
Micro-SMB Tech Services Market Research Summary

Industry Whitepaper
by Waterstone
Management Group

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Tech Services for the micro-SMB Segment

Waterstone recently completed a study of the micro-SMB or mSMB (small businesses with less than 25 employees) tech services market. As part of the study, 15 interviews were conducted with Executives across a range of companies that provide technology to mSMBs today, including office product retailers, telcos / ISPs, Cable MSOs, SaaS software and other service providers (mSMB technology players). This document summarizes the findings from these interviews and provides insights into the market opportunity for tech services for mSMB technology players.

I. mSMB Market Dynamics

While there is broad consensus that the mSMB market opportunity is large, interviewees acknowledged they lacked an in-depth understanding of the segment and agreed that market growth has been limited by lack of awareness and availability of tech services targeted at this segment.

- A. **Common segment definition, but little insight into customer behavior.** Despite the common definition of the mSMB segment as companies with less than 25 employees, there was a consistent acknowledgement of the lack of detailed segmentation and/or deep insight into the different needs and behaviors within the segment. As a result, interviewees felt their marketing approaches to date have not been sophisticated and remain relatively unproven.
- B. **The mSMB market opportunity is large and tangible**
- Broad consensus that the opportunity for SMB tech services is much greater today than it was 5 – 7 years ago and that the market is currently at an inflection point.
 - Initial tech services pilots targeted at mSMBs have proven successful but programs are still in early stages of launch. Most interviewees stated they are taking a slow, more diligent approach in rollout out their programs.
 - The opportunity for a new player to accelerate market adoption and growth still exists in the mSMB space, similar to Best Buy's Geek Squad success in the consumer segment.
- C. **To date, the market opportunity has been constrained by lack of awareness and availability**
- Many mSMB customers acknowledge a need for more tech services, but haven't purchased support due to lack of awareness and information on where to purchase, ways to manage the support, pricing, etc.
 - Focus groups conducted by interviewees have revealed that there is a high degree of angst and confusion among small business owners as to what their options are.

- Most companies interviewed also point to internal operational barriers (vs. lack of interest among mSMBs) in explaining their more diligent, slower approach to program rollout.

II. Offering Design

Based on initial planning and market pilots, there are a range of perspectives in the market around the winning set of tech services offerings to target the mSMB segment.

- A. Broad agreement that no one has “nailed” the mSMB premium tech support model to date – vendors and channels lack a coherent strategy on the mSMB market.** Service delivery vendors (pure-plays, VARs, Managed Service Providers) who claim to have a model for the SMB market tend to either be repackaging their consumer offers or taking an enterprise-grade offering and trying to sell it to smaller entities.
- B. Looking ahead, the adoption of Cloud-based and SaaS applications over the next 3-5 years needs to be factored into offering design**
- Cloud services suit mSMBs well because they are easier to set up, there is little upfront expenditure, and they are increasingly reliable.
 - Trends in software licensing indicate SMBs are buying more SaaS products, but many of these businesses do not even realize they are cloud customers (e.g. use Dropbox, but do not know it is a cloud-based service).
 - mSMBs are in the early stages of the cloud adoption curve, and there is an opportunity to provide services to help customers become aware of and adopt these services.
- C. Companies targeting this space are thinking through four different models when defining their offerings,** ranging in scope of services and target customers (see table below). Market pilots are being planned and executed across all four models such that companies can test market demand and demonstrate an ability to execute. Most companies will not make a significant investment without validating the opportunity first.

mSMB Tech Services Offering Models

<i>Offering Model</i>	<i>Model Description</i>
SaaS/Cloud Reseller	Resell an aggregated menu or marketplace for cloud-based and/or subscription applications for SMBs
Consumer-for-SMBs	Repackage consumer-offerings with focus on remote services (e.g. remote backup, remote helpdesk, anti-virus services) & higher service level agreements (SLAs)
SMB Good/Better/Best	Bundle subscription/managed services for PCs and servers with traditional consumer offerings (above) in addition to managed anti-virus and patch management, remote network monitoring, mobile device support, configuration changes, etc.
Mini-VAR model	Blend of scalable managed services model with localized presence providing in-store or onsite professional services (PC & Printer setups), onsite assessments/CIO-as-a-service in addition to the services offered in the SMB Good/Better/Best model above

III. Sales to mSMBs

Due to the relative complexity involved in selling to mSMBs (vs. consumers) and the importance of face-to-face interaction in this segment, companies are concerned with operationalizing the sales of tech services to mSMBs.

A. Most companies are very concerned with the ease of execution in selling tech services to mSMB customers

- Some retailers have had difficulty selling business-grade products and solutions on their floors due to 1) challenges in stocking business-grade technology products (e.g. Apple products) and 2) relying on low-paid, consumer-oriented retail workers for more complex, business sales processes. Learning to execute this core product sale to SMBs will be critical to a successful business-grade support sales model, since these services will be likely be attached to product sales.
- Other companies that run call center based sales centers (e.g. ISPs, OEMs) cited similar challenges in solution selling within a traditional product-centric sales center.
- Companies are trying a range of approaches to address the sales challenge including: placing specialized business consultants in retail locations, building a higher tier, trained sales force to sell mSMB services, and relying on service delivery partners to also handle the sale.

- In addition, companies are considering putting tight boundaries around their mSMB offerings to make them easier to sell (e.g., greatly simplifying the offering so that it allows an easier sell within existing channels, not allowing for customization, leaving more complex opportunities (SMBs with servers & networks) for others to sell to).
- Most interviewees felt that leveraging their brand will be a key component of their go-to-market strategy. Creating a trusted brand in the mSMB tech services was often cited as a key objective of their initiatives.

- B. Today, face-to-face interaction plays a significant role in selling tech services to mSMBs.** Because mSMB customers tend to use resources (e.g., VARs, family friends, etc.) that they find via word-of-mouth and stick with them, a local sales presence is viewed as an important element to displacing these existing relationships. Interviewees have tried local sales models to effectively compete against the VARs – success to date has been mixed in finding a nationally scalable model

IV. Service Delivery Partnerships

Most channel partners want to leverage service delivery partners in launching an mSMB tech services business, expecting to rely more heavily on 3rd parties than they do in consumer tech services businesses.

- A. Most companies are looking for service delivery partners** as opposed to building or aggregating capabilities in house. This appears to present opportunities for third party service providers.
- B. Companies are willing to accept lower margins on mSMB support offerings than they will with consumer offerings** because they will rely heavily on 3rd parties and want to ensure that they can operate at a high level of service. Service providers may not feel the degree of margin pressure seen in the consumer category over the last 2-3 years.
- C. There was a difference of opinion on the level of value add around cloud-based services.** While some channels would value an aggregation of cloud-based service offerings, single-sign-on and integrated billing, others would prefer to aggregate themselves to achieve better price-points.

To learn more about how Waterstone Management Group can help your company take advantage of the SMB tech services opportunity, build new revenue streams or improve current business performance, please contact:

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