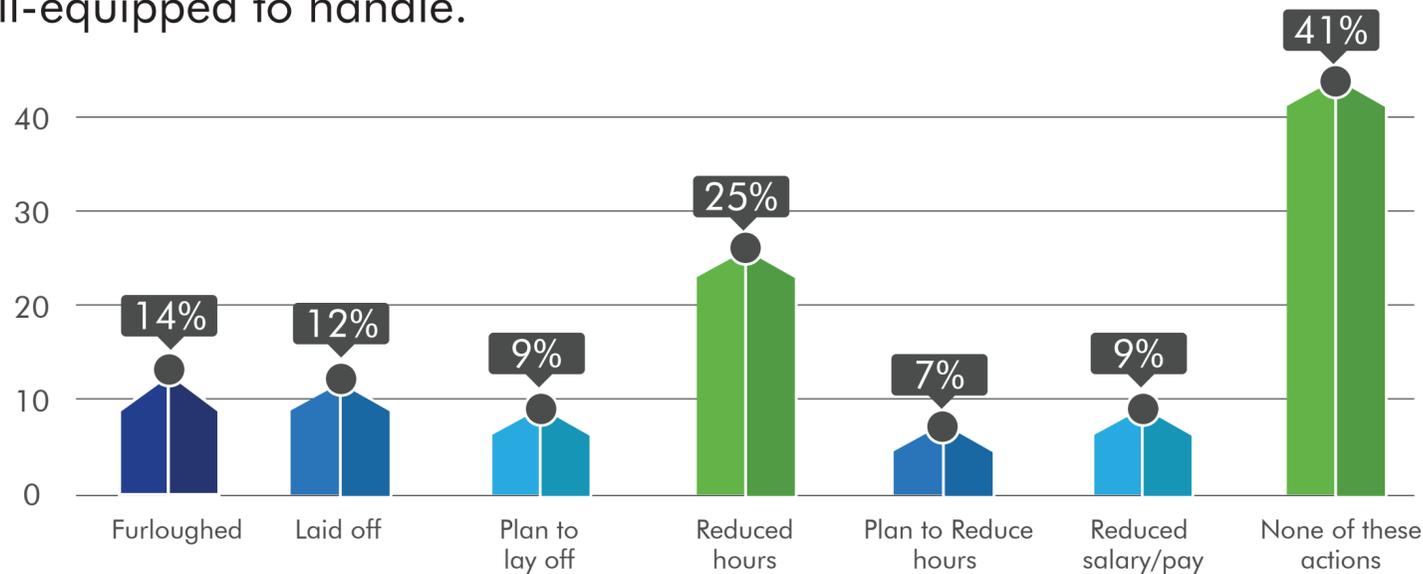
Many SMBs are dealing with staffing volatility

59% of SMBs have taken one or more actions to trim payroll—and 58% are now planning to bring workers back, hire new workers, increase hours or increase employee pay.

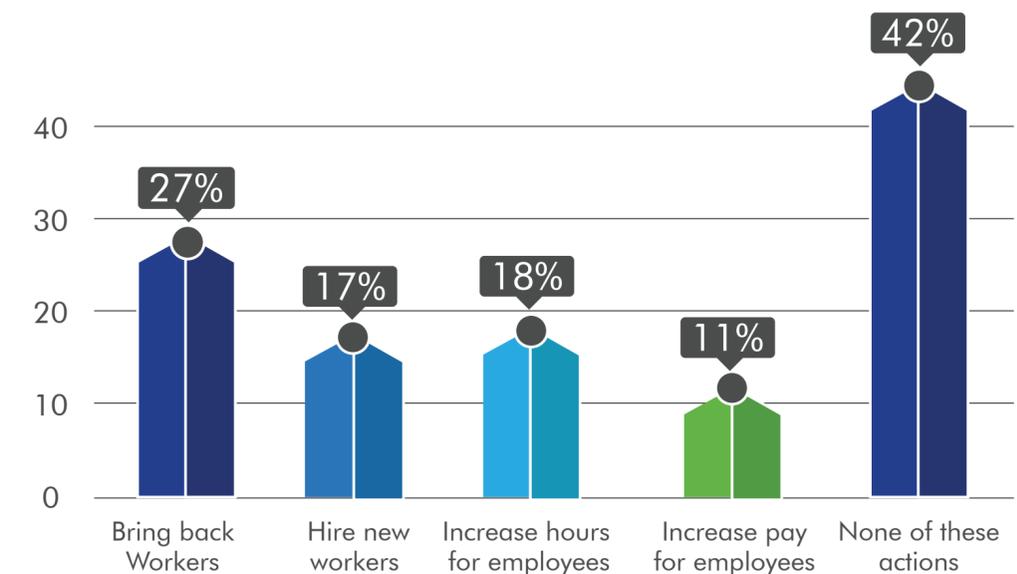
The larger the company, the more likely it is to have taken actions to reduce payroll and the more likely it is to plan to bring workers back.

There are also significant variations by industry. In general, industries that had to shed a lot of jobs—such as hospitality, healthcare/medical/dental, education and nonprofits—are also most likely to plan to increase payroll in the next six months.

SMBs are also dealing with similar churn among their contractors/1099 workers. The resulting roller-coaster ride presents unprecedented workforce management challenges that most SMBs are ill-equipped to handle.



Have you furloughed, laid off or reduced hours for salaried employee since March 1, 2020? (Select all that apply.)



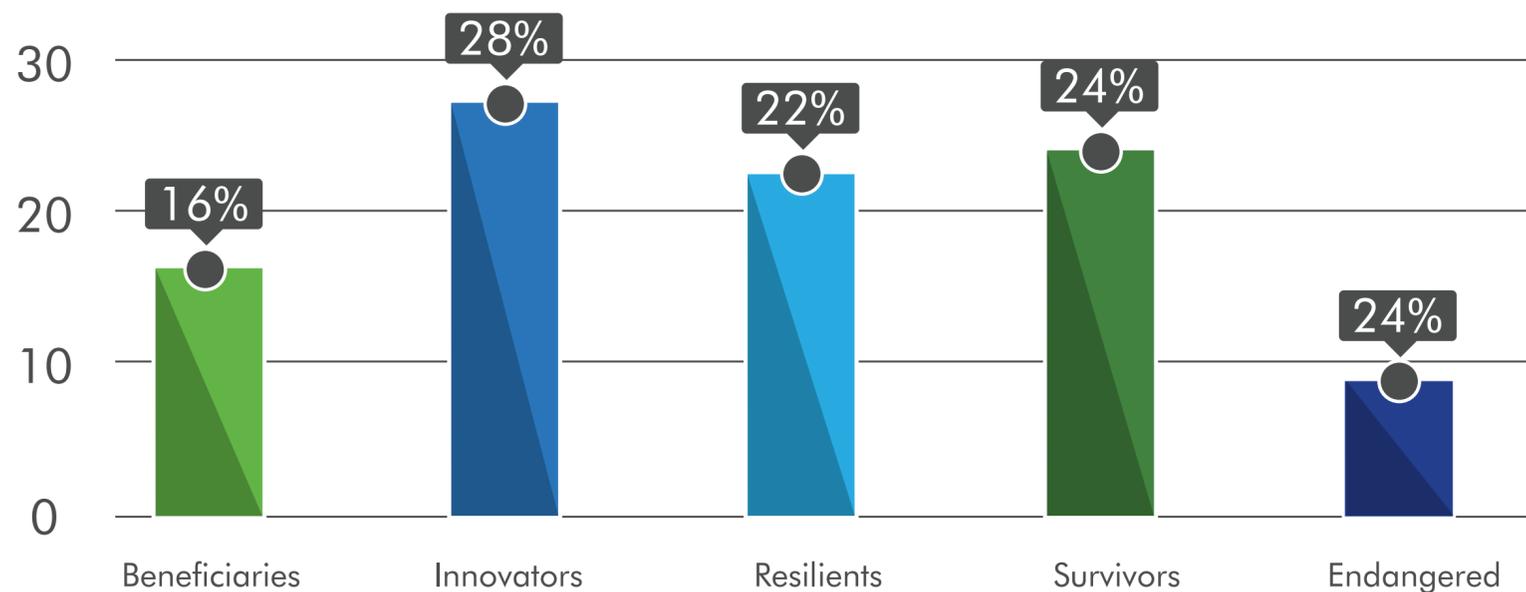
Do you plan to bring back workers, add new workers or increase hours for salaried employees in the next six months? (Select all that apply.)

Despite strong headwinds, most SMBs lean toward long-term optimism

Despite setbacks and challenges, most SMBs that have survived to date believe that they will be able to keep their businesses going.

We identified five distinct segments of SMBs based on their business outlook:

- **Beneficiaries** account for 16% of the sample. These businesses have grown during the pandemic because of increased demand for their products—think of Plexiglas and personal protective equipment (PPE) manufacturers.
- **Innovators** constitute 28% of respondents. These SMBs are making changes to their business that will help them survive and grow.
- **Resilients** constitute 22%. They believe that as conditions stabilize, demand for their products will return fairly quickly, enabling them to recover and grow.
- **Survivors** make up 24% of respondents. These SMBs think they will survive but believe it will take at least a couple of years before their businesses return to pre-COVID-19 levels.
- Only 11% characterized themselves in our **Endangered** group—saying that they are trying to hang on but don't believe they'll be in business much longer.



Which statement most accurately reflects your view of your company's prospects going forward?

- We have grown through the COVID-19 crisis due to increased demand for our offerings and will continue to do so.
- We are making changes to our business model and offerings that will help us survive and grow.
- We believe demand for our traditional products will return fairly quickly, enabling us to recover and grow.
- We will survive, but it will be least a couple of years until we get back to where we were prior to COVID-19.
- We are trying to hang on but may not be able to remain in business much longer.

SMBs turn to their customers and advisors to help chart a course to recovery

SMBs are seeking guidance from many different types of advisors as they try to navigate through this crisis.

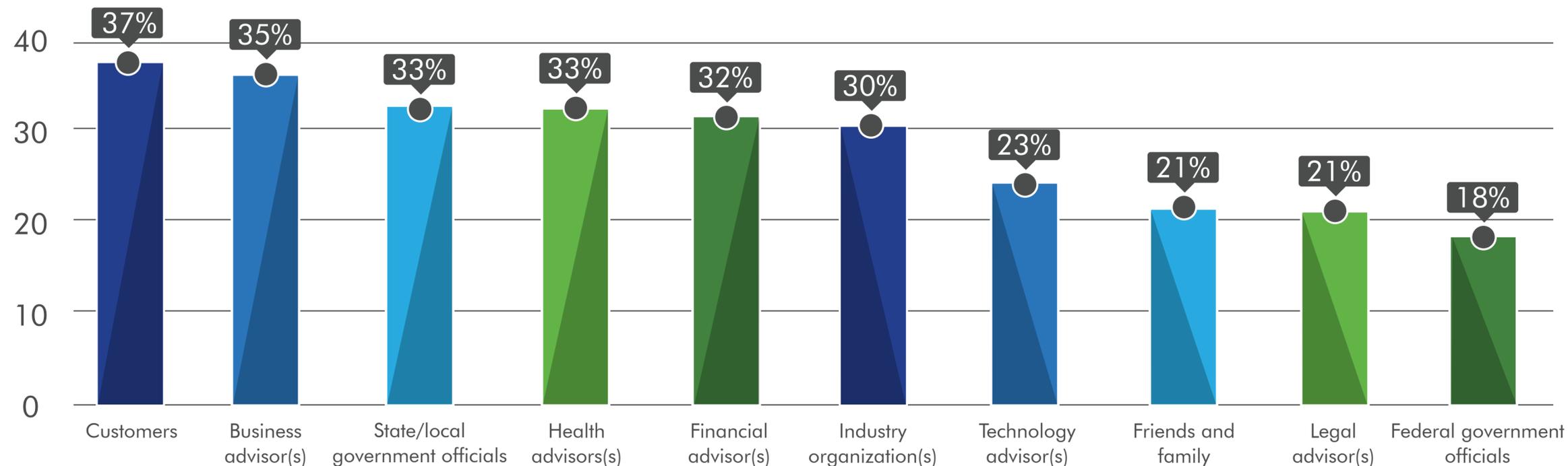
Business advisors, state/local officials, financial advisors and health advisors have all been key go-to sources for information and advice.

However, SMBs ranked their customers as their number-one source for advice—which bodes well for their recovery. While there is no “one size fits all” approach to recovery, tuning into how customer needs, preferences and expectations are changing will be critical for businesses to get back on track.

SMBs will also need to rely on trusted advisors—across several areas of expertise to help ensure that they can successfully make the changes that their customers require and comply with new regulations and requirements.



SMBs are twice as likely to seek advice from state/local government officials than from federal government officials—which is not too surprising given the current federal political climate.

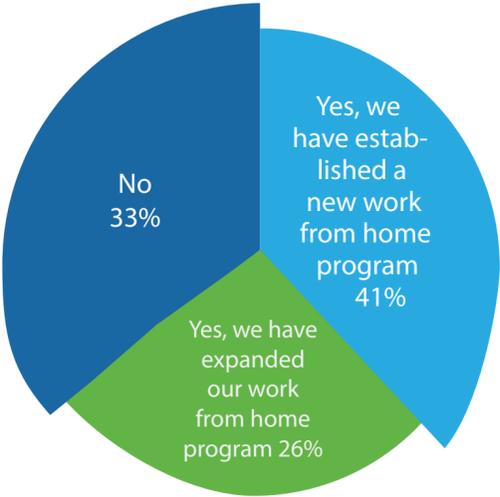


Who do you view as your top three external advisors to help guide your business through this crisis?

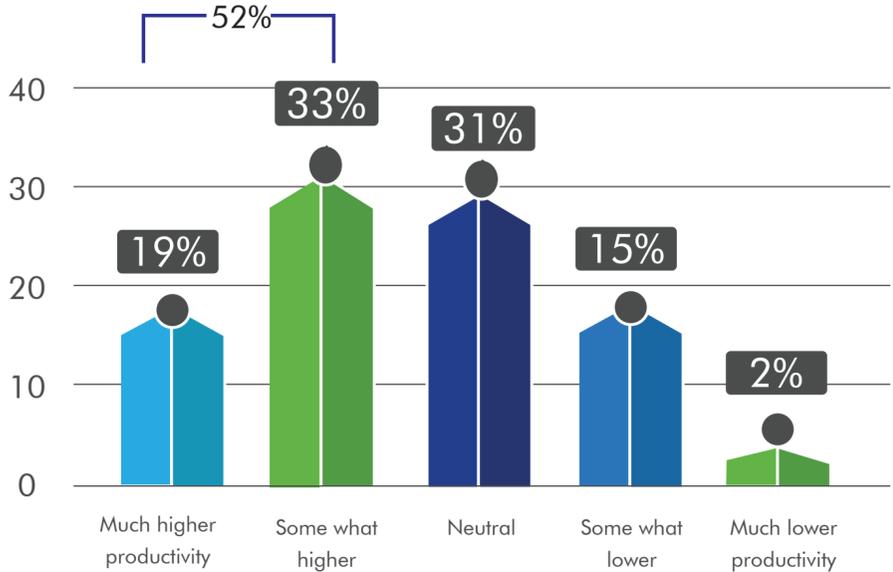
Working from home has become widespread and is here to stay

At this point, two-thirds of SMBs have instituted work-from-home (WFH) programs. Slightly more than half of these companies indicated that WFH is having a positive impact on employee productivity, and roughly another third said the impact on productivity is neutral. Furthermore, over half of SMBs plan to increase spending in this area. Not surprisingly, larger SMBs—with more employees—are more likely to plan to increase spending.

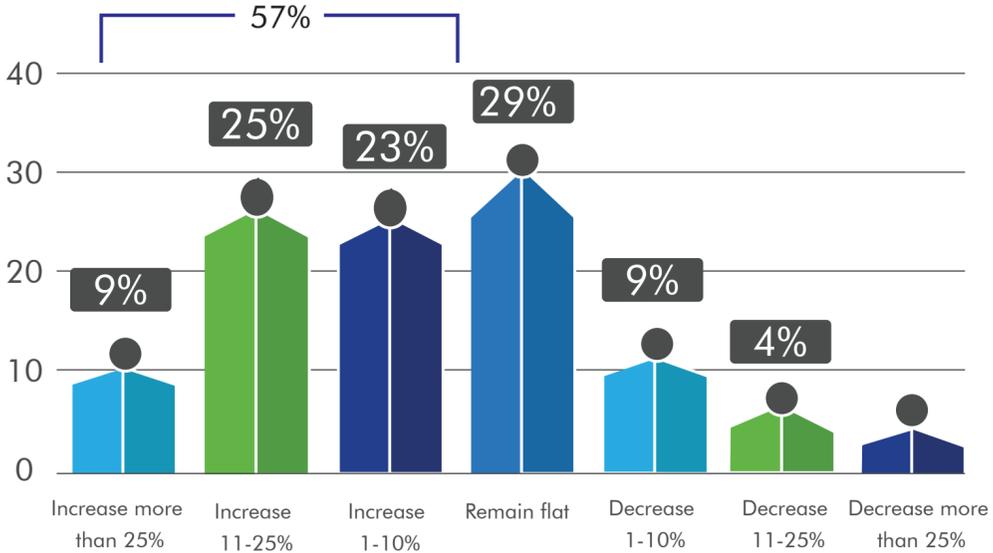
While it remains to be seen how the WFH burnout factor, juggling childcare and children’s virtual education schedules and other variables will evolve, we believe that most businesses that can do so will continue to support a more flexible, hybrid work environment even as the pandemic subsides.



Has your company established (for the first time) or expanded (an existing) work-from-home program as a result of the COVID-19 pandemic?



What effect has expanding work-from-home programs had on employee productivity?



Will your budget to equip work-from-home employees increase, decrease or remain flat over the next 12 months?

SMBs are concerned about WFH security

Most SMBs had to make sharp, unexpected pivots in order to implement or expand their WFH programs.

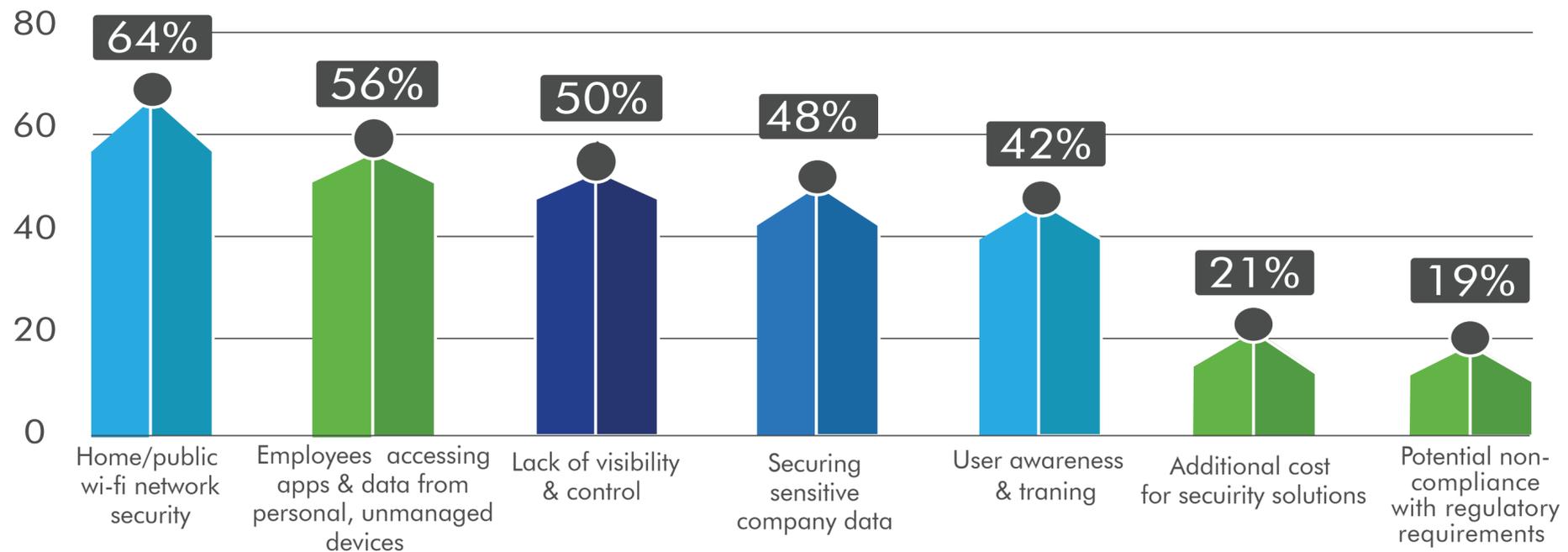
Some SMBs had programs in place to accommodate WFH prior to the COVID-19 outbreak. But SMB Group's 2019 **SMB 360: Connecting the Dots Between Business and Technology Study** found that in the majority of cases, only a small percentage (1% to 10%) of workers were working from home regularly.

As a result, SMBs had to scramble to equip employees with the applications and gear they needed to stay connected and productive when stay-at-home mandates were put in place.



Now, many SMBs are coming to grips with the new security threats that WFH brings into the spotlight. Suddenly, company information is traveling over more home networks and living on more personal unmanaged devices, opening the door to potential security breaches.

As SMBs begin to get back on their feet, they are realizing the severity of these threats to their businesses. Consequently, it's likely that SMBs will earmark a good portion of planned WFH budget increases to shore up network, data and application security—and to equip employees with company devices that provide better security and management controls.



What are the top three security challenges your company faces in managing your company's larger remote workforce?

Cloud solutions have been a lifesaver for SMBs

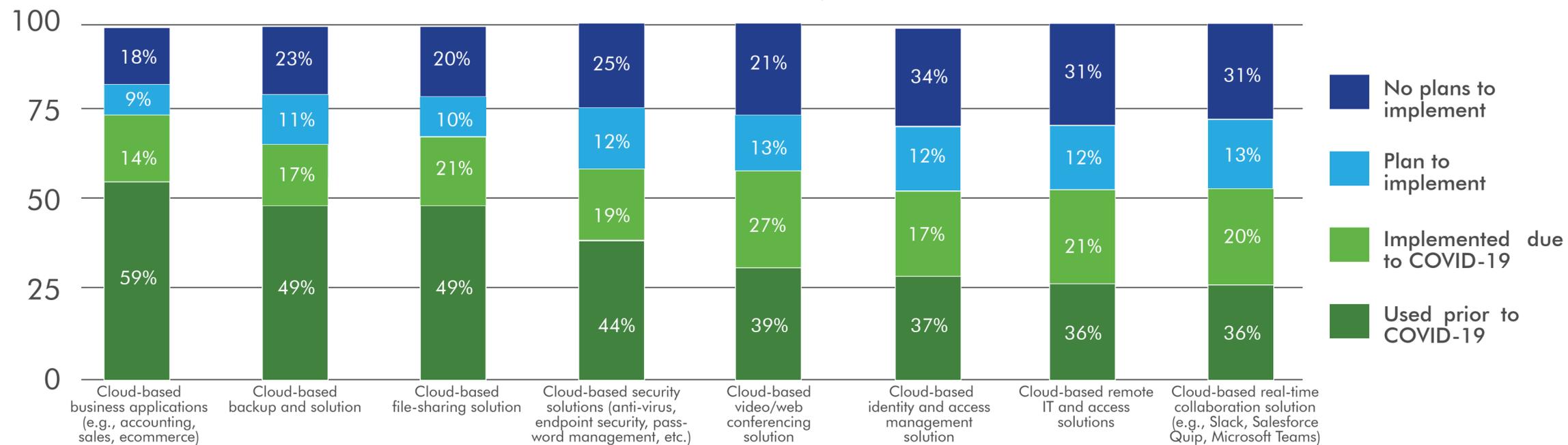
Cloud computing has been a lifesaver for SMBs. It has enabled them to keep operations going, implement or expand WFH programs and keep up with changing customer requirements.

SMBs were already using cloud-based applications prior to the pandemic, but new realities have created enough demand to add more—and will continue to do so. The biggest upticks to date have been for conferencing, remote IT access and real-time collaboration solutions.

Across all application categories, 83% or more of respondents said cloud applications have been valuable in helping to weather the COVID-19 crisis, and 37% said that the pandemic has made them more likely to choose a cloud solution for new application investments.



Which online/cloud-based solutions does your business use/plan to use?



83+% In every category, 83% or more of respondents said cloud applications have been extremely/moderately valuable in helping to weather the COVID-19 crisis.

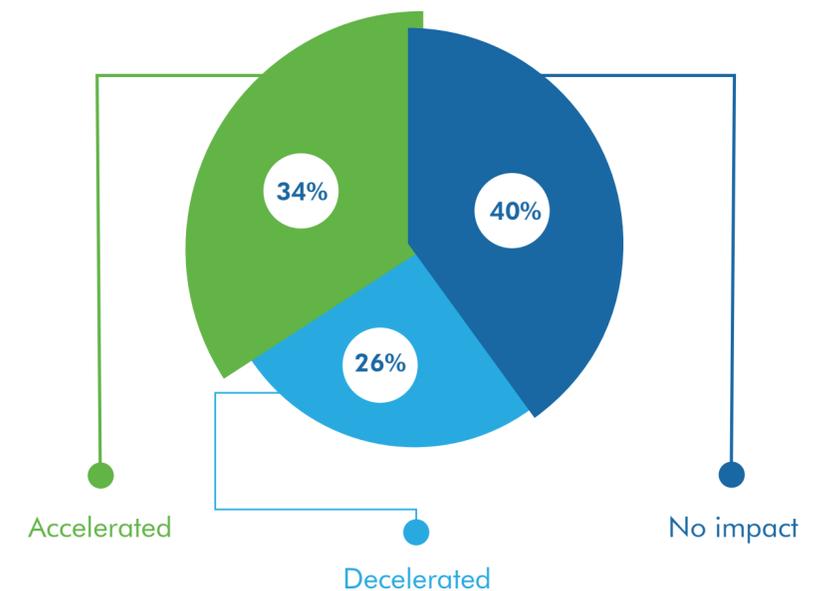
37% of SMBs said that COVID-19 has made them more likely to select a cloud solution for new application investments.

Most SMBs will maintain or accelerate technology investments—with a focus on customers and employees

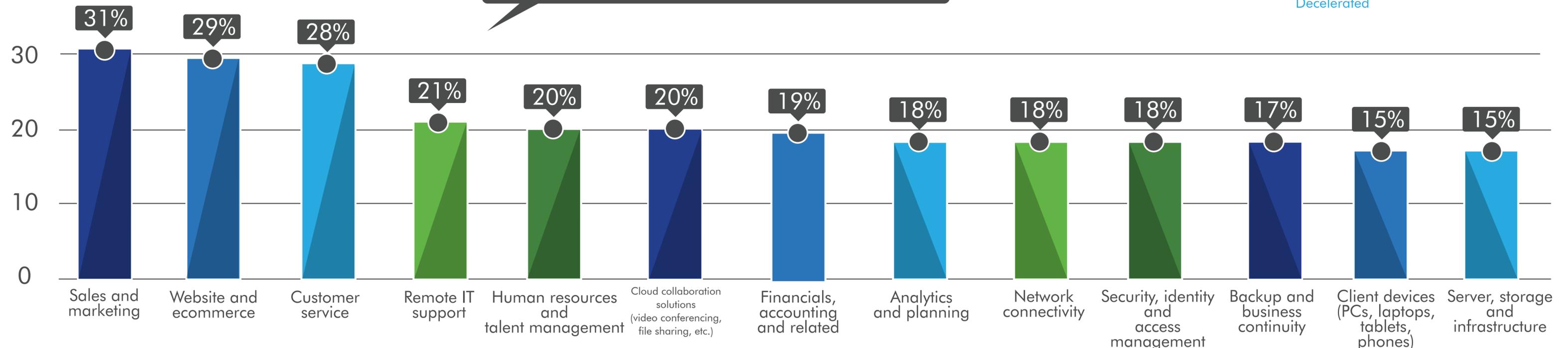
SMB Group's **2019 SMB Digital Transformation Study** revealed that 82% of SMB respondents agreed or strongly agreed that digital technology is key to their companies' survival and growth. Therefore, it's not surprising that even amid this current downturn, technology solutions will enable them to effect the changes they need to make for ongoing viability. 40% of SMBs are planning to continue investing in technology at previously planned levels, and about one-third are planning to increase technology spending.

Investment priorities start with customer-facing areas—sales and marketing, website and ecommerce, and customer service—to help SMBs attract new customers and generate revenues. Solutions to support employees—such as remote IT support, HR and talent management, and cloud collaborations solutions—also rank highly, as they will help SMBs to improve productivity and manage workforce volatility.

Has the COVID-19 pandemic accelerated, decelerated or had no impact on your technology investments and adoption?



Over the next 12 months, what are the top three technology areas that your business needs to invest in to recover and prepare for growth? (Select the top three only.)



Takeaways for SMBs

- We will not be going “back to (the old) normal” any time soon.
- The “next normal” has yet to come into crisp focus, but some trends are clearly emerging—as highlighted in this chart.
- Focus on these trends to reboot your business for growth.
- Tune into how your customers’ needs, preferences and expectations are changing.
- Take advantage of guidance from business, financial, technology and other advisors to successfully execute the changes you need to make.



FLEXIBLE WORKSPACES

- WFH is here to stay.
- While some workers will return to a traditional office schedule, others will continue to WFH, and still others will have a hybrid schedule.
- Invest in collaboration, communication and security solutions to enable a flexible, engaged and productive workforce



NO TOUCH/ LOW TOUCH

- No one wants to touch anything, but they don't have to.
- The shift to no-touch/low-touch transactions and interactions is already providing strong value for SMBs that have implemented it.
- Look at physical hand-offs and touchpoints in your business—from customer payments to the shop floor—and replace the most frequent ones with a lower/no-touch system.



VIRTUAL SERVICES

- Virtual services are becoming widespread in areas where they were just a novelty prior to COVID-19.
- Virtual services are proving their worth to SMBs—and their customers.
- In some cases, virtual options will become the preferred choice.
- Look at how you can expand, augment and/or complement physical services with virtual ones.
- Customer preferences will dictate the mix.



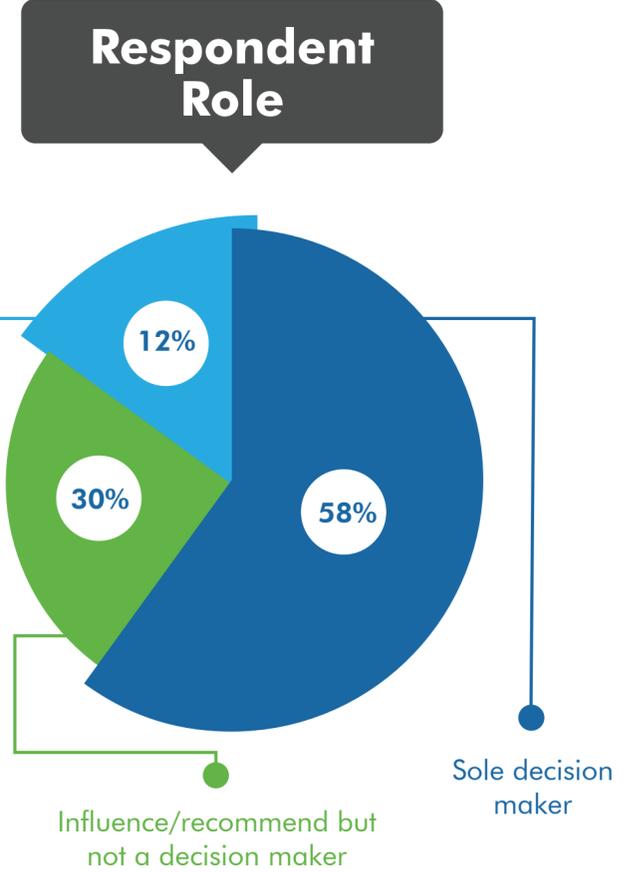
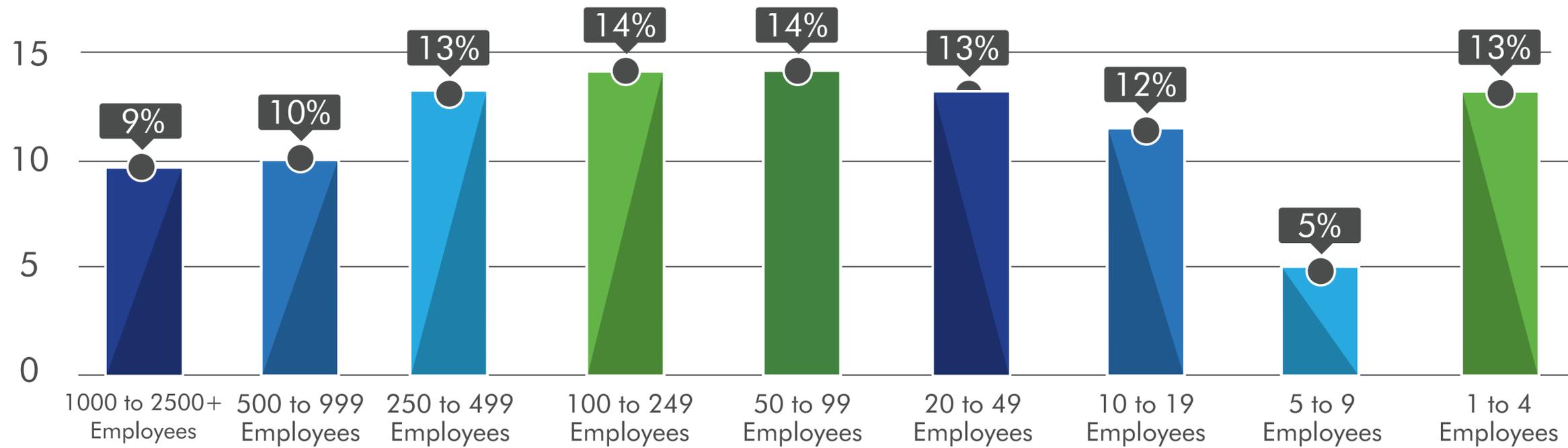
CLOUD COMPUTING

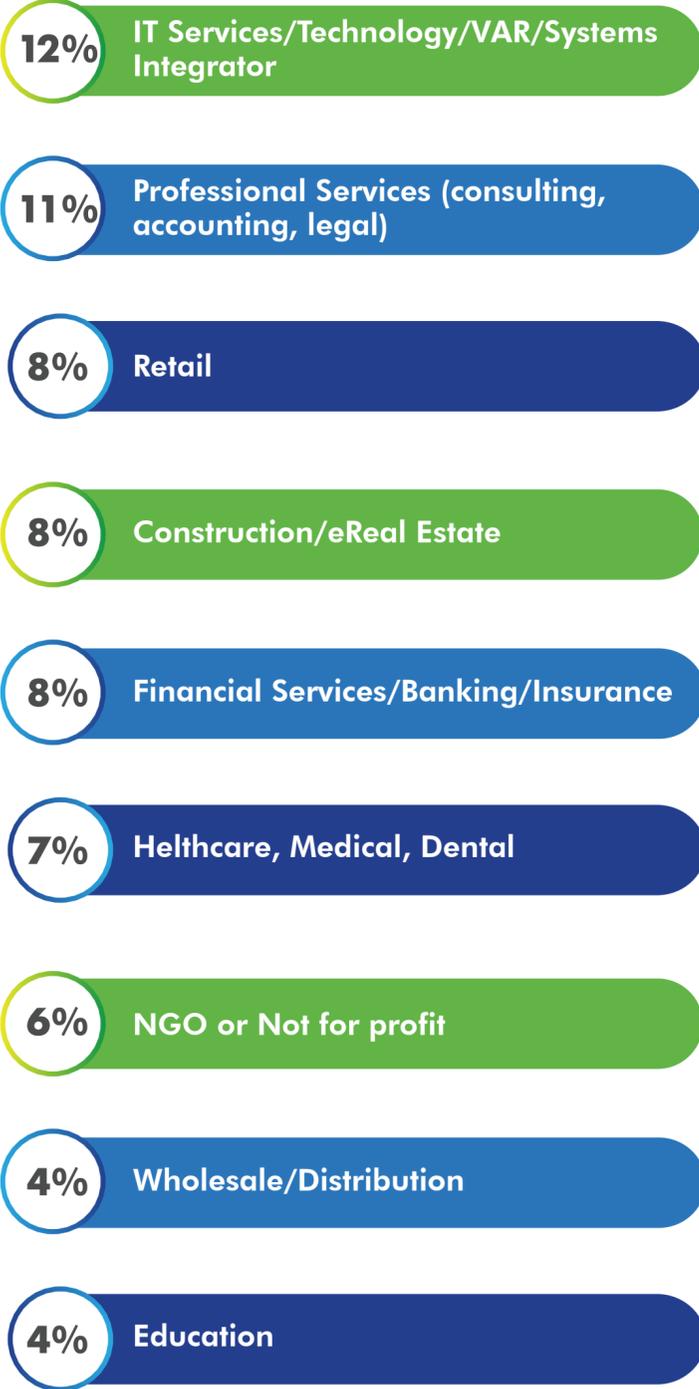
- Cloud computing is the enabler that will help SMBs implement these and other long-lasting changes that will be necessary to recover and grow in the future.

Unless otherwise noted, all data in this eBook is sourced from SMB Group’s **SMBs: Navigating a Path Forward** study.

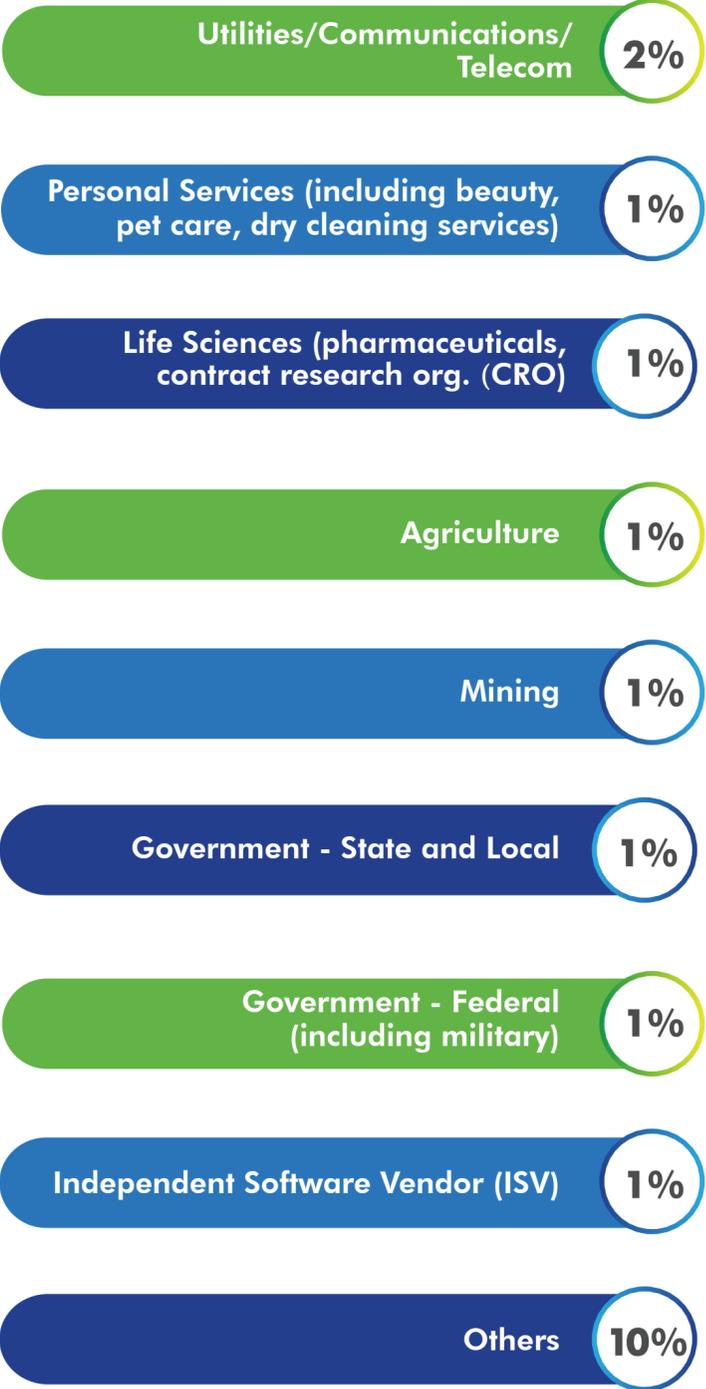
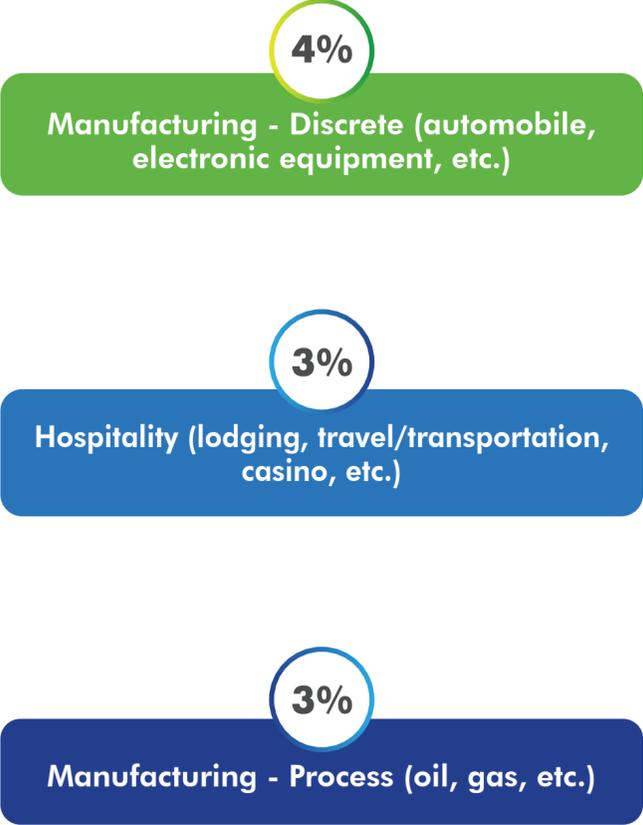
Data was collected via a web-based survey from June 22 through July 7, 2020, from a random sample of 755 completed survey responses.

Business Size Distribution





Industry Distribution





ABOUT SMB GROUP

www.smb-gr.com

SMB Group is a research, analysis and consulting firm focused on technology adoption and trends in the small and medium business (SMB) market. Founded in 2009, SMB Group helps clients to understand and segment the SMB market, identify and act on trends and opportunities, develop more compelling messaging, and more effectively serve SMB customers.

THANK YOU TO OUR SURVEY SPONSORS

