

Why SMB expense management is a magnet for investors

Article

News roundup: Last week, a slew of corporate expense management fintechs across the globe announced new funding rounds and partnerships that will support geographic expansion and product development.

- The Copenhagen-based corporate expense management fintech **Pleo** reported that it **raised \$200 million in a Series C round**. The new **unicorn** nearly tripled its valuation to **\$4.7 billion**.

- The US-based corporate expense management fintech **Rho**, founded in 2018, **raised \$75 million in a Series B round** led by Dragoneer Investment Group. This adds up to **a total of \$205 million in equity and debt financing**.
- The Norway-based expense management app developer **Sonya** said that it will **partner** with Swedish impact technology provider **Doconomy** to offer a complete overview of the environmental impact of corporate activities—along with the more usual employee expense management and accounting.

What's the appeal? All three firms target the red-hot small and mid-sized business (SMB) market for corporate card and expense management tools.

Demand is high for these tools: **Mastercard** reported that **travel and expense (T&E) costs** are usually an organization's second-highest operating expense, right behind payroll. Companies also say they're the second-most-difficult cost to **control**. That's why streamlining and modernizing T&E management is part of optimizing back-office operations at many businesses.

Expense management fintechs have shifted the focus beyond simply reducing the cost of processing expenses. They're now actively managing employee spending habits and integrating company policies into the decision-making process for travel and other expenses.

What's the opportunity?

- After a pandemic-induced pause, business travel is on the mend: The 2021 Global Business Travel Association's BTI Outlook released last month projects that **global business travel spending will surge during 2022** and fully recover by 2024 with **\$1.4 trillion in spending**.
- McKinsey expects SMBs will likely increase corporate travel at **much faster rates** due to their relatively informal travel approval processes. This, it says, is "likely to trigger a domino effect where one company's resumption of business trips will catalyze its rivals' return to work-related travel."
- In the UK and the US, **36% of businesses said they planned to upgrade their spend management and expense controls**, **according to** a recent report by PYMNTS.
- Only 41% of **SMBs** with fewer than 50 employees use a cloud-based expense solution. Accordingly, IDC expects **demand for cloud-based expense management software to grow at a CAGR of 11.2%**.

What's next?

While the SMB market opportunity is enormous and still attracting new entrants with innovative solutions, it's already drawn the interest of larger players.

- **Revolut** offers expense management as part of its targeting small businesses.
- **Tide** plans to add expense management next year.
- **Brex** became a decacorn by offering a corporate credit card alongside financial management tools like expense tracking.
- Credit card and accounting fintech **Ramp** reached a **\$3.9 billion** valuation in August.
- Corporate travel startup **TripAction** reached a **\$7.25 billion** valuation after doubling down on expense management solutions.

When this crowded market starts to consolidate, we expect differentiating features—like Sony's T&E environmental impact reviews—will help expense management players stand out from the pack.

Areas Where US SMBs Have Shifted Online, Jan 2021

% of respondents



Note: businesses had fewer than 500 employees

Source: Localogy, "Modern Commerce Monitor: Wave 6.1," March 18, 2021

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