

COVID-19 Impact on Global SMB and Midmarket IT Spend

The Covid-19 threat to the global economy and to the IT industry is potentially as bad as, or worse than, the health impact. A global workforce that cannot collaborate effectively cannot deliver products that rely on timely supply of components from far-flung suppliers, and cannot create and implement complex solutions. The necessary isolation used to contain Covid-19 has a devastating effect on economic activity. Manufacturing does not work when people don't. Chinese exports fell by 17.2% in January/February of this year. The impact on solutions is harder to quantify, but may well be even greater. However, with the slowing number of new cases in China, 80% of manufacturing plants have restarted with about 60% capacity which may restore supply-chain balance by addressing supply-side constraints. The freight (including trucking) and air-cargo routes between China and Asia is returning to normal but China-Europe and China-US routes may be impacted until the middle-to-end of Q2. One potential silver lining is that many commercial airlines are converting their passenger planes to cargo transport for essential supplies.

SMBs are a good indicator to measure the pulse of economy in any country as they constitute over 90 percent of global businesses. They are intricately linked to large businesses, government departments and educational institutions as both suppliers and customers. A large percentage of consumers rely on SMBs for products and services that they consume within their households. Technology plays an important part in daily operations of SMBs across all departmental functions including sales, marketing, operations, finance and customer support.

Over the last two decades, the global small and mid-market businesses, SMB (1-999 employee size) market has been the growth engine for the IT industry at large. SMBs form the essential thread of the economic fabric of any country and to a great extent their fortunes and investment capabilities are dependent on the economic situations and policies of the countries where they operate. In a downturn and uncertainty the investment capacity of SMBs is deeply affected.

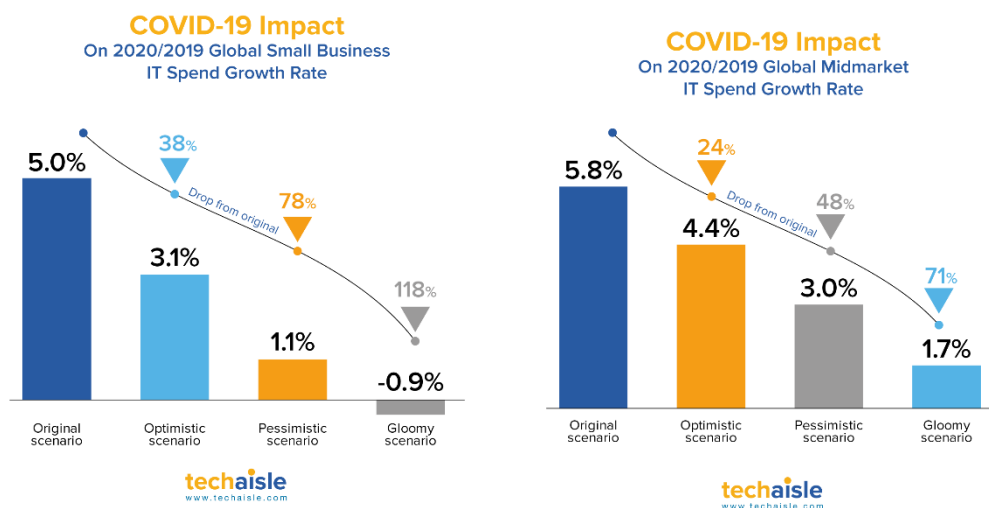
Globally SMBs IT spend in 2019 was \$662B with a projected spend of US\$700B in 2020, a growth rate of 5.6%. It is natural, in the current economic situation to pare down these spends and slice expectations (perhaps deeply) based on beginning-of-the-year projections. As compared to the original SMB IT spend growth rate, the projected growth rates may drop from a low of 29% to a high of 84% depending upon Techaisle's optimistic to gloomy scenarios, resulting in revised growth rates of 4.0% to 0.9%.

Geo and Vertical Impact

Techaisle’s research finds that at-risk verticals – construction, manufacturing, hospitality, personal services, real-estate, retail/wholesale, transportation – in Coronavirus cluster geos of Europe, US and Middle East which constitute 36% of global SMB and midmarket universe are likely to be impacted. These SMB/midmarket verticals represent 38% of IT spend (excluding telecom services). Many European SMBs that Techaisle spoke with are fearing a situation similar to Eurozone crisis when unemployment reached 27% in Spain. We have excluded China, Hong Kong, Taiwan and South Korea from calculations as they have been able to stabilize pandemic in their respective countries. Australian SMBs told Techaisle that they are expecting a recession which they have not experienced since 1991. At the time of writing, India, world’s 5th largest economy, has announced a 21-day country-wide lockdown, a first step towards perhaps a longer-strategy. If India falters, then our data shows that 41% of global SMBs and midmarket firms will be affected. But Indian SMBs are already somewhat sensitized to economic slowdown in the last one year.

Four Scenarios

Drilling down into Techaisle’s global SMB IT spend data and on recent primary research survey we find four different scenarios:



1. Ideal scenario:

A brief dip in spending in Q2 will rebound in Q3. SMBs are agile and for 87% technology is essential for business success. As a result, IT spend in 2020 will remain as projected, US\$700B, a growth rate of 5.6% from 2019. IT spending scenario will largely reflect the type of recovery that may happen, a v-shaped, with the need to stay competitive and meet demand-holdback will result in the “Ideal scenario”.

2. Optimistic scenario:

Spending dips in Q2 and part of Q3 but recovers in Q4 substantially. The recent economic implosion is akin to reaching a steep precipice suddenly with no warning, unlike previous slow and drawn out economic uncertainty prompting the governments (rescue stimulus), financial institutions (nicely capitalized) and large corporations to take swift action. This may accelerate the recovery process. As a result, the SMB IT spend growth rate in 2020 will be 4.0% as compared to original forecasted growth

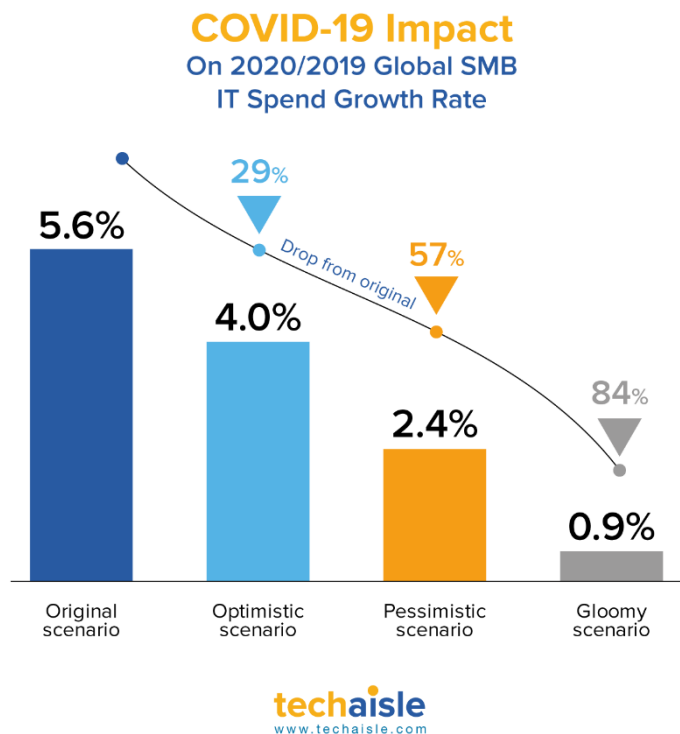
rate of 5.6%, *revised downward by 29%*. The midmarket IT spend will grow at 4.4% and small businesses at 3.1%. Data shows that the impacted verticals such as retailers, personal services and manufacturing firms are already laggards on the IT-maturity and sophistication segment curve and therefore trail other verticals in technology investments. Any decrease in their technology investment will not have any significant material impact on IT spend and growth rate.

3. Pessimistic scenario:

2020 Global GDP growth may fall sharply, exacerbated by recessions in the US, most of Europe and some countries in Asia. Discretionary spending tanks in line with revenue realization in Q2 and Q3 but partly recovers in Q4. As a result, SMB IT spend growth rate will be 2.4% as compared to original forecasted growth rate of 5.6%, *downward revision of 57%*. Small business IT spend is typically 4%-5%, (depending upon region), of sales revenue. As revenue drops, investment in technology will also be reined in with a worst-case scenario projected SMB IT spend growth rate of only 1.1%. Midmarket is not expected to face a similar headwind and their expected IT spend growth rate is likely to be 3.0%.

4. Gloomy scenario:

The coronavirus pandemic is prolonged with a second wave resulting in an uncertain and protracted recovery. China and South-East Asia may experience double-dip slowdowns with recovery pushed into Q1 2021. US has delayed recovery and Indian economy may experience a demand shock. The small business IT spend growth rate in 2020 will turn negative to -0.9%, midmarket growth rate will be 1.7% and overall SMB IT spend growth rate will be 0.9%, *drop of 84% from original forecast*. On average, small business retailers and restaurants have less than 20 days of cash at hand. A large proportion of these businesses rely on credit lines and loans from regional / community banks. With interest rates reaching zero, the cost-structure of non-digitally transformed financial institutions will outweigh profits leading to potential closures and failures. This may worsen the investment capability of retailers.



IT Segment Impact

Tough economic times bring investment decisions into sharp focus. The result is typically lower investment levels. It leads to near-term reductions, but also sharpens medium-and-longer-term priorities. That leads to smart investments, which have multiple implications, as investments made at this time become longer term drivers of investment in adjacent areas. We at Techaisle believe that the recent pandemic-triggered economic implosion acts as a catalyst for such action among SMBs.

We do not expect a tremendous decrease in spend on devices such as PCs. The PC is where work gets done and it is the essential SMB productivity device. We do anticipate that of the 48% of PCs that were planned to be purchased by 65% of SMBs to support new employees will be squeezed unless re-hiring process begins in the impacted countries. On the other hand, though, small and midmarket firms are accelerating new PC purchases to be deployed for sudden increase in work-at-home employees. The new Windows 10 operating system and underlying security architectures will create opportunity as a large number of SMB IT managers plan to integrate, support and secure these devices. Mobility solutions spend will accelerate. SMB buyers, especially the business decision makers (BDMs) will aggressively move past devices to a mobile solution strategy - inclusive of mobility infrastructure, workforce applications and services, management, analytics, security - that will capitalize on the capabilities of new end-points.

Due to country-level lockdowns for non-essential services we believe that servers, Converged Infrastructure and other on-premise solutions spend will have immediate negative impact, not because of lack of demand or supply-chain issues, but because most complex deployments are in-person by either vendor or channel partner's experienced staff (augmenting SMB's lean and skills-constrained internal IT staff), and social distancing hinders that process. The responsibility will be transferred to the channel partners to be creative in remote configuration and deployment.

Most SMBs, will rethink their security strategy and engage with their trusted advisors to either enhance or develop and deploy a cybersecurity and disaster recover strategy. Techaisle latest data shows that 72% of global SMBs are unprepared. The increase in external threats both from natural disasters and nefarious activities will necessitate a potential increase in security and backup spend. SMBs are not only increasingly dependent on IT – they are dependent on increasingly-interconnected systems, which are in turn open to an ever-expanding population of devices and access points. The SMB security spend will most likely increase from current projected growth rate of 8% to 11% in 2020.

We do not anticipate any major downswing in cloud spend and growth rate. In fact, cloud (and hosted solutions) will be the beneficiaries because cloud has the uncanny ability to address key areas of business friction experienced by SMBs - uncertain and unpredictable business environment, need to optimize technology investments and address IT staff resource & skills constraints. There is a strong link not only between IT and business success but also between IT and cloud. It provides support for technology-enabled business capabilities such as mobility, analytics and collaboration – the new imperatives of essential business infrastructure. Cloud's pay-as-you-go approach meshes very well with the need to align IT investment with business benefit.

Advantage Digital Transformation

Techaisle research shows that although 79% of SMBs are moving towards digital transformation but only 21% are in implementation stage and less than 10% of global SMBs have an omni-channel strategy. Data also finds that 2X as many high-growth SMB firms have holistic digital transformation strategy as average growth SMBs. According to feedback from SMBs located in all regions of the world, committed SMB users gain significant process advantages from cloud, including reduced business process and IT costs and

greater employee productivity and business agility. Digitalization SMB leaders are able to translate these process advantages into coveted business outcomes, including increased revenue and profitability, better customer relationships and improved brand image. They also have an uncanny ability to come out of crises with less bruises than most others. Firms that have been effective in adopting and building on digital business infrastructure may reap ongoing returns from their investment despite strong headwinds.

Update

We will update this note in about eight weeks after surveying another sample of global SMB and Midmarket firms from our 1.8 million business respondent panel.

About the Analyst, Anurag Agrawal

Frequently referred to as SMB Guru, Anurag Agrawal is a well-known industry analyst and has been named as one of the top 10 analysts to follow in SMB, Midmarket and Channel Partner segments. An intense analytical blogger, Anurag specializes in developing go-to-market strategies, writes and advises senior executives on cloud, routes-to-market, emerging technologies, and industry dynamics. Based on data collected from market research he personally consults with senior executives on developing their channel and SMB and midmarket strategies. With over 30 years in the industry, he is the Founder and Chief Global Analyst at Techaisle. Previous to Techaisle, Anurag headed Gartner's Worldwide Research Operations. He began his analyst career with IDC where he is credited for launching IDC's much sought after quarterly market share tracker research.

About Techaisle

Techaisle is a global SMB, Midmarket and Channel IT Market Research and Industry Analyst organization that is focused on simplifying, expanding and growing client's share in three of the most complex market segments – SMBs, Midmarket, Channel Partners. Techaisle was founded on the premise that Go-to-Market strategies require insightful research, flexible data, and deeper analysis. Understanding the value of data consistency across markets to inform strategic planning, Techaisle is holistic in its approach to insights and provides globally consistent analysis across geographies. To achieve its objectives Techaisle conducts deep surveys with end-customers and channels to understand market trends, opportunities, buying behavior, purchase intent, and IT priorities. Besides covering such as cloud, managed services, mobility, IoT, virtualization, analytics, collaboration, HCI/converged infrastructure, security and digital transformation, its channel research coverage provides in-depth understanding of resellers and channel partners globally. Techaisle's insights are built on a strong data-driven foundation and its analysts are conversant with both primary research and industry knowledge, which is a rare combination. Techaisle offers its clients: Syndicated Research, Custom Primary Research, Consulting Engagement and Competitive Intelligence. For more information, visit www.techaisle.com