

MODERN COMMERCE MONITOR™

State of SMB – Wave 9.0

April 2024

OVERVIEW

Localogy's ninth wave of the State of SMB Report is here. As we've done for several years, we go straight to the source – SMBs themselves – to track SaaS adoption and attitudes. Nine waves of research engender a goldmine of trend analysis and longitudinal insights.

One thing that jumped out to us is that SMB SaaS adoption has reached 90%. And with that maturation comes a flattening effect. Specifically, SMB SaaS adoption grew by 30 points from 2019-2021... then only 5 points in the subsequent three years.

There are two reasons for this deceleration. The first is Covid. The boom in software adoption and SMB digital transformation that we often discuss was real... but so was the Covid hangover. The second reason is basic mathematics. As markets mature, growth decelerates as a saturation point is reached.

So as the share of SMBs adopting SaaS approaches a natural ceiling, a burning question emerges: Where will growth come from? The good news is that other sources of growth and demand signals are evident throughout the Wave 9 results. Two that stand out are quantity of SMBs and spend per SMB.

Taking those one at a time, a growing quantity of SMBs means a bigger pie (the SMB adoption figure above is the share of SMBs adopting SaaS). Specifically, the U.S. Census Bureau reports a clear uptick in new business applications.

Beyond the sheer number of SMBs are promising qualitative signals. Specifically, younger generations of proprietors are phasing into the overall SMB universe. These tech-savvy and digitally-native SMB operators are more adoptive of all-things digital. Legacy systems died along with their forbears.

Signs of this adoptiveness can be seen throughout Wave 9 results. For example, the number of SaaS apps used by SMBs inflected in Wave 9. Specifically, after a slight uptick in Wave 8 from 7.35 to 7.4, Wave 9 revealed an average app volume of 7.6. The key here is that app adoption correlates to spend.

Back to some of the categories that make up SMB SaaS, there's upside and growth headroom across the board. The areas that have the most growth headroom include marketing & advertising (58% penetration), CRM (58% penetration), and supply-chain services (44% penetration).

As for the topic du jour, what about AI? There too, we see a mix of SMB adoption and upside potential. Specifically, 31% of SMBs report adopting SaaS tools with AI and automation features. That leaves ample growth in the remaining 69%, especially in key categories like advertising & marketing.

But all the above just scratches the surface. The coming pages will detail SMB adoption and attitudes across the SMB SaaS spectrum. This is just the beginning of the conversation: We look forward to spending the coming months with you, breaking down these findings and extracting additional insights.



CONTENTS

STATE OF SMB SAAS

- 4. • SMB SaaS Adoption Trends
- 5. • Monthly New SMB Starts
- 6. • SMB SaaS Adoption Rates
- 6. • Areas Shifted to SaaS
- 7. • Mobile App Usage
- 8. • Reasons For Change
- 9. • Reasons For Not Changing
- 10. • Satisfaction of Services
- 11. • Future Adoption Trends

BENEFITS OF SaaS

- 15. • Time Spent On Activities
- 16. • Benefits of Switching to SaaS
- 17. • Capability Utilization Rates

AI TRENDS

- 18. • Familiarity with AI
- 19. • Current Use of AI
- 19. • AI Adoption Areas

DIGITAL MARKETING

- 20. • Digital Advertising Channels
- 21. • Social Media Channels
- 21. • Social Media Investments
- 22. • Search Investments

- 23. • Shift to Social
- 23. • Digital Marketing Management

WEBSITES AND ECOMMERCE

- 24. • eCommerce Capabilities
- 25. • Website Satisfaction
- 25. • Website Provider Tenure

SMB PURCHASING TRENDS

- 27. • Where SMBs Purchase SaaS Products
- 27. • Pricing Model Used
- 28. • Importance of Freemium Services
- 29. • Post-purchase Level of Engagement
- 30. • Interactions with Sales Reps
- 31. • Causes of Poor Experiences
- 32. • Use of Automated Sales Tools
- 33. • Preferred Type of Service Provider
- 34. • Preferred Number of Providers
- 35. • Consolidation to Single Providers

SUCCESSION PLANNING

- 36. • SMB Succession Planning

APPENDIX

- 38. • Methodology

WORK WITH US

SMB SaaS ADOPTION TRENDS



Summary

- Since 2017, the number of businesses utilizing digital software/tools has increased 157%. Today, 90% of SMBs utilize at least one digital service or tool to manage a critical business process on a monthly basis.
- Finance and operations, lead the way in adoption over the past few years.
- The trend isn't expected to stop. 35% of non-digital service users are expected to try a service and 60% of existing users will get more services over the next 6 to 12 months.
- Top growth areas include Finance (48%) and Payroll (42%).
- Key growth drivers include new capabilities (58%), and saving time (38%).
- SMBs stated they have not made the move to SaaS tools because they don't see the need (79%), and are happy with what they have (63%).
- Around half of SMBs stated the SaaS tools performed as expected or better than expected.

Monthly Small Business Application 2018-2024

SMBs are Growing in Number

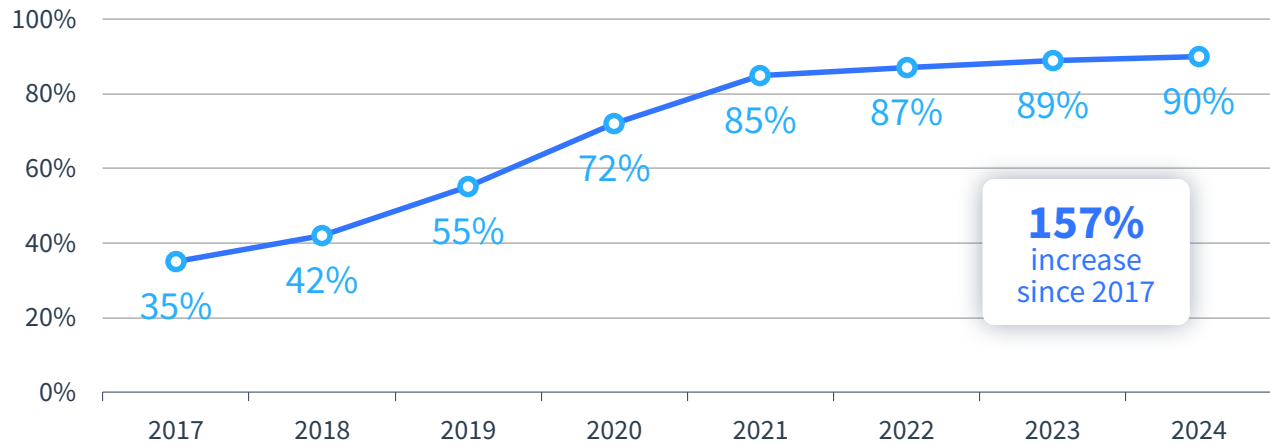


Source: U.S. Census Bureau, Business Formation Statistics, Feb 14, 2024

SMB SaaS Adoption Rates

SaaS software and tools are the default technology for many U.S. SMBs.*

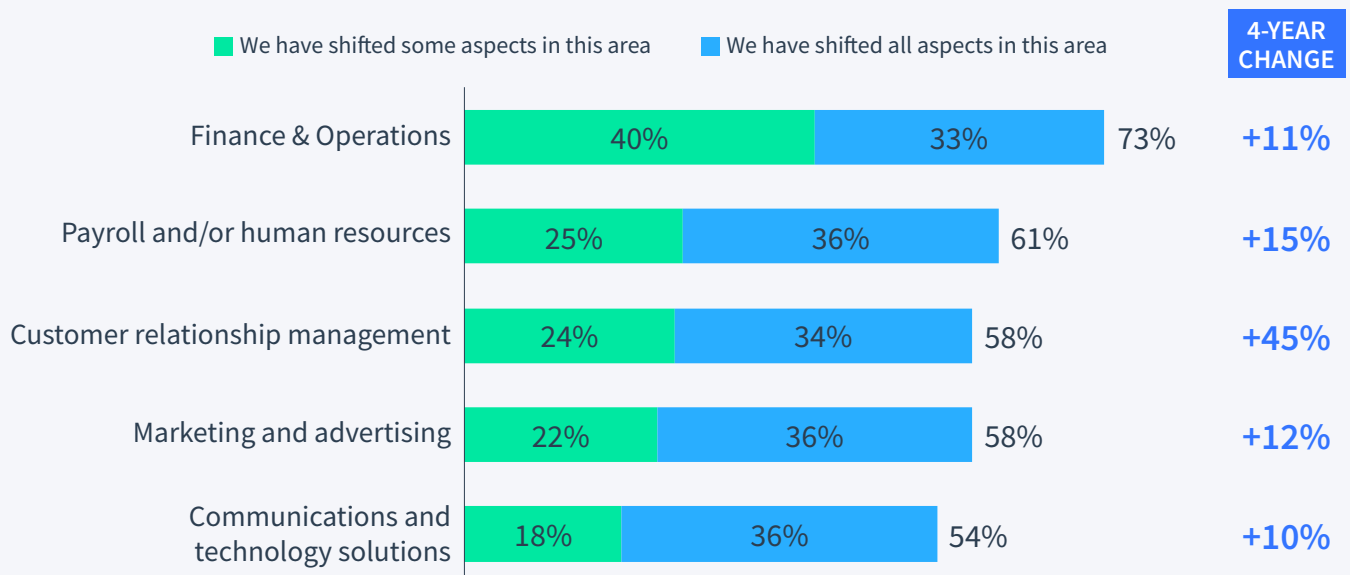
SaaS ADOPTION HAS STABILIZED



Sources: Modern Commerce Monitor™ 2017-2024; 10,013 SMBs;
*Estimates based on SMBs that use SaaS tools at least once a month to support a business function.

Areas SMBs Have Shifted To SaaS

Most SMB owners invest in SaaS across multiple functional areas.

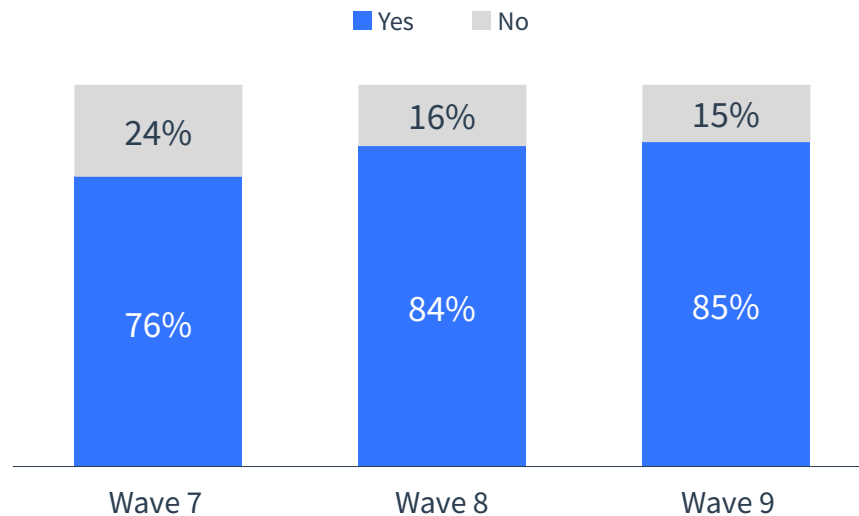


Source: Localogy Modern Commerce Monitor™; Wave 9: N=1,020 (Apr 2024).

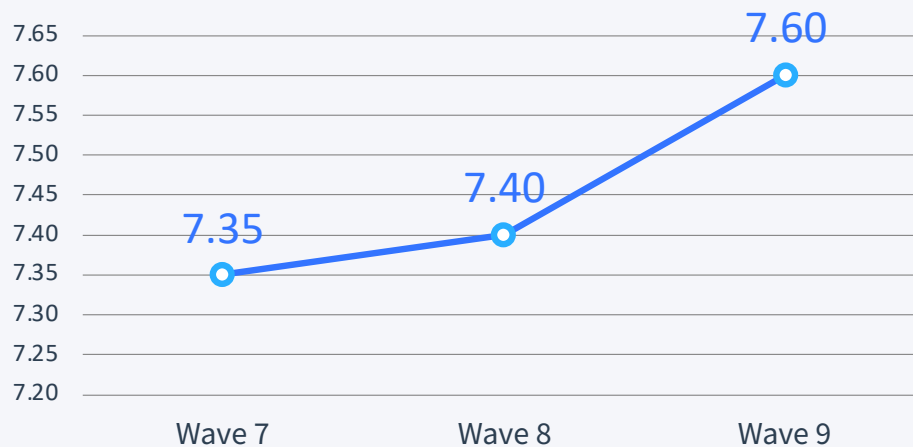
SMB Mobile App Usage

85% of SMBs are Using Mobile Apps to Manage Their Businesses.

DO YOU USE MOBILE APPS TO HELP OPERATE YOUR BUSINESS?



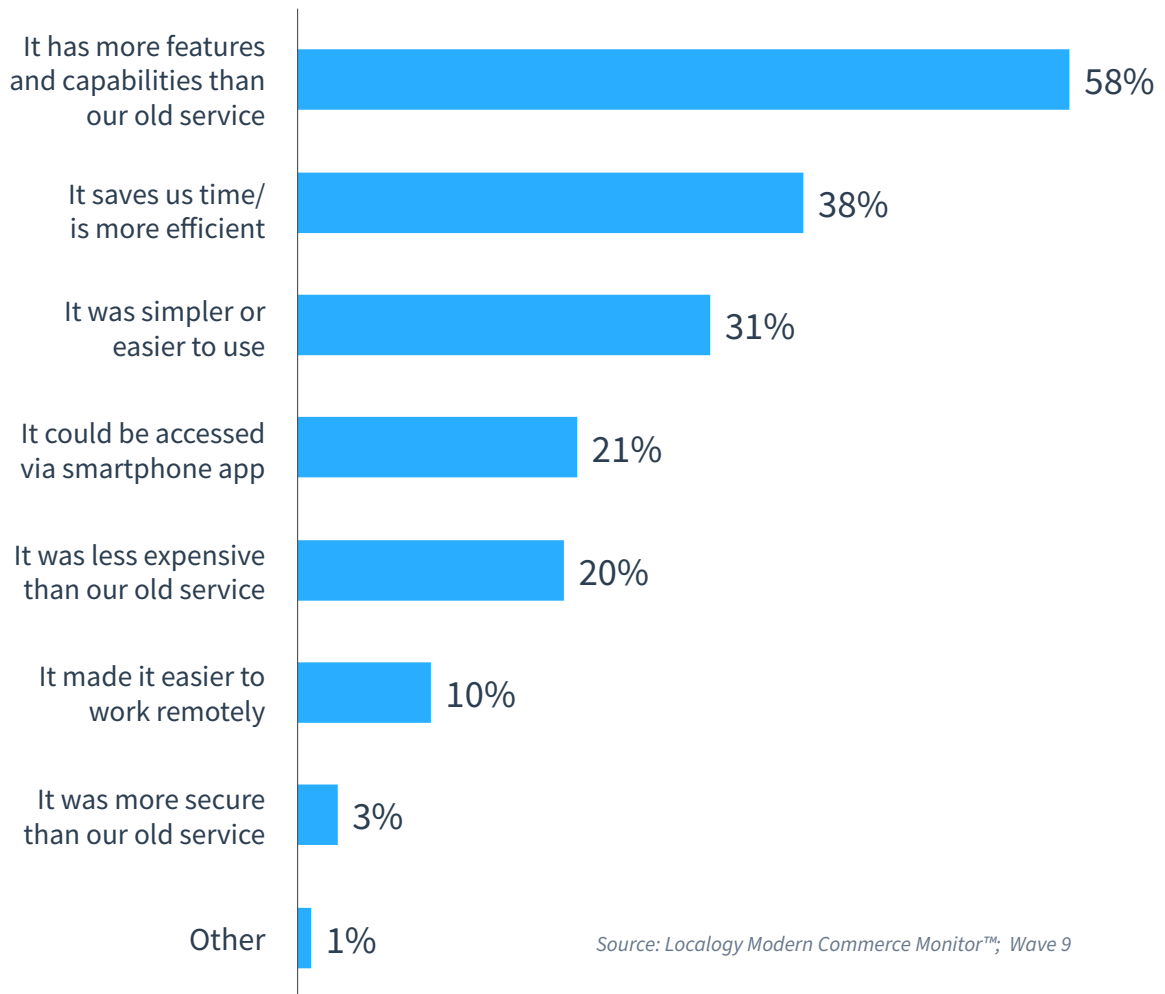
AVERAGE NUMBER OF APPS BUSINESS OWNERS USE



Source: Localogy Modern Commerce Monitor™; Wave 7: N=1,049; Wave 8: N=1,073; Wave 9: N=1,020

Top 2 Reasons Why SMBs Have Shifted To SaaS

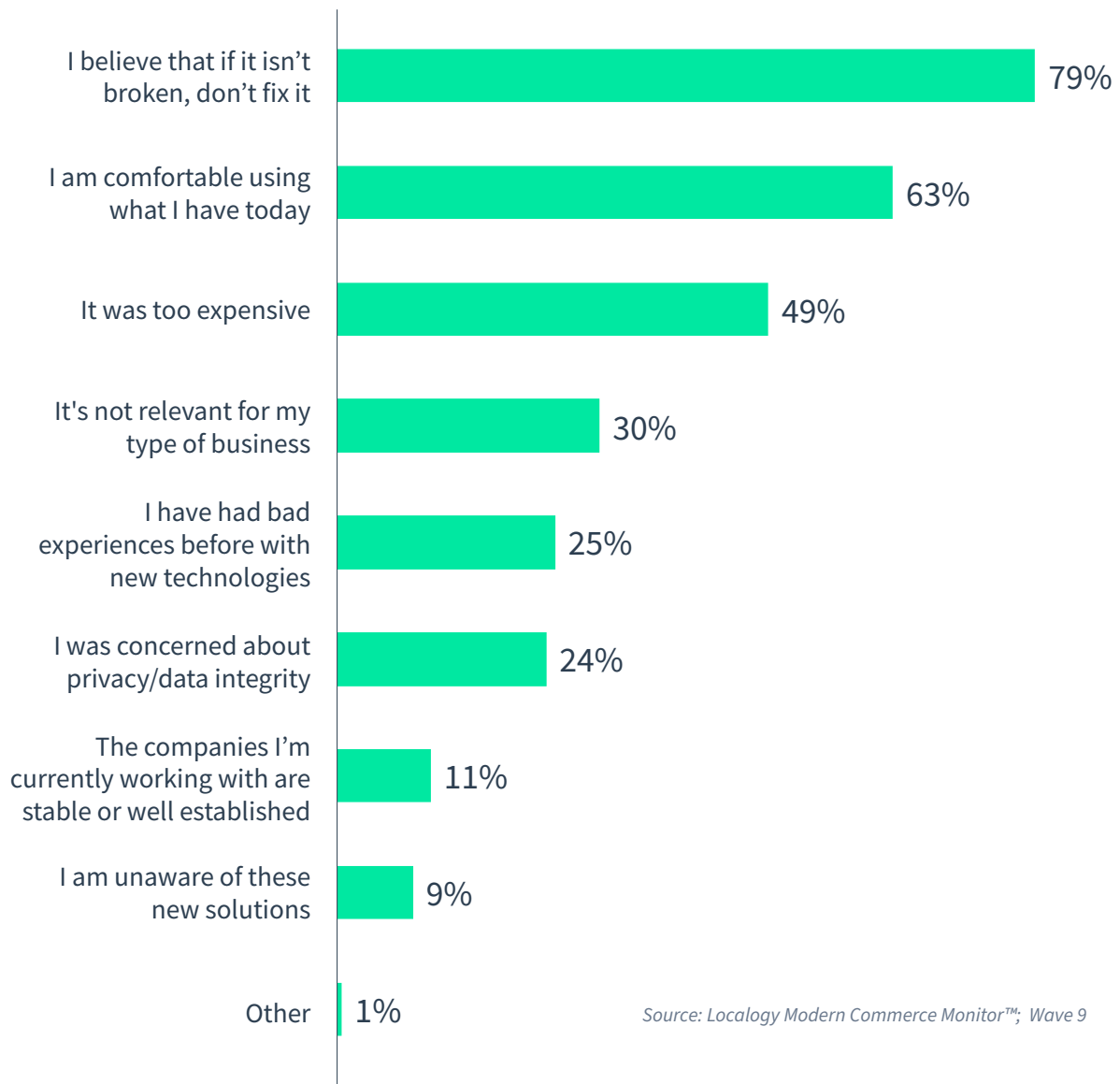
Having more capabilities, saving time, and being simpler to use are the leading reasons for a shift to SaaS.



Source: Localogy Modern Commerce Monitor™, Wave 9

Top Reasons For Not Shifting To SaaS

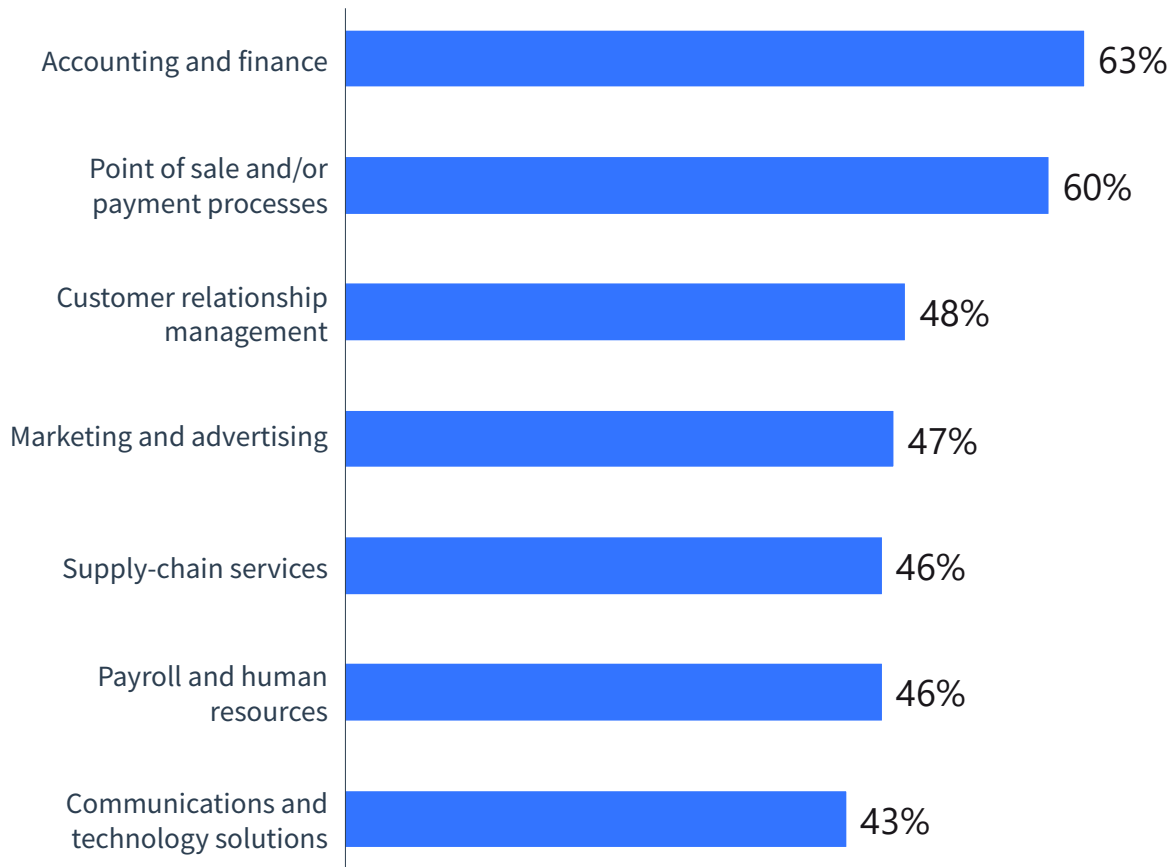
Status quo is the biggest hindrance to adoption.



Source: Localogy Modern Commerce Monitor™; Wave 9

To What Degree Has SaaS Met/Exceeded SMB Expectations

Around half of SMBs say the new SaaS tools have exceeded expectations.



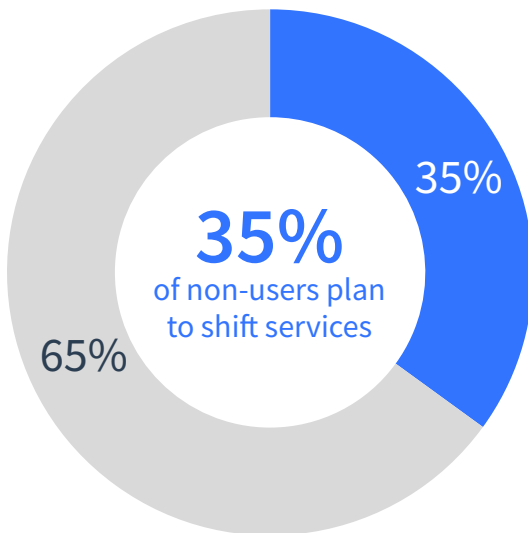
Source: Localogy Modern Commerce Monitor™; Wave 9



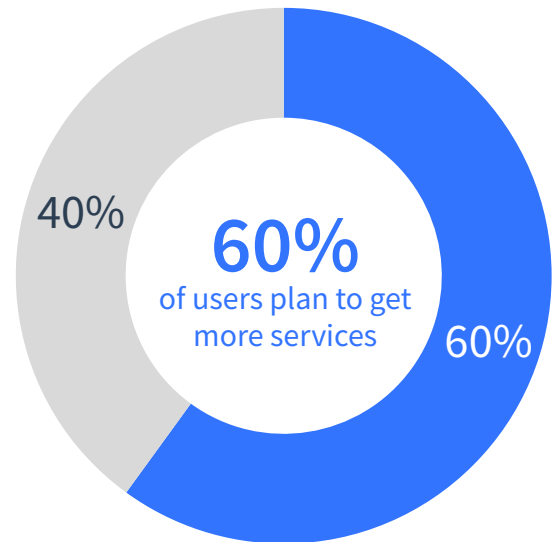
SMB SaaS Growth Potential

While overall adoption rates have slowed, businesses plan to adopt services in other areas.

**SMBs NOT USING SaaS THAT PLAN TO
START IN THE FUTURE**



**SMBs CURRENTLY USING SaaS THAT PLAN
TO PURCHASE MORE IN THE FUTURE**



■ Yes ■ No

Source: Localogy Modern Commerce Monitor™, Wave 9.

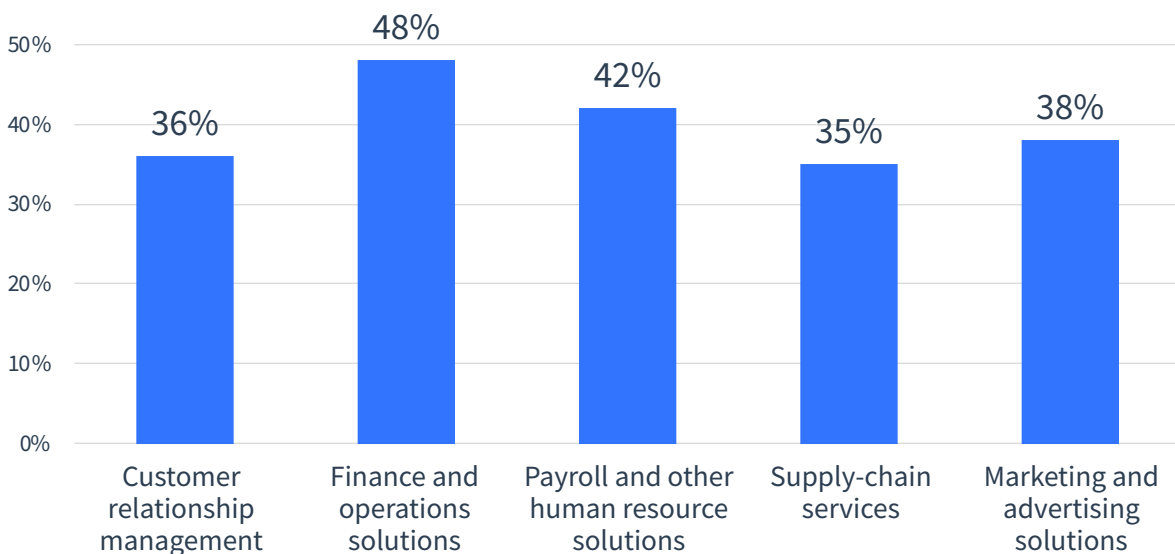


SMB Shift to SaaS Continues

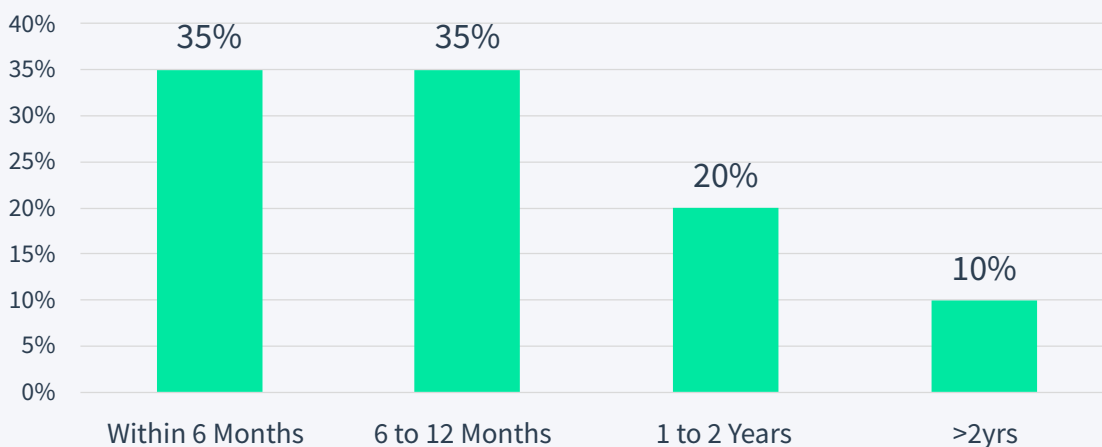
Finance & payroll will be the top areas over the next 12 months.

AREAS BUSINESSES PLAN TO SHIFT TO ONLINE SERVICES/TOOLS*

**Includes SMB that already have adopted some services.*



TIMING OF SHIFT

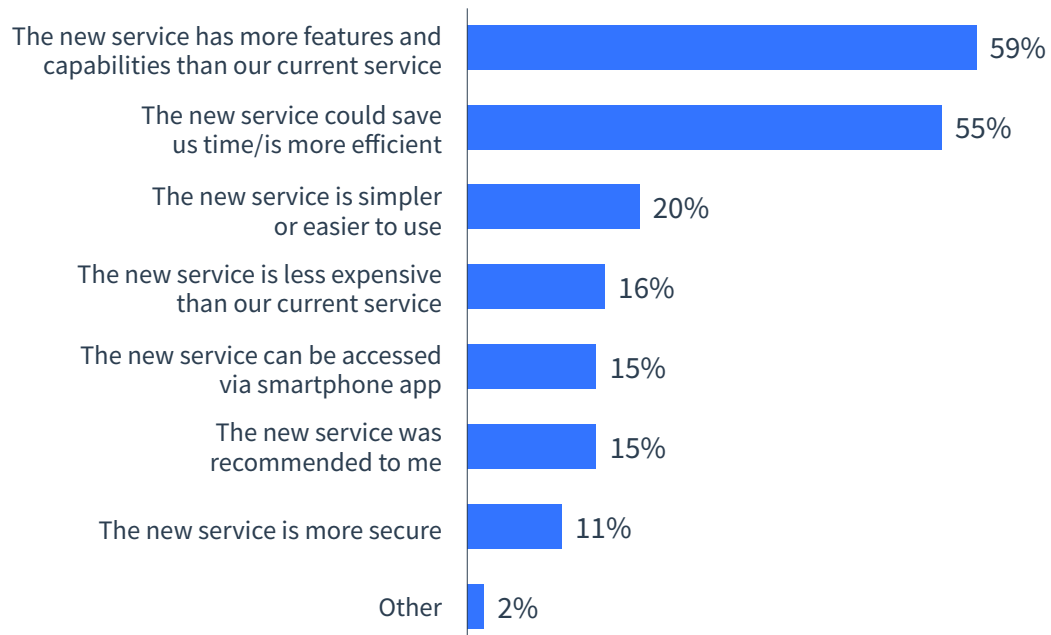


Source: Localogy Modern Commerce Monitor™; Wave 9

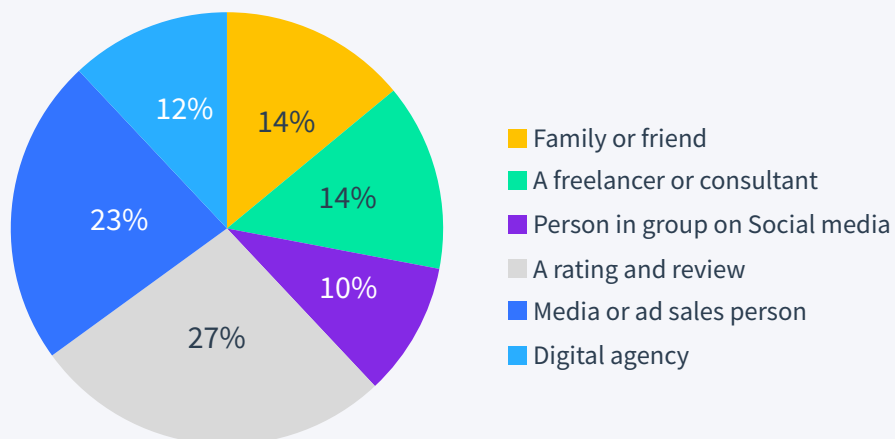
SMS SaaS Influencing Factors

Most are planning on switching to have new capabilities or save time.

REASONS WHY SMBs ARE PLANNING TO MOVE TO SaaS SOLUTIONS



SaaS SOLUTION RECOMMENDATIONS



Source: Localogy Modern Commerce Monitor™; Main Wave 9

SaaS BENEFITS



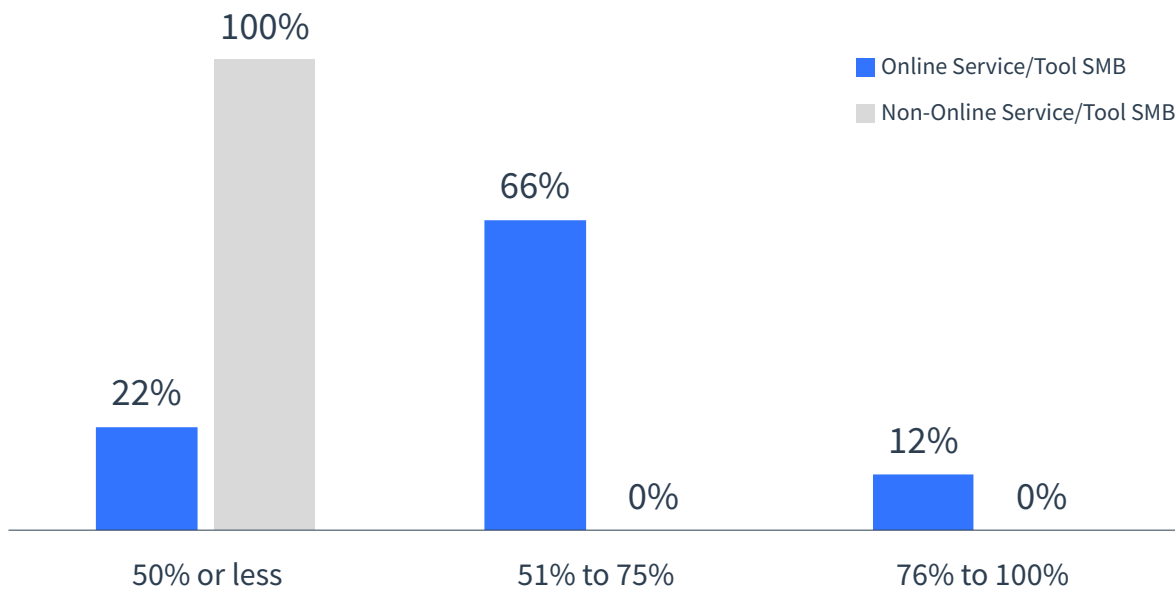
Summary

- Businesses utilizing SaaS services /tools spend 50%-60% more time on revenue generating activities versus nonusers.
- This has allowed businesses have more capabilities(54%), to save money (53%), and spend more time with customers (45).
- Unfortunately, only 44% of businesses are utilizing the full capabilities of SaaS tools.
- Training is one of the biggest issues. Thirty-six percent of all businesses state this is an issue. Another twenty-six percent stated they just haven't used it yet.

Avg Time Spent On Revenue Generating Activities VS Manual Processes

SMBs using online services /tools experience a significant increase in time spent on revenue generating activities.

SaaS USERS SPEND MORE TIME ON REVENUE GENERATING ACTIVITIES

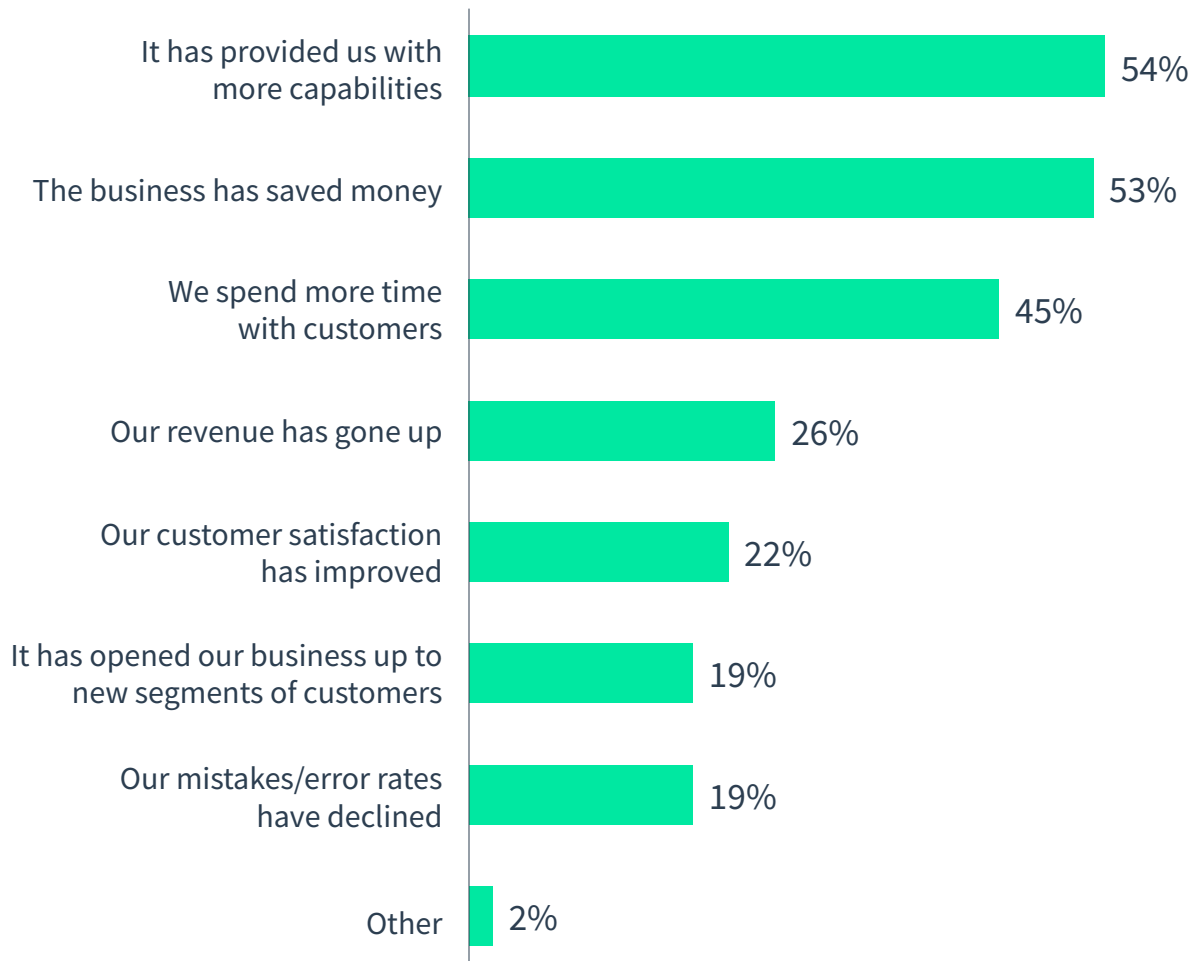


Source: Localogy Modern Commerce Monitor; Wave 9



Benefits of Switching to SaaS

Benefits of using SaaS include saving money and spending more time with customers.

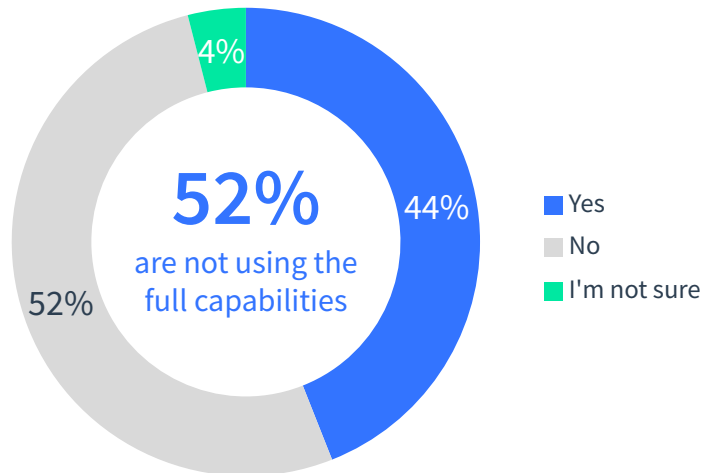


Source: Localogy Modern Commerce Monitor; Wave 9

Capability Utilization Rates

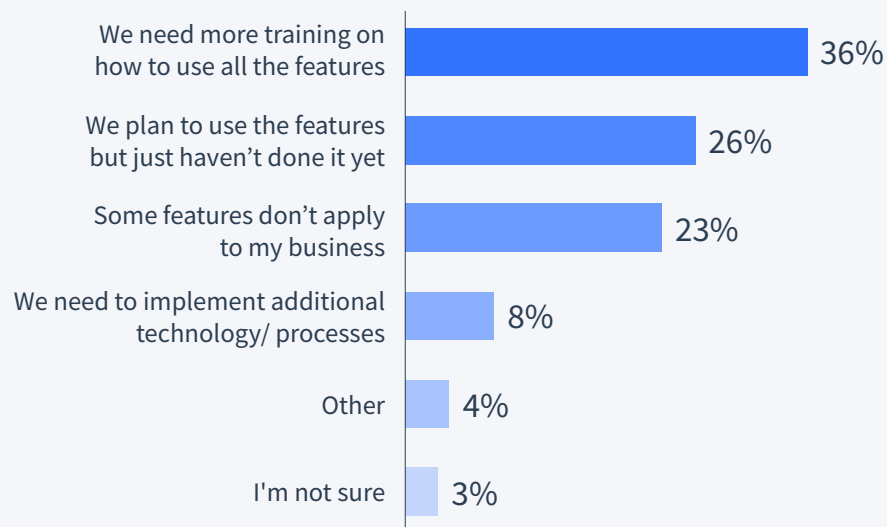
SMBs THAT ARE UTILIZING THE FULL CAPABILITIES OF SaaS TOOLS

Source: Localogy Modern Commerce Monitor; Wave 9.



REASONS WHY SMBs ARE NOT UTILIZING ALL THE CAPABILITIES

Source: Localogy Modern Commerce Monitor; Wave 9.

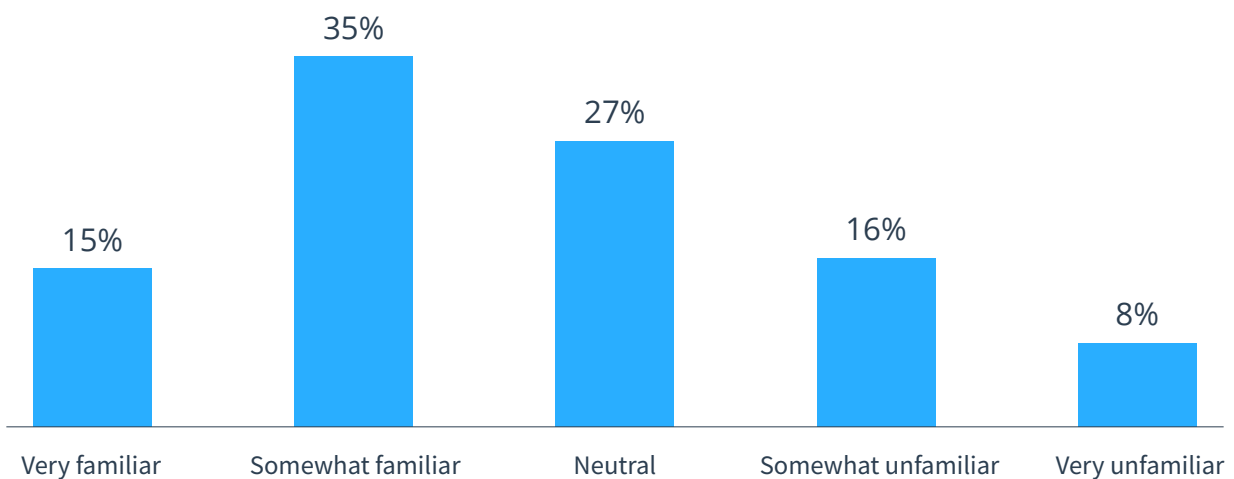


AI TRENDS



SMB Familiarity With AI

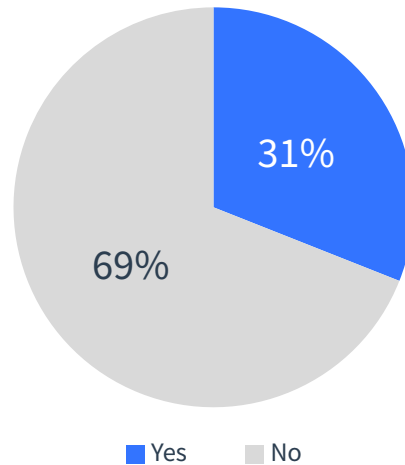
Most SMBs are somewhat familiar with AI.



Source: Localogy Modern Commerce Monitor; Wave 9.

Current SMB Usage of AI

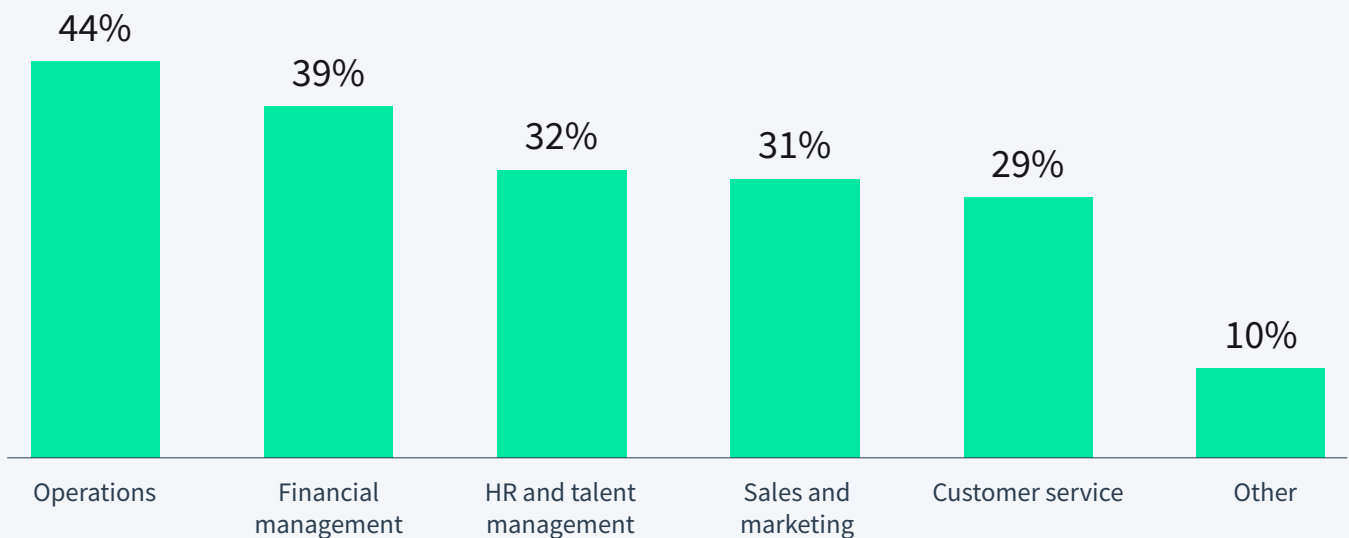
Nearly a third of SMBs have started using AI-driven tools or solutions.



Source: Localogy Modern Commerce Monitor™; Wave 9.

AI Adoption Areas

AI adoption has been strongest in the operations and financial management areas.



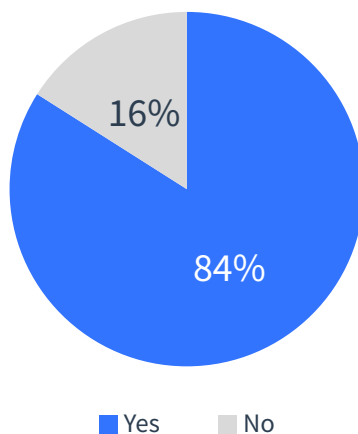
Source: Localogy Modern Commerce Monitor™; Wave 9.

DIGITAL MARKETING

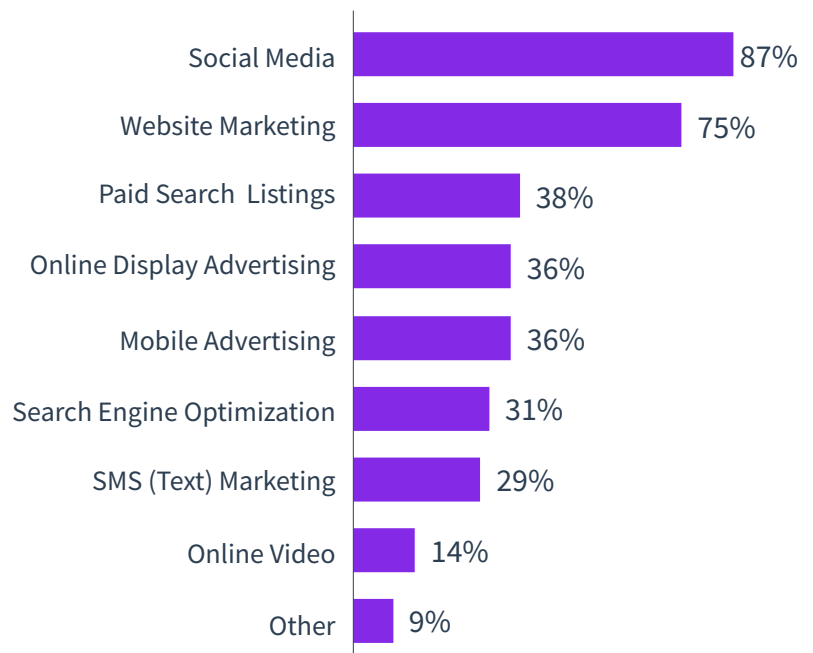


Digital Advertising Channels

DOES YOUR BUSINESS USE DIGITAL CHANNELS FOR ADVERTISING OR MARKETING EFFORTS?



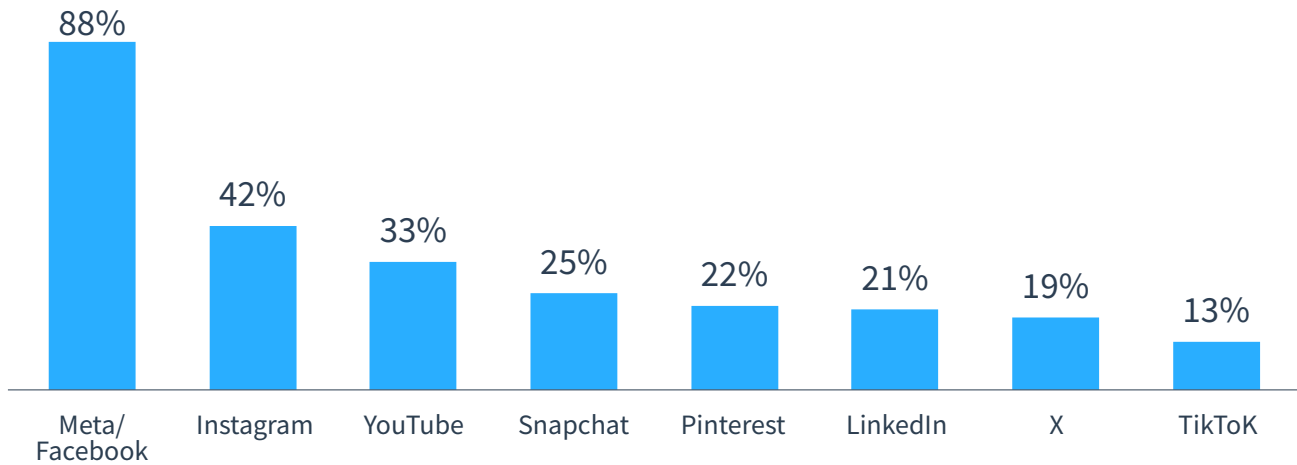
WHICH OF THE FOLLOWING DIGITAL MARKETING CHANNELS DO YOU USE FOR YOUR BUSINESS?



Source: Localogy Modern Commerce Monitor™, Wave 9.

Social Media Channels

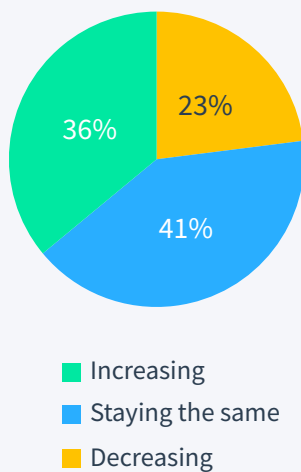
Meta, Instagram, YouTube and Snapchat are the top platforms used.



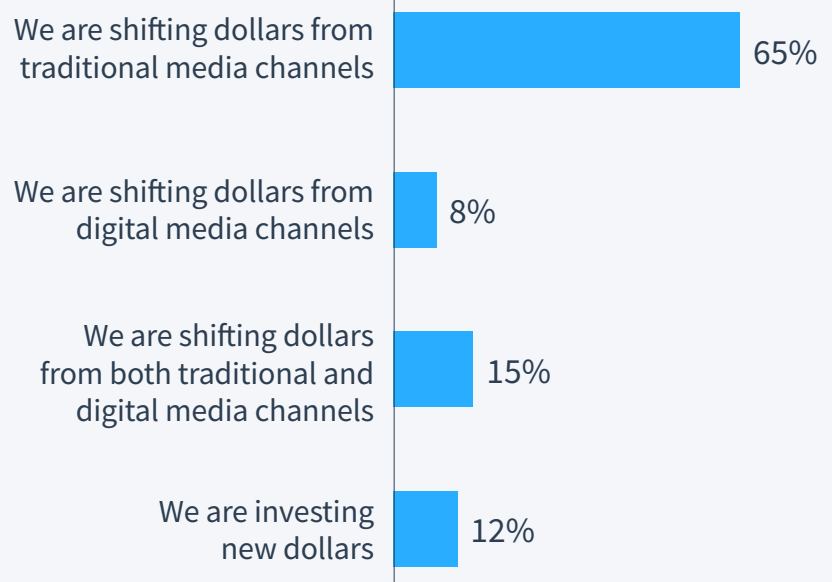
Social Media Investments

Thirty-six percent of businesses plan to increase social media budgets. Over half of the investments are being shifted from other channels.

SOCIAL MEDIA BUDGET CHANGE



REASON FOR BUDGET CHANGE

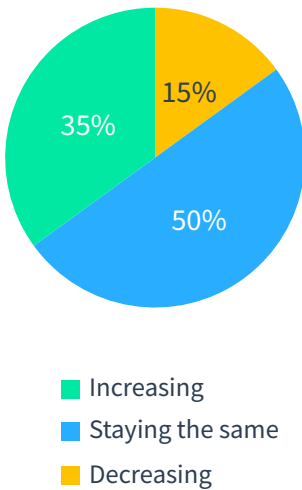


Source: Localogy Modern Commerce Monitor™, Wave 9.

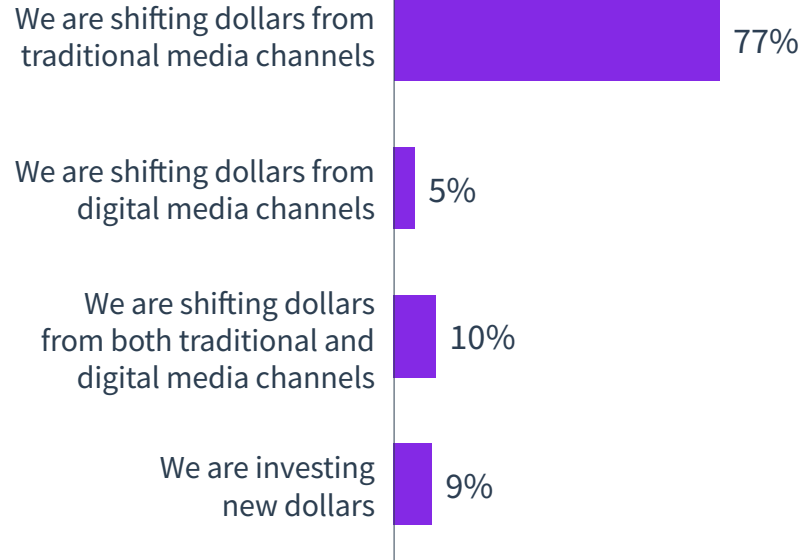
Search Investments

Thirty-five percent of businesses are increasing search investments, most of the investment is from traditional channels.

SEARCH MEDIA BUDGET CHANGE



REASON FOR BUDGET CHANGE

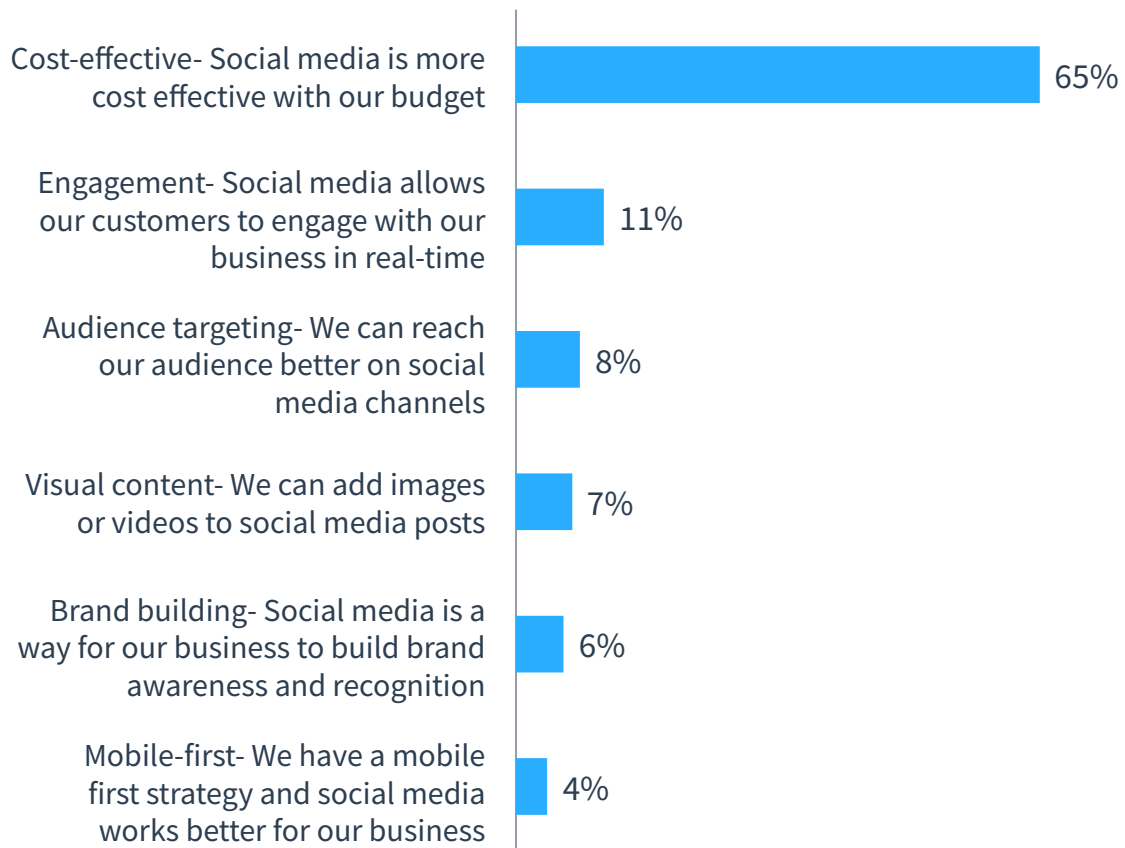


Source: Localogy Modern Commerce Monitor™; Wave 9.



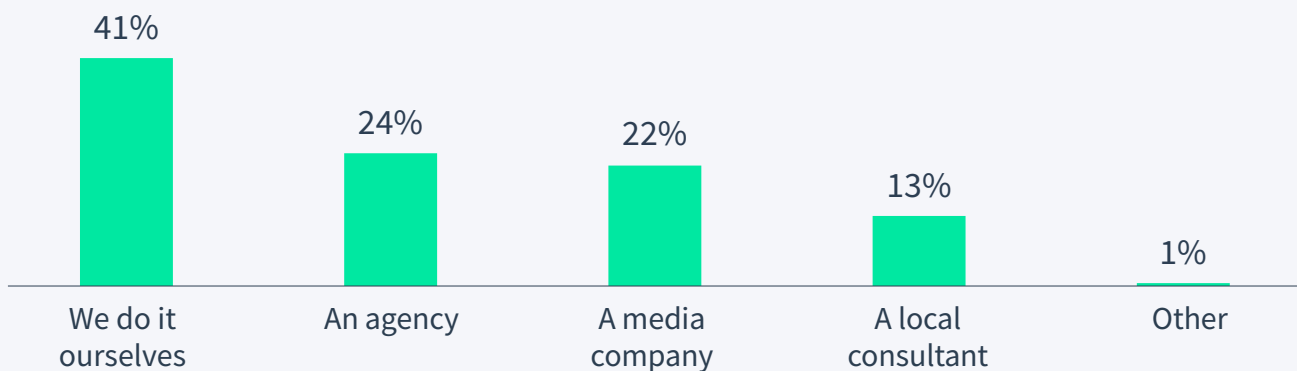
SMB Shift to Social

SMBs are shifting to social media because it is more cost effective.



Digital Marketing Management

Nearly four out of ten businesses manage digital marketing efforts themselves.



Source: Localogy Modern Commerce Monitor™; Wave 9.

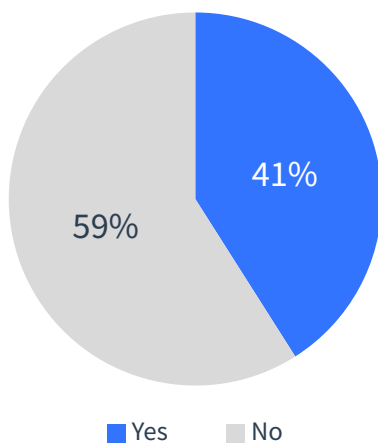
WEBSITES & ECOMMERCE



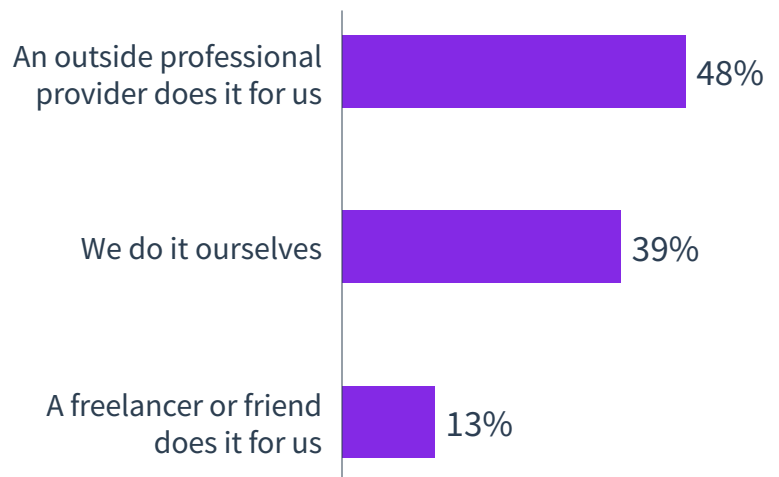
eCommerce Capabilities

41% of SMBs now have eCommerce capabilities ... 11% use online marketplaces... and over half use outside sources to manage websites.

DOES YOUR BUSINESS HAVE ECOMMERCE CAPABILITIES?



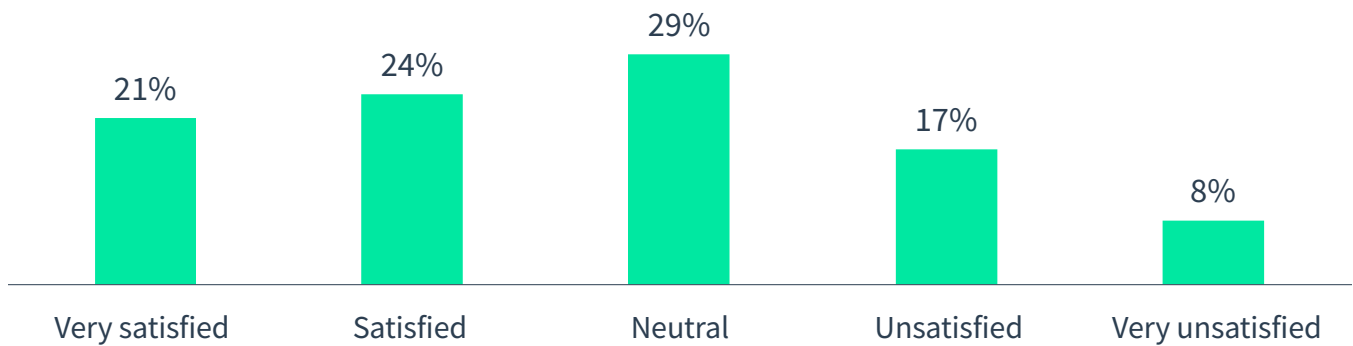
WHO MANAGES YOUR WEBSITE?



Source: Localogy Modern Commerce Monitor™, Wave 9.

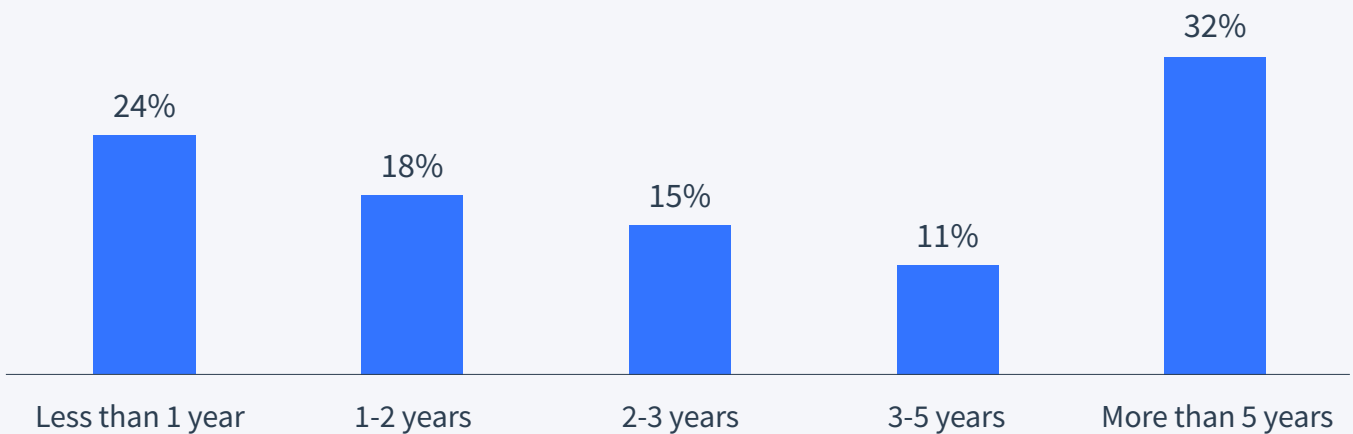
Website Satisfaction

Website provider satisfaction is mixed



Website Provider Tenure

Over half of SMBs have used their current website provider for more than 2 years.



Source: Localogy Modern Commerce Monitor™; Wave 9.

PURCHASING TRENDS

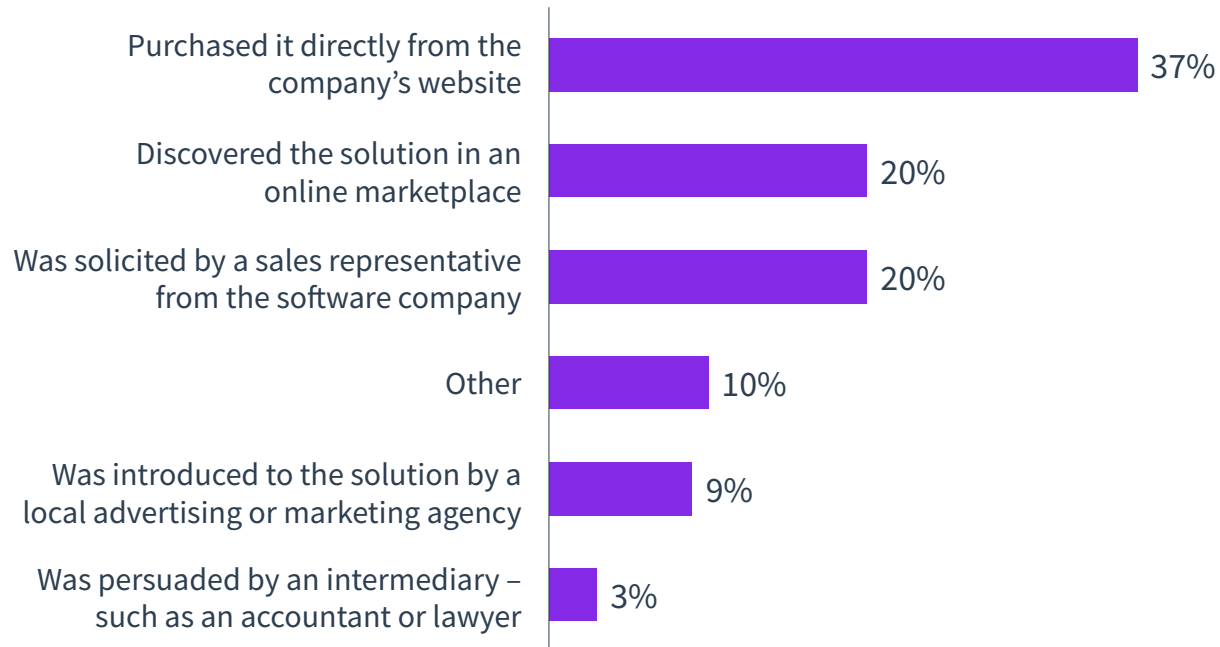


Summary

- Thirty-seven percent of SMBs purchased services directly while another 20% got it through a sales rep.
- Try and buy is the most used purchase method with 51% of SMBs using a free version of the SaaS tool prior to purchasing it.
- Freemium services are critical to adoption- 64% percent of SMBs stated the free trial was critical in their purchase decision.
- 53% is bought from a company they use to market or advertise their business.
- Fifty percent of SMBs didn't use the SaaS tool or had limited usage of initial purchased services due to service complexities, lack of training and misalignment of expectations.
- Online technology service providers are the top choice for partners- Forty-five percent of SMBs would purchase new services from an online technology provider.
- Over half of SMBs work with more than 5 partners, however most would prefer to work with one.
- Half of SMBs have consolidated services; those that do are looking at specialized providers.

Where SMBs Purchase SaaS Products

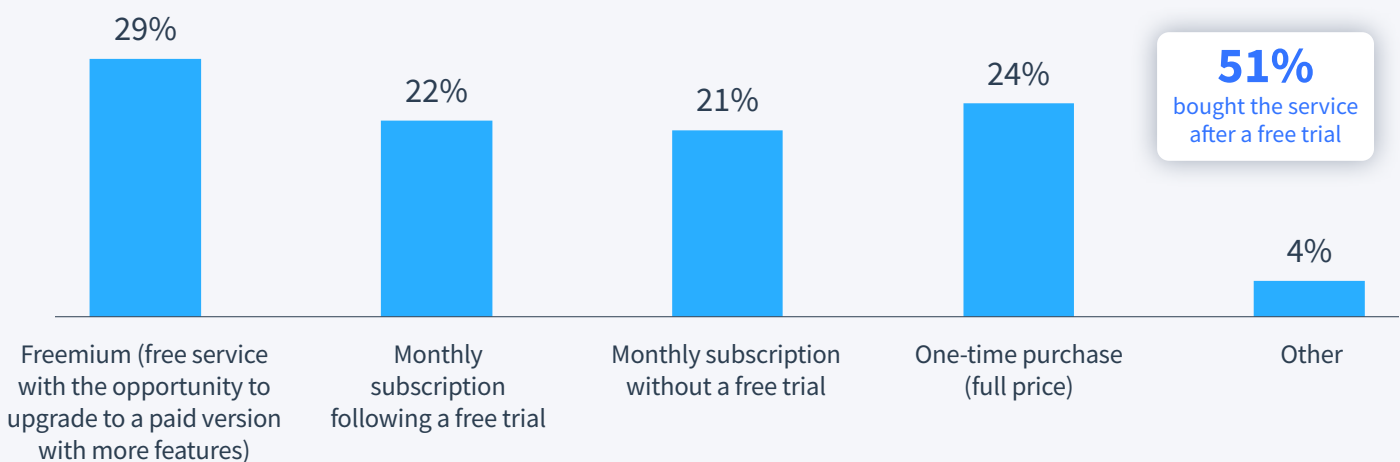
The Majority of SMBs purchased the SaaS tools directly.



SaaS Pricing Model Used

Fifty-one percent of SMBs use a free version of the online service /tool prior to purchasing it.

TRY AND BUY IS THE MOST USED PURCHASE METHOD

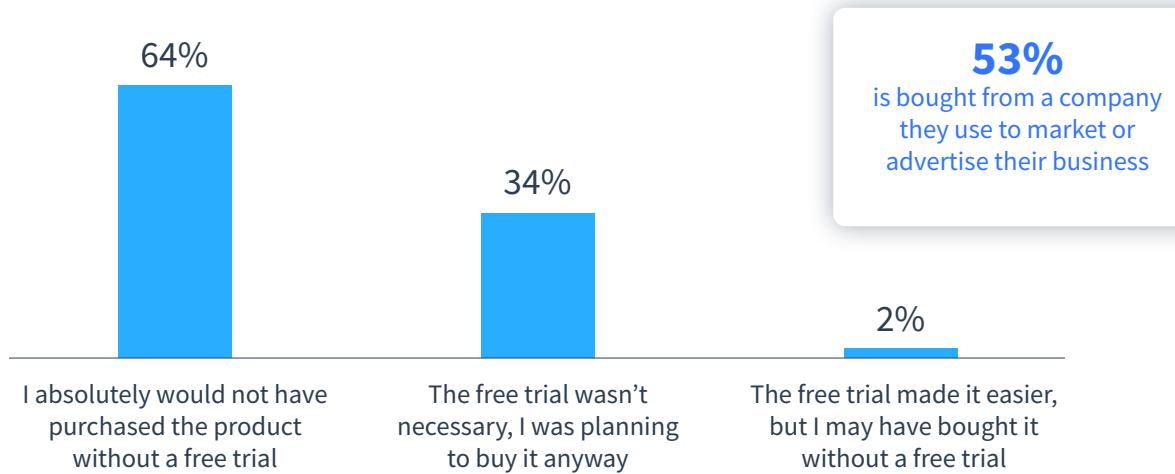


Source: Localogy Modern Commerce Monitor™; Wave 9.

Importance of Premium Services

Fifty-nine percent of SMBs stated the free trial was critical in their purchase decision.

FREEMIUM SERVICES ARE CRITICAL TO ADOPTION

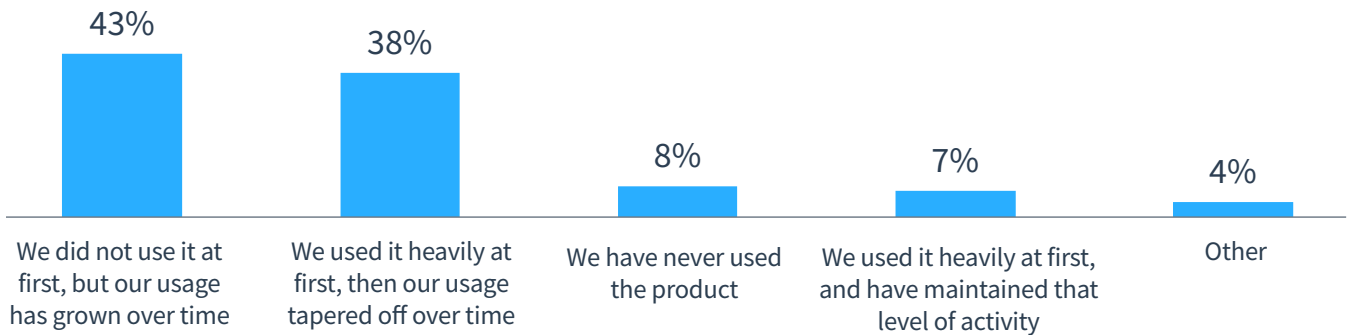


Source: Localogy Modern Commerce Monitor™; Wave 9.

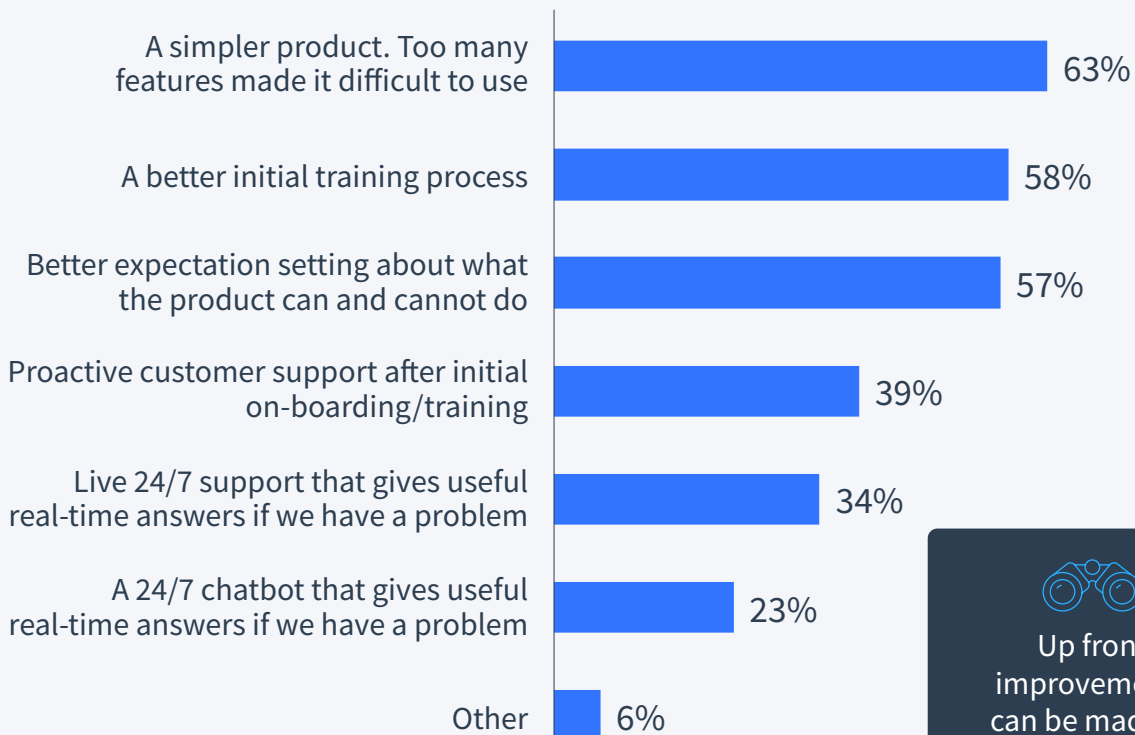


Level of Post-purchase Engagement

Fifty percent of SMBs didn't use the services or have limited usage due to service complexities, lack of training and misalignment of expectations.



IMPROVEMENTS THAT COULD BE MADE TO INCREASE USAGE / ENGAGEMENT



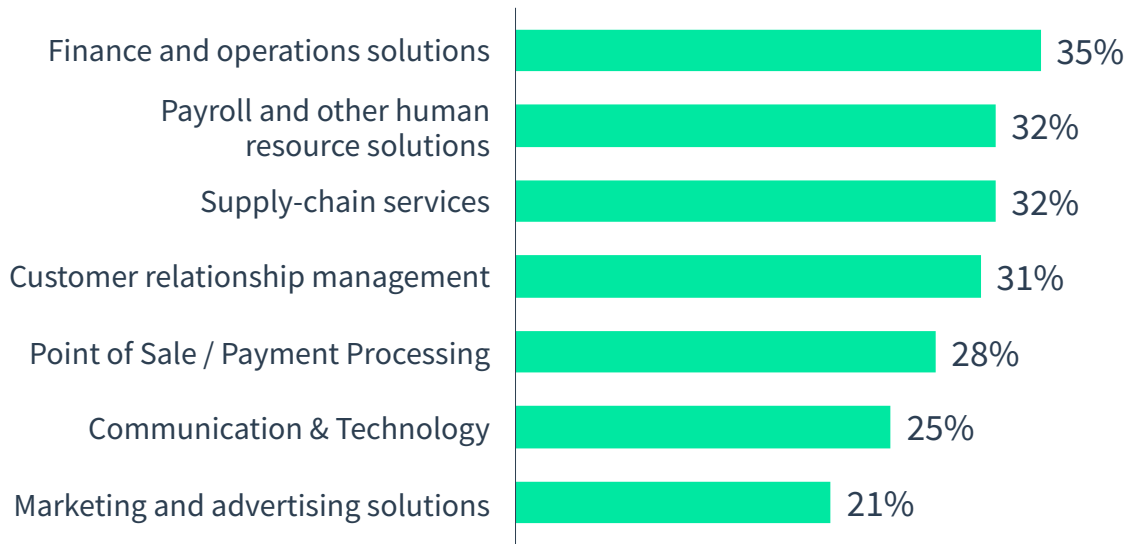

Up front
improvements
can be made to
increase adoption

Source: Localogy Modern Commerce Monitor™, Wave 9.

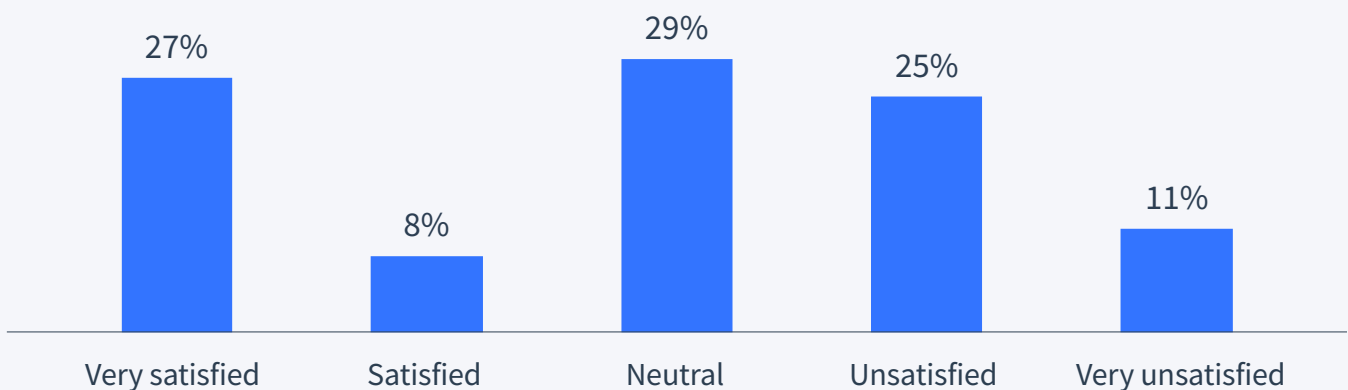
Interactions with Sales Reps

Face-to-face sales interactions continue with mixed satisfaction.

AREAS WHERE SMBS HAVE HAD FACE-TO-FACE SALES INTERACTIONS IN THE LAST 12 MONTHS



SATISFACTION LEVEL OF EXPERIENCE



Source: Localogy Modern Commerce Monitor™; Wave 9.

Causes of Poor Experiences

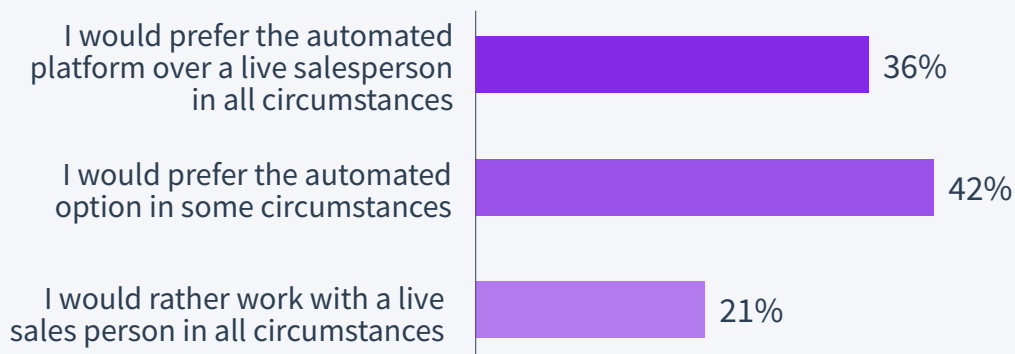
Over half of SMBs would prefer to use an automated platform in certain circumstances rather than deal with a salesperson.

TOP 3 REASONS FOR DISSATISFIED SALES EXPERIENCE



Lack of preparation was the main driver of poor sales experiences

IF PRESENTED WITH AN AUTOMATED PROCESS, HOW WOULD YOU FEEL?

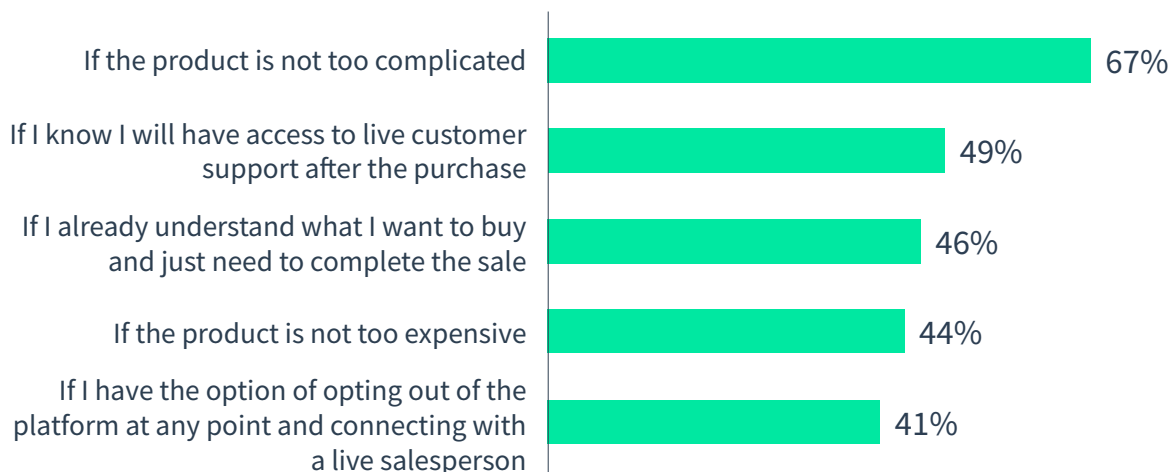


Source: Localogy Modern Commerce Monitor™; Wave 9.

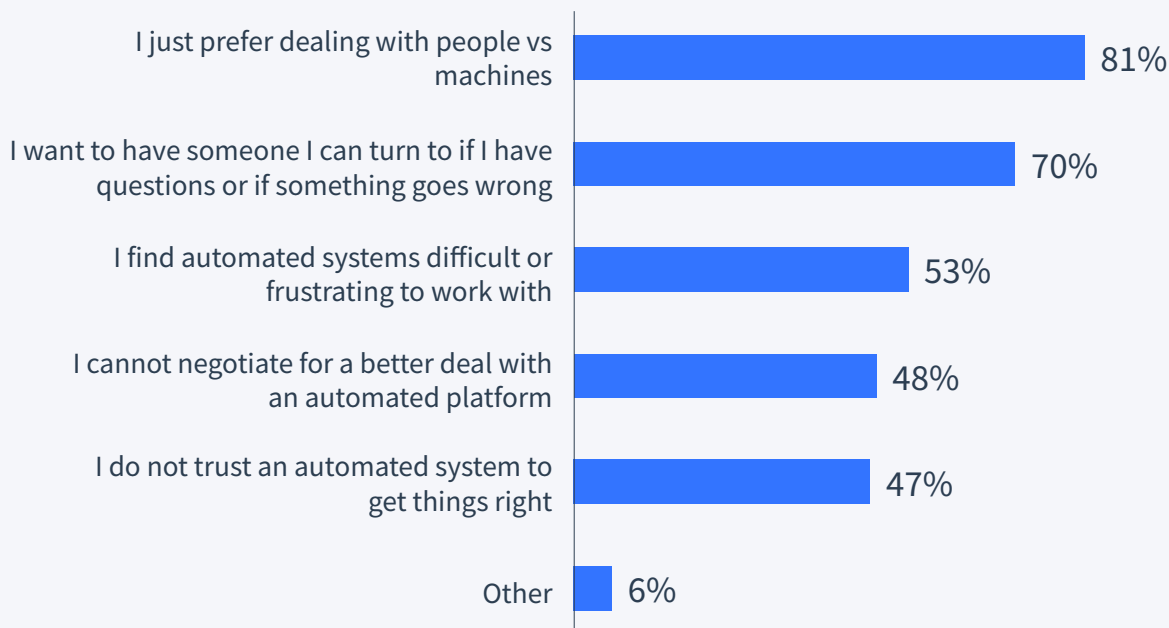
Use of Automated Sales Tools

Decision makers would use automated sales processes under the right circumstances.

SITUATIONS WHERE SMB OWNERS WOULD WANT TO USE AN AUTOMATED PROCESS



WHY SMB OWNERS WOULD WANT TO USE A LIVE SALESPERSON OVER AN AUTOMATED PROCESS

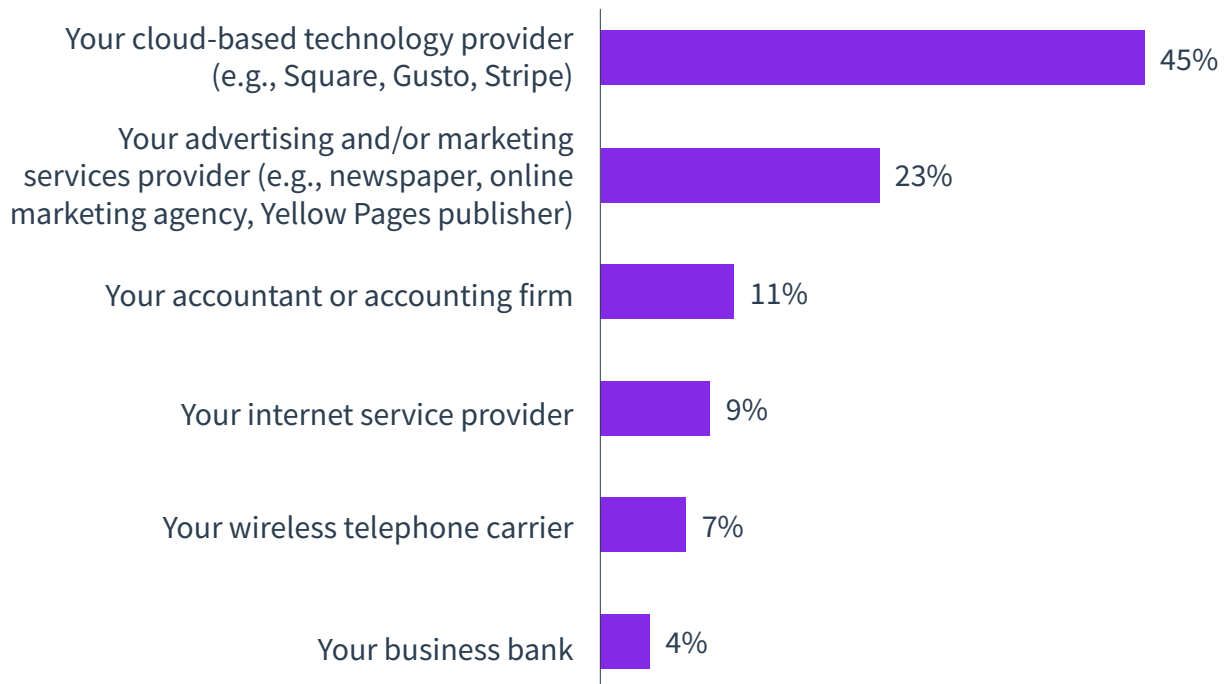


Source: Localogy Modern Commerce Monitor™, Wave 9.

Preferred Type of Service Partner

Forty-five percent of SMBs would purchase new services from an online technology provider. However, other options are gaining traction .

ONLINE TECHNOLOGY SERVICE PROVIDERS ARE THE TOP CHOICE FOR PARTNERS



Source: Localogy Modern Commerce Monitor; Main Wave 9: N= 1,020 SMBs.



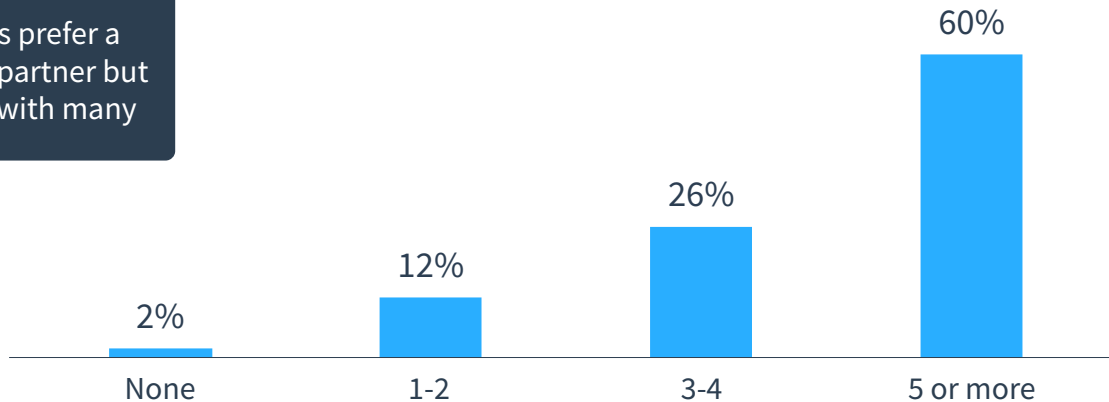
Preferred Number of Providers

Over half of SMBs work with more than 5 partners, however most would prefer to work with one.

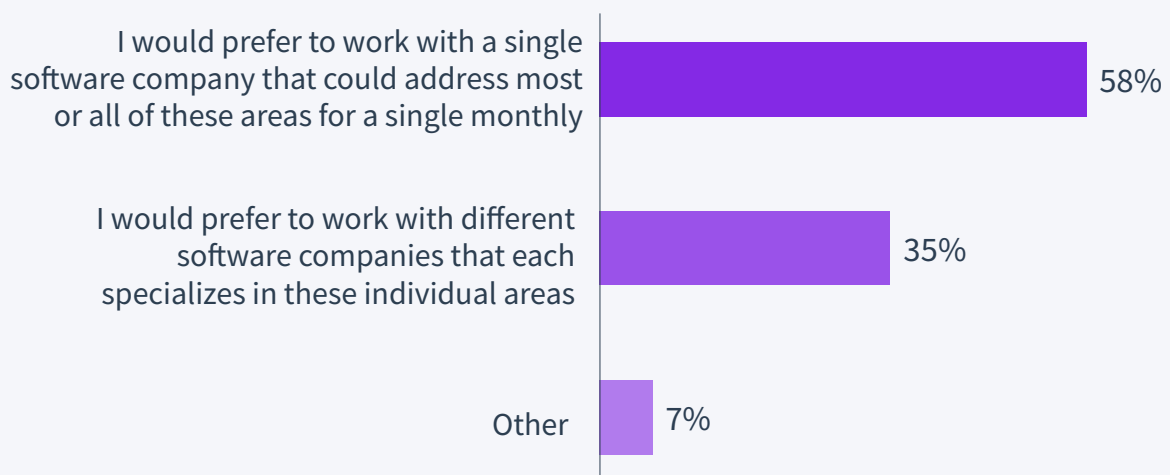


SMBs prefer a single partner but work with many

AVG. NUMBER OF VENDORS USED



PREFERRED NUMBER OF VENDORS USED

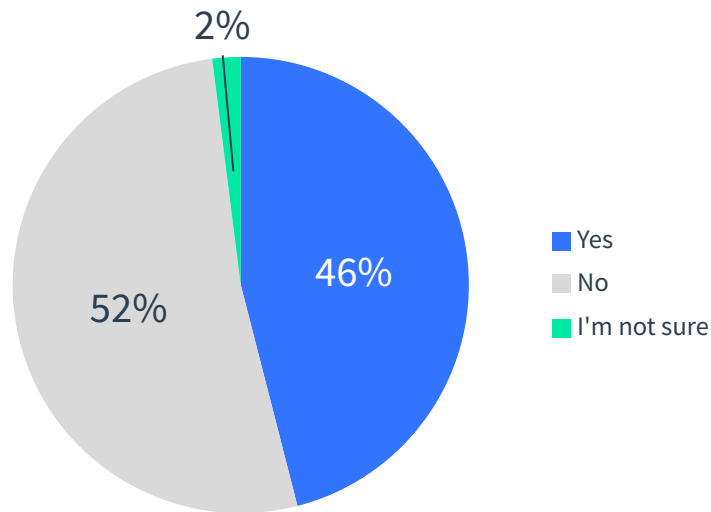


Source: Localogy Modern Commerce Monitor™, Wave 9.

Consolidation to Single Providers

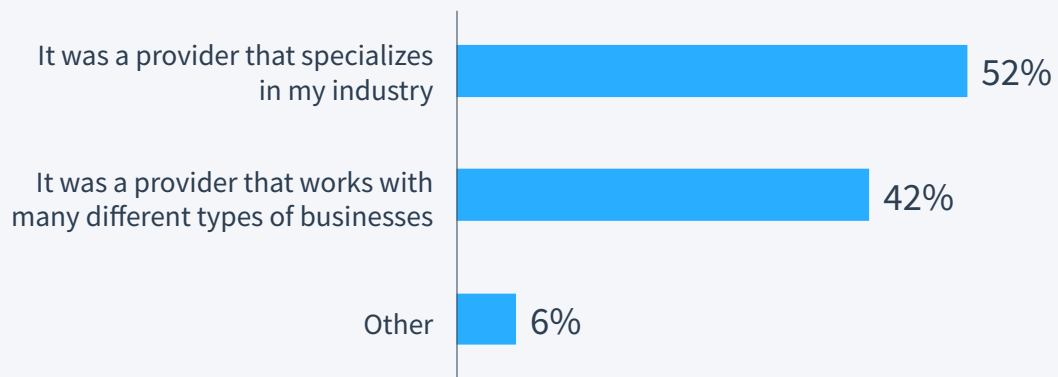
Almost half of SMBs have consolidated services; those that have are looking at specialized providers.

SMBs THAT HAVE CONSOLIDATED ONLINE SERVICES TO ONE PROVIDER



Vertical specialized partners are becoming more important

WHEN CONSOLIDATING, WHAT TYPE OF PROVIDER DID YOU USE



Source: Localogy Modern Commerce Monitor™, Wave 9.

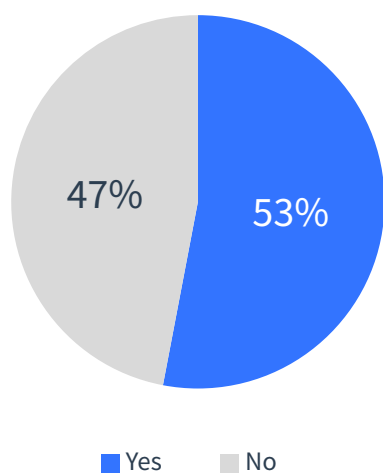
SUCCESSION PLANNING



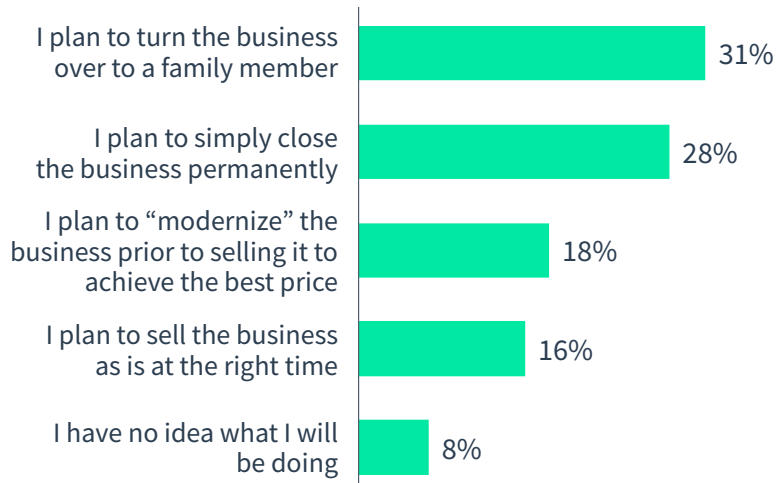
SMB Succession Planning

Over half of business owners over 55 have thought about the future of their business.

GIVEN YOUR STAGE OF LIFE, ARE YOU TAKING ANY STEPS OR GETTING ANY ADVICE ABOUT WHAT TO DO WITH YOUR BUSINESS WHEN YOU ARE READY TO RETIRE?



WHAT IF ANY OF THE FOLLOWING STATEMENTS CHARACTERIZES YOUR APPROACH TO THINKING ABOUT RETIREMENT?



Source: Localogy Modern Commerce Monitor™, Wave 9.

APPENDIX

METHODOLOGY

Objective: To obtain and track the shift of traditional services for human resources and payroll, supply chain management, finance and operations, customer relationship management, and advertising to online tools and technology for small businesses. This information will be used internally for Localogy as well as for press releases and/or sales related material for its members.

This report contains data collected from March 13- April 2, 2024.

Method

100% of data collection was conducted online (via an online panel) among employees that work full time at a small business. Screening criteria included:

- + Full time employment
- + Working in one of the selected areas of focus (HR and payroll, supply chain management, finance and operations, customer relationship management, or advertising)
- + Have less than 500 employees
- + Be a retail, home services, personal services, automotive, or professional services business

Quota and Questionnaire

- + There were 1,020 interviews conducted for this particular wave. The data was collected between 3/13/24-4/2/24 via an online panel. Approximately, 150 respondents were targeted for each business segment.
- + The survey took about 15 minutes, on average, to complete.
- + Interviews were made available in English.

The Modern Commerce Monitor™ is a quantitative tracking study, that monitors SaaS adoption in the small business marketplace. This research, updated at least twice a year, provides a comprehensive view of how business are leveraging SaaS products and services.

Wave 9.0 was fielded in March 2024 and will next be updated in the spring of 2025. The online survey included over 1,000 respondents in the US.

About Us

For more than 20 years, Localogy has been the informed thought leader and unifying voice of Local. We empower members with the insights, resources, and connections they need to succeed and thrive in the Local marketplace.

Membership

We connect members with other strategic business partners and SMBs through events, content development, and targeted marketing services.

Research & Insights

Our team of Local industry experts conducts and facilitates proprietary and custom research & insights designed to educate, inform strategy or improve business outcomes.

Programs

We help Local marketing and technology providers grow, engage, and develop new skills through in-person meetings, conferences, analyst briefings, podcasts and online events.

Let's Talk Local

Interested in finding out more about Localogy membership, research or programs?

(800) 841-0639

talk@localogy.com

www.localogy.com