



THE GFI SOFTWARE SME TECHNOLOGY REPORT

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To what extent are Small & Medium-sized businesses making use of new technologies, such as Cloud Computing?

Key Findings:

- » Only 10% of senior business decision makers in Small and Medium-sized enterprises (SMEs) claim to fully understand what cloud computing means. 62% have never heard of cloud computing. A further 13% have heard of it but don't know what it means.
- » 24% of IT professionals have either never heard of cloud computing or don't know what the term means.
- » Security fears are not the main concern for organisations considering cloud computing. Although security is the second highest perceived disadvantage (after vendor lock-in), only 12% cite it as a main reason for not actually pursuing cloud computing.
- » Over half of all respondents (56%) will not pursue cloud computing because their needs are met by the current in-house set-up.
- » Despite the IT industry's emphasis on the financial benefits of cloud computing, 44% of respondents cite 'too expensive' as a reason for not adopting.
- » The top three perceived benefits of cloud computing are: expertise of service provider, lower costs and accountability.
- » There is growing resistance to the on-premise and hosted polarisation. SMEs are increasingly embracing a hybrid model that mixes and matches services to reflect business needs and existing IT skills/infrastructure.

Executive Summary

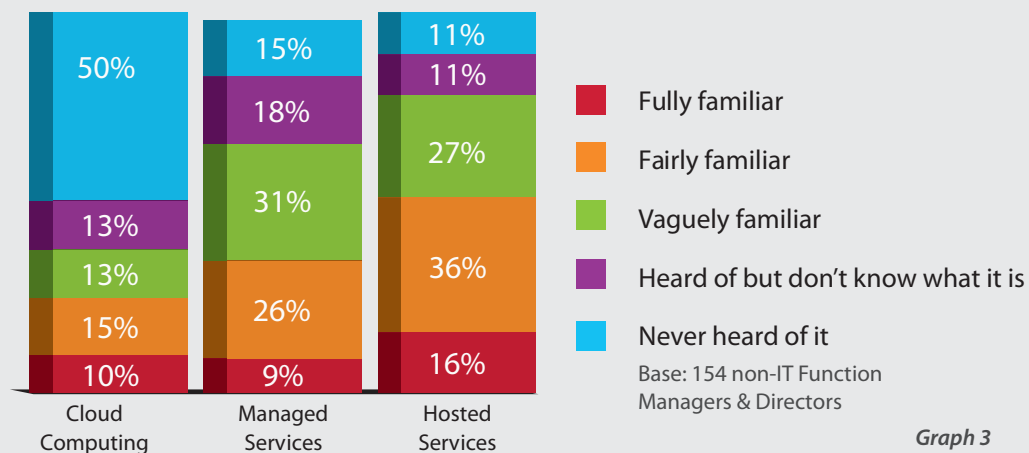
Cloud computing is Gartner's number one strategic technology area for 2010. Indeed the company predicts that one fifth of all businesses will own absolutely no IT assets by 2012. This forecast signals a massive shift in attitude to technology acquisition and ownership, and underpins the importance of cloud and cloud-enabled services.

But just how is the adoption of the cloud evolving? Is it the large organisations that are leading the way or is it, as many pundits believe, the SMEs that have the agility required to ease that transition?

Unfortunately, as this research undertaken on behalf of GFI Software reveals, the IT market may be significantly overestimating the level of understanding of the new technology model. The issue is not just confusion about the pros and cons of the cloud, but a fundamental lack of familiarity with key terms.

According to the research, half (50%) of senior business decision-makers have never heard of cloud computing. A further 13% have heard of cloud computing but don't know what it is: that is, 63% of key decision-makers in SMEs have no understanding at all about cloud computing (Graph 3).

How well do you feel you personally understand each of the following technical IT terms? – Knowledge of Senior Business Decision-Makers (non-IT function) (e.g. Owners, Partners, Managing Directors, Finance Directors, etc.) working in SMEs

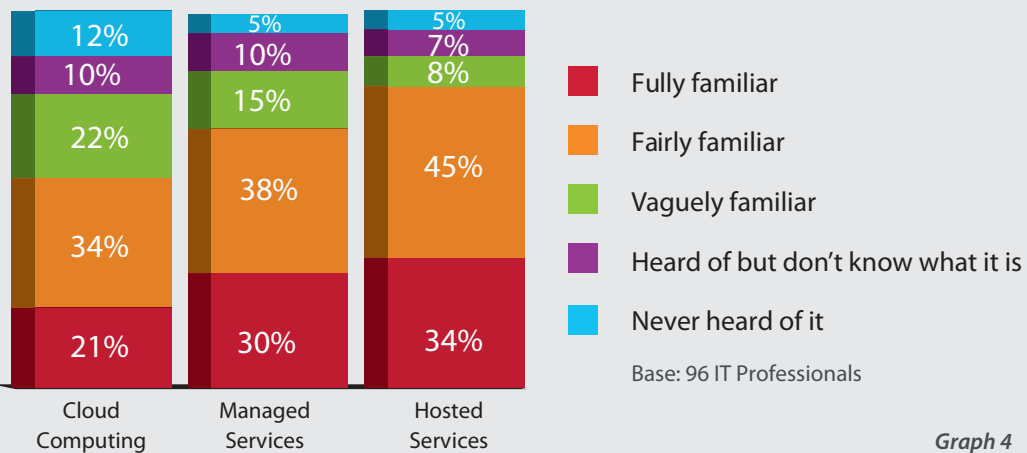


Graph 3

In contrast, only 15% and 11% have not heard of managed services and hosted services respectively. Given that these terms are practically synonymous, is there too much emphasis on jargon, and not enough on the basic components of cloud-based services?

Given the reliance within SMEs on non-IT professionals to make strategic technology decisions this is an important finding. But the research also discovered that as many as 12% of IT professionals in SMEs still have never heard of cloud computing and further 10% (so almost a quarter in total) don't know what cloud computing is about – a fact which may take some IT vendors by surprise (Graph 4).

How well do you feel you personally understand each of the following technical IT terms? – Knowledge of IT professionals working in SMEs

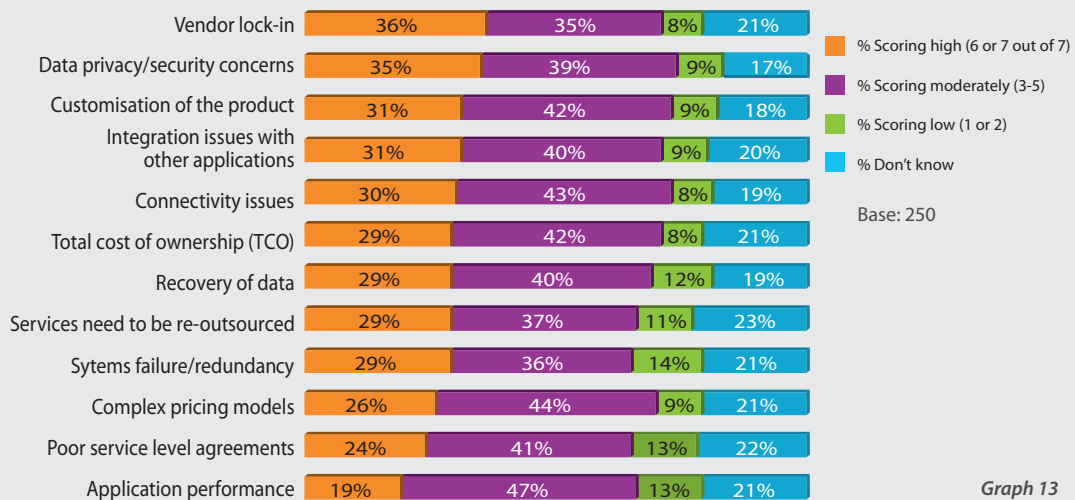


Graph 4

The survey also reveals further confusion about the key reasons for adopting or not adopting this model. Security – widely perceived by the IT industry as the main barrier to adoption – is indeed the second highest perceived disadvantage of cloud computing (Graph 13).

What do you think represents the main disadvantages of using a managed/hosted service in practice compared to retaining it in-house?

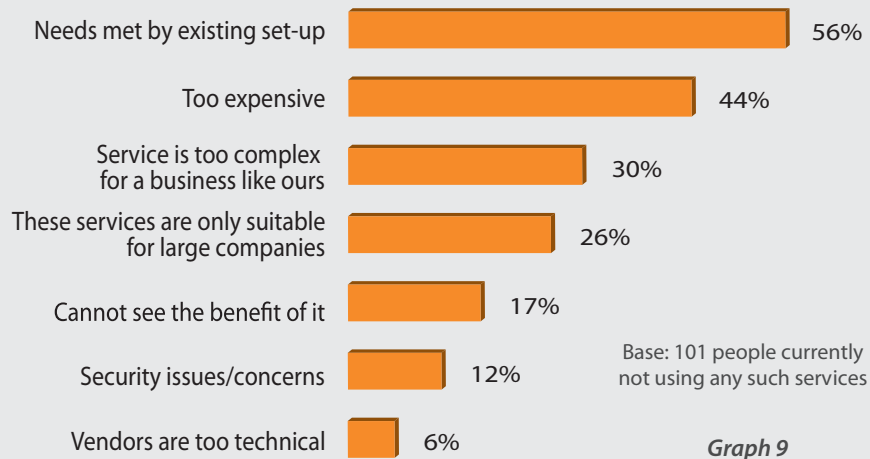
[scores out of 7, where 7 = a key disadvantage & 1 = no disadvantage at all]



Graph 13

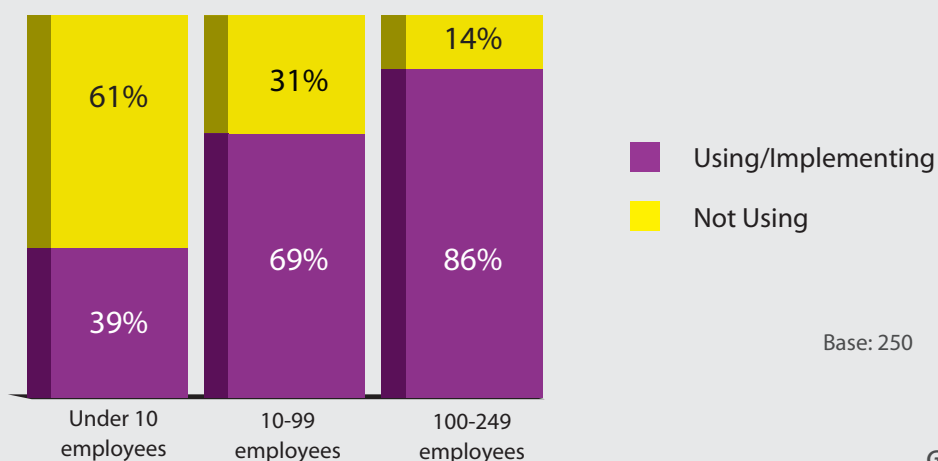
Yet, only 12% of respondents cite security as a main reason for not actually pursuing this model. Similarly, 44% of those companies that have actively elected not to deploy cloud computing cite high costs as the main reason, yet low cost is also seen as the second highest perceived advantage of the new model (Graph 9).

What are your main reasons for NOT using a hosted managed service in the past?



Despite this clear confusion which indicates a blurring of perception and reality, the adoption of managed/hosted services is higher than the level of awareness would suggest. While only 39% of sub-10 employee companies have adopted this model, over 86% of companies with over 100 employees are using managed/hosted services in some form – albeit, in the main basic services such as email filtering, anti-spam and anti-virus (Graph 7).

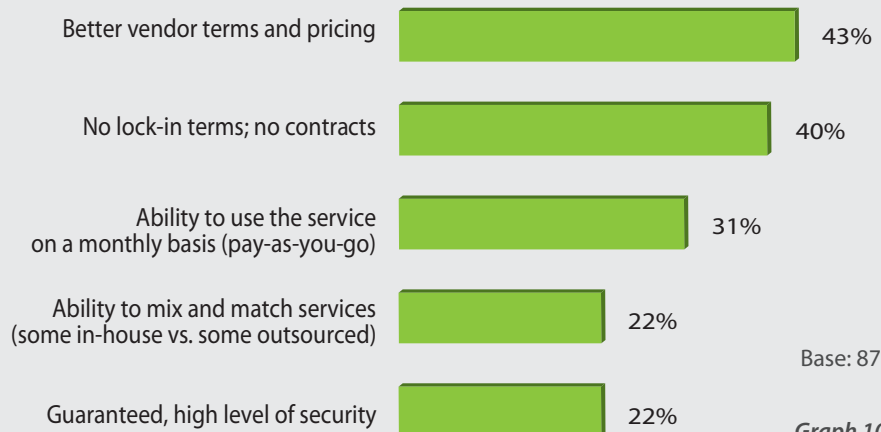
Usage of any managed/hosted services by size of company



Overall, however, over half of all companies (56%) say there is simply no need to move to the cloud because their needs are met by the current set-up (Graph 9).

But there are some positive signs for the IT industry: 43% of respondents would reconsider cloud computing if vendors' terms and pricing improved; whilst 40% would reconsider if contracts were not so restrictive (Graph 10).

What factors would be likely to encourage you to use managed/hosted services more in the future?

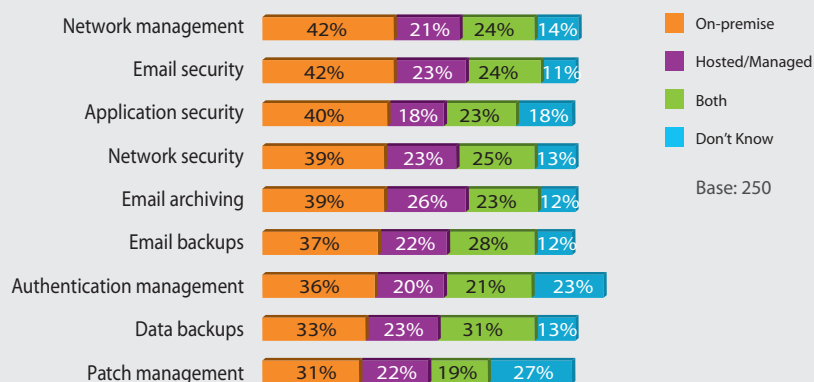


Graph 10

Again, security is seen as the lowest priority in terms of influencing a change in strategy towards the cloud. It is complexity, pricing and fear of vendor lock that are the clear issues that need to be addressed.

Furthermore, there is a growing awareness that the polarisation between cloud-based and on-premise services is unnecessary, with almost a quarter of respondents preferring a hybrid model that combines both models (Graph 11).

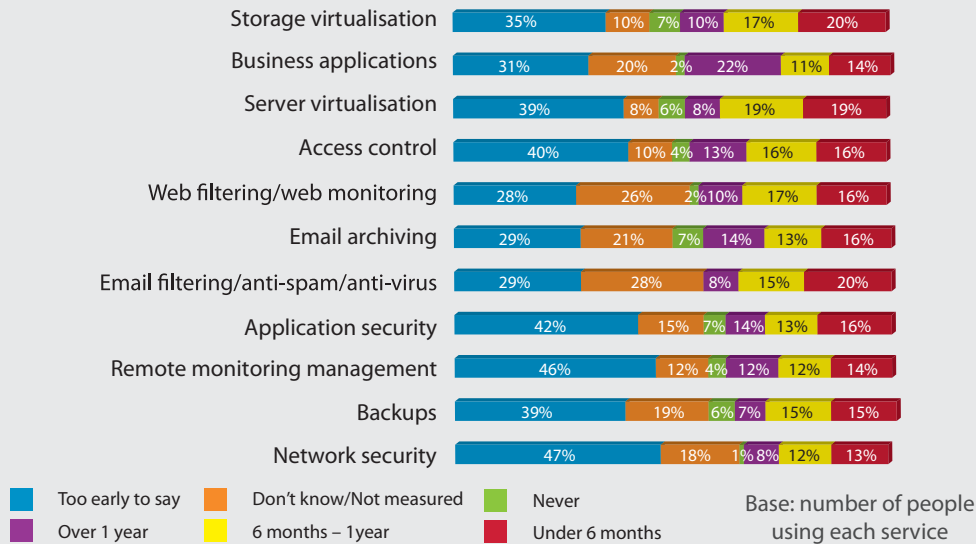
Of the following solutions/services typically used by a small business, which do you think are best suited to being delivered by a hosted/managed service and which are better suited to being maintained on-premise and, in which cases, could be managed just as effectively by both approaches?



Graph 11

And, for those companies that have moved some services over to the cloud, the return on investment feedback is positive. On average, only 16% of respondents have seen ROI in less than 6 months, but the vast majority say ROI comes in under year (Graph 8).

Over what timeframe did you realise a positive return on investment from the time when you first started using these services?



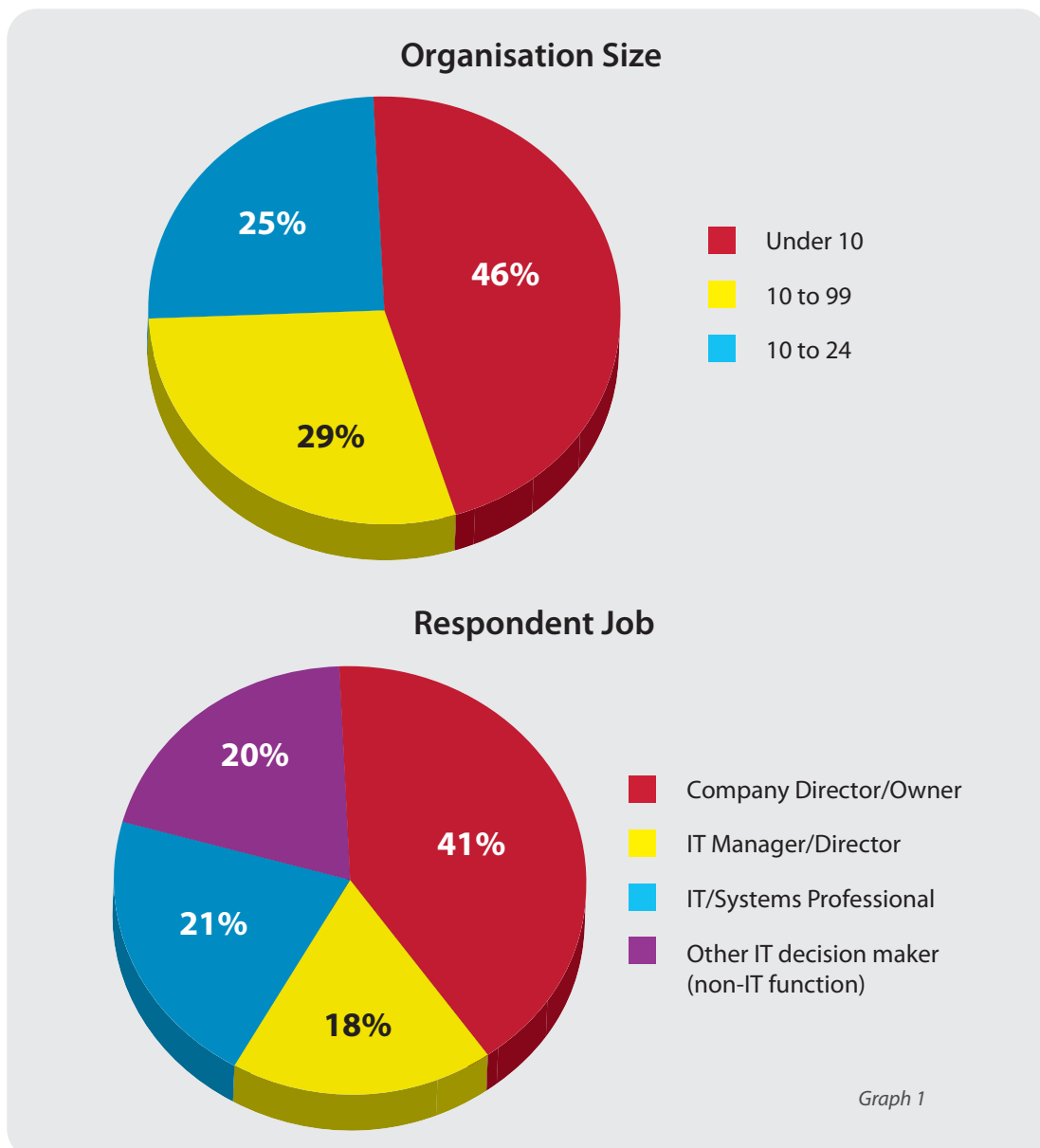
Graph 8

This survey reveals a disturbing lack of understanding not only of the terminology of cloud computing but also the real implications of a shift from an on-premise to a managed/hosted model. This is the number one consideration for every organisation in 2010 and the SME is best placed to leverage the opportunity to drive down costs, improve quality of service and gain access to new skills. Failure to invest in technology understanding and assessment could prove to be a very expensive oversight.

The Research

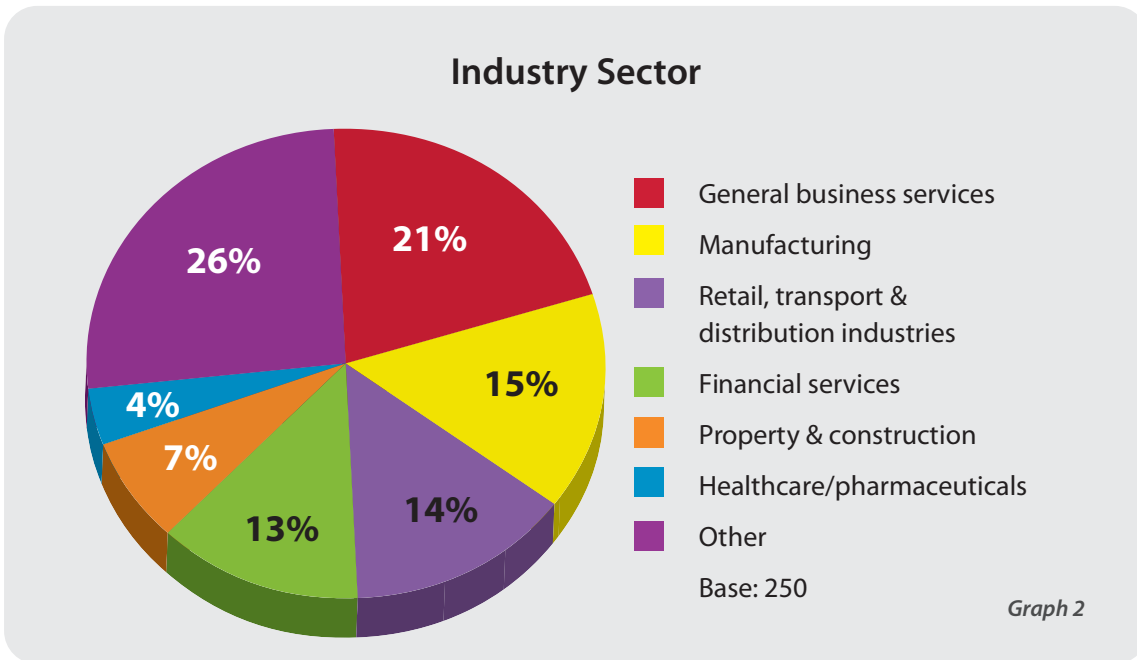
Market research organisations, pundits and IT vendors of every persuasion are committed to cloud computing. Gartner has placed cloud computing at the top of its list of Top 10 issues for CIOs in 2010; while leading organisations globally are encouraging staff to reach *Nicholas Carr's The Big Switch*, published in 2007, to ensure they understand the new future of IT service delivery. But how aware are UK SMEs of the pros and cons of this new IT model? How many are able to effectively weigh up the financial consideration of moving to a hosted or managed service rather than relying on expensive internal resources? And are they evaluating the right technologies and services to effectively test the waters of cloud computing?

To assess the 'cloud awareness' of the SME market, Redshift Research undertook a survey of 250 small businesses in the UK during March 2010, on behalf of GFI. The survey focused exclusively on organisations with fewer than 250 employees, with 46% having less than 10 employees, 29% between 10 and 99 and 25% between 100 and 249 (Graph 1).

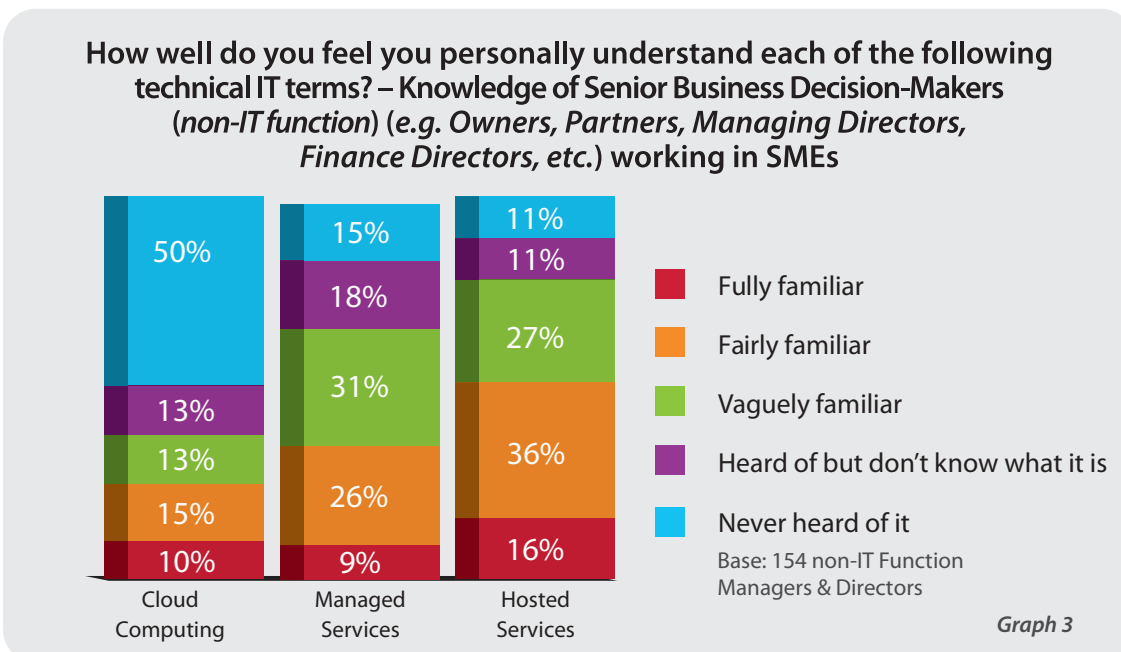


The interviews were conducted with a range of senior decision-makers, including company Director/Owner (41%), IT Manager/Director (18%), IT/Systems Professional (21%) and other IT decision-maker (non IT function) 20%.

The companies surveyed spanned the full gamut of vertical markets, from general business services (21%), through manufacturing (15%), retail, transport and distribution (14%) and financial services (13%) (Graph 2).

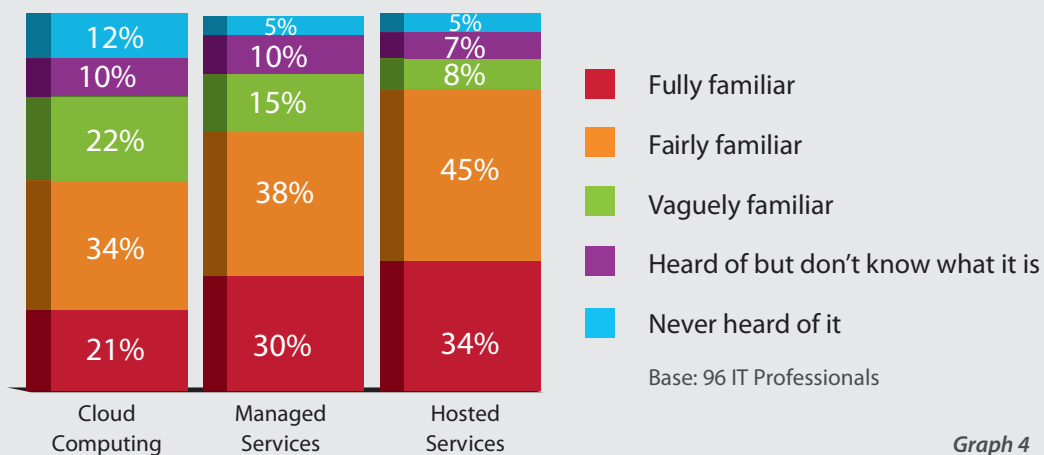


The top finding was that, despite the economic pressures, SME senior managers are still failing to consider the role emerging technologies can play in reducing costs and improving business performance. According to the study, only 10% of senior decision-makers in SME organisations claim to be fully aware of what cloud computing means. In contrast, 50% have never heard of cloud computing; a further 13% have heard of it but don't know what it is; and 13% are only vaguely familiar with the term (Graph 3).



In contrast, only 15% have never heard of managed services, and 11% hosted services. Unfortunately, this lack of insight is not limited to non IT personnel. The research also revealed 44% of IT professionals working for SMEs have a very poor familiarity with cloud computing: 12% have never heard of it; 10% have heard of it but don't know what it is and 22% are only vaguely familiar with the term. Indeed, only 21% of respondents claim to be fully familiar with cloud computing (Graph 4).

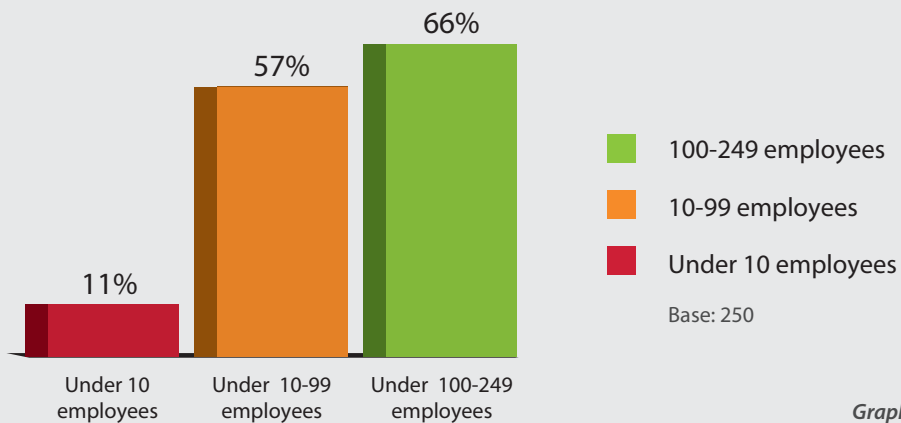
How well do you feel you personally understand each of the following technical IT terms? – Knowledge of IT professionals working in SMEs



Graph 4

Furthermore, it must also be taken into account that, unsurprisingly, the smaller the company, the less likely it is to have a dedicated, full-time IT professional. In fact, only 11% of respondents within companies with fewer than 10 employees were dedicated IT professionals. This figure rose to 57% for companies with 10 to 99 employees and 66% for business with 100 to 249. This study reveals an extraordinary lack of insight into these key business terms amongst senior decision-makers (Graph 5).

Presence of respondents who were dedicated IT professionals by size of company...



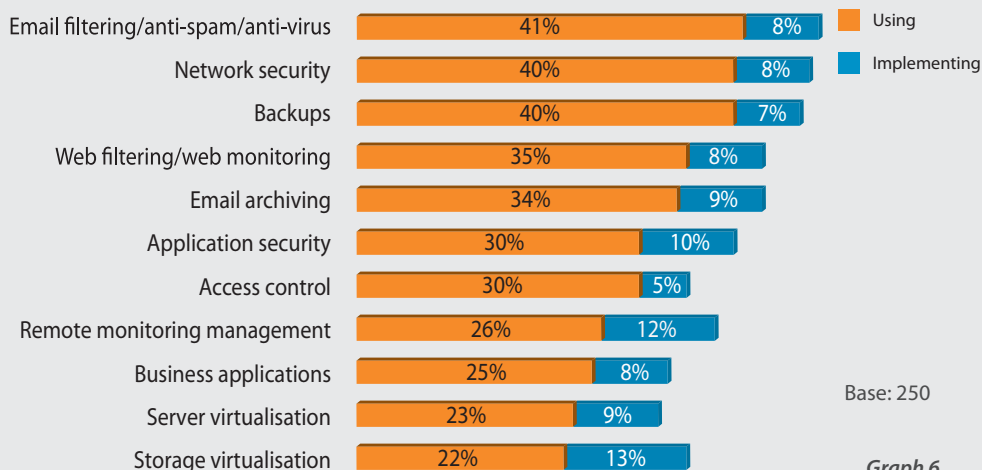
Graph 5

However, given that these terms are practically synonymous, is there perhaps too much jargon? And, even when the terms hosted and managed services are recognised, just how clearly do these organisations understand the implications of the move to a hosted service? Are they considering the right technologies as a test bed for a move to the cloud? And, just how effectively are they assessing the skills and services of potential vendors?

Fragmented Adoption

In fact, the adoption of managed/hosted services is higher than the level of awareness would suggest. Four-fifths (41%) of organisations are currently using a hosted/managed email filtering, anti-spam and anti-virus service, with a further 8% in the process of implementing. Similar numbers of organisations have adopted the hosted model for backups (40%) and network security (40%), with slightly lower adoption levels for web filtering (35%) and email archiving (34%) (Graph 6).

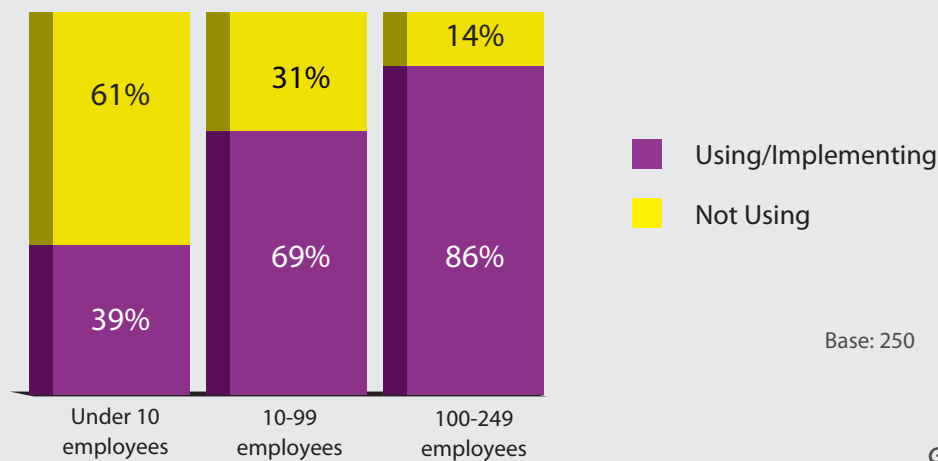
For which of the following would you use a hosted or managed service? – Using Currently or Implementing



Graph 6

However, these figures mask the very different levels of adoption within the smallest organisations. Indeed, whilst 86% of companies with 100 to 249 staff are using some kind of hosted/managed service, and 69% of companies with 10 to 99 staff, this drops significantly to only 39% of those companies with fewer than 10 staff (Graph 7).

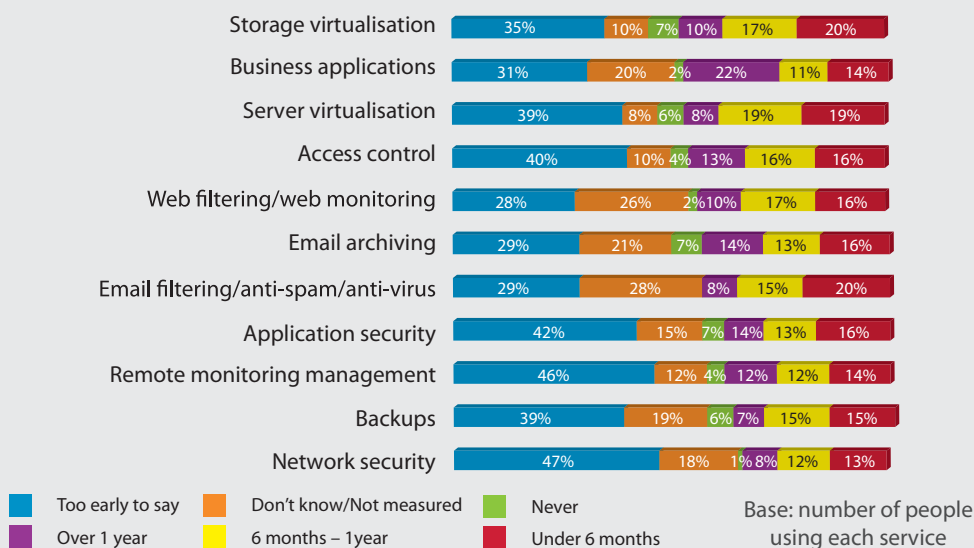
Usage of any managed/hosted services by size of company



Graph 7

Furthermore, SMEs are playing it safe when it comes to hosted/managed services, with only 23% using managed services to deliver server virtualisation (Graph 6). Yet, this is one of the areas that offers the fastest return on investment (ROI), with 20% of organisations achieving payback in less than six months; and a further 17% between six months and a year. Indeed, the overall ROI figures are compelling with the vast majority attaining payback within a year (Graph 8).

Over what timeframe did you realise a positive return on investment from the time when you first started using these services?

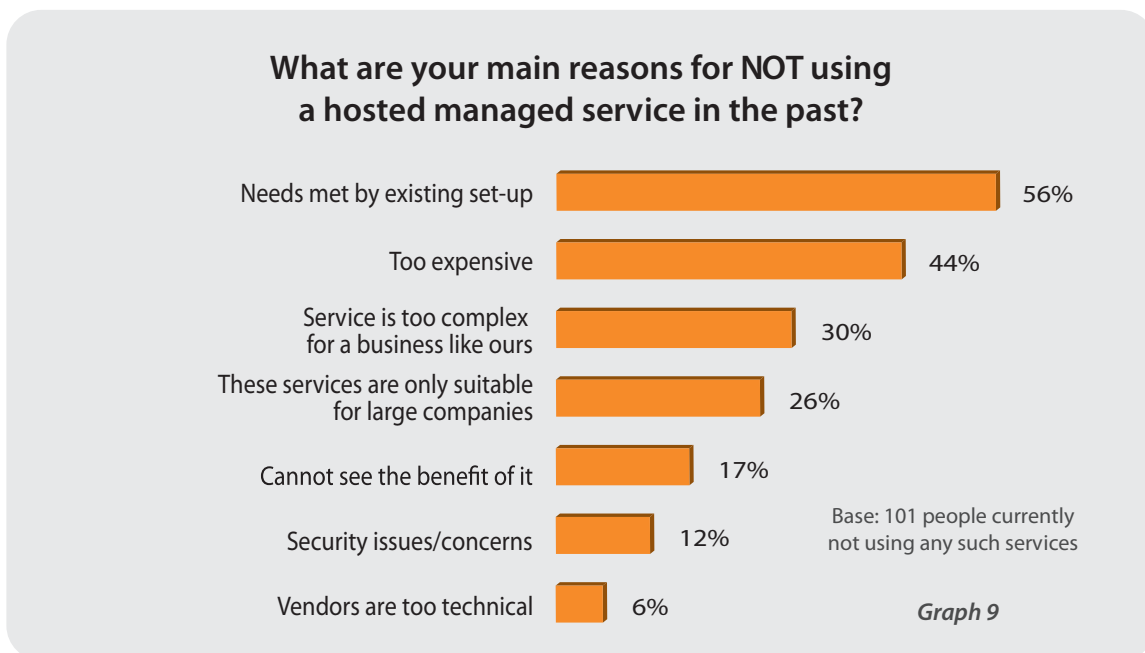


Graph 8

Cloud Barriers

So what are the barriers to adopting managed services? Over half (56%) of all companies currently not using any hosted/managed services believe their needs are met by the existing set-up. However, 44% perceive it is too expensive, 30% say the service is too complex for their business and 26% believe these services are only suitable for large companies.

In contrast to the generally held view that it is security fears and a loss of control that are constraining the adoption of this model, only 12% of respondents cited security issues/concerns as a reason for not using a hosted managed service (Graph 9).

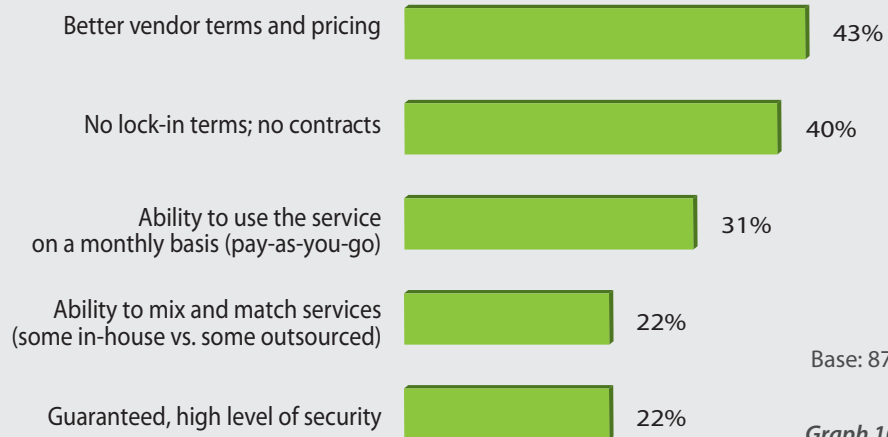


These perceptions regarding cost and complexity are completely at odds with the cloud computing benefits being promoted by the IT industry. The cloud model is actually far less complex to use: as long as employees know how to use a web browser and run an application from a web browser, they can access a hosted service. Indeed, it is far less complex than introducing a new on-premise application.

Furthermore, growing numbers of analysts now believe that it is SMEs that have the best advantage in moving to the cloud, with less internal infrastructure and personnel it is far easier to make the shift online. In addition, with these services available on a pay-as-you-go basis with no capital expenditure, the cost model should appear compelling, especially in this current climate. It is, perhaps, important for the industry to ask just why these SMEs perceive the cloud as a big company technology and one that is too expensive.

But the findings were reinforced when respondents not using hosted managed services were also asked what factors would be likely to encourage future adoption. 43% cited better vendor terms and pricing, whilst 40% want no lock-in terms and no contracts and 31% want the ability to use the service on a monthly basis (pay-as-you-go). Again a guaranteed, high level of security was cited by only 22%, further reinforcing the fact that this SME marketplace is less concerned about security issues (Graph 10).

What factors would be likely to encourage you to use managed hosted services more in the future?

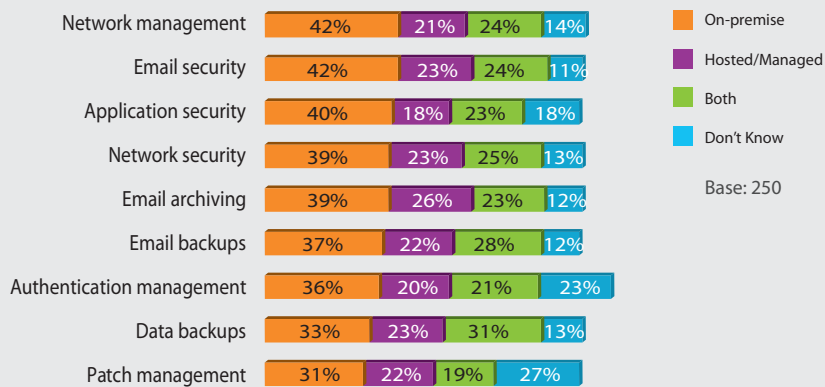


There is a clear demand for the hosted/managed services model to deliver on its initial promises of pay-as-you-go. This is a major shift in strategic approach, and organisations are understandably uncomfortable being forced to sign up to a three year contract – as demanded by some hosted vendors – for what they perceive to be an untried and untested service. Pay-as-you-go based on a 30-day contract, in contrast, offers organisations a chance to dip their toe in the water of managed services without incurring significant business risk or demanding major investment.

Model Value

Indeed, the fact that almost a quarter (22%) also cited the ability to mix and match services (some in-house, some outsourced), demonstrates a growing recognition that the managed service versus on-premise polarisation misses the point. This shift towards a hybrid model is a key trend and one that will undoubtedly be key in supporting SMEs looking to embark upon a gradual assessment of managed/hosted services (Graph 11).

Of the following solutions/services typically used by a small business, which do you think are best suited to being delivered by a hosted/managed service and which are better suited to being maintained on-premise and, in which cases, could be managed just as effectively by both approaches?



Graph 11

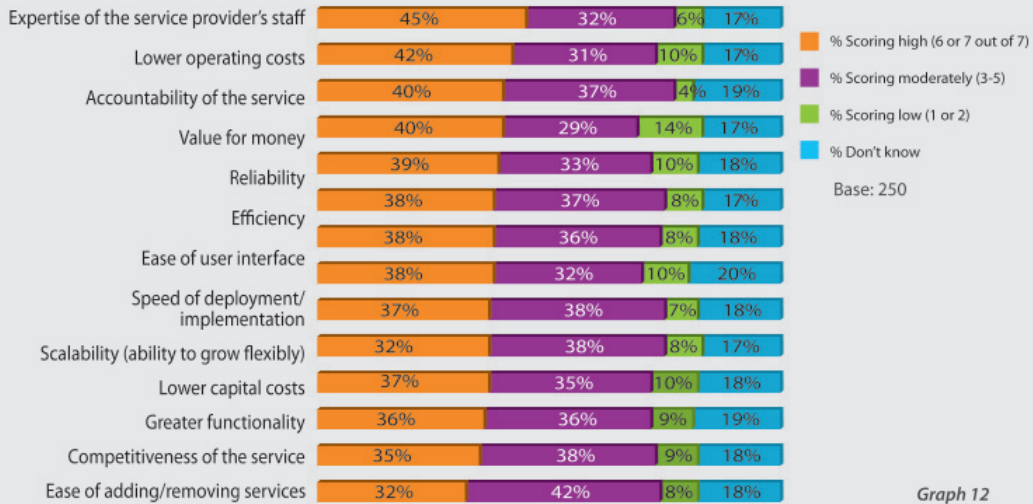
There is no doubt that, terminology aside, the adoption of a managed or hosted service is one that is provoking discussion and debate. So what are the perceived benefits associated with using a hosted or managed service over and above an in-house system? For almost half (45%), it is the expertise of the service provider's staff, whilst 42% cite lower operating costs and 40% the accountability of the service (Graph 12).

This combination of access to skills and accountability of service delivery is telling and points to the very real challenges SMEs are experiencing in delivering high quality IT services internally. If the industry can deliver an incremental improvement in service quality over on premise systems, there is a clearly a strong pent up customer demand.

Additional benefits include value for money (40%), with reliability (30%), efficiency (38%), ease of user interface (38%) and speed of deployment/implementation (38%), also gaining strong support. It is also interesting to note that while operating costs are a top priority, lower capital cost is further down the list at 37% (Graph 12).

In your opinion what are the main benefits you'd associate with using a hosted or managed service over and above those you'd expect to see from running it in-house?

[scores out of 7, where 7 = a key disadvantage & 1 = no disadvantage at all]



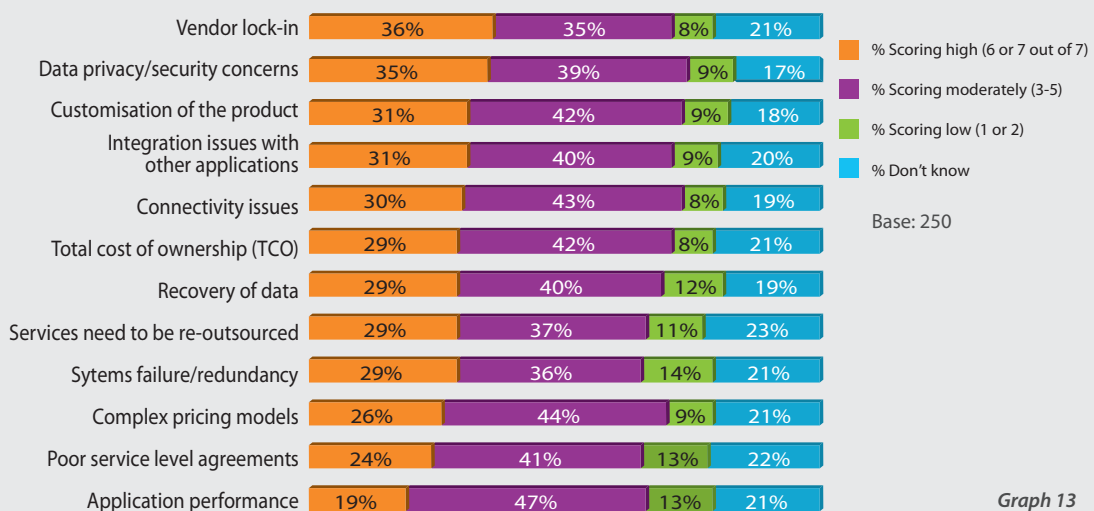
Graph 12

However, when these results are broken down between those companies already using hosted/managed services and non-users, it is efficiency that becomes the top-rated benefit, followed by speed of deployment and expertise of service provider staff for those that have embraced the cloud computing model.

So what are the main disadvantages of using a managed/hosted service in practice compared to retaining it in-house? Vendor lock-in (36%) is the top issue – for both existing users and non-users – followed closely by data privacy/security concerns (35%). Additional issues are customisation of the product (31%), integration issues with other applications (31%) and connectivity issues (30%), and 29% also cited total cost of ownership (TCO) (Graph 13).

What do you think represents the main disadvantages of using a managed/hosted service in practice compared to retaining it in-house?

[scores out of 7, where 7 = a key disadvantage & 1 = no disadvantage at all]



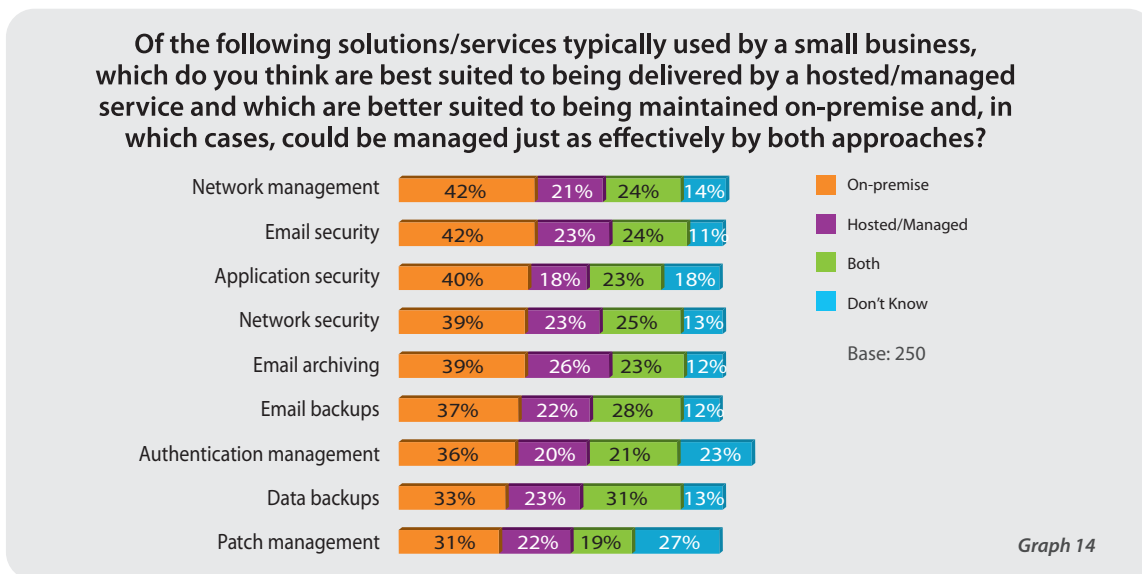
Graph 13

Service Choice

The growing shift towards a hybrid model was also revealed when respondents were asked which of a list of solutions/services typically used by a small business were best suited to being delivered by a hosted/managed service, which were better suited to being maintained on premise and which could be managed just as effectively by both approaches.

Whilst the majority of respondents opted for on-premise approaches for every solution, a significant proportion opted for a hybrid approach, where both hosted and on premise services are used across the organisation to reflect business needs.

Indeed, in many cases – data backups (31% both, 23% hosted/managed), email backups (28% both, 22% hosted/managed), network security (25% both, 23% hosted/managed) and network management (24% both, 21% hosted/managed), the hybrid approach gained a significantly higher response (Graph 14).



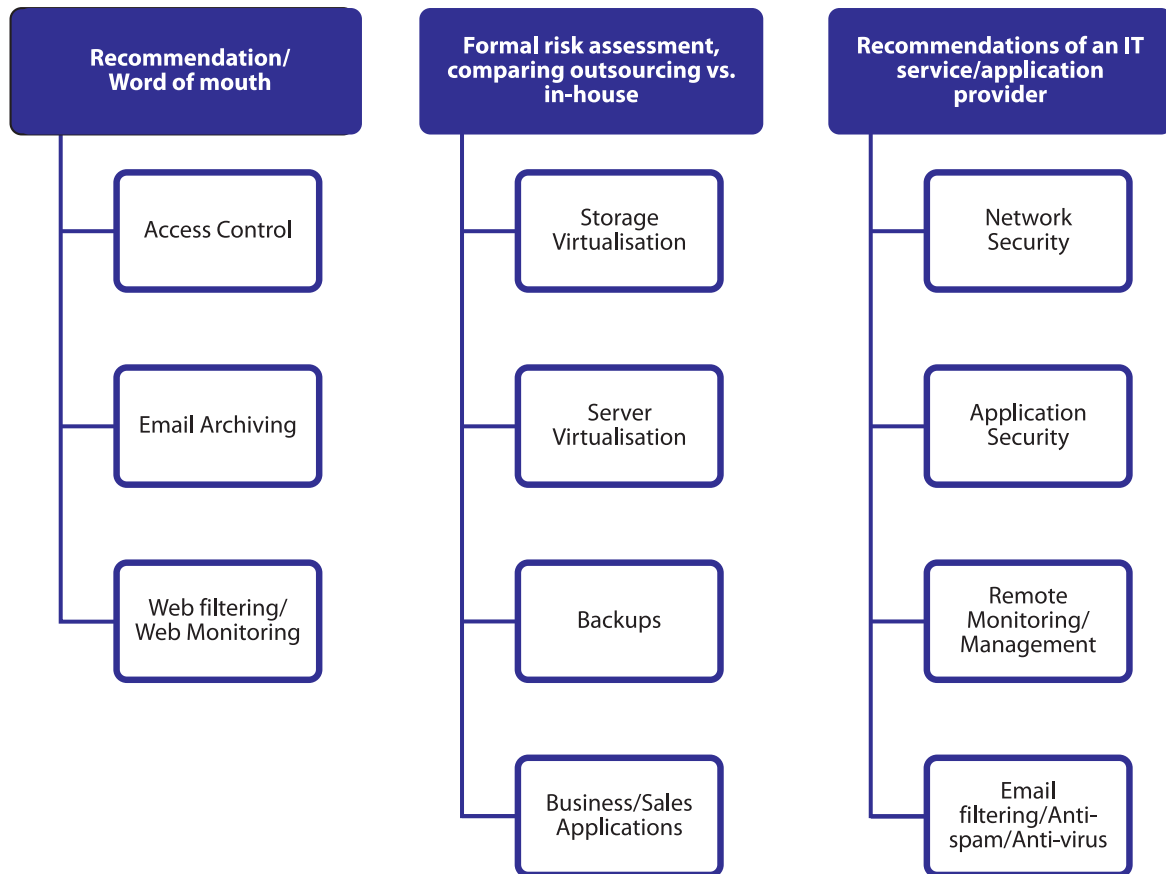
These figures reveal that while the majority of SMEs are retaining on-premise models and believe that most technology should be on-premise, growing numbers are also recognising the effectiveness of having both. Overall, nearly a quarter say they believe in a hybrid approach.

However, despite this trend which would indicate a growing recognition and confidence in the ability to mix and match services to reflect business needs, the survey reveals a continued lack of maturity both in approaches to acquiring the right service and, perhaps a concern for the industry, the quality of service delivered.

Indeed, given the respondents' calls for access to better skills and accountability, it is perhaps disappointing to discover the actual performance experienced by those organisations that have embraced cloud computing to date.

It is perhaps no surprise that organisations are relying on word of mouth for web monitoring and filtering. But they are also taking this approach to determine the best service provider for both email archiving and access control which is very surprising. By contrast, organisations are relying upon the recommendations of an IT service/application provider for a basic solution, such as email filtering/anti-spam/anti-virus, as well as network security, application security and remote monitoring/management. The good news is that companies are, however, opting for a formal risk assessment comparing outsourcing against in-house services for the more complex services such as storage virtualisation, server virtualisation, backups and business/sales applications (Graph 15).

To what extent was your choice of service provider based on the following criteria? – Most important influences by type of service

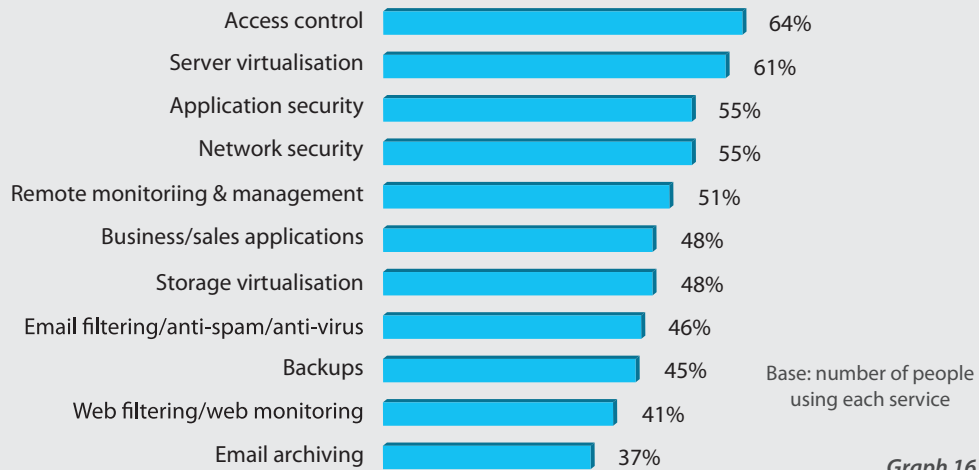


Base: number of people using each service

Graph 15

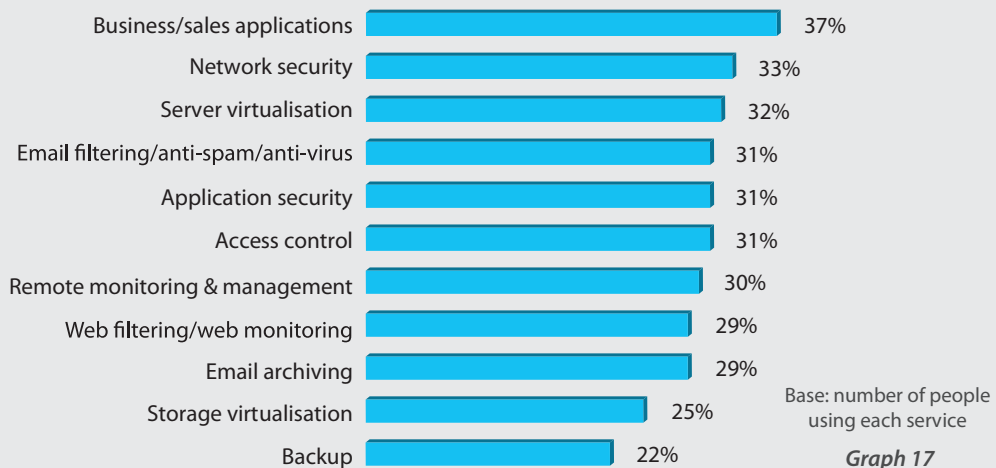
It is telling that, when asked about the performance of hosted services, almost two-thirds (61%) have experienced downtime problems with access control, 61% have also experienced downtime problems with server virtualisation, application security (55%), network security (55%) and remote monitoring & management (51%) (Graph 16).

Have you encountered downtime problems whilst using a managed/hosted service?



Over one third (37%) have also experienced problems contacting the provider when using a hosted/managed solution for business/sales applications. 31% and 22% have experienced loss of or trouble accessing data while using a managed/hosted service for backups and access control respectively, with 33% experiencing data problems with network security services (Graph 17).

Have you encountered problems contacting the provider whilst using a managed/hosted service?



It is interesting to note that the biggest problems have occurred with the more complex services, such as access control and server virtualisation. In contrast, the performance is better on services such as email archiving, which is less demanding on the technology and therefore results in greater reliability.

But these figures are undoubtedly too high. Whether this is due to continued market immaturity or a misconception on the part of the SME is hard to judge. It is important to emphasise that 'always on' services are not the same as always available. And 99.999% availability will still result in some downtime. The issue is to set expectations and ensure they meet the actual business needs of each organisation.

Given these findings it is, perhaps, good news that in the main, SMEs have adopted a hosted service mainly for basic solutions, rather than the more complex options such as server virtualisation and business applications.

There is no need for a business to jump head first into cloud computing; get it wrong and it could have a negative impact on the company. Starting out with basic services and adding more applications incrementally as required is a far better approach.

Conclusion

The economy may be picking up but cost containment remains a priority and, for most SMEs, a CapEx freeze will continue for some time. As a result, the hosted/managed services model should appear compelling.

Yet as this research reveals, the majority of SMEs in the UK are resisting what should be an inexorable shift towards the cloud. While the stated reason is that existing services are adequate, the clear lack of understanding of cloud computing raises very real concerns about just how much time, effort and resource are being put into assessing the benefits of this new model.

Analysts globally are expecting SMEs to lead the move towards the managed/hosted model driven by a combination of agility and a demand for access to better skills and resources. In the UK, however, it would appear that SMEs are not embracing the cloud computing model despite the growing market maturity, the ever increasing number of cloud-based services now available and the increasing stability of key technologies from network bandwidth to virtualisation.

The good news, however, is that there is growing understanding that this is not an either/or option: organisations can embrace a hybrid model, adopt a few cloud-based services to assess the implications and then expand as required to drive additional business value.

For the IT industry, this research highlights the somewhat blinkered approach to cloud computing: the industry needs to recognise the lack of end-user understanding and the resistance to current pricing and contract models.

For the SME, the message is clear: gain some insight but weigh up your options. Don't get tied into long-term contracts, keep the adoption of a managed/hosted model as open as possible to retain business flexibility. This model is the future and will deliver clear financial and operational benefits but it is a big step and one that requires serious consideration. By taking the hybrid approach and using an incremental adoption of cloud-based services, organisations can begin to explore the options and gain financial benefits without incurring business risk.

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