

Managing an Expansion

Keys to Successful
Business Growth



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SOCIAL NETWORK





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Executive Summary

Few business expansions come without growing pains. Heavier workloads, changing processes, a larger workforce, and unfamiliar regulations in a new market can add complexity to even the best-run company. Growth may be a good problem to have, but it is rarely easy.

To understand the challenges and how successful enterprises are meeting them, SAP Concur and Oxford Economics surveyed 500 finance and IT executives at firms around the world that have undertaken an expansion in the past year. Of those respondents, 350 came from companies with 1,000 or more employees¹—the companies we call enterprises. These larger businesses may have more resources than smaller businesses, but they also contain more moving parts, and they are more likely to have established management and operational practices that an expansion might disrupt. **Although scale has its advantages, it doesn't ease all growing pains.**

We looked at expansions including a move into new geographic territory or industry, a merger or acquisition, a big boost in employee headcount, and a revenue growth spurt of 15% or more. Our research shows that most growing enterprises think their business could benefit from a tighter focus on spending. Importantly, we also found that **when cost control and efficiency are important factors in planning an expansion, companies encounter fewer**

obstacles—not just in spending-related areas, but also in terms of corporate culture and employee satisfaction.

In some cases, we found, enterprises struggle after an expansion more than smaller businesses do. They are more likely to have trouble updating risk management and compliance, adjusting their leadership structure, and dealing with more data as they add scale. And they are more likely to report challenges with the additional expense reports, supplier invoices, and administrative issues that come with growth. However, we also found that a majority of enterprises have automated more processes since they expanded, suggesting efficiency is an important driver of many growth initiatives.

Regardless of expansion type or company size, we found that having visibility into spending and paying careful attention to cash flow are pillars of successful growth. Global enterprises that anticipate their spending needs can more easily avoid the growing pains of expansion, no matter how complex and far-flung their organization may be.

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¹ For complete study demographics and methodology, please see page 9.

The Growth Imperative: Why Enterprises Expand

When asked to rank their top three reasons for expanding, enterprises differ from small and medium businesses (SMBs). While companies of all sizes expanded to achieve greater efficiency and meet competition in their industry, enterprises most often say they did so to capture new customers (see Fig. 1). In North America, nearly half of enterprise respondents (49%) name this as a top-three reason for expanding. By contrast, SMBs most often wanted to improve the customer experience.

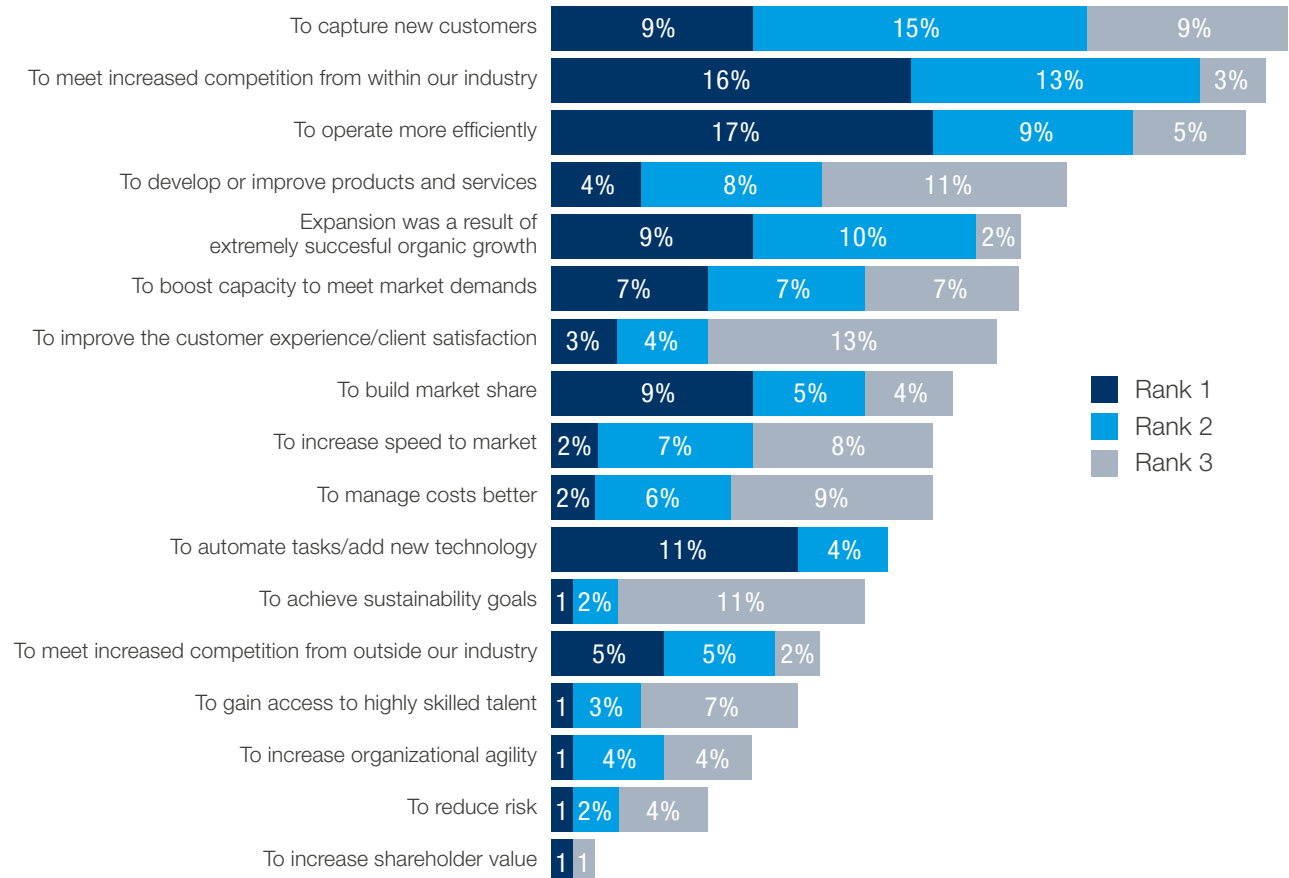
Enterprises are also more likely than smaller companies to say their expansion resulted from extremely successful organic growth. And they are more likely to say they wanted to build market share. Notably, 48% of enterprise companies moved into a new geography, compared with 39% of SMBs. These results suggest that **when large companies expand, they have figured out their formula for success**. For them, growth is about scaling up a business that's working well.

Nearly all our survey respondents are confident about how their company is managing expansion, and relatively few say they went over budget during the process. Yet for all their confidence, enterprises feel they could do better: **81% say they would benefit from focusing more on efficiency and cost control**. That percentage, which is closely consistent across global regions, drops to 50% among respondents that expanded into a new industry. But it ticks up to 87% among enterprises that expanded through M&A or by significantly increasing headcount. For many growing companies, there are opportunities to wring more value out of their expansion by improving cost control.

It is not surprising that so many businesses prioritize spending and efficiency when they expand. Clear visibility into costs throughout the organization can

Fig. 1: Enterprises pursue growth to scale success

What were the top reasons your company underwent its recent expansion?



boost performance by limiting waste and redundancy before they happen. Process automation helps free up executives and their teams to focus on strategy, customer satisfaction, and other critical areas. And a bird’s-eye view of spending can improve agility and responsiveness, allowing the organization to quickly funnel resources where they are needed.

Our survey results show that **cost-consciousness can greatly affect an expansion’s success**. When we asked executives to rate the importance of spending and cash flow in their decision to expand, dramatic differences emerged between those who answered “very important” or “somewhat important” — we call these the cost-conscious respondents — and those who answered “not very important” or “not at all important” (see Fig. 2). According to our results, cost-conscious enterprises are predominant in Asia-Pacific, where 80% say cash flow and spending factored strongly in their expansion decisions, and among companies expanding through M&A (93%).

Not surprisingly, we find the biggest gap in post-expansion performance between cost-conscious enterprises and others when it comes to visibility into spending across the organization, where only 22% of cost-conscious respondents have difficulty compared with 74% of the others. But a focus on costs seems to improve performance in non-spending-related areas as well. For example, 62% of non-cost-conscious enterprises say they have difficulty reacting quickly when the business hits a roadblock, vs. 28% of cost-conscious enterprises. And siloed business units are more likely to be a problem at enterprises where costs were not important during expansion decision-making.

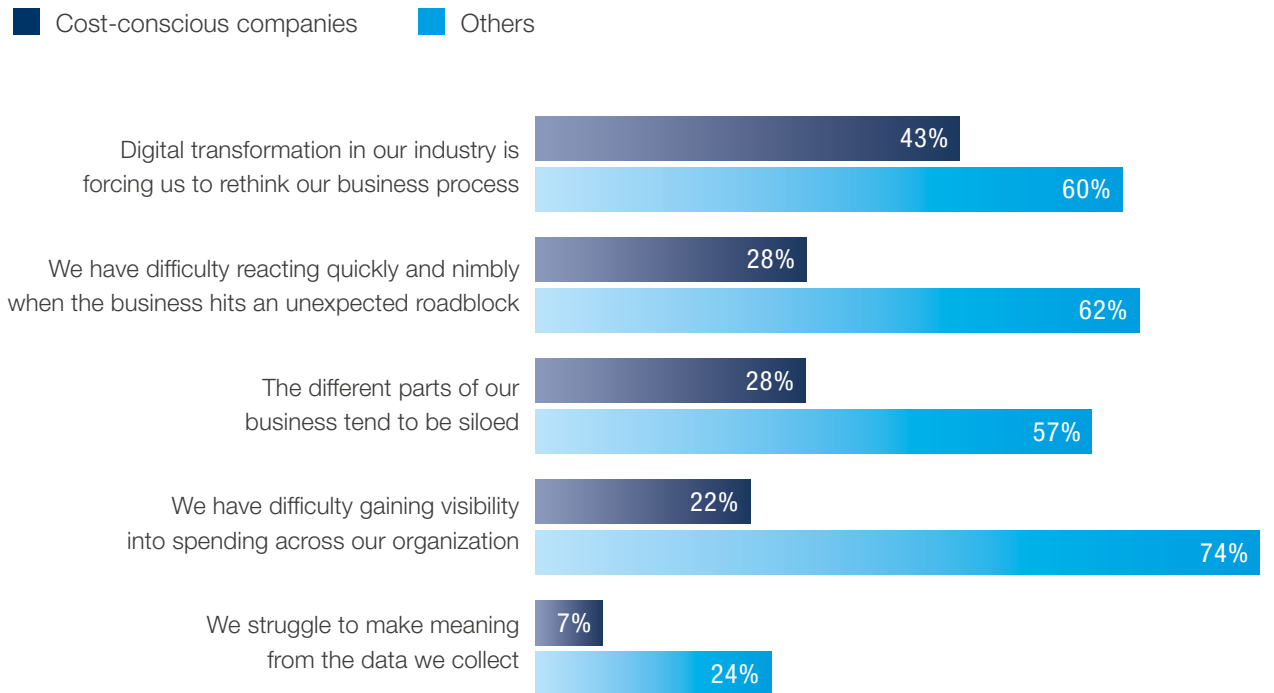
As we shall see, some aspects of a growth spurt are even more difficult for large companies than for smaller ones. In addition, enterprises in particular global regions find certain processes and activities especially challenging. Our research indicates that attention to cash flow during the planning stage of an expansion can mitigate these problems.

A focus on costs seems to improve performance in non-spending-related areas as well.

Fig. 2: How cost-conscious planning affects expansion

To what extent do you agree with the following statements about your company’s operations since your expansion?

(“Agree” and “strongly agree” responses)



Where Size Helps—and Where It Can Hurt

Scale can work to a company’s advantage during an expansion—larger businesses simply have more resources to allocate. When we asked executives what has changed since they launched their growth initiative, many indicate they are spending more time on a broad range of activities, from planning strategy to managing employees. They are also gathering more information, collecting more data, and using more metrics to monitor performance and employee satisfaction. However, as Fig. 3 shows, workloads have grown somewhat less at enterprises than at SMBs.

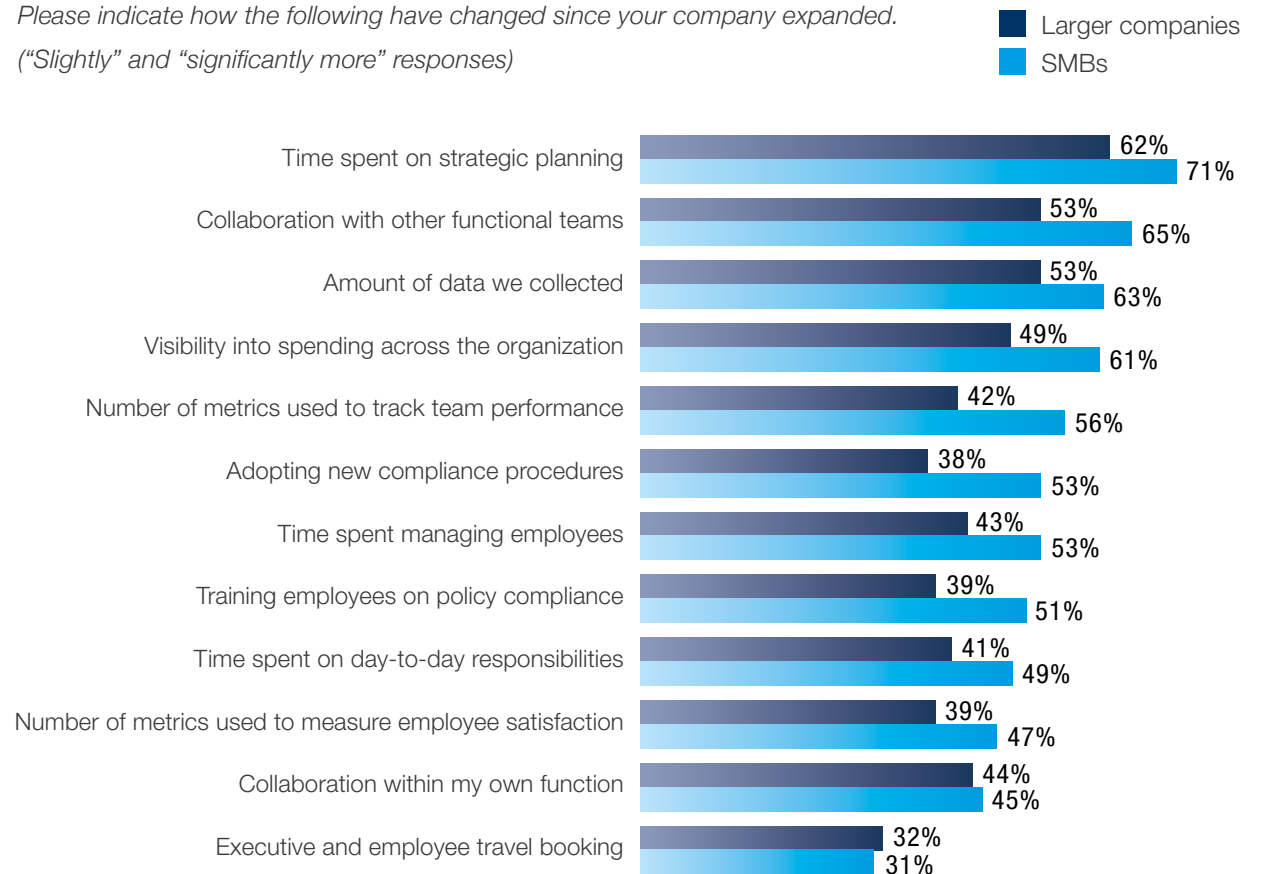
Interestingly, for nearly every item we asked about, **IT executives are more likely than finance respondents to say the activity is more time-consuming since the expansion.** For example, 61% of IT executives say they are collecting more data, compared with 50% of finance executives and 53% of enterprise respondents overall. Perhaps because IT is a cross-functional team that gets involved with every aspect of a large business, an expansion’s impact on the IT workload is more obvious.

While size can be a plus in handling additional tasks and data, scale can also multiply challenges. Enterprises are significantly more likely than SMBs to find a wide variety of processes and activities “very challenging” or “extremely challenging” after an expansion (see Fig. 4). Dealing with more supplier invoices (a problem for 24% of enterprises, vs. 13% of SMBs), maintaining employee satisfaction (26% vs. 15%), and maintaining corporate culture (25% vs. 15%) present markedly more challenges for growing enterprises.

The good news is that for enterprises overall, none of these response rates is sky-high. But we found considerable differences among the three major global regions. **European enterprises are significantly more likely than North American or Asian respondents to say *all* these processes and**

Fig. 3: Workloads and data grow with the business

Please indicate how the following have changed since your company expanded. (“Slightly” and “significantly more” responses)



activities have been very or extremely challenging since they expanded. For instance, 36% of Europe-based enterprises report challenges with adjusting their leadership structure, compared with 23% of those in Asia-Pacific and just 16% in North America. And 31% of European enterprises have trouble finding and hiring the right talent after expanding, vs. 20% of those in Asia and just 11% of those in North America.

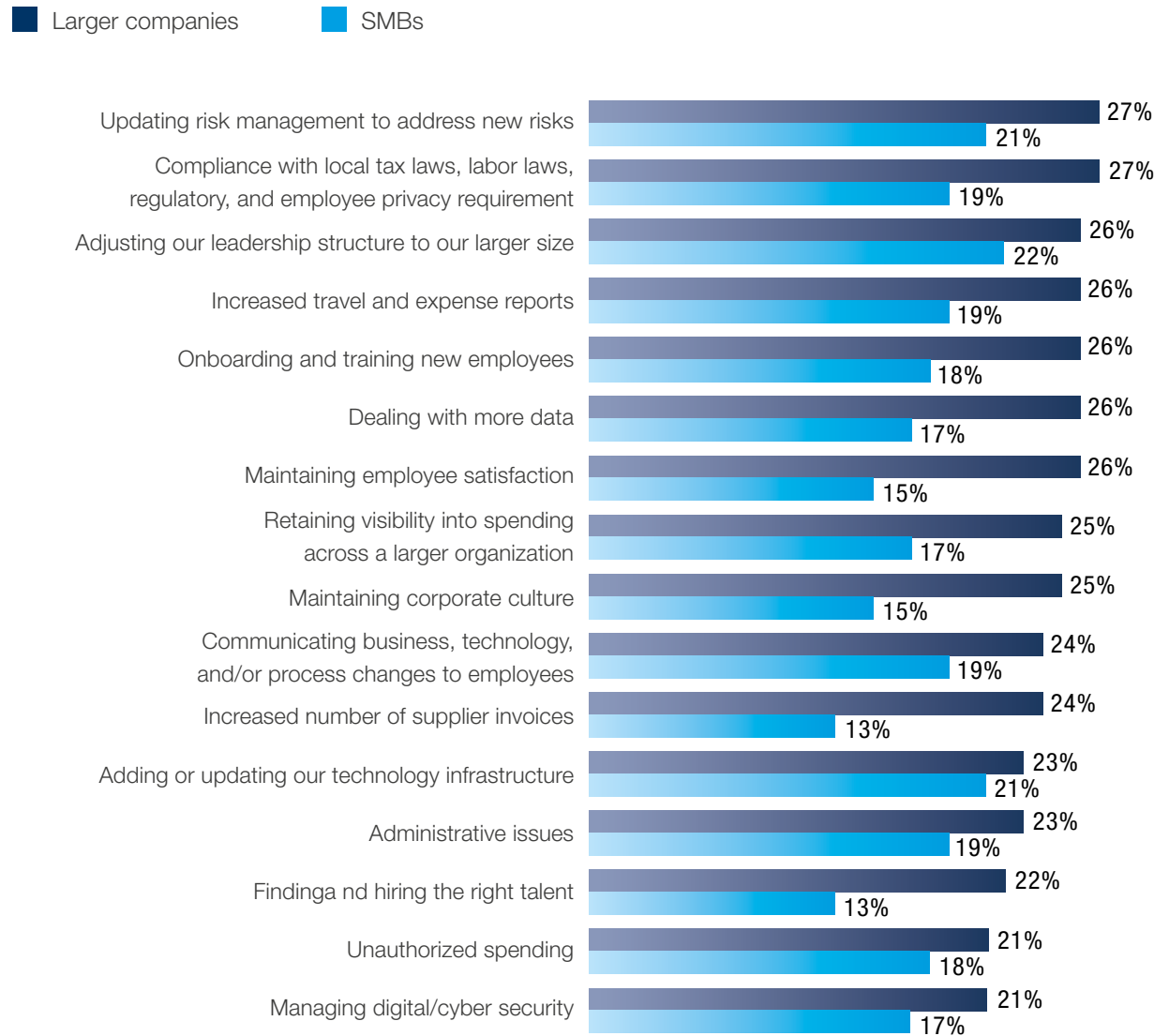
European enterprises appear to struggle more after an expansion in other ways as well. For example, internal collaboration is more problematic for large companies in Europe, where 47% say business units tend to be siloed, than in North America, where only 18% do. Half of European enterprises say they have difficulty gaining visibility into spending across the organization since their expansion, vs. 32% of enterprises in Asia and 21% of those in North America. And 53% of enterprises in Europe say they have difficulty reacting nimbly when the business hits a sudden roadblock, compared with 32% in Asia-Pacific and 20% in North America.

It's worth noting that in our survey universe, Europe has the biggest concentration of enterprises with more than 10,000 employees: 45% of European enterprises are that large, vs. 35% of those in Asia and 29% of those in North America. Their sheer size may explain why nimble reactions, visibility into spending, and poor collaboration tend to be more of a problem for enterprises in Europe. But also noteworthy is that European enterprises are far less likely than their counterparts in other regions to fall into the "cost-conscious" planning group.

Perhaps, at extremely large organizations like our Europeans companies with global headcount of 10,000 or more, cost control generally takes a lower priority. But as we will see, it can make a big difference in an expansion.

Fig. 4: Size can multiply expansion challenges

How challenging have the following processes and activities been since your organization expanded? ("Very" and "extremely challenging" responses)



The Power Of Efficiency

One would expect that a laissez-faire attitude toward cash flow during the planning stages of an expansion might lead to difficulties in spending-related areas later. Indeed, according to our research, enterprises for whom cash flow and spending were “not very important” or “not important at all” when they decided to expand do report far more challenges than respondents for whom cash flow was “very important” or “extremely important” (see Fig. 5).

Fig. 5: A cost-conscious approach to expansion pays off

How challenging have the following processes and activities been since your organization expanded?
 (“Very” and “extremely challenging” responses)



More than half (52%) of non-cost-conscious enterprises say increased travel and expense (T&E) reports became very or extremely challenging after they expanded, compared with just 17% of the cost-conscious. And 41% of the non-cost-conscious had trouble with increased supplier invoices, vs. 19% of others.

Remarkably, however, challenges popped up in processes and activities not directly related to spending, too. We find some of the biggest differences between the cost-conscious and others in compliance, dealing with more data, and hiring the right talent. **Even maintaining corporate culture after an expansion is more than twice as likely to be challenging for an enterprise that didn't consider spending and cash flow important during the planning phase.**

Why should cost-consciousness have an impact on outcomes like corporate culture or finding skilled employees? One possible explanation is that if cash flow and spending are not important factors during initial decision-making, an enterprise is more likely to face unexpected costs that could affect the bottom line and threaten the expansion's success. Surprises like this will understandably distract senior management's attention from other, non-spending-related areas; executives who need to solve budget problems have less time for strategy, risk management, and workforce issues. Arguably, every part of the business may suffer if cash flow gets short shrift.

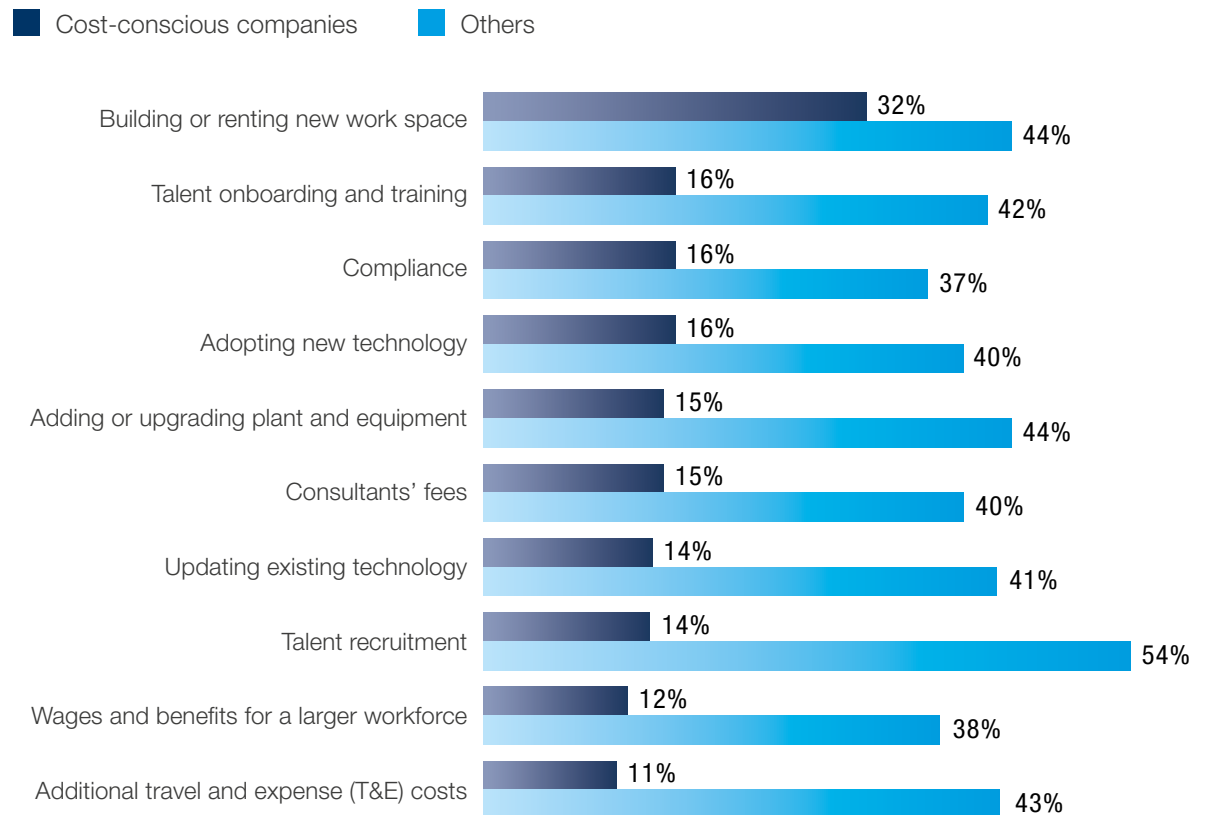
And not surprisingly, expansion costs are much more likely to go over budget at enterprises where spending was not important in early decision-making (see Fig. 5). The starkest example is in talent recruitment, where more than half of non-cost-conscious companies go over budget during an

expansion, compared with just 14% of companies that prioritized cash flow. Costs for talent onboarding and training, consultants' fees, additional T&E, and technology updates are many times more likely to go over budget for the non-cost-conscious. Furthermore, companies that did not make cash flow a priority during the planning phase are less likely

In talent recruitment, more than half of non-cost-conscious companies go over budget during an expansion, compared with just 14% of companies that prioritized cash flow.

Fig. 6: Cost overruns soar when cash flow isn't prioritized

How closely did the following expansion costs align with your budget? ("Significantly" and "somewhat over budget" responses)



to say they have visibility into spending after their expansion, and less likely to say they have thorough control over spending. It's no wonder that a lack of cash flow planning results in more expansion challenges across the organization.

We also found that finance executives at European enterprises are more likely to report challenges, which is consistent with other responses from the region. For example, while 92% of North American finance executives and 81% of those in Asia-Pacific say they have thorough control over costs, 78% of European finance executives do. And just 58% of finance professionals at European enterprises say the finance function was a critical strategic partner in planning the expansion, compared with 77% in Asia and 67% in North America. Again, these results could reflect the high concentration of very large organizations in Europe whose size makes spending visibility and control more difficult.

There is no question that for many enterprises, **finance tasks proliferate after an expansion**. About half of finance executives report spending more time on day-to-day tasks like expense report processing (53%), cash flow or spending management (53%), and financial planning and analysis (50%). Nearly that many spend more time on T&E management (46%), payroll (45%), and vendor invoice processing (43%). Interestingly, these percentages are somewhat higher among North American finance executives. The extra time these executives are putting into their jobs may partially explain why enterprises in that region encounter fewer post-expansion challenges.

The technology function, too, tends to work harder after an expansion. **Two-thirds of IT executives say they are spending more time on process innovation**, and nearly as many are devoting additional hours to making tech investment decisions, exploring emerging technologies, and automating existing processes.

Among respondents that adopt new digital tools after an expansion, nearly a quarter (24%) invest in artificial intelligence. And 48% say they are investing in cloud applications. This suggests **IT executives are prioritizing efficiency and collaboration as their companies grow**. Indeed, most large global organizations report excellent internal collaboration: 94% say their CEO or equivalent collaborates “seamlessly” or “effectively” with other business units; 92% say their finance function collaborates well; and 79% say IT does a good job of collaboration.

Interestingly, 53% of enterprises on average say collaboration between their different functional units got even better when they expanded—but we found dramatic variations by region. While 66% of North American and Asia-Pacific respondents say internal collaboration improved, a scant 30% of European respondents do. Again, this may be because the very large size of European enterprises in our sample makes collaboration more difficult. But like the European respondents' relative lack of attention to cash flow and spending while planning for growth, sub-optimal internal collaboration after an expansion may in part explain why enterprises in the region encounter more challenges across the board.

The extra time North American executives are putting into their jobs may partially explain why enterprises in that region encounter fewer post-expansion challenges.

Conclusion and Recommendations

Far from being immune to growing pains, large global enterprises often struggle harder than smaller companies to manage the challenges of expansion. Their scale and complexity can make the consequences of a growth initiative—more data, more invoices, and more administration—difficult to handle. Flexibility and responsiveness when the business hits an obstacle are tougher for big companies: it's easier to turn around a tugboat than a battleship.

Our research shows that an early focus on spending visibility and cost control when planning for expansion greatly improves the likelihood of success. From daily chores to top-down strategy after an expansion, management challenges are far less intense for cost-conscious enterprises. Attention to spending in the planning stages shrinks the likelihood that growth initiatives will incur cost overruns and mitigates problems in almost every area, from workforce issues to risk and compliance.

To maximize the chances of success when undertaking an enterprise expansion, we recommend:

- **Emphasize cash flow early.** Enterprises that make spending an important factor in their expansion decisions encounter dramatically fewer challenges. While cost-consciousness should not necessarily be the sole consideration when expanding, better awareness of cash flow can prevent unexpected difficulties and costs.
- **Facilitate internal collaboration.** Effective collaboration contributes to better performance after an expansion. In enterprises where individual business units tend to be siloed,

consider investing in cloud-based technologies that encourage better data sharing and communication. The IT and finance functions, especially, must understand their internal stakeholders' needs and introduce innovations that will ease collaboration in a larger, more complex enterprise.

- **Focus on cost visibility and efficiency.** When data on spending across the organization can be easily accessed, organized, and analyzed, executives gain insights that help them boost efficiency. Spending visibility also makes the enterprise more agile, as leaders can quickly reallocate resources in response to market shifts.
- **Consider automating spend management processes.** Freeing employees from rote finance tasks allows them to do more value-added work. Automation can also help the finance function handle larger post-expansion workloads without adding headcount.

Study methodology and demographics

In early 2019, SAP Concur and Oxford Economics used computer-assisted telephone interviews to survey 500 senior executives at companies having undergone an expansion during the previous year. Among these respondents, 350 work at companies with 1,000 or more employees. These organizations, which we call enterprises, are the focus of this paper.

Of the 350 enterprises, 47% employ 1,000 to 4,999 people worldwide; 15% have 5,000 to 9,999 employees; and 37% have more than 10,000. One-third post annual revenues of \$1 billion to \$5 billion; one-third have revenues above \$5 billion; and a quarter have annual revenues of less than \$500 million.

Industries surveyed included financial services, consumer products, professional services, aerospace and defense, automotive, chemicals, construction and engineering, healthcare, technology, industrial manufacturing, life sciences, logistics, media and entertainment, oil and gas, public sector, retail (including restaurants), telecom, travel and transportation, utilities and waste and non-profit. Except for retail respondents, which made up 13% of the total, no industry group accounted for more than 10% of the enterprise population.

Enterprise respondents were located in the US (13%), Canada (12%), the UK (13%), Germany and France (12% each), China and Japan (12% each), and Australia (13%).

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