

SMBs: Communications ROI Trumps Technology

2011 SMB Communications Plans and Priorities State-of-the-Market Report

Introduction

Small and Medium-sized Businesses (SMBs) are the backbone of our economy. The US Small Business Administration defines small businesses generally as those with 500 or fewer employees, which we define for this study as SMBs, although there are exceptions by industry.

These businesses, according to the SBA, account for 99.7% of all employer firms and employ just over half of all private sector employees. They have generated 64% of the net new jobs over the past 15 years and hire 40% of high tech workers (such as scientists, engineers, and computer programmers).¹

Nevertheless, this segment of the economy is often overlooked in technology trend studies that focus on larger enterprises. The closest that we come to addressing this market is to concentrate on SOHO (Small Office / Home Office) and ROBO (Remote Office / Branch Office) solutions. However, these solutions may or may not be a fit for SMBs because the SOHO/ROBO solutions are often a part of a larger Enterprise-based solution.

As a result, many SMBs are lagging behind in technical capabilities and advancement. As shown in a companion report (to follow), SMBs are seldom able to achieve the economies of scale that their larger counterparts enjoy as a result of being able to deploy a single solution to a large number of workers.

For example, researchers at Frost and Sullivan believe that around 25% of SMBs have deployed VoIP solutions to date.² By contrast, our recent study showed that among

¹How important are small businesses to the U.S. economy? <http://www.sba.gov/advocacy/7495/8420>

² <http://www.nojitter.com/blog/228500117>

larger mainstream Enterprises, 70% expected to make significant investments in installation and upgrades to VoIP and IP Telephony systems by April 2011.³

The result of this lack of technological advantage can result in massive competitive disadvantages. Again, the companion report will highlight that as much as 50% of a typical “Knowledge Worker’s” time in a SMB can be consumed by processes that are administrative rather than being directly related to their job. To monetize this, another source states that ““An SMB with 100 employees could be leaking a staggering \$524,569 annually as a result of communications barriers and latency.”⁴

Consequently, we feel that it is incumbent on us to provide this report both to assist SMBs in addressing more efficient methods of operation and to assist the industry in providing leading-edge services and products to this critical industry segment.

Key Findings

The key findings from this study, each of which will be examined in more detail, showed:

- Financial considerations to ensure the maximum performance at the lowest price are the primary drivers.
- Mobility and Unified Communications are recognized as key technologies.
- Most respondents see their current solutions as being “good,” but they also would like to improve their capabilities.
- There is a very high amount of interest in cloud-based solutions.
- There is an excellent prognosis for cloud-based AaaS (Anything as a Service), but the market opportunities are still emerging.

With responses collected in December 2010 and January 2011, the database used for the survey was highly selective. While there seemed to be broad consensus on most points regardless of company size, the results presented here are limited to respondents indicating that their company employed 11 to 500 people. At the larger end of the scale, the company typically starts to leave the SMB category. The very small companies – those with one to ten employees – were excluded because their communications solutions tend to mirror consumer-based solutions.

The targeted database also consists of relatively highly skilled professionals. In particular, all were either members of the Webtorials community – a quite technically-

³ [2010 Business Communications Drivers](#)

⁴ [SIS International Research](#)

oriented group – and/or individuals who already had demonstrated an interest in Cloud-based IP Telephony solutions. Thus, the results presented here are representative of the leading edge of SMBs, representing only the tip of the iceberg of the mass market. Trends identified here as shorter term should therefore be expected to be adopted by SMBs as a whole over the next few years.

It is also noteworthy that even though a number of responses were received from analysts and vendors within the industry, these results, while largely in agreement, are excluded from the analysis.⁵

Top Priorities

The primary focus of the questionnaire⁶ was to present the participants with an extensive set of statements and to query their level of agreement with the statements. In order to avoid “positional bias,” the order in which the statements were presented was randomized for each respondent. Additionally, there was a mixture of “positive” and “negative” statements so that the respondent would not be expected to “agree” with everything.

Figure One shows the six statements that were selected because of having the highest level of relevant agreement.⁷ First among these was “**Maximizing working capital and/or cash flow is a major consideration in our technology decisions**,” with a total of 88% of the respondents ranking it as either “Agreeing” or “Strongly agreeing.” While this may be considered to be self-evident, it is nevertheless significant in that it underscores that economic considerations still reign supreme.

The third statement in Figure One further underscores the importance of cost concerns to the respondents. “**Minimization of TCO is the ultimate goal of using services versus in-house systems**”, was ranked by 83% of those surveyed as either “Agree” or “Strongly Agree”. 64% of the respondents either agreed or strongly agreed to another statement (not shown): “**We prefer to have in-house rather than service-based offering because we can control costs**”

While these statements may seem on the surface to be contradictory, what they really show is that the SMB respondents are much less concerned about whether the solutions

⁵ [Detailed demographics](#) are available. [Webtorials](#) membership/[registration](#) required for access.

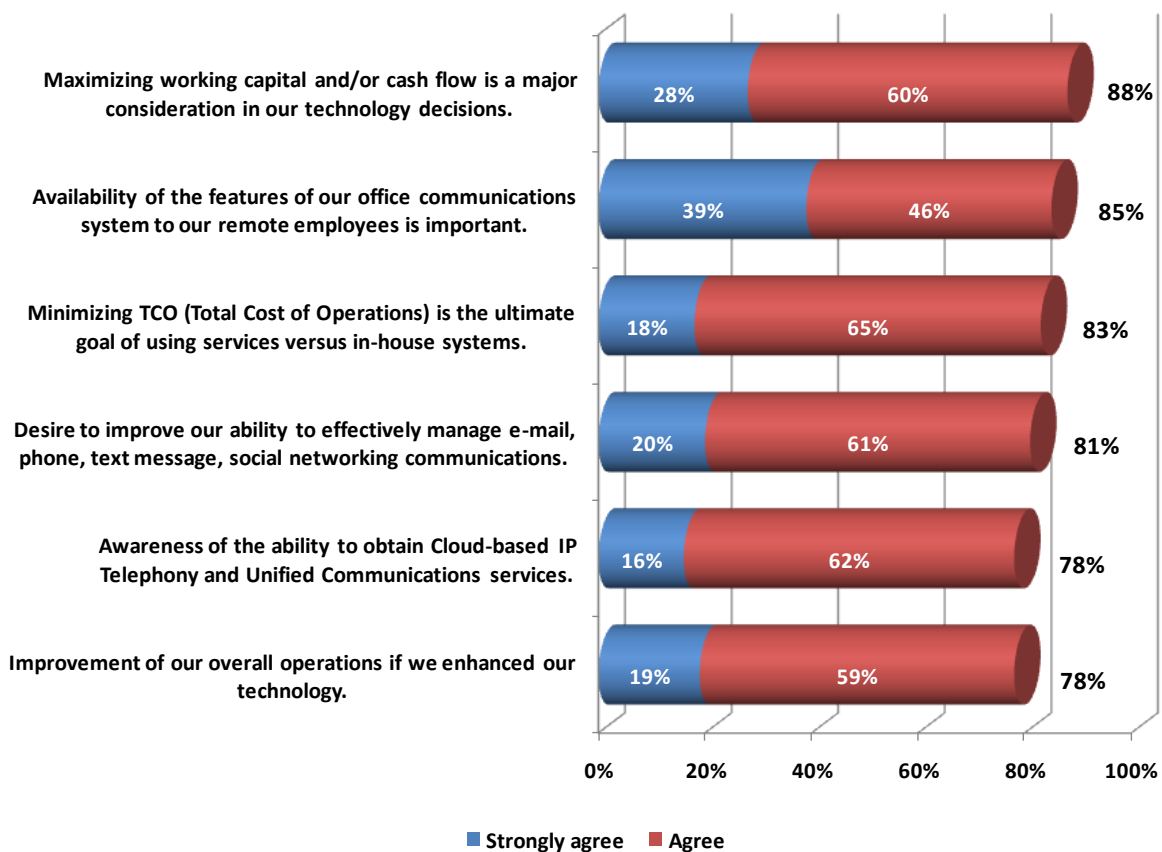
⁶ A [copy of the questionnaire](#) is available. [Webtorials](#) membership/[registration](#) required access.

⁷ Editorial discretion was used to choose relevancy. For instance, the most agreed upon statement was “Using standards-based technology is extremely important to us.” This is considered to be self-evident.

are service-based or premises-based than they are about the TCO of the solution. Nevertheless, the 19% difference in agreement re services and in-house solutions indeed indicates that whenever appropriate solutions are available as services, a service-based model is preferred.

The second statement, “**Availability of the features of our office communications system to our remote employees is important**” indicates that even though direct economics are very important, indirect ROI via increased productivity is also a major consideration. In fact, the “Strongly agree” numbers are highest here. Because of the highest overall percentage in “Strongly agree” responses, this statement achieved the highest ranking of all the questions when the relative importance is weighted.

Figure One. Statements with Highest Agreement



Question: Please indicate the extent to which you agree with each of the following statements...
Answer options: Strongly agree, Agree, Disagree, Don't know or N/A; “Don't know or N/A” answers were excluded from percentages shown.

This statement also is supportive of a very strong industry trend: mobility. The ability to access all information regardless of location is a key component in productivity. Further, as devices such as smart phones and pad/tablet computers become a major component of the network, the economic impact of these relatively inexpensive devices can have a major impact in SMB efficiency – leading to increased profitability.

The impact of smart handheld devices and mobility is also reflected in the fourth statement, “***Desire to improve our ability to effectively manage e-mail, phone, text message, social networking communications.***” The majority of readers will recognize this as a definition of “Unified Communications.” Once again, this gets back to the importance of efficiency of workers, resulting in overall cost savings.

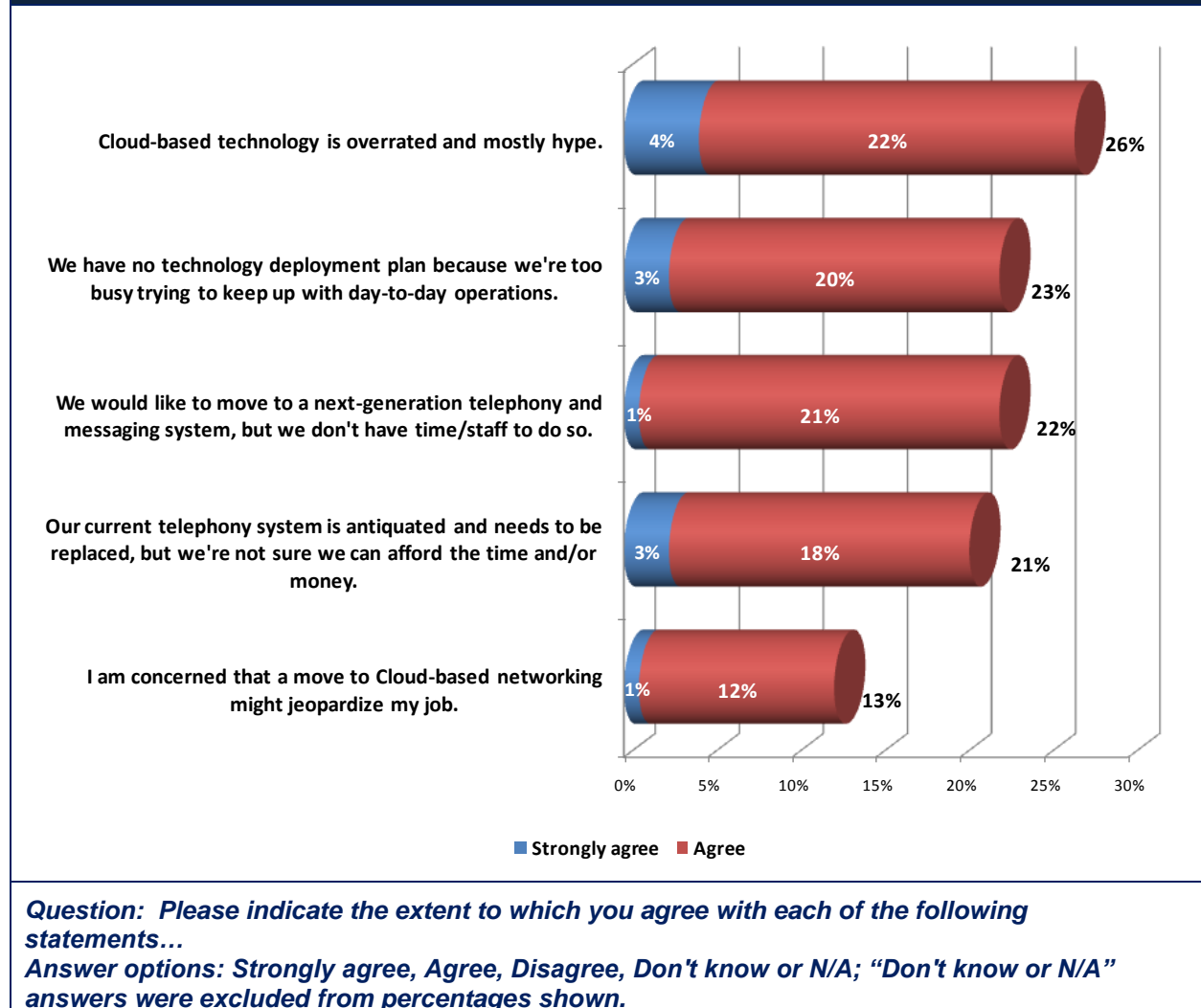
The fifth featured statement, “***Awareness of the ability to obtain Cloud-based IP Telephony and Unified Communications services.***” was a bit of a surprise in its high ranking. From our perspective, using these services in the cloud is a marvelous emerging option. On the other hand, the high awareness is probably an artifact of the sampled base being among the technological elite of the SMB community. Consequently, we still see a quite significant need for education with the majority of the SMBs.

The last of these top priorities, “***Improvement of our overall operations if we enhanced our technology.***” simply underscores the previous statement. All priorities come down to economics, but SMBs are quite eager to pursue paths that lead to a “hard ROI” – by which they accomplish current tasks at a lower price – and a more elusive “soft ROI” – by which one ultimately saves money by employing the most current technologies.

Top Priorities – An Alternate View

As noted above, the survey was designed so that there was a mix of “positive” and “negative” statements so that the respondents would not be expected to check everything as being a statement with which we would expect for find agreement.⁸

Figure Two. Statements with Lowest Agreement



⁸ Even though very low level of agreement does not necessarily reflect a high level agreement with the inverse statement, it's an excellent indicator.

Figure Two illustrates the statements with which the respondents were in least agreement. For the significant majority of those surveyed:

- cloud-based technology is not overrated
- if they have a technology deployment plan, they have the time / staff to implement that plan
- either they don't want to move to the next-generation telephony and messaging system or they do have the time / staff to make the move
- their current telephony system is adequate or, if they're considering updating it, they do have the time and / or money to do so
- they do not consider a move to cloud-based networking as a threat to their employment.

Three trends are of particular interest here.

First, the myth that IT professionals are reluctant to move to cloud-based (or other) services is shown to be exactly that. As will be shown in the companion report, these IT professionals are already overworked, so making the move from being a manager of equipment to a manager of services is not a major issue.

In fact, we postulate that the acceptance of and orientation toward a services-based model may be a more natural transition for the SMB professionals than for their Enterprise-based counterparts. The logic is simple. Enterprises have had the luxury of being able to afford relatively large IT staffs to support their in-house initiatives. By contrast, the use of services has been quite natural for SMBs. For example, while an Enterprise may have historically deployed a broad-based and sophisticated PBX voice network, the SMB may very well have either used a "Centrex" service or a carrier-provided small PBX.

Secondly, the fact that three quarters of the respondents disagreed with the assertion that "**Cloud-based technology is overrated and mostly hype**" indicates that there is strong acceptance of moving IT and communications functions into the cloud. While this sample is admittedly among the more technologically sophisticated cohort of SMB IT professionals, it nevertheless indicates that cloud-based services are being taken seriously, and SMBs are eager to make a move to these services.

Finally, the three remaining points all indicate that, at least in this group, the SMBs are ready to make a strong move into advancing their capabilities. They are not sitting idly by and leaving the rapid adoption of new services to the Enterprise. Rather, they are eager to embrace new solutions in order to enhance their all-important bottom line.

Conclusion

SMBs are clearly caught between minimizing and controlling their cost of operations and improving their technological advantage within their companies as well as for their customers. They are aware of cloud-based technologies and know that they can improve their operations through enhancement of their technology. They know they need improvement in their internal and external communication methods.

Moving to cloud-based technologies is of great interest because the move could provide:

- From a technical perspective:
 - more efficient methods of operations
 - leading edge technology to enable their employees / their company to be / remain on the cutting edge
 - enhanced communications: internally, remote employees and their customers
- And from a financial perspective:
 - hard cost savings in terms of asset investments
 - soft cost savings in terms of increased employee productivity

Minimizing impact on their total cost of operations, maximizing their working capital / cash flow, and markedly improving their overall operations (particularly in the arena of communications) are the factors that will drive the business decisions of these SMBs. Any proposal to upgrade their technological advantage will be met with open arms if appropriately presented with the proper background and education.

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This report was prepared by Steven Taylor, Co-founder, and Leslie Barteaux, Senior Analyst/Editor.

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Webtorials
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www.Webtorials.com

Division Cofounders:

Jim Metzler
jim@webtorials.com

Steven Taylor
taylor@webtorials.com

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