



SMB Growing Pains

A Study into Key Business Challenges and
Technology Adoption in Small and Medium-Sized
Businesses Across Europe

Commissioned By Cisco Systems

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Key Findings



Abstract

Europe's 19 million small and medium-sized businesses (SMBs) are increasingly seeing key business-enhancing technologies as the way to beat the competition. Mobility, network security, broadband connectivity and IP telephony are all seen by European SMBs as key "must have" technologies that help address key business challenges. These challenges range from keeping up-to-date with market developments, finance, and meeting regulation to implementing new business processes and retaining / recruiting key staff plus the key challenge of meeting the competition head on.

Introduction

According to CSR Europe, the leading European business network for corporate social responsibility, Europe's 19 million small and medium sized businesses (SMBs) account for the majority of all businesses across the region. By virtue of their number and the sheer amount of people they employ they are, for many countries, the lifeblood of the economy, providing employment, entrepreneurial skills, economic regeneration and development and social development. But they can be a misunderstood community, and until recently one that has been overlooked by the technology solutions and services providers as a market that is too diverse, unpredictable and of relative low value (in terms of net sales) to warrant any serious interest. This is now changing. There is no doubt that today IT vendors recognise that SMBs represent a huge potential market for appropriate IT and communications systems and solutions: assuming an conservative average IT spend of €25,000, this represents potential revenue approaching half a trillion Euros per annum (on the proviso, of course, that these solutions are tailored to meet the exact – and *exacting* – needs of the SMBs they are aimed at).

There is also no doubt that SMBs are complex businesses for their size. Business motivations can centre on the desire to grow larger, or to provide a good or steady income for the owner, or to provide the local community with employment – and any combination of the three. The owner plays an essential role in the running of the business, often as CEO or MD, and is involved in the major decision-making – including IT. Strategic planning is sometimes usurped by the desire to meet day-to-day challenges – driven by the need to meet customer demands and maintain their competitive position. Fear of losing out to others is a constant within the businesses and they rarely have the resource to be more proactive planners.

But what exactly are the main business challenges that they are currently facing and the key technologies that SMBs "must have" to meet these challenges and thereby stay at least one step ahead of the competition? All of these issues were covered in the major research programme sponsored by Cisco Systems and designed and undertaken by Coleman Parkes Research Limited.

Study Background and Methodology

1,204 small and medium businesses took part in this extensive survey, 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 the European, regional, country and size within region levels. Typically, the findings of the survey when extrapolated to the 19 million European SMBs, is 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. The countries covered included:

Region	Countries included for this survey
Western Europe	UK, France, Germany, Italy, the Netherlands and Spain
Eastern Europe	Poland, Hungary and the Czech Republic
Northern Europe	Denmark, Finland and Sweden

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

Industry Sector	Number of Interviews
Business Services	169
Manufacturing	438
Retail/Wholesale	202
Finance	31
Utilities and telecommunications	61
Others (including Government)	303

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.

Executive Summary

Key Business Challenges

- Competition is the number one challenge being faced by SMBs across Europe at the present time (53 per cent) and is more likely to be an issue for Italian (76 per cent) and Hungarian (71 per cent) SMBs than any others.
- Keeping up to date with market issues and developments is a key business challenge for approaching half (46 per cent) of all SMBs cross Europe, but particularly an issue for those in the Netherlands (68 per cent), Hungary (66 per cent) and for the medium-sized end of the SMB spectrum (those with 100 – 249 employees). In this latter case, the data suggests that smaller SMBs just simply don't have the time to monitor outside issues and developments, with most staff having to perform more than one business function.
- Finance issues (which for the purposes of this research we have assumed to be access to public and private development capital, cashflow management and debt management) are a challenge for 43 per cent of all firms, but especially those in Western Europe (the Netherlands 60 per cent and UK 53 per cent). Only one quarter of Polish SMBs see finance as a key business issue at present – an encouraging sign for the EU Accession countries in Eastern Europe, and maybe an indication that the regulatory burden is not yet as sophisticated and complex as in "traditional" Europe.
- Overall meeting legislation and regulation is an issue for 41 per cent of all SMBs – but 49 per cent in Western Europe and only 31 per cent in the North and 32 per cent in the EU Accession Countries see it as an issue. This may reflect the impact of the EU and also financial/corporate governance, such as the trickle-down effects of the Sarbanes-Oxley legislation in the USA.

“Must Have” Technologies

- More EU Accession and Northern Europe companies (45 per cent and 42 per cent respectively) see wireless networks as a must have technology compared with Western Europe based SMBs (33 per cent). This compares with the overall figure for Europe of 38 per cent.
- In step with larger enterprises, mobility is seen as increasingly desirable across Europe, with 60 per cent of businesses, rising to 70 per cent in Italy and 77 per cent in Denmark, citing remote access to the company network as their ‘must have’ technology.
- SMBs also recognise that a successful business is a secure business, with more than three quarters of companies (90 per cent in Hungary compared with only 58 per cent in Spain) highlighting the security of their network as vital for their success.
- Secure networking is a must have technology across the board as is fast internet services. More than 76 per cent (14 million companies) see secure networking as mandatory either now or within three years, and 80 per cent of companies (15 million) see high speed internet connection as mandatory for their business either now or within the same timeframe.
- 72 per cent of all SMBs in Europe see networked PCs as “must haves”. However, only 64 per cent of Western Europe based SMBs feel this is the case compared with 76 per cent in Northern and 84 per cent in Eastern European countries. “Larger SMBs” (with 100 – 249 employees) are also more likely to see networked PCs as a key technology assisting their growth objectives.

Key Technical Barriers for SMBs

- Generally, none of the technical barriers to growth for SMBs 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 42 per cent of all firms across Europe but 57 per cent of those in EU Eastern Europe Accession countries, influenced heavily by Poland (63 per cent) and Hungary (64 per cent). Only one third of Western Europe based SMBs see cost of technology as an issue, perhaps reflecting the relative “affluence” of the companies.
- SMBs with 100 – 249 employees (60 per cent of those in Eastern Europe) are more likely to see the cost of technology as a barrier than any others.
- Just over one quarter (28 per cent) of all SMBs see data and system security as a key technical barrier to their growth, but this does not seem to be an issue for EU Accession country SMBs as only 19 per cent of these companies see it as an issue now. SMBs in Finland (39 per cent) are most likely to be concerned about data and system security.

- The pace of change and adapting to new technology is more likely to be a Northern Europe SMB technical barrier than anywhere else (45 per cent compared with only 34 per cent overall).
- 47 per cent of SMBs in Northern Europe also see integrating new technology into the business as a technical barrier compared with only 23 per cent of SMBs in EU Accession countries and 36 per cent in the West.

IP Telephony

- 60 per cent of all firms are at least fairly aware of IP telephony. Awareness is highest in Northern Europe and interestingly lowest in the West (but it should be noted that Italy has skewed the overall figure for Western Europe, with only 7 per cent being fully aware of what IP telephony is about).
- The smaller the SMBs the less likely they are to know enough about IP telephony. Only 47 per cent of SMBs with 20 – 49 employees are very or fairly aware of IP telephony in Western Europe compared with 69 per cent of those with 100 – 249 employees.
- A quarter (23 per cent) of European SMBs already fully understand the value that IP telephony will bring to their businesses, with a further 37 per cent showing some awareness.
- More companies in the Eastern Europe Accession countries see IP telephony as appropriate now than in either of the other two regions. Only 11 per cent of all firms (13 per cent in Western Europe) see IP telephony as inappropriate. This market is set therefore for rapid growth.

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). Eastern European Accession SMBs are marginally more likely to borrow from the bank to fund investments but this involves only 17 per cent of firms. Northern Europe based companies are most likely to use a leasing agreement as a funding mechanism when compared to the other two regions but they still prefer to use cash. Leasing is the second most popular method of funding in all regions (31 per cent).
- SMBs in the North of Europe take a more team based approach to IT decision making; across the board in Europe these decisions involve the MD/CEO, but in the Nordics, the finance team and technical groups are proportionately more highly represented than in the EU Accession and Western European countries. As the SMB grows in size, the more likely it is to have more people involved in IT decision making, taking the onus away from the owner/manager through careful delegation.
- Managed services are most likely to be used in Western European companies (13 per cent) compared with only 10 per cent in the Eastern and Northern regions. But as might be expected, most companies (55 per cent) like to use their own in house IT staff to deploy and manage IT solutions.

Key Business Challenges Facing SMBs Today

Considering the large number of competing businesses in the SMB market across Europe, it comes as no surprise that the most important business challenge cited by respondents was competition, including the need to counteract all forms of competitive threat (price; operating cost; service; Government intervention) from both other small and larger businesses. 53 per cent of all SMBs across Europe rated competition as one of their major business challenges today closely followed by the requirement to keep up-to-date with market trends and developments (46 per cent). Identifying new markets and developing new products is a top challenge for 44 per cent of all companies surveyed, while around one third are concerned about retaining and recruiting key staff.



Looking at the figures by region across Europe, 63 per cent of Northern European SMBs see competition as a key business challenge compared to only 50 per cent of those in Western Europe, indicating that the former are now starting to play on the major European, if not global stage and also indigenous multinationals are seeking alternative, developing economy suppliers in an effort to reduce costs. Identifying new markets and developing new products is a key issue for just over half (52 per cent) of Northern European SMBs compared with only 36 per cent of those in the Eastern EU Accession region, the latter being able to take advantage of the general economic growth in their own economy at present. Just over half of all SMBs in Western Europe (51 per cent) are concerned about maintaining business integrity and reputation compared with only 22 per cent of firms in Eastern European Accession countries and 44 per cent in the North of region, again a reflection of the competitive and mature nature of the market in the West, where ongoing relationships are vital to success.

Looking at the top challenges by country, in general Italian, Hungarian and Finnish SMBs seem to face more competitive challenges than most. 76 per cent of Italian SMBs and 71 per cent in Hungary include competition in their top challenges compared with only one quarter in the Czech Republic and 35 per cent in Germany. SMBs again in Italy (61 per cent), the Netherlands (68 per cent) and Hungary (66 per

cent) are the most concerned about keeping up to date with market issues and developments. Although retaining and recruiting key staff is rated as an issue by only one third (36 per cent) of all firms, this was most especially an issue in Italy (47 per cent) and the UK (46 per cent), perhaps reflective of a key skills and resources shortage in those markets. SMBs in the Czech Republic consistently mentioned the fewest challenges, with retaining and recruiting key staff the most commonly mentioned, a result of the general economic growth that is being seen in the market at present and the large influx of inward investment from the likes of the automotive firms, seeking access to developing economies to meet their cost down strategies.

Interestingly, when drilling down into individual market sectors across Europe 53 per cent Business Services SMBs (particularly in the EU Accession countries) are the most likely to see keeping up-to-date with market issues and developments as a top challenge compared to the average of 46 per cent. Also, 58 per cent of finance companies see competition as a key challenge compared with only 47 per cent of Government and Education SMBs. Manufacturing SMBs (55 per cent) are most concerned about competition followed by keeping up to date with market developments (45 per cent), both being an indication of the mature nature of the market in some parts of Europe and manufacturing moving to even cheaper social economies such as India and China.

SMBs were also questioned as to how they saw some of the challenges changing over time, with the period of 3 and 5 years reviewed. 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 in the same relative importance would indeed be faced, but they would simply not impact quite so many companies. So in 5 years' time, competition is expected to be the number one issue for SMBs (38 per cent).

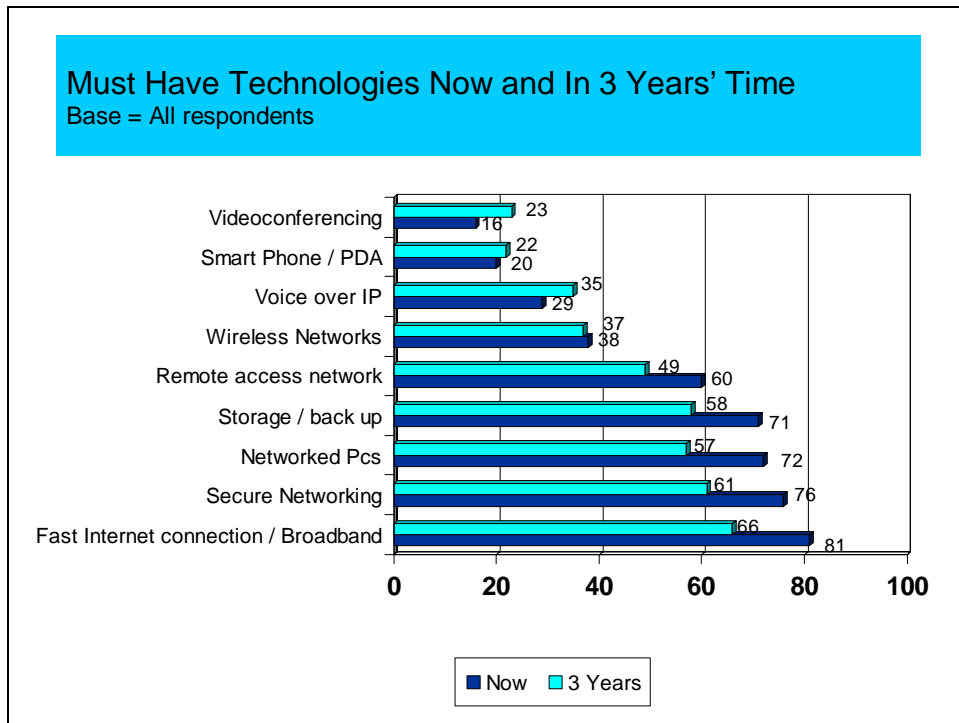
Overall, the picture that emerges is one where competition in all its forms is a major focus for the majority of SMBs no matter what region they are in and it will remain an issue for some time to come. A key challenge is what does each SMB have to do to make sure that it remains competitive and can 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

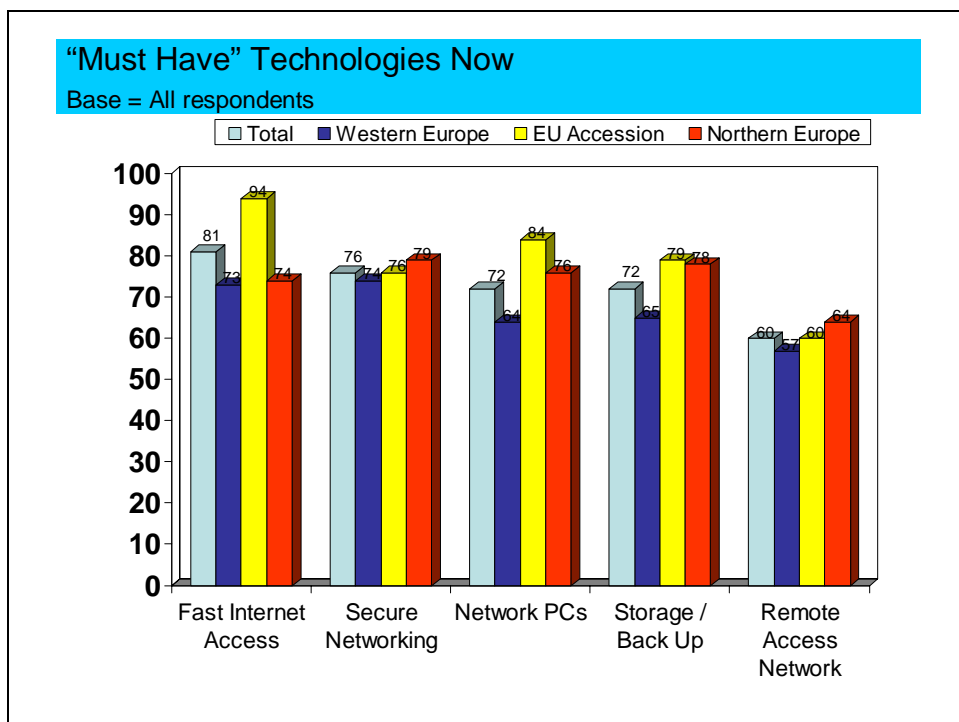
One of the core issues for SMBs, with so much technology around, is selecting the right product or service that will provide real business impact and help grow the business over the medium term. Groundbreaking technologies are all well and good but if the SMB does not have the internal skills to use the system 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 Europe overall at first, top of the shop now and ongoing in the next three years is fast internet access, seen as a “must have” technology by 81 per cent of all SMBs. 66 per cent think it will remain the key technology in 3 years as well. The desire to have broadband technology may be linked to the fact that SMBs like to use the Internet as one of their major information sources on technology issues and in addition many may see the chance to start to move to an e-business based approach, underpinned by fast internet access. There also appears to be a move to more mobile and flexible working. Three quarters (76 per cent) of SMBs across Europe see secure networking as a must have technology and 60 per cent are looking at remote access networks. More sophisticated technologies like smart phones (20 per cent) and videoconferencing (16 per cent) have been identified as

“nice to haves” but they will gain in acceptance and usage within the next three years.



Looking at the must have technologies by region, 94 per cent of Eastern Europe Accession-based SMBs cite fast internet access as their must have technology compared with only three quarters (73 per cent) in Western Europe, where many already have the technology in place. Network PCs are also cited as being “must haves” by 84 per cent of EU Accession-based SMBs compared with only 64 per cent in Western Europe, where there is already a commitment to use Networked PCs as part of the overall communications activity.



At the country specific level we see some major contrasts. Fast internet access is a “must have” for companies in Italy (92 per cent), Poland (95 per cent) and the Czech Republic (94 per cent). Only 64 per cent of SMBs in both Spain and Germany see fast internet as a “must have”. 93 per cent of Hungarian SMBs, by the far the most of any country, see networked PCs as key technologies now. This compares with only 43 per cent of SMBs in Germany and 50 per cent in France. In the UK three quarters (76 per cent) of SMBs see networked PCs as a “must have” technology now. In Denmark, 77 per cent of SMBs see remote access networks as a key technology and as such is leading the way across all countries, while only 37 per cent of SMBs in Spain see this as a key technology to have now. Secure networking is most important; it would appear, to those SMBs in Hungary (90 per cent), Denmark (88 per cent) and Italy (83 per cent). Secure networking is also the most important technology to have for German SMBs, who seem to have limited interest at present in smart phones, videoconferencing and networked PCs. Spanish and French SMBs are most likely to suffer security issues going forward as only around half of them feel that storage and back up are must have technologies compared with 89 per cent of SMBs in Holland.

Looking at the technology needs by size of company, generally the larger the SMB the more likely it is to see the technologies as having an impact on their growth. 82 per cent of SMBs with 100 – 249 employees see secure networking as a “must have” compared with only 71 per cent of those with 20 – 49 employees. Looking at remote access networks, only 53 per cent of smaller SMBs (with 20 – 49 employees) feel this is a key technology compared with two thirds (66 per cent) of SMBs with 100 – 249 employees. Interestingly, more sophisticated technologies like smart phones and videoconferencing are set to grow at a similar rate across all sizes of SMBs in the coming three years, albeit from a very small base at present.

At the industry level, voice over IP is seen as a “must have” technology by more companies in the business services (36 per cent) and finance (36 per cent) than any other sectors (average is 28 per cent) and Business Services SMBs (81 per cent) also see secure networking as a key technology, compared with only 73 per cent of those in the manufacturing sector. Manufacturing SMBs are focusing on using fast internet access (83 per cent), secure networking (73 per cent) and networked PCs (72 per cent) while retail and wholesale SMBs see “must have” technologies as fast internet access (81 per cent), secure networking (79 per cent) and storage / back up (68 per cent).

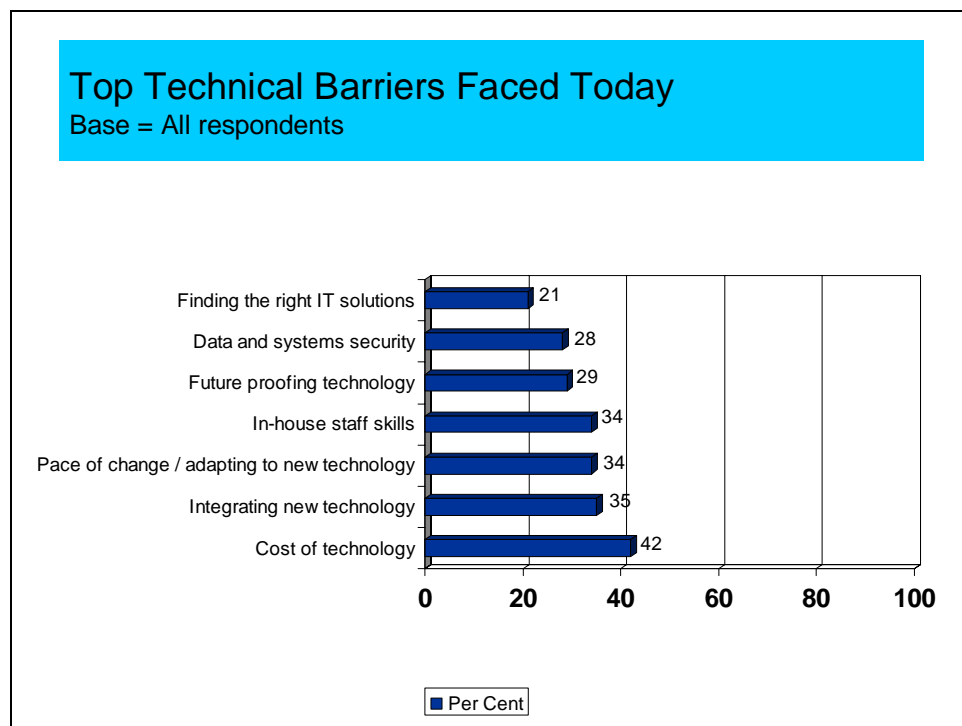
It is therefore clear that the adoption of business critical technology is set to underpin the ongoing competitive positioning of SMBs across the entire region. Companies are also looking to meet key social challenges like the work life balance by using more technology that provides for more flexible and mobile working practices, but there should be more of a focus on the security and integrity of those systems and the ability to manage the data and knowledge within the company better through improved storage and back up systems. Over 5 million SMBs are leaving themselves open to major information disasters as they are failing to invest in the right level of data storage and back up facilities.

Key Technical Barriers for SMBs

Europe’s 19 million SMBs 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 the competitive threat that they face. Key technologies are available and required but what barriers to the take up of technology do the SMBs face?

Generally, it is encouraging to report that for each of the barriers mentioned in the study, less than half of SMBs agreed that they felt it was barrier to the take up of technology that would underpin the growth of the business, so unlike the business challenges, the technical barriers seem less “onerous”.

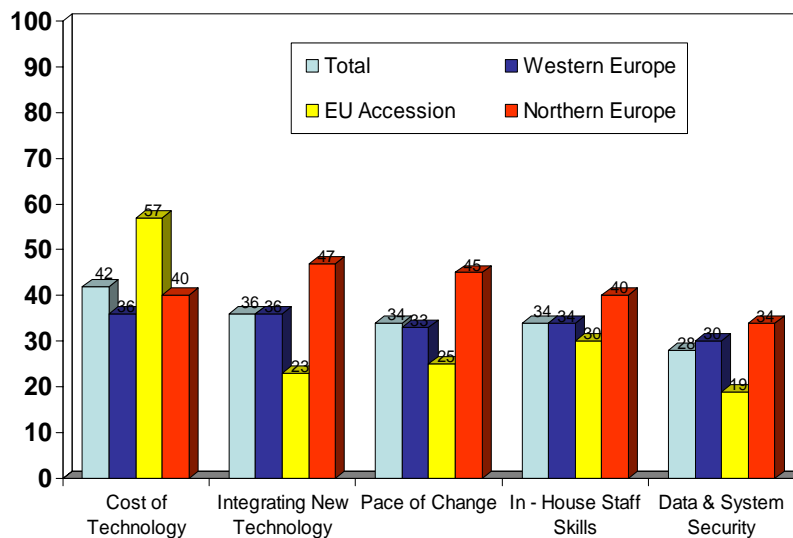
As might be expected, top of the shop across Europe is the cost of technology, an issue for 42 per cent of all SMBs (almost 8 million in Europe). 35 per cent of companies see integrating new technology into their existing systems as a key technical barrier as well. Interestingly, finding the right IT solutions is only an issue for one in five companies across Europe as whole 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 (34 per cent) of SMBs. This would indicate an acceptance that technology is an important issue to all SMBs and thus they have to keep up to date with the ongoing changes within the technological community as the impact on their business can be significant.



At the regional level across Europe, just over half (53 per cent) of Eastern European SMBs see the cost of technology as a key technical barrier to their growth compared with only 36 per cent of those in the West of the region. One third of SMBs in the North of Europe are more likely to see data and system security as an issue than any other region (only 19 per cent of Eastern EU Accession countries) and the pace of change and adapting to new technology is most likely to be an issue for companies in the North as well (45 per cent compared with 33 per cent in the West of Europe). Only one quarter (23 per cent) of SMBs in Eastern Europe see integrating new technology into their systems as an issue (compared with 47 per cent of Northern European companies) perhaps reflecting the fact that the latter have made more investments to date in technology and thus have more integration to undertake. In-house staff IT skills are more likely to be a technical barrier to SMBs in the North of Europe where 40 per cent mentioned it compared with only 30 per cent in the EU Accession countries covered by the survey.

Current Top Technical Barriers to Growth

Base = All respondents



Looking at the contrasts and comparisons by country, Polish (63 per cent) and Hungarian (64 per cent) SMBs are most likely by some way to see the cost of technology as a key technical barrier whilst only 28 per cent of Dutch SMBs see it as an issue. Dutch firms are more likely to focus on the data and security issue (40 per cent) compared with any other country and only 21 per cent of Czech Republic based SMBs see it as an issue. German SMBs see fewest technical barriers of all, with only one third citing the cost of technology and as few as 24 per cent data systems and security. 49 per cent of both Finnish and Swedish and 47 per cent of British SMBs see integrating new technology into existing systems as a key barrier, far more than any other country, reflecting the fact that they have made the greater investments in technology over the last 5 years and thus have more systems to which new investments have to communicate. Like their German counterparts, French SMBs see fewer technical barriers with the cost of technology by far the most commonly mentioned, but by only 36 per cent of companies.

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) and also they are more likely to see integrating new technology into their existing systems as a barrier, reflecting the fact that they have already made substantial investments in technology to date. Only 33 per cent of SMBs with 50 – 99 employees see integration as an issue compared with 38 per cent of those with 100- 249 employees. For the SMBs with 20 – 49 employees, the key technical barriers are the cost of technology (42 per cent), in-house staff IT skills (35 per cent) and the pace of change (32 per cent). Larger SMBs 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.

At the business sector level, business services companies are more likely to see the cost of technology as a barrier (49 per cent) than any other sector (only 26 per cent of finance companies see it as an issue). The most commonly cited issue for finance firms is integrating new technology into existing systems, an issue for 32 per cent of finance SMBs while in the manufacturing sector, the major barriers are the cost of

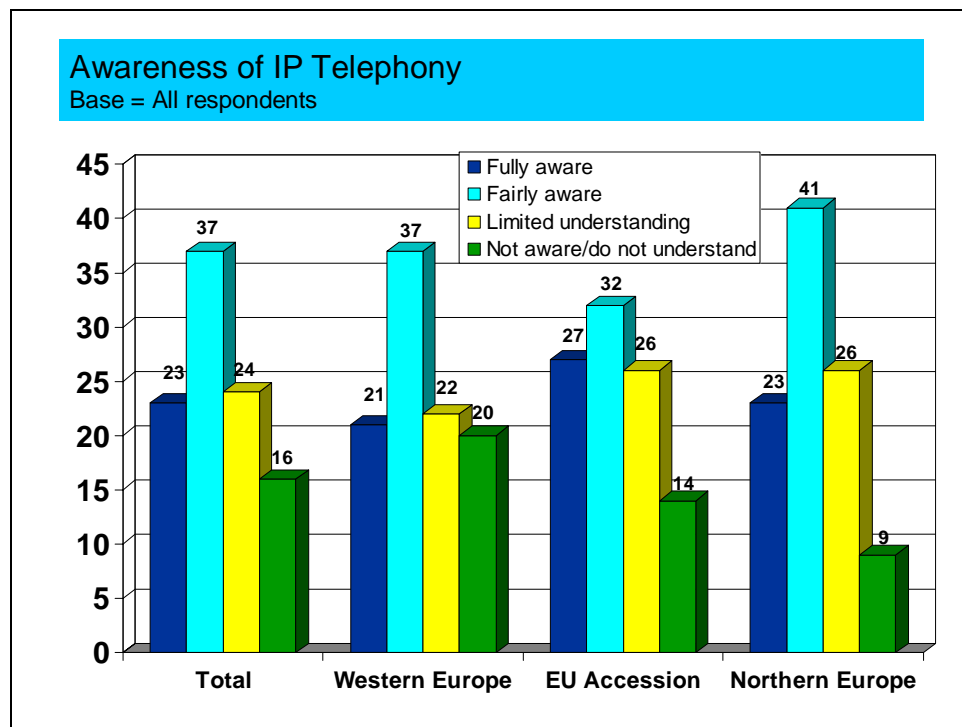
technology (42 per cent), integrating new technology into existing systems (36 per cent) and the pace of change (35 per cent).

There is no doubt that the cost of technology and pace of change is having an impact on European SMBs at present and it is important for all suppliers to provide appropriate, cost effective and tailored solutions to the market which will allow for easy integration and fast implementation. When questioned during the study 53 per cent of all firms report that they feel technology companies are providing the right level of tailored solutions for their needs, so there is clearly room for improvement. Generally, SMBs are fearful of the costs of the technology and given that funding for investment is made from retained earnings in 76 per cent of all cases (87 per cent in EU Accession countries), it is essential that any investment is made in technology that will drive business growth, increased productivity and competitive advantage.

Awareness and Appropriateness of IP Telephony

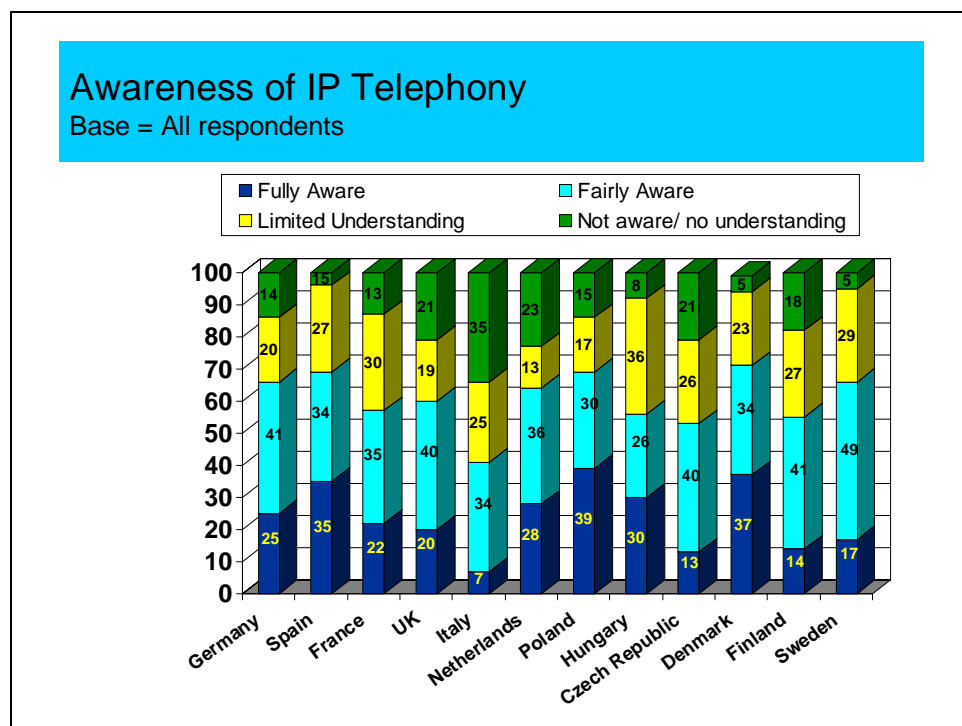
One major technology high on the corporate agenda is IP telephony as it is seen to provide enterprise companies with the ability to increase productivity, generate increased business agility in their communications and also reduce operating costs. But do SMBs companies even know what IP telephony is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

Well, it is encouraging to see that already around one quarter of all SMBs across Europe (23 per cent) stated that they are fully aware of what IP telephony is and how it can impact their business and an additional one third (37 per cent) showed some level of awareness and understanding and were eager to know more about it. These figures suggest that the market for IP Telephony within Europe's SMBs is set to explode in the near future.



SMBs in the North of Europe (64 per cent) are more likely to have some level of IP Telephony awareness than any others and more SMBs in Western Europe are likely to not know anything about the technology (20 per cent) compared with other of the other two regions.

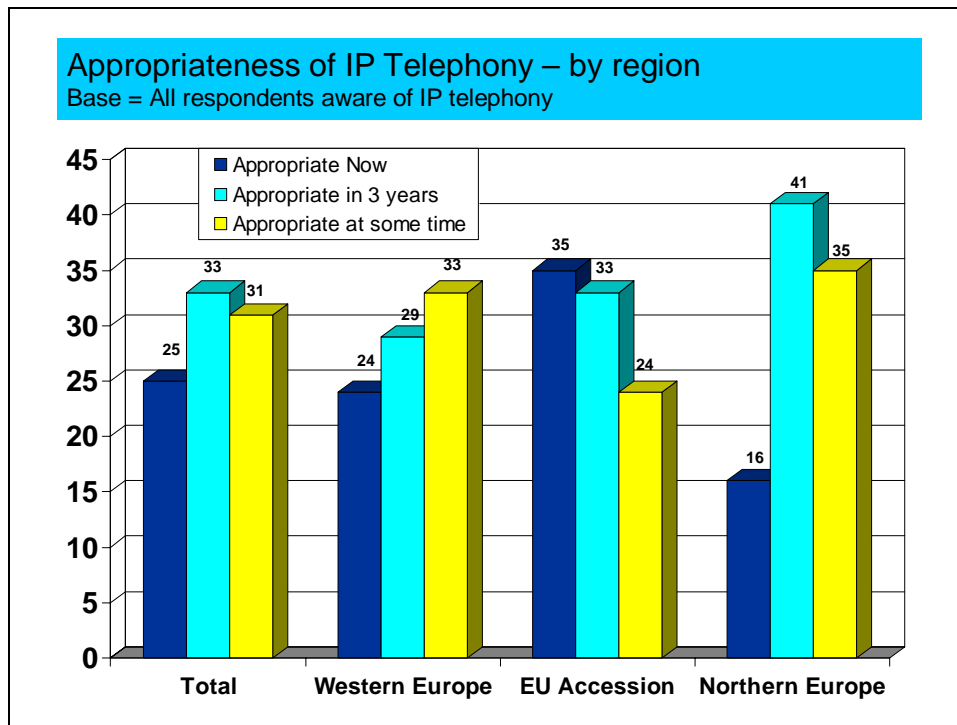
Comparing the levels of awareness by country, it is clear that some countries are lagging seriously behind others. Only 7 per cent of Italian SMBs are fully aware of IP telephony and 14 per cent in Finland. The highest awareness levels are recorded in Spain (69 per cent showing some level of awareness), Poland (69 per cent) and the Netherlands (64 per cent). 35 per cent of all Italian SMBs have never heard of the IP Telephony term and do not understand what it is all about.



As might be expected, the larger SMBs with 100 – 249 employees exhibit a more detailed knowledge of IP Telephony with 30 per cent fully aware of it and a further 38 per cent having heard of it but needing to understand it more, compared with only 19 per cent and 33 per cent respectively of SMBs with 20 – 49 employees.

Manufacturing SMBs across Europe show the lowest full awareness of IP telephony with only 19 per cent being fully aware compared with 29 per cent of finance SMBs. 65 per cent of SMBs in the business services industry show at least some level of awareness compared with 64 per cent of finance firms and only 53 per cent of those in manufacturing.

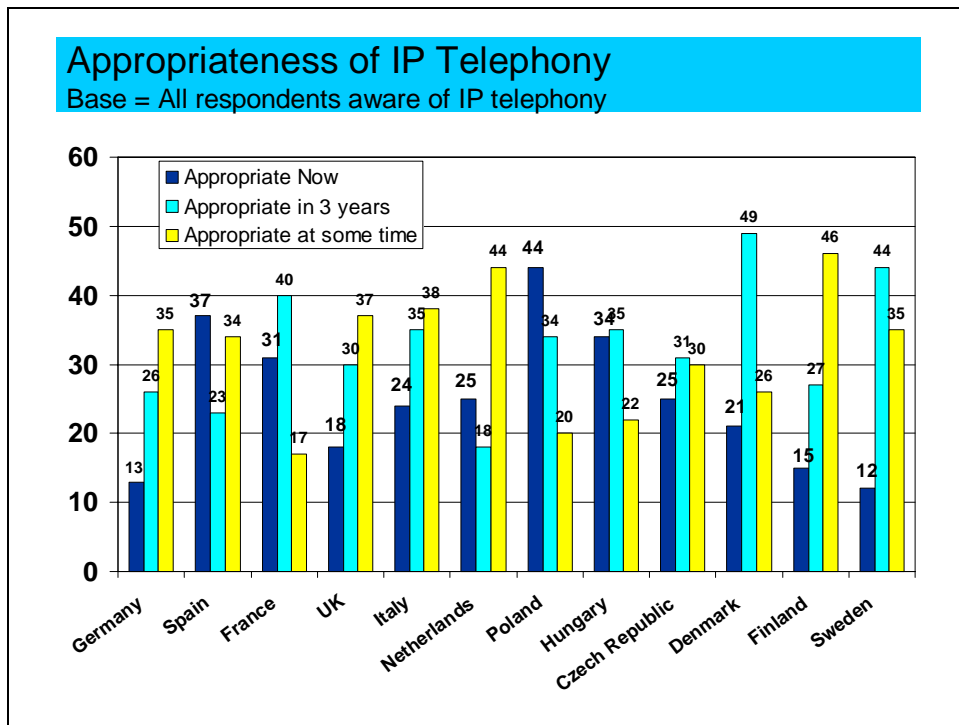
Being aware of IP telephony is only one half of the story, the technology has to be seen to be appropriate to SMBs to have a real impact and generate investment in it. When questioned, across Europe one quarter of SMBs (approaching 3 million) aware of IP telephony felt that the technology was appropriate now and a further one third agreed that it will be appropriate in 3 years' time. Most encouraging of all was the fact that only 1 in 10 companies aware of IP telephony across Europe did not feel that the technology was appropriate to their business, so the market is set for explosive growth as by 2010, as many as 10 million SMBs could be using IP telephony for business growth and this is only based on those who know about it now.



Northern European SMBs are more likely to see the appropriateness of IP telephony as a longer term issue than any others as only 16 per cent feel it is appropriate now (compared with 35 per cent of Eastern Europe) but 41 per cent feel it will be appropriate in 3 years' time, perhaps taking the chance to wait and see how the technology develops before implementing it themselves. One third of Western European SMBs aware of the technology feel that it is likely to be appropriate in the longer term.

Looking at individual country perceptions it is clear that the levels of appropriateness of the technology vary by country and by expected timescale. Only 13 per cent of German SMBs aware of the technology see IP telephony as appropriate now (66 per cent are aware of it) compared with 44 per cent of Polish SMBs. More SMBs in France (40 per cent), Hungary (35 per cent), Denmark (49 per cent) and Sweden (44 per cent) see the technology as appropriate in three years time than any other timeframe. Organisations in the UK, Germany, Italy, the Netherlands and Finland see the technology as important but more for the longer than short to medium term. So in terms of all countries, the market is set for major growth but the growth rates will vary country by country but Poland, Spain and Hungary are likely to show the fastest growth over the next year.

As might be anticipated, SMBs with 100 – 249 employees are more likely to see IP telephony as appropriate in the short term (as they have been shown to have a higher understanding of the technology) but even those with 20 – 49 employees (53 per cent) feel that the technology will be appropriate to them within 3 years. 28 per cent of SMBs with 50 – 49 employees already see the technology as appropriate to deploy right now, which is surprisingly higher than their “larger” SMB counterparts.



At the industry sector level, only 3 per cent of finance sector SMBs who are aware of the technology feel that IP telephony will be inappropriate to them compared with 12 per cent of business services SMBs and 10 per cent of those in the retail and wholesale markets. Only 20 per cent of manufacturing SMBs aware of the technology see it as appropriate now, the lowest proportion across all business sectors 34 per cent see it as appropriate in the longer term, far more than any other sector.

It would therefore seem that the trend is growing, and will increase over time as companies increasingly look to reduce key costs within their business and improve productivity (like their enterprise counterparts.) IP telephony will become more important as a communication channel for all businesses no matter what size. It is proven that companies are keen to know about the technology and feel that it can have a significant impact on the business in the next five years. This is presumably coupled with the desire to have fast internet access and the need to use the internet as a key communications and information channel.

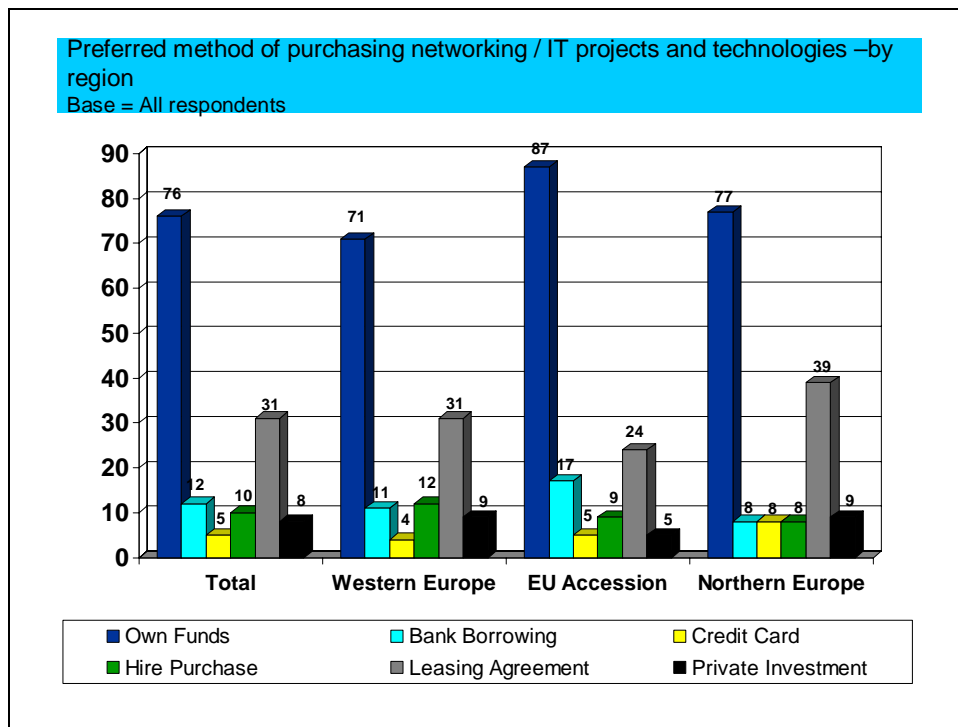
Methods used to Invest in Networking/IT Projects and Technologies

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?

Across Europe there is little doubt that SMBs prefer to use their own cash (in the form of retained earnings) to fund their ongoing technology investments. 76 per cent of all firms use this method compared with only 31 per cent who use a leasing arrangement, the second most popular. This clear preference to use cash may be driven by a desire to avoid entering into any form of debt arrangement. It could also stem from a moral implication or a feeling that SMBs will find it hard to generate any form of borrowing or investment monies. Bank borrowing and credit cards, were the

late runners at 12 per cent and 5 per cent respectively across Europe, much lower numbers than perhaps anticipated...

Looking at the differences by region it is clear that Eastern European SMBs are least likely to use leasing as a finance option for funding networking and IT projects and technologies, preferring by far to use retained earnings while 39 per cent of Northern Europe based SMBs do use leasing as a key finance option. In Western Europe, 71 per cent of all SMBs prefer to use retained cash while 31 per cent fund investments by leasing arrangements.



Looking at the differences by individual country, SMBs in Italy (60 per cent) and Spain (65 per cent) are least likely to use retained cash compared to all other countries to drive technology investments. Around one fifth (22 per cent) of Hungarian SMBs and 28 per cent of those in France use bank borrowing to fund their investments and as such differ quite markedly from SMBs in other countries such as Germany (2 per cent) and The UK (2 per cent). Finnish (44 per cent) and Swedish (41 per cent) companies show more of a desire to use leasing to fund their investments in networking and IT projects and technologies than any other European countries.

An analysis by size of company reveals that larger SMBs with 100 – 249 employees are less likely than any others to use bank borrowing to help fund technology projects, only 10 per cent use this form of financing compared with 12 per cent of SMBs with 20 – 49 and also 50 – 99 employees. The last two sectors are however more likely to use hire purchase as a funding mechanism as well, with around 12 per cent also using this form of finance option to invest in technology.

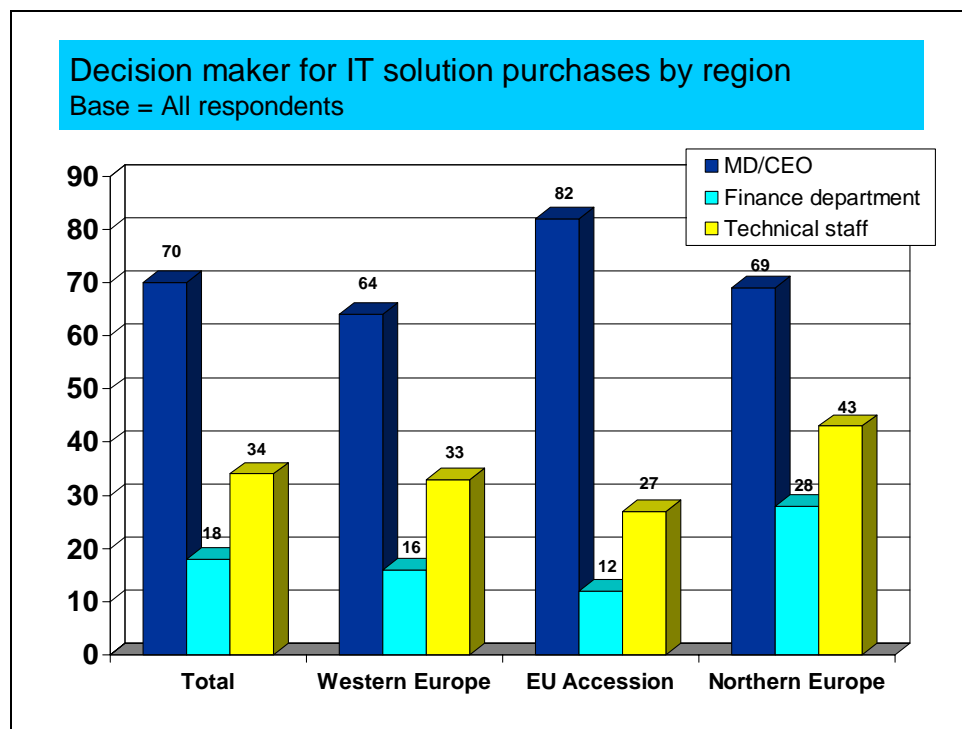
At the business sector level, it is interesting to note that there is little difference at all in the options preferred to fund networking and IT projects and technologies. Only in the finance sector do we see a marginal difference from the rest of the sectors, where only 61 per cent of SMBs compared with 76 per cent overall, prefer to use cash. This may reflect a higher awareness of the alternative finance options available, evidenced by the range of options that are currently used. Manufacturing

SMBs take a traditional cash and leasing approach to financing technology investments.

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.

The IT Decision Making Process

As many SMBs are owner managed, the role of the CEO/MD is varied to say the least and will require an involvement in customer facing activities, investment decisions, strategic direction, 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 70 per cent of all SMBs across Europe CEOs/MDs are regularly involved in the IT decision making process. In around one third (34 per cent) of all SMBs, the technical staff (in the guise of the IT manager of internal IT expert) is involved in the purchase decision and only in 18 per cent of cases is the finance department involved.

Looking across the regions covered in the survey, Eastern European country SMBs show the greater propensity to have CEO/MD involvement in any decision making (82 per cent) while Western European based SMBs exhibit a more delegated decision making process with 64 per cent including the CEO/MD in the activity but 33 per cent involving the technical staff, and only 15 per cent involving a true team. In Northern Europe around one third of all SMBs (32 per cent) are likely to involve more than one person in the decision making process compared with 21 per cent in the EU Accession countries.

A country comparison shows some clear differences in approach to IT decision making. UK based SMBs are more likely to have a single decision maker than any others, with only 50 per cent leaving it to the CEO/MD. Conversely in Germany, 37 per cent of companies use a team based approach where at least two functionaries are involved and in 91 per cent of cases the CEO/MD will make the decision or be involved in the process. In Poland, the decision is typically left to the CEO/MD (90 per cent) or the technical staff (35 per cent) with minimal recourse to the finance department (in only 5 per cent of cases). Finally, in Finnish and Swedish SMBs, team based decision making is by far the most common with almost half of Finnish SMBs (48 per cent) and two thirds of Swedish SMBs involving at least two functionaries, and they also get the finance department involved more than any other countries.

As might be expected the larger the SMB the more likely the decision making will involve others than the CEO/MD. 43 per cent of SMBs with 100 – 249 employees will leave the decision making to the technical staff compared with only 27 per cent of SMBs with 20 – 49 employees, where the CEO/MD is the IT decision maker in 70 per cent of cases.

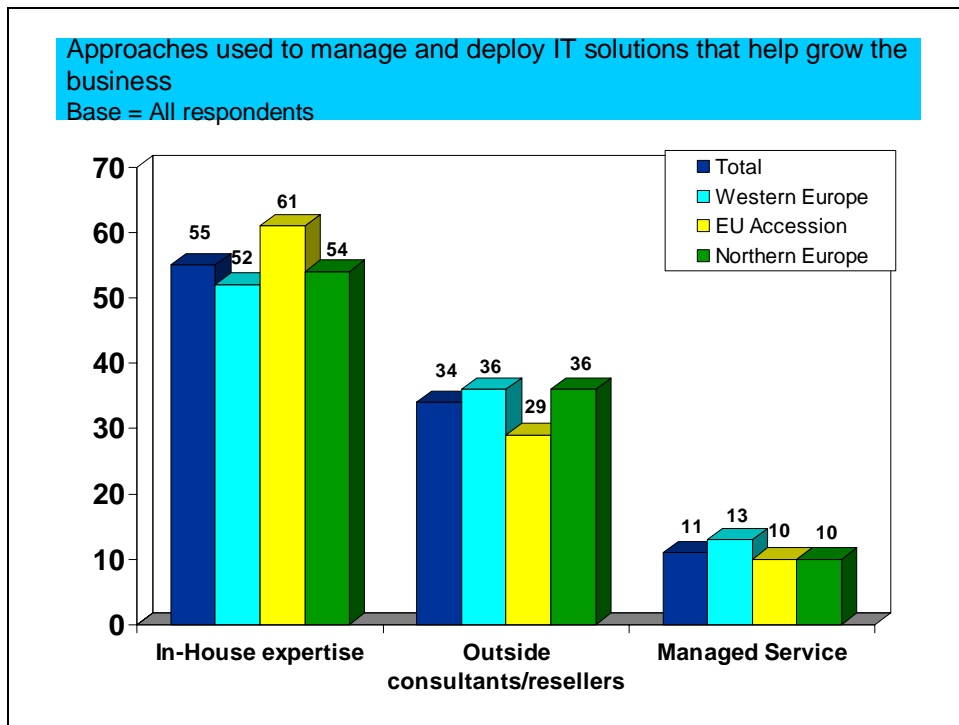
At the industry sector level, finance sector SMBs are most likely to delegate the decision making to technical and finance staff as in only 55 per cent of cases is the CEO/MD the main IT decision maker. Three quarters of business services companies involve the CEO/MD in the decision making process but they seem to take a team based approach quite often as 34 per cent also involve the technical staff and 23 per cent the finance department. This approach is also mirrored in the retail and wholesale market where 74 per cent involve the CEO/MD, 22 per cent the finance department and 38 per cent technical staff.

It is clear that from a technology decision making point of view 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 the UK) 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 the European 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.

Use of Managed Services to Manage and Deploy IT Solutions

One method to generate uplift in the quality of service delivered by the IT team in any organisation and potentially reduce the costs of the service delivery is to use a managed service approach (which would also free-up the CEO to focus on core business activities in many SMBs). This approach can also assist in dealing with internal staff IT skills shortages which have been seen to be a barrier to the uptake of technology for around one third of all SMBs. So do SMBs use any form of managed service?

It has been established that to date, only 11 per cent of all SMBs across Europe use a managed service, the preference being in 55 per cent of all cases to use in-house experts to deploy and manage IT solutions. The rest of SMBs across Europe use outside consultants and resellers to manage and deploy IT solutions.



Looking at the differences by region, managed services are marginally more prevalent in Western European SMBs compared to the other two regions covered and EU Accession country based SMBs have a clear preference to use in house expertise (61 per cent).

At the country specific level, 20 per cent of Dutch and Finnish SMBs currently use a managed service to manage and deploy IT solutions compared with only 3 per cent in Denmark and 5 per cent in Germany. Interestingly, 16 per cent of Spanish SMBs also use a managed service approach. SMBs in the Czech Republic favour the use of in house expertise (68 per cent) as do Swedish companies (64 per cent).

The smaller the SMB the more likely it is to use a managed service, 14 per cent of companies with 20 – 49 employees take the approach compared with only 10 per cent with 100 – 249 employees, the implication being that these companies can employ the internal IT staff and indeed 66 per cent use internal staff to deploy and manage their IT solutions (compared with 45 per cent of SMBs with 20 – 49 employees).

Looking at the results by industry sector reveals that manufacturing SMBs (41 per cent) are most likely to use consultants/resellers to help manage and deploy IT solutions while business services companies (63 per cent) are most likely to use in house IT staff closely followed by the finance sector SMBs (61 per cent). 15 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

So what does all of this tell us about how SMBs operate? Well on the positive side SMBs:

- See select, business enhancing technology as a key weapon in their drive to remain competitive, with competition being the key business challenge they face at present.
- Are a key market for technology providers, with a desire to use technology to maintain or gain competitive edge and they certainly see some of the major technology available as potentially having an impact on their ability to grow.
- Are moving to a more mobile and flexible working focused technology infrastructure, to allow them to entice more people to join them by meeting social and environmental needs while also driving increased business flexibility and productivity into the company.
- See security as a key issue, especially as they move to a more mobile working environment.
- See IP Telephony as an appropriate technology that will assist in their growth ambitions over the medium term if not immediately. Awareness levels are reasonably high at present at 60 per cent of all SMBs and the technology is set for rapid growth.
- Refrain from taking on debt for their purchasers, preferring to fund investment using cash.
- See suppliers as providing more appropriate technology for their market even if sometimes it can be seen to be a little too complex.

But there are still some areas of concern, as:

- One quarter of all businesses (5.3 million across Europe) 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.
- 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.
- The pace of change and technology development can hinder technology uptake so it is essential that products are tailored and appropriate to the community.
- The awareness levels of IP telephony could be improved as in some countries too few companies know enough about the technology and how it can impact the growth of their business.

What is clear is that European small and medium sized businesses face a multitude of economic, trading, technology uptake and organisational challenges. But they are all looking to technology to assist them stay ahead of their competition. But technology is only the means to the end and SMBs have to see the benefits of increased productivity, greater protection of their business (intellectual and physical) assets, reduced operating costs and enhanced customer service before they will continue to invest their own money in any form of new technology.

ENDS

This report is based on an independent survey of 1,204 European SMBs and was commissioned by Cisco Systems. The interpretation and views expressed are based on this research as well as publicly available information and have been provided solely by Coleman Parkes Research. Any reproduction of the information provided in this report should specifically reference the "Cisco SMB Growing Pains Project 2005" and any publication or further interpretation of any of the results should be confirmed with either Coleman Parkes Research Limited (Contact Ian Parkes +44 1227 794398) or Cisco (Contact Caroline De Souza +44 (0) 208 824 0982).