



SMB Growing Pains

A Study into Key Business Challenges and
Technology Adoption in Small and Medium-Sized
Businesses in Selected Countries in Eastern
Europe, The Middle East and Africa

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Key Findings



Abstract

The estimated 16 million (based on detailed desk research and various published sources) small and medium-sized businesses (SMBs) in the countries under study are increasingly seeing key business-enhancing technologies as the way to beat the competition. Mobility, network security, broadband connectivity, remote access technology and IP telephony are all seen by SMBs in these selected countries across Europe, Middle East and Africa as key “must have” technologies. These help address the key business challenges they face which include competition (local, regional and global), finance and new market identification and development.

Introduction

The first survey in the “Growing Pains” series looked at SMBs in Western, Northern and selected Eastern European countries. The success of this initial programme stimulated a desire to understand more about SMBs in what might be described as growing economies. SMBs, by virtue of their number and the sheer amount of people they employ, are for many countries the lifeblood of the economy, providing key local and regional employment, entrepreneurial skills, economic regeneration and social development. However, they can be a misunderstood community and until recently one that has been overlooked by the technology solutions and service providers as a market that is too diverse, unpredictable and of relative low value (in terms of net sales) to warrant any serious interest. There is no doubt that this is changing and SMBs are becoming a key business focus for all major IT suppliers, who are devising the appropriate strategies to meet the needs of this diverse and complex business sector. The buying power of SMBs was highlighted in the initial report (around half a trillion Euros annually on IT solutions) and if SMBs in the countries researched for this report were to invest a modest 20,000 Euros each per annum in IT solutions and services then a further 320 billion Euros can be added to the potential market.

From the first study we found that SMBs are complex, approach IT solutions with a view to total control and that decision making was on the whole by the owner/manager. However, SMBs also understand that to grow their business they need the appropriate technology for their organisation. SMBs have changed their outlook and approach to IT and recognising this suppliers view them as more lucrative market. However, do SMBs in these growing economies have similar issues and challenges to those in the first study? Do they see IT in the same way? What barriers to the uptake of technology do they see?

This survey has set out to answer these and other key business issues amongst SMBs in key countries in Eastern Europe, Middle East and Africa. The findings provide key insight into the developing nature of the IT environment in those countries and how things will change in the future.

Study Background and Methodology

1,005 small and medium businesses took part in this extensive survey across key selected countries, with interviews being undertaken over the telephone using a structured detailed questionnaire. The sample was controlled by country and size of the SMB and was large enough to generate robust and reliable data at overall, regional, country and size (within broad region levels). Typically, the findings of the survey when extrapolated to the 16 million SMBs that operate in the countries covered by the survey are reliable to +/- 4 % percentage points at 95 per cent confidence limits.

Respondents were typically owner/managers of the small firms and only those with 20 – 249 employees were included in the study. All interviews were conducted in the native language of the respondent to ensure that the highest quality of information was generated and that the interview flowed well for each person responding. For ease of analysis and also the ability to broadly compare and contrast the findings, the countries covered were grouped as follows:

Region	Countries included for this survey
Eastern Europe	Bulgaria, Romania, Russia, Turkey, Ukraine
Africa	Egypt, Morocco, South Africa
Middle East	Saudi Arabia, United Arab Emirates

These groupings were included solely for the purpose of this programme and to allow top line comparisons by broad region, accepting that the constituents of the groupings are very different, in terms of their economic development, growth cycles and previous IT investments. Given the diverse range of countries within each region, the 10 selected countries were felt to provide the most representative view of the SMB community. Only top line comments are therefore made by region within this report.

All market sectors of the SMB community were included in the survey, covering business services; government; retail & wholesale; utilities & telecommunications; manufacturing; and finance. All data was collected in November and December 2005. The specific industry sector splits were as follows:

Industry Sector	Number of Interviews
Business Services	139
Manufacturing	396
Retail/Wholesale	166
Finance	33
Utilities and telecommunications	44
Others (including Government)	227

Note: The sample was not controlled by industry sector within country and thus the number of interviews per sector varies due to the industrial make up of each country that was included in the survey.

Finally, the sample was also controlled by size with the number of interviews completed as follows:

Region	Size of SMB by Number of Employees			
	20 - 49	50 – 99	100 – 249	Total
Eastern Europe	165	168	171	504
Africa	104	95	101	300
Middle East	60	66	73	201
Total	329	331	345	1005

Executive Summary

Key Business Challenges

- Competition is the number one challenge being faced by SMBs at the present time (53 per cent) and is more likely to be an issue for Moroccan (75 per cent), UAE (68 per cent) and South African (67 per cent) SMBs
- Finance issues (which for the purposes of this research include access to public and private development capital, cashflow management and debt management) are a challenge for 40 per cent of all firms, but especially those in Turkey (60 per cent) and Morocco (50 per cent)
- Identifying new markets is the third most important and common business challenge – mentioned by 38 per cent of all SMBs questioned and this seems to be a key issue for companies based in South Africa (42 per cent) Turkey (48 per cent) and especially Bulgaria (66 per cent)

“Must Have” Technologies

- Fast internet access is the most common (by far) “must have” technology, mentioned by three quarters of all companies (12 million SMBs in total), especially those in Bulgaria (92 per cent) and Romania (94 per cent). Only 52 per cent of Ukrainian organisations (the lowest across all countries) see this as a key technology
- In step with larger enterprises, networking is seen as increasingly desirable, with 57 per cent of businesses, rising to 94 per cent in Bulgaria and 91 per cent in Romania, citing networked PCs as their ‘must have’ technology. Ukrainian SMBs have yet to show any real interest in this form of technology
- SMBs also recognise that a successful business is a secure business, with 57 per cent (87 per cent in Bulgaria and 70 per cent in South Africa) highlighting the security of their network as vital for success
- 58 per cent of all SMBs (9.25 million companies within the markets surveyed) see storage and back up as a must have technology, driven by firms in Bulgaria (93 per cent), Romania (88 per cent) and South Africa (73 per cent). It is concerning that companies in Egypt, Morocco and Ukraine seem to be leaving themselves open to major risks as they have not yet seen the importance of storage and back up as core technologies
- Companies in Bulgaria and Romania are most likely to see the more of the technologies covered in the study as “must haves” compared with any other countries and especially Ukraine.

Drivers for Using Remote Access Technologies

- 92 per cent of all SMBs (14.7 million) mentioned at least one remote access technology (defined as any of wireless networking, remote access network, smart phone/PDA, secure networking, networked PCs or fast internet access) as being a must have for now or in three years time during the survey, indicating the growing importance that mobility solutions will have in the future

- The main reasons for considering remote access technologies as “must haves” include increasing staff productivity (84 per cent), increasing responsiveness to customers (81 per cent) and reducing costs in the business (74 per cent). The focus on customer responsiveness is most encouraging and highlights a growing trend in SMBs to focus on customer service as a key competitive activity
- 90 per cent of Romanian and 88 per cent of Ukrainian SMBs see a key benefit of remote access technologies being the impact on customer responsiveness, the ratings were very high here indeed, indicating the real impact that the technologies can have on companies of this size
- Russian (94 per cent) and Egyptian (89 per cent) SMBs most often see increasing staff productivity as a key reason for using remote access technologies but in all countries the proportions mentioning this issue were high, the lowest being 73 per cent in Bulgaria
- Interestingly, Russian SMBs do not see the provision of data to remote workers when they need it as a key reason for investing in the core technologies, which may be a reflection of the lower incidence of remote workers in Russia at present

Key Technical Barriers for SMBs

- Generally, none of the technical barriers to growth for SMBs mentioned in the survey were cited as an issue by more than 50 per cent of SMBs, indicating a true acceptance that technology is going to play a vital part in the development of the businesses in the short and medium term
- Cost of technology is a technical barrier for 47 per cent of all firms but 60 per cent for those in South Africa and 58 per cent for those in both Turkey and Morocco
- SMBs with 100 – 249 employees are more likely to see the cost of technology as a barrier than any others
- The second most commonly cited technical barrier to growth is in-house staff IT skills mentioned by 38 per cent of all companies but 55 per cent of those in South Africa and 54 per cent in Turkey. Interestingly this does not seem to be a barrier to companies based in Romania and Ukraine
- Integrating new technology into existing systems is a key technical barrier for 37 per cent of all companies but especially those in South Africa (61 per cent) and Turkey (47 per cent) where previous investments are more likely
- An analysis by sector reveals that travel and transport firms are more likely to see finding the right IT solution to fit the business as a barrier to growth while utilities and telecommunications firms see integrating new technologies (45 per cent) as a barrier

Awareness and Appropriateness IP Telephony

- Just over three quarters of all firms (76 per cent or 12 million) say that they are at least fairly aware of IP telephony. Awareness is marginally higher in those SMBs in the Middle East compared to the other two broad regions surveyed. Only two per cent of all firms say that they are not aware or have never heard of IP Telephony
- The smaller the SMB the less likely it is to know enough about IP telephony. Only 31 per cent of SMBs with 50 - 99 employees are very aware of IP telephony
- SMBs based in Russia and UAE (each 41 per cent) exhibit the highest levels of full awareness of IP Telephony while those in Romania (21 per cent) show the lowest
- 46 per cent of all firms (63 per cent in Bulgaria and 55 per cent in Saudi Arabia) see IP telephony as appropriate now to SMBs compared with only 24 per cent in Romania
- Smaller companies show a similar level of commitment to the technology as their larger counterparts highlighting the impact IP Telephony can have on the entire SMB community
- Exactly one third of all SMBs state that they are currently using IP Telephony within their business, with Bulgarian (56 per cent), Russian (49 per cent) and Egyptian (38 per cent) SMBs leading the way. Only 14 per cent of Turkish and nine per cent of South African companies are currently using the technology
- There is strong agreement amongst the companies using IP Telephony that implementing the technology will reduce telephone bills (95 per cent of all firms), allow companies to introduce new technologies cost effectively and easily (86 per cent) and enable the integration between communication and IT networks (83 per cent). Romanian and Saudi Arabian SMBs were most positive about the benefits of using IP Telephony and in all cases except for Ukraine, there is agreement that tangible benefits will accrue from using IP Telephony

Other General Findings

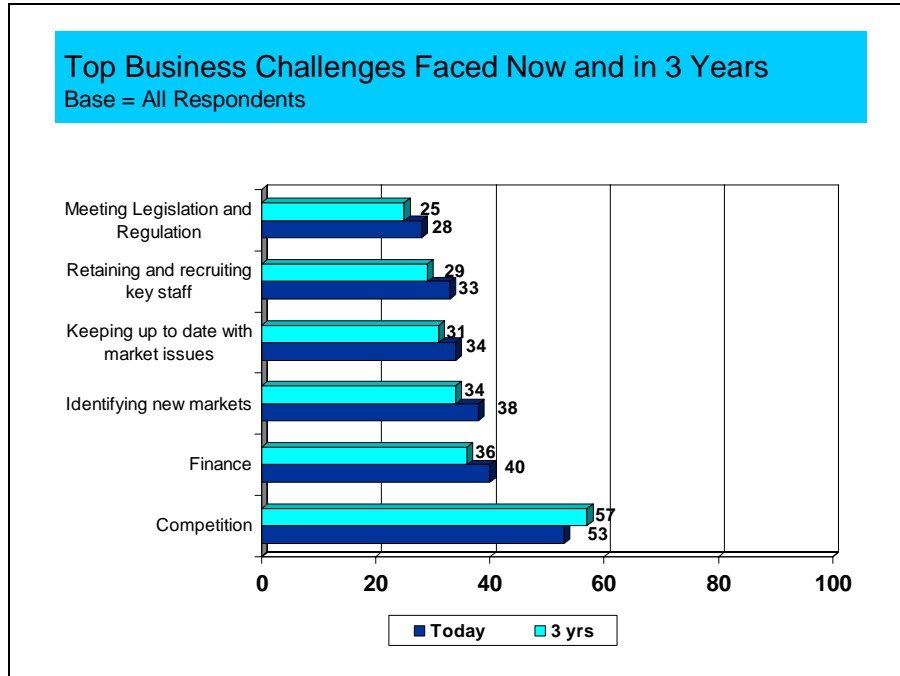
- Investments in IT solutions are made through the use of the company funds in the majority of cases across all regions (76 per cent) but there seems to be a trend towards using leasing agreements as a method of funding as well (19 per cent of firms or three million)
- Leasing agreements are most often used by SMBs in Bulgaria (38 per cent), Turkey (37 per cent) and Romania (32 per cent)
- Bank borrowing is most often used by companies in Morocco (42 per cent) and Turkey (29 per cent)
- 81 per cent (around 13 million) of all SMBs across the regions and countries included in the survey have the CEOs/MD regularly involved in the IT decision making process. In around one third (36 per cent) the technical staff (in the

guise of the IT manager or internal IT expert) is involved in the purchase decision and only in 21 per cent of cases is the finance department involved. Team based decision making seems to be poorly utilised

- Also, in 81 per cent of Eastern European based SMBs, the CEO/MD is involved in the IT decision making process, but these companies also show the highest propensity of IT staff involvement (47 per cent). In Africa, around three quarters of companies (76 per cent) involve the CEO/MD compared with 84 per cent in Middle Eastern SMBs
- 56 per cent of all firms (78 per cent in Russia and 65 per cent in UAE) use their internal staff to manage and deploy IT solutions while 18 per cent use a managed service, most common in Romania (29 per cent) and Turkey (27 per cent)

Key Business Challenges Facing SMBs Today

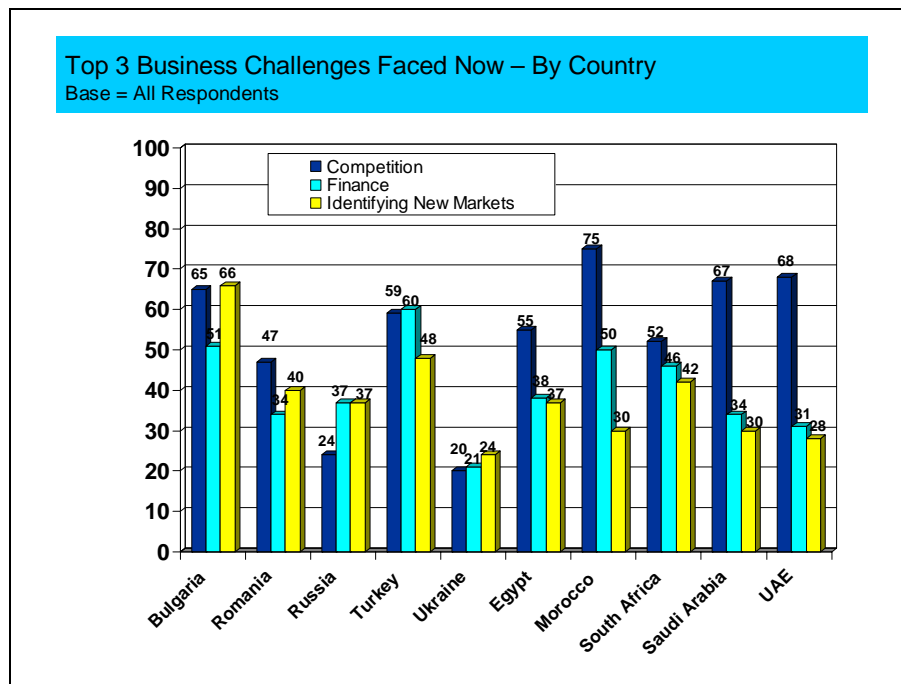
Considering the large number of competing businesses in the SMB market across the countries covered, it comes as no surprise that the most important business challenge cited by respondents was competition. This includes the need to counteract all forms of competitive threat (price, operating cost, customer service, Government intervention, marketing and reputational) from both small and larger businesses. 53 per cent of all SMBs across the regions covered rated competition as one of their major business challenges today (57 per cent thought it would still be a challenge in three years time) followed by finance (40 per cent) and the need to identify new markets for new business generation (38 per cent).



Looking at the top challenges by region briefly, those SMBs in the Eastern European Region, as defined by the survey, seem less concerned about competition. Only 42 per cent see it as a challenge now but over half think it will be an issue in three years time compared with 68 per cent of SMBs in the Middle East who see it as a challenge now and 61 per cent of those in Africa. African SMBs are also more likely to see

finance as a key business challenge (45 per cent) compared with only 32 per cent of SMBs in the more affluent Middle Eastern countries. 42 per cent of Eastern European based SMBs see identifying new markets as a key business issue compared with only 29 per cent of those based in the Middle East.

An analysis of the top challenges by country highlights the real diversity within the countries covered. Three quarters of SMBs in Morocco cited competition as a major business challenge now compared to only 20 per cent in the Ukraine and 24 per cent in Russia, reflecting the previously Government controlled economies within the last two countries. 68 per cent of SMBs in the UAE also see competition as a key challenge as do two thirds of those in Saudi Arabia, while only 47 per cent of Romanian firms feel that competition is a core issue.



Turkish SMBs (60 per cent) are most likely to see finance as a key business challenge followed by those in Bulgaria (51 per cent), Egypt (50 per cent) and South Africa (46 per cent). Ukrainian SMBs do not see finance as an issue with only 21 per cent citing it as a key business challenge. Bulgarian (66 per cent) and Turkish (48 per cent) SMBs are most likely to see identifying new markets as a core business issue. This reflects the more developed nature of their economies and the fact that they are now seeing their own customers seek cheaper products from other countries. The faster developing countries like Ukraine, Morocco and UAE do not see market development as a key business challenge yet. Competition seems to be a far greater business challenge in Morocco, Saudi Arabia and UAE than any other business issue covered in the survey. Bulgarian SMBs seem to be facing the biggest number of challenges per SMB.

Interestingly, when drilling down into individual market sectors in Africa, 61 per cent of manufacturing companies see competition as a key issue compared with only 57 per cent of business services and retail/wholesale based SMBs. This may be indicative of the fear of manufacturing moving to lower cost economies such as China and India. In the Eastern European countries covered, manufacturers see the retention and recruitment of key staff as the key issue (mentioned by 48 per cent of companies). Identifying new markets and developing new products is one of the

biggest business challenges for SMBs across in the utilities and telecommunications (42 per cent), travel and transport (46 per cent) and retail and wholesale (45 per cent) sectors. In manufacturing based companies in the two Middle Eastern countries, competition is by far the biggest challenge, mentioned by fully 79 per cent. Competition is also the main business challenge faced today by SMBs in retail and wholesale (72 per cent) and business services (65 per cent). Competition is much less of a challenge in absolute terms in the utilities and telecommunications sector (38 per cent) where retaining and recruiting key staff and identifying new markets and developing new products are equally important.

The smaller the SMB, the more likely it is to find finance a key business challenge. All SMBs irrespective of their size see competition as a threat, but 44 per cent of the smaller companies with 20 – 49 employees see finance as a key business challenge compared with only 37 per cent of those with 100 – 249 employees. The implication being that larger companies can gain better access to funding as well as generating their own internal funds for investment activity.

SMBs were also questioned as to how they saw some of the challenges changing over the next three years. The picture that emerged was one where SMBs seem to find it hard to look forward beyond the next trading year but the same challenges at the same relative importance would indeed be faced, with competition becoming even more important especially for SMBs based in Bulgaria and Romania.

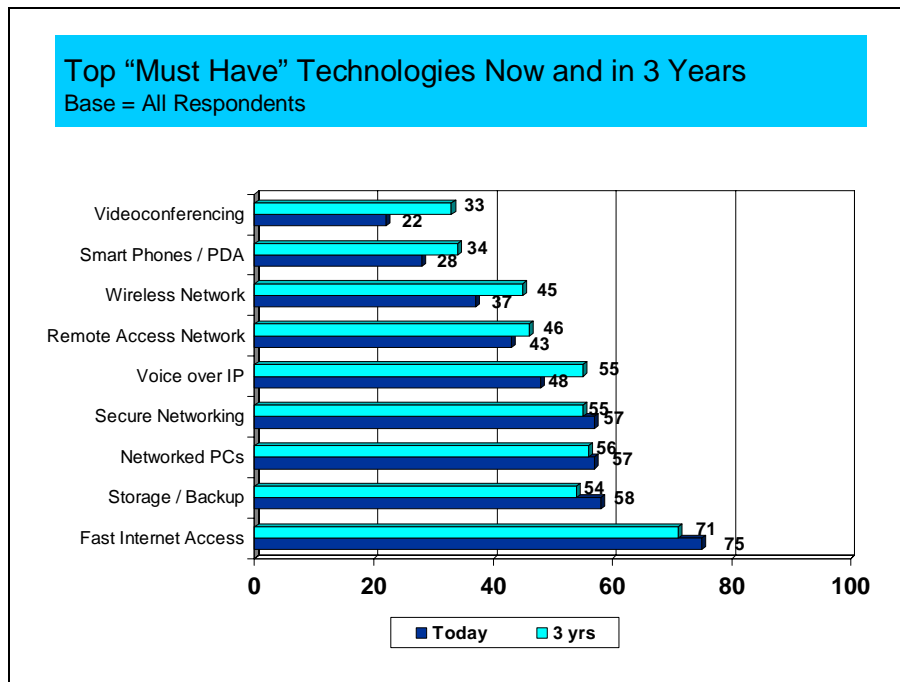
Overall, the picture that emerges is one where competition in all its forms is a major focus for the majority of SMBs, no matter what region they are in and it will remain an issue for some time to come. This would indicate that the global changes being seen in the industrial and economic landscape are impacting economies across the spectrum. A key challenge is what does each SMB have to do to make sure that it remains competitive and can continue to change to meet its customers' needs. Here, technology could and should play a major role and certain technologies may be more important than others.

SMB “Must Have” Technology

One of the core issues for SMBs, with so much technology available, is selecting the right product or service that will provide real business impacts, help grow the business over the short and medium term and prove to be manageable by the current internal IT skills. Groundbreaking technologies are all well and good but if the SMB does not have the internal skills to use the systems or the means to invest in it, the impact is negligible. So which technologies do SMBs feel are the “must haves” for now and in the future?

Looking across all of the countries covered fast internet access is seen as a “must have” technology by 75 per cent of all SMBs. 71 per cent think it will remain the key technology in three years as well. The desire to have broadband technology may be linked to the fact that SMBs use the Internet as a major information source and many may see the chance to start to an e-business with a key focus on the customer, underpinned by fast internet access. 58 per cent of all SMBs see storage/back-up as a “must have” technology, the implication being that many may not have the right systems in place to manage their disaster recovery at present and so their businesses are at great risk. There also appears to be a move to more networked information and mobile working. 57 per cent of all SMBs see networked PCs as a must have technology and the same proportion is looking at secure networking. More sophisticated technologies like smart phones (28 per cent) and videoconferencing (22 per cent) have been identified as “nice to haves” but they will

gain in acceptance and usage within the next three years, as will the importance of wireless networks and voice over IP.



Looking at the “must have” technologies by region, 81 per cent of Eastern Europe based SMBs cite fast internet access as their must have technology compared with only two thirds of those based in the Middle East and 69 per cent in Africa. Storage/back up is far more important for SMBs in Eastern Europe (69 per cent) than either of the other two regions. Only 51 per cent of Middle Eastern SMBs see secure networking as a “must have” technology compared with 62 per cent of those in the Eastern European region covered by the survey.

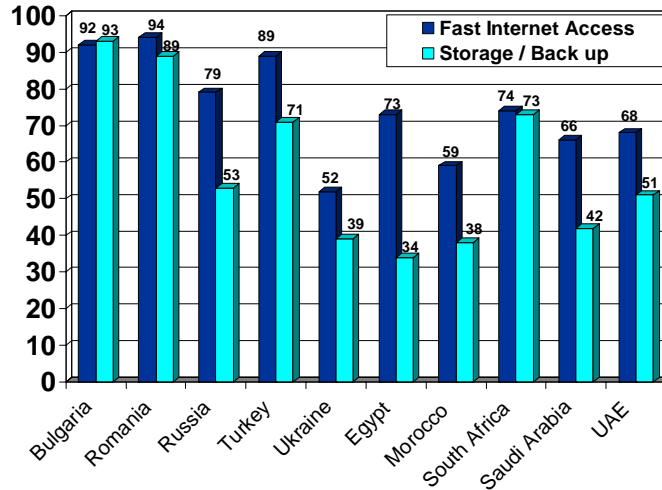
The country level analysis highlights the real differences based primarily on the technological evolution within each country in question. 92 per cent of Bulgarian SMBs cite fast internet access as a “must have” technology compared with 94 per cent of those in Romania, only 59 per cent in Morocco and 52 per cent Ukraine. Storage/back up is mentioned by 93 per cent of organisations in Bulgaria and 89 per cent in Romania compared with only 34 per cent in Egypt and 38 per cent in Morocco. The implication being that the SMBs in the last two countries do not see storage as a key issue and are more prone to leaving their businesses at risk.

In Russia, 79 per cent of firms see fast internet as a key “must have” technology but only 53 per cent are focusing on their storage/back up needs.

Looking at the next two most commonly cited “must have” technologies, again there are great regional differences. The vast majority of Bulgarian (84 per cent) and Romanian (91 per cent) SMBs see networked PCs as key technologies compared with only 17 per cent of firms in Russia and 29 per cent in Ukraine. Ukrainian SMBs do not seem to have any interest in secure networking either as only 19 per cent cited it as a “must have” technology compared with 87 per cent of Bulgarian SMBs and 52 per cent of those in Russia. South African SMBs have an interest in many of the technologies covered by the survey, with around three quarters seeing the top four technologies as important to the ongoing development and growth of their businesses.

“Must Have” Technologies Now - By Country

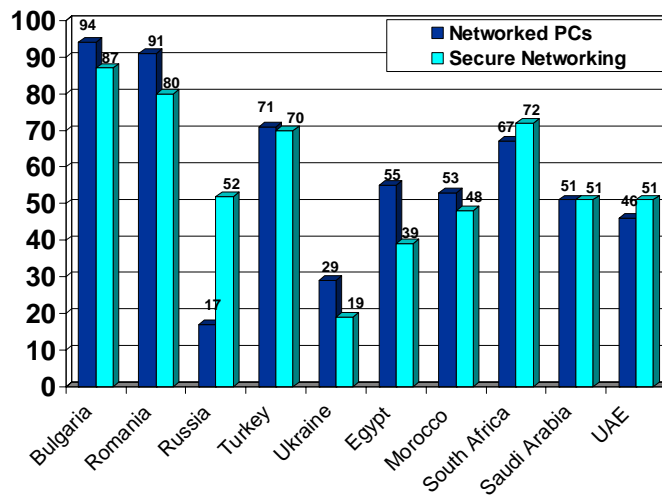
Base = All respondents



119

“Must Have” Technologies Now - By Country

Base = All respondents



120

Looking at the technology needs by size of company, it is interesting to note that there is little difference in the perception about the types of technology that will impact growth both now and in the future. For example, 75 per cent of all SMBs with 100 – 249 employees see fast internet access as a “must have” technology compared with 73 per cent of those with 20 – 49 employees. With storage/back up marginally more “medium sized” SMBs with 50 – 99 employees (62 per cent) see this as a must have technology compared with 57 per cent of companies with 100 – 249 employees. The larger the SMB the more likely it is to see secure networking as a must have technology. 53 per cent of SMBs with 20 – 49 employees feel that secure

networking is a key technology that will underpin their growth compared with 60 per cent of those with 50 – 99 employees.

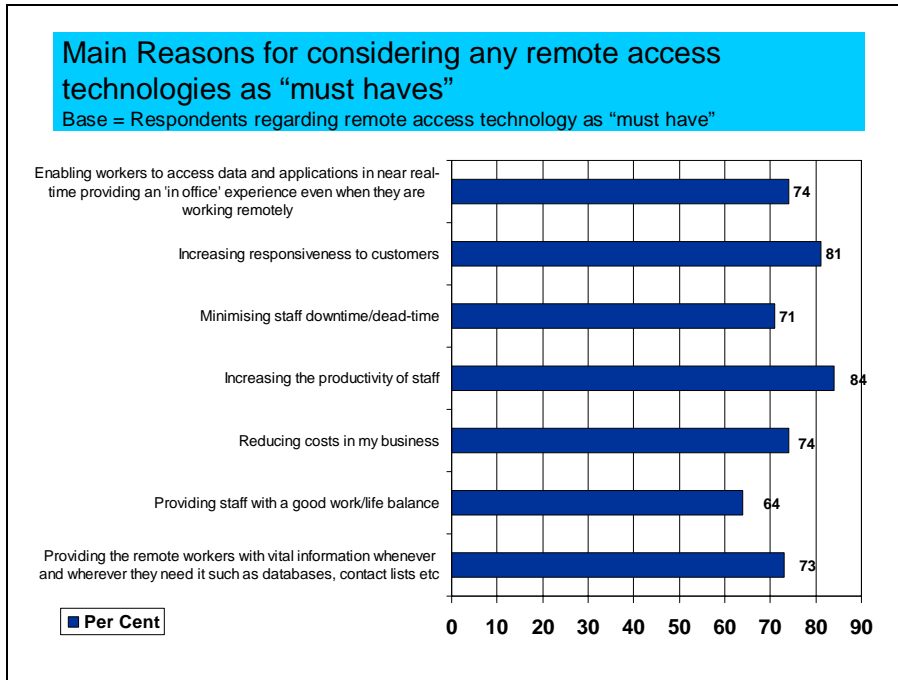
Unsurprisingly, at the industry level, voice over IP is seen as a “must have” technology by more companies in the utilities and telecommunications (61 per cent) than any other sector (average is 45 per cent). Finance (64 per cent) and utilities and telecommunications organisations (66 per cent) most commonly feel that secure networking is a core technology. Manufacturing firms see fast internet (74 per cent), networked PCs (56 per cent) and secure networking (53 per cent) as their key “must have” technologies. In Africa, SMBs in the retail and wholesale sector appear rather more focused on technology than those in other sectors. Fast internet access or broadband is seen as must have by many companies across all sectors, but a high proportion of retailers and wholesalers also regard networked PCs (80 per cent), secure networking (70 per cent) and appropriate storage/back-up (70 per cent) as “must have” technologies. In the Eastern European region, utilities and telecommunications companies appear more likely than those in other sectors to regard many of the technologies covered by this survey as currently “must have”. This is true of secure networking (88 per cent), wireless networks, voice over IP (both 67 per cent), networked PCs and remote access networks (both 63 per cent).

It is therefore clear that the adoption of business critical technology is set to underpin the ongoing competitive positioning of SMBs across the entire survey, helping them meet one of the key business challenges that they face while improving customer service.

Drivers for Using Remote Access Technologies

92 per cent of all respondents mentioned at least one remote access technology as being a “must have”, either for now or within the next three years (the majority were now). A key driver for seeing the technologies as so important is the impact that they can have on staff productivity. 84 per cent of all respondents mentioned this as a key reason for investing in a remote access technology compared with 81 per cent who see a direct impact on responsiveness to customer needs. This is very encouraging as it provides a clear link between technology investment and customer service and even in these growing economies, there is a clear focus on customer needs and service.

Almost three quarters of all SMBs (74 per cent) agreed that remote access technologies could also reduce costs within the business. A similar proportion saw a key reason for using the technology as being the ability to provide employees access to data and systems in real time, thereby providing an “in office” experience even when they are mobile. Most encouraging of all is the fact that all of the reasons mentioned in the survey were seen as being important by at least 64 per cent of all companies.



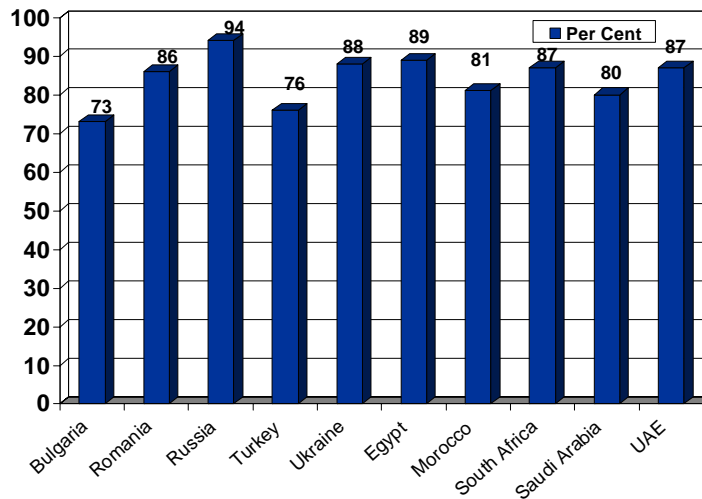
Looking at the findings by region, there is very little difference apart from Eastern Europe where companies typically see fewer reasons for using remote technologies than SMBs in the other two regions.

The details by country are interesting indeed, especially when looking at the top two or three reasons for using remote technologies. 94 per cent of Russian SMBs see a key reason for using remote access technologies as increasing staff productivity compared with only 73 per cent (still high in its own right) of SMBs in Bulgaria. Around three quarters of SMBs in Turkey (76 per cent) also see staff productivity increases as a key issue with remote access technologies but at this level it is the second lowest rating by country, all of the others being in excess of 80 per cent. This indicates a strong commitment to the technologies as there is great acceptance of their impact on productivity.

SMBS clearly see remote access improving their responsiveness to customers. 90 per cent of SMBs in Romania and 88 per cent in Ukraine feel that customer responsiveness will be increased and even in Bulgaria where the lowest rating was achieved, two thirds (66 per cent) of all firms still see the link between remote access technologies and customer responsiveness. 84 per cent of South African SMBs also see the core benefit of increased customer responsiveness indicating that all of the companies in these growing economies are focusing on using technologies that will impact customer service, retention and ultimately their competitive position.

Reasons for considering remote access technologies “must have” Increasing the productivity of staff

Base = Respondents regarding remote access technologies as “must have”



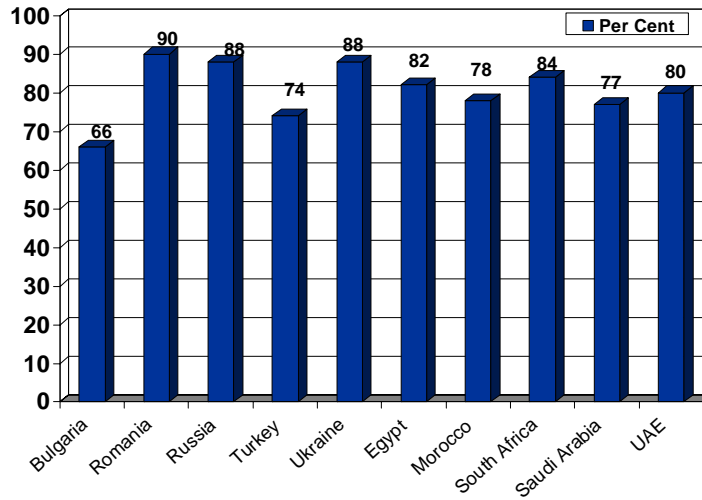
Russian SMBs stand out from the crowd when looking at the provision of vital information to workers as and when they need, in an “in office” environment while remote working. Only 32 per cent of Russian SMBs see this as a driver for investment in remote access technologies compared with 84 per in Egypt, 73 per cent in Ukraine and 82 per cent in UAE.

The provision of a good work/life balance through remote access technology usage is not as much of a driver for all SMBs especially those in Bulgaria (45 per cent), Russia (57 per cent) and Turkey (56 per cent). Perhaps this reflects the development of the social and economic landscape in each country and the current labour market conditions. Typically, employment has been driven by economic and local regional needs and less by labour market choice although this is clearly changing.

The impact of remote access technologies on cost reduction is also significant and is seen as a driver by 84 per cent of SMBs in Russia, 81 per cent in UAE and 82 per cent in Morocco. Only in Bulgaria (58 per cent, the lowest by far of all countries) is cost reduction a limited driver amongst SMBs to invest in remote access technologies.

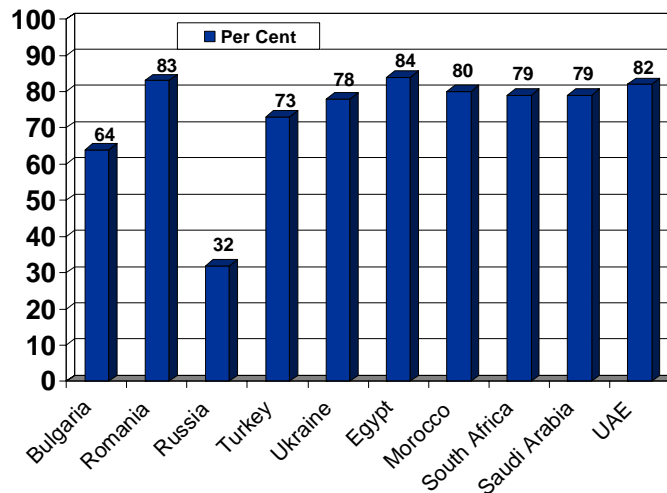
Reasons for considering remote access technologies “must have”
Increasing responsiveness to customers

Base = Respondents regarding remote access technologies as “must have”



Reasons for considering remote access technologies “must have”
Providing remote workers with vital information when and where needed

Base = Respondents regarding remote access technologies as “must have”



Interestingly, when looking by size of firm there are no differences between sizes of SMBs in terms of their drivers for using remote access technology. The picture that emerges is one where SMBs are seeing a wide range of key benefits of using the technologies all of which will impact the competitive position of the companies in their home market, regionally and globally. There is no doubt that SMBs see huge potential gains from using new technologies within their business that enable them to be more flexible and create more mobile working opportunities for their staff.

As might be expected, given the strong ratings overall for each driver to use remote access technologies, there is very little difference by industry sector. Business

services companies are more likely to see the provision of data for mobile workers as a key driver (85 per cent) while finance companies see key reasons to invest in the technology as staff productivity (83 per cent) and cost reduction (80 per cent). Manufacturing companies more often cite staff productivity increases (82 per cent) and increasing responsiveness to customers (79 per cent), while retail and wholesale firms focus on customer responsiveness (81 per cent) and staff productivity (78 per cent).

Key Technical Barriers for SMBs

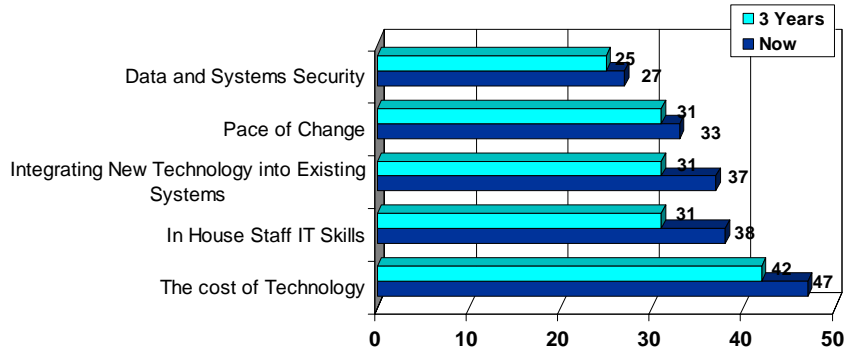
The 16 million SMBs in the regions covered not only have to focus on a wide range of core business challenges, they also face key issues with regard to the use of technology to help grow their business and manage their competitive threats. Key technologies are available, but what barriers do SMBs face now and in the future?

Generally, it is encouraging to report that less than half of SMBs agreed with the technological barriers mentioned in the study. Therefore, unlike the business challenges, the technical barriers seem less “onerous” and indeed in many cases they will have minimal impact.

As might be expected, the top barrier is the cost of technology, for 47 per cent of all SMBs now and it will remain an issue for 42 per cent in three years time. The second most common technical barrier to business growth is internal staff IT skills, an issue for 38 per cent of all SMBs now and approaching one third (31 per cent) in three years time. 37 per cent of all companies also see integrating new technology into their existing systems as a key technical barrier. Interestingly, finding the right IT solutions is only an issue for one in five companies and the pace of change, often quoted in the early 2000s as a key deterrent from investing in technology was only mentioned by one third (33 per cent) of SMBs. This would indicate that technology is an important issue to all SMBs and thus they have to keep up to date with ongoing changes as the impact on their business and competitive positioning can be significant.

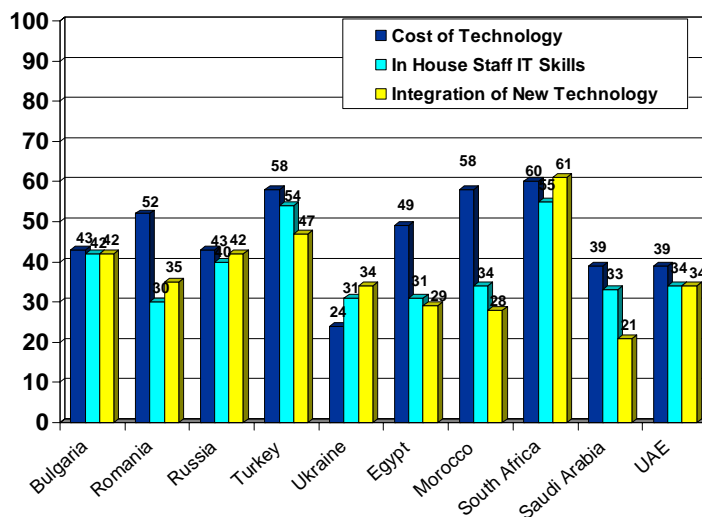
At the regional level, those SMBs based in Africa are more likely to see the cost of technology as a barrier to growth (56 per cent) than SMBs in Eastern Europe (44 per cent) or the Middle East (39 per cent). In-house IT staff skills are less likely to be an issue in Middle Eastern SMBs (33 per cent) than either of the other two regions covered by the survey (40 per cent for Africa and 39 per cent for Eastern Europe). This pattern is also seen for integrating new technology into existing systems. The pace of change is most likely to be an issue for African based SMBs (36 per cent mentioned it) compared with only 29 per cent in the Middle East.

Top Technical Barriers to Growth and in Next 3 Years Base = All Respondents



Looking at the contrasts and comparisons by country, there is a degree of commonality in some areas but some key contrasts in others.

Top Technical Barriers to Growth Now – By Country Base = All respondents



Turkish (58 per cent) and South African (60 per cent) SMBs most often cite the cost of technology as a key technical barrier to the growth of their business compared with only 24 per cent of SMBs in Ukraine. Bulgarian SMBs seem to have a fairly common view about every key area, each being mentioned by around 42 per cent of SMBs in the country. In Morocco the most important barrier by far is the cost of technology, rated by 58 per cent of all SMBs followed by in-house staff IT skills, mentioned by only one third (34 per cent) of all firms. Romanian companies also seem to see the cost of technology as the most important factor. Outside of the top three issues, 54

per cent of South African SMBs cite the pace of change as a barrier and 42 per cent of Turkish firms (by far the largest proportion) mentioned data and systems security as a key barrier to growth. Future proofing the technology was mentioned by 46 per cent of organisations in South Africa, but was only seen as a minor issue in the majority of other countries surveyed. Identifying the right technology provider does not appear to be an issue at all with only 24 per cent of those SMBs in Turkey raising it as a concern.

An analysis by size of SMB reveals that the larger SMBs with 100 – 249 employees see the cost of technology as more of an issue than their smaller counterparts (perhaps because they need to invest in the larger technology solutions). For SMBs with 20 – 49 employees, the key technical barriers are the cost of technology (45 per cent), in-house staff IT skills (37 per cent) and the pace of change (36 per cent). Larger SMBs with 50 – 99 employees see more barriers to their adoption of technology, with one third or more of companies citing the cost of technology; pace of change; integrating new technology into existing systems, in-house staff IT skills and data and systems security.

An analysis by sector reveals that travel and transport firms are more likely to see finding the right IT solution to fit the business as a barrier to growth. However, utilities and telecommunications firms see integrating new technologies (45 per cent) as a key barrier perhaps reflecting the fact that the sector is more advanced in terms of installed technology.

There is no doubt that the cost of technology, lack of internal IT skills and the integration of new systems are having an impact on SMBs in the countries covered by the survey. It is important for all suppliers to provide appropriate, cost effective and tailored solutions to the market that will allow easy integration and fast implementation. With so many companies mentioning in-house staff IT skills as being a barrier, the use of managed services would appear a good option for the future.

Awareness and Appropriateness of IP Telephony

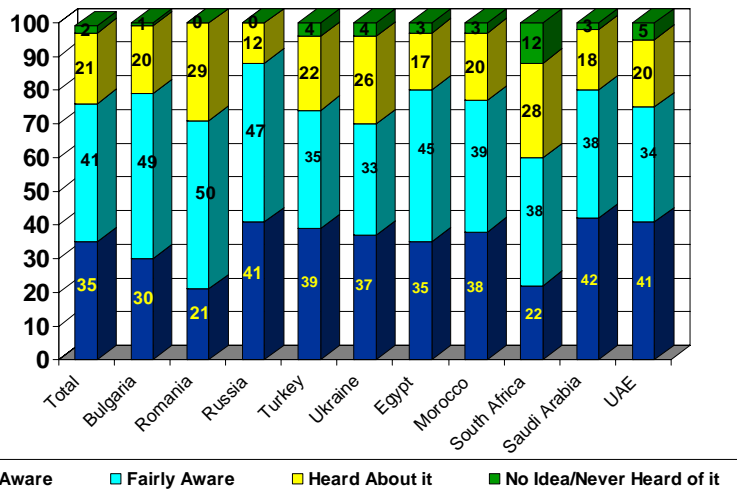
One major technology high on the corporate agenda is IP telephony as it is seen to provide enterprise companies with the ability to increase productivity, generate increased business agility in their communications and also reduce operating costs. However, do SMBs companies even know what IP telephony is, are they using it and do they think it is appropriate to their business as opposed to large corporations?

It is very encouraging to see that already approximately a third (35 per cent) of all SMBs in the countries covered stated that they are fully aware of IP telephony and how it can impact their business. An additional 41 per cent showed some level of awareness or understanding and were eager to know more. These figures suggest that the market for IP Telephony within these SMBs is set to explode in the near future. Only two per cent of firms said they had no knowledge of IP Telephony at all.

Looking at the figures by region, there is very little difference at all, except that SMBs in the Middle East show a marginally greater level of awareness than their counterparts in either Africa or Eastern Europe.

Awareness of IP Telephony – By Country

Base = All Respondents



Comparing the levels of awareness by country, it is clear that some countries are lagging behind others. South African SMBs in particular exhibit the lowest awareness overall with only 22 per cent fully aware and a further 36 per cent fairly aware of the technology. Romanian SMBs also show a poor level of awareness (21 per cent fully aware and 50 per cent fairly aware) while awareness is high in Russia (88 per cent aware), Egypt (80 per cent), Saudi Arabia (80 per cent) and Bulgaria (76 per cent).

As might be expected, the larger SMBs with 100 – 249 employees exhibit a marginally more detailed knowledge of IP Telephony with 36 per cent fully aware and a further 43 per cent fairly aware. Compare this with only 31 per cent and 42 per cent respectively of SMBs with 50 – 99 employees.

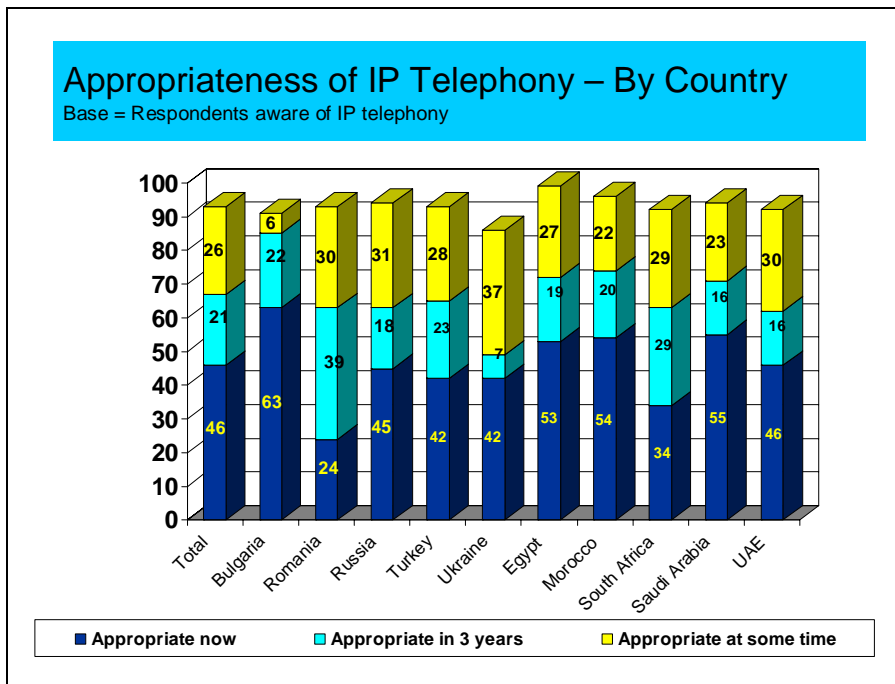
Perhaps unsurprisingly, utilities and telecommunications SMBs show by far the greatest level of awareness of IP Telephony (52 per cent fully aware and 36 per cent fairly aware) compared with 28 per cent and 42 per cent respectively for retail and wholesale based organisations.

Being aware of IP telephony is only half the story, the technology has to be seen to be appropriate to SMBs to have a real impact and generate investment. It is very encouraging to see that 46 per cent of all SMBs who are aware of IP telephony feel that it is appropriate now and a further 21 per cent feel it will be appropriate in three years time. A real statement of the possible impact of the technology on small companies in the future. Only seven per cent of organisations felt that the technology was inappropriate for any SMB.

Looking at the findings by region, again there is very little difference, but 51 per cent of Middle Eastern SMBs compared with 43 per cent of those in Africa feel that the technology is appropriate now.

Looking at individual country perceptions it is clear that the levels of appropriateness of the technology vary by country and by expected timescale. Only 24 per cent of Romanian SMBs feel that the technology is appropriate now compared with 63 per cent of those in Bulgaria and 55 per cent in Saudi Arabia. In the UAE, approaching a

third of all SMBs (30 per cent) feel that the technology will be appropriate some time in the future. Bulgarian firms are the most positive about the technology, with 85 per cent feeling it is appropriate to SMBs within the next three years. However, the situation is somewhat the reverse in the Ukraine where only 49 per cent of firms feel it will be appropriate to SMBs in the next three years and more SMBs in this country compared with any other feel that it is totally inappropriate.



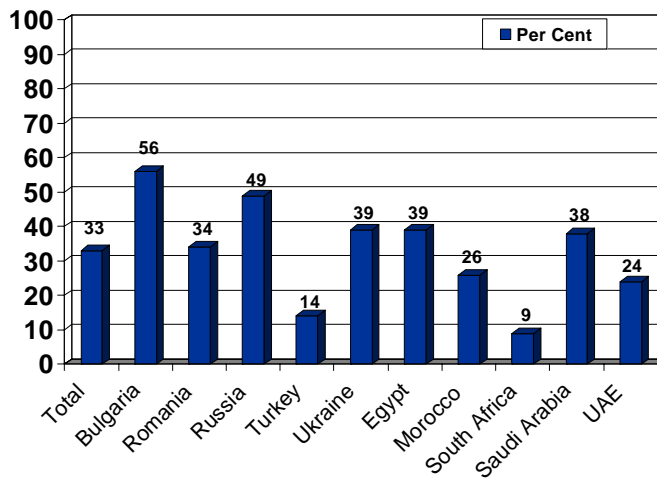
An analysis by size of company shows an interesting pattern in that normally one would expect the larger companies to show a greater commitment to the technology than the “micro” SMBs. However, this is not the case as they exhibit a similar level of understanding and commitment. 49 per cent of firms with 20 – 49 employees feel that IP Telephony is appropriate to all SMBs now compared with 44 per cent of those with 50 – 99 employees and 45 per cent with 100 -2 49 employees. Only in the area of inappropriateness for SMBs do the sectors differ with marginally more of the smaller companies seeing the technology as inappropriate.

At the industry sector level, 12 per cent of finance sector SMBs feel the technology is inappropriate to SMBs, while 51 per cent of business services based companies feel that the technology is appropriate now. Also two thirds of utilities and telecommunications firms see the technology as appropriate to the SMB community now and only seven per cent feel that it will not be appropriate at all any time in the future. Travel and transport organisations show the strongest commitment overall, with only three per cent feeling that it will be inappropriate in the future for SMBs.

It is clear that IP Telephony will play an important role in the ongoing competitive positioning of SMBs. The awareness of the technology is high and there is strong agreement that it is a technology that can be used by smaller companies to good business effect. But how many companies are actually using it now?

Proportion of SMBs using IP Telephony Now

Base = Respondents aware of IP telephony



Based on the research findings it is estimated that one third of SMBs across the countries surveyed are using IP telephony, ranging from 26 per cent in Africa to 39 per cent in Eastern Europe. Over half of SMBs in Bulgaria (56 per cent) and just under half (49 per cent) of those in Russia claim to be using the technology compared with only nine per cent in South Africa and 14 per cent in Turkey. It is clear that there is a great growth potential within the countries under study.

There is little difference in IP Telephony usage by size of organisation, with the highest current usage in companies with 50 – 99 employees (35 per cent). Utilities and telecommunications firms are the largest users by sector (51 per cent) with those SMBs in finance lagging well behind (16 per cent).

What is also very encouraging is that most of the firms currently using IP Telephony are seeing great business benefits. Although the base numbers are for the most quite small and thus the data is indicative only, there is strong agreement that implementing IP Telephony will :

- Reduce telephone bills (mentioned by 95 per cent of all firms)
- Allow companies to introduce new technologies cost effectively and easily (86 per cent)
- Enable the integration between communication and IT networks (83 per cent).

There are a few differences at the regional level concerning the benefits of IP Telephony, notably the impact on back office administration costs, freeing up valuable staff time and offering employees a more flexible working environment. In all three cases the Eastern European countries do not share their counterparts' views on seeing these as benefits, perhaps reflecting a cultural diversity.

Statement (Bases vary and are sometimes low)	Proportion Agreeing with Each Statement									
	Bul	Rom	Rus	Tur	Ukr	Egy	Mor	S A	Saud	UAE
Implementing IP telephony would reduce our phone bills	98	88	96	92	94	97	100	86	91	95
Implementing IP telephony would reduce our IT administration (back-office) costs	51	65	26	92	28	69	92	71	91	76
Implementing IP telephony would free up valuable staff time	42	71	47	38	42	77	88	71	83	76
Implementing IP telephony would allow us to offer our employees a more flexible working environment with hot-desking etc	60	74	17	69	19	80	92	71	86	90
Implementing IP telephony would enable integration between communication and IT networks	85	85	70	85	56	100	83	100	94	90
Implementing IP telephony would allow us to introduce future IP technologies easily and cost effectively	72	88	85	85	86	86	92	86	91	100
Implementing IP telephony would not provide the business with any tangible benefits	19	3	13	0	72	26	38	14	37	48

At the country level again there are some great differences. In most cases there is common agreement that IP Telephony will reduce telephone bills, but there is a wide range of views about the impact on back office costs. 92 per cent of Turkish SMBs agree that there will be a positive impact on costs but this only shared by 26 per cent of companies in Russia. 88 per cent of Moroccan SMBs agree that implementing IP Telephony will free up valuable staff time, but only 42 per cent of companies in both the Ukraine and Bulgaria agree with this statement and only 47 per cent in Russia also think this will be the case.

Only 17 per cent of Russian and 19 per cent of Ukrainian SMBs agreed that implementing IP Telephony would allow the company to offer employees a more flexible working environment. Perhaps this reflects a strong cultural issue regarding flexible working in itself. 90 per cent of companies in Morocco saw this as a key benefit of implementing IP Telephony. Most SMBs in all countries (with the possible exception of Ukraine) see implementing IT as offering the ability to integrate communications and IT networks with SMBs in Egypt and South Africa (all companies, but the bases were low) most positive about this facet of the technology.

Generally companies feel that there will be great benefit obtained from using the technology especially amongst SMBs in Romania, Turkey and South Africa.

Interestingly, across all of the benefits, companies with 50 -99 employees are least likely to see the benefits accruing from the implementation of IP Telephony, although in many cases the figures are still very high.

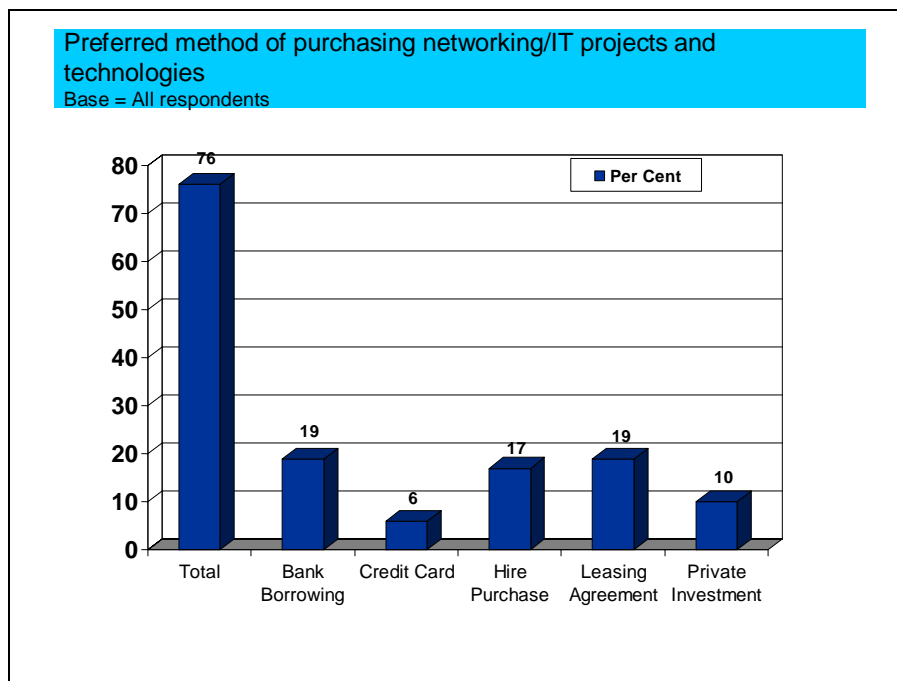
So the picture that emerges is that some companies are already using IP telephony to great effect and the benefits of implementing the technology are wide ranging and significant to all SMBs, for the most part. As the uptake of the technology increases, so the impact of the benefits will be felt much wider and the SMBs can take great strides in meeting the increased competition they expect.

Finance Methods used to Invest in Networking/IT Projects and Technologies

Like enterprise businesses, SMBs now have an array of finance options available to them when looking to make a networking or IT project purchase, including cash, grants, venture capital, bank borrowing, hire purchase schemes with the vendor or reseller, and leasing. But if the use of technology is set to grow rapidly in the SMB marketplace as we have seen, how will it be funded and how can SMBs fund the extended use of technology?

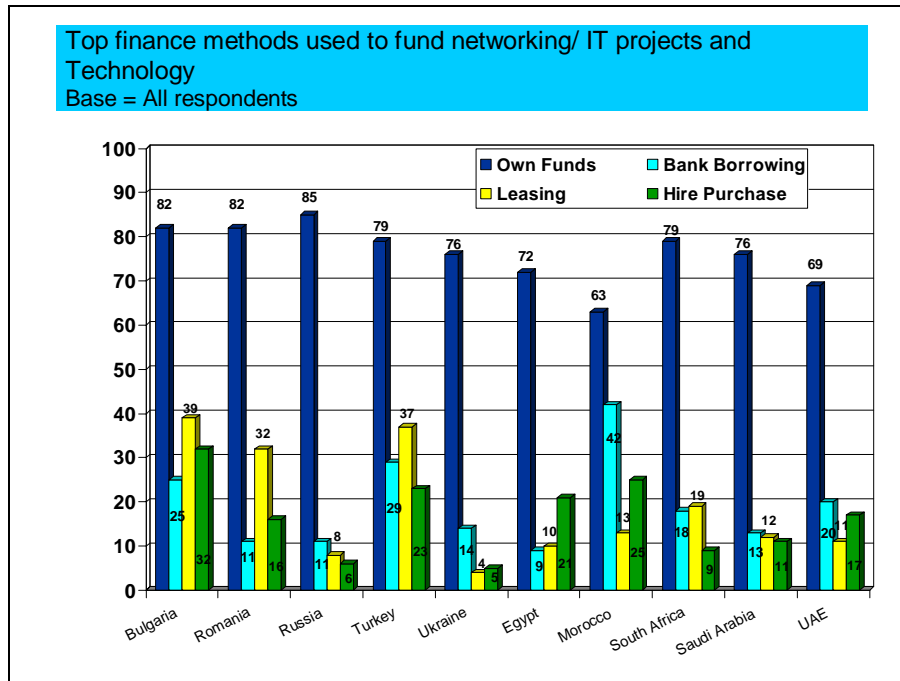
There is no doubt that SMBs like to fund purchases through the use of their own funds – three quarters of all companies mentioned this as a key finance option. 19 per cent use a form of leasing agreement to fund their IT and networking project technologies and a similar proportion use bank borrowing. Hire purchase is used by only 17 per cent of firms.

Looking briefly at the differences by region it is clear that Eastern European SMBs are most likely to use their own funds (81 per cent) and they are also the most likely (24 per cent) to use a form of leasing. Indeed, those countries in Eastern Europe covered by this survey are almost twice as likely to use leasing as any other of the countries. African based companies also have a preference for using their own funds to purchase IT and networking technologies, but 24 per cent also borrow from the bank, the second most common funding method used in the region. Middle Eastern based SMBs seem to use a wide variety of alternative methods of funding beyond their own funds, by far the common most method used by 73 per cent of firms.



As might be expected, when looking at the findings by country own funds is by far the most preferred financing method for IT and networking technology purchases. However, there are some significant differences in terms of the use of alternative financing options. Bulgarian (39 per cent), Romanian (32 per cent) and Turkish (37 per cent) SMBs prefer leasing as their second finance option while Moroccan SMBs

(42 per cent) have a clear preference for bank borrowing, more than any other country. However, bank borrowing is also comparatively popular amongst SMBs in Bulgaria, UAE and Turkey. Hire purchase on the other hand is most commonly used by SMBs in Bulgaria (32 per cent), Turkey (23 per cent) and Morocco (25 per cent). Russian and Ukrainian SMBs have a clear tendency to use their own funds, perhaps reflecting a previous lack of choice in the Government controlled period. What is clear is that there is no set pattern to funding beyond the use of own funds.



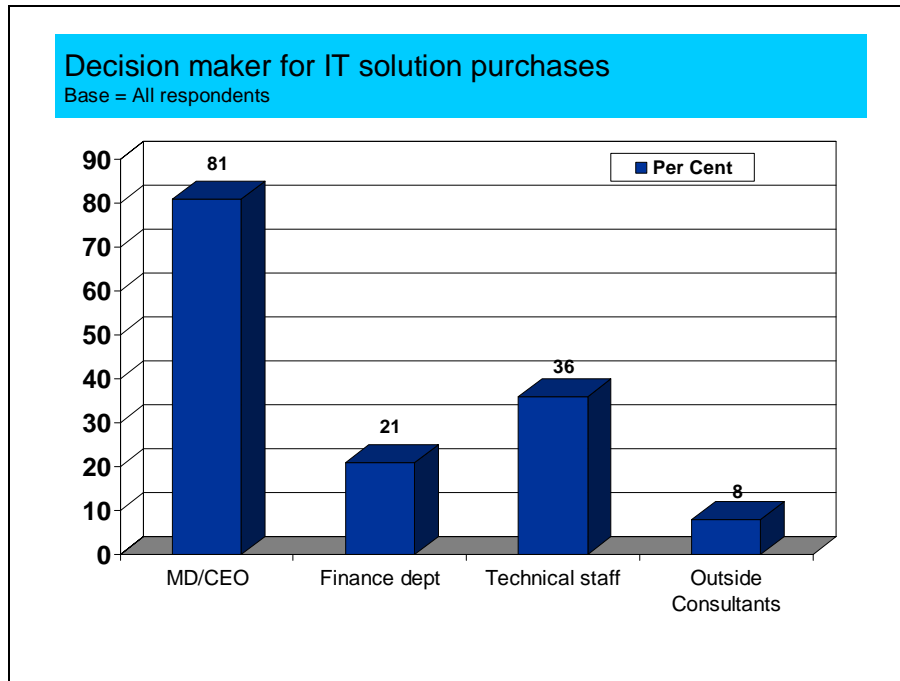
An analysis by size of company reveals that larger SMBs with 100 – 249 employees are marginally less likely to use their own funds to finance IT and networking technology purchases and they are marginally more likely to use bank borrowing. SMBs with 20 – 49 employees are more likely to use their own funds and bank borrowing, while SMBs with 50 – 99 employees will predominantly fund purchases through cash and then leasing.

At the business sector level, it is interesting to note that there are some key differences in funding mechanisms used. 94 per cent of finance firms prefer to use their own funds, with leasing (15 per cent) the second most common option used. Manufacturing companies use their own funds first but 19 per cent use bank borrowing and 17 per cent leasing agreements. Utilities and telecommunications companies use the widest variety of finance methods, three quarters use their own funds, 18 per cent leasing, 14 per cent bank borrowing and 14 per cent hire purchase.

So unlike the consumer market, smaller businesses like to refrain from incurring debt and jeopardising the future potential of the business. Investment is made on a need to have basis and funded generally by retained funds and as such, all owner/managers will be looking for a keen return on any investment. It is important therefore for all technology services and products to make a key impact on the business and underpin the growth of the organisation. At the same time, there seems to be an increased interest in leasing in certain key markets, a trend that we expect to see grow over the coming few years as more and technology providers offer this form of leasing, which to date has been rarely provided to “higher risk” SMBs.

The IT Decision Making Process

With many SMBs being owner managed, the role of the CEO/MD is varied to say the least and requires an involvement in customer facing activities, investment decisions, strategic direction, financing, planning and day-to-day management of the business. But do CEOs/MDs get involved in IT decision making and how much of a team based approach is taken?



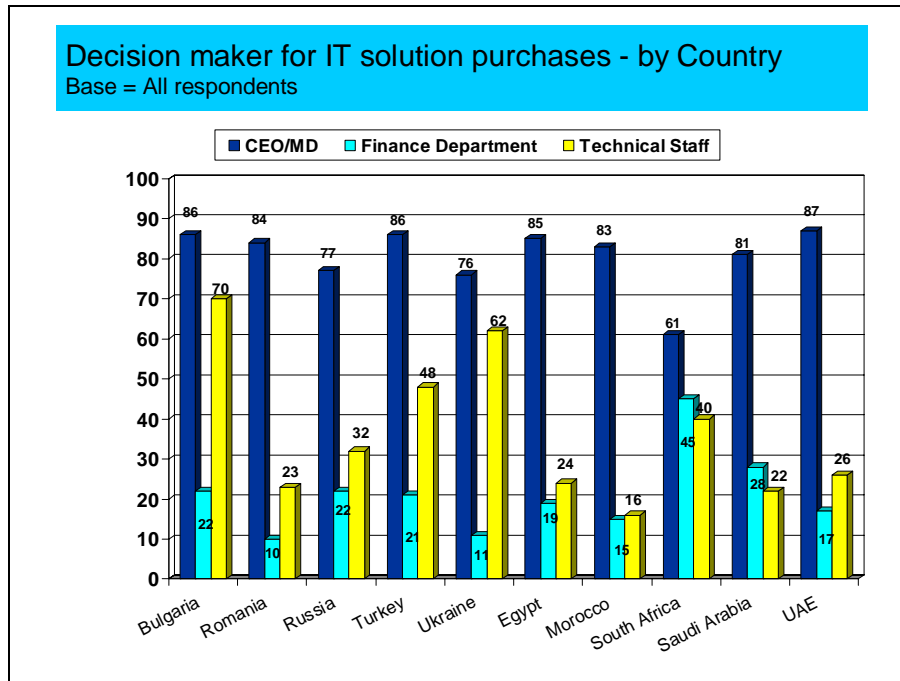
It is clear from the study that in 81 per cent of all SMBs across the regions and countries included in the survey CEOs/MDs are regularly involved in the IT decision making process. In around one third (36 per cent) of all SMBs, the technical staff (in the guise of the IT manager or internal IT expert) is involved in the purchase decision and only in 21 per cent of cases is the finance department involved. As such, the pattern that emerges is one where there is limited team-based decision making. The lack of internal technical people in the decision making may be due to the fact that owner/managers feel that the internal IT skills are limited, or there is no resident expert.

Looking across the regions as defined by the survey, in 81 per cent of Eastern European SMBs the CEO/MD is involved in the IT decision making process, but these companies also show the highest propensity of technical staff involvement (47 per cent). Only 22 per cent of SMBs in this region involve the finance department. In Africa, around three quarters of companies (76 per cent) involve the CEO/MD and 27 per cent the technical staff in their decision making, while in Middle Eastern firms, the CEO/MD is involved in 84 per cent of occasions and the internal technical team in only around one quarter (24 per cent).

However, the regional analysis masks some very different approaches being taken by individual countries. In Bulgaria for example, CEO/MDs are involved in the IT decision making in 86 per cent of SMBs but at the same time 79 per cent of companies also include the technical/IT staff in the activity, indicating a high degree of team based decision making. However, in Romania the CEO/MD is involved in 84

per cent of cases and technical staff in only 23 per cent. South African SMBs show the greatest propensity for team based or delegated decision making, with 61 per cent involving the CEO/MD, 45 per cent the finance department and 40 per cent the technical teams.

Ukrainian SMBs also have a team based approach to their IT decision making, with 62 per cent involving the technical staff while three quarters (76 per cent) still involve the CEO/MD. In Morocco, it would appear as though the decision making responsibility is almost solely the domain of the CEO/MD whereas in Egypt and UAE there are signs that the technical staff are starting to be consulted and involved in the core IT decision making processes.



As might be expected the larger the SMB the more likely the decision making will involve others than the CEO/MD. 40 per cent of SMBs with 100 – 249 employees will involve the technical staff compared with only 31 per cent of SMBs with 20 – 49 employees, where the CEO/MD is the IT decision maker in 84 per cent of cases. In the 50 – 99 employees category, 80 per cent involve the CEO/MD in the IT decision making and 37 per cent also involve the technical staff.

At the industry sector level, finance sector SMBs show a high degree of team based decision making with 40 per cent involving the technical staff and 12 per cent outside consultants. Manufacturing firms have a clear preference to keep the decision-making amongst CEO/MDs (80 per cent) and technical staff (32 per cent). Retail and wholesale companies show the greatest level of team based decision making with the CEO/MD involved in 81 per cent of cases, technical staff 42 per cent and the finance department 21 per cent. In the business services market, the CEO/MD is the key decision maker.

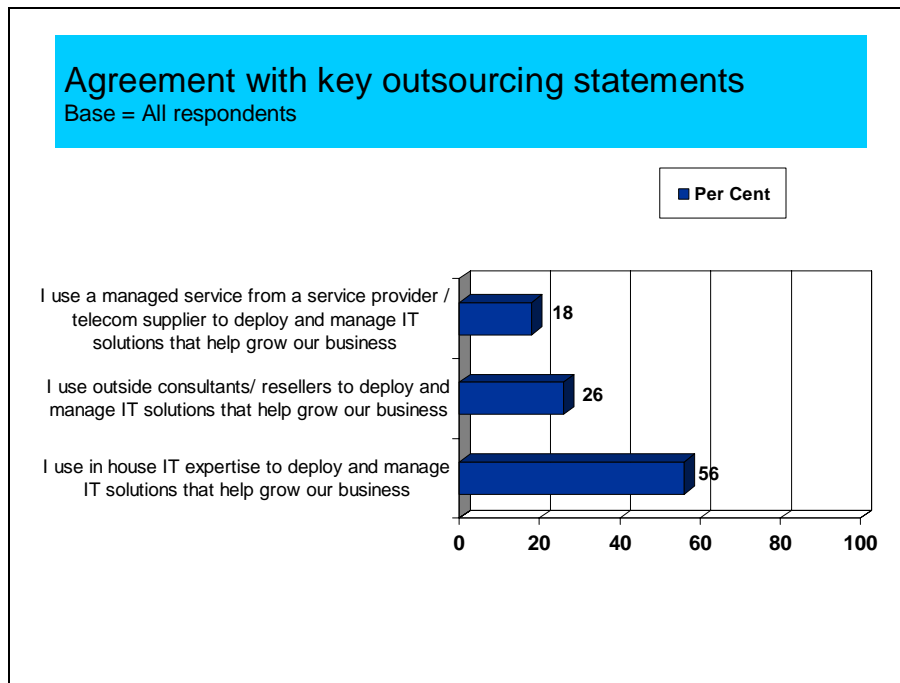
What seems to be clear is that from a technology decision-making point of view, is that processes vary depending on the size of the firm and the country in which it operates. Some SMBs keep an autocratic process in place with heavy and often exclusive CEO/MD involvement while others (especially those in South Africa) delegate the decision making to key departmental functionaries. It is essential that IT

service and product suppliers show a clear understanding of the nuances within each market as to how IT decisions are made and in that way they will be able to develop a better business relationship with the SMB. It is also likely that the decision making process will change as SMBs become more familiar with the technology that is available and we would expect a greater involvement from the technical teams as things progress.

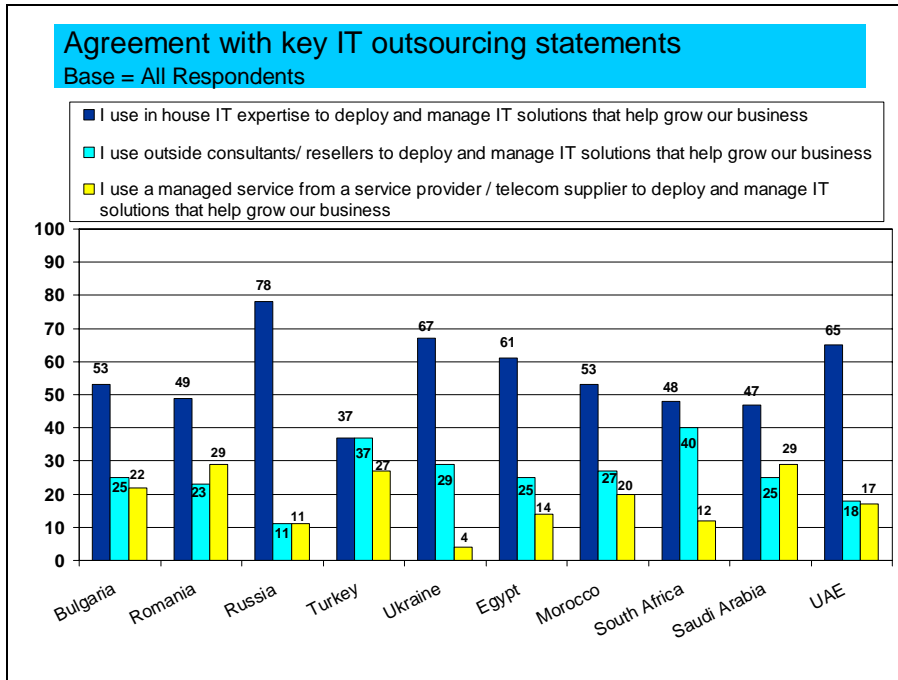
Use of Managed Services to Manage and Deploy IT Solutions

One method to generate uplift in the quality of service delivered by an IT team, potentially reduce the costs of the service delivery and also freeing up core skills and senior executive time, is to use a managed service approach. This can also assist in dealing with internal staff IT skills shortages that are a barrier to the uptake of technology for more than a third (38 per cent) of all SMBs. So do SMBs use any form of managed service?

Only 18 per cent of all SMBs surveyed use a managed service, the preference in 56 per cent of cases is to use in-house experts to deploy and manage IT solutions – even though many of them have limited skills. The rest of SMBs use outside consultants and resellers to manage and deploy IT solutions.



Looking at the differences by region, managed services are marginally more prevalent in Middle Eastern SMBs compared to the other two regions covered and African SMBs have a greater preference to use outside consultants and third parties (31 per cent compared to 26 per cent overall).



At the country specific level, 68 per cent of Bulgarian SMBs use internal resources to manage and deploy their IT solutions compared with only one quarter (26 per cent) who use the services of outside consultants. 28 per cent of Romanian SMBs use a managed service compared with only four per cent of SMBs in Ukraine and 11 per cent in Russia. Saudi Arabian small firms use a variety of management approaches, 47 per cent use in-house skills to manage and deploy IT solutions while 26 per cent use outside consultants and 29 per cent employ a managed service. In Turkey, the same number of companies (37 per cent) use in-house skills as use external consultants/providers while Russian SMBs have a clear preference for using in house skills (78 per cent) even though these may be limited.

The smaller the SMB the more likely it is to use a managed service. 24 per cent of companies with 20 – 49 employees take this approach compared with only 16 per cent with 100 – 249 employees. The implication being that these larger companies can employ the internal IT staff and indeed 61 per cent use internal staff only to deploy and manage their IT solutions (compared with 49 per cent of SMBs with 20 – 49 employees). Marginally more SMBs with 50 -99 employees employ the services of third parties compared to either of the other size categories covered in the survey.

Looking at the results by industry sector reveals that travel and transport based SMBs (34 per cent) are most likely to use consultants/resellers to help manage and deploy IT solutions. Finance companies (76 per cent) are most likely to use in-house IT staff followed by the utilities and telecommunications sector SMBs (70 per cent). 21 per cent of retail and wholesale companies surveyed use a managed service approach, the sector that makes most use of this method of managing and deploying IT solutions.

Conclusion

Although the SMBs included in this survey are from growing economies, they exhibit similar characteristics to companies that operate in Western Europe. As such these SMBs:

- See business enhancing technology as a key weapon in their drive to remain competitive, with competition being the key business challenge they face at present and will face in the future
- Are increasingly important markets for technology providers, as they have the desire to use technology to maintain or gain competitive edge and they certainly see some of the major technologies available as potentially having an impact on their ability to grow
- Are moving to a networked and even mobile/flexible working focused technology infrastructure. This allows them to entice more people to join by meeting social and environmental needs while also driving increased business flexibility and productivity into the company. However, not all are trying to meet the work/life balance yet
- See the benefits of remote access technology as increased staff productivity and perhaps more importantly improved customer responsiveness
- See IP Telephony as an appropriate technology that will assist their growth ambitions over the medium term if not immediately. Awareness levels are surprisingly high at present and already one third are using the technology
- Refrain from taking on debt for their purchases, preferring to fund investment using cash, although leasing seems to be a growing option in certain countries
- Are concerned about keeping pace with the changes in technology and also want to exploit the use of technology to help their competitive positioning

But there are still some areas of concern, as:

- Two fifths of all businesses (6.7 million across all of the countries included in the survey) are leaving themselves open to potential security disasters as they are failing to invest in back up and storage systems
- SMBs seem to be relying on their senior staff for too much of the decision making and the day-to-day running of the IT solutions. Moving to a managed or outsourced service would free up critical and scarce human resources for better business growth, especially as many already accept that their internal IT skills are less than adequate
- Too many SMBs (but still less than half) see the cost of technology and integrating new systems into their existing businesses as key barriers to the increased use of technology.

It is clear that SMBs in these rapidly growing economies have been quick to see the potential in using technology for competitive gain, mirroring their counterparts in Western Europe. Investments will be driven by the ability to fund the technology through cash for the most part (or at least until they understand the alternative

funding options and their benefits). However, there is no doubt that companies can and will take as full advantage as possible of technology that focuses on customer responsiveness and staff productivity.

ENDS