



SMALL & MEDIUM-SIZED  
BUSINESS REPORT

# AppDirect SMB Cloud Service Adoption Report

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## Introduction

The way small and medium-sized businesses (SMBs) consume and use technology is a topic of never-ending investigation and discussion for analysts, businesses, and the media alike.

For good reason; technology has become a lifeline for SMBs, often giving them a competitive edge and allowing them to respond to rapidly changing markets. It has also spurred rapid growth in SMB IT revenue, with experts predicting that small businesses will spend \$168.7 billion a year in the U.S. alone, and \$668 billion worldwide by 2020.\*

This report focuses on one critical area of the larger SMB technology picture—the way small businesses in the U.S. are using cloud services. These cloud-based business applications are putting enterprise-grade solutions into the hands of millions of small business, but we still have much to learn about how they find, buy, and use these powerful tools.

To shed light on key areas of concern, we asked SMBs a wide-ranging series of questions that provide unique insights into their use of—and attitudes toward—the cloud and cloud services. We hope you find the data both interesting and valuable as you think about your own strategies to reach this large and important group of technology users.

Please note: The percentages in this report may not add up to 100, due to rounding or because multiple responses were allowed.

\*<http://www.idc.com/getdoc.jsp?containerId=prUS41956016>



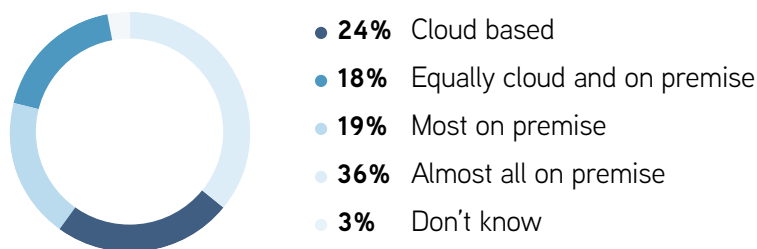
## Findings:

### I. THE CURRENT SMB LANDSCAPE FOR CLOUD SERVICES

#### On-Premise vs. Cloud-Based Solutions

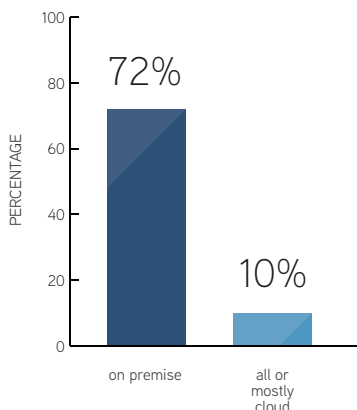
Before delving into specifics surrounding cloud services usage among SMBs, it's helpful to take a step back and examine SMB cloud adoption trends at a high level. Here our survey revealed clear lines that divide larger from smaller SMBs. Overall, one quarter (24 percent) of small businesses say that their software is cloud based, and about one in five (18 percent) say that it's equally based in the cloud and on premise. A majority, 55 percent, say that their software is still mostly or all on premise.

##### SMB SOLUTIONS: CLOUD VS. ON PREMISE:

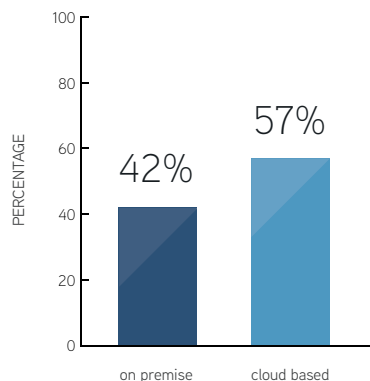


Looking at company size, however, shows that the smallest SMBs seem to have reservations about moving to the cloud. Among companies with one to 10 employees, 72 percent say that their software is all or mostly on premise, while just 10 percent say it is all or mostly cloud based. At the other end of the size spectrum, 57 percent of SMBs with 101 to 250 employees say that their solutions are all or mostly cloud based, while 42 percent say it's all or mostly on premise.

##### 1-10 EMPLOYEES:



##### 101-250 EMPLOYEES:



### SMB SIZE MATTERS

Across all of our data, we found that company size has a big impact on SMB technology use. Companies with 11 to 100 employees are much more similar to those with 101 to 250 employees, as opposed to companies with 10 or fewer employees. In short, growing beyond even 10 employees adds much more complexity, causing similar challenges around app management, billing, and more.

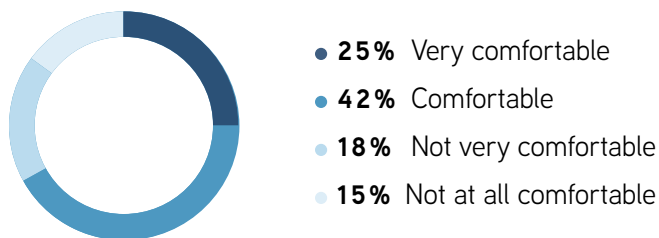




## SMB Concerns About Cloud

If an SMB doesn't use cloud solutions, it doesn't necessarily mean that the company isn't willing to keep its data in the cloud. Our survey found that two-thirds (67 percent) of SMBs are comfortable with keeping their company's data in cloud-based applications, and in fact 16 percent say that their company is in the process of moving everything to the cloud.

### SMBS COMFORTABLE WITH CLOUD:



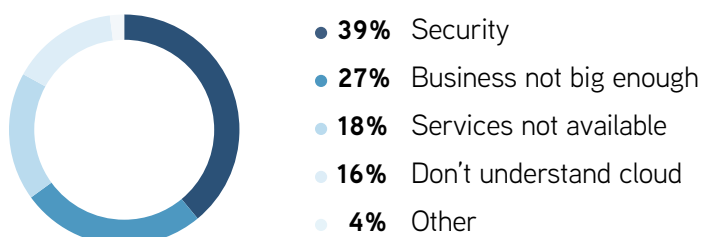
It's also interesting to note that as SMBs get larger, their comfort level with cloud increases: 81 percent of companies with 11 to 100 employees are comfortable with cloud, a number that rises to 86 percent of companies with 101 to 250 employees.

The other side of the coin, however, is the one-third (33 percent) of SMBs overall that are not comfortable with cloud. The technology has been around for years, so why are some SMBs still skeptical about using cloud-based solutions?

For the majority, it still boils down to security: 39 percent of SMBs say that they are worried about keeping their data safe in the cloud.

Security is the most common reason SMBs may be reluctant to adopt cloud solutions, but it isn't the only one. Twenty-seven percent say that their businesses simply aren't big enough to use the cloud, while 18 percent say that they didn't believe the same solution they needed was available as a cloud-based service. A significant number, 16 percent, say that they don't understand how solutions work in the cloud.

### TOP SMB CLOUD CONCERNS:





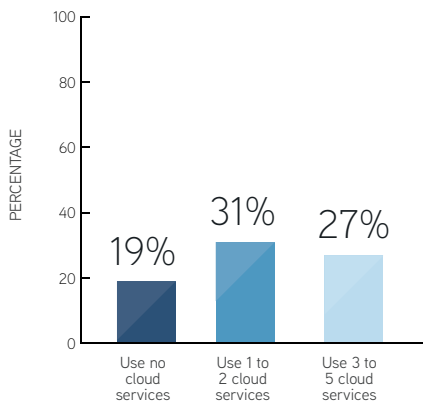
## SMBs and Cloud Services

Small businesses can have a reputation for being risk averse when it comes to technology. After all, they often do not have the luxury of excess time or money to spend experimenting with different solutions (very few businesses do). Despite some reservations about moving to the cloud, our data show that SMBs are eager adopters of business cloud services.

In our survey, SMBs use an average of 6.48 cloud based services on a regular basis. However, this number is highly dependent on company size: Small businesses with one to 10 employees say they use 2.84 cloud services; those with 11 to 100 employees use 7.72; and those with 101 to 250 employees use, on average, 11.28 cloud based services on a regular basis.

Drilling down by number of apps, three in 10 (31 percent) SMBs report using between one and two cloud-based services on a regular basis, while 27 percent use three to five cloud services. Despite these strong adoption numbers, there is still a significant group of SMBs, 19 percent, that report using no cloud services.

### NUMBER OF CLOUD SERVICES USED:



## Where SMBs Buy Cloud Services

There are more business cloud services available today than ever before—and more places to purchase them, too. It's a growing list that includes app stores, online retailers like Amazon.com, resellers, telecom providers, vendor websites, and many others.

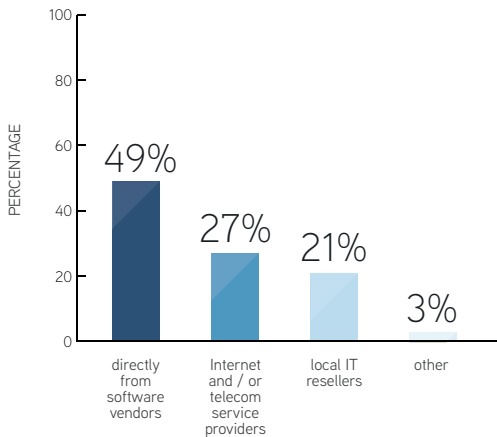
With so many options to choose from, the largest group of SMBs (49 percent) still primarily purchase their software directly from individual software vendors, a finding that holds true across all three sizes of small businesses.





Other SMBs are turning to third-party providers; over one-quarter (27 percent) buy their software from their Internet and / or telecom service provider, while one in five (21 percent) buy from a local IT reseller.

#### WHERE SMBs BUY CLOUD SERVICES:



Interestingly, even though cloud trends at larger SMBs tend to track together, companies with 11 to 100 employees are more likely than those in companies with one to 10 or 101 to 250 employees to purchase software from their Internet and / or telecom service provider (33 percent, versus 21 percent and 27 percent, respectively). Given this, companies with 11 to 100 employees seem to be the sweet spot for service providers looking to target SMBs.

For IT resellers, larger SMBs may be their best bet; 26 percent of SMBs with 101 to 250 employees purchased solutions from a local IT reseller, compared to 21 percent and 20 percent of the two smaller SMB size groups.

### How SMBs Pay for Cloud Services

With the average SMB using more than six cloud services, it's no surprise that many of them struggle to keep up with multiple subscription fees, invoices, and bills from multiple software vendors.

Here again, SMB size plays a big part in billing complexity. While 52 percent of SMBs with one to 10 employees get one or two bills, a large number of these companies, 37 percent, are actually not sure how many they get each month. This is an area where small SMBs need more visibility into their IT spending.

Looking at larger SMBs, 39 percent of companies with 11 to 100 employees get between three and five bills every month, while 29 percent of SMBs with 101 to 250 employees get between six and 10 bills. To put it simply: The larger the company, the greater the number of monthly fees / bills they pay for cloud services.

### MULTIPLE VENDORS 'WASTES TIME'

Even though most SMBs buy their software from individual vendors, most also say that dealing with different vendors is a pain. In fact, 67 percent of SMBs say that having to go to multiple vendors for services is "a waste of their time," a number that increases to 74 percent at the largest SMBs.





## II. SMB PLANS FOR CLOUD GROWTH

### Increasing Usage and Spend

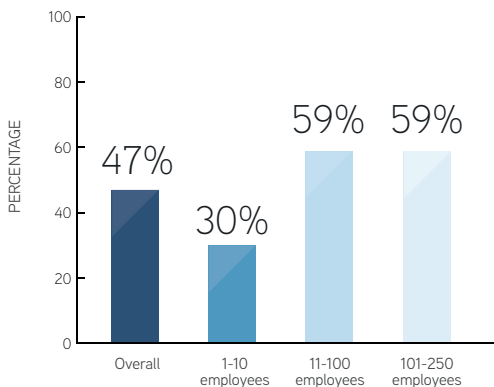
Our survey results give a clear picture of how SMBs currently use the cloud and cloud services. Understanding the current landscape is valuable, but knowing what's coming down the pike provides even greater insight. Given this, we also asked SMBs to look forward and consider how their use of cloud technologies may change in the years to come.

Overall, most SMBs plan to use more cloud-based solutions; almost half (47 percent) say their use of cloud services will increase. On the other hand, 42 percent say that their use would stay the same but it's important to note that, again, company size is a strong determining factor in planned use of the cloud. Fifty-nine percent of both groups of larger SMBs (11 to 100 and 101 to 250 employees) say that their use will increase in the next two years, while just 30 percent of those in a company with one to 10 employees say the same.



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#### PERCENTAGE OF SMBs THAT WILL INCREASE USE OF CLOUD SERVICES:



These increases may come sooner rather than later, since 62 percent of SMBs overall say that they expected to increase their spending on cloud services in the next year. In a familiar pattern, larger SMBs are leading the way, with three-quarters (75 percent) of companies with 11 to 100 employees and nearly as many, 76 percent, of companies with 101 to 250 employees planning to spend more.

## III. SMB SATISFACTION WITH CLOUD SERVICES

Learning how SMBs purchase, use, and manage cloud services—and how that may change in the future—leads to a simple but important question: Are SMBs satisfied with their cloud-based solutions?



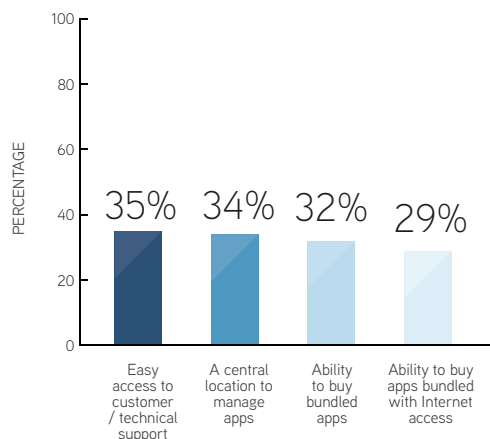
Our survey reveals that most are not. In fact, only 20 percent of SMBs say that they have everything they need with regard to their cloud services. If broken down by company size, that number drops to 14 percent of companies with 11 to 100 employees, and hits the single digits, only 6 percent, of SMBs with 101 to 250 employees. Again, the larger and more complex the environment, the more SMBs demand from their technology.

So what are SMBs looking for when it comes to cloud services? Over one-third (35 percent) say that they want an easy way to access customer / technical support at any time, and nearly as many (34 percent) say they wish they had a central location to manage every app across their organizations.

Just under a third (32 percent) say they want to be able to buy bundled apps together to save on price, and 29 percent wish they had an easy way to buy apps that are bundled with Internet access, again as a way to lower costs.



#### WHAT SMBs ARE LOOKING FOR IN CLOUD SERVICES:



## IV. MEETING THE CLOUD SERVICES NEEDS OF SMBs

As the data make clear, significant numbers of SMBs aren't completely satisfied with their cloud services. Given this fact, it's important to ask: What do SMBs want from their cloud-based solutions? Our survey results provide a range of insights into this question.

### Expert Advisors

The IT landscape is constantly changing, and this is especially true when it comes to cloud. New technologies and solutions are introduced at a rapid pace, and by the time an SMB finally gets up to speed, something new and better seems to come along. This can lead to feeling overwhelmed, a fact borne out by our survey results: 73 percent of SMBs agree that there are so many cloud services on the market that they need help understanding all of the options.





In fact, lack of expert advice is most likely a barrier to increased SMB cloud adoption. Our survey found that 61 percent of SMBs overall want to use more cloud-based solutions, but they need help determining which ones are right for their companies.

The need for this type of advice is more pronounced at larger SMBs. Forty-four percent of SMBs with one to 10 employees want expert help in buying more cloud solutions, while 69 percent of companies with 11 to 100 employees, and 80 percent of companies with 101 to 250 employees want expert advice in purchasing additional cloud services.

Whether they were actively looking to buy more cloud services or not, a large majority of SMBs—85 percent—agree that they wanted to talk with a person who could help them and answer their questions about cloud technologies. These high percentages apply to SMBs of all sizes.

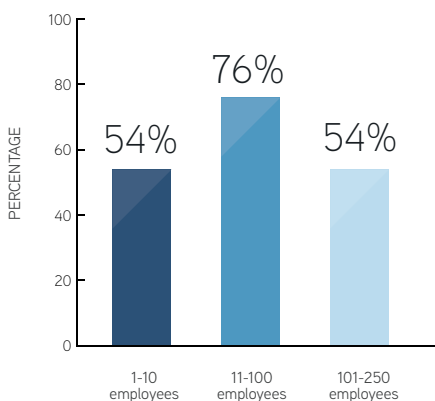


## A One-Stop Shop to Find and Buy Cloud Services

Time and money are precious resources for SMBs, so it's not surprising that two-thirds (66 percent) of small companies are likely to consolidate and purchase their telecom, Internet, and cloud services from one vendor, particularly if it means decreasing the number of bills they pay every month.

A majority of SMBs of all sizes are interested in consolidation, with 54 percent of companies with one to 10 employees saying they would be likely to combine purchases. These figures jump significantly when looking at larger SMBs. Three-quarters of companies with 11 to 100 employees and 101 to 250 employees are likely to consolidate (76 percent and 74 percent, respectively). The data show that, once again, the bigger the SMB, the more complexity that companies want to manage and streamline.

### SMBS WANT TO CONSOLIDATE CLOUD SERVICES PURCHASES:





Still, 34 percent of SMBs are not likely to consolidate. The most common reason, cited by 35 percent of SMBs, for sticking with the status quo is that they liked the arrangement they currently have with their providers. Other reasons included the belief that they wouldn't get an equally good deal on their services (21 percent), that change is too much of a hassle (19 percent), and concerns that they wouldn't receive appropriate tech support (15 percent).

## Preferred Cloud Services Providers

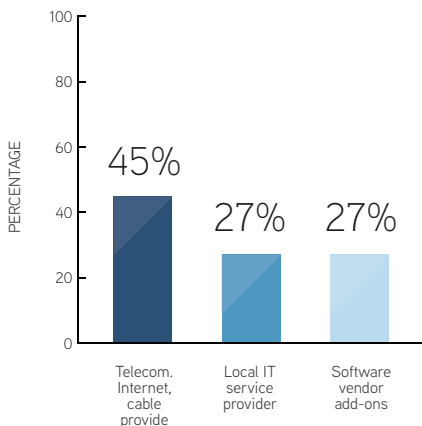
As mentioned earlier in this report, there are numerous places where SMBs can purchase cloud services—app stores, online retailers, telecom providers, resellers, and more. Our data reveal clear provider preferences across SMBs, as well as interesting nuances when looking at SMBs grouped by size.

Overall, almost half (45 percent) of SMBs that are likely to consolidate their services want to get them from a telecom, Internet, and / or cable provider. Tied for second at 27 percent of SMBs each are local IT service providers / resellers and software vendors that offer cloud services as add-on products.

When looking at SMBs by size, small and mid-size companies—those with one to 10 and 11 to 100 employees—show a clear preference for buying consolidated services from telecom, Internet, and cable providers. Fifty-five percent of one to 10 employee-SMBs and 44 percent of 11 to 100-employee SMBs indicated that these types of providers are their top choice.

In contrast, the largest SMBs with 101 to 250 employees showed a preference for obtaining consolidated services as add-ons from other software vendors. An example of this type of offering would be the option to add on DocuSign signature management software as part of purchasing Microsoft Word.

### WHERE SMBs PREFER TO GET CONSOLIDATED SERVICES:





Local IT service providers and resellers were most attractive to companies with 11-100 employees, with 31 percent of these companies interested in buying from these types of providers. Overall, our results show that local service providers and resellers have an opportunity to increase their market share across SMBs of all sizes.

## Consolidated Billing for Apps and Services

When consolidated billing—the ability to pay for multiple services on one bill—is highlighted as a primary benefit of consolidation, SMBs are even more eager to buy combined cloud software and services from both telecom providers and resellers.



In fact, 70 percent of SMBs say they would be more likely to buy their software from their telecom company if they could pay for all their services on one bill, and an almost equal number, 68 percent, say they would be more likely to buy software from their local IT reseller if they could pay for their services on one bill.

Looking at a breakdown of the preference for telecom providers, 56 percent of SMBs with one to 10 employees would choose them to consolidate with one bill, while over three-quarters (77 percent) of companies with 11 to 100 employees and over four in five (83 percent) of companies with 101 to 250 employees would do the same.

Turning to the preference for local IT resellers, 58 percent of SMBs with one to 10 employees would choose them to consolidate with one bill, while 74 percent of companies with 11 to 100 employees and 78 percent of SMBs with 101 to 250 employees would do the same.

These high percentages show just how important it is to offer streamlined, simple billing to attract SMB customers.

## Simplified Management

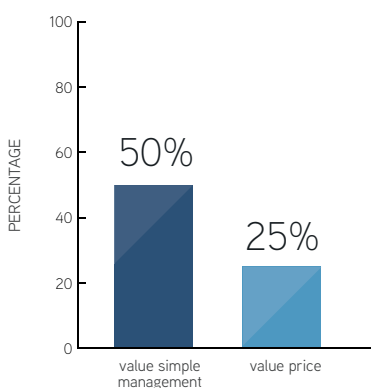
Running a small business can be difficult, which is why it isn't a surprise that the thing that SMBs seem to want most from their cloud services is simplicity. In fact, for half (50 percent) of the SMBs we surveyed, "simple management" is what they indicate they valued most, while only a quarter (25 percent) say they value low prices the most.



As we have seen in other areas, these numbers change as you look across different size groups of SMBs. For example, 36 percent of the smallest SMBs, those with one to 10 employees, say they value low prices most, which likely indicates that they are more cost sensitive. Even so, 41 percent of the smallest SMBs still say that they value simple management most.

As companies grow larger, simple management becomes even more important. Just under half (49 percent) of SMBs with 11 to 100 employees and 69 percent of companies with 101 to 250 employees value simple management most when buying cloud services.

#### WHAT SMBs VALUE MOST IN CLOUD SERVICES:



### A Variety of Targeted Cloud Services

The last decade has seen an explosion in app development, for both consumers and for businesses. Whether it's apps for their mobile devices or their desktops, SMBs have become accustomed to having a variety of technology options to choose from.

This is reflected in our survey data, with 84 percent of SMBs saying that it's important for their companies to have choices when it comes to what cloud services they purchase.

In fact, nearly seven in ten (69 percent) of small businesses say they are looking for a variety of cloud services, including applications that are specific to their industry, rather than having apps that are "one size fits most."

This sentiment is shared by over half (52 percent) the smallest SMBs with one to 10 employees. But the desire for variety jumps significantly at larger SMBs, with 79 percent of companies with 11 to 100 employees and 85 percent of SMBs with 101 to 250 employees saying they want a range of applications to choose from.

#### APPDIRECT BEST PRACTICE: FOCUS ON CURATION, THEN EXPAND

The desire to offer a big catalog of cloud services is understandable, especially when SMBs say that's what they're looking for. However, data from AppDirect partners show that focusing on a core set of curated, tightly integrated apps to start and then expanding the catalog drives better results.



## Conclusion

As the survey data show, SMBs are eagerly adopting cloud services, and there is a clear desire to use even more cloud services in the future. However, barriers to full adoption remain. SMBs need expert help understanding the range of technology options available to them, as well as guidance in making smart choices for their businesses.

Running any business involves complexity, but SMBs face the added pressures of strict time and resource constraints. Given this, simple cloud service management and easy consolidation are top of mind for SMBs, oftentimes even more so than low price.

Cloud education, platform simplicity, and solution expertise—these are, and will continue to be, the most important factors impacting SMB use and adoption of cloud services. They should be front and center in any strategy aimed at reaching SMBs with cloud services.



## More Information

AppDirect is a trusted advisor to leading companies around the globe as they explore their options for selling cloud services. If you're interested in learning more about cloud services and selling to SMBs, please visit [go.appdirect.com/request-more-information](https://go.appdirect.com/request-more-information) today.

## Methodology

AppDirect commissioned Regina Corso Consulting to conduct a survey of IT decision makers in small companies in the United States. IT decision makers were defined as those who make all the decisions regarding IT for their companies, or make almost all the decisions and have a large say in the ones they need approval for. Small businesses were defined as business with 250 employees or less. A total of 500 IT decision makers were surveyed—200 in companies with between one and 10 employees, 200 in companies with between 11 and 100 employees, and 100 in companies with between 101 and 250 employees.

This online survey was conducted between November 29 and December 7, 2016.