DEMAND FOR BDS
(BUSINESS DEVELOPMENT SERVICES)

MARKET SURVEY AND ANALYSIS

FINAL REPORT

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1. INTRODUCTION

1.1 SCOPE AND OBJECTIVES

1.1.1 Scope and definitions

– *Scope of the survey*

The scope of the survey included visits and thorough interviews with 760 micro- and small scale enterprises about their needs in business development services as well as their BDS using experience, perceptions about usefulness and awareness, affordability of services, most important factors to become BDS users, willingness to spend certain amount of money for BDS, among others. The results have been used to estimate the general situation with the demand for BDS in Armenia.

– *Terminology*

MSEs. Micro- and small-scale enterprises are defined as those having up to eight and twenty-five employees, respectively. Generally, this definition is consistent with that provided by the Armenian legislation on small and medium-sized entrepreneurship (effective since 2000) with a reservation that this study included visits and interviews with microenterprises *not registered* with the government registry. Another characteristic of MSEs is that usually they are owned, controlled and managed by one person; in many cases they have only one employee – the microentrepreneur.

BDS. The term *Business Development Services* (BDS) refers to any non-financial service consumed by a firm or individual entrepreneur to support business functioning or/and growth. It assumes provision of information, knowledge, skills or advice on various aspects of business activities to help business owners and managers obtain new ideas on potential improvement of various aspects of their businesses. Examples of BDS would include accounting services, business training, technical consulting, management support services, marketing (including packaging, product design, and distribution logistics), internet and computer services, courier and advertising.

BDS markets. *BDS markets* encompass business services providers (either self-financed or externally funded), BDS consumers (private firms or microentrepreneurs) and the actual provision of services.

BDS providers. *BDS providers* or *BDS suppliers* (also referred to as BSPs – business service providers) are those entities that directly render business development services to MSEs. From the ownership and control perspective, they may be fully privately or partly publicly owned. One BDS supplier can provide more than one BDS and, oppositely, a firm not specialized in BDS provision can occasionally provide BDS.

1.1.2 Survey objective

The primary objective of the BDS demand survey was to identify which products and services are in demand in order to develop a sustainable market for BDS that serves MSEs in Armenia.

The primary target audience for the study includes:

i) **existing BDS providers**, which can use the information about the market size, constraints, and perceptions of their actual and potential BDS users;

ii) professionals who think of entering the BDS market to start supplying services, which can look at the level of satisfaction from the existing providers and services as well as make more accurate judgments on where and how to penetrate the market, with what type of services and whom to target, and

iii) donor community that can better estimate the volumes and priority areas for potential support/cost sharing of BDS services

1.1.3 State of BDS in Armenia

The fact that Armenia has been transitioning from a command economy to market-based environment had a restraining effect in terms of slow conversion of the mentality from the situation where the State was the only employer to facing risks related to entrepreneurship. Poor access to credit and technology, lack of basic business skills have been important barriers to a faster growth. In this context, the crucial role of BDS for the private sector development has so far been underestimated by potential consumers and providers of BDS. In the first half of 2004, the USAID-funded MEDI (Microenterprise Development Initiative) project initiated a study of BDS supply, which identified a deep gap between the available supply and underdeveloped demand for BDS perceived by the BDS suppliers. In order to help BDS providers and donors to have complete information about this gap and possible ways to bring it down, MEDI initiated the first comprehensive study of BDS demand. Alongside with the BDS demand study, the selected implementing team[1] was requested to concurrently conduct the survey of the demand for microcredit products.

1.2 LOGICAL STRUCTURE OF THE STUDY

The logical structure of the survey of demand for business development services is presented in the diagram below:

[1] Alpha Plus Consulting

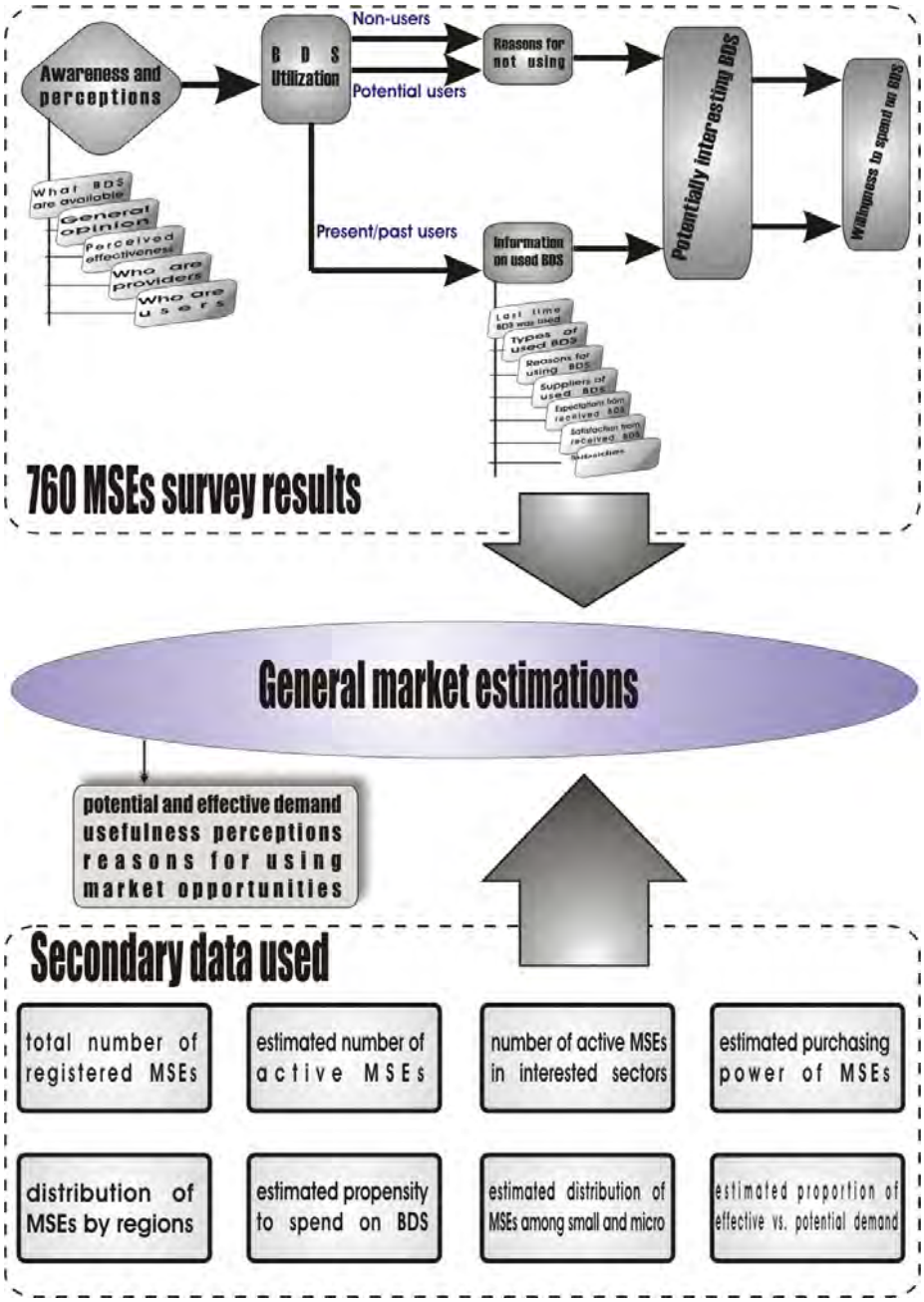


Figure 1. Logical structure of survey of demand for BDS

As illustrated in the diagram, two main blocks of information helped us to get the overall picture with the demand and other aspects of the BDS market. The first block included surveying 760 respondents selected on a random basis with certain predetermined criteria set forth by MEDI project. The second block included review of secondary data as well as some statistical numbers to provide basis for extrapolations of the survey results.

In the survey, first the respondents are asked questions related to awareness and perceptions of various aspects of BDS, such as *what BDS are available, general opinion and perceived effectiveness of BDS, who are the providers and users of the BDS* etc. Then the respondents are conditionally divided into three groups – non-users, potential users and present/past users of BDS. The non-users and potential users are then queried on specific reasons for not using BDS. Meanwhile the ones with even some experience of using BDS are asked about various characteristics of such experience (e.g. recency of BDS consuming, types of consumed BDS, reasons for having used BDS, actual suppliers of the received BDS, expectations and satisfaction from received BDS and information on subsidies). Also all respondents are asked to specify the potentially interesting BDS as well as to roughly estimate their willingness to spend on BDS on an annual basis.

The secondary data included that about total number of registered MSEs, estimated number of active MSEs, number of active MSEs in interested sectors, distribution of MSEs by regions, estimated propensity of MSEs to spend on BDS, estimated distribution of MSEs among small and micro-scale, estimated purchasing power of MSEs, estimated proportion of effective vs. potential demand and so on.

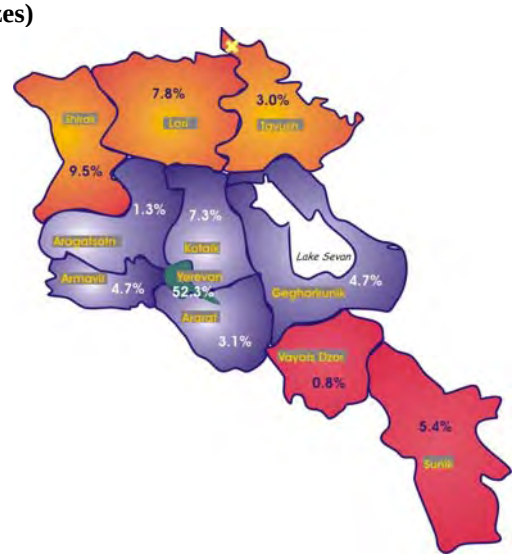
1.3 INFORMATION ON RESPONDENTS

1.3.1 Geographic distribution

The full achievement of the objective of comprehensiveness for the survey required the broadest possible geographical coverage and the distribution logic was based on two factors: i) *distribution of total population by marzes*[2], and ii) *distribution of registered businesses by marzes.* In Table 1 the general distribution of respondents by regions (marzes), including Yerevan, is presented.

Table 1. General distribution of respondents by regions (marzes)

Marz[3]	#
Aragatsotn	10
Ararat	24
Armavir	36
Gegharkunik	36
Kotayk	56
Lori	60
Shirak	73
Syunik	41
Tavush	23
Vayots Dzor	6
Yerevan	400
TOTAL	**765**



1.3.2 Size of MSEs

Size of the respondent MSEs is critical to make comparative analyses of certain aspects of BDS consumption and potential demand. Generally, judgments on the size of MSEs can be done from two main perspectives: the *number of employees* and the *regular (e.g. monthly) turnover*. Though some bits of the analysis were carried out from the perspective of business turnover (e.g. *willingness to spend on BDS*), in the main the analysis is presented based on the size of firms *by the number of employees.* There are two main reasons for that. First, most Armenian entrepreneurs partly or fully operate in the "shadow". They tend to conceal and underreport both the number of employees (for less social security payments) and the turnover (to avoid indirect taxes, such as VAT and, furthermore, tax on profits). Undoubtedly, the second group of indicators (financial) is much more important and the likelihood of those to be misrepresented during the interviews is much higher. In other words, the indicator of number of employees has a much greater level of confidence. And second, the formal classification of MSEs' size in the Armenian legislation[4] is also done by the number of employees (possibly, for the same reasoning).

[2] the results of the recent census were used
[3] (in alph. order)
[4] The Law on Small and Medium Sized Entrepreneurship

– *By number of employees*

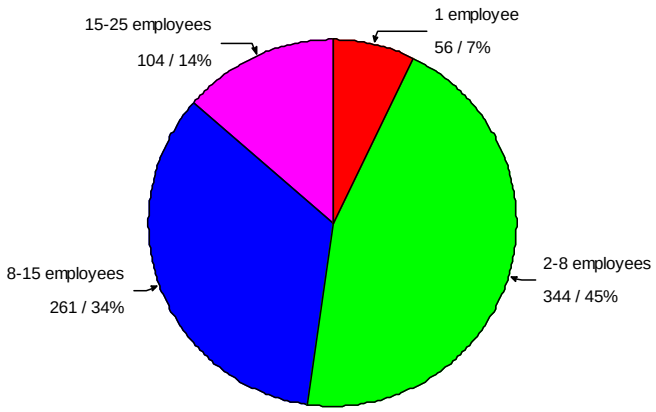


Figure 2. Distribution of respondents by number of employees

During the design of the survey, potential respondent MSEs were conditionally divided into two main equal groups: MSEs with 1 – 8 employees and those with 9 – 25 employees. In the analysis, however, these groups were further split into smaller groups, as presented in Figure 2. As presented there, the smallest sub-group of MSEs consists of self-employed microentrepreneurs (7%), the largest (15-25 employees) are the second (14%). The other two groups account for about 80% of the respondents.

Though the initial division in two main groups (micro and small) was deliberately done on a 50/50 basis, the further random distribution turns out to be rather uneven; it shows that most Armenian MSEs are likely to have 2 to 15 employees[5].

– *By turnover*

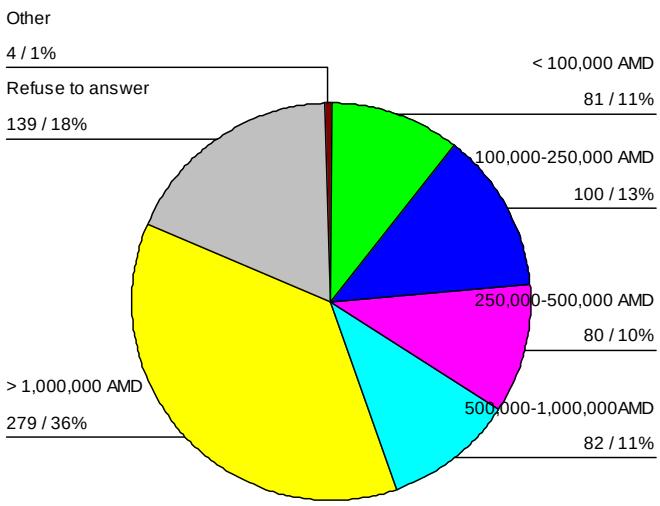


Figure 3. Distribution of respondents by monthly turnover

The question on turnover was asked in the middle of interviews and the distribution of the respondents by their monthly turnover was *derived* rather than being determined in advance. Since the target group included microenterprises, the lower end of the range is indeed low – 100,000 drams (about $200). As Figure 3 shows, the largest share belongs to MSEs that have admitted to have a monthly turnover in excess of one million drams (about $2,000). Another large proportion of the respondents (18%) refused to respond. The other four categories (from less than 100,000 up to one million drams) are distributed quite evenly, each having around 11%-12%.

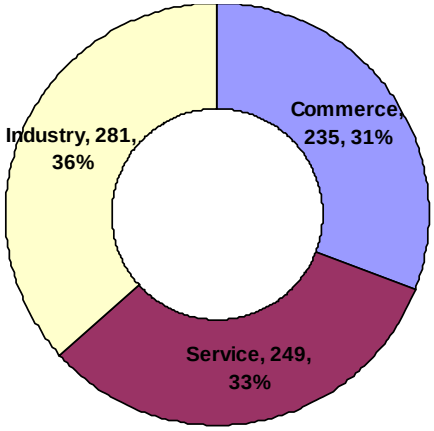
1.3.3 Line of business (sectors)

The methodology and design of the survey assumed involvement of MSEs representing three main sectors of economy: small-scale production, services and commerce. Basic agricultural activities were purposely left out of the scope.

[5] Here and further in the study we refer to the *real* as opposed to *formally registered* number of employees

Table 2. Distribution of respondents by sectors

Marz	*Sector*		
	Commerce	*Service*	*Industry*
Aragatsotn	3	3	4
Ararat	8	8	8
Armavir	16	12	8
Gegharkunik	9	20	7
Kotayk	14	22	20
Lori	19	26	15
Shirak	25	19	29
Syunik	13	10	18
Tavush	7	11	5
Vayots Dzor	2	1	3
Yerevan	119	117	164
TOTAL	**235**	**249**	**281**



– *Formally registered or not*

Since formal registration was not a requirement for the respondents to be surveyed, the picture presented in the table below was derived as a result of random sampling.

Table 3. Formally registered and unregistered MSEs: distribution by region, size and sector

Factors	*Registered formally*		*Total*
	Yes	*No*	
Regional			
Marzes	343	20	**363**
Yerevan	360	39	**399**
Size			
1 employee	42	13	**55**
2-8 employees	300	42	**342**
8-15 employees	259	2	**261**
15-25 employees	102	2	**104**
Sector			
Commerce	229	5	**234**
Service	237	11	**248**
Industry	237	43	**280**

It is not surprising that despite a very large portion of the economy being in shadow, most Armenian businesses – about 92% – are formally registered The reason is clear: registration itself is a relatively simple, little time consuming and relatively inexpensive effort, while the fines for being unregistered can be astronomically high.

– *Age of business*

The age of the business is referred to the time period elapsed since it started active operations (not necessarily formal registration). Since there had been no predetermined proportions to stick to as far as the age of the businesses were concerned, the picture presented below reflects the general picture of MSEs' age throughout the country.

Table 4. Age of respondents' businesses (total distribution and that by size)

Age of business	*Size of business*				*TOTAL*
	1 empl.	*2-8 empl.*	*8-15 empl.*	*15-25 empl.*	
< 6 months	6%	70%	22%	2%	**64**
0.5 - 2 years	10%	47%	34%	10%	**147**
2-5 years	7%	45%	32%	16%	**140**
> 5 years	7%	40%	37%	16%	**413**

It is noteworthy that more than half of the MSEs in the country appears to have been operating for more than five years, and only 8% - for less than 6 months.

1.3.4 Ownership and control

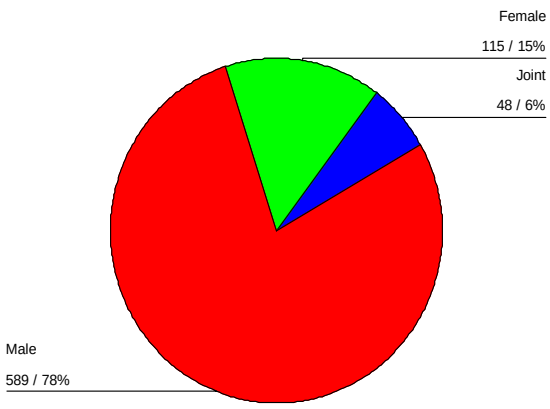
Naturally, from the perspective of potential and actual consumption of BDS as well as borrowing credit, the aim was to interview those persons who take actual decisions. They might not necessarily *formally own* the business with possibly no interference in operations, on the one hand; neither should they have been a formally appointed manager, with no real authority to take the critical decisions.

– *Decision-maker*

All respondents (except for some missing answers accounting for less than 5% of the total population) were approached conditioned by their being primary decision makers in their businesses. In other words, all they confirmed that they personally could take the final decision for either using a BDS or applying for a loan. However, given the high concentration of power with the owners, which in case of MSEs almost always act as managers of the businesses, we can firmly state that the overwhelming majority of the interviews were conducted with the owners, which were at the same time managers and principal decision makers in their businesses.

– *Distribution by gender*

Again, since no special distribution requirements were set for the gender the shown distribution fairly well represents the overall division of management and control of Armenian MSEs among men and women. **According to the results of the survey, in almost 80% of cases, the decision makers among microenterprises are men.** In about 15% of cases businesses are fully managed and controlled by women and in 6% of cases, the ownership and control is executed jointly (almost always by a spouse or by a sister and a brother).



These results would be of interest to those microfinance providers whose mandate is to empower women through providing credit to women-led enterprises (commercial banks usually have no special preferences toward the gender distribution of their borrowers).

2. DEMAND FOR BDS

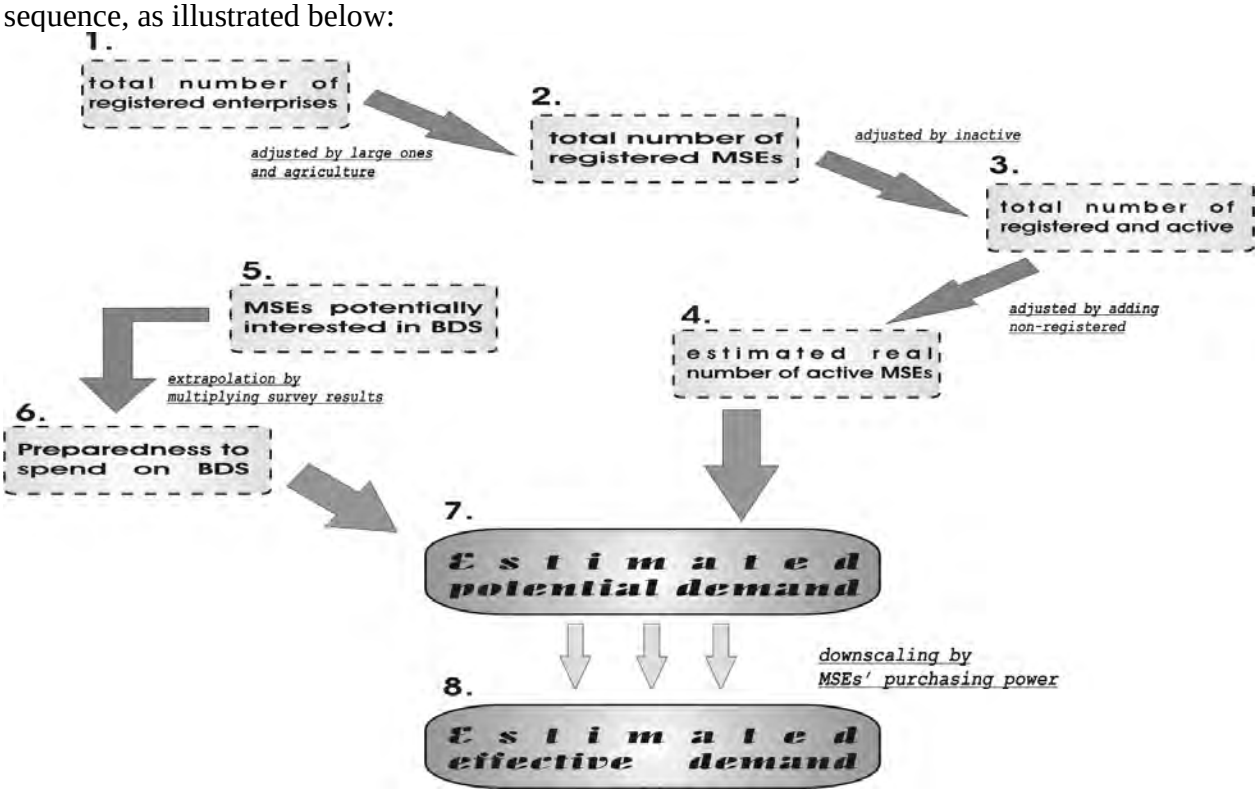
2.1 OVERALL DEMAND FOR BDS

The primary and direct source for the assessment of demand for BDS in Armenia is *extrapolation* of the results obtained during the survey of 760 MSEs. This became possible based on the random nature of the sampling and allows for a certain statistical error.

2.1.1 Assessment logic

The key element toward estimating the overall demand for BDS is to determine or estimate the total number of **active MSEs** in the **priority sectors.** The best and practicable way to do this is through **filtering the officially registered enterprises** by **leaving out those who we are not interested in (**large-scale enterprises and agricultural farms**)**, then those who are **believed to be inactive** (based on proportion of MSEs sending blank tax returns or submitting no reports to the tax authority). After that we use the results of our survey which, based on random sampling, indicated certain segment of MSEs in the total that are **active but not registered** to add those. At this stage, having estimated the total number of active MSEs representing the three main sub-sectors of economy, we can multiply them with the results of the willingness to pay for BDS (first by the number of BDS willing to pay then by the respective amounts) as reported by the respondent MSEs, thus arriving at the **overall potential demand for BDS,** as declared by the MSEs. However, given their limited financial capacity and other constraints identified through the survey, we estimate that the **effective demand,** i.e. that, which can be financially justified is significantly lower. The downscaling mechanism is based on the estimations that most MSEs can afford spending only 1% to 3% of their annual turnover on BDS.

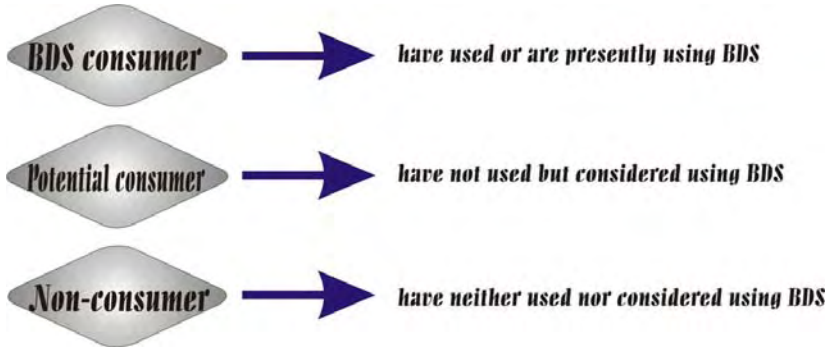
Thus, the extrapolation and adjustment elements in the system will be applied in the logical sequence, as illustrated below:



Having assessed the overall demand for BDS, then the analysis is made by types of MSEs, their size, sectors they belong to and some other factors.

2.1.2 Current BDS consumption capacity

In order to get the overall picture and estimate the total demand for BDS, we need to analyze the *results of the survey* and then extrapolate them into the country-wide MSE community



The respondents were classified into the three groups – i) *consumer*, ii) *potential consumer* and iii) *non-consumer* – depending on their responses whether i) they had used or were using BDS at the time of the survey, ii) they had not used but considered using BDS and iii) they had neither used nor considered using BDS, respectively.

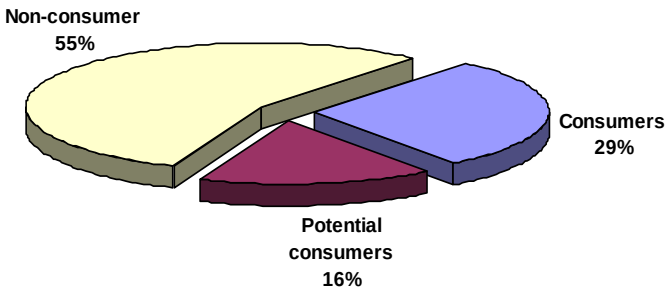
The simple statistical breakdown shown in Table 5, less than one third of the respondents MSEs reported about having ever consumed a BDS. Of course, **theoretically there could be respondents who had actually used a BDS but reported the opposite**. However, their number is assumed to be really few, mainly because:

i) no serious reason is there for providing purposely misleading information and

ii) by the time this question was being asked, most respondents were having sufficient understanding of what in general BDS were, so the likelihood of their not realizing of the services, which they had used but reporting the opposite was really very low.

Table 5. Actual, potential and non consumers of BDS: general

Consumers of BDS	29%
Potential consumers of BDS	16%
Non consumers of BDS	55%
Total	**100%**



The number of MSEs that are either actual or past consumers of BDS is significantly higher in Yerevan (35%) than in regions (22%). A much more discouraging is the situation with those MSEs that had neither ever used nor thought of using BDS – 64% in regions vs. less than half in Yerevan. The number of those who had never used but thought of using BDS in Yerevan is higher too. The main reason for such results lie in a significantly more intensive economic activity in Yerevan compared to the regions, which implies that **the market for BDS in Yerevan is more mature and ready to absorb more and/new services than that in regions.**

Also the survey results show a strong correlation between the size of MSEs and their BDS using experience – the bigger the MSEs are, the more likely they are either past or present BDS consumers and vice versa. Only 18% of self-employed microentrepreneurs have ever taken advantage of a BDS, whereas 43% of larger MSEs (those having 15-25 employees) are either past or present consumers of BDS. **This means that unless the demand for BDS expressed by larger companies becomes saturated, BDS suppliers should (and most probably will) focus on those because of the greater opportunities in that segment.**

2.1.3 Basis for effective demand (readiness to spend on BDS)

- *Overall statistics*

The analysis in this section refers to respondents who agreed that they might have some plans to use BDS in the future. **Here a strong reservation must be made about the credibility of this information, since we deal with a situation when *a theoretical question is asked about future possible spending rather than a specific product with a specific utility is offered at a specific cost.* This means that at the very moment of such services being offered, the decision of the particular MSE manager to spend certain amount of money would depend on such factors as financial position of the MSE at that moment, necessity of the particular service offered and others. *Therefore the real decision to spend money on BDS may differ (in both directions) from the responses during the survey*.** Nevertheless, this information would be useful for BDS providers and potential donors that might consider subsidizing BDS.

The ranges of potentially spent sums were defined bearing in mind that we deal basically with micro- and small-scale enterprises in a country like Armenia with less than $800 of national income per capita[6] and extremely low average monthly turnover of surveyed firms. In approximate US dollar equivalents, the amounts expected to be spend on BDS by MSEs per year are distributed within the following ranges:

- $20 – $100;
- $100 – $400;
- $400 – $1,000;
- $1,000 – $2,000 and
- $2,000 – $5,000[7]

In Table 6, the general distribution of MSEs' willingness to spend on BDS, based on survey responses, is presented. As it could be expected, more than half of the MSEs plan to spend either nothing or a very insignificant amount on BDS. Bearing in mind that at the very moment when BDS is offered some of such respondents could purchase the service and possibly pay more in the course of the year, this is nonetheless quite a low indicator. The judgment is strengthened by the fact that only 13% of the respondents granted the possibility or willingness to spend on BDS more than $400 per year.

Table 6. Willingness to spend on BDS annually

	Annual amount that can be spent on BDS	estimated % in all MSEs
1.	$20 – $100	24.3%
2.	$100 – $400	9.0%
3.	$400 – $1,000	6.0%
4.	$1,000 – $2,000	3.3%
5.	$2,000 – $5,000	3.3%
6.	Other (some % of the revenue)	2.0%
7.	Depending on the service	1.2%
8.	As much as needed	0.5%

About 2% of MSEs tend to have difficulties in estimating the amount they are prepared to spend on BDS, but only because they would prefer to make the estimations based on a percentage of revenue, not an absolute number.

[6] Source: National Statistics Service

[7] Certainly there would be a few cases of MSEs paying more than $5,000 a month for a BDS, e.g. for quality management systems certification etc.

In our further estimations and calculations, we make some consolidations:

i) those who claim they would spend as much as needed with the 5-th category (prepared to spend up to $5,000 and even more);

ii) those who had difficulties in responding are assumed to be among the least spending category, rather than among non-users;

iii) those who hesitate and tie the spending with the specific service and those who tie their potential spending with their revenues are consolidated with category 2.

The survey results also indicate the tendency of preparedness to spend more in the capital city (from the regional perspective) and to spend more with along with the rise of the MSE size (from the size perspective).

In Figure 4, the willingness of potential BDS users to spend on BDS on an annual basis is cross-tabulated and shown by their reported turnover. These results will be important in cross-checking estimation of the overall estimated demand with the amount to be spent on BDS as a proportion of their annual turnovers.

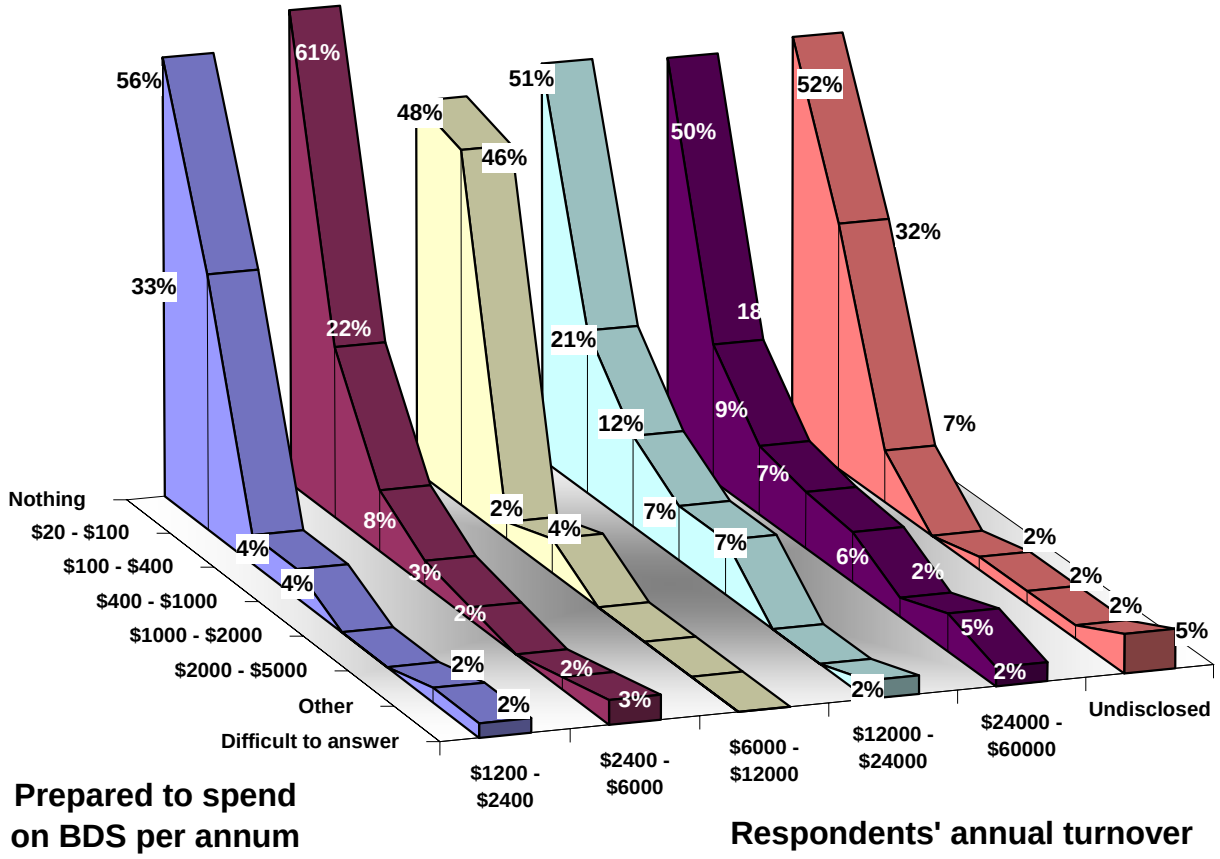


Figure 4. Willingness to spend on BDS

The analysis of the results shows that most of MSEs would most likely spend from 1% to 4% of their annual revenues on BDS, very rarely up to 10%. This statement is supported by another finding of the survey according to which more than 70% of MSEs **lack financing to purchase certain *material* items** (not BDS or any other services) to maintain their current business activity. **This does not necessarily means that 70% of MSEs fall out of the potential BDS consumer stratum, what it means is that even if some of those will purchase BDS, they will be extremely fiscally conservative.**

2.1.4 Estimation of overall demand

Following the logic described in the previous section, the overall estimated demand for credit is derived at in the following diagram:

Total number of registered enterprises[8] in the country		**about 113,000**
Minus agricultural enterprises[9] and large-scale enterprises		about 4,500
↓		
Total number of registered MSEs in the country		**about 108,500**
Minus registered but inactive[10]		about 30%
↓		
Total number of registered active MSEs in the country		**about 76,000**
Plus active but non-registered MSEs[11]		about 8.6%
↓		
Estimated number of active MSEs in the country		**about 82,500**
Minus MSEs not interested in purchasing BDS		about 50%
↓		
Estimated number of active MSEs potentially interested in purchasing BDS		**about 41,000**
Multiplied by amounts reported to be possibly spent on BDS		$20 – $5,000 per annum
↓		
Estimated amount of potential demand	**minimum**	**$ 12 million**
	maximum	**$ 32 million**
Downscaled by purchasing power of MSEs	only 1% – 3% of MSEs' annual turnover likely to be spent on BDS	
↓		
Estimated amount of effective demand	**minimum**	**$ 2 million**
	maximum	**$ 12 million**
↑		
Downscaled by purchasing power of MSEs	only 1% – 3% of MSEs' annual turnover likely to be spent on BDS	
Total turnover of potential consumers of BDS	**minimum**	**$ 180 million**
	maximum	**$ 900 million**
↑		
Proportional extrapolation by total number of active MSEs prepared to pay for BDS		about 41,000
Total turnover of surveyed 760 MSEs (those who are prepared to spend on BDS)	**minimum**	**$ 1.7 million**
	maximum	**$ 5.5 million**

[8] as of January 2004. Source: NSS Bulletin
[9] the law allows individual farmers to operate unregistered (total number about 330,000)
[10] Source: Tax Service
[11] Source: results of this survey, see table with registered vs. non-registered breakdown

THUS THE OVERALL ANNUAL POTENTIAL DEMAND FOR BDS EXPRESSED BY MICRO- AND SMALL-SCALE ENTERPRISES IN THREE SECTORS OF ECONOMY IS ESTIMATED TO BE AROUND 20-22 MILLION US DOLLARS, WHERAS THE EFFECTIVE DEMAND IS ESTIMATED TO BE AROUND 4-8 MILLION US DOLLARS.

It is extremely important to bear in mind that the potential demand is estimated based on the MSEs' representatives' willingness and theoretical preparedness to pay for the BDS. The rough estimations of the purchasing power of the MSE sector suggests that the effective demand, i.e. the aggregate amount of money the MSE sector is ready to actually pay to BDS providers is significantly lower. However, the financial condition is only one of the constraints, albeit the most important one, since any MSE will pay for the BDS not *because* it has money (which is a necessary but not sufficient precondition. Once the awareness, recognition and money issues are resolved, time comes for the quality: the services must be adequate, delivered at convenient location and time and conform to other criteria of importance indicated in 4.2.2. In other words, in order to fully meet the effective demand, BDS suppliers must not only find the MSEs that are ready to pay, but also convince them in the necessity to pay.

2.2 DEMAND FOR BDS BY SPECIFIC SERVICES

2.2.1 Potentially interesting BDS

It becomes clear that simply the fact that a big proportion of MSEs (up to 25%) have neither ever used nor thought of using a BDS does not automatically rule them out from becoming potential consumers. It is proved by the analysis of perceptions of *usefulness* and, partially, *affordability.* That is why we aimed at identifying the vision of the MSEs (non-users) toward potential consumption of such services, which then will help the donors and BDS providers to adjust their interventions to stimulate the effective demand for BDS.

More than half of the non-user MSEs are not likely to be interested in purchasing BDS in the nearest future by bringing mainly the same reasons as for not having purchased BDS so far. Practically all of the respondents who expressed willingness to purchase *some* BDS in the future are interested in using the *advertising support services*. The next popular services that current non-users would consider purchasing are *accounting services, legal support services, marketing consulting, distribution services* and those that could be classified as *business management consulting.*

On average, any single potential consumer (presently non-user) can mention about 5-6 services that their MSE might use, which is an encouraging indicator for possible capturing potential clients to make them actual.

The overall look at the priority list of potentially consumed BDS shows that the top five services in demand are those required at the *operational management level* and the first service that would deliver potential resolving of longer-term, more strategic, objectives is the sixth in the "hall of fame" of potentially interesting BDS *(business management consulting)*. This information may act as a guideline for the BDS providers in adjusting their products to offer services that are in greater demand.

Table 7. Distribution of potentially interesting BDS by specific services

1.	Advertising support services	15.0%
2.	Accounting services	9.5%
3.	Legal support services	8.4%
4.	Marketing consulting	6.9%
5.	Distribution services	6.7%
6.	Business management consulting	6.5%
7.	Product development / design	5.2%
8.	Customer service training	4.6%
9.	Technical support services (non IT)	4.0%
10.	Information technology (IT) support services	3.5%
11.	Marketing training	2.9%
12.	Bookkeeping services	2.6%
13.	Business management training	2.4%
14.	Financial training	2.4%
15.	Human resource development consulting	2.2%
16.	Technical consulting (non IT)	2.2%
17.	Technical training (non IT)	2.1%
18.	Engineering/architecture support service	2.0%
19.	Production systems design	1.9%
20.	Financial planning	1.9%
21.	Human resource development training	1.4%
22.	IT technical consulting	0.8%
23.	Brokerage services	0.7%
24.	IT training	0.7%
25.	Other	0.6%
26.	Secretarial services	0.3%
27.	Medical support and training	0.3%
28.	Information, statistics	0.2%

The rough distribution of the total potential and effective annual demand among specific business development services looks as follows[12]:

2.2.2 Estimated demand by services

SERVICES	Estimated potential demand ($, 000)		Estimated effective demand ($,000)	
	min	*max*	*min*	*max*
Advertising support services	3,000	3,300	600	1,200
Accounting services	1,900	2,000	380	750
Legal support services	1,700	1,800	340	670
Marketing consulting	1,400	1,530	300	560
Distribution services	1,300	1,450	270	540
Business management consulting	1,300	1,400	260	520
Product development / design	1,050	1,155	210	420
Customer service training	920	1,010	190	380
Technical support services (non IT)	800	890	160	330
Information technology services	700	760	140	280
Others altogether	6,000	6,600	1,200	2,400

[12] estimations are very rough since the assumption is that unit price for all services is the same

2.3 DEMAND FOR BDS BY OTHER FACTORS

2.3.1 By sectors

When analyzing the distribution of potential BDS consumers by sectors, we can observe a notably fewer respondents in the production sector, who are convinced that they will not purchase BDS in the nearest future (41%). This can direct the potential interventions toward this sector. In all three main sectors, advertising support services are the most popular. In the service sector, 8% of the current non-users realize that they might need services related to customer service training. Production MSEs would rather take advantage of distribution services and product development and design. Besides, legal support services are among the potentially demanded services.

The approximate distribution of the effective demand for credit by the three priority sectors – industry, services and commerce – is done **on the basis of distribution of formally registered enterprises alongside those sectors.** There are serious shortcomings to this approach: firstly, the statistics gives the breakdown of only registered companies and secondly, there is no data recorded on the business sectors of registered individual entrepreneurs, which account for more than half of registered entities. Nevertheless, we cannot base the distribution on the sectoral breakdown used in our survey, since the respondent MSEs had been split into sectors (40-30-30) **prior to** rather than **as a result of** the survey.

So, using the official statistics according to which the registered enterprises are distributed among commerce (about 55%), industry (about 20%) and services (about 25%), the estimation of the demand for BDS by MSEs representing three main sectors looks as follows:

Examples of surveyed businesses' profiles

Services: Barbers' shops and beauty parlors, automobile garages, dentists, cafés, bars and restaurants, laundry services, car wash centers, optical glass services, photographic services, internet services and IP telephony, printing services and publishing houses, shoes repair, dress repair shops, air-ticket offices, watch and clock repair shops, in-house renovations and construction, repair of TV sets and other electronic appliances, lodging services (small hotels) and others

Commerce: Retail shops (small and big, universal and specialized), gas stations, glass-cutting shops and so on

Industry: Apparel production, bakeries, stone clay tiles, wood furniture, soft drinks, electronic systems (including security systems), jams and preserves (as agro-processing), handicraft, bijouterie, jewelry, electric heaters, construction materials, flour, rugs and carpets, confectionary, underwear, towels, green-houses and others

SECTORS	Estimated potential demand ($, 000)		Estimated effective demand ($,000)	
	min	*max*	*min*	*max*
Commerce	11,000	12,100	2,200	4,400
Industry	4,000	4,400	800	1,600
Services	5,000	5,500	1,000	2,000

This information would also be valuable for BDS providers for the estimation of the overall demand for BDS by priority/restricted sectoral policy that each BDS provider might have.

2.3.2 By size of MSEs

Traditionally, the analysis of various elements of the demand for BDS *by size* produces a more or less clear correlation between the answers and size of the respondents. The survey results show that the potential consumption of BDS *explicitly grows* along with the rise of the MSEs' size. As far as the most popular BDSs among the effective ones are concerned, *advertising support services*

are in demand for all groups of MSEs by size, except the largest ones (with 15 – 25 employees). The latter are slightly more interested in potential outsourcing of *accounting services* and *marketing consulting* services. Legal services could be potentially consumed by present non-user MSEs of almost all sizes.

The distribution of the estimated demand for BDS by size of the MSEs is done based on estimations made by SME experts and finding of the survey:

- Individual microentrepreneurs - estimated to have 5% of total demand for BDS
- MSEs with 2-8 employees - estimated to have 14% of total demand for BDS
- MSEs with 9-15 employees - estimated to have 28% of total demand for BDS
- MSEs with 16-25 employees - estimated to have 53% of total demand for BDS

SIZE OF MSEs	Estimated potential demand ($, 000)		Estimated effective demand ($,000)	
	min	*max*	*min*	*max*
Self-employed	1,000	1,100	200	400
2-8 employees	2,800	3,080	560	1,100
9-15 employees	5,600	6,100	1,150	2,200
16-25 employees	10,600	11,600	2,150	4,300

2.3.3 By geography

Unexpectedly, no major difference is observed between the regional distribution of those who are not interested in purchasing BDS – about half of the respondents in both categories (Yerevan vs. marzes). The most popular service for potential consumption of non-consumers in both categories is the *advertising support services.* There is no wonder about this since in the general picture (see Table 7) the situation is the same. The two categories' preferences start to diverge from the next popular answers. While regional MSEs are more interested in potential outsourcing of *accounting services* and *distribution services*, Yerevan-based microentrepreneurs are likely to consume *marketing consulting* and *legal support services.*

Table 8. Potentially interesting BDS for current non-users (top five, by regions)

	Yerevan		*Marzes*
Not interested in any	49%	Not interested in any	47%
Advertising support services	16%	Advertising support services	18%
Marketing consulting	10%	Accounting services	12%
Legal support services	8%	Distribution services	9%
Business management consulting	7%	Product development / design	7%

The geographical distribution of the total demand is made based on the survey distribution. Though the initial distribution was done **prior to the survey** as opposed to **being the result of it,** it was done based on business activity factor. Besides, the estimation of the BDS demand by marzes is directly based on the **results of the "need-for-BDS" query by geographic regions.** So the distribution of the overall demand for BDS by marzes looks as follows:

MARZ	Estimated potential demand ($, 000)		Estimated effective demand ($,000)	
	min	*max*	*min*	*max*
Aragatsotn	310	340	60	120
Ararat	900	1,000	190	360
Armavir	970	1,100	190	380
Gegharkunik	1,070	1,200	210	430
Kotayk	1,400	1,600	290	570
Lori	2,100	2,300	430	850
Shirak	1,300	1,500	270	550
Syunik	860	960	170	340
Tavush	610	670	120	240
Vayots Dzor	150	170	30	60
Yerevan	10,100	11,100	2,000	4,000

Despite the rough character of estimations, the information in the table suggests that unless BDS suppliers' services are co-funded by donors, Yerevan-based BDS are unlikely to start penetrating in regional BDS markets, primarily due to the fact that the concentration of the demand (both potential and effective) in Yerevan is fairly high. The other side of the coin is that the existing regional BDS providers will be able to gradually meet the demand in their local BDS markets. In addition, there could be opportunities for new entries. The last statement however refers to the Yerevan market too.

3. MAJOR CONSTRAINTS

Obviously, the present size of the market for the BDS is very limited and is believed to grow quite slowly. The major constraints to a more rapid growth, both *extensively* (more market participants) and *intensively* (more valuable services) can be conditionally divided into two major groups:

- Subjective constraints, i.e. those that relate mostly to the perceptions, recognition, skepticism, quality of the services etc., and
- Objective constraints, i.e. those that relate mostly to the financial condition of the consumers, awareness, external environment

Some constraints are closely perplexed, for instance affordability *per se* is an objective constraint, if the MSE indeed cannot afford purchasing BDS, whereas affordability *perception* is subjective, since MSE may only *think* the service cannot be afford using.

3.1 AWARENESS AND USEFULNESS PERCEPTION

3.1.1 Awareness about BDS

The survey results helped find out the recognition of business development services as they can be recalled without hinting. Respondents were given no offered choices (questions were asked without pronouncing potential answers). According to the results, more than half of MSEs have difficulties in recalling *any single* type of BDS. This does not necessarily mean that all these MSEs fully match with those who had never *used* BDS, since this is a question of *recognition* of BDS, and not *utilization*. Besides, it should be noted that the responses included *not* the services that people *know*, but those that were *mentioned* by the respondents without being suggested possible options. *Secretarial services* are a good example of that*;* they certainly are acknowledged by practically every one but were mentioned only 4 times out of 1351 totally mentioned BDS.

Thus the awareness of MSEs about BDS is very low – only less than half of the respondents can mention at least one BDS. On average, each respondent of the survey could mention only 2.65 business development services (excluding those who responded nothing). However, most of times (in 72% cases) MSE managers can recall *only one* BDS.

There is (as it could be expected!) a correlation between those MSEs who believe that BDS *can be affordable* and those who *actually use* them. Among non-users, only 20% think that BDS are or can be affordable for their businesses. Oppositely, more than half of MSEs who thought that BDS were or could be affordable for their businesses *actually consume BDS!* Understandably, the overwhelming majority of the MSEs who have difficulties in responding to the question on affordability (85%) are BDS non-users (never used and never thought of using BDS).

There are two evident leaders of recognition with very close number of times mentioned – *accounting services* and *advertising support services*. They both account for 35% of the total number of mentioned BDS. The second group of leaders of recognition includes *legal support services*, *business management consulting*, *marketing consulting*, and *distribution services*. They both totally account for another 25% of total number of responses.

The study shows that MSEs' basic awareness and general understanding of BDS are rather low. Though there are services that MSE managers definitely know about (e.g. *secretarial services, bookkeeping services* and others), they have difficulties in mentioning them without suggestions. This means that the *level of appreciation* – i.e. understanding the importance rather than simple knowing a service, is quite low. Besides, very often MSEs know about *existence* of certain BDS, but they have difficulties in providing a basic definition of what those services are (*marketing consulting, business management consulting*). Therefore, the stimulation of demand for BDS should start focusing efforts from basic awareness raising.

3.1.2 Mode of learning about BDS

In Armenia, most business decisions are made based on information from personal contacts. Such institutions and mechanisms as business periodicals, credit reporting and scoring framework, regular public reporting of financials and others either do not exist or prevail at the embryonic stage. The most important source of information about suppliers and services are entrepreneurs' colleagues and friends. For most services, the majority of respondents get information this way. Understandably, information from personal sources can often be not sufficiently comprehensive or completely accurate.

Table 9 illustrates the modes of learning about the used BDS, as reported by MSEs. The first two leading positions are held by family/friends and business partners or colleagues, which altogether add up to about 40% of cases. The "personal visits by BDS suppliers" with about 17% of popularity is an unexpectedly nice surprise: **though no historical data over time is available, BDS suppliers are assumed to have recently activated their public relations activities.**

In fact, this information should be treated as indicative only, due to a few reasons. First, the classification of the sources of information does not constitute a full system (*modes* of information delivery are mixed with *institutional sources* of information). Some sources may have worked simultaneously (such as during a personal visit by BDS supplier a promotional flyer was handed). Besides, this is a sort of information that can be easily not memorized well by the respondents, so the probability of misreporting is rather high. Nevertheless, the overall picture had been expected to be like presented on the left.

Table 9. How learned about used BDS (general)

Family/friends	21.0%
Business partners/colleagues	17.1%
Personal visits by BDS supplier	16.7%
Television	14.2%
Business directory	5.6%
Internet	4.7%
Daily newspaper	4.5%
Business association/chamber of commerce	4.1%
Promotional flyers	3.9%
Radio	1.9%
Another business	1.6%
From the surveying team	1.4%
Journals	1.0%
NGO/Donor agencies	0.8%
Other	0.8%
Government office	0.4%

In general, BDS providers are suggested to focus their demand stimulation efforts on providing MSEs with more comprehensive and more reliable information about available BDS. In order for MSEs to treat such information as trustworthy, additional information on successful cases and feasibility of spending on BDS to save in efficiency and other business indicators should be more effectively and frequently delivered to a wider stratum of potential and actual consumers of BDS.

3.1.3 Recognition of BDS usefulness

Only 40% of MSEs believe that BDS help businesses to succeed. To compare, financial services are believed and recognized to contribute to the business success by more than 95% of MSEs. The positive moment here is that the 40% include respondents that could not mention any specific type of BDS. Nevertheless, there are MSEs with deeper knowledge and understanding of the role of BDS. Some 10% of MSEs believe that BDS support some specific business activities and another 16% feel that BDS can help a business to solve a specific problem. Only 1% of MSEs (probably those that had had negative experience with specific BDS providers) express opinion that BDS have negative effect on businesses. Every tenth of MSE respondents was skeptic enough to see no effect from the BDS (see Figure 5). Even if we add those who had difficulties to answer to the skeptics, their total number does not exceed a quarter of the total population of MSEs, which is nevertheless a positive sign, especially compared to those who had not actually *received* yet a single BDS.

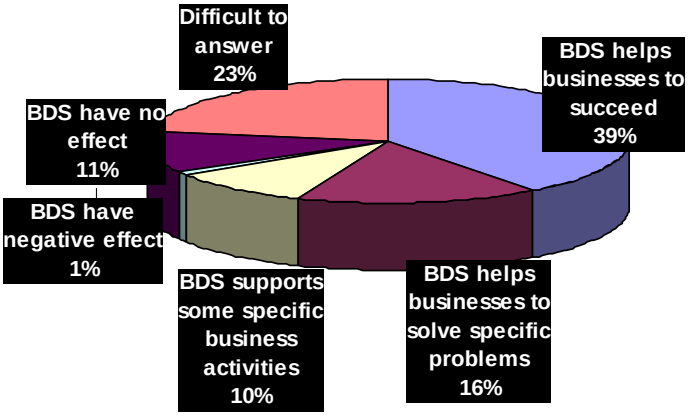


Figure 5. General perceived effect of BDS on businesses

The question on general opinion on usefulness of the BDS *for the type of respondent's business* had only one option to check. According to the results of the survey, almost half of the MSEs assess BDS to be potentially useful, and 20% believe that BDS are very useful. Of course, compared to other common services (catering, construction, car repair), the appreciation of BDS is quite low, which is a serious constraint for the demand. Another 20% of the respondents could not determine the value more or less precisely and only 12% thought that BDS were not useful for their type of business at all.

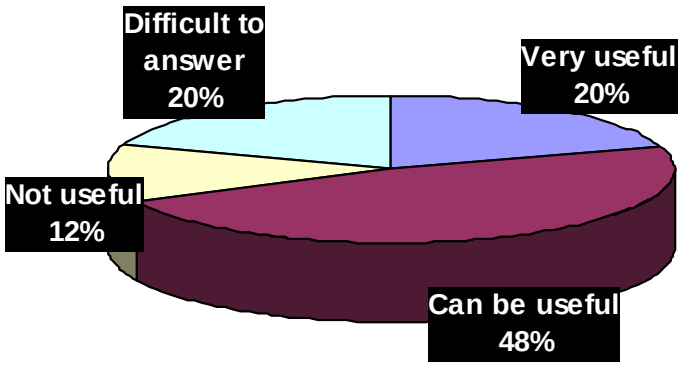


Figure 6. BDS usefulness perception

These numbers indicate that there is a strong correlation between the size of the firm and their beliefs in non-financial services. In the main, it can be explained by the assumption that smaller firms, especially at the micro level, face with relatively simpler barriers for either survival or gradual growth and those problems can more easily be resolved by themselves, without outsourcing non-financial resources from outside.

The general conclusion is that MSEs based in Yerevan are explicitly more optimistic about the effectiveness and usefulness of the BDS for their businesses, which can be explained by the fact that most BDS are based in Yerevan too, so they liaise with the businesses much more intensively. Therefore, the successful cases of MSE-BDS provider relationship are passed on among MSEs in Yerevan more quickly.

The analysis on cross-tabulation of *actual consumption of BDS* with the *usefulness perception* (shown in Figure 7) helps to understand i) how useful BDS are for the actual consumers and ii) what present non-consumers think about the potential usefulness of BDS for their businesses. Only 6% of the present or past consumers think that BDS are not useful. A good cross-check of the potential consumers' opinion (i.e. those who had never consumed but thought of using BDS) is that 96% of them think that BDS are either useful or very useful. The most encouraging finding is that about *half of the non-users* (i.e. those who never used and do not have specific plans of using BDS) believe that BDS may be useful for businesses. This means that they do not reject consuming BDS *per se* and, provided the right product at the right cost is there, they are likely to become first potential and then actual users.

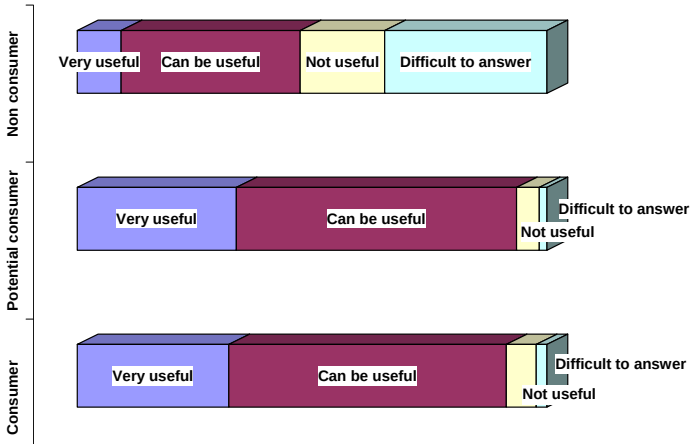


Figure 7. Actual consumption and usefulness perception

Nevertheless, the relatively high level of understanding of usefulness has not translated into a high trial (usage). There are a number of reasons for this, the main of which is that a high basic understanding of services does not automatically lead to full understanding about the *specific benefits* that particular BDS can provide for their businesses. Demand stimulation activities need to raise this "specific understanding" among potential BDS customers.

3.2 AFFORDABILITY AND QUALITY

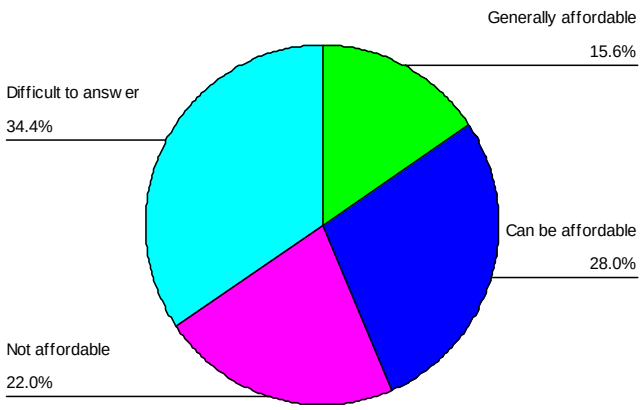
3.2.1 Affordability of BDS

– *Affordability perception*

As the table below suggests, most of the MSEs (35%) have difficulties in deciding whether BDS are affordable or not. About one third of MSEs are inclined to think that BDS *can be* affordable for their business, another 15% think that BDS *are* generally affordable for their business and 22% believe that BDS are not affordable for their business.

Table 10. Affordability of BDS: general perception

Generally affordable	15%
Can be affordable	28%
Not affordable	22%
Difficult to answer	35%
Total	**100%**



The following business development services are perceived as the relatively most unaffordable:

Business development service	*Share in total*[13]
Advertising support services	75%
Distribution services	35%
Accounting services	33%
Bookkeeping services	31%
Business management consulting	30%
Marketing consulting	30%
Product development and design	28%

It is obvious that advertising support services are most known, most needed and perceived as most expensive.

In general, Yerevaners are more certain about their understanding of affordability than respondents in the regions. Though 32% of MSEs in Yerevan are estimated to think that BDS can be affordable to their BDS (vs. only 24% in regions), 27% of them are nevertheless pessimists (27% in regions). The picture is a little bit surprising, since MSEs in regions had been expected to be much more pessimistic about affordability of BDS (at least because of the deeper poverty level and lesser economic activity in the regions).

In Table 11, the perceptions of affordability and usefulness are cross-tabulated. The aim was to find out how respondents who believe in usefulness of BDS estimate the latter's affordability for them and vice versa.

Table 11. Affordability perception compared to usefulness perception

Affordability perception	*Very useful*	*Can be useful*	*Not useful*	*Difficult to answer*	TOTAL
Generally affordable	51	57	10	0	**118**
Can be affordable	45	144	14	7	**210**
Not affordable	30	89	29	17	**165**
Difficult to answer	22	68	42	126	**258**
TOTAL	**148**	**358**	**95**	**150**	**751**

It is seen from the table that respondents who think that BDS *are very useful* mostly think that BDS *are* or *can be affordable*. This is the stratum of MSEs that **fully appreciate** the need for BDS. It is no wonder why those who had difficulty in judging about affordability are the fewest among those who thought BDS could be very useful for them. Most of those who think that BDS *can be useful* also think that BDS *can be affordable.* **These are the MSEs that are, quite realistically, potential users of BDS given the right product at the right cost is offered to them**. Most of those respondents who thought that BDS are not useful also think that they are not affordable. A remarkable position is expressed by 17 respondents who did not know if BDS were useful but who think that they are not affordable.

– *Estimated factual affordability*

The analysis made in the preceding section referred to the *perception* of affordability; in other words, how affordable BDS are *as reported by the MSEs*. Here our goal is to estimate how affordable such services could be for MSEs, *assuming that the respondents of the survey could purposely or unintentionally under- or even overestimate the affordability of BDS.* Real affordability can here be defined as a percentage of one of the main business indicators that can be spent on BDS regularly. Three factors formed the basis for the estimation of the factual affordability:

[13] Percentage of those who believe that the specific service is not affordable for their type of business

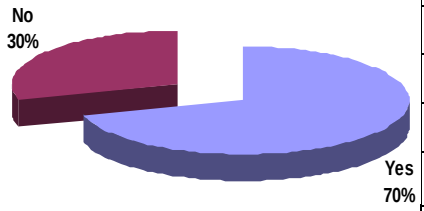
- Information on business turnover (presented in Figure 3)
- Financial difficulties that MSEs have in purchasing main material inputs (not BDS) for their businesses (presented in Table 12) and
- Willingness to pay for BDS (presented in Table 6)

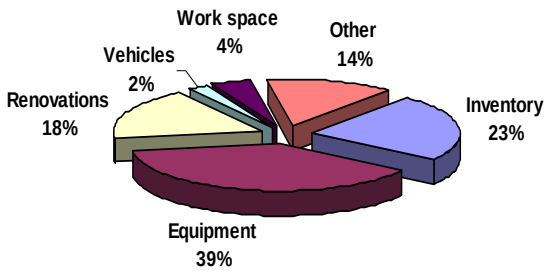
About 70% of the MSEs normally have problems with purchasing items necessary for smooth business activities. Most of these items (about 40%) are equipment. For production enterprises these are pieces of machinery and equipment necessary to replace the outworn assets or increase efficiency. The next two popular categories of responses are inventory and renovation services.

Table 12. Inability to purchase items due to lack of financing

Items they can't purchase due to lack of money

No	Yes		
30%	70%	**What items**[14]	
		Inventory	23%
		Equipment	38%
		Renovations	18%
		Vehicles	2%
		Work space	4%
		Other	14%





It is estimated that most MSEs who are willing to purchase BDS can afford no more than 1%-3% of their annual business turnover. This is a very insignificant indicator, since most microenterprises have presently very low turnovers (see 1.3.2)

– *Fully paid vs. subsidized BDS*

Though from 75% to 90% of MSEs belonging to different categories by size and regions informed that they had consumed their BDS without any subsidies, the real picture is assumed to be slightly more "favorable" toward having been subsidized, because some respondents might have forgotten or even not known about the fact of the subsidization.

– *Source of subsidies*

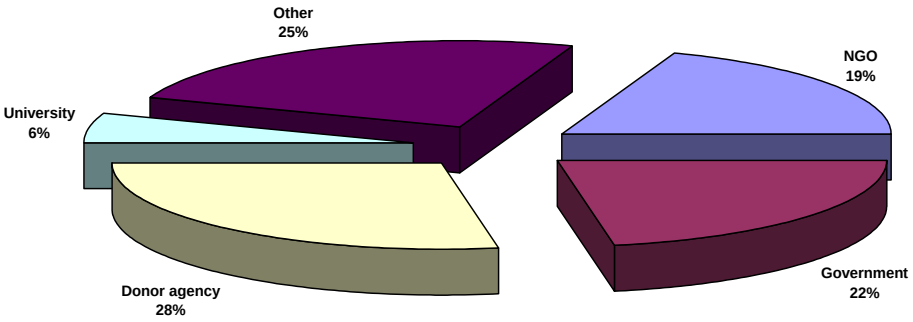


Figure 8. Sources of subsidies

The information obtained on the sources of subsidies (see Figure 8) should also be treated carefully, because sometimes donors do not insist that the BDS providers certainly inform the beneficiaries about the subsidizing organization and even about the fact of subsidization. Even in cases when some donors require that, MSE managers often forget or confuse the source of subsidies with either facilitators, or BDS providers and vice versa. For example, if a practical training was organized by a government agency (e.g. SME DNC) and the event was financially supported by a donor (say USAID-funded MEDI project), the course recipient would mention

[14] The total number exceeds the number of the respondents, because some respondents indicated need in more than one type of items

the delivering agency as donor, because i) the course was free and ii) he/she remembers only them in relation to the course provision.

In general, there is a threat that subsidies provided in the long run to BDS either from the demand or supply perspective are likely to distort the commercial component in the BDS thus jeopardizing the objectives of sustainability, cost-effectiveness and positive impact. Generally subsidies can be justified and even necessary in the short term, to catalyze the development of BDS markets in those economies where market fails to do so in the beginning. But even temporary subsidies can be justified if their anticipated market development impact offsets their distorting effects.

3.2.2 Quality of services

While it is difficult to make an objective assessment of service quality, it is possible to learn what consumers *think* about the quality of services. If consumers are dissatisfied with the quality of services, this is an important area for potential interventions from donors and BDS providers. It should be noted here we describe the overall satisfaction, including different aspects of BDS delivery (professionalism, technical convenience, ultimate results etc.).

As it is seen in the table below, most of the BDS users have been generally satisfied with the received services and, together with the very satisfied category, they account for almost three quarters of the total BDS users' stratum. Oppositely, the number of dissatisfied respondents hardly exceeds 10%.

Table 13. Satisfaction from received BDS (general)

Very satisfied	*Satisfied*	*Neutral*	*Not satisfied*	*Extremely dissatisfied*
8.3%	55.3%	25.3%	9.2%	1.8%

Generally speaking, regional MSEs are more satisfied with the consumed BDS than those in Yerevan (64% vs. 50%). Also the number of Yerevan-based respondents dissatisfied with such services is also proportionally higher (10% vs. 6%). Yerevan-based MSE managers have also more neutral position among themselves than those in the regions. The numbers of those with "extreme" feedback (very satisfied or extremely dissatisfied) are approximately equal. Surprisingly, among the self-employed entrepreneurs literally no one was dissatisfied with the received services. Nine out of ten were satisfied with the BDS received. Relatively more unhappy are the largest MSEs (12% were dissatisfied).

Among the factors of dissatisfaction from the quality of service *timeliness of delivery, method of delivery* (consultants, mentors, and classes), time commitment, suitability of BDS for needs of my business, and others were mentioned.

4. OTHER FINDINGS OF SURVEY

4.1 REASONS FOR USING OR NOT USING BDS

4.1.1 Main reasons for having used/using BDS

This information is based on the results of the survey among the actual and past users of BDS.

In general, microentrepreneurs expect BDS suppliers to secure concrete benefits to their businesses through getting BDS. As indicated in Table 14, the most desired benefits are decreased costs and increased efficiency, solving a specific problem, increased ability to compete and an expanded customer base and boosted sales. Besides, microentrepreneurs expect outsourced services to be of higher quality than what they would have in-house at the same cost. A number of respondents also want services to make them more confident in managing their businesses and to improve planning skills. This indicates that some microentrepreneurs expect a personal aspect to service provision. Many MSE managers find it difficult to keep updated on the business issues that affect their businesses, such as constantly changing regulations and compulsory requirements, markets and product designs. Most of them expect most BDS to be complemented by provision of information updates.

Table 14. Why used BDS (general)

I wanted to make my business more efficient	41%
I had a specific business problem to solve	27%
I wanted to expand my business	21%
I wanted to improve my business planning capacity	6%
Other	5%
Total	**100%**

In analyzing the information about the expectations, it should be noted that the classification of possible responses can overlap (e.g. expansion of business can be expected through improved efficiency and two respondents can theoretically respond differently in the same situation).

4.1.2 Main reasons for not using BDS

Understanding why MSEs choose not to purchase BDS is critical to determining how to stimulate the demand for such services. In general, the reasons for not purchasing BDS can be divided into two main categories:

i) those that can be addressed and partially or fully fixed, such as professionalism of providers or lack of appropriate BDS products, and

ii) those that cannot be fixed immediately or even in the short run, such as the fact that particular BDS are just not needed by micro and small businesses. Information on MSEs' reasons for not using services can help BDS providers, facilitators and donors to determine the potential for increasing demand for a particular service and to find out what constraints are to be addressed to persuade non-users to at least make the first trial.

In Table 15, the main reasons for not purchasing BDS are shown in the descending order. The most "popular" reason for not using BDS and not planning to use them in the future is lack of understanding of what BDS are in general. By re-visiting section on the BDS general recognition

and awareness, it is not surprising that around 30% of respondents' mentioning that the main reason for not using BDS is unawareness.

Table 15. Primary reason for not using BDS

I don't know what BDS are	28.4%
I can manage my business	23.6%
I don't need BDS for my business	20.6%
I don't know any BDS suppliers	11.5%
Suppliers I know do not offer good quality service	8.6%
I am not interested	3.8%
I cannot afford the price	2.9%
Other	0.5%
Total	**100%**

Another prevalent reason for not purchasing BDS is that the service function is not required in the respondent's business. Approximately one fifth of the non-users mention this as a reason for not using BDS. In general, the microentrepreneurs who gave such answers should not be expected to start purchasing BDS in the short term. Gradual growth of their activities, changes in the business environment and business culture over time *may* convert them into potential customers. In fact, many MSEs may indeed have no particular need for many of the presently available BDS. It is understood, however, that some of the businesses that gave these answers may just not realize the specific benefits that particular BDS could deliver. For those, better information may catalyze possible consideration for purchasing services. Targeted dissemination of information and better marketing of BDS (including with the support of donors) might create the potential to increase microentrepreneurs understanding of specific BDS benefits.

One of the other key reasons for not using BDS is that MSEs get the needed services done in-house. This reason is mentioned by about 20% of non-users. Of course, the limited financial resources of MSEs, lack of experience of receiving external help and relatively simple character of tasks to be performed for the MSE business make such a choice understandable. Nevertheless, some of such MSEs can be considered as potential BDS consumers if BDS suppliers could show that outsourcing services will either reduce the microentrepreneurs' costs or will increase the quality of outputs with no additional risks. This will require the BDS providers' efforts to focus on two directions: i) improving quality of services and ii) better marketing of those services. This will help them demonstrate to the potential consumers that outsourcing could in some cases be better than producing services in-house.

A relatively small proportion of non-users stated that either they could not find a suitable service supplier for the service they wanted or that the BDS were too expensive for them. While only 3%-10% of non-users raised these issues, they can be targeted by BDS suppliers as the most likely new BDS users in the short term because these respondents *already want* a particular service. In order to capture them, BDS providers would have to respond to their demand for particular BDS presented in more affordable packages.

Some non-users explained during the interviews that appropriate BDS for what they need were just not available, albeit this does not figure prominently in the survey results. Some were concerned that BDS suppliers that were known to them did not offer good quality or reliable services. Quite a few respondents (mostly relatively large MSEs) were apprehensive about suppliers' keeping their private business information confidential or sharing the results of product design or market research to their competitors. The findings like these indicate that lack of appropriate BDS products, shortage of quality and reliability may enfeeble the potential demand for BDS. Also it unveils the prevailing business culture presently established in Armenia, by which micro and small-scale businessmen tend to address their business issues internally as opposed to outsourcing services.

When analyzing the reasons for not using BDS by regions, we can see that in regions MSEs are less aware about available (or even unavailable) BDS and this is the main reason for not using BDS. **Generally speaking, when MSEs in Yerevan claim that they don't know what BDS are available, we definitely know that this is the result of their unawareness, not absence of BDS.** In certain regions however, such an answer might very well be due to physical absence of BDS of certain sorts that could be in demand. It is also noteworthy that microentrepreneurs in Yerevan are more confident about their ability to manage business on their own.

As to the analysis by size of MSEs, there seems to be such a tendency when smaller MSEs are less aware about the BDS and that seems the main reason for not using them. Relatively large firms, on the other hand, more believe in their ability to manage their businesses on their own and are more confident that they do not need BDS for their businesses at all. Larger firms very rarely state that they do not know any BDS suppliers.

4.2 OTHER FINDINGS

4.2.1 BDS suppliers

Comprehensive information about the BDS suppliers operating in Armenia is presented in the report on the supply of business development services prepared by MEDI in 2004. Below we present the information on the BDS suppliers, the services of which had been actually consumed by the respondent MSEs.

Table 16. BDS suppliers mentioned by survey respondents

BDS supplier	# mentioned
TV channels /Meteo TV, Armenia, Tsayg, Shant, Hye TV/	24
Others (incl. not recalled)	18
Local periodicals (daily newspapers and magazines)	11
Input suppliers	11
Individual	8
SME DNC	7
Spyur Info	5
Jupiter Service	4
Kapan Business Center, USAID, USDA, BSC	3
GTA Consulting Irtek NGO Center GAAP GTZ SP-Info Embassy /USA, UK, Georgia/ OSI Business consult Local authorities Brave legal consulting International Consulting DAI-ASME	2
Silentium, Sharm, Eurasia Foundation, EIM, GAMK, Sevan Tourism Development Center, Union of merchants, Armavir Medicine Storage Center, Association of consumers, Interkap, IREX, IOM, Caritas, Netsys, Converse Bank, Logos, Alpha Plus, KPMG, Investment Law Group, World Vision, Noyan Tapan, Peace Corps	1

There are a number of serious reservations to be taken into consideration in analyzing the situation with the BDS suppliers mentioned by the respondents. Firstly, the concrete names of the suppliers are not always well memorized. These are the cases when respondents recall the fact of BDS consumption, the venue and the subject, but not necessarily the name of the provider. The second issue is that the names of the actual suppliers of BDS and donors or facilitators are confused with each other (except names of TV channels and periodicals). All this means that the list on the right should be reviewed carefully and judgments must be adjusted for the mentioned reservations. The analysis by specific suppliers shows that, in accordance with the most popular BDS consumed, the leaders among the

providers are the TV channels[15]. It should be noted that only these providers have been consolidated in a group, so this group's explicit leadership should also be taken with some reservations (since if other were consolidated, we would have groups standing much closer to the leader). Together with local periodicals – the second clearly identified leader – these BDS suppliers had served the MSEs as far as advertising support services were concerned. The rest of the BDS suppliers are very much dispersed and reported to have provided only a few services each. In 22 cases (most of all) BDS suppliers were mentioned to have provided only one service each.

4.2.2 Factors of importance for potential use of BDS

The analysis provided in this section will be helpful for BDS providers and potential donors in to construct better judgments about certain factors of importance that might convert non-users and skeptics into potential consumers of BDS. The importance of the following factors was subject to be ranked by the respondents:

- Cost of BDS;
- Value of investment that the BDS might help to get;
- Location of services;
- Convenience of attending;
- Time BDS takes;
- Relevance of BDS to business needs;
- Cost sharing arrangements and if the BDS is offered free;
- If it would help managing business easier

Respondents were asked to rank the importance of the mentioned factors using the scale from 1 through 5 (1 – of little or no importance through 5 – very important). The analysis includes the ones who assumed that even without specific plans to use BDS; they might have to do so some time in the future.

In the table below, the ranking of factors of importance for not using BDS is presented in the consolidated form. The *gap* column represents the distance, or depth between of the extremes.

Table 17. Ranking of factors of importance for not using BDS (consolidated)

	Not important		*Very important*		*Gap*
Relevance of BDS to business needs	3	1%	405	88%	402
If it would help managing business easier	22	5%	363	79%	341
Cost of BDS	21	5%	321	70%	300
Value of investment	19	4%	285	62%	266
Cost-sharing arrangements	66	14%	232	50%	166
Required time	66	14%	220	48%	154
If BDS is free	95	21%	207	45%	112
Location of services	111	24%	167	36%	56
Convenience of attending	112	24%	118	26%	6

[15] Strictly speaking, TV channels should not be treated as business development service providers

This part of the study showed that the factors of most importance to potentially enroll more BDS consumers (including current non-users) lie more in the offered BDS' relevance to the recipients' business needs and their ability to solve specific problems. Without ensuring the relevance (which of course raises the issue of indivisibility of certain BDS that have to be delivered to many MSEs at one time not to compromise self-sufficiency) BDS providers would have little chances to attract and convince potential consumers on a mass scale.

5. RECOMMENDATIONS

All recommendations are based on the survey findings and their analysis and are generally aimed at intensifying BDS market relationships, by increasing the volume, access and quality of BDS transactions in the country. The recommendations are logically divided into two main groups: those aimed at BDS market development *on the global scale*, by involving joint efforts of the BDS suppliers' community and donors interested in the development of this market and those aimed at increasing the effectiveness of a single BDS supplier activities and operations *at the micro level* to help it better compete and fill its market niche.

5.1 ENLARGING GLOBAL MARKET OPPORTUNITIES

The recommendations provided in this section are aimed at increasing BDS market opportunities on a global scale. They can be classified as follows:

i) recommendations aimed at amplifying the *potential demand* for BDS;
ii) recommendations aimed at increasing the *proportion of effective demand*;
iii) recommendations aimed at *the BDS supply* and making it to more adequately meet the existing demand for BDS

The target groups to follow these recommendations include:

i) BDS associations, i.e. associations of several independently competing BDS providers aiming at advocacy and protection of common interests and
ii) BDS donors, i.e. organizations aiming at providing support to BDS providers or consumers (both financial and non-financial) to leverage their capacity and to increase market opportunities

Basically, by taking the suggested measures, the stakeholders, including existing BDS suppliers, new entrants and the donor community will all benefit from the global change in perceptions and belief of potential consumers in BDS. In a way, it is a win-win situation, presented in Figure 9.

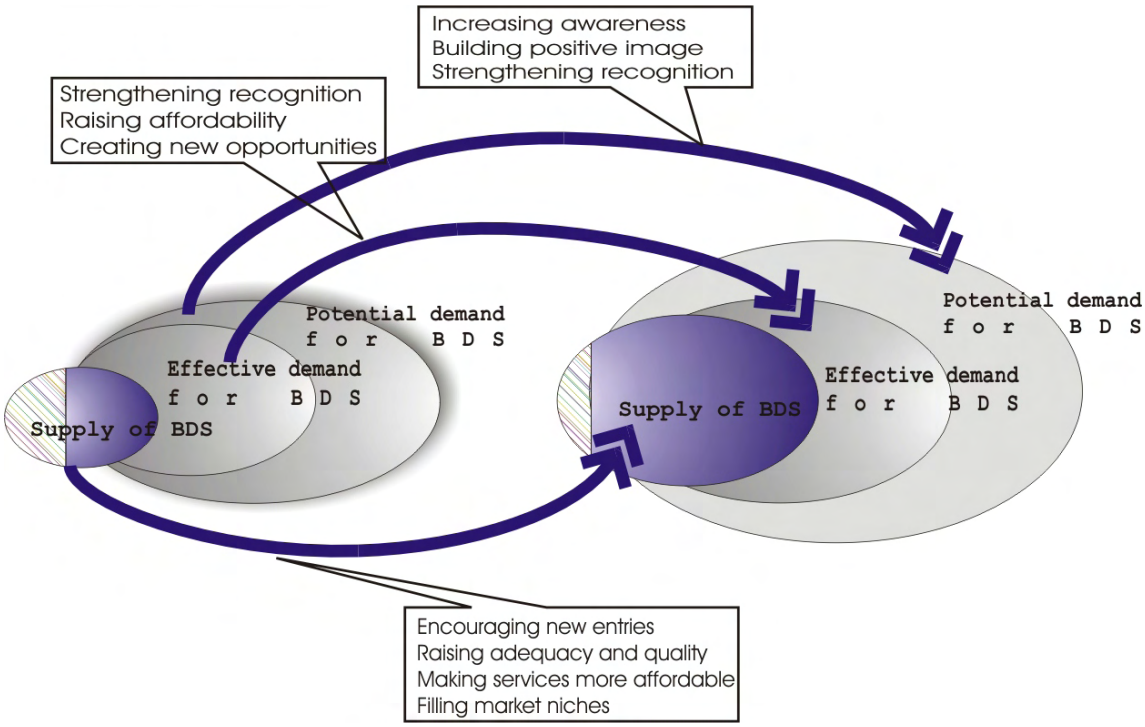


Figure 9. Contributing to BDS sector growth: Supply, potential and effective demands

5.1.1 Image building

Image building activities have to be carried out in order to *increase the awareness* of the MSEs in business development services (with regard to those who know nothing or very little about BDS) and to *soften the skepticism* (with regard to those who know BDS but are currently of low opinion).

- *Reducing unawareness*

There are only a few business development services, such as advertising, accounting and legal support services, that need very little or no promotion, since they are relatively well known by all groups of MSEs. The others, including management consulting, marketing consulting, trainings etc. are very crucial for enterprise development at the micro level and need promotional actions to be undertaken at the global level.

Associations of BDS providers as well as donors and institutions interested in the development of the BDS sector should raise the issues related to better business management and necessity to use high quality external services at events (workshops, seminars, among others) not necessarily related to BDS sector.

Public campaign aimed at raising the awareness of the business community in business development services should be conducted using joint efforts of the BDS suppliers and donors. Depending on the resources put in it, the campaign may be either robust or relatively creepy. In any case, it is important to raise the public awareness mainly through publishing articles in newspapers and broadcasting TV programs.

Joints efforts of donors and BDS suppliers' community should be put to organize mass events, such as BDS fairs on a regular basis, especially in marzes. Bringing MSE community members to such fairs to show them what services are available, who the main providers are, what benefits businesses can have through consuming such services will be aimed at general rise of image for BDS rather than at raising immediate market opportunities for certain BDS providers.

- *Overcoming skepticism*

These recommendations relate to MSEs that *know* what BDS are and what kind of BDS there are, but have a more or less *skeptic opinion* about their usefulness. This is about overcoming reputation of being redundant and increasing perception of usefulness of BDS. The generally skeptic attitude toward BDS will undoubtedly decrease by time; the issue is how to accelerate the process for the benefit of the BDS sector development. This problem refers to tackling those BDS consumers MSEs who have used BDS once or a few times and are still of low opinion of BDS usefulness as well as to those who have never tried BDS. Understandably, part of such skepticism is based on real experience such as poor quality of provided services, inadequate cost, other bad experience etc.

BDS suppliers should remember though that it is easier to break the skeptic opinion of the entrepreneur who has gone at least once through such an experience, even a poor one, than of that with no experience. The reason is that those who have never consumed "immaterial" services are reluctant to lighten their pockets for such services; but the others have at least once paid for such services and now better understand what the deficiencies of the past BDS consuming experience were. So once the new service is provided with the appropriate relevance and quality, they would be more willing to consume BDS again.

Donors and institutions interested in the development of the BDS sector are encouraged to more actively disseminate information about best real cases of BDS supplier-consumer relationship.

Since the most crucial elements for deciding upon whether to use BDS or not are their relevance and potential usefulness to the business (even before the cost factor), information on these cases should have emphases on the *specific benefits that specific clients have got* through BDS consumption, rather than *advertising the credentials of BDS suppliers.*

Both processes (awareness and recognition of the BDS usefulness) are advised to be regularly (at least once a year) monitored by independent institutions, such as MEDI project, among others. This will help existing BDS suppliers and potential entrants to review the change in general perceptions by various factors, such as awareness, usefulness, affordability and so on.

5.1.2 Increasing affordability

- *Affordability perception*

The first thing BDS suppliers and other interested institutions must do is to "normalize" the *perceptions* on affordability of BDS services: having heard about cases of some enterprises paying thousands of dollars for a single piece of paper (e.g. a business plan), many entrepreneurs immediately decide that this is an average price for an average BDS and put themselves out of the potential users' stratum. A clear message should be conveyed to the MSEs and entrepreneurs that cost of existing BDS is not always very high even in absolute terms, not to mention what savings ultimately can a good quality service make to private firms, including microenterprises. Such messages should be conveyed using the information dissemination opportunities described in previous sections.

- *Real affordability*

BDS suppliers should optimize their cost structure to involve more clients with poorer financial capacity. This recommendation is absolutely not about "reducing cost at any cost" – private BDS suppliers should always aim at having financial flows that would provide for self-sustainability and profitability in the long run. Optimization of costs is more about consolidating the potential audience for BDS by:

i) targeting more than one MSE at a time (certainly without jeopardizing their proprietary information),
ii) going to the client's place to conduct in-house training as opposed to renting expensive space,
iii) developing modules and standard packages of services that are in demand with many MSEs and could be customized to meet the specific demands of the customer as opposed to being developed from scratch

Firms that supply or plan to supply such services as advertising support, accounting and bookkeeping services, business management consulting, marketing consulting, and distribution services must be aware that in relative terms these services are perceived to be least affordable (especially advertising) not to be discouraged by low responding to their promotional actions.

Though BDS suppliers must be active in seeking cost-share arrangements with donors, there is a threat that subsidies provided in the long run to BDS either from the demand or supply perspective are likely to distort the commercial component in the BDS thus jeopardizing the objectives of sustainability, cost-effectiveness and positive impact on business development. Generally subsidies can be justified and even necessary in the short term, to catalyze the development of BDS markets in those economies where the market fails to do so in the beginning. But even temporary subsidies can be justified if their anticipated market development impact offsets their distorting effects.

5.1.3 Other issues

- *Encouraging new entries*

This refers mainly to supporters of the BDS sector, such as donors. The number of BDS providers is very unevenly distributed by regions. There are provinces (marzes) with practically no operating BSP. The main problem that donors are likely to face with is lack of professional cadre in the regions. Donors may also consider seed grants for new entrants, preferably conditioned with preparatory works done toward building up the first clientele and the money remains the only constraint. Generally speaking, donors should not provide seed grants for new entries in the relatively well-established BSP market in Yerevan, since this may create unfair situation with the competitors. What donors can and should do is provide the BDS *consumers* with cost-sharing in certain important areas of BDS, such as management consulting, general business development and planning etc., i.e. those that are important from the strategic development point of view but which are usually treated as being *of secondary importance* by the MSEs.

- *Controlling quality*

Although quality control is generally a market-regulated function (in other words, it is in the interests of BDS suppliers to maintain high quality), donors and BDS associations must pay a special attention to that, since one case of a faultily delivered service can be harmful enough to be unable to be recovered by tens of successfully delivered services.

5.2 CAPTURING GREATER MARKET AT MICRO-LEVEL

The recommendations under this section are aimed at strengthening BDS suppliers' position from their own business development perspective with no global constraints, which might compromise the proportional and optimal development of the sector as a whole.

5.2.1 Improving BDS quality

Improving the quality is something each BDS provider should aim at, since not only this will strengthen the concrete supplier's position in the market, this will also contribute to the overall rise of the BDS image among the MSE community.

- *Increasing relevance to business needs*

Relevance of provided BDS to the business needs and whether provided BDS is capable of helping the business grow are the most important factors for the BDS to decide upon the potential consumption of BDS leaving even the cost factor behind. BDS suppliers, especially those whose BDS provision is financially supported by donors, should pay more attention on *whether their services are indeed needed and potentially helpful for the clients.*

Globally speaking, the approach of donors should shift from *input-based* (conduct so many trainings, enroll so many people, print so many manuals etc.) to output based (assess and monitor the usefulness, evaluate satisfaction, understand replicability and information dissemination capability etc.)

The most desired benefits that microentrepreneurs expect from BDS suppliers are decreased costs and increased efficiency, a specific business problem solved, increased ability to compete as well as an expanded customer base and boosted sales.

– *Upgrade BDS suppliers' skills*

This is a self-explanatory recommendation: the faster and better a BSP upgrades its skills, the greater will the market for its services be in the long run.

5.2.2 Targeting right MSEs

– *Expanding geographically*

MSEs based in Yerevan are explicitly more optimistic about the effectiveness and usefulness of the BDS for their businesses, therefore the successful cases of MSE-BDS provider relationship are passed on among MSEs in Yerevan more quickly.

New initiatives of opening BDS-providing firms should target MSEs in geographic areas close to their location. Though market for BDS in Yerevan is much larger, firms from marzes are discouraged to come in here because of relatively high demands toward experience and reputation of the BSP in Yerevan. And oppositely, a BSP firm in Yerevan is not advised to try to penetrate regional markets aggressively, due to the high transportation costs and low purchasing power.

Specifically, BDS markets in Vayots Dzor and Aragatsotn seem the poorest in terms of demand for business development services. After Yerevan, the most promising markets are in Lori and Kotayk marz.

– *Expanding sector-wise*

The most perspective sectors in terms of market capacity, positive perceptions, understanding the role of business development services and willingness to pay for them is the commercial sector, which is mostly in need of accounting and advertising services.

– *Targeting MSEs of different size*

According to the survey results, there is a strong correlation between the size of the MSEs and their beliefs in usefulness of non-financial business development services. BSPs are advised to first get hold of relatively "rich" clients (there is a correlation between turnover and available cash) to then gradually switch to smaller clients.

– *Keeping existing clients*

As the survey shows, there is a strong correlation between those who believe that business development services can be affordable and those who actually use them. Other findings also indicate a greater incline of those who have ever used BDS to use them again compared to non-users. This means that, along with seeking for new markets for their services, BDS providers are encouraged to target existing and past BDS consumers, including their own past clients. This could be done by maintaining business friendly relationship even if the BDS provider does not expect an immediate consumption of its services as well as providing some free on-going advice.

5.2.3 Penetrating into market indirectly

– *Using other service providers*

BDS providers are encouraged to more closely work with institutions providing financial services that are explicitly of much greater demand than BDS. For example, a microfinance institution plans to start a micro-leasing program in a certain geographic area for rural clients. A series of workshop in basics of micro-leasing, including local legal framework, offered by a BDS provider to the MFIs potential clientele could be exactly what the MFI would like to have.

Above all, these financial institutions need not be convinced in the *necessity* of such services for their clients, since they are vitally interested in their clients' skills to be improved in certain areas (more practical contemporary knowledge – less risk). Therefore, the market for BDS can be created by offering certain services to certain groups of potential consumers *through their lenders*. It is not necessary to try to make those services mandatory for clients. The loan (if this is a loan) may be conditioned not by paying for full business development service, which would be unfair, and not even by mandatory participating at subsidized events, but by participating only at one or two training sessions (if this is training): if offered services are relevant and properly delivered at the first two sessions, consumers will most probably stay and get the rest of the training (or any other BDS).

- *Using mandatory legislation*

Providers of some services, markets for which have certain legal "backing", in terms of may be advised to join efforts in reminding their potential clientele about such provisions in the legislation. For example, auditors and accountants can agree to include the reminder about the legal provision to have a certified accountant or for public companies to be audited at least once a year in their promotional letters. Food safety is another similar area.

5.2.4 Increasing accessibility

Accessibility is mainly about right time and place for provision of BDS to be convenient to BDS consumers. In case of services delivered to a single BDS at a time individually, BDS suppliers should provide services in-house (refers to relatively large-scale MSEs) if there is such a physical possibility rather than inviting them to an outside event.