Market Review and Outlook: Small and Medium Business Needs of Internet-Based Services

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ABSTRACT

In this report, readers will learn about the specific needs of small and medium businesses that prefer to buy services from resellers of managed services. This unique perspective on the market is the result of a multi-year research study covering over 40 countries and responses from over 3,000 customers and the specific perspectives of small and medium businesses in the United States.
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Executive Summary

In this report, Verio examines the needs of small and medium sized businesses for web hosting and other business solutions that leverage the Internet. The information presented is the culmination of two years of effort the company has invested in developing a deep understanding of market trends and SMB technology buying behaviors.

Much of the information in this report was gathered during research commissioned by Verio. It was conducted by leading global analyst firms and synthesized by The Optera Group, LLC.

In Section 1, we examine how small businesses worldwide are using the Internet to achieve their business goals. We also discuss which products and services SMBs are adopting most rapidly. In particular, we focus on the evolving shift inside businesses from basic to advanced e-mail and web hosting services, as well as the role that SaaS and cloud services are starting to play in the SMB market.

In Section 2, we dissect the market to focus on the attributes of small business buyers who have expressed a preference for buying web-based services from resellers of managed services (resellers). This section presents a very pinpointed view on customer preference when buying from resellers. Here, we review the role resellers play with typical SMB buyers and which products and services are the best candidates for this cost-conscious, non-technical audience.

We end in Section 3 with our three key strategic recommendations for resellers looking to advance in the burgeoning web services space, taking into consideration the top learnings and the market direction for the upcoming year.
**Section 1 – Business Use of the Internet**

Verio engaged with The Optera Group, LLC (Optera) to conduct a primary research study on how SMBs around the world are using the Internet to achieve certain business goals and to evaluate user preferences for buying Internet-based services. The study consisted of surveying 3,000 small (businesses from one to 100 employees) and medium (businesses from 101 to 500 employees) business owners and technology decision-makers from 23 countries.

The surveys were fielded in local languages and final results were collected in March 2010. Working together, Verio and Optera analyzed and interpreted the results of the survey in the spring of 2010. The remaining data presented in this paper are the results of this research, combined with Verio’s knowledge of the global marketplace. Please refer to the Appendix for further details on the study.

Initially, the research team explored how small and medium businesses currently use the Internet for business purposes. The chart below represents the responses from 200 US-based business respondents.

*Chart 1 – Current Business Use of the Internet*

![Chart 1](image)

*Chart 1 represents the percent of survey respondents who indicated that they currently use the service (Internet-based business services).*

The US has one of the highest use rates of advanced e-mail (Exchange or Lotus Notes) in the world, but one of the lowest use rates of basic e-mail (POP/IMAP) in the study. This indicates that a mature US market is slowly migrating from basic e-mail to more advanced business class e-mail offers. The same trend is apparent with web hosting, in which 52% of US respondents indicated using advanced corporate web sites, compared with a global average of 44%.

Respondents were asked how they see their use of the Internet changing over the next 18 to 36 months. For all categories, respondents saw their business use of the Internet increasing, but the survey indicated some differences in the degree to which uses will change.
Chart 2 – Future Use of the Internet

The data reveals that advanced corporate web sites show the strongest areas of growth in the next 18 to 36 months in the United States, with similar results globally. Advanced corporate web sites are a shift from a basic informational web site to one that provides detail on products and services and allows for interaction with customers.

Expected Growth of E-mail Services

E-mail marketing shows the second strongest growth rate in the US and is seen as a complement to services like advanced corporate web sites as businesses look to further monetize their web investments by promoting themselves to prospects and driving traffic to web sites. Not only does it point to the importance of offering product bundles, but it provides a clear upgrade path from basic to advanced offerings as key to serving the needs of this segment.

As mentioned above, services adjacent in use to web hosting – like e-mail marketing and web-based advertising – demonstrated some of the strongest growth potential in the US market. Resellers should take note of these trends as they look to establish their solution portfolios over the coming years.

In the US, basic e-mail services show the lowest propensity to grow over the next 18 to 36 months.

We see this as a result of three factors: the already high penetration levels of basic e-mail, the propensity for customers to migrate to more sophisticated and advanced e-mail platforms, and the challenges of basic e-mail offerings to effectively support mobile phone and smart phone users (a feature that is dramatically growing in importance). This would suggest that resellers should start becoming more acquainted with higher-end e-mail platforms as their customers begin to move away from basic POP based e-mail packages.
Adoption of SaaS and Cloud Services
Software as a Service (SaaS) and cloud services both show good future growth potential. In general, companies are more likely to embrace SaaS and cloud services as their organizations increase in size. Organizations with fewer than 10 employees showed notably less growth potential for SaaS and cloud offers than all other segments. In the US, organizations with 51 to 100 employees showed the strongest overall growth potential for SaaS and cloud offerings.

This is an important consideration point for resellers as they select products for their rate cards for the small business market.

Overall, the research team found the product needs of small and medium businesses to vary significantly. As a result, we recommend that resellers give close attention to the specific needs of customers they plan on targeting, particularly based on size or other requirements. The data above suggests that understanding customer segments and their associated needs will be more important than ever with emerging products like SaaS and cloud.
Section 2 – SMB Buyer Preferences

A central aspect of the research study focused on understanding small and medium sized business preferences for buying Internet-based business services. Based on respondents’ self-stated preferences about their preferred vendors, the research team categorized the 3,000 respondents into four unique groups or “clusters”. The four clusters are described as follows:

1. **Telco Buyer** – prefers to buy Internet-based services from telecommunications or broadband providers (“carriers”).

2. **Mixed Buyer** – prefers to buy Internet-based services from carriers and software houses.

3. **Agnostic Buyer** – no self-proclaimed preference for purchasing from any single type of provider.

4. **Reseller Buyer** – prefers to purchase Internet services from an IT reseller or consultant.

As Chart 4 indicates, the respondents look to carriers and resellers to provide them with Internet-based business services. This is good news for resellers; however, it comes with the caveat that to be successful, resellers will have to be required to put forward strong value add services.

![Chart 3 – Cluster Membership Based on Provider Preferences](chart-image)

*Chart 3 illustrates the percentages of small business buyers that prefer to buy Internet-based services: from carriers, from carriers and software companies, those without a preference, and those that prefer an IT reseller.*

According to the data, more SMB buyers prefer to purchase Internet-based services from their telecommunications carrier first, while resellers fall into the second position across all markets. Globally, the second most important provider to small and medium businesses is the reseller. This group includes IT consultants, value added resellers and other types of integrators and resellers. This reseller channel is very important to a large percent of SMB buyers, and gains in importance with the complexity of the solution being purchased.

1 Based on K-means cluster analysis.
Software houses play a smaller role as the provider of choice in the market, and take a noticeable back seat compared to carriers and resellers.

In the US, the same global trends apply, but with a stronger preference to the carriers and resellers. More importantly, approximately 77% of US respondents prefer to purchase from either a carrier or an IT reseller. In general, smaller organizations prefer to buy from carriers. As Chart 5 indicates, when organizations grow in size, their preference starts to shift toward resellers and mixed channels and away from carriers.

**Chart 4 – Larger SMBs Prefer to Purchase Through Resellers**

![Chart 4](image)

*Chart 4 represents the distribution of respondents by company size for the reseller segment and all respondents.*

**Growth in SMBs and Hosted Services**

For survey respondents who self-identified as Reseller Buyers, the research team examined how the group anticipates evolving their uses of the Internet for business services over the next 18 to 36 months. Globally, Voice Over IP (VOIP) and cloud-based IT resources tied for the highest growth segment for the Reseller Buyer. Web site/hosting, eProcurement, and Internet payroll rounded out the top six areas of future growth with almost identical growth rates.

We see the trends in product purchase preference as a very important point for resellers to understand. Customers are looking for a wide variety of products and services to purchase from resellers and do not appear to be “stove piping” resellers into any one particular category. This reveals strong cross-sell opportunities for resellers. For example, resellers who currently focus on VOIP or SaaS could cross-sell in web hosting or general cloud-based computing capabilities to their customer base. Conversely, resellers of web hosting could expand their influence with customers by picking up adjacent products, like e-mail marketing, as a cross-sell capability.
This point is reinforced by the fact that over 50% of US Reseller Buyers prefer to buy all of their services from a single provider. Resellers also represent the largest single group that customers go to for advice on making a purchase decision. Clearly, an opportunity exists for resellers to build an expanded rate card with a variety of complementary offers. This reveals a real opportunity for resellers to add solutions for customers as their needs expand.

Chart 5 – Increased Use of Internet-Based Services Over the Next 18 to 36 months for the “Reseller Buyer” Cluster.

Chart 5 represents the degree of anticipated change in use of the top 8 Internet-based services that respondents in the Reseller Buyer segment expect to see in the next 18 to 36 months.
**Importance of Specific Hosting Features**

As web hosting is one of the more critical business uses of the Internet for small and medium businesses, the team investigated a number of specific feature preferences for web hosting products as part of the survey. Chart 7 illustrates US respondents’ self-noted importance for web hosting products compared to the feature importance of all respondents from the Reseller Buyer cluster.

*Chart 6 – Feature Importance of Web Hosting Products*

1. Chart 6 represents the importance that the Reseller Buyer segment placed on typical features of web hosting plans.

   The data indicated that customers with very simple needs preferred to buy from telco carriers, but as their needs became more sophisticated, they preferred to buy from resellers. It appears that in terms of design and implementation, customers expect more services from resellers than they do from telco carriers.

   US respondents generally rate most features slightly higher in importance than the average of all respondents.

   Given the prevalence of Microsoft products on the desktop, resellers may look to enhance their overall skills with web and servers side products from Microsoft. Applications and services like Exchange and SharePoint have proven to be very popular as Internet-based services. The data indicates that when customers look to buy more sophisticated products like Exchange, the reseller becomes more important in their decision to buy.

   We examined this same feature importance analysis on SaaS offerings, as they represented the next most popular growth category for business uses of the Internet.
In the US, the attributes of Security, Availability, Performance and Application Functionality ranked as the most important. This trend again is very different than that of the customer who looked to purchase from telco carriers. When customers look to purchase SaaS solutions from resellers, they become much more concerned with application functionality and the quality of the delivery of the product. This suggests a more sophisticated need. Resellers should be aware of this point and use it to guide their due diligence when selecting vendors for both SaaS and web/hosting offers.

Customers who turn to resellers appear to have high quality expectations. Resellers who can provide higher quality solutions both in terms of the actual services being sold and the support are likely to benefit.

*Chart 7 – Feature Importance of SaaS Products, US Compared to All Respondents, Reseller Buyers Only*

*Chart 7 represents the importance that the Reseller Buyer segment placed on typical features of SaaS products.*

Again, to small and medium business customers, Microsoft-based platforms appear to be notably more important than Linux-based platforms. Rather than characterizing this as a general issue with Linux, we believe this is mainly due to the prevalence of Microsoft-based desktops and light business applications.

Contrary to the preference for a particular operating system, the preference for brand name applications is relatively low. This suggests that function and quality are much more important to customers than having a top-tier third party brand associated with an offering. This is a very important point for resellers to understand, especially when it comes to decisions about assembling their own solutions using open source tools versus reselling proprietary offers.
Section 3 – Summary of Recommended Key Strategies

In reviewing this research, we have noted several strategies that we believe to be highly important to resellers as they approach the small and medium business markets on a global scale.

1. **Focus on Quality** – When small and medium customers look to purchase from resellers, they tend to have stronger quality requirements than other providers in the market. Resellers should look to bring vendors on that can help them meet these quality requirements both in terms of service delivery and reputation.

2. **Product Mix** – The research clearly shows that when a business begins to make use of the Internet for business purposes, it does not use a singular path. It will use the Internet in multiple ways and will upgrade services over time. For resellers to address the needs of small and medium businesses properly, they should expand their rate cards to include other key adjacent services. This will also allow resellers to develop stronger relationships with customers and facilitate more cross-sell.

3. **Understanding Market Changes** – Technology markets change rapidly. With changes in both technology and access to technology, new opportunities present themselves to resellers every day. The launch of the iPad in 2010 to the US markets is a clear example of this. Resellers need to be constantly vigilant in surveying the market and its trends and adapting their business to meet evolving needs. By properly changing and adapting their rate cards, resellers will be better able to address customers and increase profits.

4. **Service and Support** – The research indicated that customers become more acutely concerned with service and support as they look to the reseller channel for purchases. This is most likely due to a new sophistication in their business needs and the increasing importance of technology in their business model. As a result, resellers should not only look to add high quality offers but offers based on robust service models. 24 x 7 x 365 support should be the norm and resellers should bundle local support efforts backed with strong vendor support to help these more sophisticated customers meet their business needs.
Appendix – About the Data

Beginning in January 2010 and concluding in March 2010, Verio collected 3,004 responses from small and medium businesses regarding their business use of the Internet. Collection of the responses was managed by the Global Markets Institute, Inc. (GMI) to ensure quality and consistency of the responses. Surveys were translated into local languages to ensure the most relevant responses possible. Exhibit 1 below shows response rates by country.

Exhibit 1 – End User Survey, Response Rates by Country

Exhibit 1 represents the number of respondents by country for Verio’s worldwide end user preference study.

The survey instrument design and data analysis was conducted by The Optera Group, LLC (Optera) in the spring of 2010. The results of this report are based on that analysis and other insights developed in the research process.

Respondents are approximately half business decision-makers and half technology decision-makers. The size of respondent organizations was evenly distributed between one and 500 employees.
The following definitions were provided to respondents when defining the various business uses of the Internet:

- Basic e-mail – simple web based e-mail (e.g. POP, IMAP, Google…)
- Advanced e-mail – e.g. Microsoft Exchange or Lotus Notes
- Basic corporate web site – a basic corporate web site to promote the business (simple web site with 10 or less pages and only basic company information)
- Advanced corporate web site – an advanced corporate web site to promote the business (provides detail on products and services and allows customers to interact with your business)
- E-mail marketing – e-mail marketing service that directs customers to your business
- Web-based advertising – a web-based advertising service that directs customer to your business
- eCommerce – web sites that allow you to sell your products over the web
- eProcurement – web sites that allow you to buy products or services over the web
- Internet-based banking – Internet-based banking services
- SaaS – business apps – Internet-based business application (e.g. accounting, CRM, Human Resources, collaboration…)
- SaaS – IT apps – Internet-based IT services (e.g. backup, antivirus, file storage…)
- Cloud – Internet-based IT resources or cloud services (e.g. data storage or data processing)
- VOIP – Internet-based phone service or Voice Over IP
About Verio, Inc.

Verio is the recognized industry leader in delivering online business solutions to SMBs worldwide. Distributed through its network of OEM and viaVerio channel partners, Verio’s solutions provide web hosting, application hosting and SaaS applications that enable SMBs to drive online success.

Incorporated in 1996, the company launched a successful public offering in 1998. In 2000, the company became a wholly owned subsidiary of NTT Communications, one of the largest companies in the world, and currently supports its operations through NTT’s highly reliable and scalable Global IP Network. Through this network, customers and partners can extend their global reach with access to business solutions around the globe and in more than 200 countries.

To simplify operations for VARs and integrators, Verio offers bundled packages that include Web hosting plans, Virtual Private Servers, Managed Private Servers and support for common business solutions including Microsoft Exchange, Sugar- CRM and others. This approach assures a robust IT infrastructure without a heavy management burden. More importantly, one can focus on customer relationships and the development of new value-added managed services.

To learn more about Verio or this report, please contact:

April Mirabella
Channel Sales Leader
303-708-2436
amirabella@verio.net

www.viaverio.com
About The Optera Group, LLC

The Optera Group, LLC, (Optera) is a professional services firm specializing in understanding the business value and strategic use of technology. Optera advises clients on their market strategies and the way their solutions create value in real-world implementations. Optera has extensive experience in IT best practices, business IT alignment issues and defining the Definitive Economic Value™ of technology investments.

To learn more about The Optera Group or this report, please contact:

Cole Sandau
Managing Director
cole.sandau@opteragroup.com
303-815-1654

or visit
www.opteragroup.com

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