Challenges and Opportunities in the SMEs Market - Bridging the Digital Gap

by Victor Reis, President Unisys do Brasil

It is widely recognized that SMEs (Small and Medium sized Enterprises), are one of the main forces in economic growth and job creation. SMEs are responsible for 52% of the Brazilian GDP, but only 10% utilize information and communications technology to increase their competitiveness, creating a digital gap compared to larger organizations. Special, cost effective, solutions and content are needed to meet the needs of SMEs. This, and broadband access, can bridge the ‘digital divide’ between SMEs and larger organisations.

Victor Reis is Unisys Brazil's first Brazilian President and General Manager. Unisys Brazil is one of the Unisys Corporation's most important subsidiaries. During his 30 year career at Unisys, Mr. Reis has worked in most of the company's business units. He started in 1973 as a banking services sales trainee. Before becoming the chief executive, he served for a year and a half as the director of the Public Sector Group. The Group grew by 80 per cent during this period, due in part to his winning bid to create the system of 76,000 electron ballot boxes that computerised, for the first time, Brazil's national elections. In 1993 Mr. Reis was named Director of the Commercial Industry Group. In this position he built Unisys into one of the key players in the market. His overall reorganisation of the company's southern geographic business unit doubled its revenue in the first year. Mr. Reis graduated as an electronics engineer from Sao Paulo's Makenzie University. He is married and has two sons.

It is widely recognized that information communications infrastructure is one of the foundations for the development of an information society, and that SMEs (Small and Medium sized Enterprises) are one of the main forces in economic growth and job creation, not only in developed countries but also in developing and emerging economies.

OECD (Organization for Economic Cooperation and Development) statistics have shown that SMEs, accounting for more than 95 % of the total employment in most countries, are the main source of newly created jobs, especially in advanced technology sectors, and also function as the engine of economic growth and performance.

However, despite the SMEs numbers and importance for economic growth only a small portion, especially in the developing countries, have access to sophisticated information and communication services that are commonplace in large enterprises, creating a digital divide in addition to, and reinforced by:

- Barriers to finance access,
- Difficulties in exploiting technology related to insufficient managerial capabilities, training, and human resource development
- Low productivity and regulatory burdens.

Bridging the Digital Divide

According to recent surveys the rollout of broadband access can help bridge the ‘digital divide’ that exists between SME’s and large organizations. Bridging the digital divide is so important for economic growth that international organizations such as United Nations, through the Information and Communications Technologies (ICT) Task force, are leading the development and implementation of ICT pilot projects across the world. In Latin America and Caribbean, the UN ICT task force is testing innovative ICT applications solutions for SMEs, primarily in the areas of value chain integration, workplace productivity and efficiency, and overall market penetration. It is also expected that a large number of SMEs will benefit from the new services and solutions developed through the dissemination and replication of the "best practices" and "lessons learned" from the pilot projects.

Potential solutions and services that can be generated by the pilot projects include:

- e-Commerce and e-Business applications
- e-Productivity applications for individuals and organizations
- Infrastructure and access enhancing systems
- Knowledge management and distribution systems
- Mobile (including satellite-based) applications and services for businesses
- Long-distance learning and education to enhance management capabilities

From the view- point of the telecom operator and IT services provider, the SME market size and needs, especially with regard to broadband access, can provide a profitable opportunity for growth.
The Brazilian SME market

Brazilian information technology and telecommunications sectors in the 90’s grew at double-digit rates. By 2002, Brazil had 38 million of fixed telephony lines installed and near 32 million of mobile phones. The number of Internet accounts, another record, reached more than 14 million of residential subscribers. Telcos traditionally have been focusing on solutions to the Large Enterprise niche but more and more telecoms are also focusing on a market representing 52% of Brazilian GDP, the SMEs.

According to the Yankee Group Research Institute, the Brazilian market can be classified into 4 groups of enterprises:

- **Large**: 500 employees or more
- **Medium**: between 100 and 499 employees
- **Small**: between 10 and 99 employees
- **Micro**: between 0 and 9 employees

The figure below depicts the Brazilian market according to this classification as well as the products and services offered by operators and IT service providers to each segment.

### The attractiveness of the SME market.

The following data give an idea of why the SMEs market is so attractive to telecom operators:

- Brazil has 1.9 million of companies with less than 250 employees
- SME’s generate 52% of Brazil’s GDP
- 97% of the companies do not have human resources management solutions
- Only 1.7% have permanent training programmes for their employees
- The SMEs will duplicate the usage of corporate credit cards in 2003
- Source: Sebrae, IBGE, Credicard and IDC

It is important to note that despite the great number of Small and Medium Enterprises, only 10% have access to sophisticated services that are commonplace in large enterprises. The profile of Small and Medium Enterprises is completely different from that of Large...
Enterprises. SMEs’ needs are related to basic solutions like voice facilities, toll free access, stable Internet connections, faxes and e-mail communications. The current low penetration of these services shows this market has great potential but, in order to offer products and services to fit the needs of those companies, one has to take some important facts into account.

**Barriers to new technologies**

Despite the market’s attractiveness, there are some factors that help to create a barrier and challenge SMEs when the wish to adopt new technologies:

- Lack of knowledge about services: the majority of technological providers, IT suppliers and telecom operators usually do not have the expertise to offer products and services to SMEs that need help in the process of technology adoption, since SMEs do not have professionals dedicated exclusively to managing their information technology and telecom infrastructure.

- Lack of expertise and training of employees to adopt and use new technologies

- Contract formats: Contracts are made to fit the needs of large enterprises. SMEs need more flexibility because they have simple purchasing procedures and low cost structures.

- Service and products features: For SMEs, support by the supplier of new technologies is more valuable than the brand or level of service.

**Avoiding the high tech hype and focusing on solutions**

In general, SMEs are looking to invest only what is necessary to run their businesses effectively. Investments in technology to increase their competitiveness are focused on specific needs.

Addressing these needs require customized services and products. SMEs do not buy technologies or want super tech products or services; they want cost effective solutions to match their business.

Also, SMEs do not have huge budgets to introduce new technologies and they need to resolve the financial hurdle, i.e., they need cash flow to finance new projects. In addition, they do not have specific training programmes or strategic analysis areas to provide impact analyses, to create business cases for increased competitiveness or to introduce new technologies.

It is important to understand how applications, content and access are related to solutions for SMEs.

Content and applications are the main component of solutions. Applications used to be built to support the interaction of final users with content. The information the final user sees can be displayed using any kind of terminal, for example, via a computer monitor or a mobile phone display. To connect the terminal with an application, we have to use a network that is connected through gateways that adjust the presentation format to the terminal format. The integration of these components is important to customize services for SMEs.

The figure below shows the key components of a service solution and the need for integration of content, application, markup language and gateways.

The gateways and the markup language are the most important part of the process of fitting the interactions of an application to the user. In SMEs many employees and customers have little expertise in the use of technologies, and it is important to show applications and content using pictures and friendly graphic interfaces. Because of the heavy demands of this sort of graphic interface, the connection between end user terminal and applications must use broadband access.

The total solution cost is another important issue. The cost of the solutions must be acceptable to SMEs. Cost reduction, scalability and flexibility are extremely important to these businesses. Scalability will depend upon the flexibility with which the solutions can be customized for each cluster of customers. In order to provide adequate prices for broadband access, telecom operators have to leverage their current network using ADSL (Asymmetric Digital Subscriber Line) for fixed networks and wireless broadband access, and provide services with low implementation cost and provide widespread geographical accesses using such solutions as VPN (Virtual Private Networks) over IP networks.

**Broadband Offerings to SMEs market in Brazil**

The three Brazilian fixed line incumbent operators - Telefonica, Telemar and Brasil Telecom - are offering the broadband services to SME’s. Telefonica, the first telco to deploy solutions to SMEs market, has been acting in Sao Paulo offering broadband access, leased lines and data communications to 1 million micro and 150 thousand small and medium enterprises. The three telcos have also created special areas to deal with SMEs and are expanding their current portfolio to include Internet access, co-location and hosting and, recently, VPN services using their IP networks. Long distance operators - Embratel and Intelig - are also providing solutions tailored for the SME market. The new entrants GVT, Vesper and mobile operators are also following the same path.

**Summary**

It is widely recognized that SMEs (Small and Medium sized Enterprises), are one of the main forces in economic growth and job creation, not only in developed countries but also in developing and emerging economies. However, despite the importance of SMEs, only a small portion, mostly in the developing countries, have access to the sophisticated information and communication services that are commonplace in large enterprises; this has created a digital divide. The roll-out of broadband access can help bridge this ‘digital divide’ between SMEs and large organizations and provide an opportunity for growth. However, to address this market, it is imperative to map the SMEs’ real needs, support requirements and cost perceptions. It will be essential for players aiming at winning in this market to design solutions that meet the SMEs’ financial needs.