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The impact of COVID-19 on SMB ICT demand



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About this report

This is one of several reports that we will publish to address the impact of COVID-19 on the small and medium-sized business (SMB) market. The purpose of this report is to quantify the impact that COVID-19 will have on the SMB market's consumption of ICT products and services. Vendors can use this report to assess how their business may be affected by changes in SMB ICT demand.

We are quantifying and forecasting a quickly evolving situation, and the environment may be vastly different in 2–3 months' time than today. Therefore, this is a provisional outlook that is subject to change as we revisit our assessment in the coming weeks.

The forecast highlights how ICT spending growth rates will be affected across various vertical industries and company size bands (in terms of the number of employees) in 2020 and 2021. We also show how growth rates will change in a range of ICT categories to illustrate how SMBs will prioritise their spending upon exiting the COVID-19 downturn.

We quantify two scenarios based on length of time that SMBs take to recover and reach near-normal operations.

Suggestions on how ICT vendors can assist their SMB customers to continue operating under these difficult circumstances are highlighted at the end of this document.

We welcome questions and discussion on our assumptions and outlook.



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We have created two scenarios for ICT spending following the outbreak of COVID-19. In scenario 1, we assume that the market returns to normal by 4Q 2020, and in scenario 2, we assume that the market returns to normal by 2Q 2021.

Impact of COVID-19 on SMB revenue

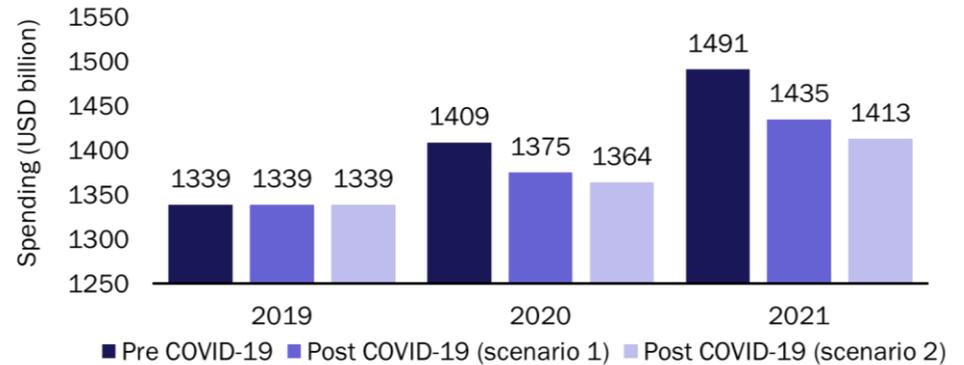
SMBs that are directly affected by lockdowns and social distancing are expecting severe revenue loss from now until June 2020 at least. This is equivalent to 4–6 months without any revenue for some businesses. Other businesses will be less-affected and will recover more quickly. On average, we expect that the global SMB revenue will decline by 6–8% in 2020.

Total SMB ICT spend

In scenario 1 (our most likely assumption), the total spending on ICT by SMBs worldwide will grow by no more than 2.7% year-on-year in 2020 (provisional estimate).

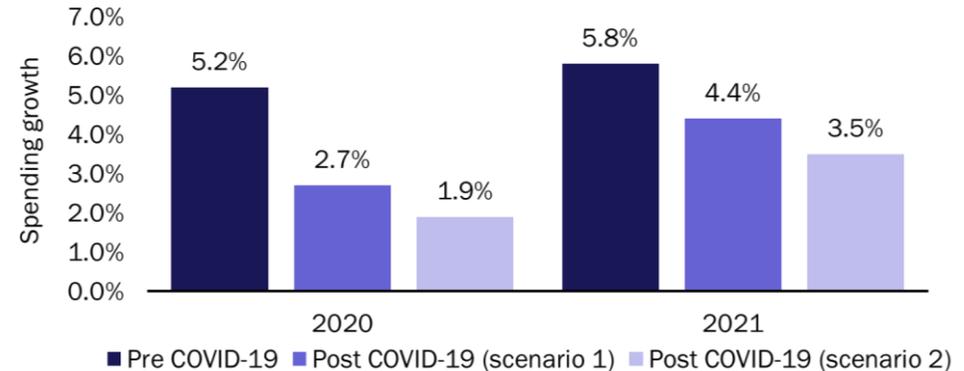
This is a reduction of 48% compared to our previous estimate of 5.2% year-on-year growth. We now expect that total SMB ICT spend worldwide will grow by USD36 billion to USD1375 billion at the end of 2020, and budgets will shift towards technologies that are essential to maintaining operations.

Figure 1: SMB ICT spending, by scenario, worldwide, 2019–2021



Source: Analysys Mason

Figure 2: SMB ICT spending growth, by scenario, worldwide, 2020–2021



Source: Analysys Mason

Executive summary: ICT spending growth will decrease significantly due to the impact of COVID-19 on the SMB market worldwide [2/2]

Most-affected SMB segments

Businesses that are directly affected by lockdowns and social distancing will show negative spending growth.

In scenario 1, the total spending will decline by 1.2% from USD122 billion in 2019 to USD120 billion in 2020 for smaller companies (under 10 employees) and those in the most-highly impacted group of verticals (hospitality, retail, transport and various services). In scenario 2, spending will decline to USD119 billion in 2020 for this group of companies.

The rest of the market will retain some growth in either scenario.

Notable ICT sectors

Spending related to collaboration and security is expected to remain robust as SMBs turn to remote working wherever possible. Panic buying of PCs in March/April 2020 will quickly end as inventories run out, leading to the net effect of small, negative annual spending growth for PCs and mobile devices due to supply chain issues.

Capital-intensive, on-premises spending on infrastructure, hardware and business applications will be on hold as businesses plan a major shift to the cloud and are highly selective about future on-premises investments. Cloud and managed services contracts will remain intact but may be renegotiated in some cases.

Market recovery

Once the virus' momentum has slowed (we assume that this will happen by June 2020), we expect that businesses with adequate financial reserves will increase their ICT spending in e-commerce and PaaS (application development) to improve their sales and customer engagement resiliency.

We expect that businesses will begin operating at 80–90% capacity by the end of 4Q 2020 in scenario 1 and 2Q 2021 in scenario 2.

Future updates

This outlook will be revisited and may be revised in approximately 4 weeks when we release a full update to our SMB market sizing and forecast model.

Industry-related assumptions: we have classified vertical markets based on the likely economic impact of COVID-19

Figure 3: Classification of vertical markets in terms of the expected impact of COVID-19

Category	Vertical industries	Description of companies within the market	Examples
1: high risk	Construction, hospitality, other services, retail, transportation	Companies that require their customers to purchase and/or consume products and services in the proximity of others.	Accommodation and food service (restaurants, bars), arts, entertainment and recreation (gyms, clubs).
2: somewhat affected	Discrete manufacturing, process manufacturing, real estate and wholesale	Companies that can continue to operate with acceptable modifications to their customers'/employees' behaviours. These companies will conduct business at a slower pace than usual.	Retail banking, auto dealers and wholesale tied to offline retail.
3: fairly protected	Agriculture mining, banking financial, healthcare, information and media, insurance, life sciences, pharmaceuticals, professional services, telecommunications and utilities.	Companies that can mostly continue to operate as normal, but are still affected from a transactional and workflow perspective. They will experience a slowdown because of broader economic issues or delivery capacity constraints/disruptions.	Communications, media, business services (legal, accounting, etc.), tech and software/cloud services.

The impact of COVID-19 is being felt at varying intensities across all businesses, but some will be much more immediately affected than others.

We have classified business verticals into three distinct groups in terms of the magnitude of the impact. However, it is likely that no vertical will remain completely unaffected by the economic implications of this virus in the coming weeks.

Scenarios: we have modelled two scenarios based on how long it takes SMBs to return to near-normal operations

Scenario 1: recovery by 4Q 2020

In this scenario, we assume that most countries will have considerably flattened the curve in terms of the cumulative number of COVID-19 infections by June 2020 by deploying a variety of countermeasures, including social distancing and daily curfews. **Our model assumes a steep slowdown in economic activity across all countries from now until June 2020 as a result of these measures.**

New infections will continue to occur, but at a much slower pace, partly prevented by new social and business behaviours. This will slow the pace at which business is conducted well into early 2021. We expect severe revenue contraction during March–June 2020, followed by a slow pick-up in 3Q 2020, and near-normal operations by the end of the year.

Spending on technology will begin to bounce back in 4Q 2020, but priorities will have changed. Building resiliency for remote working and the online/off-premises fulfillment of products and services will be the focus for all in 2021.

Scenario 2: recovery by 2Q 2021

We assume a similar amount of revenue contraction during March–June 2020 as in scenario 1.

Scenario 2 includes a prolonged recovery time (6 months more than in scenario 1) to account for glitches in testing kit availability and the less-effective implementation of quarantines over weeks and months.

ICT spending will begin to bounce back in 2Q 2021.



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A third of all SMB ICT spending will be severely impacted; businesses with 10 or more employees in categories 2 and 3 will be the least affected

Figure 4: Proportion of ICT spending for each vertical industry category and business size, worldwide, 2019¹

	<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)
Total	22%	40%	38%

Source: Analysys Mason

Figure 5: Year-on-year ICT spending growth for each vertical category and business size, by scenario, worldwide, 2020^{1,2}

	<10 employees		10–99 employees		100–999 employees	
	S1	S2	S1	S2	S1	S2
Category 1	-1.2%	-2%	0%	-1%	1%	0%
Category 2	1%	0.3%	4%	3.1%	5%	4.6%
Category 3	2%	1.2%	4%	3%	4%	3.3%
Total	0.4%	-0.3%	2.7%	1.9%	4.1%	3.3%

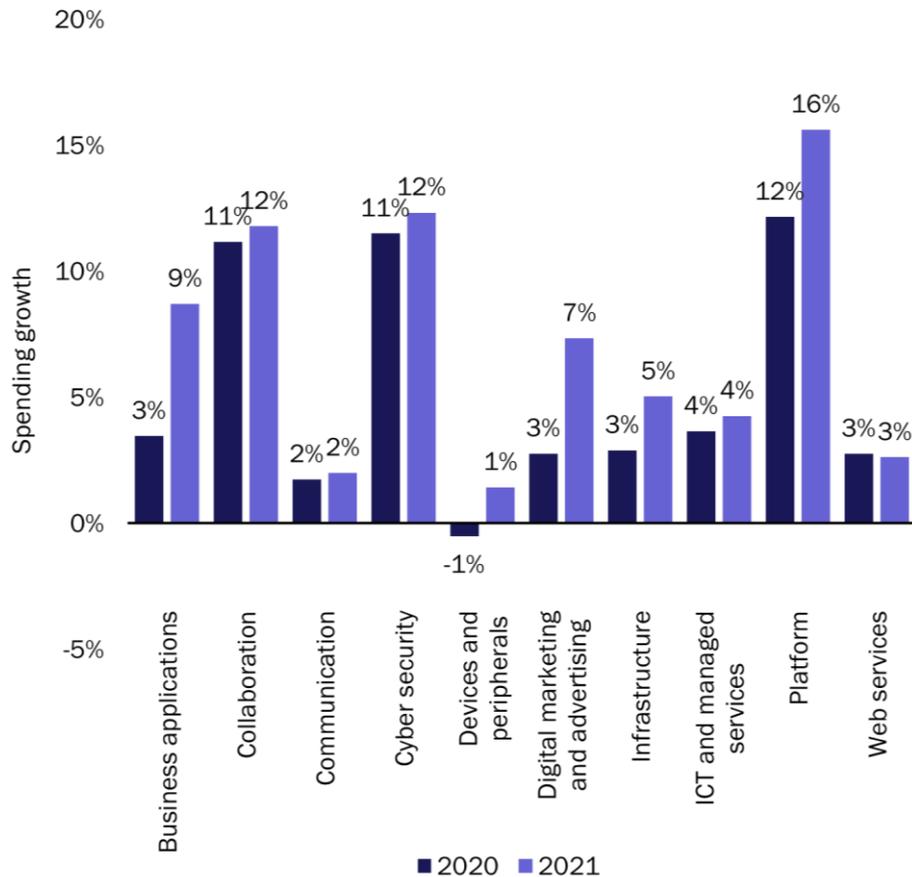
Source: Analysys Mason

¹ Vertical industry categories are listed in Figure 3.

² S1 is scenario 1 and S2 is scenario 2.

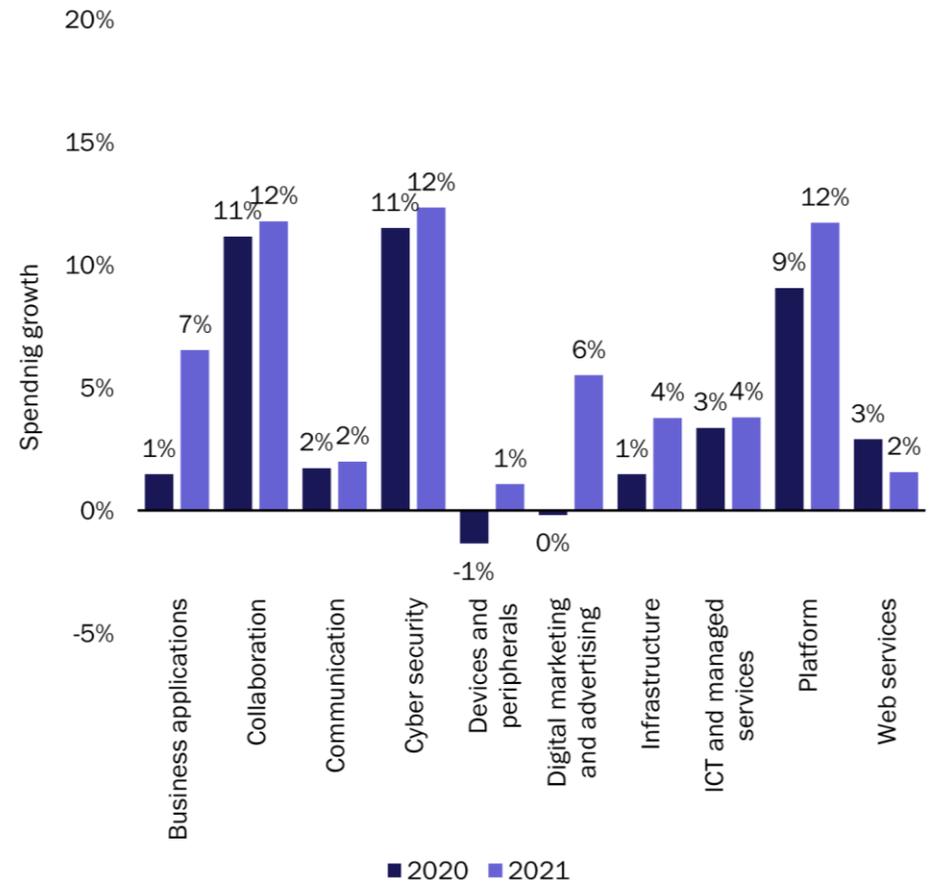
Spend by ICT category: we expect that spending in certain categories will continue to grow strongly [1/2]

Figure 6: Year-on-year spending growth, by ICT category, scenario 1, 2020-2021



Source: Analysys Mason

Figure 7: Year-on-year spending growth, by ICT category, scenario 2, 2020-2021



Source: Analysys Mason

Spend by ICT category: we expect that spending in certain categories will continue to grow strongly [2/2]

Business applications. On-premises software purchases will be put on hold as businesses evaluate cloud alternatives. Spending on these alternatives will pick up later in 2020, and the very-large-scale migration to cloud software will pick up momentum in 2021.

Collaboration. Collaboration tools will be the bedrock of recovery and redefined future work environments; strong spending growth rates are expected in 2020 and beyond.

Communications. The overall impact on communications spending is likely to be limited. We do expect additional purchases of higher volume/unlimited data plans in this environment.

Cyber security. SMBs will continue to fund security as collaboration and remote working increases. Securing cloud-based data and communications, as well as access to corporate networks, will continue to drive security spending.

Devices and peripherals. Spending will increase strongly due to panic buying in 1Q/2Q 2020, but supply constraints will limit spending during the rest of the year. Demand will overwhelmingly shift to laptops and tablets as desktops and AIOs lose appeal.

Web services. Spending will be on upgrades to websites and e-commerce capabilities as well as investments in custom development and upgrades to higher-service tiers offered by hosting providers.

Platform/PaaS. Businesses will triage for essential projects that are tied to off-premises resiliency. The spending growth rate will decline but will remain robust overall.

ICT and managed services. Service contracts will remain in place, but the use of one-off services will decline as little on-premises work will be sold for a large part of the year. Some contracts will get renegotiated to lower prices. MSPs and developers will start to become busy by 4Q 2020 as SMBs seek out guidance on forming more-resilient ICT systems.

Infrastructure. Spending on on-premises hardware (traditional servers and networking gear) will decline sharply. There will be a strong shift to cloud infrastructure and cloud-managed networking/SD-WAN and security gear.

Digital marketing and advertising. Spending will decline sharply in line with reduced revenue, but will bounce back swiftly after recovery as SMBs begin chasing revenue aggressively.

Recommendations: good citizenship and good marketing go hand in hand

Corporate social responsibility: reinforce your business's sense of purpose.

Players in the communications and collaboration space should consider making some of their tools (such as Microsoft Teams, Slack and Cisco WebEx) freely available to new prospects and very small businesses for a trial period (for example, 3 months) to help to keep small businesses operational. This gesture can be limited to the most-basic versions of their offerings.¹

Players in the SaaS sector should consider creating portals to enable SMBs to move their operations to the cloud quickly with minimal fuss, using free and basic versions of software from vendors such as Intuit, Sage and SAP. Typical sales cycles need to be shortened because simplification and speed is required to attend to the disruption being faced by SMBs. Patching partners into these portals will be key in order to supply any remote assistance that is needed to activate and onboard new cloud customers.

Similarly, vendors in other ICT sectors should bring forth solutions that can assist their current and potential customers. For example, security vendors such as Cisco, Darktrace and Kaspersky should offer free trial subscriptions for cloud-managed solutions to new customers. Strong marketing will be essential.

Anticipate and engage: keep your partners close and your customers closer.

Channel partners should think about developing playbooks to rapidly move their customers to the cloud once this crisis passes.

Channel partners need to be proactive in reaching out to their customers via email to let them know what they should be doing in terms of ICT to stay operational. Providing customers with a checklist of to-do essentials at this time will not only be good citizenship, but also good marketing.

Resiliency: businesses need to develop and reevaluate their plans to navigate the 'new normal'.

Businesses need to redefine their plans so that they can adapt to the new normal. This includes reevaluating sales and marketing forecasts, partner strategies and communications plans.

Businesses also need to reevaluate internal and external workstreams to maintain continuity.

¹ For more information, see Analysys Mason's [Operators should help businesses to enable remote working during the coronavirus outbreak](#).



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About the authors [1/2]



Joseph Bertran (Senior Analyst) manages Analysys Mason's global market sizing products and tools in the New York office. He leads a team of analysts and consultants in refining market research methodologies to develop market opportunity sizing and forecasts by region, business segment and channel. He specialises in analysing primary data, along with go-to-market insights across various IT solutions and their impact on digital transformation. Joseph holds an MBA from the NYU Stern School of Business and a B.A. in economics from St. Joseph's College.



Karthik Pannala (Analyst) joined AMI-Partners in 2016 and now works in Analysys Mason's ICT Global Model team. He specialises in product development, data analysis and analytics. He has worked extensively on the Asian SMB landscape and has delivered multiple market sizing projects. Karthik has also led consulting assignments for MNC's across Asia. Before pursuing his MBA, Karthik worked at Crayon Data, a big-data-based analytics start-up, where he managed product development and client delivery. Prior to that, he was a business analyst at Beroe Consulting India. Karthik holds an MBA from Hult International Business School. He also received a Master of Science degree in Economics and a Bachelor of Engineering degree in Electronics and Instrumentation from BITS Pilani, India.



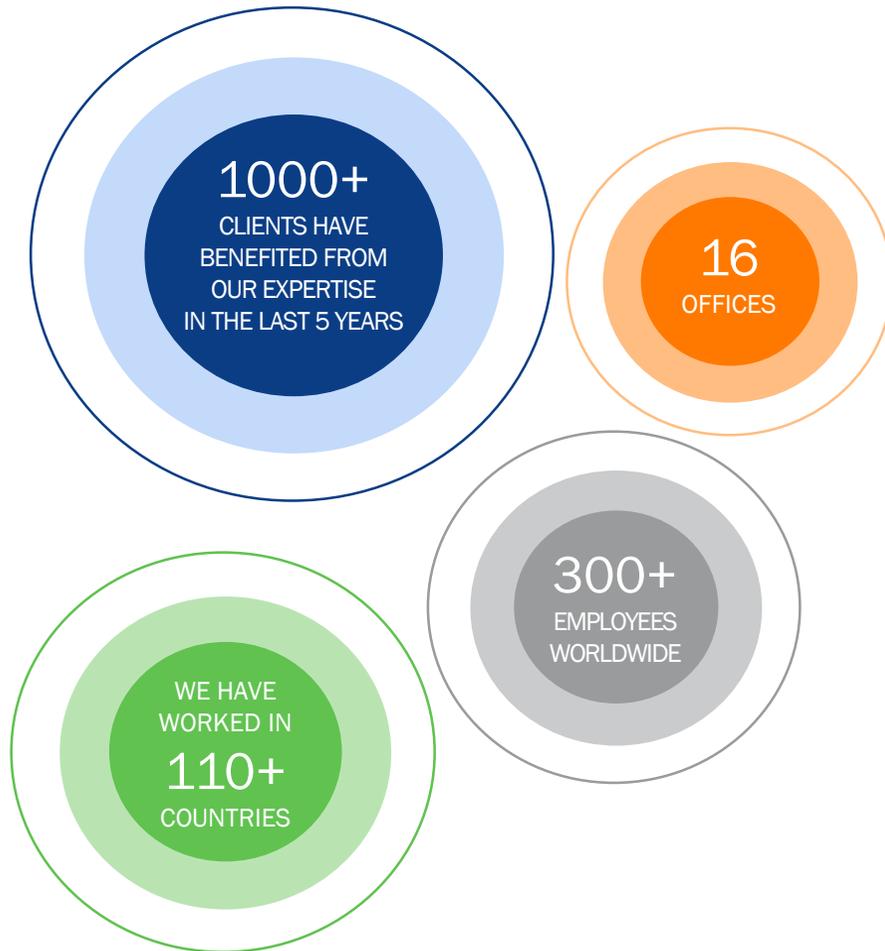
Deepinder Sahni (Principal, Consulting) has extensive experience helping global firms build profitable relationships with their business customers. He specialises in go-to-market (GTM) and customer acquisition strategies. Deepinder is experienced in applying quantitative and qualitative methods in order to target high-growth market opportunities, to enhance the performance of distribution channels and to develop messaging for effective customer engagement. He has led a number of multi-country engagements involving market segmentation, customer journey, user experience, and sales enablement. Deepinder holds an MBA in Marketing and International Business from the University of South Carolina and a Diploma in International Marketing from the Delhi School of Economics.

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Bob Takacs (Principal) is the head of Analysys Mason's New York office. He brings over 20 years of experience in the areas of global market intelligence, corporate communications and SMB go-to-market consulting and research. He helps organisations to optimise their business performance by untangling the analytic complexities of big data, and improves sales and marketing effectiveness through precision-guided, customer-segmented acquisition programmes. Bob has built brands and organisations, successfully launched products and services and assembled and managed high-performance consulting and sales teams. He is a trusted advisor to leading IT, telecommunications, financial services and FMCG brands. He holds an MBA from Fairleigh Dickinson and a BA (Economics) from Upsala College.

About Analysys Mason and AMI-Partners



Who we are

- Analysys Mason is a global research and consulting firm
- Our SMB ICT division has over 20 years of expertise in the market and was created when Analysys Mason acquired AMI-Partners in 2018.
- We have invested over USD50 million in primary SMB research to date, thereby setting a global benchmark.
- We are trusted advisors to leading operators and all major technology brands.

What sets us apart

- **Market execution DNA:** drive your brand within the highly fragmented SMB market with strategic advice based on fact-based consulting research and methodologies.
- **Unparalleled SMB insights:** propel your brand by using our forward-thinking analyst know-how.
- **Precision forecasting:** make accurate predictions about market opportunities with our ICT Global Model.

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