RESEARCH REPORT

2021 Return to Growth Outlook

Survey of U.S. finance leaders uncovers the impacts of COVID-19 on small and medium business strategy and examines their growth outlook for 2021 and beyond.

Executive Summary

The COVID-19 pandemic changed the world in an instant. Companies had to adapt to not only survive – but to be empathetic members of the community.

To better understand the realities of what businesses endured, Sage commissioned a study of more than 1000 CFOs and other top finance executives at U.S. based small and mid-sized companies. The survey focused on how the pandemic impacted business strategy, customer retention, employee recognition, and community engagement. It also aimed to uncover the confidence and intentions businesses leaders have for the upcoming year.

Compared to last year, 79% of businesses feel more connected to their customers.

As customers increasingly moved online, and government mandates forced closure of stores, businesses had to shift their strategies to be almost completely digital. As offices were closed and many employees were forced to work from home, human resources (HR) teams had to evolve to better serve their new remote workforce. Finance teams were forced to deal with a sudden halt to discretionary spending; while operating budgets were slashed, business leaders had to get creative to retain their existing customers.

Despite all of these challenges – organizations across America managed to not only survive, but positioned themselves to thrive once the pandemic recedes.

How? Flexibility.

To attract customers in a digital environment, 55% increased digital marketing efforts, while 45% focused more on social media to connect with customers. Almost one-third (29%) either opened or scaled e-commerce efforts during the pandemic – a significant undertaking even pre-pandemic.

Nancy Harris
Executive Vice President and Managing Director, Sage North America

To address the evolving work landscape, **46% of businesses implemented long-term or permanent remote working policies,** while 39% offered increased assistance for childcare. In fact, almost one-quarter (24%)

With nearly one in five (18%) organizations already at or above pre-pandemic revenue levels, when do the rest of companies expect to get there?

of all businesses surveyed added completely new employee recognition programs to better reflect the needs and contributions of staff.
Many of these tactics saw positive returns. Of those surveyed, 79% say they have become more connected with their customers, while only 6% have plans to reduce the budgets the allocated to these new employee appreciation programs.

The flexibility shown by businesses not only helped them survive, for many, it's helped make growth a realistic goal. **Three quarters of finance teams are confident of a return to growth by the end of the year**, with 49% expecting revenue to have reached pre-pandemic levels by the end of September. In what might have sounded outlandish even at the end of last year, 19% of finance teams have projected double-digit revenue growth goals for 2021.

As we progress throughout the year, technology will continue to play a pivotal part in business growth. Over one-third (38%) of companies surveyed believe technology will have the single greatest positive impact on their business over the next 12 months, while just under half (47%) see their organization investing more in technology to accelerate growth ambitions. It is clear many organizations are reinvesting in digital strategies that saw success over the last year and are intent on finding other areas of their business that can be optimized by technology.

By being agile, and by finding new ways to connect with customers, employees and the community, companies across the U.S. not only survived – they've readied themselves to build back stronger.

We're glad to share the findings of this report so businesses can learn from each other's successes and continue to emerge from the pandemic.

A LOOK BACK

Businesses acted nimbly in the face of unprecedented challenges.

Flexibility was the theme for U.S. businesses

The past year presented businesses with circumstances most thought unimaginable. Companies had to rethink strategies to cater to new demands while keeping the wellbeing of customers and employees at top of mind. To survive, many had to make quick changes to their business model and day-to-day operations. However in doing so they laid the groundwork for a return to growth in 2021.

To meet customers where they were, businesses had to quickly pivot and optimize their digital presence. This can be seen in the changes prioritized by respondents. **Just over half of all businesses increased digital marketing efforts, while 45% increased their social media footprint and budget.** These changes helped businesses remain connected in a time where face-to-face interaction was limited or impossible and helped keep businesses top-of-mind for existing or potential customers.

Businesses were more amenable to employing new tactics as well. One-third (32%) either trialed or increased budget for social media advertising for the first time, while 28% implemented online learning and tutorials for customers. **Meanwhile, over a quarter (27%) provided or increased non-traditional HR services (such as childcare stipends and flexible work arrangements) in response to the pandemic.** The digital nature of commerce also saw 23% of businesses start or increase hiring staff virtually for the first time.

The willingness to provide options to customers was a major theme across U.S. businesses. Knowing everyone was facing uncertainty and financial stress, businesses offered customers financial support through flexible payment options (43%), reduced prices (42%) or net new incentives or rewards for purchases (42%). Interestingly – and likely due to the reduced resources available to them – the smallest businesses surveyed were the least able to provide wider customer incentives, with one third (34%) saying there was no change to customer programs over the course of the pandemic.

Unsurprisingly, the need to try new strategies in a digital environment accelerated the digital transformation timelines for most organizations surveyed (81%). However, companies were able to achieve both short-term and long-term digital transformation goals with investments throughout the year. **More than one-third (38%) of businesses say the pandemic accelerated digital transformation plans by three to four years, while 14% say it accelerated plans by more than five years.**

These digital strategies clearly saw short-term success, as the majority of businesses do not plan to roll back initiatives implemented during lockdown. In fact, one in every six businesses indicated they will not roll back a single measure implemented, a sign that many companies optimized their processes and strategies over the course of the year.

Just as importantly, these digital investments laid the groundwork for growth opportunities many businesses expect to see over the next 12 months.

Flexibility – percent of businesses doing activity for first time

32%
Started social media advertising

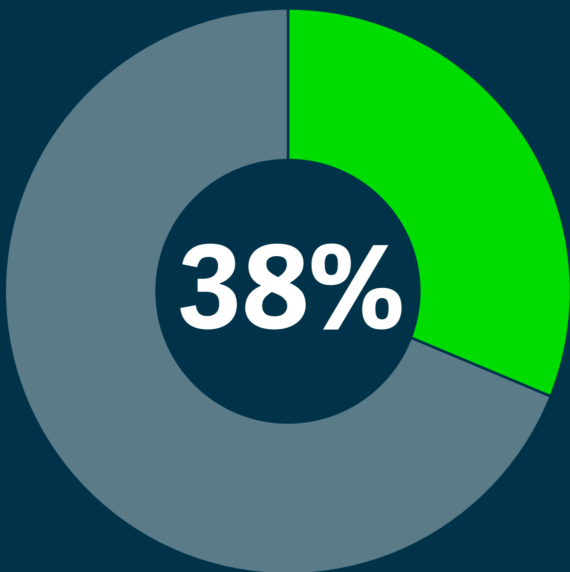
29%
Provided online delivery or service delivery

23%
Hired staff completely digitally

21%
Used data analytics in business planning

Most businesses do not plan to roll back initiatives implemented during lockdown

More than **one in three** businesses say their digital transformation plans have **accelerated by 3-4 years** due to COVID-19



Federal and state support played a pivotal role

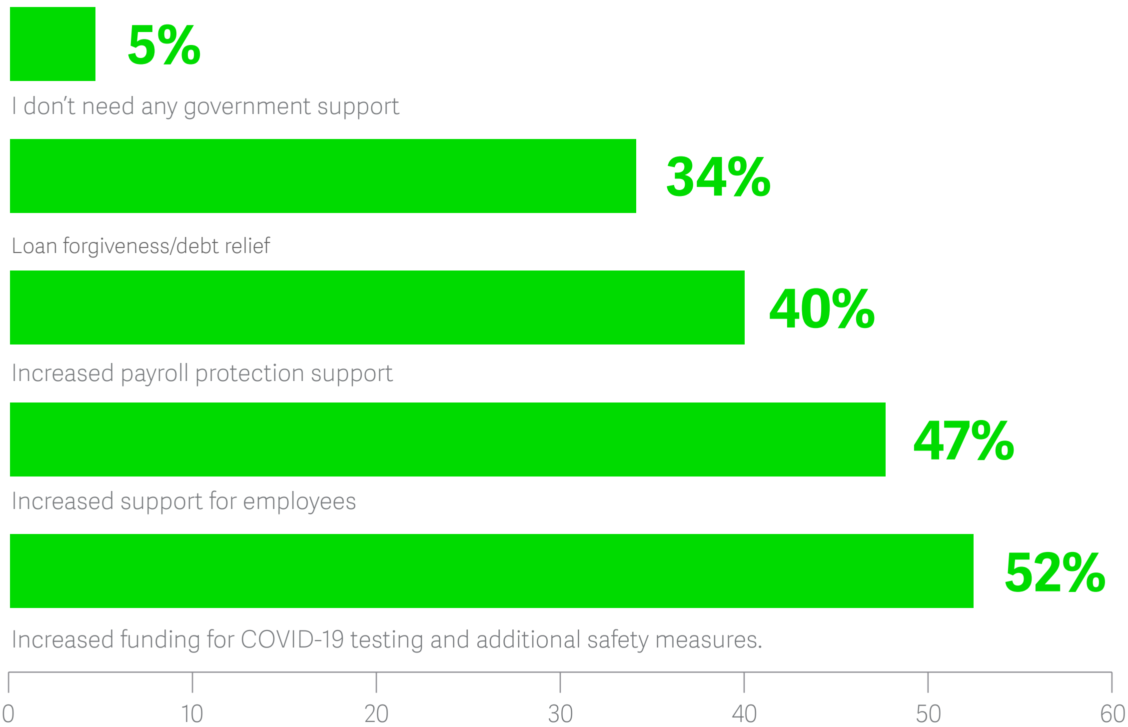
Despite skillful adaption, many companies still needed help to survive. Almost two-thirds of businesses said their company received a Paycheck Protection Program (PPP) loan during the pandemic. **In a sign of the important role government assistance played (and will continue to play), 32% of respondents who received a PPP loan said it was the reason their business did not go under.**

U.S. businesses had to deal with shifting regulations as the world continued to get a handle on the pandemic. On a federal level, businesses saw public funding programs, most notably the PPP loan initiative, as having the largest impact on conditions. A full 70% believe that state regulations and public health measures – such as social distancing and office occupancy rules – have had a positive impact on business.

This experience also crystallized the public assistance that could prove most valuable to businesses over the next 12 months. When asked which factors would have the biggest impact on the business community, more than half (52%) noted increased funding for COVID-19 testing and additional safety measures would have the largest positive impact. **Just under half (47%) stated more employee support – either in the form of stimulus or increased funding for items such as childcare – would be of most use.**

Though the survey was conducted prior to the $1.9T stimulus bill in March 2021, almost ninety percent of finance leaders report an additional COVID-19 relief package would have a positive impact on economic growth.

What type of support from the government would help your business succeed in 2021?



COMMUNITY & EMPLOYEES

Businesses grew more appreciative of their communities and employees, leading many to give back.

Community became the priority

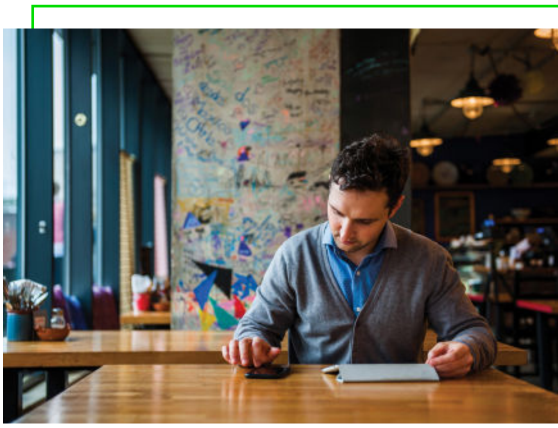
Despite economic challenges, businesses made charitable giving a priority over the last year, with 88% of those surveyed having made some form of charitable contribution to their local community. **While donating services (53%) was the most popular way businesses gave back, many organizations also donated money (48%) and goods their business produced (45%).** This commitment to giving was seen across companies of all sizes, with the high majority of respondents noting their business increased donations over the year.

The past 12 months may have a lasting influence on how businesses see themselves as part of the local and global community, with **almost half (49%) of respondents planning to further increase charitable and community giving programs over the next year.**

An increased community focus played an important social role, but also had a positive impact on the relationship businesses had with their customers. The overwhelming majority of companies (79%) say they have become more connected to their customers during the past year – highlighting the increased role customers and community played in the lives of businesses.

45% *of respondents donated goods produced by their business during the past year.*

87% *plan to maintain or increase the amount of donations to the community in 2021.*



An evolving appreciation for employees

***27%** of businesses implemented non-traditional HR policies for the first time.*

While 2020 was tough on businesses, it had an unimaginable impact on much of the workforce. To address the hardships faced by staff, many businesses looked to introduce new programs and benefits.

Almost half (46%) implemented long-term or permanent remote working policies, while 42% expanded healthcare services and 39% offered childcare assistance. **Nearly one quarter (24%) of all businesses surveyed added completely new employee recognition programs during the pandemic to better reflect the contributions and real-time needs of employees.**

That is not to say traditional reward tactics were ignored. Just under half (45%) of all companies noted they increased the rate of internal promotions over the past year, while 40% implemented salary raises and 37% increased PTO time.

Employees also found opportunities to further their professional skills in 2020. Just under half (41%) of businesses say employees improved their technical skills over the last twelve months, while 25% say staff improved their analytical skills and 20% improved their project management skills.

Percentage of businesses, by size category, planning to invest significantly more this year to retain their best employees

Interestingly, COVID-19 restrictions may have helped improve how employees work together as teams. **Almost one-third (29%) of businesses say management skills have improved across their staff, with 27% saying staff's soft skills have improved.**

As we look toward the reopening of workplaces, most businesses recognize the impact increased employee recognition programs have had on loyalty and performance. The majority of businesses (87%) say there are no plans to roll back increased healthcare benefits provided during the pandemic, while 86% intend to maintain the same level of childcare/ child-friendly office support. Businesses also see the value in continued investment in training, with only 13% saying they plan to reduce spend on training initiatives over the coming year.

It appears many are increasingly viewing employee benefits as a differentiator in the fight for talent, with the middle sector of the economy especially planning to raise the investment placed in finding and keeping the best employees.

While 37% of businesses with 500-999 employees intend to significantly increase the budgets tied to employee retention categories – only 26% of large enterprises (1000+ employees), and 10% of smaller businesses (50-249 employees), plan to increase budget to the same extent.

These groups may also be the most active in the hiring market. Over one-third (38%) of businesses with 500-749 employees intend to significantly increase spending on talent acquisition, compared to only 9% of smaller companies. This not only shows which sector of the economy could be tracking for the greatest growth, but also where competition for talent may be tightest.

These companies will be looking for employees with a dynamic skill set, with technical (38%) and management (28%) experience becoming the most sought after by hiring managers. Interestingly it is the more traditional considerations – including the education level achieved and relevant industry sector experience – which HR teams will be placing less emphasis on in candidate interviews. One in five employers saying these will factor less into consideration for future hiring.

This new talent acquisition process reflects some of the changing ways organizations plan to work over the coming year. With technical and managerial experience outpacing traditional touch points, companies that put in the work to develop their employer brand will be the most attractive for talent.

READY FOR GROWTH

Businesses are increasingly optimistic for growth in 2021. And this confidence is largely fueled by strategies enacted over the past 12 months.

Businesses are confident they will experience growth this year

Many factors, both internal and external, can affect a company's likelihood to grow. When asked, respondents felt technology (38%), COVID-19 vaccine rollout (32%), and employees (26%) would have the greatest positive impact on their company's growth in 2021.

As for timing, survey respondents were optimistic about 2021 and believe the COVID-19 vaccine rollout will have a positive impact on their business in the second half of the year. **In fact, 75% of financial decision makers expressed high levels of confidence they will return to growth in 2021**, with more than half believing their revenue will meet or exceed pre-pandemic levels by the end of September.

This has led to some finance teams instigating ambitious revenue performance targets for 2021. Almost one-in-five respondents have a revenue growth goal in excess of 10%, while 38% expect a steady increase of three-to-ten percent. Interestingly, finance teams from larger enterprises were slightly less optimistic of their short-term growth, with 14% projecting either no growth or continued losses.

Medium-sized business with 500-749 employees were the most confident group in seeing significant revenue growth over the upcoming year. More than one-quarter (28%) of these respondents expect to see revenue increases of 10% or more over the course of the year, significantly higher than the 17% of businesses with 250-499 employees that are anticipating the same level of growth.

Interestingly, it was both the smallest (50-249 employees) and largest (1000+ employees) respondents who may have seen the most immediate impact of the pandemic. More than half of respondents in both categories had been forced into reducing budgets in reaction to the downturn, while both groups of cohorts were the most likely to have furloughed staff over the past year.

47% *of finance leaders see technology investment as a key pillar of growth in 2021.*

Technology is the driver for growth

The investments made in technology during the pandemic look set to pay dividends over the coming months. Medium-sized businesses with 500-749 employees were the most likely to say the pandemic accelerated their digital transformation, with **19% of medium-sized businesses reporting accelerated digitization plans by more than five years to address the unique challenges faced by the pandemic.**

Large enterprises (1000+ employees) and smaller businesses (50-249 employees) reported the slowest acceleration of digital transformation efforts over the period, which may place these organizations at a disadvantage. Respondents from these businesses were the most likely to say they feel disconnected from their customers, with 23% of small businesses and 17% of large enterprises feeling more disconnected from their customers.

Organizations will likely reflect this impact of technology in their 2021 budgets. **More than three-quarters of finance leaders (77%) said their organizations plan to increase their budget for technology this year.** Almost half (45%) say they are prioritizing accounting and finance functions in their upcoming digital transformation projects, with 31% prioritizing marketing and 19% focusing on HR. Larger companies are placing the greatest focus on improving data analytics, with 28% of companies with 750+ employees citing it as their prime focus. This shows that the largest companies are starting to see the benefits strong data analysis can have across business functions and serves as a case study for all growing businesses about the ever-increasing value of data.

The focus being placed on finance teams in digital transformation efforts makes sense, especially given the vital role accounting software played for many businesses.

While 54% of respondents note their company uses cloud-based accounting software, **more than one-quarter (27%) of businesses noted that this tech was the "saving grace" for their success**. providing finance teams with complete visibility, remote access to real-time data, improved decision making and seamless cash-flow management. Businesses clearly saw the role these software tools can play in improving real-time decision making, with 89% of businesses surveyed planning to either use or invest in cloud-based financial software in 2021.

Respondents also think that additional changes beyond technology may be on the horizon for some business units. The three functions in which businesses anticipate the most change in the next 12 months are finance/accounting (54%), marketing (27%), and IT (23%). Primary reasons for instituting further changes include new services and priorities developed in response to COVID-19 (22%), reskilling to be effective in the current business environment (20%), and business efficiencies uncovered during the pandemic (18%).

Finance teams will play an increased role

With a greater focus on the bottom line and overcoming the challenges presented by COVID-19, respondents believe that Chief Financial Officers (CFOs) will lead their businesses forward, with **nearly four in five (79%) indicating that the CFO will have more influence on the direction and success of the business in 2021, compared to 2020.**

Finance leaders also want to be more involved in businesses-level decisions, aware of the strategic value they can add to cross-company functions. The top four areas finance leaders feel they can have a greater impact are technology (40%), customer service (28%), marketing (28%), and strategic planning (26%). Interestingly, finance teams from mid-size companies wanted to be more involved in specific initiatives – such as R&D investment and customer service discussions – while those from smaller organizations primarily sought more involvement in strategic planning initiatives.

The past year has shown the vital role finance plays in times of trouble. But it's their involvement in the coming months that will truly have an impact on the growth ambitions of companies.

Top four areas finance leaders feel they can have a greater impact

40% Technology

28% Customer Service

28% Marketing

26% Strategic Planning

In Summary

Businesses were forced to show extreme resilience in the face of unprecedented crisis. But it is the flexibility, ingenuity and compassion showed by businesses that allowed many to not only survive – but to become more connected with their community, customers and employees.

No two strategies were identical, just as no two businesses are alike. However there were some constant themes that emerged across the U.S.

Companies accelerated their digitization efforts to optimize existing processes and to engage customers on new channels. With businesses feeling more connected to their customers than ever, the priority placed on being customer centric is likely to continue.

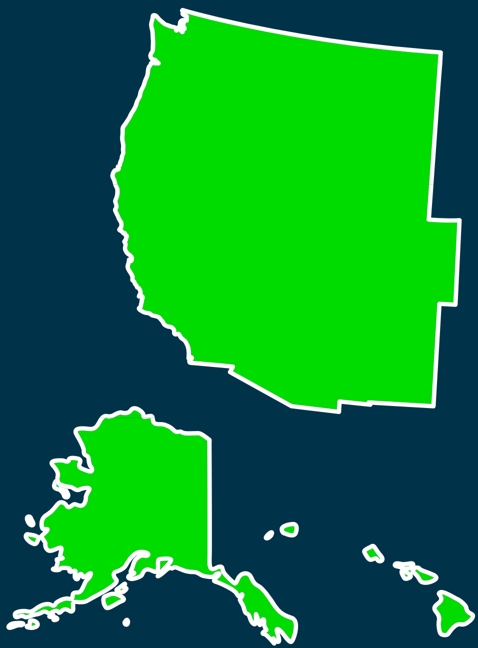
Many businesses also evolved their relationship with employees and the community. Organizations across the country implemented forward-thinking HR policies to meet workers' needs. Most donated goods, money, or services to the local community – and the majority plan to increase their donation levels.

Technology has also become a greater enabler for many companies. Despite numerous priorities, businesses still view technology as one of the most important factors influencing growth this year, and those with the ability to invest in digital transformation efforts are significant more confident of their ability to grow quickly.

2020 was a year like no other. However instead of simply blocking it from memory, businesses around the country have absorbed the challenges of the past year and are using them as basis for growth. Organizations not only endured – they adapted in ways that improved their business. They creating better connections with their employees and the community. But most of all, businesses took the unimaginable events of the past year and formed strategies that are now the basis for their growth ambitions.

And they're optimistic for 2021.

Regional Snapshots



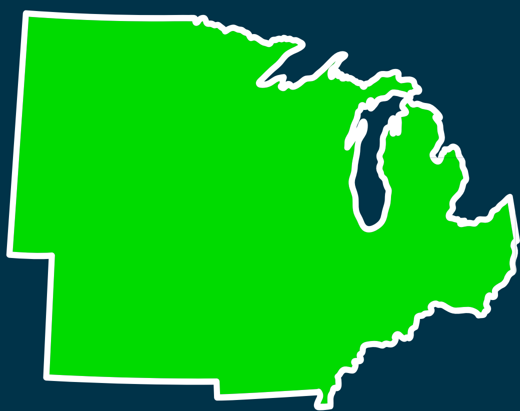
West

Nearly two-thirds of Western business leaders (65%) reported receiving a PPP loan. When asked what type of support from the government would help their business succeed in 2021, they were more likely than the South or Midwest to name rent/lease payment relief for business locations. Businesses in the West also adapted how they work with existing customers. **SMBs in the West were more likely to have opened an online store or scaled up existing e-commerce efforts in response to COVID-19 compared to the Midwest.** They were also more likely to offer reduce prices to existing customers compared to the South and Midwest.

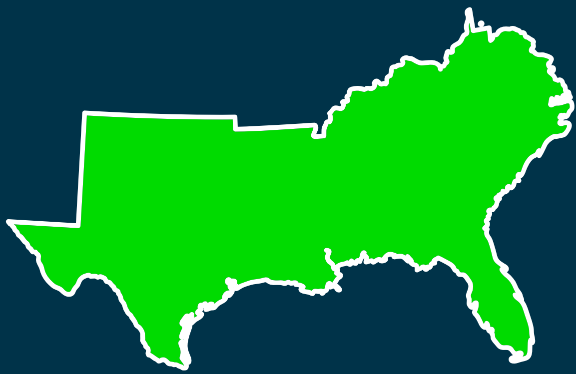
Finance and accounting leaders in the West were more likely to list customer relationship building as one of the most important skills for new hires to the finance team to possess in 2021 compared to 2020 in contrast to the South and Midwest. **They reported plans at their organization to invest more in digital marketing technology compared to the Northeast and South** and were more likely to have transitioned business intelligence and analytics to cloud services than the South or Midwest.

Midwest

Nearly two-thirds of Midwestern businesses surveyed (64%) reported receiving a PPP loan. Of note, businesses in the Midwest were more likely to say they had become somewhat more disconnected from their customers during the pandemic compared to those from the Northeast, South and West. While respondents indicated that their organizations had made some changes, not all of them will stick around once restrictions lift. Organizations in the Midwest were more likely to report plans to decrease, or even stop, hiring employees completely digitally compared to the Northeast. Finance and accounting leaders in the Midwest were also less likely to report their organization planned on investing in research and development to accelerate growth for 2021.



Regional Snapshots



South

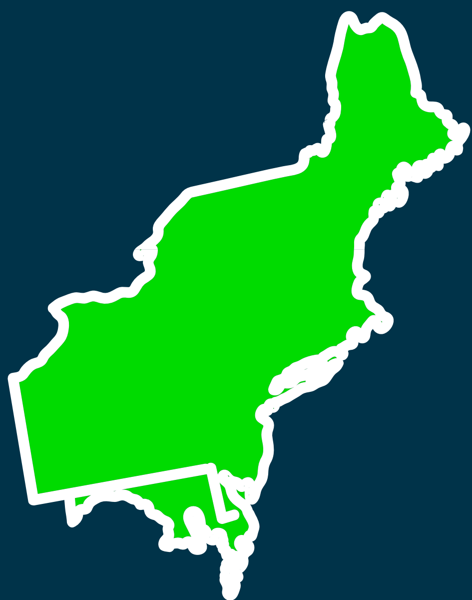
Business leaders in the South showed optimism for the future. **Respondents from this region were more likely to state they believed the COVID-10 vaccine rollout would have positive impact on their business in Q1 2021, compared to SMBs in the Northeast or West.** Compared to the Northeast, finance and accounting leaders in the South were also more likely to recommend other businesses move to their state. Despite optimism for the future, businesses in the South had to evolve as well to survive the pandemic, as more than half of Southern businesses surveyed (59%) reported receiving a PPP loan. These businesses were also more likely to offer special payment plan programs to existing customers as compared to the Northeast.

Southern finance and accounting leaders also reported their businesses were more likely to have started, or increased, using analytics and data in business planning during the past year when compared to the Midwest; additionally, respondents reported increased likelihood to invest in cloud management comparatively.

Northeast

Respondents from the Northeast were significantly more likely to say state regulations (e.g., state-specific mask mandates, occupancy rules, curfews) had a very positive impact on business growth compared to the South. More than half of Northeast respondents (62%) reported their business received a PPP loan; these businesses were more likely to have reduced operating budgets for certain departments or business units compared to the South. Despite a positive view of state regulations, finance and accounting leaders in the Northeast were less likely to recommend other businesses move to their state compared to the south and the west.

Northeast businesses also displayed a more cautious outlook to the future. When asked when the COVID-19 vaccine rollout would have a positive impact on their business, Northeastern businesses were more likely than the South to say Q3 2021. They were also more likely to report that they expect their organization's revenue to reach pre-pandemic levels in Q1 2022 (18%) compared to the Midwest (9%). **Businesses in the Northeast were also less likely to prioritize digital transformation efforts compared to the South and the West.**



About the Study

This report is based on a survey conducted from February 10 through March 4, 2021, by LEWIS Research on behalf of Sage Group to better understand the U.S. business landscape among growing small businesses and the mid-market and how they adapted or evolved during the COVID-19 pandemic. One audience was chosen for this study, Finance and Accounting leaders at small to medium sized businesses with 50 to 1500 employees across a range of industries (n=1050). The respondents had to be employed full-time, manager level or higher, and a primary or influential decision maker for financial decisions at their business. The survey was conducted in the U.S. The margin of error is +/- 3.02 percentage points.

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