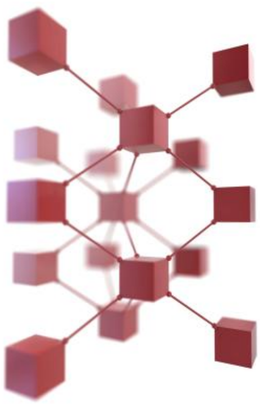
A TECHAISLE POINT-OF-VIEW



SMB PERSPECTIVES

EMPOWER ME!

THE COMING CHANGE IN SMB IT PRIORITIES AND INVESTMENT DECISIONS

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Contents

The New SMB Imperative
Tough economic times bring investment decisions into sharp focus. The result is typically lower investment levels. It also sharpens medium and longer term priorities. That leads to smart investments

Value Shift
SMBs are now looking beyond infrastructure investments as their respective countries slowly emerge from the global downturn

Enablement v/s Empowerment
SMBs are being driven towards empowerment technologies that are outside of normal technology adoption curve

Empowerment Technologies
SMBs in emerging market countries show greater intentions of investing in these new priorities than SMBs in mature markets

Implications for Channel Partners
Shift to newer priorities is and will impact channels the most in next five years

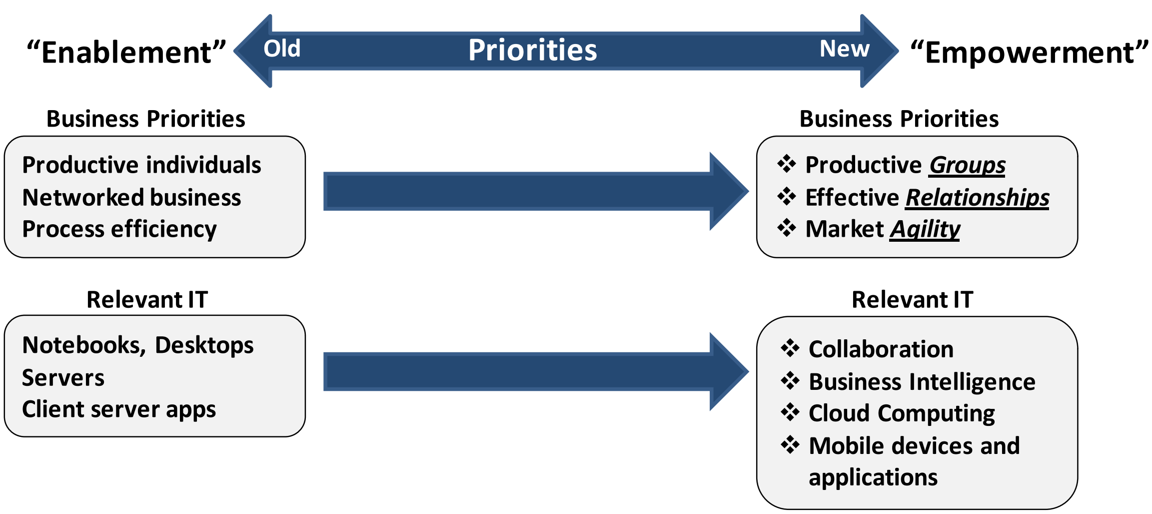
Conclusion
New priorities bring to light new opportunities for vendors and channel partners to positively impact the success of SMBs on a global basis

THE NEW SMB IMPERATIVE

Over the last two decades, the global small and mid-market businesses, SMB (1-999 employee size) market has been the growth engine for the IT industry at large. The reason is quite simply that SMBs account for over 80 percent of businesses in any country – developed or developing. For much of those two decades, SMBs have primarily focused on building core infrastructure with the bulk of their investment allotted towards buying PCs and desktop applications such as Office, desktop publishing and other industry specific software. This initial phase was followed by a longer continuing phase wherein SMBs shifted their investments to Networking technologies. However, this was still part of core infrastructure investments made by SMBs.

The reason for this lengthy investment cycle was that investments occurred at different times for different SMBs depending upon firm size and geographies. SMBs form the essential thread of the economic fabric of any country and to a great extent their fortunes and investment capabilities are dependent on the economic situations and policies of the countries they represent. So as the fortunes of the emerging world turned favorable, so did the investment capacity of these SMBs. Conversely, as economies have stalled in recent times, investment capacity of SMBs has been deeply affected.

Tough economic times bring investment decisions into sharp focus. The result is typically lower investment levels. It also sharpens medium and longer term priorities. That leads to smart investments. But also investments made at this time become longer term drivers of investment for adjacent areas. We at Techaisle believe that the recent economic implosion acts as a catalyst for such action and change among SMBs.



Value Shift

We believe that SMBs are now looking beyond infrastructure investments as their respective countries slowly emerge from the global downturn. We call this ongoing change in SMB IT priorities – ***Value Shift***. And we believe that it signals the change in priorities from **Enablement to Empowerment**. It refers to the new priorities among SMBs to invest in tools and technologies that allow their users to make better business decisions, improve market reaction time and better serve their customers. In other words, SMB firm leaders are looking to improve return on Human Capital as a way forward. For IT vendors, this means refocusing efforts to understand and take advantage of these new opportunities. IT vendors will need to examine their product lines, channel efforts and go to market strategies or risk a decline in market position.

Enablement versus Empowerment

Enablement related technologies include core technologies and products such as PCs, Servers and Broadband connections at SMB locations. We exclude basic telephone service since that has been around for so long. Even wireless voice services are largely commodity enablement services. What the aforementioned digital technologies have in common is that work related productivity is either location dependent, device dependent or both. These technologies have given SMBs the power to assimilate, create, manipulate and distribute information. They have allowed emerging market SMBs to participate as global business citizens. An argument could be made that SMBs' desire to look beyond these technologies are simply part of the evolution of technology adoption among SMBs. We believe however, that the forces driving SMBs towards empowerment technologies are outside of the normal technology adoption curve. These include:

- Rising labor costs even developing and developed worlds. As emerging market countries continue to prosper, wages rise. In India's off-shoring industry for example, the wage related savings for a US based company contemplating moving operations to India can be as low as 10-20 percent down from over 50 percent less than a decade ago. These wage increases are impacting the local market as well since SMBs must contend for talent with MNCs.

- In mature markets such as the US, rising healthcare costs contribute significantly to overall operating costs for SMBs.

- Rising transportation challenges, particularly in emerging markets are making quality of life difficult. Travel to and from a workplace is expensive and tiring often taking over 90 minutes each way.

- Individual cost of living increases as nations prosper is an unfortunate side effect of such growth. While discretionary income rises faster than inflation early on the growth cycle (fueling economic growth) eventually the inflation starts catching up as prices rise in response to demand. Real estate in particular impacts SMBs as they fight for office space and try to keep up with cost of living increases.

While these issues are not new and indeed have been written up many times over, we believe that technologies are finally in place that SMBs can leverage to alleviate these pressures.

SMB BUSINESS PRIORITIES: ESTABLISHED MARKETS

RANK	US	UK	Italy	Germany	Australia
1	Increase Revenues	Increase Revenues	Increase Revenues	Increase Revenues	Increase Revenues
2	Improve Employee Productivity	Gain Better Understanding Of Customer Needs	Reduce Opex	Reduce Opex	Gain Better Understanding Of Customer Needs
3	Gain Better Understanding Of Customer Needs	Reduce Opex	Improve Employee Productivity	Improve Employee Productivity	Reduce Opex

Another trend that has been building up for a long time is that business success is now more than ever dependent upon **establishing, maintaining and optimizing relationships** (with customers, partners, suppliers) along with internal cost management. This is not to suggest that SMBs should take their eye of the Capex/Opex ball, but that these expenditures are increasingly made in the context of those relationships. There is a realization that effective people, combined with strong processes conduct effective business. To date IT has enabled effective processes. SMBs now seek technologies to make people effective.

SMB BUSINESS PRIORITIES: EMERGING MARKETS

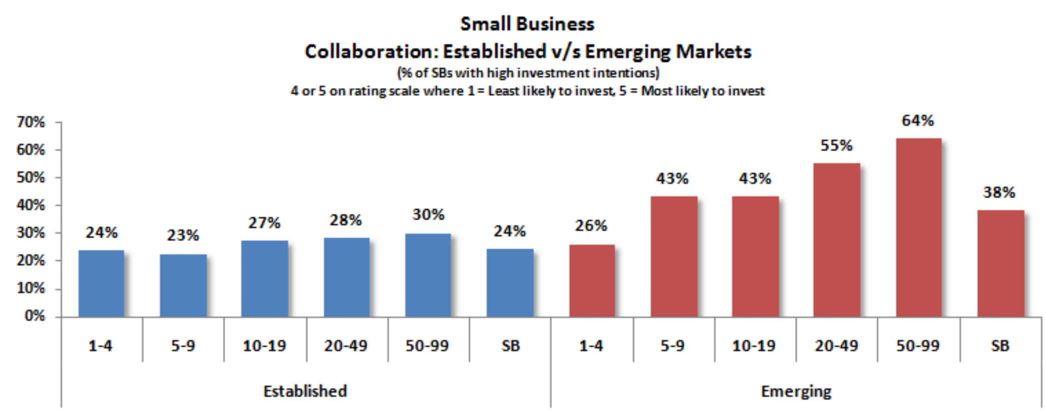
RANK	China	India	Russia	Turkey	Brazil
1	Increase Revenues	Increase Revenues	Increase Revenues	Increase Revenues	Increase Revenues
2	Improve Employee Productivity	Improve Employee Productivity	Reduce Opex	Improve Employee Productivity	Improve Employee Productivity
3	Gain Better Understanding Of Customer Needs	Gain Better Understanding Of Customer Needs	Improve Employee Productivity	Gain Better Understanding Of Customer Needs	Gain Better Understanding Customer Needs

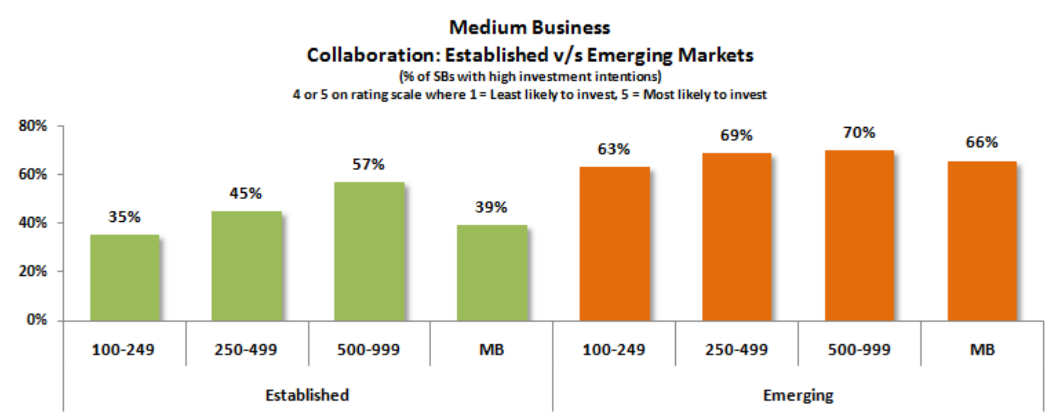
THE EMPOWERMENT TECHNOLOGIES THAT MAP TO THE MENTIONED PRIORITIES INCLUDE:

EMPOWERMENT TECHNOLOGIES:

- **COLLABORATION AND CONFERENCING**

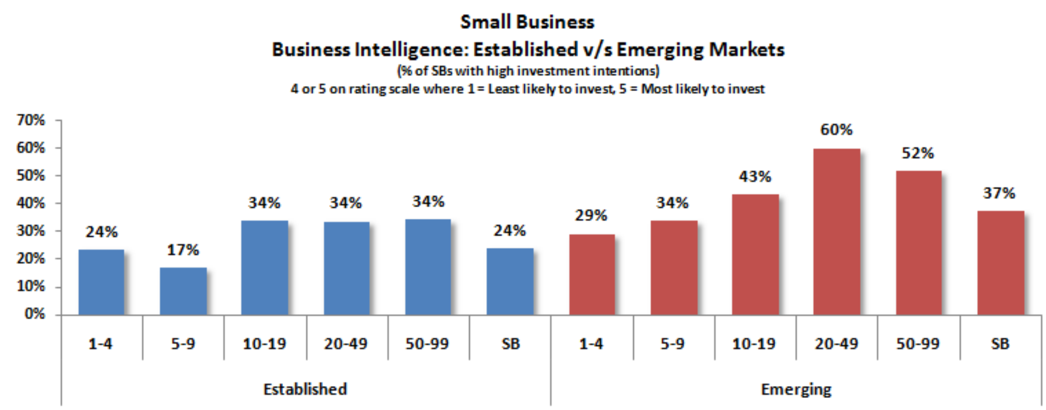
Technologies such as Collaboration and Web Conferencing will increasingly be important to SMBs to satisfy their priority to make employees more productive. As SMBs tighten budgets for items such as travel, conferencing solutions take center stage. While these solutions have been around for a long time we believe that broad adoption among SMBs is upon us as evidenced by the priority assigned to such technologies versus the current level of penetration. There are obviously many solutions that SMBs can take advantage of ranging from hosted to onsite solutions. Key players such as Microsoft, IBM and Cisco that have great brand and mind share in the SMB space stand to gain the most. All three are forging ahead with plans for hosted and onsite solutions. Microsoft is uniquely positioned in this space as it is leveraging its Office installed base to drive web collaboration. Upcoming Office 2010 suite will have built-in collaboration features that work well with backend server solutions such as SharePoint.

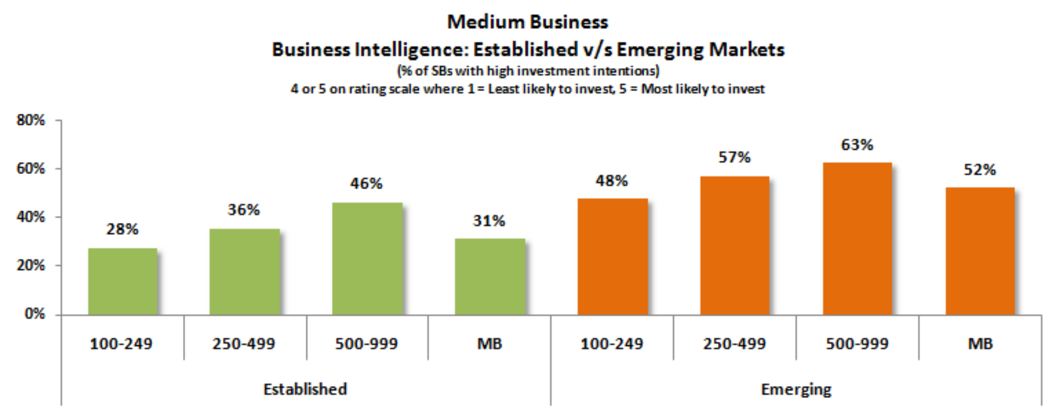




BUSINESS INTELLIGENCE:

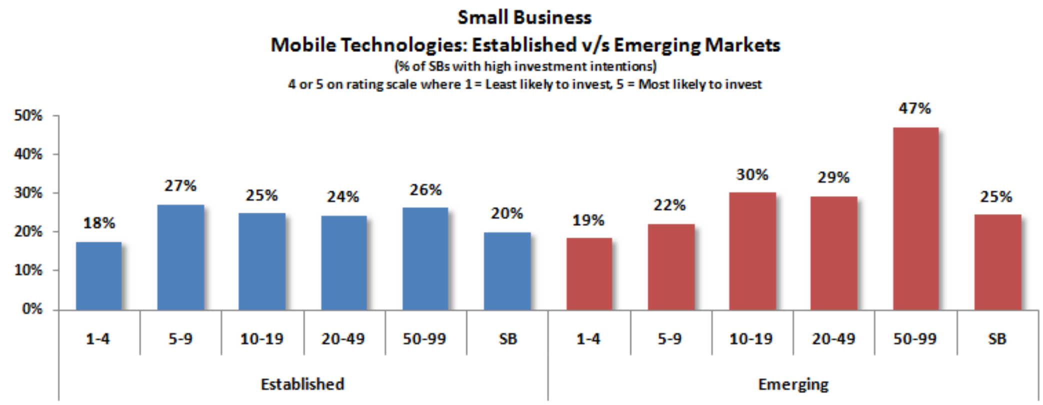
The current economic bust has businesses of all sizes focused heavily on identifying profitable customers, which improves the ROI on marketing dollars spent. While a number of SMBs have already deployed formal CRM solutions and many others have internally developed CRM processes, the next phase will focus on making sense of the data captured, linking it to business objectives and monitoring business performance. Large businesses have over the last decade spent billions in improving data analytics capabilities, however, typical BI solutions have been out of reach for the majority of SMBs due to cost and deployment complexity. But there are a host of new entrants in the field such as Tableau Software, that are resetting the price bar and filling the gap between low end MS Excel based solutions and high end solutions such as SAP Business Objects and IBM Cognos. We believe that going forward SMBs will drive the BI space even as the market at the high end consolidates.

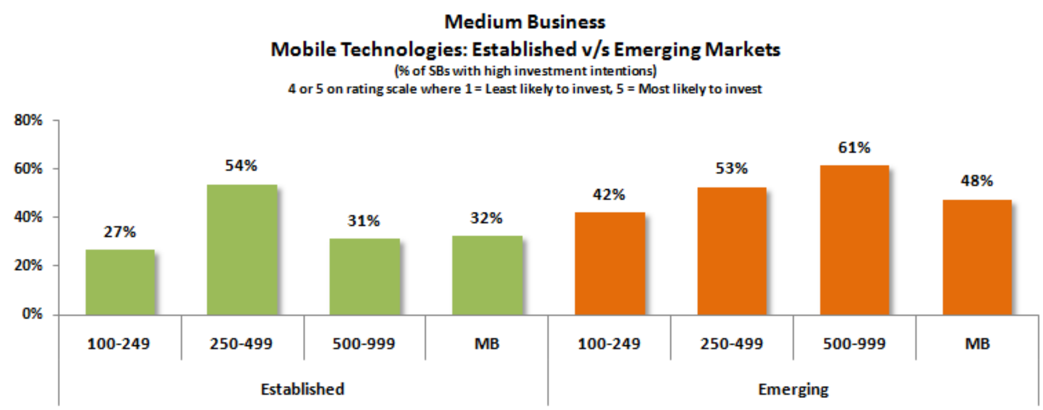




MOBILITY:

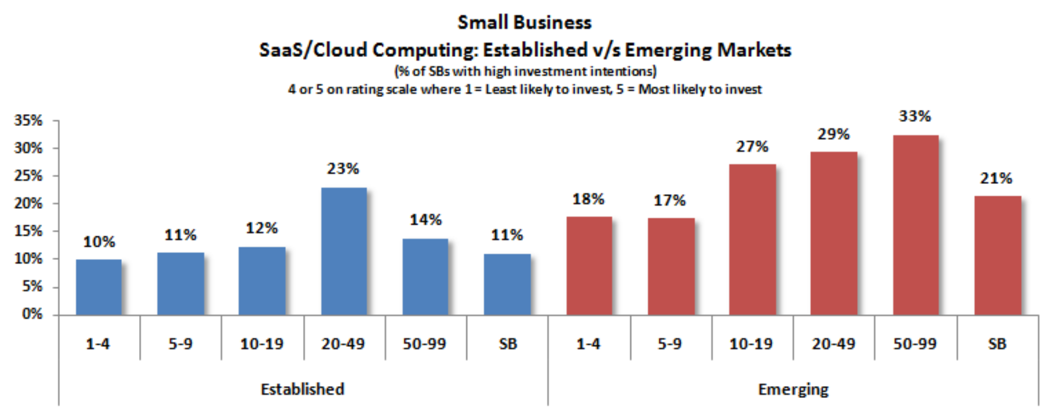
Mobile devices, technologies and services are perhaps the most exciting space today, remaining somewhat resilient even in a severe downturn. SMBs have always had a strong desire for mobile products as witnessed by the adoption of Notebooks over the last five years. Things have gotten even more interesting since Apple released its iPhone. As smartphones expand their empowering" abilities, SMBs have strongly taken to accessing email when mobile and using the phones as PC adjuncts for certain applications (web browsing for example).

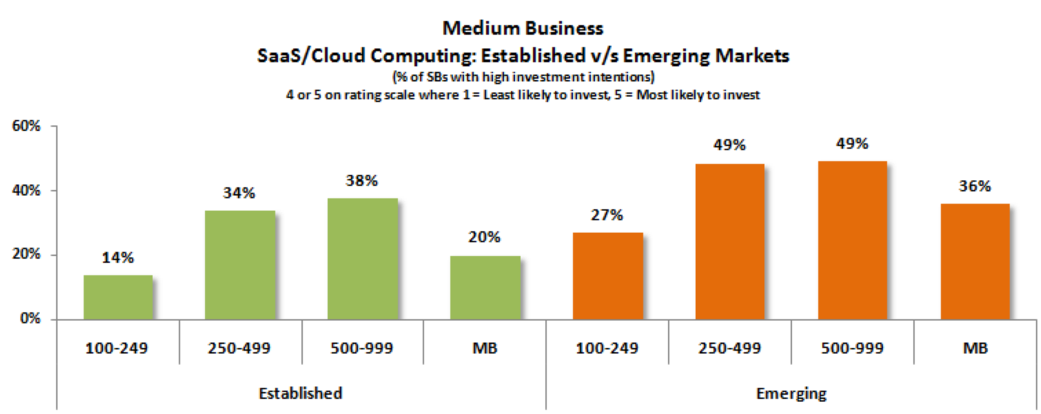




SOFTWARE AS A SERVICE (SaaS):

While this is broad field and does not make sense for every application, the inherent ability to access these applications and functionality at any time, requiring only a connection to the Internet is extremely empowering. Already, SMBs use common consumer applications such as web email. Even MBs that have traditionally purchased email servers are looking at hosted Exchange solutions as well as Gmail. Salesforce.com has a huge following of SMBs. SMBs are also using Web 2.0 applications such as blogs, Wikis and other social networking services to not only promote their business, but to establish deeper relationships with customers and improve employee collaboration. That said, it is still a nascent space that will likely expand even as Microsoft readies its offerings for SMBs. With a core product such as Office going online, there will no doubt be a surge among SMBs using SaaS applications.





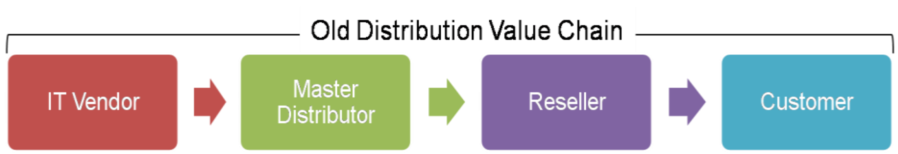
IMPLICATIONS FOR CHANNEL PARTNERS

Among all of the new priorities that SMBs are driving towards, perhaps the one that most impacts the channel is the trend towards increasing adoption of SaaS and Cloud Computing. All leading IT companies – Microsoft, HP, Dell, IBM, Oracle, Salesforce.com and Amazon are driving towards providing a variety of cloud based platform and application services. Complementing them is a whole host of new companies that are aggressively developing solutions for this space. No doubt over the next 5 years cloud based services will be the new arena of intense competition. As SMBs transition investments driven by these new priorities, the impact on the channel will likely be significant.

The channel comprising of ISV partners, Systems Integrators (SIs), dealers, resellers and retailers form the essential cogs of an IT vendor's eco-system that puts products and solutions in the hands of the customers. This is particularly true in the small and medium business market (SMB) where the vast majority of the opportunity can ONLY be addressed through the channel. Selling direct is often not economical. IT firms such as Intel, Cisco, Microsoft and HP are particularly dependent upon the channel to maintain their position in this market. We believe the shift to Cloud computing will likely impact the channel at ***structural*** as well as ***competency*** levels.

- **STRUCTURAL IMPACT**:

The shift to new priorities such as Cloud Computing will first and foremost likely impact channel structure. For decades the packaged product industry has survived on a two-tier system consisting of master distributors such as Ingram Micro and Techdata and a large reseller base. In the case of SMBs, this reseller base is very very large. While master distributors aggregate products and handle the logistics of distribution and promotion to resellers, the resellers themselves handle the final sale to customers and provide installation, integration, customization and maintenance services. The exception is a handful of customers that a vendor sells directly to (typically very large strategic customers such as NASA, Pentagon, GE, etc). How does this hold up in the era of Cloud services?



Customer needs and customer scenarios will likely drive the change in channel structure in the era of cloud services. Three scenarios come to mind depending upon the extent i.e. the number of cloud services and applications a customer uses:

1. SMB Customer Scenario 1:

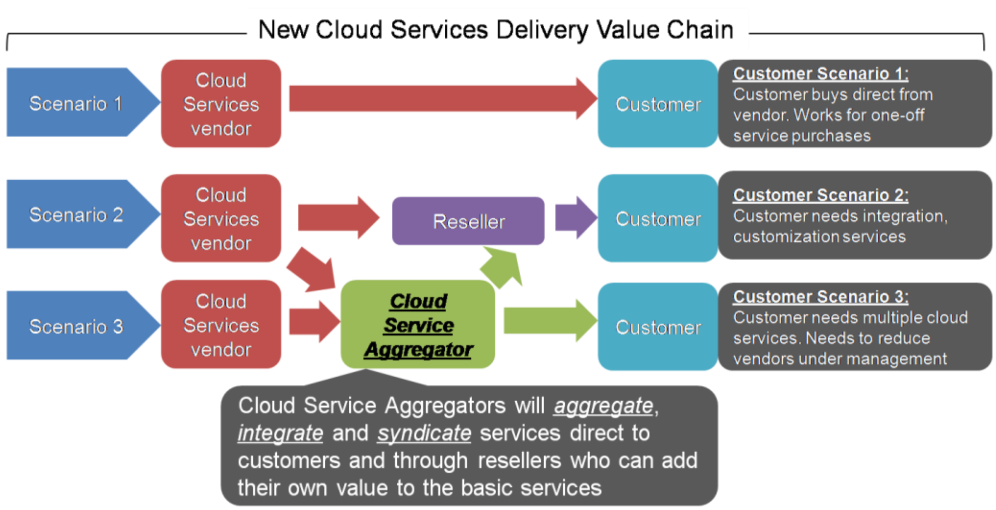
Customer needs a single cloud application or very few cloud applications – for very small businesses this is a viable scenario. It is likely that a really small business will not use more than 4-5 Cloud services. These will likely be very basic such as email, web conferencing, collaboration etc. Integration and customization needs are minimal at best.

2. SMB Customer Scenario 2:

Customer needs few services but integration with existing systems and customization are paramount. Resellers of cloud services can capitalize on such opportunities.

3. SMB Customer Scenario 3:

Customer needs multiple cloud services and subscribing to them on a one-off basis, managing multiple vendors is an administrative burden and perhaps an inhibitor to greater adoption of cloud services. Integration and customization needs may or may not be important. This scenario will likely emerge over time as SMBs and enterprises dive deeper into cloud computing. This scenario is also potentially the most disruptive for the channel. It suggests the need for a ***Cloud Services Aggregator (CSA)*** that has the capability to aggregate, integrate and syndicate cloud services to resellers and customer. The interesting thing here is that a CSA could be an IT vendor such as Microsoft or HP or an entirely independent entity. IT vendors that act as CSAs (Microsoft, Salesforce) will be subject to some form of "cloud nepotism" i.e. their priorities will always center on their own services rather than third party services. This makes room for an independent entity whose primary function is to integrate and deliver services that best serve their customer base. It is possible therefore those CSAs that focus on a particular industry or deliver a specific competency (and closely related competencies) will appear in due course of time. In many ways CSAs replace master distributors in the old value chain.

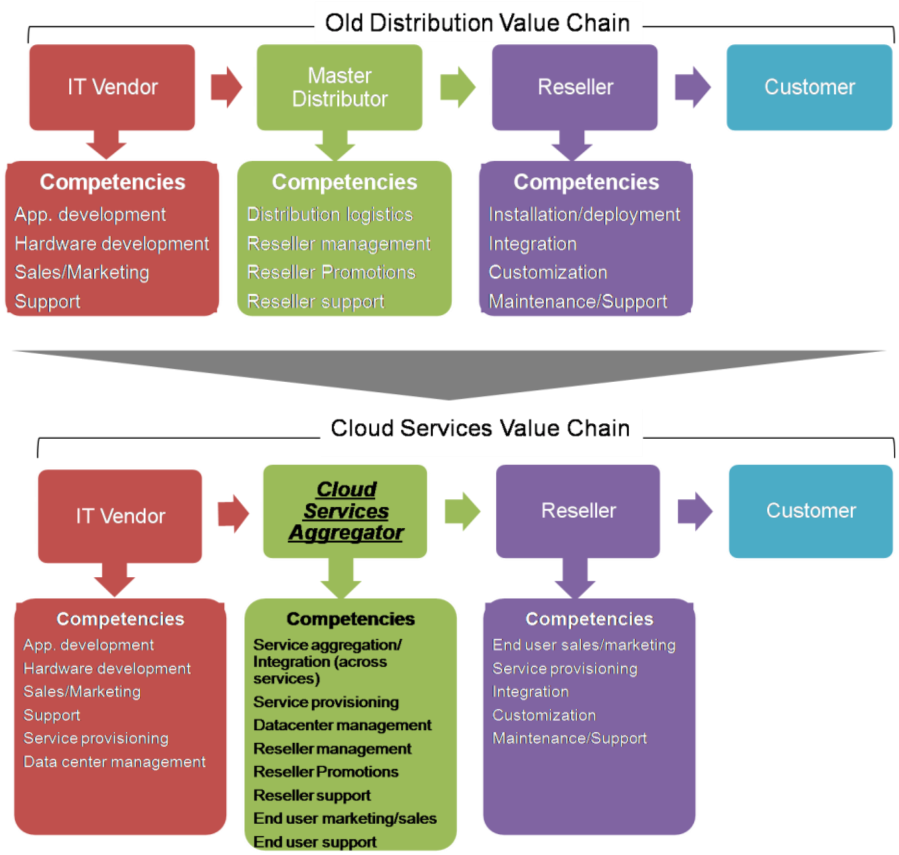


This emerging structure does much more than shake the foundations of the current channel structure. Indeed, it impacts channel competencies at a deep level.

IMPACT ON CHANNEL COMPETENCIES

Broadly speaking the current channel responsibilities can be divided into two – distribution and implementation. Clearly this works well for packaged products but breaks down to some extent when it comes to cloud services. The logistics of packaged product distribution are replaced by delivery of services over the web. Similarly, implementation can further be divided into 3 sub-tasks:

1. Installation,
2. Integration and Customization, and
3. Maintenance



Installation is replaced by "Provisioning", Integration and customization needs will be service dependent. Some services will offer limited customization while others will offer extensive customization capability. Maintenance is all but gone except in cases where customization has been done by the channel. These channel activities are a significant and indeed primary source of revenue for the channel. In the SMB space, in particular, channel members do not make much on the products they sell but depend on time billed related to the above activities. The severity of the challenge increases considering that channel revenue now takes the form of an annuity rather than a lump sum payment.

CONCLUSION

1 *SMBs on a global basis are evolving along with their technological maturity. IT investment priorities are beginning to shift from simple infrastructure deployments to solutions that directly impact group productivity, improve SMBs' ability to respond to market changes and improve supplier and partner relationships.*

2 *We believe this "Value Shift" impacts how SMBs are thinking about their IT needs and how they make IT purchase decisions. While we do not anticipate disinvestment in important IT areas such as security of basic PC upgrades, we believe these decisions will be made in the context of these new priorities.*

3 *It i s interesting to note that in every case, SMBs in emerging market countries show greater intentions of investing in these new priorities than SMBs in mature markets. This is partially the debilitating effect of uncertain economic conditions but more importantly illustrates the growing maturity of emerging market SMBs.*

4 *This suggests that over time the channel must develop and indeed be trained in new competencies. These encompass service provisioning, billing, data center management, customer support and a whole host of related competencies that the channel did not have to deal with before.*

5 *We strongly believe, in conclusion, that these new priorities bring to light new opportunities for vendors and channel partners to positively impact the success of SMBs on a global basis.*

About Techaisle

Techaisle is an actionable data driven market research analyst and consulting company based in San Jose with global coverage. Focused on SMBs, Emerging Markets and Consumer research, Techaisle has pioneered a business model which is very different from traditional market research firms.

Go-to-Market strategies require an actionable data delivery solution based on aggregation, focused analytics and dynamic market segmentation. Techaisle's core premise is that data is inherently more valuable when it can be summarized, made actionable and delivered as an answer to a specific question. Techaisle provides services in five major areas:

- **Worldwide IT Market and Channel Partner Sizing**, leveraging one of the most comprehensive opportunity sizing databases in the industry, also available on-demand via marketviewportal.com
- **Syndicated Research**, providing deep dive actionable data and analytics based on primary research
- **Custom Consulting** with strong analytical capabilities to uncover opportunity for clients; Survey Research of End Users and Channels across multiple countries; Qualitative research including focus groups and ethnography
- **Segmentation**, based on algorithms that are easily understood, easily deployable and drive actual sales and market understanding
- **Social Media MarketView**, on-demand, aggregated delivery of sentiments, opinions, buzz, topics and much more from social media such as reviews, blogs, forums and news

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