

Economics of SMB Go-to-Market Strategy

By David Waite
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Talk to almost any communications executive today and they will tell you that small and medium businesses (SMBs), or companies with fewer than 500 employees, are viewed as an increasingly important market segment. CLECs, cable providers, and incumbents are now competing aggressively for these customers. On the surface, SMBs represent a potentially lucrative market opportunity. They comprise more than 98% of U.S. firms and roughly half of all U.S. workers. SMBs spend in the range of \$70 billion to \$80 billion annually on voice and data services, or between \$600 and \$800 monthly per firm, on average.

However, SMBs are price sensitive and notoriously difficult to acquire and retain. Developing a cost-effective go-to-market strategy to address this disparate and geographically expansive market is not easy. Some providers have developed highly effective marketing and sales strategies differentiated on customer experience, price, and channel. They leverage standardized products and processes to streamline operations and improve profitability.

The common theme inherent in successful SMB go-to-market models is a level of standardization needed to profitably deliver high-quality value propositions and customer experience.

Demand Side

SMBs are hungry for simple bundles and straightforward pricing. For example, a single-site business with between 10 and 50 employees generally requires several voice lines, bundled LD minutes, internet access, some value added services, and possibly wireless voice and data service. Yet, they can afford to pay only between \$500 and \$1,000 per month for these services.

Customer economics are further aggravated by SMBs' propensity to switch providers for better deals or improved service. Churn is a key economic driver. Because SMBs' infrastructure requirements are relatively simple, lower switching costs make SMBs all the more difficult to retain. This makes SMBs particularly challenging to serve, and puts the onus on providers to develop differentiated marketing strategies and customer experience models that are compelling to SMBs both before and after the sale.

Supply Side

From the providers' perspective, serving SMBs profitably is a vexing challenge. They must align their marketing strategies with the economic realities of SMBs. Product and pricing simplicity is crucial. Providers must develop simple product and pricing strategies that are easy for the channel to sell and deliver, and easy for SMBs to understand and implement. Sales channels must include not only lower-cost phone, web, and VARs conduits, but also activity-based direct sales representatives that can enhance the customer experience and improve sales effectiveness.

Customer experience, or the activities of acquiring, servicing, and retaining customers, also is a key driver of customer economics. On the one hand, providers must work to improve customer profitability by streamlining these activities. On the other hand, they must avoid under investing in customer experience at the expense of higher churn. This tradeoff is at the core of an effective SMB business model.

Consider a solution priced at \$500 per month. Assuming recurring monthly costs of \$300, average churn of 3%, and desired customer lifetime margin of 30%, up-front customer acquisition costs can not exceed \$1,700, a tight budget for most providers. However, investments in product and pricing standardization, or in customer experience optimization, can make a significant difference. An investment of \$10 in monthly recurring customer retention costs, for example, that reduces churn by 1% would increase the customer acquisition "budget" by \$300, enabling more innovative customer acquisition strategies.

An in-depth understanding of customer economics is the foundation of success within the SMB market. Winning providers will adapt their go-to-market strategies and customer experience models to the economic realities of serving SMBs. Those who develop standardized value propositions and processes that can address the top needs of SMBs will profit from this attractive but increasingly competitive market opportunity.

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