

## **What SMBs and Their Vendors Should Be Thinking About in 2003**

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The impact of IT purchases on the bottom line is under increasing scrutiny. IT must pay its way by enhancing business performance — not just by improving internal efficiency and cost savings.

## ANALYSIS

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Small and midsize business (SMB) executives (CEOs and CFOs) are under pressure to be profitable, meet customer demands and figure out how IT helps their cause. CIOs are consumed with reducing IT spending, optimizing current investments, and aligning IT investments with the business strategy. IT managers are tasked with making the right decisions regarding which projects should be funded and which should be retired, and what the allocation of resources should be to support the selected IT projects. All this while finding ways to decrease the total cost of ownership (TCO) of their current IT infrastructures. This focus on TCO makes SMBs place greater emphasis on IT products and services that promote simplicity, ease of use and reliability. Which takes us to the supply side of things — to the vendors that are trying to provide the solutions that resonate with each segment of the SMB sector. SMBs seek IT offerings that solve business problems relevant to their industry, and because of their lack of IT staff and skills, they want products and services that are easy to understand, implement, and support. The newest challenge for IT vendors will be the requirement to demonstrate the business benefit of the IT solutions that they provide to SMB executives.

### **Focus on Business vs. Pure Technology When Developing IT Strategies**

Many SMB IT departments are so busy focusing on day-to-day IT operational tasks that they fail to address the need for an IT strategy, let alone tying IT activities to enterprise objectives. They often lack the strategic approach required for effectively selecting, deploying, and supporting the technology they need to support their business objectives. Ironically, for budget-constrained SMBs, an IT strategy is critical in helping them understand the role of IT in their enterprise, which, in turn, helps them determine the funding levels and the model needed to support their IT initiatives. Without a strategic IT game plan, SMBs aren't able to make sound decisions regarding which projects should be funded (or abandoned) and what the allocation of resources should be to support the selected IT projects. An IT strategy is as much about maintaining an enterprise's competitive advantage as it is about deploying and enhancing IT systems.

Research has shown that many technology initiatives do not deliver expected returns because the rest of the enterprise often fails to understand everything needed to support its objective. A lack of alignment and communication between the IT department and business units is directly responsible for suboptimization of resource allocation. The starting point of an IT strategy is the enterprise strategy. IT leaders, architects and business managers must participate in its development. This coordination and collaboration minimizes the chance for misunderstandings and ensures that the consideration for business objectives are carried throughout the process.

### **The Business Value of IT**

SMB CIOs are being asked to demonstrate benefits such as increased efficiency, optimization, improved customer relationships, revenue opportunities and return on investment to gain senior management approval of new IT investments. This means that the IT department must be able to translate its actions into business terms to build and sustain sponsorship and funding for IT investments. Going forward, all budget items are likely to have to be justified and approved based on delivering high and immediate business value. CIOs will be tasked with delivering technology solutions that have a direct and measurable impact on the enterprise's core business (see "With Discipline, SMB CIOs Can Achieve More With Less")

While CIOs are working with business executives to meet the challenges of new business models aimed to drive greater value from IT investments, they must also manage the cost effectiveness of IT investments. The fusion of business and the IS organization is about enabling greater

enterprise speed, innovation, adeptness and customer-centricity. This business focus has further complicated an already complex CIO world.

The reaction should not be to spend less on IT. Instead, SMBs should focus on spending smarter. SMB IT portfolios are typically weighted heavily toward infrastructure and utility applications. Infrastructure represents the foundation of essential elements, such as networks, PCs, development tools, training and help desk, and the maintenance that is required to deploy, run and support applications within the enterprise. Utility applications are not differentiating, but they are essential. These may be mission-critical (for example, payroll and HR) but offer little contribution toward improved enterprise performance. Enhancement applications (for example, supply chain management) are those that make the enterprise perform better than without the application. Better performance is measured in speed, convenience, cost of business operations, working capital requirements and quality. Frontier applications, such as e-commerce, are those that make a major change in business performance, that may change the competitive landscape and that tend to be risky at the outset. SMB IT spending health can be gauged by determining spending among the categories of frontier, enhancement, infrastructure and utility. SMBs that spend less than 30 percent of their IT budgets on frontier and enhancement risk underinvesting in their IT future; those that spend more than 30 percent are taking steps that can influence the performance of the enterprise and, therefore, are direct contributors to the business objectives and to alignment. While this is a good guideline and indicator of IT spending health, all investments must be justified in terms of their contribution to business value to maximize returns. For example, an understanding of how industry peers spend in their market might influence (up or down) investment plans. The challenge for SMB IT managers will be to determine the right mix of IT investment to support the business processes that will improve customer service, drive top-line growth and cut operational costs (see "SMB IT Manager Priority: Making IT Better and Cheaper").

### **The Business View of IT**

Traditionally, IT metrics among SMBs have concentrated on service levels (that is, efficiency, uptime and throughput). Such measures are important and should not be eliminated. However, they do not provide the strategic management information to demonstrate business value. Business executives — although they often accept the importance of IT — are skeptical enough that they require a compelling case before budgeting new IT investments. The stated business objectives provide a focal point in determining the value that the enterprise seeks from IT. Understanding the markets and trends affecting these objectives and how IT can contribute builds credibility among business executives and provides a perspective on opportunities for IT to deliver these objectives (see "SMB Executive Concerns: Does IT Boost Performance?"). To accomplish truly effective communication between the IS organization and the business community, there are some approaches and tools that can provide substantial help. One of these is portfolio management, a concept that is widely understood because of its use in financial portfolios. The same concept can be applied to the efforts within the IT world. Applications can be divided into categories that together are supported by a common infrastructure. The categories can then demonstrate the degree to which an application contributes to superior enterprise performance. For example, payroll is an essential application, but it does not make an enterprise better than its competition.

The process for business planning must define the role of IT in every business process and transaction. The IT strategy and architecture then becomes the action plan or delivering the key initiatives and priorities defined in the business plan. It defines the specific technologies, applications and infrastructures needed to meet business priorities. This is a critical component of the business plan, because if the technology underlying critical business processes is not well planned, sites can fail, customer orders can get lost and revenue opportunities can be missed.

### **The Supply Side of Things**

There has been tremendous vendor activity in the SMB market. Many leading hardware, software and services vendors, such as Cisco, IBM, Microsoft, Oracle, SAP and Verizon, have been making announcements about their strategies, products and services aimed at SMBs. While SMBs may present a lucrative opportunity for technology vendors, this market is highly fragmented and fast-changing, making it a significant challenge for vendors to gain SMBs' mind share. Understanding the unique wants and needs of SMBs is critical to targeting products, pricing, marketing and channel strategies in any given application or infrastructure area (see "IT Vendors Will Need Focus When Selling to SMBs in 2003").

Some of the challenges IT vendors targeting the SMB market will face in 2003 include the following:

- Delivering simplicity, manageability, dependability and interoperability in their products
- Conducting better market segmentation that recognizes SMB distinctions, rather than treating the market as a homogeneous constituency. There are five major subsegments within the SMB market and countless vertical markets.
- Establishing multitiered distribution channels that leverage the established relationships that regional, vertically focused VARs and systems integrators already have with SMBs
- Delivering business-oriented marketing messages rather than a technology-focused feature-function-benefit approach. Vendors that cannot demonstrate benefits from their products and services such as increased efficiency, optimization, improved customer relationships, revenue opportunities and ROI will be disadvantaged.

## Features

"With Discipline, SMB CIOs Can Achieve More With Less" — Portfolio management, careful planning of IT needs and thoughtful contract negotiation with vendors are among the strategies that can help SMBs get more from their IT investment. **By Robert Anderson, Jim Browning, Mika Yamamoto Krammer and Joe Outlaw**

"SMB IT Manager Priority: Making IT Better and Cheaper" — Standardizing solutions and integrating them across business lines can add efficiency as SMBs scramble to do more with limited IT infrastructure. **By Jim Browning, Robert Anderson and Joe Outlaw**

"SMB Executive Concerns: Does IT Boost Performance?" — Business strategy should be the chief motivator in IT investment decisions. **By Mika Yamamoto Krammer, Jim Browning, Robert Anderson, and Robert Brown**

"IT Vendors Will Need Focus When Selling to SMBs in 2003" — With tighter resources shaping their IT investment decisions, SMBs are a specialized market for vendors. **By Mika Yamamoto Krammer, Jim Browning, Robert Anderson, Joe Outlaw and Robert Brown**

This research is part of a set of related research pieces. See "Making IT Work for SMBs: Key Issues for 2003" for an overview.

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