

The President's Perspective

A summary of our Q2 Alliance Roundtable Discussion Topic



Will SMB Always Be the Next BIG Thing?

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We recently gathered a dozen high technology channel executives for a breakfast hosted by Network Appliance and moderated by Keith Newman of ChannelMedia to discuss the best practices in reaching SMB customers. Good thing we fed them, as we couldn't find the "key" to cracking the SMB market opportunity. This was a unique situation for us as in most of these round table events the group agrees on best and even innovative practices in channels and alliances. There were several complex questions we just couldn't resolve in the 90 minutes of lively discussion. We all left the event saying "wow - that was hard".

The first mammoth question we attempted to dissect was "how to define SMB?" What is the market segmentation and what do organizations really mean when they indicate they're targeting SMB? The first suggestion and probably the most realistic, however depressing, was that the SMB label was just nicer than calling them "everything but enterprise". Meaning that many companies place this label on the market segments that don't fit their direct coverage model. So, SMB could mean company revenue of over \$100 million or employee size from 2 to 1,000 – basically, everybody that didn't qualify for enterprise (i.e. "direct" or "special" status). These are the customer segments that don't drive enough profitability for a company to address with a direct sales force. However the group hardly recognized the tremendous revenue opportunity within the "SMB" market. The sheer numbers of companies in the SMB segment started the "enterprise" software companies salivating.

So, as the group agreed, there is interest in the SMB market, then why is small and medium business lumped together as if they could be treated as one? Does

a small company have the same needs, and better yet, buying behaviors that a mid-sized company does? How about a really small – or politically correct “petite” – company? Does a company under 50 employees behave the same as a 200 person company? Most vendors treat them the same why. Oh yeah, and they lump in almost-medium, mid-sized and mid-enterprises in with the petite and small companies. The market opportunity is interesting in revenues, but not interesting enough to segment and treat differently. We know, it’s hard. Certainly, it’s a daunting task to address the requirements of such a diverse market. We can understand why so many companies give up and simply provide ‘SMB’ programs. Open any channel publication to see the latest vendor focus on the SMB market – EMC, SAP, HP, Oracle, IBM, Sun and CA.

How to sell to this incredibly high revenue potential, diverse and expansive market? In my perspective the round table group had two primary recommendations. The first was to leverage channel partners – no matter what you call them, VARs, SIs, Consultants, Agents – these are individuals and companies that can influence the purchasing decision in the target ‘SMB’ customers. One of the channels value added roles is to design the solution for the customer. What technologies, products and services should be combined to solve the business needs? This is where most vendors’ focus on product speeds and feeds turns into a solution for the customer. The channel partners put all the pieces together.

Many successful SMB solution providers focus on specific vertical markets – increasing their value and profitability by delivering repeatable solutions to a specific business need. The round table group speculated if a vertical channel is the key to SMB. Alas, as we all perceive vertical specialization as important – as companies of all sizes want to work with channel organizations that have “been there and done that” for similar companies – it’s not the silver bullet to success with SMB customers.

The second recommendation from the round table group was to increase spending on brand and awareness building activities to generate pull through the channel for SMB customers. Intuit is a good example of a software company that started in the home market (Quicken) and has grown up into the SMB market (QuickBooks). Most vendors that are trying to go “downstream” from enterprise to SMB don’t realize the amount of end-user marketing investment required. The group agreed the vendor has to put more effort into generating awareness and credibility and developing a preference for their products through advertising in the SMB market. With these additional advertising requirements, vendors must realize their SMB margins are not

going to equal their enterprise margins. An entirely new go-to-market value proposition and ROI must be built – up from the consumer instead of from the enterprise customer down. The question these event participants have asked themselves is – is the volume that we could make in this market more than the costs associated with channels (possibly even two-tier), advertising and lower per sale margins?

The discussion was at times lively, but overall we realized there wasn't a key to the SMB market. Each vendor had to mix their ingredients together to try to concoct the strongest value proposition for the end-customers solution needs and the channels business needs. The industry has been talking about SMBs for decades. We still haven't cracked the code for this diverse, dynamic and expansive market. Will we ever?

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