

# Regions

**IN EUROPE, THE MIDDLE EAST, AND AFRICA,  
THE SEEDS OF STRONG ECONOMIES TAKE ROOT  
WITH HELP FROM TECHNOLOGY.**

**By G. Patrick Pawling**

**A**lthough separated by geography, language, culture, and the maturity of their economies, the countries within Europe, the Middle East, and Africa—known collectively as EMEA—are joined by at least one vital factor: promise. Small and medium-sized businesses (SMBs) there are growing, though somewhat unevenly, and they are poised to grow more.

“SMBs are the backbone of these economies,” says Laura Converso, a senior research analyst based in Milan, Italy, within IDC’s Western European Vertical Markets Expert Centre. “SMBs give employment to at least three quarters of the total workforce in Western Europe.”

But like organizations worldwide, SMBs in EMEA must acquire technology to compete, to operate more efficiently, to safeguard their data, to partner with bigger companies, and to provide a framework for profitable growth. In some areas the existing technology infrastructure is showing its age. In others it doesn’t even exist yet. The region is a dramatic mix of geographies, cultures, business needs, skills, and opportunities.

## **MEASURING TECHNOLOGY UPTAKE**

SMB IT and telecommunications spending will exceed \$1.1 trillion worldwide during 2008, according to predictions from the research firm AMI-Partners, representing an annual growth rate of 7.2%. During that period, Eastern Europe, the Middle East, and Africa will grow their combined share of that spending from 27% to 32%, while North America and Western Europe’s share will drop from 58% to 53%.

A recent AMI-Partners study predicts the following:

- A higher level of foreign investment by western European companies in eastern Europe because of lower labor costs
- Continued low interest rates fueling additional consumer consumption in mature economies such as the United Kingdom
- A surge of new businesses in eastern Europe, Russia, and China, catalyzed by privatization and expansion of the European Union

Analysts predict technology adoption will have a compounding effect: As organizations move past the initial adoption of basic infrastructure,



# of Opportunity

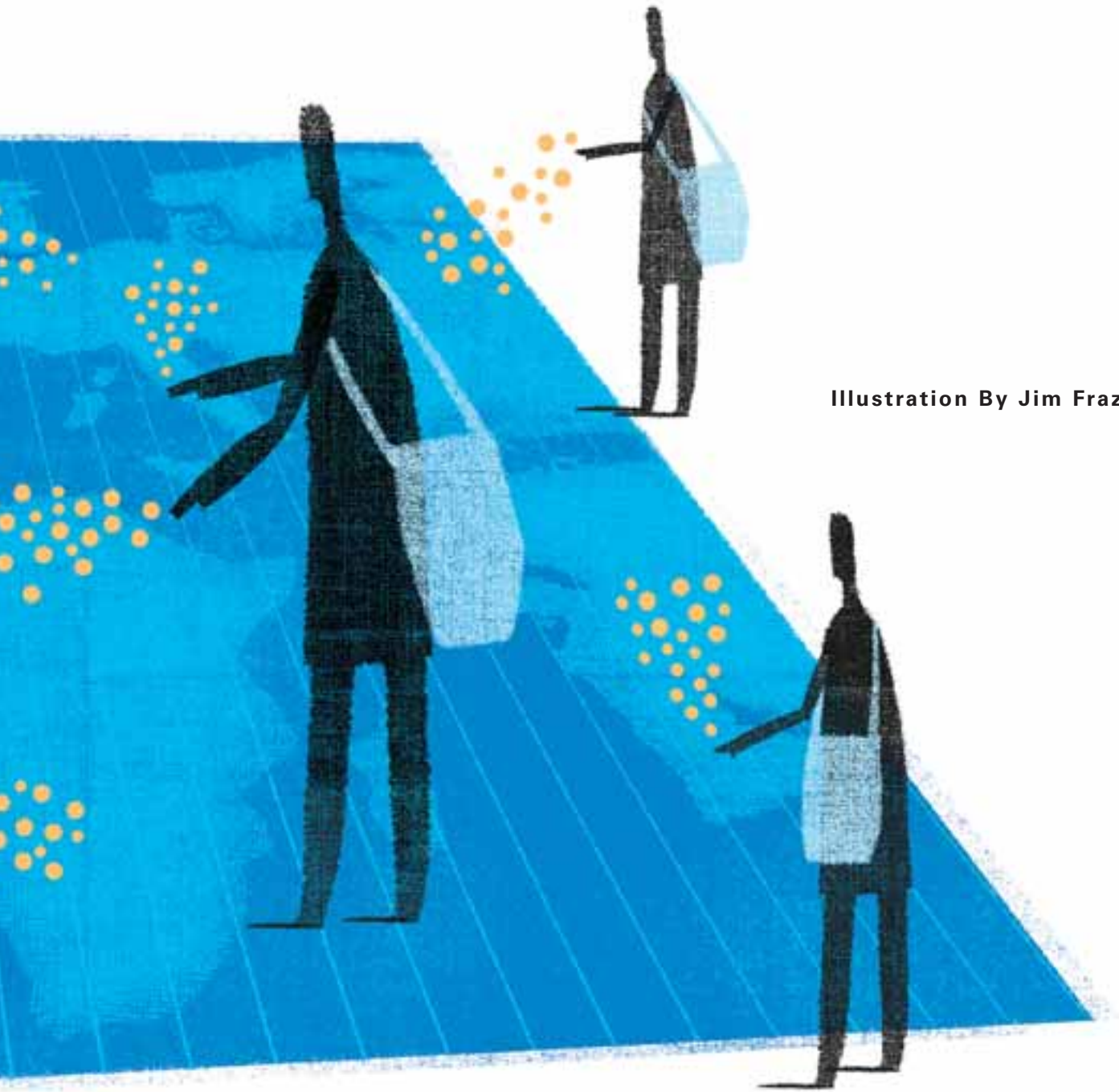


Illustration By Jim Frazier

they will be able to quickly capitalize on additional benefits. For example, as emerging markets adopt PC and networking equipment, companies will be able to take advantage of technologies such as Internet Protocol (IP) telephony. Developments in northern Europe, including Scandinavia and the Netherlands, have already borne this premise out. Because the network infrastructures in these countries are so strong, organizations are able to quickly take advantage of newer technologies, consistently becoming more efficient and productive.

There are also pronounced regional differences in the applications companies use. Converso says IDC's surveys of western Europe show the following trends:

- French SMBs have the highest level of enterprise resource planning (ERP) software adoption, while U.K. SMBs favor customer-relationship management and e-commerce tools.
- French and German organizations show more interest in security, while database/data warehousing is a high priority among Spanish SMBs.
- France and Italy target industry-specific solutions such as sales force automation and warehouse management.
- U.K. SMBs favor transactional e-commerce platforms, but the majority of Italian SMBs prefer to use their Web sites for promotion, branding, and visibility.

## IDENTIFYING REGIONAL DIFFERENCES

There are stark economic differences among countries in

EMEA, due in large part to the maturity levels of their relative economies. These distinctions affect technology trends.

In certain countries in eastern Europe, some people are still trying to get a reliable telephone line.

But this lack of legacy infrastructure can be an advantage. When underdeveloped regions do start to grow, they often jump directly to the latest technology.

One of the overriding trends is the need for smaller organizations to equip themselves with technology that will allow them to partner with larger companies, according to Arjun Mehra, an SMB analyst at AMI-Partners. Large multinationals often need local partners but must choose carefully to ensure their needs are met. As a result, local SMBs must show that their IT infrastructures are reliable in order to secure potential partners.

"Even for non-technology SMBs, compliance and reporting are vital," says Mehra. "They are not going to do business with you if you don't have the infrastructure."

The difference in technology adoption is most dramatically apparent when western Europe is viewed separately from the rest of EMEA, according to Mehra.

A recent AMI-Partners survey found that SMBs in France, Germany, and the United Kingdom expect only modest increases of 4% to 5% in their IT budgets in 2005. Mehra says other regions should see more robust growth. "The rest of EMEA is growing at a rapid pace and will continue to do so because it is currently so underdeveloped," he says.

### FROM CISCO

## CISCO FOCUSES ON SMBs IN EMEA

Marius Schenderling, SMB Operations Manager for Cisco Systems in EMEA, discusses some Cisco regional research and efforts related to technology adoption.

### iQ: How can technology make a difference for SMBs in EMEA?

**Schenderling:** Our 2004 research shows that 30% of the 6 million SMBs across EMEA already have networks and a basic understanding of networking. This is a dramatic increase from previous findings. The research shows that approximately eight out of ten companies are comfortable using new technologies.

SMBs will increasingly feel pressure to modernize. Customers and even suppliers may demand automated communications to align with their own growth.

### Q: How do regional differences affect technology adoption?

**Schenderling:** The most exciting universal development across EMEA is broadband. In the Nordics, broadband adoption is very high and SMBs are embracing advanced technologies, such as IP telephony, especially in Finland. Western European countries are also advanced, but the growth depends on existing infrastructures and competition among service-providers.

With little in way of legacy systems, Eastern European SMBs can deploy infrastructures and advanced technologies more cost efficiently, which makes it the most promising region for future growth.

The Middle East and Africa are in a

similar situation. Companies there are currently adopting significant foundation technologies. Still, this region is still 24 months behind the rest of Europe.

### Q: How is Cisco helping SMBs in EMEA?

**Schenderling:** The SMB Class program is introducing as many as 30 specifically designed products and integrated solutions to directly address SMB's key requirements. We are also educating SMBs about the competitive advantages available through technology.

Research shows that SMBs prefer local technology providers; 37% of all SMBs use them as their primary technology provider. The SMB Select Partner program embraces the strength of local SMB-specific resellers in each territory.

## SEEDING THE GROWTH

Mehra and other analysts argue that governments should continue to expand incentive programs when practical. Free-trade zones and tax abatements have proven successful in stimulating the birth and growth of SMBs.

“Governments have a very important role to play to support SMBs, particularly in the Middle East and Africa,” he says. “Such initiatives go a long way in cutting costs and making resources more easily available. In fact, government initiatives in some parts of the Middle East are proving to be more successful than those in Europe because the legislative process is much shorter in the Middle East.”

Converso agrees that incentive programs do work, but she warns of practical limits. “If we take into account that there are 14 million SMBs in western Europe alone, and that government budgets are quite restricted . . . in general the benefits arrive only to a small number of SMBs that are very well informed on new government schemes,” she says.

In Italy, the European Commission authorized the Tecno-Tremonti Law, which grants tax breaks to Italian SMBs that invest in IT projects. “This is an important pillar of Italy’s package to stimulate the economy,” says Converso.


As part of a U.K. program called Broadband Britain, Prime Minister Tony Blair has promised that the government will help provide broadband to every school, university, and hospital in the United Kingdom—and is spending more than \$1 billion to do it. Telecom leader BT says broadband will be available to some 99.6% of the U.K. population by July 2005.

The U.K. Department of Trade and Industry is also encouraging SMBs to adopt technology by offering grants, loan guarantees, and tax credits for research, and funding knowledge-transfer efforts to give smaller companies access to the latest technical innovations.

## CHARTING THE FUTURE

Expect growth in the SMB segment throughout EMEA. Although uneven and somewhat unpredictable, it will happen and buoy EMEA economies—and it will be supported in large part by smart and selective use of technology.

In fact, AMI-Partners predicts that of the 9.5 million new businesses expected in the global SMB universe by 2008, 75% (representing about 7 million) will come from eastern Europe and the Asia-Pacific region.

“This is a market that’s virtually untapped,” adds Mehra. “There’s lots of opportunity for growth.” 

G. PATRICK PAWLING IS A FREQUENT CONTRIBUTOR TO *iQ*.

## NEXT STEPS

Learn more about the effect of technology on European governments at [netimpactstudy.com](http://netimpactstudy.com).

## TWO REGIONS TO WATCH Middle East and Africa

When the story is business development, much of the world views the Middle East and Africa as subjects that have not yet been fully addressed. If so, stay tuned for a new chapter. This region has built-in advantages that will, in the coming years, provide some compelling benefits, including the following:

- The ability to start fresh with best-in-class technologies
- Lower-cost labor
- Continuing support from multinationals looking to partner with local companies
- The ability to start and grow unfettered by regulation and bureaucracy

“There are not very stringent rules and procedures in some of these markets, particularly in Africa and the Middle East,” says Arjun Mehra at AMI-Partners. “These areas recognize how important it is to encourage the growth of SMBs, so the governments aren’t as strict. For example, Dubai and United Arab Emirates are very interested in getting something going for SMBs. They understand the value of smaller companies because they have exhausted the money coming out of the very few large businesses.”

An initiative known as Dubai Internet City is essentially a free trade zone, Internet style. It covers a vast region extending from the Middle East to the Indian subcontinent and Africa and offers foreign companies 100% tax-free ownership, 100% repatriation of capital and profits, no currency restrictions, and protection of intellectual property. It has attracted companies such as Cisco Systems, HP, IBM, Microsoft, Oracle, Siemens, and Sony Ericsson.

“These are the kinds of things that are needed to attract the larger companies to come, and to stimulate investment and growth,” says Mehra.

Tejari.com, the Middle East’s first business-to-business online marketplace, allows companies to buy and sell goods and services online, thus extending the efficiencies of the Internet to any organization with a computer.

Egypt, the United Arab Emirates, and Lebanon are examples of countries with growing IT needs, particularly for data protection and security, according to Mehra. The biggest challenge in all these areas is cost.

“They won’t buy a CRM product just because it works well in Alabama,” he says. “You have to be very sensitive to price points. They need incentives; tax incentives are among the most effective. The governments need to come up with more incentive programs.”—G.P.P.