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SMEs remain untapped by cloud service providers

28/05/16

SINGAPORE – A long-accepted fact is that digital transformation isn't just for big businesses, since small and medium enterprises (SMEs) can benefit from it too. This – without a doubt – is even more defined in Asia and the Pacific, where it is estimated that 98% of enterprises and over half of employment are provided by SMBs.



However – as was stressed at the 2016 NetEvents APAC Press and Analyst Summit – whether the “huge potential” of SMEs is being maximized remains questionable.

According to Camille Mendler, practice leader for SoHo and SME services of Ovum, big businesses may be at the forefront of cloud adoption, but “the real opportunity lies in transforming smaller businesses”, particularly since “a third of smaller firms are growing expenditure in mobile and cloud-related services.”

As per Ovum’s *2015 Telecoms Cloud Global Insights Survey*, the big challenge remains informing SMEs about adapting technology for growth, considering that “more than a third of businesses actually openly expressed their digital illiteracy, which – in turn – is harming their business; this is also even more defined among the very smallest of firms.

But that “smaller enterprises are gaining attention” is in itself a good development, said Mendler, particularly since 38.5% of the customer segment that offers the best growth potential are the SMEs.

SMEs IN FOCUS

In *SMEs in Asia Pacific: The Market for Cloud Computing 2015*, Asia Cloud Computing Association noted that SMEs represent over 90% of all businesses across 14 countries in Asia, employing approximately 1.02 billion people and contributing around \$10.9 trillion directly into the economies in which are based (49.1% of total GDP for the region).

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SMEs are also recognized to spend significantly on information and communications technology (ICT) even if majority of the ICT investment is still on traditional communications services, such as mobile voice, fixed-line and broadband. Obviously, growth was noted in expenditures in “cloud, virtualization, remote and applications services” – i.e. analysts estimated that SMEs spent about \$2 billion on cloud services in APAC in 2014, with the growth rate for cloud services pegged at 42%.

However, “these statistics all appear to underrepresent and underplay both the opportunity and the impact of cloud computing services on the SME landscape across Asia,” noted Asia Cloud Computing Association.

Asia Pacific SME Statistics

Economy	No. of SMEs	SME Employment	SME Contribution to GDP
Australia	2,076,068	7,241,000	55.70%
China	40,478,200	651,984,000	60.00%
Hong Kong	316,432	1,296,003	54.00%
India	36,200,000	101,200,000	6.20%
Indonesia	56,534,591	107,657,510	23.20%
Japan	4,115,830	65,280,000	53.00%
Malaysia	645,136	8,460,971	32.70%
New Zealand	468,100	584,000	42.00%
Philippines	816,759	3,872,406	35.70%
Singapore	407,298	2,460,000	50.00%
South Korea	3,351,404	13,059,372	47.30%
Taiwan	1,306,729	8,484,000	30.23%
Thailand	2,913,167	10,995,997	36.60%
Vietnam	242,453	32,505,242	40.00%

Top Three Potential Sectors for Adopting Cloud Computing by Market

Economy	No. 1	No. 2	No.3
Australia	Financial and Insurance Services	Property and Business Services	Professional, Scientific and Technical Services
China	Manufacturing	Information Transmission, Computer Services, Software	Wholesale and Retail
Hong Kong	Information and Communications	Real Estate Activities	Commerce
India	Wholesale and Retail Trade	Manufacturing	Textile and Accessories
Indonesia	Financial Institutions	Wholesale and Retail, Restaurants and Hotels	Transportation, Warehousing, Communications
Japan	Information and Communications	Transportation	Wholesale and Retail Trade
Malaysia	Transportation and Storage	Wholesale and Retail Trade, Repair of Motor Vehicles	Arts, Entertainment and Recreation
New Zealand	ICT Sector	Tourism	Financial Services
Philippines	Business Process Outsourcing	Technology Start-Ups	Retail Services
Singapore	Commerce (Wholesale and Retail)	Accommodation and Food Services	Property
South Korea	Financial and Insurance	Manufacturing (Electronics)	Info and Comms, Media and Publication
Taiwan	Information and Communications	Education	Manufacturing
Thailand	Telecommunications and Finance	Trade (wholesale and Retail)	Education
Vietnam	Commerce (Wholesale and Retail)	Banking and Financial Institutions	Tourism and Hospitality Services

Access Statistics

Economy	Mobile Penetration	Fixed Broadband Penetration	Wireless Broadband
Australia		26.00%	114.40%
China	88.70%	13.60%	37.10%
Hong Kong	238.60%	31.00%	
India	70.80%	1.20%	3.60%
Indonesia	121.50%	1.30%	
Japan	115.20%	27.80%	105.30%
Malaysia	143.30%	8.10%	12.70%
New Zealand	76.00%	30.00%	86.00%
Philippines	104.50%	2.60%	
Singapore	156.00%	211.00%	185.00%
South Korea	109.40%	37.20%	102.90%
Taiwan	127.00%	30.00%	77.40%
Thailand	144.40%	7.60%	
Vietnam	135.20%	5.80%	18.00%

IN FOCUS: PHILIPPINES

The Philippines is among the APAC countries where SMEs dominate. In 2011, 99.6% (or 816,759) of the country's 820,255 business enterprises were classified as MSMEs, employing 3.87 million workers (compared to 2.47 million workers employed by large enterprises). The SME contribution to the country's gross domestic product (GDP) for that year totaled 35.7%.

Helping SMEs adopt technologies has been a government strategy as early as 2008. In fact, even then, the intent was that by end-2016, the country's SMEs should already: 1) have 90% Internet adoption; 2) 60% have websites; and 3) 30% use e-commerce.

Asia Cloud Computing Association noted Philippine-specific key characteristics vis-à-vis ICT adoption for SMEs.

First is the "limited budget for IT products and services" so that "they choose to spend most of their resources on sustaining their day-to-day operations, for salaries, basic utilities and rent". If ICT-related investment happens at all, hardware accounts for the bulk of the spending (in 2014, this reached 76% of budgets). It is worth highlighting that "most local SMEs have minimal numbers of staff or completely no IT staff", and "the owners are the ones responsible for choosing the IT products and services".

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Aside from reliance on word-of-mouth marketing, there's also the preference for bundled services, so that telecom operators commonly offer "packages".

Philippine Enterprises by Employment and GDP (2011)

	Micro Enterprises	Small Enterprises	Medium Enterprises	MSME Total	Large Enterprises
No. Enterprises	743,250 (91.00%)	70,222 (8.60%)	3,287 (0.40%)	816,759 (99.60%)	3,496 (0.40%)
No. Employees	1,778,353 (28.00%)	1,642,492 (25.90%)	451,561 (7.10%)	3,872,406 (61.00%)	2,473,336
GDP Contribution	4.90%	20.50%	10.30%	35.70%	64.30%

Source:

Department of Trade and Industry, "MSME Statistics," 2014

MSME Categories

Category	Total Asset Value	Number of Employees
Micro enterprises	<P3 million	1-9
Small enterprises	P3 million - P15 million	10-99
Medium enterprises	P15 million - P100 million	100-199

Source:

Department of Trade and Industry, "SME Laws and Incentives," 2014

Philippines ICT Connectivity Statistics (2013)

	Mobile	Internet use	Fixed Wired Broadband
Date	2013	2013	2013
Total number	102,823,569	36,038,000	2,572,800
% penetration	104.50%	37.00%	2.61%

Source:

International Telecommunications Union (ITU), "Time Series by Country," 2013

HOW TO TAP SMEs

A look at the Philippines' SMEs offers glimpses of the difficulties that are now also the challenges that many cloud service providers have to contend with if they attempt to profit by responding to SMEs.

“One of the things we found... is that there is the opportunity for SMEs to leapfrog from going from having no technology at all to get all the IT services (in cloud),” said Cisco’s Bernie Trudel.

The basic step that needs to be taken, of course, is to educate and create awareness on the good that cloud can deliver to SMEs.

As Asia Cloud Computing Association stressed in *SMEs in Asia Pacific: The Market for Cloud Computing 2015*, there is a need for “carefully created educational and awareness tools that effectively explain the value of cloud services to SMEs, including simplified comparisons of total cost of ownership; marketing descriptions of the business value; and simple guides to product features.”

But mere educating won’t be enough sans provision of support for implementation, since “a dedicated SME cloud implementation team (can) facilitate the implementation process of transitioning an SME to a cloud-based solution”.

Trudel added that, at least in Cisco’s case, solutions being offered run the gamut of needs, “from infrastructure to software.”

The bundling (a.k.a. packages) is also an approach that is proving effective in reaching SMEs. For instance, in the case of Wedge Networks – which offers cyber-security services – “we sell bundles; we sell you broadband, for example, and also sell you security to ensure (safety when using broadband),” said Frank Wiener. But with this approach, basically, “you could pick and choose what you need.”

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While it is true that “cloud computing – and cloud computing technology – has the potential to be the ‘great leveller’ for both SMEs and developing economies,” borrowing the words of Asia Cloud Computing Association, Ovum’s Mendler is first to admit the “late inclusion of SMEs in cloud talks”, with the focus given more to big enterprises.

But this is expected to change soon as cloud service providers finally – finally! – see that they can gain much from also helping SMEs gain.