What Do SMBs Want from Commercial-Services Providers?

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Insights from Cisco's U.S. Research on SMB Services Delivery

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Introduction

The small and medium-sized business (SMB) commercial-services market is important for all types of service providers, accounting for more than half of the total U.S. commercial-services spend (source: AMR Research/Gartner). Based on analysis by Cisco Consulting Services and supported by other research analysts, the portion of the U.S. SMB commercial-services market addressable by service providers is expected to grow to more than $200 billion by 2015. While that is a huge market, the commercial-services needs of SMBs have long been underserved.

Service providers of all kinds are eagerly trying to close this gap while tapping a huge opportunity. U.S. cable providers and multiple-system operators (MSOs) are enjoying tremendous double-digit growth as they expand from their traditional very-small business market to midmarket and larger SMB segments. SPs are increasing their efforts in the SMB market by expanding from an enterprise focus. Over-the-top web service providers are also actively launching new services focused on SMB segments.

The SMB market is complex, with companies as small as five employees to as large as 1,000 employees. With such different expectations, it is difficult to serve the SMB segment with existing services and legacy sales channels / operational capabilities. A number of complexities related to SMBs require unique service-delivery needs:

- SMB commercial-services needs and usages are very different from those seen in the consumer/SOHO and enterprise markets. SMBs require a combination of simplicity and low cost, with more advanced features and functionalities.
- The SMB market is composed of a wide range of companies where expectations, needs, and preferences for commercial services vary by business-size segments as well as vertical needs.
- The SMB market is in transition, fueled by cloud-delivery enablement, technology advancements, and increasing SP competition.

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As a result, it's a challenge to serve the SMB market's wide-ranging audiences at scale. The industry lacks a blueprint for creating a consistent service-delivery capability and strategy for SMBs. Service providers need a deeper understanding of who the SMB customers are and what they buy, as well as how they purchase these commercial services. To understand SMBs' expectations for delivery of commercial services, in August 2012 Cisco Consulting Services surveyed 761 U.S. SMBs from companies of five to 999 employees. The overall goal was to learn how SPs could best meet the commercial-services needs of SMBs.

Based on the survey results, this paper explores SMB service-delivery needs and service-provider implications in the following four areas:

1. **Who they are:** U.S. SMB characteristics
2. **What they buy (a):** emerging cloud opportunity
3. **What they buy (b):** commercial-services adoption
4. **How they buy:** service feature preferences

U.S. SMB Characteristics

The SMB market is defined as businesses of one to 999 employees. Given the wide range of sizes, the nature of business varies significantly according to size segments. This fundamental nature of business drives each segment's IT behavior and, thus, its commercial-services needs and usage. The key characteristics include site distribution, IT resources, and IT purchase behavior.

The market can be segmented into three groups — very small, small, and medium — with each exhibiting generally distinct characteristics. For example, 72 percent of very small businesses are single site, while 41 percent of small-sized and only 21 percent of medium-sized businesses are single site. Figure 1 shows how each segment differs in characteristics and, therefore, IT behavior.

Figure 1. Fundamental Nature of the Business Drives Each Segment's IT Behavior.

	Very Small (1-19)	Small (20-99)	Medium (100-999)
Site Location	• Primarily one location or very localized	• Localized geography	• Dispersed but national geography
IT Resources	• Limited or no IT resources • Minimal influence of IT professional	• Very few IT resources • 17% have dedicated IT full-time FTE (1.2 avg.) • Use local IT contractor	• Small but dedicated IT • 75% have dedicated IT full-time FTE (4.2 on average)
IT Service Purchase	• Web or call center by owner with limited inputs	• Web or call center by owner or manager, with inputs from co-workers	• In-house IT staff (FTE or part-time) are responsible for most
IT Purchase Drivers	• Business support needs • Price and awareness of SP service availability	• Operational efficiencies • TCO and security	• Business continuity and drive revenue growth • TCO, security, and scalability
IT Behavior	• Secondary to running overall business • Limited knowledge of technology and SP options • Simple point products • "Settle" for and remain with current services	• Secondary business function • Not familiar with new technology / services • Simple solutions • Most "settle" for current services	• IT as a main function • Aware of new technologies, but not the business value • Inexpensive solutions with kernels of large business functionality • Advanced but tried and tested

Source: Cisco, 2013; AMR Research/Gartner

The cloud market is especially important to service providers, as it has high linkage to – and differentiation potential with – network connectivity services.

Given the diverse nature of SMBs' characteristics and IT behavior, one single approach cannot address the entire SMB market. Service providers should take a segmented approach, in steps, to build capabilities in products, sales, operations, and so forth. The overall goal should be to address and target each segment.

Emerging Cloud Opportunity

SMBs are increasingly adopting cloud-based services. Definition and size of the market vary widely across research reports, but all point to a forecast of double-digit annual growth. Cisco analysis, based on third-party analysts' data, concluded that the SMB cloud market represented a $24 billion opportunity in 2012 and is ranked among the fastest-growing commercial-services categories. The cloud market is especially important to service providers, as it has high linkage to – and differentiation potential with – network connectivity services.

Linkage between cloud services and network-connectivity services presents an upside if providing cloud services, and a downside if not supporting cloud services. Figure 2 shows that current Internet access providers are preferred for cloud services, presenting opportunities for service providers. At the same time, more than 60 percent are likely to switch to another access service provider if cloud services are not properly supported, presenting a threat of losing current customers.

Figure 2.   SPs Are Preferred for Cloud Services, but More than 60 Percent Will Switch Access Service for Cloud Support.
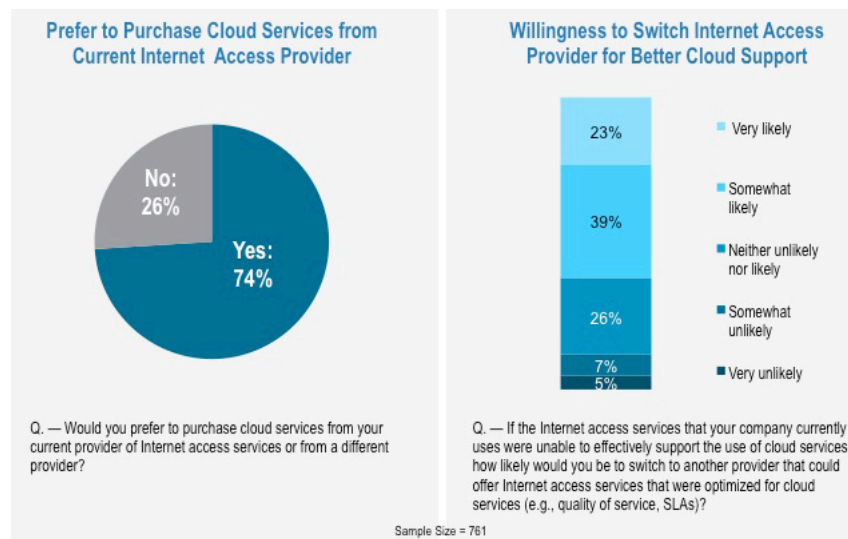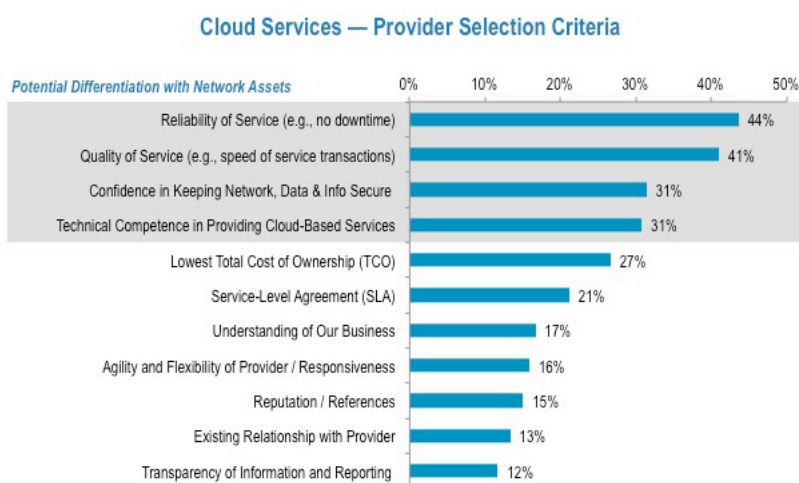

Source: Cisco, 2013

Currently, SMBs mostly depend on over-the-top cloud providers for their cloud needs. However, service providers have the assets to differentiate and compete. The most important criteria for SMBs in choosing a provider of cloud services are those that align to potential differentiation with network assets. These include reliability, quality, security, and technical competency.

Bundled services have long been an important part of SMBs' commercial-services adoption.

Asset-based service providers (telcos, cable / MSOs) gain a unique advantage if they use their networks' strengths to provide differentiated services, as shown in Figure 3.

Figure 3. Network-Based SPs Have the Assets that SMBs Consider Most Important for Cloud Services.

Cloud Services — Provider Selection Criteria

Q. — What do you consider to be the most important criteria when choosing a provider of cloud services?

Source: Cisco, 2013

Given cloud capabilities' linkage to network assets and their potential for differentiation, service providers should embrace them. Building and providing cloud services would help capture a fast-growing market as well as protect/increase network-services share.

Commercial-Services Adoption

SMBs use a variety of commercial services. Even those advanced services that are thought to focus on enterprises are gaining traction among SMBs, especially within larger-sized segments. Advanced services include managed IT services, such as managed network and security; fiber-based services, such as Ethernet; and hosted services, such as cloud, unified communications (UC), and hosted voice over Internet Protocol (VoIP).

Bundled services have long been an important part of SMBs' commercial-services adoption. The main reasons SMBs seek bundles include reliability, quality, integration, ease of doing business, and discount. This preference to bundle extends to advanced services. Figure 4 shows that more than 40 percent of advanced-services users prefer to buy those services in a bundle. It also shows that the preference to bundle greatly increases with adoption, and presents advanced services as a bundled upsell opportunity.

Adoption of advanced services increases with business size within SMBs. These services are gaining traction, especially as a bundle with access service.

Figure 4. Preference To Bundle Greatly Increases with Adoption.
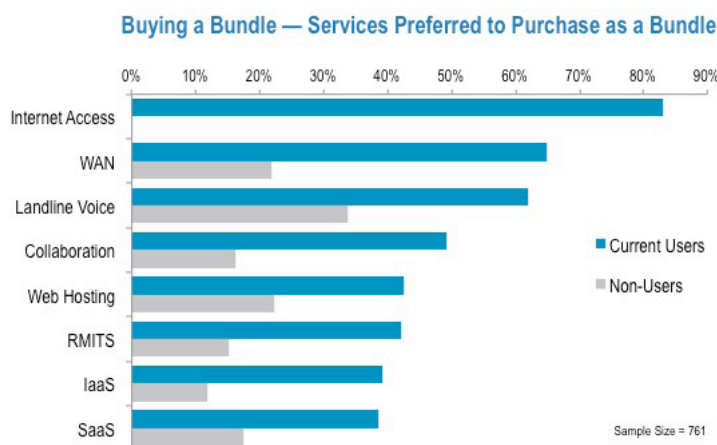
Source: Cisco, 2013

Service providers are well positioned to be the providers of bundles. Telcos and MSOs are seen by SMBs as the most-preferred service providers for commercial-services bundles. Also, when buying a bundle, SMBs consider Internet access as the lead service to anchor the bundle decision.

Adoption of advanced services increases with business size within SMBs. These services are gaining traction, especially as a bundle with access service. A compre-hensive services portfolio is required for moving up within the SMB market. To promote and upsell, service providers can leverage core access services as foundational to bundling.
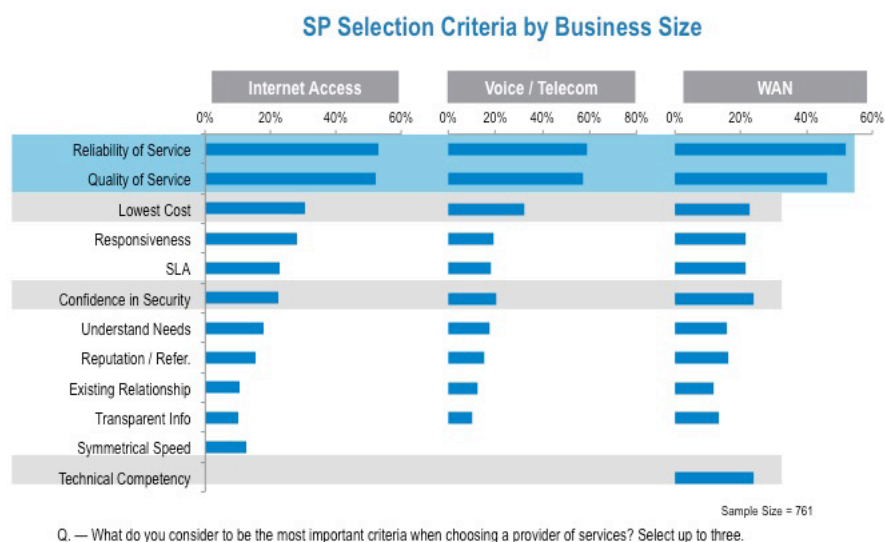
Service Feature Preference

In general, price is considered the most important influence on SMBs' purchasing decisions. This may be especially true for overall technology decisions. For example, cost considerations may drive SMBs to settle for shared Internet access over dedicated fiber access. However, when it comes to selecting providers, price is not the most important criterion. In fact, SMBs look for reliability and quality of service ahead of price.

As shown in Figure 5, more than 50 percent of SMBs consider reliability and quality of service to be the most important factor in choosing a provider for access, voice, and WAN services. For Internet access, features such as higher speed and uptime would make the service more competitive than lower price.

All types of U.S. service providers are placing an increased emphasis on the SMB commercial-services market. The size of the market, combined with the growing demand for new services, presents a vast growth opportunity for SPs.

Figure 5. Reliability and Quality Are the Most Important SP Selection Criteria.

SP Selection Criteria by Business Size

Q. — What do you consider to be the most important criteria when choosing a provider of services? Select up to three.

Source: Cisco, 2013

Surprisingly, service-level agreements (SLAs) are important to SMBs. While the perceived level of SLAs may vary, the majority of SMBs believe they have SLAs for their current services. Perceived requirements for SLAs increase for the midsegment and for cloud services.

While cost may drive SMBs' technology decisions, reliable and quality products, along with interactive and easy-to-use support, generate sales against the competition.

Conclusion

All types of U.S. service providers are placing an increased emphasis on the SMB commercial-services market. The size of the market, combined with the growing demand for new services, presents a vast growth opportunity for SPs. However, complexities related to services needs and usages make it challenging to address the market. A deeper understanding of SMBs (who they are and what they buy, as well as how they buy commercial services) will be required if competitive service-delivery capabilities are to be developed.

Based on the findings from this study on SMB service-delivery needs, service providers should consider the following implications and strategies:

- **Segmented approach, in steps,** to build capabilities that address and target each area within the SMB market

- **Cloud-services capabilities** to capture a share of the growing market as well as protect/increase core network services

- **Comprehensive services portfolio** that includes advanced services for larger segments, leveraging core access services in a bundle to promote and upsell

- **Reliability and quality of product,** along with support capabilities to drive differentiation

The SMB commercial-services market represents an essential opportunity that should not be missed. Service providers must plan their strategies to realize its promise.

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