

Why SMB? A guide to decipher the **SMB Market**

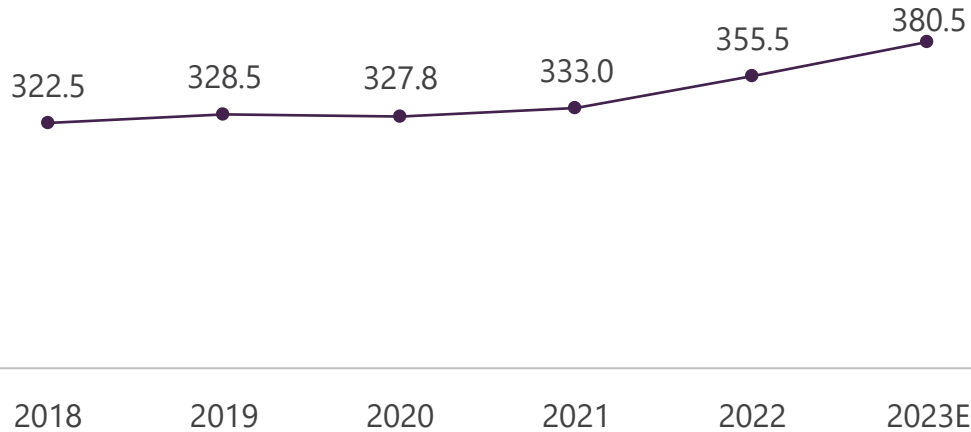
June 2023

Executive Summary

- 01** SMBs play pivotal role in global economy
 - ▶ **380 Mn** SMBs globally
- 02** IT spending by SMBs driving next wave of growth for tech companies
 - ▶ **\$1.4 Tr** IT spend by SMBs
- 03** Core business issues will remain key priority and will continue to receive investment from SMBs
 - ▶ **\$100 Bn** new IT investments by SMBs
- 04** 37% SMBs expected to switch vendors in 2024 creating additional opportunity for SMB-focused companies
 - ▶ **\$500 Bn** additional opportunity
- 05** Tech companies need to adopt an approach that addresses needs and priorities of SMBs
 - ▶ **SMB-Focused** product and value proposition

SMBs, being large in number globally, play a pivotal role in fostering employment and driving economic activity

Number of SMBs Worldwide, in Millions⁽¹⁾



Number of SMBs Worldwide, by Region, 2023, in Millions⁽²⁾



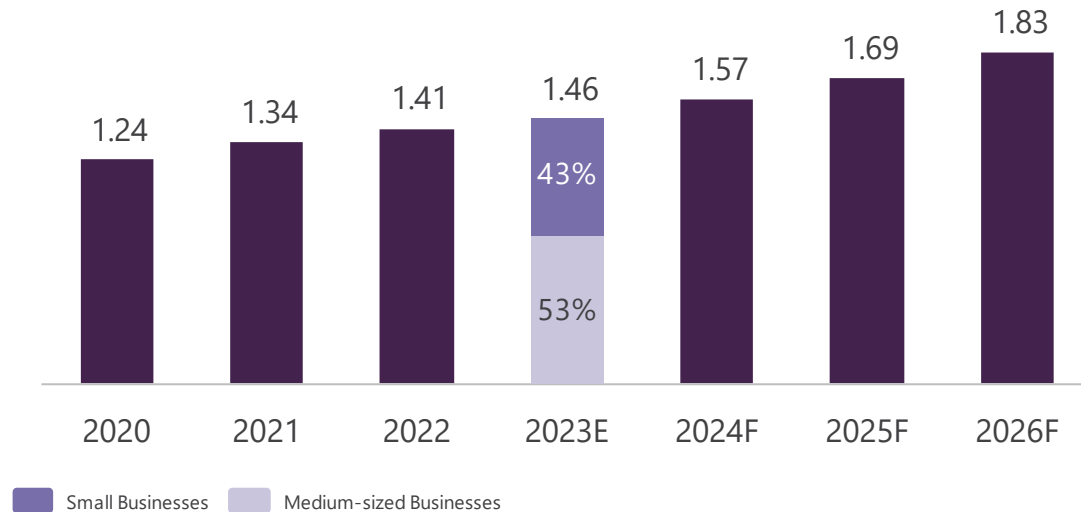
Volume of SMBs Impact of SMBs

~380 M SMBs globally	5% CAGR growth in SMB volume (2020-23)	56% SMBs in APAC	90% Of firms are SMBs in developing countries	~135M SMBs in India and China combined	30M SMBs in the US
2 out of 3 Jobs generated by SMBs in the last 25 years	50% Employment generated by SMBs in developing countries	66% Employment generated by SMBs in developed countries	70% Global GDP contributed by SMBs	~\$0.2Mn GDP contribution per SMB globally annually	44% GDP contributed by SMBs in the US

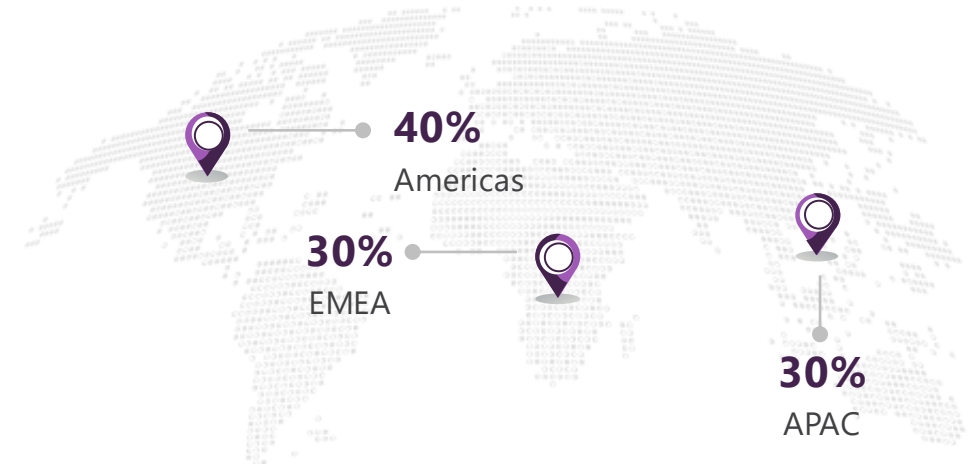
Source(s): Evaluesserve Analysis, Statista (Statista; Eurostat; OECD; ILO; World Bank)⁽¹⁾, Statista (Statista; Eurostat; OECD; World Bank; US Census Bureau; Statistisches Bundesamt)⁽²⁾, US Chambers of Commerce⁽³⁾, Eurofound⁽⁴⁾

IT spending by SMBs is driving next wave of growth for tech companies; though they have turned cautious due to post-pandemic economic uncertainties...

IT Spending by SMBs Worldwide, in USD Trillion



Region-wise IT Spending by SMBs. 2023



SMBs are cautious about additional spend

- SMBs are coming back to business in a post-pandemic environment, but rising inflation and geopolitical uncertainties are weakening their optimism
- Although SMB's IT budgets are increasing and the trend is expected to continue in 2023, but YoY growth of IT spending is expected to slow down
- **SMB's IT spend** is expected to **increase by 4%** (USD343 per year per employee in 2023) representing a new market worth ~USD100 B
- SMBs IT spend classification: **Hardware (~30%), software (~30%), hosted/cloud-based services (~22%), and managed services (~18%)**. Spending on managed services has increased in the last two years, indicating an increased focus on mitigating challenges related to IT support and security as hybrid work and online businesses become more prominent.

...skill shortage, better connectivity and cost reduction continue to be key drivers of new IT investment



New Market

~\$100Bn in 2024

Market Drivers



- IT spend to hedge against talent and skillset shortage like **managed services** for IT support and security
- **Collaboration solutions** like audio and video conferencing, file sharing and business workflow solutions to assist in connectivity and productivity gains
- **Business applications** (SaaS based solutions) and **digital marketing and advertising solutions** to reduce cost and improve customer reach
- Hardware spend to remain stable in 2024

Purchase Channels



- **Resellers and VARs** (Value-added resellers) account for ~45% of IT spend
- **Managed Service Providers (MSPs) and System Integrators (SIs)** are expected to witness significant growth in 2024 (~USD40Bn) driven by:
 - Long-term support and strategic services to SMBs
 - IT consulting and advisory to help SMBs manage digital transformation related services as well as complicated IT related issues and hybrid workforce
- SMBs are expected to increase spending on **IT advisory, support and services via telecoms operators (~USD40Bn)**, many of which are creating targeted IT service bundles for SMBs



MSPs and SIs will be expected to not just build, implement, fix and optimize IT solutions but also provide compliance and business process know-how and strategic advisory services to large size SMB accounts

IT investments for core business issues remain priority, although ESG related investments are gaining traction

"As-a-Service"

\$54Bn
(2023)
+\$10Bn

Software-as-a-service is driven by increased spend on BI, ERP and line-of-business software such as electronic health records, 3D design, and IT monitoring solutions

\$4Bn
(2023)

Platform-as-a-service is driven by increased focus on minimizing capex spend

Other notable solutions include PC and Device-as-a-service (PCDaaS), Desktop-as-a-service, Recovery-as-a-service

Cloud Security

\$77Bn
(2023)
+\$11Bn

Cyber security solution growth driven by increased device proliferation and geopolitical issues

Environmental, social and governance (ESG)

24%

24% SMBs are planning to start ESG initiatives in 2023. Although, macro economic inhibitors like limited access to capital, are keeping SMBs away from investing in ESG-related IT infrastructure

Zoho, a cloud-based business applications company, specifically targeting global SMB market witnessed **77% YoY revenue growth in FY2022**. It achieved this growth by offering:



A cloud-native approach that involves minimum capex



Modular product evolution to enable customization and affordability



Personalized customer support to create a loyal customer base



Customer literacy and continuous engagement

Challenges faced by SMBs with incumbent vendors will generate additional \$0.5 Tr opportunities for SMB focused companies

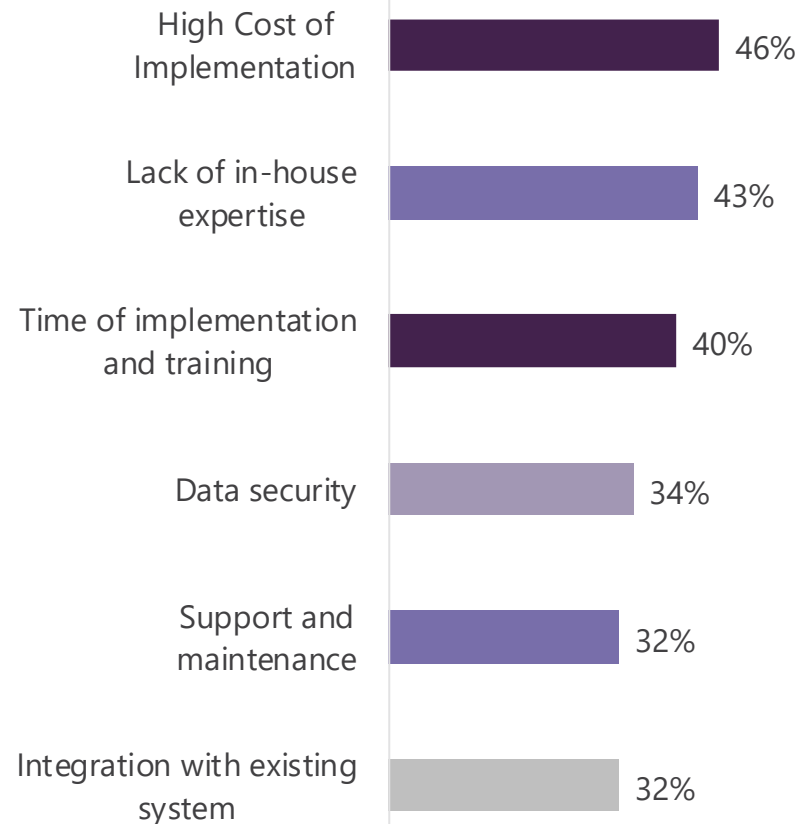


Existing Market Shift

~\$510Bn in 2024

~37% SMBs are expected to switch IT channel partners, generating a ~USD500 B market

Tech Challenges Faced by SMBs



Cost and Time Investment

Increased running and maintenance cost along with limited learning support by incumbents is a big challenge

Existing Know-how

Great resignation and budget constraints have led to skillset and resource shortage among SMBs.

Solution Reliability

Despite significant investment, ~50% cyber breaches impact businesses with less than 1,000 employees

Compatibility

Integration of new technology with existing tech stack, data sources, platforms, and devices poses a major issue.

SMB winning strategy - focus on data driven and personalized targeting, consultative approach, value-based proposition...



Note: *(% SMBs anticipating enterprises to use the strategy while targeting them)

Source(s): Ev alueserve Analysis

...and product offerings designed to meet specific needs and priorities of SMBs

Types of SMB Solutions	Key deciding factor	Current Customer Satisfaction Level*	Targeting Strategies	Case Examples	
					Factors
Digital process innovation: Digitization of the existing infrastructure like ERP, CRM	Efficiency	+ High	~ 7.5 – 8.0 CRM Solutions including players like Zoho, HubSpot, Salesforce, Freshworks ERP Solutions including prominent players like ORACLE, SAP, Sage, Deltek, etc.	<ul style="list-style-type: none"> Better digital experience Customized product bundling Omnichannel customer support 	<ul style="list-style-type: none"> Zoho's Bigin CRM is aimed at SMBs and offers them an option to build customized CRM solutions from scratch. Freshsales is a CRM solution from Freshworks, is aimed at enabling engagement with customers through preferred channels, such as chat, email, or phone.
	Automation	+ High			
	Security	= Medium			
	Ease of change	= Medium			
	Customer Support	-Low			
Digital Product innovation: Digitization of products/services, customer, supplier interaction	Reliability	+ High	~ 6.5 – 7.5 Product innovation companies include IBM Watson, Autodesk fusion 360, Tensorflow, Zendesk, etc.	<ul style="list-style-type: none"> Customer success over cross selling Bespoke outreach Micro-consulting 	<ul style="list-style-type: none"> Zendesk ensures SMB's success through training, success management, community channels, 1:1 onboarding engagements etc. Sisense, a business intelligence product company, has a strong customer success team (8% of employee base as per LinkedIn). It offers free tutorials, ready dashboards to a large community of SMB customers
	Ease of use	+ High			
	Cost efficiency	+ High			
	Analytics/ Insights	= Medium			
	Data backup and restoring	= Medium			
Digital Transformation: Establishment of digital business model for long term strategic advantage	Value for money/ ROI	+ High	~ 7.0 – 8.0 Cloud companies include AWS, MS Azure, Google Cloud, Oracle, Plesk, etc.	<ul style="list-style-type: none"> Value based conversation Change advisory Micro-consulting 	<ul style="list-style-type: none"> AWS has consulting partners that help SMBs to achieve their business outcomes and goals such as scalability and cybersecurity. Oracle cloud has witnessed 100%+ growth in India in the SMB segment by using dedicated sales teams and specialized partner networks for tier 2/3 cities
	Collaboration	+ High			
	Range of functionality	= Medium			
	Data security	= Medium			
	Streamline workflow	= Medium			

Source(s): Ev alueserve Analysis
 *On a scale of 10

How Evalueserve Can Help?



About Evalueserve

We provide the best possible business insights through the power of mind+machine™

How clients benefit from Evalueserve's strategic programs?

01 Multi-domain Experience of Working with Clients



20 years+ experience and Broad and Deep Industry Know-How with 300+ analysts per vertical, focused on dedicated vertical industries within a sector and long-standing business partnerships with a large number of Fortune 1000 customers

02 Global Delivery Modal-Multi-time-zone and Multilingual Support



Support across Developed and Emerging Markets
Analysts' adept in conducting research across main markets around the Globe, incl. emerging markets such as Middle East and Africa; offering support in 25 languages

03 Right Blend of Skillsets



Better understand Markets, Competitors, Suppliers, Innovation and Disruption in their business and make decisions faster

04 Demonstrated Ability to Deliver Productivity Gains Through Innovation



Top Line and Bottom-Line Impact
Evalueserve's services and programs are focused on the direct and sustainable positive impact on both the top line and bottom line.

05 AI augmented Research and DA



Innovative Solutions
By developing innovative platforms and programs with the utilization of AI and ML based algorithms Evalueserve enables the Clients to gain continued competitive advantage

06 Customized, Flexible Solution, Tool agnostic



Strong Research and Analytical Frameworks and Tools



High Roi



Designed to support different stakeholders and their objectives



Actionable Insights for functional teams such as Sales & Marketing

Evaluesserve ACE framework to evaluate and realize the full potential of SMB opportunity



ASSESS

Where and how big is the opportunity?

- How is the SMB market performing (core market, adjacent market)? What are the opportunities & challenges by countries & sectors
- How demands and needs of SMBs are evolving? What are the gaps & opportunities?
- What offerings would address these dynamics in terms of product and pricing? How are competitors addressing it?



CONVERT

How to target and acquire SMBs?

- How to better target SMBs in their offline/online buying journey?
- How do you convince the SMB about the value proposition? What are competitor's value proposition for SMB segment?
- What are key SMB customers concerns and how can those be addressed?
- How to enable and effectively engage with channel partners? How are competitors designing their partner programs?



ENGAGE

How to retain and grow SMBs?

- How to measure performance with SMBs?
- What are the reasons for customer churn? How churn can be addressed more proactively?
- How to drive adoption within SMB org.? How to increase ACV?
- How to build best-in-class customer experience? What are the best practices?
- How to enable SMB success?

Our solution portfolio enables clients to win SMBs throughout the lifecycle



ASSESS

SMB Trends

Keep track of global and regional trends to drive key business decisions

SMB Opportunity & Strategy

Identify opportunity areas, size the potential and develop SMB specific GTM strategy (channels, pricing, bundling)

Competition Radar

Monitor competitors regularly and deep dive on their SMB strategy (specific product features, pricing & bundling, partnerships and SMB support)

Voice of SMBs

Design products/solutions based on real needs of SMBs

Right Opportunity | Right Product | Higher Market Share | Better Rol



CONVERT

SMB Segmentation

Identify SMB clusters and corresponding characteristics for better targeting

Funnel Enrichment

AI / NLIP and data models to enrich leads (SMBs) and improve conversion

Value Models

Strengthen and communicate value proposition via SMB specific value models

Partner Enablement

Understand partner performance & effectiveness, needs and experience, and enable them with rich insights and best practices to perform better

Higher Conversion Rate | Increased Revenue | Increased Partner Performance & Experience



ENGAGE

SMB Insights

Measure performance of SMB portfolio and identify up/cross-sell opportunities

SMB Healthscore

Identify potential churn proactively (predictive approach) and implement corrective measures

SMB Experience

Gather feedback, identify gaps, understand best practices deliver enhanced SMB experience

Higher Retention | Increased CLV | Enhanced Customer Experience



Ayush Gulati

Principal Consultant, Insights & Advisory

Gaurav Shukla

Consultant, Insights & Advisory

Karman Kour Bijral

Consultant, Insights & Advisory

Ipshit Sahore

Senior Analyst, Insights & Advisory