

Fine Tuning Your Strategy During an Age of Uncertainty: *A Customer Segments View*

IDC Canada Webcast
November 19, 2008

www.idc.com

Fine Tuning Your Strategy During an Age of Uncertainty

Contrary to popular belief...the sky is not falling.



But, it is more important now than ever to focus on segment marketing strategies.

Overview

Tony Olvet

Vice President, Communications &
Segments Research



Fine Tuning Your Strategy During an Age of Uncertainty

Objective of this Webcast

- ✓ To help our clients refine their strategies for selling and marketing ICT by providing customer segment-specific analysis and guidance

Our Agenda & Speakers

- **Financial Services – Rob Burbach**
- **Government and Healthcare – Alison Brooks**
- **Small & Medium Business – Paul Edwards**
- **Q&A – the IDC team**



Why Take a Segmented View?

Magnitude

- Financial + government + health = 37% of business spend on ICT
- SMB = 41% of business spend on ICT

Uncertainty Varies

- Whether it is financial, economic, demographic or resource-related... “uncertainty” is being felt very differently by segment

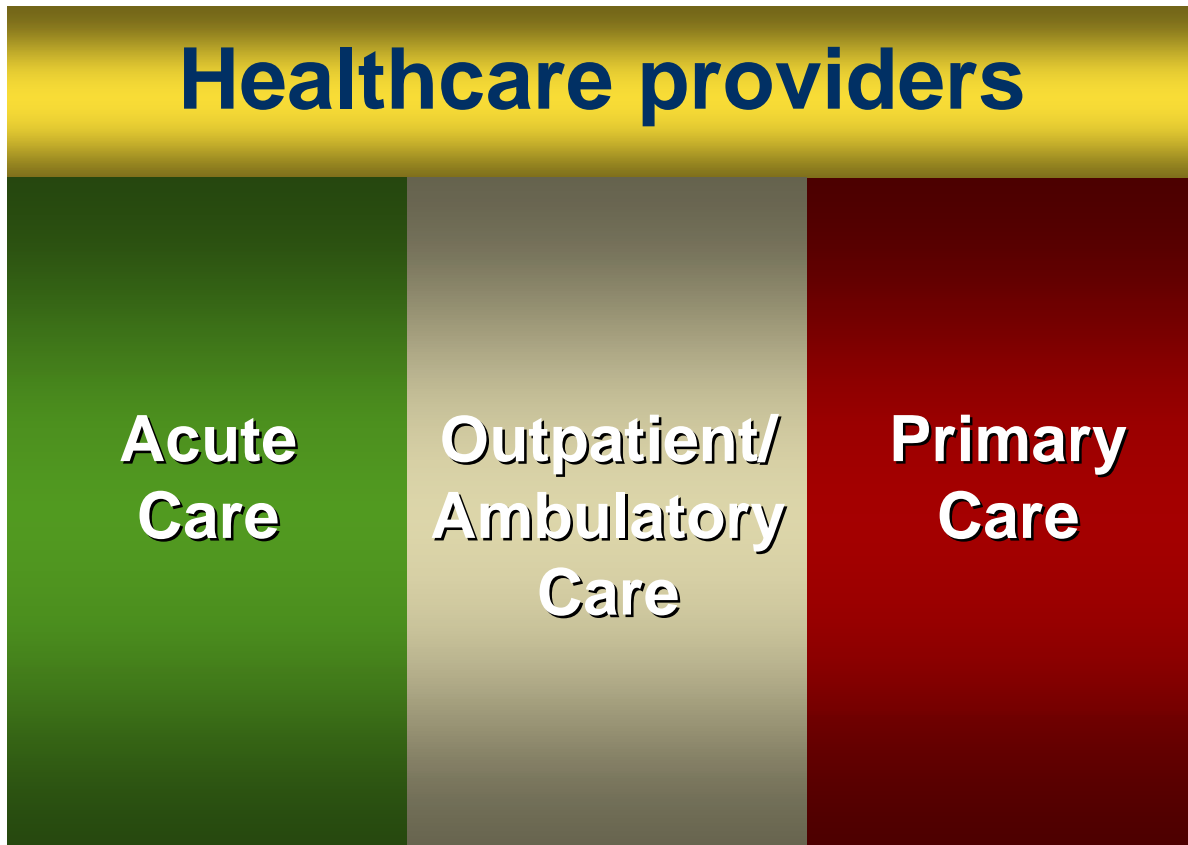
Strategy Differs

- ICT vendors can differentiate themselves by incorporating deeper insight from verticals or sub-sectors of the wider business market

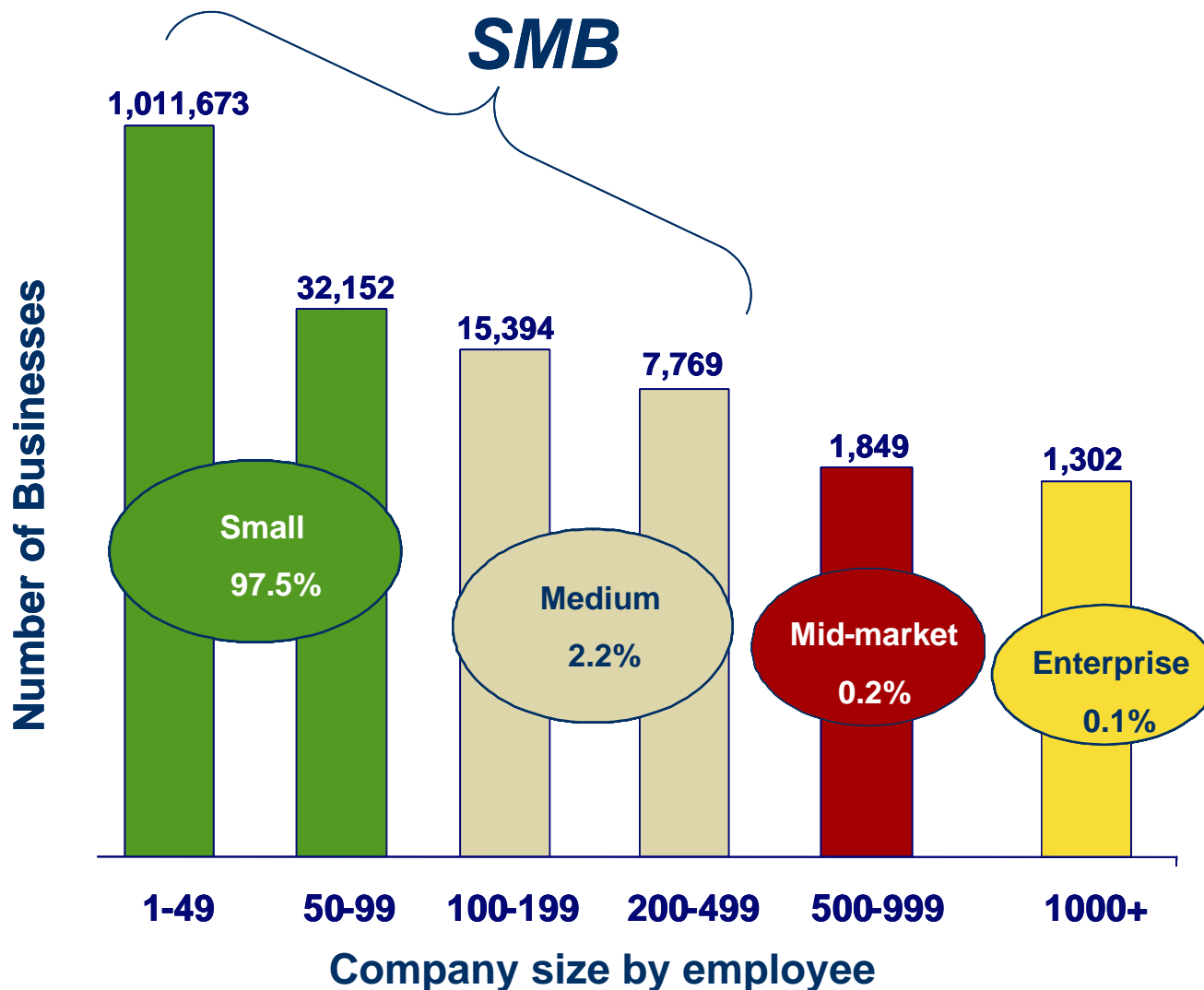
IDC Canada's Segments Research Coverage: Financial Services

| Segments | Sub Segments |
|------------------------|---|
| Banking | Big five banks |
| | Other banks, trusts, and credit unions |
| Insurance | Property and casualty insurers |
| | Life and health insurers |
| Capital Markets | Brokerages |
| | Wealth management firms |





IDC Canada's Segments Research Coverage: Small & Medium Business



Financial Services

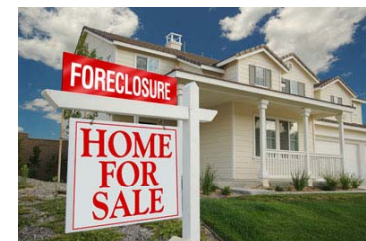
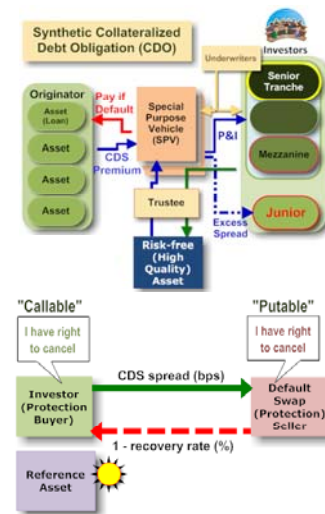
Rob Burbach

Senior Analyst, Financial Insights



1. An overview of the financial crisis
 - What to watch for in Canada
2. Implications and future for financial services in Canada
 - Capital markets
 - Banking
 - Insurance
3. Fine-Tuning Strategies In The Short Term
 - Financial Firms
 - Vendors

Sequence Of Events...



**Growing Economy
Wealth Effect**

**Increased
Homeownership
Speculation**

**Collateralized
Debt Obligations
Credit Default
Swaps**

**Economic
Slowdown
Overleveraged**

**Soft & Hard
Capital
Rationing**

Financial System

Expansion, competition, house values up, risk lapses, exotic securities, leverage, liquidity, insolvency

Human Nature

False wealth effect, increased consumption, money for nothing, record debt, bankruptcy

Governments Role

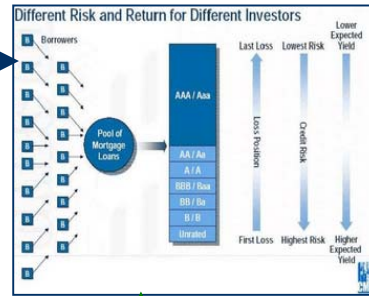
Low rates, Pressure on GSEs, lack of oversight, de-regulatory environment, capital pressure, bailout

Financial Crisis Cycle

Leverage



Higher Default Rates
Cash Flows with Securities



Mark to Market Losses to Equity
Stress on funding

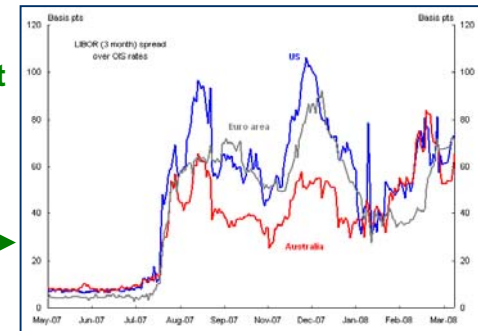
Bank Liquidity Issues
Bank Solvency Issues
Inter-bank Risk Aversion

Tax Rebates Stimulus

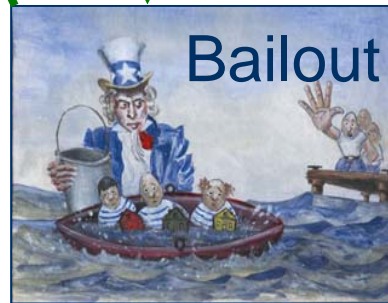
Securities Devalued

Direct Equity Investment in largest Banks

Guarantying Mergers Acquisitions Direct Lending



Layoffs - Payment Stress



Consumer Payment Pressure

Business



Credit Crunch
Liquidity Needs



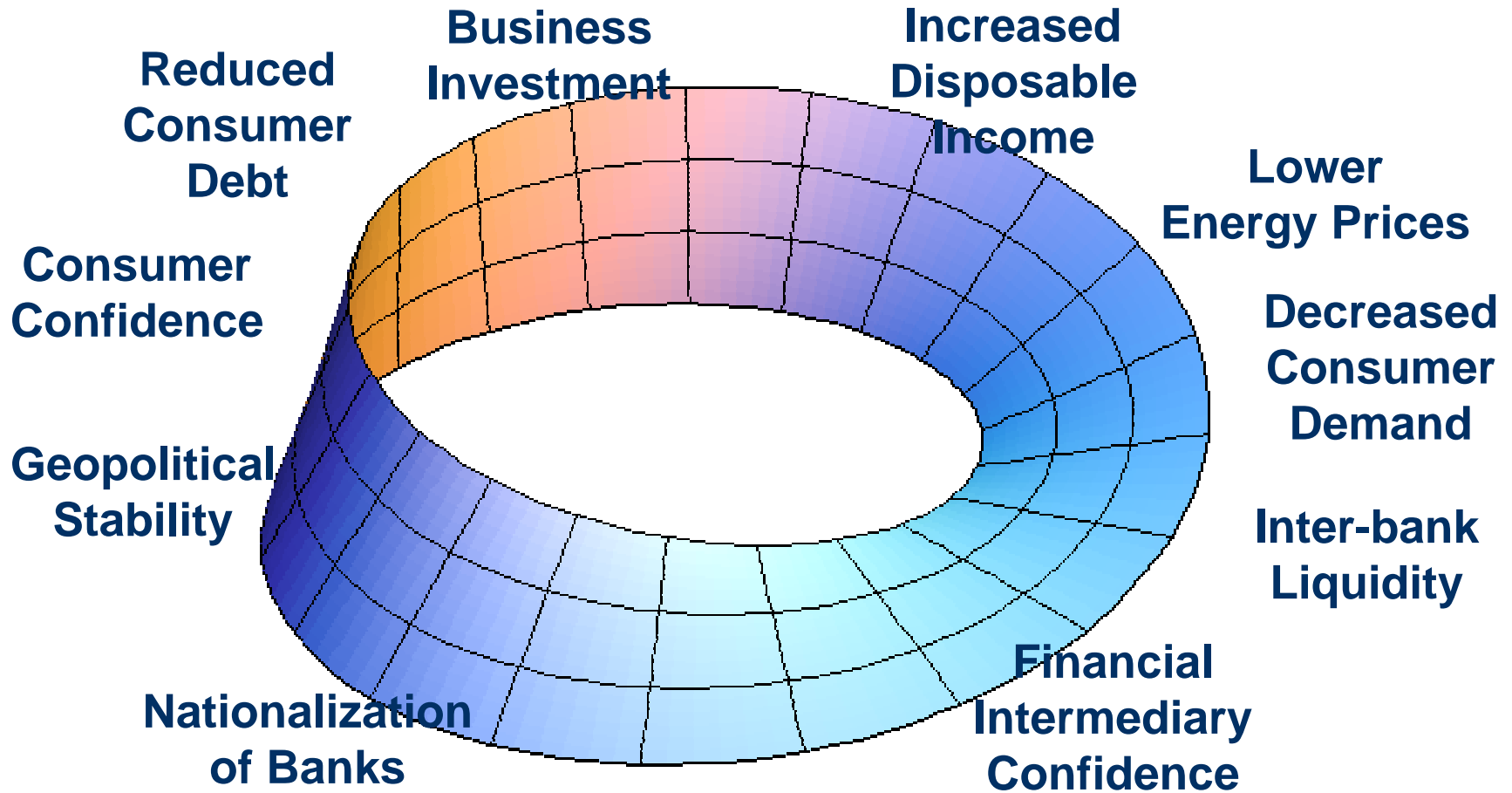
Re-alignment of funding sources

Working Capital Pressure

Lack of willingness & ability to provide short term funds

Equity Investments Mid-Tier Smaller Banks

What Issues Are Priorities?

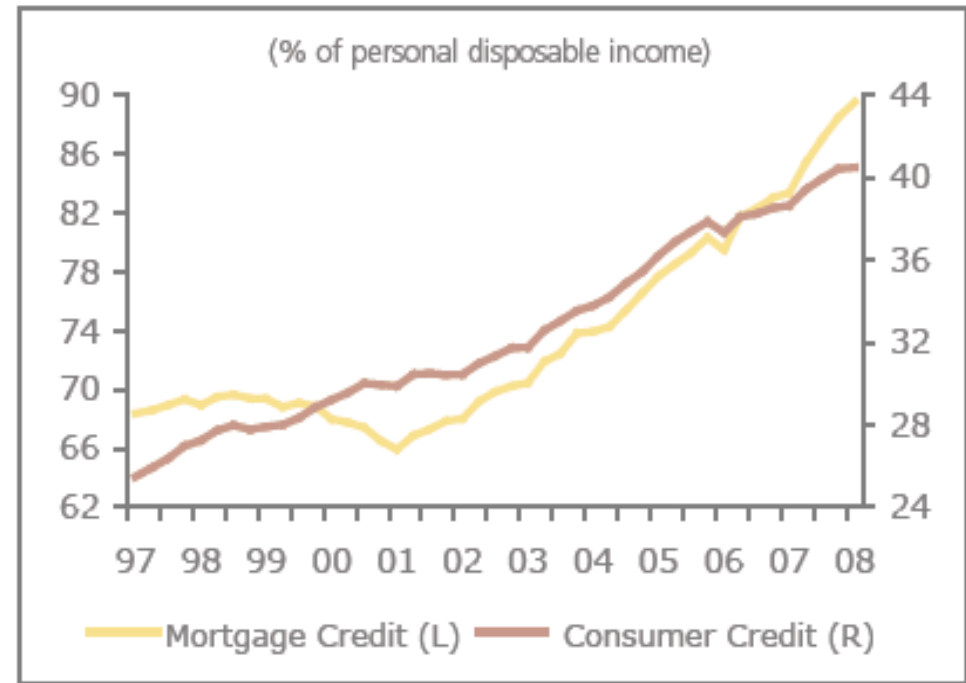


The Möbius strip is a surface with only one side and only one boundary component. It has the mathematical property of being non-orientable.

What will Canadian Consumers Do?

- Consumer spending accounts for well over half of total Canadian GDP. (56% of C\$1.6 trillion economy)
- Canadian consumers (like their US cousins) have expanded their overall debt loads.

Household Credit

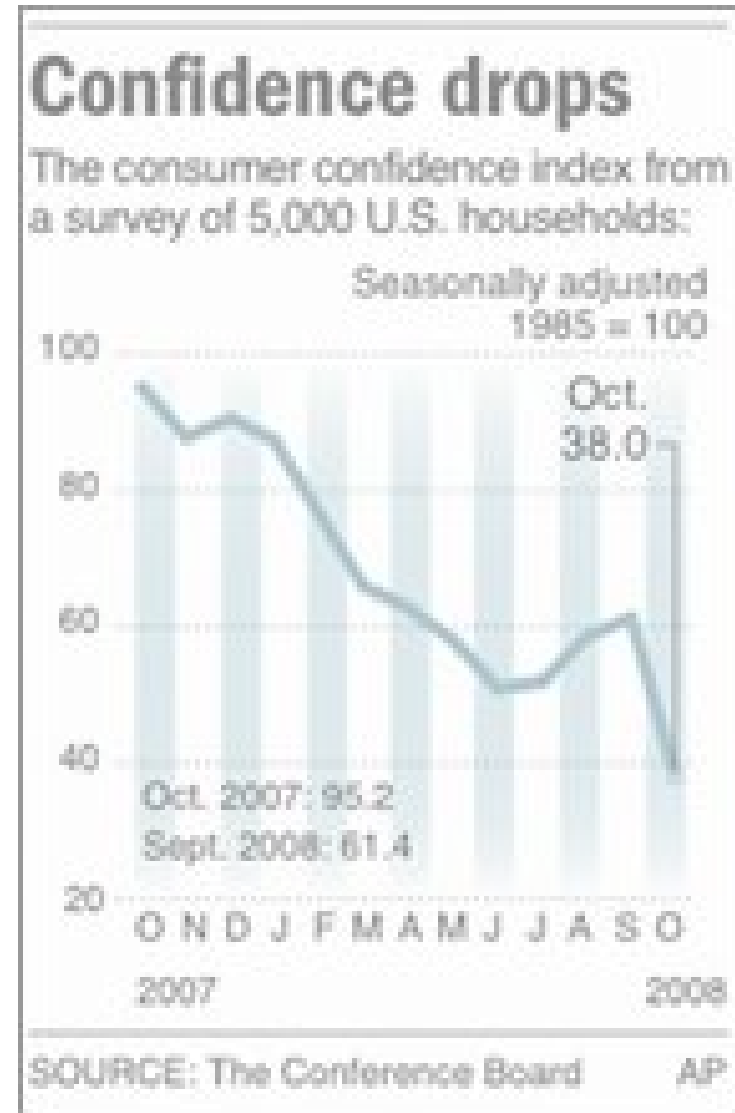


Source: CIBC World Markets

The Canadian retail franchise drives revenues and profits in banks, insurance, and wealth management.

Consumer Confidence is Key

- US consumer confidence has led to a dramatic slowdown in spending ... especially in consumer durables.
- The warning signs are there; Canadian consumer confidence fell 11.9 points in October 2008 to 73.9 – its lowest level since 1982.



Outlook for Capital Markets: Survival Mode

Reduced Revenue:

- For brokerages, financing and M&A activities have dried up
- For wealth management, reduced assets under management
- Reduced margins in future



Survival Mode:

- Layoffs in admin and IT staff
- New IT projects delayed or cancelled
- Looking for capital infusions



Regulation Changes:

- Likely to be greatly increased regulatory burden in 2009
- May be more than offset by the move to establish a national securities regulator in Canada



Rebuilding

- Focus on risk management
- New cost discipline coming to IT projects?
- Increased willingness to outsource

“Waiting”

- Big 5 cushioned somewhat by consumer “flight to quality”
- Lending to consumers is tightening
- Sub-prime, ABCP and PPI losses taken into account



The finger is on the trigger

- IT budgets have been set, but can be quickly changed
- Spending on new initiatives face higher hurdles



2009 Issues:

- Increased regulatory burden
- Acquisition of distressed assets in other countries?
- Focus to change to operational efficiency from revenue building



IT Initiatives

- Enterprise risk management
- Simplifying business processes & workflows
- New push to rationalize “utility” processes
- Moving IT spending off the balance sheet

Insurance in “Watchful Waiting” Phase

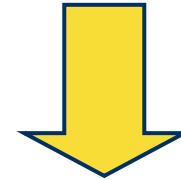
Questions Right Now

- Are the full extent of PPI problems realized?
- For wealth management arms, reduced assets under management
- How well capitalized?



Possible Retrenchment:

- Delays in hardware and new project spending
- Reduced IT labour



2009 Issues:

- Increased regulatory burden in 2009
- Much greater focus on operational efficiency
- Industry consolidation?
- Global acquisitions?



Moving Forward

- Focus on enterprise risk management
- Increased willingness to outsource
- Systems integration

Short Term Strategies: Financial Firms

- Organizational focus has changed from ways to generate new revenue to ways to operate more efficiently:
 - Tie improvements in business process efficiency to improvements in the customer experience.
 - Ask again what parts of operations add differentiating value and what parts are utilities.
 - In risk management, resolve how to fix inherently flawed models.

- Organizational focus has changed from ways to generate new revenue to ways to operate more efficiently:
 - Tolerance for risk is way down. New projects that get approved will limit downside risk.
 - There will be a flight to vendor “quality”. Vendors need to demonstrate “quality”.
 - There will be new opportunities for outsourcing projects that are capital intensive.

Watch Canadian Consumers in 2009



Government and Healthcare

Alison Brooks

Director, Public Sector Research



1. Whither Public Sector 2.0 Adoption?
2. Will This Wane?
3. What Is Catalyzing Adoption?
4. What Do Next Gen Organizations Look Like?
5. Where Can We Bank On Success?
6. Summary

Q. Where would you put your company in terms of Enterprise 2.0 adoption?

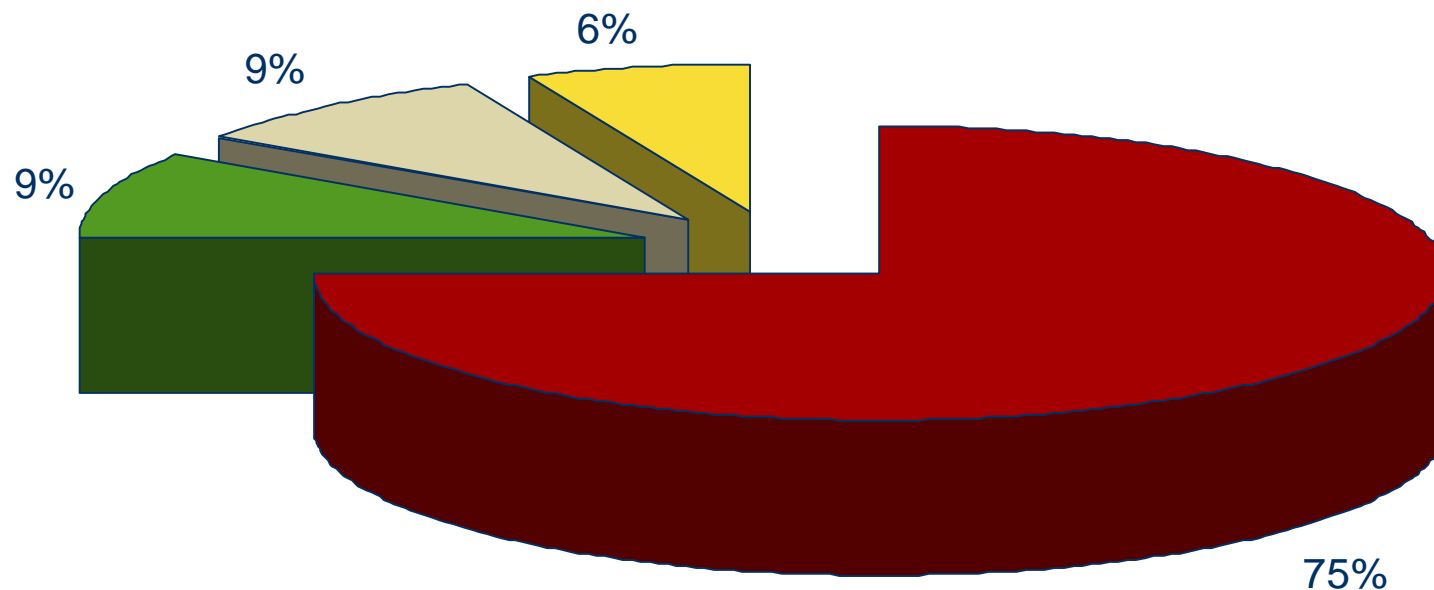
- ◆ Now?
- ◆ Where would you like to be in 6-18 months?



Source: IDC's European ICT Forum Survey 2007, n = 854

Public Sector IT Approach

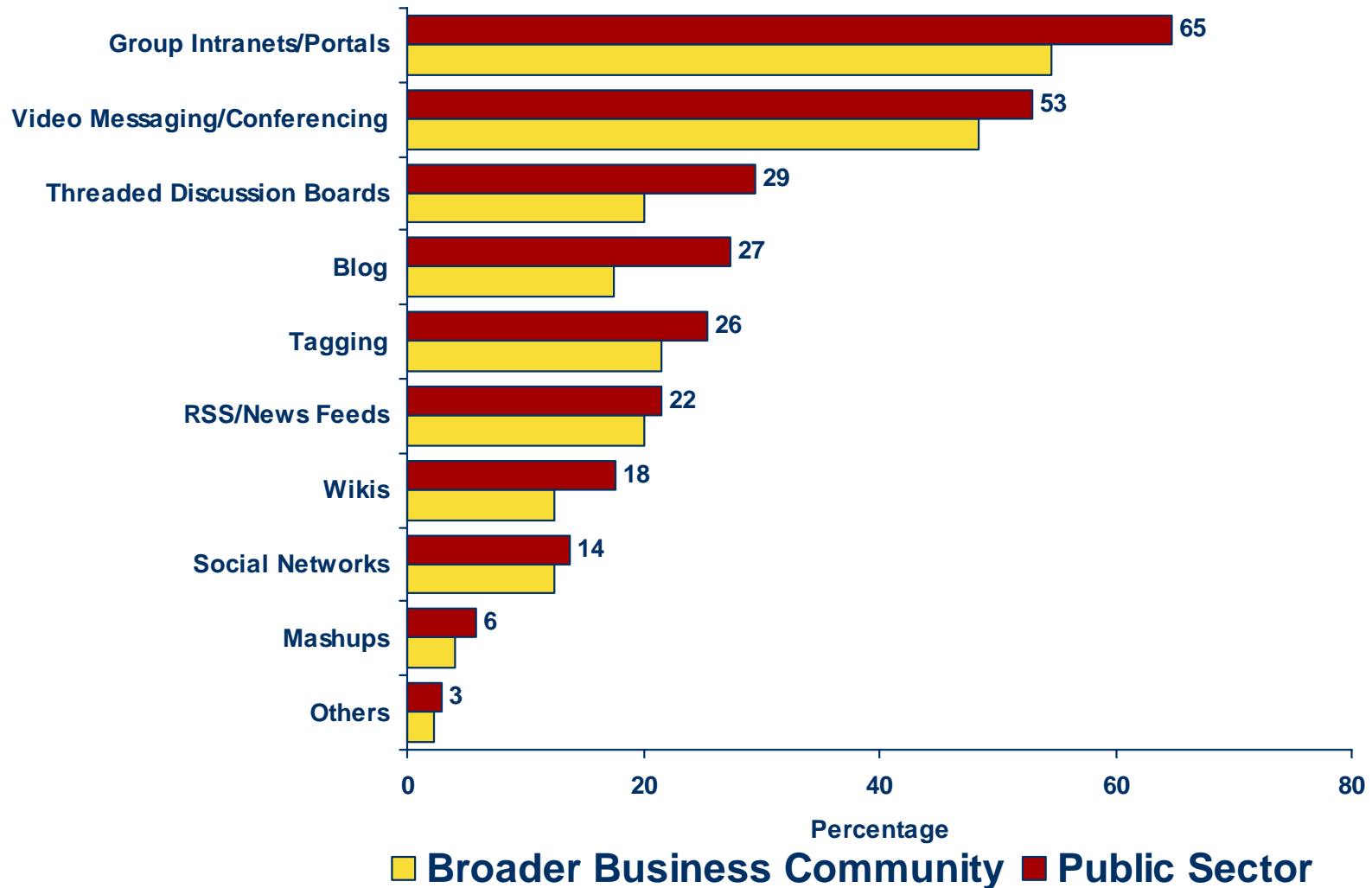
Which of the following best characterizes your organization's approach to IT investments?



- Focus on deploying proven or common technologies
- Focus our investments on commodity/necessary technologies
- Focus investments on stable but not yet proven or common technologies
- Focus investments on leading edge technologies

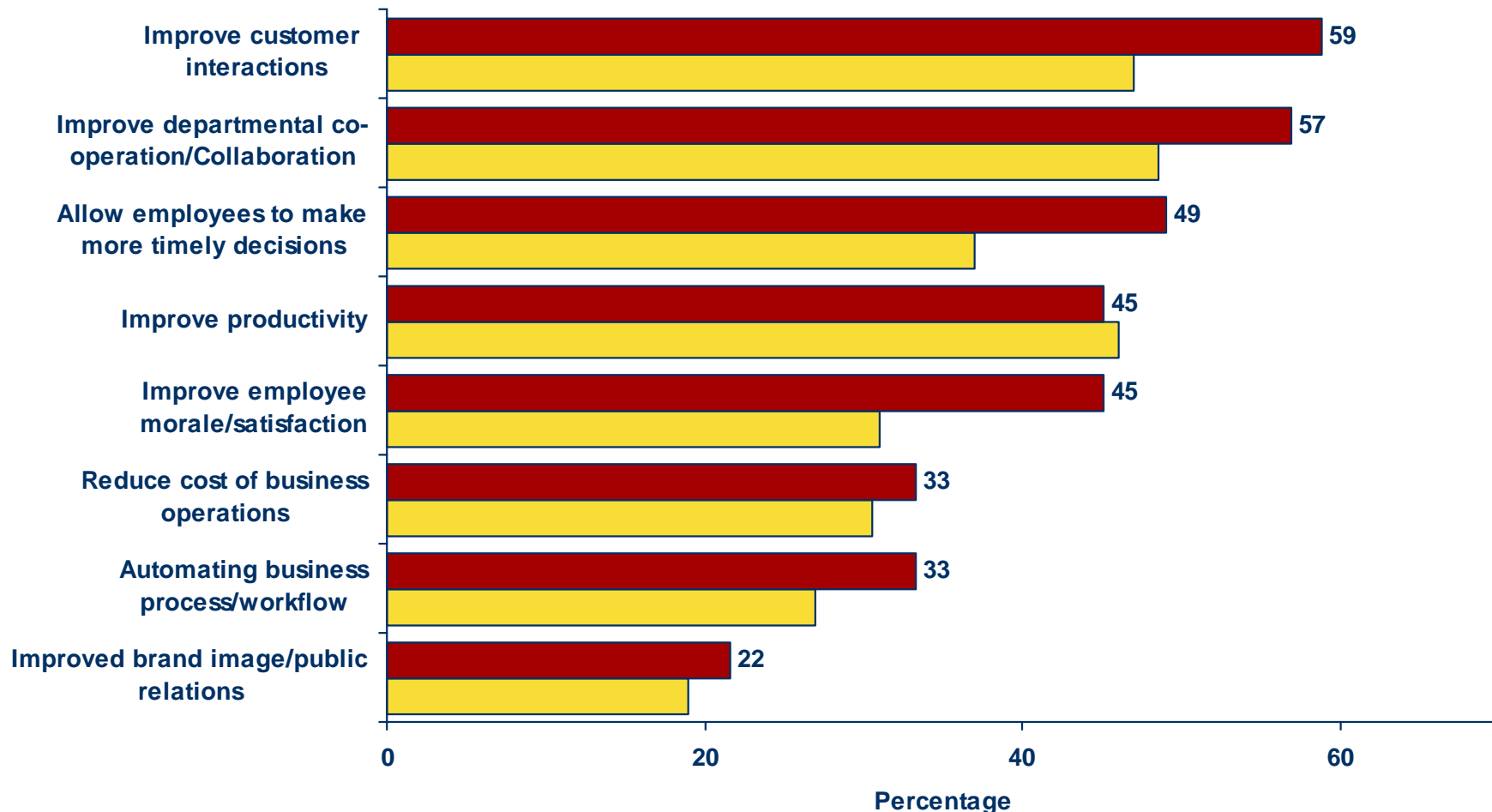
N = 128

Public Sector Leads 2.0 Adoption



What is the status of your organization's use of social networking/Web 2.0 technologies in the next 12 months? – Currently Using

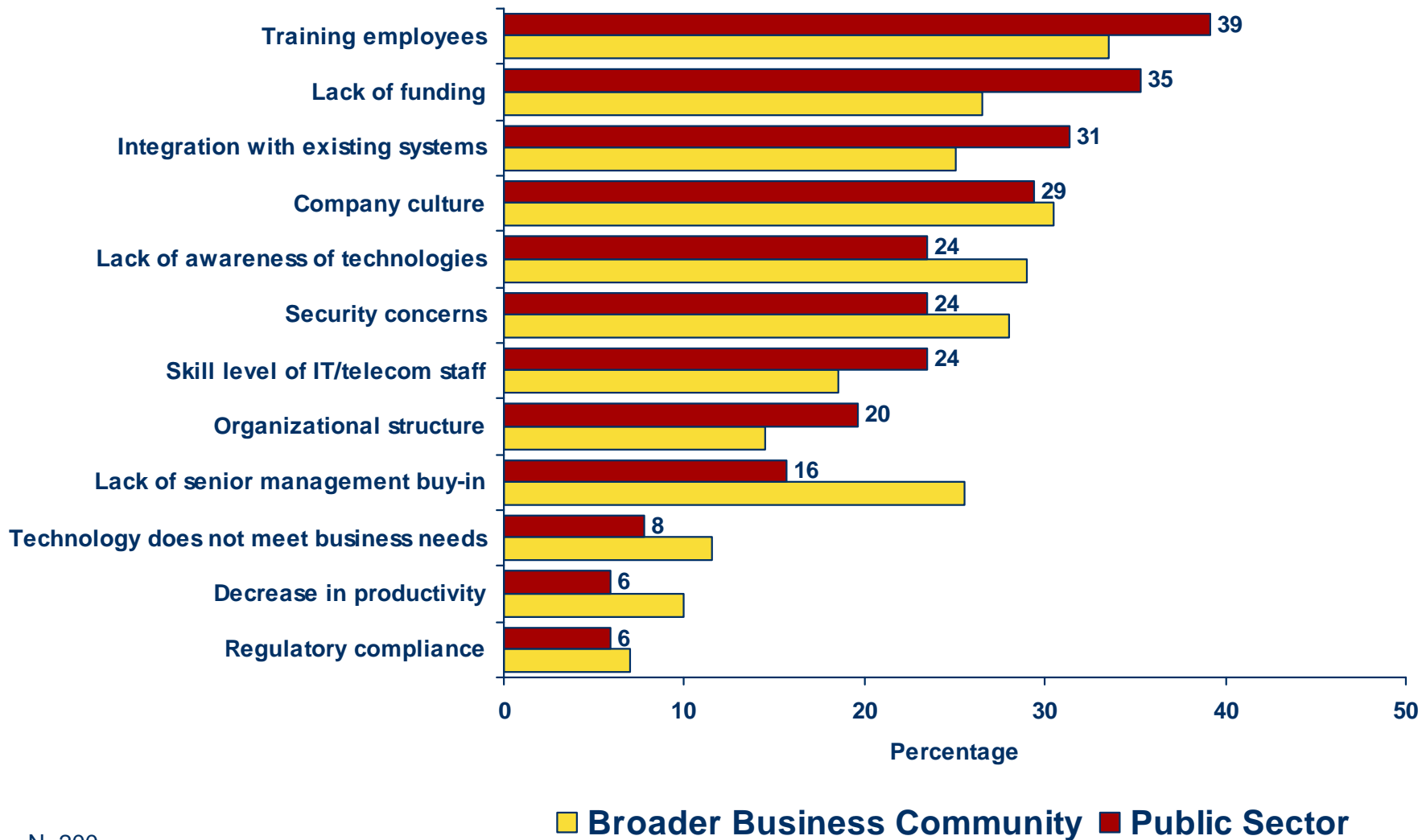
Better External and Internal Communications



 **Broader Business Community**  **Public Sector**

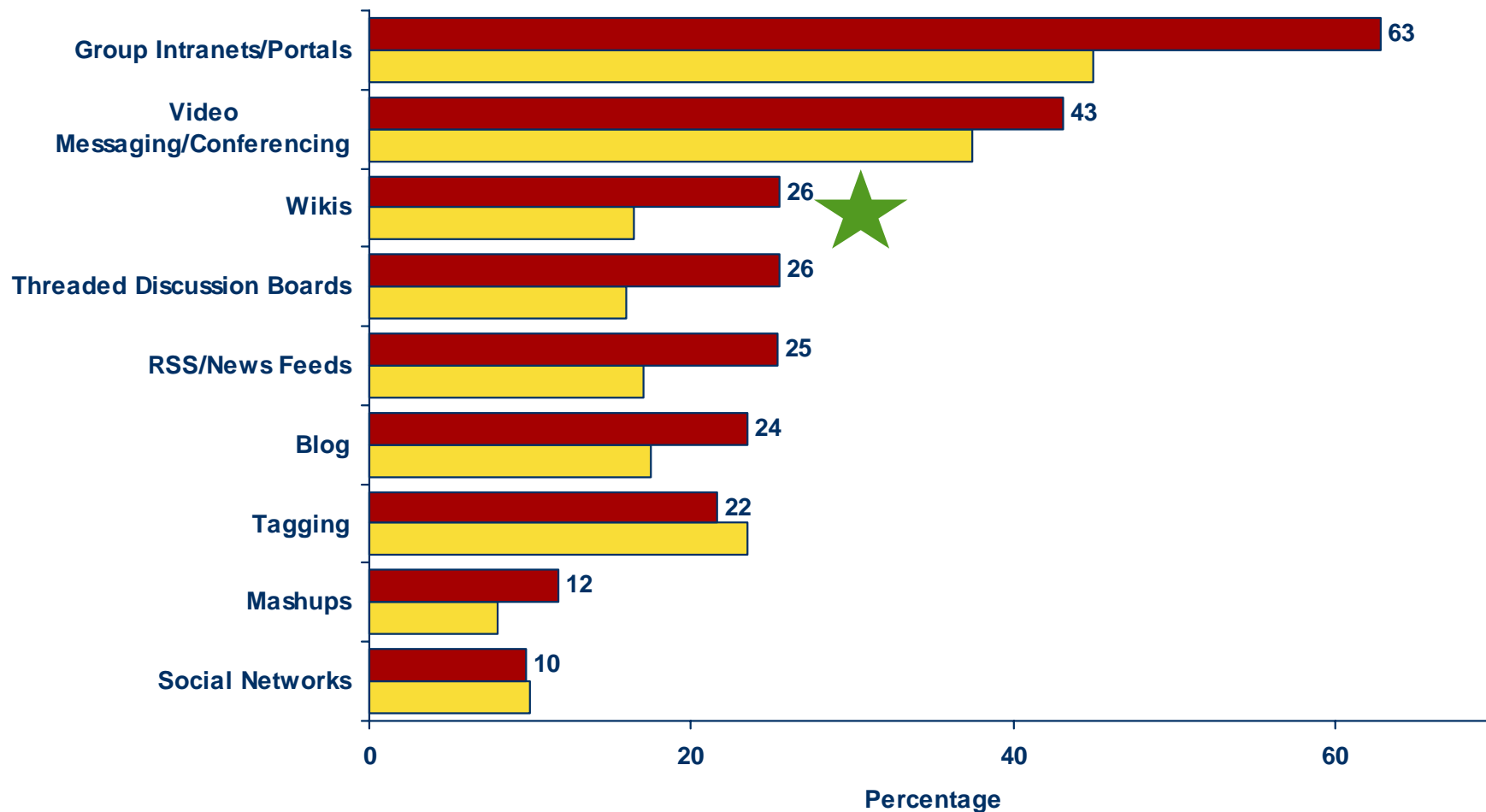
What do you consider to be the primary benefits of investing in social networking/Web 2.0. software? Please select all that apply.

Resource Challenges



N=200

What are They Planning to Adopt?



■ Broader Business Community ■ Public Sector

N=137: D01. What is the status of your organization's use of social networking/Web 2.0 technologies in the next 12 months? – Planning to implement



Tech-Identity Convergence



New Canadians



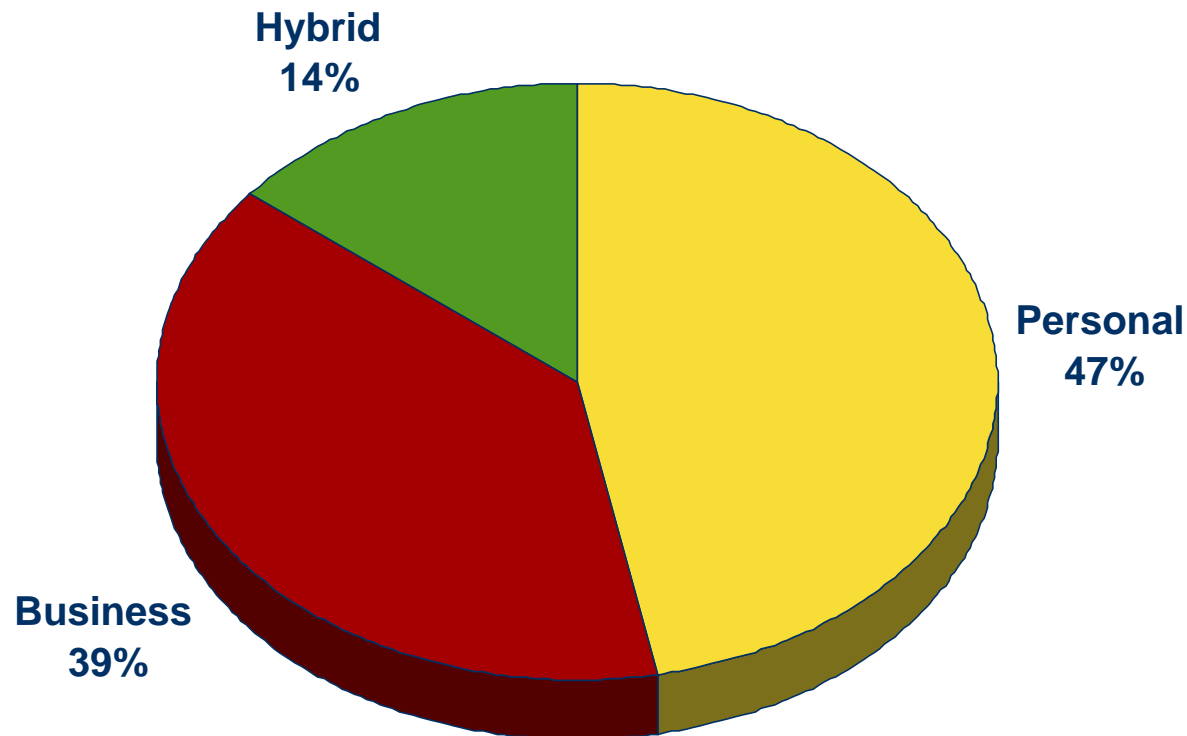
Youth



Mobility

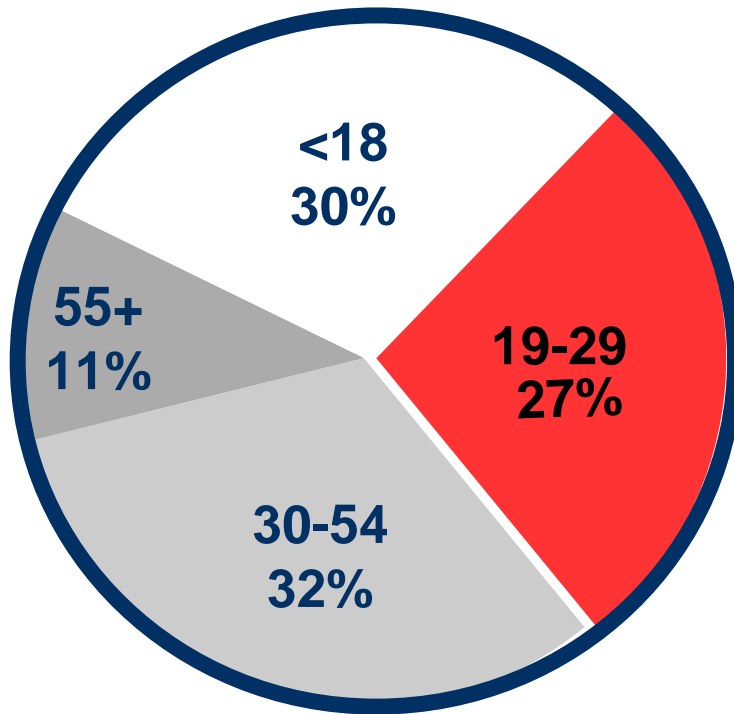


Q. What percentage of time on your blackberry is used for business and/or personal usage?

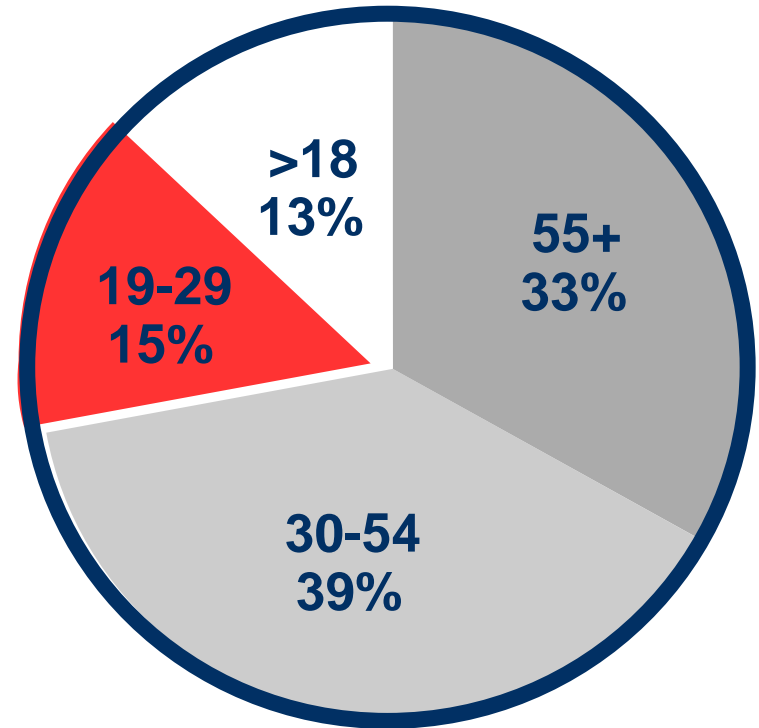


n = 1,781

Population Age, 2007



Private Sector



Public Sector

Source: WW Census Bureau, 2007

Youth (aged 18-24)



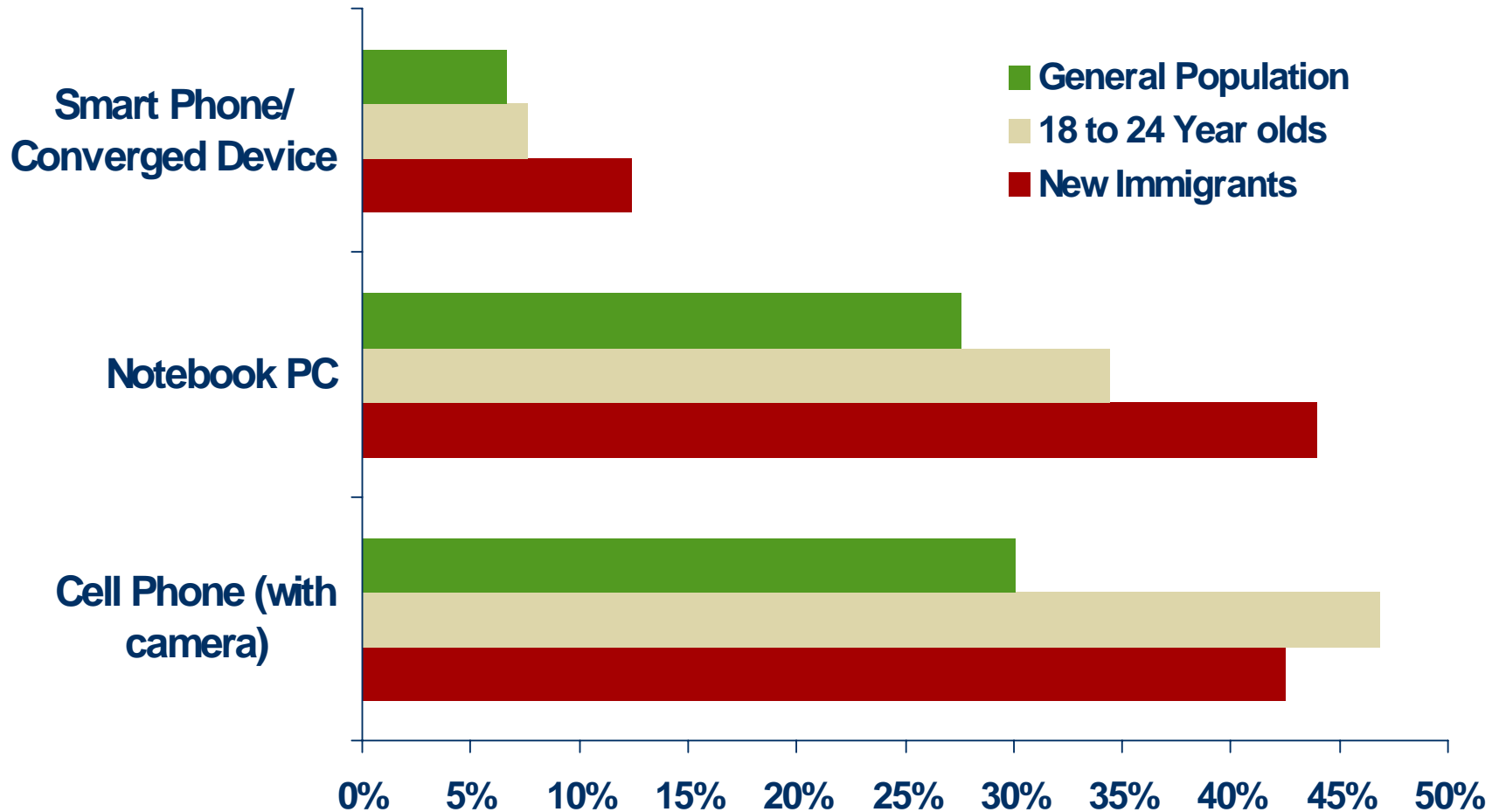
- Current and future workers
- Leading adoption of new technologies, especially wireless



New Immigrants to Canada

- Engine of Canadian population growth
- Filling demand for labour

Percentage Adoption of Key Mobile Technologies



Public Sector Successes



PatientsLikeMe

- Community Web site for patients (and their families)
- Basic data about amyotrophic lateral sclerosis (ALS) wasn't enough
- Needed first-hand patient accounts
- Centralized, personalized knowledge database
- Recognized in by Business 2.0 as one of 15 companies that will change the world



PHOTO: JOSHUA DALSIMER; WWW.XPLANE.COM

Second Life



Your World. Your Imagination.



- NOAA's Island of Meteora
- NIH has medical library, virtual hospital and wellness center
- NASA and CDC for citizen education
- DHS and NSF participate in virtual global conferences



- Strive to implement standards-based communications
- Think outside the cloud
- Accessibility and utility
 - Continue to strip the technology out of the utility
- Lead with the business case, not the technology hype
- Use Web 2.0/SN to supplement, mirror but not replace existing communication channels

- Work behind the scenes to drive uptake in 2.0 marketing
- Understand that 2.0 techs will support, enhance but not replace existing communication channels
- Include Health 2.0 in your web portal strategy to engage a broader range of stakeholders
- Keep the patient's needs in mind

Small & Medium Business

Paul Edwards
Director, SMB and Channels Research



Defining SMB Opportunities by Attitudes Agenda

1. Introduction:

- SMB segmentation in a time of constraint
- IDC's SMB cluster analysis
- Mindset questions

2. Findings:

- Defined cluster categories
- Value of cluster segmentation
- Profiling

3. Recommendations:

- Fine tuning strategies for Canadian SMBs

Introduction

Defining SMB Opportunities by Attitudes Segmentation in a Time of Constraint

- Tight economic conditions demand clearly defined end-customer segmentation strategies for targeting limited investment of marketing and sales dollars and resources.
- Small and medium business spending on Information and Communications Technology (ICT) is not wholly defined by size, the primary segmentation model used in the industry.
- Standard segmentation strategies need to be supplemented with other defining characteristics such as attitudes to ICT adoption and usage.
- Using a mix of characteristics provides a basis for the development of potentially higher-yield customer clusters or profiles.



Defining SMB Opportunities by Attitudes

IDC's SMB Cluster Analysis

- IDC Canada conducted a survey of small and medium businesses in Canada to perform a cluster analysis. Five clusters were identified based on attitudes toward usage and goals of ICT.
- The survey was conducted in Sept/Oct 2008, and included a total of 100 small (1-99 employees) and 103 medium (100-499 employees) businesses for a total of 203 respondents.
- The primary objective of this cluster analysis was to classify small and medium-sized businesses into relatively homogeneous groups based on common characteristics.
 - The number of clusters was not predetermined but was defined by the specified characteristics and the nature of the respondents.
 - The members of each cluster are relatively similar to each other and different from members of other clusters.
 - Relative agreement with eight statements determined cluster placement.



Defining SMB Opportunities by Attitudes

Mindset Questions on ICT



Investment Drivers/Outcomes

1. We invest in ICT to grow revenue.
2. We invest in ICT to manage costs better.
3. We are cautious in investing in new ICT.
4. ICT is an important competitive tool for us.

Internal Drivers/Processes

1. The Internet has really transformed the way we do business internally.
2. We prefer to delegate ICT implementation to others.
3. ICT represents a business expense that needs to be properly evaluated.
4. We tend to be decentralized in ICT and management decisions.

Findings

Defining SMB Opportunities by Attitudes Defined Cluster Categories



1. SMB 2.0

ICT is a competitive, strategic tool. Unafraid to invest in new technologies. Invest in ICT to manage cost and grow revenue. Centralized in ICT and management decisions.



2. Fast Follower

Invest in ICT to grow revenue and manage cost, and view it as a competitive tool. Least likely to invest in new technology. De-centralized in ICT and management decisions. Internet considered transformative.



3. Middle-of-the-Road

Delegate ICT implementations to others and don't consider it a competitive tool. Relatively decentralized in technology and management decisions, and invest in ICT more to grow revenue than manage costs.



4. Skeptic

Least likely to delegate ICT implementations to others, and relatively cautious in investing in new ICT. Consider ICT a business expense that requires appropriate evaluation, and invest in it more to manage costs than to grow revenue.

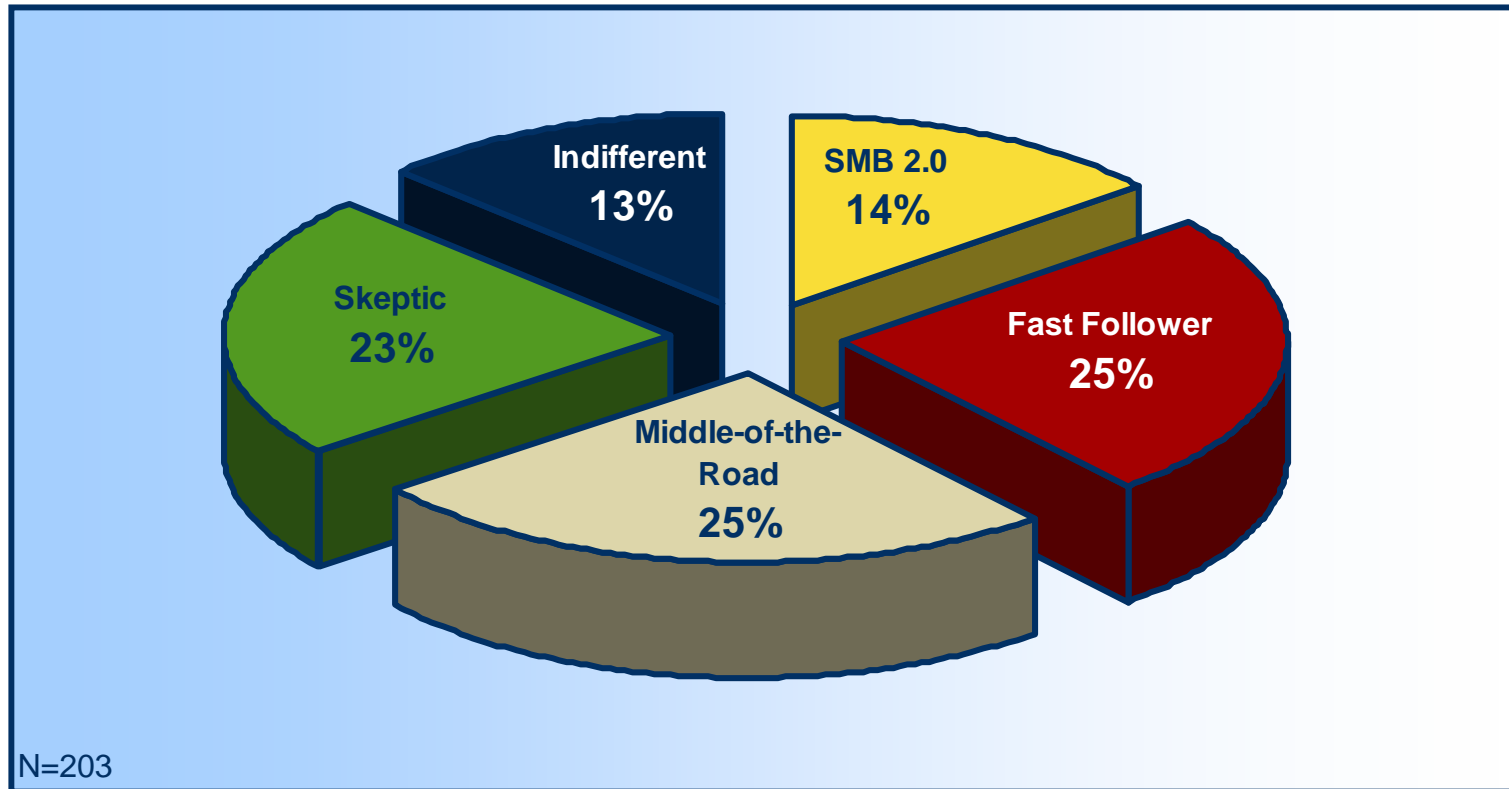


5. Indifferent

Least likely to consider ICT as a competitive tool or to invest in it to grow revenue or manage costs. Least likely to conduct appropriate evaluations of ICT before a major purchase.

Defining SMB Opportunities by Attitudes

Cluster Share of SMB Respondents

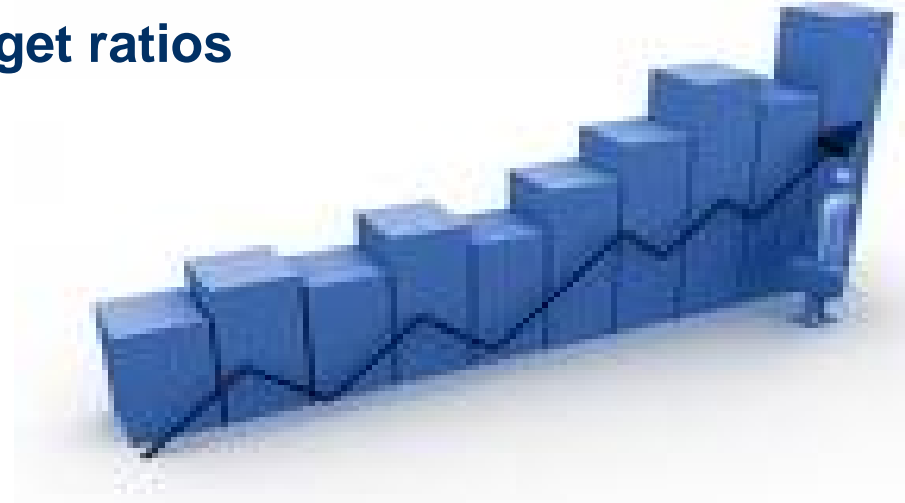


Defining SMB Opportunities by Attitudes

Value of this Type of Segmentation

Acts as a guide to higher-yield customers.

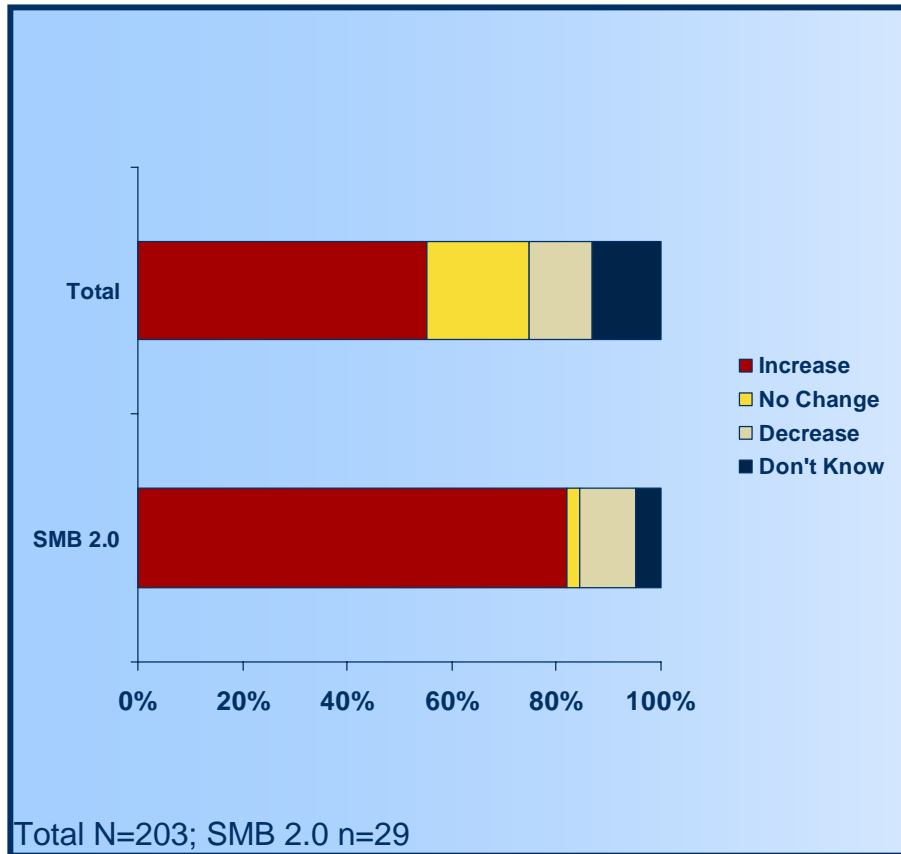
- **Helps separate the wheat from the chaffe in identifying small and medium companies that have:**
 - Higher than average revenue growth
 - Higher than average ICT budget growth
 - High revenue to ICT budget ratios



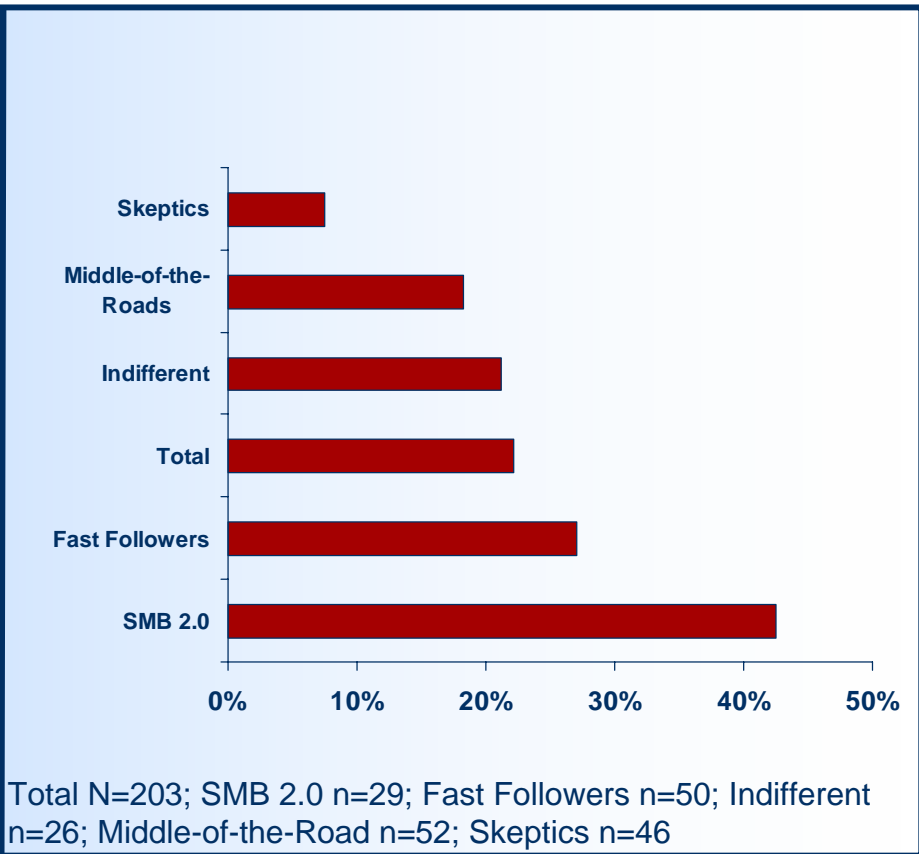
Defining SMB Opportunities by Attitudes

Cluster Profiling – Opportunity Mapping

2007 to 2008 Forecasted Revenue Change



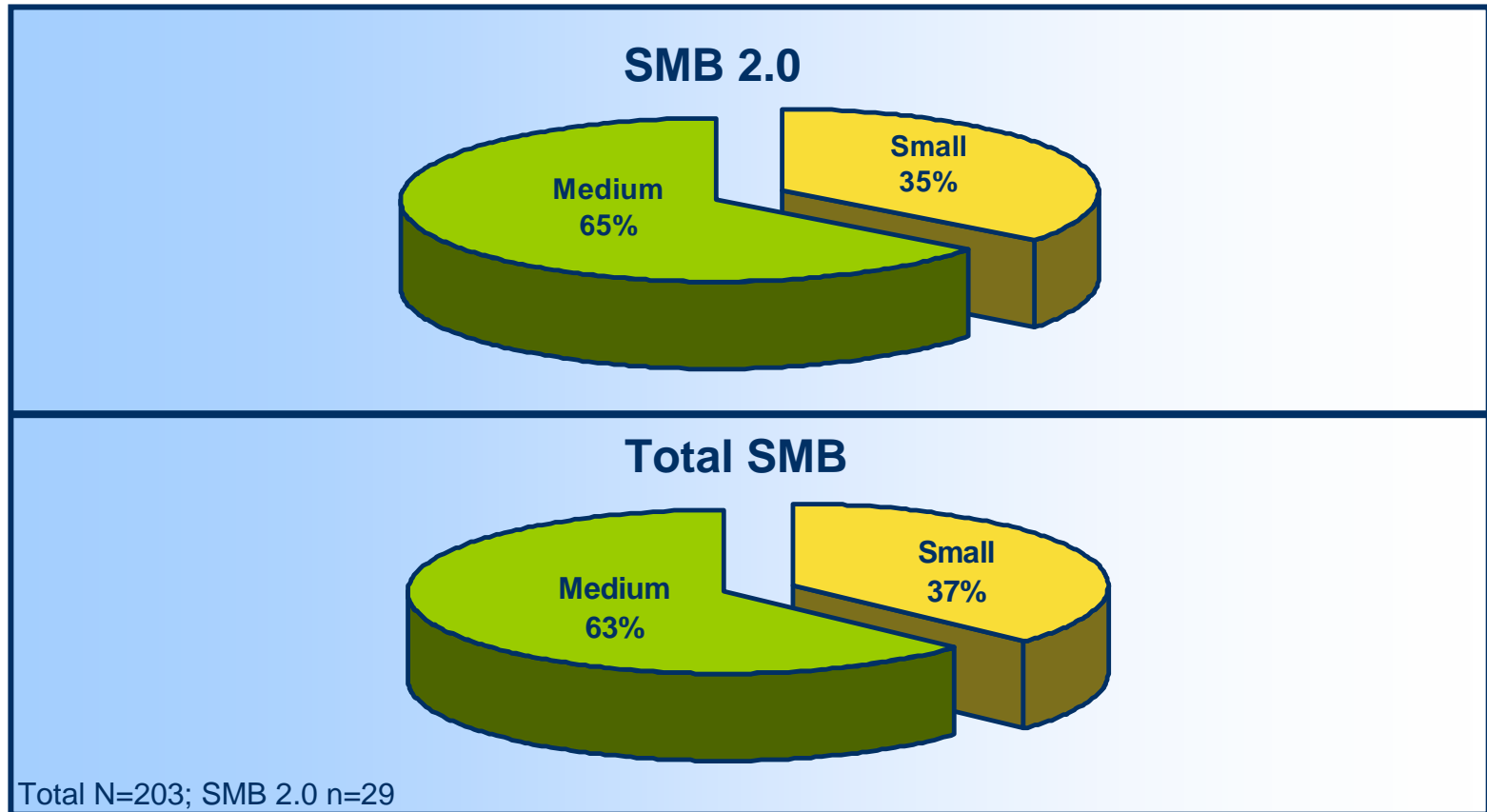
Revenue Growth **Greater Than 10%**



Defining SMB Opportunities by Attitudes

Cluster Profiling – Opportunity Mapping

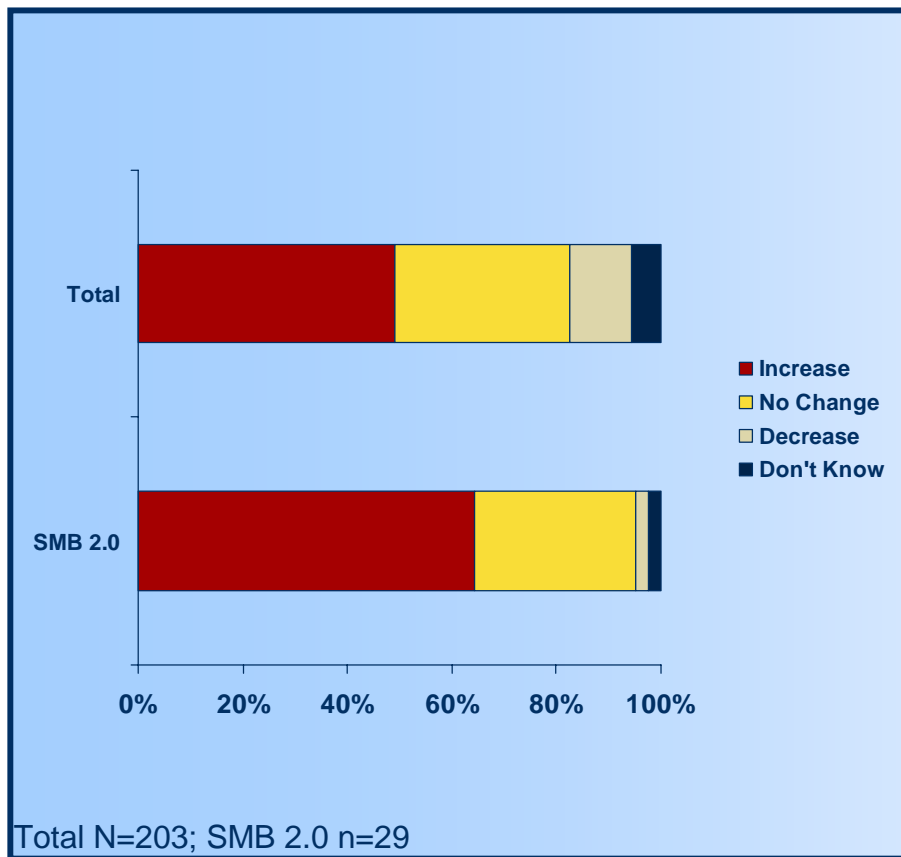
Ratio of Small to Medium Businesses



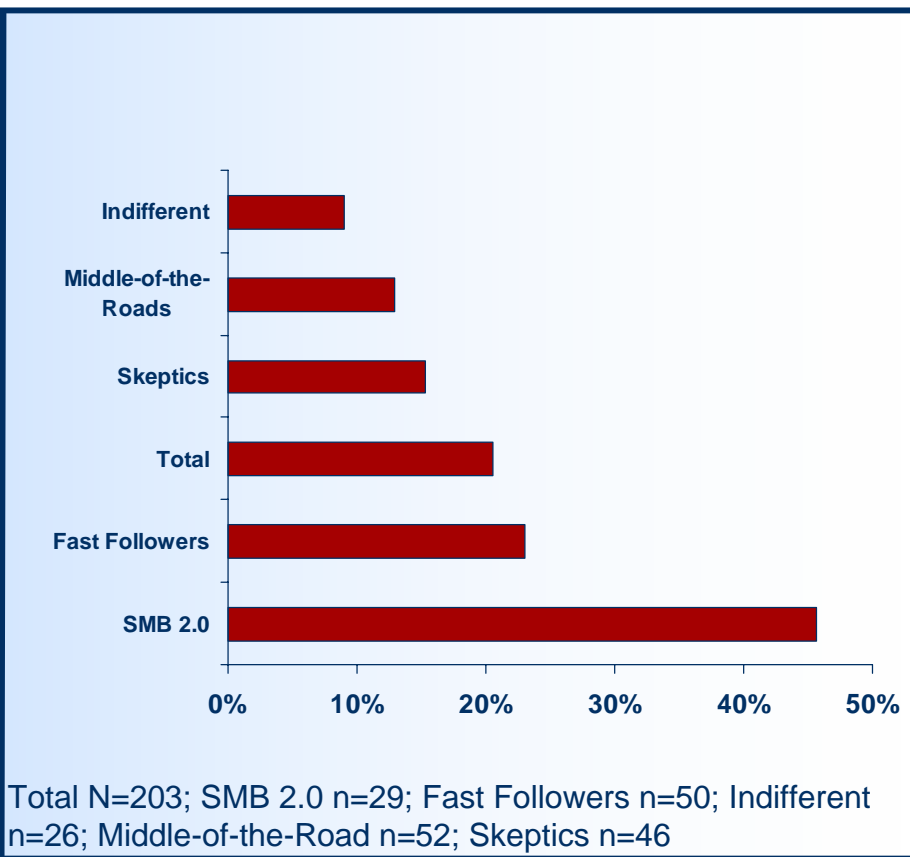
Defining SMB Opportunities by Attitudes

Cluster Profiling – Opportunity Mapping

2007 to 2008 Forecasted ICT Budget Change



ICT Budget Growth **Greater Than 10%**



Defining SMB Opportunities by Attitudes

Cluster Profiling – Opportunity Mapping

Revenue to ICT Budget Ratio

| | SMB 2.0 | Total |
|--------------------------|-------------|--------|
| Median Revenue | \$7.5 | \$17.5 |
| Median ICT Budget | \$350K | \$250K |
| Revenue/ICT Budget Ratio | 4.7% | 1.4% |

Total N=203; SMB 2.0 n=29



Recommendations

Defining SMB Opportunities by Attitudes Fine Tuning Strategies for Canadian SMBs

1. Review IDC's SMB cluster document being published in January – includes more detailed analysis, including buying behaviour by cluster within all ICT categories: hardware, software, IT and telecom services.
2. Cluster analysis provides guidance for marketing and sales beyond standard segmentations by company size. Use this approach, and IDC's findings, as a basis for the development of potentially higher-yield prospecting.
 - a) Supplement standard SMB segmentation strategies with mindset components.
 - b) Provide the characteristics defined through the clustering and profiling process to sales staff for qualitative identification of key prospects in the field.
 - c) Actively focus marketing and sales efforts on SMB 2.0 companies and the Fast Followers.
 - d) Work with industry associations where possible to identify member companies with appropriate mindset characteristics.

Closing Remarks

Tony Olvet

Fine Tuning Your Strategy During an Age of Uncertainty: Key Take-Aways

Financial Services → Promote technology's role in improving customer experience while being mindful of a new found focus on risk management

Government → Help tackle government's demographic challenges through thoughtful deployment of web 2.0 tools...but don't lead with the technology

Healthcare → Web 2.0 tools and services can play a supporting role in improving communications and efficiency in a sector that is still resource challenged

SMB → Now is the time to refine your segmentation and value propositions to go beyond company size-based approaches and uncover "SMB 2.0s" and "fast followers"

Mark your calendars!

**December 11, 2008
12 noon EST**



- IDC Canada's next webcast on **Dec. 11** led by **Vito Mabrucco** will provide deeper insight about spending and our Canadian ICT market forecasts

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Thank You for Attending

**Slides will be available to IDC research
program subscribers through IDC.com**