

Small business, big technology

How the cloud enables rapid growth in SMBs



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Abstract

The problem

SMBs seeking to grow sustainably face three critical challenges: access to capital and skills as a start-up; scalability and management control as the business grows rapidly; optimisation and innovation as it becomes mature.

The research

SMBs using cloud technology to overcome their growth challenges grow 26% faster and deliver 21% higher gross profits. 85% of those surveyed believe cloud enable their business to scale and grow faster.

The solution

SMBs should optimise their technology and business practices for the digital world, moving tools and applications that are not core to their customer proposition to the cloud to free up time, capital and resources while setting a platform for sustainable rapid growth.



The fastest growing small businesses make extensive use of cloud technologies. This finding from our research into the operating practices of small and medium businesses (SMBs) in five European countries and the USA reflects the unprecedentedly rapid evolution of business practice in the last decade.

On average, **SMBs using an above average number of cloud services grow 26 percent faster than those that use no cloud tools and are more profitable by 21 percent on average.**

Today's start-ups have immediate access to enterprise-grade technology – 83 percent of start-ups we surveyed believe cloud technologies enable them to access tools and technologies they would not have been able to afford otherwise. The most successful start-ups use cloud technologies to help them overcome their most severe challenges: access to capital and skills. Their reward is survival in the face of odds that see a quarter of new businesses fail in the first two years.¹

Using cloud technologies enables businesses to create a platform for extremely rapid growth in a world of open markets and simple global delivery of products and services. We interviewed companies with average growth rates of 80 percent per annum, and heard how they use the cloud to overcome the scalability and flexibility challenges associated with growth rates more than ten times greater than average. Significantly, **85 percent of the SMBs we surveyed believe that cloud technology enables them to scale and grow faster.**

When growth slows and a business reaches maturity, the cloud offers leaders an opportunity to simplify and streamline operations to unlock more capital to invest in new phases of growth. 79 percent of relatively mature companies we surveyed believe cloud technology enables access to new markets and revenue streams.

It is because of these benefits that **69 percent of survey respondents expect to increase their use of cloud based technology in the next three years.**

In each of these three growth phases we found that the leaders of successful SMBs are savvy about technology and about the cloud. They are experts in designing supporting infrastructure to optimise when and how to deploy new capabilities onsite or in the cloud, when to tailor technology for a business need and when to accept a 'good enough' solution.

None of their principles for success require specialist knowledge. They are grounded on excellent business sense and can therefore be readily applied to any business that is seeking to overcome typical business challenges and achieve growth.

Introduction: The three phases of small business



Deloitte's experience with SMBs

Deloitte actively supports and works with the SMB community both in the UK and internationally, as clients and also through a number of initiatives. In the 'fast-growth' space, we produce insights and perspectives on the 1,000 medium sized businesses leading Britain as part of our UK Futures campaign, as well as run the Technology UK Fast 50 and Fast 500 EMEA programmes.

Now in its seventeenth successful year, the UK Fast 50 is a technology awards programme ranking of the country's 50 fastest-growing technology companies, based on revenue growth over the last five years. In the UK, growth rates of the winners are typically greater than 50% per annum (compound basis). The UK Fast 50 is also part of an international programme run by Deloitte – the Fast 500 EMEA, Americas and Asia-Pacific – which pull together entrants from other national programmes run in each of the regions. The awards are all about growth driven by leading intellectual property and are a celebration of innovation and entrepreneurship.

It's really hot to be small right now. Working in, or better still setting up a start-up is powerful social currency, not just in booming creative hubs like London, San Francisco and Berlin but also in more specialised clusters such as Bristol and Cardiff. But once the hype subsides, start-ups must learn how to grow sustainably if they are going to join the ranks of small-to-medium-sized businesses (SMB) that make up as much as half the GDP of a country like the UK.²

There are three key stages of life for SMBs. In the **start-up phase** a business seeks to survive and win market share. If it overcomes these initial challenges, a business will typically move to the **rapid growth phase**, where it aims to expand substantially and in a controlled fashion. When fast growth subsides, the business enters a phase of **relative maturity**, where profitability and seeking out the next growth area become the focus.

This three-stage structure to growth will be as familiar to any leader in business, large or small, today as it would have been to entrepreneurs in the 20th Century. What would be atypical and frightening to last century's leaders is the pace at which markets grow and businesses succeed and fail today. One of the primary reasons for that speed is the inexorable acceleration of progress in digital technologies, the subject of the next chapter.

Small business, big technology

Ideas in brief

- Technology is critical in today’s environment and our research suggests SMBs spending more on it perform better.
- Cloud technology has enabled newer SMBs to adopt advanced technology and practices earlier in their lives.
- The key benefits of cloud are: scalability, flexibility, cost, innovation, maintenance and security.

Key questions

- Could your business use cloud technology to overcome some of the challenges that you face?
- Do you need to be more strategic and forward looking about your IT investments?

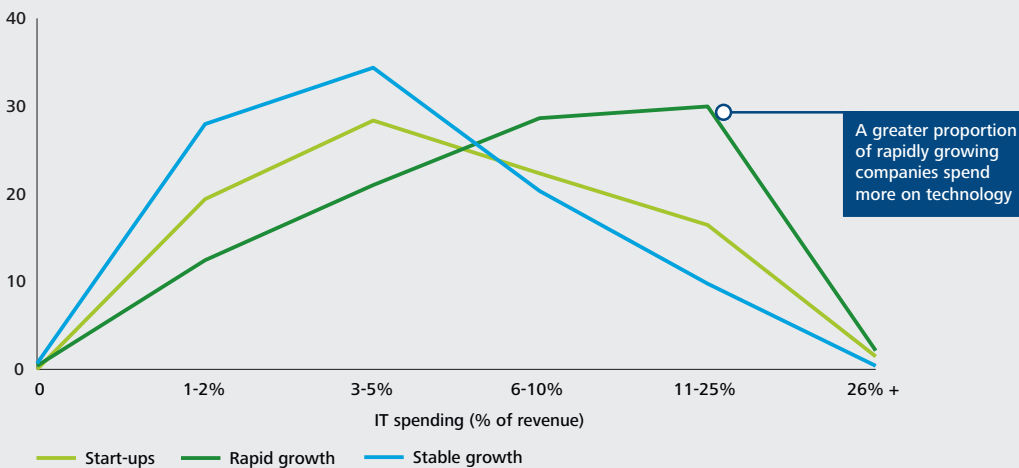


Today’s small and medium businesses operate within the fastest moving commercial environment in history. This marketplace offers outstanding opportunities for entrepreneurs and managers alike, but it is also potentially harmful for the unwary and those that are unable to appreciate and harness the power of digital technologies.

SMBs embracing technology outperform those that are slower adopters. Our survey indicates that the average SMB spends 3-5 percent of its revenue on IT. However, the profile of spending is different for the fastest growing companies – over 30 percent of them spend more than 10 percent of revenues on IT (see Figure 1).

Figure 1. IT spending as a percentage of revenue

Percentage of respondents



The results hold true when accounting for sector bias. 30 percent of non-IT and telecoms fast growing businesses spend more than 10 percent on IT, compared to only eight percent of stable growth companies. This result is therefore relevant for more traditional sectors and is not simply a case of ‘technology companies grow faster’.

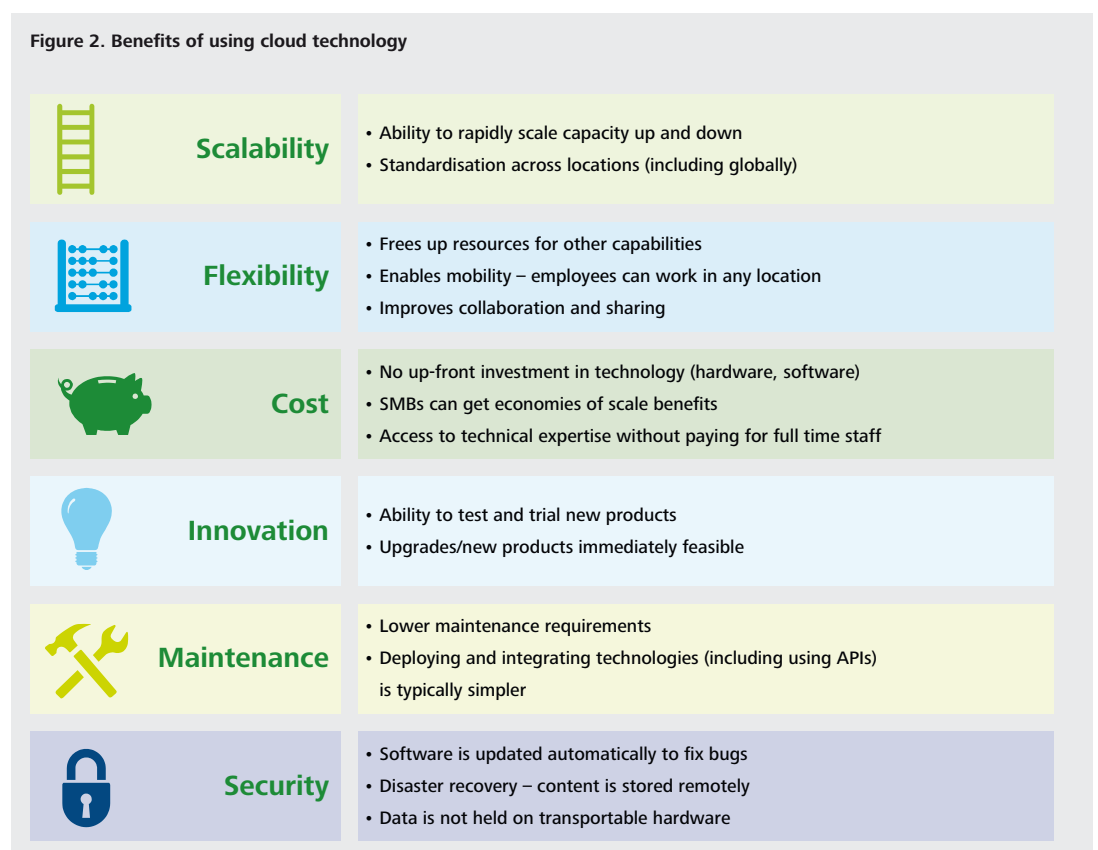
Advancement and proliferation of technology has already had a profound effect on SMBs. New financing models, such as crowdsourcing and micro financing, help owners of great ideas access finance from beyond the traditional regional reach. Search advertising and social media enable interaction with potential customers without vast expenditure on broadcast media. Behind the scenes, automation and data analytics can radically reduce the cost of operating.

Much of the economic advantage is made possible by cloud computing. Cloud technologies are standardised IT services and solutions (infrastructure, platforms and software) that are managed and maintained by a third party, delivered to consumers over a network connection and paid for based on usage.

For example, Google Drive, Dropbox and other similar solutions give businesses effectively unlimited file storage, allowing documents to be synced and shared across multiple users and devices.

Cloud technology offers its users almost infinite resources that can be turned on and off as required. This is in contrast to traditional technology purchasing, in which businesses buy a fixed asset with fixed capacity and tries to maximise utilisation. Although there are situations when this mode of technology acquisition is optimal, there are many in which it is not.

The mainstream emergence of cloud technology since 2000 enables SMBs to adopt technology-enabled operating practices earlier in their lives than previously possible. In total, 55% percent of the 1,316 SMBs that we surveyed used the cloud in some aspect of their business, seeking one or more of the six types of benefits shown in Figure 2.



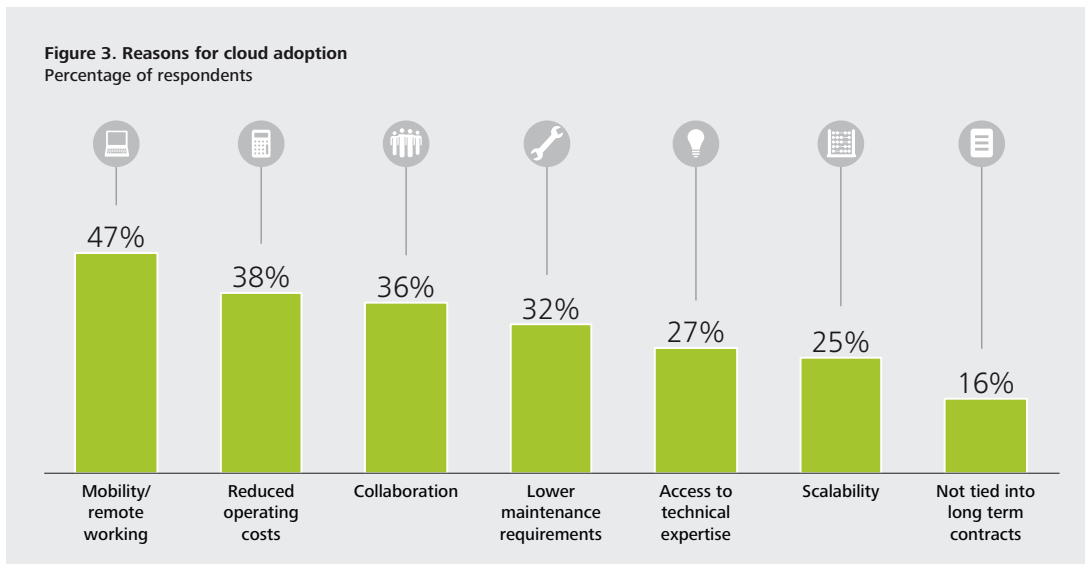
Contrary to common wisdom that the cloud is all about cost reduction, flexibility around mobility and remote working is the primary reason for adoption in our survey group. Figure 3 shows the most common reasons that SMBs give for adopting cloud technologies.

Unsurprisingly, there are variances in reasons across different countries and regions. In the Netherlands and Italy, collaboration is the most important reason for choosing cloud. On the other hand, in France, scalability is a much more important adoption driver (50% of respondents). SMBs in the UK and USA are relatively similar to each other and in addition to mobility, buy cloud for business continuity, reduced operating expenses and lower maintenance requirements.

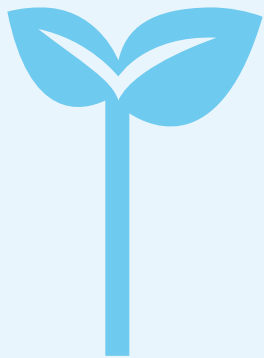
Cost is a polarising issue. A significant reason for adoption, it is also the most-likely reason for not moving applications and infrastructure to the cloud – 44 percent of respondents (as high as 52% in the Netherlands and as low as 35% in Spain) told us that it was a barrier for them.

These were primarily established businesses that face relatively high switching costs from writing-down previous technology investments and establishing new processes or ways of working. These businesses are not fundamentally opposed to the cloud per-se, they are just waiting for a point at which their technology estate needs to be refreshed to decide whether to adopt or not. **74 percent of respondents told us that they would move in house technology to the cloud if they needed to change their technology platform.**

38 percent of respondents did give cost as a reason for choosing cloud technology over on-premise solutions. But it's the emphasis on flexibility and scalability that drives the key finding of this report: that **use of cloud technologies is strongly correlated with rapid growth for SMBs.**



How the cloud supports SMB growth



Ideas in brief

- Cloud enables SMBs to tackle key growth challenges.
- 80% of SMBs we surveyed that use cloud believe it enables them to scale and grow faster.
- SMBs using cloud grow 26 percent faster and are 21 percent more profitable than their peers that do not.

Key questions

- Could you remove barriers to growing faster by using cloud technology?
- Will you be left behind if the majority of your peers begin adopting cloud more readily?

Small and medium businesses using the cloud grow significantly faster than their peers who do not.

35 percent of the 1,316 of companies we researched used more than the average number of cloud tools (2.5) and **these businesses grew 26 percent faster in the last year than those not using cloud technology.**

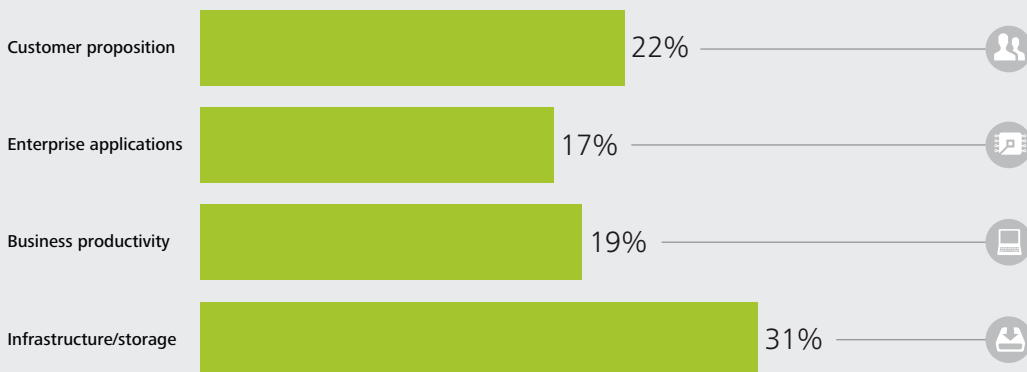
Regionally, this impact was strongest in the USA and the Netherlands while being weakest in France and Spain.

The benefits are not just in revenue growth. SMBs that are heavier than average users of cloud technology are also more profitable, typically having gross profits 21 percent higher than those that do not.

Cloud services are most popular as substitutes for expensive infrastructure, such as document storage and disaster recovery; however some more advanced SMBs are also using the reduced cost and complexity of tools such as Salesforce.com and Xero versus on-premise equivalents to improve productivity in business functions at an earlier stage than would have been possible only five years ago. Figure 4 shows how the SMBs we surveyed use the cloud in different parts of their organisations.

Figure 4. Usage of cloud based applications

Percentage of SMBs using cloud based applications*



* Example solutions:

- Customer proposition: Google +, Hootsuite, Squarespace
- Enterprise applications: Salesforce.com, SAP Business ByDesign, Xero
- Business productivity: Google Apps, Office 365, Skype
- Infrastructure/storage: Amazon Web Services, Dropbox, Google Cloud Platform

A business' strategy, products, market, customer service, operations, partnerships and talent are all reasons for stellar growth performance.

Cloud technologies cannot replace these skills and characteristics of a fast growing business, but they can be a significant enabler of them.

Take talent, for instance. Commentators would have it that we are in midst of a war for talent, in which many key skills are priced out of the reach of large corporates, let alone SMBs. Judicious use of cloud tools mitigates some of this problem by giving access to technology experts employed by the cloud provider.

In addition to savings on overheads by removing the need to employ full time staff, it will typically increase access to expertise as full time employees may – due to simple economics – not be at the same relative quality as the experts employed to face the market.

For example, the founder of one start-up we interviewed uses technical experts from its cloud suppliers to gain free advice on how the company's technology needs and requirements are likely to change in the future and how that should affect decisions he is making today – expertise he was unable to get from his current employees or necessarily required 'in-house' full time.

This is borne out in our research. **Over 80 percent of SMBs we surveyed that use cloud believe it enables them to scale and grow faster** than would have otherwise been possible. 77 percent of SMBs told us that it allows them to access new markets and new revenue streams and **two thirds of SMBs we surveyed believe that the cloud allows them to beat their competitors**. A relatively new European financial services company that has more than doubled in size in the past two years described how cloud enables them to access new markets globally, *"Our growth would have been much lower without the cloud and our global expansion would not have been possible – it enabled us to access data across different locations while allowing communication and collaboration in a cost effective way."*

It is because of this that **69 percent of survey respondents expect to increase their use of cloud based technology in the next three years**.

French, Italian and Spanish SMBs are most confident about using more cloud in the future with over three quarters indicating they will increase their usage. In contrast, less than two thirds of Dutch and UK SMBs expect an increase. We believe these countries have historically been early adopters of technology and so the perceived marginal benefit of moving to cloud services is lower.

The cloud supports business growth in different ways at the three different life stages (see figure 5 overleaf). In the following sections we look into the benefits of the cloud in each and bring them to life with case studies and examples of successful businesses that exemplify those benefits.



Figure 5. The impact of cloud



26%
faster growth



Enables
77%
of SMBs to access
new markets



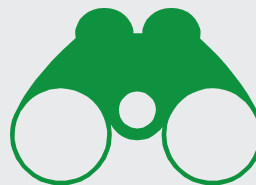
21%
more profitable



Enables
2/3
of SMBs to beat
competitors



Enables
80%
of SMBs to scale
and grow



Enables
3/4
of start-ups to
focus on strategic
projects

Cloud growth benefit drivers



- Allows most effective use of limited resources
- Reduces need for up front investment
- Enables focus on business strategy and customer proposition
- Provides access to expertise and talent



- Enables scalability with minimal change
- Improves management control within time and resource constraints
- Enables mobility and flexibility in the workforce



- Enables optimisation by reducing unnecessary operating expenses
- Enables flexible and low cost experimentation to enable innovation

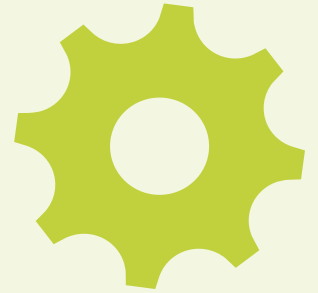
Cloud in the start-up phase

Ideas in brief

- In the **start-up phase** businesses seek to survive and win market share.
- Our research suggests that cloud technology enhances growth and promotes sustainability of start-ups by enabling them to make the most of limited resources.
- Cloud reduces the need for up-front capital investment, allows focus (time and money) on business strategy and the customer proposition and provides access to otherwise inaccessible specialist technology talent.

Key questions

- Are you able to learn from your experiences and mistakes to rapidly improve your offering?
- Are you spending too much time on tasks that are not driving forward your customer proposition?



In the **start-up phase** a business is balancing the need to expand and grab market share with simple survival. Subjects that a more established business finds relatively easy like finding office space, setting up technology and hiring staff are complex and potentially terminal challenges at the earliest stage in a business's life. And all of this must be done with a constant eye on cash flow and ensuring continued access to capital.

There is also a more subtle challenge, which Eric Ries describes in his 2011 book *Lean Startup* as the need to pivot.³ The pivot is a structural course correction that requires a founder to give up part of the vision they originally had in order to create a more successful business they have uncovered with their initial attempt.

These complex management issues claim many start-ups in their early days. Over half a million new businesses were started in the UK in 2013, up eight percent on 2012.⁴ This is positive news for an economy coming out of recession; however it must be tempered by realism about the sustainability of these businesses, a quarter of which will not survive their first two years of trading. Half will have disappeared within four years.⁵

While start-ups are in their early stages, the demands for technology (cloud based or otherwise) are typically relatively basic. SMBs at this stage require basic infrastructure and simple productivity tools such as email and word processing. However, these needs can expand quickly as the business starts to get traction and founders battle to stay in control of an increasingly complex business and associated admin tasks.

Cloud technologies offer solutions to some of the more common challenges of these businesses and our research suggests that their use enhances growth and promotes the sustainability of start-ups by enabling them to make the most of limited resources. Competing without cloud technology is effectively impossible yet it is often hard for start-ups to justify making investments in technology and the talent to manage it. As Bob Fuller of Fixnetix told us *"it is not cost effective to employ someone to be responsible for IT in a small business – they would represent far too high a proportion of the business to justify."*

Cloud technology enables quicker development and testing of ideas, bringing forward important decisions on whether to 'pivot' or even limit wastage by failing quicker. One business in the Netherlands suggested *"Cloud has given us the flexibility to choose and customise our requirements as our business objectives change."* Failing faster conserves resources and entrepreneurial energy, and can lead to better prospects, both for the entrepreneur and the country.

Fortunately cloud technologies remove the need for upfront capital investment in capabilities such as email, office tasks, web and document hosting from the get-go. The majority of the start-ups we spoke to cited this as a key reason for selecting cloud services and allowing the business to get off the ground. One start-up that originally sought to use in-house services quickly realised the cost would be prohibitive and chose cloud as an alternative.

One of the founders described the benefit *“cloud is fantastic for us – we don’t have to sit on capital investments, waiting for customers to come to make the investment worthwhile.”*

A decade of focus on user-design of cloud services, aimed at larger enterprises helps start-ups. In addition to reducing third party costs, simplifying the learning curve for specialist tasks such as accounting allows leaders to focus on developing and driving the customer proposition and business strategy forward. **Cloud-based applications have enabled nearly three-quarters of the start-ups in our research to focus more of their resources on strategic projects.** The founder of one start-up we spoke to, which provides a service for the restaurant industry, summarised this for us *“Cloud technology makes the maintenance and admin side of technology someone else’s issue so I can focus on building the offering to our customers.”*

Furthermore, using cloud technologies effectively gives start-ups access to some of the best thinking and talent of the world’s most creative technology companies. **Half of SMBs in our research believe that cloud allows them access talent it otherwise would not have been able to afford or attract.** Although it might be optimal to enjoy fulltime access to the brainpower of an MIT technology graduate, enjoying the fruits of their labours is the next best thing for entrepreneurs and certainly preferable to a less able employee on the payroll. A start-up we interviewed told us *“Paying for software as a service allows the business access to technical expertise when we need it without paying for it.”*

With the time saved in the basic operations, entrepreneurs are free to spend more time scaling and growing the business. Cloud services are inherently scalable because they are based on ‘virtual’ infrastructure so it is easy for a business based on them to grow without worrying about the sustainability of their operating platform.

One of the start-up businesses we interviewed is TableCrowd, a social dining company. Founder Kate Jackson is a cloud advocate and summarised the enabling impact of the cloud for us. *“Taking away the various cloud applications we use would make managing the business very difficult”* she told us in an interview, **“using cloud applications is a no-brainer – they are cheap and provide businesses with access to services it traditionally wouldn’t be able to afford.”**

This attitude is prevalent amongst start-ups growing up in today’s hyper-connected market. It is our assessment that SMBs that start using the cloud during the early stages of business are likely to carry this through to later stages of life. We do not believe that start-up businesses will ‘grow out of’ the cloud when they thrive in their formative years and move into the rapid growth phase. As such, there will be a cohort effect of adoption through SMBs as today’s start-ups grow into the next stage of their business lives.



“We wouldn’t exist without cloud technologies”



BACKGROUND

Rightster is a global b2b video network for distribution, content-sourcing, audience engagement and monetisation that streams over 1TB of video every month. It was founded in 2011 and has grown rapidly ever since – in three years it has grown to a revenue of over £6m and 250 employees. It serves customers in over 200 countries globally and has offices in 10 countries. Rightster was floated on AIM in November 2013, raising over £20m and giving the company a market capitalisation of £70m.

In addition to the usual challenges faced by any start-up, Rightster faced two specific additional challenges in reaching its current position. Firstly, video content has no borders and therefore requires a worldwide delivery/operating model immediately. Secondly, the rapid acceleration and growth of the company (in terms of revenue and employees) is complex in terms of scaling, governance and control.

HOW CLOUD HAS ENABLED GROWTH

Rightster is, and always has been, a heavy user of cloud technology and believes that it enabled the business to establish itself and grow at the rates it has seen to date. Some of the cloud services it uses include: Google Apps (office productivity), Salesforce (CRM), AWS (hosting), Akamai (CDN).

The first way that cloud technology has enabled Rightster’s growth is through reducing the amount of capital that the business required to start-up initially and subsequently grow. At the outset, Rightster believe that it would have had to raise an additional c.£5-10m of capital to invest in technology to establish the business without cloud. This would have been difficult – or near impossible – to raise at such an early stage and as a result CFO, Charl de Beer, believes “we wouldn’t exist without cloud technology”. In addition to reducing initial capital requirements, Rightster believes that cloud infrastructure services has saved c.£1m in investment costs as it has grown. In parallel, the company believe it would have been financially impossible to build a content delivery network (CDN) capable of transporting the high volumes of data it requires, if it was not available through the cloud.

The second main way that cloud has facilitated growth is by enabling the business to scale and expand globally. Cloud services allowed the business to scale to over 200 countries quickly and easily; it enabled the business to be “immediately global” without having to set up individual operations in each country. It also enabled the business to scale to 250 employees with flexibility – using cloud applications allowed gradual cost increases based on business requirements rather than large step-changes based on forecasts. As international offices have been opened (or acquired), cloud applications have enabled collaborative working and content sharing between them, which has resulted in efficient and effective working globally from an early stage in life.



Achieving rapid growth



Ideas in brief

- The rapid growth phase tests an SMB's scalability, managerial control and sustainability.
- Companies achieving rapid growth use more cloud products. 90% of these SMBs believe cloud has enabled them to scale and grow faster than without them.
- Cloud tools are flexible enough to adapt to the needs of the business as it expands and so do not hold the business back: they enable efficient management of a growing and more complex workforce.

Key questions

- Are you utilising all of the management tools available to you to efficiently manage your growth?
- Do you have an operating platform that can scale efficiently and effectively with an annual doubling in sales and employees?

Once a business has overcome the challenges faced in the start-up phase, a business can enter its **rapid growth phase**, in which it establishes itself as a more significant part of the local and regional economy. This is a period of explosive expansion: the **average growth rate in Deloitte's 2013 Fast 50 was over 80 percent per year**,⁶ versus the average growth of a UK SMB of between two and four percent in the same period.⁷

With the internet offering instant marketing reach and relatively simple access to buyers within national and international markets, a best-in-class product or service becomes well known faster than ever before. **Scalability** and **flexibility** are therefore critical success factors in the rapid growth phase, which for some of the companies we interviewed had started within a year of their foundation – earlier than ever would have historically been feasible.

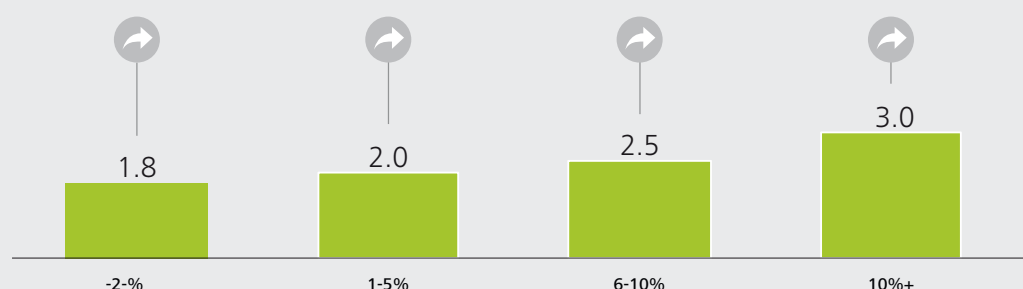
As the company grows it will need to take on a relatively large number of people posing new talent challenges. It is little wonder that management time is at a premium.

Our research suggests 90 percent of the rapidly-growing companies in our survey believe that cloud technology enables them to grow and scale faster than would have otherwise be possible. Three quarters believe that it helps them to beat their competitors. One European manufacturer that moved to a cloud based CRM and ERP systems in the past two years told us *"We have to constantly improve to stay ahead of our competitors and that is achieved by using effective cloud based IT solutions."*

The growth rates of companies that are heavy users of cloud technologies are 26 percent higher than those who are not. Figure 6 shows how SMBs growing at the fastest rates use a higher number of cloud products.

Figure 6. Average number of cloud products

By category of revenue growth



Our interviews with some of Europe's fastest growing companies suggest that this growth boost is due to the need to experiment with technology and practices as the company develops. Few businesses arrive at scale with the same ways of working they had when they had a handful employees and sky-high dreams. Cloud-based tools, from prosaic office applications like email to radical business models based on crowd-sourcing platforms are perfect for conducting low cost experiments in this domain. One business manager told us how he tried a new cloud based products virtually every day as a way of constantly seeking to improve the management of the business. This would be totally infeasible without cloud.

Myriad technologies exist for enterprises to optimise their business operations in support of fast and efficient growth. The challenge for SMBs is that this enterprise technology requires extensive tailoring to the workflows and operating practices of the business – an expensive and time consuming process that a rapidly growing organisation can't readily accommodate.

What they need are tools that are flexible enough to adapt to the needs of the business as it expands and develops what it does and how it does it. This is a view supported by Neil Proctor from Avecto. *"Technology has to be scalable as the business grows at rapid rates and cloud solutions help facilitate that,"* he told us, going on to explain how they use cloud solutions for the majority of its IT, including its CRM, finance and development systems. Avecto has grown at a compound annual growth rate of over 180% in the last five years and came second in Deloitte's Technology Fast 50 in 2013.

An expanding workforce comes with its own challenges. Start-up businesses often have tight-knit teams located close together. Maintaining communications, collaboration and community as the business expands are vital to maintain productivity and the vital sense of shared purpose: 42 percent of the rapidly growing SMBs we surveyed having adopted cloud based technologies to improve collaboration and 41 percent to improve mobility of the workforce as the business's reach expands beyond its base.

Expansion is often accompanied by experimentation with new ways of working and new business models that support the need of a wider variety of customers.

"Cloud commercial models enable the business to try new tools and determine if it works for the business quickly and without incurring significant cost," one of our interviewees told us, reinforcing the view that flexibility is a major reason to think about cloud technologies as an enabler rather than just a necessary office cost.

The cloud is an enabler of rapid growth, but putting as much infrastructure and as many applications in the cloud as possible does not guarantee fast growth. Our research has found that the fastest growing companies have the right blend of technology for their given needs and use it to promote the outcomes they want in the market.

Our research into previous Fast 50 winners demonstrates additional, non-operational reasons why a robust, well thought out operating platform is vital for a rapidly growing business. Forty percent of the 2004 Fast 50 have since been acquired. Deloitte's extensive experience in this domain suggests that due diligence processes often take into account technology maturity, as unpicking an array of unstructured systems is expensive and reduces returns for an investor.

Despite all of the positive messages we heard about the benefits, a number of interviewees sounded words of caution for would-be adopters. Chief amongst the concerns is the perception that security is an issue. Indeed, it is the largest barrier to adoption for our survey respondents. This barrier is mainly due to data hosting, particularly where data is of a personal nature or emanates from countries such as Germany where a strict regulatory regime increases the cost and reduces the flexibility of cloud services.

Although they will doubtless erode as understanding increases, this type of cultural barrier is also a potential issue with adoption of cloud tools within a business. *"Applications are only as good as the data put into them – its business use is dependent on our sales team,"* Richard Irons from Romax Technology told us.

In this regard SMBs are no different from larger enterprises. In order to change a business, technology must be designed to solve an issue for the users. In the early days and even in the rapid growth phase a degree of pragmatism is required in order to balance need for customisation with cost but as the business grows the balance tips towards customisation. This is one sign that an SMB is reaching maturity.

“Cloud allows us to focus our attention on the growth of the business”



BACKGROUND

graze.com was founded in the UK in 2008 by seven friends who all loved food, but wanted to find a way to reinvent and show off the tasty side of healthier snacks. graze.com is an international online healthier snacking company based in London with a permanent U.S. operation in New Jersey. The company creates and distributes healthy snacks by post and has grown from seven founders in 2008 to 350 employees today, with compound annual growth of over 120% between 2011 and 2013 and revenues of c. £50m.

graze.com has had to manage the business through a period of substantial growth – in terms of customers, employees and opening a new U.S. operation. Operational efficiency has been central to the fast growth. The company spends a significant proportion of its budget and manpower on perfecting its technology.

HOW CLOUD HAS ENABLED GROWTH

graze.com is enabled by technology – it has always sat at the core of the business and is critical to its customer proposition. As a result, the business has built a lot of its own technology including its website, data platforms and supplier management tools. graze.com adopts a rapid prototyping approach to software and manufacturing that mean processes are always changing and improving. This makes using ‘off the shelf’ cloud based services very difficult for much of the business – it would lose its agility, which enables its differentiation and competitive advantage in the market.

The founders adopted cloud based technology for computing and storage from the start – and have never looked back. In its start-up phase, it gave graze.com an ability to scale, reduced up-front investment and enabled access to specialist technology resource while the business employed next to no employees.

More broadly, graze.com use a range of cloud based tools and applications including Google Apps for business productivity, Access for finance, Desk.com for CRM and Trello for project management. None of these were elected because they were cloud hosted per-se, but rather because they are useful business tools for running the business, with the added benefit of reducing the maintenance and management overhead required to benefit from them. Tom Percival, Co-Founder and CTO, told us “The big advantage of cloud technologies is the saving in opportunity cost of having to operate them yourself. This means we don’t worry about our infrastructure and administrative tools but can focus our time and attention on the technology that contributes to our customer proposition and the growth of the business.”

Furthermore, cloud technology improved the speed at which graze.com was able to expand to and access the US market. It only took 8 weeks from making the decision to enter to sending the first customer a product. graze.com signed up 20,000 customers within two weeks. Tom believes managing this launch and the subsequent scaling of the platform/customer management systems would have been more complex and time-consuming if the business wasn’t using cloud technologies.

Restarting fast growth

Ideas in brief

- In the phase of **relative maturity** businesses seek to optimise and innovate for the future.
- Cloud technologies enable mature SMBs to reduce the cost of non-essential systems – although the switching costs may be prohibitive.
- Cloud technologies also enable SMBs to experiment with new business models, products and services that need to be flexible, scalable and able to rapidly address new opportunities.

Key questions

- Will you be able to stay in touch with the acceleration of technology developments in the future?
- Would your current systems be sufficiently flexible to enable you to grow using innovative business models, products and services or defend yourself from new market entrants?



Inevitably almost all businesses will fall out of the fast growth phase at some point, becoming mature organisations with established cultures and working practices. Although not the focus of this report, many of the practices of rapidly growing businesses still apply to those who have achieved maturity.

In this life stage leaders consolidate their gains, **optimising** the business's human and operating infrastructure so that the core that generated the growth can make the transition into a profitable 'staple offering' capable of providing the capital and skills for **innovation** in the future.

There are two main types of benefits of cloud technology to established businesses. Prosaically, they can reduce the cost of non-essential systems and capabilities. These benefits might not be worth replacing well functioning systems to obtain, but at the point of switching they are worth having. The CTO at a medium sized retailer (c.\$500m revenue) told us that it had moved to cloud about five years ago due to the economic conditions putting pressure on the business' cost base. Today they are reaping the benefits. IT costs are down 40% and overall operational costs are down by 20%.

More fundamentally there are strategic benefits. Experimenting with the cloud in various front and back office scenarios drives creative thinking about the workflows on which the business operates, preventing people from falling into the trap of standing still. Keeping abreast of developments in this type of technology enables a larger SMB – often now incumbent in a market niche – to spot and understand potential disruptions from new entrants before they become established. The same retailer mentioned above believes they are also obtaining these benefits; *"cloud technology has enabled us to adapt to the changing business environment and identify new areas for investment in smarter ways of doing business."*

Responding to these potential disruptions often means setting up fast-moving spin offs of the main business to experiment with new business models, products and services. And these new initiatives need to be fleet of foot, flexible, scalable and able to pivot rapidly to address new opportunities. The infrastructure of a large business is often a terminal encumbrance in this competitive environment. In other words, they need to be just like their parent was in its own start-up phase. And here the cloud comes into its own.

Conclusions

It was apparent to us when we set out on this research that the cloud had brought a huge range of explicit and implicit benefits to consumers in all the markets we surveyed. What was less clear to us was how well small and medium businesses would understand the challenges and opportunities of this new wave of technology disruption. Our concern was that the leaders of these businesses would be too focused on their current proposition to think about creating a sustainable future.

Yet our research into the practices of the most successful small and medium business has not just allowed us to document inspirational stories of entrepreneurship and growth. It has revealed a remarkably well-informed cadre of business leaders who are both forward thinking and pragmatic in their deployment of cutting edge capabilities like the cloud as catalysts for their growth.

And although they represent some of the fastest growing companies in their cohort, very few of the ways that they have used the cloud to enable exceptional growth require specialist technical skills. Instead they are rooted in good business sense.

The basic technology requirements of a start-up in 2014 are rather more than a spreadsheet and email application on a desktop PC. A multi-platform website, well thought-out marketing on locally and nationally-focused digital platforms, underpinned by customer relationship management and performance analytics that enable successful application of 'lean start-up' methods are becoming table stakes.

Successful leaders of **start-ups** therefore use cloud to accelerate up the learning curve that comes with running a business and largely eliminate the overhead that comes with running the parts of the business that do not immediately contribute to short-term survival.

In a world that is increasingly underpinned by cloud technologies of various types, **the key question to current or prospective start-up founders is whether you can afford to devote time, capital and management focus on building IT capabilities for a proposition that may change beyond belief in the fight for survival.**

The challenges in the **rapid growth** phase are somewhat different. The internet has opened up national and international markets in an unprecedented manner.

Below-the-line marketing makes getting a message to potential customers in those markets simple and cost-effective so the best products can very rapidly gain traction and a legion of paying customers.

Scalability is fundamental to making the most of these opportunities and this is a fundamental characteristic of cloud services also. Similarly cloud enables entirely new business capabilities such as analytics, customer relationship and human resource management to be added to a business very rapidly and without the complexity that comes with a custom build.

If you are a leader in a rapidly growing business then the key question from our research is whether you have an operating platform scalable enough to efficiently support an annual doubling in sales. If not then you risk becoming a victim of your own success, crippling the business with overworked employees, risking potentially disastrous technology failures, or disappointing influential customers at a critical stage.

Real success in business comes not from the great idea or the generation of explosive growth based upon it, but from creating something sustainable, a lasting legacy that benefits the economy for decades.

Businesses that have reached this **mature** stage have long established working practices that have often supported success for many years. But there are potentially dangerous times ahead for these economic bastions. Disruption comes from all sources and in many forms.

Using the cloud to experiment with new ways of working either in the core business or in new innovative spin-offs unfreezes a mature business; introducing flexibility that will enable it to respond to market change and prepare for another phase of growth.

So our final question is for the leaders of mature SMBs. **If you were starting your business today, how much of the infrastructure you have built would you build again?** Bear in mind that as computing developments accelerate exponentially, future advancements will be substantial and it is likely that your business will need to be able to embrace these radical technologies to remain successful. The answer should reveal a lot about the future operating platform of your business and also where to focus your resources against potential disruptors. Some of which will undoubtedly be taking advantage of everything the cloud has to offer.

Methodology

METHODOLOGY

To research this report, Deloitte conducted interviews with over 35 small and medium business 'IT decision makers' – typically Founder, CFOs, CIOs, IT Director roles – in the UK, US and the Netherlands.

The interviews covered the following industry sectors: Architecture, Engineering & Building; Finance; Healthcare; HR; IT & Telecoms; Manufacturing & Utilities; Professional Services; Retail, Catering & Leisure; Sales, Media & Marketing; Travel & Transport.

In addition, an online survey of 1,316 'IT decision makers' that work at SMBs was conducted across Western Europe (France, Italy, Netherlands, Spain and UK) and USA. Fieldwork took place between July and August 2014.

The questions for this survey were written by Deloitte and the multinational online research program was managed by Opinion Matters.

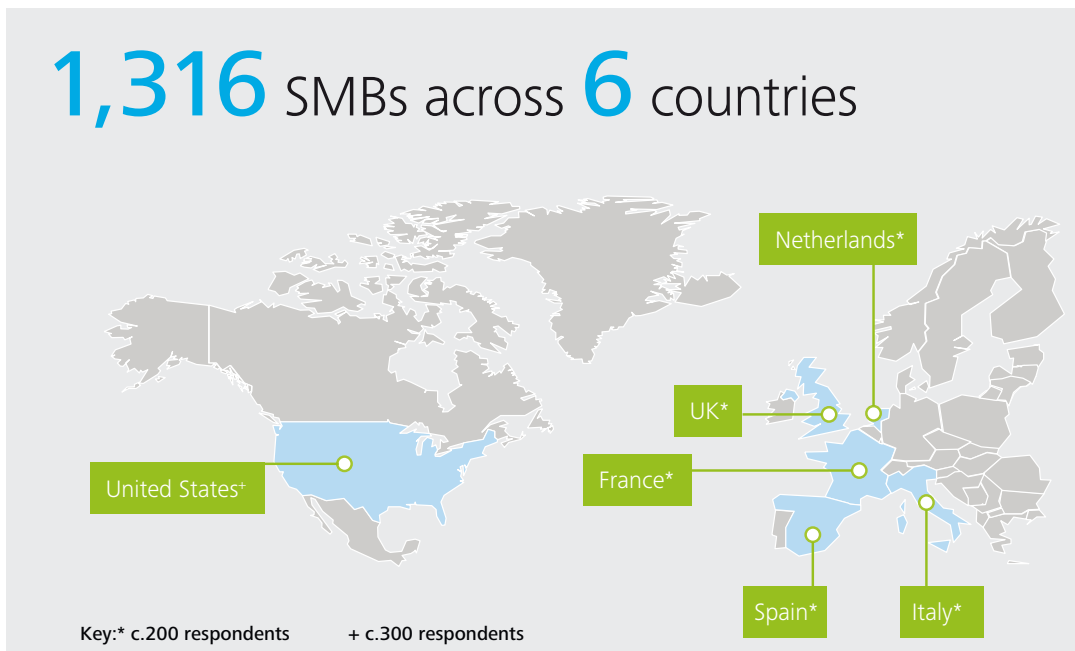
The question set for this survey was standard across all respondents. Questions were asked in local official language in all countries. Questions pertaining to revenue were asked in local currency.

Respondents covered the following industry sectors: Architecture, Engineering & Building; Arts & Culture; Education; Finance; Healthcare; HR; IT & Telecoms; Legal; Manufacturing & Utilities; Professional Services; Retail, Catering & Leisure; Sales Media and Marketing; Travel & Transport.

DEFINITIONS

For the purposes of this report SMBs are defined as companies with fewer than 750 employees.

For analysis of the survey result; 'start-ups' are SMBs founded in last 5 years; 'rapidly growing' SMBs are older than 5 years and growing at over 10%; and 'relatively mature' SMBs are older than 5 years and growing at less than 10%.



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Endnotes

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2 Business Population Estimates, Department of Business, Innovation and Skills 2013

3 The Lean Startup: How Constant Innovation Creates Radically Successful Businesses, Eric Ries, Penguin UK, October 2011

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7 Business Demography, Office of National Statistics, 2009-2012; Business Population Estimates, Department for Business, Innovation and Skills, 2004-2013

Notes

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