

SPECIAL STUDY

Does ICT Matter to SMBs in Canada?

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IDC OPINION

On behalf of ITAC (Information Technology Association of Canada), IDC Canada surveyed 300 Canadian small and medium businesses (SMBs) to gain a better understanding of the business priorities and technology challenges of this sector. Respondents include only senior business executives from SMB firms with 20-999 employees. This study was constructed to gain deeper insight into the Information and communications technology (ICT) adoption of Canadian SMBs. Key findings include:

- ☒ **Operational efficiency and staff retention top SMB business concerns.** Seventy-nine percent of our respondents reported that improving productivity and efficiency within the organization is a leading business priority. But when asked identify the most pressing issue 21% of SMBs cited staffing availability and retention. This dual focus on productivity and staffing is consistent across all SMB size sub-segments.
- ☒ **Non-ICT investments are more critical than ICT investments for SMBs.** When asked to rank various types of business investments in order of importance, SMBs reported that investments in non-ICT labour are the most critical. Investments in ICT-related labour ranked highest amongst possible ICT investments but non-ICT investments in labour, operating expenses, and capital are each higher priorities.
- ☒ **Majority of SMB executives hold positive views about the value of ICT.** An important finding from IDC Canada's study reveals that a large percentage of senior executives in Canadian SMBs hold a positive view regarding ICT and its value to their organization.
- ☒ **Twenty percent of Canadian SMBs have no ICT staff.** Roughly 20% of SMBs reported that they do not have any ICT staff when we asked our respondents how many full-time equivalent ICT staff their organization has. Technology adoption is hampered by lean SMB cost structures that struggle to justify the cost of full-time equivalent ICT staff. IDC Canada believes almost 50% of Canadian SMBs have two or less full-time equivalent ICT staff on their payroll.
- ☒ **Increases in relative ICT levels will be triggered by either business growth or a specific initiative that mandates additional investment.** SMBs report both internal and external drivers will push further ICT investment over the next 2 years. SMBs expect ICT adoption will be catalyzed by internal drivers such as business growth, and productivity/efficiency improvement requirements. SMBs also cited external drivers like supply chain improvements, and the need to remain competitive will play a key role in influencing ICT buying behaviour.

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IN THIS STUDY

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EXECUTIVE SUMMARY

Productivity and staff retention are top business concerns for Canadian SMBs

On behalf of ITAC (Information Technology Association of Canada), IDC Canada surveyed 300 Canadian small and medium businesses (SMBs) to gain a better understanding of the business priorities and technology challenges of this sector. Respondents include only senior business executives from SMB firms with 20-999 employees. This study was constructed to gain deeper insight into ICT adoption of Canadian SMBs. Key findings include:

- ☒ **Operational efficiency and staff retention top SMB business concerns.**
Seventy-nine percent of our respondents reported that improving productivity and efficiency within the organization is a leading business priority. But when asked identify the most pressing issue 21% of SMBs cited staffing availability and retention. This dual focus on productivity and staffing is consistent across all SMB size sub-segments.
- ☒ **SMBs believe ICT investment impacts achievement of business priorities.**
Two-thirds of SMBs report that ICT investments will impact achievement of their firms top business priority -- but the expected impact of ICT varies by top business priority. Almost 75% of respondents that identified improving productivity and efficiency as their top business priorities expect ICT to have an impact. But by contrast, only half of firms who identified staff availability and retention as their top business challenge believe ICT is actually having a positive impact on this business priority.
- ☒ **Non-ICT investments are more critical than ICT investments for SMBs.**
When asked to rank various types of business investments in order of importance, SMBs reported that investments in non-ICT labour are the most critical. Investments in ICT-related labour ranked highest amongst possible ICT investments but non-ICT investments in labour, operating expenses, and capital are all higher priorities.

SMBs in Canada will spend C\$16.5B on IT hardware, software, and services in 2006

While ICT investment is less of a priority than other investment areas, SMBs (with 1-999 employees) in Canada will still spend C\$16.5B on IT hardware, software and external services in 2006. Specifically, our respondents reported that making investments in software is the most critical of possible IT investments. Key ICT investment findings include:

- ☒ **ICT software investment deemed most critical by SMBs in Canada.**
Investment in ICT software was perceived to be most critical to SMBs senior decision makers. Software ranked ahead of hardware, services and telecom across all size categories with the exception of the 500-999 employee SMB sub-segment where telecom ranked a close second.

- ☒ **SMBs prioritize security, desktop PCs and customer service applications.** ICT security and desktop PCs are reported by SMBs as being priority investment areas over the next 12-18 months. But when we forced respondents to select the single most pressing issue, just over 10% of SMBs indicated their top ICT investment priority was either customer service solutions, finance/accounting applications or inventory management solutions. IDC Canada observes prioritization differences by company size. Examples? The top priority in the 50-99 employee size segment is deploying finance/accounting solutions, inventory/materials management in the 100-499 employee size segment, and networking projects in the 500-999 employee size segment.

- ☒ **Half of Canadian SMBs spend between 1% and 4% of revenue on ICT.** Over half of SMBs surveyed indicated they spend between 1% and 4% of their total revenue on ICT. Fifty-six percent of firms in the 500-999 employee group reported they spend between 1% and 4% on ICT. When the range was increased to between 1% and 6% of revenue spent on ICT, over two thirds of SMBs fall into this spending range.

Majority of SMB decision makers have positive perceptions about ICT

An important finding from IDC Canada's study reveals that a large percentage of senior executives in Canadian SMBs hold a positive view regarding ICT and its value to their organization. But this perceived value differs by technology and business function. Highlights include:

- ☒ **Majority of senior executives have positive perceptions about ICT.** IDC asked senior business managers to provide their views on a series of ICT value statements and observed surprisingly bullish sentiment:

82% of SMBs agree that senior executives in their firm see ICT as critical to their business success.

77% of senior business managers agree ICT investments will significantly improve productivity in their firm over the next 5 years.

77% of SMBs agree that their ICT strategic plan is well aligned with the company's business strategies and needs.

68% of SMBs agree that their senior executives are above average users of ICT.

65% agree that previous ICT investments have clearly produced the expected return on investment (ROI).

61% of senior business executives agree their firm will consistently deliver ICT projects on-time and on-budget.

- ☒ **SMBs perceive some technologies will improve business efficiency...but question others.** Senior executives perceive PCs, servers, system infrastructure software, and network equipment as having strong impacts on business efficiency. However other technologies like packaged applications, mobile

devices and storage technologies are perceived as having less impact on business efficiency.

- ☒ **ICT seen as having most impact on sell/service business functions.** SMBs were asked what impact past ICT investments have had on business improvement. The result? Almost half of senior executives report that ICT has had a beneficial impact on business functions related to bringing products/services to market, including all customer facing activities. By contrast, almost 40% of SMBs saw no impact from past investments in their design/make functions. These business functions involve building and/or storing products or services.

Lack of staffing a key barrier to ICT adoption

Our respondents reported that insufficient staffing is a key barrier to ICT adoption in Canadian SMBs. This ICT challenge is an extension of SMBs assertion that investments in labour (both non-ICT and ICT-based) are a top business priority. Training and escalating ICT costs were also reported as key frustrations by smaller firms. Key ICT challenges reported to IDC Canada included:

- ☒ **Lack of staffing resources viewed as primary barrier to adoption.** When asked about the most significant barrier impeding ICT adoption, 50% of the senior executives IDC surveyed cited lack of staffing as the most significant barrier impeding ICT adoption. Difficulty in seeing quantifiable ICT benefits/ROI ranked second behind staffing resource concerns. Across size segments a lack of staffing resources was consistently considered a top barrier to adoption.
- ☒ **Training and escalating costs regarded as primary ICT usage frustrations.** Insufficient training/support for staff and escalating costs were cited most by senior business executives as major frustrations regarding ICT usage. But the frustrations varied by company size. Small firms with less than 100 employees primarily cited escalating costs while medium firms with more than 100 employees cited insufficient training/support for staff as a frustration.
- ☒ **Twenty percent of Canadian SMBs have no ICT staff.** Roughly 20% of SMBs reported that they do not have any ICT staff when we asked our respondents how many full-time equivalent ICT staff their organization has. Technology adoption is hampered by lean SMB cost structures that struggle to justify the cost of full-time equivalent ICT staff. IDC Canada believes almost 50% of Canadian SMBs have two or less full-time equivalent ICT staff on their payroll.

Increases in relative ICT levels will be triggered by either business growth or a specific initiative that mandates additional investment

SMBs report both internal and external drivers will push further ICT investment over the next 2 years. SMBs expect ICT adoption will be catalyzed by internal drivers such as business growth, and productivity/efficiency improvement requirements. SMBs also cited external drivers like supply chain improvements, and the need to remain competitive will play a key role in influencing ICT buying behaviour.

- ☒ **Primary ICT consumption triggers are internal to the firm.** Almost 60% of firms surveyed cited internal business drivers will spawn future ICT investment over the next two years. Fourteen percent of SMBs reported that internal business growth (revenue/profit) is most likely to catalyze their ICT investments. Other internal drivers reported include the need to improve productivity and efficiency within the organization, in addition to satisfying a direct business need. SMB decision makers shared the following perspectives on internal drivers:

"Business growth will lead to more capacity, more people will be required, and consequently more hardware would be required. Any increase in ICT investment would be directly related to business growth." (Financial services firm with 50-99 employees)

"Our investments in ICT are being catalyzed by our focus on making staff more productive." (Business services firm with 20-49 employees)

"We would invest more in ICT if more senior executives accepted and recognized the importance of information and communication technology impact on the organization." (Communications and media firm with 100-499 employees)

- ☒ **Secondary ICT consumption triggers are external in nature.** When we asked about important external drivers affecting ICT investment, just under 10% of SMBs cited the need to be competitive or use technology to gain an edge in their market. That ranked slightly ahead of the influence exerted by trading partners over ICT buying decisions. SMB decision makers shared the following perspectives on external catalysts for ICT adoption:

"We just have a single motivating point or pushing factor to keep on investing further. We want to be a top competitor in our industry." (Manufacturing firm with 20-49 employees)

"We must improve interfaces with suppliers and customers. Being in the wholesale industry we want to put in software that improves demand management for our suppliers. We never want to be short on the supply front." (Wholesale firm with 100-499 employees)

"For us it should be the public acceptance of technology. If it is required for us to run our business, and is accepted by the customer, we would surely go for it." (Communications and media firm with 50-99 employees)

- ☒ **ICT adoption drivers vary by company size.** In the 20-49 employee segment, business growth, direct business need, and technology upgrades were the top three drivers behind future ICT consumption. By contrast, IDC observed that specific business need, the requirement to improve productivity/efficiency or future expansion were the catalysts for ICT in SMBs with 500-999 employees. Notable quotes include:

"We are quite satisfied with our current level of ICT investment. However, ICT investment is directly indexed to our business growth. Investment will increase as our business expands."
(Manufacturing firm with 20-49 employees)

"If new technology could improve the productivity and profitability we would invest immediately...whatever the price." (Manufacturing firm with 100-499 employees)

"ICT adoption will be spurred as we make the planned acquisition of various companies across different geographies. We want to go global in the next two years." (Manufacturing firm with 500-999 employees)

Conclusions

After analyzing the results of 300 surveys of small and medium-sized businesses, IDC Canada concludes that:

- SMBs are focused on optimizing non-ICT labour pools from a business and investment standpoint.
- SMBs hold a positive view about the impact and value of ICT investments on business performance.
- Staffing & resource challenges are top ICT barriers for SMBs.
- Most SMBs expect that any increase in ICT investment levels will likely be triggered by either business growth or a specific initiative that mandates technology investment.

Methodology

IDC Canada surveyed the following:

- ☒ 300 SMBs firms with 20-999 employees.
- ☒ Spoke to most senior business decision maker.
- ☒ Results were broken down by company size groupings (20-49 employees – 75 surveyed, 50-99 employees – 75 surveyed, 100-499 employees – 100 surveyed, 500-999 employees – 50 surveyed).
- ☒ Respondents were from across Canada.
- ☒ Representation from across Canadian business population.

Note: Secondary research was used as applicable.

Note: A sample of 300 has a margin of error to +/- 6%, 19 times out of 20.

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Synopsis

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