



Market Review

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Redefining the SMB Market

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Most vendor initiatives — new products and services, industry changes, market segmentations — focus on the enterprise customer. The SMB segment, conventionally small and mid-sized businesses, was originally more of an afterthought where products were denuded of features and placed in smaller footprints in order to lower their price. Not surprisingly, most vendors did not achieve the success they hoped for with this approach. Sageza believes there certain behaviors that describe and segment buyers more effectively than do often deceptive demographics. The type of IT organization that a customer has both influences and reflects the technology choices customers make. SMB announcements in the past have focused on price and size. However, we see an evolution to solutions focused on ease of install, use, and management, often through better integration of existing and new technologies, and sometimes even targeted toward specific industries or their role in the supply chain.

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The SMB space is growing by all accounts, but few vendors have truly found the success they seek in this space. As with art, most vendor salespeople know an SMB when they see one, but there isn't always agreement on definition of the segment. Depending on the vendor and the market space, definitions of SMB are often created based on revenue; the number of employees, locations, or networked PCs; or in some cases even on the number of phone lines. However, such demographics rarely tell a complete story and Sageza believes a more accurate segmentation of companies would be behaviorally based. In this document we will describe the behavioral measurements that we believe more efficiently segment companies large and small as well as how this new perspective would lead to more effective sales and marketing and product offerings that more targeted to customer needs.

Will the Real SMB Please Stand Up?

Most vendor initiatives — new products and services, industry changes, market segmentations — focus on the enterprise customer. The SMB segment, conventionally small and mid-sized businesses, was originally more of an afterthought where products were denuded of features and placed in smaller footprints in order to lower their price. Not surprisingly, most vendors did not achieve the success they hoped for with this approach. First and foremost, there are few if any companies out there that think of themselves as SMBs even though most businesses in Europe and North America *are* small or mid-sized. Second, regardless of size, most organizations need IT for reasons that align closer to vertical behavior than company size; size affects the scale of the technology needed rather than the actual feature requirements. Finally, SMB as a category is too broad to properly address all needs. A company with 75 employees functions very differently than one with 200 employees yet both would be considered SMBs by most vendors and would be targeted almost identically with SMB-oriented marketing programs.

Behavior as Segment Yardstick

Sageza believes there certain behaviors that describe and segment buyers more effectively than do often deceptive demographics. There are two main behavioral differences that affect IT purchases resulting from how a business organizes IT and how it purchases products. Large enterprises have very different and specialized approaches to their IT departments, and they usually have more complex processes for purchasing in comparison to their smaller counterparts. These differences significantly affect how vendors must approach and sell to companies. Should vendors align their offerings based on these two behavioral areas, their products would line up much more closely to customer needs rather than to inaccurate technology scaling (simple-to-complex, and small-to-highly-scalable.) Those needs exist, but they should be viewed within a behavioral context rather than within a demographic context. In other words it is an oversimplification to say that small companies want simple small products and large companies want large complex products. Thus our prescriptions are meant to act as general guidelines, with the understanding that they are not absolutes. Some small companies will purchase more like mid-market organizations, and some mid-market organizations will behave more like large organizations. Likewise, we believe it is a rare case where a company behaves like an organization that is smaller in size.

IT Organization

The type of IT organization that a customer has both influences and reflects the technology choices customers make. Typically, a small organization will have either no IT department at all, or a limited one. The person responsible for IT either will have other non-IT responsibilities within the organization, thereby limiting the amount of time he can devote to IT, or he will be responsible for all

technology and will have a generalist's knowledge of IT that lacks great depth. This person is likely to get information from a hobbyist or consumer perspective and may have more limited interaction with industry peers. This person probably does not use IT services or outsourcers, but might turn to another, smaller generalist partner for assistance with anything beyond the generalist's knowledge or for maintenance and repair. From a business process viewpoint, processes are likely to be more informal or de facto than formalized. Generally this person has developed processes that work for him although he may not think of them as formal business processes. Most of the knowledge is within his head. For these customers ease of use and ease of management are as important as low cost. They need solutions that can be purchased easily and installed easily or with help from the reseller, and they generally want basic support included. Their environments are for the most part straightforward but may require some advanced features. They will use technology as part of their business where it makes sense, e.g., financial, accounting, or sales and marketing, but rarely use technology simply for technology's sake. These organizations may adapt other technologies as required by their vertical industry or through partner arrangements, otherwise they are rarely leading-edge technology adapters. They will wait until deployment is well-established and standardized within their industry. Lastly, and perhaps of most importance from a sales and marketing perspective, the organization's IT individual must be personally comfortable with the technology as he will be the primary user or solely responsible for it within the organization.

Mid-market companies function somewhat differently. Normally, they have an IT department, although it is usually staffed by only one or a few people, without significant specialization in work function. If there is differentiation, it is probably between infrastructure and applications. And if there is work specialization, there is likely one shared budget for all IT expenditures. These companies, like their smaller counterparts, prefer solutions that are easy to install and use, and they may also be users of the traditional entry-level or department-oriented versions of enterprise products. From a process viewpoint, they have likely standardized where there is shared work (i.e., "this is how we do things here.") Individuals are often likely to take their own approach within their own areas of responsibility. Mid-market companies will often adopt technologies that can help them appear bigger to the market than they really are and will turn to partners for help with these projects. They may also want help from partners in enabling new or more complex technologies and are more willing to use leading-edge, not-yet-standardized or newly standardized technologies if doing so can boost their competitiveness or provide access to new markets. The limitation of mid-market businesses is that usually there is one champion or user of a technology and mid-market technology choices can be vulnerable to staff changes.

Purchasing Behavior

How a company purchases or acquires goods and services is also affected by company size. Small companies will tend to have a less formal purchasing process than their larger counterparts. Typically only one or two people will have purchasing authority, usually the company officers. Purchasing decisions will be made by that group with the guidance of the IT person, if there is one. Discussions that focus on business value rather than technology will be more effective in this environment. Additionally, customers will expect simplified, straightforward, and predictable pricing.

Recent Examples of Small and Mid-market Differentiation

Mid-market companies generally will have a finance department as well as an IT department. Sometimes the IT department will report up to finance. If the company is growing, then they will look for pricing that gives them flexibility and the ability to change and expand as they grow. They will want to invest in new technologies that allow them to grow their investment and risk as their company grows and that help them balance the risk of taking on a new technology. They will have more formalized purchasing processes, particularly if they are part of a supply chain, but they will be fairly straightforward in comparison to large companies, and they will probably have more flexibility in creating contracts. However, if they are part of a supply chain, they may be interdependent with or dependent upon their partners as well.

Although vendors don't often describe SMBs with behavioral characteristics, they are taking the steps to acknowledge that small and mid-market companies are different and deserve tailored solutions. Cisco and Microsoft are two companies who have recently announced products that broaden their range from broad-brush SMB to solutions tailored for small business and mid-market enterprises.

Cisco recently launched its Business Communications Solutions (BCS) for small and mid-market companies. There are two base versions of BCS: one targeted for small businesses and the other for the mid-market. The product in either form is designed to help these companies set up IP-based networks in a simple and cost-effective manner. While both products are designed to provide integrated functionality, both the hardware switch and the software options are different. In addition, Cisco has a Cisco Capital Commercial Easy Lease system designed to create financing options to meet small and mid-market business needs, understanding that not only is the technology behavior different from enterprises, but that the purchasing process differs as well.

Microsoft is another company that has begun to differentiate between small and mid-market companies. Microsoft launched Microsoft Windows Small Business Server several years ago to provide small companies with a complete Windows business server solution. They have also added other applications, including retail and financial management, as well as special versions of Office. Recently Microsoft has announced forthcoming products specifically targeting mid-market customers including Microsoft Dynamics, an integrated line of business solutions, and Microsoft Windows Server Centro.

Watching SMB Markets

As Sageza continues to look at SMB announcements from vendors, we will weigh the benefits of new offerings in light of these criteria. We will examine the announcement's target audience, and how it is tailored to meet the needs of either small or mid-market businesses. SMB announcements in the past have focused on price and size. However, we see an evolution to solutions focused on ease of install, use, and management, often through better integration of existing and new technologies, and sometimes even targeted toward specific industries or their role in the supply chain. We are also beginning to see simplified pricing schemes and more options for pricing as well as some financing for smaller companies. As vendors continue to evolve their offerings for SMB, we will continue to focus on their benefits to the market to help resellers and customers understand how these solutions can benefit their businesses.