



Virtualizing SMBs: opportunities and challenges

Executive Summary
May 2012



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About the research

Objectives

VMware conducted this research with Canalys in order to:

- Gain intelligence from channel partners on EMEA's SMB market
- Understand the drivers, incentives and barriers for the SMB market to adopting virtualization
- Find out how resellers are recruiting new SMB customers
- Understand how the EMEA solution provider channel sees its role toward SMBs
- Understand the SMBs' business cycles in terms of adoption of virtualization technologies

virtualization adoption within SMBs*.

The high response rate from channel executives provides strong validation for the findings, and is representative of trends across the whole EMEA region. The research was conducted in March 2012.

* A SMB is defined as an organisation with 1-1,000 employees

Methodology

Canalys conducted quantitative research with senior decision makers in 358 technology channel companies selling virtualization solutions across multiple countries in Europe, the Middle East and Africa (EMEA). The quantitative research was supplemented with 12 interviews with senior decision-makers at partner organisations in France, Germany, Italy, Russia, Spain, Sweden, UAE and the UK in order to gain additional qualitative insights. The research aimed to gather intelligence from channel partners on EMEA's SMB market, and understand the drivers and barriers of

Overview

Virtualization remains a priority for small and midsize businesses (SMBs) in EMEA. In fact, according to channel partners, virtualization adoption is expected to accelerate over the next few years, with twice as many SMBs becoming more than 80% virtualized by 2014. This is a significant opportunity for the channel. By leveraging this interest in virtualization, channel partners can thrive and look to source projects that naturally draw additional hardware, software and services for the benefit of both themselves and their customers.

Summary of key findings

- Just under half of SMBs (48%) have virtualized at least the basic IT infrastructure of their business today
- Three quarters (75%) will expand their levels of virtualization within two years, and begin to virtualize their core business-critical applications
- 38% will have more than 80% of their IT environments virtualized by 2014 as they move toward IT as a Service, twice as many as today
- Reducing costs (71%) remains the primary driving factor for SMBs who choose to virtualize, however this is closely followed by the desire to ensure business continuity (64%) and improve hardware utilization (40%)
- The majority of SMBs (86%) agree that virtualization and cloud computing are connected
- Virtualization sales are important to the vast majority of respondent channel partners in EMEA (95%), with 66% rating it as very important to their business

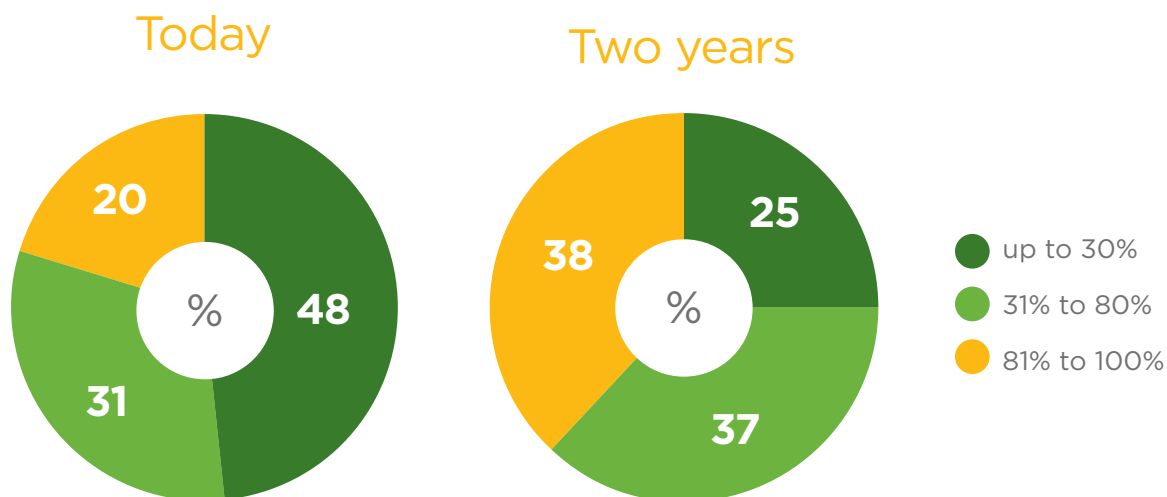
Key Findings

Virtualization demand accelerates

The research found that partners who sell to small and midsize businesses (SMBs) across EMEA are seeing that SMBs who have virtualized already are continuing to invest heavily in virtualization.

- Just under half of these SMBs in EMEA (48%) have virtualized at least the basic IT infrastructure of their businesses.
- Over the next two years: three quarters (75%) will have moved beyond this to virtualize core business-critical applications and more
- The number of SMBs who consider themselves heavily virtualized (with over 80% of their IT estate virtualized) is accelerating rapidly; twice as many (38%) of these companies will have more than 80% of their businesses virtualized, as they move toward IT as a Service

What is the typical level of virtualization within your SMB customers?



High level virtualization to double in two years

Larger SMBs are moving faster to full virtualization/IT as a Service and cloud

The research found that SMBs' adoption of virtualization is affected by their size, with larger companies being further along the journey than others. Higher levels of virtualization require IT skills to configure virtual environments and migrate software and data, and larger organisations are more likely to have these skills internally. However acceleration is evident among businesses of all sizes over the next two years.

- Small businesses are beginning to virtualize: over the next two years 66% of these companies with 1-99 employees will have virtualized beyond the basic IT infrastructure of their business
- Midsize businesses are becoming more advanced: over the next two years 37% of these companies with 100-499 employees will have more than 80% of their businesses virtualized, as they move towards IT as a Service
- Larger companies are virtualizing fast: over the next two years 56% of these companies with 500-999 employees will have more than 80% of their businesses virtualized, as they move toward IT as a Service

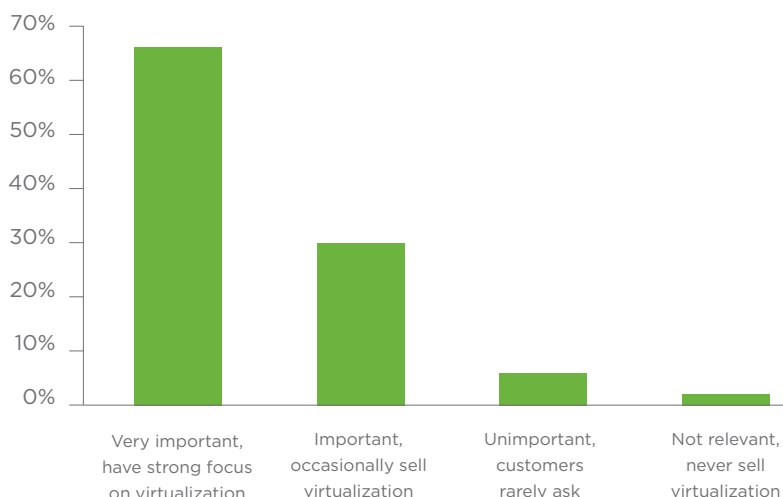
Virtualization remains a key technology for SMB channel partners

Virtualization sales are important to the vast majority of respondent channel partners in EMEA (95%), with 66% rating it as very important to their business.

- Customer demand remains strong, as companies assess the next steps
- Ongoing demand is pulling through solution (additional hardware, software) consulting and other service opportunities for the channel

"SMBs which lack internal IT resources will need help from channel partners as they virtualize more of their IT environments. Configuration and migration skills are particularly important, as more mission critical applications are virtualized. They will also look to trusted partners for guidance as they assess IT as a Service models." **Alastair Edwards, principal analyst, Canalys**

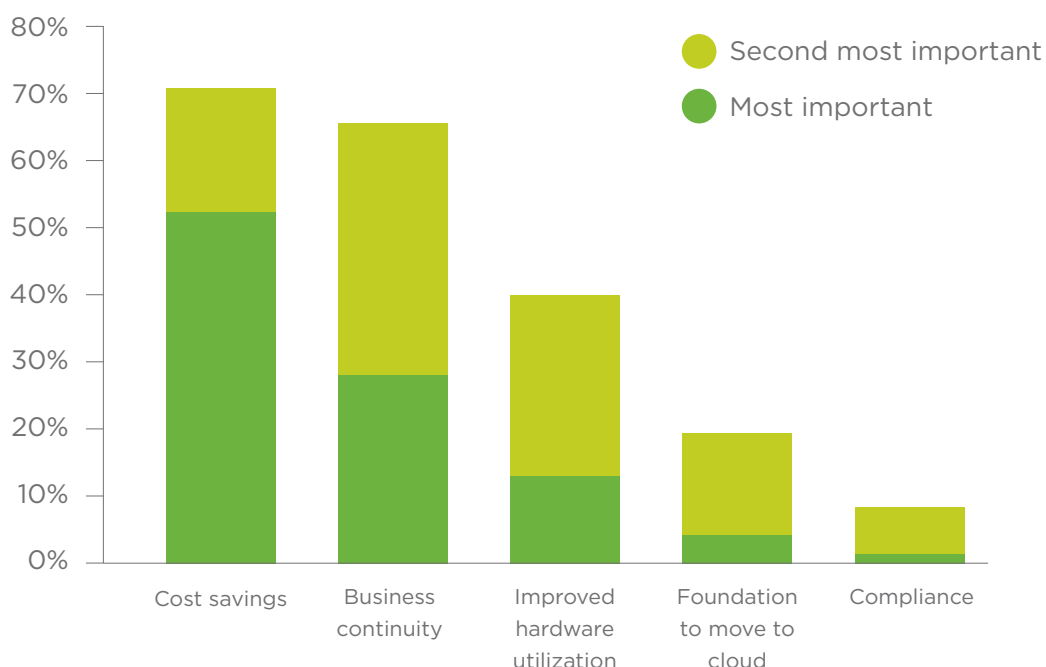
How important is the sale of virtualization technologies to your business?



SMBs turn to virtualization for benefits beyond cost savings

While reducing costs remains the most immediate driving factor for SMBs' virtualization projects (71% cite it as the most or 2nd most important driver), it is closely followed by the desire to ensure business continuity (64%) and improve hardware utilization (40%). Crucially, SMB's business priorities reflect this position exactly, with cost reduction (rated as highly important or important by 83%), business continuity (79%) and business agility (75%) being the top business drivers for SMBs in EMEA today. This alignment of business priorities with that of IT is a positive position for SMBs, as it shows that the more immediate technical drivers to virtualization will also support the companies' longer-term objectives.

What are the main drivers of virtualization



“The implications of virtualization extend far beyond IT, and it’s great to see SMBs taking note of this. The channel has a tremendous opportunity here to closely work with vendors to create and deliver combinations of solutions and services. Vendors should work closely with the channel to drive awareness of the benefit of virtualization to SMBs, helping them to cut costs, increase business agility and safeguard business continuity.” **John Churchhouse, EMEA SMB director at VMware**

Drivers of virtualization & cloud

Technology drivers

SMBs are focusing their investment in more consolidated, efficient and virtualized data centres. However, business continuity and disaster recovery are also key concerns for SMBs of all sizes. As SMBs look for more secure, resilient operations, they are identifying virtualization as a means of delivering this. Many channel partners are therefore finding that disaster recovery is a topic that opens the door to virtualization opportunities.

“What are the most important technology priorities for your customers with fewer than 1,000 employees?”

1.	Data centre/ server virtualization	78%
2.	Business continuity/ disaster recovery	78%
3.	Improved use of existing infrastructure	74%
4.	Security upgrades	63%
5.	Application virtualization	58%

“There is more and more demand every year for virtualization among SMBs, driven by high availability and disaster recovery. The question for SMBs is not “will we switch to virtualization?” but more when and how. The switch is already a given in their minds.”

DHS, Robin van der Steenhoven, Account Manager

Business drivers

Fuelled by the current macro-economic conditions, operational efficiency is the top business priority for SMBs of all sizes. Business decision makers will therefore look at virtualization first as a way to reduce costs, however since it also addresses their 2nd and 3rd priorities (see below), it will help channel partners to build compelling value propositions around virtualization.

“What are the most important business priorities for your customers with fewer than 1,000 employees?”

1.	Reducing operating costs	83%
2.	Business continuity	79%
3.	Improve business agility	75%
4.	Improve workforce productivity	73%
5.	Grow company revenue	73%

“For 90% of customers, the business motivations for virtualization are flexibility, agility and reliability.”

“It’s easy to spin servers up, virtual machines are very portable, there are some good disaster recovery solutions, and the whole infrastructure is easier to manage.”

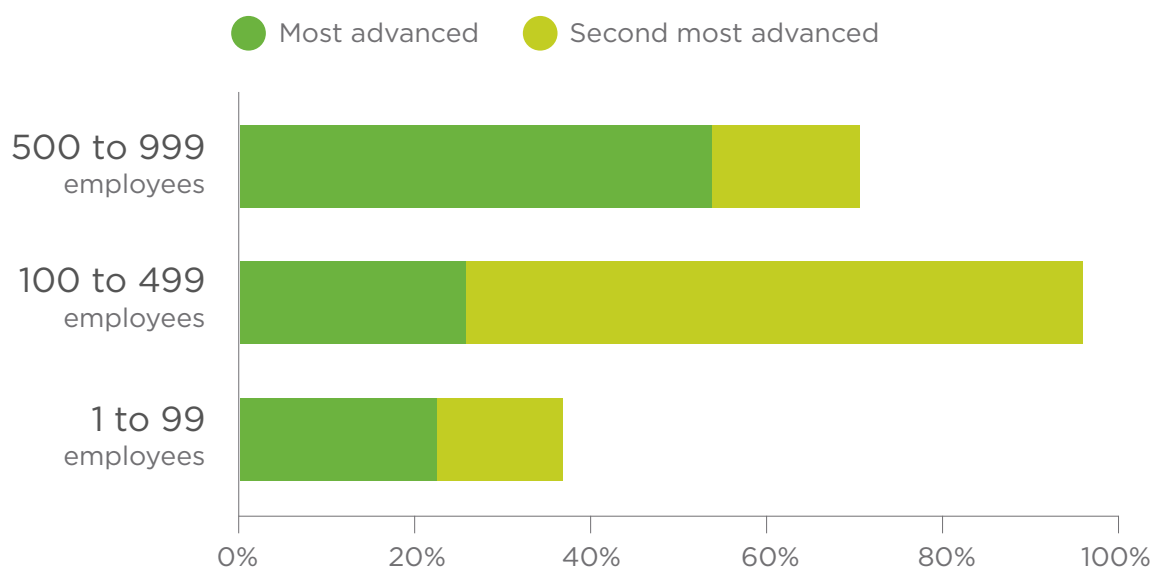
Trustmarque, Kevin Green, Practice Manager, Core Infrastructure Solutions

“SMBs are undoubtedly recognizing the many benefits virtualization can deliver. However the tough economic environment means that organizations are being pulled in many different directions, with costs being scrutinized at every step. Virtualization is being seen as a solution that delivers cost savings as well as broader business benefits; as a result, within two years, the survey suggests SMBs are planning a rapid rate of virtualization adoption, with the majority of SMBs realising the benefits heavily virtualized environments can deliver.” **Alastair Edwards, principal analyst, Canalys.**

Link to cloud computing

The majority (86%) of SMBs agree that virtualization and cloud computing are connected, reflecting the growing awareness of the journey from virtualization to cloud computing. Within this, it is the larger SMBs (500-999 employees) that are most advanced in terms of cloud adoption, emulating the approach of their larger competitors.

Which customer segment is the most advanced in the journey toward cloud computing?

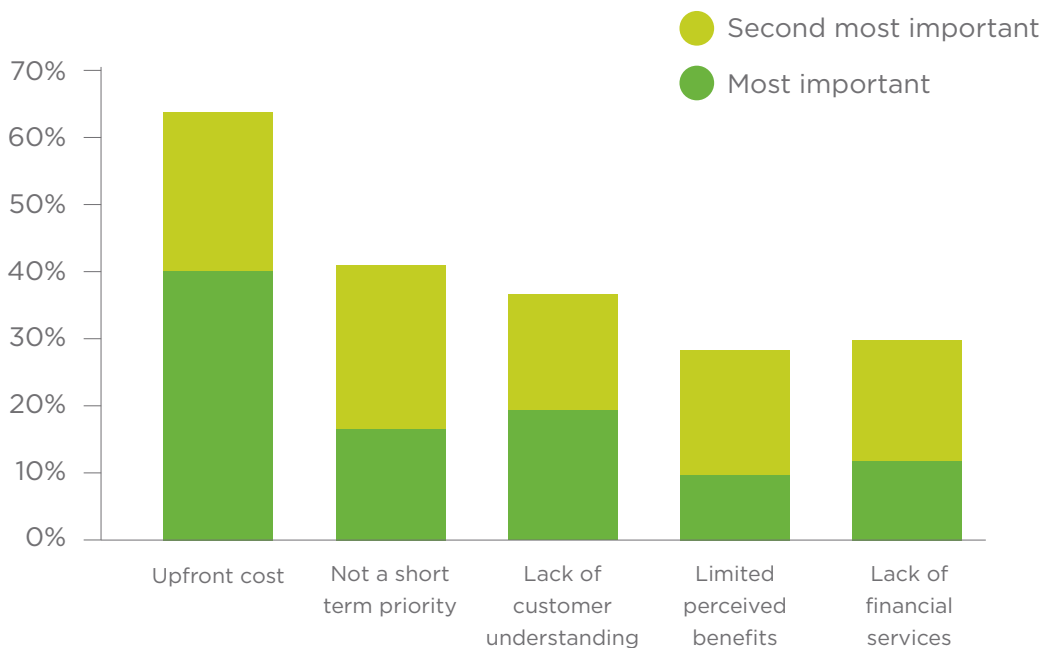


Barriers to virtualization & cloud computing

Upfront costs

The return on investment (ROI) and benefits of virtualization appear to be well understood by most SMBs in EMEA. However upfront costs are frequently cited as the primary barrier by channel partners providing services to the SMB market (63% cite it as the most or 2nd most important barrier). Virtualization not registering as a short-term priority was cited second (41%), and a lack of understanding was the third decisive factor (37%), suggesting the need for further education from vendors and partners on exactly what virtualization can deliver and on the full ROI cycle.

What are the main barriers to virtualization?



Lack of internal expertise & understanding

Those SMBs that see IT as a strategic priority and not just a cost centre will most likely see the benefits of virtualization beyond simply cost savings. As internal expertise and understanding of IT increases, so too do the expected benefits. This is most commonly an issue with smaller companies with limited IT departments who don't have yet have a deep understanding of virtualization.

"One barrier to adoption is that there is still a lack of awareness about the true benefits of virtualization; you need to educate the customer, to clearly illustrate the ROI within an environment where all expenses are under the microscope. But once you've reached the CEO or CFO, they are often very quick to accept the strategic business case of taking this journey." **Dominic Docherty, MD, BIOS ME**

Summary & recommendations

The growing interest in virtualization among SMBs is a significant opportunity for the channel. By leveraging companies' desires to cut costs and improve business continuity, the channel can deliver projects that do so much more. By virtualizing the bulk of their IT estate, SMBs will not just lower their operating costs and be more resilient, but their businesses will be more agile too, letting them launch new products more quickly or expand into new markets faster.

Vendors and their channel partners can help to accelerate the adoption of virtualization by educating customers more effectively on these benefits. This can be through a greater focus on pre-sales tools including trials and local country case studies, or specific marketing campaigns focused on business pain points, such as disaster recovery. In the current economic environment, SMBs also need help with the upfront cost of virtualization, through promotions, bundles or financing solutions which make it easier to gain access to these benefits.

About Canalys

Canalys is a global analyst and consulting firm specialising in technology and Channels analysis, and delivers smart market insights to IT, Channel, and service provider professionals around the world. Our customer-driven analysis and consulting services empower businesses to make informed decisions and generate sales. We stake our reputation on the quality of our data, our innovative use of technology, and our high level of customer service.





VMware, Inc. 3401 Hillview Avenue Palo Alto CA 94304 USA Tel 877-486-9273 Fax 650-427-5001 www.vmware.com

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