



10 steps strategy for SME success

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European mid-market: 10 steps to success

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INTRODUCTION

Background and scope of this paper

This project is the third in a series of research and strategy reports aimed at small and medium-sized enterprises (SMEs) carried out for Oracle Corporation.

The aim of the project is to delineate a 10-step plan for SMEs to gear themselves up to capitalize on a re-emergent economy. This is in response to the issues highlighted in papers I and II by senior executives at over 5,000 SMEs across 19 countries and 10 industries throughout Western and Eastern Europe and the Middle East.

Datamonitor establishes a reasonable, common denominator for the current position in which many SMEs find themselves. It offers a framework that SMEs can use as the template to map out a plan for greater cost control and competitiveness going forward. It is important to bear in mind that the framework is not a full-scale roadmap for every SME. It serves as a suggested 10-step framework for the way in which SMEs should consider their current financial, operational and technological situation, rather than as a route to profitability. The framework focuses particularly on business processes and workflow, operational efficiency and relevant technologies in support of them.

An SME is defined for the purposes of this paper as a business employing between 10 and 500 employees, or with revenues of between €5 million and €250 million.

Overview

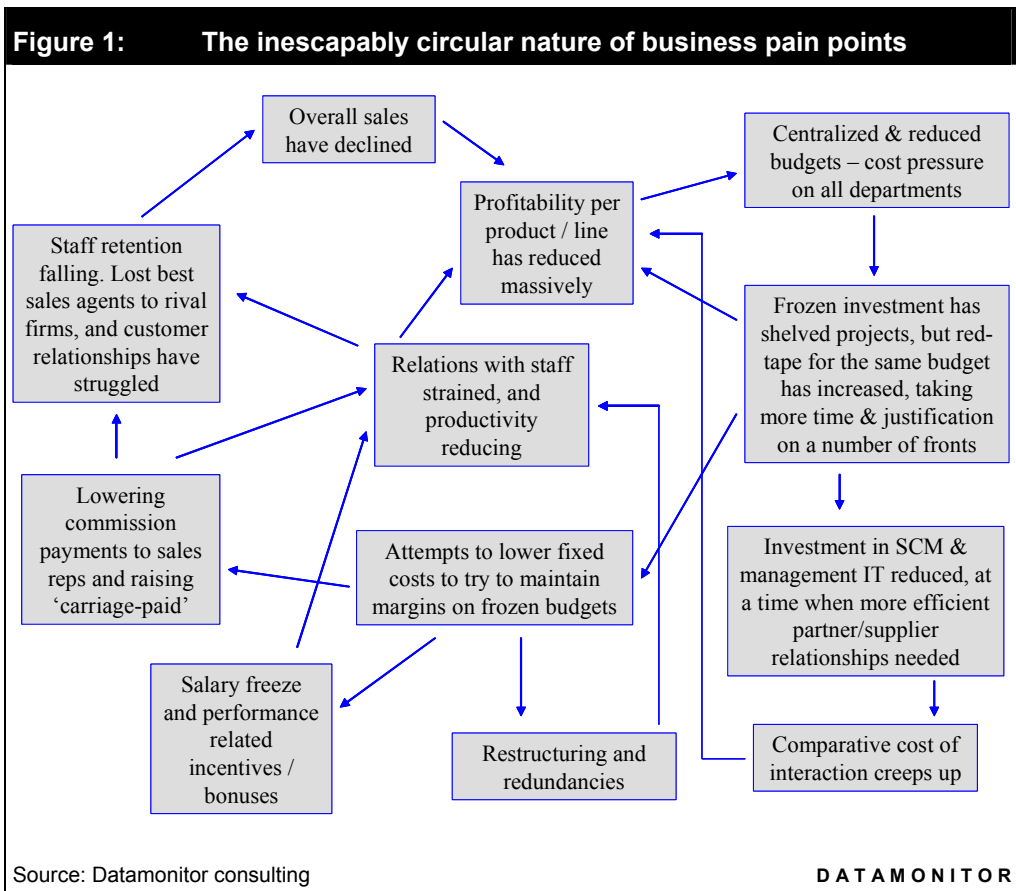
The first two papers in this series established some clear, common problems and priorities for SMEs. Those papers also established a host of operational anomalies in the ways in which the economic downturn has affected SMEs. Reactions to the need to cut costs in order to be more competitive have taken a number of forms, some knee-jerk, some calculated and some highly mercenary. Several over-arching and common issues have become apparent.

1. Cost cutting has left many companies with a less cohesive departmental structure than before the downturn.

Introduction

2. Business processes saw increased scrutiny in cost-cutting initiatives and have actually become more solid. These processes are now defensively geared, however, and the lack of flexibility is unlikely to benefit growth strategies.
3. IT capabilities have become mismatched with business process and scale of operations. In seeking to address this, the question of whether to invest further in order to enhance capabilities for the future is implicit.
4. The re-emergent economy will not display similar tolerance for wasteful business practice. Every market correction brings with it a raising of the bar.

As concluded in paper I of the series, SME business pain points are inescapably circular in nature (see Figure 1 below). It is therefore difficult to know where to start the process of improvement, business re-engineering or investment for growth, without needing to address multiple issues in one go. In reality, attempting to solve multiple problems on many fronts can waste money and achieve meager results, since this approach can all too easily treat symptoms rather than causes.



In order to establish a starting point, Datamonitor suggests a ten-step plan, which breaks down into three, fundamental component groups:

- Assess;
- Stabilize;
- Act.

While SMEs will find themselves at different stages of evolution, the plan allows any SME to work through a series of measured and ordered steps, each designed to address known problems with associated returns.

Introduction

Assess

In order to establish a starting point in addressing the whole gamut of issues affecting the SME (competition, margins, pricing, budgets, structure, staffing, legislative influence, diversification pressure, business relationships, CRM, quality control, technology), it is imperative for every business to know exactly where it stands. This sounds fantastically simple, but the lack of correct, up-to-date or relevant business information is a problem especially rife among the SME community. It is almost impossible to measure the need for or the efficacy of cost-cutting measures (or any initiatives) without sufficient visibility or business information on daily operations. Some SMEs will have undertaken an information audit of some sort, above and beyond monthly accounting information, before starting to cut costs. This probably, but unfortunately, represents the minority and even for those that did, this 'snapshot' will be out of date.

Stabilize

After taking stock, the second set of actions of any business looking to bolster its operations and pursue growth must be to have a solid base on which to build. Cutting out diversity and duplication in whatever form it may exist, (operations, IT, departmental structure, business roles, lines of reporting, financial decision-making) is essential for the SME in avoiding non-cohesive initiatives and in restoring company morale. While arguments for greater fluidity of process and diversity of operations can be made for larger organizations, these do not generally apply for the SME. Costs cannot be taken out of IT unless there are scales of economy in platform purchase, management, operations and support. Costs cannot be taken out of workflow or processes, if these are ad hoc and variant. And costs cannot be taken out of purchasing and supply decisions unless methods of comparison are similar. The result of sudden cuts, ad hoc project holds or fire-fighting activities is to create disruption and heterogeneous environments. This is more acute for larger SMEs, where departmental or project budgets have retained a degree of autonomy, or where activities are more diverse. Correctly consolidating elements of process and support may not be of relevance to the smallest of enterprises with a simpler line of business, although this should be taken into account as they grow. Assessing the efficacy of lines of business, and building on the current situation in order to support the potential for growth while not increasing costs in line, is relevant to all however.

Introduction

Act

Once remedial consolidation and stabilization of the business are concluded, every business must look towards growth. It is imperative to have the flexibility to grow without incurring further issues and especially those costs that have just recently been addressed. There must be capacity to scale business, the practices that define that business and the IT that supports them, without incurring linear cost growth. The ability to capitalize financially on new opportunities will often depend on flexibility of operations, in working with new partners and flexibility of support infrastructures, without a counter-productive 'de-lamination' / separation of process and efficiency.

Having re-evaluated business processes, SMEs are in a position to address their support and operations infrastructures, including IT. Choices regarding cost-benefit analyses, suppliers/vendors and outsourcing options will need to take into account at least three years of expected economic growth and minimize as much disruption as possible. On a more macro level, decisions about and investment in processes and IT are likely to set a precedent for business platform direction and stability for the next decade, especially with the dot.com bust firmly behind us and with the economy improving across Europe and the Middle East. With a raft of countries joining the European Union, commonly addressable markets and resource bases will grow, but so will cheap competition. The financial and operational structure that you put in place now will dictate the terms on which you can compete and grow in this new business phase for some time to come.

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1. Carry out an up-to-date business audit

Carrying out an internal audit of the company's current position reveals a wealth of real-time operational information and is the logical place to start. The focus of this audit is *not* financial risk management and assurance, nor an IT audit – but an assessment of operational business fundamentals in relative detail. Even those businesses that believe they have a good handle on operational information can often surprise themselves. As the basis for recognizing and driving down costs, it is no coincidence that emphasis on real-time business intelligence and operations/process-management has seen a large rise in popularity in the last couple of years.

The audit must focus on comparative, operational metrics at a relatively intricate level, without becoming overly bogged down in departmental or process problem reasons or anomalies. That comes later. Of key importance is information on revenues, costs, 'basic' margin, cost of goods inward, cost of value added, cost of production, cost of sale, cost of channel contribution, cost of support and aftermarket. Unit costs are needed by both line of business and by product. In addition, knowledge of the cost of running individual departments and productivity per employee can be imperative in order to allow fully evidence-based conclusions.

Time and again, the process of de-briefing after any implementation of change or re-organization highlights the link between efficacy and sufficient information at planning stages. This stands to reason. Companies and especially SMEs, however, repeatedly embark on projects to address problems without sufficient knowledge, which therefore results in attempts to treat symptoms rather than causes.

It is important to remember that this is not a fully-fledged business process re-engineering project. While it is conceivable that this might be an outcome for the larger SME, the purpose of this 10-step plan is about tightening up what exists already, pin-pointing addressable easy-win changes and considering the potential for proportionate investment in technology to underpin those changes.

It is also important to lay down a timeframe for improvement projects in order to avoid them dragging on and thereby reducing efficacy. While implementation of any

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structural or process change, as well as any vendor assessment, might take longer to complete, SMEs should expect to work through the plan in no longer than a calendar quarter. Greatest emphasis is on:

- The correct evaluation and interpretation of any conclusions;
- The fast discovery and removal of hitherto obscured, wasteful costs.

2. Create a snapshot of where the company must be: costs, margins and operating capital

A focus on execution requires a re-focus of finance

The economic downturn has forced many SMEs towards value-based competition. While SMEs might often be able to offer better quality and greater customer tailoring than larger enterprises, a demand for quality as the deciding purchase-factor has dropped away, whereas demand for lower price points has risen. One SME in Paper I had gone so far as to admit to deliberately manufacturing to lower quality in order to preserve margin and contracts based on quantity. *(Datamonitor and Oracle do not advocate such a blanket strategy. While it may be relevant in some sectors, quality will again grow in significance as a competitive differentiator. Once production quality has been reduced, it is hard to regain. While higher quality may not translate into better margin, it can drive sales over the competition).* Since much of the competitive advantage of quality and convenience has for the time-being been removed, subsequent competition on price has shifted the focus to execution.

Margins will not return to pre-downturn levels. While cost-cutting measures to date will have reduced costs and brought them back in line with expectation, it is highly unlikely that those same measures will provide the sources of sustainable competitive advantage going forward. Previous cost plans are now relevant only to a previous business era and a more cost-effective business footprint must prevail. Establishing such a footprint can be tricky at a time when, for many SME owners/CEOs, emphasis is often in transition from operational to managerial abilities. One of the areas that merit heavy emphasis in this plan is greater visibility of operations through the use of a business intelligence (BI) solution, making such information an operational tool, enabling better and faster decision-making in the future.

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The new 'snapshot' of the business should represent a bottom-line at which the company can operate competitively going forwards. This will most likely be backwards engineered, starting with necessary, future end-user pricing and channel contribution. That will naturally feed through in order to set cost-ceilings in production and operations. Preparing such a snapshot is probably the most difficult and sensitive part of the process, but must remain unbiased by exposure to current problems.

Particular emphasis must fall on establishing which areas of the business will experience most pressure as the market expands and the ability to aim resource accordingly. Knock-on effects from new markets/lines of business can inadvertently affect cash-cow markets/lines of business that are currently funding operations and growth. In drawing up the roadmap for resources (technology and other) it is necessary consciously to support those areas, making sure to involve LOB managers in not only business but also IT decisions.

3. Quickly complete any incremental or outstanding cost-cutting

Completing any incremental cost-cutting strategies speedily is vital. This is mainly a question of staff motivation, although it also aims to provide some stability for a realistic base to build on. Headcount reductions should by and large have been completed around six months ago, with most companies now looking at potential recruitment to meet growing needs. However, cost-cutting and re-structuring initiatives take longer and many companies retain the hangover of such measures. These must be forced through where they still remain appropriate, in order to provide a base on which to build as soon as possible and to crystallize structure and roles. It is near impossible to set about improving an amorphous corporate structure outside professional services industries, especially where short-term containment measures are still in progress.

It is expedient for the re-building or improvement of morale to stabilise operations and for companies to be seen to be taking a more optimistic approach. Many employees have felt increasingly alienated from their employers during the downturn. A rift builds between management and staff and this has been proved to have a negative effect on productivity all round.

In order to demonstrate a positive outlook, companies would do well to re-institute employee incentive schemes, even where financial incentives have not been done

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away with in order to save money in the first place. While it may seem somewhat mercenary associating increases in performance metrics such as sales, orders processed, customer visits per day etc. with remuneration, it is not only a means of increasing those metrics, but it is a useful vehicle for drawing employees into a better working relationship with the company. While poignant, it is a relevant point to make that much productivity and therefore competitive advantage can rely on the extra half an hour before and after official working hours that employees might work. Employees will generally appreciate financial constraints of their employer and will likely appreciate any endeavors made. Any additional incentive schemes must, however, be strictly linked to achieving financial or productivity goals.

4. Lock-down and map process & communication pathways

Mapping

By mapping out process workflows in diagrammatic form, SME management can gain a clearer understanding not only of how information flows and interacts within the business but, more specifically, where it breaks down or relies on weak or ad hoc links. For many companies, such a process will have been undertaken before, but most likely during the acquisition and implementation of a specific technology solution. It is common to have processes in place that have no official governance, and are not documented. This exercise is designed to take into account the entire organization, *without* an initial focus on technology. Processes should be mapped effectively by using departments as the static, diagrammatic building blocks. Two styles of dynamic connectivity must then be used between departments, one to represent business process flow and the other to represent communication flow. It is important to capture both the recognized paths of communication in support of specific processes and the ad hoc communication flows, of which management may not be aware.

Valuing and rating

Once the map is complete, the process and communication links should be ascribed a value in terms of their importance to the business. That is to say, how time-critical that process is and what effect the breakdown of that process would have. Links should be annotated with notes about frequency and volume of use/communication,

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known problems, desired solutions of modifications and any known costs associated with non-remedial action incurred in dealing with those problems on a monthly basis.

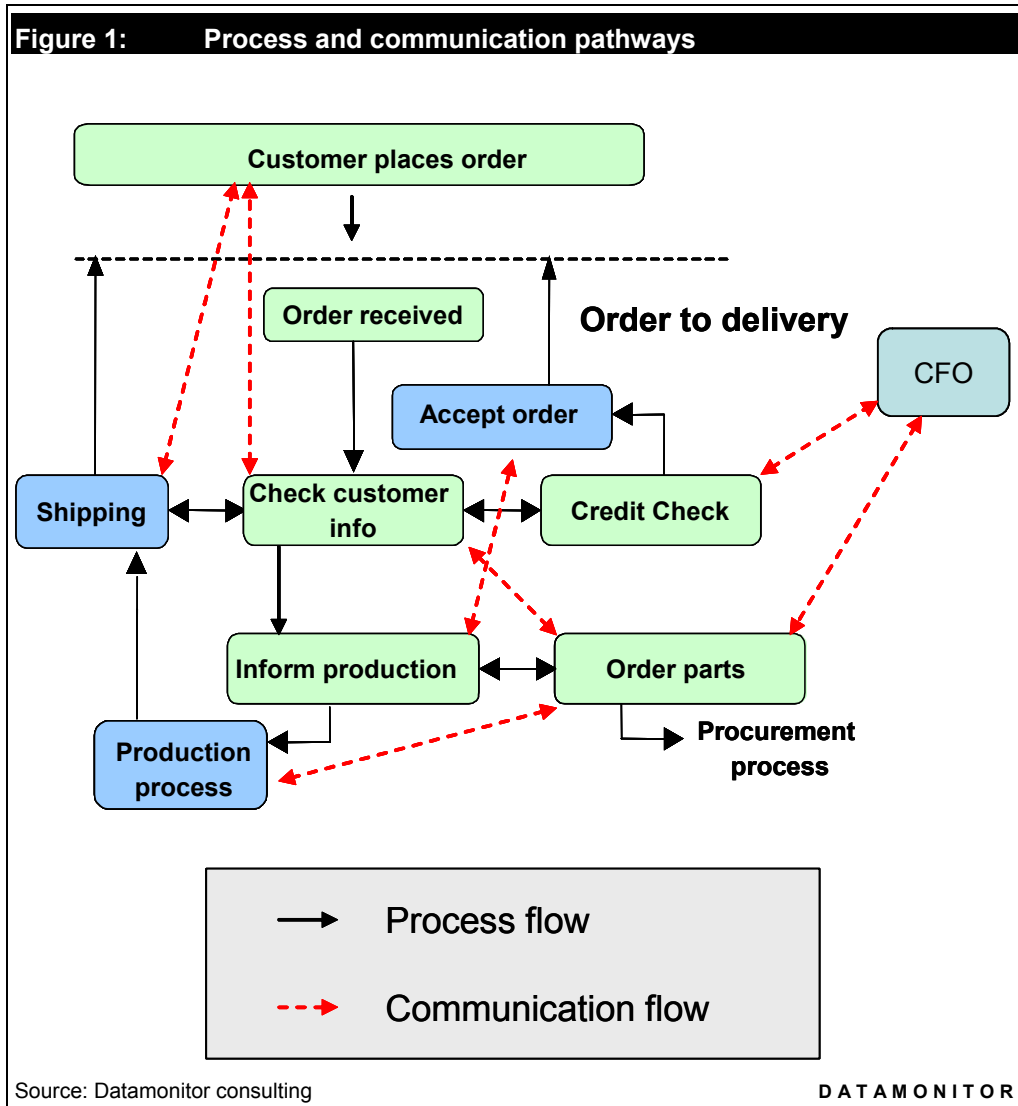
A second value should be ascribed to each link, based on the negative cost implication of a lack of correct functioning of that link – that is to say, based on the efficacy with which the pathway currently operates. As an example, the need for human intervention in re-keying online customer order information into a separate billing system, or in re-keying information from purchase order register into monthly accounts payable register would attract a high score.

By multiplying the two scores together (the first for process importance, the second for process cost-implication) the resulting figure provides a comparative measure of how urgently areas of process and communication could need improvement. *The score further acts as a highly useful reference point for ROI calculations and a tool in any future business continuity planning that might happen.*

It is important to note that extracting the information required to gain a realistic picture will require good discussion with the relevant people 'on the ground' in specific departments and NOT, as is a danger in many small business, via senior management's assumption that it knows exactly how employees address specific tasks.

Distinguishing between process and communication

Process flow and communication flow should, however, be treated separately. A lack of communication links can be the easier of the two to address. The beneficial effect from any investment can be envisaged far more immediately and often does not require an ROI as much as policy enforcement. Justification for investment in process change must be judged on individual, fiscal merits.



5. Process improvement planning: internal and external processes

Only once a business has a firm grasp of what its processes are, is it in a position to improve them. Management assumption remains the largest danger in understanding those processes.

Previous steps will have shown which processes need addressing and/or are in need of greater focus and formalisation. While this paper cannot realistically provide guidance on each and every possible process relevant to readers of this paper, the following discussion is designed to highlight areas likely to be the same or related to those which step 4 highlighted as needing attention. Furthermore, discussion focuses on findings from the previous papers.

Most external processes dictate internal ones. Traditionally, the small business has focused on external processes (compliance with customer mandates regarding delivery for example) because without such activity the smaller business would not exist. External processes are dictated to a large degree by others or by standards, whereas internal ones (often) rely on disjointed management and LOB-head decisions. Therefore, scenarios where the business focuses on processes between the 'edges' of companies are highly evident, the relatively smooth operation of which usually belies a more disjointed set of operations behind closed doors. For many small businesses, there has been little time or resource left to explore internal improvements due to the time, cost and effort involved in ensuring they can remain *doing* business, rather than improving it.

Datamonitor firmly believes that internal processes are the place to start making changes under current operating circumstances and findings in papers I and II suggested that companies are keen to attempt to get their internal business processes in order, hand in hand with consolidating IT environments. Where operating conditions for external processes are dictated by other companies, market conditions or standards, these can be used as a guide for internal processes as well. This can, however, require investment in newer, internal technology to support working practices and information links.

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This paper provides 'planning and change management' ideas and guidance, rather than stipulating out-and-out capital expenditure. However, while re-organization can solve many problems, investment will also be necessary (although the paper is also designed to enable the business to understand better where such investment would be best suited).

In addition to process optimization at the edge of the business, a renewed focus on internal process efficiencies – 'getting one's house in order' – can remove latencies that have become invisible over the years, enabling the improved performance of the critical edge-to-edge processes that are the lifeblood of the business.

Improvements to business processes are traditionally treated as separate disciplines. Inventory management is considered separately from CRM when discussing improvements, which in turn is distinct from logistics. As stated in the preceding paper, the days of the best-of-breed solution bought from multiple vendors and loosely integrated in-house are numbered in many markets and the SME sector is one such market.

With increased emphasis on the aim of achieving a homogeneous IT environment in order to drive costs and efficiency, SMEs must look to modularized IT solutions. Homogeneous IT rated highly as a short-term goal for many SMEs, since this would allow costs to be driven out of IT management and Enterprise Application Integration (EAI). Consistent IT and (the associated relative ease of enabling) integrated business processes go hand in hand however, and it is highly important to remain conscious of this fact in altering either. Without taking an integrated approach to business process, where a view is taken of the full flow of information and interaction of departments, IT homogenization cannot be exploited and efficiencies will remain hidden.

Process considerations across internal and external facets should focus on desired improvements that came to light in step 4, with particular attention being paid to Datamonitor's 'big 5' process strings:

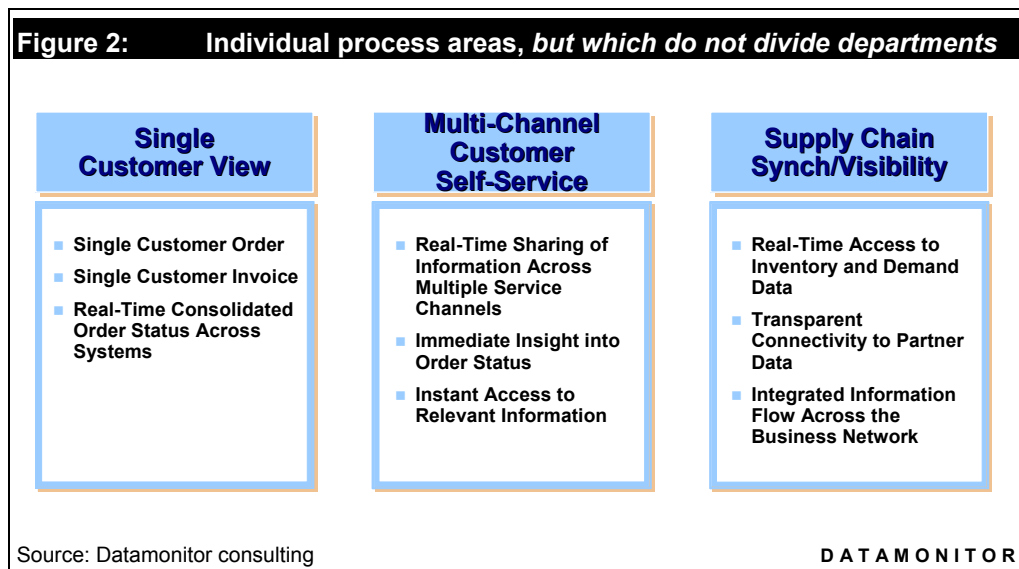
- **Finance** – 'Order to reconcile' (*billing, invoicing, reconciliation*);
- **HR** – 'hire to retire' (*staff information, retention, training, incentives*);
- **Operations** – 'schedule to warehouse' (*planning, scheduling, information sharing, inventory, forecasting*);

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- **Delivery & logistics** – ‘Pick to pay’ (*fulfillment, customer deliveries*),
- **Supply chain** – ‘order to replenish/pay’ (*information sharing, access to production planning data, inventory replenishment, order tracking, forecasting etc.*)

6. Appreciate process individuality while avoiding disjointed focus

The diagram below provides some examples of business processes that do not consider specific departmental boundaries, and are indeed broadly relevant to companies of all but the smallest size.



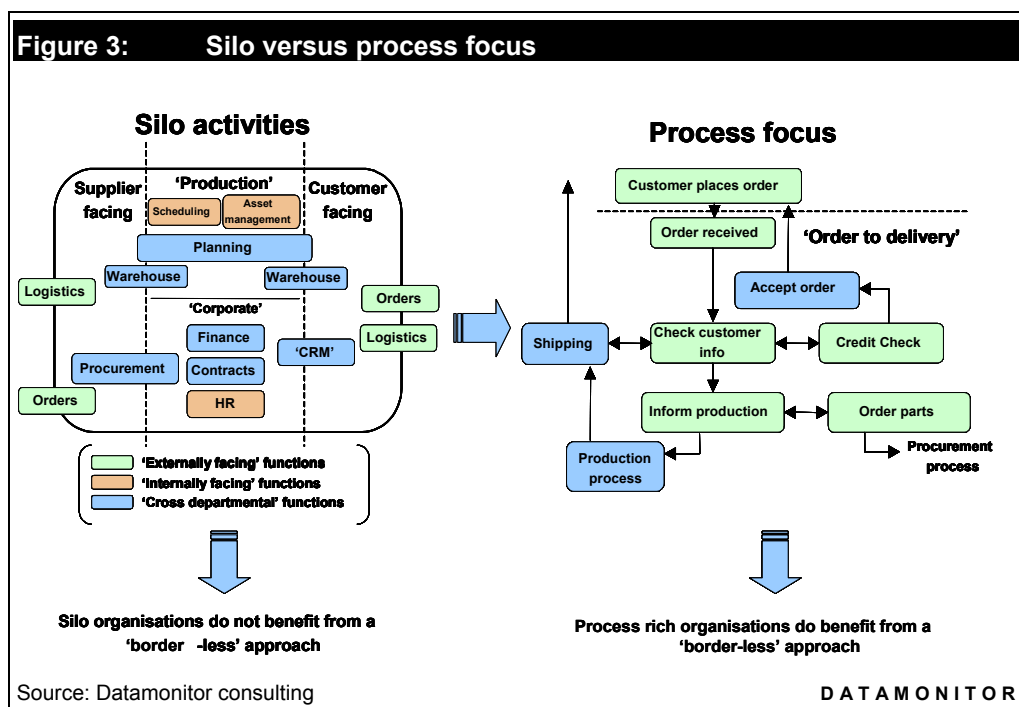
It is important to remember that, while it is ‘easier’ to create artificial boundaries within which processes can be defined, the business must step back and ensure that it is not about to embark on implementing new or improved processes which do indeed start and stop within departments, therefore negating benefit. It is evident in a consideration of processes, whether internally or externally focused, that there should be no distinction made in terms of information or data flow, and that changes to appropriate processes should be considered in an ‘end-to-end’ fashion. This is a key consideration when addressing subsequent steps, in particular business costs and IT investment.

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However, SMEs see internal and externally-facing processes as rather separate issues. The 'process audit' from step 4 will demonstrate that most processes span multiple parties and departments – but currently remain 'broken' or disjointed. Distinguishing between internal and external processes is counter-productive when:

- Addressing business costs;
- Improving communication, and
- Justifying IT investment

Most SMEs will face a situation where they retain siloed information and processes. Lack of business automation and process streamlining are broadly recognized among SMEs as a major cost contributor and performance hindrance. Where the situation is somewhat better, pockets of disjointed information that have not yet benefited from any recent unifying investment plan will still remain and losses here will be eating into ROIs made through investment in other areas.



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It would be an over-simplification to expect an SME to be anything approaching fully automated – the business just won't require such an investment. It is important not to lose sight of the small size of company that defines the bulk of SME endeavors. In many cases replication, human intervention, delays on judgment calls and opportunity lag are not necessarily always symptoms of SME failure. The problem is in being able to distinguish between those that are and those that are not.

Where processes do not need investment, but merely change, in order to create benefit, this can become a source of quick wins. However, significant consideration should also be given to investment in appropriate, packaged software solutions, particularly where they can address processes that span multiple departments. However, it is in financial justification that SMEs often *can* become bogged down by departmental boundaries.

7. Address management and business intelligence through communication

Communication

Addressing issues associated with a lack of communication is probably one of the easiest steps with which to make inroads into SME problems. While many SMEs do not believe they have problems with communication, the topic covers not only inter-departmental communication but underpins more important, internal processes, interaction with suppliers and customers, and covers topics around real-time data on business performance. As such, it is wide-reaching.

While communications issues can be easier to resolve than process issues, it is often processes that need addressing first. Structured communication within a company must support and expedite business processes, either through the use of solutions with in-built communication tools mirroring workflow or by enforcement through corporate culture or role specification. Ad hoc communication is very often overlooked by companies of all sizes, as something not requiring investment. Those companies operating most efficiently in the exchange of unstructured information, however, are those with a corporate culture of using something like an instant messenger as a business tool. Corporate endorsement of such a communication tool imbues it with an immediacy that can otherwise not exist. Inter-departmental query resolution times can drop profoundly.

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The process and communication map generated from step 4 will make apparent where communication is poor. This is most likely to be highlighted by employee feedback in reference to specific processes. SMEs should not look to improve communication on a departmental or situation-specific basis. Communication methods must be rooted in a company-wide framework, rather than in assumption. Many application suites will include messaging features to underpin business processes. Problems arise where SMEs are using older or in-house developed solutions or none at all. Where in-built features do not enable correct communication between departments, with suppliers etc. (it is important to remember that such communication may only be the posting of an automated message to one job function/role on completion of a process step by another function/role), a system of tracking and storing message information for later audit must be considered. This is especially the case relating to communication with external parties. Storage must be automatic and dictated by rules, rather than at user discretion. Email can prove too unstructured and dynamic on its own, with insufficient links to business process and SMEs would do well to consider collaborative applications using email clients as the front end, but involving a more sophisticated system of storage, retrieval, tagging, notification and reporting.

Business intelligence

In light of both a picture of existing business processes and information flow, and a set of improvement plans created from considering internal and external processes, the visibility created allows the small business to address another issue that scored highly in Datamonitor's research – the improvement of management and business intelligence. The ability to access and act upon real-time data need not be the sole preserve of major corporations, nor indeed of major IT budgets. That said, each SME must make a call on the value of “speed of information” to its business in terms of the financial benefit to be derived.

Real-time communications can enable the delivery of real-time business information to those areas of the business that benefit most. Much is made of BI solutions and they feature highly on many SME wish-lists. For the majority of smaller SMEs however, they will not be relevant. Investing in software that allows immediacy of reaction carries relevance only for those SMEs that have:

- multiple operations, be that across countries, product-lines, numbers of suppliers or outsourced manufacturers;

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- uncharacteristically high-volume, low-value business; or
- products, message, price point or cost of technology that must adapt to market conditions with greater than quarter-annum frequency.

The majority of SMEs will not need to react to market or competitive conditions so fast as to require large-scale investment here. That is not to say that a modicum of investment is unwarranted, but those SMEs should instead ensure that their planning activities are far less haphazard, more structured in order to address recurring core themes professionally and happen often enough to remain poignant. They should also ensure that the information they do receive is accurate, rather than based on assumption. Even this can likely require an upheaval in reporting lines at best, and investment in reporting software at worst. The point here is that 'business intelligence' can be taken literally for many SMEs, yet does not necessarily *have* to mean 'invest in software'. Indeed, many vendors now offer extensive business intelligence functionality as an integral part of their integrated suite of applications.

Business intelligence is the pinnacle of corporate communication policy

A robust communications and process hierarchy allows the effective flow of information around the company and its ecosystem. If a correct communications framework including communication storage, audit and reporting is in place, it also allows the capture of information to enable more effective departmental and management decision-making. Furthermore, the information 'track and trace' abilities that investment in BI enables can support wider business imperatives such as various regulatory stipulations. Indeed, whilst perhaps not at the top of the SME priority list, ROI discussions regarding IT investment should indeed acknowledge BI's wider applicability to the business.

Once communications and processes are enhanced, BI should be considered a natural, progressive step, rather than a topic or investment in its own right.

8. Look for consolidation and commonality

SMEs now collectively see the value in consolidating platforms and systems, yet most misunderstand what this can mean. Broadly, commonality can be found in 3 areas:

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- Technology;
- Communication; and
- Operations.

Operations have been covered earlier, as have communications, but not technology in support of these two. Understanding of consolidation usually revolves around the integration of separate IT platforms. Typically, scenarios involve a company running one major application on a specific platform and running other, minor applications on a Microsoft platform. Added to this, an HR and an accounting package are often likely to be proprietary, or at the very least individualistic. Problems arise when scaled functionality, greater visibility or more flexibility to support amended business processes are required. The introduction of compliance issues through Combined and Tabaksblat codes, Sarbanes-Oxley and Patriot Acts, CalPERS, TIAA-CREF or simply International Accounting Standards [IAS], or demands made of new manufacturing bases and financing structures in EU-accession operations etc, increase the burden on information data visibility, export and usability.

Many SME companies will remain unaware of how effective or ineffective their IT applications actually are until carrying out an in-depth process audit as suggested in step 4. SMEs will typically have bought point-solutions over time, to address specific issues as they arose. Those applications may not require or warrant the cost of upgrading any more. They may not be able to cope with newer technologies such as current, industry specific standards, web-services, or remote or mobile access. They may even *be* the reason that processes remain siloed.

This paper does not advocate a rip-and-replace approach. The financial and management burden is unlikely to be warranted. What SMEs must do however, is look towards greater adoption of standards-based computing in support of core processes and communication. When considering new investment, far more emphasis must be put on future-proof scaleable and integrated solutions and those with 'dumb limbs', able to cope with future requirements for functionality extensions and technology evolution.

SMEs must develop a migration strategy that will allow them to unite appropriate applications over time, as well as consolidating IT platforms. While this will take some time, a good place to start is communications platforms.

VoIP is not simply for large companies

Small businesses all too often consider topics such as VoIP as the preserve of the larger enterprise. But in reality it can be far easier for a smaller company to adopt a converged communications strategy. There is less sunk investment in hardware (routers, switches etc) and not the same level of associated or dependant technologies and processes that would make jettisoning legacy systems problematic. Bundled communications packages including voice, hosting, bandwidth, mobile and additional managed services are becoming ever richer as the cost of IP-data falls, and can represent a good saving on both fixed and variable cost per headcount. Unfortunately, most SMEs will not have had a detailed handle on costs per headcount in order to be able to put such an ROI-proposition into context, but this will be something achieved in steps 1 and 2.

9. Consider business cost options

Business cost options are often unique. Just because a process can be automated does not mean it should be. Business processes have already been scored in step 5. For the smaller SME, for example, it may well remain worthwhile paying a data entry clerk instead of linking two systems. It may remain worthwhile communicating orders by courier rather than email, where volume is low and value high, etc. Careful cost/benefit analysis is required – the point here is to ensure that appropriate improvements are planned rather than an unlikely and costly list. The problem with amateur cost/benefit analyses is the lack of correct and granular metrics available for use, as well as a lack of understanding where further investment can help save money. In the larger business average data-entry errors of between 2% to 3% can translate into large cost-wastage and this alone can justify investment in technology-assisted/enabled processes over manual ones, before process streamlining and time-reduction are even considered as payback features.

Outsourcing and rental options should also be considered in areas that were previously too expensive. The cost of web-hosting is currently low in comparison with two to three years ago, IP-data is cheap, the cost of renting new laptops has fallen by almost 40% over the past two years and vendor solutions can still be discounted significantly, depending on the size of engagement.

Further savings can be sought in areas such as indirect procurement and human resources. Existing investment plans can be extended to include modular units for HR

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and/or procurement units, with greater emphasis on employee responsibility for items such as maintaining personal data, travel and expense tasks or even the divestment of some recruitment functions to front-line operations. Clearly, modular approaches to supporting technology stand a company in far better stead to address these issues.

The re-emergent economy has seen a split in opinion on a number of core business topics such as outsourcing and centralizing/de-centralizing budgets, especially for IT. One such topic is the re-financing of hardware. As with many business topics, trends in 'rent versus buy' arguments are vaguely cyclical. While the larger organization will almost always look to capital expenditure to finance hardware, not least since integrators and VARS make margin on the sales, this need not be the case for the SME. SMEs with a sufficiently significant amount of hardware can consider re-financing options, particularly where these are bound up with or provided as value-add features to hosting or communications platform contracts. While the effects may not be massive for all, modernization, upgrades or financing of additional storage represent worthwhile results. If making significant change by adopting more outsourced services, the renting of complete desktop set-ups is a fairly standardized offer these days and, again, pricing remains subdued.

Finally, now remains a good time to make the most of post-downturn investment in vendor solutions that are still discounted, although discounts or value-added incentives will not remain in place for long.

10. Exploit vendor desire to service the SME market!

Once the previous steps have been considered, SMEs will be in a better position to know where the business suffers, lacks dynamism, displays process lag or leaves itself exposed to financial loss or risk. It should furthermore have a context in which to benchmark its current in-house technology. For those SMEs embarking on a degree of technology investment, it is vital to get the best value for money, to embark on investments that can be built on and augmented over time rather than requiring replacement and that fulfill the longer-term direction and requirements of the company.

There is a wealth of vendors providing solutions to the SME sector and over the last year enterprise software vendors have built-out SME offerings, creating even more choice. As the latter look to engage the SME space, bring experience of far more

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complex scenarios and scale and should be able to over-deliver, their offerings warrant a closer look.

Given that every SME's requirements will vary dramatically, Datamonitor provides a number of issues to bear in mind when considering solution vendors:

- SMEs would do well to make the goal of achieving a modular solution the underlying basis of all decisions on technology purchase. In order to consolidate platforms, lower management costs, allow greater interoperability and off-the-shelf integration, as well as enable greater business intelligence, modular 'suite' solutions rather than best-of-breed 'multi-vendor' solutions will represent the best strategy for most SMEs.
- Solutions should make provision for further expansion in the future, or as newer elements of the SME business grow. The inclusion of dumb-limbs (such as middleware provision for mobile access) that do not yet incur a license charge until used, or the ability to 'pay-as-you-grow' where functionality remains 'switched off' until needed, offer the SME flexibility.
- SME solutions should not simply be hacked-down versions of Enterprise offerings. Vendors should be at pains to explain how and why their solutions have specific relevance to the SME sector in terms of:
 - Cost-benefit;
 - Feature-set;
 - Inter-operability;
 - Lack of reliance on large-scale investment in supporting IT infrastructure;
 - Lack of increased requirement for dedicated, skilled IT management;
 - Commitment through dedicated SME support;
- Ask vendors and resellers for innovative payment terms. Previous discussion in this document has mentioned re-financing options and pay-as-you-grow, but some vendors will be prepared to offer discounted trials, flexible payment terms or even link cost to reward in a pay-as-you-save scenario, although these will clearly depend on the size of the engagement;

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- Bundled solutions including value-added peripherals bring more to the table. Where a competitive situation between two relevant solutions exists, SMEs can make demands for bundled services such as trials, hosting, maintenance, support, SLAs, upgraded functionality etc. The market is still experiencing a lack of demand compared with pre-downturn sales and, although this is changing, discounting is still evident;
- SMEs should seek solutions that include appropriate professional service/consulting days as part of a fixed delivery price, rather than those requiring additional, ad-hoc man-days. The onus should be pushed back on the vendor, to delivery to time and budget. While this will depend on the style of engagement, SMEs should attempt to seek competitive, inclusive prices where possible, based on documented installation integration times.

Closing remarks

It is an understatement to remind the reader that every foreseeable issue and problem faced by the SME community could not be addressed and solved in a single paper. What Datamonitor hopes to have achieved is to have provided a measured and directed set of ideas that a small business can identify with and apply to its own unique set of circumstances.

There are indeed many options open to the SME regarding executing change. Future business change should not automatically start with an assumption that IT investment will be required. Nor, however, should it start with a view that IT investment cannot be afforded or is not warranted. Recommendations on the need to align IT and business strategy, however, are based on our recent interviews with 4,480 senior executives of SMEs across 18 countries and 10 industries in Europe and the Middle East, and IT issues were certainly very high on the agenda in all these discussions.

The steps, as far as they are applicable to the specifics of *your* company, should be addressed with the following acknowledgement:

Steps are designed to provide the SME with a contextualized improvement plan that will empower the business with the information it needs in order to grasp the opportunity that the improving business environment offers to those that have prepared accordingly.

APPENDIX

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