



# CURRENTS

DigitalOcean's report on how startups and small-to-medium businesses are faring today



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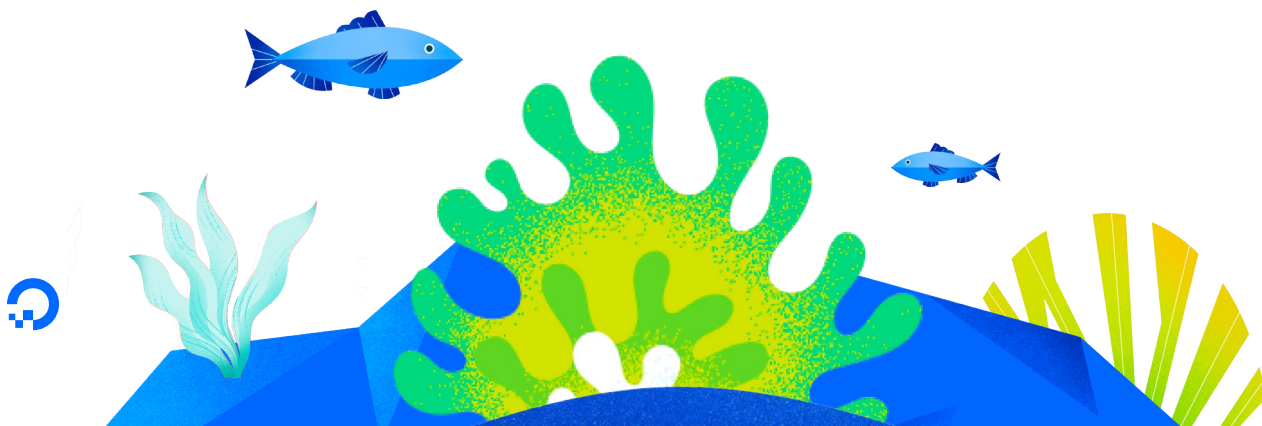
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**In our latest edition of Currents, DigitalOcean's regular research report, we examined how startups and SMBs are faring today.** With an impending recession and regular news of layoffs and spending cuts throughout the technology industry, we wanted to find out how startup founders and small business executives are really feeling. How negatively is the economy impacting them, and what are their priorities going into 2023? What opportunities do they see for the future, and how are they planning to future-proof their businesses?

We examined these topics, along with other areas that are top-of-mind for businesses today, including security threats, cost of technology, funding concerns, and cloud migration. To get a pulse on these items, we surveyed a targeted group of founders, CEOs, and executives at startups and small businesses across several industries, with a focus on those building digital solutions. The below results are based on completed responses from **554 respondents, 70% of whom identify as CEO, founder, or owners, and 23% who identify as CTOs.**



## Here's what we found:

### Small businesses are feeling the economic slowdown, but remain optimistic about the future:

31% of SMB respondents say the economy has had no impact on their business, while 15% say it has impacted them positively. The optimism extends to their revenue opportunities, with 48% saying their business is performing better now than this time last year. Sixty-three percent feel positive about the outlook for 2023; seventy-nine percent feel positive about the next three years.

### Investing in technology helps drive efficiency and future-proof businesses:

Eighty-four percent of companies believe that investing in technology will help them prepare their businesses for the future, including investments in automation/self-service (53%), cloud computing (41%), and managed services (32%). Respondents say these technology investments provide increased efficiency (67%) and cost savings (47%).

### Businesses are struggling with cloud migration:

Half of businesses have migrated cloud providers, with 49% of those who have migrated saying the process was very or somewhat difficult, and 85% saying they might consider migrating if the process was easier. Costs are the main driving factor for both those who have migrated (65%) and those who haven't migrated cloud providers in the past (70%).

While it's clear that small businesses are not immune to the wider economic trends today, founders and CEOs remain cautiously optimistic about the future of their businesses. They understand that technology can help them streamline operations and future-proof their organizations — and they're willing to make the investments necessary to make that happen. They are looking for cost-effective technology solutions that will meet their needs, while also increasing efficiencies within their business.

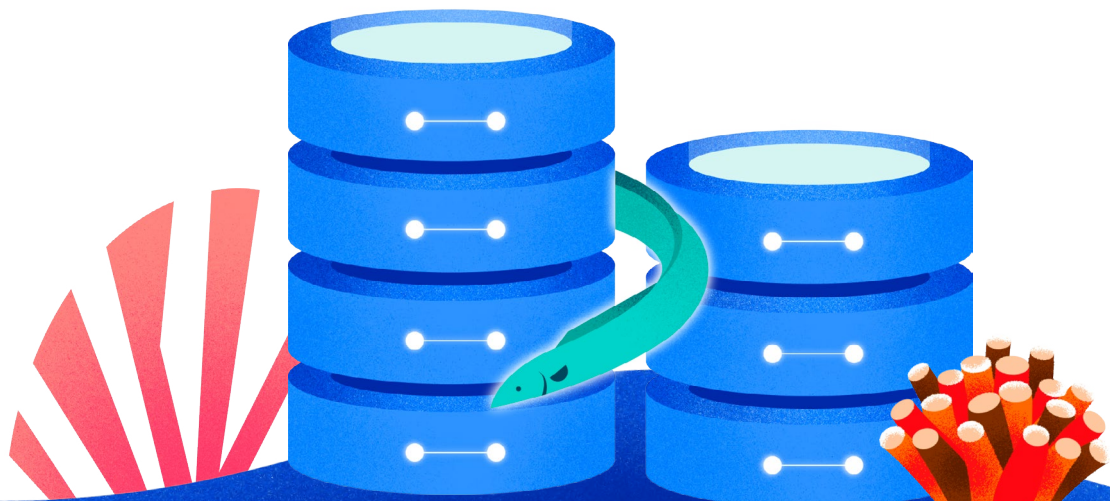
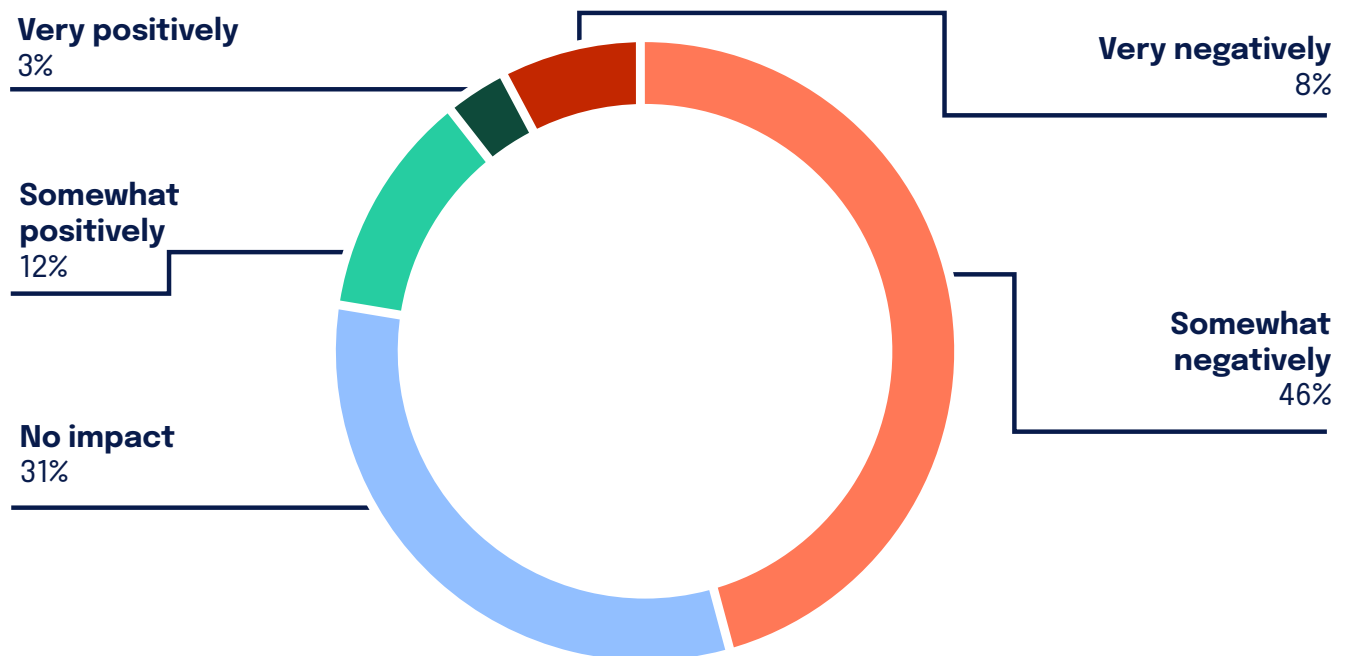
**Read on for the full findings from this edition of Currents.**



## Economic outlook and biggest challenges

While economic uncertainty has been a large headline over the past few months and small businesses are feeling the impacts of that, they also have optimism over the future. Just 20% say that 'economic uncertainty' is their top challenge today, with an additional 16% citing meeting revenue targets as their top challenge. Eleven percent cited ensuring technology solutions meet the needs of customers was their top challenge, and 9% said hiring was their biggest challenge. When asked specifically about how the economy has impacted their business, 46% say 'somewhat negatively', but 31% say there has been 'no impact', and 15% say the economic situation has actually been positive for them.

### How has the current economic situation impacted your business?

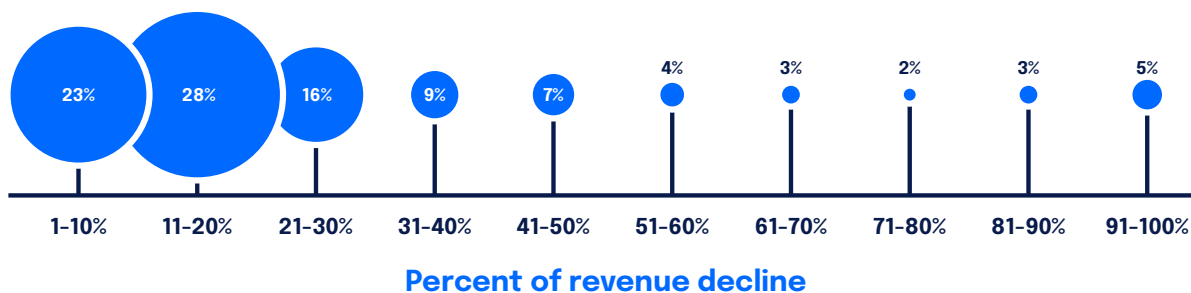




In addition, a third (31%) say that their business is performing about the same as this time last year, while 35% say it's performing somewhat better and 13% say it's performing much better, with only 4% and 16% saying their business is performing much worse or somewhat worse, respectively. Looking at specific revenue impacts, while 44% say they have seen revenue growth slow in 2022, the majority (51%) have only seen growth slow by 20% or less.

When comparing business performance in the past year by organization size, we found that sole proprietor businesses were most hard hit – 28% of these businesses said they were performing 'somewhat worse', and they were also less likely to say they were performing somewhat better (25%) or much better (7%) than larger businesses.

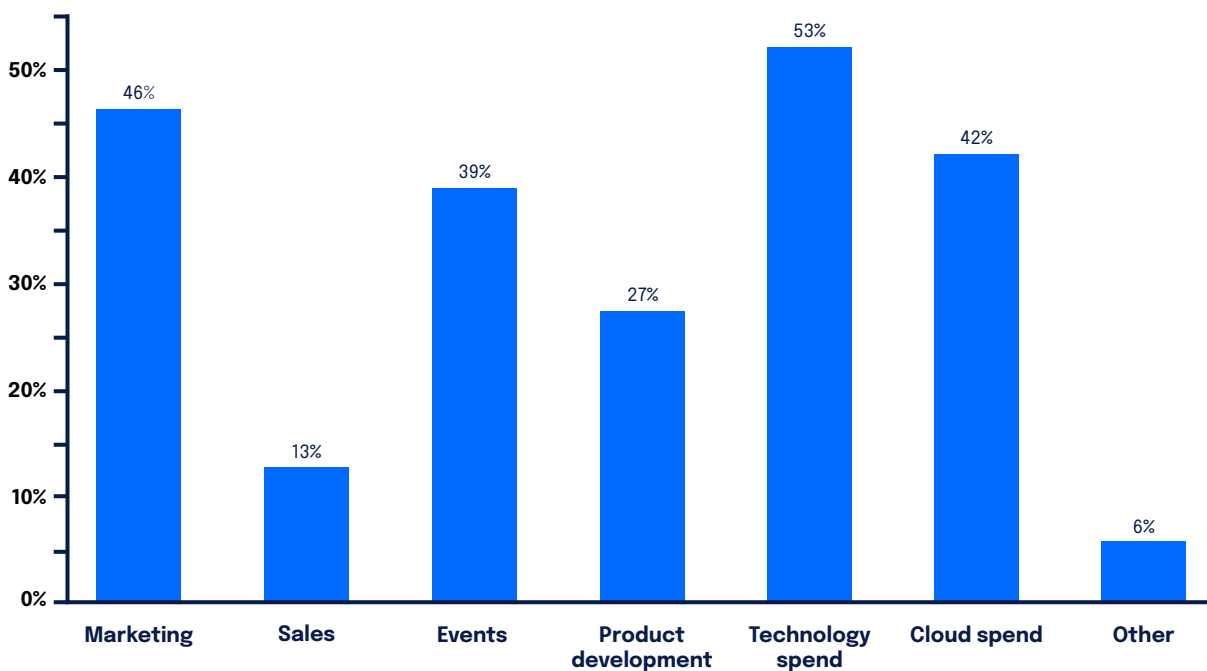
## How much has your revenue growth slowed in 2022?



Looking at changes businesses are making, 37% say they have cut back spending, 21% have raised prices, and 24% have made changes to their products/services, however 26% have not made any changes. Of those who haven't made changes, 48% say they definitely or probably won't need to make any changes in the next 6 months.

Of the businesses cutting spending, we found that the top areas of spend cut back include technology spend (53%), marketing (46%), and cloud spend (42%).

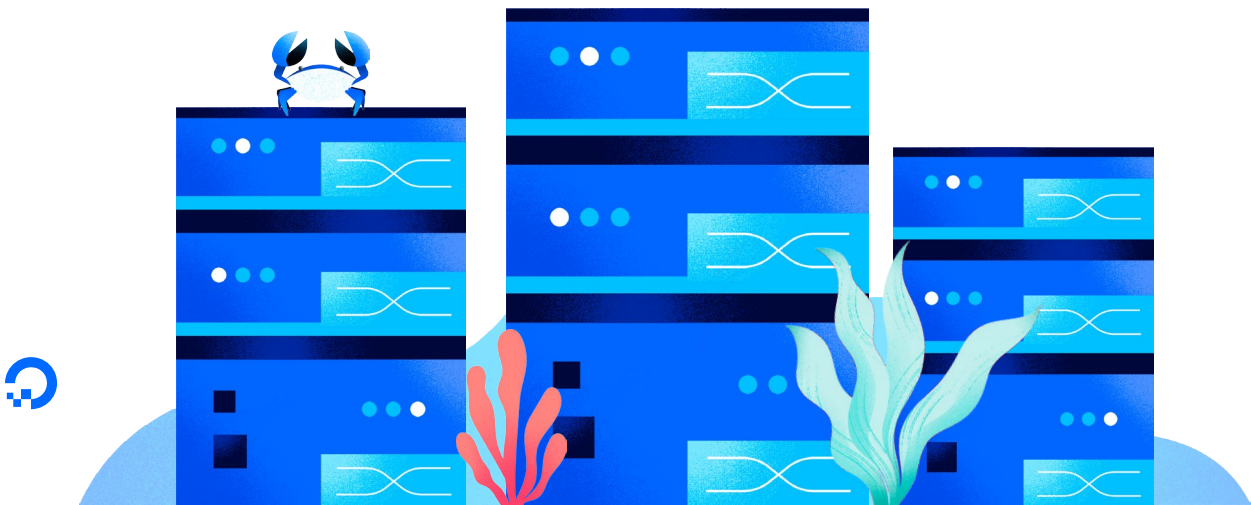
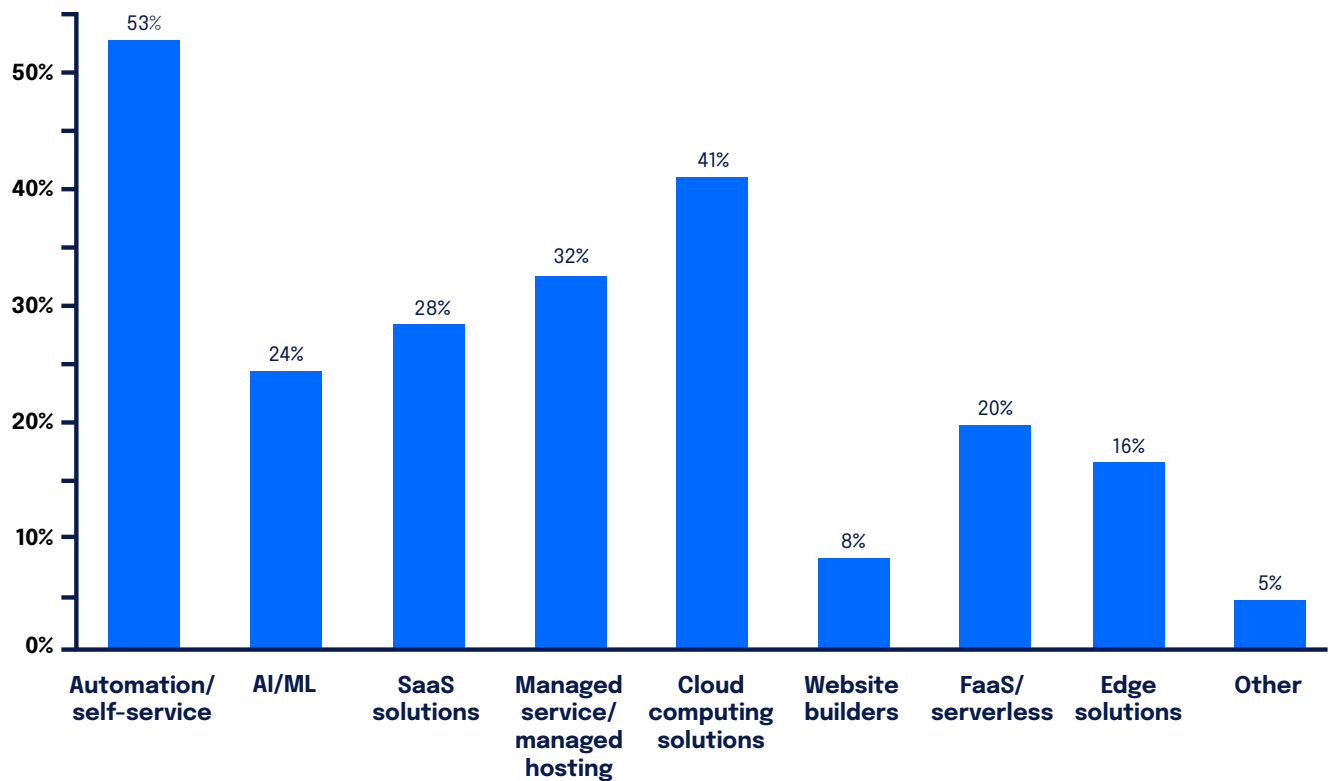
## What areas has your business cut back spending in?



While these findings demonstrate the need for small businesses to optimize their technology, marketing, and cloud spend, we also see that startups and small businesses across industries look to technologies to future-proof their businesses and increase efficiencies.

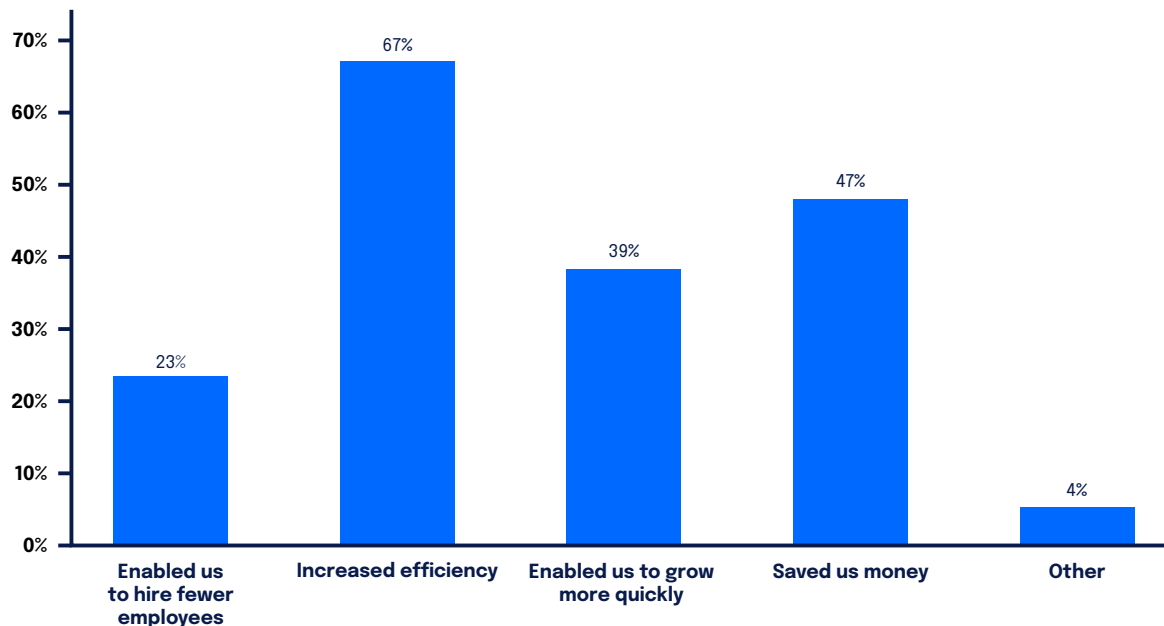
Eighty-four percent believe that investing in the right technology helps future-proof their business. The technologies small businesses are looking to invest in include automation/self-service technology solutions (53%), public cloud services (41%), and managed services or managed hosting (32%). Businesses of all sizes are in agreement that technology is vital to future-proofing their businesses – there were no statistically significant differences seen by company size.

## What kinds of technology are you investing in/do you plan to invest in to future-proof your business?



In addition, of the 43% who say technology has positively impacted their revenue or costs in the past year, 67% cite increased efficiency, 47% say technology has saved them money, 39% say it's enabled them to grow more quickly, and 23% say they have been able to hire fewer employees.

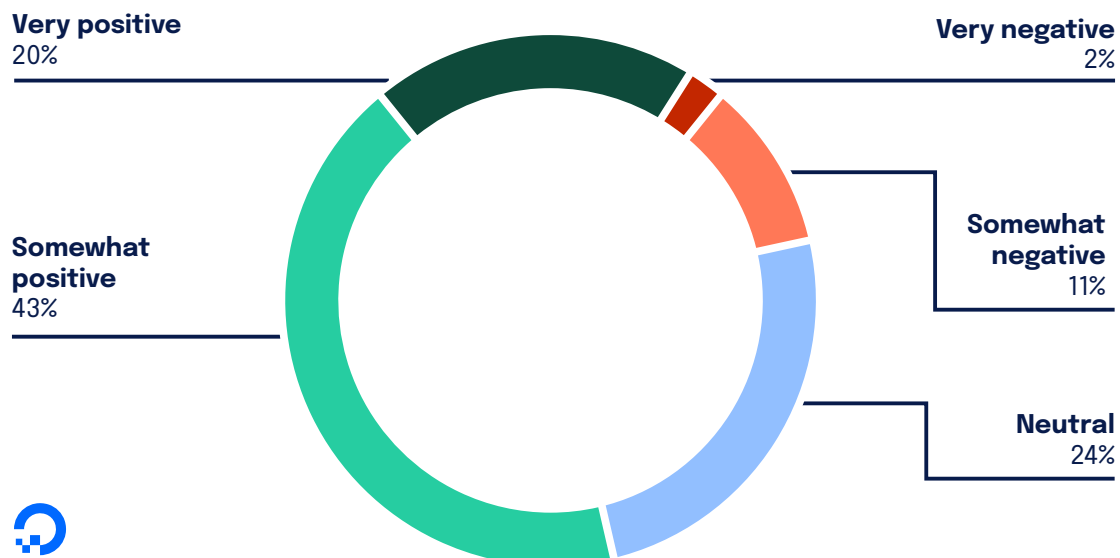
### How has investment in technology positively impacted your business's revenue and/or costs?



### Future optimism and short fundraising delays

Looking ahead to 2023 and beyond, we find that startups and small businesses feel positive about their future: 63% say their business outlook is somewhat or very positive for 2023, and 79% have a positive outlook for the next 3 years, with only 5% saying they feel their business outlook for the next 3 years is negative. Similarly to earlier questions regarding economic impact, sole proprietors were slightly less optimistic about 2023 – 51% said they feel somewhat or very positive, while 64% of businesses with 2-9 employees and 69% of those with 10-24 employees feel positive about 2023.

### What does the outlook for your business look like in 2023?





When asked to cite specific opportunity areas for their businesses in the next year, many cited product improvements, market possibilities, new customer acquisition, and leveraging technology to improve their business:

### What is your biggest opportunity area in the next year?

"Leverage tech to increase business output"

"Augmenting our stack with cloud services to replace what we would normally code ourselves"

"Streamline businesses using new tech and opportunities"

"New market possibilities as we extend our product"

"New markets and customer growth"

"Automation of manual processes"

There has been speculation around the funding landscape for startups in recent months, and many have been advised to delay new funding. Overall, 23% are planning to raise funds in the next 6 months, and 29% have delayed raising new funds. Of those who have delayed fundraising, 42% believe they will only delay fundraising for 12 months or less, and an additional 27% believe they will delay fundraising for 12-24 months.



**42%** of those who have delayed raising funds anticipate the delay to last **less than a year**, while **27%** believe they will delay raising funds for **12-24** months.

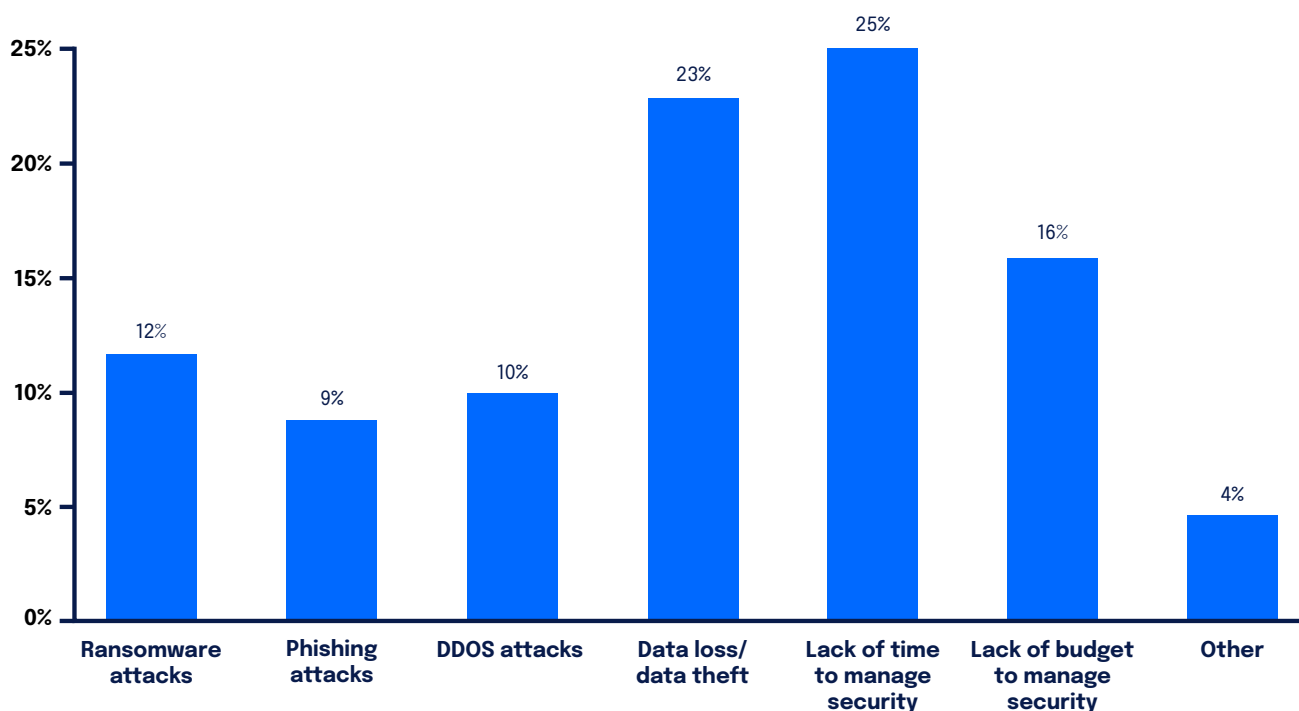


## Security continues to be top concern

With reports of phishing and cyber-attacks on the rise, we also wanted to understand how startups and small businesses are thinking about security risks and priorities as they move into 2023. We found that lack of time to manage security is the number one concern amongst small-to-medium sized businesses, cited by a quarter of respondents. Data loss events/data theft was the second most cited concern, at 23%, followed by a lack of budget to manage security.

Interestingly, businesses with more employees were more likely to cite that 'lack of time to manage security' was their top concern, while those with fewer employees were more likely to mention budget as a concern, indicating that businesses with more employees may also have more competing priorities that cut into their time dedicated to security.

### Looking ahead to 2023, what is your biggest concern related to security?



Compared to this time a year ago, a majority (54%) say they are more concerned about cyber security now, though only 8% reported experiencing a security breach in the past year.



**54% of respondents are more concerned about cyber security now than one year ago.**



## Technology challenges and cloud usage

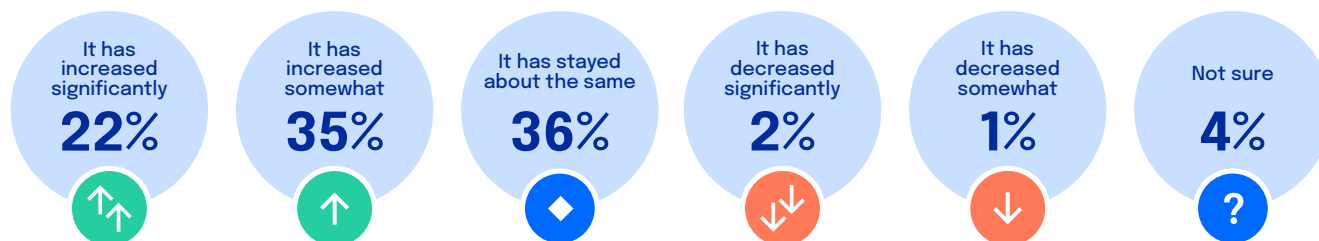
Economic uncertainty has meant that small businesses are prioritizing cost savings throughout their technology stack, and we found that cost of services was the largest challenge related to technology businesses facing businesses today, as mentioned by 20% of respondents. Finding the tools to meet their needs and the time needed to maintain services were also common challenges, each mentioned by 16% of respondents. While challenges were fairly evenly spread across company size, unsurprisingly we found that companies with more employees were more likely to state that hiring was the biggest challenges facing them today.

For most businesses, spend on both cloud infrastructure and technology solutions in general has gone up in the past year: 47% say their cloud spend has somewhat increased and 14% say it has significantly increased, while 53% and 9% respectively say their overall technology spend has somewhat or significantly increased.

Larger businesses have found that their technology and cloud spend has increased more than smaller companies, likely due to larger overall technology spend—while just 7% of sole proprietor businesses say their cloud spend has significantly increased, 14% of businesses with 2-9 employees, 15% of those with 10-24 employees, and 23% of those with 25-49 employees say the same.

Reliance on cloud solutions has also increased in the past year, with 57% saying their usage of cloud solutions has gone up in the past year, and just 3% saying their usage has decreased. This finding demonstrates continued reliance on cloud solutions, as our last Currents report found that 65% of respondents had increased their reliance on cloud since the start of the COVID-19 pandemic.

### How has your businesses reliance on cloud solutions, including cloud infrastructure services, software as a service solution, and private cloud solutions, changed in the last year?



Multi-cloud usage also continues to be popular amongst respondents – 49% say they use a multi-cloud setup, compared to 46% of cloud-native businesses who reported using multiple clouds in our 2021 survey. Most multi-cloud users are leveraging two (38%) or three (40%) different cloud providers in their setups. Multi-cloud use is common even for very small businesses – about half (48%) of sole proprietors are using a multi-cloud model.



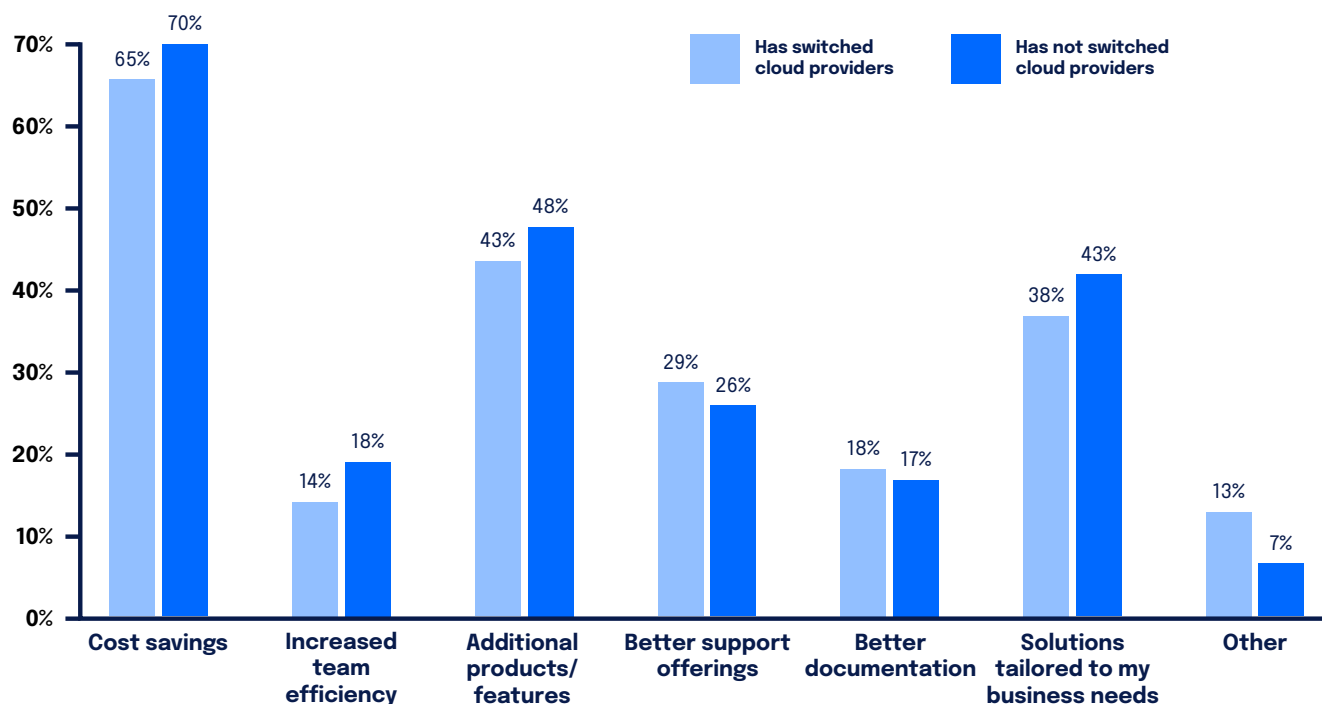
## Cloud migration

With cloud and technology spend going up for most businesses, migrating cloud providers is one area that startups and small businesses may look to in order to reduce costs. However, cloud migration itself can be a time-consuming task, especially for small businesses who may need outsourced help to migrate. We found that half of respondents have migrated their cloud infrastructure in the past, with 37% saying the experience was somewhat difficult and 12% stating it was very difficult.

While 77% of those who haven't migrated are satisfied with their current cloud provider, 9% say they do not have the time to migrate, and 4% don't have the resources to migrate. Eighty-five percent say that they might consider migrating if the process was easier, and this was true for companies of all sizes.

Cost savings is the top driver for cloud migration for both those who have migrated in the past (70%), and those who have not migrated (65%). Other drivers for migrating cloud providers are additional products/features, and solutions tailored to their business needs.

### What motivated you or would motivate you to switch cloud providers?



## Conclusion

While economic uncertainty is likely to continue for the coming months, in this edition of Currents we found that startups and SMBs are feeling optimistic about the future. As large technology companies conduct layoffs, smaller businesses are looking to technology to optimize their costs, and some even see opportunities related to the current environment. Those businesses that can stay nimble and invest in the right technologies for them will experience streamlined operations and cost efficiencies that will stay with them even as they scale.

## Methodology

This survey was conducted through an online survey link from October 18th to November 7th, 2022, and garnered 554 completed responses. The link was distributed to various sample sources, including DigitalOcean email lists, Cloudways email lists, and tech founder groups. Seventy percent of the respondents were CEO/founder/owners, 23% were CTOs, and the remainder were C-Level or VP-level executives.

Respondents represent 76 countries, with 27% being in the United States, 8% in the UK, 5% in India, 5% in Germany, and 5% in Canada. The questionnaire was developed by DigitalOcean and was distributed via link through email and social media channels to both DigitalOcean customers and non-customers. Respondents came from a range of digital industries, with 37% being in the software/Software as a Service, 19% technology consulting, 6% marketing/advertising, 4% eCommerce, and 6% other technology industries.

The gender breakdown was 90% male, 4% female, 1% non-binary, 1% who self-describe, and 4% who preferred not to say their gender. Respondents represent a range of ages: 3% were aged 18-24, 24% were aged 25-34, 36% were 35-44, 22% aged 45-54, 10% aged 55-64, and 4% 65 and older.





# About DigitalOcean

**DigitalOcean simplifies cloud computing so developers and businesses can spend more time building software that changes the world.** With its mission-critical infrastructure and fully managed offering, DigitalOcean helps developers, startups, and small- and medium-sized businesses (SMBs) rapidly build, deploy, and scale applications to accelerate innovation and increase productivity and agility. DigitalOcean combines the power of simplicity, community, open source, and customer support so customers can spend less time managing their infrastructure and more time building innovative applications that drive business growth.

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