



What SMBs Want from Cloud Services and the Potential for Service Providers

Opportunities for new value creation in the SMB Segment

Prepared for: **Service Provider Webinar**

June 2012

Cisco IBSG Service Provider Speakers



Chris Osika
***Global Lead, IBSG Service
Provider***



Tine Christensen
***Director, IBSG Service
Provider***

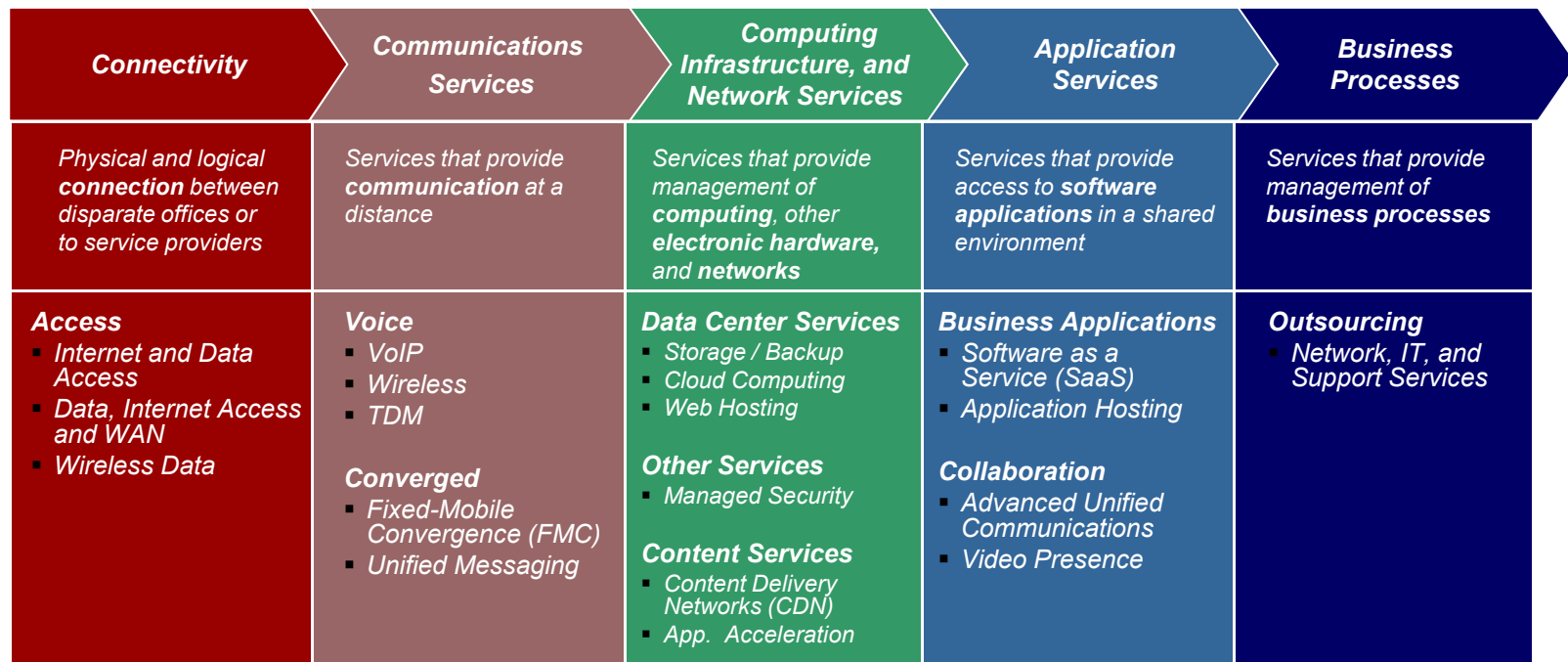
Agenda: What SMBs and Mid-Market Enterprises Want from Cloud Services and SP Opportunities in the US

1. Market Dynamics and Context for SPs in the US
2. SMB / Mid-market Investment focus
3. Value Propositions that play to SMB/Mid-Market Enterprises
4. Vertical perspective
5. Summary– and Upcoming Research



Market Context

Managed services encompass a comprehensive value chain across multiple segments...

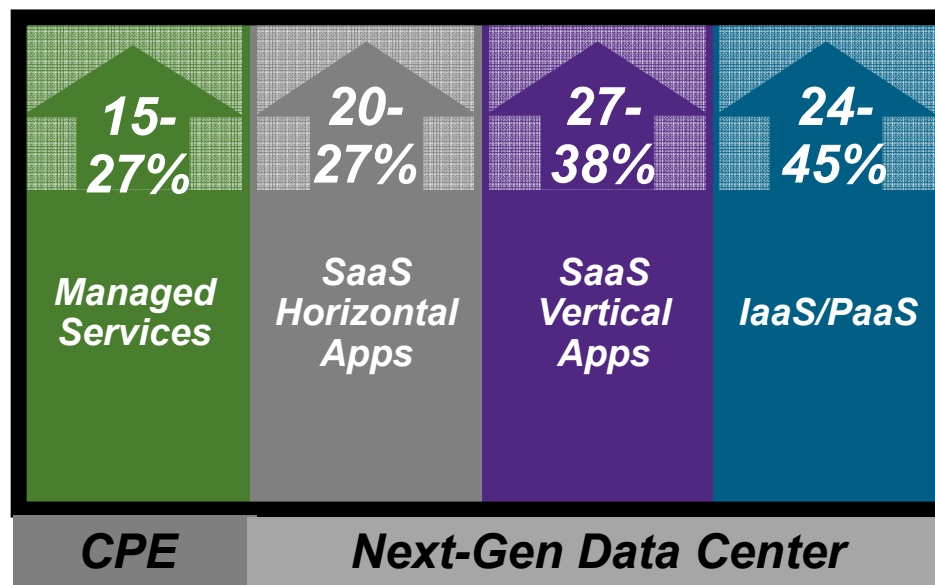


Small Business* (1-19 Employees)	~5.7 M Businesses with \$42 B spend	US
Mid-Sized Business (20 – 99 Employees)	~700 K Businesses with \$27 B spend	SMB
Small Enterprise (100 – 999 Employees)	~100 K Businesses with \$18 B spend	Focus
Large Enterprise (1,000+ Employees)	~9 K Businesses with 81B Spend	

Source: US AMI data 2010, *Excludes Home Office

...and this market is growing at a fast clip...

Year-over-Year SMB Adoption Expectations in Key Services Areas (CAGR through 2016)



On Premise

On Demand

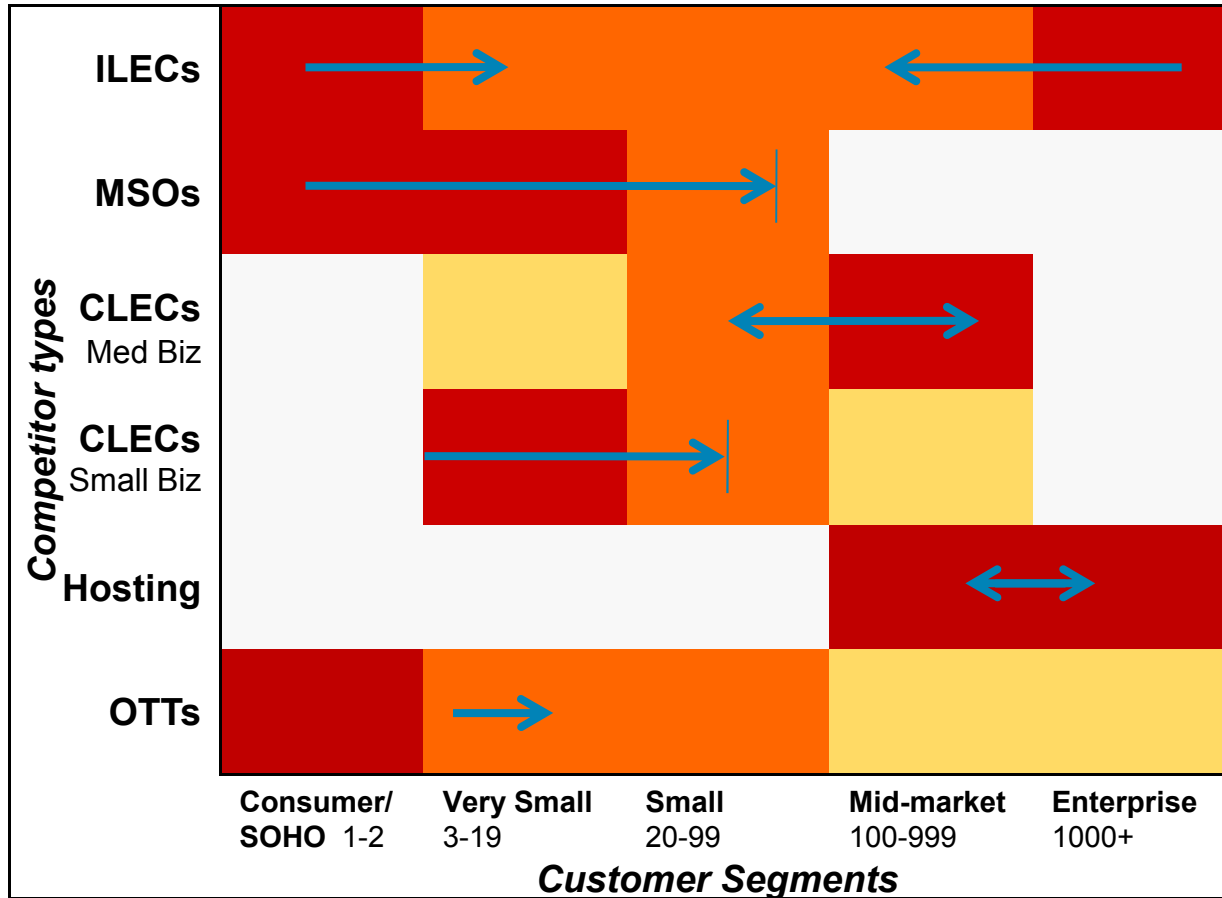
Growth is fueled by key business and market considerations:

- CapEx vs. OpEx
- Technology risks
- Core vs. context
- Economic uncertainty
- Lack of IT skills
- X as a service culture
- Virtual vs. in-person acceptance

Source: Cisco IBSG SMB Cloud Watch Survey, US, March 2011

* Combining basic services such as hosted email, webhosting, hosted security as well as emerging managed infrastructure services.

... resulting in increased SP investment in the SMB space.



ILECs are taking organizational and operational steps to capture share

MSOs are moving methodically up market (in region)

CLECs are expanding managed and cloud services in medium

CLECs are upgrading portfolios to avoid commoditization from Cable

Hosting companies are upgrading portfolios in the F1000 segment

OTTs are enhancing consumer offers and rolling out business offers

■ **Traditional Investment area**
 ■ **Emerging Investment area**
 ■ **Opportunistic Opportunity**
 ■ **Little or no market**

Source: IBSG Analysis and Research, Contributions by IBSG Economics Practice



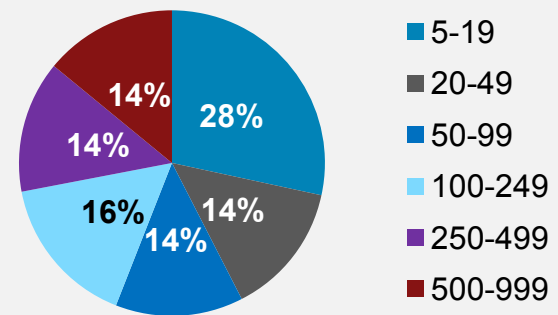
2

Current and Future Cloud Use: Key Investment Areas

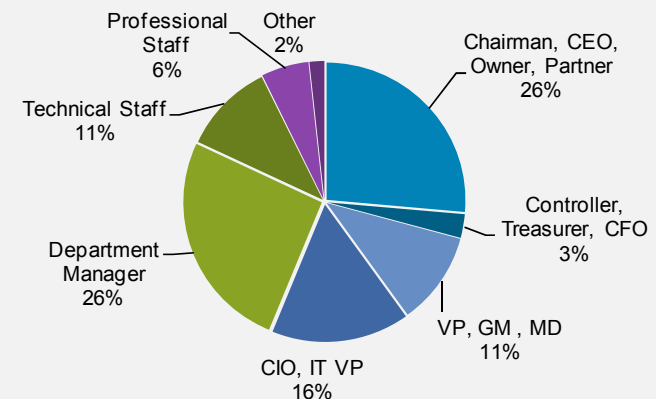
In March 2011, Cisco IBSG undertook research to explore SMB buyer behavior among SMB decision-makers

- Cisco IBSG undertook a refresh of our SMB Cloud Watch study in the US in 2011 to understand key buyer needs and behaviors
- The online survey covered 754 SMB decision makers
- Survey Objective
 - Current dynamics in SMB space (5-1000 employees)
 - New & emerging areas of spend for SPs to address
 - Needs, attitudes and buying behaviors
 - Go-to-market imperatives when addressing the SMB segment – value propositions, messaging, and solution development
 - Differentiation opportunities for SPs

Online Survey Respondent Company Size
(Number of Employees)



Survey Respondent's Primary Role 2011



Source: Cisco IBSG, March 2011

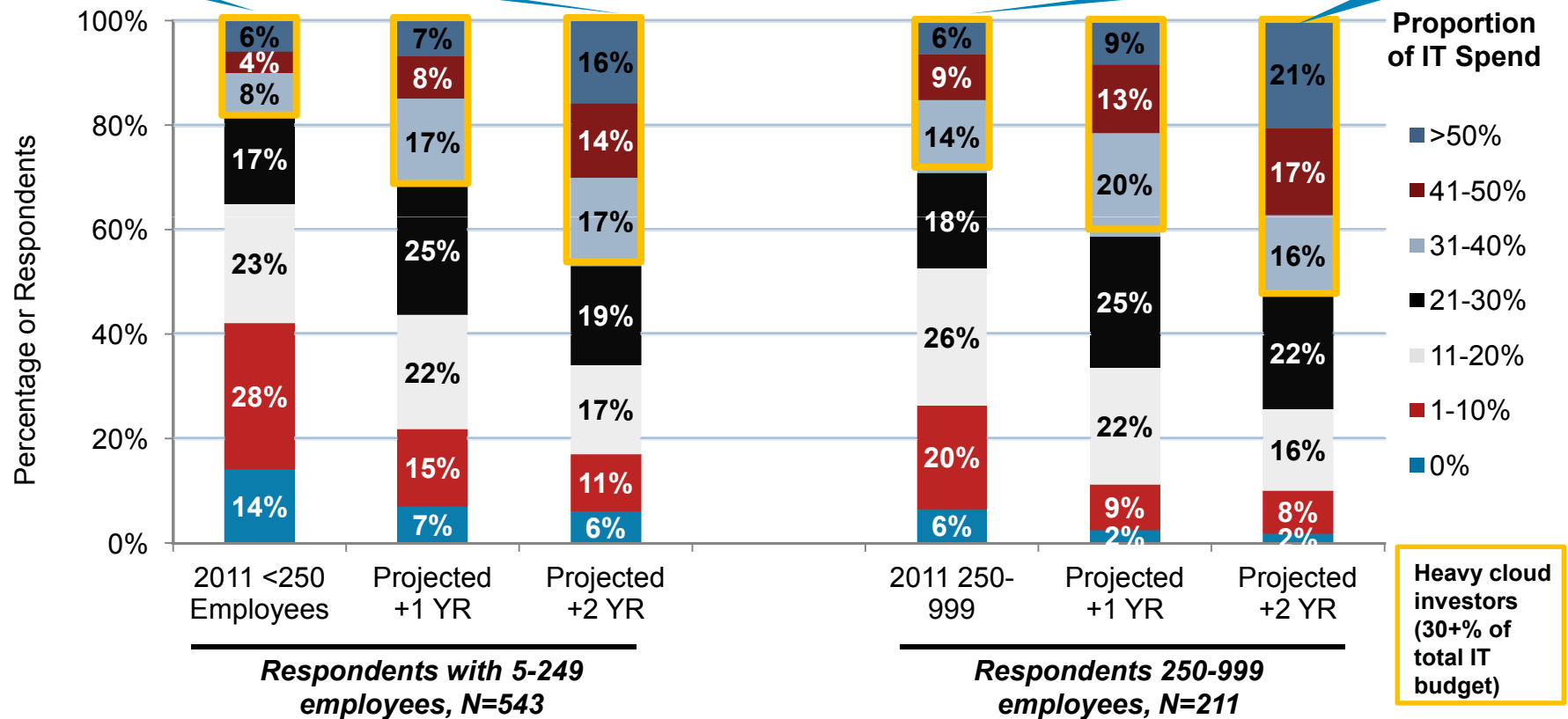
The investment focus is similar across both smaller and larger SMBs; larger SMBs are further along.

Proportion of Total IT Budget Spend on SaaS/Managed Infrastructure Services

Among SMBs <250 employees and All SMBs 5-999 employees

2.6 X from 2011 to 2013

1.8 X from 2011 to 2013



Q: What proportion of its total IT budget does/will your company spend on hosted or subscription technology services – now; in 2 years' time?

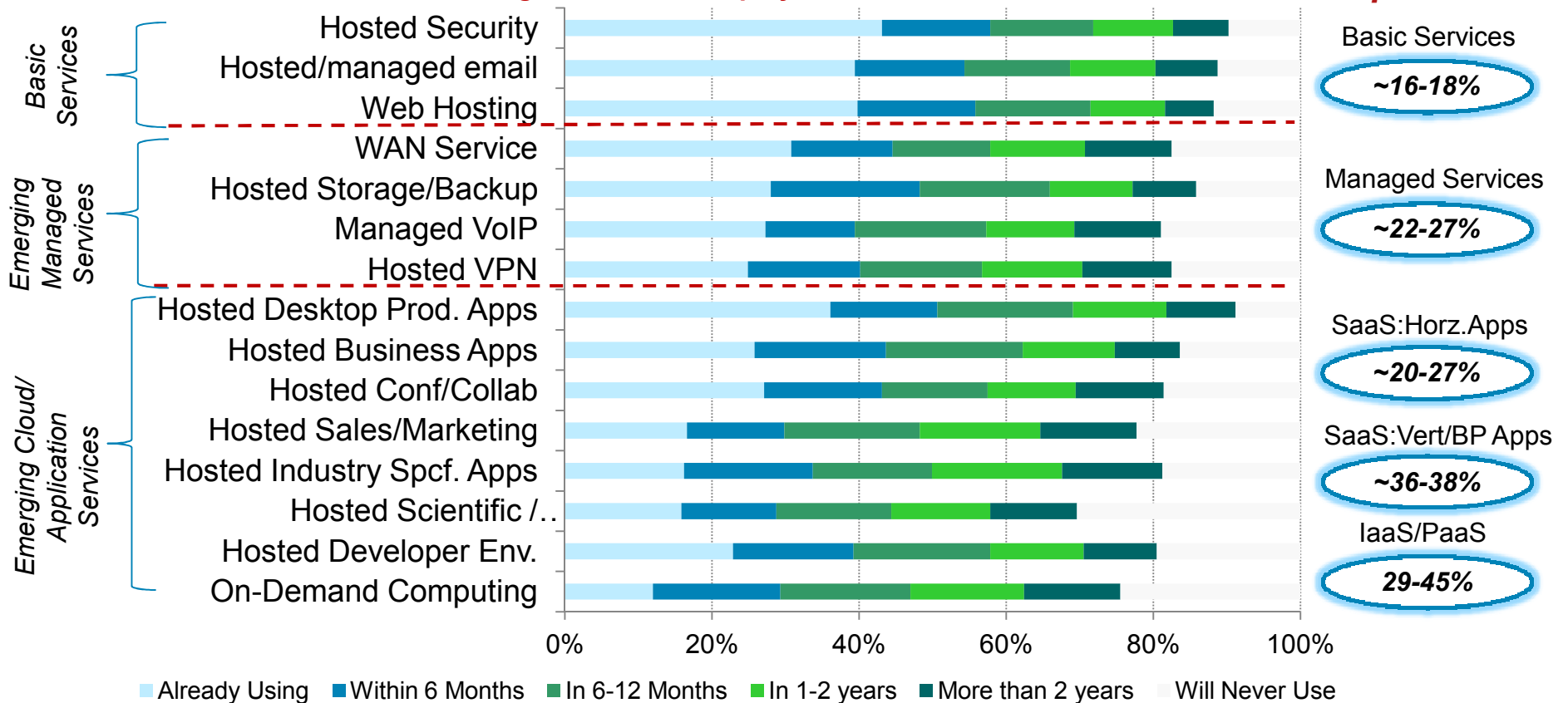
Source: Cisco IBSG, March 2011

Among small SMBs, the interest in using cloud services is high, with significant upside

2011 Current and Future Use Of SaaS and Managed Infrastructure Services

Among SMBs 5-250 Employees, N = 543

Growth Rates – Adoption Expectation



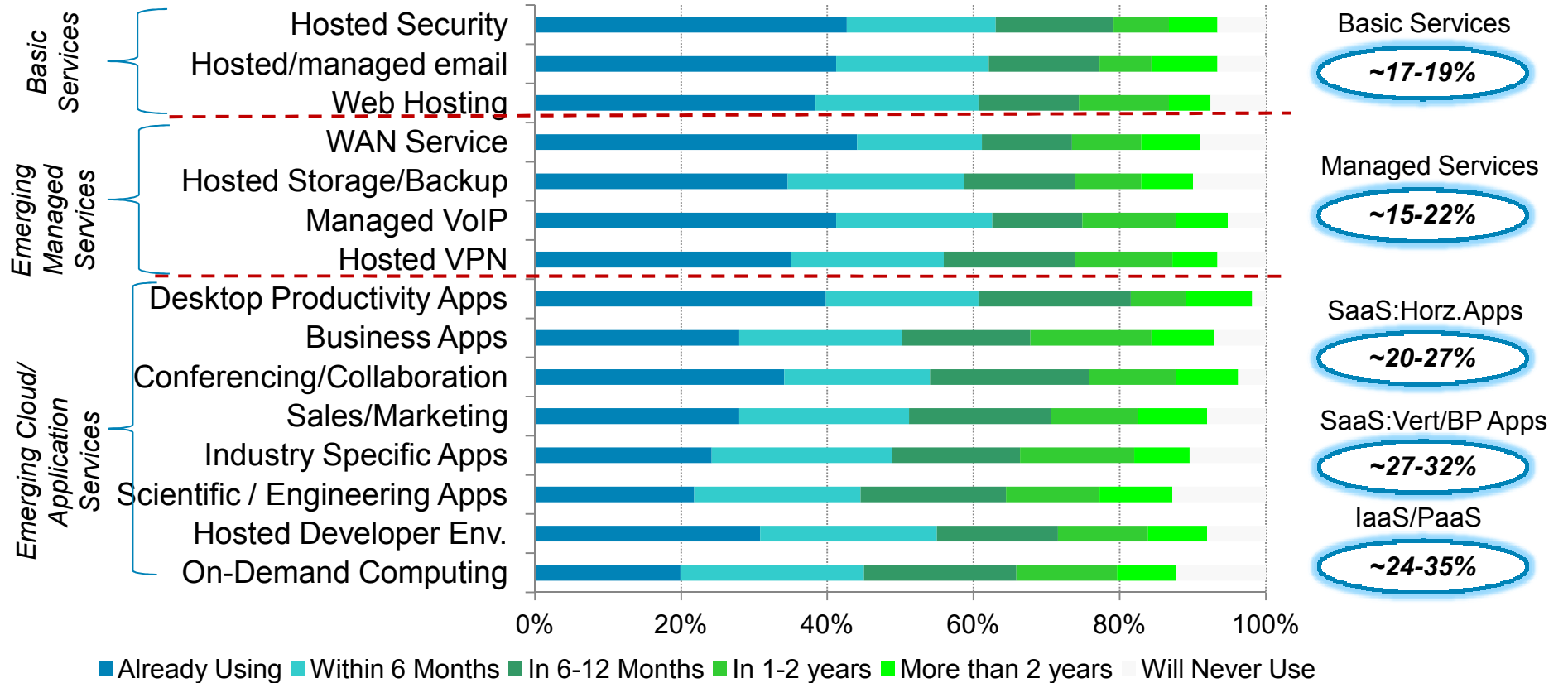
Q: When, if ever, do you anticipate your company will use the following hosted or subscription-based technology (also known as 'cloud') services for your software applications? AND When, if ever, do you anticipate your company will use the following hosted or subscription-based technology (also known as "cloud") services for your IT infrastructure? Already using, in less than 6 months, 6 months – 1 year, 1-2 years, More than 2 years, Never.

Source: Cisco IBSG, March 2011, expected growth rates assume 5 year adoption

Among larger SMBs, penetration among more advanced services is growing, but there is still pent-up demand.

2011 Current and Future Use Of SaaS and Managed Infrastructure Services

Among SMBs 250-999 Employees, N = 211



Q: When, if ever, do you anticipate your company will use the following hosted or subscription-based technology (also known as 'cloud') services for your software applications? AND When, if ever, do you anticipate your company will use the following hosted or subscription-based technology (also known as "cloud") services for your IT infrastructure? Already using, in less than 6 months, 6 months – 1 year, 1-2 years, More than 2 years, Never.

Source: Cisco IBSG, March 2011



3

***Value
Propositions and
Messaging***

Key Value Proposition Elements that appeal to the SMB segment



Security

- Small businesses know security matters and they will ask. They need help and education; they value offers where security is an integrated feature, not an afterthought.
- Security is a table-stakes issue: Messaging, value propositions and offers need to address security concerns.



Performance guarantees

- Small businesses have read about performance issues from OTT cloud providers and guarantees are a priority for them in selecting a provider
- SPs offer a unique value to the SMB space: they care about performance, availability and reliability. Unlike ISVs, System Integrators or OTTs, SPs are best positioned to provide end-to-end service guarantees.



Right-sized offers / bundled solutions

- Small businesses worry about complexity – and paying for features they don't need.
- They look for integrated solutions to their everyday problems: *'How do I connect and collaborate securely with colleagues remotely?'* or *'How do I get the basics for connectivity, security and communications to get my office up and running?'*



Price vs. TCO

- Small businesses care about price and focus on solutions to help reduce expenditures. They also care about investment in time / resources
- Larger SMBs/Mid-market companies focus more on TCO and are willing to pay more for offers that provide additional or targeted value.



Education: Business- and Use-cases

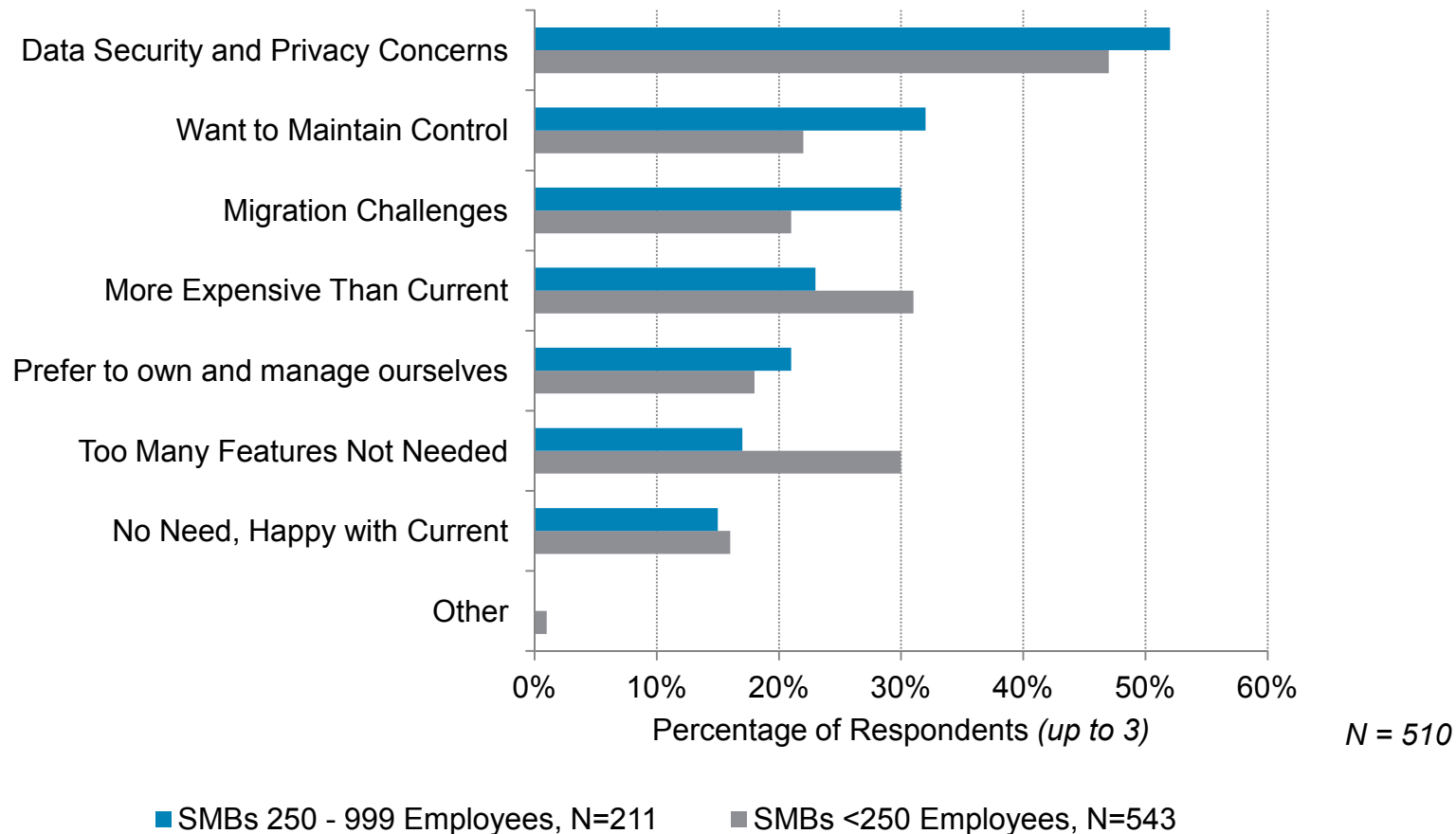
- Smaller companies need help making the case for investment in cloud / managed services – examples of every-day problems solved, use-cases, and business cases with TCO / value spelled out, can help connect the dots when switching to a cloud / managed services offer

Source: Cisco IBSG

Security concerns is *the* prime barrier to uptake among SMBs; larger SMBs also cite a need for control which suggests education is needed.

2011 Reasons for Not Buying Cloud Services

Among SMBs <250 Employees



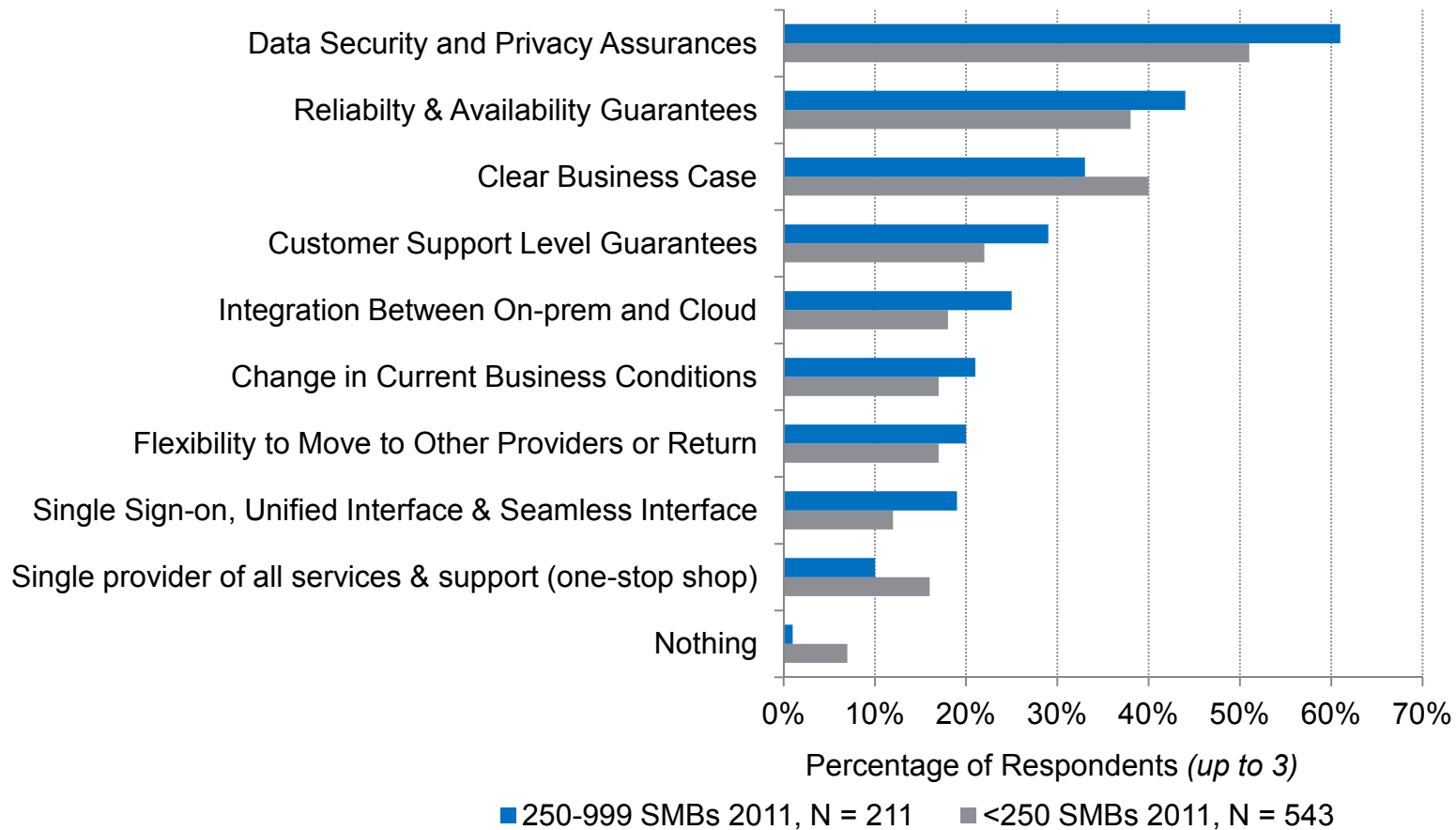
Q: What are the main reasons that you would not buy and use a hosted or subscription technology service (choose up to 3)?

Source: Cisco IBSG, March 2011

Guarantees (security, uptime/reliability) and a clear business case are key to encourage uptake.

2011 Increase Interest in Buying Cloud Services

Among SMBs <250 Employees vs. SMBs 250-999 Employees



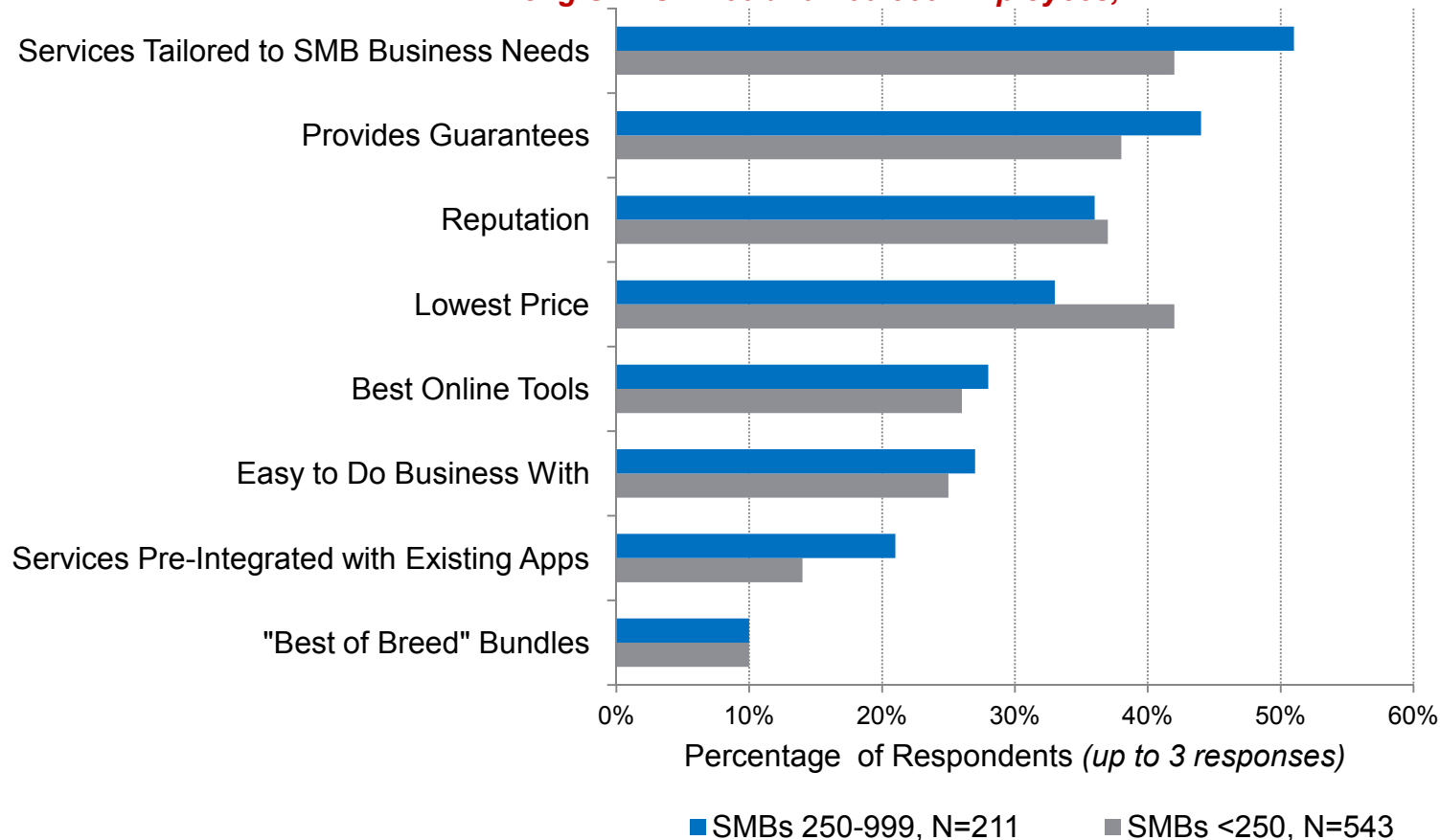
Q: What would increase your interest in buying and using hosted or subscription-based **cloud** services

Source: Cisco IBSG, March 2011

'Services tailored to SMB' is the top provider choice criteria; guarantees and trusted reputation are other key considerations.

2011 Cloud Provider Selection Criteria

Among SMBs <250 and 250-999 Employees, N = 211



Q: Which of the following would be the most important criteria when selecting a hosted or subscription –based software service provider?(Choose up to three)

Source: Cisco IBSG, March 2011



4

***Vertical
Perspective***

SPs look to target vertical industry segments as a point of differentiation

Vertical Markets

- Focused vertical markets represent a potential lucrative target
- Tend to rely on specialized technology / software / apps to deliver mission critical services
- Have specific needs, often driven by regulatory requirements, that SPs can help address (security/privacy guarantees, SLAs)



Implications for SPs

- The specialized nature of some industry segments require 'in-depth' industry knowledge to earn a 'seat at the table'
 - Implications for sales
 - Implications for partnering
- Linkages with specialized ISV/app developers is key as a way to enter
 - Implications for partnering / ecosystems to develop solutions (e.g. banking, health care etc.)

There are 3 commonly used approaches to targeting vertical markets

1. Talk the talk - No offer customization; messaging is the only differentiation
2. Differentiated offer & sales approach evolved from critical 'vertical' mass and ISV partnership
3. Vertically differentiated offer based on proprietary software assets in distributed billing targeting universities and hospitality (e.g. PAETEC)

Vertical approach 1: **Talk the talk** – No offer customization; messaging is the only differentiation

- Cbeyond is emblematic of many service providers who see verticals as important marketing tools, but don't offer a lot of differentiation
- Cbeyond claims to have offers for 3 verticals – but the individual pages are identical – with the exception of the headline (e.g. Law firm, Healthcare, etc.)
- The 'targeted' messages are in fact identical – as are the 4 focus areas called out as examples of how Cbeyond serves the interests of that particular vertical:
 - Staying connected
 - Increasing efficiency
 - Maintaining compliance
 - Managing faxes
- The detailed verticals with differences only (e.g. calling out what interest a given vertical has in a given upgrade option) are not the main differentiator
- Success stories are the main differentiator



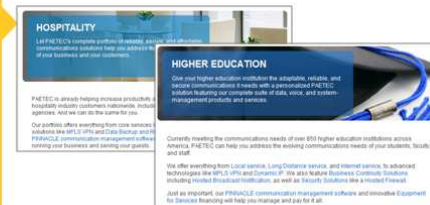
Vertical approach 2: Differentiated offer & sales approach evolved from critical 'vertical' mass and ISV partnership

- Optimum Lightpath is emblematic of the service providers who have a significant concentration of a specific vertical segment in their footprint – and who have developed deep experience serving that segment
- Optimum Lightpath's customer base is concentrated around the healthcare/hospital vertical and ~70% of hospitals in the New York Metro Area rely on them (35 of 36 hospitals on Long Island alone)
- While the offer per se is not different, the sales messaging and approach has evolved to specifically target the vertical. In the last 12 months, Lightpath has partnered with GetWellNetwork and Interactive Patient Care (they have the exclusive rights to the NY area)
- Optimum Lightpath's offer is differentiated, not the messaging



Vertical approach 3: Vertically differentiated offer based on proprietary assets (e.g. software solutions)

- PAETEC is emblematic of the few service providers who today offer a differentiated solution for target verticals based on proprietary assets
- PAETEC has a division that develops a patented software solution 'Pinnacle Communications Management' that among other things handles distributed billing (one customer – many individual bills) for the Education (universities) sector and for the hospitality sector
- The offer for these verticals is differentiated – as is the sales messaging and approach used to target these verticals
- Success stories and customer quotes are other differentiators
- PAETEC is working on broadening the solution set that Pinnacle addresses – and expanding its use into other verticals



Source: Cisco IBSG

Vertical Trends: Some verticals are much more cloud-aligned than others in their selection of services today

Type of Cloud Service	2011 SMBs 1-999*			
Basic Services	Prof Services	FIRE	Health	Other Services
Security	47%	39%	42%	37%
Hosted/Managed email	51%	33%	33%	35%
Web Hosting	46%	47%	30%	36%
Emerging Managed Services				
WAN service	39%	31%	32%	29%
Storage, Backup, Recovery	30%	30%	23%	31%
Managed VoIP	34%	28%	29%	23%
IP VPN	30%	24%	30%	25%
Emerging Cloud Services				
Desktop Productivity Apps	45%	33%	39%	34%
Business Apps	32%	24%	30%	21%
Conf. & Collaboration	39%	31%	26%	24%
Sales & Marketing Apps	24%	14%	14%	14%
Industry Specific	19%	20%	20%	8%
Scientific/Engineering	18%	13%	23%	13%
Developer Environments	23%	21%	27%	21%
On-Demand Computing	11%	13%	20%	9%
Forward Looking Priorities	Basic: Expand Mgd: Storage/VPN Cloud: IaaS Priority	Basic: Interest Mgd: Storage Cloud: IaaS, Biz Apps	Basic: Email Mgd: Storage/VPN Cloud: Industry Specific, CRM, On-Demand, Biz Apps	Basic: Interest Mgd: VoIP, Storage Cloud: Horizontal and Vertical Apps

* Directional Only – Small N, red circle = above average among verticals for each service category. Source: Cisco IBSG, March 2011

Vertical Trends: Some verticals are much more cloud-aligned than others in their selection of services today

Type of Cloud Service	2011 SMBs 1-999*			
Basic Services	Manufacturing	Construction	Retail	Media/Info
Security	42%	36%	43%	43%
Hosted/Managed email	29%	39%	45%	41%
Web Hosting	34%	30%	39%	43%
Emerging Managed Services				
WAN service	31%	27%	28%	29%
Storage, Backup, Recovery	27%	21%	25%	31%
Managed VoIP	30%	24%	25%	43%
IP VPN	24%	17%	28%	24%
Emerging Cloud Services				
Desktop Productivity Apps	28%	29%	34%	35%
Business Apps	19%	26%	25%	22%
Conf. & Collaboration	23%	16%	22%	33%
Sales & Marketing Apps	21%	9%	19%	29%
Industry Specific	21%	9%	15%	16%
Scientific/Engineering	22%	13%	19%	20%
Developer Environments	22%	20%	27%	31%
On-Demand Computing	15%	10%	19%	14%
Forward Looking Priorities	Basic: Interest Mgd: VPN, Storage Cloud: Vertical Apps, IaaS, Biz Apps, Collab	Basic: Web Hosting Mgd: Storage, VPN Cloud: Industry apps, Compute, Biz Apps	Basic: Interest Mgd: Storage Cloud: Biz Apps, IaaS, interest in Industry and CRM Apps	Basic: Interest Mgd: Storage - Priority Cloud: Compute – priority, Vertical apps

* Directional Only – Small N, red circle = above average among verticals for each service category. Source: Cisco IBSG, March 2011



5

Conclusions
Next Steps

Summary Themes: SMBs are investing in cloud; there is significant upside for SPs

1. SMBs awareness of Cloud has dramatically increased: Both larger and smaller SMBs are investing aggressively in cloud; by 2013, 50% of SMBs will be spending 30% or more of their budget on cloud and managed infrastructure services
2. There is a high pent-up demand for SaaS and Managed Infrastructure Services in the next 2 years; among larger SMBs the focus is shifting to more advanced cloud services
3. Security and performance assurances and guarantees are the key buying factors (and key barriers to adoption when not present)
4. 'Services tailored for SMB' is the single biggest drivers of provider choice; larger SMBs focus on this even more than smaller SMBs. Verticals value differentiated solutions that need to be taken into account in a vertical strategy.
5. Deep interest in SMB business-relevant, managed one-stop solutions for secure connectivity and collaboration (e.g. Connected Office, Collaboration)
6. SPs have a key asset that SMBs value – the ability to offer the differentiated network-based features SMBs want: QoS/ reliability and uptime guarantees, SLAs, security and privacy

Next Steps: IBSG Service Delivery and Go-to-Market Survey coming Summer 2012

- As a follow-up to the SMB Cloud Watch survey series, IBSG has launched a new survey effort focused on Service Delivery and Go-to-Market Themes.
- The survey will be in the field in ~June 2012 with results expected later in the summer.
- Key topics for deeper exploration include:
 - Company profiling
 - Desired product capabilities and specific bundles (e.g. UC offers, Video/Web Conferencing etc.), SLA expectations
 - Sales channel, skills and processes
 - Operational capabilities (provisioning, billing, care and field support)
 - Purchasing decision and SP selection



cisco

For further information contact:

Chris Osika

cosika@cisco.com

Tine Christensen

tichrist@cisco.com

Andy Young

andyoung@cisco.com

Definitions for Cloud Services

Chart Label	Definition
Security	Virus protection, firewall, spam filters. Excludes 'shrink-wrapped' software which includes updates/patches delivered as a service such as Norton, etc.
Managed email	Hosted or manages email services (e.g. Yahoo! Small Business Email, Google gmail for business)
Web Hosting	Company website hosting
Desktop Productivity Apps	Hosted or subscription-based desktop productivity apps (e.g. Microsoft Exchange, Microsoft Office, Google Apps)
Storage, Backup, Recovery	Hosted or subscription-based data storage, back-up and recovery (e.g. Mozy, Carbonite)
Conf. & Collaboration	Hosted or subscription-based conferencing or collaboration tools (e.g. WebEx, Sharepoint, Live Meeting)
Business Apps	Hosted or subscription-based business apps such as HR or financial software (e.g. Intuit Quickbooks, Microsoft Dynamics ERP)
WAN	Wide Area Network (e.g. AT&T)
VoIP	Managed Voice over IP, (e.g. Cisco)
Developer Environments	Hosted or subscription-based computing/developer environments (e.g. Google app engine, Heroku)
VPN	Hosted or subscription based Virtual Private Networks (e.g. IP VPN, Ethernet)
Sales & Marketing Apps	Hosted or subscription-based sales and marketing applications (e.g. Salesforce.com, GoldMine, ACT!)
Industry Specific	Industry-specific hosted or subscription-based business apps (e.g. point of sale systems, inventory management systems, appointment systems, ordering systems)
Scientific/Engineering	Hosted or subscription-based scientific and engineering apps (e.g. computer-aided design)
On-Demand Computing	On-demand computing capability, e.g. Amazon AWS / E2 Elastic Compute