



Building the Smart Business

MANAGED SERVICES
FOR SMBs

INCREASING CUSTOMER
RESPONSIVENESS



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MARK FELLER,
TECHNOLOGY DIRECTOR,
ARIZONA CARDINALS

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Managed Services Help You Thrive

A good employee is hard to find. And for small and medium-sized businesses (SMBs) struggling to offer competitive salaries and benefits, a good employee can be even harder to keep.

Some SMBs have discovered that using managed network services helps them hold onto valuable employees. One of them is F.W. Honerkamp Co., a family-owned architectural plywood distributor based in the metro New York area with 88 employees.

Managed network services provide an abundance of advantages to SMBs, including:

- Increasing staffing options
- Delivering advanced technology expertise and ongoing management
- Controlling costs
- Increasing operational agility

At F.W. Honerkamp, a reliable,

BY JAMES A. MARTIN

Out-tasking network functions lets SMBs increase operational agility, reduce costs, and speed adoption of advanced technologies.

self-motivated employee announced that he was leaving the company because his family was moving from New York to suburban Pennsylvania, and he did not want a daily two-hour commute. Instead of losing him, the company retained the employee by allowing him to work from home, a benefit enabled by the company's Internet Protocol (IP) communications system.

By extending the IP communications system to the employee's home, "it's like he's in the office every day," says Jeff Honerkamp, chief operating officer. "The employee is happy—and so are we."

Because F.W. Honerkamp has no internal IT department, deploying a sophisticated IP telephony system would have been impossible without a service provider to manage it.

In a typical managed network service relationship, the service provider designs, implements, installs, and maintains one, several, or sometimes all major network functions. Those functions can include voice communications, customer call centers, virtual private networks (VPNs), and network security.

The ability to keep and attract top-notch employees is just one



MANAGED NETWORK SERVICES
INCREASE F.W. HONERKAMP CO.'S
OPERATIONAL AGILITY, ACCORDING
TO CHIEF OPERATING OFFICER
JEFF HONERKAMP.

benefit of managed network services. SMBs also gain:

- Technology expertise at predictable, affordable monthly rates
- Ongoing 24/7 management of network services
- The ability to manage rapid business growth while keeping a small staff
- Freedom to focus on core competencies
- Enhanced productivity
- Reduced network and communications costs
- Rapid access to the latest technologies, without needing in-house expertise
- Increased agility to respond to business conditions

A growing number of SMBs are realizing the benefits and moving to managed network services. In 2005, 11% of U.S. small businesses and 6% of U.S. mid-market enterprises outsourced their entire IT infrastructure to a managed service provider, up from 3% of small businesses and 4% of mid-market enterprises in 2004, according to Yankee Group Research.

A WIDENING SELECTION OF SERVICES

More providers are competing to reach SMBs with a wider variety of services, notes Sanjeev Aggarwal, senior analyst of small and medium business strategies at Yankee Group. In addition to more choices, “as the competition and adoption increases, these services have become more affordable for SMBs,” he says.



M5 Networks, which provides a managed IP telephony service to F.W. Honerkamp, charges approximately \$700 per office location per month, plus \$40 to \$70 per IP phone per month, says M5 CEO Dan Hoffman. He estimates that this arrangement results in average savings of 23% per month over the typical costs of running a traditional PBX phone system.

Lloyd Group, a New York-based value-added reseller (VAR) and Cisco SMB Select and Premier Partner, provides F.W. Honerkamp’s IT services, including remote, proactive network management and PC support. The typical cost for such an arrangement is \$100 to \$200 per month, per user, according to Brad Leiber, relationship manager for Lloyd Group. Not included are the costs of software and hardware, such as routers and switches, and the hours of on-site support beyond those specified in the service agreement.

Around the world, providers offer managed services designed specifically for SMBs. For instance, British Telecommunications (BT) offers a range of IP network and communications managed services; some of its remote maintenance and support services costs are priced as low as approximately \$1,400 per year, according to Darren Charterley, IP telephony solutions product manager for BT.

Service providers also offer different levels of managed care. In fully hosted services, the provider owns the equipment and, in many cases, the equipment resides at the provider’s data center. In a non-hosted service, the SMB owns and houses the equipment, but the service provider manages it.

F.W. HONERKAMP INCREASING AGILITY

For F.W. Honerkamp, managed network services help the company to grow and increase its operational efficiency. When it acquired another company in 2001, Lloyd Group upgraded the company’s network to a single end-to-end Cisco IP network and now remotely manages it. The goal, according to Leiber, was to streamline operations with a single IP network infrastructure that was secure, reliable, and flexible enough to easily accommodate new sites and applications.

Meanwhile, F.W. Honerkamp’s PBX phone system lacked the flexibility the company needed to easily add and move users. The company wanted employees at both of its locations to collaborate as if they were in the same office. But an inability to transfer calls between the two offices, and a lack of voice mail in the new office, hindered collaboration—not to mention customer responsiveness. Lloyd Group recommended that F.W. Honerkamp hire M5 Networks to design, install, and manage an IP communications system built on top of the IP network that Lloyd Group manages.

Collaboration between VARs and specialized managed service providers is increasing, according to Leiber. As a trusted advisor, the VAR makes it easier for an SMB to engage new managed services and acquire equipment less expensively.

“Because we buy equipment for other customers, we have more buying power than the SMB would have on its own,” Leiber says.

CHRIS CASABURI

Out-tasking also saves F.W. Honerkamp at least \$2,000 annually in moves, adds, and changes to the phone system (and the costs of rewiring to enable them) and at least \$3,600 in long-distance charges, Honerkamp estimates.

More important, it enables the company to allocate resources—such as personnel—to its best advantage. “We’ve never seriously considered building an IT staff,” Honerkamp says. “For the money we’d spend, we could add more customer-service reps—and get more for our money.”

Ultimately, operational flexibility is the main benefit, according to Honerkamp. “Our managed IP telephony service allows us to do things we would never have thought of before because of our hardware limitations,” he explains. “If we want to give one department its own automated voice mail, we can quickly do it.”

ROSSEL ET CIE SAVING TIME, KEEPING IT SIMPLE

Another SMB that uses managed services to facilitate growth is Belgium-based Rossel et Cie, SA, a media holding company with small and medium-sized newspaper operations in Belgium and France.



CONTRACTING WITH A SINGLE MANAGED SERVICE PROVIDER KEEPS THINGS SIMPLE, SAYS ROSSEL ET CIE'S PHILIPPE ROMBOUX.

“We are composed of a lot of small companies,” explains Philippe Romboux, technical director of the 600-employee Vlan Groupe division. “All our newspapers were equipped with different telephony systems from different vendors,

Selecting a Service Provider

Getting the answers to these questions can help you find the managed network services your company wants.

1 What is the skill level of the service provider's staff? Certifications are an important indication of a provider's proficiency in a particular technology area.

2 Is the provider an expert in your industry? Some providers have teams dedicated to particular industries. Does the provider's staff have industry-specific expertise that could add value for your business?

3 What redundancy and recovery mechanisms does the provider have? There are two types of redundancy: *network redundancy* and *hardware redundancy*.

Network redundancy provides alternate routes for data in case part of the network goes down. Most service providers have redundancy at their own facilities, but you should check to see what redundancy options are available for your premises and what they cost.

Hardware redundancy means additional

hardware is available to keep the network running during software upgrades or network outages.

4 Does the provider offer Web-based management tools? A remote backup service, for instance, may provide Web-based tools that let you perform backups as needed. Do the provider's tools give you visibility into your network's management?

5 What's in the service-level agreement (SLA)? An SLA is a contract between you and the provider. As with any contract, you should negotiate and enter into it carefully. How does the SLA define, implement, and guarantee end-to-end Quality of Service standards for your various applications?

6 Does the SLA specify how the provider will monitor, measure, and enforce the SLA standards? Will the provider report to you regularly on whether it's meeting specific

standards? At the very least, it should give you a report at your request. Some providers offer real-time and customized reports. The SLA should also specify the process and time line for notification and repair of problems, and what happens if the provider fails to maintain the agreed-upon service level. For example, will the provider refund part of its fee or give you a service credit?

7 How does the provider address overall client satisfaction? Does the contract specify how the provider will handle complaints? Does it detail escalation procedures?

8 Is a trial period available? Some providers let you try the service for up to three months before signing a contract.

9 Does the provider readily offer customer references? It should have longstanding customers that will gladly discuss its performance. —J.A.M.

It's About the Money

SMBs around the world use managed services primarily to lower their IT and network costs.

REASON FOR OUT-TASKING	Number of Employees				
	20-99	100-249	250-999	1,000-4,999	5,000+
Lower cost	67.2%	65.5%	62.8%	57.8%	55.3%
Higher levels of support and availability	18.8%	20.5%	23.6%	25.8%	28.1%
Predictable cost	5.5%	6.3%	5.8%	5.3%	7.3%
Access to the latest technology	4.7%	4.6%	5.2%	8.2%	5.7%
Access to an enhanced skill base	1.4%	0.7%	1.6%	1.1%	1.5%

Source: Ovum Research, 2005.

and with different service-level agreements. We didn't have the ability to centralize the management or optimize the communications among all these sites."

Since 2000, Rossel has relied on a managed IP VPN service from Belgacom to connect its approximately 50 newspaper sites. Last year, Rossel asked Belgacom to design, implement, host, and manage a Cisco IP Communications system. Rossel has rolled out the service to two of its main

sites: the *Le Soir* and *Vlan* newspapers. It will add others to the system as its existing telephony service contracts end, according to Romboux.

Rossel's internal IT staff of 23 people serves as a first-level help desk and develops applications. Belgacom manages the hardware and software, maintenance, and support for the network.

"We don't have the staff to implement, acquire, and manage all this technology," Romboux says. "Outsourcing it saves us time." Having one provider handle all the group's managed services is another plus. "We don't have to worry about maintenance contracts with different companies," says Romboux. "We have only one contact in case there's a problem, or if we want to add another site."

CASEWORKS SAVING MONEY BY TELECOMMUTING

Rapid growth is a great problem to have. But if it's not handled properly, it can also be a costly problem. Caseworks, a marketing services agency near London, recently doubled both its annual revenues and its staff, according to Tony Linsell, the company's chairman.

With its enlarged staff of 17, the agency's office space was becoming crowded. But moving would cost approximately \$19,000, plus about \$45,000 more per year due to higher rent, increased heating and lighting bills, and other expenses, according to Linsell.

Instead of moving, Caseworks decided to use a managed IP voice and data service from BT and let employees work from home two to three days per week.

Implementation of the system began in early 2006. Caseworks estimated a one-time expenditure of about \$14,000 for equipment for the remote workers. Add to that BT's monthly management, backup storage, and residential



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—Philippe Romboux, Rossel et Cie

JOOST DE BOCK / GETTY IMAGES FOR IQ

Caseworks expects to realize a first-year cost savings of about 53% by going with managed services instead of moving to a larger office.

broadband fees for six of Caseworks' teleworkers. The bottom line? The company expects a first-year cost savings of about 53% by going with managed services instead of moving to a larger office, according to Linsell.

Caseworks also considers the ability to retain valued employees a huge benefit of out-tasking network services.

Replacing an employee is expensive. Hiring costs generally include recruiting, interviewing, and training, as well as the company productivity lost until the new employee is "up to speed." The cost to hire an hourly worker often equals six months of the worker's wages, and to hire a salaried employee typically amounts to one or one-and-a-half times the employee's annual salary, according to Marc Drizin, founder of Employee Hold'Em, an employee retention research and consulting firm. Thus, to hire an employee making \$50,000 annually could cost an extra \$50,000 to \$75,000.

"We spend a lot of money training our employees, and we don't want to lose them," Linsell says.

As Caseworks, F.W. Honerkamp, and Rossel demonstrate, SMBs across industries have found that engaging managed network services providers was a wise business



CASEWORKS USES MANAGED SERVICES TO SCALE FOR GROWTH, SAYS CHAIRMAN TONY LINSSELL.

decision. From reducing expenses to retaining employees to gaining productivity-enhancing technology, the many advantages of managed services make it worth an SMB's time to investigate and evaluate. 

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NEXT STEPS

Learn more about how managed services can help your SMB, at cisco.com/go/iq-ms4smb.

To find Cisco recommended providers of managed services for SMBs, go to cisco.com/go/iq-findsmbproviders.

For an introduction to the range of IT out-tasking options, read "Going Outside for IT Expertise" at cisco.com/go/iq-goingoutside.

FROM CISCO

CISCO POWERED PROVIDERS ACHIEVE HIGH STANDARDS

When your organization decides to out-task one or more network functions to a managed services provider, you'll need to find providers qualified to meet your business's requirements. Cisco has developed an ecosystem of trusted providers; a subset of these offer services specifically tailored to and priced for SMBs.

All Cisco recommended service providers display the Cisco Powered logo, which indicates their use of Cisco networking equipment and technology in their networks. Most important, Cisco certifies that the managed service

offering meets Cisco's best practices and Quality of Service standards for real-time voice, video, and other business-critical applications.

Cisco Powered Network service providers are located in more than 60 countries and offer a range of managed services. Chief among them are:

- Voice services, which may be either hosted services or managed services that provide IP PBX equipment at your premises, including installation, monitoring, and support
- IP virtual private networks (VPNs), which

can include site-to-site and remote-access VPNs for e-mail and Web applications, and/or voice and data traffic

- Network security services, which may provide comprehensive managed services or focus only on VPN functions in access routers
- Call centers for customer service and support, which may include handling telephone calls, e-mail, and direct-mail responses

Take an online tour of Cisco Powered managed IP telephony, VPN, and security services at cisco.com/go/iq-cpnetour. —J.A.M.