Target Small Businesses During COVID-19 to Build Strong Brand Loyalty for the Long Run

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Initiatives: Technology Marketing Effectiveness

The small business market is facing tremendous pressure to survive in the COVID-19 global economic downturn. Though tech spending will decline by 10% in the next two years, technology and service providers should not abandon this market as the crisis is an opportunity to build strong brand loyalty.

Overview

Key Findings

- IT spending by small businesses will decrease by 10.4% in 2020 compared with 2019 due to the economic downturn triggered by the COVID-19 pandemic.

- The number of small business establishments will decrease in the next four years.

- Small businesses are extremely cost-conscious and have become conservative buyers of technology products and services.

Recommendations

To improve technology marketing effectiveness, technology and service providers should:

- Assess if targeting the small business segment makes sense for your long-term strategy.

- Position the small business strategy for the long run instead of expecting quick, short-term ROI.

- Study the needs of various company profiles that are faced with a challenging economic environment.

Introduction

The small and midsize business (SMB) market has faced the most challenging time since the global recession in 2008 caused by the bankruptcy of Lehman Brothers. The COVID-19 pandemic has triggered economic uncertainties and made SMBs very cautious spenders. According to the Gartner SMB IT spending forecast, 1Q20 update, worldwide SMB IT spending in 2020 will decline by 8.9% compared with 2019. The impact will be even bigger in small businesses with a 10.7% decline in 2020.
This document provides best practices for targeting small businesses that will be the most challenging segment to tackle in the next two years. Although targeting the small business market won’t generate immediate revenue growth, now is the best time to build trusted relationships with small businesses. This practice will establish your brand as a trusted small business technology supplier.

We will describe Gartner’s business life-cycle-driven segmentation model and the company profile model. A combination of these models will provide a framework for revisiting or building their small business strategies during challenging times.

Analysis

Declining IT Spending Trend

Economic uncertainties triggered by the COVID-19 pandemic have been impacting the SMB market significantly. SMBs feel threatened by the economic downturn, and many of them believe that they cannot survive. Gartner’s SMB IT spending forecast shows that worldwide SMB IT spending will decline by 8.9% in 2020 compared with a 6.1% decline in large enterprises. The IT spending decline in smaller businesses (up to 99 employees per organization) will see the steepest decline in 2020 at 10.7%. The spending will be recovered modestly in 2021, but the recovery of SMB spending will be slower than the recovery in the large enterprise market (see Figure 1).

Figure 1. IT Spending Forecast Large Enterprise vs. SMB
This document provides best practices for targeting small businesses during economic uncertainty. Before we start, the fundamental question has to be asked: Does it makes sense to target the small business segment while the market is going through a major decline? Furthermore, if you are not in the small business market yet, the risks are high because targeting this market requires investment with low ROI in the short run.

However, if you decide to target small businesses, you can build a strong brand by helping them through a very challenging environment. Not all your customers can survive through the economic downturn, but the survivors can become very important customers, potentially for a long time.

**Gartner Business Life-Cycle-Driven Segmentation**

The small business market has been the last major business opportunity for providers over the past few years because the market has been underserved, particularly by large-scale providers. At the same time, the small business market is a very challenging segment to target effectively due to market fragmentation.

To understand buyer behavior, which is a critical element to efficient targeting, Gartner has introduced the segmentation model, driven by the business life cycle. Small business IT buying behavior is largely influenced by their business life cycle that consists of four stages:

- **Startup** (up to two years of business operation)
- **Expansion** (three to five years of business operation)
- **Established** (six to nine years of business operation)
- **Mature** (10 or more years of business operation)

The purchase behavior is influenced by a business stage. For instance, consider two companies that are identical in their size, industry vertical, region, level of IT knowledge and IT support environment. But company A is a young company, operating for three years, while company B has been in the business for 15 years. The technology investment between company A (young) and B (old) are very different despite the common company profile.

Company A is a cost-sensitive buyer and looking for a wide variety of technologies to adopt. They are also in the shopping stage to pick the tech supplier. In contrast, company B has a set budget for tech spending for maintaining its established IT infrastructure and is buying technologies from suppliers they have known for a long time. They do not need to explore new technology to buy unless they have a strong business case for change. Thus, the purchase behavior of these companies is quite different even though their company profiles are very similar.

Our recommendation in a normal business environment has been to build a small business strategy based on a business life cycle — selecting the best segment(s) for your products and...
business model. In addition, you should add a few more influencing factors such as external events (i.e., economic conditions and government regulations) and verticals.

However, the COVID-19 pandemic has changed the order of the recommendation because economic uncertainties (i.e., external events) and vertical industry have become more critical factors than the business life cycle. Thus, it is important to examine the economic environment in the local market at first, then evaluate vertical industries before looking into the business life cycle segment.

This research does not cover the differences of the economic impact by regions and countries nor the vertical market (see “Forecast Analysis: Enterprise IT Spending Across Vertical Industries, Worldwide”). Even so, it is safe to assume that almost all business segments across all regions are in a cautious spending pattern with an exception of very specific verticals. This trend will continue for at least the next two years.

After examining the economic environment and verticals, look at the business life cycle segments with the profiles that are best-suited for your small business segmentation.

Select the Right Segment(s)

After reviewing economic conditions in each region and vertical market, select the right segment(s) to target based on their business life cycle stage. Table 1 describes the characteristics of each segment.

<table>
<thead>
<tr>
<th>Life Cycle</th>
<th>Business Tenures</th>
<th>IT Requirement</th>
<th>Key Technology</th>
<th>IT Budget to Revenu</th>
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<tbody>
<tr>
<td>Startup</td>
<td>Less than two years</td>
<td>Basic technologies</td>
<td>Device (PC/tablet/smartphone)</td>
<td>Low</td>
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<td></td>
<td></td>
<td>Easy installation</td>
<td>Desktop application</td>
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<td>Ease of use</td>
<td>Telecom service</td>
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<td>Price conscious</td>
<td>Cloud (web hosting)</td>
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<td></td>
<td></td>
<td>No or limited internal IT</td>
<td>BI/analytics</td>
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<td></td>
<td></td>
<td>IT consultant or outsourcing</td>
<td>Industry-specific application</td>
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<tr>
<td>Life Cycle</td>
<td>Business Tenure</td>
<td>IT Requirement</td>
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<tr>
<td>Expansion</td>
<td>Two to four years</td>
<td>Scalability</td>
<td>Cloud (SaaS)</td>
<td>High</td>
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<td>Enterprise-proven technology</td>
<td>Digital marketing tools</td>
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<td>Value for money</td>
<td>Entry-level CRM</td>
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<td>Evaluation/pilot of new technology</td>
<td>Mobility (mobile device management)</td>
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<td>Balance between internal IT and outsourcing</td>
<td>Collaboration tools</td>
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<td>Basic security</td>
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<td>Advanced analytics</td>
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<td>Established</td>
<td>Five to nine years</td>
<td>Enhancement of current IT</td>
<td>Cloud (PaaS, hybrid cloud)</td>
<td>Mid/high</td>
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<td>Quality over price</td>
<td>Mobility (EMM)</td>
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<td>Vendor evaluation</td>
<td>Unified communications enhancement</td>
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<td>Formal technology budget</td>
<td>Security enhancement</td>
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<td>CIO role or trusted IT consultant/outsource</td>
<td>Advanced CRM</td>
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<td>ERP</td>
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<tr>
<td>Mature</td>
<td>10 or more Years</td>
<td>Cost optimization</td>
<td>Cloud infrastructure as a service</td>
<td>Mid/low</td>
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<td>Operation efficiency</td>
<td>Advanced security and risk management</td>
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<td>Upgrade/replacement</td>
<td>Business continuity technologies</td>
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<td>Occasional vendor/technology evaluation</td>
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Our general recommendation is to target younger companies as they are looking for new technologies to adopt and suppliers to work with. You can build a strong brand by helping young companies go through the most challenging time of their business journey. But the risk is that not many young companies, especially startups, can survive by their fifth year, so you may lose the customers you have invested in. But there are new businesses entering the market every year. You have new customers coming in while losing some customers. This rapid turnover makes the startup and expansion segments unique and dynamic.

In contrast, older companies, especially mature ones, already have established IT systems and long-term IT suppliers. Unlike CIOs in large corporations, they don't frequently evaluate their tech and suppliers. This makes it harder for newcomers to start building a relationship with an amateur company.

Under normal conditions, Gartner recommends the following best practices for choosing segments:

- Target younger companies (startup and expansion) if your goal is to build a long-term strategy to establish a strong brand position and can accept a low ROI in the short run.
- Target older companies (established and mature) if you own well-regarded brands or are price leaders in the market. In addition, target this segment if you are willing to spend a large marketing budget to steal market share from competitors.

In the current business environment, these rules have been shifted. It is better not to have a strong focus on startups because they are more vulnerable during economic uncertainty compared with other segments. Many startups are in survival mode even under normal circumstances as they strive to stabilize their operations and cash flow. Any economic blow will increase their financial instability, and many of them will be out of business or forced to stop their operations temporarily.
The best target is expansion (three to five years) and established (six to nine years) because these companies have relatively stable operations depending on their industry vertical. But they are still open to work with new technology suppliers, especially the expansion-stage companies. You can target maturity (10 or more years), but keep in mind that the companies in this stage already have a set of trusted business partners. They don't switch suppliers unless there is a big problem on the supplier side. One positive aspect of the challenging business environment is that many companies are reevaluating their spending. Consequently, if you can offer a value proposition that the competitors cannot provide, then you can win.

Select Company Profiles for Each Segment

After you have selected the segment(s) driven by the business life cycle, the next step is to select the company profile(s). There are many types of company profiles in the same segment; thus, it is important to understand the characteristics of the profiles.

Figure 2 provides eight company profiles that are based on the following assumptions:

- Good financial condition (in the normal economic environment, e.g., pre-COVID-19)
- Good business vision
- Sustainable business model

Figure 2. Small Business Company Profile
The key component of the company profile is its IT expertise. In each stage, there are two profiles — one with high IT expertise and one with low IT expertise.

For instance, in expansion, “leader” profiles have high IT expertise and have dedicated in-house IT personnel. They are looking for new technologies to grow their business and place a high priority on tech spending. In the same business life stage, the “opportunists” may have IT personnel but not necessarily dedicated employees. They are the conservative tech buyers and need to be convinced by trusted third parties, such as a technology consultant, to move forward with their tech purchase decision.

Technology expertise is a critical factor when you choose your target market. If your product is an emerging technology, it would be very challenging to sell it to company profiles that have low IT expertise. This is particularly the case in the maturity stage. For instance, “achievers” have a stable business operation and depend on external IT consultants for their resources. They are not willing to learn new technologies because they think that the adoption process will incur costs and risk.
Even though they have the buying power to afford new technologies, they are less likely to adopt new or even update technologies.

During challenging economic conditions, the best targets for providers would be small businesses that have high expertise. While many small businesses focus on protecting their cash flow during economic uncertainty, they consider technologies a strategic investment for their business operation. For example, some small businesses begin looking for alternatives to their human resources by evaluating business automation solutions. Others may seek to improve their business continuity plans to mitigate the impact of a future lockdown. In contrast, those who have low IT expertise will typically tighten their tech spending more than ones with high IT expertise. They will look for items they can cut from their budget. New tech adoption is a low priority during challenging economic conditions.

The best company profiles to target in this specific environment have high IT expertise as follows:

- **Leader** (expansion, three to five years of operation)
- **Groundbreaker** (established, six to nine years of operation)
- **Winner** (mature, 10 or more years of operation)

If these profiles are not part of the industries most impacted by COVID-19, they will likely remain employed through the economic downturn. Their high technology expertise is a strength and increases their value to an organization.

Among these recommendations, the “winner (maturity)” has much higher probability of avoiding layoffs compared with the “leader (expansion)” and “ground breaker established).” The winner profile has built equities over the course of a business journey that helps them to be more sustainable during economic challenges.

Here are descriptions of the profiles and our recommendations.

**Leader (Expansion Three to Five Years of Operation)**

Leaders work in young companies, but their operation is becoming more stabilized compared with the startup phase. Maintaining healthy cash flow is the No. 1 priority for them. In the meantime, they are thinking of how they can grow and expand their business. Some of them have developed their expansion plan. They believe that technology can play an important role to expand their business.

The economic downturn has made them extremely anxious about their future planning. Expansion plans are on hold, and new tech purchases or upgrades are postponed as they have become very cautious on spending.
As a young company, they are open to work with new tech suppliers and try new technologies. They will listen to you if you can offer what they need.

To target this profile, providers should:

- Focus on pricing such as offering a discount for first-time purchases and waving upfront costs.
- Become a resource center for business and technology.
- Emphasize messaging that says, “Let’s go through this crisis together.”

**Groundbreaker (Established Six to Nine Years of Operation)**

Groundbreakers are part of companies with a more stable business stage compared with a leader. They have maintained a steady customer base and started building equity with their executive leadership. Their IT infrastructure is also functioning effectively. They have a set of technology suppliers, though they may not have built trusted relationships yet. They are still in the evaluation phase of technology and suppliers.

The economic downturn has interrupted their relatively stable business in many ways. Tech and supplier evaluation has become critical to find the ways to save costs. Planned tech purchases or upgrades have been revisited for assessments.

To target this profile, providers should:

- Emphasize cost optimization rather than cost saving.
- Show a track record of your business practice with similar businesses.

**Winner (Maturity 10 or More Years of Operation)**

Winners work in companies that have maintained constant business for more than 10 years. Their business is stable and runs on IT infrastructure they have built through their operation. The hardest part of targeting winners is to compete against their existing technology supplier. However, the economic downturn can be a motivation for winners to reevaluate their technology suppliers. Unlike other profiles in this segment, Winners are interested in new technologies. They will adopt new technologies if they recognize the opportunity to improve their businesses.

Still, engaging a new business relationship with them is not an easy task. If you are an unknown brand or new brand, tackling this profile is very challenging. But if you have a strong brand or innovative product that offers significantly more value compared with your competitors, the winner is a good profile to target. Another advantage of this profile is that the market size is larger than two other profiles. Once they receive value from your products and services, they will stick with you, potentially for a long time.

To target this profile, providers should:
Prove the value proposition that your competitor cannot offer.

Focus on a post-COVID-19 strategy where technology can play an important role in redirecting and growing the business.

**Recommended by the Author**

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