

Midsize Business IT Challenges and Plans For 2006

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Midsize business CIOs will be challenged to increase IT spending due to distractions caused by external economic trends and factors. Successful companies will find new ways to adopt the technology they need to grow their business.

ANALYSIS

External Factors Affecting Midmarket IT Spending

Midsize business CIOs continue to maintain the course as new external business and economic trends increase the demand for more and better IT services. In 2005, demands related to compliance, security and mobility have driven the need to reassess and modify IT strategies and initiatives. CIO attendees at the September 2005 Midsize Enterprise Summit (MES) said these trends will continue to affect 2006 IT decisions, but they also cited some new external trends that will also likely have an impact on their IT spending plans in 2006. Disaster recovery and business continuity have become important matters for many midsize businesses due to the recent catastrophic hurricanes that struck the Gulf Coast of the United States. Rising energy costs result in higher production costs, affecting margins for many midsize businesses. Midmarket CIOs have been asked by their business units to help them make business process improvements to offset these unexpected higher costs. This could lead to increased investment in areas such as business intelligence and Web-based business-to-business (B2B) communications.

2006 IT Spending Plans

The small and midsize business (SMB) IT market continues to grow. At an estimated \$400 billion per year (expected to increase by 7 percent through 2006), the global opportunity is significant. More IT providers than ever are targeting the SMB market with their products and services.

The top IT initiatives for 2006 cited by the midmarket attendees at the 2005 MES events include security, Web-enablement of business processes, business intelligence and ERP upgrades. Security has been the top IT initiative for the past three years. In particular, midsize businesses have identified desktop security (antivirus, anti-spyware and personal firewalls) and intrusion prevention as their top security challenges for 2006 (see "Security Spending Still a Top Priority for SMBs"). Disaster recovery and business continuity planning and server/storage projects were also high on the list of many midsize businesses. Approximately 50 percent of the attendees stated that their executive management considered the discipline of business continuity management to be more important than last year (see "SMBs Must Raise Awareness of Importance of Business Continuity/Disaster Recovery Plans").

In the area of networking, the top three initiatives include network security, WAN and bandwidth upgrades (for example, frame relay to IP), and wireless (WAN and LAN) projects. The top hardware investments planned include server- and storage-related projects. Hardware-related projects cited included server consolidation and virtualization, storage area network (SAN) deployments and expansions, and infrastructure standardization. More than 45 percent of the respondents to the MES survey stated that they are already investing in server virtualization or are planning to implement server virtualization technology during the next 12 months. These server and storage projects are likely a reaction to the overwhelming feedback from midsize businesses that infrastructure management has become a major challenge during the past 12 months (see "Infrastructure Questions From the Midsize Enterprise Summit").

The top software projects cited for 2006 were in the areas of business intelligence and data warehousing, security, Web development and ERP. Other notable software projects listed were document management and CRM. The majority of ERP-related projects were identified by larger midsize businesses (500 employees to 999 employees) as a top priority for 2006.

Although midmarket CIOs are excited about the opportunities being introduced because they are more-affordable IT solutions, they are also pessimistic in their ability to execute in some areas. The top skilled resources lacking in most midsize business IT departments include security, database administration, network and telecommunication, and business analysts. The lack of

these resources are delaying investments — most notably in voice over IP (VoIP), disaster recovery, intrusion prevention, document management and business intelligence.

Compliance requirements, such as the Sarbanes-Oxley Act, are key drivers in the areas of ERP upgrades, business intelligence and document management investments. Using a document management system can help enterprises meet regulatory compliance and reduce liability. The demand for compliance has become yet another challenge for SMBs, but it is also providing an opportunity for CIOs to use compliance as justification for IT investments that have been delayed due to limited IT budgets. Successful CIOs will capitalize on the need to address compliance demands by improving overall corporate performance.

What Do Midsize Businesses Want In an IT Provider?

Total cost of ownership (TCO) continues to be the most important selection criterion when evaluating IT products for midsize businesses. Return on investment and service quality are the next most important. When asked what it would take to replace an incumbent vendor, 35 percent of the MES attendees cited "better TCO" as a reason they would consider switching vendors. Another 35 percent stated that they would switch vendors for better service and support.

Midsize businesses are intrigued by the increased attention that they are receiving from IT providers. However, the challenge that has been introduced by the increased number of vendors and solutions being offered to the midmarket is the requirement for discipline in vendor evaluation, negotiation and management. Midsize businesses have identified this as one of their top challenges for the next 12 months. To get the best deals possible, midsize businesses will have to focus on the procedures and best practices that can improve their chances (see "Negotiation Best Practices for SMBs").

The SMB market will remain a major source of opportunity for IT providers through 2006. The first hurdle for IT providers targeting the SMB market is to create low-cost and affordable products and services that are easy to use; however, penetrating the SMB market also requires a focused sales strategy supported by an efficient distribution channel with reputable partners that participate in the appropriate channels (see "Use Proven Strategies to Sell IT to SMBs").

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