

The Power of Small

Key Factors for Small Business Growth
Lessons from the SAP SME Summit



The Best-Run Businesses Run SAP®

Introduction

Harnessing the Power of Small

In the United States from 1993 through 2011, 64 percent of net new jobs were generated by small businesses.¹ In many other parts of the world, still higher percentages apply. In the European Union, more than 65 million jobs are accounted for by small businesses.² Investing in the health of small businesses represents a crucial strategy in the cultivation of economic growth on a global basis.

Panel Participants

Bill McDermott, Co-CEO, SAP AG

Jorge Silva-Puras, Associate Administrator, US Small Business Administration

Kathryn Wylde, President and CEO, Partnership for New York City

Linda Rottenberg, Co-Founder & CEO, Endeavor Global, Inc.

John Evarts, COO and CFO, Mediafly, Inc.

Sunil Hirani, CEO, trueEX Group, LLC

Moderator: Hubertus Kuelps, Head of Global Communications, SAP AG

On November 29, 2012, SAP hosted a roundtable discussion in New York City on the centrality of small businesses and entrepreneurship to economic growth. A distinguished panel of participants from the public and private sectors addressed methodologies to promote successful start-ups and scale-ups in the contemporary business environment, both globally and locally.

In spite of the range of viewpoints presented, each of the expert participants agreed on the intrinsic long-term value of fostering start-ups and removing obstacles to their growth and economic success wherever possible.

Linda Rottenberg, CEO of Endeavor Global, expressed the situation succinctly in quoting one of her non-profit organization's ambitious start-up clients: "I'm not a small business. I'm a billion-dollar company ... in development."

The panel discussion was partially driven by a recent SAP survey of New York City small businesses. The survey results found that NYC-based entrepreneurs are determined to grow and innovate in the face of obstacles. In the wake of Hurricane Sandy in October 2012 and its impacts on New York's economy, particular attention was placed on NYC as a valuable case study in the role of small business. But the panel had a national focus, and the discussion applied to entrepreneurs and small business owners around the world.

This summary is the second installment in SAP's "Power of Small" series. The first, "The Power of Small: Insights from New York City's Entrepreneurs," highlights the final results of the NYC small business survey. SAP strongly believes in the Power of Small, and hopes that continued support for small and medium-sized enterprises will result in a vibrant and healthy world economy.



The SAP SME Summit held in NYC on November 29, 2012. The panelists, from left to right: John Evarts, Jorge Silva-Puras, Linda Rottenberg, Bill McDermott, Sunil Hirani, and Kathryn Wylde

Summary of Key Findings

The importance of small businesses to economic growth is indisputable. But there has been considerable uncertainty and debate regarding the most effective ways to foster success. The roundtable discussion divided the subject into five subtopics, each of which generated a lively and illuminating set of reactions from the panelists. Based on the discussion, the panelists arrived at the following recommendations for harnessing rapid small business growth:



Access to capital: The public and private sectors both have a vested interest in ensuring that viable small businesses – whether stable in size or oriented toward growth – consistently have adequate access to capital.

The importance of human resources and leadership: The role of mentors in small business success is often underestimated. Matching visionary entrepreneurs with suitable mentors is vital to the process of cultivating economic growth in the context of developed and developing markets alike.



The role of public policy: Public policy can contribute to the viability of small business by discouraging brain drain, establishing a sensible approach to job-related immigration, freeing up credit for deserving businesses and developing connections between entrepreneurs, creditors, investors and mentors.

Leveraging new technologies: Technology is playing and will continue to play a central role in enabling small business to compete successfully with large incumbents as well as to make their goods and services available to wider and more sophisticated markets. Cloud computing and mobile technologies are at the forefront of these developments.



Targeting the top performers: While “picking winners” is not a surefire process, there is value in trying to offer different types of support to different categories of small business.

Access to Capital

The key factor in starting any new business, or in growing one quickly, is capital. Capital not only funds start-up operations and enables expansion, it can engender new activities – some of which may initially seem ancillary, but which can bear fruit in the vital form of new revenue streams.

Jorge Silva-Puras, of the Small Business Administration, underscored the critical role of small businesses in the economy of the United States, as well as in many other regions of the world. In the U.S., nearly 95 percent of businesses are categorized as small businesses; these generate two out of every three net new jobs. Silva-Puras emphasized, however, that they have proven to be more vulnerable than larger businesses to the tightening of access to capital that was observed throughout the financial markets.³ Still, he insisted that there is room for optimism, and recently small businesses have been making a comeback.

Key Fact

In the last four years, 43 percent of small businesses owners needed funds and were unable to find any willing sources⁴

Linda Rottenberg, whose non-governmental organization matches business mentors with high-potential entrepreneurs in emerging markets, explained that “an investment network has now formed around Endeavor.” She estimated that her non-profit has helped entrepreneurs secure roughly \$200 million a year in financing, a self-sustaining process in which previous beneficiaries subsequently become angels and mentors to the next generation of entrepreneurs.

Within the United States, the Small Business Administration provides loan guarantees to expand the availability of capital to promising small businesses. Silva-Puras explained that the SBA offers guarantees to banks covering up to 85 percent

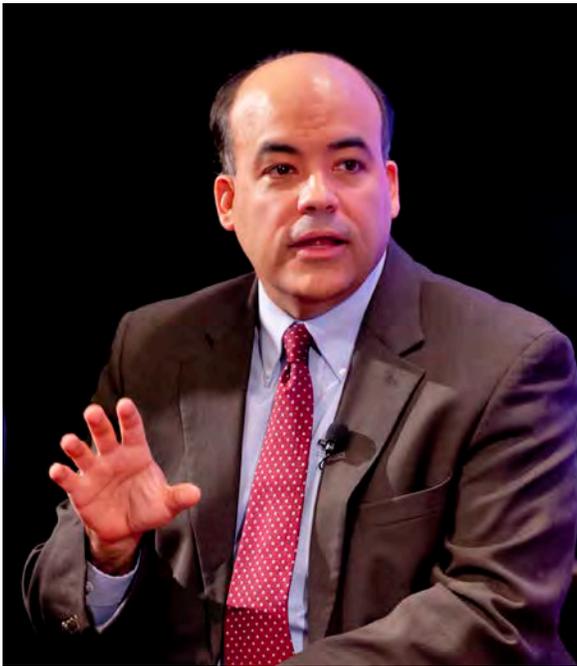
of qualifying loans. The guarantees lower the risk threshold for the lending institutions, resulting in an expansion of the available credit pool. Currently the SBA has more than \$90 billion in loan guarantees in its portfolio. FedEx is just one prominent example of an enterprise that was launched with support from the SBA.

The SBA also acts through its provision of low-cost funding to designated Small Business Investment Companies (SBICs), venture capital firms that specialize in small businesses. These SBICs are sharply focused on searching for talent and creative ideas in the small business sector. The role of these firms is now more critical than ever before because of the difficulty of obtaining capital under current market conditions. Companies that need investments on the order of \$5 million to take their businesses to the next level are particularly at risk, said Silva-Puras.

John Evarts seconded Silva-Puras, emphasizing the advantages to small businesses of being able to borrow from a single lender at low cost. Simplicity and freedom from excessive restrictions can induce a company to grow even more quickly.

“Access to capital is critical. It is necessary for everything [and it] begets other things.”

*- John Evarts,
COO & CFO of MediaFly*



“There is room for optimism ... We are now seeing, in the last few years and particularly the last few months, that the small business community has been making a comeback.”

– Jorge Silva-Puras,
Associate Administrator of
the Small Business Administration.

Need Small Business Funding? Consider the Small Business Administration

The U.S. Small Business Administration (SBA) provides counseling through entrepreneurial development programs, leads the federal government’s efforts to deliver 23 percent of prime federal contracts to small businesses, and helps small businesses get the capital they need to grow. The SBA has multiple funding opportunities for small businesses:

- **7(a) Loan Guarantee Program:** makes capital available to small business through bank and non-bank lending institutions. The SBA guarantees up to 85 percent of qualifying loans, lowering the risk threshold for the lending institutions; the maximum loan is \$5 million. Currently the SBA has more than \$90 billion in loan guarantees in its profile.
- **504 Fixed Asset Financing Program:** provides funding for the purchase or construction of real estate and/or the purchase of business equipment and machinery.
- **Microloans:** these are offered through non-profit microloan financial intermediaries in amounts up to \$50,000.
- **Disaster Relief Loans:** the only direct financing options from the SBA.
- **Small Business Investment Companies (SBICs):** privately owned and managed investment funds that use their own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in small businesses. The SBA does not invest directly into small businesses through the SBIC Program.

SBA support contributed to the growth of many global corporations, including FedEx, Apple, Staples, and Whole Foods Market.

The Importance of HR and Leadership

The panelists agreed that human resources are critical to the growth of small businesses. Of the New York-based SMEs surveyed by SAP, 87 percent identified attracting and retaining talent as a major or minor priority.

Of course, small businesses confront numerous challenges with regard to human resources, including difficulty finding individuals with the right skillsets. Moreover, qualified professionals are not always willing to join a small business or startup, as noted by the respondents to SAP's survey. Employees of larger, more established companies tend to face fewer unknowns.

As Silva-Puras remarked, because entrepreneurs cannot be experts in everything, it is important to take a specialized approach to supporting their needs. This is why the SBA's Small Business Development Center provides free in-person counseling, and why its SCORE Association, comprised of 11,500 volunteer business mentors, works locally with aspiring entrepreneurs and business owners.

Rottenberg concurred that mentors serve a critical purpose. In fact, Endeavor carried out a study that indicated the number one determinant of success was whether or not a new business received support from a suitable mentor. Additional studies have come to similar conclusions.⁵

Bill McDermott, co-CEO of SAP, highlighted the importance of visionary leadership of the sort that fosters ideas, turns them into reality and generates job growth. In this regard he commented that small businesses, led by committed entrepreneurs, often have the advantage over larger companies in being able to act and innovate swiftly.

SBA data shows, for example, that among "high-patenting" firms (those generating 15 or more patents in a four-year period), small businesses produce patents at 16 times the rate per employee of their larger counterparts. This kind of innovation is reflected in SAP's new client base, which primarily consists of small businesses.

Nonetheless, when it comes to human resources, large companies can sometimes emulate the spectacular results of small businesses. McDermott expressed his belief in the importance of giving people at large companies

Key Fact

Among new businesses that succeed within the first few years, roughly 50 percent attribute their success, in part, to having access to appropriate mentors

opportunities to act like entrepreneurs. SAP, for example, allows its employees to take sabbaticals in order to rethink the business model for a particular industry or country. His experience has been that the employees return inspired and galvanized. And inspired employees are central to new innovation, satisfied customers and solid financial results.



“If you innovate, if you stay true to your customer, and you execute well and put people first, whether it’s your people or the ecosystem, you can run a pretty interesting company. That’s the world I see.”

– Bill McDermott,
Co-CEO, SAP AG

SAP Loves SMEs

- Five entrepreneurs started SAP 40 years ago. Today it employs 65,000 people, and SAP’s enterprise software ecosystem has led to more than 300,000 jobs outside of SAP itself.
- 79 percent of SAP customers are SMEs and 88 percent of SAP’s new business clients are small.
- These small business clients are earning patents at 10 times the rate of larger business clients.
- Today 33 percent of SAP’s sales come through indirect entrepreneurs.
- SAP reserves a certain dollar amount each year to invest in early stage companies—usually in the realm of \$1 million, said co-CEO Bill McDermott.

The Role of Public Policy

Public policy has a vital role to play in supporting small business. By targeting key stimulus factors, city, state and federal governments can help entrepreneurs and create the right conditions for sustainable economic growth. Policies that support immigration, access to capital, education and B2B networks can foster a culture of entrepreneurship and contribute to the diversification of local economies everywhere.

Regarding immigration, more than one-third of the 200,000 small businesses in New York City alone are owned by first-generation immigrants, and nationally more than one in six small business owners are immigrants.⁶ However, the influx of new immigrants has been slowed by more restrictive policies implemented in the wake of 9/11.

The Public Policy Concerns of Small Business

Immigration: *Are restrictive policies preventing would-be entrepreneurs from starting businesses in the U.S.?*

Credit Market: *What can policymakers do to ensure small businesses can withstand unfavorable market conditions?*

Entrepreneurial Culture: *How can city and state leaders foster small business growth in their region?*

Silva-Puras talked about the vital importance of immigration reform. In the United States in particular, restrictive policies have dampened small business growth because foreign nationals who receive advanced degrees commonly discover that they are unable to secure the visas they need to put their skills to work. In a related problem, foreign companies interested in expanding their manufacturing footprints in the United States find themselves increasingly unable to procure work visas for their staff. Given the significant resources dedicated by the US to educating foreign nationals and the interest in stimulating manufacturing, it has become urgent for policymakers to resolve this conflict between the nation's economic interests and national security measures put in place over the past decade.

In other respects, public policy has led the way in initiating efficiency improvements and leveraging new technology. Following Hurricane Sandy, which struck unexpectedly at economic activity in the Northeastern United States, Silva-Puras noted that government recovery facilities were able to make emergency loans in less than 10 days. Applications have migrated to the web, and processing times have been reduced accordingly.

Key Fact

From 2006-2012, 24.3 percent of tech companies founded in the U.S. had at least one key founder who was foreign-born. In Silicon Valley, this number was 43.9 percent. These companies employed about 560,000 workers and generated \$63 billion in sales⁶

Public policy has an important part to play in fostering healthy credit markets. Particularly in the wake of 2008, it is essential that policymakers ensure small businesses can readily access the capital they need. Small businesses are more reliant on bank lending to raise capital than larger corporations, which can raise money through bond issues, commercial paper and stock sales. Thus small businesses have traditionally been vulnerable to unfavorable market conditions.

Even so, Wylde believes that this dynamic is changing. "It used to

be that when Wall Street caught a cold, New York caught pneumonia. But now, small and large businesses are increasingly interdependent,” she said. With this in mind, Wylde sees an expanding role for public policy, noting that many of the excellent business ideas generated in New York end up coming to fruition in lower-cost cities that may do more to provide entrepreneurs with inexpensive capital and connect them to markets for their products and services. To combat brain drain of this sort, efforts by policymakers to build and maintain viable business networking structures in support of entrepreneurship are vital.

One regional example of recent success on this front is provided by New York’s new strength in the high-tech sector. Despite the havoc wreaked on New York by the dot-com bust of the late 1990s, the temporary expansion did leave behind a series of policy-driven institutions, networks and bridges that have been redeployed with great effect by the digital media, biotech and life sciences industries.

“The population of New York has stabilized because it is not getting its customary flow of immigration talent, which poses an immediate and long-term threat to local and national policy. Other countries, such as Canada, the United Kingdom and Australia, are now using immigration policy as their primary development tool, and they are eating our lunch.”

– Kathryn Wylde,
President and CEO,
Partnership for New York City



The Role of Technology

The proper use of technology frequently defines the fine line between success and failure for many small businesses. Sunil Hirani, citing the experience of his own firm, trueEX, emphasized that a successful business model almost always “comes down to building new technology and leveraging existing technology to create scale out of thin air.” Small businesses face barriers to entry that, by definition, are of little concern to incumbents. Technology will always be “at the center of their efforts to create scale, reduce costs and become more competitive.”

In fact, new technologies represent vital opportunities for new entrants to leapfrog incumbent companies active in the same sector. McDermott pointed out that appropriate technology represents the *sine qua non* of any business operation. “Even if it’s only a cash register, you still have to compute your sales,” he said.

Evarts agreed with McDermott and Hirani that the cloud and mobile technology in particular present entrepreneurs with an opportunity to leverage technology in ways that were not possible until quite recently. Mediafly, despite being a provider of mobile media solutions, now possesses no servers of its own onsite. This approach ensured they had a fully scalable business model in place.



“When you’re at the tipping point of needing to really scale up, technology is especially important. To cover functions that are susceptible of breaking down, our company moved these systems to the cloud, including accounting, backend operations and hosting.”

– John Evarts,
COO & CFO, Mediafly, Inc.

Time and again, the panelists cited ways in which new technologies have revolutionized entire business sectors – and small businesses are often at the leading edge of these changes. Hirani noted that when his company developed the automated trading platform T-Zero, which enabled clients to keep up with the ever-increasing pace and volume of the derivatives markets, it was initially so much faster than rival products that it captured as much as a 90 percent share in some markets.

McDermott introduced an SAP project in which the company developed a mobile enterprise solution tailored to the needs of craft breweries. The scalable, cloud-based package makes large business solutions available to small businesses, providing a complete dashboard covering financials, sales, purchasing, inventory, human resources and more. The software essentially makes it possible to manage every aspect of a brewery from a tablet computer, and its functions can be tailored to the needs of users with different responsibilities.

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Key Fact
In the effort to comply with federal regulations, businesses with fewer than 20 employees must spend 36 percent more than bigger companies

- The example of SAP itself is an instructive case study in the intersection of entrepreneurship and technology, said McDermott. Five entrepreneurs started SAP 40 years ago, and it now employs tens of thousands of people. Technological innovation will continue to drive economic growth, and SAP is firmly committed to bringing the benefits of enterprise software to small businesses everywhere.
- Technology can simplify the jungle of regulatory requirements that often present obstacles to small business managers. Silva-Puras noted, “If you are starting a business, you have to fill out x-number of documents ... and 80 percent of the information requested is the same from document to document. There should be a way in which that common information can be shared.”

New technology is now making that possible. In fact, said Wylde, New York City is working on just such a program to reduce the paperwork obligations imposed on the city’s small business owners.

Rottenberg cited ways in which technology is disintermediating middle management, building efficient new lines of communication between senior management and front line employees.

Evarts described how dynamic discounting, another recent development in enterprise IT, is even reducing the capital needs of small businesses. Proactive, information-driven management of receivables allows companies to offer discounts for prompt payments. This means that small companies can collect their receivables faster and reduce their need for outside investors and lenders.

These advances, as with so many other innovations reshaping the world of small business, would not be possible without electronic invoicing and B2B networks. Now with advancements in mobile, data, and cloud technology, small businesses can expedite the processes even more.

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“Today, technology often is the business model. It is at the heart and soul of every business.”

– Bill McDermott,
Co-CEO, SAP

Top Performers

Throughout the roundtable, the participants confronted the necessity of addressing how to select and channel investments towards the most promising small businesses – the “gazelles” that will be most likely to drive economic and job growth. Rottenberg emphasized the necessity of providing support to the firms and entrepreneurs offering the greatest potential for job creation and growth.

Hirani agreed that it is necessary to distinguish between growth and non-growth firms, but cautioned against relying too heavily on arbitrary metrics. For instance, for 20 years Apple Inc. was less than a powerhouse source of growth. So categorizing it as a non-growth company would have ignored the tremendous potential that the company eventually tapped.

Silva-Puras expressed a need for government to provide support to both the gazelles and to mainstream, low-growth small businesses. The low-growth businesses still represent roughly 50 percent of employment in the United States. But the gazelles generate a disproportionate share of job growth and have more funding options open to them.⁷ The SBA’s remedy is to offer different solutions to the two categories of small business. “The SBICs function as an instrument to lend to venture capital funds that seek out the gazelles.” At the same time, the SBA provides substantial administrative support and loan guarantees to small businesses of every variety.

Highlighting SAP’s perspective, McDermott stressed that both low- and high-growth small businesses require and deserve support. Thanks to the highly scalable nature of new cloud-based and mobile enterprise software solutions, sophisticated operational tools are increasingly available to businesses of every size and variety.

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“The ‘Power of Small’ is a mission. The ones that fail often fail because they don’t have the right systems and infrastructure. The number one reason small businesses fail is because they didn’t plan on being big businesses.”

– *Bill McDermott,*
CO-CEO of SAP

“I co-founded Endeavor 15 years ago with the belief that entrepreneurs would be the ones to change their economy. We’ve now seen—in Buenos Aires, in Amman, in Istanbul—ecosystems of tech entrepreneurs being spawned out of a bet on one or two people.”

– Linda Rottenberg,
Co-Founder and CEO, Endeavor



Endeavor and SAP: High-Impact Entrepreneurship for the Future

Endeavor pioneered the concept of High-Impact Entrepreneurship in emerging markets. It identifies and supports entrepreneurs with the greatest potential for impact in growth markets—and so far has selected more than 700 high-impact entrepreneurs from more than 450 companies. These entrepreneurs have created more than 200,000 jobs and, in 2011, generated \$5 billion in revenues.

SAP’s SME Summit panel concluded with a big announcement from SAP co-CEO Bill McDermott: a three-year commitment to Endeavor Global and Endeavor Brazil as part of a formal global partnership. The alliance builds on a longstanding relationship between Endeavor and SAP, including the development of an Impact Dashboard for Endeavor that illustrates how high-impact entrepreneurs grow revenue and jobs.

The partnership will focus on talent, technology, and capital. Select employees of SAP will volunteer as mentors for Endeavor Entrepreneurs, and SAP will also drive initiatives for technology innovation and participate in Endeavor’s Investor Network. Specific focus will be placed on Endeavor Brazil, where SAP will work to provide a suite of special services. “This is truly a high-impact partnership,” said Linda Rottenberg, co-founder and CEO of Endeavor.

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