Profit from the cloud™

2011

Parallels SMB Cloud Insights™ for Poland

Poland

Parallels®

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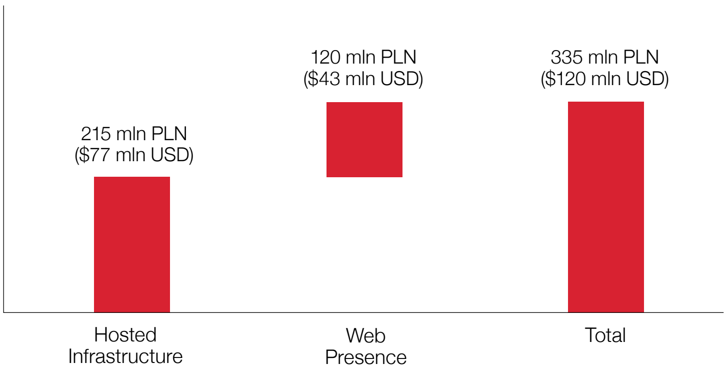
Executive Summary

Cloud computing has given small and medium businesses (SMBs) access to computing power, applications, and services that were formerly available only to large enterprises. Looking at the Polish SMB market in 2011, Parallels sees a developing market with substantial growth opportunity in all areas of Cloud services.

In early 2011, Parallels spoke to 400 Polish SMBs across all industry verticals and size groups to find out about their current use of Cloud services, their attitudes towards Cloud services, and their future plans. Based both on the insights gained from these interviews and on our deep knowledge of the Cloud services market, Parallels has created a comprehensive view of the current SMB market in Poland for those Cloud services that are most useful to SMBs—hosted infrastructure, Web presence, hosted communication and collaboration, and other online applications. This paper is a summary of that research, aimed at providing service providers with practical insights into how to succeed in the Polish SMB Cloud services market.

Parallels estimates the 2011 Polish SMB market for Cloud services—specifically hosted infrastructure and Web presence services—at 335 million zł ($120M USD), as illustrated in Figure 1. Of this spending, hosted infrastructure has the largest share, with 215 million zł ($77M USD), and Web presence has the remaining 120 million zł ($43M USD). (Note that this market sizing excludes the Cloud services categories of hosted communication and collaboration and other online applications, as our research in those two segments focused on adoption rates only.)

Figure 1. SMB Cloud services market size in Poland



The development of the Polish IT market has created a healthy Cloud services market among Polish SMBs. According to Poland's Office of Electronic Communications, the price of Internet service in Poland is 39% lower, on average, than that of other EU countries and the US. Furthermore, as reported by the World Bank, Poland's Internet usage has grown by 21% since 2007. Parallels believes that, taken together, these two factors will continue to generate a high growth rate of Internet use in the near future, creating many opportunities in Poland's IT market—and, more specifically, in its Cloud services market. In particular, we expect to see market growth to occur in three areas:

- New adopters that move straight to the Cloud, especially for hosted infrastructure and Web presence services (e.g., an SMB that currently has no servers or website moving straight to a hosted server or service provider managed website)

- SMBs that replace their in-house solutions with hosted services
- Upselling of existing customers to new and expanded Cloud offerings

Definitions

This research is focused on the Cloud segments that matter most to SMBs: hosted infrastructure, Web presence, hosted communication and collaboration, and a general category we refer to as "other online applications." We define each of these sub-segments of the Cloud services market as follows:

- **Hosted infrastructure (also known as infrastructure-as-a-service).** This category includes dedicated servers, virtual private servers (VPS), managed hosting, and utility or elastic computing.
- **Web presence.** This category includes Web hosting, blogging services, domain registration, SSL and e-commerce add-ons, and site-building tools.
- **Hosted communication and collaboration.** This category consists of business-class e-mail services, including e-mail security, e-mail archiving, and mobility; and phone services, including hosted PBX services and voice-over-IP (VoIP).
- **Other online applications (also known as software-as-a-service, or SaaS).** This category covers nine major classifications of software applications that can be accessed online—content management, e-mail archiving solutions, file sharing, online accounting, online backup and storage, online CRM, payroll and HR, phone conferencing, and Web conferencing.

For each of these Cloud services, our research captured SMBs' current use, their attitudes, and their future plans. For the hosted infrastructure and Web hosting markets, we also calculated spending and market size. In future versions of this research, we plan to add spending details and market sizing for all Cloud service segments.

As for our definition of **small and medium businesses (SMBs)**—also known as small and medium enterprises, or SMEs—we follow the practice of the European Commission on Enterprise and Industry, defining SMBs as companies with **1 to 250 employees**. Sub-categories within the SMB segment include:

- **Micro SMBs** (companies with 1-9 employees)
- **Small SMBs** (companies with 10-49 employees)
- **Medium SMBs** (companies with 50-250 employees)

Parallels research did not include the businesses in Poland that have no employees, but this group of small businesses should still be considered good target for service providers within the Polish Cloud services space, as we believe this group would look quite similar to micro SMBs in terms of their IT needs.

Key Findings in the Cloud

Our research shows that the Cloud services market among Polish SMBs has many strong growth opportunities—particularly among the smaller SMBs. Currently, Polish SMBs fall behind SMBs in nearby developed countries, such as Germany and the Netherlands, in their adoption of nearly every Cloud service. As Poland's IT market matures and as targeted marketing broadens its SMBs' use of Cloud services, Parallels expects to see significant numbers of new adopters (i.e., SMBs that currently do not use a particular type of solution going straight to the Cloud for it), as well as SMBs replacing their in-house IT solutions with hosted services. These trends will bring Polish SMBs to a usage level that is closer to that of the developed countries.

Focus marketing messages on the needs of each audience—do-it-yourselfers, IT consultants, and dedicated IT staff.

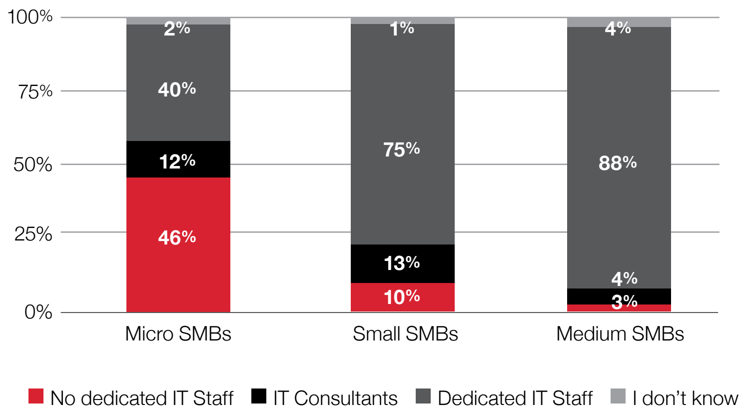
Growth Opportunities Overview
Parallels has identified two major approaches that will help service providers take best advantage of the growth opportunities for Cloud services in the Polish SMB market.

1. **Focus on the needs of specific audiences to drive new customer adoption.** As shown in Figure 2, our research shows that service providers should look at the Polish SMB market as three separate audiences:

- **SMBs with no dedicated IT staff (do-it-yourselfers).** Micro and small SMBs with no dedicated IT staff represent a particularly strong opportunity for service providers. Some 46% of micro SMBs and 10% of small SMBs in Poland report having no dedicated IT staff. For these SMBs, hosted services present a less complex, more cost-effective solution than in-house IT. Furthermore, compared to the SMB market as a whole, the micro and small SMB market is still underpenetrated with respect to most Cloud services, and therefore represents the greatest growth opportunities. Service providers can encourage adoption of Cloud services by targeting their marketing to these smaller SMBs and tailoring their packages accordingly. In particular, their marketing messages need to "speak the language" of these business owners, focusing on the business benefits and simplicity of Cloud services. Simple, intuitive user interfaces will also help improve these SMBs' experiences and hide the underlying complexity of the solutions.

- **SMBs with dedicated IT staff.** Service providers can also find growth opportunity among SMBs with dedicated IT staff, particularly for more sophisticated IT offerings. With 40% of micro businesses, 75% of small businesses, and 88% of medium businesses having at least one dedicated IT employee, this group represents a significant market opportunity. For these businesses, the marketing target becomes the IT staff, who serves as the IT influencer or decision-maker for all Cloud service purchases. Providing clear, detailed information about the technical specifications of Cloud offerings, their differentiating features, and the business value will be key in selling to this group.

Figure 2. IT staff reported by sub-segments of Polish SMB market



- **SMBs with IT consultants.** SMBs with IT consultants are also a target audience; however, due to the relatively small group of SMBs that fall into this category (12% of micro SMBs and 13% of small SMBs), this audience does not represent as strong an opportunity as the other two audiences. Service providers who do market to these SMBs should consider the IT consultant(s) these businesses hire as their primary audience and focus their marketing messages on the technical specifications of the Cloud service, its configuration and management, best practices, and other technical advice. Service providers will also benefit by having a white-label, reseller offering in place that gives IT consultants the opportunity to resell hosted and Cloud services to their SMB end customers without having to manage the infrastructure. In addition, service providers may want to develop sales and marketing strategies that target the broader IT channel, including distributors, as this is fertile ground for reaching IT consultants.

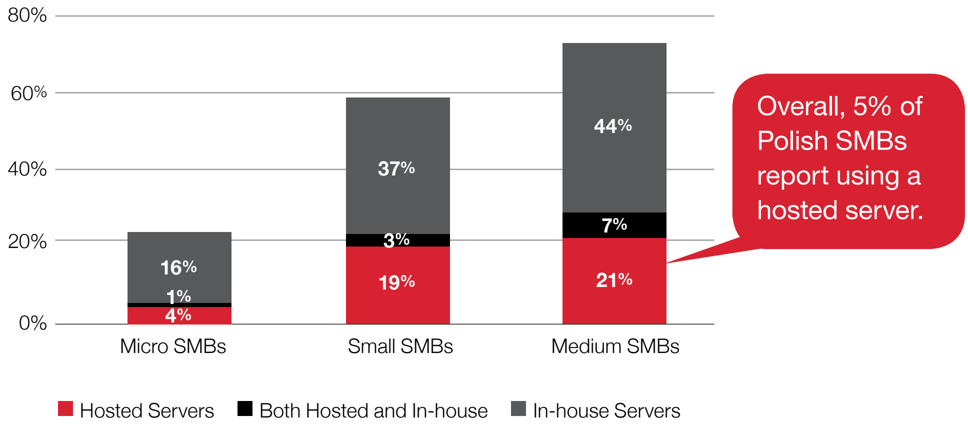
2. **Upsell existing customers with value-added tools and new services.** As the Polish Cloud services market continues to develop, upselling existing customers will become an increasingly important means of increasing revenue. Service providers can do this both by augmenting their core offerings with new value-added tools or services (e.g., a Facebook plug-in for customers who use Web hosting service) and by adding emerging Cloud services, such as other online applications, to expand beyond their current core offerings.

The following sections examine Polish SMBs' use of each of the four sub-segments of Cloud services in more detail, covering their current use of the service, their attitudes toward it, and their future plans for spending, as well as key opportunities and messaging for different target audiences.

Hosted Infrastructure

Parallels estimates the total SMB hosted server market in Poland at 215 million zł ($77 million USD), with approximately 100.000 hosted servers in use. Hosted infrastructure in Poland is a growing market, with only 5% of SMBs currently reporting using hosted servers (see Figure 3). Considering Poland's developing nature, it's not surprising that its use of hosted servers falls behind that of developed countries, such as Germany and Netherlands, each of which has a hosted server penetration rate of at least 20%. As Poland's IT market continues to mature and catch up to that of its developed neighbors, Parallels believes the Polish SMB hosted infrastructure market will grow as well, creating strong opportunities for service providers.

Figure 3. Server penetration among Polish SMBs



The main opportunity in this market lies in the adoption of h osted infrastructure by SMBs that currently don't use servers—a category that today encompasses 79% of all Polish SMBs. Of these, micro and small businesses represent the best opportunities. Currently, 81% of micro SMBs don't use servers, and, of those, 57% are considering adoption. Likewise, 41% of small SMBs don't use servers, and, of these, 67% either definitely plan to purchase hosted servers or might plan to do so. Parallels estimates that this opportunity could more than triple the current market size over the next three years.

Targeting SMBs that currently don't use servers could more than triple the current market size over the next three years.

Another opportunity that our research showed is the replacement of in-house servers with hosted servers by micro and small SMBs without dedicated IT staff. Hosted servers require less time and effort to maintain than in-house servers, making them a good choice for SMBs without IT resources. The best opportunity for marketing hosted servers is the micro SMB audience, a group that mostly has no IT staff. Currently, of the 14% of these SMBs that use in-house servers, 62% are considering switching to hosted servers in the next three years. Small SMBs also represent a good opportunity; 37% have in-house servers, and 60% of those SMBs are either definitely planning to switch to hosted servers in the next three years or thinking about doing so. Together, these groups could add 165.000 hosted servers to the market.

Parallels research shows price as the major factor delaying the adoption of hosted infrastructure in Poland (see Figure 4), with 55% of SMBs that have in-house servers citing price as the main barrier preventing them from moving to hosted servers. Price is also the leading purchase criterion for selecting a service provider (see Figure 5). These price concerns make the Polish SMB market an ideal place for VPS offerings. Education about the true cost of owning an in-house server will assist in the adoption of VPS. Service providers should be aware, however, that bandwidth and connectivity are issues for approximately 27% of Polish SMBs and represent the second leading reason for keeping servers in-house. Until Poland's Internet infrastructure improves, this concern might delay the adoption of hosted infrastructure.

Note that Polish SMBs rank technical characteristics of the offering and a clear, informative Web site as being equally important to price in terms of purchase criteria. Therefore, to market successfully to these SMBs, service providers should not only address their price concerns, but also clearly position the technical strengths of their offerings and focus on creating a strong Web presence.

Figure 4. Reasons that Polish SMBs keep servers in-house

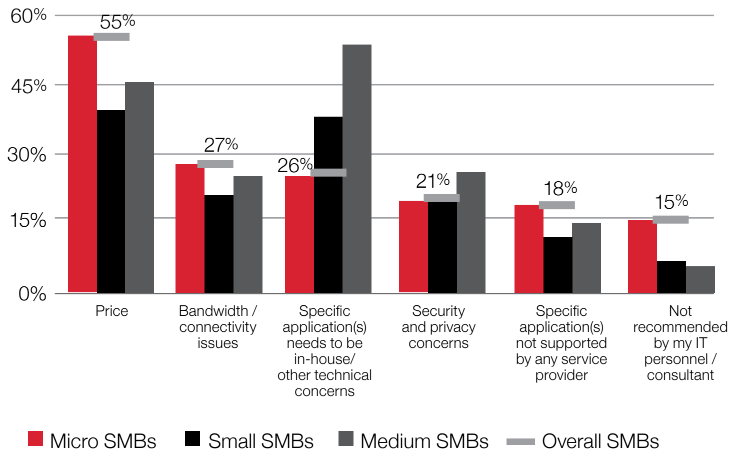
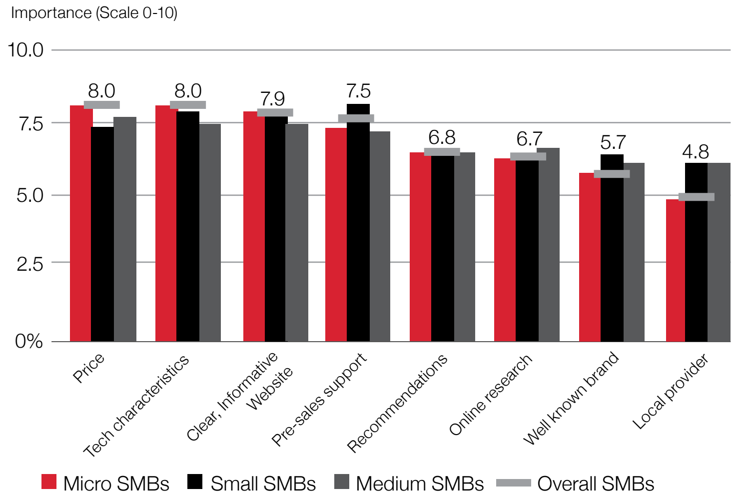


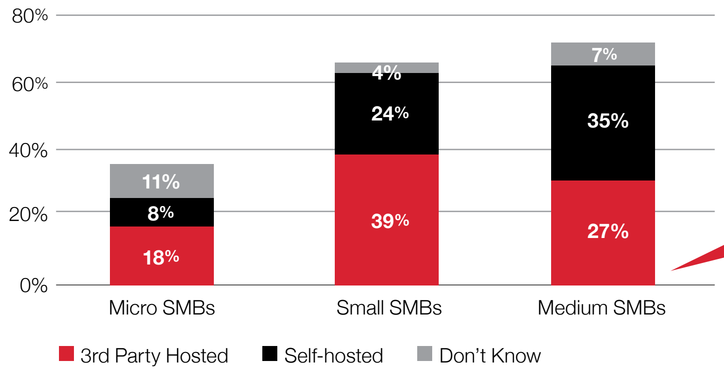
Figure 5. Polish SMBs' ranking of different hosted infrastructure purchase criteria



Web Presence

Parallels estimates the current Polish SMB market for Web presence at 120 million zł ($43M USD)—and as with hosted infrastructure, this market is growing. As shown in Figure 6, only 37% of Polish SMBs report having a website, as compared to 73% in both Germany and the Netherlands. This lack of website adoption is a good indicator that Web presence is likely to experience high adoption rates in coming years, especially as Poland's Internet usage grows, Polish SMBs play catch-up to SMBs in developed countries.

Figure 6. Website and Web presence penetration among Polish SMBs



Overall, 37% of Polish SMBs report having a website.

Our research reinforces our belief that a large, untapped website market exists in Poland. Polish SMBs report a high willingness to adopt third-party Web hosting, particularly among micro and small SMBs. Of those that currently have no website, 69% of micro SMBs and 88% of small SMBs either definitely plan to add a website from a service provider in the next three years or might plan to do so. This interest represents an opportunity of up to 700.000 new Web hosting plans alone over the next three years.

Many Polish SMBs that currently have no website are planning to add them, creating an opportunity for up to 700.000 new Web hosting plans in the next three years.

Parallels also sees good opportunity among SMBs who currently self-host their websites. For SMBs without dedicated IT staff, self-hosting a website can be a complicated and time-consuming task. Among micro SMBs, 23% currently self-host their website and 72% either definitely plan to switch to a service provider in the next three years or might plan to do so. In the small SMB segment, 36% self-host their websites, and 87% either definitely plan to switch to a service provider or might plan to do so. Encouraging these two size segments to make the switch could add an additional 100.000 service-provider-managed websites to the market in the next three years.

In addition to opportunities among new adopters of websites, Parallels also identified upsell opportunities among the 18% of SMBs currently using a service provider. With 30% of these SMBs planning to increase their spending in the next three years, service providers can grow their revenues by offering ways for SMBs to expand their Web presence and integrate the expanded presence with their core website.

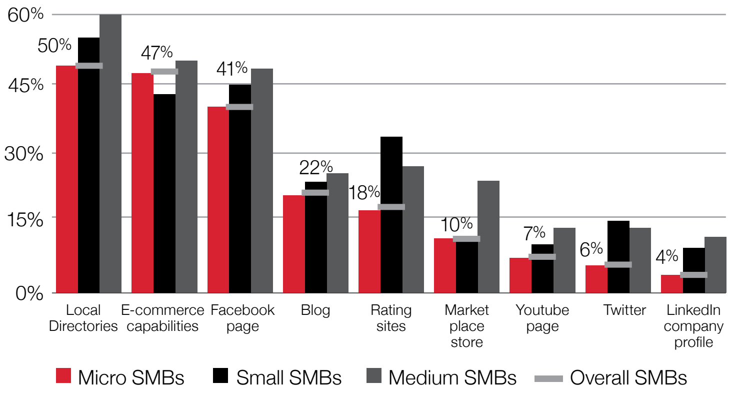
Our research shows that the top upsell opportunities to capture this planned increase in spending are:

- **Website design tools**. Some 47% of Polish SMBs with a website currently design it in-house. For the smallest SMBs, this number is nearly 58%. Providing website design tools will help these SMBs create more sophisticated websites in-house without a big cash outlay.

- **E-commerce.** In Poland, 47% of SMBs have e-commerce capabilities, making e-commerce the second most popular form of Web presence, following local directories (see Figure 7). Because of the high demand for e-commerce, Parallels sees this as an opportunity for service providers to upsell their customers, adding plans with features such as shopping carts and SSL certificates.

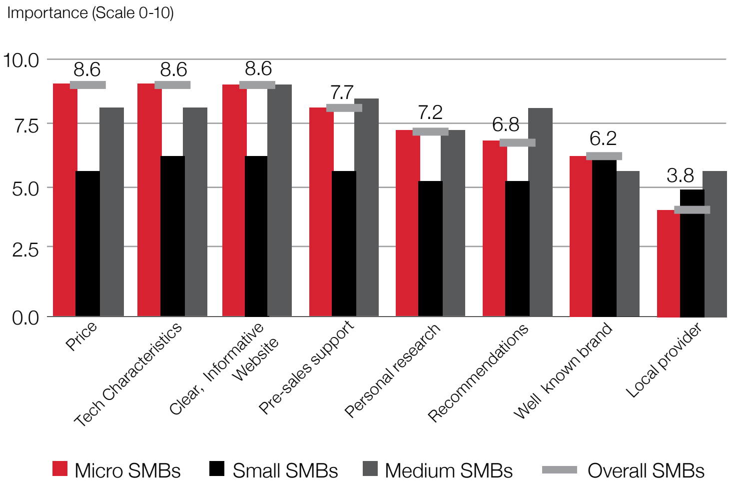
- **Social media.** Facebook is currently the third leading form of Web presence in Poland, with 41% of SMBs using it. Rather than let Facebook become a threat to Web presence, Parallels believes there is an opportunity to capitalize on this trend by enhancing Web presence offerings with the ability to create Facebook pages and cross-link them to companies' own websites. The recent integration of Parallels Web Presence Builder with Facebook will allow SMBs to do just that.

Figure 7. Polish SMBs' use of different forms of Web presence



In order to successfully sell Web presence offerings to Polish SMBs, service providers should focus their marketing on three main areas: price, technical characteristics, and a clear, informative website. While offering competitively priced Web presence packages remains important, SMBs rank companies with leading technical characteristics and strong Web presence as equally important (see Figure 8).

Figure 8. Polish SMBs' ranking of Web presence purchase criteria



Hosted Communication and Collaboration

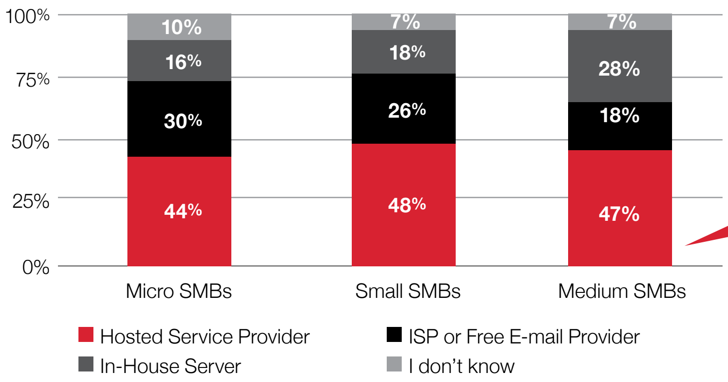
In the area of hosted communication and collaboration, Parallels focused its research on two areas: premium business e-mail and hosted

PBX. The overall market in Poland is small for these two services, with just 4% of SMBs currently paying for premium hosted e-mail and 3% using hosted PBX services. Within both of these markets, Parallels identified strong growth opportunities for service providers.

Hosted E-mail

Looking at the total composition of Polish SMBs' e-mail use, it's easy to understand why this market remains very small. As shown in Figure 9, free forms of e-mail dominate, with 30% using free provider accounts and 40% using free hosted e-mail through their Web presence provider. With so much free e-mail available, convincing SMBs to pay is a difficult task.

Figure 9. Use of different types of e-mail accounts among Polish SMBs of different sizes



Overall, 40% of Polish SMBs report using free hosted e-mail services.

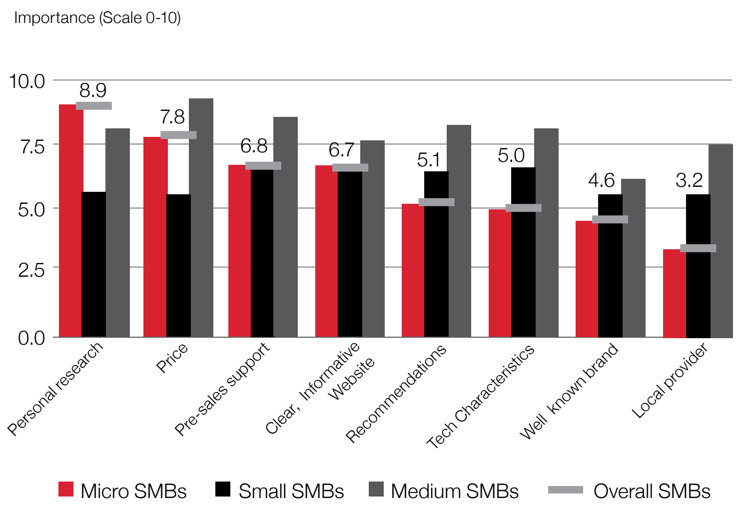
However, Parallels sees multiple opportunities, both among small Polish SMBs that currently have in-house e-mail servers and among small and medium SMBs that currently have hosted e-mail. Some 18% of small SMBs are currently using in-house e-mail servers—an expensive and complicated solution for small companies, especially those without an IT staff. Additionally, over 45% of small and medium SMBs are currently using hosted e-mail, with approximately 90% of them using it for free. Both groups of SMBs are candidates for upselling to premium hosted e-mail, with its security, archiving, and mobility features, since they can benefit both from its team collaboration aspects and from a "pay-per-seat" pricing model.

Parallels found that 60% of Polish SMBs are either definitely planning to switch from in-house e-mail servers to premium hosted e-mail in the next three years or are thinking of doing so. Of the small and medium SMBs currently using free hosted e-mail, 10% are considering paying for hosted e-mail in the next three years. Together, these opportunities add up to 160.000 new premium hosted mailboxes. However, this market will become significantly bigger if service providers can convince current customers using free hosted e-mail of the benefits of premium hosted e-mail.

Polish SMBs' upgrade plans indicate an opportunity for 160.000 (or more) new premium hosted mailboxes over the next three years.

When purchasing hosted e-mail, SMBs ranked personal online research and price as their two most important criteria (see Figure 10). With this in mind, service providers should focus on building a strong Web presence and offering low-cost plans to maximize adoption.

Figure 10. Polish SMBs' rankings of different purchase criteria for hosted e-mail



Hosted PBX

The current hosted PBX market among Polish SMBs is still small, with just 3% penetration, but it has opportunity to grow. Because hosted PBX services are a relatively new offering across all SMB markets in Poland, strong marketing and education about the service will be crucial in driving adoption. Figure 11 shows the current usage of different types of PBX services among Polish SMBs of different sizes.

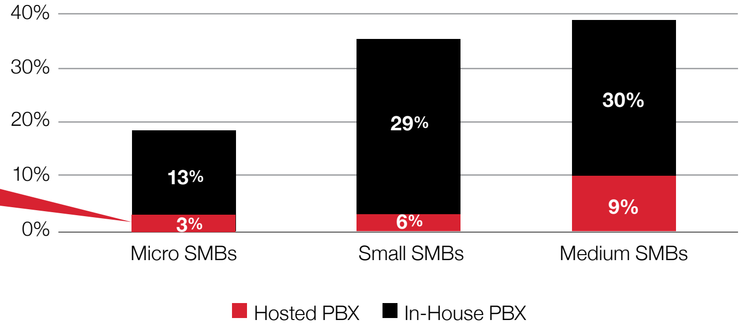
The opportunity to replace in-house PBX systems with hosted PBX could add 530.000 new hosted PBX lines over the next three years; New adopters could add another 1.9 million lines.

The best target for service providers looking to break into the hosted PBX market is SMBs that currently use in-house PBX systems—particularly micro and small SMBs without dedicated IT staff. In these size groups, 13% and 29%, respectively, are currently using in-house PBX systems; and 58% and 62%, respectively, are considering adopting hosted PBX in the next three years. This opportunity for replacing in-house PBX systems could add 530.000 hosted PBX lines to the market.

As further evidence of Poland's future growth in the hosted PBX market, our research also revealed opportunity among new adopters, specifically micro and small businesses that have either regular phone lines or no phone lines at all. Of these groups, 38% and 61%, respectively, either definitely plan to add hosted PBX in the next three years or are thinking of doing so. This opportunity could enlarge the number of new hosted PBX lines in the near term by an additional 1.9 million lines.

Figure 11. Use of PBX among Polish SMBs

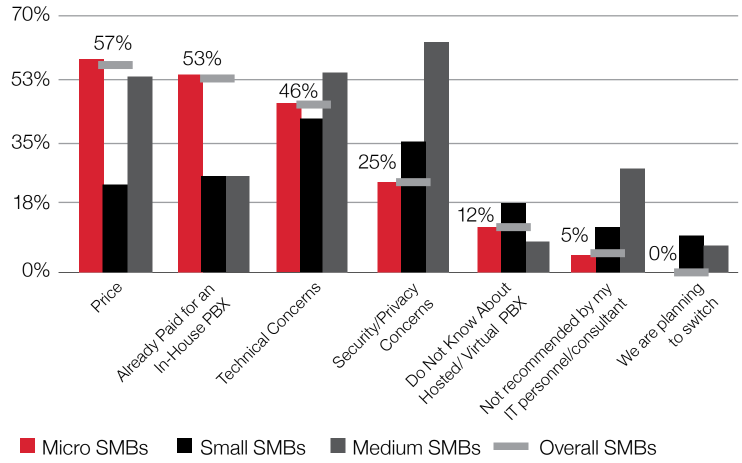
Overall, 3% of Polish SMBs report using a hosted PBX system.



Because the hosted PBX market is a new area for many service providers, Parallels identified two major points, based on our research, that will help service providers successfully sell hosted PBX services to SMBs:

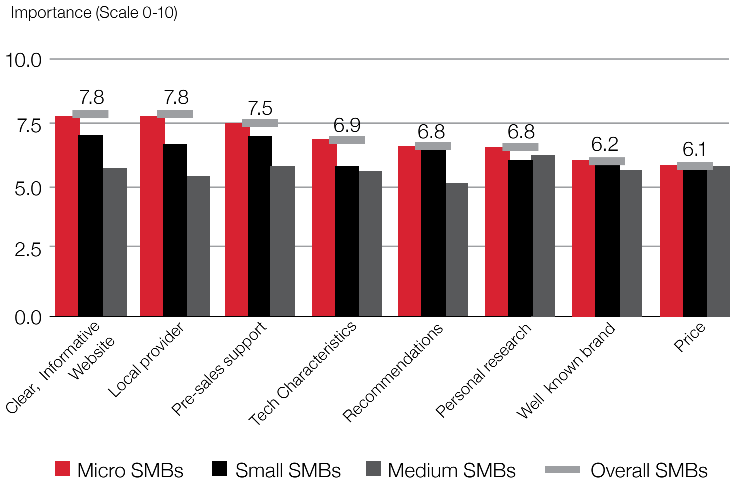
1. **Keep the price low.** Among SMBs with in-house PBX systems, price is a leading reason for not switching to hosted PBX, with 57% naming price as the main reason they haven't switched and 53% concerned about the sunk costs of having already paid for their current in-house PBX system (see Figure 12). Offering small bundles and keeping prices low will help these SMBs overcome their concerns and make the switch.

Figure 12. Polish SMBs' conce rns about hosted PBX systems



2. **Create positive perceptions around offerings.** As shown in Figure 13, when SMBs ranked key purchase criteria for hosted PBX, the top two were a clear informative website and a local provider, followed closely by pre-sales support. These rankings suggest that service providers looking to sell hosted PBX in Poland should focus on developing informative websites, localizing their platform, and strengthening their support.

Figure 13. Polish SMBs' rankings of different purchase criteria for hosted PBX

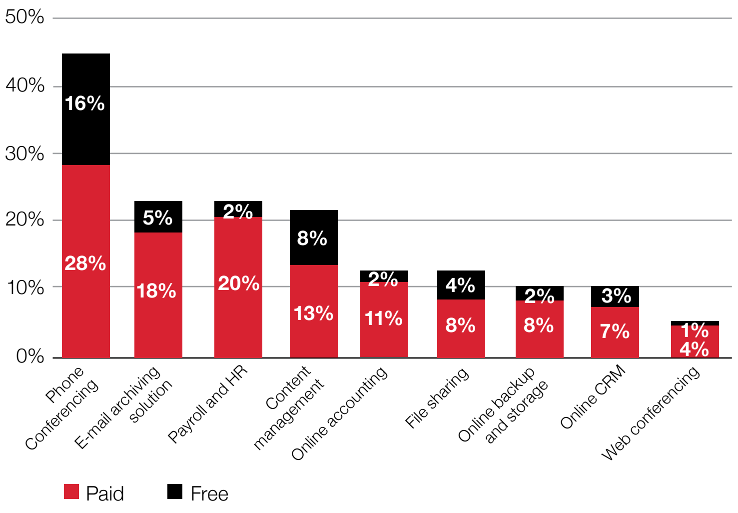


Other Online Applications

Other online applications (also known as software-as-a-service, or SaaS) are a rapidly growing area of Cloud services. Because of the wide range of applications now available through the Cloud and the generally low cost barriers to adoption, Parallels expects to see growth in Polish SMBs' adoption of these services over the next several years.

Our research showed that Polish SMBs have strong interest in other online applications, with approximately 62% using them in some form, including both free and paid subscribers. As shown in Figure 14, the current leading applications are phone conferencing (with 44% penetration among Polish SMBs), e-mail archiving solutions (23%), payroll/HR applications (22%), and content management (21%).

Figure 14. Current use of other online applications (both paid and free) among Polish SMBs



Adding other online applications to current Cloud offerings will enable service providers to profit from the overall growth in this service category.

The category of other online applications has significant opportunity for growth, particularly for SMBs that currently don't have in-house versions of these applications. Among users of existing online applications, the new applications that Polish SMBs are most likely to adopt over the next three years are online CRM solutions (with 17% planning to purchase) and e-mail archiving solutions (with 15% planning to purchase). Furthermore, strong opportunities are also shown among payroll and HR, content management, file sharing, and web conferencing applications, where planned adoption rates for these applications range from 8% to 11%.

Additionally, there is opportunity among Polish SMBs that are currently using online applications. Although these SMBs generally report they do not intend to pay more for most of their online applications, growth potential does exist in file sharing, online CRM, and online back-up and storage applications, with 11%, 11%, and 4% of current users, respectively, planning to increase their spending on these applications in the next three years. Therefore, by adding other online applications to their current Cloud offerings, service providers will be able to profit from the overall growth in this service category in upcoming years.

Conclusion

For the major traditional hosted services—hosted infrastructure and Web presence—Parallels estimates the size of the current market at 335 million zł ($120M USD). As the Polish SMB market develops further, catching up to those in developed countries, our research shows substantial opportunity for growth in their adoption of Cloud services.

Parallels sees the market growth driven by two main areas, particularly among micro and small businesses (1-49 employees):

1. Adoption of Cloud services by SMBs that currently have no solution of that type (e.g., adoption of hosted servers by companies that currently have no servers)

2. Replacement of in-house IT solutions with hosted Cloud services

Overall, Polish SMBs demonstrate high interest in Cloud services, pointing to a healthy market for service providers. In order to sell successfully in the market, our research showed that service providers should differentiate between two key audiences— SMBs with no IT resources and SMBs that have dedicated IT staff—and focus on the specific needs of each audience. Service providers who successfully target these audiences will find strong opportunity within the Polish SMB market as it continues to grow.

About Parallels
Parallels enables service providers to rapidly launch and efficiently deliver the most profitable Cloud services by automating the delivery of the broadest set of solutions demanded by small businesses. Founded in 1999, Parallels is a fast-growing company with 800 employees in North America, Europe, and Asia. For more information, please visit www.parallels.com/spp.

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