Companies like Stanley Productions represent one of the computer industry's biggest marketing challenges. Stanley Productions is an SME - a Small or Medium sized Enterprise: a company with less than a thousand employees.

SMEs are the dark matter of IT marketing - a vast mass of potential business, yet impossible to pin down. SMEs like Stanley Productions may use the latest industrial equipment, but they won't buy business IT. The major enterprise applications - ERP, CIM, CRM and Knowledge Management - have made little headway with this marketplace. And the enterprise databases, EAI, applications platforms, servers and storage systems that support these applications, have equally gone nowhere. Over the years, repeated sales and marketing efforts have fallen on barren ground.

Yet the SME market has never been so important to vendors. The large enterprise IT market is reaching saturation point. The SME market by contrast represents a vast untapped goldmine. According to Yvonne van Everdingen, professor of business administration at Erasmus University, Rotterdam, the European SME market is currently worth well over $50 billion a year. There are 19 million SMEs in Europe, and in many EU states they make up 99% of all businesses.

To help tap this market, vendors are aiming special initiatives at the small firm market. Microsoft has introduced its Small Business Specialist Community, some 5,000 Microsoft Partners who have been designated as small business specialists. HP has expanded its support and service programmes to improve its offerings to the midmarket. IBM has developed what it calls its Concierge Service to make it easier for smaller firms to buy from the company. It has also opened a software centre in Bangalore which will focus its efforts on producing software suitable for smaller firms and business divisions. SAP, the world's large business software vendor, has launched a new SaaS service, Business ByDesign, aimed at securing 1.2 million new customers in the SME marketplace over the next five years. And almost every hardware manufacturer is offering special blade, server and storage configurations to the midmarket.

But many analysts and industry figures remain sceptical about midmarket strategies. In a discussion with analysts shortly after SAP's ByDesign announcement, Oracle chief executive Larry Ellison expressed his doubts about targeting the SME marketplace: "We'll watch and see how SAP does going after small companies," Ellison said. "But so far, no one has figured out how to make any money in it."

Ellison's doubts may be well founded. According to Giovanni Buonanno at the University of Cattaneo in Italy, most European SMEs reckon themselves too small to benefit from enterprise software like ERP.
led of European SMEs found that 58.2% rejected business applications such as ERP, Knowledge Management and CRM because they believe the costs outweigh any benefits companies of their size might gain.

If the SME market remains so difficult even in the face of targeted offerings and dedicated channels, the questions arise: how do SMEs buy IT? What criteria do they apply? What media and marketing reaches them?

**Hitting the SME buying buttons**

Research suggests that compared to bigger companies, smaller firms have different criteria when buying technology. So vendors who apply to SMEs sales and marketing tactics developed for larger enterprises often fail to make an impact.

According to research by Dr Sonny Ariss and Professor Anand Kunnathar of the University of Toledo, key midmarket reasons for buying technology are improved cashflow and meeting the challenge of lower cost competitors.

These point to sharp differences between SMEs and larger firms.

Bigger companies - according to Ariss and Kunnathar - buy technology to acquire competitive features such as manufacturing flexibility or corporate agility. A big company can respond to low cost competition by switching production to low cost zones.

This "flexibility" is supported by its globally networked CIM, MES and ERP systems. Shifts in the market are detected and addressed through systems such as CRM, Knowledge Management and SOA, which give big enterprises greater agility.

Concepts like agility and flexibility have little meaning to small firms of a few hundred employees and one site. Their response to low cost competition will be more constrained: their expectation of technology more direct and immediate.

But the starkest contrast between larger and smaller firms is in their exposure to cashflow. Smaller firms are far more vulnerable, especially when undertaking large orders. Big companies by contrast rarely have such concerns and often have large cash reserves.

There's a well known story about a mid-sized company that spent $3 million on ERP. Within six months, it had junked it and gone back to using spreadsheets.

The ERP system proved just too difficult to use in a small firm setting. Smaller companies need solutions that can plug and go.

A study of 140 European small and mid-sized manufacturers carried out by Edward Bernroider and Stefan Koch at Vienna's University of Economics found a clear preference for market-specific solutions. This preference translated during buying into the vendor short list.

While the international market leader featured in 90% of all short lists, other major international vendors do less well. The next popular choice to the market leader is local, niche-specific vendors.

Company size also determined final choice of vendor. Larger midmarket firms opted for the market majors and versions of their enterprise suites. Small firms chose smaller, specialist providers.

One reason for this choice is that smaller companies have greater confidence dealing with like-sized suppliers. Another is for suppliers to be local. But the key factor is niche and process fit. Specialist companies in Europe typically cluster. With time, each company's business processes within the cluster become similar. So a local vendor can create niche solutions that are already highly customised. International vendors, by contrast, either offer generic solutions, or ones developed initially for different geographies.

This points to the marketing paradox of SMEs. Most European
small firms are niche players that need customised solutions, but don’t have the resources to carry out customisation themselves. The key to the market is providing already customised solutions. The potential for SaaS in the SME market is offering more cost-effective customisation to smaller firms. This route is being pursued by SaaS providers such as NetSuite and IBM partner Salesforce.com.

Finally, smaller firms suffer from greater internal constraints. One is access to finance. Smaller firms find it difficult to find the money for large-scale technology purchases.

Another factor is skills. The midmarket firm that dumped its $3 million ERP investment faced a system that staff found non-intuitive and divorced from their usual processes. The degree of reskilling required presented an unexpected cost hurdle. Within a midmarket data centre, enterprise systems can present an even more acute challenge. Managing an enterprise application can often demand new programming, database and systems skills.

**How SMEs buy**

Smaller firms differ not only in their reasons for buying technology, but also in the way they go about it. These differences in approach to technology purchases can undermine vendors’ sales and marketing aimed at the midmarket.

Research by Edward Bernroider and Stefan Koch at the Vienna University of Economics has found that senior managers dominate technology buying decisions in smaller firms, with advice perhaps from a single IT person. Larger midmarket firms are likely to have more structured procurement procedures that will involve more IT specialists as well as end-user departments.

Length and scope of the buying process also differs. Bigger midmarket firms in Europe typically take about 26 weeks and spend around EUR 72,000 on a major IT procurement process. Smaller firms take about 19 months and spend about EUR 30,000.

Supporting analysis in smaller firms tends to be static, focusing on investment and net present value. Larger firms employ more sophisticated dynamic analysis, including utilisation ranking and real options. These help firms explore potential returns against a range of business scenarios.

Using dynamic analysis makes larger firms more likely to commit to major IT purchases, and more likely to succeed in implementation. Dynamic analysis helps firms pick the best solutions and implementation strategies from the outset.

Bernroider and Koch found that larger firms often hire consultants to advise them, and purchase expensive market research material. They are also likely to build and test prototypes before committing to a purchase. Their research found that smaller firms are unlikely to do any of these.

What they do instead, according to Sanna Laukkanen of the Helsinki School of Economics, is talk to other small firms. Personal recommendations, experience and personal networks play a key part in small firms’ technology purchases.

SME use of media is complex and evolving. A survey carried out by Technology Marketing Newsletter found that more than 95% of small firms use more than one media channel throughout a purchase. Even very small firms will use a wide range of media, and their use of media will change over the course of a purchase.

In smaller companies, online trade technical titles and portals tend to have the greater impact.

**Effective channel marketing to SMEs demands effective marketing to channel partners as well**

As company size increases, the range of media influencing the purchase widens and becomes more diffuse. This can be related to the more structured nature of larger company purchase, and the involvement of a greater number of professionals from different departments.

The survey found that even in smaller firms, CEOs tended to employ a high degree of push-and-pull marketing material, and were accomplished at using it to obtain detailed information.

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**Addressing the Channel**

Marketing to SMEs often includes building an effective channel marketing strategy.

Marketing through the channel can pay double dividends for technology companies. Resellers, service providers, and system integrators often provide a more cost effective route to target SMEs than broad unfocused media. Marketing through the channel can also be a powerful way both of incentivising resellers and of gaining market intelligence on specific segments of the midmarket.

Examples of major vendors with significant channel marketing programmes include HP, IBM, Microsoft and SAP. HP funds reseller co-marketing initiatives as a key part of its channel strategy. IBM recently announced a $300 million
investment to support its SME channel operations. It also has a strategic relationship with Salesforce.com targeting the midmarket. Microsoft has around 5,000 Partners committed to the small market sector, with a product spread hinged on its Dynamics business applications brand. Using channel marketing to reach SMEs also demands effective marketing to channel partners as well. Small resellers can feel alienated from large international vendors. The potential for channel confusion and estrangement is likely to increase as vendors explore direct offerings such as SaaS - which are vulnerable to accusations of cannibalising the channel. Communicating to the channel as well as through it is becoming an increasingly critical part of a continuing midmarket programme.

**Epilogue**

In five years' time, will Stanley Productions still be using its green screen software, or will it have moved onto something more modern? What is certain is that the SME market is different from the large enterprise market. The way it buys technology, the criteria it applies, and the way it is influenced by media and marketing are all different. It’s a vast potential marketplace which is growing each year. For technology marketers, it’s the battleground of the next decade.

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**How business systems lurched into complexity**

Why did firms like Stanley Productions invest in business systems thirty years ago but have refused to modernise since?

Undoubtedly SMEs are reluctant to risk change if a system works. All SMEs safeguard cashflow and avoid risk. But IT has developed extensively in thirty years. Has IT become less attractive to SMEs in the process?

Starting in the late 1970s, vendors brought onto the market small minicomputers that were aimed at small and midsized firms. Systems running MUMPS or PICK offered simple to run business and administrative systems. Many of these systems are still in use in the NHS and local government. Manufacturing companies, government laboratories and universities bought DEC VAXes.

One of the most successful of all midrange systems was IBM's System/38. Equipped with a relational database integrated into the operating system, and an object-based architecture, the System/38 - which appeared in 1979 - was easy to program and even easier to run. Many SMEs bought it, including Stanley Productions. It evolved into the AS/400. Today, modernised and updated, it is sold as the IBM System i.

The rise of UNIX and PC networking changed the shape of the small computer market in the 1990s. Complexity and cost increased as workstation and PC architectures took hold of mid-range computing. The total cost of ownership (TCO) of new systems rose significantly, as did the difficulty of programming and maintaining them.

Low cost of ownership, simplicity and ease of development are key features in small business systems.