Point of View

Small Businesses Ride the Cloud:
SMB Cloud Watch—German Survey Results

Authors
Stuart Taylor
Andy Young
James Macaulay
Bernhard Demuth

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Cloud services are currently one of the hottest topics in the IT world, and it's no wonder—Gartner projects this sector's revenues will exceed $150 billion globally by 2013. In fact, Coda Research estimates that companies will shift up to 20 percent of their total IT spending to these hosted or subscription technology services by 2015. Cisco® Internet Business Solutions Group (IBSG) places cloud services into three broad categories: 1) Infrastructure as a Service (IaaS), e.g., storage and security; 2) Platform as a Service (PaaS), e.g., developer environments and compute on demand; and 3) Software as a Service (SaaS), e.g., collaboration, customer relationship management (CRM), and desktop productivity.

Small and medium-sized businesses (SMBs) have been the most aggressive segments to adopt cloud services. As they typically have less-complex IT needs, fewer legacy applications, and less IT support than larger enterprises, German SMBs are often happy to hand over the delivery and operation of IT to third parties, freeing SMBs to focus on running their businesses. Research by McKinsey confirms this, finding that SMBs with fewer than 250 employees are more than twice as likely as larger companies to adopt subscription or on-demand technology services.

To date, much of the research and analysis on cloud services has focused on market sizing and the technology. Little emphasis has been placed on understanding customer needs and buying behavior. In particular, there is limited understanding of the needs and perspectives of German SMBs, and how service providers (SPs) can be successful selling to this rapidly growing and attractive market.

Cisco IBSG undertook its *SMB Cloud Watch: Germany* survey in December 2009 to better understand customer needs and strategies for success in the SMB cloud services market. *SMB Cloud Watch: Germany* was an online survey of 502 German IT buyers, representing SMB customers with 5 to 250 employees. The survey sought to understand which cloud services these customers use now, which ones they will employ in the future, and from whom they would buy these services. In addition, Cisco IBSG wanted to understand the specific role and opportunity for service providers, and how they might differentiate their cloud offers to German SMBs.

German SMBs Are Already Using Cloud Services

Although cloud services might be the talk of the IT world, the term doesn't mean much to typical German SMBs. Only 20 percent claimed to know what the term means, and only an additional 35 percent confessed to having heard the term before. The level of awareness was directly related to company size. Sixty-five percent of Medium companies were aware of the term, in contrast to only 30 percent of Very Small companies having any understanding of the term. (For a definition of Very Small, Small, and Medium businesses, see Figure 1.)

Figure 1. Size Definitions for SMBs

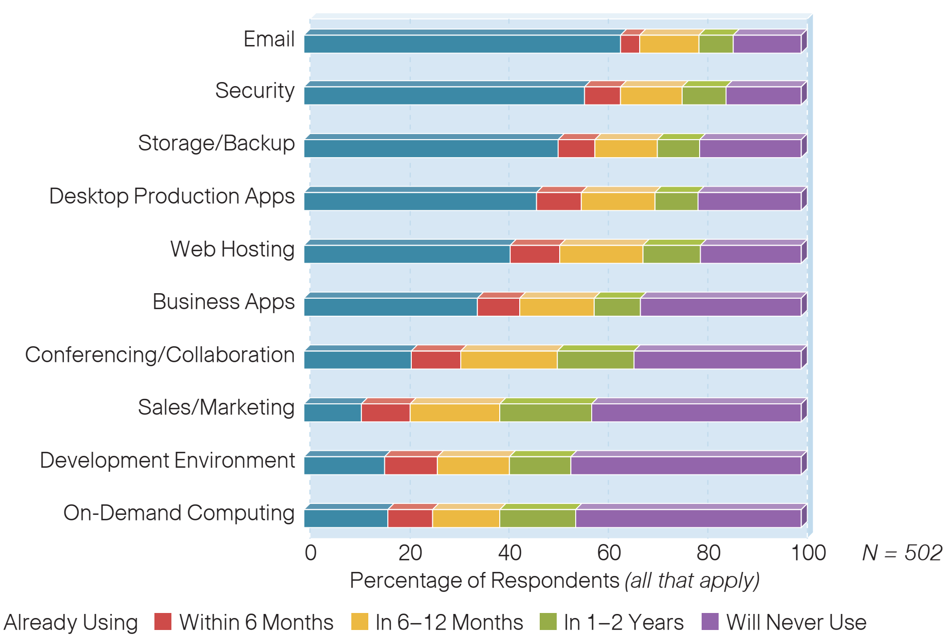
Very Small	Small	Medium
5–19 Employees	20–99 Employees	100–250 Employees

Source: Cisco IBSG, 2010

Despite their claimed lack of knowledge of cloud services, German SMBs are already wholeheartedly embracing these hosted or subscription technology services. Approximately three-quarters of the respondents were already using one of the services outlined in Figure 2. The top three, more traditional cloud services were used equally by all customer segments. More advanced services, such as hosted business and sales-and-marketing applications, were used more by the Small and Medium segments, while other advanced services, such as conferencing, collaboration, and on-demand computing, were used predominantly by Medium companies.

Figure 2. Future Use of Hosted/Subscription Services

Question: When, if ever, do you anticipate your company will use hosted or subscription technology services for the following?



Source: Cisco IBSG, December 2009

German SMBs are remarkably satisfied with the cloud services they are currently using. On average, they rated their level of satisfaction as 7.4 (out of 10), with less than 5 percent of respondents rating their satisfaction as less than 5. The biggest sources of value from their current cloud services come from:

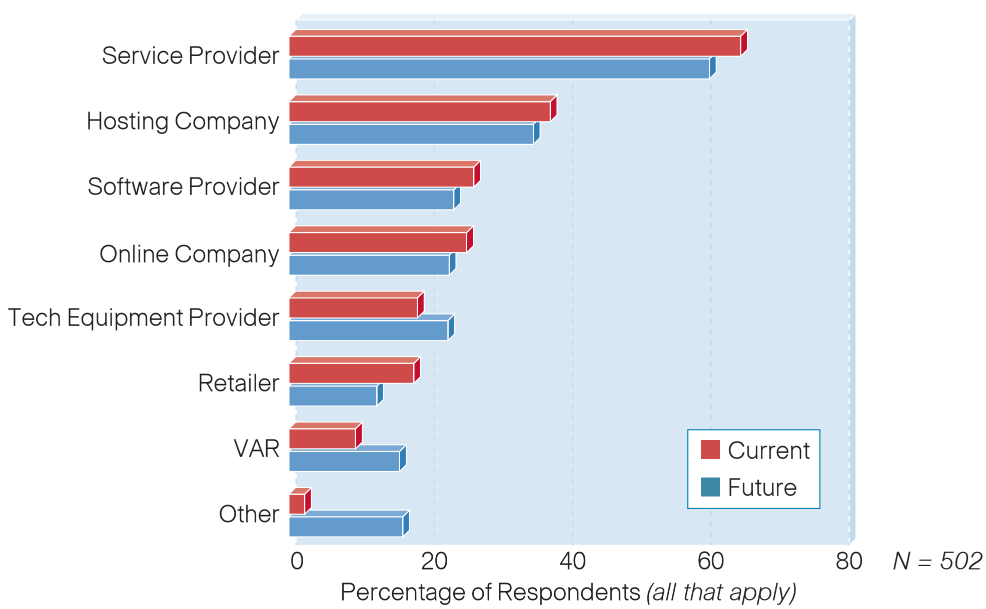
- Access to innovation
- Value for money
- Focus on business rather than technology
- Ease of installation or integration

Despite this high degree of satisfaction, German SMBs did voice some concerns about their current cloud services. The chief concerns by far were security and relevance to their existing business, with nearly 40 percent of respondents identifying these as key issues. Following security and business relevance, in order of concern, were cost, poor support, and poor performance.

Service providers (defined as SMBs' providers of traditional telephony and Internet services) were the number-one provider of cloud services (see Figure 3). More than 60 percent of respondents identified SPs as their cloud provider, followed by hosting and software companies, and online companies. German SMBs are reasonably satisfied with the levels of support they are receiving from their current cloud provider (average satisfaction of 6.6).

Figure 3. Current and Future Providers of Hosted/Subscription Services

Question: From which of the following types of firms has your company bought hosted/subscription services? From which would your company most likely buy in the future? (Select all that apply.)



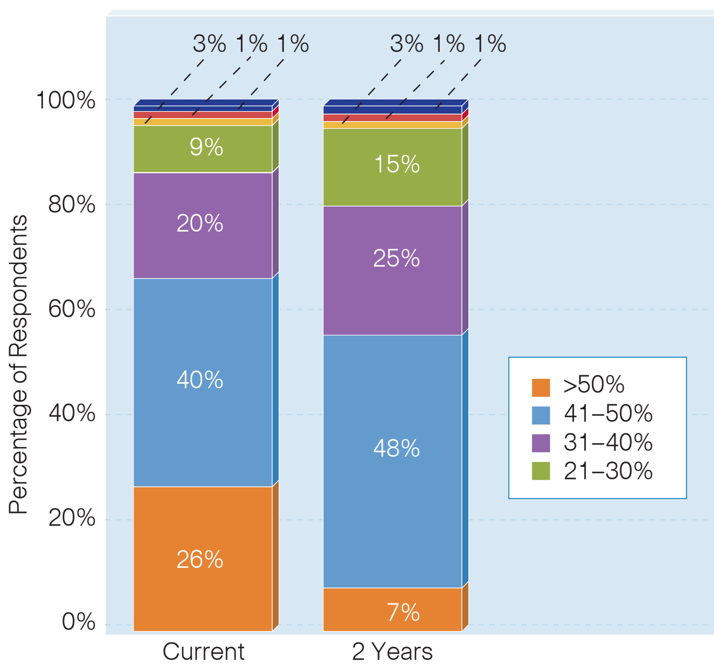
Source: Cisco IBSG, December 2009

More Clouds in the Forecast

The future for cloud services is definitely bright, with more than 80 percent of German SMBs stating they intend to use at least one service within the next two years (see Figure 2). All service categories are projected to grow significantly in the future, but remarkably, advanced services such as conferencing and collaboration, SaaS, development environments, and on-demand computing appear to be the fastest relative growth areas over the next two years. Not only will the Medium companies continue to use these, but Small and even Very Small customers see a need for these services in the next two years. This shift toward cloud services is supported by anticipated shifts in IT spending. Figure 4 shows that at least 70 percent of the German SMBs questioned anticipate they will spend up to 20 percent of their IT budget on cloud services in the next two years. And for an additional 15 percent of SMBs, cloud services could represent almost half of their entire IT budget.

Figure 4. Proportion of IT Spend on Cloud Services

Question: What proportion of its total IT budget does/will your company spend on hosted or subscription technology services—now; in two years' time?

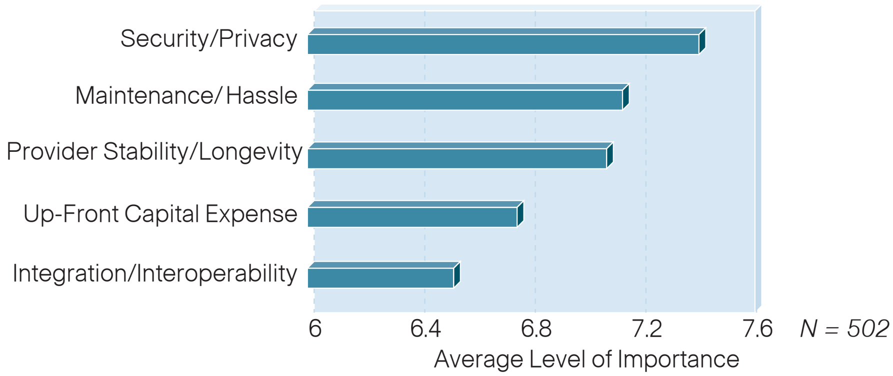


Source: Cisco IBSG, December 2009

Security is the most important factor that German SMBs consider before purchasing cloud services (see Figure 5). The underlying technology seems to be of less importance in choosing a service, as security is closely followed by more business and ease-of-use considerations as important buyer values. Close to 40 percent of customers stated they were happy with their current services, or that they did not have any need. The majority of these customers tended to be Very Small businesses from less-technology-intensive industries, such as agriculture, hospitality, and manufacturing. For the remaining SMBs, security and perceived expense were the greatest reasons given for not buying cloud services.

Figure 5. Future Important Factors in Choosing Hosted/Subscription Services

Question: How important are the following factors in deciding whether to move to a hosted or subscription technology service? (1 = "not at all important" and 10 = "extremely important")

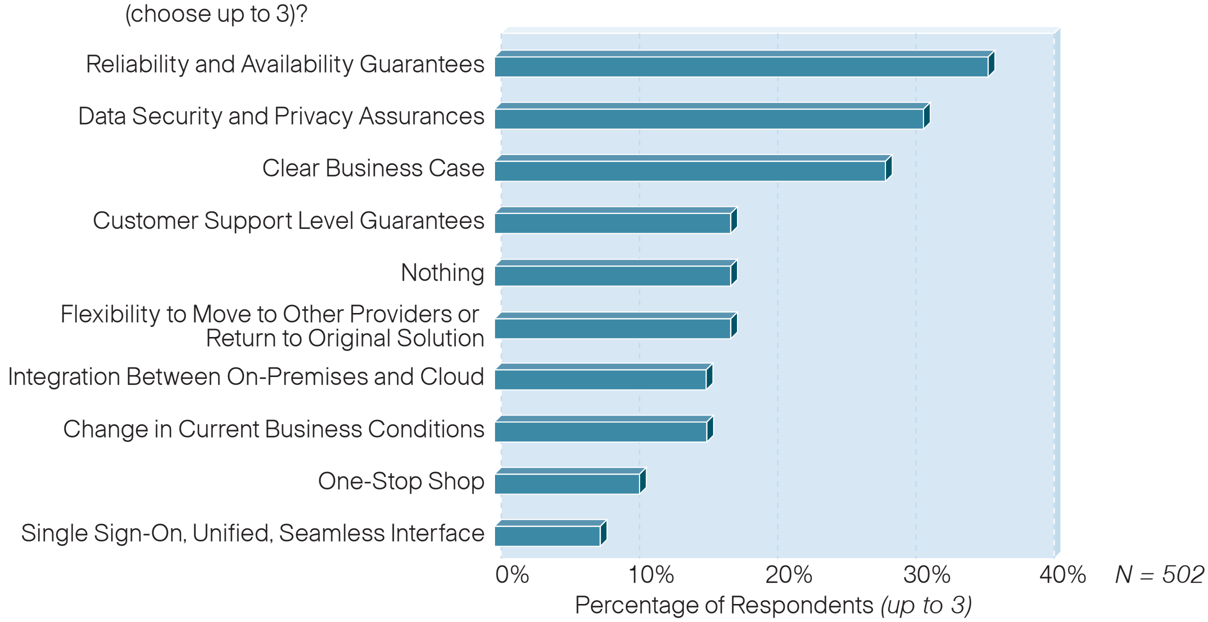


Source: Cisco IBSG, December 2009

Reliability and availability guarantees were the biggest considerations that increased German SMBs' overall interest in cloud services (see Figure 6). SMBs are less concerned about the underlying technology and architectures; rather, they want guarantees on reliability and security. In addition, they want to see a clear business case that articulates how cloud services could save money over their current solutions.

Figure 6. Factors that Increase Interest in Buying Hosted/Subscription Services

Question: What would increase your interest in buying and using hosted or subscription technology services (choose up to 3)?



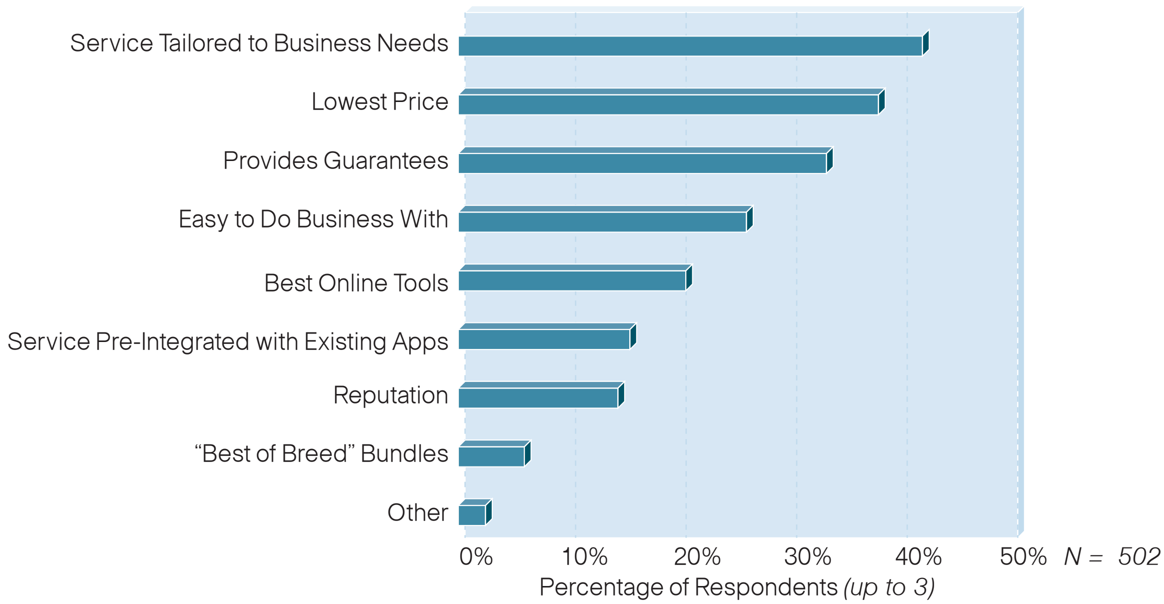
Source: Cisco IBSG, December 2009

Vendor Trust Is Key to Successful Selling

Non-technology factors are the most important considerations for German SMBs in choosing a provider of cloud services (see Figure 7). Small businesses look for providers that can offer guarantees, instill trust, are easy with whom to do business, and meet SMBs' specific needs. Of course, they expect all this at a low price—or, at least, for a price that delivers reasonable value for their money.

Figure 7. Cloud Provider Selection Criteria

Question: Which of the following factors would be the most important criteria when selecting a hosted or subscription service provider (choose up to three)?



Source: Cisco IBSG, December 2009

Service Providers Are Well Positioned with German SMBs

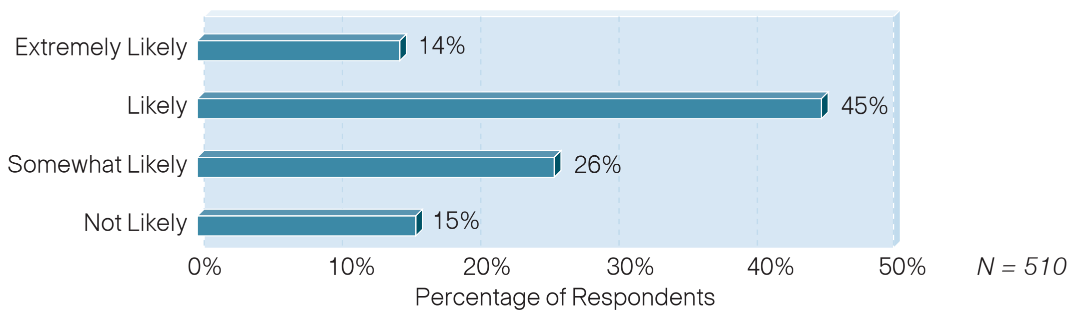
Eighty percent of the small businesses surveyed purchase Internet access, and 70 percent of the respondents obtain local and long-distance telephone from cable and telephone network SPs. Overall, German SMBs are satisfied with this relationship (average satisfaction of 7.2), with approximately 15 percent of respondents scoring a 5 or below.

Businesses are satisfied with the reliability of service (62 percent) and customer support (43 percent). They are also satisfied that the services meet their business needs (36 percent). Remarkably, 36 percent of the satisfied customers indicated that they were happy with the price. The small minority of dissatisfied customers identified the same areas as sources of dissatisfaction, including customer support (49 percent), price (38 percent), and reliability of service (26 percent).

Given this high degree of satisfaction, German SMBs appear to be open to buying future cloud services from their existing service provider (see Figure 8). Nearly 60 percent of the respondents said they were likely to purchase future services from their SPs, and another 26 percent stated that they were "somewhat likely." The small number of "not likely" respondents correlates with the customers who are "happy with their current solution," rather than with those who are dissatisfied with their current SP.

Figure 8. Likelihood of Buying Cloud Services from a Service Provider

Question: How likely are you to purchase a hosted or subscription technology service from your current telephone or cable service provider specifically?



Source: Cisco IBSG, December 2009

It's All About the Network

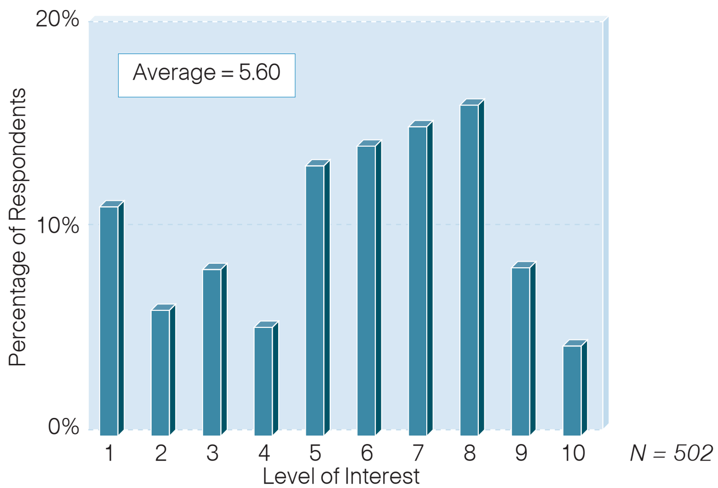
While SPs appear to be well positioned to deliver cloud services to small businesses, Cisco IBSG also wanted to test whether SPs could exploit network-based features to enhance their cloud offerings. And, most important, would SMBs see enough value in these enhanced services to actually pay a premium? To do this, we tested three offer concepts with the panel:

Base Offer	Option 1	Option 2
Hosted or subscription technology service to access on-demand server processing and remote storage capabilities Customer pays the provider for server processing and storage IT actually used	Base offer + Incremental bandwidth on as-required basis	Base offer + Incremental bandwidth on as-required basis + Security and uptime guarantees

Close to half of the respondents were interested (>6) in the base offer of on-demand computing and storage (see Figure 9). The preferred providers for such a service are service providers (50 percent).

Figure 9. Interest in Base Cloud Offer

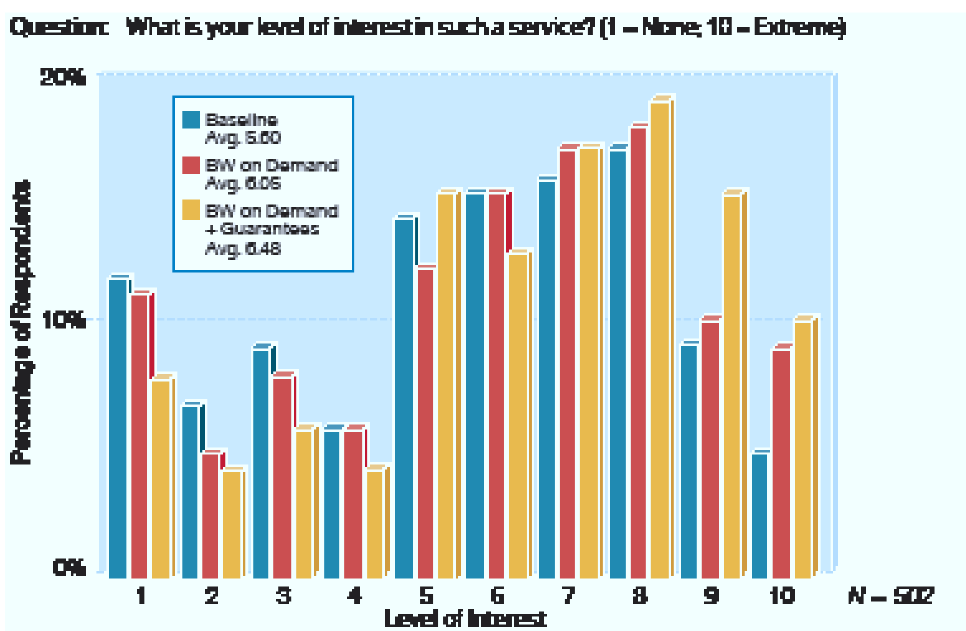
Question: What is your level of interest in such a service?



Source: Cisco IBSG, December 2009

The results became increasingly interesting when we added the network-based options to the base offer (see Figure 10). Adding only bandwidth on demand, however, had little effect on the attractiveness of the base offer. When the base offer included bandwidth on demand, along with security and uptime guarantees, more SMBs became interested in the offer (average of 7.1 interest level). This offer testing confirms our findings that security and guarantees are the most important SMB buyer values for cloud services. Not only were SMBs more interested in the enhanced offer (Option 2)—they were willing to pay more for it. Of those respondents expressing

Figure 10. Interest in Cloud Offer with Value-Added Features



Source: Cisco IBSG, December 2009

interest in Option 2 (>6), 75 percent were willing to pay a premium of 3 percent or more over the non-enhanced base offer. And almost one-quarter were willing to pay at least a 10 percent premium for the network enhancements.

While German SMBs showed a strong preference for service providers regarding the base offer, preference for SPs rose to nearly 65 percent of respondents for the test offer that included value-added features, such as bandwidth on demand, security, and service and uptime guarantees. Interestingly, preference for hosting companies as the vendor of choice rose to more than 40 percent for this network-enhanced cloud service, as opposed to 25 percent for technology companies and online companies. Application service providers were selected by only 18 percent of respondents.

Implications for Service Providers

SMB Cloud Watch research is encouraging for the future of cloud services within the small business segment. German SMBs are already using many of these cloud services and like them. Plus, SMBs intend to purchase more, and continue to expand their use of more advanced cloud services. The good news for service providers is that SMBs are generally satisfied with their current relationship and are likely to buy more cloud services from them. In addition, German SMBs see real value in augmenting cloud offerings with network-enhanced valued-added features.

While the news is encouraging for service providers, there are several important implications and potential strategies that need to be considered for SPs to be successful in the German SMB cloud services space:

1. **Build on Your Base.** Build on the high level of customer satisfaction that you have with your installed base to lock them in, increase usage of existing services, and upsell them to new services. Special emphasis should be given to larger SMBs (Medium companies), as they are currently the predominant users of higher-margin, advanced cloud services.
2. **Expand into Advanced Services.** While Medium companies are currently the main users of advanced cloud services, Cisco IBSG's research shows that all segments of German SMBs are considering using these services. SPs need to increase their emphasis on these new services to capture new market share and mindshare, and to lock out perceived better-placed competitors. To expand this portfolio of services, SPs must partner and collaborate with VARs and software and technology companies to become bigger players in SaaS and IaaS.
3. **Sell Business Benefits, not Technology.** Selling messages need to be clearly aligned with German SMBs' core buying values. SPs need to emphasize security, performance, and reliability guarantees and business impact. The sales toolkit needs to include a solid business case and clear articulation of the benefits to convince small businesses that cloud services are better and less costly than their current solutions.

4. **Differentiate with Network Features.** Service providers alone have the ability to integrate the network with IT to deliver enhanced cloud services. SPs need to develop differentiated cloud services that exploit this natural advantage to deliver services that include enhanced network features such as bandwidth on demand and guarantees of security and reliability.

Adoption by German SMBs will be a major contributor to the growth of the cloud services market. SMBs have a good idea of what they want and from whom they want to buy cloud services. Successful providers of cloud services will be not only those vendors who focus on the technology, but those who clearly understand their customers and develop offerings, features, and sales tactics that successfully meet the needs that we have uncovered in this survey.

About the Survey

Cisco IBSG, with the support of Cisco Marketing and the CTO organization, launched *SMB Cloud Watch*, an online survey of 52 German companies, in December 2009. The survey base was distributed across companies with 5 to 250 employees:

- 5–19 employees (23 percent)
- 20–49 employees (25 percent)
- 50–99 employees (25 percent)
- 100–250 employees (27 percent)

Respondents were IT decision makers, buyers, or key influencers:

- Department managers (35 percent)
- CXOs, senior executives, or CIO/IT VPs (18 percent)
- Professional staff (18 percent)
- Technical staff (12 percent)
- Other (17 percent)

In addition to cloud-specific questions, numerous business demographic questions (such as industry, number of locations, employee mobility) and technology use and spending questions (e.g., installed technologies, importance of IT, IT spending) were also asked.

For more information about cloud computing in the SMB sector, please contact:

Stuart Taylor, Director
Cisco IBSG Service Provider Practice
Phone: +1 978 936 0022
Email: stuartt@cisco.com

Andy Young, Director
Cisco IBSG Service Provider Practice
Phone: +1 978 936 9179
Email: andyoung@cisco.com

James Macaulay, Director
Cisco IBSG Economics Practice
Phone: +1 604 318 5308
Email: jmacaula@cisco.com

Bernhard Demuth
Cisco IBSG Service Provider Practice
Phone: +49 309 789 2967
Email: bedemuth@cisco.com

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