

# The Power of Small

Insights from New York City's  
Entrepreneurs



The Best-Run Businesses Run SAP®



»The Power of Small is a mission. Small companies with big ideas and scalable business models can make an even bigger economic impact by overcoming their current growth hurdles. Technology has already helped them to become more resilient to market changes with innovative business models and efficient operations; it is at the heart and soul of their business. The task is now to identify and support small businesses leaders that have all the ingredients to execute their magic growth formula, accelerate innovation, and create jobs for the common good. «

– Bill McDermott, Co-CEO, SAP AG

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# Introduction

## Accelerating the Power of Small

### Insights from New York City, Home to 200,000 Resilient Entrepreneurs

Getting the economy back onto a stable growth path and increasing employment is on top of the global business agenda. The need for job creation has put a spotlight on small and medium-sized enterprises (SMEs) – defined as companies with less than \$750 million in global revenue. They have become a major driver of job creation. In emerging economies SMEs account for 45 percent of total employment, according to the Global Partnership for Financial Inclusion. In developed economies SMEs account for some 50 percent of GDP, according to data from the World Bank. In the United States, the world's largest economy, small businesses create 93 percent or more of the net new jobs.<sup>1</sup>

In a global economy that is looking to restore growth, many SMEs have shown tremendous resilience, adaptability and willingness to take risks in order to lead their company through tough economic conditions. At SAP, we call the SME growth phenomenon the *Power of Small*.

To accelerate the *Power of Small* worldwide, we need to find better ways to scale SMEs. This starts by addressing their challenges and growth hurdles.

In 2012 SAP commissioned the Economist Intelligence Unit to conduct a survey among senior managers at SMEs in five developed and five emerging markets across the world to find out about their growth hurdles. Surveyed countries included France, Germany, Japan, the United Kingdom, the United States, Brazil, China, India, Mexico and Russia. Results revealed that SMEs are most concerned about finding and keeping new customers, attracting talent and operating more efficiently. The hurdles to business growth are similar for SMEs in developed and emerging markets. Both groups described government bureaucracy and regulation as obstacles.<sup>2</sup>

The similarity of survey responses among participants in developed and developing countries was striking, and also promising. Entrepreneurs share — to some extent — the same challenges. We thereby have the opportunity to transfer knowledge between regions with high SME concentrations, and develop global best practices and approaches to help entrepreneurs worldwide do what they do best: grow their business and create jobs.

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<sup>1</sup> NYC Small Business Development Center: Top Ten SBDC Reasons Why New York Loves Small Business, [www.nyssbdc.org/resources/Publications/nylovessmallbiz.pdf](http://www.nyssbdc.org/resources/Publications/nylovessmallbiz.pdf)

<sup>2</sup> The Economist Intelligence Unit (2012): Developed vs Emerging Economies. SMEs Preparing for Growth, <http://cdn.news-sap.com/wp-content/blogs.dir/1/files/SAP-SME-Developed-vs-Emerging-economies-WEB.pdf>



IceStone  
MADE IN THE USA

»IceStone, which makes counter tops out of recycled glass and cement at the Brooklyn Navy Yard in New York City, has proven that New York is a place where manufacturing of green and sustainable products can thrive. «

Dal LaMagna  
CEO and President of IceStone, a pioneer company manufacturing recycled glass and cement compositions

*Brooklyn Navy Yard, New York*



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As a next step, we looked at New York City, one of the world's largest markets powered by small enterprises.

Small businesses employ more than half of New York State's private sector workforce. New York City has more than 200,000 small businesses, making up 99 percent of all New York businesses, according to the Small Business Development Center (SBDC). In addition to its strong media & entertainment, finance, fashion and services industries, New York has seen a renaissance in manufacturing, including specialty food producers and sustainable consumer products businesses. Recognizing that small enterprises are essential to economic recovery, New York State and New York City have set in place a large network of resources and programs for entrepreneurs in recent years.

## **The Survey**

SAP conducted a survey among New York City-based small and medium-sized enterprises (SMEs) from November 2012 to January 2013 to find out more about the business priorities and challenges of senior managers at SMEs in New York City.

Results showed that in the aftermath of Hurricane Sandy, a storm that crippled the local economy significantly, New York City entrepreneurs (97 percent) kept their focus on growing their sales and revenues quickly, often by double-digits. High on the priority list are attracting and retaining talent (67 percent), developing new products and services (60 percent), and getting access to funds and capital (53 percent).

Most entrepreneurs applauded the infrastructure New York City has set in place to support their establishments, such as the business resource centers and training programs. They see access to talent, capital and government support as vital to continued success.

In the past three years, SMEs in New York City have fought off fierce competition and rising operational costs by becoming more efficient. They have shown their resilience to a weak economic market by adopting technology to automate operations and identify business insights.

Key obstacles for future business growth are the rising costs of commodities and other inputs (43 percent), the growing tax burden (33 percent) and growing competition (33 percent).

In short, New York City's small businesses are optimistic about the future. They revived and brought back older industry sectors by giving them a new twist, like green and specialty food manufacturing. They took risks to develop new sectors such as digital media, technology, biotech and clean tech. But similar to SMEs in other cities and countries, growth hurdles are preventing entrepreneurs in New York City from further scaling their businesses. Breaking those growth obstacles will be the first step to accelerating their power to create jobs and strengthen economic prosperity.

Our survey results identify those hurdles and provide some valuable lessons for entrepreneurs from other regions.

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# New York City's Ecosystem for SMEs

*Sugar Flower Cake Shop*

»Like the song, if you can make it in New York, you can make it anywhere. On the flip side, there is more competition and it is hard from an overhead perspective. «

Amy Noelle, founder of Sugar Flower Cake Shop, a boutique bakery selling cakes featuring handmade, realistic-looking flowers made from sugar

*Manhattan, New York*



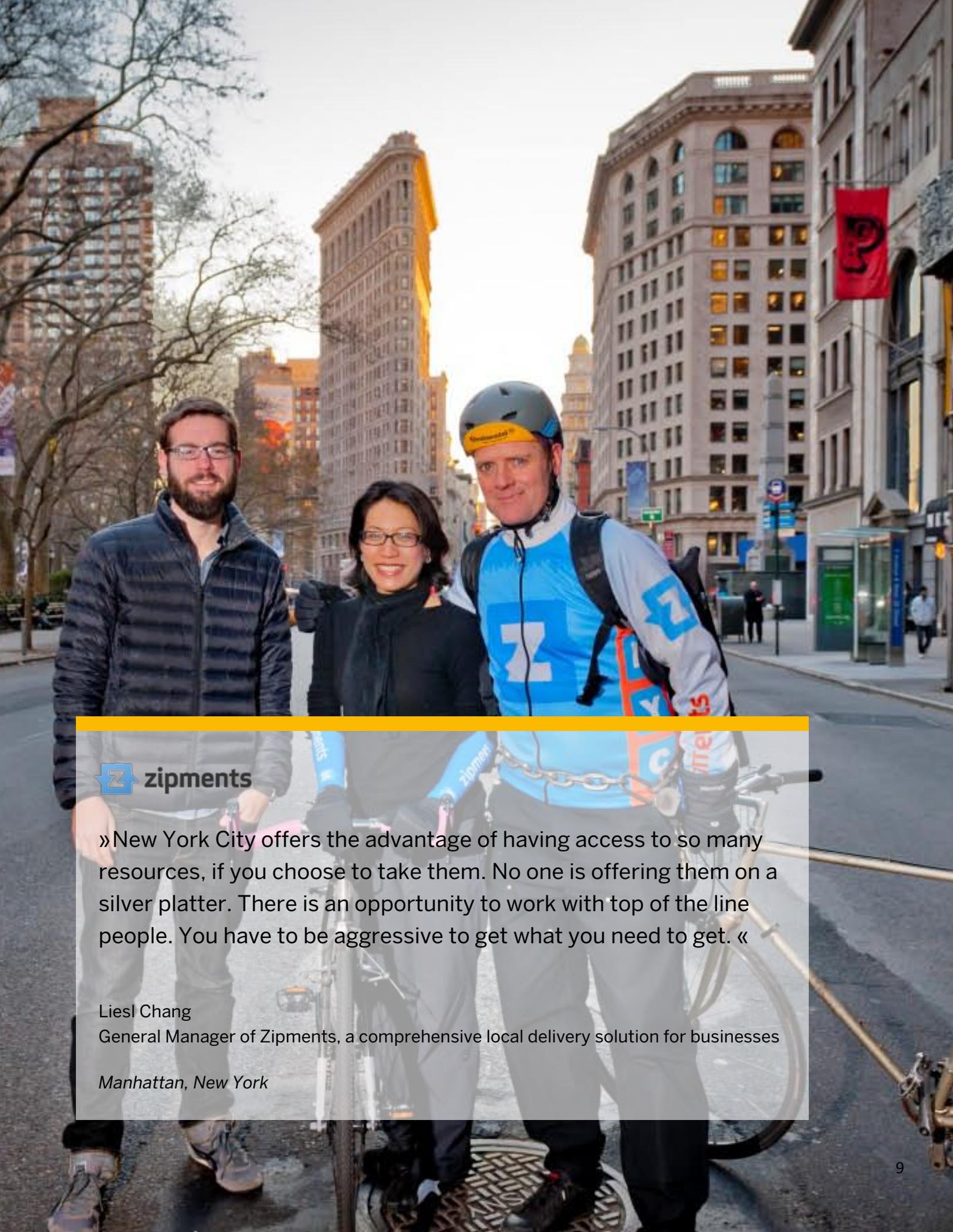
The startup ecosystem of New York City is unparalleled. Survey respondents overwhelmingly applauded the culture of entrepreneurship and numerous networking opportunities, especially in industries like media, technology, beauty, and fashion. New York City provides an enormous pool of potential customers, and workers are often motivated and intelligent.

Even the city government's small business support programs are widely praised. But respondents were quick to admit that New York City also has its downsides — like expensive commodities and talent, sky-high rent, and burdensome taxes. The very vibrancy that makes NYC attractive ultimately results in fierce competition for entrepreneurs.

## ADVANTAGES

### Media & Technology:

New York City is a media capital of the United States, especially in the emerging realm of social media and digital news. With its growing community of technology and media startups, some say NYC is becoming the Silicon Valley of the East Coast — except with more limited real estate options.



»New York City offers the advantage of having access to so many resources, if you choose to take them. No one is offering them on a silver platter. There is an opportunity to work with top of the line people. You have to be aggressive to get what you need to get. «

Liesl Chang

General Manager of Zipments, a comprehensive local delivery solution for businesses

*Manhattan, New York*

### **Fashion, Beauty & Art:**

New York City is also a center of art, from its world-renowned semi-annual Fashion Week and boutique clothing stores to its countless art galleries and lofts. Clothing manufacturers, designers, salons, and art gallery owners all said the same thing: NYC is a creative hub.

### **Government Support:**

The NYC Business Solutions courses are a resource for many startups—and quite a few survey participants benefited from the city's FastTrac program. Mayor Michael Bloomberg has been a linchpin in the city's emerging

entrepreneurial culture, even supporting startup funding through the New York City Economic Development Corporation (NYCEDC).

### **DISADVANTAGES**

#### **High Taxes:**

With additional taxes added on top of state and federal taxes, New York City's tax situation can be burdensome, especially for small companies. "The taxes are really not cool," said the owner of a small NYC-based accounting firm.

#### **High Costs:**

Nearly all survey respondents said that everything in New York City is

too costly—especially compensation and real estate, which are among the most expensive in the United States. In such a competitive environment, costs are often a limiting factor for startups without enough capital.

#### **Regulations:**

Many small businesses in New York City say that bureaucratic regulation is an obstacle, despite the availability of some support programs. But for optimistic entrepreneurs, regulation challenges resiliency: "If you can succeed in this regulatory environment, you can succeed anywhere," one business owner said



»Since we are in the clothing biz, the garment district is the place to be. Bloomberg has done a lot to help small businesses. For example, the city's FastTrac program has helped us a lot with raising money and getting press. On the other hand, everything costs more here, rents are higher and salaries are higher; these are fundamental challenges. If NYC has all the resources and talent at much better prices, it would be easier. «

Lawrence Sheer, founder of Magnificent Baby, a producer of magnetically-fastened infant wear.

*Manhattan, New York*

# Business Growth Drivers



» Adapting to the new trend based on market intelligence and client preference to ensure quality customer experience is key. Knowing your customer is key but challenging. «

Robert Zhu

Founding partner of Lotus Blue, a full service restaurant offering Chinese food inspired by the cuisine of Yunnan province

Manhattan, New York



Not surprisingly, 90 percent of New York City's entrepreneurs choose growing sales and earnings as their top priority [Exhibit 1]. They are determined to keep expanding their businesses with aggressive, often double-digit, growth rates. When asked how they define success for their company in the next 12 months, many respondents stated specific revenue growth goals. Overall areas of growth include breaking into higher-end markets with more lucrative margins and

expanding geographically. Small business owners also shared goals of revamping brand marketing and attracting new customers.

To achieve these growth goals, SMEs focus on attracting talent and retaining talent (67 percent). While New York City is regarded as a place that attracts talent, especially creative talent, winning the right talent for the business is not without challenges. SMEs struggle to find affordable talent or team

members with specific, often technical, skill sets. Some mentioned the difficulty of attracting talent to work in a startup environment.

As most of New York City's SMEs have implemented processes and technologies to keep operations lean and agile, their top priority to drive business growth is the development of new products and services (60 percent).



»It takes years until you grow into your own business; you start one thing, then you morph into something else. The business that you start building isn't necessarily the one you end up building. However, whatever your business will be, its success will be driven by the relationships you build. Relationships are the crux of the economy.«

ilana eberson

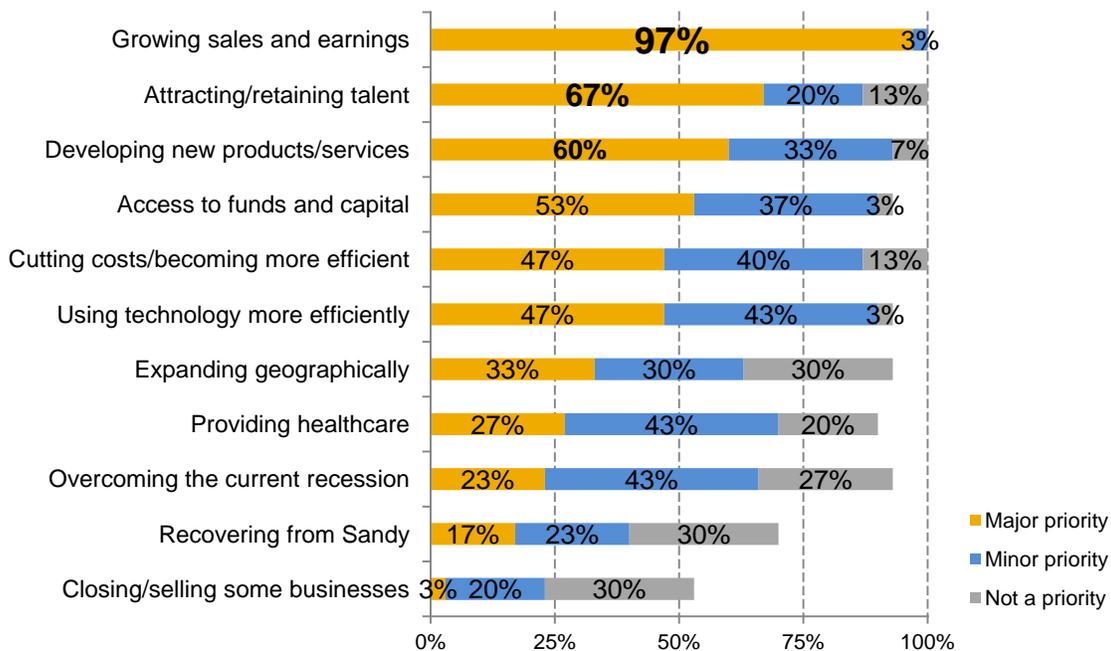
President of B3Global, one of the largest NYC entrepreneur networking groups

*Manhattan, New York*



**Exhibit 1**  
**Business**  
**Priorities**

*Questions: What are the top business priorities for your company over the next 12 months? What are the top three priorities?*



Sample size: 30

- Pursuing an aggressive growth rate is a top priority
- Business growth success is partly determined by access to talent and capital
- SMEs are always looking for ways to make their operations more efficient

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## Wanted: Access to Finance and Capital



SAP SME Summit held in NYC on November 29, 2012. SAP co-CEO Bill McDermott talked about SME financing in the roundtable session. Panel participants from left to right: John Evarts, COO and CFO, Mediafly; Jorge Silva-Puras, Regional Administrator, US Small Business Administration; Linda Rottenberg, founder and CEO, Endeavor; Bill McDermott, co-CEO, SAP AG; Sunil Hirani, CEO, trueEX; and Kathryn Wylde, president and CEO, Partnership for New York

Access to finance and capital remains a challenge for the majority of the SMEs in New York (53 percent) [Exhibit 1]. Of the surveyed respondents, 63 percent said that they have become more worried about access to finance over the past three years, and half of the respondents are more worried about debt [Exhibit 3].

Most survey participants expressed their desire to partner more

extensively with large companies. While some SMEs only service individual consumers or other small businesses, other New York City SMEs strive to win more big firms as clients. Many see large companies as potential partners for sizable contracts, or as financial backers. Even SMEs that philosophically prefer to work with other small businesses admit the potential benefit of allowing bigger

enterprises to help them reach their business goals, especially with their connections in banking and finance.

Survey results show that there is an opportunity for large companies to help SMEs break the financing hurdle by facilitating access to much-needed capital as an investor, partner or client.

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## Search for Affordable Talent



Kananshree  
ARCHITECTURE & DESIGN

»In New York there is a lot of talent, but the expenses of doing business are high. Our obstacle is the labor cost. Our work is very labor intensive, and the profit is little as a result.«

Kananshree Prasse  
Principal at the interior and architecture studio Kananshree Architecture and Design

*Brooklyn, New York*

Attracting and retaining talent is the second biggest priority for New York City SMEs—nearly 90 percent of respondents said it was a major or minor priority [Exhibit 1].

Finding and keeping the right staff in New York is a challenge. While the city attracts talented workers in certain industries, not everyone is ready to join a startup or small business.

Some companies have a hard time finding people with specialized skill sets—and small business owners can't take a risk on high-cost workers who are less than ideal.

**»We keep starting businesses in New York even though NYC is a tough place for small business. We choose New York because it is a very creative place. We have access to clients and talent that makes our business succeed. «**

*Sunil Hirani, Co-Founder & CEO, trueEX*

## Obstacles to Growth



»I had my retail shop for 16 years. NYC has an excellent customer base for retailers. If your business model is set up well, you can project what will happen in the next five years, if the rent is stable and reasonable. The fact is that retailers are shrinking space for product because of the bad economy. Shops cannot afford more products. Government thinks they are helping us, but the reality is that no one is taking care of us. Because of the economy, currently I don't have employees to help with that. But NYC is a fashion center and it's definitely our favorite place to do business. «

Ellen Christine, owner of Ellen Christine Millinery, a vintage hand-made hat studio

*Manhattan, New York*

SMEs in NYC express cautious optimism about current and future market conditions. They are constantly and closely monitoring potential barriers, including rising

operating costs, growing competition and changing customer behaviors. In order of priority, survey respondents named the following

major concerns: rising costs of commodities and other inputs (43 percent), growing tax burden (33 percent) and growing competition (33 percent) [Exhibit 2].

# Windowfarms

## Windowfarms

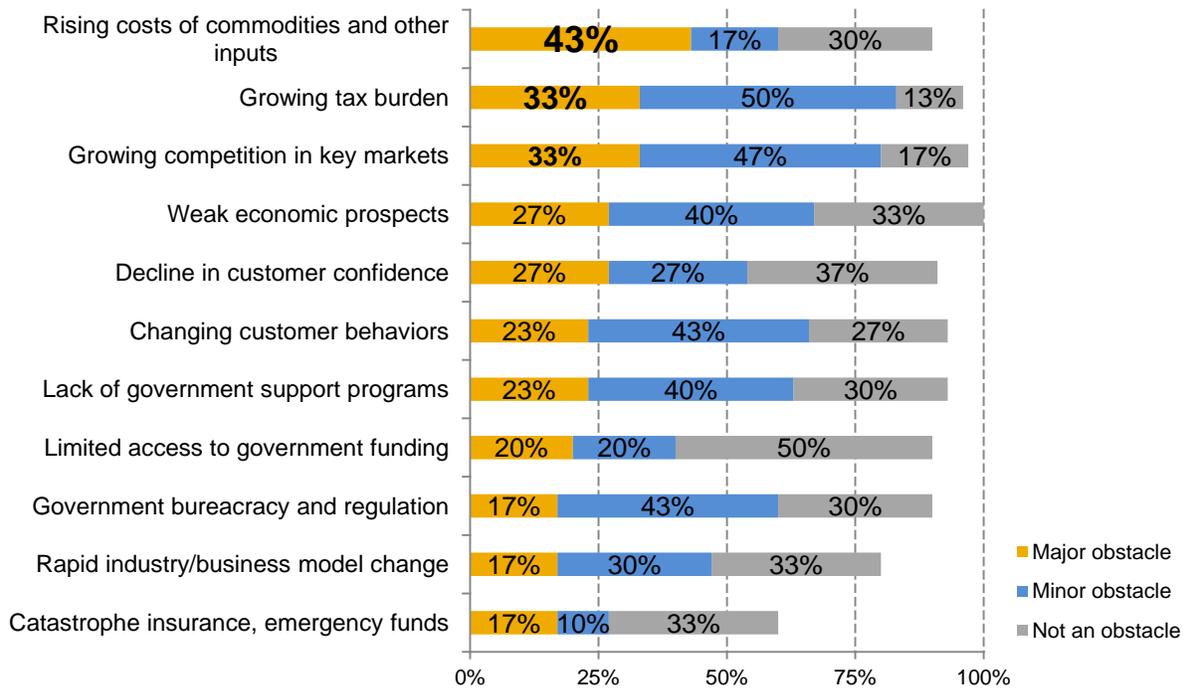
»Once you tap into certain networks, it is very easy to get connected. If you know what you want, there is wealth and resources that you can take advantage of. At the same time, the costs are very high. You have to be ready in NYC to grow fast and grow bigger than you might have to at other locations. «

Britta Riley  
Founder and CEO of Windowfarms, a social enterprise that makes vertical indoor food gardens that optimize indoor window space

Brooklyn, New York

**Exhibit 2**  
**Obstacles**

*Questions: In the list of characteristics of the external business environment, which one presents obstacles to your company's growth? What are the top three obstacles?*



Sample size: 30



- **80 percent of SMEs surveyed face growing competition**
- **83 percent identified the tax burden as a major or minor obstacle**
- **65 percent face changing customer behaviors, including price sensitivity and new consumption habits**
- **Approximately 60 percent state a lack of government support programs, government bureaucracy and regulations as a major or minor growth hurdle**

# Technology Helps Companies Operate and Grow More Efficiently



»In our business the margins are so low that becoming more efficient is an endless goal. You always seem in reach but you never quite grasp it. That is why becoming more efficient is one of our priorities and we look to large companies to help us with automation. «

Nicole Chaszar  
Owner of The Splendid Spoon, a soup subscription and delivery service

*Long Island City, New York*

Technology is helping small and mid-sized businesses run better. In fact, 80 percent of survey respondents said that it has become easier to find data and other information for their business, and 63 percent say they are using technology to become more efficient. [Exhibit 3].

Many small business owners are investing in software to do so. For example, one of the survey respondents recently purchased sales management software for online ad sales, and another was hoping to get a point of sales (POS) system for his growing café. Other businesses are simply trying to

keep up with industry advancements. Some say this is an area where big companies can act as technology partners and providers to help ensure the continued success of local SMEs.

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## Going Forward: What Other Regions Can Learn From New York City



» An entrepreneur encounters change, whether due to growth, seasonality, employee turnover, etc. If we took this survey a month from now, my answers would probably be different. Some days your hair is on fire, and some days you think ‘Why didn’t I do this my whole life?’ Overall, it is really exciting and fulfilling to be an entrepreneur, creating awesome products and jobs. «

Belinda DiGiambattista, President & CEO of Butter Beans Kitchen, which prepares and distributes healthy school-wide lunches

*Long Island City, New York*



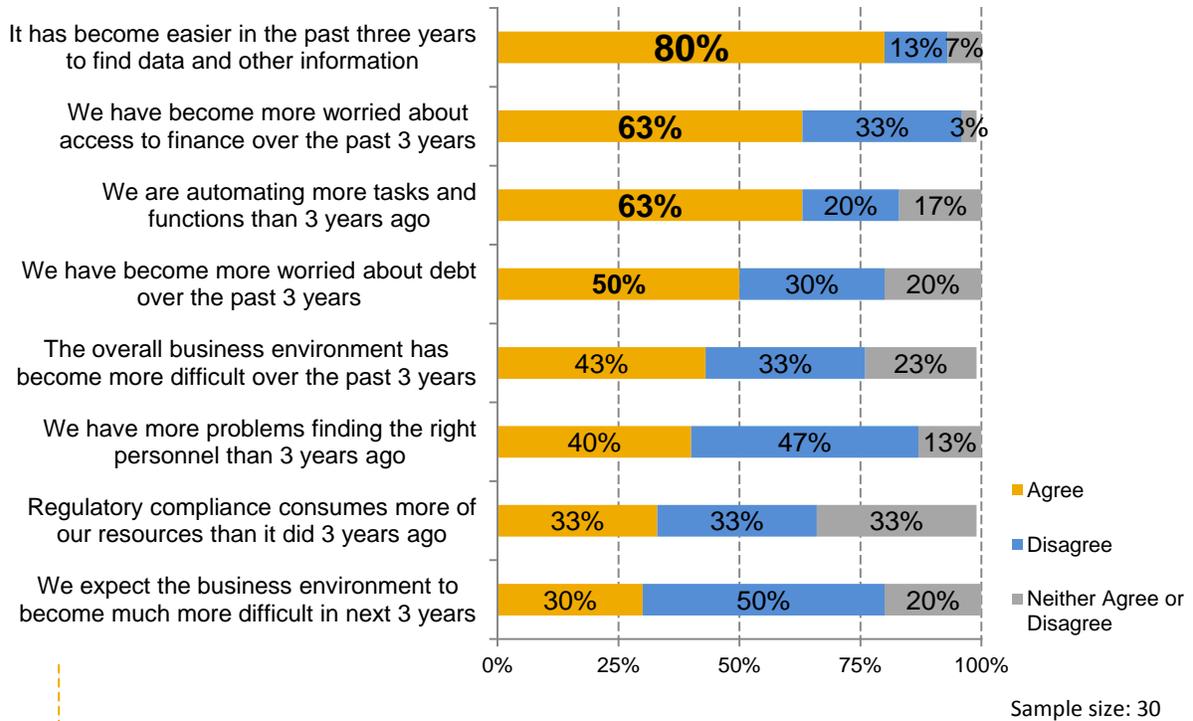
Since the economic downturn of 2008, most small businesses in New York City have become more worried about access to finance and the potential for debt. But even as SMEs grasp for capital in this expensive and competitive city, owners are

optimistic about the future. New York City is still a vibrant, resilient entrepreneurial hub. Only 30 percent of respondents said they expect the business environment to get much more difficult in the next three years—and 50 percent disagreed

with them [Exhibit 3]. Although starting a small business is challenging, most entrepreneurs in NYC are focusing on growth going forward.

SMEs around the world can learn a few lessons from their New York City counterparts: embrace new technologies, take advantage of available government support, and, most importantly, stay positive. New York entrepreneurs have shown that it pays off to have a risk-on mindset.

**Exhibit 3** *Please indicate whether you agree, disagree, or neither agree nor disagree with each of the following statements.*

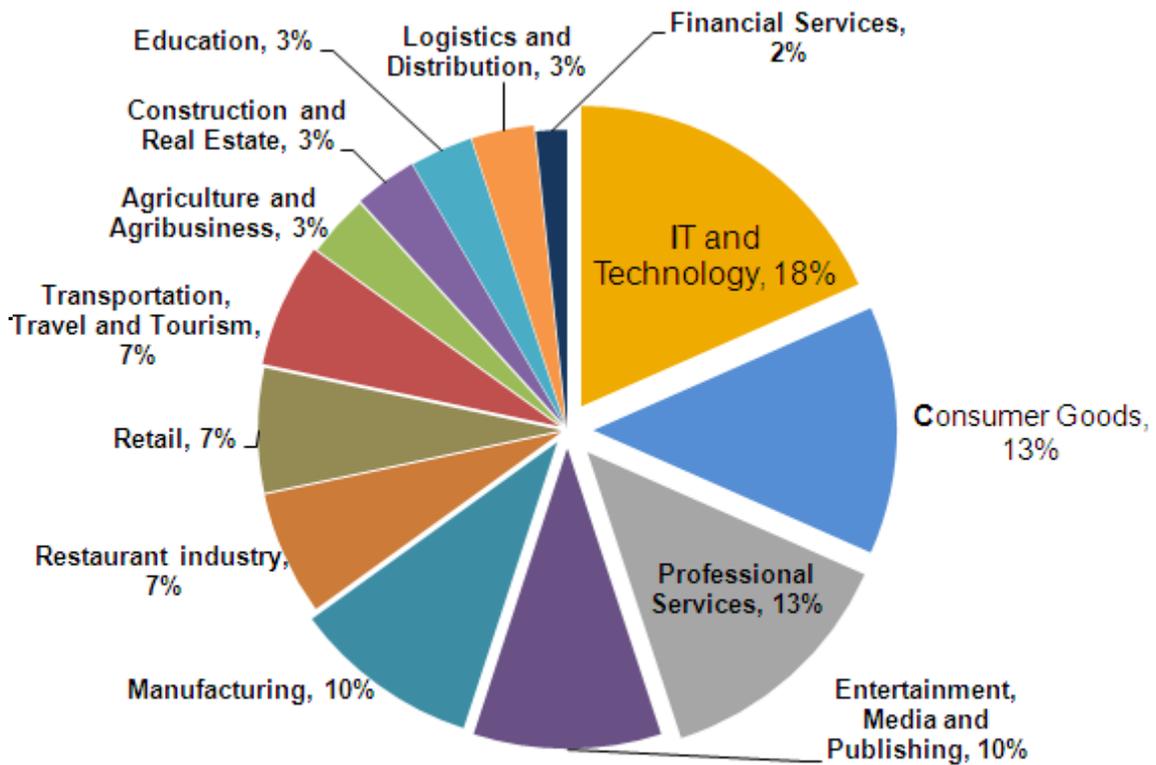


- Financial conditions (access to finance and debt) are worrisome for SMEs in NYC
- SMEs are becoming more automated and tapping into more market data
- SMEs in NYC are neutral-optimistic about economic prospects

# Methodology

SAP conducted a phone survey among small and mid-sized businesses (SMEs) in New York City from November 2012 to January 2013. We reached out to privately held companies with revenues of up to US\$750 million in New York City's five boroughs – Manhattan, Brooklyn, Queens, Bronx and Staten Island. Most companies who agreed to participate have revenues of less than US\$50 million. The survey design, a set of open-ended and closed questions, complements a global study on entrepreneurship that SAP had commissioned with the Economist Intelligence Unit. The goal was to identify the challenges and opportunities of New York City based SMEs. The timing of the survey implementation coincided with Hurricane Sandy, which impacted many businesses across the five boroughs.

Exhibit 4  
**Industries**



Sample size: 30

# REFERENCES

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