The State of SMB Finance

JUNE 2019
About This Report

ScaleFactor surveyed 500 principals of U.S. Companies with under 500 employees.

The companies surveyed fall into three categories: Very Small Business, Small Business, and Medium Business.

Methodology

250
Very Small Businesses

150
Small Businesses

100
Medium Businesses

<20 Employees
(97.71% Weighting)

20-99 Employees
(1.96% Weighting)

100-500 Employees
(0.33% Weighting)

YEARS IN BUSINESS

5%
<2 years

24%
20+ years

38%
2-9 years

2018 REVENUE

44%
< $500k

44%
$500k-$900k

14%
$1M-$4.9M

14%
$5M or more

POPULATION DENSITY

33%
Urban

42%
Suburban

43%
Rural
Key Findings
FINDING #1

SMBs Are Growing—But Not Hiring

2019 has been a strong year for SMBs so far. The majority of respondents showed stable or growing revenue numbers compared to last year. Despite that fact, many SMBs are not looking to hire.

Only 4% of the businesses surveyed saw revenue decreases over 2018.

Even so, 52% of SMBs hired no new employees in the last 12 months.

And salary costs were the #1 impediment to hiring.

### 2019 Revenue Growth

<table>
<thead>
<tr>
<th>Revenue Growth</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up more than 100%</td>
<td>11%</td>
</tr>
<tr>
<td>Up 10% to 100%</td>
<td>44%</td>
</tr>
<tr>
<td>Up less than 10%</td>
<td>24%</td>
</tr>
<tr>
<td>Same as 2018</td>
<td>17%</td>
</tr>
<tr>
<td>Down Compared to 2018</td>
<td>4%</td>
</tr>
</tbody>
</table>

### Biggest impediment to hiring?*

<table>
<thead>
<tr>
<th>Impediment</th>
<th>VSB (A)</th>
<th>SB (B)</th>
<th>MB (C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary costs</td>
<td>18%</td>
<td>18%</td>
<td>7%</td>
</tr>
<tr>
<td>Skills shortage</td>
<td>13%</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>Healthcare / benefits costs</td>
<td>10%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Competitive labor market</td>
<td>4%</td>
<td>4%</td>
<td>13%</td>
</tr>
<tr>
<td>No impediments</td>
<td>55%</td>
<td>55%</td>
<td>47%</td>
</tr>
</tbody>
</table>

*Question asked to respondents who indicated they hired 0-1 employees in the last 12 months in a previous question.
FINDING #2

SMBs Step Back from CFOs

A majority of SMBs have adopted a technology-based accounting or back office solution, and an overwhelming majority have no plans to hire a CFO.

CFO’s Recede, Financial Technology Takes Over

58% of SMBs use accounting/back-office tech solution.

76% of SMBs who do not have a full-time or fractional CFO have no plans to hire one.

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Do you use or have any of the following?

- Accounting/back-office technology solution: 58%
- Full-time dedicated CFO: 23%
- Accounting consultant/fractional CFO: 36%

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Do you plan to hire an accounting consultant/fractional CFO this year?*

<table>
<thead>
<tr>
<th></th>
<th>VSB (A)</th>
<th>SB (B)</th>
<th>MB (C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>7%</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>No</td>
<td>76%</td>
<td>76%</td>
<td>48%</td>
</tr>
<tr>
<td>Unsure</td>
<td>18%</td>
<td>17%</td>
<td>60%</td>
</tr>
</tbody>
</table>

*Question asked to those who indicated they did not currently employ a full-time or fractional CFO in a previous question.
**Finding #3**

**Sources of Growth**

**Funding Vary Widely**

Sometimes, SMBs need to spend money to make money. Where the money invested came from originally varied widely, depending on the size of the company.

*How companies financed growth depended largely on company size.*

- **VSB: 34%** reinvested company profits
- **SB: 43%** used credit cards
- **MB: 62%** received a loan from a financial institution

<table>
<thead>
<tr>
<th>How did you finance your business growth in the last year?*</th>
<th>VSB (A) 166n</th>
<th>SB (B) 137n</th>
<th>MB (C) 94n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Re-investing company profits</td>
<td>34%</td>
<td>34%</td>
<td>27%</td>
</tr>
<tr>
<td>Credit card</td>
<td>32%</td>
<td>31%</td>
<td>60%(AB)</td>
</tr>
<tr>
<td>Personal savings</td>
<td>26%</td>
<td>26%</td>
<td>48%(AB)</td>
</tr>
<tr>
<td>Line of credit from a financial institution (i.e. bank, credit union, etc.)</td>
<td>18%</td>
<td>17%</td>
<td>46%(A)</td>
</tr>
<tr>
<td>Loan from a financial institution (i.e. bank, credit union, etc.)</td>
<td>16%</td>
<td>15%</td>
<td>62%(AB)</td>
</tr>
<tr>
<td>Loan from a friend or family member</td>
<td>6%</td>
<td>5%</td>
<td>16%(A)</td>
</tr>
<tr>
<td>Selling a portion of the business</td>
<td>4%</td>
<td>4%</td>
<td>21%(AB)</td>
</tr>
<tr>
<td>Bootstrapping / exclusively using company profits</td>
<td>7%</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>None of the above</td>
<td>18%(B)</td>
<td>4%</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Question asked only to respondents that indicated revenue growth in the last 12 months.*
FINDING #4

The Larger the Company, The More Tech-Friendly

While most medium businesses utilize AI and machine learning, very small businesses are lagging behind.

Which of these options best describes your feelings toward usage of AI and machine learning as part of your accounting solution?

- We currently use AI / machine learning
- We hope to use AI / machine learning in the future
- We are uncertain / concerned about using AI / machine learning
- We did not know using AI / machine learning was an option

How do you use accounting / back-office technology solutions?

<table>
<thead>
<tr>
<th>Technology</th>
<th>VSB (A) 142n</th>
<th>SB (B) 135n</th>
<th>MB (C) 97n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bookkeeping</td>
<td>76%</td>
<td>77%(BC)</td>
<td>59%</td>
</tr>
<tr>
<td>Invoicing</td>
<td>61%</td>
<td>61%</td>
<td>68% (C)</td>
</tr>
<tr>
<td>Payroll</td>
<td>60%</td>
<td>59%</td>
<td>70%</td>
</tr>
<tr>
<td>Bill pay</td>
<td>55%</td>
<td>54%</td>
<td>65%</td>
</tr>
<tr>
<td>Budgeting</td>
<td>45%</td>
<td>44%</td>
<td>56% (A)</td>
</tr>
<tr>
<td>Report generation</td>
<td>40%</td>
<td>40%</td>
<td>39%</td>
</tr>
<tr>
<td>Financial forecasting</td>
<td>27%</td>
<td>26%</td>
<td>45% (A)</td>
</tr>
<tr>
<td>Other (-2)</td>
<td>2%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Taxes (-2)</td>
<td></td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Job Costing</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Key Findings: Breakdown by Business Size
Very Small Business Overview

Very small businesses have less than 20 employees

- 53% Didn’t hire any employees in the last year.
- 57% Use an accounting or back office solution.
- 76% Have no plans to hire a full-time or fractional CFO.
- 39% Did not know machine learning or AI were options for their accounting solutions.
- 34% Financed company growth by reinvesting profits.
Small Business Overview

Small businesses have 20-99 employees.

90%
Use an accounting or back office technology solution

70%
Employ a CFO.

43%
Financed company growth through credit card spending.

41%
Currently use machine learning and AI as part of their accounting solution.

70%
Use back office technology for payroll.

35%
Hired 4-10 new employees in the last year.
Medium Business Overview

Medium businesses have 100-500 employees.

97%
Use an accounting or back office technology solution.

89%
Employ a CFO.

62%
Financed company growth through a loan from a financial institution, such as a bank or credit union.

83%
Would consider funding future growth through credit card payments.

54%
Hired 4-10 employees in the last year

72%
Currently use machine learning and AI as part of their accounting solution.
About ScaleFactor

ScaleFactor powers SMBs.

ScaleFactor automates the tedious and time-consuming tasks SMB owners currently face with accounting and bookkeeping. Not only do we handle accounting, but we can also take on payroll, bill payments, invoicing, and tax needs, making us an essential business operating system for SMBs.

Our business is to obsess about yours. Our team of dedicated experts and powerful accounting software ensures the accuracy and health of your accounts, giving you peace of mind and time to focus on what you love—running your business.

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