

Nearly 50% of SMBs will spend more than 1/3 of their IT budgets on cloud services in 2013.

IBSG Service Provider FastFacts

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Service Providers (SPs) are asking whether the increased focus on cloud in the press and the analyst community means that cloud investments targeting SMBs are warranted? Such questioning points to a need for hard evidence as SPs and the broader ecosystem surrounding cloud services weigh strategic decisions – along with product development and go-to-market strategies surrounding the SMBs segment. Key questions from SPs seeking to serve the SMB space include:

- Is now the time to invest in SMB cloud?
- What do SMB customers want? What drives their adoption?
- How do SMB customers want to consume cloud service?

To help answer these questions and explore perspectives on the evolving cloud computing market, Cisco's Internet Business Solutions Group (IBSG) conducted an update of our SMB Cloud Watch research with decision makers from small businesses during March 2011.

Our study is unique in that it focuses on SMB buyer behaviors, needs and wants – all critical inputs to help understand what SMBs are thinking and doing when it comes to cloud. In addition, because IBSG has a regular SMB Cloud Watch survey cadence, we are also able to provide longitudinal reviews of trends and to highlight emerging areas of SMB focus.

Top 7 Research Findings

SMB is *the* place to be for cloud – and the time to invest is now. That is the over-riding conclusion from our recent check-in with SMBs on their usage of and plans surrounding the broader cloud market. Our findings highlight the drivers of the SMB Cloud market – and offer a powerful fact-base to influence strategic product development, solution design, go-to-market strategies and messaging for SPs and other companies looking to take advantage of the growth in the SMB cloud market. The key headlines are:

1. **SMBs awareness of Cloud has increased dramatically** – self-reported 'full understanding' has more than doubled from December 2009 to March 2011 to 44% among SMBs with <250 employees; an additional 35% have heard of cloud computing and have some understanding of what it means. For larger SMBs, the awareness levels are even greater. This awareness increase has resulted in a SMB buyer audience that is more discerning and demanding when it comes to evaluating cloud offers and providers.

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2. **Both large and small SMBs are investing aggressively in cloud based services.** Current investment levels outpace even SMBs' own projections from December 2009. In the next two years, for instance, the number of small businesses (<250 employees) that invest heavily in cloud (30%+ of their budgets) will grow 2.6X to nearly 50% of SMBs.
3. **There is a high pent-up demand for Cloud Services over the next 2 years.** Small businesses currently stick to the basics like security (e.g. Virus protection, firewall, spam filters), managed email (e.g. Yahoo! email for Small Business, Google gmail for Business), web hosting and various desktop productivity apps (e.g. e.g. Microsoft Exchange, Google Apps). Based on small businesses' forward-looking investment plans, more advanced options like conferencing and collaboration, managed VoIP, storage and hosted business apps are on the table as part of the second wave of small business cloud adoption. (See Figure 1).

2011 Current and Future Use Of Hosted/Managed SaaS & Infrastructure Services
Among SMBs <250 Employees, N = 543

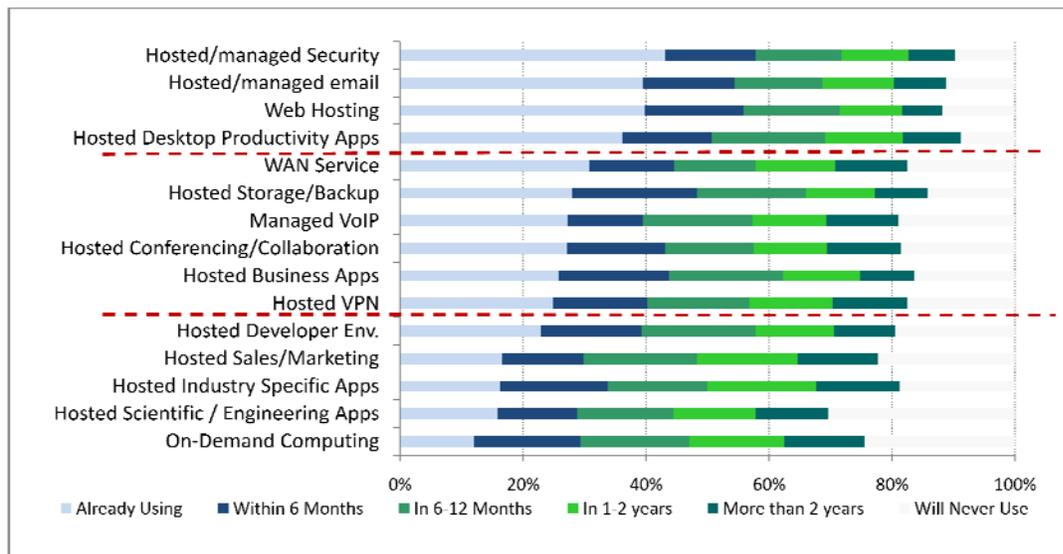


Figure 1. Current and Future Use of Hosted/Managed SaaS and Infrastructure Services among small businesses with <250 employees. Source: Cisco IBSG, March 2011

4. **Security assurances and demonstrated business impact are the key buying factors for SMBs** (and the key barriers to adoption when not present). The implication is that offers must integrate security and SP messaging needs to emphasize that security is an integral part of the offer, to help small businesses take the leap to cloud services.
5. **'Services tailored for SMB' is the single biggest driver of provider choice – to win, SPs must invest in understanding SMB needs** and activities and tailor their offers accordingly. SMBs find limited appeal in offers that include features that they don't need or that don't reflect an understanding of their businesses and the issues they face daily. That is all the more true, as small businesses are price-sensitive and will tend to object to paying for features they don't value.

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6. **SPs are well positioned to take advantage of the SMB opportunity.** SPs are preferred suppliers among small businesses, especially those with <250 employees, who look for trusted partners that can help guide them as they adopt cloud services – and who can help address their key barriers to adoption (security, reliability). Further, SPs, more than any other type of provider, have the ability to offer the network-based features SMBs want (integrated security, end-to-end performance/reliability guarantees). More than 50% of 2011 small business respondents say that integrated security will increase their interest in adopting cloud services.
7. **SMBs look for cloud-based *solutions* to everyday tasks, not stand-alone cloud offers.** Small businesses gravitate to solutions that let them accomplish everyday tasks more efficiently and cost-effectively. They are less interested in stand-alone cloud-based offers focused on technology and software capabilities. SPs can improve their positioning by introducing integrated solution bundles that a) have high business relevancy for SMBs, that b) provide low total cost of ownership, and that c) are sold through sales teams that can credibly guide them as they embark on cloud investments.

To read more about the results from Cisco IBSG's SMB/Mid-market survey, please see "New Cisco IBSG Research Reveals Dramatic Growth in Cloud Interest Among SMBs" at http://www.cisco.com/web/about/ac79/docs/sp/SMB-Cloud-Watch-POV_IBSG.pdf

More Information

Cisco Internet Business Solutions Group (IBSG), the company's global consultancy, helps CXOs from the world's largest public and private organizations solve critical business challenges. By connecting strategy, process, and technology, Cisco IBSG industry experts enable customers to turn visionary ideas into value.

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