Back in the driving seat:

Regaining control over SME costs

With economic uncertainty continuing into 2011, SMEs need to stay in control of their day-to-day operational costs more than ever.

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Overview

With inflation rising and economic uncertainty continuing into 2011, SMBs need to stay in control of their day-to-day operational or 'office' costs more than ever. But with so many costs to consider – from IT hardware to online services – and with many of them varying week-by-week, how can SMBs stay in control?

Back in the driving seat: Regaining control over SMB costs is a new report by BT Business Direct and is the result of speaking to over 250 IT decision makers at small-to-medium sized businesses in the UK. We asked SMBs how confident they were in their ability to predict their operational IT and communications costs each month, which costs they are most concerned with and where they feel additional savings can still be made. We also looked at the various economic factors that may be motivating businesses to make these additional savings in the first place.

Back in the driving seat: Regaining control over SMB costs defines operational costs as those administered by the IT manager or equivalent role, primarily being the IT and communications costs.

About the Research

The primary research for this report was conducted by OpinionMatters, an independent pan-European market research company. The research was commissioned by BT Business Direct - BT's IT hardware, software & solutions reseller - in order to gain insight into how the UK's small-to-medium sized businesses (SMBs) plan to keep control of their costs as they look to refocus on growth.

OpinionMatters interviewed 255 IT decision-makers, split equally among company size (ranging from 1-9 employees up to 249 employees) and across a range of industries and IT budgets. The research was conducted and compiled in February 2011.

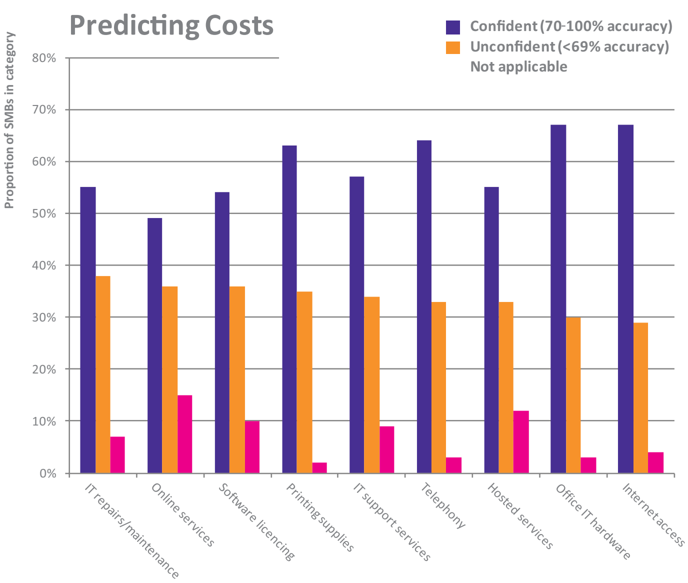
Section 1

Predicting Costs

Q: By what proportion of accuracy do you feel you can predict how much your company spends on each of the following operational services each month?

We first asked companies to explain how accurately they feel they can predict the costs of their operational services each month. The research looked at:

- Telephone services (including mobile devices)
- Office IT hardware (computers, networking equipment, printers, peripherals etc.)
- Office printing supplies (paper, toner etc.)
- Internet access
- IT support services
- Online services (e.g. virtual meetings, conference calls etc.)
- IT repairs/maintenance
- Software licensing
- Hosted services (web services etc.)



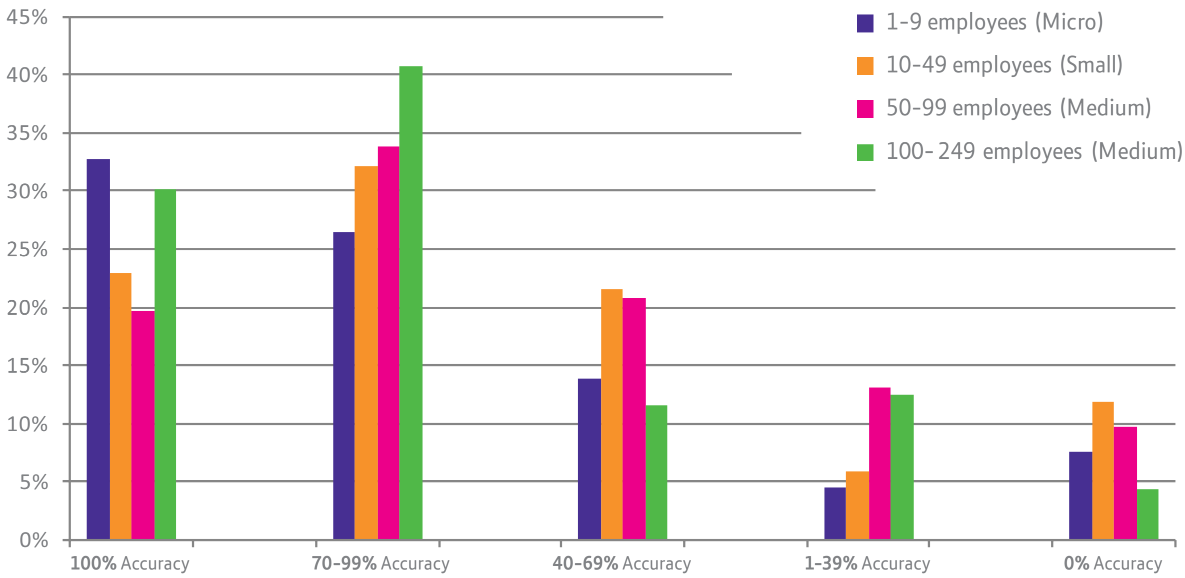
Looking across all services, just over 1/3 of SMB IT managers (34%) confessed to being 'not very confident' or 'very unconfident' in their ability to predict their monthly operational costs. Of these, 9% confessed to having absolutely no idea what they spent on any of these services each month – a very worrying proposition. By contrast, one quarter (27%) of SMBs claim to be able to predict with complete accuracy what their monthly operational costs will be. A further 32% are 'pretty confident' in their predictions.

While 2/3 (59%) of businesses are pretty confident in their ability to predict costs month-by-month, confidence is lowest in online services (where 49% are 'fully' or 'pretty confident'), followed by software licencing (54%), IT repairs/maintenance and (55%) hosted web services (55%). Unsurprisingly Internet access, telephony and IT hardware are the services they feel they can predict the best, presumably due to the prevalence of flat rate pricing for telecoms services and the relative infrequency in purchasing new IT equipment. Confidence is highest among smaller SMBs, with just over 1/4 (26%) of the smallest companies (1-9 employees) claiming they have little confidence in their ability to predict their costs (<69% accuracy). Conversely, 33% of companies this size claim they can predict all their monthly costs at 100% accuracy.

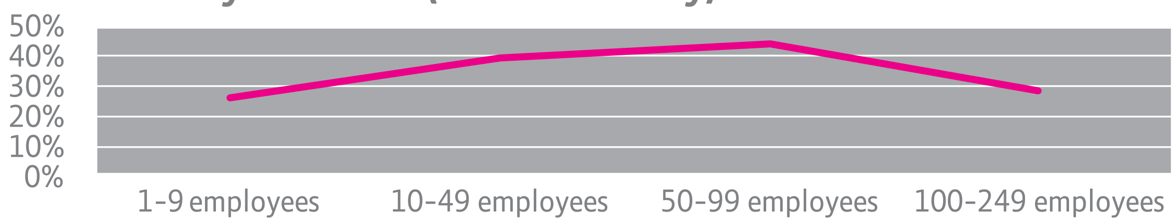
The least confidence is among companies of 50-99 employees, with 44% of SMBs of this size saying they have little confidence in their ability to predict costs.

Interestingly, once SMBs cross into the 100+ employees bracket, their ability to predict their costs rises again, presumably as larger companies are able to adopt more sophisticated management techniques and negotiate better rates. 71% of the largest SMBs say they can predict with accuracy of 70-100%. This compares with just 55% of those in the 10-49 employees bracket.

Confidence in predicting costs, by company size



Not very confident (<69% accuracy)



Section 2

Making Additional Savings

Q: If you plan to renegotiate costs with your suppliers this year, by how much are you planning to save for each operational expense?

2/3 of SMBs (64%) are planning to lower their operational costs this year. 1 in 5 (22%) plan to reduce their costs by over 11%, and one in ten plan to reduce their costs by over 16%. While most SMBs are keen to reduce costs across the board, some costs are facing the axe more than others. Of all their operational costs, printing is the service SMBs would like to reduce the most. Just under half of SMBs (45%) plan to reduce their printing costs by up to 10% this year.

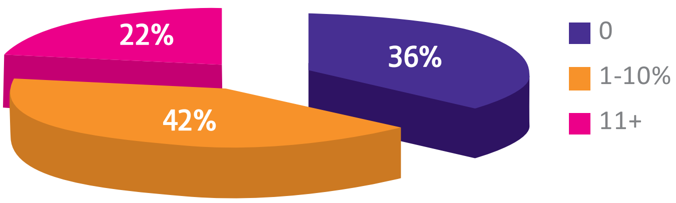
SMBs are happiest with the cost of their telephony and IT support services, with 37% of respondents not planning to reduce the costs of these services at all.

Q: Of the services that you plan to renegotiate, how do you intend to reduce your supplier costs in 2011?

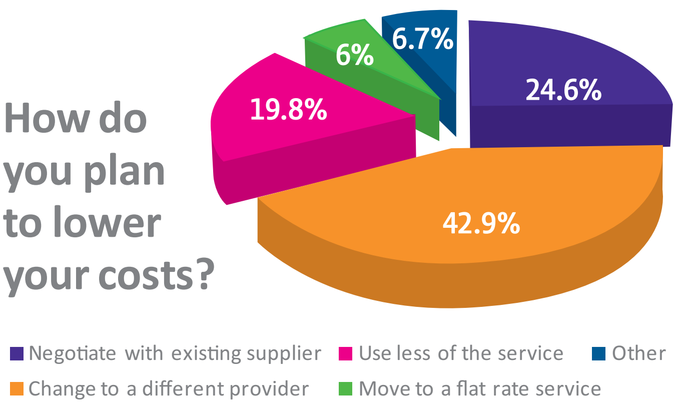
When asked how they plan to reduce their costs, SMBs would sooner change supplier than negotiate lower prices with that supplier; 25% would negotiate with their existing supplier vs. 43% who would change supplier. Less than 6% would switch to a fixed cost model, despite these services becoming more commonplace.

When looking to lower their printing services, the cost they are most keen to reduce, 38% of SMBs would still prefer to move to a different supplier. Approximately 1 in 5 (18%) would choose to use less of the service while a similar number (23%) would negotiate lower costs with their existing supplier. Only 4% have considered moving to a flat rate printing service for example.

Budget reductions sought by SMBs



How do you plan to lower your costs?



Proportion of SMBs that plan to reduce costs by up to 10% this year, by service

Service	% of SMBs that plan to reduce cost by up to 10%	% of SMBs not planning to reduce cost
Printing supplies	45%	34%
IT repairs/maintenance	42%	32%
IT hardware	40%	31%
Telecoms	39%	37%
Hosted services	38%	33%
Internet access	38%	36%
IT support services	36%	37%
Software licencing	36%	35%
Online services	33%	31%

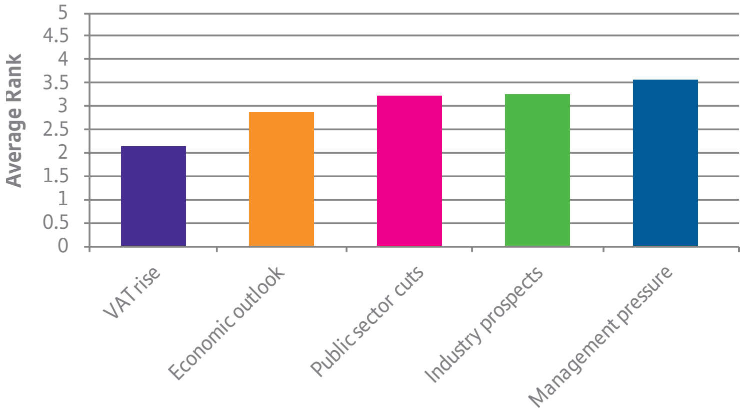
Section 3
Cost Cutting Drivers

Q: How much have the following factors driven your decision to lower your costs (the VAT rise, public sector cuts, the broad economic outlook, the economic prospects of your industry, management pressure)?

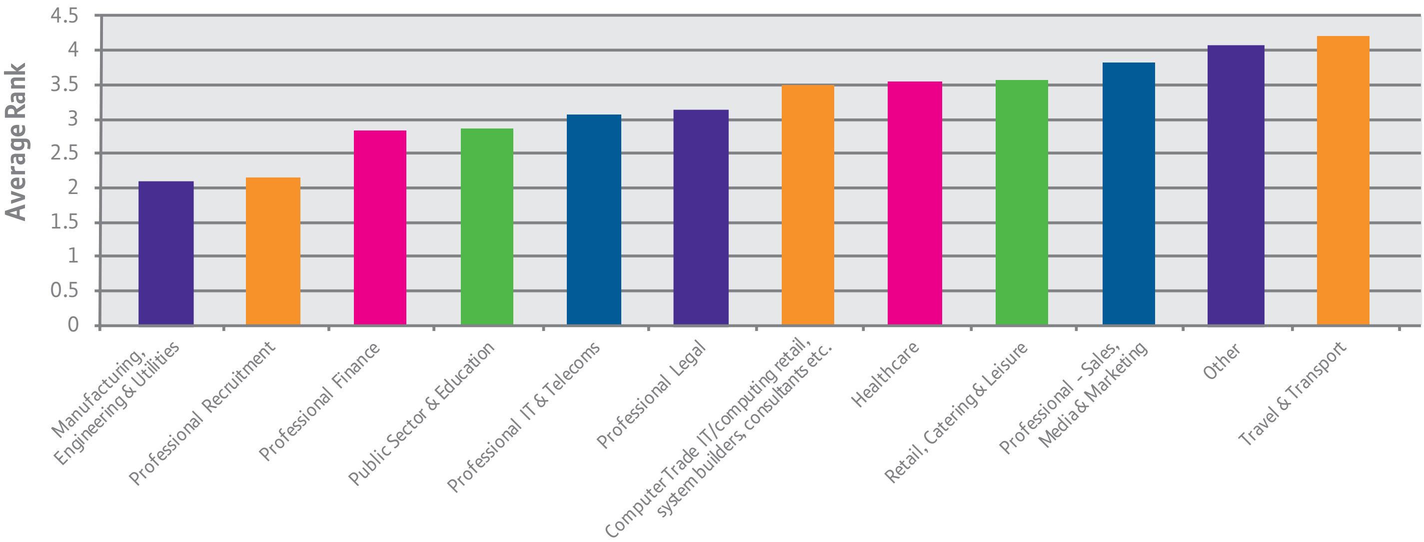
Unsurprisingly, the VAT rise is the main reason why SMBs are cutting costs this year, with 49% ranking it as the number 1 reason. Ranking from 1-5 (where 1 is the most important reason and 5 is the least), the VAT rise scored a mean of 2.12. The least important driver for SMBs was management pressure, presumably because the bulk of management-led cuts have already been made.

The public sector cuts naturally had more of an impact on some sectors than others. Manufacturing, engineering & utilities were hit the hardest (ranking it at a mean of 2.07)followed closely by professional recruitment (at 2.14). Surprisingly, the cuts had the least impact on the travel & transport sector (mean rank of 4.2).

Ranking of Cost Cutting Drivers



Impact of Public Sector Cuts on SMBs



Section 4
Our Opinion

Daryl Platt, B2B Director at BT Business Direct says…

"The UK's small-to-medium sized businesses have had a difficult few years. As the recession took hold, most were forced to make difficult decisions just to stay in business, cutting costs every way they could. Suppliers, many of whom are also SMBs themselves, responded too by lowering their prices and cutting their own costs. But with the VAT rise and the most aggressive government spending cuts since the Second World War coming into effect this year, businesses are preparing to be even leaner.

Controlling and predicting operational costs has never been more important for SMBs, especially for smaller businesses whose cash flows are more sensitive to short-term shocks. Unexpected spikes in day-to-day costs - from replacing an outdated email server to a large print run - can have a significant impact to their bottom line.

Our research shows that when it comes to predicting their costs, it is the medium sized companies, not the smallest ones, that have the toughest time. Those with 50-99 employees find it the hardest to predict their costs, with 44% of companies of that size saying they are unconfident in their ability (rating their forecasting to lower than 69% accurate). Only 26% of those with 1-9 employees and 28% of those with 100+ employees say the same thing. This is not entirely surprising, as the smallest companies have fewer costs to manage, and the larger SMBs have the clout to negotiate lower costs or the management frameworks to manage their costs more closely."

Tony Smith, IPG Channel Sales Manager at HP says…

"These findings from BT Business Direct reflect what we are hearing from our SMB customers," comments Tony Smith of HP UK. "SMBs are more than just price conscious, and as the economic situation remains difficult to predict, they are understandably looking for ways to better forecast their costs. For many, flat-rate services where they outsource certain functions to an external supplier for a flat fee are the answer, although this research shows a definite lack of awareness for the range available to them.

While most SMBs already expect to pay a flat rate for their Internet access for example, few are aware that such pricing structures exist for other costs too, such as office printing or IT support, which can otherwise vary considerably, and cause problems with overhead forecasting."