



The impact of COVID-19 on SMB IT demand

Initial assessment

May 2020

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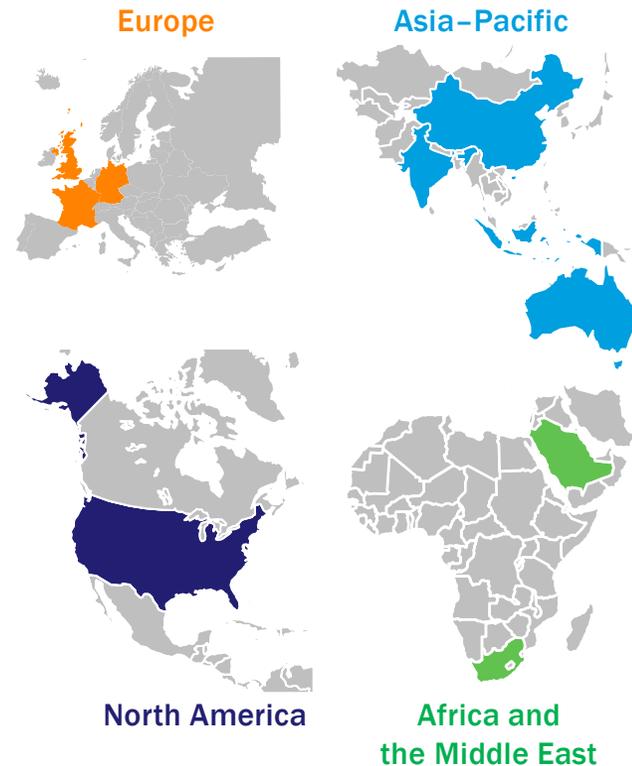
SMB digital transformation

COVID-19 first assessment

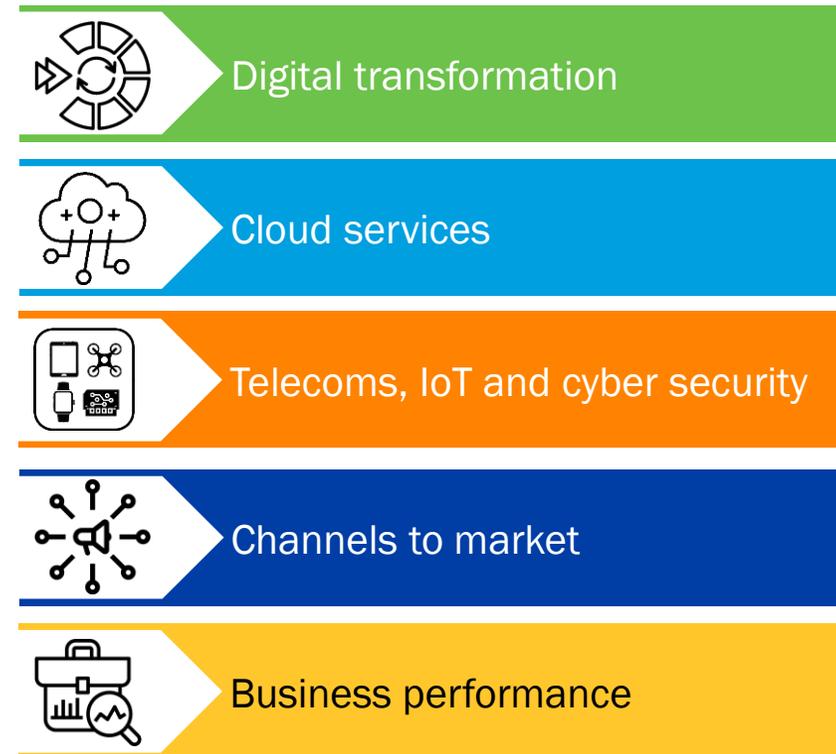
Next steps and direction

We completed an in-depth global study on SMBs' digital transformation in 4Q 2019, which revealed the long-term strategic path that SMBs are on

Analysys Mason interviewed 3000 small and medium-sized businesses (SMBs) in 10 countries in Africa, Asia-Pacific, Europe, North America and the Middle East.

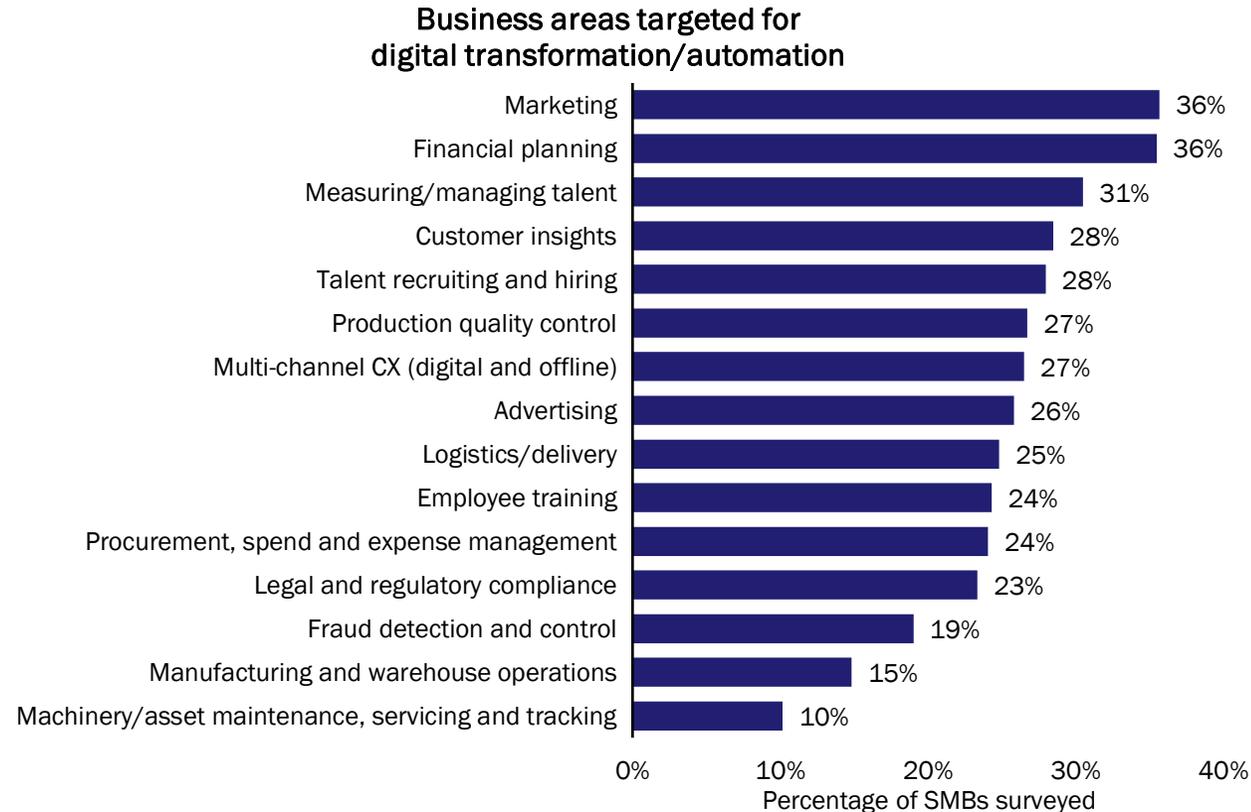


We asked questions on the following topics relating to all aspects of businesses' telecoms and technology usage and future plans.

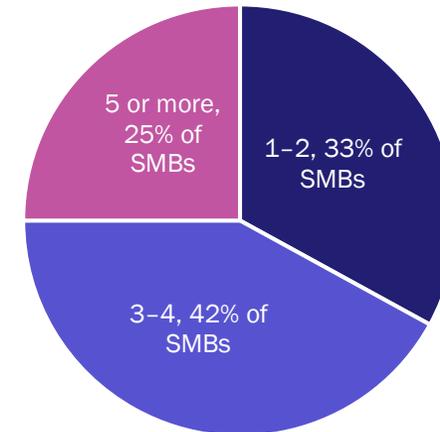


More-detailed findings from the survey can be found in our published research.

The new competitive and customer-based environment is forcing SMBs to carry out digital transformation across a wide range of business functions



Number of digital transformation initiatives planned per business

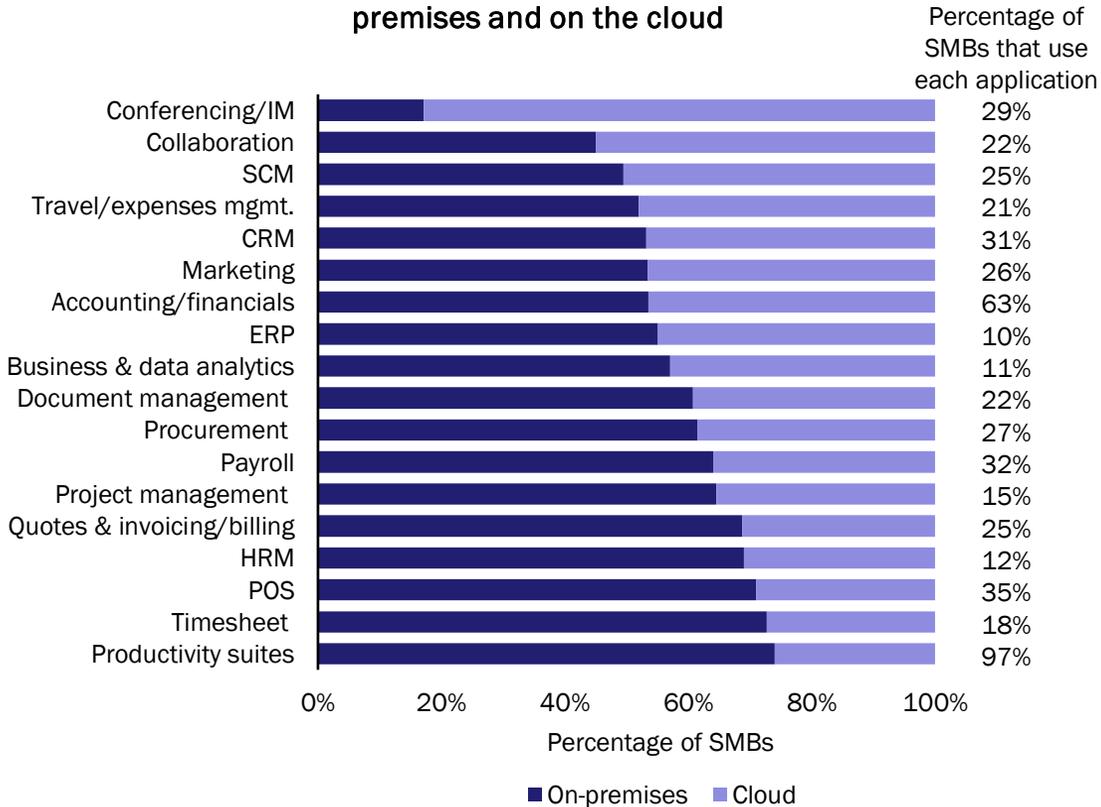


Digital agencies and professional services firms are emerging as powerful technology purchase influencers in line with SMBs' digital transformation/automation needs. The SMBs in our survey indicated that vertical-industry knowledge and functional knowhow is a key consideration when selecting a technology partner.

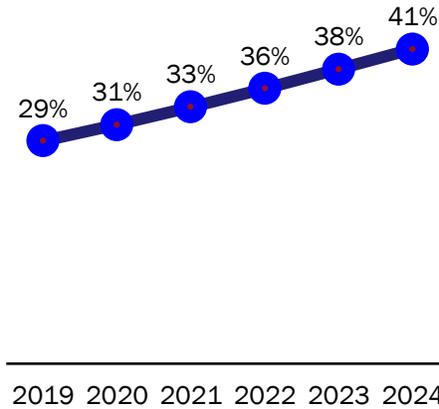
Line-of-business (LoB) executives will be on buying teams, so IT vendor sales teams will need to demonstrate strong LoB and vertical-industry knowhow to win deals. Mapping out internal capabilities across a matrix of sales reps, solutions architects and account managers will be key to quantifying strengths and weaknesses within sales teams.

Cloud migration is integral to digital transformation; SMB buyers understand cloud capabilities and sales channels will need to discuss business outcomes and KPIs beyond lowering opex

Business applications: percentage of SMBs that use each application on-premises and on the cloud



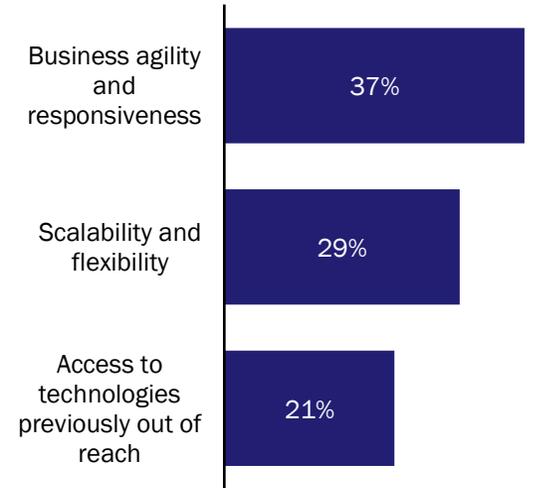
Percentage of IT spending on the cloud, 2019-2024



Source: SMB Technology Forecaster



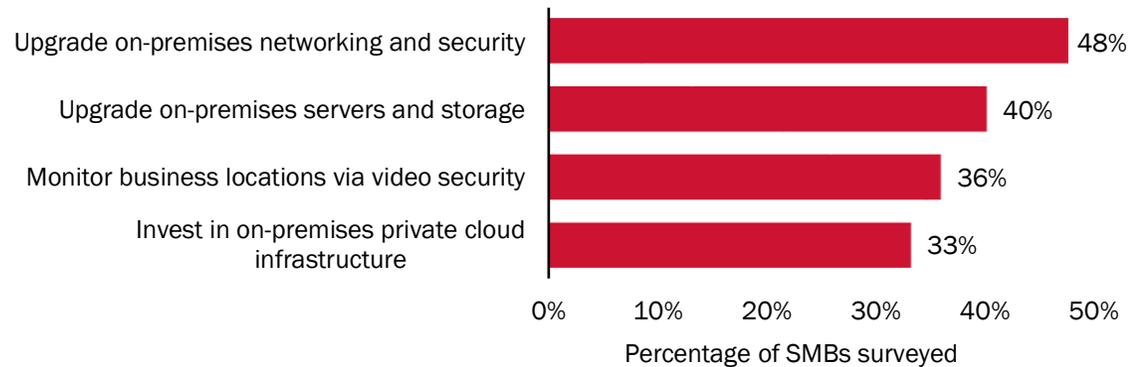
Percentage of SMBs that cite each option as a benefit of adopting the cloud



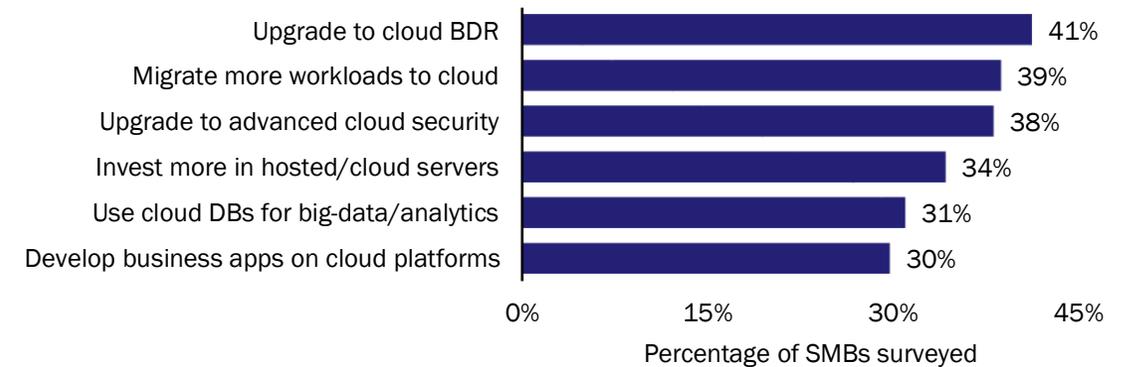
Vendors (and partners) will need to be prepared to have high-impact sales conversations focused on business outcomes, KPIs and flexible solution architecture options. These conversations are a part of selling to upper mid-market and enterprise accounts, but will also need to be implemented (via the channel) for the broader SMB market.

SMBs plan to invest in both on-premises and cloud solutions to enable digital transformation; the architecture of future solutions will be based on hybrid environments

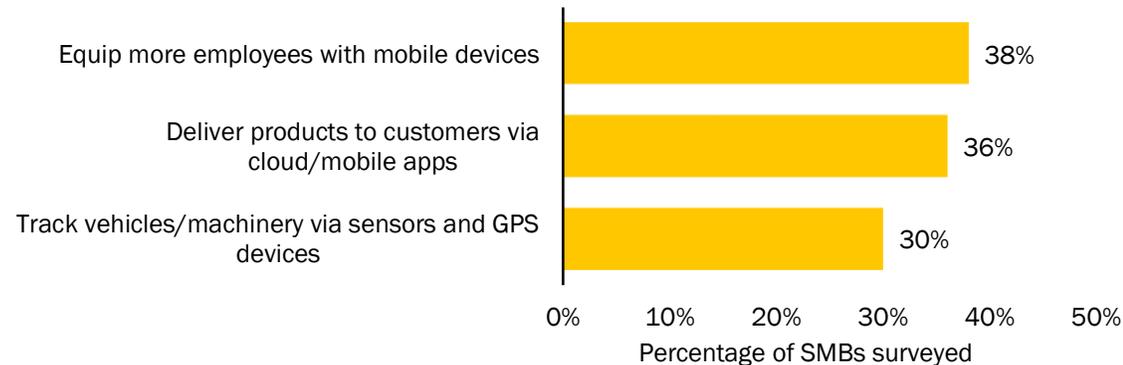
On-premises technology investment intentions



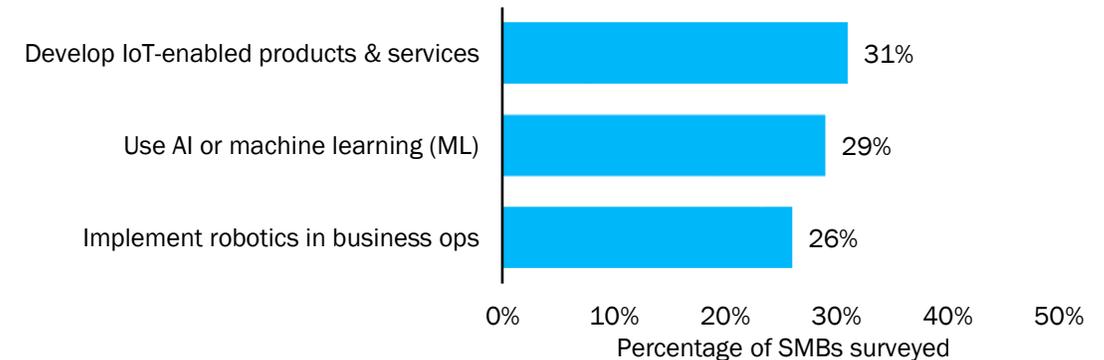
Cloud investment intentions



Mobile technology investment intentions



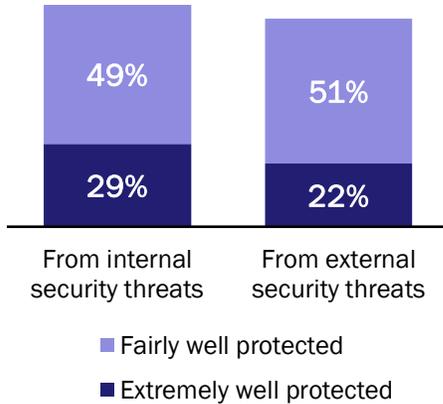
Advanced technology investment intentions



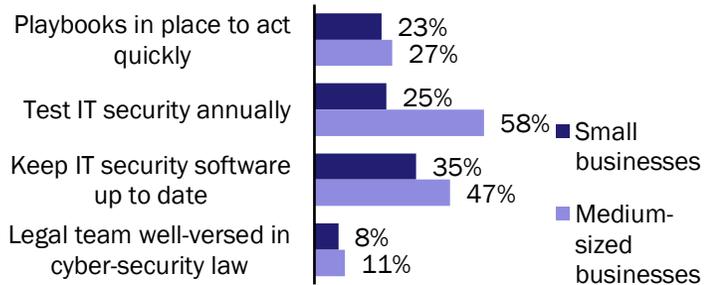
Channel partners will need to be adept at developing hybrid solutions, while advising SMBs about cloud strategy. Partners will also need to blend AI, IoT and robotics (where applicable) into their offerings because SMBs are looking to use these technologies to address their business issues: differentiation, customer experience, opex reduction and pricing power.

Security is seen as essential to business transformation, but SMBs will need consultative help, staged implementation roadmaps and attractive bundling discounts to bridge current gaps in adoption

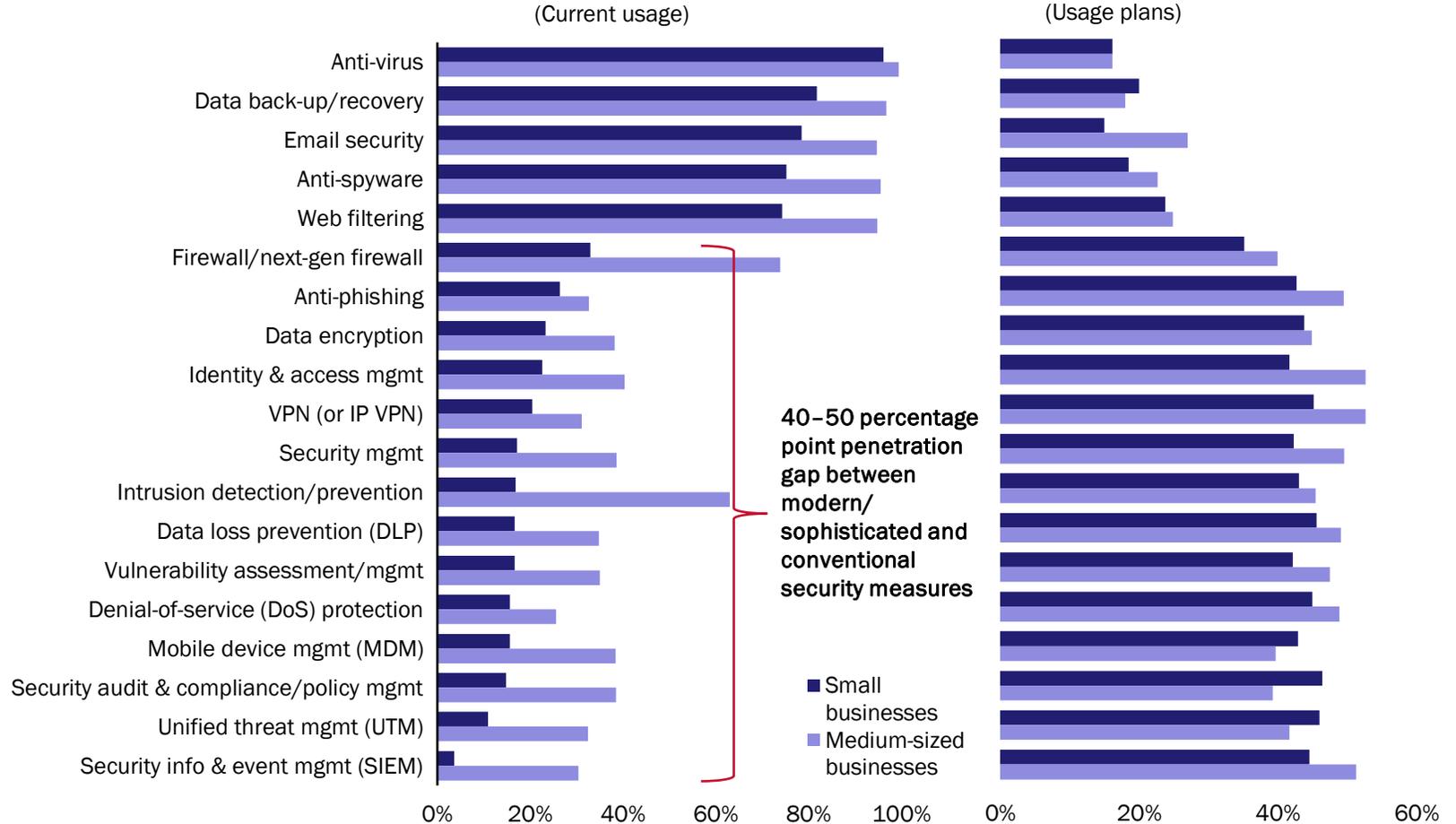
Most SMBs believe that they are well protected...



...but are missing best practices...



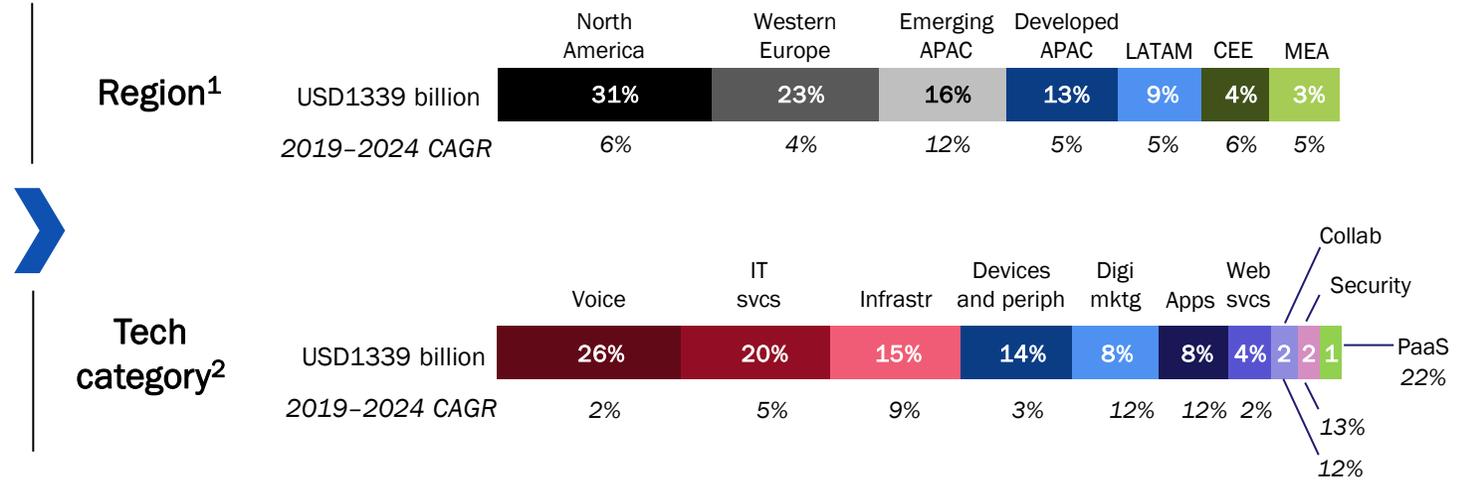
...and lack modern solutions...



...but SMBs' plans may be overly ambitious

Prior to COVID-19, the worldwide demand for SMB IT was robust, and budgets were driven by strategic long-term transformations tied to key business goals and challenges

2019 IT spend: **USD1339 billion**
 2019–2024 CAGR: **6.3%**



Business goals/challenges are driving the need for digital transformation...

- Goals**
1. Improve customer experience and loyalty
 2. Reduce opex
 3. Enter new markets to uncover growth

- Challenges**
1. Boosting revenue
 2. Competitive differentiation
 3. Pricing pressure

...and key IT initiatives are supporting this transformation...

1. Modernise on-premises infrastructure
2. Move more workloads to cloud
3. Use pervasive security
4. Deploy advanced tech (such as AI and robotics)

...but also raising the bar for purchase channel selection criteria

1. More outsourcing to MSPs
2. Strategic business partners, not just tech advisors
3. Business function experts with process and technical knowhow

¹ APAC: Asia–Pacific; LATAM: Latin America; CEE: Central and Eastern Europe; MEA: The Middle East and Africa.
² IT svcs: IT services; infrastr: infrastructure; periph: peripherals; digi mktg: digital marketing; apps: applications; web svcs: web services; collab: collaboration; PaaS: platform-as-a-service.



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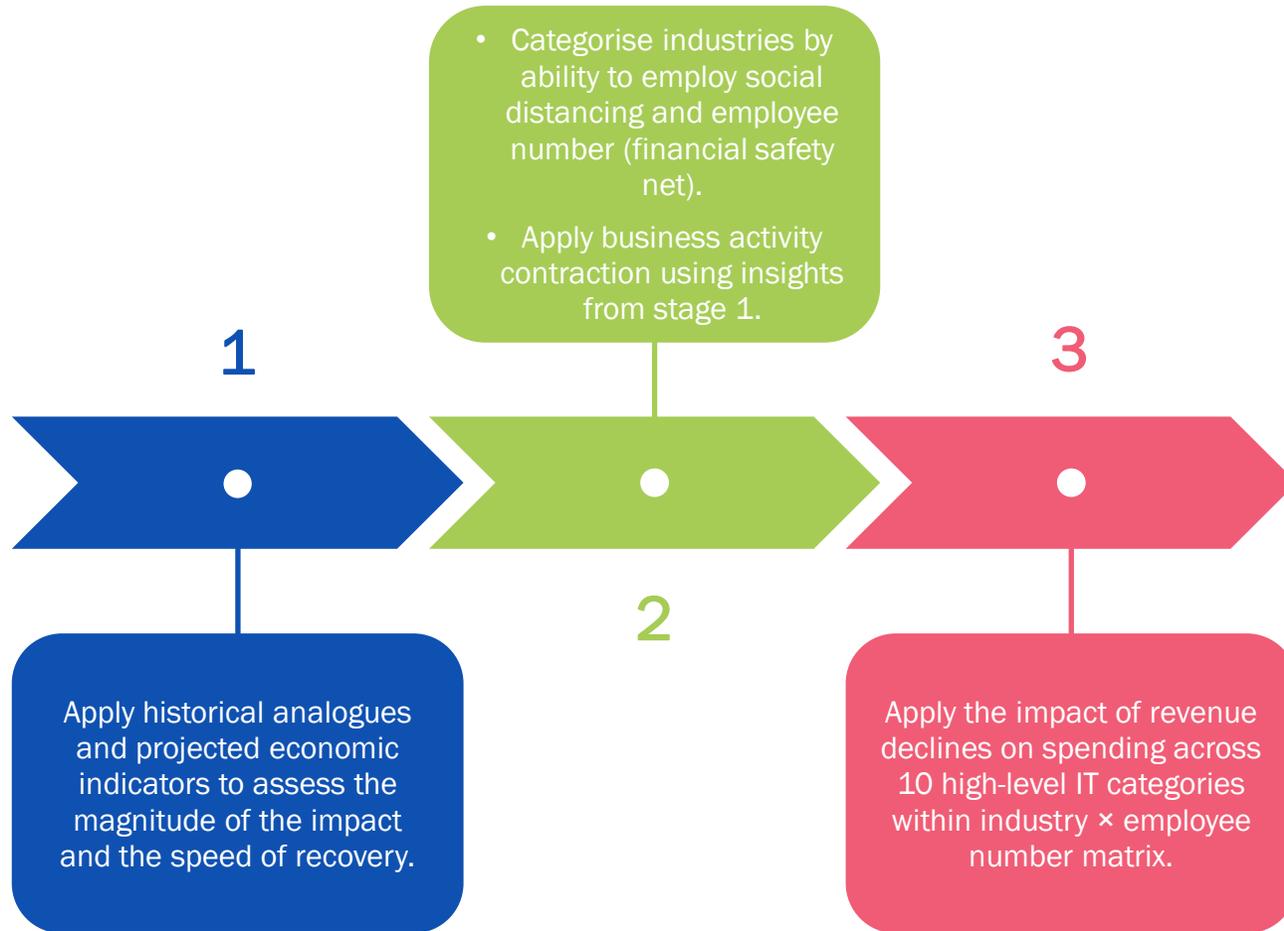


SMB digital transformation

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Analytical framework: our initial analysis emphasises speed over precision



 **55+** countries

 **135** IT categories

 **19** verticals

 **12** business sizes

- Stimulus effect not included
- Global, regional/country differences not included
- 10 rolled up IT categories, individual (135 categories) not individually modelled

We reviewed several indicators and analogues of economic disruption to model the magnitude of the impact of COVID-19



February 2020 → March 2020 purchasing managers' index (PMI) and services activity composite

- USA: 50 → 40
- UK: 53 → 37
- France: 52 → 30
- Germany: 52 → 31
- Japan: 47 → 36
- Austria: 49 → 40
- China: 36 → 52
(in recovery mode)

Source: Trading Economics, National Bureau of Statistics



Unemployment (USA only)

- 1Q 2020: 3.5%
- 2Q 2020: 32%
- CY 2020: 8.5%

Source: Federal Reserve, JP Morgan



GDP growth (USA only)

- 1Q 2020: -6%
- 2Q 2020: -24%
- 3Q 2020: +12%
- 4Q 2020: +10%

Source: Goldman Sachs



Business closures (USA only)

- 1930: ~20 000 businesses close; total businesses = ~2 million → ~1% failure rate
- 2008: New business (first year of formation) failures rise from 20% to 25%
- 2008 and 2009: Bankruptcies and closures jump from a historical annual of 9.7% to 11% → additional 1%

Source: SBA, Analysys Mason Research

- 20–40% immediate contraction is evident in PMI
- Historically, approximately 1% of businesses have closed during financial crises
- Strong recovery outlook starting 3Q 2020 and beyond

Some SMB segments will be harder hit than others; our modelling uses data from our SMB Technology Forecaster, overlaid with assumptions based on industry, number of employees and IT category

Impact by industry category

Category	Impact and assumptions	Verticals	Examples
Category 1: high risk	<ul style="list-style-type: none"> Social distancing is difficult: varying degree of closure by country/region 40–50% near-term loss of revenue; slow to normalise 	<ul style="list-style-type: none"> Construction Hospitality Retail Transportation Various services 	Dine-in restaurants, bars, various merchant stores, cinemas, sports gyms, schools, salons and taxis
Category 2: somewhat protected	<ul style="list-style-type: none"> Social distancing workarounds can be implemented but there will be some shutdowns and supply chain disruptions 20–30% near-term loss of revenue; slow to normalise 	<ul style="list-style-type: none"> Discrete manufacturing Process manufacturing Real estate Wholesale 	Auto dealers, wholesale-to-offline retail, on-premises technology services, manufacturing and real estate
Category 3: fairly protected	<ul style="list-style-type: none"> Mostly working from home and essential services 10–15% near-term loss of revenue because of longer sales cycles; quicker to normalise 	<ul style="list-style-type: none"> Agriculture Mining Banking/financial Healthcare Information/media Insurance Life sciences Pharmaceuticals Professional services Telecoms Utilities 	Business services (legal and accounting), cloud tech, TV stations, physicians, hospitals, farms and pharmaceutical R&D and manufacturing



Impact by technology category: business continuity is key

Broad IT category	Actions	Spending decline impact
On-premises hardware and software	Redirect budgets to cloud-enabled solutions and/or scale down budgets	Equal to or higher than revenue decline ●
Consulting and day-to-day IT services; cloud contracts	Scale down/triage to essentials to adjust for fewer staff/lost revenue	About half the rate of revenue decline ●
Cloud software, collaboration, security solutions, e-commerce	Continue at current levels or increase to operate in current environment	Little to no effect; may increase in some cases as budgets are diverted here ●

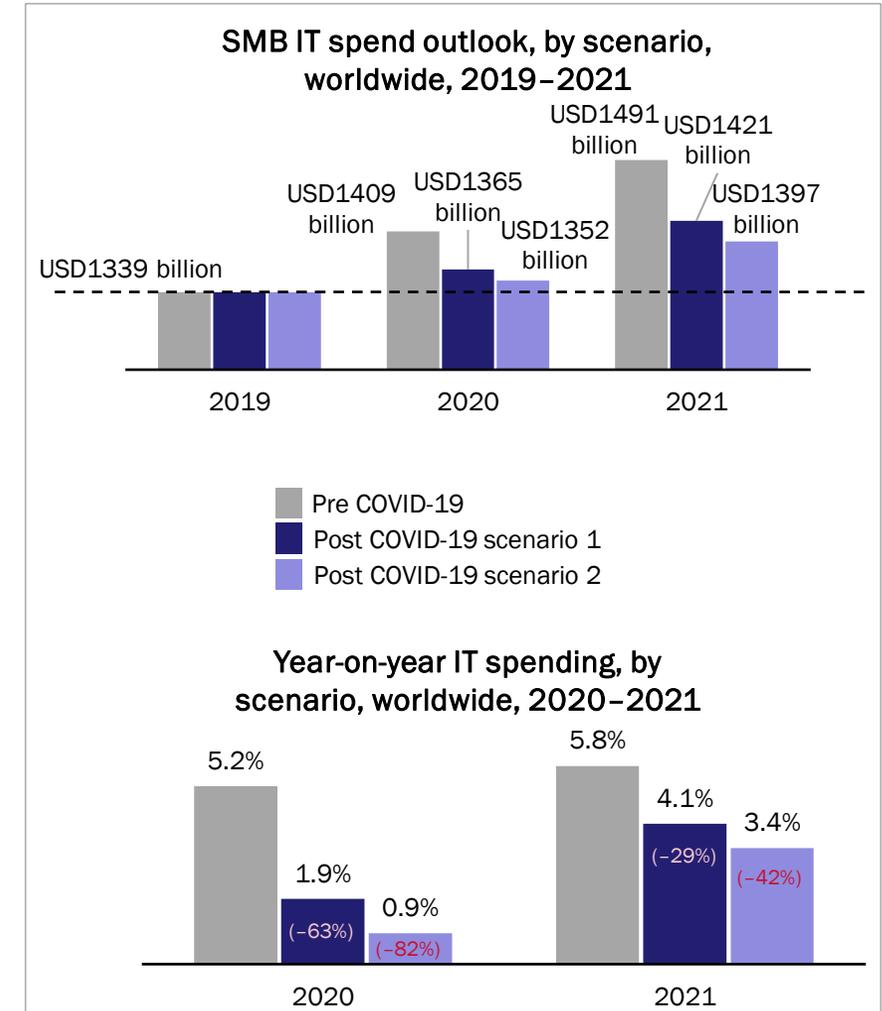
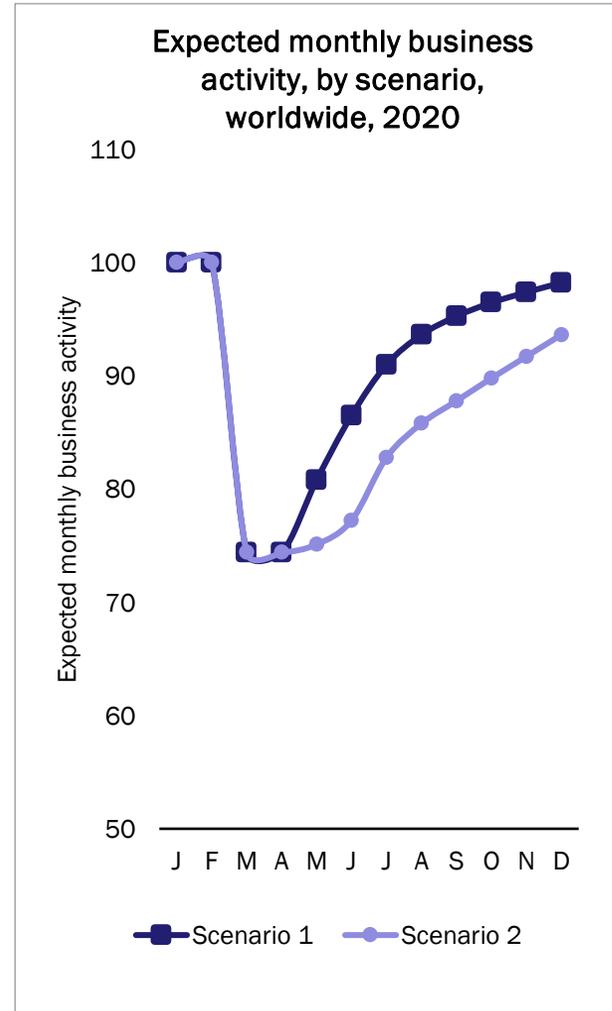
COVID-19 impact modelling results: 2020 year-on-year IT spending growth will drop to 1.9% in the best circumstances (scenario 1), but will drop to 0.9% if the recovery takes longer (scenario 2)¹

Scenario 1: near-recovery by 4Q 2020

- March/April: the number of infections peaks; shutdowns and stay-at-home orders are widespread but lifted in May.
- Widespread testing available from April onwards.
- Strict social distancing and shelter-in-place is implemented uniformly across regions during 2Q 2020.
- Curve flattened by the end of May in most countries, with learnings from China, Singapore and South Korea.
- Voluntary social distancing abates by the end of 2020.

Scenario 2: near-recovery by 2Q 2021 (most likely as of 28 April 2020)

- March–May: the number of infections peaks; shutdowns and stay-at-home orders are widespread.
- Testing shortages continue during July/August, exacerbating the infection rate.
- Geographically uneven implementation of social distancing and shelter-in-place within country regions; selective opening of regions.
- Curve flattened by early 4Q 2020 in most countries; voluntary social distancing abates by 2Q 2021.



¹ Top down global assumptions; situations may vary country to country.

A third of all SMB IT spending will be affected; vendors should target pockets of demand with offers to resolve pressing issues

Proportion of IT spending for each vertical industry category and business size, worldwide, 2019

	<10 employees	10-99 employees	100-999 employees
Category 1	9% (USD122 billion)	12% (USD163 billion)	7% (USD88 billion)
Category 2	5% (USD64 billion)	13% (USD189 billion)	18% (USD224 billion)
Category 3	8% (USD112 billion)	15% (USD197 billion)	13% (USD180 billion)

Source: SMB Technology Forecaster

Year-on-year IT spending growth for each vertical category and business size, by scenario, worldwide

	<10 employees		10-99 employees		100-999 employees	
	S1	S2	S1	S2	S1	S2
Category 1	-3.4%	-4.8%	-0.9%	-2.2%	0.5%	-0.7%
Category 2	-0.3%	-1.3%	3.2%	2.2%	5.1%	4.2%
Category 3	0.9%	-0.1%	3.2%	2.4%	3.8%	3.0%

Source: SMB Technology Forecaster

~60% of demand
(USD790 billion)

Collaboration, security, e-commerce and customer-facing-app development will remain the top priorities for SMBs

IT and managed services. Service contracts will remain in place, but the number of one-off services will decline for on-premises work.

Infrastructure. There will be a steep fall in on-premises hardware sales (servers and networking gear), but a strong shift to cloud infrastructure and cloud-managed networking and security gear.

Devices and peripherals. There will be an increase in sales due to panic buying in 1Q/2Q 2020, but contraction through the rest of the year.

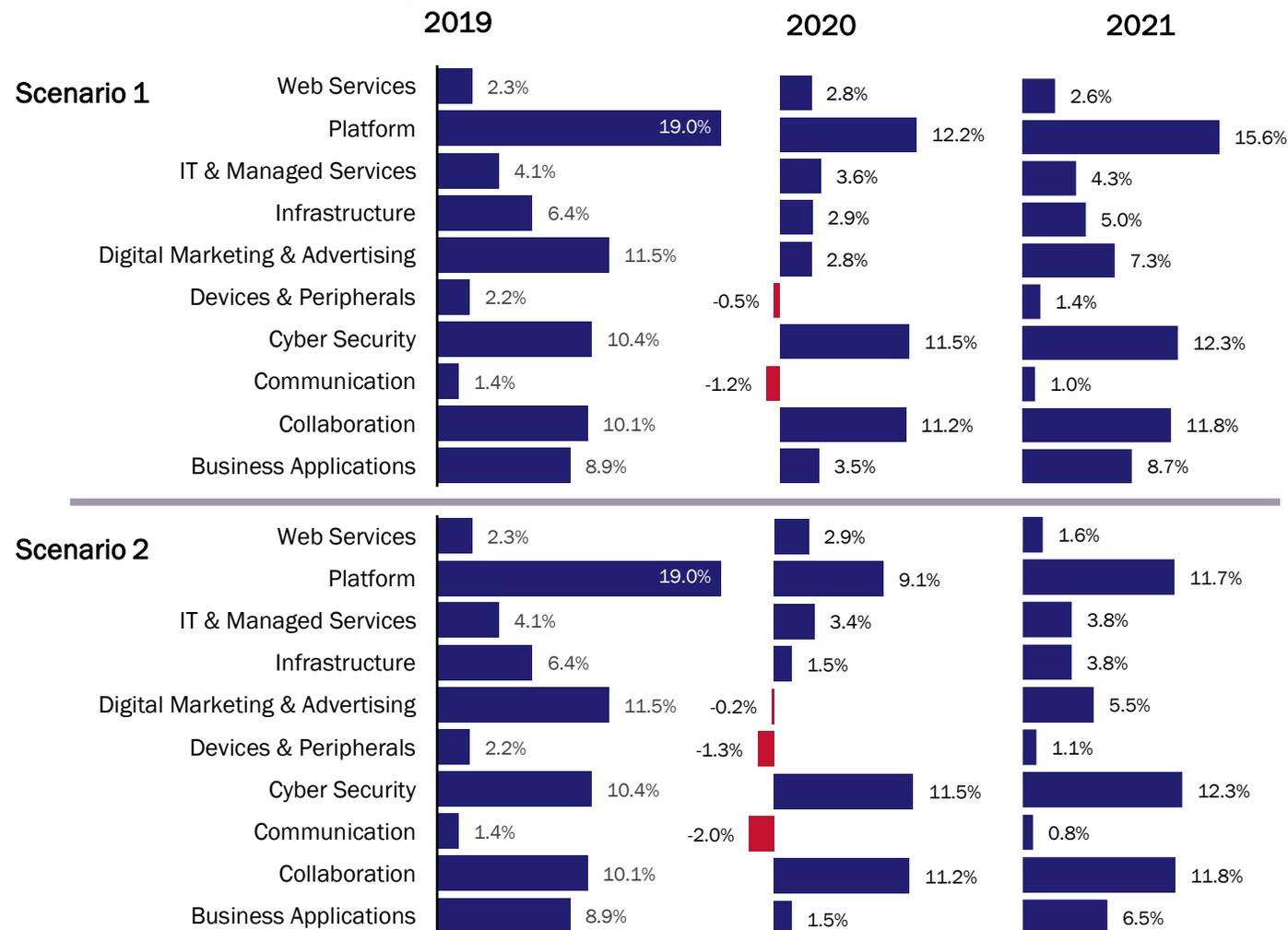
Cyber security. SMBs will continue to fund security as collaboration and remote work ramps up and security issues proliferate.

Communications. Large increases in unemployment and business closures will cause a decline in SMB revenue for operators.

Collaboration. This will be the bedrock of recovery and redefined work environments; strong spending is expected to continue.

Business applications. On-premises software purchases will be put on hold as businesses plan a more ambitious shift to the cloud.

Year-on-year growth by IT category and scenario, worldwide, 2019–2021





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Next steps: we are incorporating new developments and gathering field data, and will be providing greater clarity and resolution on navigating the impact of COVID-19

New developments

Lockdowns

An uneven response worsens outcomes

- The UK and Australia were slow to impose social distancing and stay-at-home measures
- The USA has extended its stay-at-home order into April
- Western country lockdowns do not match the intensity of that in Wuhan
- Relaxations in Wuhan and Hong Kong point to potential resurgence
- Spread begins in southern hemisphere

Fear

Behavioural shifts will cap business activity

- Social distancing is here to stay
- Social distancing will cap business activity levels

Testing and trials

A long way to go

- Production approvals in earlier phases of clinical trials
- Testing and PPE shortages persist
- No clear strategy on asymptomatic cases
- Vaccine (most effective measure) still 15–18 months away

Monetary stimulus

May not be enough

- USD5.2 trillion stimulus across most-impacted countries
- Key question: how many businesses can survive with demand running at suppressed levels for the rest of the year?

New insights

For SMBs

- How will SMBs de-risk for similar/other discontinuities?
- Effectiveness and utilisation of stimulus
- Change in digital transformation priorities
- Change in how operations are managed
- Short-/long-term reprioritisation of IT investments
- What IT solutions will SMBs buy during the next 3–6 months?
- Change in IT budget levels
- Will free cloud subscriptions convert to paying customers?
- Workforce, leadership and organisational effects
- Expectations of channel partners for IT planning

For channel partners

- Impact across individual products/services
- Impact on workforce and delivery capabilities
- Messaging and offers that are gaining traction with SMBs
- Changes to product and services portfolio
- Planned shifts in nature of business
- New competencies to acquire
- Best practices among those that have successfully navigated COVID-19

Next steps

1. **Focused quantitative and qualitative surveys with SMBs and channel partners**
 - 3–5 countries
 - 300–500 SMB surveys
 - 50–100 partner surveys
 - 15–20 in-depth interviews
2. **In-depth update of SMB Technology Forecaster tool**
3. **IT vendors, cloud and communications service provider discussions: changes in customer engagement, go-to-market strategies, product/services features and roadmaps**

Summary: this is our initial assessment and it will be further refined with new facts and additional data

1

- SMBs are on course to digitally transform their businesses in order to deliver better customer experiences, differentiate themselves and become more agile.
- Investing in cloud, mobile and advanced (AI, robotics) technologies is a priority for many.

2

- COVID-19 has disrupted SMBs' strategic direction temporarily, resulting in a steep decline in the projected SMB IT spending growth for 2020 and 2021.
- Our preliminary modelling scenarios suggest that year-on-year IT spending in 2020 may grow by 0.9%, down from a previously projected 5.4%. This impact varies by SMB segment and IT category; weaker segments will be more-affected.

3

- New developments will alter projected outcomes. The amount of time needed to create successful medical outcomes will determine the effectiveness of monetary stimulus and the abatement of social distancing.
- We will continue to update the SMB Technology Forecaster (our proprietary market sizing/forecasting tool) with new information and insights.

SMB research available from Analysys Mason

	  Market opportunity assessment and prioritisation	  Customer mindset and buying behaviour	  Channel strategy: routes to market	  Customer segmentation and acquisition
Syndicated / on demand research				
SMB Technology Forecaster	✓		✓	✓
Managed Service Provider Strategies	✓	✓	✓	
Cyber Security	✓	✓	✓	
PCs and Devices	✓	✓		
IT survey country overviews (Australia, China, France, Germany, India, Indonesia, Saudi Arabia, South Africa, UK, USA)	✓	✓	✓	✓
IT Global Survey Report	✓	✓	✓	✓
Consulting	✓	✓	✓	✓

SMB research products available from Analysys Mason

SMB Technology Forecaster	Managed service provider strategies research programme	Cyber security Research programme
<ul style="list-style-type: none"> • 130+ IT business categories • 52 countries and 5 'rest of region' areas • 19 industry verticals • 13 business sizes • 8 routes to market 	<ul style="list-style-type: none"> • Market forecasts on business spend with MSPs • Survey insights into all aspects of MSPs • Strategy reports and commentary • MSP landscape country reports • Case study reports • Quarterly MSP M&A tracker 	<ul style="list-style-type: none"> • Market forecasts on business security service spend • Survey insights into security solutions • Strategy reports and commentary • Profiles of security vendors • Case study reports • Quarterly security revenue and M&A tracker
<h3>PCs and devices reports</h3>		<h3>IT global survey report</h3>
<ul style="list-style-type: none"> • Country specific insights into SMB: <ul style="list-style-type: none"> - Device usage - Buying behaviours - Brand preferences - Purchasing channels • 12 countries • 6 business sizes • 8 PC/device types 		<ul style="list-style-type: none"> • Business conditions and performance • Business transformation and automation • IT infrastructure deployment and budgets • Purchase channels usage and preference • Buying behaviour • 10 country coverage

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