Forecast Analysis: Small and Midsize Business IT Spending, Worldwide

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Initiatives: Technology Market Essentials

Small and midsize business IT spending will show a recovery of 4% growth in 2021 in constant dollars after a decline in 2020. The spending will accelerate in the next five years with a 6.1% CAGR. North America will recover quickly while combined China, Taiwan and Hong Kong will lead the growth.

Overview

Forecast Assumptions

- Small and midsize businesses (SMBs) in North America will feel more optimistic about economic stability as the vaccination rollout will be in progress throughout 2021.
- The fastest economic recovery in China will lead the worldwide SMB IT spending growth in both near and long terms.
- Software spending will be the fastest-growing segment across all technology segments throughout the forecast period, driven by digital transformation.

Market Impacts

- Worldwide SMBs' IT spending will see a recovery of 4.0% in 2021 in constant currency, after the spending declined by 4.4% in 2020. North America is expected to show a rapid recovery by posting 4.8% yearly growth in 2021 after a 4.7% decline in 2020. The region's spending will increase at a 6.9% compound annual growth rate (CAGR) between 2020 and 2025.
- The combination of China, Taiwan and Hong Kong was the only region where 2020 spending did not decline. The region will continue to lead the worldwide SMB spending with a 7.9% CAGR between 2020 and 2025, the fastest five-year CAGR compared to all other regions.
- The software segment will be the fastest technology segment in the SMB market, growing at a 10.5% five-year CAGR. Software spending will account for almost one-third of the SMB spending by 2025, compared to 27% in 2021.

Notable Changes
The decline of SMBs’ IT spending in 2020 was less steep than projected in our 4Q20 iteration. As a result, SMB IT spending growth in 2021 has been lowered slightly from 4.7% in our 4Q20 iteration to 4.0% in the 1Q21 update. The worldwide SMB spending will accelerate in the next five years at a 6.1% CAGR.

Spending growth on devices in 2021 increased compared to the 2021 growth in our 4Q20 iteration, reflecting the continuous device demand from remote work and online education.

Software spending in 2021 is also increased in this iteration from the 4Q20 iteration, influenced by ongoing digital transformation demand.

**Notable Changes on Exchange Rates**

Gartner updated the constant currency regime to a new base year of 2020. Data reported in constant currency now uses the 2020 U.S. dollar exchange rates as the base value (2020 as base year) to convert other currencies, instead of the 2013 exchange rates as the base value (2013 as base year) used in previous iterations.

The change of base year will better present the overall market growth opportunity, by eliminating the effect from historical exchange rate fluctuations between the U.S. dollar and other currencies. This will impact the data level in constant currency for many countries when compared with prior publications. Spending/revenue in constant currency now will be closer to the data in the U.S. dollar. This can result in changes in growth rates at higher levels of aggregation, such as regions or the worldwide total. The change of base year causes the relative weight changes for individual countries within the regional aggregate.

Gartner also updated the currency basket for “Rest of Middle East and North Africa” and “Rest of Sub-Saharan Africa.” Their values are revised to link with only the U.S. dollar instead of both the U.S. dollar and euro.

For the current currency regime that reports data in U.S. dollars, the same methodology is used as before. Gartner exchange rates are updated each quarter, corresponding with the publishing cycle of Market Share, Forecast and Forecast Analysis documents.

**Forecast Data Summary**

Figure 1 shows SMB IT spending by region in constant U.S. dollars. Table 1 shows the SMB IT spending forecast in millions of constant U.S. dollars.
Figure 1: SMB IT Spending by Region (in Constant U.S. Dollars)

SMB IT Spending by Region

Source: Gartner (May 2021)
Footnote: Bubble size represents 2021 SMB IT spending.
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### Forecast Model Summary

The pandemic impacted SMBs’ IT spending significantly, showing a 4.4% decline in constant currency in 2020, though the decline was less steep than our expectation of 5.2% in 4Q20 iteration. The less-steeper-than-expected decline was because of unplanned IT expenses and the positive impact from COVID-19 relief programs for SMBs in key regions. Many businesses had to change their business model and operations quickly in order to be more suitable to the new business environment. They also needed to build new digital infrastructure very quickly for remote work and online businesses. At the same time, the governments in certain countries issued funding to support SMBs. For example, the U.S. government’s payment protection plan covers salaries for SMB employees.

Still, SMBs are very cautious in their spending since the pandemic continues to drive uncertainty in the economy. The SMBs’ spending will recover modestly in 2021, expecting 4% growth compared to 2020.
The speed of recovery will be slower than the recovery in the large-enterprise market, expecting 5.9% spending growth in 2021.

Midsize business will see a faster recovery pace compared to small business and small office/home office. This is in part because midsize business has more financial strength to go through the tough business environment, while small business usually does not have the strength to survive in a longer period. According to Gartner’s small business comeback survey in January 2021, more than 80% of U.S. SMB leaders do not think the business will last more than one year under current conditions stemming from the COVID-19 crisis. As a result of the pandemic, a large number of small businesses will continue to close throughout 2021. If we extrapolate that to other regions and considering that many countries are still undergoing some form of lockdown over a year after the pandemic was declared, it is fair to assume that small businesses closing will be a common situation globally. Figure 2 shows the SMB IT spending market model.
Influencing Factors and Assumptions

Macroeconomy Change

The macroeconomic environment is one of the core influencing factors for SMBs’ IT spending. The condition worsened in 2020 due to the pandemic, but there are signs of recovery across many regions, which will continue to improve in the next 12 to 18 months.
Forecast Assumption: SMBs in North America will feel more optimistic about economic stability as the vaccination rollout will be in progress throughout 2021.

As the vaccination rollout has progressed in North America, the overall economic outlook has improved. Many businesses have reopened, which will continue throughout 2021. In addition, massive stimulus funding has been issued from the federal, state and local governments, as well as organizations such as the local chambers of commerce. There are still uncertainties for the unseen future, but SMBs feel more optimistic about the overall economy, whereas the general consensus on the business environment was much more negative during 2020. In North America. GDP growth in 2021 is expected to go up by 4.0%, which was raised from our previous forecast of 3.7% growth, according to Gartner’s 1Q21 macroeconomics update. Consumer spending in the U.S. market increased in March 2020, signaling a good sign of economic recovery. In 2021, SMBs’ IT spending in North America will increase by 4.8% compared to 2020, when the spending declined by 4.7%.

Forecast Assumption: The fastest economic recovery in China will lead the worldwide SMB IT spending growth in both the near and long terms.

The combination of China, Taiwan and Hong Kong was the only region where SMB IT spending did not decline in 2020 despite the pandemic. China’s economy sustained well during the middle of the pandemic as the country’s lockdown only lasted one month early in 2020. Toward the end of 2020, China’s economy showed the fastest recovery among all regions, which has continued in 2021. As a result, SMBs’ IT spending in China, Taiwan and Hong Kong grew by 2.4% while the overall SMB spending in the worldwide market was down by 4.4%. China’s economic strength will continue in 2021, which will boost the SMBs’ IT spending in the combined region with 7.3% growth compared to 4.4% growth in the world. With the kickstart of a faster economic recovery, the combined regions will continue to lead the worldwide SMB spending throughout the forecast period with a 7.9% CAGR between 2020 and 2025.

**Technology Adoption and Usage Change**

SMBs’ technology adoption and changes in technology usage impact the SMBs’ IT spending. The pandemic has changed SMBs’ operations and business model, which requires them to buy new technologies.

**Forecast Assumption: Software spending will be the fastest-growing segment across all technology segments throughout the forecast period, driven by digital transformation.**

The pandemic has forced many SMBs to alternate their spending to unexpected items from planned items in order to be more suitable in the new business environment. Many switched their businesses from physical locations to online and quickly built infrastructure for remote work. These changes increased spending on software for items such as collaboration, online meetings and virtual private networks. For instance, 62% of U.S. small businesses recently adopted videoconference software in response to COVID-19 in 2020, according to Gartner’s small business comeback survey. As the overall economy shows more signs of recovery in 2021, this spending will continue as digital-driven business
models and operations will become more permanent than temporary. Even after the office is fully open, there will be an increasing number of SMBs running their operations in hybrid models between on-site and remote work. SMBs in the retail industry will continue to operate an omnichannel of on-site and vertical business. Software spending will play a key role in these changes, new business models and operations. SMBs’ software spending will grow at a 10.5% CAGR in the next five years, the fastest growth among all technology segments.

Evidence
Gartner Digital Market Small Business Comeback Survey

Gartner conducted a survey in January 2021 of 527 U.S. SMB owners and executives to learn more about the decisions that small businesses made in reaction to COVID-19. Respondents were screened for business size between two and 500 employees.

Document Revision History
Forecast Analysis: Small and Midsize Business IT Spending, Worldwide - 18 February 2021
Forecast Analysis: Small and Midsize Business IT Spending, Worldwide - 3 November 2020
Forecast Analysis: Small and Midsize Business IT Spending, Worldwide - 3 June 2020
Forecast Overview: Small-and-Midsize-Business IT Spending, Worldwide, 2018 - 30 May 2018

Recommended by the Authors
Forecast: Small and Midsize Business IT Spending, Worldwide, 2019-2025, 1Q21 Update
Forecast Analysis: Remote Work IT Spending, Worldwide
Forecast: Enterprise IT Spending by Vertical Industry Market, Worldwide, 2019-2025, 1Q21 Update
Target Small Businesses More Effectively With a Business Life Cycle Based Go-to-Market Strategy
Business Life-Cycle-Based Segmentation Can Give You a Deeper Understanding of Small Business IT Buying Behavior
Target Small Businesses During COVID-19 to Build Strong Brand Loyalty for the Long Run
Market Definitions and Methodology: Small and Midsize Business IT Spending
Table 1: SMB IT Spending Forecast (in Millions of Constant U.S. Dollars)

<table>
<thead>
<tr>
<th>Region</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>CAGR</th>
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<tbody>
<tr>
<td>North America</td>
<td>430,602</td>
<td>451,313</td>
<td>480,252</td>
<td>511,773</td>
<td>552,319</td>
<td>599,730</td>
<td>6.9%</td>
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<td>Western Europe</td>
<td>235,274</td>
<td>241,178</td>
<td>254,656</td>
<td>269,771</td>
<td>286,158</td>
<td>304,329</td>
<td>5.3%</td>
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<tr>
<td>Mature Asia/Pacific</td>
<td>128,314</td>
<td>130,297</td>
<td>135,258</td>
<td>141,468</td>
<td>148,041</td>
<td>155,730</td>
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<tr>
<td>Combined China, Taiwan and Hong Kong</td>
<td>100,516</td>
<td>107,881</td>
<td>117,092</td>
<td>126,773</td>
<td>136,613</td>
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<tr>
<td>Other</td>
<td>128,453</td>
<td>133,378</td>
<td>141,061</td>
<td>150,320</td>
<td>159,259</td>
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<tr>
<td>Grand Total</td>
<td>1,023,159</td>
<td>1,064,047</td>
<td>1,128,320</td>
<td>1,200,104</td>
<td>1,282,389</td>
<td>1,375,581</td>
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</tbody>
</table>

Growth Rate

<table>
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<tr>
<th>Region</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
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<td>4.8%</td>
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<td>6.6%</td>
<td>7.9%</td>
<td>8.6%</td>
<td>6.9%</td>
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<td>Western Europe</td>
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<td>2.5%</td>
<td>5.6%</td>
<td>5.9%</td>
<td>6.1%</td>
<td>6.4%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Mature Asia/Pacific</td>
<td>-4.3%</td>
<td>1.5%</td>
<td>3.8%</td>
<td>4.6%</td>
<td>4.6%</td>
<td>5.2%</td>
<td>3.9%</td>
</tr>
<tr>
<td>China, Taiwan and Hong Kong</td>
<td>2.4%</td>
<td>7.3%</td>
<td>8.5%</td>
<td>8.3%</td>
<td>7.8%</td>
<td>7.4%</td>
<td>7.9%</td>
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<tr>
<td>Other</td>
<td>-3.8%</td>
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<td>5.8%</td>
<td>6.6%</td>
<td>5.9%</td>
<td>6.2%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>-4.4%</td>
<td>4.0%</td>
<td>6.0%</td>
<td>6.4%</td>
<td>6.9%</td>
<td>7.3%</td>
<td>6.1%</td>
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<td>1Q21 Update</td>
<td>1,023,159</td>
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<td>1,128,320</td>
<td>1,200,104</td>
<td>1,282,389</td>
<td>1,375,581</td>
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<td>4Q20 Update</td>
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<td>-12.3%</td>
<td>-12.5%</td>
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Source: Gartner (May 2021)