



Odin

2015

SMB Cloud Insights™



GERMANY

DEFINITIONS

SMB Defined

We define SMBs—also known as small and medium enterprises (SMEs)—as companies with one to 250 employees. There are around 2 million SMBs in Germany today. SMB categories include micro (1-9 employees), small (10-49 employees), and medium (50-250 employees).

Cloud Opportunities



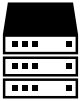
Cloud leapers: SMBs that are not currently using an in-house IT solution (no servers, web servers, or PBX systems) and are likely to move straight to the cloud, i.e., “leaping over” in-house IT solutions.



Cloud converters: SMBs with in-house solutions but moving or planning to move to hosted services. For example, an SMB with in-house servers who is planning to switch to hosted servers when they next upgrade their infrastructure.

Cloud Services Defined

This research focuses on the cloud services that matter most to SMBs: IaaS, web presence and web applications, unified communications, and other general business applications.



Infrastructure-as-a-service (IaaS): Cloud servers, dedicated servers, virtual private servers (VPS), fully managed hosting, as well as add-on applications and services for hosted infrastructure such as control panels, development platforms, LAMP stack, security, and server backup.



Web presence and web applications: Third-party web hosting, domain registration, and web applications including web server backup, content delivery networks (CDN), content management systems (CMS), Ecommerce, site health monitoring, mobile optimization tools, search engine optimization (SEO), site-building tools, SSL, web server backup, and web server security.

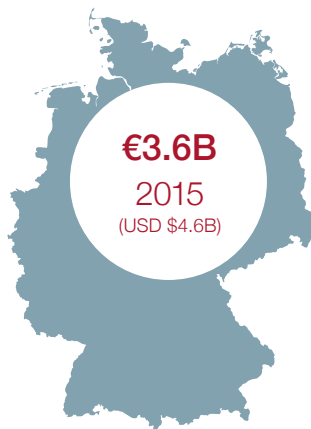


Unified communications: Business-class email services including email security, and email archiving, along with mobility and hosted business voice services such as hosted PBX. Includes communication and collaboration applications such as web and phone conferencing, instant collaboration, and mobile device management (MDM).



Business applications (also known as software-as-a-service or SaaS): The major types of software applications that can be accessed online such as file sharing, online accounting, online backup and storage, online customer relationship management (CRM), payroll and human resources (HR), support and help desk, and virtual desktop (VDI).

Germany's Overall SMB Cloud Services Market

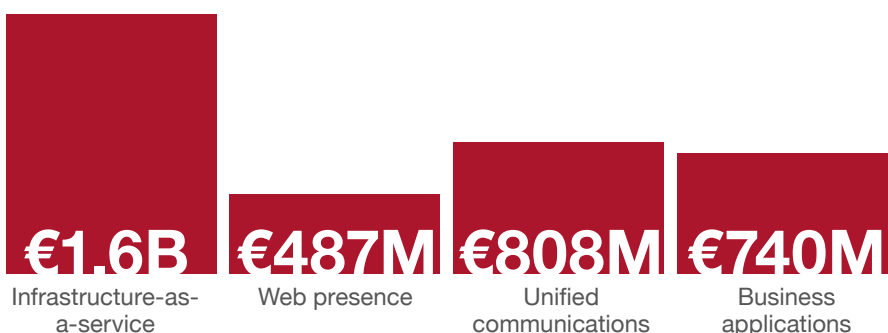


Odin SMB Cloud Insights™ has entered our fifth year of research into the consumption of cloud services by small and medium businesses (SMBs). Globally and locally, we are finding that SMBs from a variety of sectors are moving their business functions into the cloud. Tools and solutions that were previously reserved for enterprise-level organizations are being implemented in smaller firms as developers create services specifically for the SMB market.

Our research is intended to help cloud service providers take advantage of market trends to meet the evolving needs of their SMB customers. New to this year's research is an exploration of how SMBs research, purchase, and use cloud services. Understanding these trends will help service providers build successful relationships with their customers.

After most recently studying Germany's SMB market in 2013, Odin has returned to update our findings and dive deeper into the German cloud market.

Since 2013, the overall cloud market has grown from €1.8B (USD \$2.3B) to €3.6B (USD \$4.6B). Infrastructure-as-a-service (IaaS) represents a significant amount of the present market at a total of €1.6B (USD \$2B). Web presence and unified communications represent €487M (USD \$623M) and €808M (USD \$1,035M), respectively. Finally, the business applications market is valued at €740M (USD \$947M).

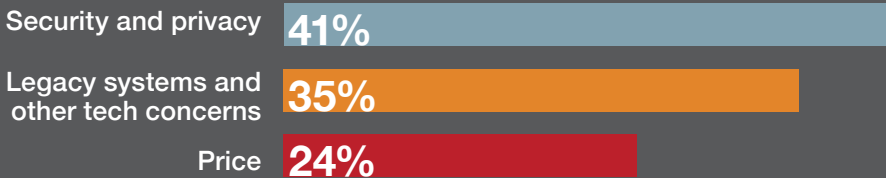


INFRASTRUCTURE-AS-A-SERVICE (IaaS)

The German IaaS market is currently €1.6B, representing an annual increase of 61% since 2013. The market's impressive growth has been fueled by a strong economy and SMBs continued adoption of hosted servers – especially pure cloud servers such as Microsoft Azure and Amazon Web Services. As the IaaS market matures, higher-touch services and stronger data security will encourage those without hosted servers to transition to the cloud.

34% of SMBs have in-house servers

Top Barriers to IaaS



Many SMB servers (34%) are still located in-house. Data privacy and security are the most commonly cited reasons to keeping servers in-house, and these priorities often outweigh price improvements and technical challenges. In light of recent corporate data breaches by governments and hackers, Germans are strongly aware about the vulnerabilities of offsite data storage. Service providers must offer top-of-the-line security in order to retain existing customers and attract new customers into the cloud.

When SMBs are ready to buy hosted servers, they are most likely to learn about their options through trusted IT advisors and online research. The majority of hosted servers are usually purchased online from web hosters and telecommunication companies. SMBs are most likely to choose their specific service provider because of an existing relationship and a favorable price.

Buying IaaS

66% of SMBs use hosted servers

Top Purchase Triggers for IaaS

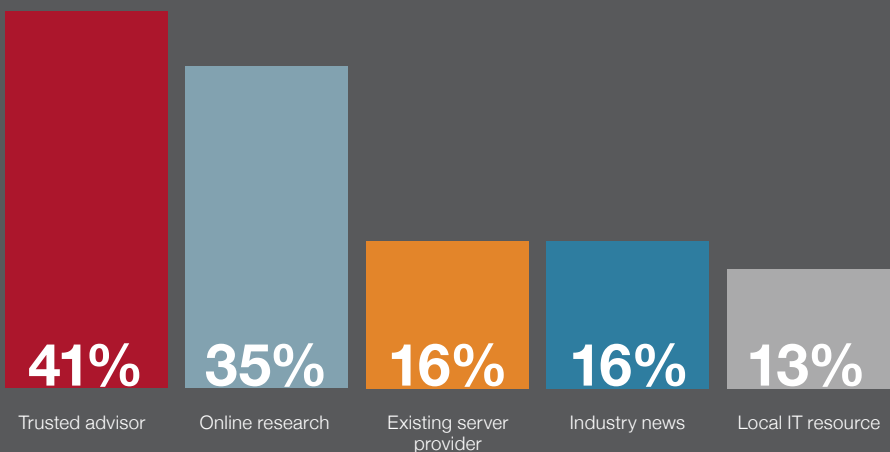


In-house servers did not do enough or had too many challenges



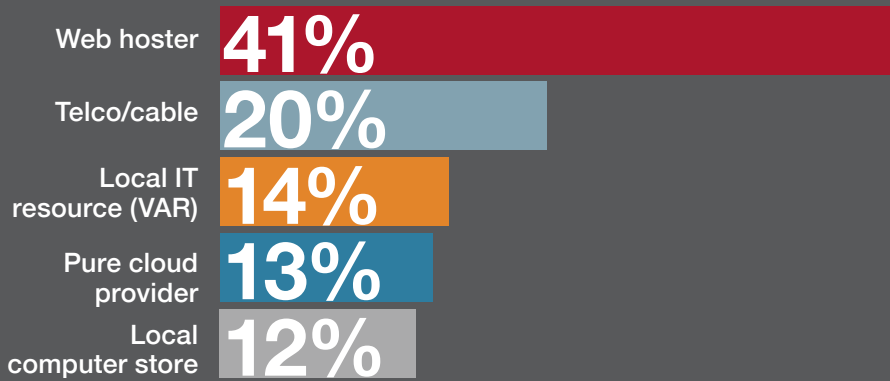
Business model changed

IaaS Research Methods

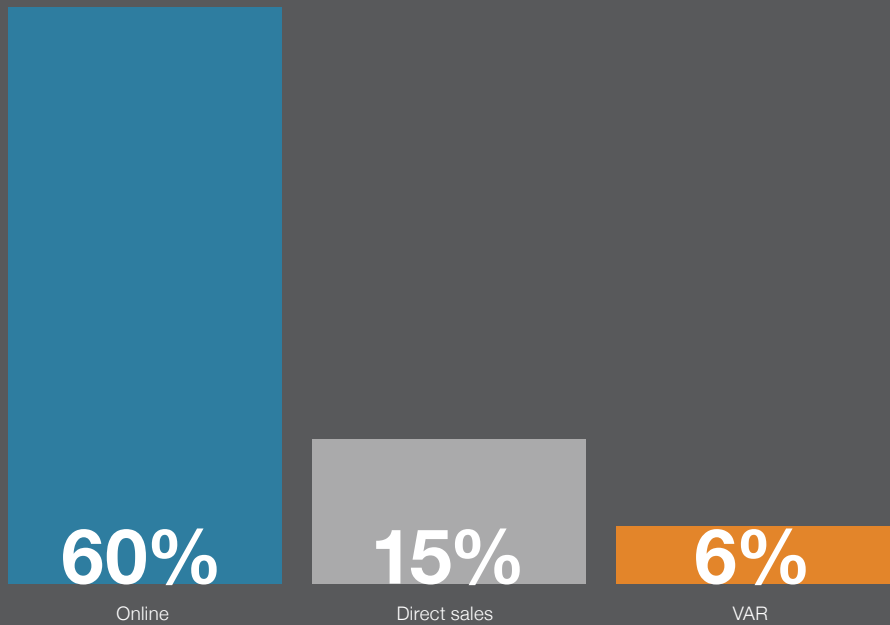


50% of SMBs use at least two sources to research IaaS

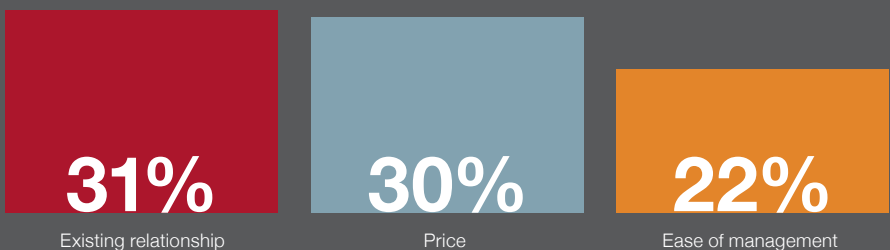
IaaS is Purchased from



Top Purchase Methods

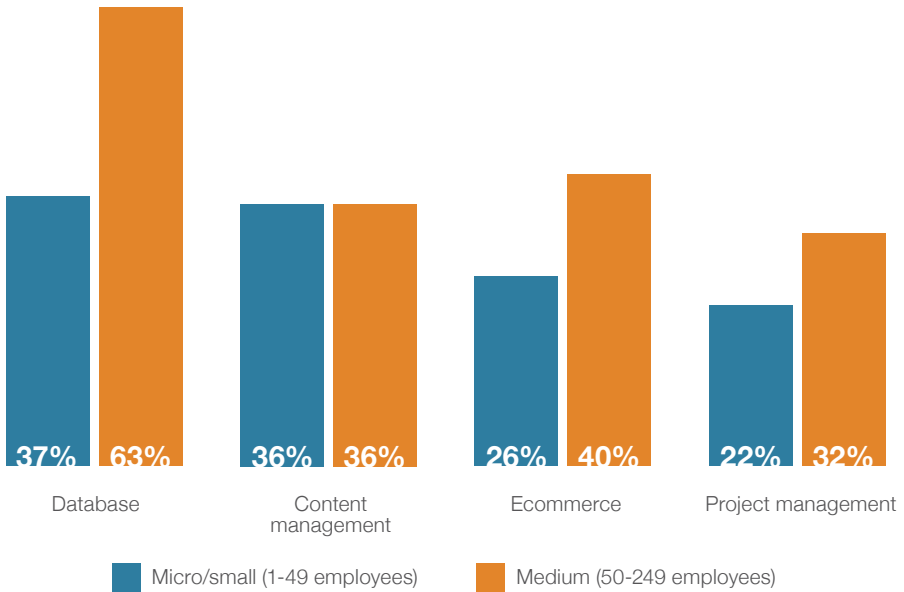


Most Important Factor in Choosing a Service Provider

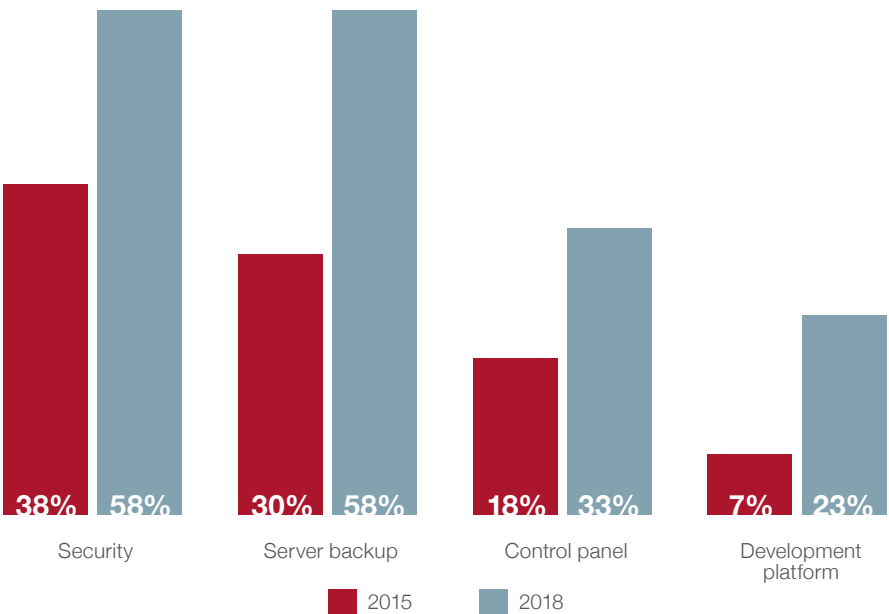


Using IaaS

Top Workloads in Production



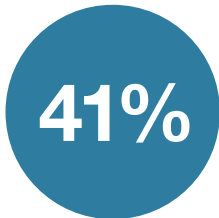
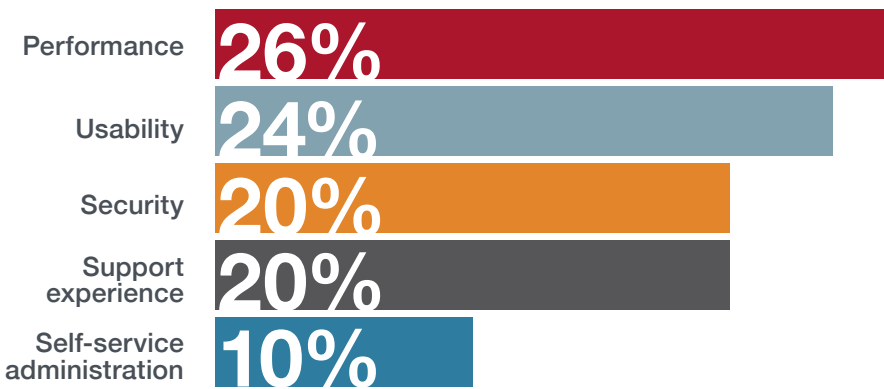
Top Hosted Server Add-ons



Customer Experience

77% of SMBs have a positive opinion of their IaaS provider

Areas for Improvement



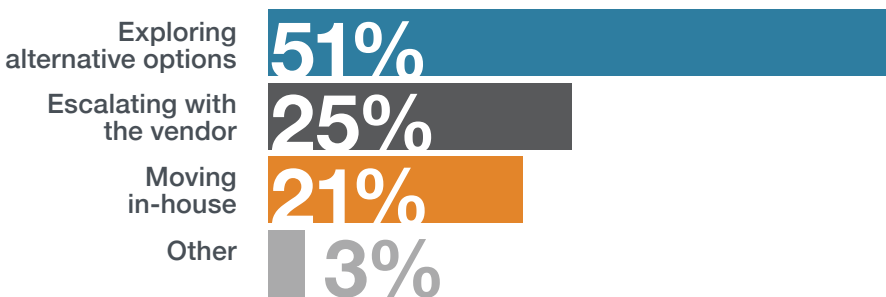
of SMBs would pay an additional €10 per month for high availability



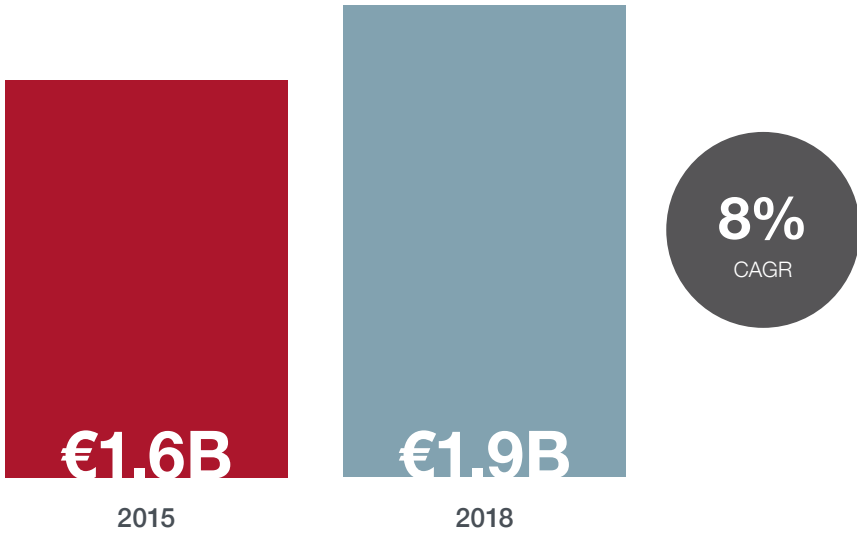
of SMBs would pay an additional €10 per month for unlimited storage

Most German SMBs (77%) have a positive opinion of their IaaS provider. However, when asked what they would like improved, the most commonly cited concern was performance. It is important for service providers to address this concern because more than half of SMBs are willing to move their business elsewhere if it's not resolved.

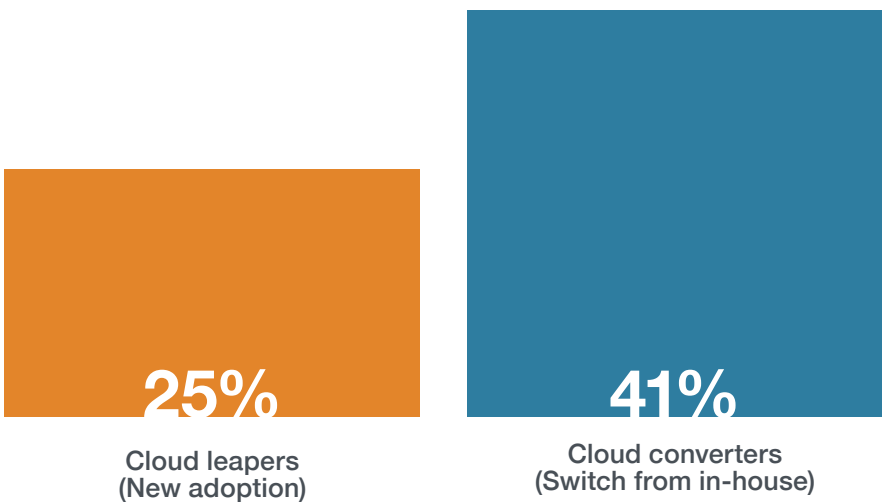
How SMBs are Resolving Issues



IaaS Opportunities through 2018



Likelihood of Entering the Cloud Market



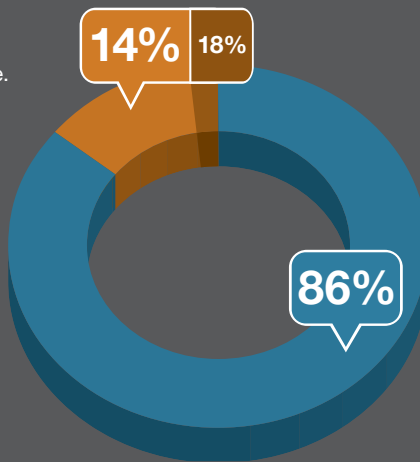
Over the next three years, this market will continue to grow at a CAGR of 8% and reach €1.9B (USD \$2.5B) in 2018. Although the market is maturing, service providers will find the most growth opportunities from SMBs who are switching from in-house to hosted servers.

WEB PRESENCE

The web presence market represents the €487M (USD \$623M) that German SMBs spend on website hosting, management, and website add-ons. The market has grown at a steady annual rate of 12.5% since 2013. Because the vast majority of SMBs own a website, this market is relatively saturated.

However, Odin recognizes that there are still opportunities within this market as the online needs of SMBs become more mature.

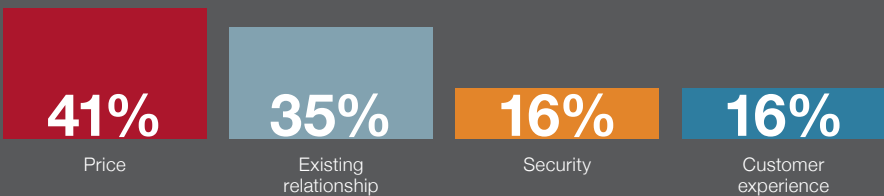
14% of SMBs have websites hosted in-house. Of those, 18% plan to add a third-party hosted website in three years.



86% of SMBs have a website hosted by a third-party.

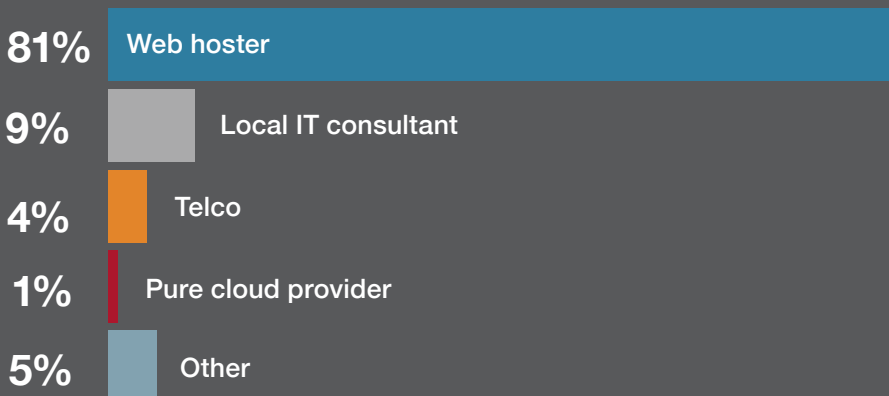
Buying a Website

Key Factors in Choosing a Web Hoster

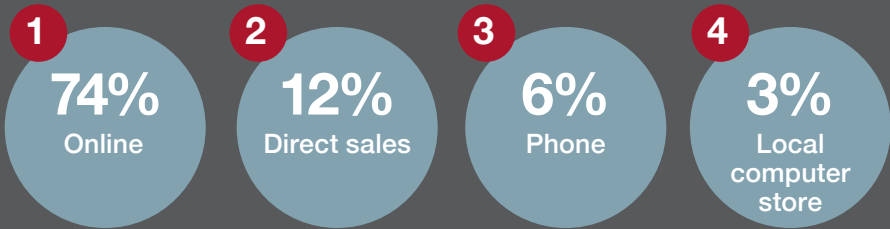


(60% of SMBs listed at least two key factors in choosing their web hosting.)

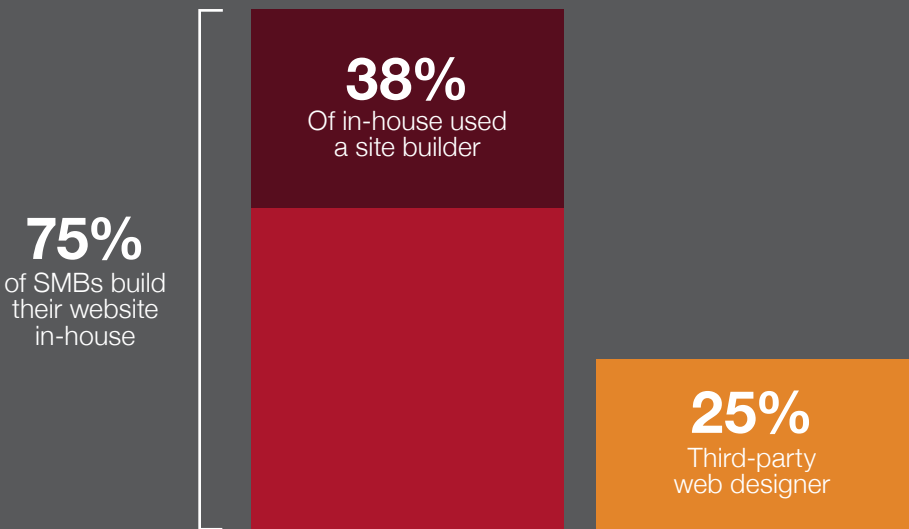
Website Service Provider



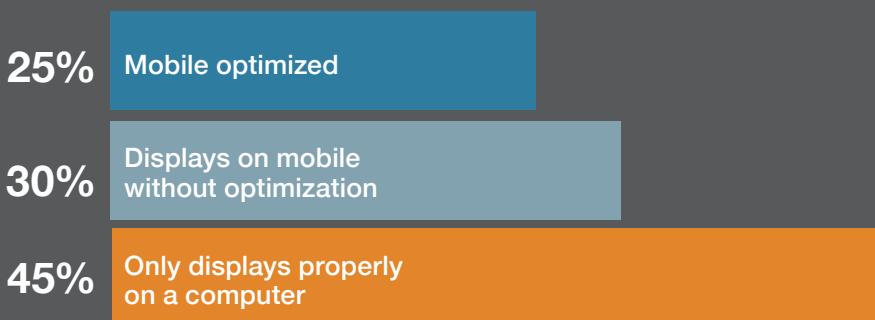
Top Purchase Methods



Building a Website

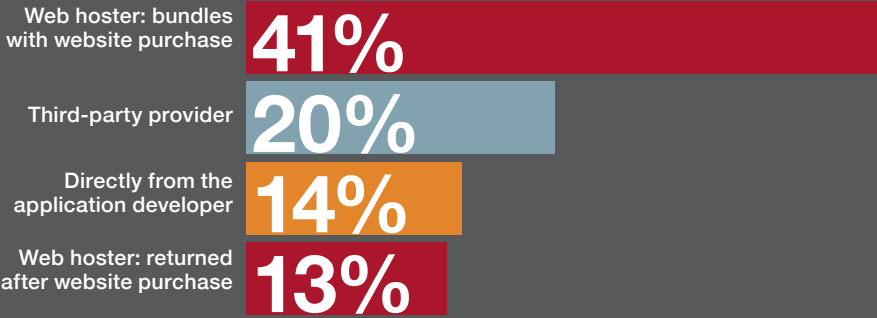


Mobile Optimized Website



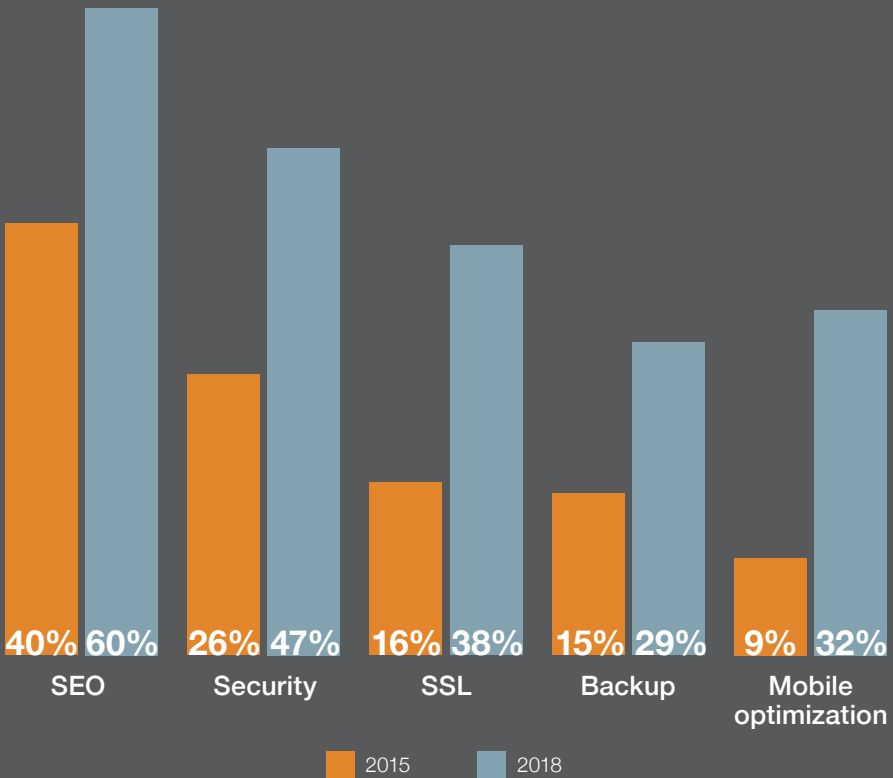
Website Management

Add-on Purchase Location

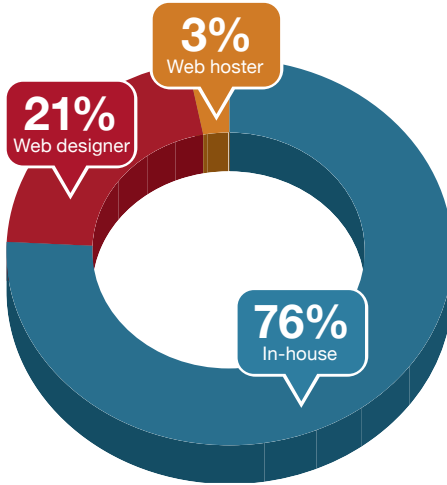


(12% of respondents were unsure.)

Top Website Add-ons



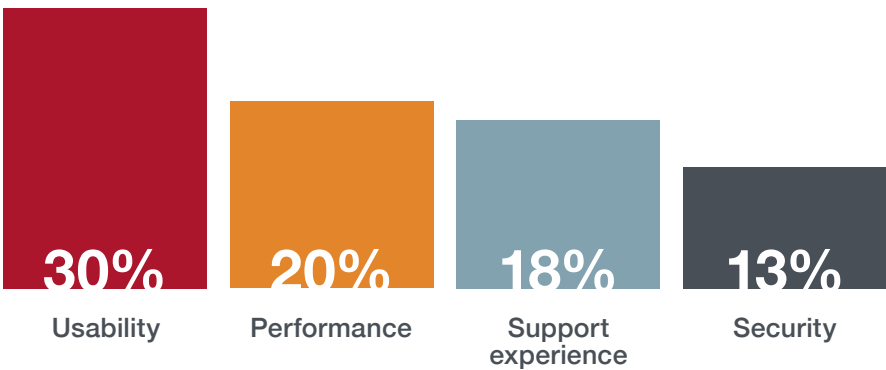
Website Management



Customer Experience

82% of SMBs have a positive opinion of their web hoster

Top Areas for Improvement



How SMBs are Resolving Issues

- 1 Exploring alternative options
- 2 Moving in-house
- 3 Escalating with the vendor

The vast majority of SMBs (86%) use a third-party to host their website. Since basic web hosting is a relatively commoditized product, the most important factor for choosing a hoster is price. However, a subset of SMBs are willing to pay a premium for a better customer experience.

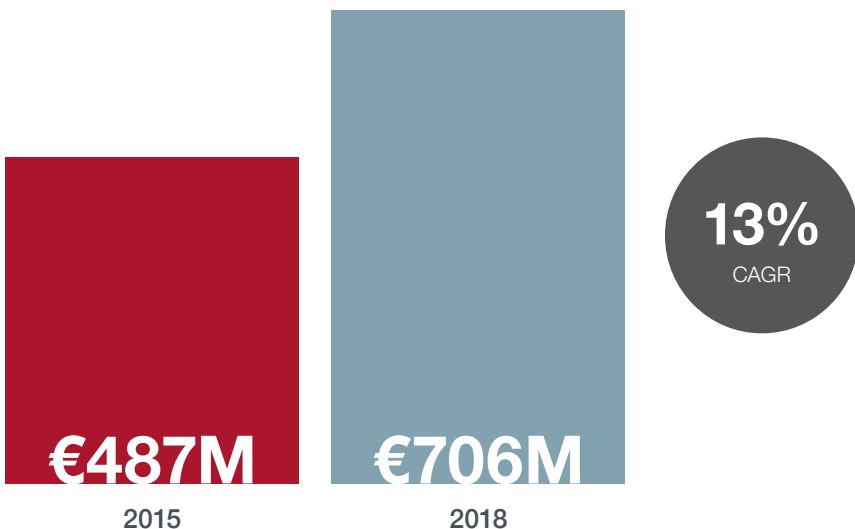
Most hosted websites are purchased from traditional web hosters through the hoster's website. Since 10% of website sales are bundled with hosted servers, there is potential for web hosters to bundle these services.

Since 2013, SMBs have decreased their dependence on third-party web designers and manage more design in-house. Micro businesses commonly use site-builders such as WordPress or Yola to design their websites. Service providers can make a strong value proposition to potential customers by offering a quality site-builder with a website purchase. Although 55% of websites display on mobile devices, only 25% are truly mobile optimized. This discrepancy indicates another opportunity for service providers and web designers.

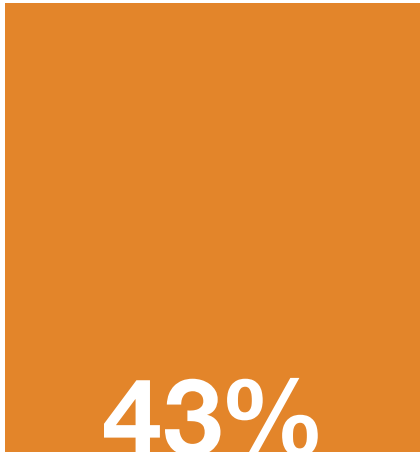
Website add-ons have the potential to improve a business's website while generating greater revenue for the service provider. SEO and security are the most heavily used add-ons and will see strong growth in the next three years. Web hosters capture 54% of add-on sales with the majority of sales occurring at the time of website purchase. In order to maintain this positioning, web hosters should offer a broad selection of add-ons to website customers.

Many SMBs are pleased with their service provider, but there is still a need to satisfy customer concerns. Unlike IaaS, most web hosting customers feel the most important area for improvement is usability. The exception is medium-sized businesses, which would strongly prefer improved performance over other areas of improvement.

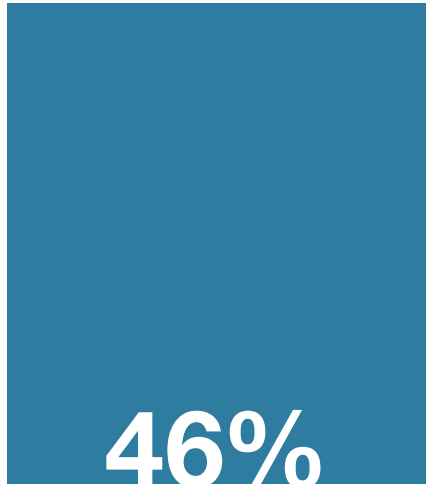
Web Presence Opportunities through 2018



Likelihood of Entering the Cloud Market



Cloud leapers
(New adoption)



Cloud converters
(Switch from in-house)

Looking toward 2018, the web presence market will continue its growth at a CAGR of 13% and reach €706M (USD \$903M). This growth will be prompted by SMBs who are developing more complex websites or using a hosted website for the first time. For service providers selling to these SMBs, opportunity will come equally from cloud leapers (businesses without a website) and cloud converters (businesses switching from in-house to hosted websites).

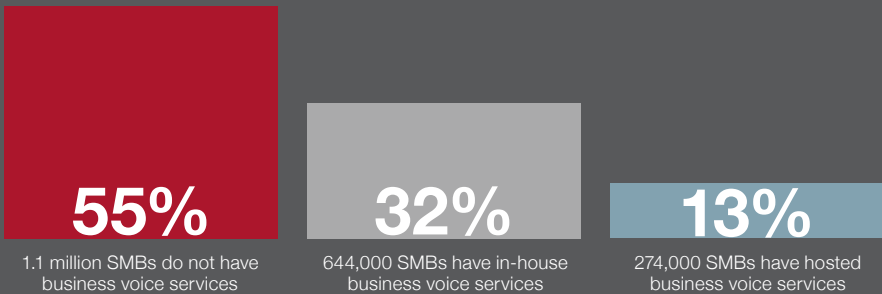
UNIFIED COMMUNICATIONS

91% of SMBs use landlines

78% of SMBs use smartphones

German SMBs use a variety of voice communication tools to run their businesses. The most common tools are traditional landlines followed by smartphones, but some SMBs also find significant value in hosted business voice services (PBX).

Business Voice Services



Main Barriers to Hosted Business Voice Services



Top Purchase Triggers for Hosted Business Voice Services

- 1 Major change to business
- 2 Current phone system is outdated
- 3 Good price point

Purchase Location

Of the 274,000 SMBs that pay for PBX, over two-thirds are bundled with a hosted server or hosted website. To access this business opportunity, web hosters can bundle PBX into their offerings. Top features of this service include automated attendants and single number reach.

Bundled with hosted server or hosted website

41%

Telco or cable company

20%

Top Features that Improve Customer Satisfaction

1

Automated attendant

2

Automated call distribution

Top Features that Improve Productivity

1

Single number reach

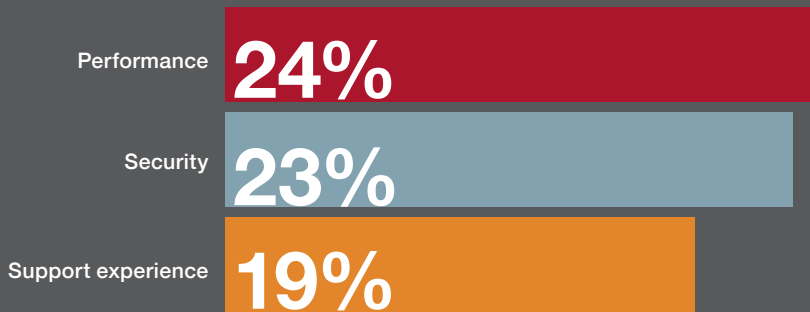
2

Smartphone client

60%

of SMBs are satisfied with their hosted business voice service provider

Top Areas for Improvement



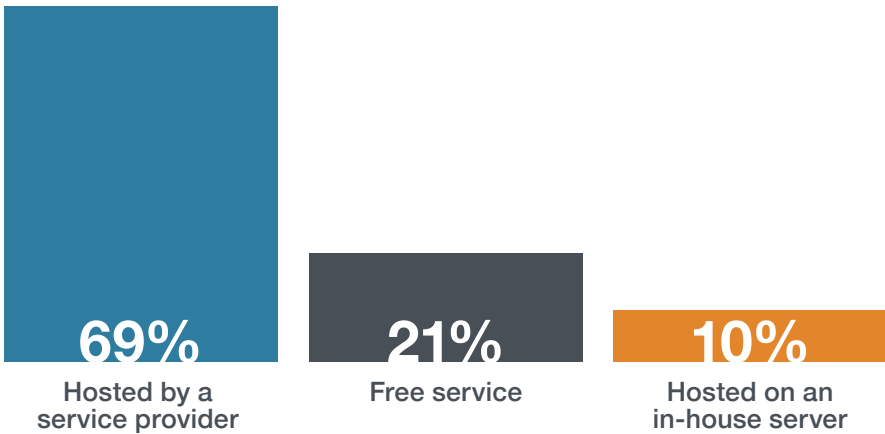
How SMBs are Resolving Issues



The majority of growth in the unified communications market will come from SMBs switching from in-house to third-party hosted PBX. The most common challenges to adoption are a lack of knowledge and a high price. Service providers can address these barriers by using open sales channels (such as existing phone lines and web hosting) to educate SMBs on the value of PBX.

Types of Business Email

The vast majority of German SMBs (92%) use email for their business, which has remained a constant statistic since Odin researched Germany in 2013. Currently, two-thirds of businesses use a third-party to host their email – a service that is often bundled with website hosting or a hosted server.



62%

of third-party hosted email is bundled with website hosting or a hosted server

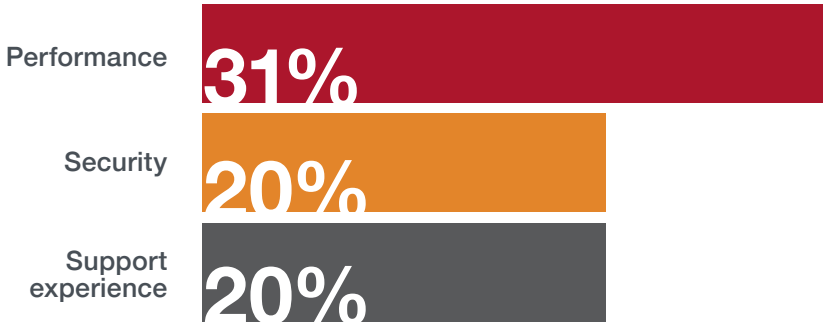
74%

of SMBs have a positive opinion of their email service provider

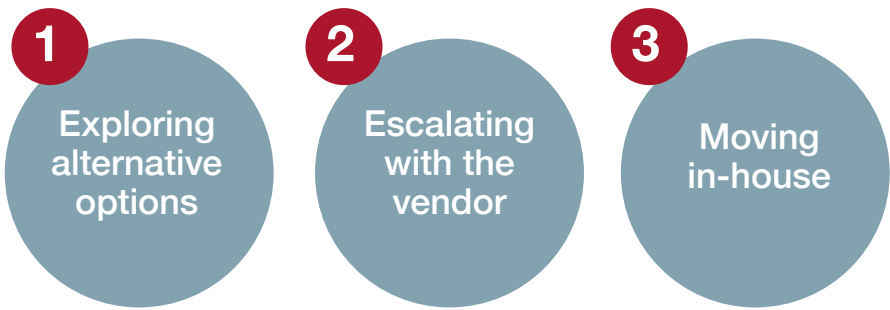
Top Purchase Triggers for Premium Hosted Email



Top Areas for Improvement

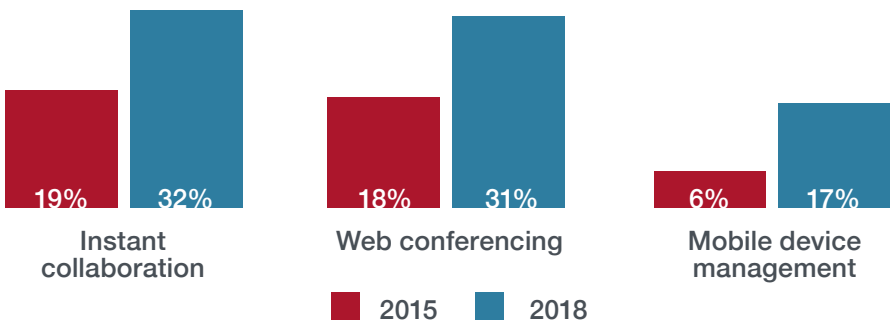


How SMBs are Resolving Issues

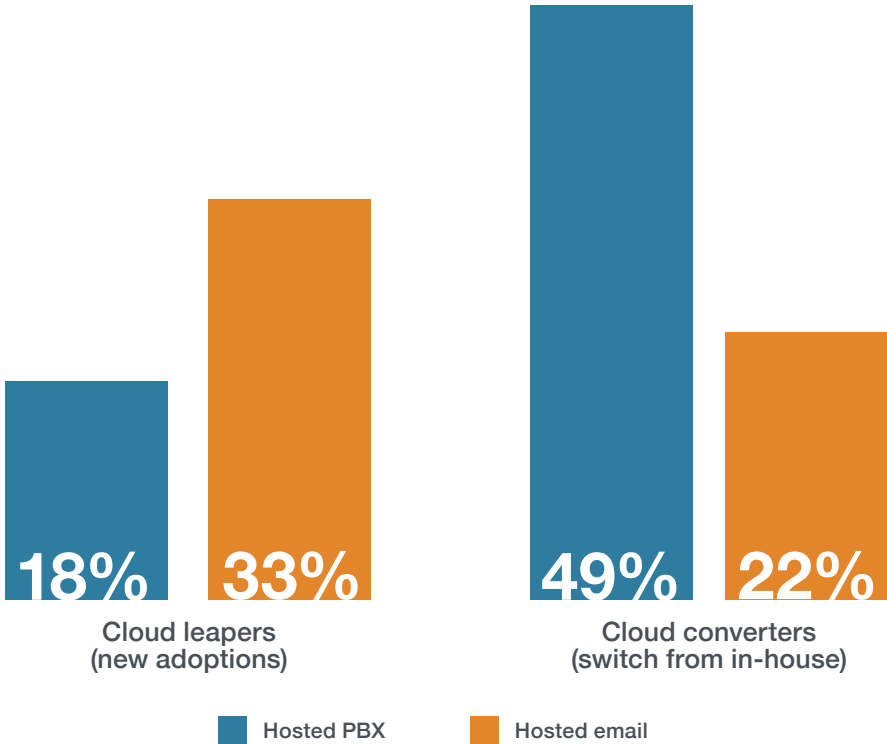


Opportunity for paid business email will come from SMBs that are moving their email from in-house servers to third-party email hosters. The top reasons for SMBs to move to premium hosted email are security and professional appearance. Micro and small SMBs are more likely to choose a lower priced option, and medium SMBs are more likely to choose a well-known brand. As such, service providers should consider offering lower cost and premium brand email options to their customers. Although most SMBs (74%) have a positive opinion about their email service provider, there is still room for improvement. The top two improvement areas for email service are performance and security.

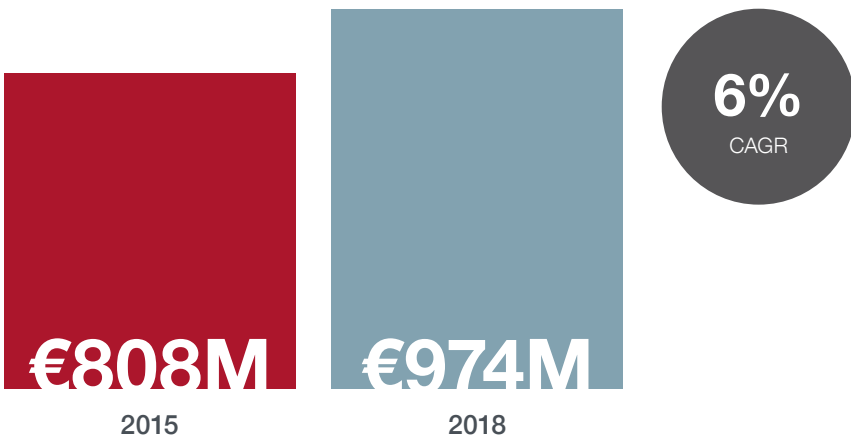
Collaboration Applications



Likelihood of Entering the Cloud Market



Unified Communications Opportunities through 2018

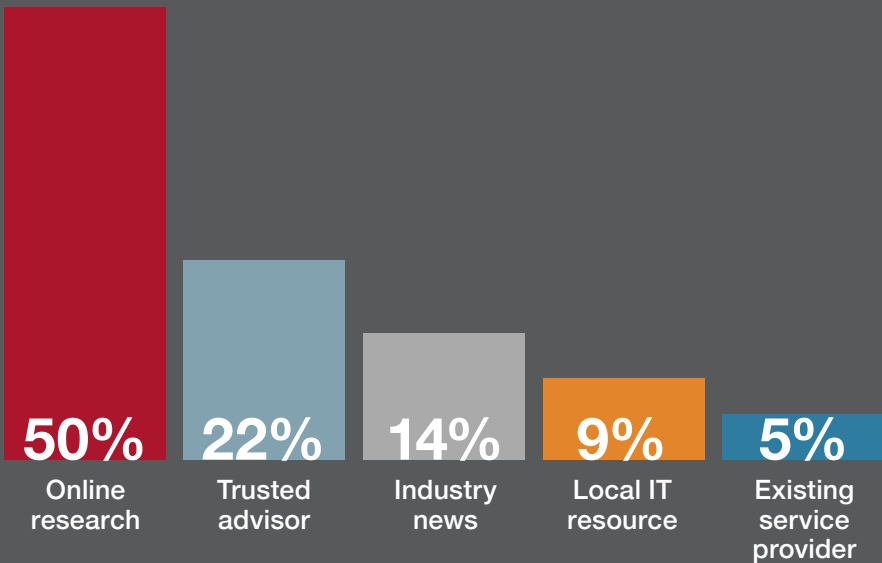


Over the next three years, the unified communications market will steadily grow at a CAGR of 6%. Although the current sub-market for collaboration applications is small, it will experience extraordinary growth at a CAGR of 28%. Other growth in this market will come from SMBs that move their email and business voice services to the cloud.

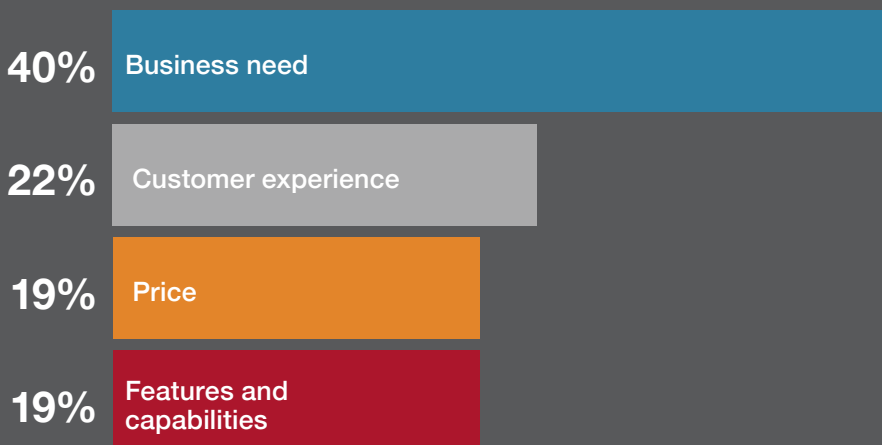
BUSINESS APPLICATIONS

As major business operations such as communications and servers are moving into the cloud, many specific business functions are also becoming hosted. Due to this trend, hosted business applications – also known as software-as-a-service (SaaS) – have become an important category within the cloud services market. File sharing and backup applications help a business run smoothly while hosted accounting, payroll, and help desk applications allow businesses to rely on fewer in-house staff. The market will continue to see strong growth as businesses add more applications.

Business Application Research Methods



Most Important Factors in Choosing Business Applications



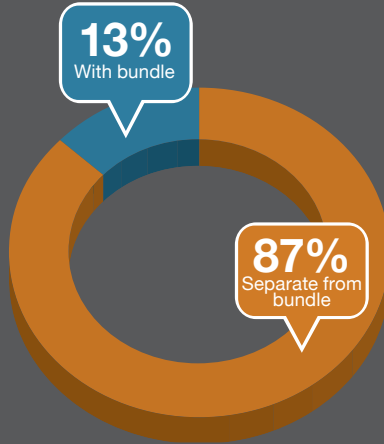
Trial Software

Free Trial Usage

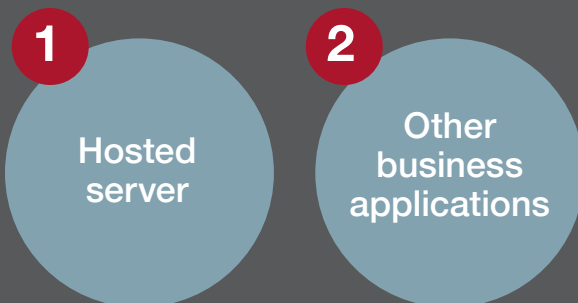


Purchasing

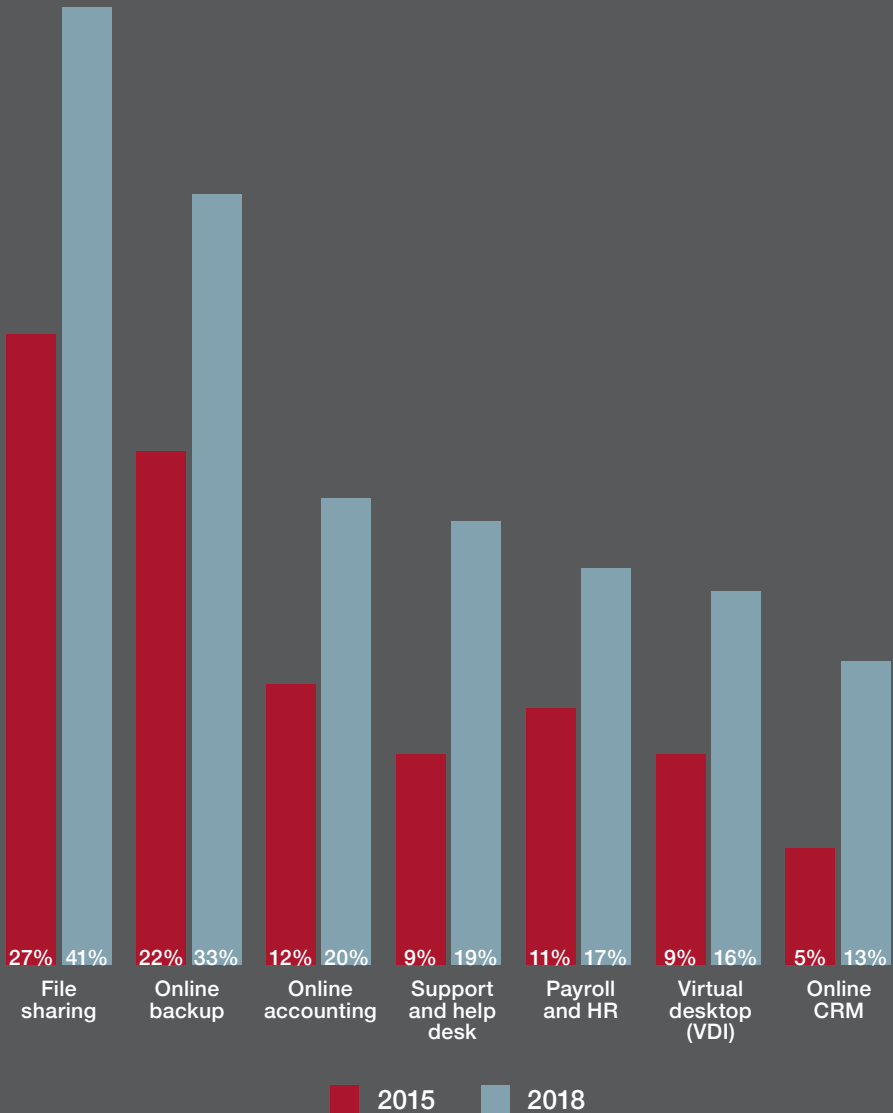
Bundling



Bundled with



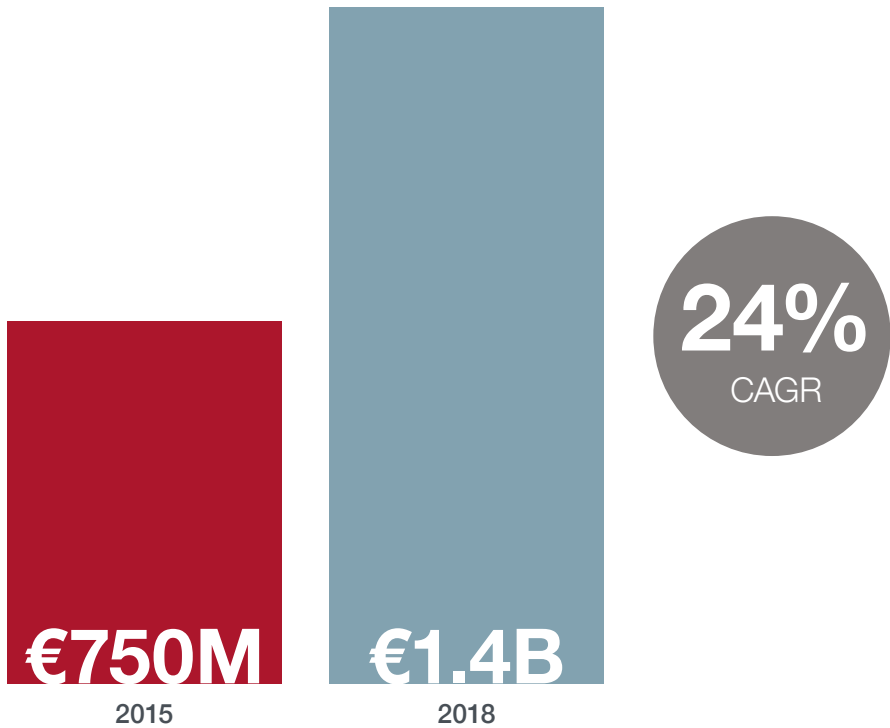
Top Business Applications through 2018



The most common tool for SMBs to research their business applications is online research. Developers and service providers should work toward answering the needs of the online community, and targeted online marketing can produce sales. Finding an application to answer a specific business need is more important than the cost to the SMB.

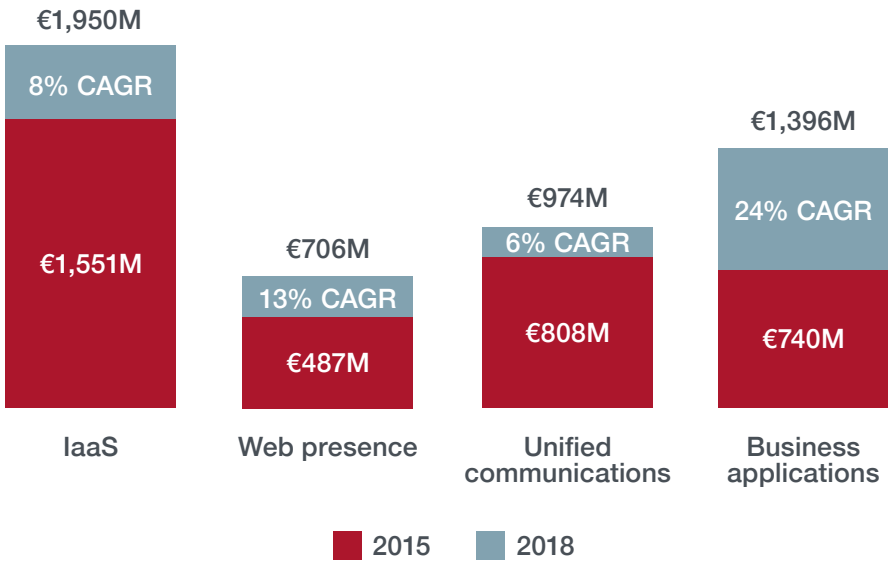
Another important trend – both globally and in Germany – is a movement away from free trials in mature markets. In 2013, only 23% of SMBs purchased without a free trial, and now 42% of SMBs purchase without a free trial.

Business Application Opportunity through 2018



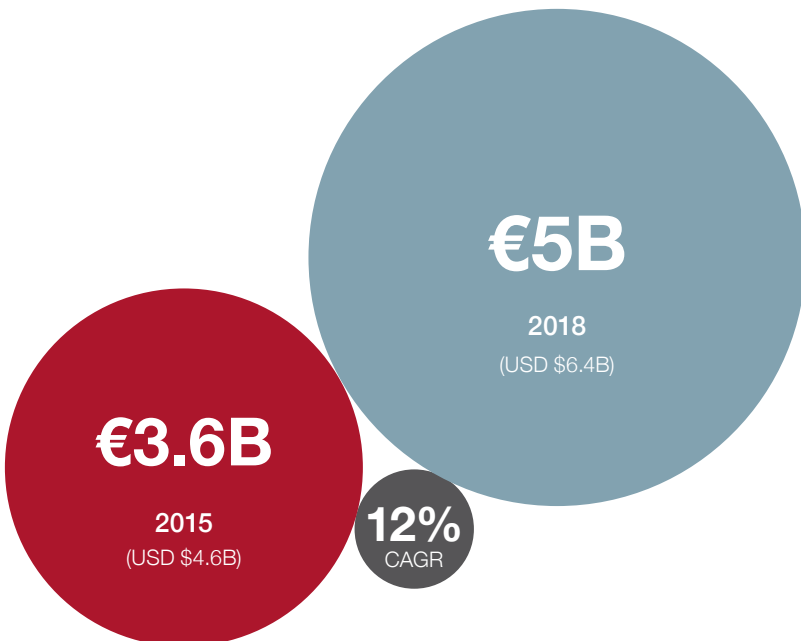
By 2018, the business applications market will be worth an estimated €1.4B (USD \$1.8B). The top business applications will continue to be file sharing and online backup while online CRM will experience the most explosive growth. Service providers have the potential to bundle business applications, but will need to ensure a clear business argument for purchasing the entire bundle as SMBs have also expressed a clear concern about lock-in and pricing transparency. At 24% CAGR through 2018, this segment will see the strongest growth within the overall cloud services market which provides significant potential for market entrants.

Overall Cloud Services Opportunity through 2018



The German cloud market will grow from €3.6B (USD \$4.6B) to €5B (USD \$6.4B) over the next three years at a CAGR of 12%.

Business applications will experience the strongest growth while IaaS will remain the largest overall category. Service providers should be careful to understand how their customers transition to purchasing and using cloud services. Service providers who can ease this transition will successfully capture new sales and improve relationships with their current clients.



Learn More

Please contact SMB@odin.com with any further questions. Odin is committed to helping our partners understand the best opportunities in the SMB cloud market.

This report covers only a portion of the extensive data included in Odin SMB Cloud Insights™ research.

About Odin

Odin provides the software that powers the cloud ecosystem, from small and local hosters to some of the world's largest telecommunication companies. By partnering with Odin, service providers gain access to industry expertise, a catalog of the most in-demand cloud applications, and the most comprehensive selection of software including web server management, server virtualization, provisioning, and billing automation. With offices in 15 countries, Odin supports more than 10,000 service providers in delivering applications and cloud services to more than 10 million SMBs. For more information, visit <http://odin.com>, follow us on Twitter, or like us on Facebook.

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