



**Small Business
cloud services:
the multi-billion
dollar opportunity
for telcos**

Foreword

The global telecoms industry is in a state of flux. International operators continue to contend with market consolidation, technology convergence and service commoditisation. While a different dynamic exists in regional markets, operators remain united in needing to protect revenues and market share in the face of increasing competition.

All operators face equal pressure to retain high value customers and constantly increase ARPU by focusing on differentiation through customer experience. Additionally, operators are having to diversify and find additional value-add services for new and existing customers as connectivity has become commoditised.

This mantra applies equally to all customers but is particularly important when considering the potentially higher margins and ARPU on offer from the SMB customer segment. Furthermore, the SMB market² is also demonstrating strong demand for cloud services, as business owners search for innovative ways to boost efficiency and productivity. So much so that industry analyst McKinsey predicts that the SMB market for cloud-based software is currently worth around \$28 billion globally and growing at 20% pa¹.

This growth in SMB cloud spending can be directly attributed to the rising number of business applications being used by small businesses. Previous BCSG research suggested that the average SMB uses three business applications. However, more than three quarters of these SMBs admitted they would continue to purchase new applications as technology evolved.

It is therefore little surprise that a growing number of telecoms operators around the world are looking to capitalise on the growth of the SMB cloud market. Several tier one operators are already providing a channel to the most relevant SMB cloud services.

But what obstacles prevent or slow down SMBs when looking to their incumbent telecoms providers for additional cloud services?

This BCSG study serves to find out by gauging the opinions of 500 SMBs in the UK and US—two of the leading international markets for SMB cloud service adoption. According to Gartner, the US accounts for approximately 54% of the existing global cloud market and that it will continue to dominate global cloud investment. It also believes the UK will lead Europe in terms of overall cloud spend².

BCSG therefore asked SMBs in these two prominent cloud markets a series of questions to demonstrate why more and more telecoms operators will be looking to accelerate the provision of business apps, additional services and tools to their SMB customers in the near future.

¹ Big business in small business cloud services for SMBs, McKinsey 2014

² Forecast: Public cloud services worldwide, 2012-2018 1Q14 Update, Gartner, 2014

The SMB market for cloud-based software is currently worth around **\$28 billion** globally and growing at **20% pa**¹.

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Executive Summary



The results of the study should offer great encouragement to the global telecoms operators contemplating diversifying their SMB offer, or those that have an SMB cloud strategy in place. After all, the global SMB cloud services market continues to go from strength to strength as small businesses seek innovative ways to boost efficiency, productivity and profitability.

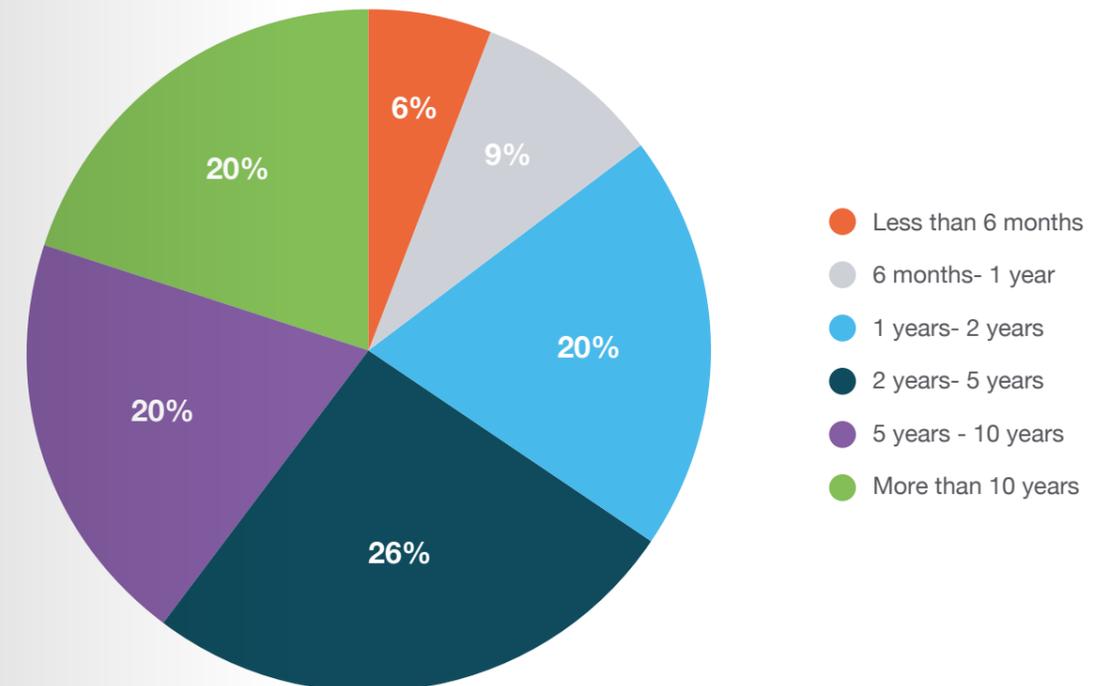
Critically, 43% of SMBs would purchase online hosting or cloud services from telecoms operators. Based on SMB cloud spending market forecasts for both regions, this currently translates as a \$22 billion opportunity for cultivation—a number which is expected to keep rising.

Healthy dialogue already exists between some SMBs and their telecoms operators on key technology decisions. But at the same time confusion is rife amongst SMBs on what the latest cloud innovation can offer and why they should adopt it. This presents operators with a golden opportunity to add value to their SMB customers, provide the advice and guidance they need and proactively select the best applications for them.

While many operators enjoy long tenure from SMB customers, they can't afford to become complacent. More than half (52%) of SMBs will contemplate switching operators in the next two years and a further 58% would be willing to switch for access to additional technology and services. This should see operators accelerate their plans for service diversification, including a broader range of cloud services such as business apps to SMBs, which will ultimately drive revenue and customer retention.

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1. How long have you been with your current main telecoms provider? What would tempt you to switch telecoms provider?



Telecoms operators enjoy good overall customer retention amongst SMBs—both in the US and the UK. In fact, 73% of US SMBs have been with their incumbent provider for more than two years compared with 59% of UK SMBs. This is further substantiated by the fact that 20% of UK and US SMBs have stayed with the same telecoms provider for more than ten years.

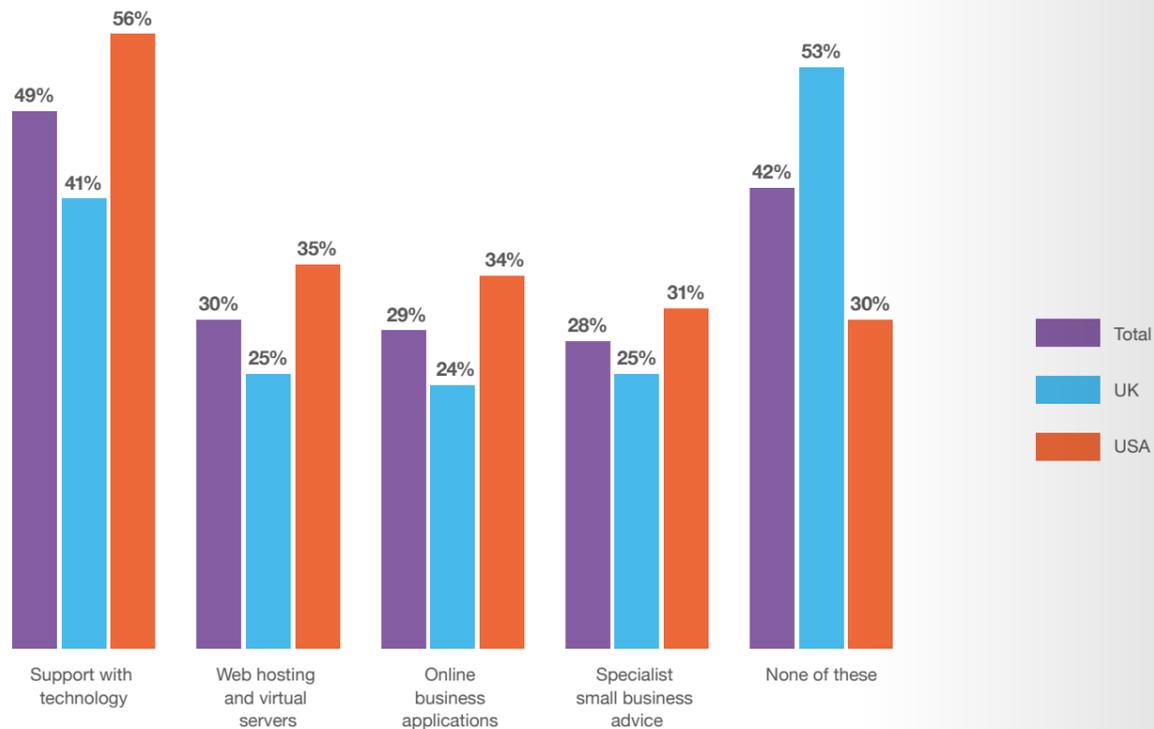
More than half (58%) of SMBs would switch operators for access to a broader range of technology and services.

Good SMB customer retention does not necessarily imply strong loyalty, or that high levels of trust exist between the two parties. Indeed, there is further industry and anecdotal evidence to suggest that inertia, or a reluctance to change provider, is the real reason telecoms operators enjoy healthy customer retention.

More than half (58%) of SMBs would switch operators for access to a broader range of technology and services. This proves the case for greater operator service diversification and clearly highlights the impulsiveness of SMB customers—while proving that longstanding SMB customer loyalty doesn't really exist. This is substantiated by 39% of SMBs admitting they would switch for better operator customer service.

Operators mustn't therefore take their SMB customers for granted by assuming that they won't find an equivalent or superior service elsewhere. If more than half of SMB customers present a switch risk, operators must always be looking to innovate and deliver additional value to them.

2. Has your telecoms operator helped your business through providing any of the following?



It's encouraging that approximately one third of SMBs currently receive hosting, business apps or specialist small business advice from their telecoms operator. This provides clear evidence that operators are making a concerted effort to diversify, and that meaningful progress is being made. Interestingly, US operators seem to be further ahead of their UK counterparts in terms of the traction they're enjoying in offering these additional value-added services.

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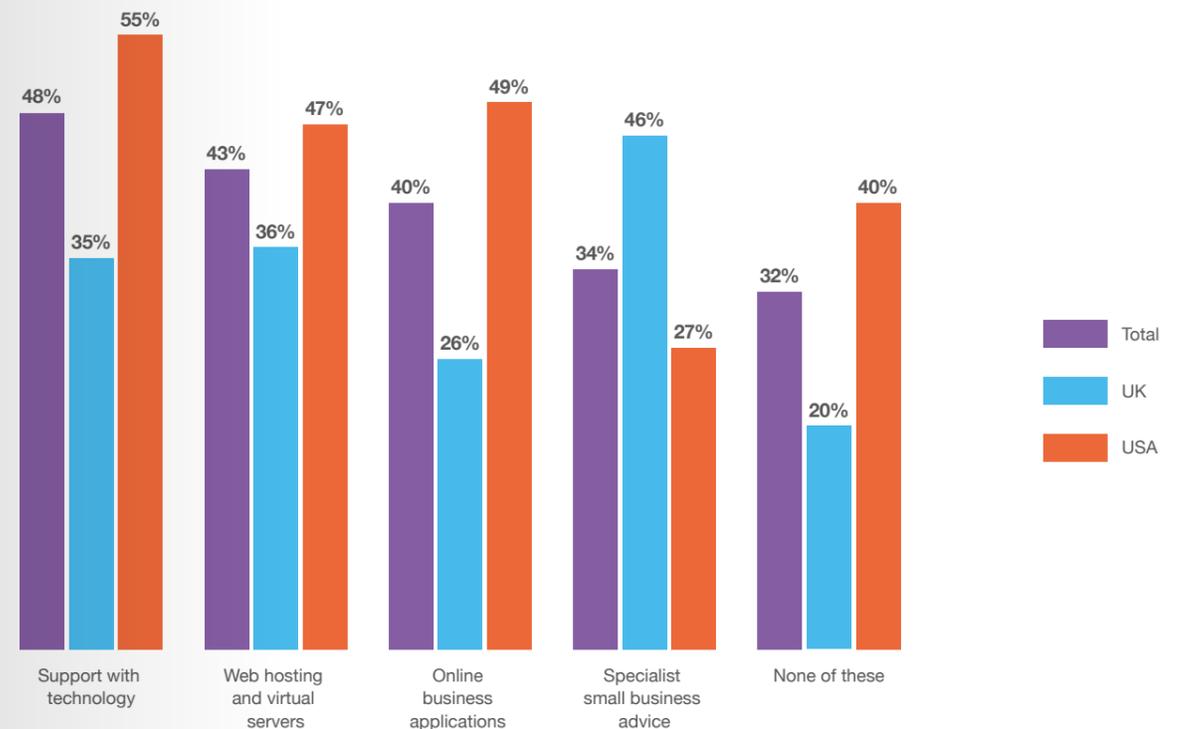
However, this progress must be tempered by the fact that, on average, 42% of SMBs receive no additional technology help, nor specialist advice from their operators whatsoever. Indeed, more than half of all UK SMBs (53%) are yet to benefit from these services. These statistics point to a large, and potentially lucrative, untapped market for operators to cultivate over the coming months and years.

3. Would you consider purchasing any of the following from your current main telecoms provider?

Spending on cloud computing and services by US SMBs, will amount to \$43 billion in 2015 alone.

The results clearly present a lucrative opportunity for operators with a sizeable amount of revenue being 'left on the table.' Industry analysts PAC³ currently estimates the UK SMB cloud market to be worth \$2.1 billion. Compass Intelligence⁴ estimates that spending on cloud computing and services by US SMBs, will amount to \$43 billion in 2015 alone.

Just over a third (34%) of SMBs are currently not prepared to buy these additional services from operators, with UK SMBs appearing further behind their US counterparts in this regard.



³ PAC report in Cloud Pro, UK SME SaaS market worth %500m by 2015, 2015

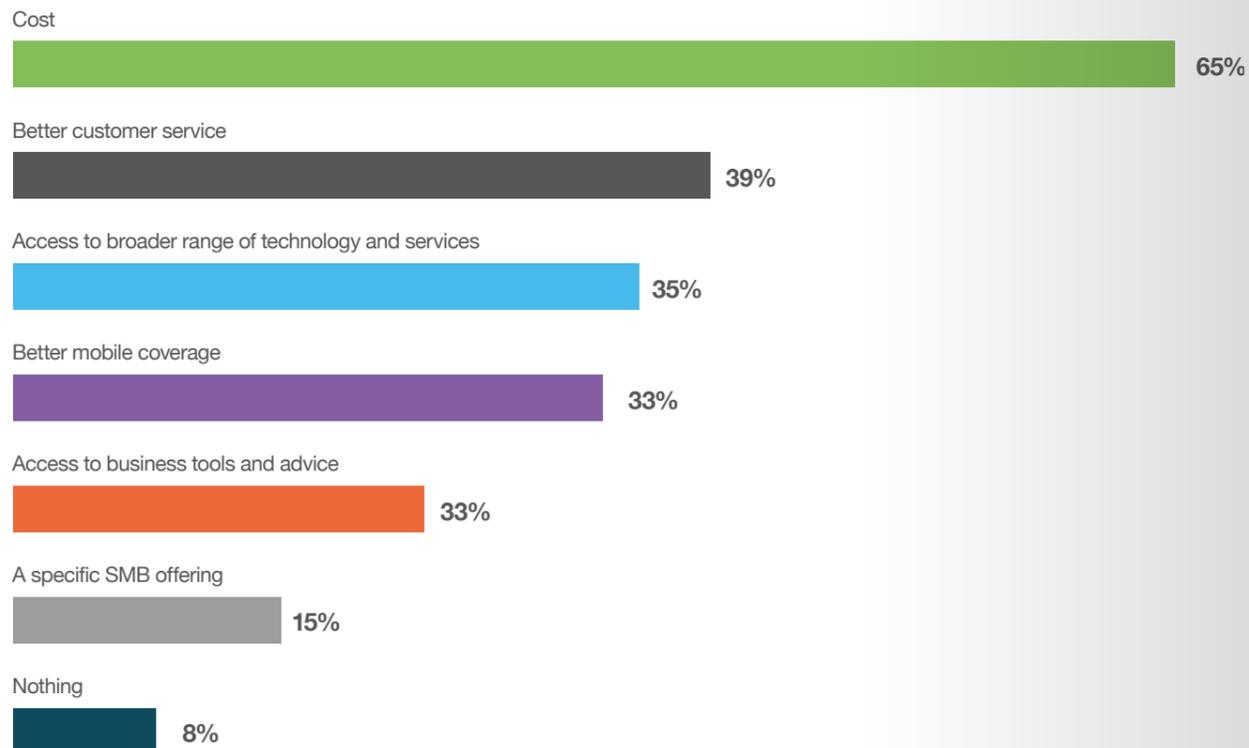
⁴ Compass Intelligence in Integra, The Cloud Market of the Future, 2014

4. Are you considering changing your telecoms provider?

As suggested in question one, this statistic quashes the notion that operators enjoy high levels of customer loyalty. Indeed, question five also highlights the impulsive nature of SMBs and their willingness to switch operators for the promise of additional value beyond core connectivity.

A clear trigger for telcos to build and offer additional compelling technology services, tools and advice operators whatsoever.

This SMB customer uncertainty should serve as a clear trigger for telcos to build and offer additional compelling technology services, tools and advice to help them retain existing customers, attract new ones and help them grow their business. The rewards on offer during the next two years could be significant.

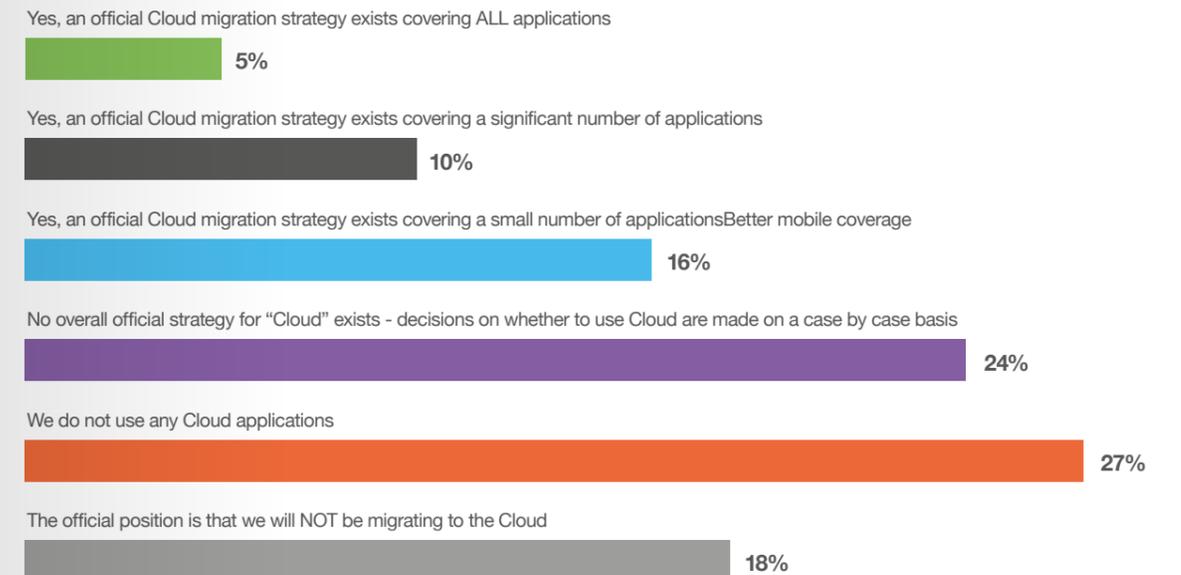


5. Do you have a strategy in place to migrate your business tools to the cloud? Which applications do you currently use for work?

There is huge scope for operators to deliver additional value to a large number of existing SMB customers. Key to this will be highlighting the

Deliver additional value to a large number of existing SMB customers

true value of cloud applications so that SMBs are no longer confused by how best to grasp this opportunity to improve productivity and profitability.



Top-level methodology including the focus on the UK/US markets

The survey was conducted by an independent research organisation throughout June 2015. A total of 501 company managers or directors were surveyed—250 in the UK and 251 in the US. Companies had fewer than 250 employees and respondents had overall responsibility for the company's telecoms services.

To provide globally representative data, BCSG selected the two markets with the largest number of digitally-aware SMBs as indicated by their market share for cloud services—the UK and US comprise of 66% of the global market. The demand for cloud services is increasing globally with Brazil, Canada and emerging countries such as Mexico, China and India expected to see high rates of growth (Gartner, 2014)⁵.

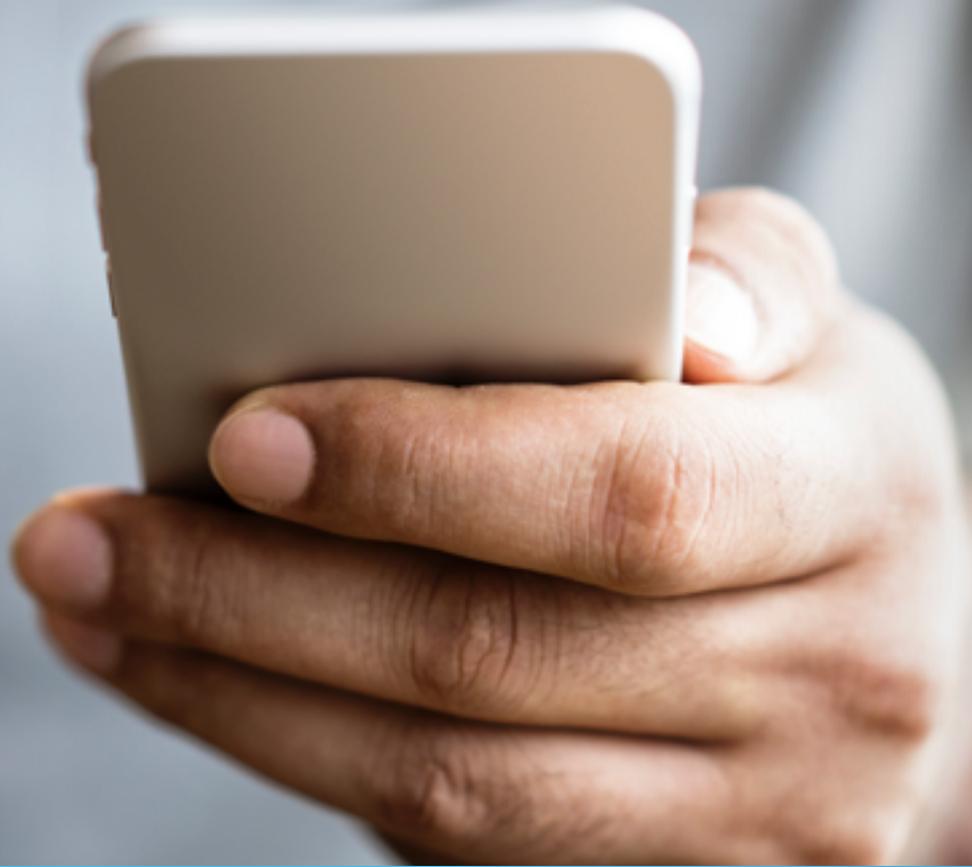
Additional details regarding why the two markets are representative:

- The US accounts for approximately **54%** of the existing cloud market, with total spend set to rise to **\$600 billion** in 2018⁵.
- The UK leads Europe in terms of spend on cloud services, with spending set to increase by **\$5 billion** (1.6% CAGR).
- Spending on cloud computing infrastructure/platforms is expected to grow at a **30% CAGR** through to 2018 compared with 5% growth for overall enterprise IT.

⁵ Forecast: Public cloud services worldwide, 2012-2018 1Q14 Update, Gartner, 2014

⁶ Goldman Sachs in Forbes, Roundup of Cloud Computing Forecasts and Market Estimates, 2015
<http://www.forbes.com/sites/louiscolumbus/2015/01/24/roundup-of-cloud-computing-forecasts-and-market-estimates-2015/>





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