



# Small and medium enterprise development

**S**mall and medium enterprises (SMEs) are the engines that keep cities growing. In the European Union, they account for 99 percent of all enterprises, employ two-thirds of all workers and contribute more than 50 percent of a city's gross value added<sup>1</sup>. In the emerging markets, their value tends to be far higher. No wonder city leaders around the world are making small and medium enterprise development a high priority.

#### Defining the service

Small and medium enterprise (SME) development services are focused on helping new businesses — typically startups — establish and grow their enterprises. Services may include a wide range of activities from the provision of business advice and networking support through to the development of financial and non-financial incentives and investment into supportive resources and/or infrastructure.

#### Topline findings

- The average city spends US\$330,10 per SME consultation.
- The median cost per SME consultation is US\$125,21.
- Spend per consultation ranged from as low as US\$1.16 to US\$1,456.57.
- There is considerable variation in the range of SME development services provided by cities which directly influences cost.

### Efficiency

*Operating and capital cost per SME consultation.* This measure combines reported operating costs and capital costs for SME development services and divides the total by the number of reported consultations.

#### Points to consider

The cost per SME development consultation appears to range quite widely from a low of US\$1.16 to a high of US\$1,456.57. In trying to investigate the outliers associated with these costs, KPMG could only come to the conclusion that the type of service output offered by one city might vary considerably with that of other cities. For example, if a small firm had a telephone conversation about how they might seek financial support from the city, this might count as one consultation. Another city might include an in-depth analysis of the small firm's competition, specialized training on developing business plans, and grant money to raise investment monies. This latter example would clearly not be comparable to the simple telephone conversation but would count as a single interaction in the costing equation. The difference in consultation would clearly account for the difference in costs.

Perhaps one of the biggest disappointments in the study arises when we asked for the change in employment of small and medium size enterprises based on providing this service. Few, if any, cities were able to capture this effectiveness indicator rendering our analysis unable to report a meaningful statistical count for comparison.

While other effectiveness indicators may be more readily available, this statistic is fundamental in answering the question: "Are we making a difference?" Cities need to do more to provide the proof that SME development can be influenced by a city.

A study conducted by KPMG on *magnet cities* — cities that have turned their economy around — suggests that attracting young wealth creators is a guiding principle for success. SME development is the one service a city can offer that supports young wealth creators, but further research is required to understand the constantly evolving needs of these youth.

KPMG was able to capture some wonderful innovations being pursued by cities around the globe and hopes that these innovations make their way into more cities as they struggle to attract new employment and to invigorate economies that may be suffering from the impact of disruptive technologies or the fourth industrial revolution.

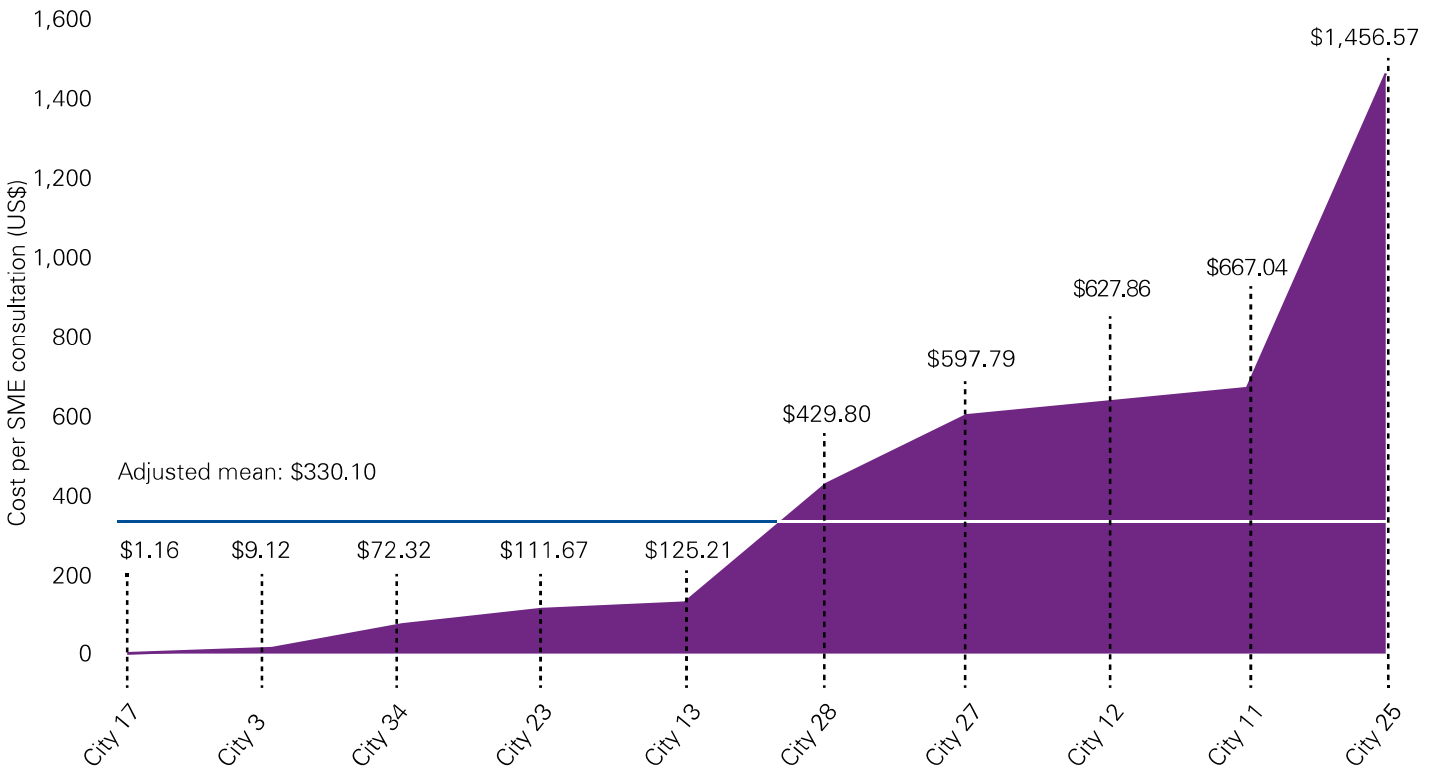
*SME development operating cost per capita.* This reflects the operating costs for SME development services averaged by the city's total population to deliver a 'cost per citizen' view.

SME development is an emerging service in many cities. The per capita spend on this service depends on the degree to which cities are directly supporting SMEs, or not.

Two cities have elected to spend much more, per capita, in SME development. However, it is too soon to tell whether their efforts will result in the desired outcomes — greater employment and more vibrant economy.

<sup>1</sup> "Growing the global economy through SMEs"; Edinbough Group, undated.

**Figure 7: Operating and capital cost per small and medium enterprise (SME) consultation (US\$)**



Adjusted mean = Average of indicators excluding lowest and highest values

## Effectiveness

Interestingly, very few cities participating in our benchmarking exercise seem to measure the annual change in employment created by SMEs. While other measures may be more readily available, this suggests that city leaders may not know the actual impacts of their investments and their influence on employment, tax revenues and service demand.

### Persistent problems

- Coordinating support across multiple service areas
- Removing barriers to entry for startups
- Awareness by the enterprise that the city offers support services
- Increasing SME participation in local economies
- Reducing regulatory hurdles and streamlining processes
- Improving city digital service delivery capabilities
- Encouraging corporate investment into local SMEs

### Distinguishing cost factors

- Sophistication and depth of service offering
- Extent to which financial supports are granted
- Level of private sector investment
- City's investment in SME development service

### Innovative ideas

- SMEs in **Adelaide** enjoy a 'one-stop-shop' window that provides business advice and support to help entrepreneurs start and grow their business and navigate the applicable regulatory processes.
- Authorities in **Kazan** have arranged 'rent holidays' for small businesses, offering relief from rent on municipal properties for up to five years.
- Entrepreneurs in **Poznan** can use Poland's first 'free urban co-working space', a collaborative environment for around 30 people, supported with free Wi-Fi and a 'hot desk' to encourage collaboration while chilling out.
- The City of **Philadelphia** has created the Capital Consortium and Biz Coach programs to help increase investment into small (primarily minority-owned) neighborhood-based businesses. The city has also focused on high school and college students providing them a bridge to the business world through grants and supports.

## Transformative trends

- *Integrating and electronic service delivery:* As part of the wider digital transformation of government, many cities are focused on shifting certain SME development services and processes to digital channels enabled by cloud computing.
- *Encouraging inter-government coordination:* City leaders are working closely with counterparts in regional and national government to improve SME supports such as tax incentives and infrastructure.
- *Evaluating success:* In an effort to improve the effectiveness of services, cities are introducing tools and mechanisms to track client progress following certain interventions.
- *Targeted supports:* City leaders are carefully analyzing the needs of their local SME ecosystem and creating supports that focus on achieving certain policy objectives.

- *Shifting to non-financial:* Facing rising budgetary pressures and widening service expectations, cities are moving away from providing blunt financial supports such as grants in favor of more advisory-based services.

## What else did we measure?

For our benchmarking exercise, we collected a wide variety of data on the effectiveness and efficiency of this service area. The following indicators lacked sufficient data or respondents to illustrate in this report:

- Change in employment of SMEs
- Revenue collected for SME development
- Capital costs for SME development.

# Q&A with Alexey Nazarov, Partner and Head of Strategy and Operations, KPMG in Russia



**Alexey is internationally recognized as a leading advisor on small and medium enterprise (SME) development services. With experience gained from several SME development projects globally, Alexey has received multiple awards for SME program design and development.**

### **Q: Why is SME development high on the city agenda?**

**A:** SMEs are key to a city's prosperity, vibrancy and livability. In most developed markets, SMEs make up almost half of a country's national GDP — and oftentimes more in the emerging markets. They encourage employment, drive innovation and improve competition. And they create important opportunities for individuals to create financial security. All of this is important to city leaders.

### **Q: What types of services should cities be delivering to SMEs?**

**A:** It all depends on the outcomes they want to achieve. If they want to increase the number of SMEs active in the city, they may want to focus on services that reduce the barriers to entry and encourage entrepreneurs. But if the objective is to help existing SMEs grow and expand, the focus should be placed on helping businesses find and attract new sources of capital or new markets.

### **Q: What factors contribute to the wide variance in costs across different cities in our benchmarking exercise?**

**A:** SME development services can encompass such a wide variety of sub-services and offerings, making it notoriously

difficult to benchmark. A consultation can be as simple as a 15-minute telephone call to a shared-services resource. Or it could mean days of face-to-face discussions with highly specialized professionals. You just can't compare the costs on those very different interactions.

### **Q: How are SME development services changing?**

**A:** One of the bigger trends we are seeing is a shift towards greater emphasis on non-financial support for SMEs. So instead of providing grants and loans directly to startups, cities are shifting their focus towards providing which tends to result in better outcomes services that ultimately help entrepreneurs tap into private sources of funding.

### **Q: Are there other stakeholders that can help cities achieve their SME development objectives?**

**A:** Certainly. Creating the right supports and environment for SMEs will require cooperation between all levels of government, particularly around tax incentives and regulation. Banks and investors will also play an important role. So, too, will bigger corporations that are seeking to expand their local supply chain and tap into new innovations.

### **Q: What can city leaders do to improve SME development services?**

**A:** I think the most important thing is to make sure that SME development is part of the core city agenda. Leaders must encourage departments to work together to create a supportive environment for SMEs. They must build relationships with other stakeholders and levels of government. And they must ensure their economic development and SME development professionals have the right capabilities and service portfolio to meet their city objectives.

### **Q: How can cities improve the efficiency and effectiveness of their SME development services?**

**A:** The most important step is to ensure that the services you are providing and the tools you are using are aligned to the outcomes you want to achieve. Moving from financial supports to non-financial services will also help improve the cost effectiveness of services overall. And, of course, the adoption and integration of new technologies — both in the front office and in the back office — will drive further efficiencies, particularly around processes. ■