

SMBs: TCO Rules - and Cloud-Based UC Provides Solutions

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Background and Research Goals

Webtorials regularly surveys small and medium-sized businesses (SMBs) in an effort to stay abreast of their top-of-mind communications goals and biggest challenges. Polling SMBs about their level of education and expertise with the latest technology and service options helps the industry assist smaller businesses in running their operations more efficiently and, in some cases, to tap into new capabilities that historically have been reserved for larger enterprises with deeper pockets.

To this end, Webtorials surveyed more than 200 SMBs in November 2011 about their plans, priorities and challenges with IT and unified communications (UC) deployments.

• Survey Base Profile

The results presented in the following pages are limited to respondents who indicated that their company employs 11 to 500 people. The reason is that at the high end of the scale, companies typically start to leave the SMB category and enter the enterprise group. Responses from very small companies – those with fewer than 10 employees – also have been excluded because their communications solutions tend to mirror consumer-based alternatives.

• Methodology

The Webtorials SMB Web questionnaire¹ presented participants with an extensive set of statements and queried their level of agreement with the statements. 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 a respondent would not be expected to simply agree with everything.

¹ A [copy of the questionnaire](#) is available.

Economic and Market Overview

The U.S. Small Business Administration (SBA) defines small businesses as those with 500 or fewer employees, noting that there are exceptions that are usually industry-specific. As indicated, we have extended the under-500-employee definition to cover both small businesses and mid-sized businesses for purposes of this study with the same caveat that there will be exceptions to this categorization.

• Power in Numbers

Smaller businesses continue to form the backbone of the U.S. economy. Small businesses, according to SBA stats at the time of this writing, account for 99.7% of all employer firms and employ half of all private sector employees. They have generated 65% of the net new jobs over the past 17 years and hire 43% of high-tech workers (such as scientists, engineers and computer programmers). For more on small-business statistics and research, refer to the SBA's [Web page with FAQs](#).

Despite their substantial collective influence on the economy, smaller businesses are often overlooked in technology trend studies that focus on larger enterprises with bigger IT budgets. Traditionally, the closest suppliers have come to addressing this market is with small office / home office (SOHO) and remote office / branch office (ROBO) solutions. However, these aren't always an adequate fit for SMBs, because SOHO/ROBO offerings often are a component of larger solutions created for an enterprise's smaller, distributed sites. In such cases, the buyer has greater economic negotiating leverage with a given supplier because of doing business in volume to equip many sites, often both large and small, with hardware, software and services.

The enterprise might also have a centralized set of equipment and software in one or more corporate data centers connecting and interworking with these distributed locations. That setup is unlike the configurations in businesses comprising just one or two standalone sites.

• SMB Challenges

As a result, many SMBs lag their enterprise counterparts in technical capabilities and advancement. SMBs are seldom able to achieve the economies of scale that larger businesses enjoy, which can result in competitive disadvantages. [Webtorials research conducted last year](#) showed that as much as 50% of a typical knowledge worker's time in an SMB can be consumed by processes that are administrative rather than being directly related to his or her job.

Our study concluded that cloud-based UC could eliminate much of this productivity shortfall. For example, efficiencies created by UC in a typical firm with 50 knowledge workers earning salaries ranging from \$40,000 to \$110,000 can recover two hours a

day in productivity. The corresponding dollar amount of this time savings is valued at approximately \$950,000 annually.

Key Findings

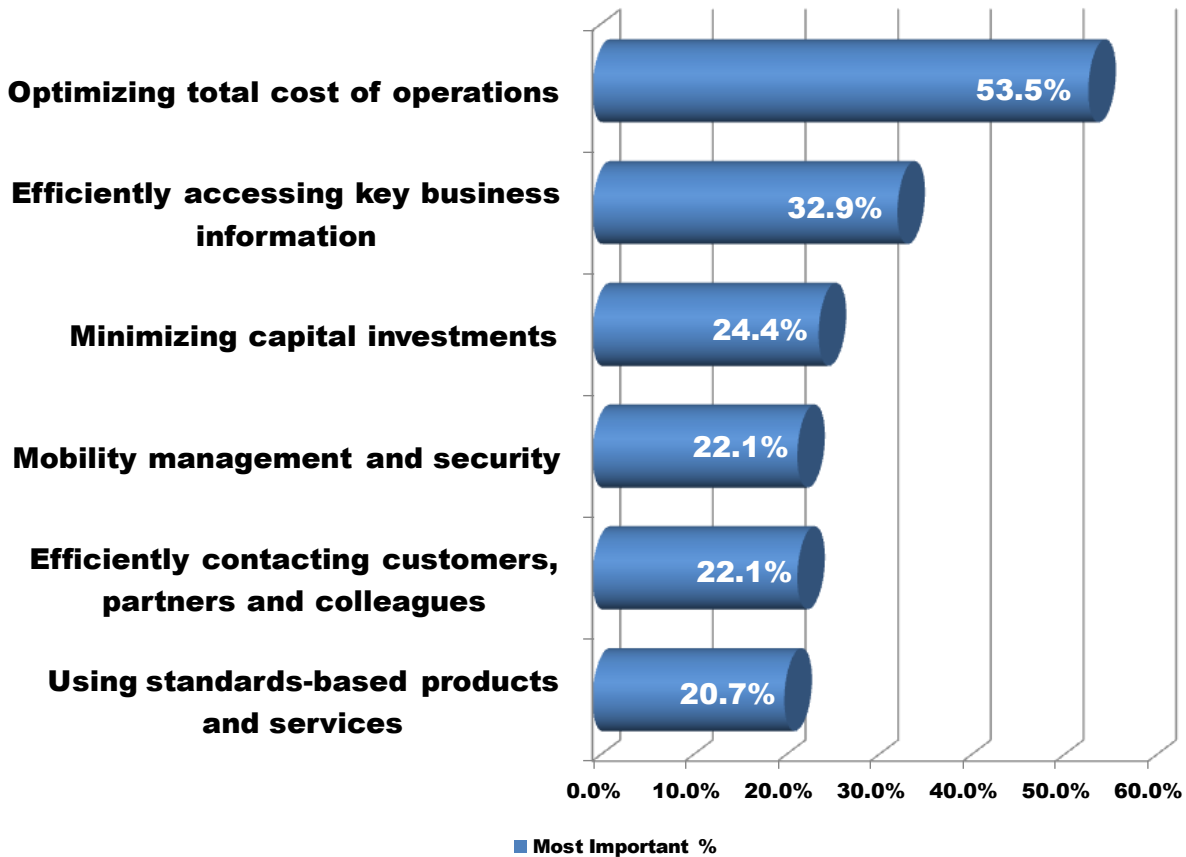
Findings in this report indicate that many SMB communications priorities and challenges have remained the same in the year since Webtorials last conducted our study. The biggest difference had to do with participants' level of understanding of cloud services; it has significantly increased. The key findings, each of which will be examined in more detail, indicated the following trends:

- **Cost containment is king.** Reining in total cost of ownership/operations (TCO) remains the biggest goal in SMBs.
- **SMBs have grown significantly more educated about cloud service options.** The potential of using "the cloud" as a great equalizer with SMBs' larger enterprise counterparts has apparently grown clearer. Far fewer respondents indicated that they need to get more educated about cloud technology and services.
- **In many instances, there's an inverse relationship between SMBs' priorities and their assessment of how attainable those priorities are.** Respondents often ranked the most important functions, features and goals as also the most difficult to achieve. Important-yet-difficult goals often had to do with containing costs.

Cost Concerns

Expenses remain a top-of-mind issue for SMBs, even as businesses are increasingly expected to do more with less to compete with organizations of all sizes. **Figure 1** shows that optimizing TCO ranks at the top of SMB priority lists. In addition, minimizing capital investments is also important to SMBs, falling between efficient access to business data and managing mobile environments in respondents' priority rankings.

Figure 1: SMB Top-of-Mind Issues



N=213

Controlling costs is the top priority for SMBs. Minimizing investments in capital equipment is similar in importance to IT goals such as the ability to access key business data, manage mobility and communicate efficiently with colleagues and others.

Part of the pressure on SMBs is the virtual nature of how commerce is now conducted. No longer are SMBs competing only with similarly sized and focused businesses that share a physical geographic domain. Instead, they are competing with any sized business offering similar products and services.

The Web, of course, makes it possible for any business to appear to be of the size and have the capabilities of a large, full-service organization. So to date, the Web has been the great equalizer among competitive companies, giving smaller businesses a shot at garnering business that was historically beyond their reach. At this point in time, the

challenge is to find the budget to scale and offer all the Web-based commerce and customer service bells and whistles that competitors with large IT staffs are able to deliver from their own data centers.

This situation has resulted in the lure of the so-called “cloud,” whereby organizations make use of hardware and/or software infrastructure owned and operated by someone else and simply pay for usage. The setup, depending on the services procured, avoids server capex; software licensing fees; and the cost of technology refreshes, updates and patches. It also reduces or eliminates the requirement for local IT staff and their associated salaries and benefits.

Cloud services generally are defined as those whereby users pay for their usage based on consumption, much as consumers assume an always-on, available pool of electricity from their local utility company and pay each month for what they have actually used. In the cloud, services can take the form of applications (software as a service, or SaaS); compute services (infrastructure as a service, or IaaS), and app development tool usage and storage (platform as a service, or PaaS).

This year’s research indicates that SMBs have grown considerably more familiar with the cloud concept (see section below).

Clouds Less Nebulous than a Year Ago

Our latest survey indicates that SMBs gleaned quite a bit of knowledge about cloud services during the past year. When asked whether they agreed with the statement, “We need more education concerning the advantages of cloud technology and services,” 63% agreed this year compared with 77% who agreed last year, a 14% drop (**Figure 2**).

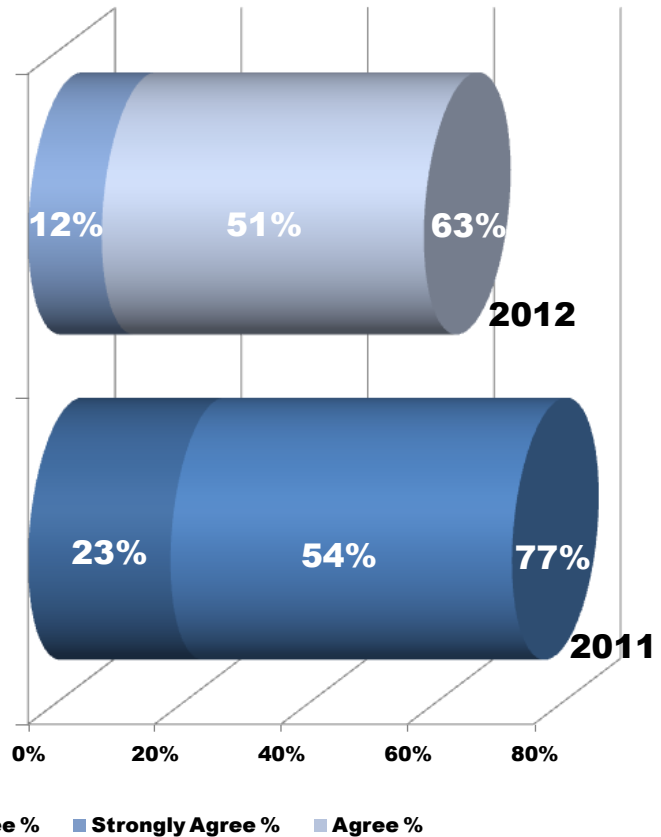
One can speculate as to the reason for the drop in the need for greater education. The primary reason is likely the avalanche of varying types of cloud services that have emerged alongside webinars, trade shows and conferences devoted to the subject during the past year. The trade press has dutifully followed the emergence of cloud services, their pros and cons, as another area of education. In addition, cloud service providers themselves have reached out to SMBs to explain how and why an outsourced infrastructure and pay-by-the-drink billing model has measurable cost and time-to-market advantages.²

² Ed Note: For example, the sponsor of this research, Fonality, Inc., has an [excellent series of videos available](#) that explore both the business case and the capabilities of cloud-based services.

Figure 2: Becoming Cloud Savvy

We need more education concerning the advantages of cloud technology and services.

(14% decrease from prior year's survey)



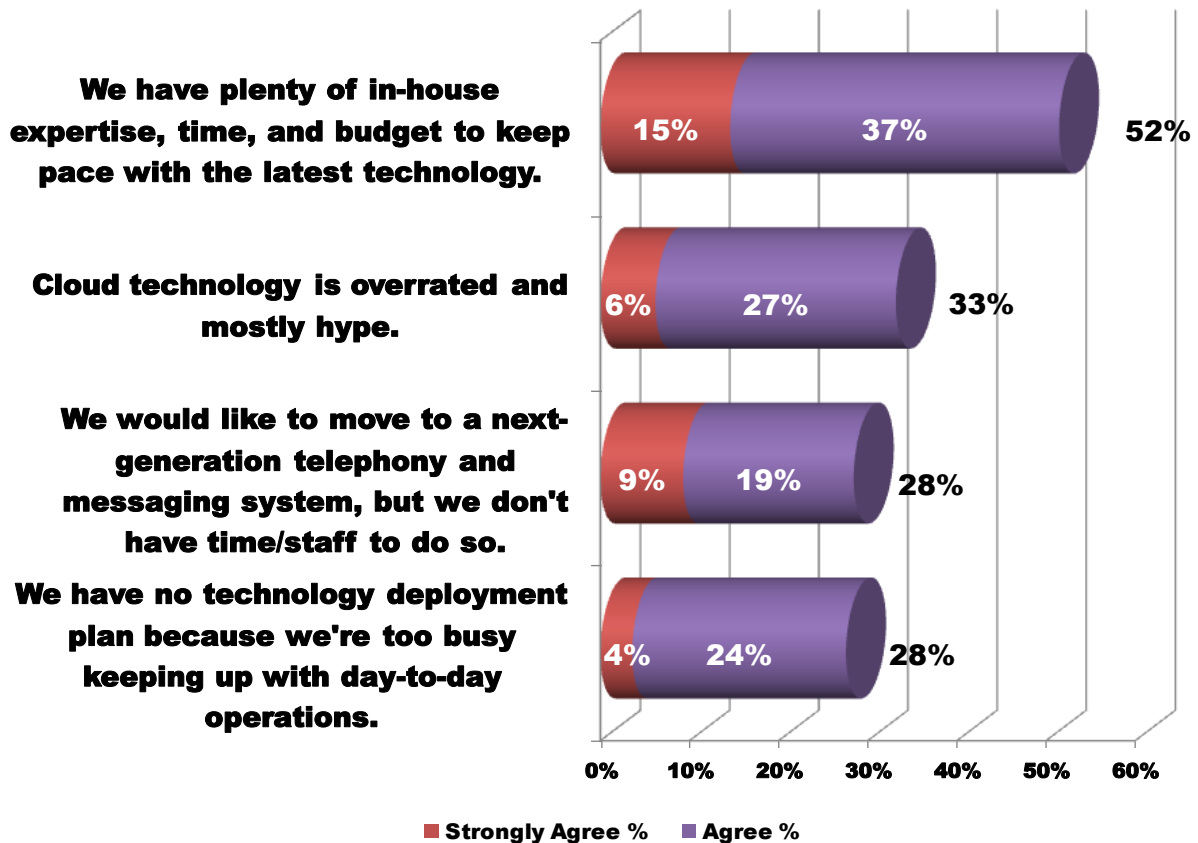
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Far fewer respondents said they needed more cloud education this year.

It's also possible that SMBs need less education now than they did a year ago because they have already begun ramping up with the cloud services they desire. Or, they may have done their homework and have determined that the cloud is not an option they wish to pursue further.

SMB responses to our survey indicate some ambivalence on this score; about half (52%) indicated that they feel they have the requisite in-house staff, time and budget to keep pace with the latest IT technology on their own. Yet 28% indicated they hadn't moved to a modern telephony and messaging system because of a lack of staff; 28% also said they had no technology plan because they were too busy keeping up with daily operations (**Figure 3**).

Figure 3: Room for Improvement?



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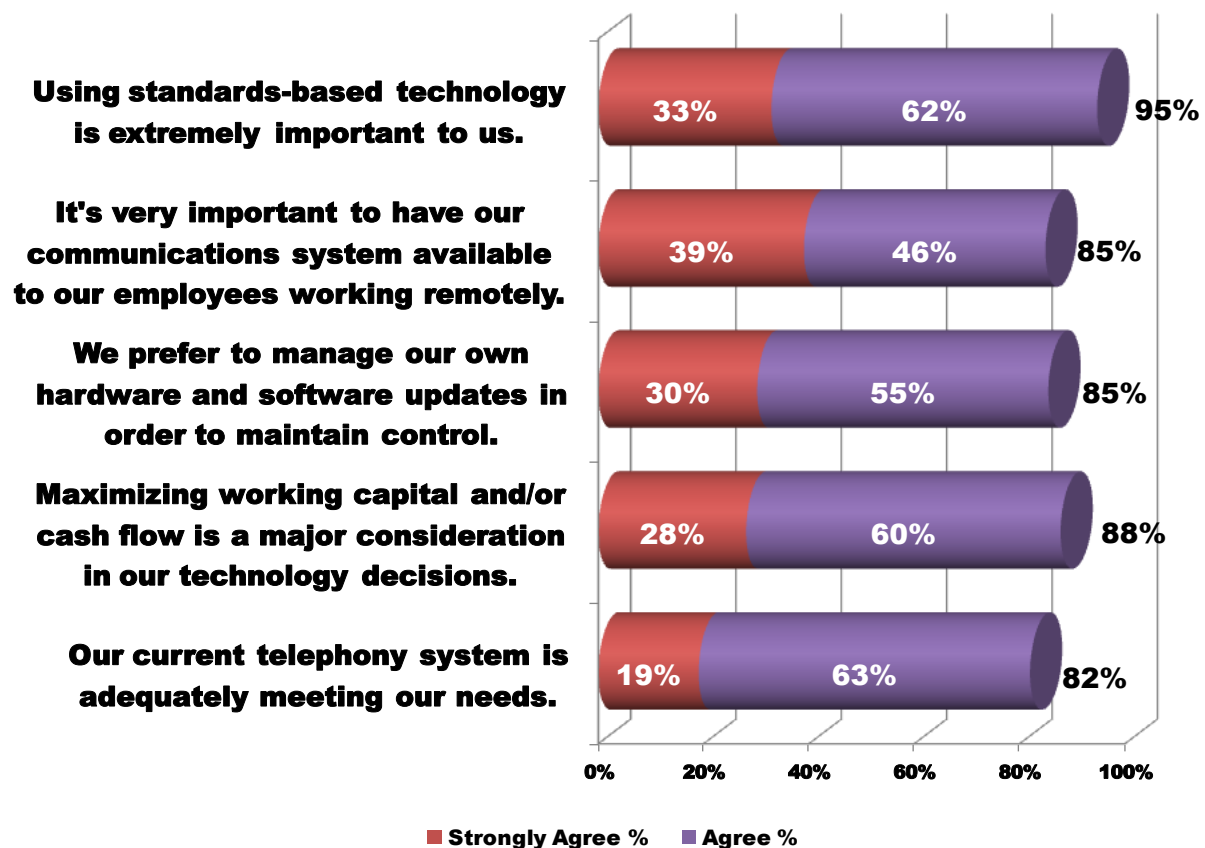
Respondents indicated the extent to they agreed with each of the statements, and this figure shows those statements with which respondents least agreed. Their answer options were Strongly Agree, Agree, Disagree, Don't Know or N/A. "Don't Know or N/A" answers were excluded from the percentages shown.

Figure 3 represents the survey statements with which respondents least agreed. Note that two-thirds disagreed with the statement that "Cloud technology is overrated and mostly hype." That left a third who agreed with the statement, either because they haven't looked into cloud and fall in the group that does still need more education or because they have investigated it, done the math and determined that there wasn't a business advantage in using cloud technology.

State of the SMB Market

Respondents indicated a strong desire to offer office communications system features and functions to traveling employees and those working from home (**Figure 4**), but said that maximizing working capital and/or cash flow remained a major consideration.

Figure 4: Where SMBs Stand



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Respondents indicated the extent to they agreed with each of the statements, and this figure shows the statements with which they most agreed. Their answer options were Strongly Agree, Agree, Disagree, Don't Know or N/A. "Don't Know or N/A" answers were excluded from the percentages shown.

• **Standards Ambivalence**

Nearly all respondents agreed that using standards-based technology was highly important (unsurprisingly), and, as shown in the next section, indicated that this goal was easily achievable. Responses indicated, however, that compliance with standards is more of a tactical, check-off item than it is a strategic, core goal. While the extreme importance of using standards ranked at the very top of the statements with which respondents agreed (95%), respondent attitudes toward technical standards were queried in a number of ways that yielded varying results.

For example, referring back to Figure 1, “using standards-based products and services” was ranked at the top of just 21% of respondent priority lists. The same question on priority rankings asked respondents to rate the importance of “adhering to technical standards,” which was ranked most important by just 7% of respondents. (This data point is also shown in **Figure 5** on page 11).

The implication of these varying responses is that while SMBs recognize the importance of technology standards, their concentration on getting the capabilities they need while toeing the line on expenses ranks supreme.

• **Word of Caution**

In the matter of standards, SMBs should be advised that although equipment and software can be certified as compliant with certain standards, interoperability is not necessarily ensured because of the standards support. This issue can be particularly tricky when it comes to UC applications and equipment. That’s because premises-based UC applications and servers from multiple vendors rarely interoperate, even though they might all be considered standards-based.

One reason has to do with there being a number of flavors of the Session Initiation Protocol (SIP), which establishes and controls video, instant messaging (IM), file transfer, games and other media sessions. Though SIP is considered an industry standard, different UC call server / IP PBX vendors’ SIP implementations don’t match up, creating “islands” of UC equipment and software within their customers’ businesses. Rather than being able to select favorite or best-of-breed UC applications for use with the vendor’s UC server of choice, businesses using an on-site solution often limit themselves to the apps developed by their UC server vendor – creating, in essence, a mini UC ecosystem in which some functions might shine while others might be inferior.

There are a number of related UC protocols and codecs that must be in line for full-featured application, system and IP network interoperability. For some SMBs, it’s simply easier to let the conversions and transcoding processes happen in the cloud, while they simply choose to use the UC and other applications they desire from a cloud services menu.

How Easy is it to Meet Top Goals?

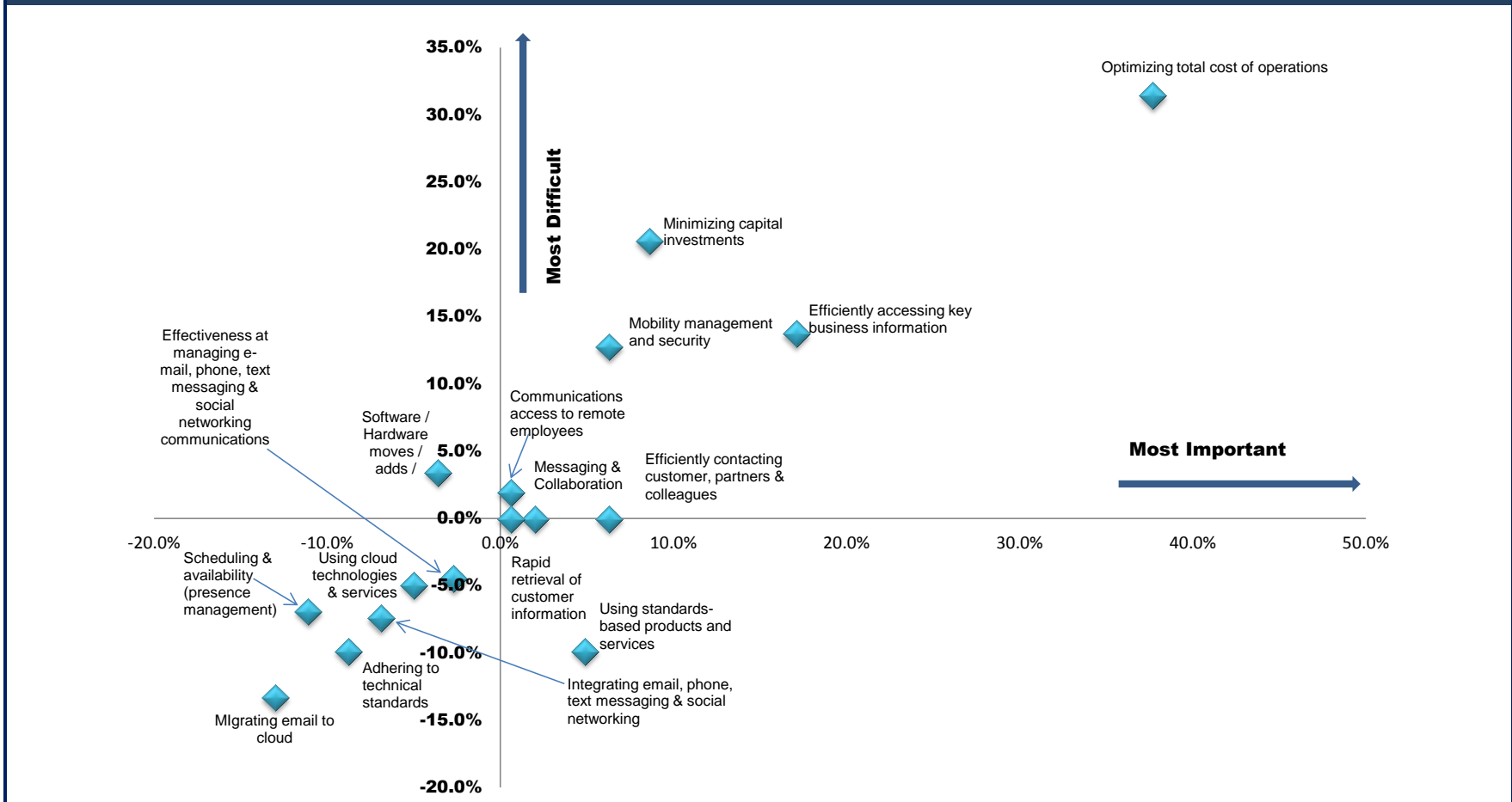
In several instances, there's an inverse relationship between SMBs' priorities and their assessment of how attainable those goals are. When respondents ranked the importance of their business and IT goals, their most important priorities were often also ranked the most difficult to achieve, and they often had to do with containing costs.

For example, as shown in the scatter chart in **Figure 5**, optimizing TCO was far and away not only the most important business goal, but the most difficult one. Figure 5 also shows that minimizing capital investments, which could be considered an element of optimizing TCO, ranked as the second most difficult goal to achieve.

Similarly, respondents ranked many less-important goals as easy to accomplish. The lower-priority items were more technology oriented and perhaps ranked as they did because many respondents had already achieved them.

The functions that struck the best priority-difficulty equilibrium were communications access to remote employees, rapid retrieval of customer information and messaging and collaboration. These all hovered around the desirable-but-easy mark at the intersection of the two axes of the scatter chart.

Figure 5: SMB Care-Abouts Compared to Difficulty Levels



The most important and most difficult capabilities are shown in the upper right quadrant. Those most challenging for SMBs are optimizing TCO, efficiently accessing key business information, minimizing capex and managing/securing the mobile environment.

Conclusion

SMBs are tasked with the divergent goals of controlling costs while improving their technological and competitive advantage amid a virtual commerce market in which businesses of many sizes and shapes can compete with one another. SMBs are growing increasingly aware of cloud-based technologies and services, which can provide an avenue for beefing up communications and customer relationship management capabilities to rival the cutting-edge solutions in use in the largest enterprises without having to invest in an entire hardware and software infrastructure to do so. Software-as-a-service (SaaS) cloud offerings for UC, for example, help SMBs enhance communications with local, traveling and home-based employees, as well as with customers and partners, without having to buy, manage and update server equipment, operating systems, application packages and per-user licenses.

Minimizing impact on TCO, maximizing their working capital/cash flow and markedly improving their overall operations (particularly in the area of communications) are the factors driving the business decisions of these SMBs. Proposals to upgrade their technological advantage are more likely to be embraced if presented with assistance in calculating the savings SMBs are likely to realize in doing so.

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This report was prepared by Joanie Wexler, Editorial Director; 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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