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The Small Business Transition to Hosted Technology: Costs vs. Benefits

A Comparative Analysis of Organizations That Host IT Infrastructure vs. Those That Don't

Survey of 326 SMB Executives Involved in the IT Decision-Making Process

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The Small Business Transition to Hosted Technology: Costs vs. Benefits

A Comparative Analysis of Organizations That Host IT Infrastructure vs. Those That Don't

*Survey of 326 Executives Involved in the IT Decision-Making
Process in the Small Business Environment*

Introduction and Methodology:

Small- and medium-sized businesses (SMBs) have traditionally struggled to keep pace with strategic technology adoption. Lacking the IT expertise and financial resources of large companies, SMBs have often been at the trailing end of the bell curve when it comes to using advanced applications, systems and security for business enablement. Yet, a number of key factors may be eroding this competitive disadvantage. Among them are:

- A rising level of IT sophistication;
- The declining costs of technology; and
- The increasing availability of hosted applications and on demand IT infrastructure that lower the ownership cost, and improve IT accessibility and reliability.

Indeed, small companies that leverage hosted or outsourced technology models appear to be doing more, spending less and reaping greater benefits from technology than SMB counterparts that manage their IT infrastructures on their own.

These are among the critical findings of a new research initiative undertaken on IT usage among small companies. During the first calendar quarter of 2007, ***BizTechReports.Com*** conducted a Web-based survey of 326 executives and owners of small businesses to understand the state of technology adoption in this sector of the economy. The study examines the state of technology in general, as well as the impact of IT infrastructure hosting on small businesses and their ability to achieve key business objectives. To that end, two groups within the SMB community were surveyed:

- 164 executives in companies that outsource at least one major element of their IT infrastructure with The Planet; and
- 162 executives in companies that manage all major elements of their IT infrastructure internally.

The survey focused on the senior levels of management, with more than **96 percent** of respondents listed as Manager, Director or above. The vast majority -- **97 percent** -- worked in companies with fewer than 100 employees. The survey encompasses a broad segment of the economy, with input solicited from small businesses in the following vertical industries:

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">• Broadcasting• Business Services• Commercial Real Estate• Distribution• Education• Entertainment• Financial Services• Government• Healthcare | <ul style="list-style-type: none">• Manufacturing• Ministry• Photo Editing Services• Professional Services• Publishing• Retail• Technology• Telecommunications• Transportation Logistics• Wholesale Distribution |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Executive Summary:

The survey reviews the State of Technology in the SMB, and concludes the following:

- IT has emerged as a strategic enabler for small- and medium-sized businesses, with the vast majority of respondents -- many with ambitious technology plans -- expecting to increase spending to meet key business objectives.
- SMBs that use IT hosting/on demand IT infrastructure today are more likely to spend a lower percentage of their annual revenue on technology than businesses that own and manage IT resources internally. At the same time, SMBs that outsource IT infrastructure are more likely to support a greater number of strategic applications and operations than those businesses that do not outsource.
- Businesses that outsource their IT suffer fewer security incidents and technical failures than their non-hosting counterparts and are better positioned to avoid and/or mitigate down-time risks.
- Businesses that depend on IT hosting are generally able to expand – and contract – their IT operations more quickly and easily. With the ability to “rent” components of the IT environment – scaling or decreasing as business dictates – companies are able to manage and predict costs. As a result, hosting the IT infrastructure warrants serious consideration.
- SMBs that outsource their IT infrastructure are more than twice as likely to implement e-commerce applications to generate top-line revenue with their technology investments. These online strategies require a much higher degree of infrastructure reliability and availability to be successful.
- Executives with companies that engage in IT outsourcing are generally more satisfied with the value that IT delivers in advancing strategic business objectives.
- While the pace of innovation has created an “IT arms race” that favors larger companies, technology and market advances continue to drive down IT costs.
- Hardware speed and processing power are rapidly increasing, This is shortening the life-cycle and shelf-life of infrastructure technology, which in turn makes owning the technology a less attractive investment for SMB.

Key Aggregated Findings:

SMBs Demonstrate Broad Sophistication and Receive Strategic and Tactical Value from IT Assets

The survey reveals that small businesses rely heavily on IT to achieve key business objectives and make remarkably sophisticated decisions about their IT investments. The community puts significant thought into how their IT resources are allocated, how strategies are implemented and how business outcomes are tracked.

Both groups – those who use hosting services vs. those who manage all IT functions in-house – report that IT plays a critical role in supporting key operations. As a whole, SMB executives follow much the same path as decision-makers in larger organizations: they are aligning IT investments with specific management initiatives designed to advance strategic business objectives.

- A full 99 percent of all those surveyed report that **IT plays a critical or important role in maintaining business operations**. A vast majority note that technology plays an important role in remaining competitive and in executing mission-critical business strategies.
- SMB executives who depend on hosted IT infrastructure are more likely to be satisfied with their IT investment than those who own and manage IT resources internally.
- Small businesses are leveraging significant benefits from their IT investments as executives take appropriate steps to manage the risks associated with their increasing reliance on technology.
- While IT performance remains strategically important, the majority continue to evaluate how they can achieve results at costs they can afford without sacrificing business results.
- Compared with 2006, SMBs that outsource their IT infrastructure are much more likely to launch new strategic initiatives on their IT infrastructure in 2007 than SMBs who do not.

IT Infrastructure Management: To Host or Not?

One technology management strategy that continues to gain currency in the small business market is the practice of IT infrastructure hosting. This strategy calls for leasing technology resources from third-party providers for a monthly fee with no up-front investments.

These resources may include servers, disk space, networks, applications, bandwidth, switches and routers. The outsource provider -- or hosting company - - takes responsibility for maintaining technology and supporting applications. It is an approach frequently taken to support mission-critical business operations, and it represents a viable alternative to **buying** IT assets and using internal human and technical resources to support the applications that contribute to business growth.

Recent research from Frost & Sullivan's Stratecast Partners shows that companies that subscribe to hosted IT infrastructure services are securing dramatic savings -- up to 75 percent. In the research, Stratecast carefully estimated the costs incurred for matching the functionality and quality of service for a company with less than 100 employees. Included in the cost evaluations were servers, security, firewalls, bandwidth, utilities and administration. These results show that over a three-year period, the hosted implementation costs were \$24,100 compared with internally managed IT infrastructure costs of \$104,600.

Similarly, New York-based analyst firm Access Markets International (AMI) Partners, Inc. reports that SMBs are increasingly likely to offload cumbersome IT chores to outside experts, so they can focus on their core business.

A Comparative Analysis

In short, **IT infrastructure outsourcing – or hosting – is now firmly established as a viable strategy for small businesses.** IT outsourcing has achieved enough of a critical mass that it is now possible to compare the performance and outcomes of investments with those who manage their technology infrastructures and resources internally.

Our survey finds significant differences between IT infrastructure outsourcers and those who manage IT operations internally in several key areas:

- **Strategic Perspectives** -- Interestingly, organizations that outsource IT infrastructure tend to have a more "strategic" appreciation for the role that technology plays in their operations compared with those who manage IT operations internally.
 - In our survey sample, **92 percent** of respondents outsourcing infrastructure reported that IT plays a critical role in operations. This compares with **83 percent** of respondents who manage technology operations internally.
 - Outsourcers -- at **85 percent** -- are significantly more likely to report that their IT organization plays an important role in remaining competitive in their industry than non-outsourcers -- at **69 percent**.

- Similarly, **78 percent** of outsourcers strongly agree that IT plays an important role in executing the strategic direction their organizations take in bringing their offerings to the market, compared with **54 percent** of non-outsourcers.
- **Operational and Financial Performance** -- Outsourcers generally leverage existing IT infrastructures to **generate more top-line revenue** while simultaneously improving **bottom-line results**. Consequently, senior executives who outsource are more likely to be satisfied with the operational and financial performance of their IT investments.
 - In many cases outsourcers are twice as likely to leverage existing IT investments to deploy a greater variety of strategic applications. For instance, outsourcers are almost twice as likely to concurrently implement application security, customer relationship management, or contact center management, than their non-outsourcing counterparts.

| My organization is currently implementing the following technology applications in its IT infrastructure | | |
|-----------------------------------------------------------------------------------------------------------------|------------|----------------|
| | Outsourcer | Non-Outsourcer |
| Application security | 70 | 45 |
| CRM | 76 | 48 |
| Contact Center Management | 32 | 17 |
| E-Commerce | 68 | 29 |
| Software as a Service (SaaS) | 50 | 21 |

- Companies that outsource (**68 percent**) are much more aggressive about using IT assets to engage in e-commerce than companies that manage technology infrastructures internally (**29 percent**).
- Outsourcers are more than twice as likely to use cutting-edge technologies and methodologies, such as Software as a Service (SaaS).
- Executives that host their technology infrastructure are more likely to be satisfied with the role IT plays in advancing strategic business objectives.
- Companies that choose to outsource their IT infrastructure are still more likely to spend a lower percentage of their annual revenue on

IT infrastructure than those who do not outsource, despite the fact that their IT infrastructures support a greater number of applications and operations

| My organization allocates the following percentage of its annual net revenues to maintaining and upgrading its IT infrastructure | | |
|-----------------------------------------------------------------------------------------------------------------------------------------|------------|----------------|
| | Outsourcer | Non-Outsourcer |
| Less than 1 | 18 | 2 |
| 2 - 5 | 38 | 18 |
| 6 - 9 | 21 | 17 |
| 10 -14 | 14 | 42 |
| 15 or more | 10 | 22 |

- Outsourcers appear to be better positioned to avoid and/or mitigate down-time risks due to security incidents and technical failures.

| In the past 2 years my organization experienced interruptions in business operations because of IT infrastructure "down-time" caused by security breaches or technical failures: | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------------|
| | Outsourcer | Non-Outsourcer |
| Never | 23 | 16 |
| 1-3 times | 54 | 48 |
| 4-6 times | 14 | 21 |
| 7-9 times | 1 | 6 |
| More then 10 times | 8 | 10 |

- Outsourcers suffer fewer security breaches. When they do, they tend to have a less negative impact than those who manage IT infrastructures internally.

| Business interruptions due to IT security breaches or technology failures have caused the following: | | |
|-------------------------------------------------------------------------------------------------------------|------------|----------------|
| | Outsourcer | Non-Outsourcer |
| Catastrophic harm | 4 | 7 |
| Significant harm | 4 | 19 |
| Some harm | 20 | 30 |
| Inconvenience | 57 | 36 |
| Had no discernable impact | 15 | 8 |

- Ironically, even as outsourcers spend on average a lower percentage of their revenue on infrastructure, these executives are 76 percent more likely to plan and implement new IT initiatives this year than executives who manage IT infrastructures internally.

| 28 My organization plans to invest more money on BRAND NEW INITIATIVES for IT infrastructure in 2007 than it did in 2006 | | |
|---------------------------------------------------------------------------------------------------------------------------------|------------|----------------|
| | Outsourcer | Non-Outsourcer |
| Strongly Agree | 25 | 19 |
| Agree | 51 | 31 |
| Disagree | 14 | 39 |
| Strongly Disagree | 0 | 1 |
| Don't Know | 11 | 10 |

In the Final Analysis:

A number of forces are converging in the marketplace to explain the benefits small businesses gain by adopting an IT infrastructure outsourcing model:

- **Effective IT Use is More Critical to ROI than Owning Technology:** Technology products have become pervasive and readily available. As such, to generate strong ROI from IT, it is no longer necessary that companies own the infrastructure to effectively manage and leverage IT capabilities.
- **Innovation Drives Broader Availability, Lower Costs:** Today's technology "arms race" has triggered tremendous innovation across the board for virtually every technology including servers, microprocessors and bandwidth. In many ways, IT has been relegated to "utility" status. As a result, "renting" the infrastructure provides increased flexibility when additional capabilities are required.
- **Hosting Offers an Attractive Financial Model:** The decreasing "shelf-life" of technology makes "renting" IT resources more attractive than "buying." This is because hosting providers upgrade technologies more frequently than most small businesses. As a result, SMBs that outsource IT infrastructure are more likely to work on the latest proven technologies without absorbing new capital costs.
- **Hosted IT Provides Immediate Access to Advanced IT Capabilities:** Outsourcing IT infrastructure provides SMBs with access to the latest, most advanced technology that leads to improved security, network access and performance, and access to service level agreements with uptime guarantees.
- **Infrastructure Expansions are Far Easier with Hosting Solutions:** As businesses grow -- and more resources are needed to support new requirements -- the outsourcing model offers a more effective way to add new capabilities. Additional resources already available from the hosting company can be allocated to the SMB, often in just a few hours.
- **Business Applications are Moving to the Web:** The rise of Web-enabled applications -- such as e-mail, CRM and financial applications -- offers new ways for small businesses to access key applications that are stored, managed and maintained in remote locations. As a result, "where" applications reside -- internally or

externally – is becoming increasingly irrelevant to users who need access to information resources.

- **SMBs Gain Freedom to Innovate Within the IT Infrastructure:** Because an SMB IT team typically consists of one or two people who spend 80 percent of their time on routine management and maintenance of the infrastructure, only 20 percent remains for identifying ways technology investments can be leveraged. Conversely, by using hosting services, the IT team shifts its focus to support more business-oriented applications at less cost than their non-hosting counterparts.

Service Level Agreements (SLAs) Provide Assurances: In an outsourced environment, SMBs can use SLAs to establish minimum standards of performance that must be met by the hosting provider. This not only applies to application and network performance, but also to managing security operations. SLAs today often trigger the deployment of security measures from the outsourcing vendor that are far more rigorous and disciplined than those implemented by small business IT managers. Backup, restore, disaster recovery and application protection are often critical elements of a service level agreement. These agreements allow free time for IT decision-makers and administrators, which lets them focus instead on innovation management and new differentiating services to build on the basic IT infrastructure.

Conclusion:

Technologies continue to transform small- and medium-sized businesses. Until recently strong infrastructure technologies were available only to well-funded and large organizations. The landscape has changed dramatically. Companies that are considering a move to an on demand IT infrastructure now have access to the latest technology -- and latest technology advances -- at an affordable monthly rate. In evaluating potential IT infrastructure providers, SMBs should consider the following:

- Multiple Tier 1 bandwidth providers
- N+1 data center redundancy for power and generators
- Quality hardware from well-known manufacturers
- Comprehensive service level agreements
- Broad operating system support
- Strong physical and network security
- Technical support that is always available (24 X 7 X 365)
- SMB customer references who can validate the IT infrastructure provider's claims

The move to on demand IT infrastructure hosting explains why companies that choose this path are able to support more business-oriented applications at less cost than their non-outsourcing counterparts. With the rise of Web-enabled applications, "where" applications reside is irrelevant. Strong data center management and today's solid service level agreements make the trend toward infrastructure hosting one we expect to continue for years to come.

This survey confirms that for SMBs, hosted IT infrastructure provides a strong alternative for maximizing IT business benefits. Based on the responses and feedback from the companies that host all or part of their IT infrastructure, SMBs should consider outsourcing their IT infrastructures.

About the Sponsor:

The Planet

This report was funded by **The Planet**, the leading provider of On Demand IT Infrastructure solutions, hosting more than 22,000 small- and medium-size businesses and 2.8 million Web sites worldwide. By offering the best choice of servers, software tools and world-class support, backed by state-of-the-art facilities and unmatched network connectivity, The Planet helps turn information technology into a powerful competitive advantage that enables customers to successfully grow their businesses. For additional information, visit:

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