



Opportunities and challenges for SMEs

# The next five years

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Authored by Global Futures and Foresight

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# Introduction

This study looks at why people start their own business, what challenges they see in their marketplace, how they see the small and medium sized (SME) business sector developing, how they attract and retain talent and leaders, how they plan to address cultural and marketing issues and finally the plans business owners have to 'exit' their organizations. We asked our business panel to think about all of these issues on a five year timeframe. Our intent is to provide business leaders with a perspective on the future of SMEs that will help guide them on their journeys to the end of the first decade of the 21st century. Shirlaws, a global business coaching firm, commissioned Global Futures and Foresight, a strategic futures think tank, to undertake this study.

A great deal is changing across the world which attracts our attention and demands a response from us. Issues shaping business around the globe include Globalization, the rise of fast growth economies such as China, India, Brazil and Mexico, our impact on the environment, falling birth rates in many societies, shifting political power, and increasing global regulation and the inexorable rise of technological innovation.

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# The contributors

The survey draws on the opinions of 357 respondents from 39 countries, the largest groups coming from the United States, United Kingdom and Australasia. 71% of whom are senior executives who are business owners, partners, chairmen, chief executives or managing directors. 72% currently operate in Small and Medium sized Enterprises (SMEs). They operate in many market sectors including the public sector, commercial and manufacturing and the service sectors of financial, legal and accounting services. The survey respondents cover a wide age range – 38% of respondents are from Generation-x, aged between 25 and 41, 52% are Baby-boomers, aged 42 to 60 and 10% are Silver-surfers aged over 60.

# Executive Summary

*"Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment."*

Günter Verheugen, Member of the European Commission, Responsible for Enterprise and Industry

## Engines of Enterprise

This global survey looks at SMEs in 39 countries. The SME sector is vital to our world economy and the role of SME businesses is viewed as that of a powerhouse of employment, innovation and entrepreneurial spirit.

The majority of business owners, who participated in the survey, said that they were motivated to start their own businesses by the desire to control their own destiny, to pursue an idea, to take advantage of an opportunity in the marketplace and to gain the financial rewards that entrepreneurship can bring. What most excites them about running their businesses today are the opportunities which present themselves every day. Recruiting and retaining talent was high on the agenda and many were frustrated by the limited resources at their disposal to capitalize on market opportunities.

33% of all the business owners said that they hoped to leave their businesses within five years and 80% of them have a plan to achieve this. 52% of our respondents were aged between 42 and 60 (The Baby-boomer generation), and of these over a quarter expect to have left the businesses they started within the next five years.

With this in mind, it is not surprising that they see recruiting talent and leaders as the most critical issue they will face in the coming five years. When asked what the critical factors were in employee recruitment and retention, they said that having a clear culture and values was the most important factor. This was followed by training and development opportunities and finally providing career enhancement opportunities. 56% said that financial rewards would remain important factors in recruiting the best talent over the next five years.

# “All bets are off. I want people who can learn on the job, commit to the culture and be comfortable with uncertainty”

- 62% of the respondents chose recruiting and retaining talent as one of their biggest business challenges.
- 64% said that having a clear culture and values is the most important factor in helping to recruit and retain talent.
- 60% chose training and development as having a strong influence on their being successful in the labour market.

We asked what characteristics they were looking for in their staff and leaders. Amongst their staff they are seeking people who are intelligent, honest and hard working. In future leaders they are looking for people with good communications skills, who are visionary, have strategic skills and are good motivators. The women business leaders were more inclined to look for people who were hard working and honest, but then prioritized being a good communicator (45%), flexibility (43%) and creativity (37%) above being intelligent. They even prioritized being a problem solver (33%) and having educational qualifications (33%) above intelligence (31%).

- 42% chose intelligent, honest and hardworking as the three top characteristics they seek in new staff.

- 79% of respondents said that they were looking for good communications skills in new leaders.
- 71% said they were looking for visionary and strategic skills in new leaders.
- 67% highlighted the importance of motivational skills for new leaders.

There is a sense of optimism amongst the SME sector.

## The future of their Businesses and Markets

Many believe they will be experiencing growth above 10% per annum for the next five years. They also believe they provide their markets and larger companies around them with the innovation and agility to respond to changing market conditions and customer demands.

- 71% of SMEs believe that they will be a key source of innovation for larger players.
- 64% of small companies, with 20 or less employees, believe they will grow at more than 10% per annum.
- 42% of medium sized companies, with between 21 and 250 employees, believe they will sustain 10% growth

per annum. This drops to 22% of firms with more than 1,000 employees.

- 65% of Asian SMEs believe they will grow at 10% per annum or above for the next five years against 40% of SMEs from North America and only 35% from Europe.

The SMEs are also convinced they will be the natural home of talented individuals in the future. Nearly half of the respondents predict a significant growth in the SME sector as more people seek to become their own boss.

- 56% believe that the SME is the natural home for talented individuals.
- 49% said that the SME sector would grow as more people will seek to become their own boss over the next five years.

They are aware that larger firms will remain acquirers of smaller, more innovative, agile SMEs and that foreign players may increasingly look to acquire them.

- 52% of SMEs say that over the next five years larger firms will acquire smaller players.
- 35% of SMEs believe that foreign firms will acquire local players.

## “Only the **dynamic and continually evolving** (reinventing) shall prevail.”

They see the SME sector as being best positioned to provide personalized customer service. They don't believe that they are 'owed a living' from their customers. Only 21% of respondents believed that customers would choose to support smaller local players for the sake of it.

- 58% say that customers will increasingly look to them for personal service.

We asked the panel what developments they might expect in their markets over the next five years. Their responses were heavily weighted towards anticipating and responding to the changing demands of customers. They believe that their customers will continue to demand increasing added value from suppliers' propositions over the coming five years. At the same time these customers expectation of the service they receive is also expected to increase. Whilst these pressures are being brought to bear, they fully expect to have to continue to decrease the costs of their product and service offerings. Finding new customers was seen as nearly twice as important to our respondents as retaining them.

- 61% said that increasing added value expectations of customers will continue to impact them in their market.
- 58% of respondents said that increasing service

expectations of customers would be something they would need to live with over the next five years.

- 49% said that increasing cost pressure from customers will continue for at least the next five years.
- 40% said finding new customers was a key business challenge over the next half decade.
- 24% identified retaining customers as a critical business challenge for the next five years.

### Marketing and Customer Service

We asked the panel to discuss their marketing activities. Some comments indicate that the SMEs don't believe they have enough time and in some cases money, to spend on adequately marketing their organizations. This was mentioned as a cause of some frustration by many SME business leaders. Overall, the respondents believe the critical marketing challenges for them are to improve the target marketing of key customers, make more effective use of the internet and to improve their level of customer insight. Having good customer insight becomes increasingly important because they believe they are going to be required to add increasing value to their customers in the future.

The SMEs see the priorities slightly differently to the overall respondent group. They see targeting customers as the top issue (62%) and making effective use of the internet remains second (58%) but then they prioritize exploiting word of mouth marketing as the next most important priority for them over the next five years. The senior managers (business owners, partners, chairmen, chief executives and managing directors) amongst the respondents, prioritized word of mouth marketing even higher than the SME respondents.

As culture and values had such a strong impact on recruitment and retention of talent, which is seen as the top issue for the SMEs over the coming years, it's important to understand what values they believe are the most important to have associated with their products and services. They chose 'trusted', 'high added value' and 'innovative' as the characteristics they would most like to have associated with their products and services.

- 64% of the overall panel chose 'improving the targeting of key customers' as their top marketing challenge.
- 52% of SMEs chose exploiting word of mouth marketing as one of their top marketing issues for the next five years.

- 60% of senior managers chose word of mouth marketing as their second most important marketing issue over the next five years.
- 56% of respondents want the market to perceive their brands as trusted.
- 40% want their brands to be considered as bringing high added value.
- 37% want their brands to be seen as innovative.

Service was considered important. Respondents think they will be required to increase service levels to their customers whilst reducing the costs of running their organizations. The top issue for the panel was to identify and sustain best practice in delivering service in their market sector. Following this was the issue of managing the cost of service delivery and then the issue of when to implement the correct Information technology. 23% of Senior Managers in the panel believe that breaking relationships with customers you cannot serve profitably is a key issue for their service strategy over the next five years.

- 64% of the panel said that identifying and sustaining best practice in service delivery was a key service issue for them over the next five years.

## Culture

The business owners believe their culture is one of their key competitive weapons in being able to attract and retain the best talent. So we asked them what they thought the top cultural challenges would be for them in the next five years. The biggest challenge for the SMEs is to maintain their culture as the business grows. It was also clear that SME leaders see their role as being the cultural champion, providing clear leadership on the business values. They also believe it is important to recruit new talent that reflects the values of the business.

- 56% of respondents believe that maintaining the culture as the business grows is a critical challenge for them.
- 56% also believe that they should provide clear leadership on the firms' values.
- 54% say that recruiting staff who reflect the desired values is important to maintaining the culture as the business grows.

## Environment

The world has passed the point where it is debating whether global warming exists and what its causes are. We have switched rapidly to looking for solutions and remedies for the dire consequences we are visiting upon our planet through our activities. According to the United Nations, Intergovernmental Panel on Climate Change (IPCC) latest report it is now, 'very likely' that humans are the cause of global warming, in their language, that's an over 90% chance.

We asked the panel to tell us what they considered to be the five greatest challenges facing their businesses in the next five years. Out of the 18 choices they were presented with, they chose 'reducing environmental impact' last. Only 6.6% of all respondents chose this as one of their top five issues at all. More than twice the number of Generation-x respondents chose this issue over the older Baby-boomers. This picture becomes even more extreme when we look at the responses from the senior management respondents in our panel. Less than 3% of the owners, partners, chairmen, chief executives and managing director respondents amongst the panel chose 'reducing environmental impact' as an key issue for them to address over the next five years. Given that there were five options for each respondent this is a remarkably low figure.



“Larger players will lose out on the added value opportunity and become homogeneous suppliers to those who are closer to the customer.”

- 2.8% of senior managers and business owners believe that ‘reducing environmental impact’ is one of their top five issues for their business to address in the next five years.
- 6.6% of the overall panel selected ‘reducing environmental impact’ as one of their top five issues their business would face in the next five years.
- 9% of Generation-x and 4% of Baby-boomers selected this issue as one of their top five issues their business would face in the next five years.

Only 10% of our panel thought that ‘having a clear environmental stance’ would help them recruit and retain talent. The younger cohort are slightly more convinced, at 13% but only 8% the Baby-Boomer cohort, aged over 42 today, chose this as a top five recruitment issue. They may have considerably underestimated this factor in recruitment. As potential employees become increasingly aware that each one of us needs to contribute to the solution they will want to work for organizations that also understand that.

- 10% only, thought having a ‘clear environmental stance’ would help them in recruiting and retaining talent in the next five years.

This rises to 13.4% of Generation-x, aged 25-41 today, and falls to only 8% of Baby-boomers, aged 42-60.

Major corporations throughout the world are making headlines by announcing dramatic environment policies which are aimed at delivering considerable reductions in their carbon emissions, wastage and to increasing their recycling and reuse of materials. These corporations have large chains of suppliers. It would be unthinkable that these organizations won’t in some way or another oblige their suppliers, large and small, to make their own contributions to these environmental goals. Whether SMEs feel they can cope or not, having a clear environmental stance and reducing their environmental impact are going to become very major issues for them to face, now and into the foreseeable future.

## Conclusions

With so many business owners planning to leave their businesses in the coming five years, it is plain to see why they see the recruitment of talented staff and leaders as being so critical to their organizations' ongoing success. They are convinced that their agility, innovation, culture and ability to deliver a personalized service are important to their success in their markets and that these attributes will attract staff and customers alike. They understand that they will face continued, if not increasing, cost pressure from their customers and that they will need to provide increasing value and service to them to succeed. Finally they are well aware that larger players and foreign players see them as take-over targets.

This is a vibrant sector of the business community which is brimming over with enthusiasm and expectation. It is one that can benefit from investors who will take a longer-term view of investments and one on which larger firms may continue to rely for new products, services and business models over the coming five years.

For the sector itself, it is self critical of the time it gives for planning the future of their businesses. The ability to take time out to plan the course of the business is seen as one of the biggest challenges for business leaders. Identifying what can be delegated, or even stopped altogether, is clearly an important task for the leaders in this segment if they are to have time to develop robust business strategies for the next five years. If SMEs are to cope with major issues like global warming, labour shortages and economic and political powers shifting eastwards, looking ahead is not optional if they hope to remain in business in five years' time.

David A. Smith  
Chief Executive

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## About the Author

David Smith is the chief executive of Global Futures and Foresight (GFF). In his 30 year business career he has held senior management positions in large and small organizations. He has been involved in public sector, commercial and financial markets and has held sales, marketing and general management positions in companies such as the UK based DRG group and The US Unisys corporation. Whilst at Unisys he held the position of Strategic Marketing Director for their \$2bn global financial services business. He has advised the UK and EU governments on strategic research investment decisions. Since co-founding he has worked with many organisations such as The Henley Management Centre, Reckitt Benckiser, Bausch & Lomb, SAS airlines, Siemens, O2, Shirlaws, Reed Exhibitions, Royal Mail, KRAFT, LTSB, RBS, Royal&SunAlliance, More Than and many other banks, insurance companies and industry associations such as the VMA, PIRA and the Association of Exhibition Organisers (AEO).

He is a regular international conference speaker and writer and a passionate believer that we are not victims of what the future might hold if we prepare ourselves in advance. He has spoken on UK BBC, German and South African radio and appeared on the UK ITN News channel discussing topical futures issues. His experience has shown him the powerful impact that glimpses of the future afford business and government alike as they seek to achieve their strategic goals.

## Global Futures and Foresight

The aim of GFF is to harness the views of global experts to provide foresight to organizations so that they can be more successful and less exposed to risk by better understanding the opportunities and threats the future has in store for them. It does this primarily through presentations, workshops and by developing researched reports of the future. GFF is a global network of business, academic and future thinkers from across the world committed to helping business and government better prepare for the future. It does this through collaborative projects and through undertaking its own research, gathering thought leaders' views of the future and forming composite ideas of what our future could look like.

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## About Shirlaws

Shirlaws started operations in July 1999, with the goal of establishing business coaching as an industry, primarily servicing the small- to mid-size business market.

Our founder, Darren Shirlaw, started with a handful of clients in Australia and over the past seven years Shirlaws has grown to become an organisation of more than 100 people in the UK, Australia, New Zealand and the USA, servicing over 300 business clients and operating nationally across each of the territories in which we are present.

### What we do

Shirlaws helps businesses to grow - from sole operators to large corporate enterprises. We work with businesses in three areas - revenue, productivity and strategy and we focus not only the commercial aspects of doing business, but on the cultural factors that affect human interaction as well. Irrespective of the product or service a business provides, business issues are all fundamentally the same. This means that we can work with any business, of any size, in any sector.

All of our coaching materials and frameworks are Shirlaws' own and we have a full time product team dedicated to developing and refining the product and providing coach support.

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