© SMB Group, January 2019. All Rights Reserved.

Top 10 SMB Technology Trends for 2019

1. **The Cloud is (Still!) the Platform for SMB Digital Transformation**

2. **Younger SMBs Use Technology to Leapfrog Older Ones**

3. **SMB Expectations for AI, ML and NLP in Business Applications Rises**

4. **SMBs Add New Sales Channels to Keep Pace with Customer Expectations**

5. **Medium Businesses Seek New HR and Talent Management Solutions to Help Ease the Talent Crunch**

6. **SMBs Shuffle the Business Applications Deck**

7. **SMB Advisor and Purchase Channel Preferences Shift and Diversify**

8. **SMBs Modernize the Workplace for a More Flexible Workforce**

9. **SMBs Are Trapped Between Digital Innovation and Cyber Security Risks**

10. **SMB Interest in IoT Grows**

The Cloud is (Still!) the Platform for SMB Digital Transformation

The verdict is clear: Cloud is the new normal for SMBs.

Going into 2019, SMBs are more likely to use cloud-only or hybrid cloud and on-premises solutions in most business application categories. Furthermore, the trend toward the cloud seems irreversible, with a majority of companies that have been in business five or fewer years opting for the cloud in every category.

Many SMBs were initially drawn to the cloud because it provided a faster, cheaper and easier way to deploy and manage business solutions. However, leading cloud solution providers have morphed into platform vendors. They are baking new technologies—including artificial intelligence and machine learning, blockchain and natural language processing—into their applications.

This gives SMBs an on-ramp to these technologies within the applications they already know how to use. This on-ramp is particularly important for small businesses, which rank "figuring out how different solutions can help my businesses" as their top technology challenge.

SMBs can now use cloud platforms not only to automate existing operations, but as a springboard to the innovation and flexibility they need to transform their businesses for the digital age. But the cloud and new technologies are not a panacea. SMBs have many cloud applications to choose from in all major business solution areas. They will select those that are easy to use, are priced right and have better customer service records.

Top 3 Reasons Solutions Get on SMBs Short List

#1 Better pricing

#2 Easier to use

#3 Better customer service record

SMB Business Solution Deployment Choices

Legend:
- Cloud
- Combination of on-premises and cloud
- On-premises

Category	Cloud	Combination of on-premises and cloud	On-premises
Business intelligence and analytics	37%	21%	42%
Marketing automation	36%	23%	41%
Sales/contact management	31%	23%	46%
Customer service automation	31%	22%	47%
Enterprise resource planning (ERP)	30%	18%	52%
Corporate performance management (CPM)	30%	26%	45%
Human resources and talent management	27%	19%	54%
Payroll	27%	18%	55%
Accounting, financial management	20%	18%	62%

© SMB Group, January 2019.

2 Younger SMBs Use Technology to Leapfrog Older Ones
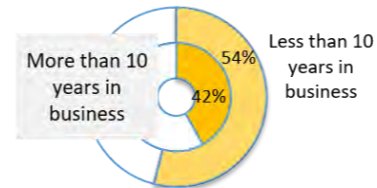
Younger businesses are much more proactive in using technology to help grow their businesses than their older counterparts.

Companies that have been in business fewer than 10 years are 2.2 times more likely to be planning to increase their technology spending. They are especially more likely than older firms to use social media channels to engage with customers and prospects and to sell through digital storefronts. Younger companies are also more likely to put technology to work to pursue new business growth initiatives than firms with 10 or more years behind them.
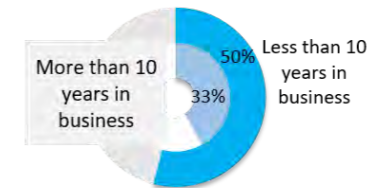
This more active technology adoption also correlates with growth. Firms that have been in business fewer than 10 years are 1.4 times more likely than older companies to forecast revenue growth. In addition, younger businesses are more likely to strongly agree that they can adapt quickly to changing market conditions.

The mandate is clear: Businesses can no longer afford to be complacent about technology and changing market conditions. All SMBs need to critically assess the metrics that matter most and develop a proactive strategy for using technology to adapt to and stay ahead of customer demands, market conditions and competitive pressures.
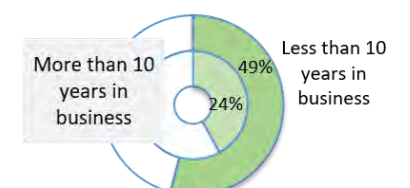
Top Current Digital Sales Channels

More than 10 years in business — 42%
Less than 10 years in business — 54%

Facebook/Pinterest/ other social media site

More than 10 years in business — 33%
Less than 10 years in business — 50%

Ecommerce storefront

More than 10 years in business — 24%
Less than 10 years in business — 49%

Third-party ecommerce storefront (e.g. Amazon, etc.)

Top 3 Current Growth Initiatives

More than 10 years in business — 26%
Less than 10 years in business — 48%
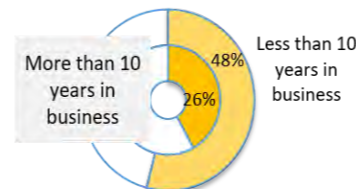
Launch a new product or service offering

More than 10 years in business — 23%
Less than 10 years in business — 41%

Add a new sales channel

More than 10 years in business — 22%
Less than 10 years in business — 40%
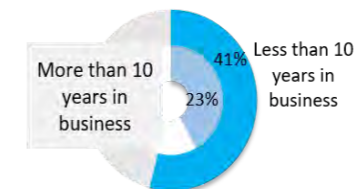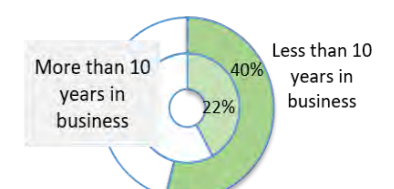
Start selling to a new target market in the U.S.

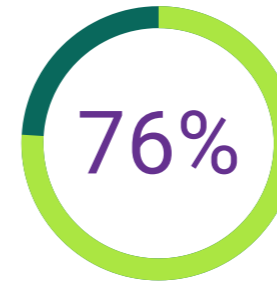# 3 SMB Expectations for AI, ML and NLP in Business Applications Rises

Although SMBs may not understand all of the hype surrounding artificial intelligence (AI), machine learning (ML) and natural language processing (NLP), demand for these capabilities is growing as the benefits of these technologies become increasingly apparent.

76% of SMBs strongly agree/agree that digital technologies are reshaping their business practices. They need to look no further than the consumer applications they use every day—such as Alexa, Spotify and Waze—to see AI, ML and NLP technologies in action.

Furthermore, 50% or more of SMBs now view AI, ML and NLP as important or very important to their business success and longevity. Some are already reaping benefits through their current business solutions. Cloud application vendors are embedding AI and ML into their offerings to automate routine work—such as to categorize expenses, flag policy violations and make recommendations—helping SMBs save time and provide them with better insights.

Although still nascent, some SMBs are also seeing how AI and ML can help them get these insights in more contextual and intuitive ways. Chatbots and NLP make it easier for mere mortals to query and use data for problem solving and planning.

Medium businesses are leading the charge, but demand from small businesses will catch up quickly. Across the spectrum, SMBs will increasingly expect vendors to provide more of these capabilities as a standard part of their offerings—and to deliver them in a more intuitive and turnkey fashion.
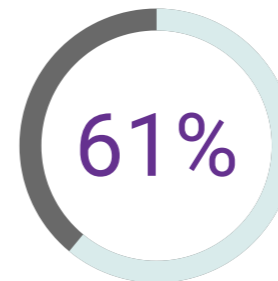
76%

76% of SMBs strongly/agree that "digital technologies are reshaping their business practices/model

51%

51% of SMBs say AI and ML will be very important/important to business success

61%
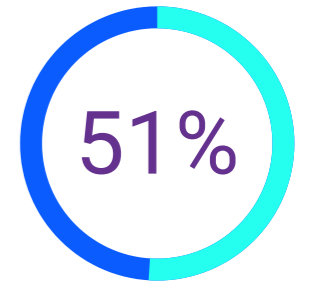
61% of SMBs say NLP will be very important/important to business success

SMBs Add New Sales Channels to Keep Pace with Customer Expectations

Attracting new customers and growing revenues are age-old SMB goals, but the means to achieve them are changing—fast.
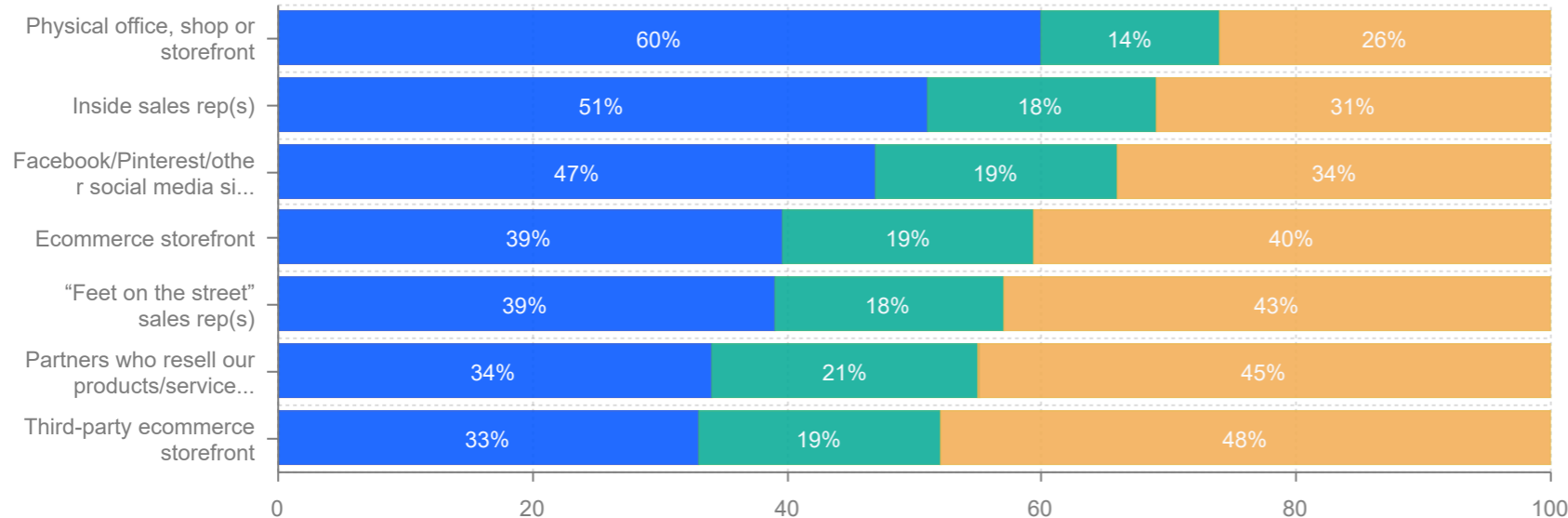
Today, almost any business can be "Amazoned" by more agile competitors that provide an easier, faster and more personalized sales experience. Recognizing this reality, SMBs are adding new sales channels to make it easier for customers to shop when, where and how they want.

Currently, SMBs are most likely to sell through direct physical shops/offices (60%) and inside sales reps (51%) than via other channels. However, roughly 20% plan to add their own or third-party ecommerce storefronts (e.g., Amazon, Etsy, eBay); sell through Facebook, Pinterest or other social media sites; and/or add new partner channels.
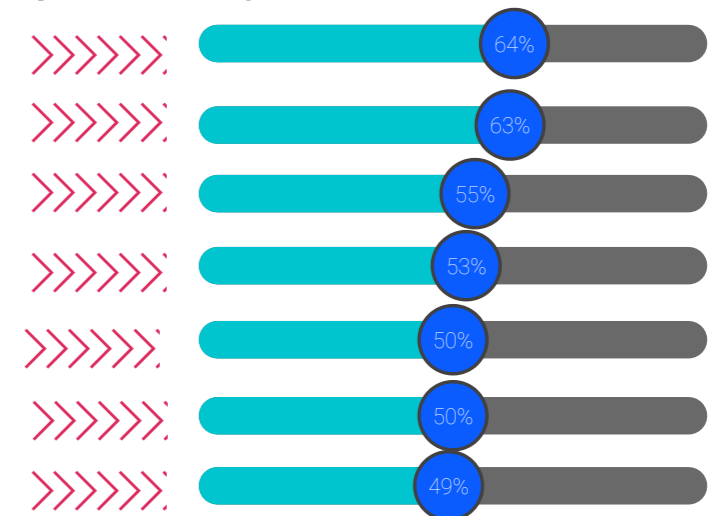
SMBs expect that sales are most likely to increase via these newer digital channels (whether their own or third-party storefronts) and through partner channels through their own traditional, direct ones.

Although new channels can lead to growth, they also lead to more complexity—and a struggle to provide customers with a positive and consistent omnichannel experience across sales, marketing and service. SMBs will need to integrate new sales channels with existing ones—and with accounting, inventory, logistics and other related functions—to optimize the customer experience across these channels and reap the insights needed to stay ahead of the curve.

Current and Planned SMB Sales Channels

Channel	Current	Planned	Not planned
Physical office, shop or storefront	60%	14%	26%
Inside sales rep(s)	51%	18%	31%
Facebook/Pinterest/other social media si...	47%	19%	34%
Ecommerce storefront	39%	19%	40%
"Feet on the street" sales rep(s)	39%	18%	43%
Partners who resell our products/service...	34%	21%	45%
Third-party ecommerce storefront	33%	19%	48%

Expected Change in Sales Over the Next 12 Months

Physical office, shop or storefront	64%
Inside sales rep(s)	63%
Facebook/Pinterest/other social media	55%
Ecommerce storefront	53%
"Feet on the street" sales rep(s)	50%
Partners who resell	50%
Third-party ecommerce storefront	49%

Medium Businesses Seek New HR and Talent Management Solutions to Help Ease the Talent Crunch

**Medium businesses have been hit especially hard by the talent crunch.**

Medium businesses rank "attracting and retaining quality employees" and "improving employee productivity" as their top two business challenges. This is in contrast to small businesses, which rank attracting new customers and growing revenues as their top two challenges.

Medium businesses also need to hire more people than small businesses do. Medium businesses are 53% more likely to want to hire more salaried employees and 42% more likely to plan on hiring more external contractors than small businesses.

This struggle to find and retain talent is exacerbated by a workforce that is in flux: Baby boomers are retiring; younger workers are entering their prime working years; reliance on "gig" economy freelancers and contractors is growing; and many workers want more flexibility and work/life balance in their jobs.
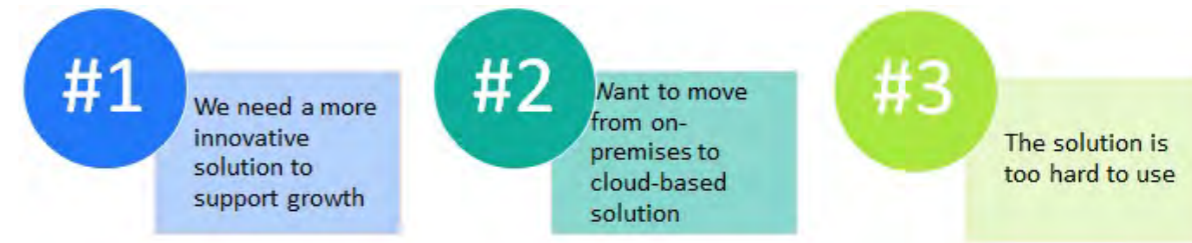
Medium businesses must adjust HR-related policies, practices and programs to new realities in order to meet their hiring and retention goals. As a result, among the 62% of medium businesses that currently use HR and/or talent management solutions, 29% are considering replacing their incumbent solutions with new ones, and another 27% may consider doing so in the future.

The top three reasons for considering this shift include wanting to move from on-premises to cloud-based solution; needing better reporting, analytics and intelligence; and the need for more/better functionality.

29%, Yes
44%, No
27%, Maybe
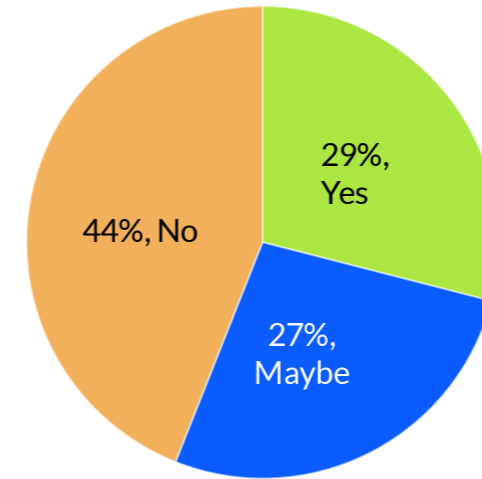
Medium business plans to replace current HR/talent management solution

Top 3 Reasons Why Medium Businesses are Considering Replacing Current HR and/or Talent Management Solutions

#1 We need a more innovative solution to support growth

#2 Want to move from on-premises to cloud-based solution

#3 The solution is too hard to use

SMBs Shuffle the Business Applications Deck

Figuring out how to invest their limited budget, time and resources to help grow the business is never easy. But making the right technology investments to automate operations is crucial for SMBs that want to survive and thrive.

How are SMBs placing their bets in the business application space? Although specifics vary based on business size and industry, we see some overarching trends.
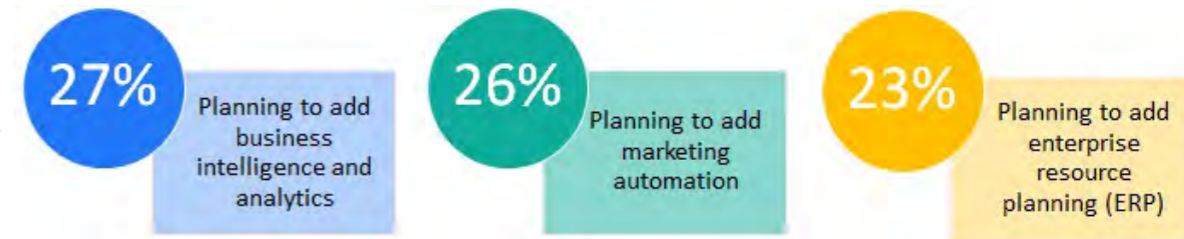
The number one area for net-new SMB business application investments is business intelligence and analytics. This is not surprising, as today, every company is becoming a data company. SMBs want to get more actionable intelligence from the growing volumes of data they're collecting to stay ahead of the market and their competition.

SMBs put marketing automation in the number two spot, and customer service automation and enterprise resource planning (ERP) tie for third as the top three areas in which SMBs plan to add a net-new solution.
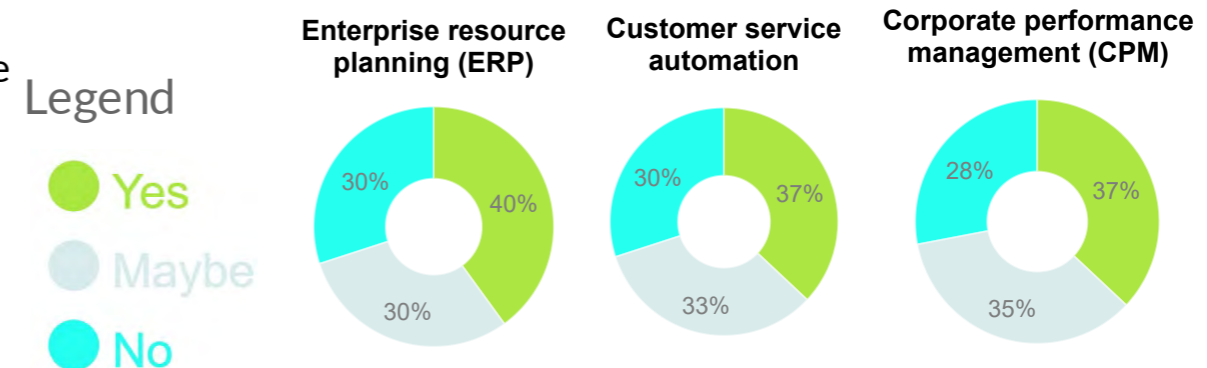
On the replacement front, ERP is the number one area in which SMBs are considering a switch: 40% say they're considering replacing their current ERP solution. The top reasons for the switch are because their current solution is too expensive/complex; they need better reporting and analytics; and they want to move from an on-premises to a cloud solution. The next most likely areas for SMBs to swap out old apps for new ones are corporate performance management and customer service automation.

The top two application capabilities that SMBs are most likely to rate as being very important/important to their business in the future are integration with key applications they already use and native mobile capabilities. Natural language processing (NLP), along with analytics reporting and dashboarding tie for the third spot.

Top Three Areas Where SMBs Plan to Add New Applications

27% Planning to add business intelligence and analytics

26% Planning to add marketing automation

23% Planning to add enterprise resource planning (ERP)

Top Three Areas Where SMBs Plan to Replace Existing Applications

Legend

🟢 Yes
⚪ Maybe
🔵 No

Enterprise resource planning (ERP)
30% / 40% / 30%

Customer service automation
30% / 37% / 33%

Corporate performance management (CPM)
28% / 37% / 35%

© SMB Group, January 2019.

SMB Advisor and Purchase Channel Preferences Shift and Diversify

Making technology decisions and implementing new solutions isn't easy for resource-constrained SMBs. The rapid pace of technological innovation, coupled with the increasingly important role of technology in business, compounds the problem. This is driving SMBs to seek technology advice from a broader range of sources.
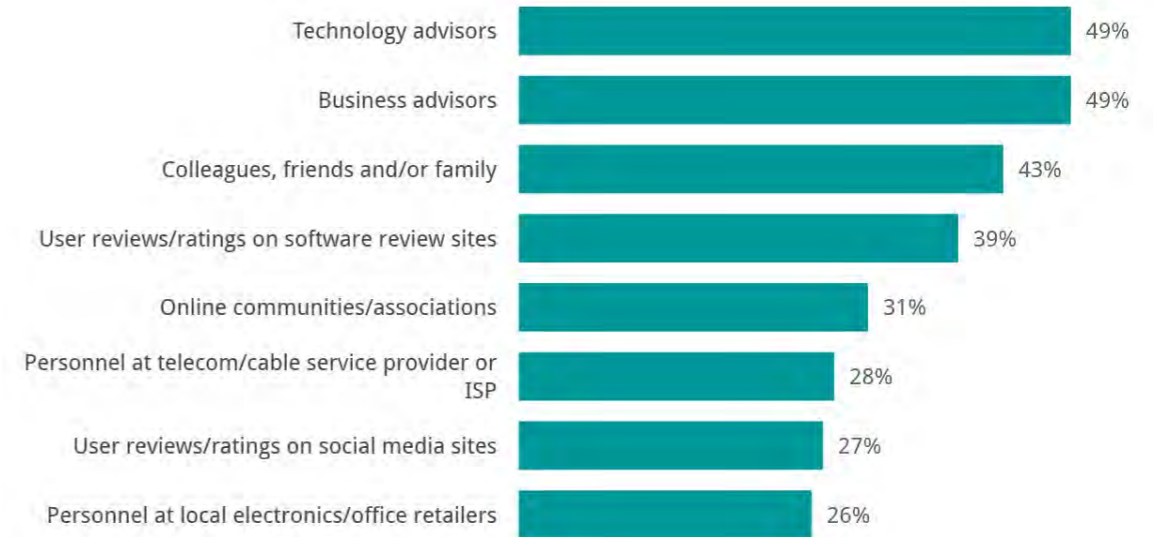
SMBs are still most likely to rely on more traditional "expert" sources—such as technology, business and professional advisors—for guidance on technology solutions. But they are increasingly taking advantage of peer-based digital guidance sources, including online communities and associations, social media sites, application stores, and software review sites to get direct, unfiltered input and advice from users.

SMBs' purchase channel preferences are also diversifying. SMBs' top two purchase channels are direct from software and cloud vendors, followed by from network and internet service providers. Value-added reseller (VAR) and managed service provider (MSP) channels remain strong, but online application marketplaces and web hosting companies are becoming popular purchase channels as well.
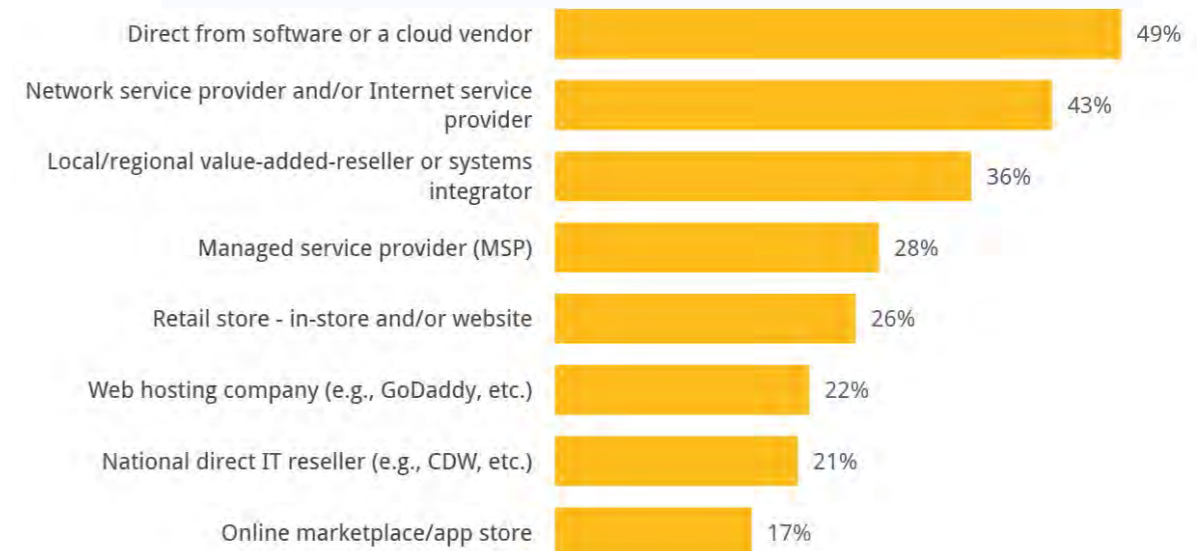
Regardless of who they purchase from, SMBs cite on-site service and support, customization options, flexible contracts, planning and implementation services, and industry-specific expertise as the top five most important capabilities they look for when evaluating potential purchase channels.

SMBs also want vendors to improve the actual purchase experience. The top three improvements SMBs are clamoring for are getting their questions answered more quickly, providing a more consistent experience across purchase channels, and providing easier and faster answers to their questions.

© SMB Group, January

SMB Top Sources for Technology Guidance

Source	%
Technology advisors	49%
Business advisors	49%
Colleagues, friends and/or family	43%
User reviews/ratings on software review sites	39%
Online communities/associations	31%
Personnel at telecom/cable service provider or ISP	28%
User reviews/ratings on social media sites	27%
Personnel at local electronics/office retailers	26%

SMB Preferred Purchase Channels

Channel	%
Direct from software or a cloud vendor	49%
Network service provider and/or Internet service provider	43%
Local/regional value-added-reseller or systems integrator	36%
Managed service provider (MSP)	28%
Retail store - in-store and/or website	26%
Web hosting company (e.g., GoDaddy, etc.)	22%
National direct IT reseller (e.g., CDW, etc.)	21%
Online marketplace/app store	17%

SMBs Modernize the Workplace for a More Flexible Workforce

Seismic technology, demographic and cultural shifts are driving SMBs to help people work smarter, not just harder.

Changing demographics are causing many SMBs to rethink how and where work gets done. As baby boomers retire, SMBs are taking steps to make the workplace more attractive to younger workers—who expect a more flexible, collaborative and technology-enabled workplace.

With the talent crunch on, SMBs are also adopting more flexible staffing strategies: 39% expect to hire more external contractors/freelancers in the next year.

These trends are spiking SMB support for remote workers. Today, 37% say 20% or more of their workforce currently telecommutes, and 28% expect this to rise in the next year. Similarly, 51% of SMBs say 20% or more of their workforce regularly travels for work, and 25% predict this rate to increase.

As more people need to get work done anytime, anywhere, their reliance on mobile devices will continue to rise: 47% of SMBs say that mobile devices have decreased the use of traditional PCs and laptops in their companies. SMBs are also quickly adopting newer collaboration tools, such as video conferencing, and solutions such as Slack and Outpost that are designed to work with, instead of replace, established ones.

Looking ahead, 5G and its high-speed and low-latency capabilities will enable yet another generation of new solutions to facilitate collaboration in situations that require very rapid responses.
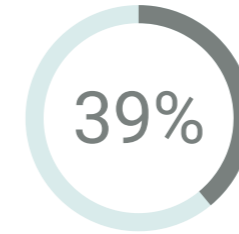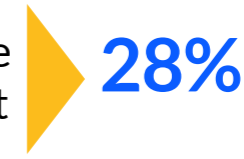
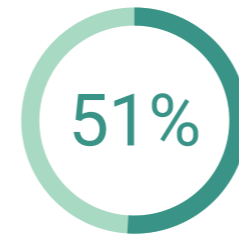**39%** 39% expect to hire more external contractors/freelancers in the next year

SMB Current and Planned Remote Workforce Trends
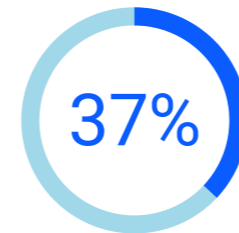
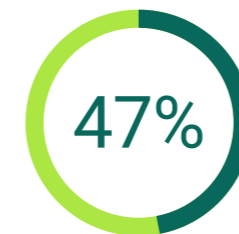**37%** of SMBs say 20% or more of the workforce telecommutes at least one day a week ▶ **28%** expect this to increase in the next year

51% of SMBs say 20% or more of the workforce travels for work ▶ **25%** expect this to increase in the next year

47% 47% of SMBs say that mobile devices have decreased their use of traditional PCs and laptops

SMBs Are Trapped Between Digital Innovation and Cyber Security Risks

As adoption of cloud, social and mobile technologies rises, data moves into more places, devices and clouds than most SMBs can keep track of. Consider the following:

- Almost all SMBs use at least one cloud solution—and most use multiple.
- Two-thirds of SMBs use Facebook, and almost one-half use Twitter, LinkedIn and/or YouTube to connect and engage with customers and prospects.
- SMB employees are now more likely than not to use mobile devices for work: 58% of SMBs say 50% or more of their employees use mobile devices for business purposes.
- The adoption of emerging technologies, such as artificial intelligence (AI) and Internet of Things (IoT), introduces new risks into the security equation— such as hijacked AI-driven chatbots, which could misdirect users to bad links rather than legitimate ones.

Meanwhile, SMB cyber risk is rising. In 2017, 61% of small businesses fell victim to a cyber attack, up from 55% in 2016, according to the Ponemon Institute's 2017 State of Cybersecurity in Small & Medium-Sized Businesses report. Stricter regulations, such as the General Data Protection Regulation (GDPR), make the security and privacy landscape even more difficult to navigate.

Faced with these realities, it's not surprising that SMBs rank "protecting company information from threats" as their top IT challenge. But despite the hand-wringing, most continue to rely on device-centric point solutions—which can't protect and secure their information in all the places that it now lives.

74% of SMBs agree that using new technology effectively is key to business growth

SMBs rank "protecting company information from threats" as their #1 technology challenge

Although it's impossible to ward off every potential attack, SMBs must course-correct to update their security approach and shift to adaptive, multi-layered security solutions that incorporate AI and machine learning to provide more proactive, preventive protection against threats. Given their dearth of security expertise, most SMBs will need to work with security vendors and partners that can help them to select and deploy an effective solution.

SMB Interest in IoT Grows

IoT solutions replace manual data collection and subjective judgments with automated data collection that can precisely monitor and measure what's happening.

SMBs are becoming more aware of how the Internet of Things (IoT)can help them to streamline operations, save energy and improve security—from a shop floor to a farm. Although more nascent, SMB interest in using IoT to deliver new products or services—and even to create new business models—is also on the rise.
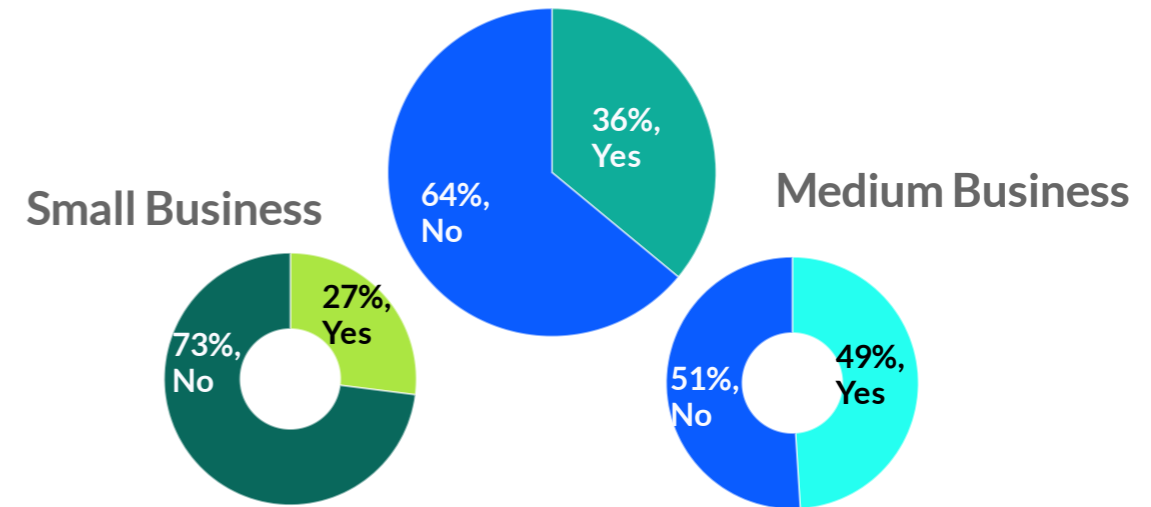
Overall,36% of SMBs currently use or plan to use IoT solutions, with medium businesses about 1.8 times more likely to be using or planning to use IoT than small companies.

Medium businesses also outpace their smaller counterparts across the range of current and planned IoT use cases. But interestingly, among those small businesses with plans to use IoT, about 41%plan to use IoT to help launch new services or to create an entirely new line of business.
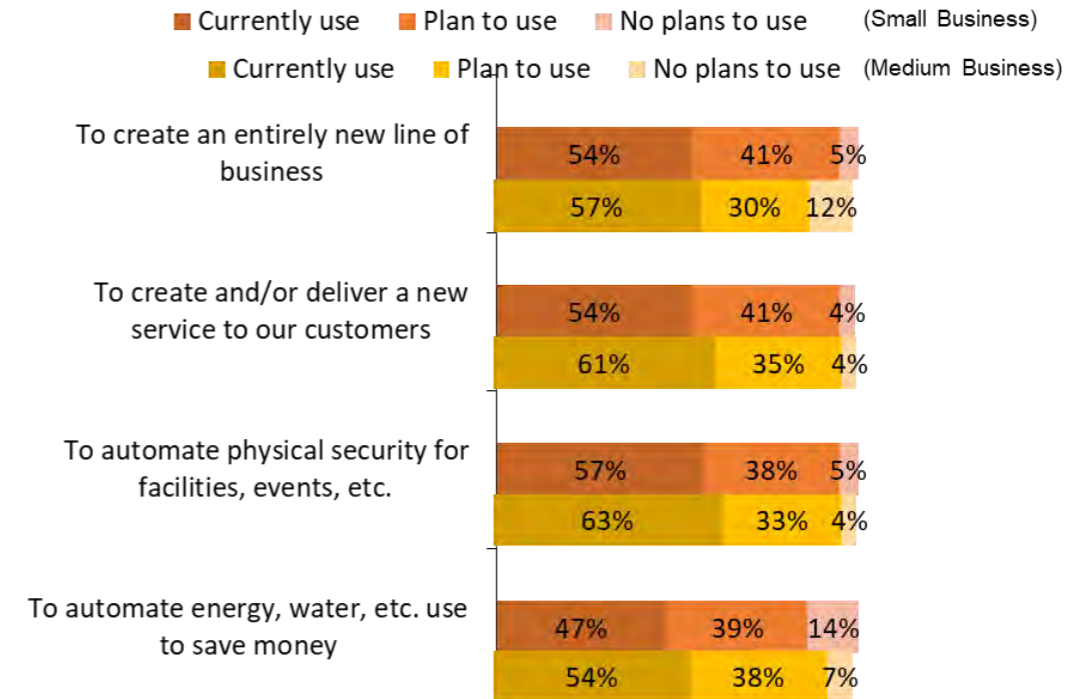
As more early SMB IoT adopters see valuable returns on their IoT investments, SMBs' understanding of and demand for IoT solutions will grow. And, as vendors embed more artificial intelligence (AI) and machine learning (ML) capabilities into their solutions, they'll become even more attractive to SMBs.

However, SMBs require help to turn their IoT visions into reality. IoT vendors will need to provide SMBs with more pre-configured, easy-to-deploy solutions that cater to SMB-specific use cases, requirements and constraints—along with compelling return-on-investmentmetrics—to move SMBs from aspiration to action.

© SMB Group, January 2019

SMB Use and Plans for IoT

Small Business

Medium Business

36%, Yes
64%, No

73%, No
27%, Yes

51%, No
49%, Yes

How SMBs Currently Use and Plan to Use IoT

■ Currently use ■ Plan to use ■ No plans to use (Small Business)
■ Currently use ■ Plan to use ■ No plans to use (Medium Business)

To create an entirely new line of business
| 54% | 41% | 5% |
| 57% | 30% | 12% |

To create and/or deliver a new service to our customers
| 54% | 41% | 4% |
| 61% | 35% | 4% |

To automate physical security for facilities, events, etc.
| 57% | 38% | 5% |
| 63% | 33% | 4% |

To automate energy, water, etc. use to save money
| 47% | 39% | 14% |
| 54% | 38% | 7% |

SMB Group

Information Sources

All data is sourced from the following SMB Group survey studies, unless otherwise noted:

- SMB Group SMB 360: Connecting the Dots Between Business and Technology Study

- SMB Group SMB Digital Transformation Study

About SMB Group

Founded in 2010, SMB Group is a technology industry research, analytis and consulting firm, focusing exclusively on the small and medium business (SMB) market. We help our clients to:

- Identify trends and opportunities
- Understand and segment the SMB market
- Evaluate and act upon opportunities, threats and disruptive trends
- Develop more compelling messaging and content
- Position solutions for growth and competitive advantage

For More Information

For information about licensing SMB Group's 2019 Top 10 SMB Technology Trends, please contact Lisa Lincoln, Director of Client Services:

- lisa.lincoln70@smb-gr.com 508-734-5658