New Cisco IBSG Research Reveals Dramatic Growth in Cloud Interest Among SMBs

Half of SMBs Will Spend at Least One-Third of IT Budgets on Cloud and Managed Services in 2013

By Stuart Taylor, Tine Christensen, Andy Young, Neeraj Kumar, and James Macaulay

This Point of View offers a brief overview of recent research from Cisco's Internet Business Solutions Group (IBSG). The SMB Cloud Watch survey focused on the interest of small and medium-sized businesses (SMBs) in cloud and managed services. This report looks exclusively at small businesses with fewer than 250 employees, and compares the differences in their responses between 2009 and 2011.

SMBs Are Driving Public Cloud Adoption

SMBs are continuing to aggressively adopt a host of public cloud services, and are exploring future adoption. Compared to larger enterprises, they are clearly the drivers of public cloud adoption. Their needs are relatively less complex, they have fewer legacy applications with which to contend, and they typically have no—or very small—IT staff compared with larger companies. This means that technology is often seen as a distraction from their core business, as those who end up making the decisions typically have other primary job responsibilities or tend to be less IT-sophisticated. Any opportunity to hand over both the problem and solution to a third party is welcome, and frees up SMB leaders to focus on running their businesses. This commonsense assumption is confirmed by a recent McKinsey report that notes that SMBs represent two-thirds of the public cloud market, and that the SMB segment is outpacing the growth of enterprise cloud adoption by about 10 points.[1]

However, many service providers (SPs) are asking whether the rate of SMB cloud adoption is sufficient to warrant SPs' investment. Service providers—and the broader ecosystem surrounding cloud services—need hard evidence on buyer behavior (adoption, future adoption, barriers and incentives, and types of services) before they're willing to make strategic investments in cloud and managed services for the SMB market.

Cisco IBSG © 2011 Cisco and/or its affiliates. All rights reserved.

SMB Cloud Watch: Primary Research Focused on SMB Customers

Cisco IBSG pursued a primary research effort focused on SMBs in the United States to help provide exactly that input for service providers as they weigh their potential investments and product development / go-to-market strategies for the SMB segment. This ongoing *SMB Cloud Watch* research is unique in that it provides a trending view on developments in the SMB cloud space. The most recent iteration looks at SMB buyer values, current behavior, and future plans, and compares results from December 2009 with those from March 2011.[2] In addition, it offers new and interesting perspectives on the types of services and solution bundles that have traction with SMBs.

In short, this research addresses the key questions that Cisco IBSG repeatedly hears from service providers and the surrounding cloud services ecosystem, including:

- Is now the time to invest in SMB-focused services?
- What do SMB customers want?
- How do SMB customers want to consume cloud services?

Unlike most other surveys that focus on technology and market size, both the 2009 and the 2011 SMB Cloud Watch research focused on questions around the SMB buyer's needs related to cloud computing, current and planned investments, perspectives on what is valuable and what is not, potential barriers to adoption, and how those barriers could be overcome. In addition, to explore how SMBs prefer to buy, we tested a set of specific offers tailored to this audience, and identified the type of messaging that is likely to appeal to them. We have focused our attention on a set of cloud services[3] and managed services that comprise a range of hosted or network-based services.

Top Seven Research Findings

The Cisco IBSG findings in the following areas highlight the key drivers of the U.S. SMB cloud market. These findings offer a powerful fact base to influence strategic product development, offer and solution design, go-to-market strategies, and messaging for SPs and other companies looking to take advantage of the explosive growth in the SMB cloud market.

1. **SMBs' awareness of cloud services has dramatically increased.** Self-reported "full understanding" more than doubled from December 2009 to March 2011, from 20 percent to 44 percent. This increase in awareness has resulted in an SMB buyer audience that is more discerning and demanding when it comes to evaluating cloud offers and providers. Forty-five percent of SMBs with fewer than 250 employees are already using at least one cloud service.
2. **Nearly 50 percent of SMBs will spend more than one-third of their IT budgets on cloud and managed infrastructure services in 2013.** Current investment levels outpace even SMBs' own projections from December 2009. In the next two years, the number of SMBs that invest heavily in cloud (30 percent or more of their IT budgets) will grow 2.6 times, constituting nearly half of all SMBs.
3. **There is high, pent-up demand for software as a service (SaaS) and managed infrastructure services (IaaS) over the next two years.** SMBs currently stick to the basics, such as security, managed email, web hosting, and various desktop productivity apps. The survey showed significant interest—more than 40 percent of

Cisco IBSG © 2011 Cisco and/or its affiliates. All rights reserved.

respondents reported using one or more of these services. Based on SMBs' forward-looking investment plans, more-advanced options such as conferencing and collaboration, managed VoIP, storage, and hosted business apps are on the table as part of their planned and continued investments in SMB cloud and managed services. Survey respondents expect their adoption of various cloud and managed infrastructure services to grow at compound annual growth rates (CAGR) ranging from 22 to 27 percent; SaaS horizontal applications show a projected CAGR of 20 to 27 percent, depending on the service; and the CAGR of vertical/business process applications is expected to be in the 36 to 38 percent range.

4. **Security assurances and demonstrated business impact are the key buying factors for SMBs** (and key barriers to adoption when not present). Offers and solutions must integrate security (and SPs need to emphasize that security is an integral part of the offer) to help SMBs make the leap to cloud and managed infrastructure services.
5. **"Services tailored for SMBs" is the single biggest driver of provider choice.** SMBs find limited appeal in offers that don't reflect an understanding of their businesses and the issues they face daily. They also show significant sensitivity to the prospect of offers that originated in the enterprise space and are bloated with features they don't need. SMBs are price-sensitive and tend to object to paying for features they don't value. Needs and priorities differ depending on the size, sophistication, and industry segment of a given SMB—a key finding when it comes to targeting, offer development, and messaging. The SMB space does not represent a single monolithic segment.
6. **SMBs look for cloud-based and managed infrastructure solutions—not stand-alone, technology-led offers—for everyday tasks.** SMBs gravitate to integrated solutions that let them accomplish everyday tasks more efficiently and effectively, without investing time and skills to manage the technology aspects of their business. They are less interested in stand-alone, cloud-based offers focused on technology and software capabilities.
7. **SPs are well placed to take advantage of the SMB opportunity.** SPs are preferred suppliers among SMBs (especially those with fewer than 250 employees), who are looking for trusted partners that can help guide them as they adopt cloud services, and who can help address their key barriers to adoption (security and reliability). 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 and reliability guarantees). More than 50 percent of SMBs say that integrated security will increase their interest in adopting cloud services.

Implications for Service Providers

Service providers that seek to engage with the large SMB audience[4] should think strategically about the following key implications and calls to action from this survey:

1. The SMB space is characterized by latent demand and documented opportunities for significant growth in areas ranging from managed services to both horizontal and vertical SaaS offers. Given the speed with which SMBs are evaluating and adopting managed and cloud services, time to market is critical if SPs are to avoid being left

Cisco IBSG © 2011 Cisco and/or its affiliates. All rights reserved.

behind. To ensure they're "at the table" when SMBs make crucial decisions about cloud and managed infrastructure services, SPs need to invest now in bringing integrated SMB offers to market.

2. Service providers cannot simply address the SMB space as a single segment. Targeting is key to success and requires an in-depth understanding of the SMB market and the specific needs and concerns of its customers. Various subsegments have specific needs based on factors such as an organization's size (for example, "very small" [5-20 employees], "small" [21-99 employees], "medium" [100-250 employees], and so forth) and industry. Each subsegment has its own solution priorities, adoption barriers, and incentives, requiring differentiated sales and marketing messages.
3. Service providers need to think strategically about partnerships and relationships needed to introduce integrated solution bundles that:
   a) Have high business relevancy for SMBs and reflect an understanding of SMB needs and day-to-day challenges
   b) Provide low total cost of ownership for SMBs
   c) Are sold via sales teams that can credibly guide SMBs as they embark on cloud investments, and can help SMBs overcome barriers and realize the value of cloud and managed services

   Examples of such relationships are not hard to find; they include the recent Verizon/Terremark acquisition, the recent CenturyLink/Savvis merger, and the recently announced acquisition of NaviSite by Time Warner Cable. Another example of a strategic partnership is Cablevision's Optimum Lightpath alliance with healthcare ISV GetWellNetwork, which allows Cablevision to offer Interactive Patient Care solutions to the large base of healthcare customers in its footprint.

Service providers face significant opportunities in the fast-evolving SMB space—and they have a set of challenges to overcome as they seek to capitalize on those opportunities. Service providers with the best chance of success will move quickly into this market with a clear understanding of the needs of specific SMB segments, and will evolve partnership and acquisition strategies to credibly deliver on what SMBs are asking for.

Cisco IBSG © 2011 Cisco and/or its affiliates. All rights reserved.

For more information about SMB Cloud opportunities for SPs, please contact:

Stuart Taylor
Director, Global Service Provider Practice
Cisco Internet Business Solutions Group
+1 978 936 0022
stuartt@cisco.com

Tine Christensen
Director, Global Service Provider Practice
Cisco Internet Business Solutions Group
+1 978 936 5713
tichrist@cisco.com

Andy Young
Director, Global Service Provider Practice
Cisco Internet Business Solutions Group
+1 978 936 9179
andyoung@cisco.com

Neeraj Kumar
Director, Global Service Provider Practice
Cisco Internet Business Solutions Group
+1 978 936 9988
neerkuma@cisco.com

James Macaulay
Director, Cisco IBSG Research & Economics Practice
Cisco Internet Business Solutions Group
+1 408 894 8922
jmacaula@cisco.com

Cisco IBSG © 2011 Cisco and/or its affiliates. All rights reserved.

Endnotes

1. "Outlook—Overcast and Bright: How the Cloud Is Transforming IT for SMEs," McKinsey & Company, published in July 2011 and based on an October 2010 research effort.
2. Cisco IBSG undertook its *SMB Cloud Watch* program to better understand small business needs, buyer behaviors, and opportunities in the SMB cloud services market. Taken in March 2011, *SMB Cloud Watch* was an online survey of 754 U.S. SMB decision makers, representative of the total U.S. SMB landscape; 543 respondents were from companies with fewer than 250 employees, and this respondent pool is the focus of this report. These findings were compared with results from a parallel survey taken in December 2009 with 510 SMB decision makers from companies of fewer than 250 employees—again representative of the total U.S. SMB landscape. Both surveys sought to identify which SMB cloud services these customers use now, which ones they plan to use in the future, how they reach their buying decisions (services, value, benefits, barriers), from whom they would buy these services, and how they prefer to buy.
3. For this report, we looked exclusively at SMBs with fewer than 250 employees. We focused on a set of cloud services that comprises hosted/subscription-based offerings such as:
   - Hosted/subscription-based security (e.g., virus protection, firewall, spam filters)
   - Hosted/managed email (e.g., Yahoo! Small Business Email, Google Gmail for Business
   - Web hosting of company websites
   - Hosted/subscription-based desktop productivity apps (e.g., Microsoft Exchange, Microsoft Office, Google Apps)
   - Storage/backup (e.g., Mozy, Carbonite)
   - Conferencing/collaboration (e.g., WebEx, SharePoint, Live Meeting)
   - Hosted/subscription-based business apps such as HR or financial software (e.g., Intuit QuickBooks, Microsoft Dynamics ERP)
   - Development environments (e.g., Google App Engine, Heroku)
   - Sales/marketing apps (e.g., Salesforce.com, GoldMine, ACT!)
   - On-demand computing (e.g., Amazon AWS/E2 Elastic Compute)
   - Scientific/engineering apps (e.g., computer-aided design, Mathworks MATLAB, Simulink)
   - Industry-specific apps (e.g., point-of-sale systems, inventory management systems, appointment systems, ordering systems)
4. SMBs with 5-250 employees represent approximately 38 percent of all U.S. businesses, or 2,274,510 businesses based on U.S. Census Bureau data from 2008.

Cisco IBSG © 2011 Cisco and/or its affiliates. All rights reserved.

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.

For further information about IBSG, visit http://www.cisco.com/go/ibsg.

Cisco IBSG Global Service Provider Practice

The Cisco Internet Business Solutions Group (IBSG) Global Service Provider Practice consults with leading service providers (SPs) throughout the world to help them develop and execute winning business strategies. The practice's effectiveness with SP customers is rooted in deep industry expertise, leading strategic and economic skills, and insights and best practices derived from original industry thought leadership. As trusted advisers, the Cisco IBSG Global Service Provider Practice is responsible for helping customers improve profitability by driving new services for top-line growth, improving go-to-market approaches, and creating operational efficiencies through productivity initiatives. For further information, please visit http://www.cisco.com/web/about/ac79/sp/index.html

Cisco IBSG Research & Economics Practice

The Cisco IBSG Research & Economics (R&E) Practice uniquely combines ongoing original research with in-depth financial analysis to produce high-impact insights and thought leadership for the world's largest public and private organizations. With resources on four continents, the R&E Practice each year surveys tens of thousands of consumers and businesses around the world to explore cutting-edge trends and emerging opportunities, and develops more than 100 executive-ready financial models on the business benefits of technology innovation. The team's custom research and financial analysis enable Cisco IBSG's vertical consultants to deliver transformative business solutions across a broad range of industries. For further information about the Cisco IBSG Research & Economics Practice, visit http://www.cisco.com/web/about/ac79/re/index.html

Americas Headquarters
Cisco Systems, Inc.
San Jose, CA

Asia Pacific Headquarters
Cisco Systems (USA) Pte. Ltd.
Singapore

Europe Headquarters
Cisco Systems International BV Amsterdam,
The Netherlands

Cisco has more than 200 offices worldwide. Addresses, phone numbers, and fax numbers are listed on the Cisco Website at **www.cisco.com/go/offices.**

Cisco and the Cisco Logo are trademarks of Cisco Systems, Inc. and/or its affiliates in the U.S. and other countries. A listing of Cisco's trademarks can be found at www.cisco.com/go/trademarks. Third party trademarks mentioned are the property of their respective owners. The use of the word partner does not imply a partnership relationship between Cisco and any other company. (1005R)