

# Connected SMB: Transforming Businesses in the Emerging Markets

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## Point of View: Connected SMB

Innovation, agility, investment, and entrepreneurship are the engines of economic growth. In Emerging Markets, the enterprising efforts of small and medium-sized businesses (SMBs) can accelerate economic growth, raise living standards, create a more favorable trade balance, and broaden a tax base that will fund health, education, and other essential government services.

The Connected SMB provides a framework for social inclusion and economic development that is a central element needed to create a connected society. A country with a large and successful SMB sector is a country ready to compete successfully in global markets, secure greater prosperity, and provide a better way of life for its citizens.

*In Emerging Markets, Cisco IBSG works with leaders of key national and regional government agencies, businesses, communities, multilateral institutions, and NGOs to turn their technology investments into strategic national assets. Serving as trusted advisers in varied assignments spanning broadband connectivity, digital inclusion, smart communities, and business productivity, IBSG aligns ICT to support socioeconomic development in these countries. Connected SMB is IBSG's approach to harnessing the power of ICT to serve the country's small-business and transformation agenda.*

## Executive Summary

Small and medium-sized businesses (SMBs) are major drivers of economic development in Emerging Market countries. Studies have shown that most innovation, growth, and diversity comes from fast-growth businesses and start-ups. It also has been proven that information and communications technology (ICT) is a key contributor to increased productivity, innovation, and growth among SMBs.

Yet despite its huge importance to a nation's economy and employment, SMBs are underrepresented in global economies due to inadequate infrastructure, limited resources, and lack of preparedness for doing business globally. To succeed, SMBs need a supportive government, favorable trade/labor laws and policies, access to technology, skilled workers, and improved management competencies.

The Cisco® concept of the Connected SMB presents a roadmap for developing and strengthening industries, fostering entrepreneurship, improving SMB competitiveness, and increasing management capabilities and ICT skills.

The Connected SMB framework incorporates basic goals, each geared to enabling entrepreneurs and SMBs to participate successfully in the global, networked economy, fueling prosperity and economic competitiveness for the country as a whole.

## Introduction

SMBs are major drivers of economic development. Globally, SMBs represent more than 90 percent of all businesses, 60 percent of the workforce, and more than 40 percent of the gross domestic product (GDP).

For SMBs, the adoption of ICT can deliver improvements in all these business areas:

- Internal and external communications and collaboration
- Customer access and sales
- Customer service and support

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## The Role of ICT in China and India

China and India have seen growth in most manufacturing industries and exports while other countries are losing their manufacturing base. Cost and proximity to markets are not sufficient. Something else is happening in China and India. Though differing in approach, both countries are aggressively focused on trade liberalization, emphasizing economic development and exports, while focusing on strengths in science and technology for growth. Investments in broadband and ICT are enabling Chinese enterprises to connect with customers and suppliers, and to manage large value chains. By comparison, India is becoming a software and ICT powerhouse, but has yet to extend ICT to other industries.

- Productivity (doing more with less)
- Value chain efficiency, through streamlined business processes and external integration
- Operations and financial control
- Management and employee skills
- Human resource management

The Cisco Connected SMB framework is concerned with national economic development and improving countries' global competitiveness. It forms part of the end-to-end development concept of the Connected Nation in which ICT provides an important foundation for growth and improvement in every area of a country's social and economic institutions—from health, education, and local/national government to utilities, service providers, and businesses of all sizes and types.

Connected SMB examines the issues and challenges, and presents a holistic approach to SMB development and enablement. It assesses the situation and needs of SMBs within a country, seeking to understand the interrelationships between supply and demand. The concept offers a framework for transformation, orchestrating supply and demand drivers through public and private partnerships (PPPs) to build the infrastructure, develop services, drive adoption of ICT, and accelerate business performance. The need to balance supply and demand is critical to creation of a sustainable business model and to growth of ICT investment.

## Issues and Challenges

### Economic Development and SMBs

Globalization is bringing both unprecedented opportunities and challenges in developing countries. The Internet, standards-based information systems, and fast, low-cost logistics networks have enabled global value chains that have reduced costs by improving efficiencies and accelerating information and product flows. The Internet has shrunk time and distance, bringing all parts of the global, networked value chain closer and making it more tightly integrated. Global, regional, and bilateral trade agreements and domestic policies also are opening markets and encouraging cross-border trading.

At the same time, intense competition among global enterprises has accelerated the move to specialization. Increasingly, these enterprises are outsourcing and out-tasking to capable suppliers in lower-cost countries. Fast-growth small enterprises in developing countries are

being linked into the global, networked value chain and are becoming larger enterprises. Here, the greatest value is migrating to those enterprises in Emerging Market countries that are able to form longer-term relationships through mutual investments in common standards and Internet-enabled business processes.



Economic development also is enabled by development of domestic ICT sectors and knowledge workers. Both are creating new and more highly paid private sector jobs, raising living standards and fueling the growth of the formal economy and the per-capita GDP. For many emerging countries, such as Chile, China, Estonia, and India, the knowledge economy is seen as a key driver of national competitiveness and economic development.

Key strategies for economic development focus on attracting foreign direct investment, helping grow and expand existing businesses, and stimulating creation of new businesses. Studies have shown that human capital and infrastructure have been important contributors to both foreign investment and private sector development. Based on surveys of Asian and Latin American countries, a World Bank study found relationships between “hard” (i.e., electricity) and “soft” (i.e., customs clearance) infrastructure and improved investment climate and international integration factors, such as export orientation.<sup>1</sup>

SMBs, however, are underrepresented in global economies. Lower trade barriers, combined with low technology diffusion, are affecting several industries, increasing competitive pressures and introducing new risks to SMBs. While larger and more technically sophisticated businesses in developing countries have been able to seize new opportunities, SMBs have received a much smaller share of exports because many are ill-equipped to take advantage of new market opportunities.

SMBs face a number of key development challenges:

- Legal and regulatory compliance
- Taxation
- Access to financial capital
- Access to technology
- Access to foreign markets
- Human development

1. “Investment Climate and International Integration,” Policy Research Working Paper 3323, World Bank, Washington, D.C., May 2004, David Dollar, Mary Hallward-Driemeier, Taye Mengistae

2. “Business Views on Red Tape,” OECD, 2001



A study by the Organisation for Economic Co-operation and Development (OECD)<sup>2</sup> found that small enterprises (1–19 employees) spend four times as much per employee on administrative compliance as mid-sized enterprises (50–499 employees), and generate eight times as many requests for permissions per employee. Tax burdens and compliance costs also fall more heavily on SMBs. Both factors have combined to inhibit creation of new businesses.

One of the greatest obstacles to SMB survival and growth is access to financial capital. Informal businesses, common in much of the Emerging Markets, operate outside the legal and regulatory environment, pay no taxes, and lack the necessary legal and financial records and structures that would make them eligible for business financing. Even formal businesses, however, have formidable challenges. The OECD<sup>3</sup> reports that limited market power and management skills, poor accounting, and insufficient assets tend to increase the risk profile of these businesses. Also, in many countries, financial institutions have difficulty assessing the credit-worthiness of small businesses.

Several factors hinder adoption and use of ICT by SMBs in developing countries. They include poor-quality infrastructure, unavailability and unaffordability of broadband, lack of ICT skills, limited usage by customers, insufficient resources (providers and services addressing the needs of SMBs), and concerns about trust, security, and privacy.

Human capital development needs are closely related to access to financial capital and technology. In addition to a shortage of ICT skills among staff, SMBs lack technical resources to build and maintain information systems or the professional management skills to apply ICT strategically to solve business problems and address new opportunities.

These factors combine to create barriers to an SMB's ability to address foreign markets. Most SMBs in Emerging Market countries have not developed export capabilities and have not participated in industry clusters and collaborative efforts aimed at improving exports.

The Investment Climate Survey (ICS) conducted by the World Bank<sup>4</sup> studied enterprises in 56 developing countries. It found that enterprises that use ICT more extensively tend to grow faster (enterprises that used ICT grew by 3.8 percent per year, compared with 0.4 percent for enterprises that did not). Comparing other performance indicators, the study found that ICT users had higher employment growth, greater productivity, higher investments, and more than twice the level of profitability.

3. OECD (2002a), "Growth Follow-up: Stocktaking of the Role of ICT, Overview and Issues for Discussion", DSTI/ICCP/IND (2002)1, Paris, OECD

4. "Investment Climate Survey, Private Sector Development and Economics Research Group," the World Bank, 2004

Numerous other studies have shown the impact of ICT on key social and economic indicators. Broadband and ICT usage by SMBs is recognized by the European Union, OECD, the United Nations Development Programme, the United Nations Institute for Training and Research, the United States Agency for International Development, the World Bank, and others as a key enabler of SMBs, providing the nation with a shared infrastructure to improve education, healthcare, and government services delivery.

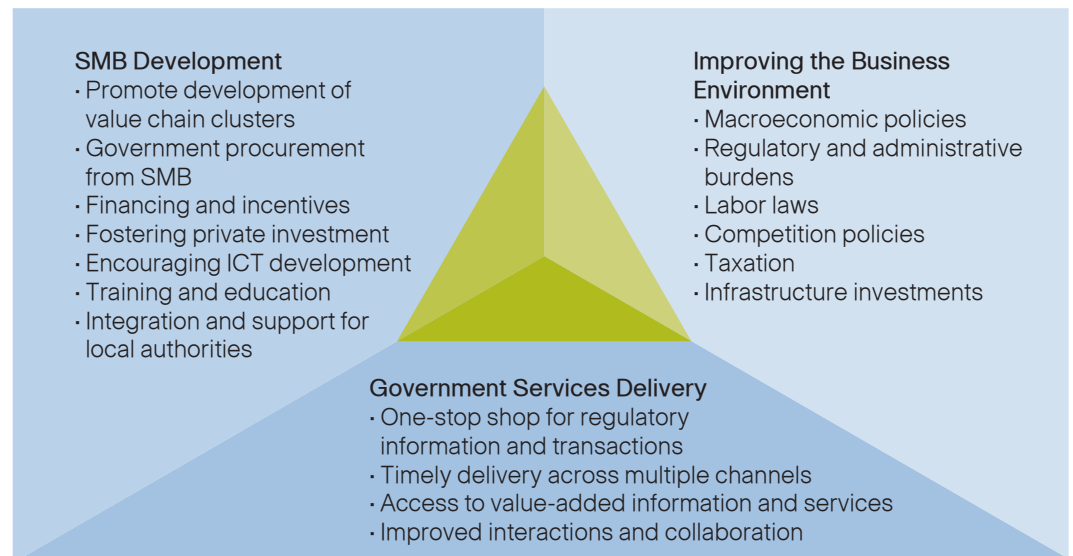
To succeed, SMBs need a supportive government with favorable trade/labor laws and policies, together with access to technology, skilled workers, and improved management competencies.

### A Point of View: Delivering the Connected SMB

The Connected SMB provides a framework for public and private sectors to:

- Create a conducive business environment
- Improve government-to-business (G2B) service delivery
- Stimulate entrepreneurship, innovation, and growth

**Figure 1.** The Role of the Government in SMB Development and Enablement Can Be Described in Three Principle Areas



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Government has a key role to play in promoting SMB development and enablement. It can create a favorable business environment, improve access to information, and improve business efficiency through innovative delivery of government services, thereby stimulating entrepreneurship and growth of SMBs.



### Improving the Business Environment

Creating a conducive business environment involves the creation of policies and programs to improve access to information, simplifying and reducing compliance and administrative burdens, and removing barriers to investment and growth. The macroeconomic environment, infrastructure, and government framework can enable or inhibit development of the private sector within a country. Government regulations and administration, labor and bankruptcy laws, taxation, fees, competition policies, and the integrity of government and financial institutions can act as barriers to entrepreneurship and SMB development.

Conversely, creating a competitive infrastructure through telecommunications liberalization is a key factor in creating a favorable business environment. The availability of affordable broadband connectivity is critical to its adoption and use by SMBs, and, in turn, to the impact of ICT on business growth and efficiency innovation. Government policies promoting competition and encouraging investment in infrastructure, along with development of network services, content, and applications, are vitally important in enabling SMBs to access global markets and participate effectively in value chains.

An important benchmark for government policymakers is the World Bank's "Doing Business" indicators, which rank 147 countries based on the relative ease of doing business. The objectives of the indicators are to promote policy reform for growth, encourage investment, and create jobs. Each country is profiled based on the time, steps, and costs associated with regulations common to every business: starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing a contract, and closing a business.

The World Bank recognizes ICT as an important element for improving the business environment. In its 2005 report,<sup>5</sup> the World Bank noted that electronic one-stop shops for new businesses, especially when combined with regulatory reform and business process redesign, can be a powerful tool to stimulate job opportunities for women and youth, help businesses move into the formal economy, and promote growth.

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5. "Doing Business in 2005: How to Reform the World Bank," World Bank, International Monetary Fund, 2006

## Government Services Delivery

The Connected Government model for SMBs provides a one-stop approach for integrated, business-centric services delivery across multiple channels. This requires inter-departmental and inter-jurisdictional services integration and transformation to move forward, and an integrated back office to optimize efficiencies for the government.

Online information and services have been proven to increase transparency, reducing and simplifying administrative burdens for businesses. G2B services provide the opportunity to aggregate demand and influence SMB adoption through improved delivery of services. In South Korea, the government established a single Internet window to the government procurement system, announcing all bidding opportunities and providing an end-to-end online process for contractors to register, bid, sign the contract agreement, and receive payment for services. The window provides links to 17 government organizations and can handle transactions, status, and reporting of 145 business events.

Canada Business, an organization of 43 Canadian provincial and territorial government departments, along with non-government organizations (NGOs), created “The Business Start-up Assistant,” a Web-based portal providing an extensive list of useful information on government services, programs, and regulations that are current and accurate. Its purpose is to help Canadian entrepreneurs get the right national, regional, and local information and support needed to start and grow their businesses.

Electronic delivery of G2B services provides benefits to government and businesses through improved efficiency and stronger compliance with government regulations, while serving to aggregate demand and stimulate SMB adoption of ICT. Particularly where ICT adoption and diffusion among SMBs is low, government services delivery and access to information has been shown to be a key driver of SMB adoption. To ensure that these government services are accessible to all businesses, however, a multichannel approach usually is needed, including physical locations, Internet access via personal computers and community centers, kiosks, and mobile phones. For example, in many parts of Africa, poor broadband infrastructure has driven citizens and businesses to forego fixed-line phones for mobile devices.

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## SMB Development and Enablement

The Connected SMB provides a flexible framework for business development delivered through PPPs. There is no single solution to SMB development and enablement. The SMB development agenda needs to be based on the national economic development agenda, as well as the business environment, the industrial landscape, education and employment levels, and the geographic and demographic situation. Within Emerging Market countries, SMB development via ICT requires a combination of elements. Where SMB markets are underserved and adoption of ICT is low, the most critical needs for SMBs typically are an understanding of the business benefits of ICT, training and education, access to technology, and financial resources.

Improving SMB competitiveness is critical for countries seeking to secure investment and stimulate foreign trade. The government can play an important role in promoting domestic industries and exports by creating free trade zones to stimulate investment and reduce export costs. Here, ICT has been shown to be particularly effective, creating better communications and collaboration among domestic suppliers, extending sales and marketing reach to international customers, and enabling SMBs to link to global value chains. Many industry programs aimed at boosting SMB development include strong ICT elements to achieve efficiencies.

The Connected SMB sets out the following components to address SMB development and enablement:

- **Awareness.** Many SMBs do not have a good understanding of the benefits or costs of using ICT. Government, trade associations, and local chambers of commerce can do much to raise awareness among SMBs and potential suppliers.
- **Education.** Poor business and ICT skills must be addressed to promote adoption and business benefits. Government, NGOs, and private companies have roles in the delivery of ICT, vocational training, and management education.
- **Technology Access.** The availability of good infrastructure at affordable prices is critical to SMB adoption. Government can act as a catalyst for private sector investment in infrastructure, ICT application development, and content generation through funding, incentives, and development policies and programs.



- **ICT Solutions.** Easy-to-use and affordable services and solutions are needed to overcome the barriers to ICT adoption by SMBs. Government, NGOs, and industry suppliers can encourage and finance software development to address unmet needs.
- **Financial Access.** Access to financial resources often is critical for adoption of new technologies. In some cases, financial assistance in the form of loan guarantees, subsidies, or grants may be needed. In many countries, microfinancing has enabled SMBs to acquire small loans and fast approval that enable them to support business expansion and ICT-based solutions.
- **Service and Solutions Delivery.** An ecosystem of ICT suppliers (developers, service providers, value-added resellers, and systems integrators) must be in place to provide the services SMBs need. In particular, access to hosted and managed services, such as Website development and hosting, remote network management, security, data backup, and help desk support for SMB employees, are very important.

### Addressing SMB Supply

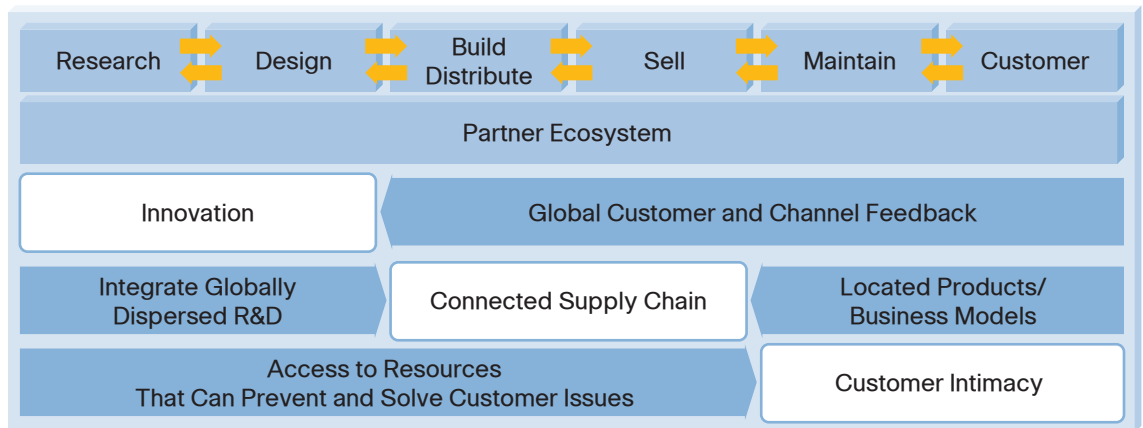
Many voice and data service offerings in developing countries are not appropriate for the SMB market because large incumbent service providers typically are focused on the public sector and large enterprises. For these service providers, SMBs are too fragmented and lack the buying power to be economically viable as customers. While many see large market potential, internal inefficiencies and the undeveloped nature of the market prevent strong investment. To address the SMB market, service providers need to understand SMB needs, develop suitable offerings based on sufficient demand, and develop sustainable business and operating models that will allow them to service the market profitably.

The Connected SMB provides a framework for building ICT-enabled business capabilities. It examines the role of ICT in addressing the needs of businesses and presents a model and business-driven approach for sharing information, improving communications, automating transactions, and enabling two-way interactions and collaboration.

Working with leading companies, the Cisco Internet Business Solutions Group (IBSG) has developed an approach, based on three core building blocks:

- **Innovation** in new product development requires integration of inputs from multiple sources, including customers, suppliers, original equipment manufacturers, and in-house R&D.
- **Connected supply chain** embraces all company and relevant partner functions around the world, improving the flow of information to advance decision making and accelerate processes.
- **Customer intimacy** allows organizations to differentiate the customer experience in order to cross-sell, up-sell, and maximize loyalty.

Figure 2. Value Chain Improvement Opportunities



## The Connected SMB Toolkit

Cisco has developed the Connected SMB Toolkit to help those in Emerging Markets plan and execute large-scale transformational programs for their countries. The enabler toolkit contains:

- A set of case studies setting out best practices for SMB development and enablement
- A set of case studies for service providers setting out best practices for the delivery of services to SMBs
- Suggested engagement models
- Survey tools to identify needs and opportunities
- A research methodology to identify SMB needs along with government and SP delivery opportunities
- An orchestration model for building public and private partnerships
- Business models and approaches for SMB solution delivery

## Conclusion

SMBs are the lifeblood of economic growth. They bring agility, entrepreneurship, and innovation to the economies in which they operate. This, in turn, stimulates competitiveness within the market, which translates rapidly to national economic strength. In Emerging Markets, governments can focus on encouraging and supporting SMBs as a means of generating the wealth and value that fuels other key areas of economic need, such as health and education. Providing the right political, regulatory, and economic framework for SMBs can set in motion cycles of growth that support each other, with skilled and healthy workers coming into the labor market to provide improved resources for growing businesses. The Cisco concept of the Connected SMB provides principles and proven approaches for governments, NGOs, and the private sector to apply for fostering the flourishing SMB sectors. It also serves as a framework for the integration of ICT-driven SMB success into a regional and national program, leading to the development of a country that is ready to compete vigorously and successfully in the Internet-driven global economy.

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### More Information

The Cisco Internet Business Solutions Group (IBSG), the global strategic consulting arm of Cisco, helps Global Fortune 500 companies and public organizations transform the way they do business—first by designing innovative business processes, and then by integrating advanced technologies into visionary roadmaps that improve customer experience and revenue growth.

For further information about IBSG, visit <http://www.cisco.com/go/ibsg>

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