



# SME business issues in a re-emergent market

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Mid-market business issues in a re-emergent market

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## INTRODUCTION

### Background

This study, based on 4480 detailed telephone interviews with senior executives of SMEs across 19 countries and 10 industries throughout Western Europe, Eastern Europe and the Middle East, is designed as an update to our previous study, entitled “**European mid-market business issues in Turbulent times**”, taking stock of a market six months on. The market and indeed the global economy has moved some way in the last six months, with most industries able to talk about a rise in fortunes and, if not, better fortune on the horizon. However, the immediate concerns of SMEs remain more short-termist and this directly impinges on attitudes to buying technology.

For the purposes of this study, data collection was expanded to comprise in excess of four thousand contacts, making the study of firm statistical relevance, and included several tens of thousands of data-points. Data tables are used throughout where relevant, but country- and vertical-specific tables can be found in the appendix.

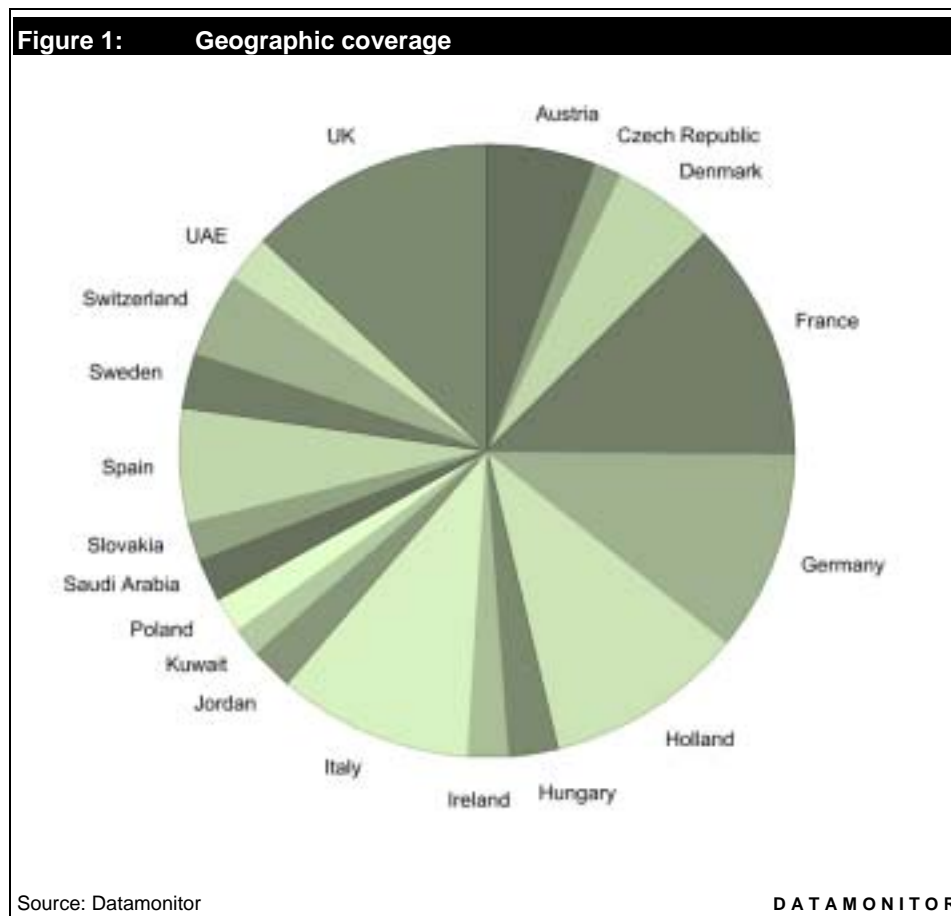
### The SME

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.

## RESEARCH AND ANALYSIS

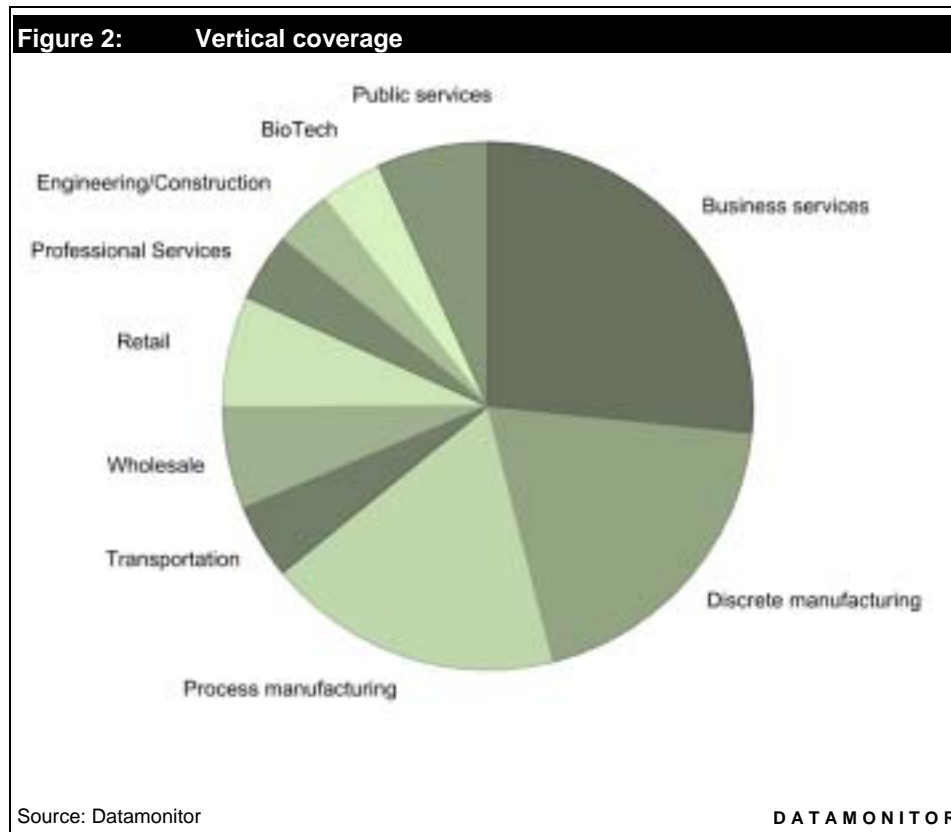
For the purposes of this follow-up study, while the general topics remain constant, the net is thrown wider than the first study. In terms of both vertical markets and countries covered, sufficient depth of data is available in this study to draw statistical inference between regions and vertical markets, where relevant.

The geographic coverage of SMEs taking part in this study broke down as follows in Figure 1. The focus is predominantly Europe, including some Eastern European, in addition to some Middle Eastern states.



## Research and analysis

Whereas Study 1 addressed points more horizontal in nature, differences between specific vertical markets are referenced here. Those vertical markets covered are shown in Figure 2. Emphasis is on manufacturing/logistics, wholesale/retail and the service industries.



Percentage figures provided in this report represent absolute and relative data, rather than cumulative. That is, the percentage of respondents being shown to express an opinion in a particular table will total more than one hundred. Respondents were allowed to mention numerous categories if deemed relevant.

## THEMATIC ANALYSIS

### Overview

This study set out to determine if, by how much and why business imperatives for SMEs have moved on or changed in the last six months, in light of a perceptible, albeit still small, net upturn in global economic fortunes.

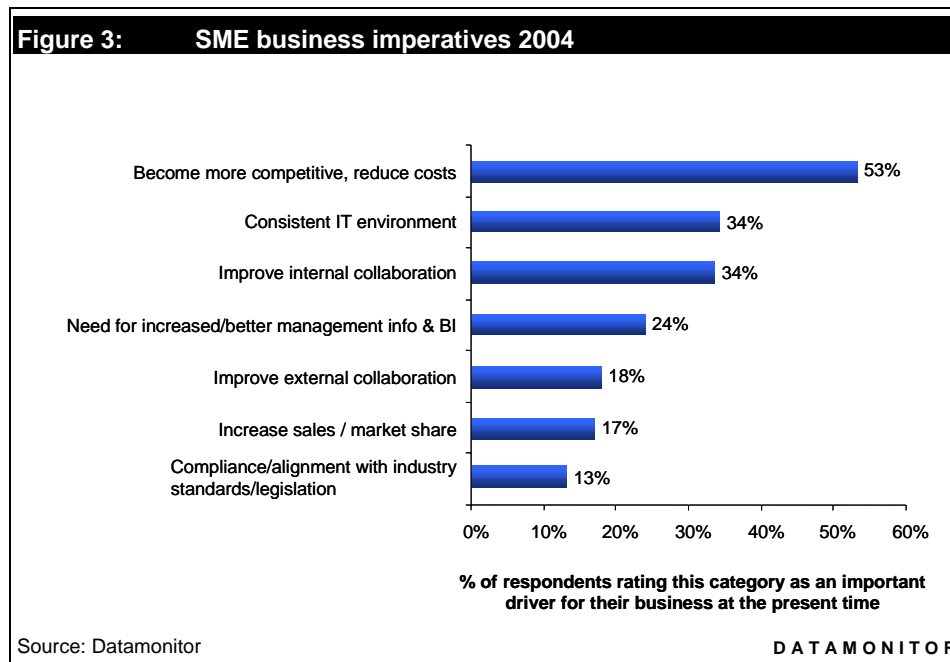
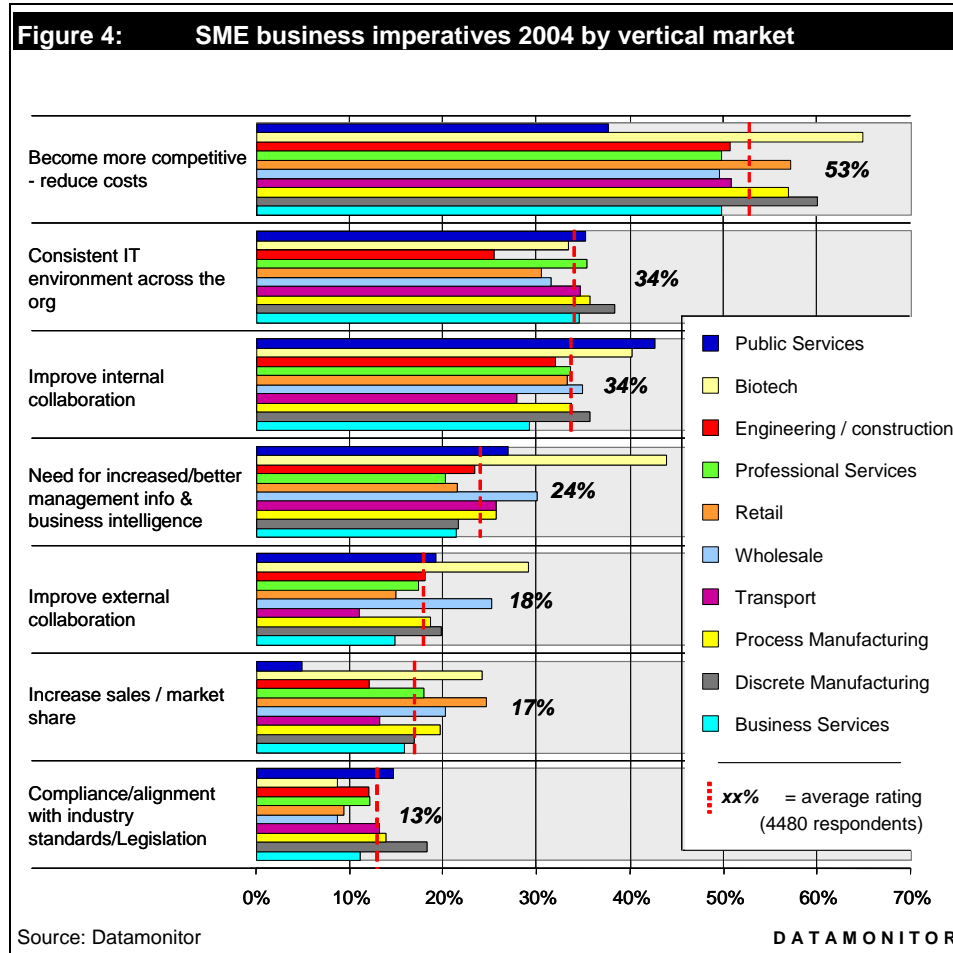


Figure 3 presents an overview of the relative importance of business imperatives as expressed by SMEs. Reducing operating costs and thereby achieving greater competitive leverage remains far and away the overriding concern for the SME sector, with over half of respondents citing it. This has not altered in the six months since the previous study. The effects of increased competition are still felt across the board, with the exception of the Public Sector. Equally, SMEs still believe that an upturn in fortunes will not restore levels of pre-slump affluence. Equally, SMEs are

Thematic analysis

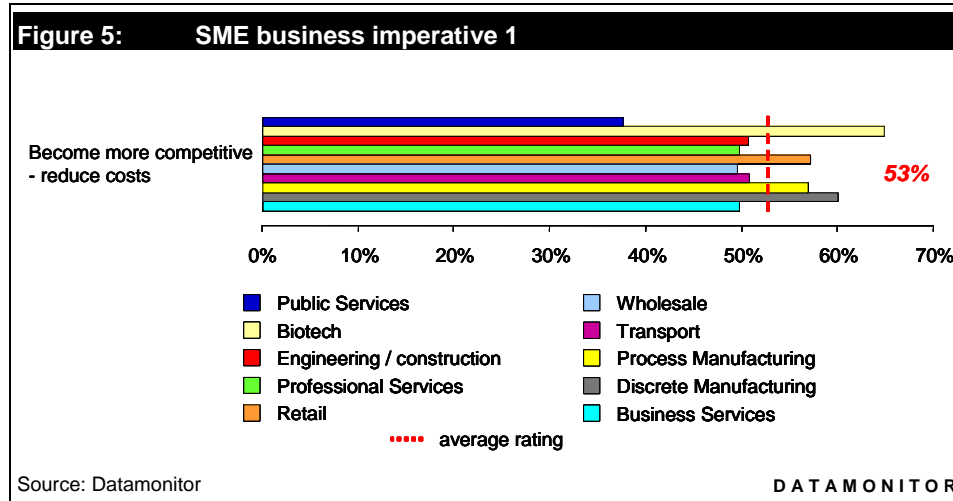
firmly of the opinion that competitive pressure will remain, despite potential rises in revenues per client.



Of great interest, although unsurprising, is the fact that, if one takes the top imperative 'Become more competitive' as an over-arching category, the top three following imperatives are internally focused, and the bottom three are externally focused. This shows that the need to 'put one's house in order' that Enterprise business has been going through over the last two years has filtered down to the SME sector. Externally focused factors remain of limited use unless a business can cope and interface internally.

**Business imperatives**

Become more competitive / reduce costs



The main aim of 'cutting dead wood' is likely to remain a consistent theme for some time to come. Many businesses survived a heavy economic downturn by running a lean ship across all facets of the business, including staffing, IT, core functions and MRO. Fixed costs were pared down, predominantly by cutting staff numbers; some fixed costs were made variable through the use of flexible staffing, multi-tasking, outsourcing or divestment and variable costs were also targeted where possible. Some SMEs even admitted to taking strategic decisions such as lowering quality and withdrawing some customer support. Having learned to operate with lower costs, businesses will have a thin line to tread, deciding between when and if to re-invest for growth in an economic recovery and transforming a low cost base into greater margins as revenues pick up. Arguably, those that have made the deepest cuts, and have the right IT infrastructure to intelligently manage their business and yet still compete, have the greatest potential for realizing profits on any revenue growth. This is of course somewhat crass, as the flexibility to capitalize on either revenue growth or market opportunity can rest on a great many factors. Equally, SMEs believe that there are still costs to be taken out of the equation to reduce the financial operations

## Thematic analysis

footprint and maintaining downward pressure on costs remains *the* key focus. It should, however, be borne in mind that this business imperative serves as the marker or umbrella for all other imperatives considered, just as 'increased sales and/or market share' serves as the net result.

While better fortunes may be in the offing, businesses are clearly not complacent. In this respect, any expectation of a financial 'loosening of the belt' should be taken in context. Re-investment strategies probably remain six months to a year away. Uncertain times are still ahead for SMEs operating in countries with economies less well poised to recover, where exposure to currency fluctuation is a large factor, where they are affected by a continuing degree of geo-political uncertainty, or where operations are in one of the hardest-hit manufacturing sectors. In fact, manufacturing sectors are notable in rating this business imperative above the average. Some sectors of manufacturing were the first to go into recession, do not see the green shoots in other industries and are currently not that much better off than they were six months ago. Fluctuations of Euro–Sterling–Dollar exchange rates have caused upsets in the cost of raw materials and production, as well as in the ability to price competitively, and subdued consumer spending patterns are in many regions still to improve.

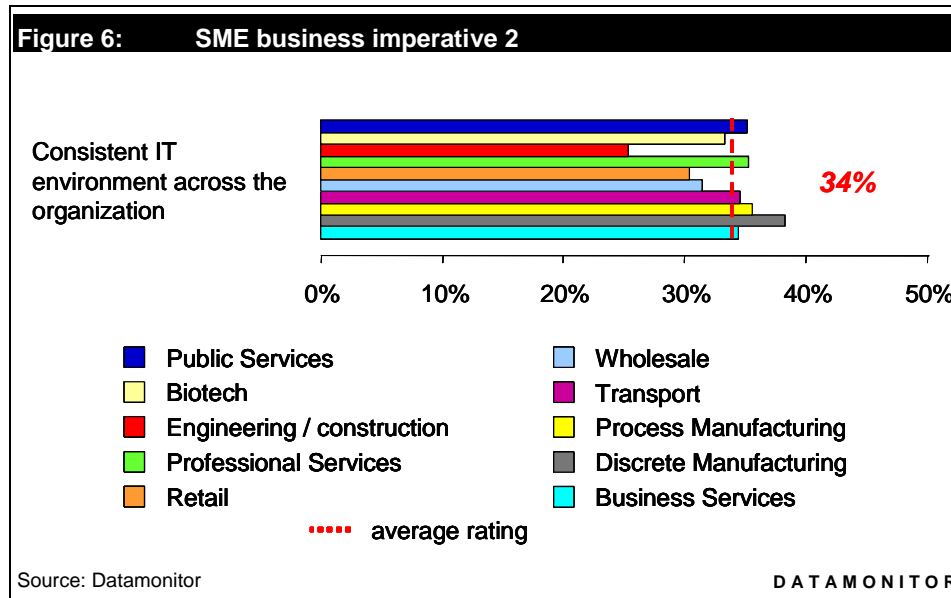
It stands to reason that the public sector has a lesser need to compete financially, and this has not changed in the last six months. Over time, the need will increase somewhat as services are brought online, operational metrics become more evident and private contractors are employed. The Biotech industry has a unique story to tell, however, and each six-month period brings increased pressure to produce results. As a sector, Biotechnology is nascent. It does not yet have a stable source of income, but operational cash burn is large. While the major players in this industry have more distributed and hence more stable sources of income, the SME sector is highly competitive and investment from larger pharmaceutical companies is much sought after. Venture capital firms, hard hit by the technology fall-out, are increasingly unsettled about some investments in smaller Biotech companies. Any ability to pare down core costs while not damaging the ability to research is well-received.

Staffing and other primary costs have all but been stripped out where possible. Further cost reduction must come from less obvious sources and to pinpoint these, those SMEs with good business intelligence and management practices have the advantage.

Discrepancy between wholesale/retail sector needs is discussed in the next section.

Thematic analysis

Consistency of IT environment across the organization



Across the board, IT managers are now highly aware of the arguments around standardized technology architectures. This is borne out by several of Datamonitor's recent industry surveys regarding issues such as XML and web-services, distributed architectures, integration and upgrades and strategic IT imperatives going forward. However, a large gap between the understanding of benefits and implementation remains at the SME level. The core of the IT manager's perspective remains priority-driven financial constraint. While vendors deliver a picture of money-saving and efficiency gains through purchase and implementation of technology such as web service-oriented architectures, new databases that serve up XML directly and standardized IT in general, the topic remains one of several on the list of IT projects which are being funded in order of urgency, not importance. As the high rating this business imperative warranted suggests, the problems of diverse IT systems, lines of business operating as information silos and the cost of integration involved with most larger-scale projects are now widely recognized in the SME sector. However, there are several solutions and technologies in this bracket. While collaborative initiatives are highly sought after, individual technologies are still treated as one of many on the

## Thematic analysis

agenda, rather than an over-arching imperative. What this does mean, however, is that the forthcoming relaxation in IT budgets is likely to see a steady and on-going investment in the nirvana that is a homogeneous IT environment. Increases in IT budget will once again allow strategic rather than tactical expenditure.

### ***Are the days of SME 'Best of Breed' solutions numbered?***

The rise in desire for a consistent IT environment over not only the last six months, but over the last year or two is indicative of a general industry trend that has high relevance for the SME sector. The days of 'best of breed' IT arguments (i.e. purchasing separate applications from different vendors in order to build a custom system) may well be numbered. It may have taken the harsh reality of the economic downturn and associated cutbacks to make SMEs cogniscent of the fact that there has been sufficient development in some vendor offerings or sufficient financial savings, to firmly merit a one-stop shop strategy. The cost of integration is bemoaned not only in the last six months but permanently and vendor trends to solution modularization are evident in response to the need to provide lower cost footprint solutions to the SME space, as well as the willingness of larger organizations to buy more technology off the shelf.

The manufacturing sector rates consistency of IT highly and this is unsurprising whatever the economic cycle. By its nature, manufacturing is highly complex in terms of IT. Interacting with suppliers for materials and corners is more complex for discrete than for process, which tends to involve fewer partner interactions. Process manufacturing still has a plethora of multi-step processes, many of which may still be running on green-screen environments. Standardizing multi-step processes and those that involve human intervention continues to provide a cost-saving opportunity.

Equally, the score offered by public services is interesting. Had this question been posed three years ago, the story would have been rather different, but as the 2005 deadline for eGovernment initiatives approaches and the attempt to turn citizens into consumers of eServices gathers some pace, public sector investment in IT environments allowing federal, regional and local government departments to integrate will be sustained. eGovernment investment as a sub-sector of public services has been more buffered from the economic downturn than other vertical markets. As such, Datamonitor has not seen an expectation to ramp up expenditure again in the last six months, as base expenditure has been rather steadier. This has been more indicative higher up in government, whereas local governments and

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councils throughout Europe have been leant on more heavily to produce savings in administrative bureaucracy. At provincial and national level, the need to unite siloed operational environments as well as IT environments remains important.

Of most interest are those companies that believe consistency of IT to be less of a business imperative. Retail and wholesale sectors are notable for their lower comparative scoring of the need to unify IT environments going forward. Retail is notable at the same time for its need to reduce costs and become more competitive, while wholesale is less so. The retail sector has competed so heavily on price already. Indeed, the ability to compete on product margins is near rock bottom, as this has happened over the last ten years. Cost reductions through scale and internal streamlining are the only real options open. While in-store IT will see investment in several technologies such as RFID tagging, improving internal efficiencies have much to do with consistent and therefore collaborative IT extended through to the supply-chain in order to match product cycles with demand. This has been the focus of larger enterprise retail for some time now, with a wholesale and production supply-chain coached into adopting industry-wide trading standards. It is unavoidable in an industry currently reliant on manipulating scale of economy that this imperative has moved firmly downstream to the SME sector.

While a consistent IT environment is somewhat of a moving goal and there is equally a demonstrable discrepancy between vendor belief and end-user understanding, the retail sector is more advanced in its uptake of homogeneous and collaborative technologies. Although less so in the SME sector, supply-chain power still lies with retail outlets. The supply-chain's need to conform to retail IT is ongoing, and the wholesale sector's expressed need to improve external collaboration is notable.

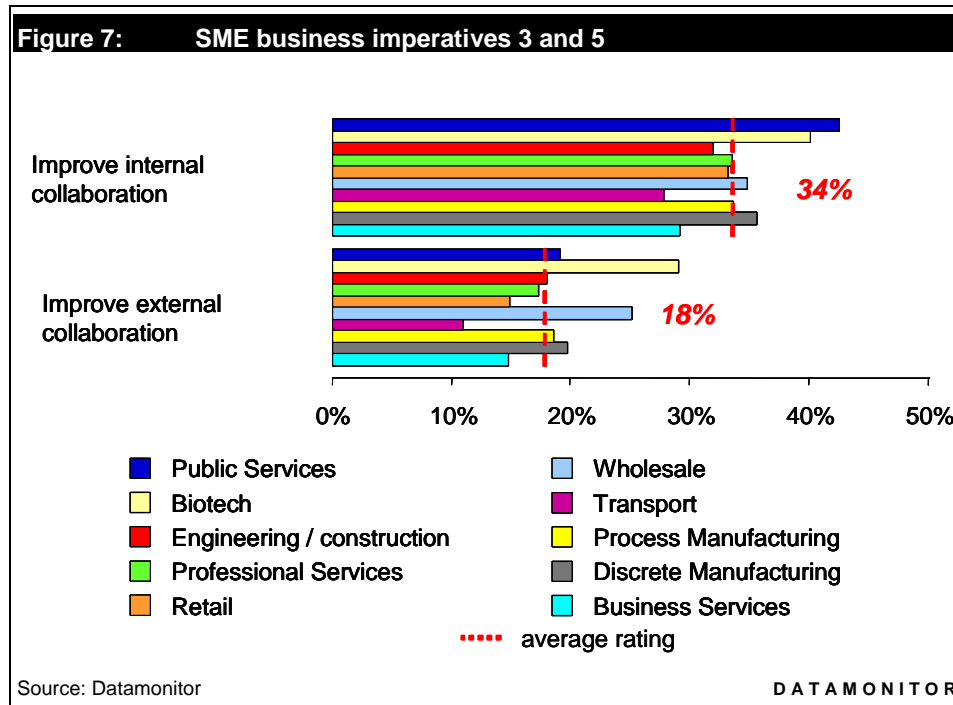
While not wishing to brand the SME engineering / construction sector as Luddite, the demonstrably lower rating the sector ascribed to IT consistency is evidence of a trend unaltered over the last six months, and unlikely to alter radically with time. While there has been more IT involvement in planning and design phases, the SME sector comprises a great number of smaller companies, which remain highly manual in their operations. Construction pulls down the average here but even in engineering, the investments made by massive enterprises such as Halliburton and Bechtel have not filtered down to the SME sector yet. Engineering companies of less than \$250 million turnover are comparatively tiny. Larger levels of investment in IT 'above the index' are not warranted and the need for IT remains more project-based. The SME sector continues to have potential for on-demand IT delivered as a service. Although this is

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only recently gaining traction at the top end of this vertical, the economic downturn has endeared pay-as-you-go IT services somewhat more to sectors such as engineering and construction.

Thematic analysis

Collaboration



There is certainly a desire to reduce the need for implementation and integration costs going forward through the introduction of common standards, web-service technologies and the eventual migration to a platform common to all enterprise applications. However, there is also a lower-cost, more pressing need: many of the arguments for the need for a consistent IT environment centre around a desire for greater collaboration and it is no accident that the need for internal collaboration and the need for a consistent IT environment were scored almost identically highly by SMEs. The need for enhanced collaboration between departments, in business processes with human intervention and between line management and employees is a function of the current six-month period. Large cost-cutting programs have borne fruit and although there are ongoing policies of cost-reduction, the bulk of these have been implemented. One of the logical steps for SMEs is now to increase productivity from existing investment and employees as far as possible. Collaboration projects

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such as investment in basic field-force PIM/contact management systems, workflow to support new and more rigorous business processes, real-time interaction and instant messaging solutions all carry potential for speedy productivity gains for SMEs looking to capitalize on any green shoots appearing in their markets.

Having been through a turbulent time, with employee numbers cut, departments re-organized and processes changed, many organizations will find their business processes out of kilter with the IT that supports them. This will often be the basic and core operational processes, rather than more strategic workflow, e.g. order to manufacture to stock to ship to invoice. Investment in collaboration at any level should re-focus on aligning IT workflows with the business processes they underpin.

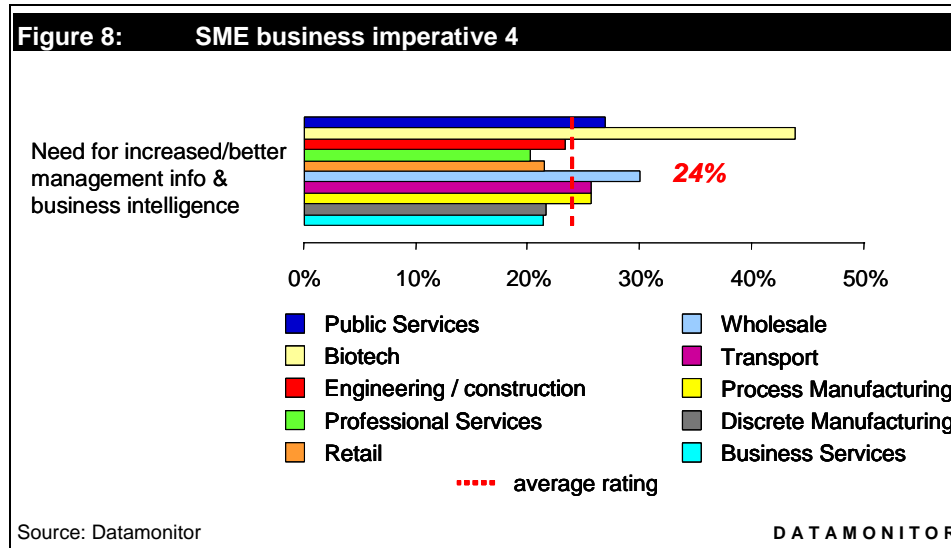
Having alluded to the re-emergent, short-term nature of investment in collaboration, that investment also typifies longer-term trends, especially in the public sector. While higher bodies of government make more use of long-term technology contracts and outsourcing deals, lower echelons have demonstrated a shorter-term approach to financing strategies and hence local knowledge stores have proved to be rather more proprietary. The drive for collaboration throughout government requires massive investment and the consistency of this requirement is evident across most business imperatives: internal and external collaboration, consistent IT environments and the need for better business intelligence.

Biotech is by far the most immature market under consideration. The sector is not sufficiently old to have bedded down any technology or to have acquired the wisdom that goes with experiencing the different waves of technology investment and economic cycles. At the same time, it is intensely technology hungry, with a huge reliance on partners and the community for information, testing and research programs and this is apparent in the consistent high rating ascribed to the sector across most imperatives, in technology and beyond.

Both SME manufacturers and wholesalers are in the position of having to improve their external collaborative abilities, as their enterprise counterparts have addressed this over the last several years – the need has filtered down the value chain and investment knocked back by budget cuts once again stands at the fore. External collaboration is of course also relevant for transport and retail. Given the importance of unifying and aligning supply-chains between the two, issues have been addressed through the downturn as a source of cost-saving, as well as through on-going investment in core functions, and further collaborative investment now is not such a priority.

Thematic analysis

Business Intelligence



In the SME sector, the move towards real-time operations as the next, broader wave of investment requires an over-arching spend on tools to allow the use of real-time data. While SMEs did not rate the need for business intelligence as highly as Datamonitor expected, this is felt to be a function of the still early days of recovery and Datamonitor would expect to see the importance of real-time business intelligence to rise over the next six month period. Having said this, recognition of the need for better intelligence is clear in public services, biotech, wholesale, transport and process manufacture, in keeping with the emergent story of the last six-month period. It is also important to bear in mind the point that the top rating factors are internally focused imperatives, itself indicative of the need to have greater internal visibility.

However, smaller retailers and manufacturers are possibly not yet in a position to address their need for better management / BI capabilities yet, as there are more pressing priorities. The balance of decisions in industries with smaller margins will remain tactical for longer. The professional services invest heavily at every size of business in business information storage, management and recall since previous project knowledge and IP-storage are the crux of their ability to replicate.

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Performance management is therefore important, but no more so than usual in the current climate. During the worst of the economic downturn, those professional services firms running at low employee utilization would often point employees inwards on internal projects, and many of those projects focused on bringing the house in order with respect to knowledge classification, knowledge management and business intelligence policies. On the other hand, lack of visibility is endemic to the public service sector, and investment to correct this falls into line not only with points mentioned previously, but also with the vastly increased use of targets across the board.

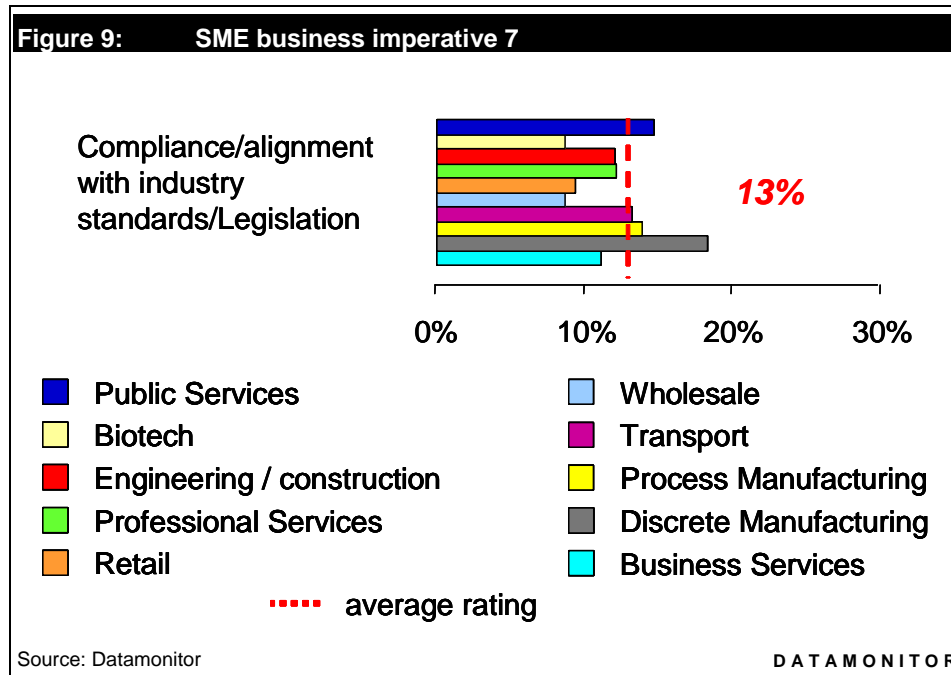
Six months ago, a lack of cost visibility was bemoaned by many SMEs. It is clearly difficult to know what areas of the business to target if good, operational information is not available, other than monthly or even quarterly financials. The preparation of monthly or quarterly financials can also create such a strain on some SMEs, particularly on finance departments and LOB heads, that productivity gains in other areas are rendered less effective. Better business intelligence other than that associated with financial metrics can allow the SME to:

- aim and target resources better;
- gauge better the levels of re-investment required to maintain and build on core operational efficiency;
- react more quickly in order to remain competitive in light of any market shifts.

Despite the majority of SMEs mentioning problems with corporate structure six months ago, staffing structures can still remain fluid. This is for a number of reasons. SME departments are smaller and may not warrant being maintained as walled teams. The relative fluidity of loose departmental structure can also suit SMEs where headcount is also still fluid, the future of lines of business or products remains uncertain and so on. This, however, increases the onus on good information flow as the binding factor, to counteract a lack of solid roles. If BI is good and its use is understood, lack of internal structure can sometimes be turned to advantage, allowing the flexibility to adapt to changing internal needs, market conditions or new/experimental initiatives.

Thematic analysis

Industry standards / legislation compliance



Given the scandals of the likes of Enron and WorldCom and their continuation with the Parmalat story, Datamonitor was expecting the prevalence of compliance, even if only management compliance, to have risen in importance. However, with an average of only 13% of respondents believing this to be a business imperative at present, the subject seems a little moot. While discrepancies occur between vertical markets, Datamonitor believes that the low overall score is a function of the size of companies within the sector. For companies with turnovers below \$250 million, issues such as the large-scale fraud witnessed in the examples above are far less probable and indeed less possible. Visibility of daily financial activity is easier for smaller companies, even if not making use of excellent financial management solutions. Of greater relevance is adherence to legislation governing core operations such as in:

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- manufacture and supply-chain activities, with traditional EDI, web-based EDI (AS2) and a plethora of other standards defining how channel masters interact with their smaller value-chain partners;
- the public sector, where safety, data-protection and internal as well as public accountability are definitive.

Datamonitor does not expect investment ahead of the index in compliance solutions in the SME sector in the next six months, above and beyond adherence to existing standards. Financial packages are expected to assist with corporate governance, since a tighter level of scrutiny is unavoidable, but the bulk of the onus falls on human activity rather than investment in further IT in the short term. This is in spite of the ramifications of several relevant legislative acts and initiatives including HIPAA, Gramm-Leach-Bliley, Sarbanes-Oxley etc.

This is not to say, however, that compliance is a moot issue. In fact many smaller organizations make the mistake of believing compliance with the dictates of corporate governance and other Acts is more of a concern for larger enterprises. This is due to those enterprises having a larger level of exposure to operational and financial risk, to variant compliance frameworks associated with pan-national operations and, above all, to scrutiny. While there may be some truth in this matter, it can often be short-lived. Of late, it is global enterprise that has triggered legislative change, but where this governs public companies, financing or operations, dictates can be common to all. While a trickle-down effect of change in legislation is often evident, this can be sped up in some situations where SMEs interact with larger enterprise. Where the enterprise or its sector is subject to the scrutiny of auditors, the Securities and Exchange Commission or London Stock Exchange for example, the need to adhere to similar methods of operation can be expected of smaller partners as an implicit price of that partnership.

### ***EU accession***

The accession to the EU of a raft of predominantly Eastern European countries in 2004 brings with it some definitive requirements with respect to regulatory compliance. While anticipatory steps have been taken by companies in all EU accession countries, a moratorium situation exists in many cases on or after accession, during which period all houses must be put in regulatory order. Laws governing competition, operations and financing within the EU are universal in their

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requirements. Changes in these requirements center around a few, over-arching points:

1. **Visibility of operations:** availability and visibility of operational information for corporate governance functions, as well as in case of any M&A activity, especially where national / EU turnover exceeds given levels
2. **Competition:** regulations governing anti-competitive operations; limiting sources of supply, market-sharing, predatory pricing and/or behavior
3. **Block exemption:** block exemption from certain regulatory tracts cover certain vertical agreements as well as elements of R&D, technology transfer, insurance and automotive trade/service. New 2004 European Court (EC) legislation will end much of the EC notification and exemption system.

General regulation change or enhancement is at a level of more generic governance, whereas regulation change by vertical industry is expectedly pitched at an operational level. Examples of *change* in the regulation affecting the operations of vertical sectors are as follows:

### *Pharmaceuticals*

- Methods and timelines for product registration, marketing authorization and applications and clinical trials
- Data exclusivity and product/operational documentation
- Governance of manufacturing, distribution (across boundaries) and wholesale processes
- Directives for rare diseases medicines
- Mutual recognition and clinical best-practices

### *Telecoms*

- License holding regulations
- Local-loop unbundling
- Financial and operational state independence
- Framework for basic service provision levels
- Service quality stipulations
- Service leasing, inter-connectivity and transmission
- Data administration, secrecy and protection

## Thematic analysis

### *Construction/real-estate*

- Introduction of legislative 'interim' periods governing agricultural and secondary property acquisition
- Mutual recognition of qualifications
- Interim changes to tax-framework (VAT) on construction
- Dispute resolution: information requirement regarding contracts, covenants and data
- Availability of EU funding for national infrastructure projects
- Increased monetary requirements for resources

### *Financial services*

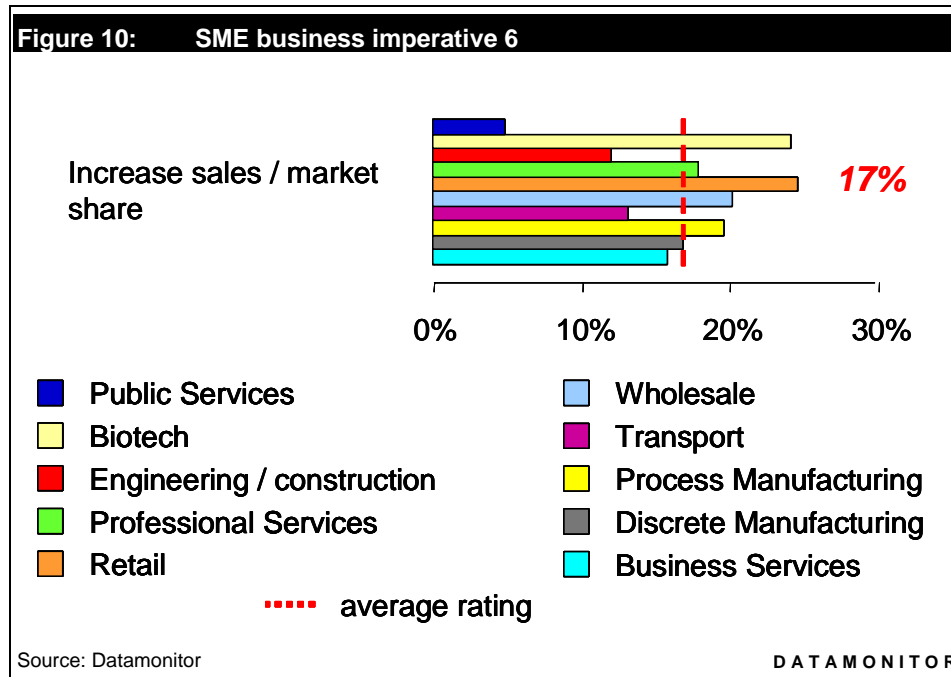
- Capital, adequacy and solvency requirements
- Insurance of deposits
- "Prudence" rules governing investment
- EU-wide operational regulations, governing transfer-times etc.
- Operation of foreign investment funds
- Nation-wide credit information system, governed by data protection laws

While this can seem like a time of regulatory turmoil this is not quite the case. Much has already been achieved in the run-up to accession. There is some way to go, especially in those industries operating in periods of legislative moratorium.

The over-arching implications are on financing and business information. With the scaling back of state aid and previously allowed anti-competitive environments, there is a large financial implication for companies from accession countries. Seeking alternative investment under EU law will entail far greater disclosure of information regarding operations and holdings. Investment in business information systems will be a natural by-product of the requirement to provide good operational information, as well as to ensure legislative adherence across all operations and departments.

Thematic analysis

Increase sales / market share



This category is really somewhat different from all other business imperatives, in that it is in itself a net result of other initiatives. SME ability to increase revenues and increase market share (or at least not *lose* market share) would result directly from correct measures being taken in other areas of the business.

The lack of relevance to the public service sector is expected. The transport industry is having a bad time at present since it is largely reliant on a change for the better in wholesale and retail markets, especially with almost seven of every ten lorries on European roads now accounted for by FMCG transportation. While the cost of airfreight has fallen in price considerably and no reversal of fortune is visible, many transport operators are working at lowest possible margins. The growth in margins is far more important than an increase in sales. Equally, market share in the SME sector is less of an issue where more specialist or localized transporters operate than in the Enterprise space, where scale again becomes one of the defining attributes of

## Thematic analysis

survival. The retail sector is more defined by scale, as volume can directly dictate margins. The current rise in consumer confidence throughout western economies will buoy the sector somewhat in the forthcoming six months.

Increasing sales/market share achieved a significantly low rating (17%) in comparison with the ongoing need to remain competitive (53%). This reflects the fact that SMEs are still focused on survival and are not well prepared for the improving economic situation. SME's can not afford to allow costs to increase as revenues begin to increase, and IT can play a particularly important role in helping SMEs to manage any increased sales without having to increase resources and costs.

### ***Increasing sales and market share***

Datamonitor does not advise directly passing any efficiency-driven cost savings on to customers in order to reduce market price and thereby attempt to increase market share. This sparks unhealthy, price-based sector competition at a time when shoring up income and cashflow are imperative. SMEs can increase sales and market share both directly and indirectly. Relatively small, strategic investment in IT in support of some fundamentals such as customer-interaction and accounting can create significant indirect benefits for sales. These fundamentals include:

- **einteraction:** creating visibility assists with business efficacy. This applies not only to interaction with partners and suppliers, but extends up to the customer. The ability for the customer to order on-line, by email or by fax can make life easier and is likely to garner a lower percentage of sales drop-out. For the larger SME, an investment in a business portal may be warranted. Order receipt and processing must be integrated into a single 'eOrder inflow' box at the SME end – something that sounds obvious, but is so often not the case at the smaller SME. Workflow and business rules can only be applied efficiently to a single inbox for order-receipt.
- **Workflow management:** technology to allow flexible administration and modification of business rules. Workflow should allow business process to progress simultaneously rather than in linear fashion. A simple example might be the automated and simultaneous progression of order receipt direct to accounting for billing preparation, to CRM to start the clock on any feedback or up-sell/cross-sell initiatives, as well as to manufacture/production. Sale-to-

## Thematic analysis

delivery cycles can be reduced, customer satisfaction can be increased, better seen and better acted on. Other efficiency gains are implicit.

- **Business Intelligence (BI) solutions:** increasing visibility across the organization is the only way to create certainty about the targeting of any cost-cutting or productivity initiatives. Investment in BI can provide visibility by product line, business unit, employee, business process and function. This allows management to see where money is wasted, productivity lost, where production is out of synch with demand and potentially what processes might better be outsourced.

## WHERE TO NEXT FOR THE SME?

While one might talk macro-economically of green shoots, of having seen the worst of it and of having turned the corner, many SMEs continue to see a subdued first half to 2004. While some have already noticed an upturn in the second half of 2003, some have not yet noticed optimism make an impression on the top line. While the SME sector is currently defined by mixed fortunes, maintaining a newly learned low cost base is important to all. Many companies will begin to invest in technology to support growth, but focus on cost control will not be lost, and some targeted investment will also occur to support on-going cost-reduction initiatives.

Emerging from a hard downturn is a turbulent time for the SME. Choosing the moment to make investment in support of market optimism and to time pre-emption of increasing opportunity correctly is difficult. For many companies, there will be implications of repaying capital out of increased revenues, rather than being able to capitalize on opportunity. A set of 'next steps' may include:

- maintaining focus on incremental secondary and tertiary cost cutting initiatives;
- once primary cost cutting initiatives are complete, stabilizing the internal workforce, departmental structure and lines of business where appropriate, to:
  - set clear lines of reporting and accounting, but most of all accountability;
  - re-foster morale.
- crystallizing employee role descriptions not just for now, but going forward, to:
  - provide room for goal-driven motivation;
  - set performance targets.
- setting sales, revenue and margin targets, so that salaries are performance-related. If recruiting again, use the opportunity to overhaul salary structure.

## Thematic analysis

Write contracts on a far more personal- as well as team performance-related basis.

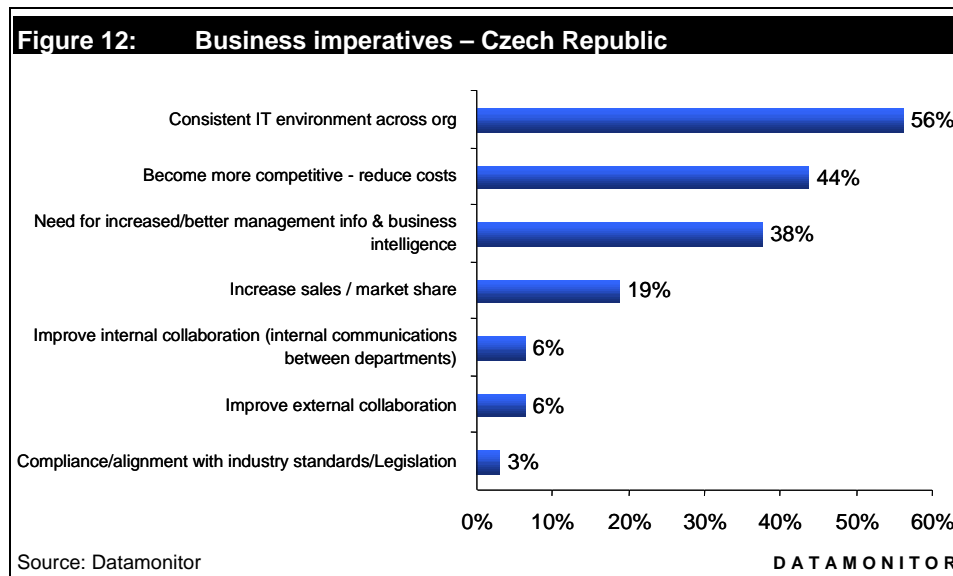
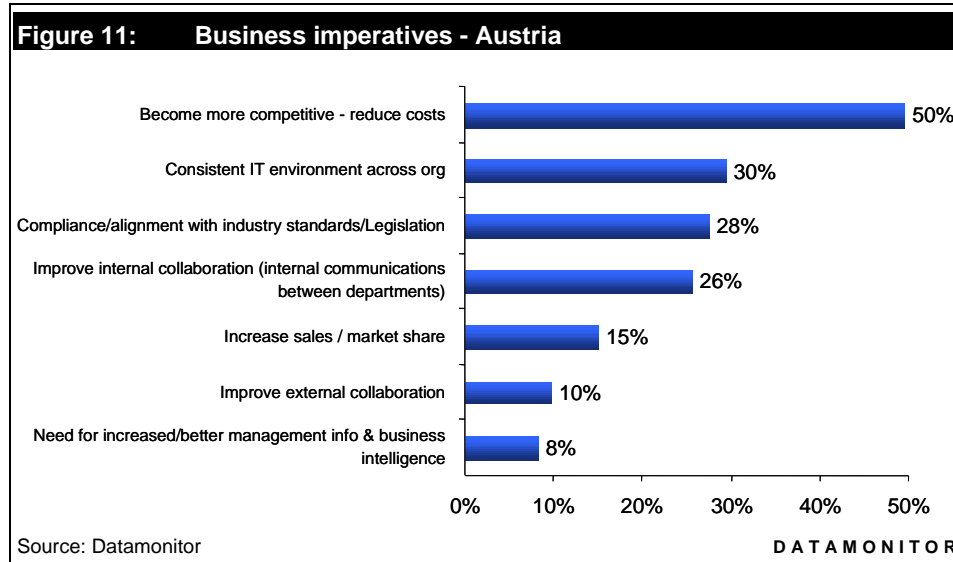
- building vertical marketing and communications activities around any horizontal products where appropriate. Build vertical sessions into sales training. This will allow the SME to:
  - appear to have a degree of vertical specialism in comparison with the competition, with relatively low capital investment.
- establishing which areas of the business will be put under most pressure as the market expands. 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. Draw up a roadmap for resources (technology and other) that may be necessary to support those areas, making sure to involve LOB managers in not only business but also IT decisions.
- looking to start consolidation of IT platforms where appropriate in conjunction with any hardware and software replacement, in order to:
  - drive management, support and operational cost benefit.
- if desktop hardware is in need of replacement, investigating financing / leasing arrangements, in order to:
  - improve productivity and morale while negating a large CAPEX hit;
  - make use of the re-emergence of hardware financing options for items such as laptops.
- investigating discounted outsourcing opportunities for IT in support of core operational business processes that have seen sufficient, relevant transformation, to:
  - remove management headaches, benefit from larger degrees of professionalism, SLAs, cheaper foreign cost-bases and some generally good deals available;
  - free up capital to invest in strategic IT projects with clear ROI paths.

## Thematic analysis

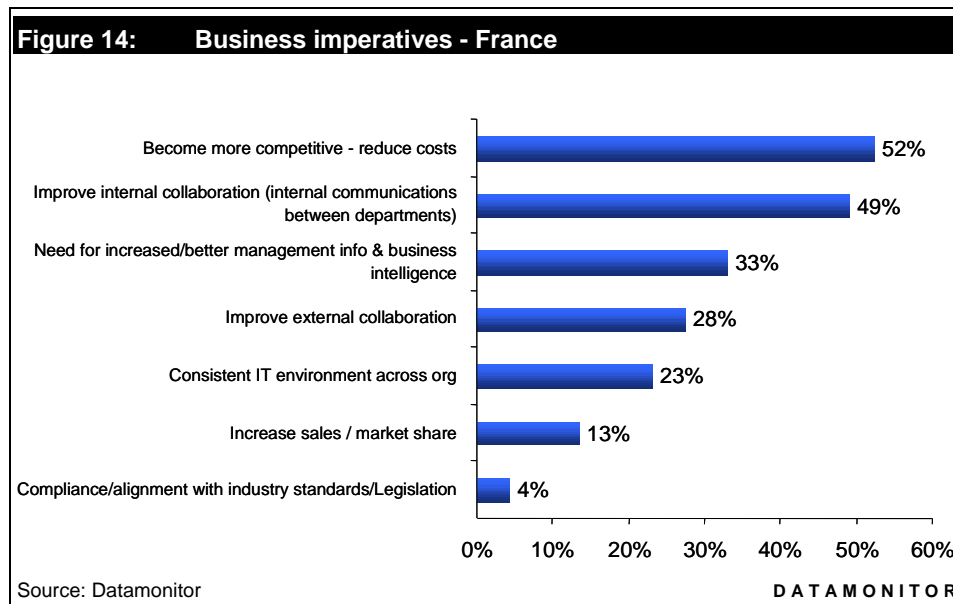
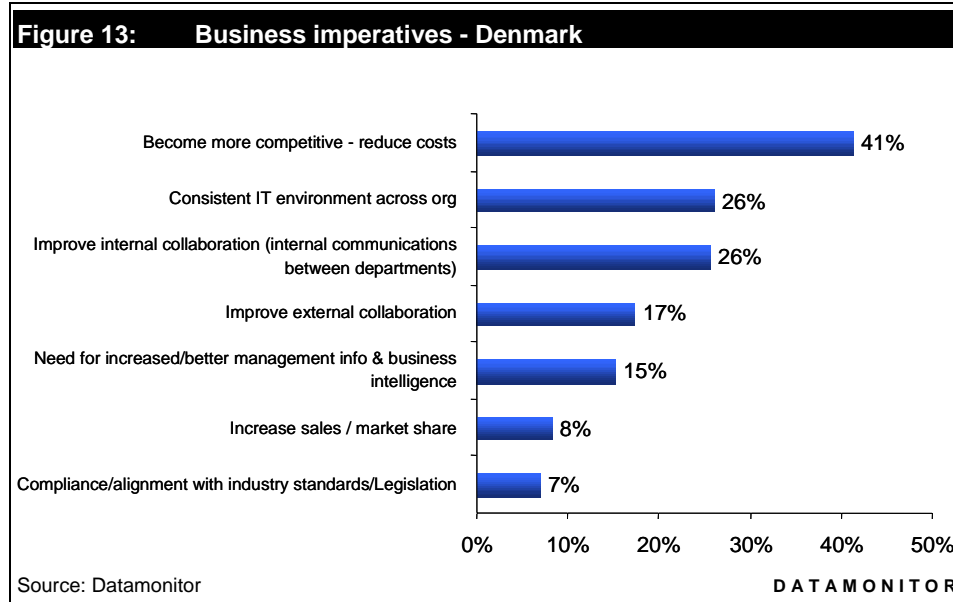
- looking at the relevance of implementing low-risk collaboration software if appropriate in improving either communication or business process efficiency between departments and sites or for remote workers, to:
  - drive any further efficiencies in operation, with a view to larger scale collaboration investment later on;
  - augment existing technology while taking a strategic step towards larger collaborative initiatives.
- overhauling CRM operations, considering a small investment in self-service software, while tying any investment to the need for business intelligence throughout the organization, not just for C-level reporting.
- if recognizing the need to overhaul core IT, focusing on clear, modular ROI. Treat any ROA arguments as of secondary importance. If buying IT off the shelf, look for each stage to create the savings that might justify the next stage. If buying bespoke solutions, look to negotiate contractual terms based in part on the scale of return that the solution provides.
- choosing technology that:
  - has a comparatively small degree of special training required in its implementation or use, while remaining effective;
  - provides users with obvious benefits in its use;
  - cannot be avoided in its use, since other process options are made unavailable;
  - carries repercussions in employee remuneration if not used as requested (where applicable).

**APPENDIX**

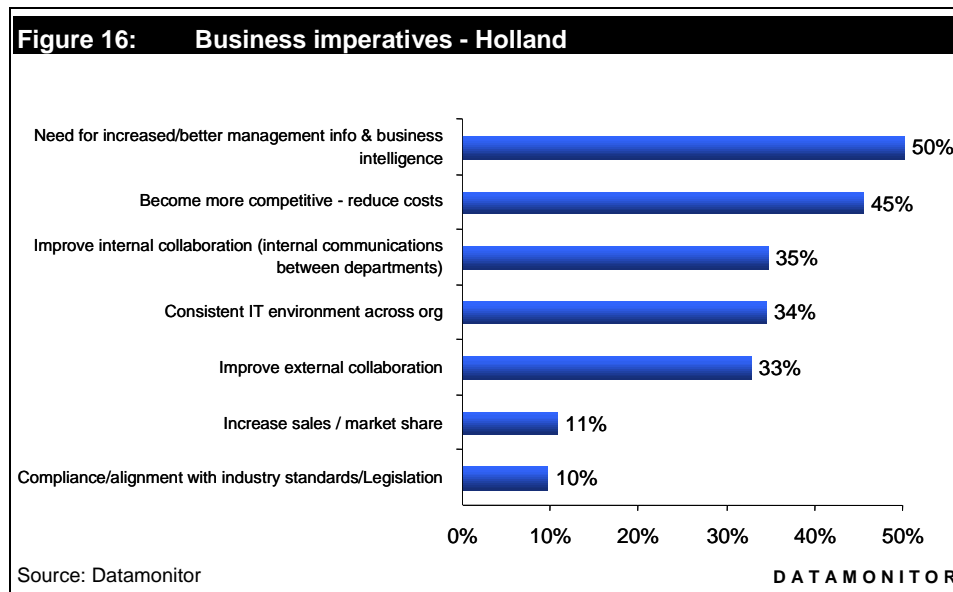
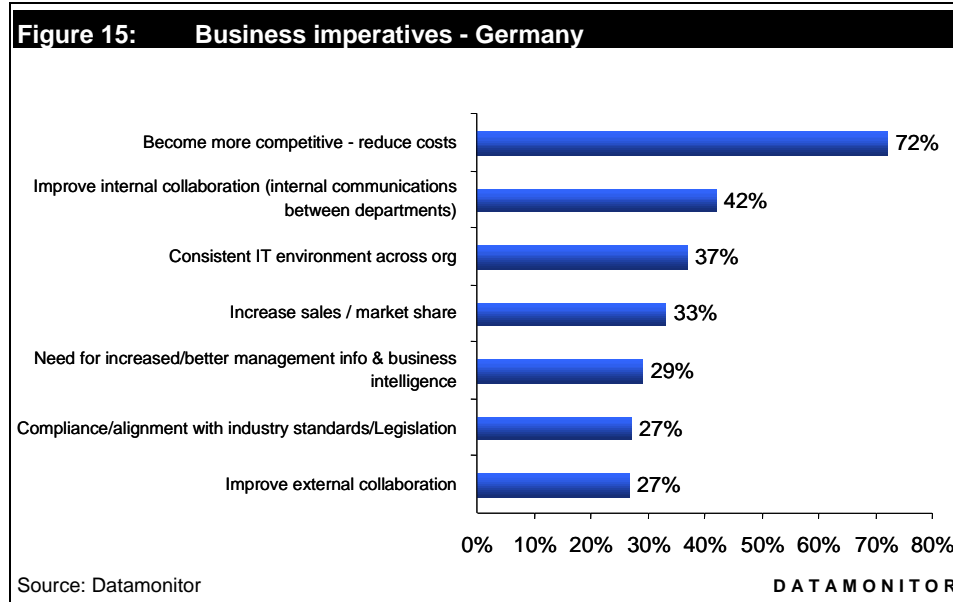
**Business imperatives by country**



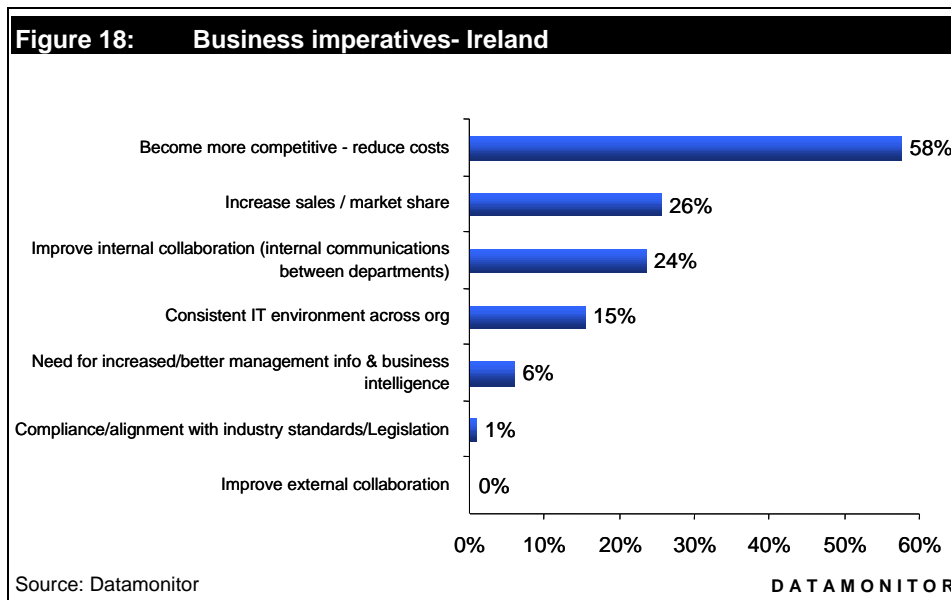
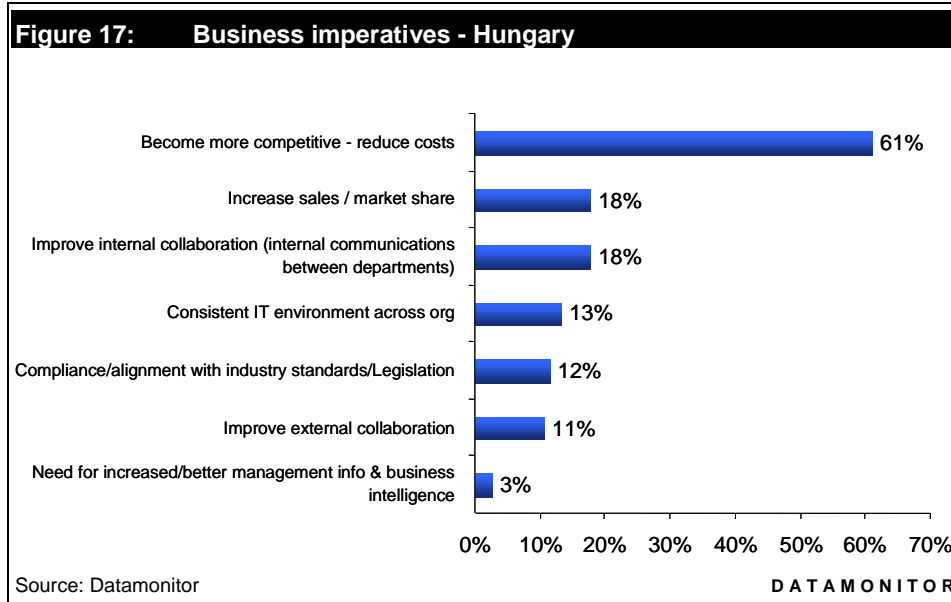
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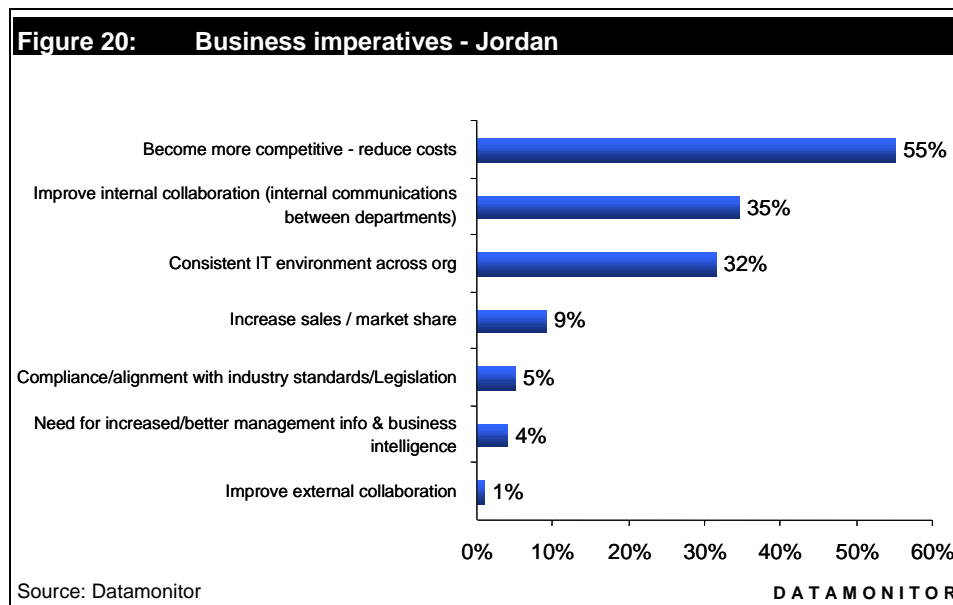
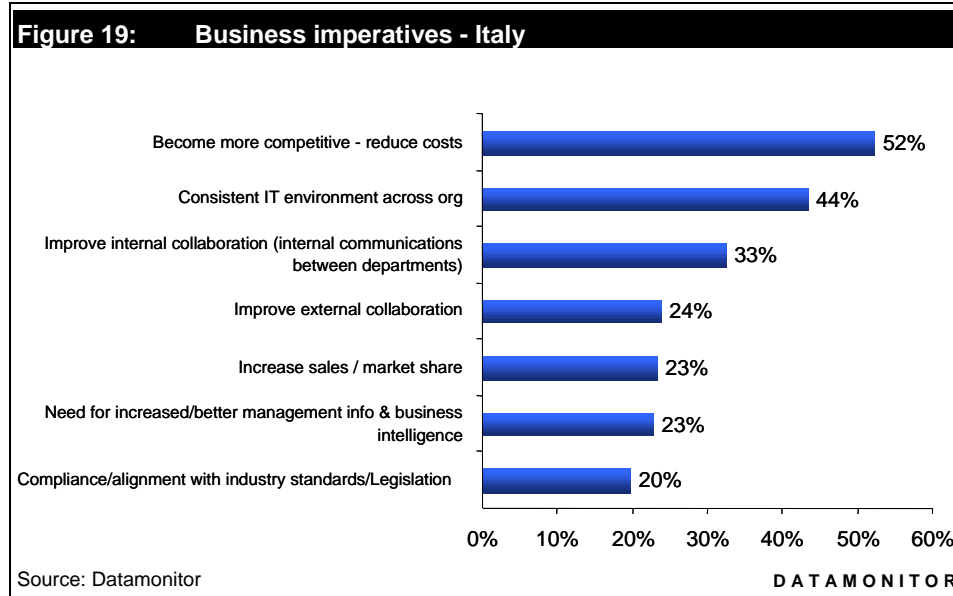
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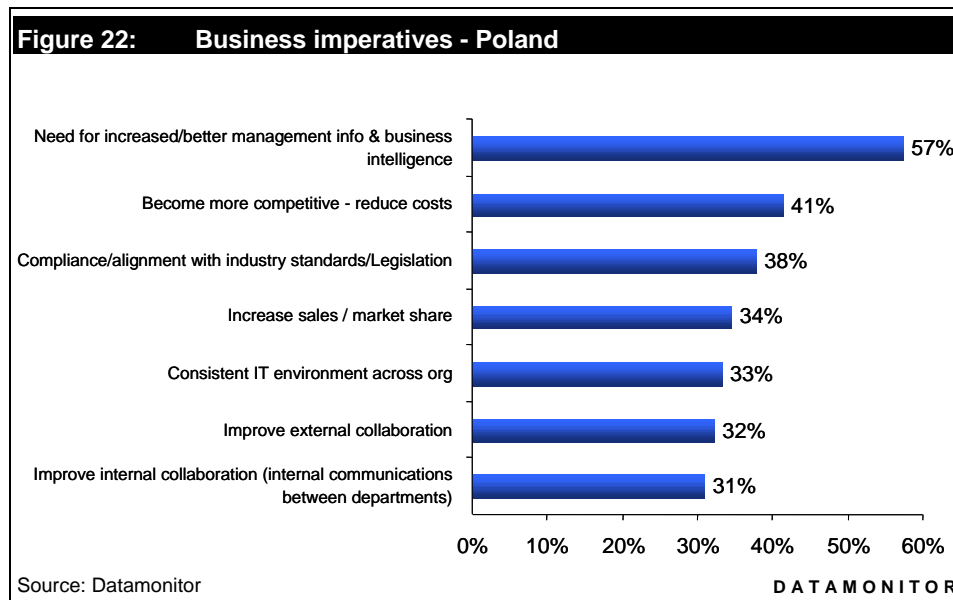
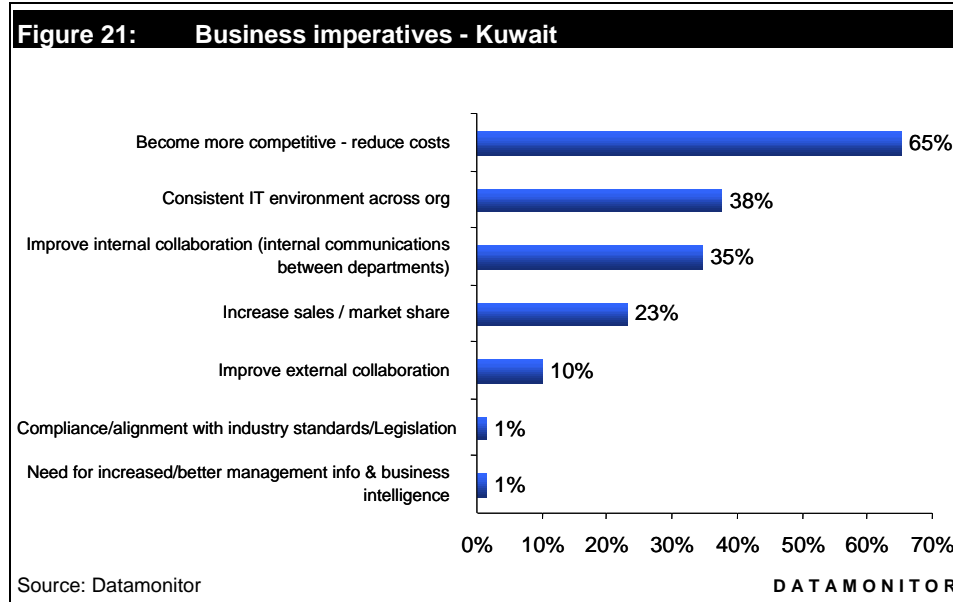
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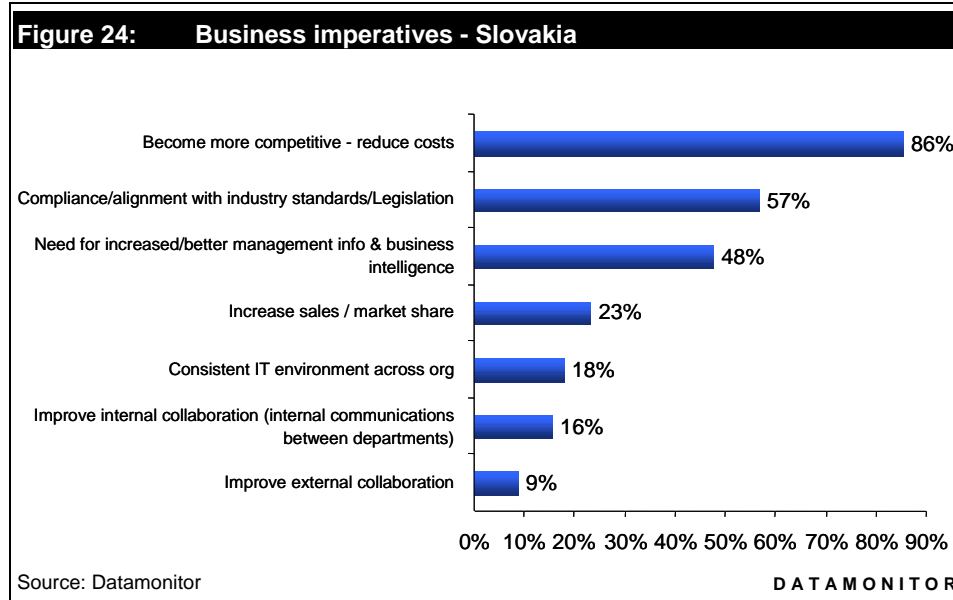
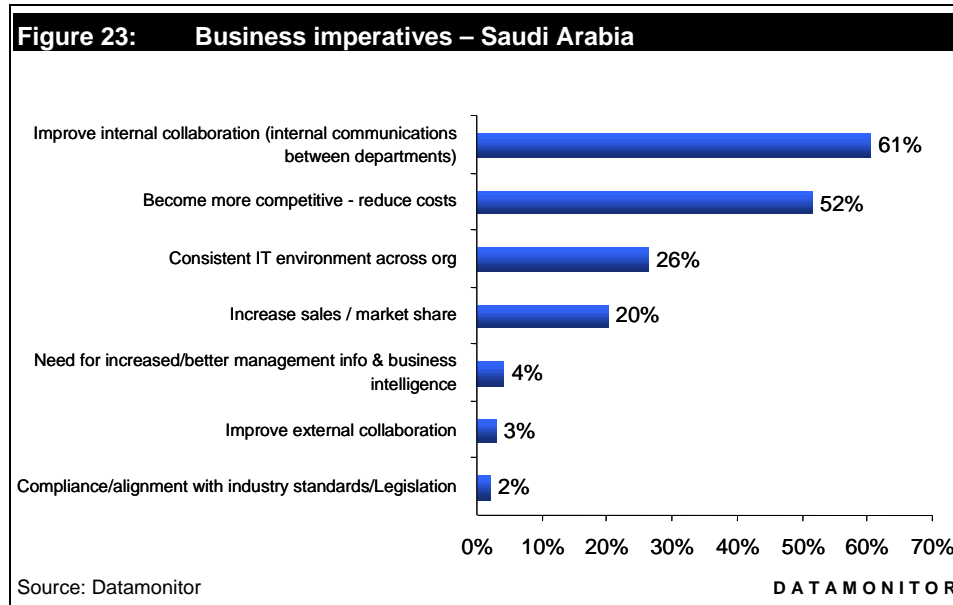
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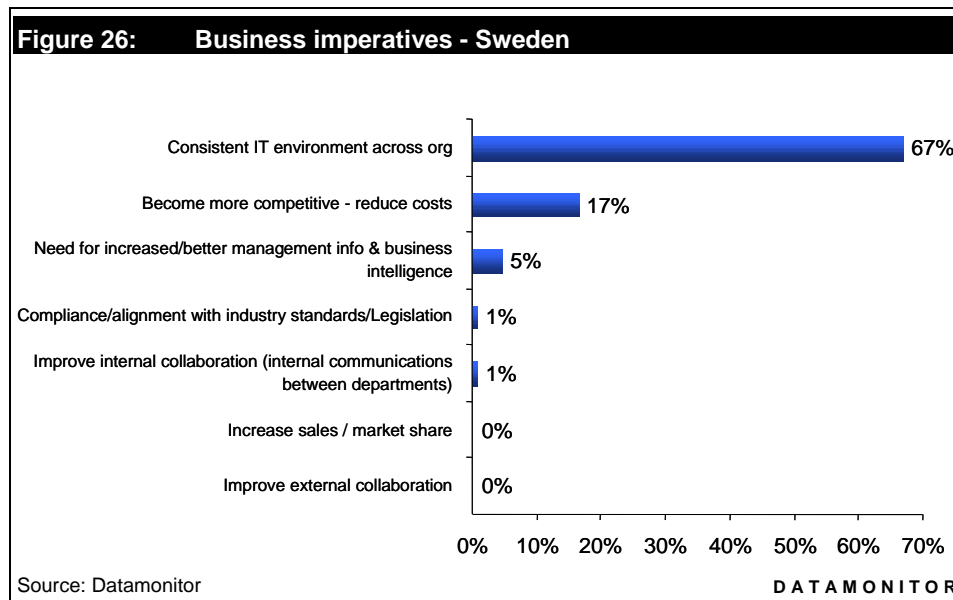
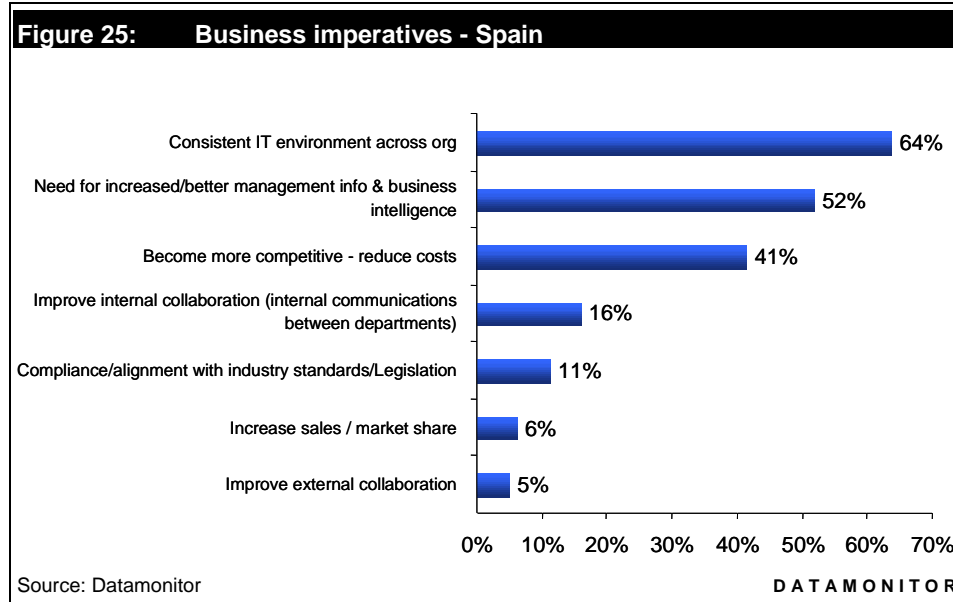
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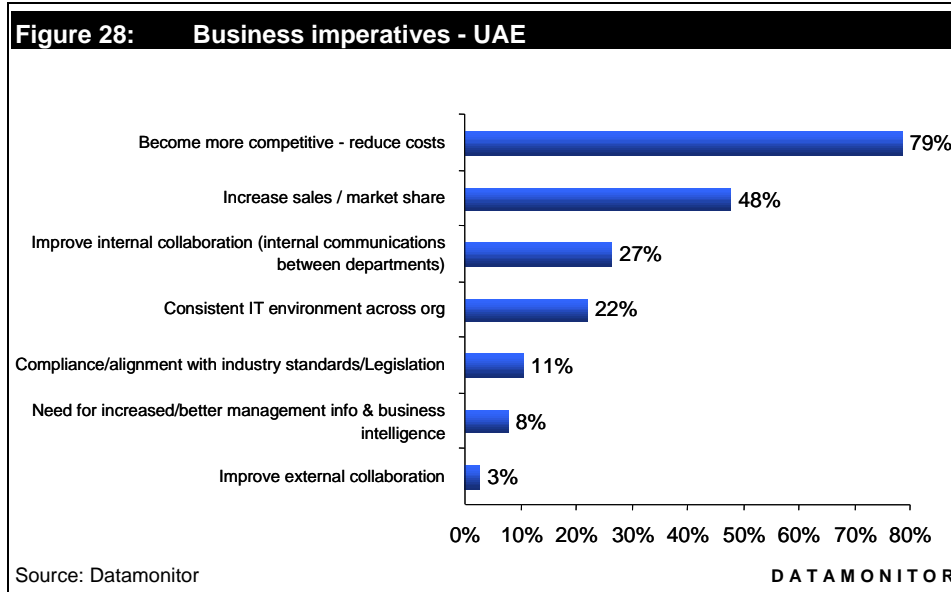
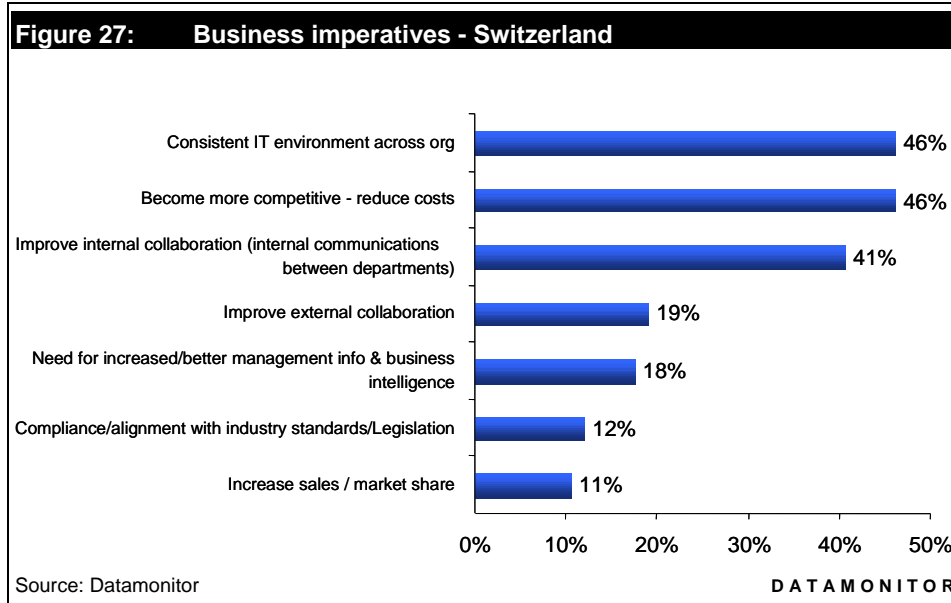
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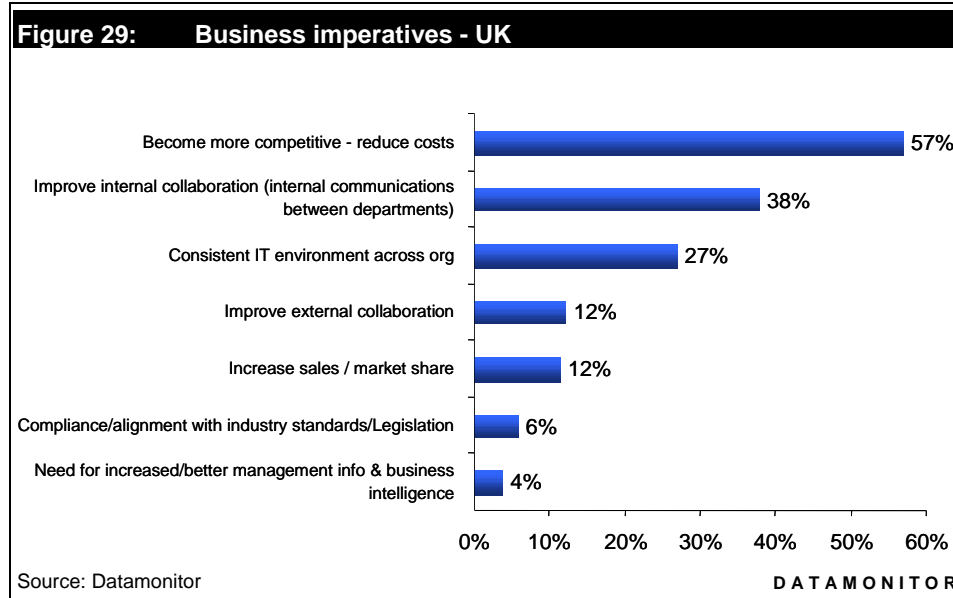


Appendix



Appendix





## Macro-Economic outlook

A revival of the world economy is a trend emergent in the last 6 months and a little more evident every week. The outlook for 2004 is more evenly favorable across the board, although not a panacea.

Global production is up, especially in emerging Asia regions and, while some months ago suffering the lack of pricing power, North American productivity will also contribute to an estimated rise in global output (GNP) of in excess of 3% and GDP in excess of 4%. Of late, US manufacturers have greater international pricing power, given that the sliding US dollar and US growth will be marginally higher than the global average. However, that rate will not be sufficient to take up the existing slack for another couple of years, extending US companies' need to maintain low costs beyond that of selected European counterparts (Ireland, Portugal, Spain and UK). Germany, France and Italy continue to under-perform, the former still hampered by late tax-cuts, unsustainably high income support payments and regulatory constraints inhibiting labor market liquidity.

Geo-political ramifications of a protracted war on top of the general economic malaise have had the effect of postponing business investment and causing companies to draw down inventories. Those reduced inventories point toward sustainable increases in production. Some US companies have seen rapid increases in operating profits, and both imports and exports are set to accelerate.

Europe will collectively not fare as well, especially not the Eurozone, with 1.7% of expected economic growth against Europe's 2.4% in 2004. The effect of increases in global demand on Eurozone exports will be tempered by the rising value of the Euro. However, despite high energy and oil prices, the 2003 rebound in credit and equity markets makes financing conditions for European businesses more positive going forward.

After a year of stagnation, the Eurozone showed some growth in latter 2003, kick-started by a rise in foreign demand. Growth will not, however, be remarkable, with a lack of financial stimuli being brought to bear. While foreign demand may now remain stagnant in light of the strength of the Euro, domestic demand will rebound somewhat to carry a recovery forward. With small falls in inflation and income tax, as well as increasing consumer confidence and a more stable labor market, private consumption will recover a little, with the effects knocking on through industry.

## Appendix

Main drivers for 2004 growth include:

- Stimulative monetary policy going forward, the rebound in credit and equity markets, lowering borrowing rates for business, a small fall in inflation increasing the consumer wallet, some structural legislative change and thereby reduced non-wage labor costs.

Main risks include:

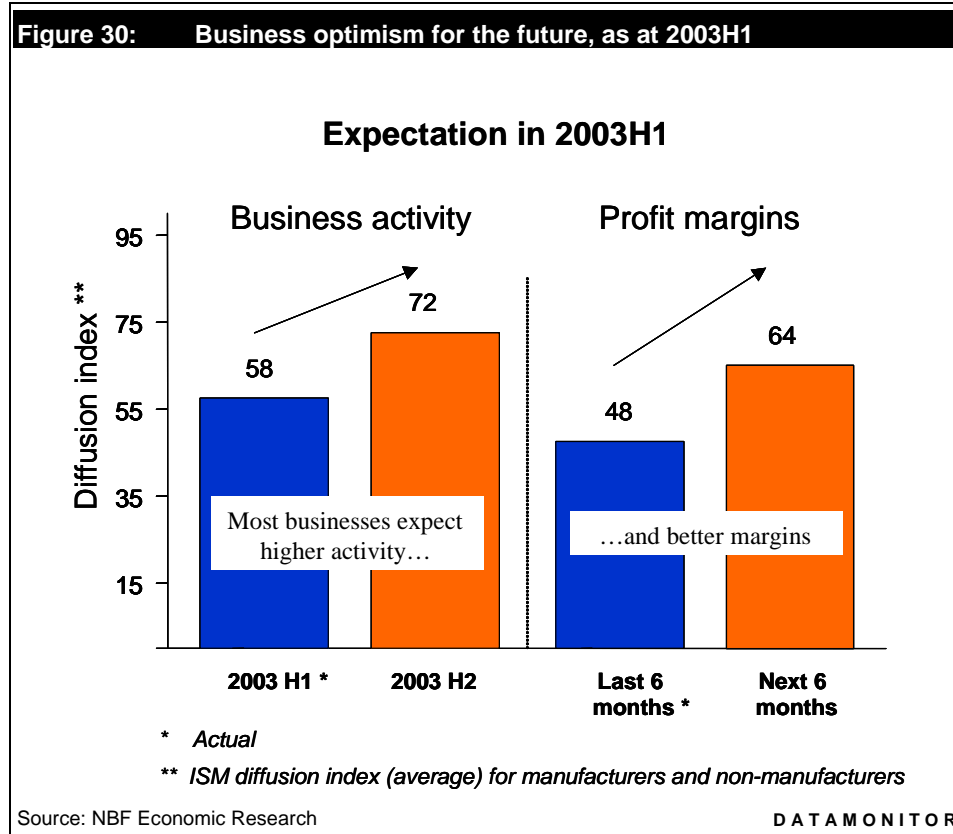
- A continued surge in Euro currency strength, upsets in the credit and equity markets, an unforeseen boom in global demand as the world lifts out, forcing a tightening in policy, a rise in protectionism either side of the Atlantic<sup>1</sup>.

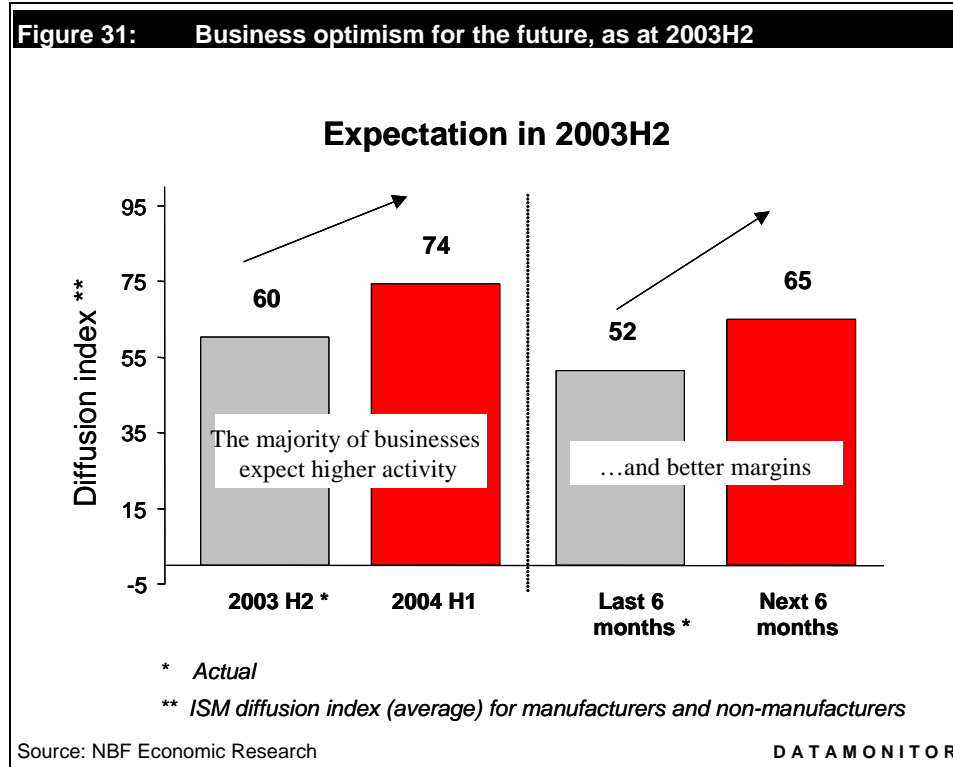
Comparing the last semi-annual study from the Institute for Supply Management with the most recent (Figure 30 and Figure 31), a story for the six months starts to emerge across industry, for manufacturers and non-manufacturers alike. Six months ago, business optimism for the following six months had lifted, with the large majority of companies believing they had seen the worst of the economic cycle. The following six months were expected to see a definite rise in fortunes. Both overall revenues and profit margins were expected to take a turn for the better, as industry as a whole lifted out. While this has been the case, a degree of over-estimation is evident, as real expectation was likely confused with blind optimism. The last six months have seen a rise in fortunes, but not to the degree that most expected or wished for. Looking forward to the remainder of 2004, this optimism with respect to business activity and profit margin is demonstrably more grounded.

Cost cutting and margin improvement rather than revenue growth have defined the cycle, and continue to do so.

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<sup>1</sup> Bank of America Corporation, Global Economic Outlook 2004





## Appendix

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eUtilities	<a href="mailto:eutilities@datamonitor.com"><u>eutilities@datamonitor.com</u></a>

**Bold** indicates the contact area for deeper content knowledge regarding this particular Market Report.