Purchase decisions - quality of product or service the SME Holy Grail?

Price is not the main factor affecting information technology purchase decisions of small to medium enterprises. Rather, these companies look for quality of product or service first. That was according to the interim findings of the SME Survey 2006, the fourth annual study of SME competitiveness, which were released end of June 2006 as the study of 6000 decision-makers reached its halfway mark.

Sponsored by Standard Bank and Oracle, the SME Survey provides valuable insight into the local SME sector.

According to Arthur Goldstuck, principal researcher of the survey, of the 3700 SME decision-makers interviewed so far at that point, 84% say that quality of the product or service is a prime consideration in making an IT purchase; reliability or a lack of downtime came in second at 79%, and only then price, at 75%.

"These findings indicate that the common view that price alone is the main deciding factor for information technology purchases, is not quite true. It also demonstrates just how reliant the SME is on information technology for effective functioning," says Goldstuck.

Importance of price

Nevertheless, the importance of price appears to have increased dramatically in the three years since the 2003 survey, when only 61% of 5900 respondents said it was important.

"This is partly an indication of the heavy emphasis on cost reduction among small businesses, as well as the fact that it is difficult to differentiate between the quality of competing products in the IT environment. It appears that quality and reliability are the primary criteria but that, should all competing products be on a par, the decision will be based on Price and Relationship, which 71% of respondents rated as important," Goldstuck explains.

Andrew Krause, Oracle applications director, says these findings indicate that vendors serving the SME market must match product quality with sales and support service.

"Competition in the database and applications space is fierce, even with the consolidation led by Microsoft and Oracle," he says – referring to Microsoft's acquisitions of Great Plains and Navision, and Oracle's acquisitions of JD Edwards, Retek, Peoplesoft and Siebel, among others.

"Successful vendors must acknowledge that quality product is the minimum requirement to gain entry into a demanding and increasingly sophisticated market – and with the SME environment being a [geographically] distributed one, a well-trained and equipped channel is essential to deliver the technology solutions required."

Strong correlation

The survey drilled down further into these numbers, to establish whether the criteria changed for specific categories of IT, such as database software. The interviews conducted so far indicate that there is a strong correlation between general IT purchasing criteria and database purchasing criteria, with criteria ranked in the same order, although percentage of respondents ranking each criterion as important decreases. Goldstuck says in terms of databases, quality receives an 82% importance rating, reliability 75%, price 73% and relationship 66%.

In contrast to large enterprises which tend to have established procurement policies in place, the criterion ranking rock bottom for both areas of purchasing in the SME environment is company procurement policy, with only 35% of responders rating this as important in making either an IT or a database purchase decision.

Notes Goldstuck: "This is partly an indication that company procurement policy has not been implemented in most SMEs. This in turn would mean that an IT purchasing strategy requires an overhaul in the SME environment, in order for these companies to get the most strategic benefit from their IT investment."

The final results of the SME Survey 2006 were released in September, after the completion of 6000 interviews with SME decision-makers.

For more information, go to www.smesurvey.co.za.