2,100

SMEs surveyed

66%

Growth in high-revenue operations outside home markets

129%

Growth in SMEs doing business in at least six countries

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# The Global SME Mindset

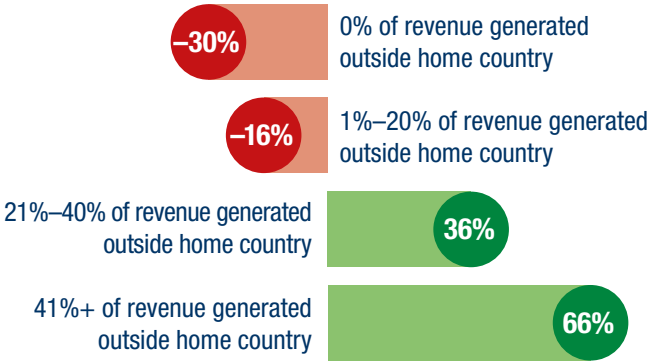
Small and medium-sized enterprises are highly engaged in globalization. They are subject to the same trends and economic forces that affect larger companies, and they are mounting a vigorous response to them.

Our study of 2,100 SMEs in 21 countries confirms the internationalization of this vital economic sector. The roster of SMEs generating more than 40% of revenue outside their home country will increase by 66% in three years, while those doing business in at least six countries will jump 129%. Conversely, the number of companies generating no international revenue is expected to drop by more than 30%, and the portion of companies operating only in their headquarters country will shrink by more than 40%, from one in three respondents to one in five.

These shifts are driven by both opportunity and necessity. An array of technologies enables SMEs to address markets formerly beyond their reach, while incursions by overseas competitors force them to protect their home turf and look beyond it for growth. More than one-quarter (27%) of SMEs surveyed say increasing global competition is one of the trends having the greatest impact on their businesses today. In addition, nearly 60% say competition from foreign rivals has increased substantially in the past two years. Global expansion is cited as a strategic driver of growth by a larger portion of respondents (34%) than domestic expansion (29%). As the European Commission's Directorate General for Enterprise and Industry website advises, "SMEs need to be able to confront increasing competition from developed and emerging economies and to plug in to the new market opportunities these countries will provide."

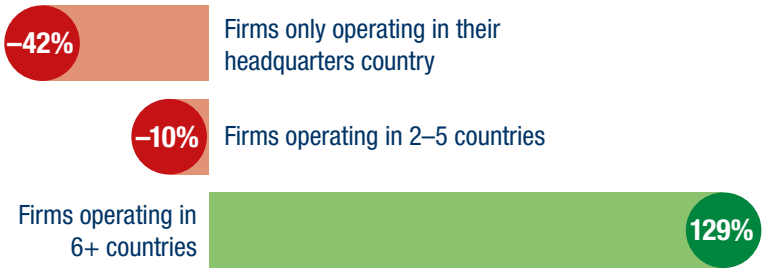
## Rising cross-border revenues

Change in percentage of revenue generated outside firms' home country over the next three years




## Multi-country markets

Change in percentage of the number of countries in which firms trade



# The globally minded SME

SMEs are not just behaving like multinationals—they are competing effectively against them. The ability to transform and innovate more nimbly than their larger rivals offers SMEs some distinct advantages in a global marketplace that demands faster responsiveness.

"Smaller companies need to be highly agile," says Francois Hisquin, CEO of French IT consultancy Octo Technology, which employs 190 people and has $28.5 million in sales from operations in its native country and Morocco, Switzerland, Belgium, and Brazil. "They should have a vision, but they should be able to move if the market is changing—and I think the market will change greatly in the next five years."

Octo generates 16% of its revenue from abroad, with a goal of 50%. "We will target new countries by the end of this year," says Mr. Hisquin."

Octo is far from alone, as professional services firms—along with manufacturers and consumer products companies—do more business outside of their home countries than any other sector. However, retailers are starting to catch up to these other sectors, with a 105% increase in the number of firms generating over 40% of their revenue in foreign markets in the next three years.

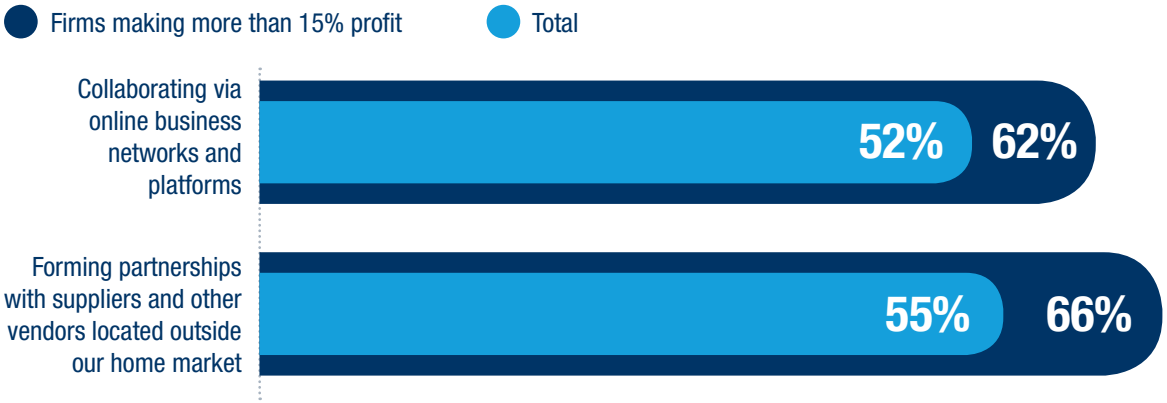
# Partnering across borders

In an international marketplace dominated by large corporations, local partners can help SMEs compensate for their lack of size. Our survey indicates that many are already doing so, with more than half of the respondents (55%) forming more partnerships with suppliers and other vendors outside their borders, led by North America (60%) and EMEA (57%).

Similarly, more than half of respondents (52%) say they are driving innovation and growth by collaborating via online business networks and platforms; again, North America (60%) and EMEA (53%) are leading the pack. Manufacturers are more likely than other industries to participate in this trend. Partnering appears to pave the way to success on the global stage, as more than two-thirds of both the largest and most profitable SMEs are engaging in these deals. Similarly, large (60%) and profitable (62%) SMEs are most likely to be collaborating with overseas firms via online business networks and platforms.

Collaborating via business networks is a popular and growing trend, particularly among the most profitable SMEs …

## Collaborating in a global marketplace




Polish bus-maker Solaris Bus & Coach has travelled both paths. It collaborates online with suppliers and vendors in international markets to discuss contract and design details, and to set up shared software. The company also establishes more formal partnerships with makers of vehicle components for the nitty-gritty work of developing vehicles, acting as an integrator of sorts. "We use a lot of video conferencing to save on costs," says company director Zbigniew Palenica. "But of course, some face-to-face meetings are also needed."

## Solaris vs. the world

Poland's Solaris Bus & Coach, a manufacturer of buses and trams, faces significant competition in its markets across Europe, but cannot make the kind of global investments that its largest competitors can. Instead, the company has taken a different approach to fend off increasing competition in the 26 countries where it sells its vehicles, relying on partners that are entrenched in each local market.

"We use local partners and local suppliers to have a very, very short supply chain and quick reaction time," said Mr. Palenica. "We are able to adjust to customer needs in every corner of Europe."

For example, when it became clear that budget woes throughout Southern Europe were eating into the capital expenditures that fund public transportation projects, the company worked with partners to quickly shift production focus to trams and electric-powered buses—two products that were more likely to garner interest from budget-strapped governments.

Meanwhile, after delivering 225 buses to the Dubai Roads & Transport Authority in 2007 and 2008—all customized with family areas and video surveillance to meet local customs—Solaris set up a company with partners in Dubai specifically to assist the Authority in exploring the possibility of greening its fleet down the line.

Solaris is banking on its ability to adapt quickly—with help from its partners—in order to remain one step ahead of new rivals. Asian companies have been entering its traditional markets, where it already faces stiff competition from European firms such as Germany's EvoBus, Sweden's Volvo Buses, France's Irisbus, the Netherlands' Van Hool, and Spain's Castrosua.

## Leveraging technology

SMEs clearly recognize the important role technology plays in their success on the global stage. Nearly one-third (32%) identify increasing competition from firms with superior technology capabilities as a key challenge, and a similar number pointed to the difficulty of determining the right mix of technology investments. One factor driving SMEs' technology strategies is the increasing supply chain complexity that comes with international expansion—more than half of the respondents identified this trend as an important dynamic in their businesses.

The need to prepare for global competition helps explain the strong focus by SMEs on business management software (BMS). Half of all survey respondents list BMS as a top investment priority, well ahead of the next biggest priority, analytics (43%), and even further ahead of hot technology sectors like mobile (37%), social (35%), and cloud computing (35%). This indicates a recognition among SMEs that they must establish a strong technology foundation if they are to sustain global growth. Smaller firms are playing catch-up as these once-formidable offerings become more accessible.

One in five SMEs cite supply chain optimization as a top benefit from business management software, behind only cost efficiencies and improved product and service development (25% each) and neck-and-neck with improved customer service. North American SMEs, in particular, say supply chain optimization is the single largest benefit BMS delivers.

At the same time, the relatively slow uptake of cloud computing may represent a missed opportunity. Cloud-based services for a variety of software categories used by SMEs—including BMS—offer obvious, cost-effective shortcuts to establishing that desired technology foundation. Yet there appears to be a disconnect between SMEs' adoption of BMS and cloud computing. Cloud should be an equalizer for smaller firms, yet SMEs prefer to buy or acquire business management software rather than leasing it or paying for use, and by a wide margin (43% vs.23%).

32%

Say increasing competition from tech-savvy firms is a key challenge

52%

Say their supply chain is growing more complex

50%

Say business management software is their top investment priority

## Regional differences

Regardless of where SMEs are located, globalization is a prominent area of focus. But how companies in different regions approach developing the competencies necessary to compete globally, and the extent to which they succeed in doing so, varies greatly.

For instance, Latin American SMEs (49%) are more than four times as likely as their Asia Pacific peers (12%) to generate revenue only in their home countries, but an especially high percentage of them also consider driving innovation to be a top priority for spurring growth. North American SMEs, meanwhile, are most likely (47%) to be early adopters of technology, compared with their more conservative rivals in Asia Pacific (24%), who are much more likely to invest in technology only when there's a clear return on investment. North American firms also are much more focused on business analytics technologies (58%) than other regions, giving them a potential advantage in identifying and responding to shifting global trends.

SMEs in developed markets are more concerned about economic uncertainty than those in emerging markets, with North American firms indicating the highest levels of concern. But companies in emerging markets are more concerned (37%) about competition from firms with superior technology than those in developed markets (27%). Such concern is especially high among Latin American SMEs (44%), which helps explain their focus on innovation. Latin America firms also lead the way (55%) in focusing on initiatives to strengthen customer relations.

## Conclusion

Globalization is a priority for SMEs across geographies and industries, but firms differ in prioritizing the competencies needed to succeed in the global marketplace. They are also achieving a wide range of results from their efforts.

No matter the difference in focus, globalization is critical to the future success of SMEs. In the coming years, small and mid-sized firms of all types and in every region expect to generate more international revenue and do business in more foreign markets than ever. If they are to succeed, however, they'll need to embrace transformation and innovate at the speed of business.

### About the research

*The Global SME Mindset* is one of four papers based on an online survey of 2,100 SME senior executives conducted in April 2013. Respondents came from 21 countries around the world. Industries represented include discrete manufacturing, professional services, consumer products, retail, and wholesale. Revenue at respondent firms ranged from US $20 million to $750 million. In addition to the survey, interviews were conducted with 12 SME executives around the world.