

The state of small business software

Discover the software packages
today's SMBs are using and the
systems and features they value most

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Executive summary

This report reveals how SMBs use, manage, and value their digital tools, and the opportunity it presents for forward-thinking providers.

- 1. Financial software dominates the SMB tech stack.** The platforms most commonly used by SMBs are accounting and payment systems.
- 2. The SMB software market is heavily fragmented,** with very few systems securing double-digit usage. For providers, the divided nature of the market presents a significant opportunity to disrupt the space and gain market share.
- 3. For SMBs, bookkeeping and reconciliation represent the biggest drain on their time.** These inefficiencies are driving a change in purchase drivers when it comes to their tech stacks.
- 4. Cost and functionality are top ranking factors driving purchase decisions** across all companies. Solutions that save time are also increasingly important due to the challenging economic environment.
- 5. Demand for integrated systems is rising,** with most SMBs now opting for tools with greater efficiency and connectivity. However, there's a knowledge gap around the benefit, availability, and ease of integrations, particularly among micro businesses.

Introduction

Are SMBs benefitting from more efficient operational software?

Companies sharing permissioned data to overcome inefficiency and generate insights are predicted to add \$100tn to the global economy by 2030¹. Likewise, the World Economic Forum (WEF) expects embedded finance to reach \$7.2tn in the same timeframe.

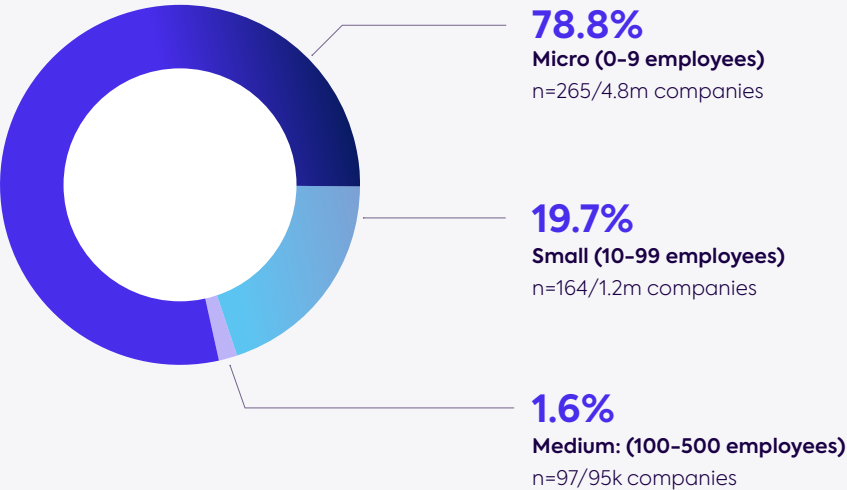
These statistics are indicative of the ‘integrated ecosystems’ trend that has firmly taken hold in financial and software markets, giving rise to an Open Data and Open Finance model.

But are small and medium-sized businesses (SMBs) in the US benefitting from the new technologies and efficiencies through data sharing? Or are they just juggling more software and systems, experiencing increased complexity, and chasing lower costs in the face of the current economic uncertainty?

What do the ‘tech stacks’ (i.e., the combination of software a company uses to run its operations) of SMBs reveal about their day-to-day operations? What do they invest in, and what are the top features and qualities they look for when assessing a potential provider?

Codat worked with independent research agency, YouGov to answer these questions, and more. Together, we surveyed founders, owners, and directors at micro, small, and mid-sized US companies (up to 500 employees) to learn how they use, manage, and evaluate their digital tools. We surveyed 526 owners or senior decision-makers in SMBs representing different business types, ages, and revenues. The data was weighted to the profile of US SMBs².

% SURVEY SAMPLE SIZE BY BUSINESS SIZE



For a further sample breakdown and explanation of the methodology, please see at page 31

Part I

The anatomy of the SMB tech stack



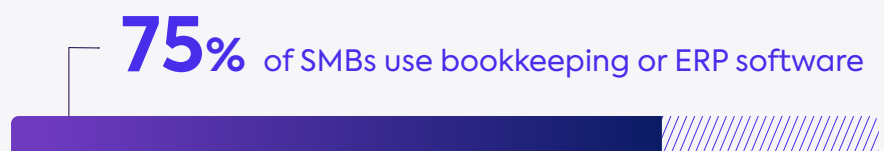
Types of software used by SMBs

Financial software dominates the SMB tech stack

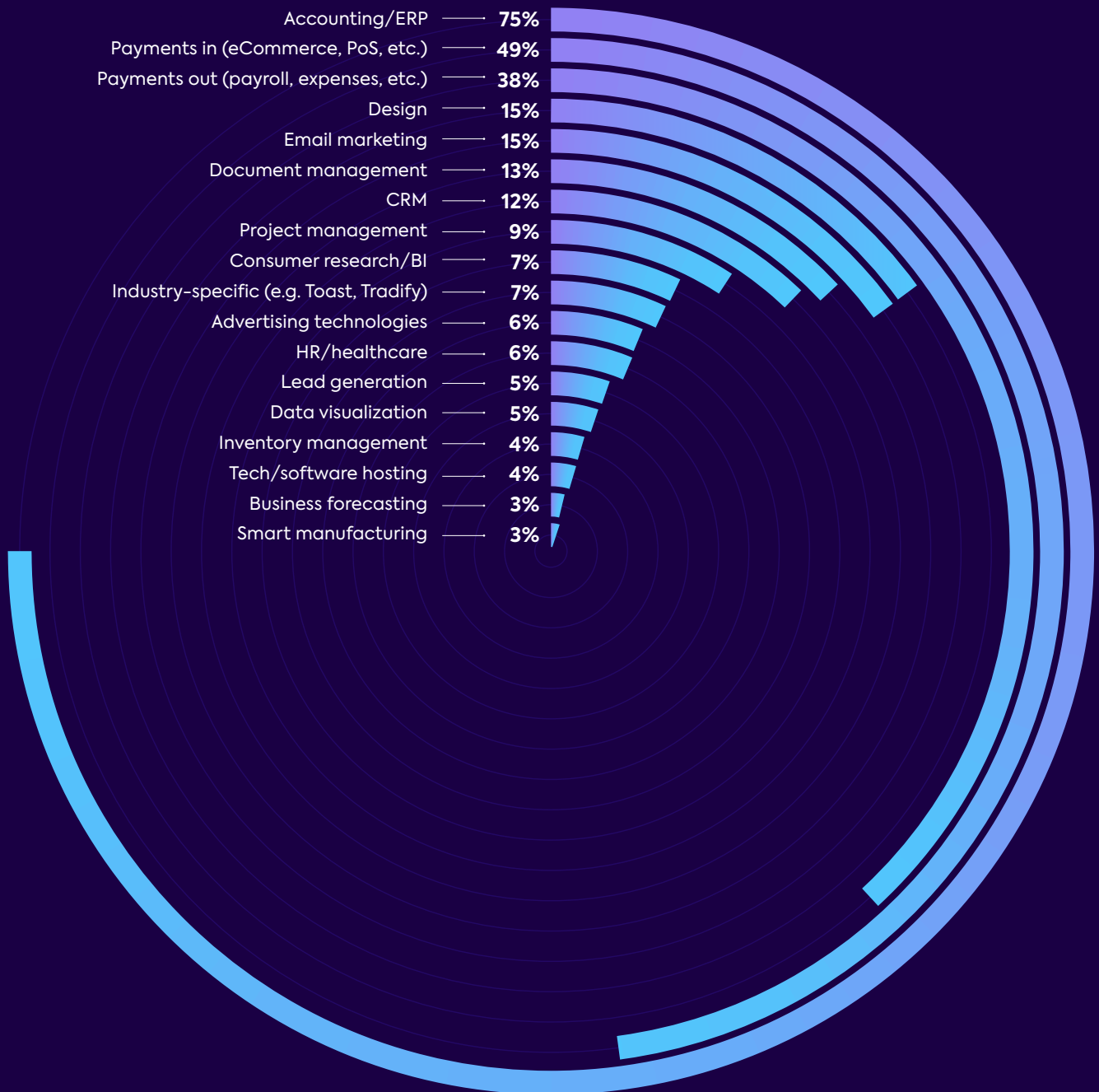
Surveyed SMBs reported that financial systems and applications—like digital platforms handling accounting/ERP (75%), incoming payments (49%), and outgoing payments (38%)—are the most commonly used across their organization, beating other software categories like design, marketing, and CRM.

The relatively high importance of financial software for SMBs is likely due to the central role finance plays in running a small business. Roughly two-thirds (64%) of the business leaders surveyed reported involvement in some aspect of financial decision-making, from accounting to procurement to corporate cards.

When broken down into more specialized financial functions, SMBs reported that they were most likely to use bookkeeping (56%), eCommerce (24%), accounts payable (21%), and payroll (18%) tools.



% OF SMBS USING DIFFERENT SOFTWARE TYPES



Which of the systems below does your business currently use for accounting/bookkeeping/Enterprise Resource Planning (i.e. systems which your business might use across a variety of day to day business activities from payroll to accounting to procurement)?/And which of the systems below does your business currently use to make payments from your company (e.g expenses, payroll, accounts payable, sales tax)./And which of the systems below does your business currently use to make payments from your company (e.g expenses, payroll, accounts payable, sales tax)./Now thinking generally about business planning and operations across the business... Which, if any, of the following areas does your organization have specialist software? Base: All (526)

Software deemed most critical by SMBs

The type of software considered most important is based heavily on business type

The four most critical software types among surveyed SMBs were financial platforms—namely:

Enterprise resource planning systems (ERP)	52%
Payroll platforms	51%
Bookkeeping tools	49%
Expense management solutions	45%

Given the importance of building and maintaining a customer base to a small business, CRM platforms (40%) are also critical, ranking slightly ahead of eCommerce systems (34%) and payments processors (34%).

The data suggests the type of software SMBs implement beyond bookkeeping and ERP platforms is influenced by its business type. For example:



B2C companies are more likely to automate incoming payments so they can satisfy consumer demand for frictionless card payments and digital transactions.

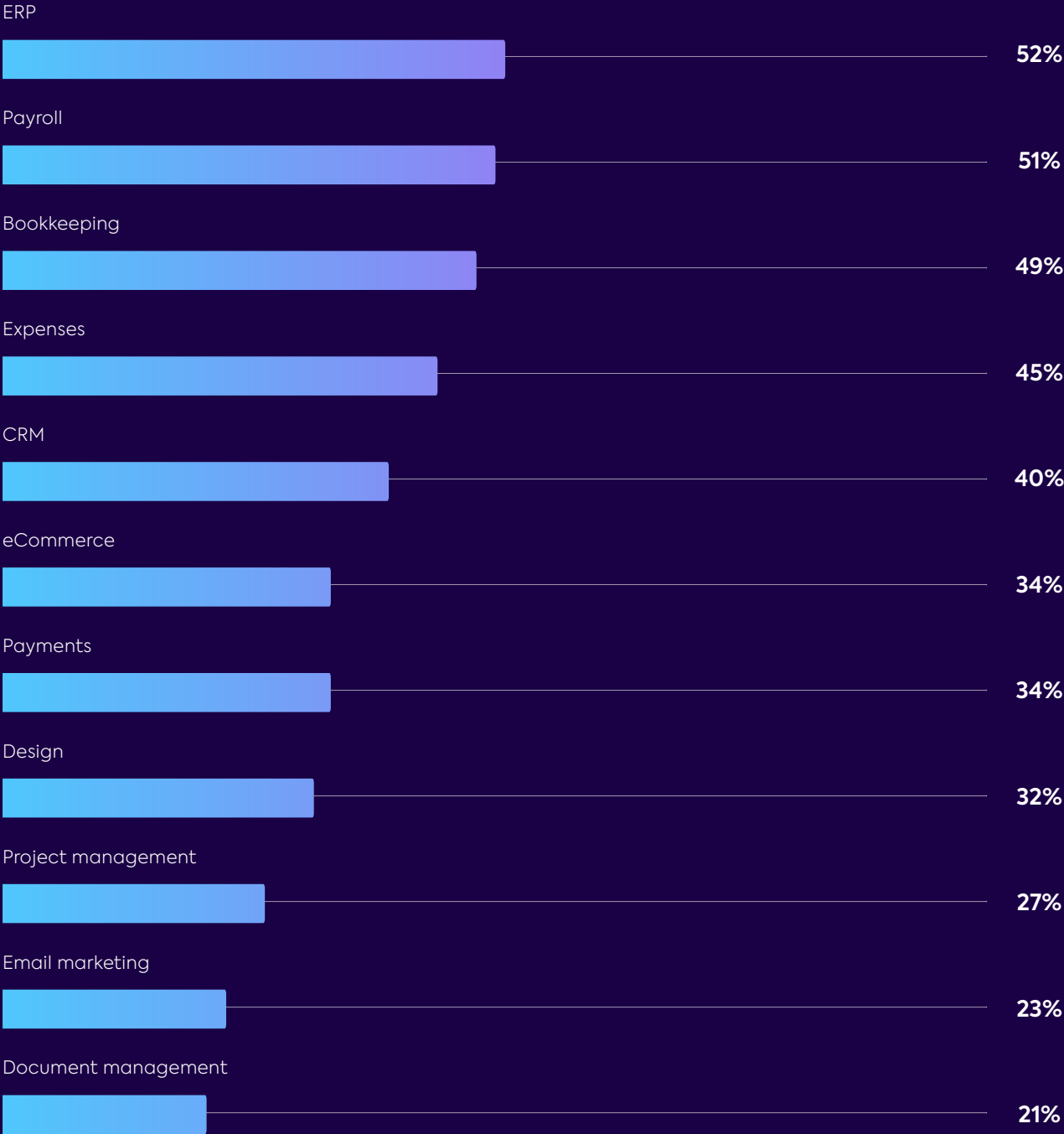


International companies are more likely to adopt software for outgoing payments to facilitate overseas expense claims or cross-border payroll functions.



Service-based companies are less likely to adopt additional financial software because they often handle more manageable payment volumes with simpler transactional records.

SOFTWARE USERS CONSIDER CRITICAL TO THEIR BUSINESS



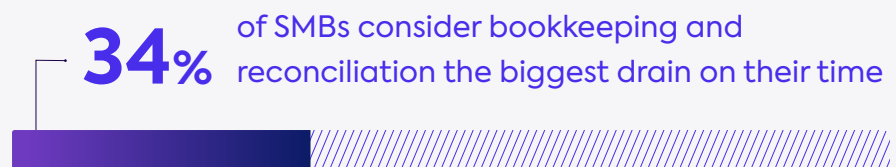
How important (if at all) would you say the following systems are for your organization? Please select either: critical, important, not essential, or don't know. Base: All those who use a particular type of software. n=50+

Operational pain points in the SMB market

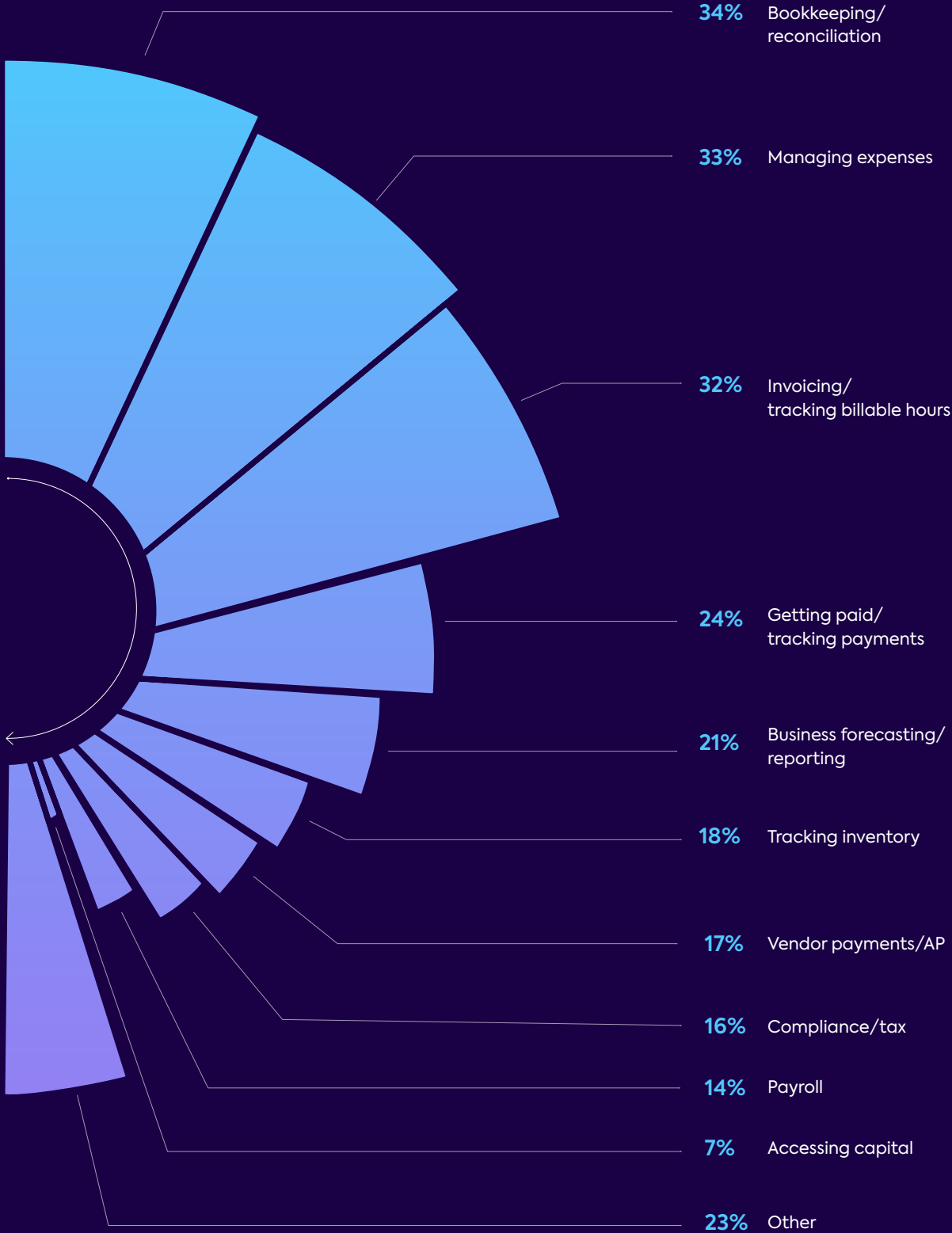
SMBs spend the most time on bookkeeping and reconciliation, expense management, and invoicing

The prioritization of tools in the tech stack reflects the pain points which are felt by the SMB market. Among surveyed SMBs, 34% reported that accounting tasks like bookkeeping and reconciliation represented one of the top three most time draining tasks, followed closely by expense management (33%) and invoicing (32%).

As well as wasted time and a demoralized workforce, these challenges point to an underlying problem of accuracy. As Accountancy Age estimates, up to 88%³ of (manual) spreadsheets contain errors. Surely these inefficiencies are driving a change in SMB purchase drivers when it comes to their tech stacks.



THE MOST TIME-CONSUMING FINANCIAL TASKS FOR SMBS



* Thinking about financial processes and the associated time taken...Which THREE, if any, of the following processes generally take up the most time in your organization? Base All (526)

Use of specialized software by business size

The larger a business, the more likely it is to use specialized software to handle critical tasks

The number of SMBs using specialized software for accounting, payments processing, and other critical business tasks rises dramatically once the organization grows beyond 10 employees. In other words, the bigger a business gets, the more pronounced the pain points become causing them to turn to software that can tackle complex workflows. This aligns with recent research by the OBIE⁴ in the UK which found that companies with at least 5 employees were three times more likely to use cloud accounting software than companies with fewer than 5 employees.

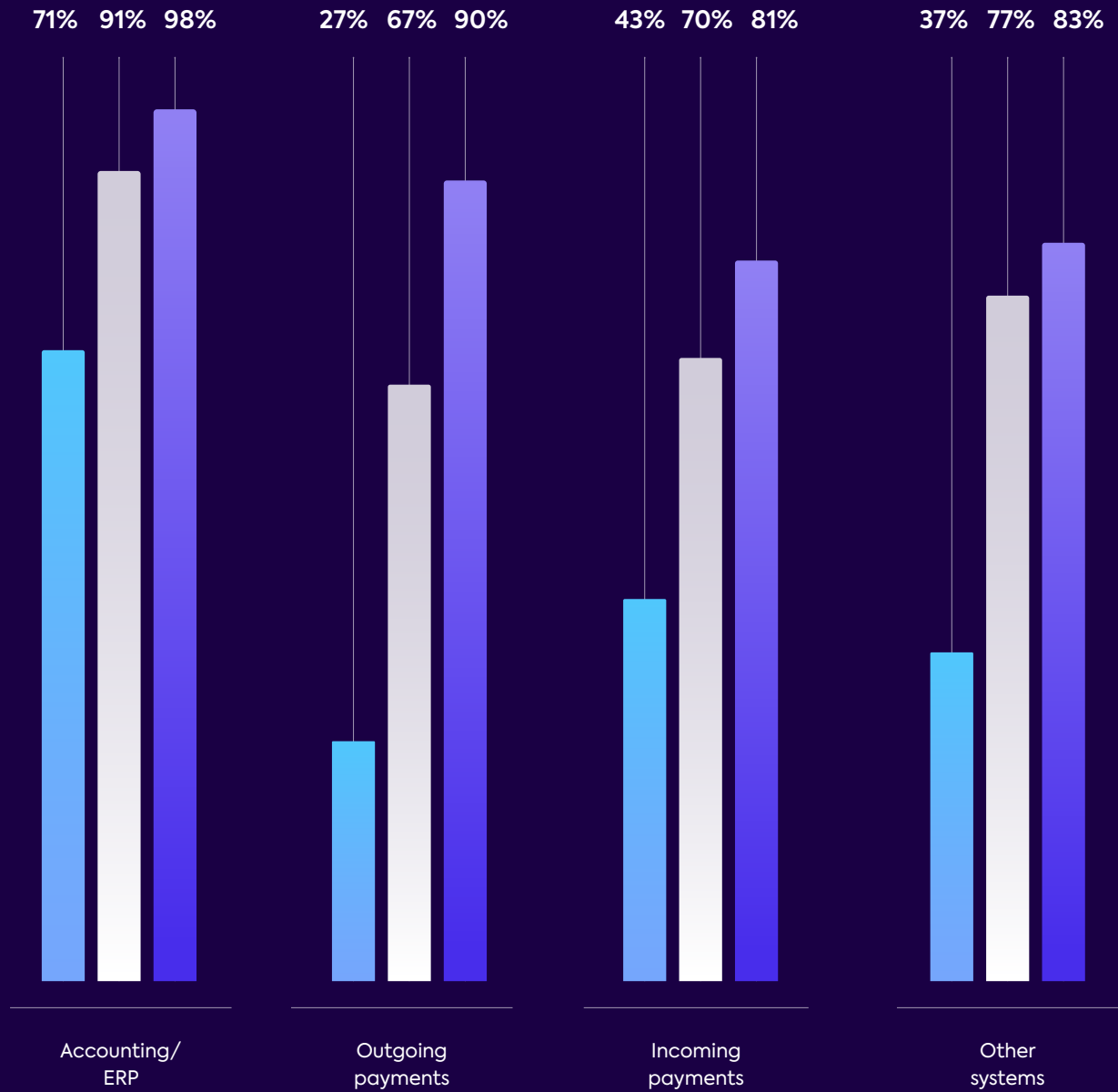
Our findings also shows that SMBs acquire financial software in a particular order. As a company grows, it is likely to purchase accounting software first, followed by software for incoming and outgoing payments, demonstrating how integral this software is to the day-to-day running of a business.

SMBs with 5+ employees are over **3 times** more likely to use cloud accounting software than SMBs with fewer than 5 employees

Source: OBIE

% OF BUSINESSES USING SPECIALIZED SOFTWARE

■ Micro (1-9)
 ■ Small (10-99)
 ■ Medium (+100)



Which (if any) of the following systems does your business currently use for accounting, bookkeeping, and/or enterprise resource planning (ERP)/Outgoing Payments/Inbound payments/Other. Net All named platforms/other. Base All excluding DK (n=475 - n=496)

Part II

Purchase drivers, integrations, and the impact of the current economic climate

An overview of purchase drivers

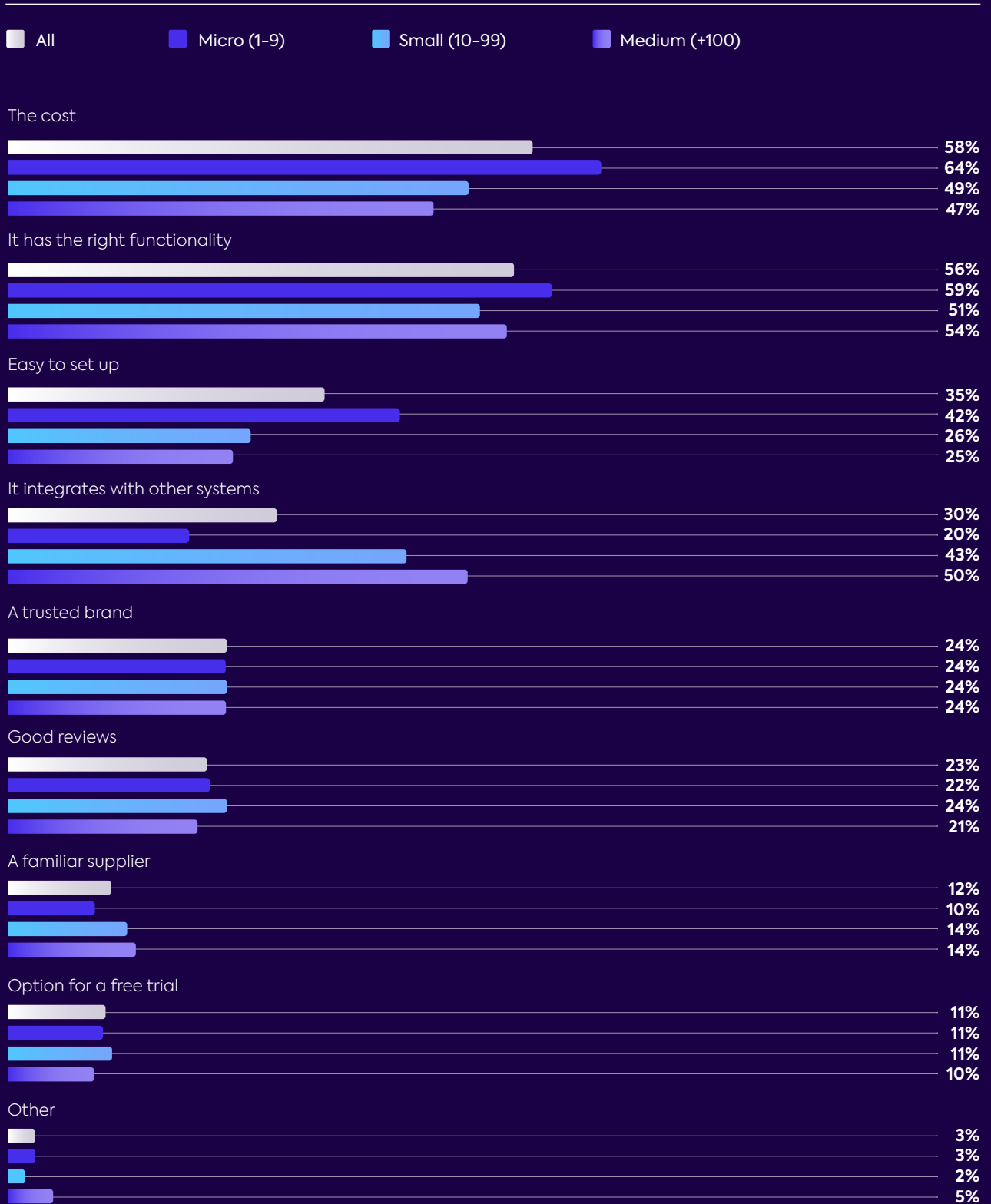
Beyond cost and functionality, there's some divergence in demand by size of company

As you'd expect, cost and functionality are top-ranking factors driving purchase decisions across all companies. But, for micro businesses, the ease of setup is more important than it is for businesses with 10+ employees. Micro businesses, are likely to rely on generalists for the implementation of tech products. Larger businesses, on the other hand, are more likely to have access to specialist functions, making implementation less of a challenge. To ensure the 4.8M micro businesses in the US don't encounter barriers to implementation, providers must clearly communicate their setup requirements.

Micro businesses value ease of setup more than businesses with 10+ employees

SMB SOFTWARE PURCHASE DRIVERS

Top three drivers of purchase decisions by company size



Thinking about the systems/software your organization has across the board (i.e. from finance to business planning and operations)...Which THREE, if any, of the following factors contribute most significantly to your organizations purchase decisions when buying systems/software for the organization? Base: All 526

The growing importance of integrations and connectivity

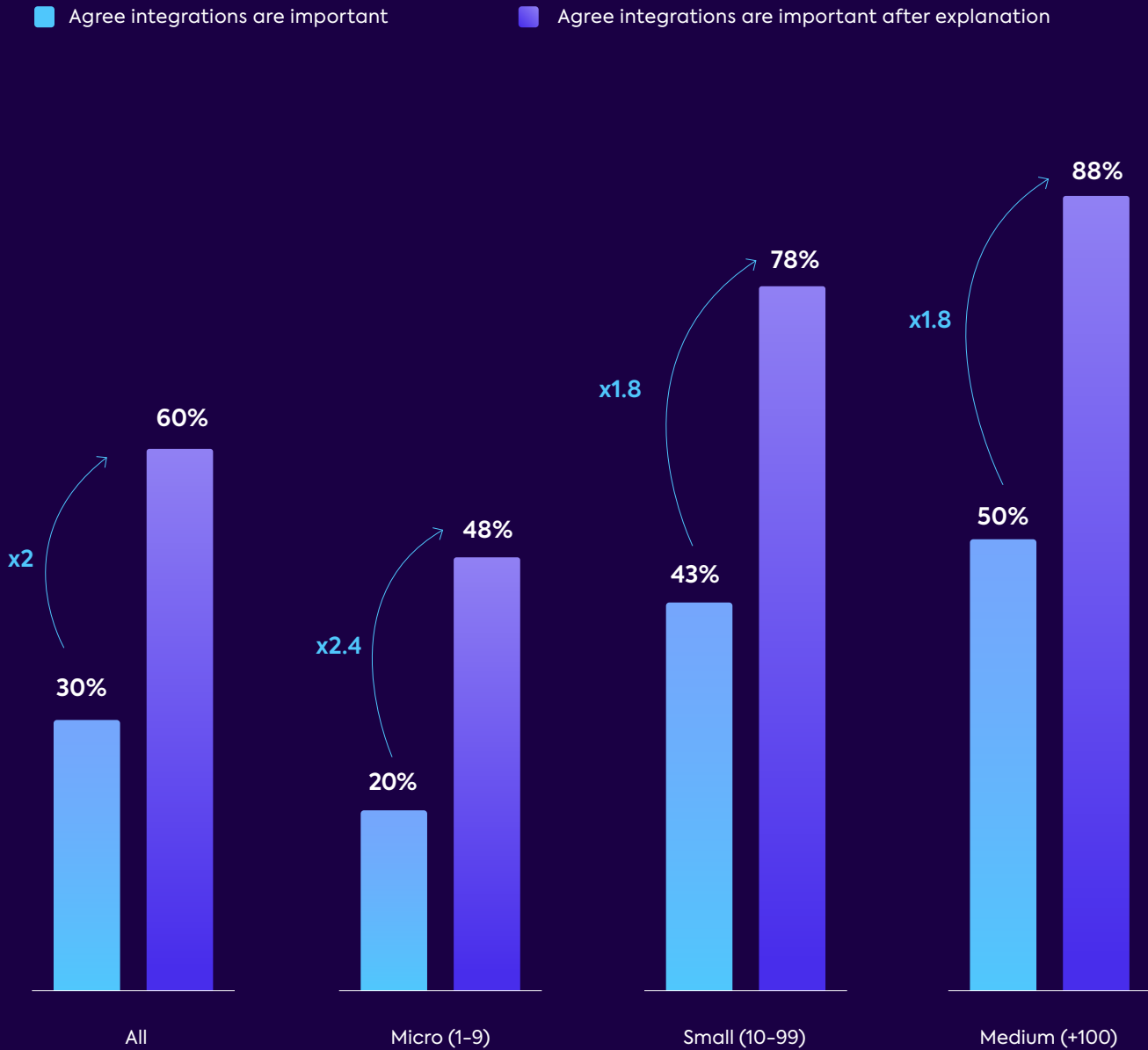
SMBs are increasingly considering interoperability an essential feature for their software

As the earlier cited work from the WEF shows, the creation of 'ecosystems' through data integrations is expected to generate £7.2tn of value for embedded finance systems. Additionally, a survey from EY¹ predicts that these ecosystem revenues will account for 20%+ of revenues for one in four financial services businesses and 10-19% for a further 29%. Our research shows demand from SMB consumers to buy integrated systems is expected to become a much bigger driver of their purchase decisions in the coming years. But there appears to be an education gap around their benefit, availability, and ease of implementation.

An integration is the ability of one system to connect to and exchange permissioned data with another system used by the same organization to create value

Currently, 30% of SMBs cited 'how systems integrate' as a top tier purchase driver. However, after an explanation of their potential, 60% agreed integrations would be an important part of the purchase decision going forward. The more that businesses learn about integrations, the more they value connectivity within their tech stack.

HOW SMBS VALUE INTEGRATIONS BY BUSINESS SIZE



Thinking about the systems/software your organization has across the board (i.e. from finance to business planning and operations)...Which THREE, if any, of the following factors contribute most significantly to your organizations purchase decisions when buying systems/software for the organization?/It is common for business systems to be developed in a way that allows them to exchange data with other systems the organization uses (i.e. integrations). For example, your organization can set up the accounts payable system or payroll system in a way that it automatically feeds into the current accounting platform.Thinking about this new capability, How much of a consideration do you think this will be for your business in deciding about future software? (Important/very)

The data shows that while larger companies are more immediately aware of the need for integrations, there's a knowledge gap about their benefits and ease of use, especially among micro businesses.

Providers should, therefore, work to ensure that micro businesses in the US are not left behind in the transition to better integrated systems, particularly given the challenging trading environment ahead which stands to have the biggest impact on the smallest businesses.

The impact of the current business environment on SMB tech

SMBs are more reliant than ever on their software and are looking for efficiencies

Between technological advances, social and cultural shifts, and changes in economic and political policies, today's business landscape is having a very real impact on the way SMBs think about digital solutions. In total, 40% of surveyed SMBs say the current environment has impacted the way they use and manage software, with one in two having made changes to their tech stack.

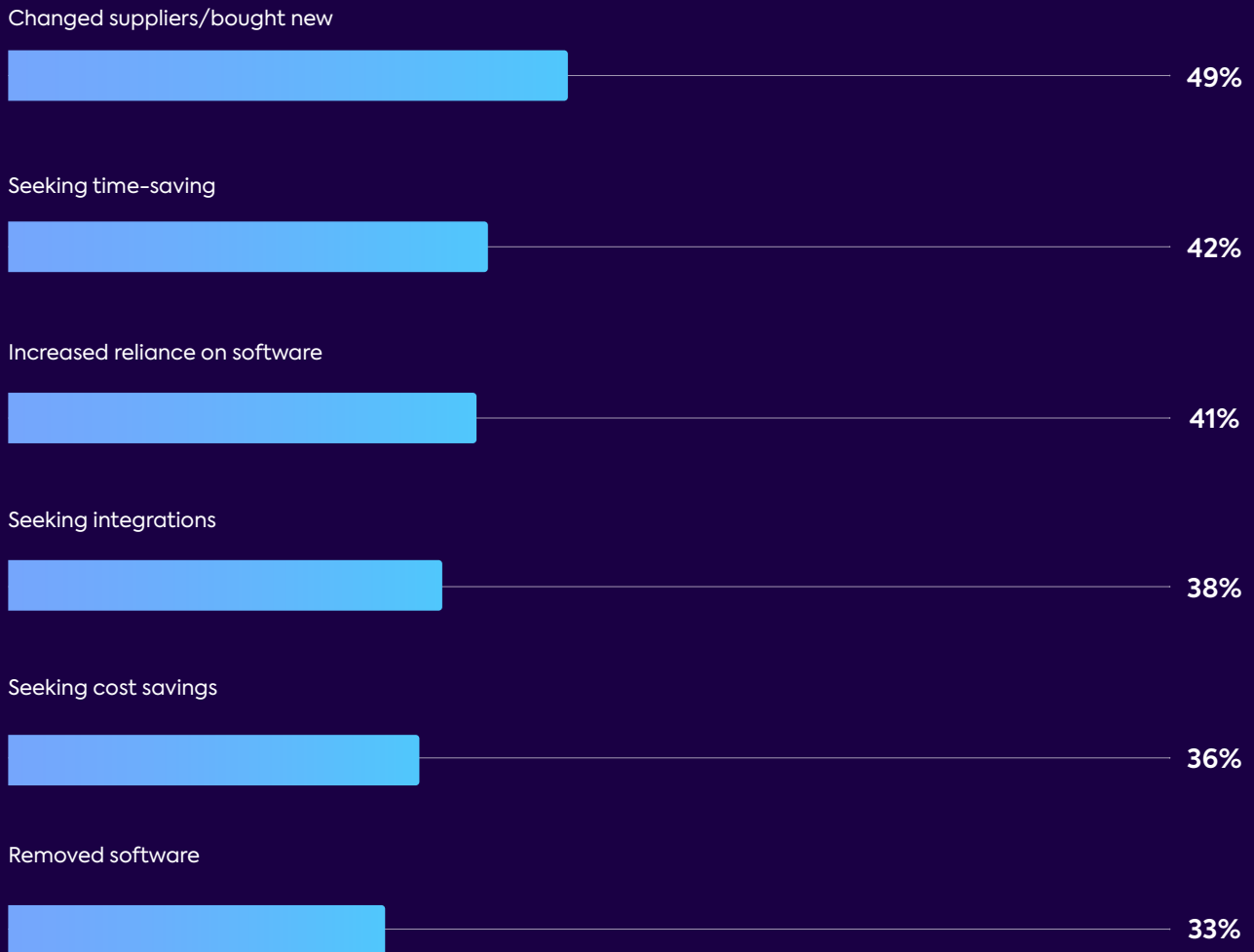
Particularly impacted are SMBs with revenue over \$1 million, of which 64% have altered their tech stack. SMBs with 10+ employees were also twice as likely to make changes to their software than micro businesses.

An analysis of how thinking has shifted shows that these changes are more about saving time than they are about saving money, with most SMBs opting for tools with greater efficiency and connectivity.

Of those SMBs that say they value integrated solutions, 35% are likely to have switched or onboarded new suppliers (75% more than average)—suggesting that connectivity is a highly motivating factor in today's SMB software market.



CHANGES SMBS ARE MAKING TO THEIR TECH STACKS



How, if at all, is the current business environment in the USA influencing how your organization uses and thinks about tools (i.e. software packages that help you do things) to help the business run efficiently? Please select all that apply. Nets aligned to cost/time/reliance/changing suppliers/removing suppliers? (Base all those who have taken an action: n=241)

Most surveyed SMBs have leaned further into automation—enhancing and streamlining their current tools, rather than simply dismantling them.

35%

SMBs who value integrations more today also switched providers at a rate of 35%, suggesting connectivity is a decisive factor in the current software market.



Part III

The SMB software market in the US today

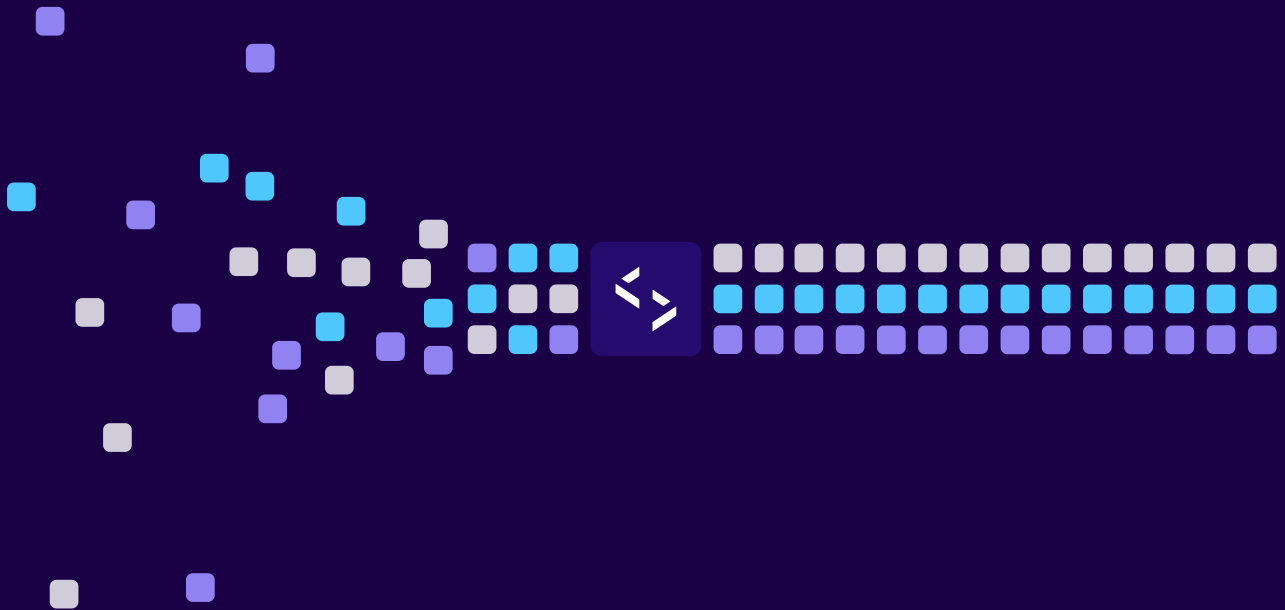
The SMB software market for accounting and payments is heavily fragmented

This poses a challenge to companies committed to providing greater interoperability for their SMB customers

While SMBs are largely aligned around the importance of using specialized software to automate accounting tasks and incoming/outgoing payments, they're divided when it comes to picking a preferred provider.

This places a real burden on the companies serving SMBs through delivering better software to relieve their operational pain points (see page 11). How can they integrate effectively with the SMBs' other software providers, to provide the integrations SMBs increasingly demand? With such a fragmented network of suppliers and a customer base which is relatively active in its management of the tech stack (especially those with more employees), which integrations will create the most value and use developer time in the most efficient way?

Codat has previously published guides on the highly fragmented [accounting](#) and [commerce](#) software markets, showing how coverage varies wildly depending on an SMB's size, age, industry, and geography.



This is the reason Codat exists as the universal API for small business data. Companies serving SMBs can build just one integration to Codat, which then standardizes the data dictionaries across all clients. This allows businesses to focus on their propositions and customers rather than building multiple APIs.

Let's take a closer look at the specific software SMBs use for accounting and for incoming and outgoing payments.

Accounting, bookkeeping, and ERP software

75% of surveyed SMBs use specialized accounting software to help them close their books

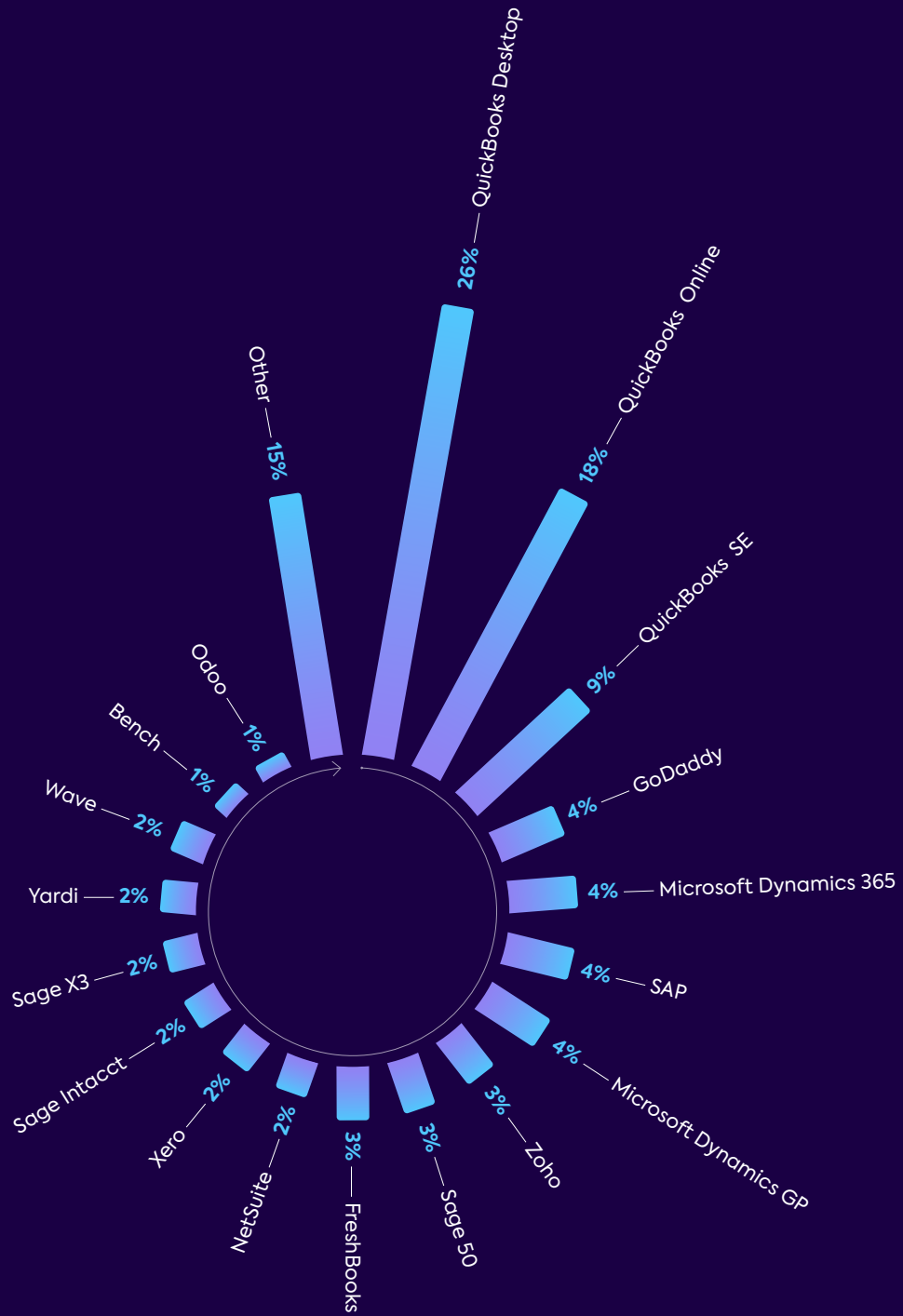
Intuit QuickBooks products—between QuickBooks Desktop, QuickBooks Online, and QuickBooks SE—lead in this category, taking up 49% of the total market share. The rest of the pool is markedly divided between providers like GoDaddy, SAP Concur, Sage, and Xero, with no one platform covering more than a 4% share.

49%

The top three accounting software platforms cover only 49% of the total market



SMB SOFTWARE MARKET FOR ACCOUNTING/BOOKKEEPING/ERP



Which, if any, of the following systems does your business currently use for accounting, bookkeeping, and/or enterprise resource planning? Base All (526)

Incoming payments software

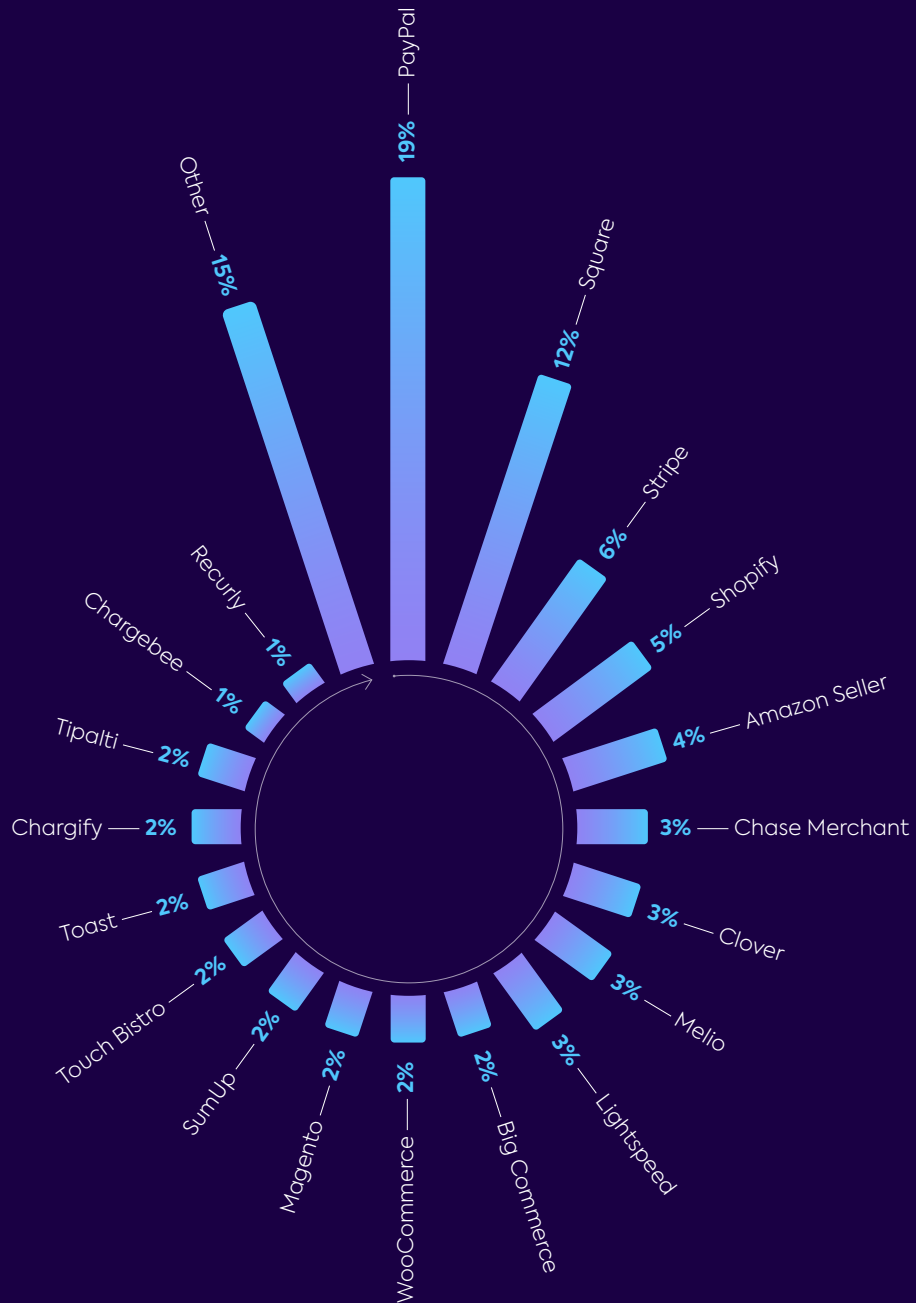
The second most used type of software in the SMB tech stack, dominated by PayPal and Square

Around 49% of surveyed SMBs use specialized digital tools to manage incoming payments—including eCommerce, PoS, billing/invoices, and accounts receivable (AR) platforms.

Among these categories, only two providers—digital payments systems PayPal and Square—see double-digit use amongst the businesses interviewed, with the vast majority of platforms hovering around 1% to 3% coverage.

The majority of software providers for incoming payments cover 1% to 3% of the total market

SMB SOFTWARE MARKET FOR INCOMING PAYMENTS



Which, if any, of the following systems does your organization currently use for taking payments (e.g. accounts receivable, point of sale, ecommerce, billing, subscriptions etc.)? Base: All (526)

Outgoing payments software

The most fragmented area of the finance tech stack

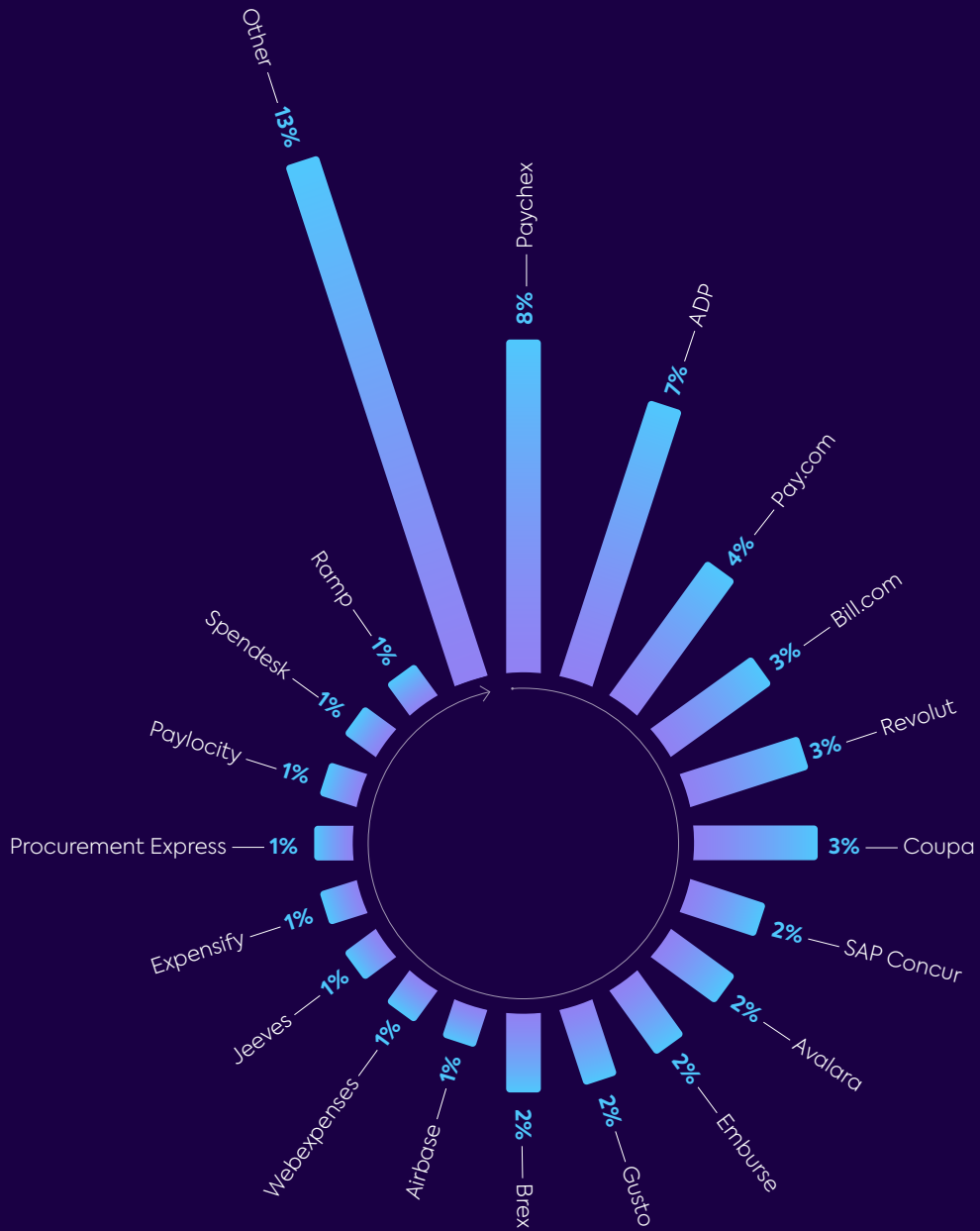
Almost two-fifths (38%) of surveyed SMBs reported that they use specialized software to handle tasks related to outgoing payments—including expenses, payroll, and accounts payable (AP).

However, the software market for these critical workflows is even more split than the accounting landscape, with no provider pulling in a double-digit share among this audience.

The most commonly used software, payroll services platform Paychex, only covers 8% of the total market, with most providers seeing 1% coverage or less.

The most commonly used provider for outgoing payments is a payroll platform with 8% usage among this audience

SMB SOFTWARE MARKET FOR OUTGOING PAYMENTS



Which, if any, of the following systems does your organization currently use to make payments from your company (e.g. expenses, payroll, accounts payable, sales tax, etc.)? Base: All (526)

Key takeaways

1. The SMB software market is currently weighted towards financial packages. This is likely due to the relative importance and time spent managing finances for small businesses.
2. The SMB software market is heavily fragmented. This presents a substantial challenge for companies hoping to add integrations to their systems. Building the 'right' integrations in the 'right' order is key to remaining competitive.
3. To unlock the potential value of the 4.8m micro businesses (under 10 employees), providers need to keep implementation as simple as possible and communicate to non-technical generalists.
4. While cost is undoubtedly a critical factor in purchase decisions, the current tough trading environment has not seen SMBs unplugging their tech stacks. Instead, they are seeking more efficiency to save them time to focus on their businesses.
5. There's a big potential market to create value for SMBs through integrations— it's likely to be a substantial part of the \$7.2tn of value created through embedded financial data. Our data shows that demand will continue to grow as the understanding of what's available (and possible) improves.
6. The data indicates an education gap around the benefit, availability, and ease of integrations. Forward-thinking providers who can close this gap stand to improve their market position considerably.

If you're interested in adding native connectivity to your platform, check out our [complete guide to building accounting and commerce integrations](#)—or [reach out to a member of our team](#) to learn more.

Notes on the methodology

YouGov is a global independent research body, used by organizations from the Financial Times to governments. The survey was carried out online by YouGov between 24th and 29th May 2022. We covered 526 US owners and decision makers in small businesses (up to 500 employees). The data was weighted to the business size data from the US Census Bureau data. All audiences covered in the report have stable base sizes of 50+.

WHO WE SPOKE TO:

Company size

Micro (1-9 employees)	62%
Small (10-99 employees)	36%
Medium (100-500 employees)	2%

Growth

Turnover growing	35%
Staying the same	35%
Turnover declining	28%

Revenues (Net)

Up to \$250,000 (excluding first year of trading)	25%
\$250,000 - \$999,999	16%
1m-4.9m5m+	26%
5m+	10%

Type of company

B2B	37%
B2C (Business to consumer)	36%
Product	26%
Service	52%
Digital first/side hustle	11%
Local	25%
National	18%
International	11%

Company age

Up to 10yrs old	26%
10-20 years	23%
20+ years	50%

Position in company

Founder/Owner: 58%	58%
Other Director: 42%	42%

Responsible for decisions in the following areas

Any Finance/Procurement/ Company Credit Cards	64%
Business Development	63%
Finance/accounting	47%
Marketing	58%
Company Credit Cards	45%
Procurement	33%
IT	34%
HR	34%
eCommerce	39%

Sex

Male	74%
Female	26%

Age

Under 45	18%
45+	82%

Headquartered

North East	23%
Mid West	18%
South	33%
West	26%

End Notes

- ¹ [How can harnessing the power of ecosystems make finance effortless?](#), 2019, EY
- ² [The Number of Firms and Establishments, Employment, and Annual Payroll by State, Industry, and Enterprise Employment Size](#), 2019, NICS
- ³ [Six benefits of automating the financial close](#), 2018, Accounting Age
- ⁴ [New Impact Report shows cloud accounting allowing SMEs to run businesses more efficiently](#), 2018, OBIE



About Codat

Codat is the universal API for business data, providing two-way connectivity to over 30 different accounting, banking, and commerce platforms used by SMBs. Our integrations are standardized to a single data model, so financial software providers can build to Codat once, rather than having to build and maintain a growing number of complex integrations themselves.

To learn more about our platform—and how you can automate tasks like bookkeeping and reconciliation for your SMB customers—contact a member of our team or visit our website.

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