



SME cloud-based services: overseas successes & Australian opportunities

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EXECUTIVE SUMMARY

Introduction

The purpose of these reports is to look at successful products, services and applications being delivered via high-speed networks around the world that are driving customer and/or revenue growth for telecommunications service providers. These reports each have a theme, in this case cloud-based services for small and medium enterprises (SMEs).

After a brief introduction outlining industry developments and market potential at a high level, this report provides several case studies from around the world that demonstrate successful cloud-based products targeted to the SME segment.

The SME market for cloud services is large. There are around 800,000 SMEs with employees in Australia according to the Australian Bureau of Statistics. Frost & Sullivan¹ has estimated the total value of the country's cloud computing market in 2013 at \$1.23 billion, projected to grow \$4.55 billion by 2018. Other firms make similar estimates.

However, revenue growth in cloud services does not automatically translate into profit growth. Unless telecommunications service providers find ways to add value to cloud services that differentiate them from their competitors, the result will be product commodification and erosion of profitability.

Successful cloud providers in the telecommunications industry do not mimic the industry behemoths. The cloud industry is a complex ecosystem with room for many different roles. The challenge for telecommunications service providers is to discover and to own the activities within that ecosystem where they have a competitive advantage. Fortunately, diffusion of cloud computing depends more on telecommunications than IT assets, because connectivity is the foundation of cloud services. This provides the entry point for telecommunications service providers.

The telecommunications service provider opportunity

Cloud computing can benefit most SMEs by making technology more accessible without specialist in-house skills, and allowing them to more easily keep up with advances in technology that can

¹ Frost & Sullivan press release, "Australia's cloud services market to soar from \$1.23 billion in 2013 to \$4.55 billion by 2018, says Frost & Sullivan", 22 October 2014. Downloaded at <http://ww2.frost.com/news/press-releases/australias-cloud-services-market-soar-123-billion-2013-455-billion-2018-says-frost-sullivan/>.

benefit their business. In addition, many SMEs struggle to raise capital for investment in new technology and find the OPEX model of cloud services more appropriate to their business than the traditional CAPEX model that is more usual for IT investment.

Telecommunications service providers are in competition with over-the-top (OTT) providers for the delivery of cloud services. In some cases, these OTT competitors are potential partners. To avoid being pushed aside by OTT providers, telecommunications service providers must bring unique value that differentiates them from the OTT providers.

With the telecommunications service providers' control of network assets comes the ability to secure and guarantee cloud service experience, whatever the location. This ability to manage performance and security is indispensable in an environment where cloud and telecommunications services are being aggregated across a number of suppliers. This is the telecommunications service providers' first point of differentiation.

The second point of differentiation is the pre-existing product relationship that telecommunications providers have with a large number of SMEs. These advantages make telecommunications providers an attractive partner and channel for IT companies looking to deploy cloud services to the SME market, provided that telecommunications providers can build an SME cloud portfolio that turns those product relationships into more sophisticated solutions relationships. Operators can also leverage the relationships of channel partners, as in the case of Colt (see the following case study).

Both of these differentiators (security and relationships) have an underlying theme of trust. The convenience of a one-stop shop is valuable, but it can be replicated. Pricing can be undercut. However, trust is an asset that is hard to buy - and a message that telecommunications service providers shouldn't underplay. This trust is the basis for the more sophisticated solutions sale that upgrades the relationship.

Tactically, it makes sense to support SMEs' most common business processes. Strategically, we have seen that it is important to sell cloud services with broadband to secure operators' core revenue streams. But telecommunications service providers also need to focus on transformational possibilities, and help SMEs to find new ways to do business using the cloud, not just cheaper ways. This requires a trusted working relationship in which solutions are co-developed and amortised across industry verticals.

In the markets that we reviewed for this report, SMEs' own lack of awareness regarding cloud services' potential to help their business grow and perform efficiently is one of the biggest constraint on growth. Successful operators are actively marketing their competence to reduce SMEs' business risk and to increase profitability; Ovum has observed that their marketing strategies for cloud services:

- **Promote trust over cost:** Operators should adjust cost-focused marketing messages. Cost is a hygiene factor for SMEs in ICT purchasing decisions; while it will get you on the shortlist, trust is a differentiator.

- **Verticalise the SME universe:** Operators should identify and market to significant sub-segments within SME verticals. Analysis of national demographics can identify vertical sub-segments where discrete targeting is justified.
- **Don't downplay high-speed broadband:** Operators should promote services that offer fundamentally new ways for SMEs to do business using assets controlled by telecommunications service providers. Such services should be highly dependent on reliable high-speed broadband in order to function.

SME cloud service case studies

For the telecommunications service provider, cloud-based services are a way to increase both revenue and customer loyalty amongst SME customers. The three case studies that follow are from **Belgacom, Portugal Telecom** and **Colt**.

Becloud is a cloud platform for a range of managed services like hosting, housing and backup, web hosting, collaboration and application hosting, offered by Belgacom in Belgium. Customers can use these resources to create services such as online booking and online payment systems. The range of e-Commerce products enables the SMEs or self-employed customers to create fully-fledged online shops. This is a good example of a one-stop shop that simplifies the management of cloud services for SMEs.

Portugal Telecom (PT) and Microsoft launched a partnership to provide cloud based productivity, collaboration and communication solutions especially for SMEs. Portugal was among the first few countries in the world to have such access that enabled SMEs to use the Internet to access productivity tools, communication and collaboration services hosted at PT data centres. This example was chosen to illustrate the way a partnership can be used to generate differentiation in the SME market.

Finally, in Europe, Colt provides an SME-focused service suite called Smart Office, designed for businesses with up to 250 employees. Managed services and security are important differentiators for Colt, and it uses an innovative channel partner scheme to manage the costs of dealing with SMEs.

THE MARKET FOR SME CLOUD SERVICES

The demand for cloud services has been growing for several years. These services are dependent on the availability of fast, reliable broadband, and this demand has grown in tandem with improvements in broadband and IP infrastructure.

The growth of cloud services is being driven by the fact that they provide a managed alternative to the purchase and maintenance of on-site IT. SMEs are able to cut investment in their own ICT systems; instead they can look to cloud providers to source services at steadily falling prices. The price benefits flow from the economies of scale generated by the consolidation of infrastructure and platforms within the major cloud service providers, and the intensity of research and development generated by these large cloud service companies.

Significant businesses have arisen to meet demand for cloud services. Amazon Web Services (AWS) offers a wide range of IT infrastructure elements as a service. Companies like Salesforce.com offer sophisticated software applications as a service, while traditional software providers such as Microsoft now offer Office applications as a service. The result is a complex ecosystem.

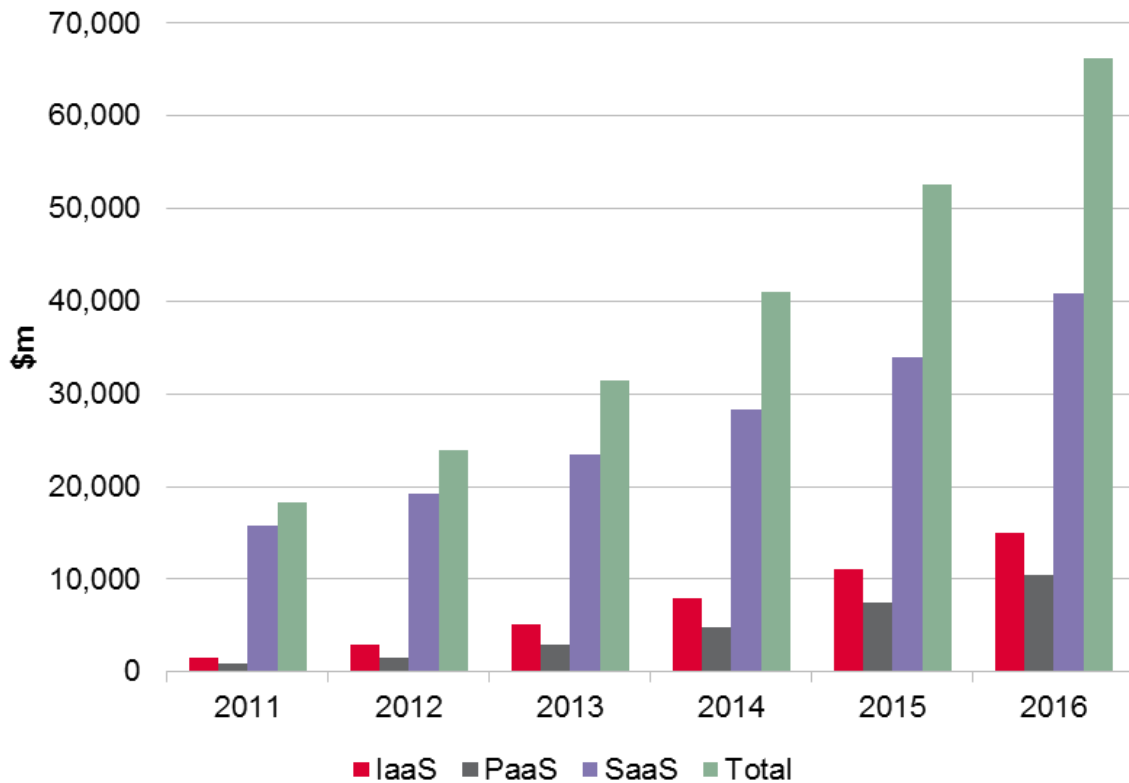
Telecommunications service providers also have a place in this ecosystem. There is a natural synergy between provision of cloud services to SMEs, the broadband connectivity needed to provide access to them, and the strength of relationship that telecommunications service providers have with their SME customers, a strength that large cloud service providers cannot match.

Market opportunities

Frost & Sullivan has estimated the total value of the country's cloud computing market in 2013 at \$1.23 billion, projected to grow \$4.55 billion by 2018², and other analyst firms forecast similar growth rates. These Australian trends are consistent with global trends for cloud service revenue growth illustrated in Figure 1.

² Frost & Sullivan press release, "Australia's cloud services market to soar from \$1.23 billion in 2013 to \$4.55 billion by 2018, says Frost & Sullivan", 22 October 2014. Downloaded at <http://ww2.frost.com/news/press-releases/australias-cloud-services-market-soar-123-billion-2013-455-billion-2018-says-frost-sullivan/>.

Figure 1: Ovum's global cloud computing forecast to 2016



Source: Ovum, "Understanding the Managed Service Opportunity in Australia and New Zealand", 8 May 2014.

ACMA published research in March 2014 showing that SME take-up of cloud services is still slow compared to consumers, but that SME willingness to pay for more advanced services was generally higher.

The ACMA research shows that 44% of SMEs actively used cloud computing services at May 2013, though many of these still used fairly simple services such as email and online storage. 31% of medium-sized businesses indicated they paid to store data/files online compared to 25 per cent of small businesses. Small businesses were more likely to use free services such as web-based email like Gmail, Hotmail or Yahoo! Mail (58%) compared to medium-sized businesses (34%).

In contrast, 80% of consumers were using some kind of cloud service, but only 17% reported paying for these services³.

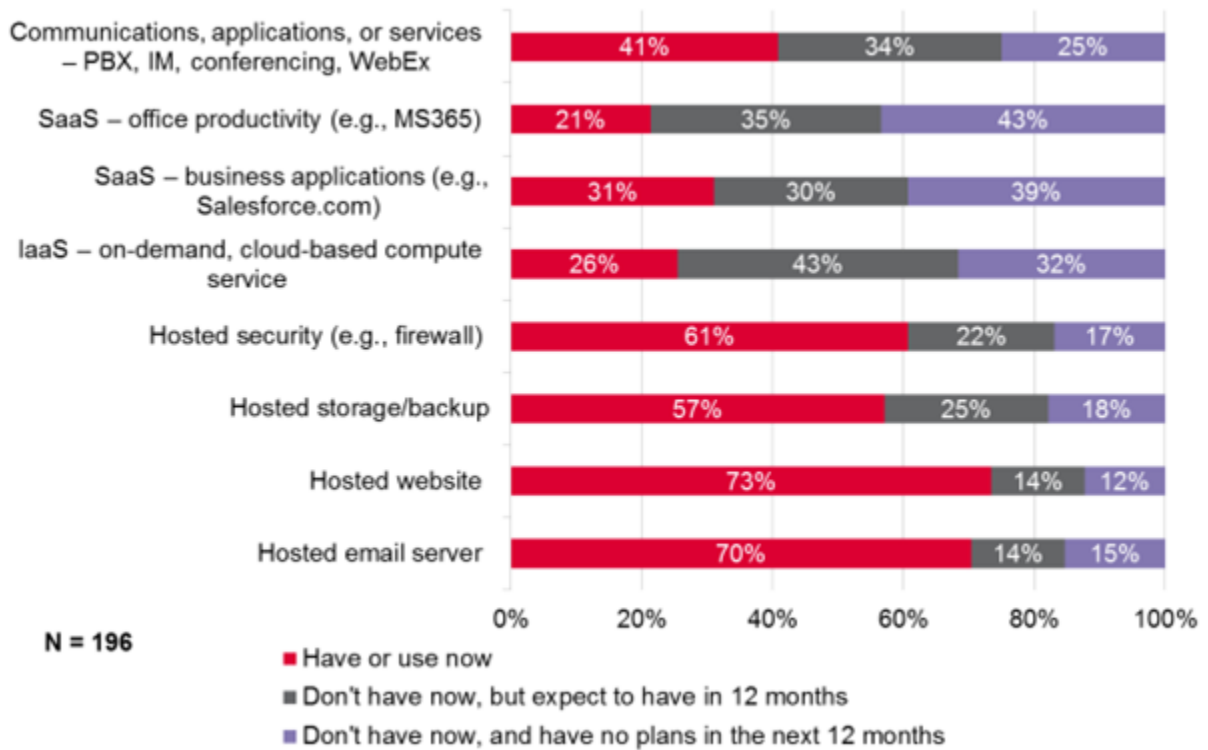
This means that there is a significant unaddressed market for SME cloud services, provided that SMEs can be made aware of the advantages of a cloud approach to sourcing IT services.

Of the three main classes of cloud services (IaaS, PaaS and SaaS), SaaS offers the best revenue opportunities. In late 2013, Ovum surveyed nearly 200 Australian medium-sized enterprises ranging in size from 50 to 500 employees to find out what specific kinds of services are most likely to interest them. The results for the most important services are displayed in Figure 2.

This survey shows that there is significant interest in taking up cloud-based services of various kinds amongst SMEs. Australian SMEs currently favour basic hosted services such as email, security, and web. However, communications applications or services such as PBX, IM and conferencing also have a strong presence, with 41% of respondents indicating current usage. Cloud-based services such as SaaS, PaaS, and IaaS currently have a low uptake but, based on this report, will experience significant growth.

³ Commonwealth of Australia (Australian Communications and Media Authority), "Communications report series: Report 2—Cloud computing in Australia", March 2014. Downloaded at http://www.acma.gov.au/~media/Research%20and%20Reporting/Report/pdf/Cloud%20Computing%20report_final%20pdf.pdf.

Figure 2: Current and future cloud services in Australia



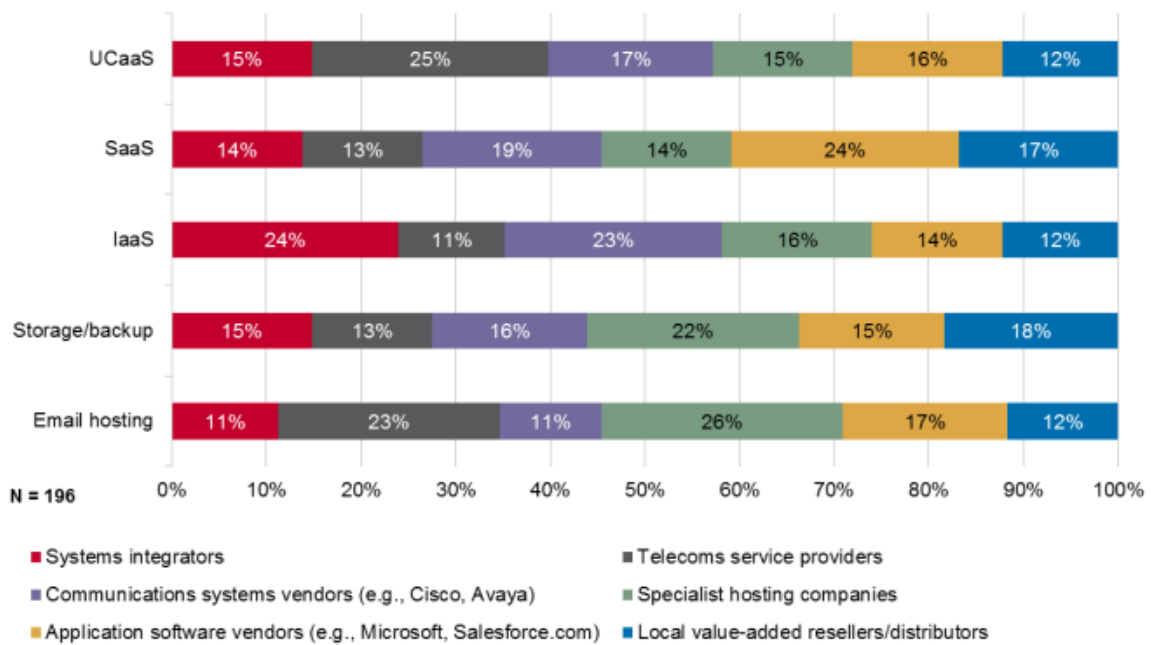
Source: Ovum, "Understanding the Managed Service Opportunity in Australia and New Zealand", 8 May 2014..

Ovum's survey showed that perceptions of cloud service suppliers are mixed. The results are illustrated in Figure 3. Telecommunications service providers are strong in unified communications as a service (UCaaS) and email hosting, while specialist hosting companies are strongest in storage, systems integrators do well in IaaS, and software vendors in SaaS.

These results are important because they show that the size of the global cloud providers doesn't guarantee them dominance in the market. In fact, their sheer size may be an obstacle to dealing with a fragmented segment like medium-sized enterprises, and even more so for the full SME segment.

Figure 3: Cloud service supplier perceptions

Which of the following types of supplier would you trust the most to deliver the following hosted/cloud services for your organization?



Source: Ovum

Competing in SME cloud services

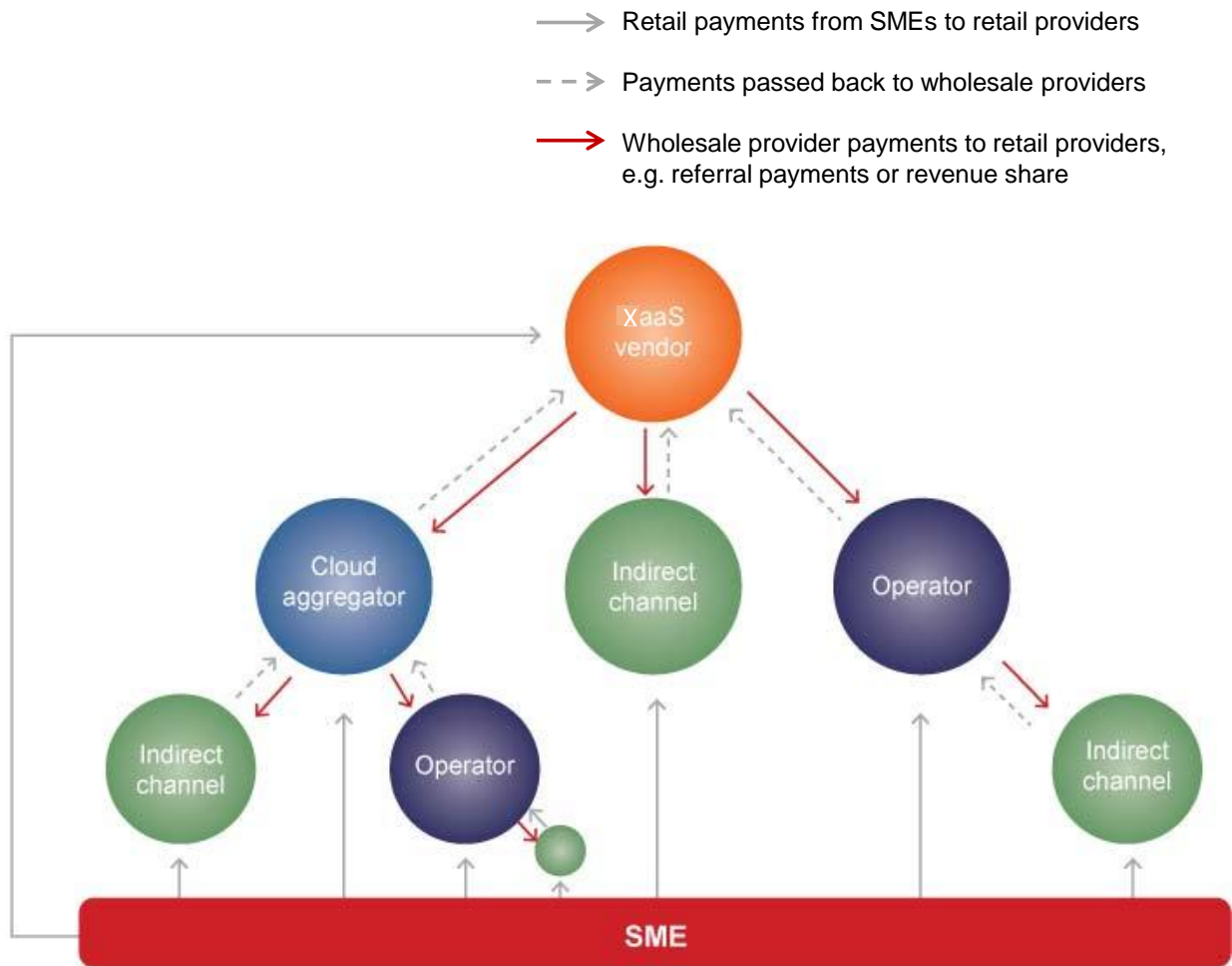
Revenue growth in cloud services does not automatically translate into profit growth. Unless telecommunications service providers find ways to add value to cloud services that differentiate them from their competitors, the result will be product commodification and erosion of profitability.

Successful cloud providers in the telecommunications industry do not mimic the industry behemoths. Major cloud infrastructure providers like Amazon Web Services (AWS) are very large companies with large budgets for investment and R&D. The same goes for major SaaS providers such as Microsoft, Google and Salesforce.com. In addition, prices are falling dramatically; prices for many AWS products fell 80% in 2013 alone. It is not possible for even the largest telecommunications service providers to replicate these capabilities and performance.

But this does not mean that there is no role for the telecommunications service provider. The cloud industry is a complex ecosystem with room for many different roles. The challenge for telecommunications service providers is to discover and to own the activities within that ecosystem where they have a competitive advantage. Fortunately, diffusion of cloud computing depends more on telecommunications than IT assets, because connectivity is the foundation of cloud services. This provides the entry point for telecommunications service providers.

As illustrated in Figure 4, a two-tier market is emerging where global giants sell generic, commodity services, while others utilise those services to serve more specialised needs. There is money to be made in both market tiers. Successful telecommunications service providers focus on providing cloud services for unique national or industry-specific needs that take advantage of their existing customer relationships and network assets and that exploit the ever-cheaper IT services that the global giants provide.

Figure 4: Emerging cloud services channel structure and money flows



Source: Ovum

The SME retail payments flow back through the channel structure via the various intermediaries to the ultimate wholesale cloud provider. Within this channel structure are a range of revenue models for telecommunications operators and cloud aggregators:

- **Referral:** The telecommunications service provider receives a commission for referring a customer to a cloud service provider. For example, Salesforce.com's partner program offers a one-time payout of a percentage of the annual contract value for referrals. The payout varies by geography, ranging between 10% (mature markets), 20% (developing markets) and 30% (emerging markets).
- **Simple resale (white-labelling):** The telecommunications service provider on-sells the cloud service provider's product, billing the enterprise customer, paying the cloud service provider a fee and keeping a margin. This is typical of many relationships between telecommunications service providers and Microsoft for 365.
- **Exclusivity:** The service provider negotiates to be the exclusive sales channel for a cloud service, usually for a limited period of time. For example, O2 UK signed a six-month deal with SaaS vendor True Context for exclusive resale of ProntoForms. This is a SaaS application enabling simple form creation and data entry on a smartphone, including the ability to capture signatures, voice notes, photographs and bar-code readings.
- **Revenue share:** The service provider receives a percentage of annual contract value for a cloud service, potentially capped by value or number of years. Microsoft 365 is sometimes monetised this way.
- **Freemium:** The service provider offers a basic cloud service free to customers, absorbing all costs, including partner payouts. It also offers paid-for options with better functionality. So far, we have seen this approach mainly from OTT cloud providers like ManageEngine, which offered the standard edition of its ServiceDesk Plus solution free to all new and existing customers in March 2014, with an option to pay for professional and enterprise versions.
- **Aggregation:** The service provider creates a marketplace where SMEs come to buy a range of cloud services from the operator and its technology partners. Operators may build and administer the hypermarket directly, or use a specialist partner to manage third-party relationships operationally or commercially. For example, Eircom, KPN, and Telus use cloud-services aggregator Jamcracker. This approach works best when a service provider already has a base of customers committed to an initial cloud product and want to up- and cross-sell further cloud services.

Telecommunications service providers mix these models, or may choose to adopt a pure resale approach to cloud services. The most successful operators assert a role in cloud services for SMEs that extends beyond simple resale of a cloud service.

Telecommunications service provider differentiation

With control of network assets comes the ability to secure and guarantee cloud service experience, whatever the location. This ability to manage performance and security is indispensable in an environment where cloud and telecommunications services are being aggregated across a number of suppliers. This is the telecommunications service providers' first point of differentiation.

SMEs have many of the same needs as large businesses in terms of business computing, but generally do not have the time or the expertise to keep up with advances in technology. Many do not have a specialist IT function in-house, and when they do it is more likely to be focused on keeping IT equipment running than deploying business software. Many SMEs lack qualified business advisors for technology purchasing decisions, and rely on a variety of informal arrangements. The lack of appropriate technology can have serious consequences for SMEs, including a lack of computer security and backup of business data.

This requires telecommunications service providers to develop skills and technology capabilities in several areas:

- **Managed connectivity products:** cloud service performance depends on the latency, capacity and reliability of the underlying telecommunications connectivity. The technical ability to design and manage connectivity, including NBN connectivity in different service classes, requires in-house soft switching technology or a strong relationship with a telecommunications subwholesaler who can provide this functionality.
- **Managed security services:** productised services to strengthen security, manage incidents, and improve capabilities. This includes firewalls, virtualised and secured cloud and app security systems that cross supplier silos. This in turn requires supporting intelligence and analytics: security data analytics, security operations centres, and incident reporting.
- **Professional services:** productised risk assessment, and design of network performance and security solutions.

The second point of differentiation is the pre-existing product relationship that telecommunications providers have with a large number of SMEs. These advantages make telecommunications providers an attractive partner and channel for IT companies looking to deploy cloud services the SME market, provided that telecommunications providers can build an SME cloud portfolio that turns those product relationships into more sophisticated solutions relationships.

To develop their SME cloud portfolio, operators need to consider two perspectives:

- **Support for general business processes:** These are services common to nearly all business types. General examples include unified communications and collaboration

(UC&C), security, data storage and backup, point of sale, invoicing and billing, sales force automation, inventory management, customer care and marketing.

- **Support for industry-specific processes:** These services may be unique to a specific vertical industry. Examples include records management services specialised for the health sector, and B2C online purchase services in the retail sector. These services may overlap with general business processes, but require adaption due to vertical-specific business processes, physical location, infrastructure availability or regulatory requirements.

In the course of compiling this report, themes emerged that are setting some telecommunications service providers' cloud portfolios apart from the pack:

- **Simplicity:** Keep cloud offers simple. This means picking battles in terms of which cloud services to offer, but also ensuring these services are presented in straightforward terms. SMEs do not often have significant internal IT resources, and business managers will be making many ICT decisions. Offers should speak to their concerns and needs rather than technology, and be easily comprehensible.
- **Localisation:** Ensure that cloud-based tools for SME business processes support local market needs. For example, Koc.net is partnering with SaaS vendor Surado Solutions to sell a Turkish-language version of its CRM package to Turkish-speaking SMEs in Turkey and beyond.
- **Democratisation:** Ensure that cloud-based tools extend enterprise-class capabilities cheaply into SMEs. For example, Telecom Italia's Fast-Start per SAP Business All-in-One service includes an online configuration where SMEs select and pay only for required processes.
- **Specialisation:** Identify large sub-segments within the SME universe where they can provide a unique solution. For example, NTT Data's Recec service for the Japan Dental Association is a SaaS service for dentists which manages their medical insurance reimbursement claims, bundled with a secure VPN connection.
- **Mobility:** Develop services where mobility is used to positively boost an SME's business efficiency. For example, Vodafone Germany's Vodafone Locate service helps SMEs working in logistics to track their drivers without the need to invest in either specialist hardware or software.

Both of these differentiators (security and relationships) have an underlying theme of trust. Operators want to offer SMEs a convenient, one-stop shop. For the most part, operators are positioning to sell high-volume, low-margin cloud services which address the most common business needs.

This has led to the concept of a SaaS marketplace, which brings together a variety of business applications that have been pre-selected (at least to an extent) for their suitability for the SME user. Other features, such as single sign-on, billing, and first-line support, are common across all

applications and add to the appeal to SMEs. Increasingly, these marketplaces are being verticalised, with different offers for SMEs in different verticals. A typical example of this approach is Orange's Le Cloud marketplace, which targets business processes for small office/home office's(SOHOs) and SMEs in the tourism, professional services, health, retail and hospitality industries. However, we observe that this works best when a provider already has a base of committed cloud-using enterprises.

The convenience of a one-stop shop is valuable, but it can be replicated. Pricing can be undercut. However, trust is an asset that is hard to buy - and a message that telecommunications service providers shouldn't underplay.

This trust is the basis for the more sophisticated solutions sale that upgrades the relationship. Tactically, it makes sense to support SMEs' most common business processes. Strategically, it is important to sell cloud services with broadband to secure operators' core revenue streams. But telecommunications service providers also need to focus on transformational possibilities, and help SMEs to find new ways to do business using the cloud, not just cheaper ways. This requires a trusted working relationship in which solutions are co-developed and amortised across verticals.

Although the concept is sound, telecommunications service providers that have launched such offers have found that effort is required to attract SMEs, and that early success is by no means assured. This is often due to SMEs' lack of awareness of cloud services' potential to help their business grow and perform efficiently. This lack of awareness is likely to be the biggest constraint on growth in this market. Ovum's survey work (quoted earlier) also shows that start-up and fast-growing SMEs are much more likely to already be using cloud computing, or be prepared to consider it. In contrast, declining SMEs rarely bothered to pursue cloud services.

Successful operators are therefore marketing their competence to reduce SMEs' business risk and to increase profitability. This extends to the management of physical assets, such as smartphones, and of virtual assets, such as customer lists, but also - more broadly - to business strategy. For example, Orange's Le Cloud Pro is a dedicated portal for SOHOs and very small enterprises which sells cloud services, but also integrates curated news, and technology and business advice.

Successful marketing strategies for cloud to SMEs:

- **Promote trust over cost:** Operators should adjust cost-focused marketing messages. Cost is a hygiene factor for SMEs in ICT purchasing decisions; while it will get you on the shortlist, trust is a differentiator.
- **Verticalise the SME universe:** Operators should identify and market to significant sub-segments within SME verticals. Analysis of national demographics can identify vertical sub-segments where discrete targeting is justified.
- **Don't downplay broadband:** Operators should promote services that offer fundamentally new ways for SMEs to do business using assets controlled by telecommunications service providers. Such services should be highly dependent on broadband in order to function.

But SME acquisition and retention costs aren't changing overnight. Technology partners also want a share of revenue. Ultimate success requires both heightened responsiveness to customer needs and a lower cost to serve SME customers. Amongst other things, this requires internal transformation as well as commercial sophistication: telecommunications service providers must practice what they preach. Network virtualisation of their own assets and automated support for SMEs are therefore rising on the telecommunications investment agenda.

CLOUD SERVICE CASE STUDIES

The following case studies are offered as real world examples of telecommunications service providers who have innovated and successfully launched cloud services to address the SME market. They are designed to provide an “early warning” of industry developments and food for thought for new products and services that may be launched in the Australian market.

Case study: Proximus' Becloud e-commerce service

Belgacom Group, a state owned incumbent, is the leading provider of telecommunications services in Belgium. In September 2014, the Belgacom Group consolidated its consumer and SME activities under the Proximus brand. ICT services to the corporate market are offered under the Telindus brand.

Proximus houses all activities related to the cloud in its 'BeCloud' department. This department is in charge of the complete cloud-solutions portfolio from ordering to billing. Becloud offers a range of managed services, like hosting, housing and backup, web hosting, collaboration and application hosting. Becloud was awarded as the “Best Cloud Vendor” in Belgium in 2014 Channel Awards (regarded as the 'Oscars' for the distribution of ICT products in Belgium).

In March 2013, Proximus launched "Becloud e-Commerce", a new cloud product developed for SME and self-employed customers who want to sell products or services online but do not have the specific IT skills or a large budget. This product was targeted at the retail vertical. It was designed to address what Proximus considered an underserved market, namely the small to medium-sized retailers who wanted their own online sales presence without having to invest in a new set of internal assets and skill sets. This is similar to the challenge in Australia, where 95% of SMEs are online and 82% buy online, but only 57% of SMEs take orders online⁴.

According to Proximus' own market research, conducted in 2013 89% of the Belgians want to buy online and the average online spend was €163/month. This indicates that there is a large e-

⁴ Sensis, “Sensis e-Business Report 2014: The Online Experience of Small and Medium Enterprises”, 2014. p. 25. Downloaded at http://www.yellowadvertising.com.au/content/dam/sensis/yas/Knowledge/Insights/SensiseBusinessReport2014/Sensis_e-Business_Report_2014.pdf.

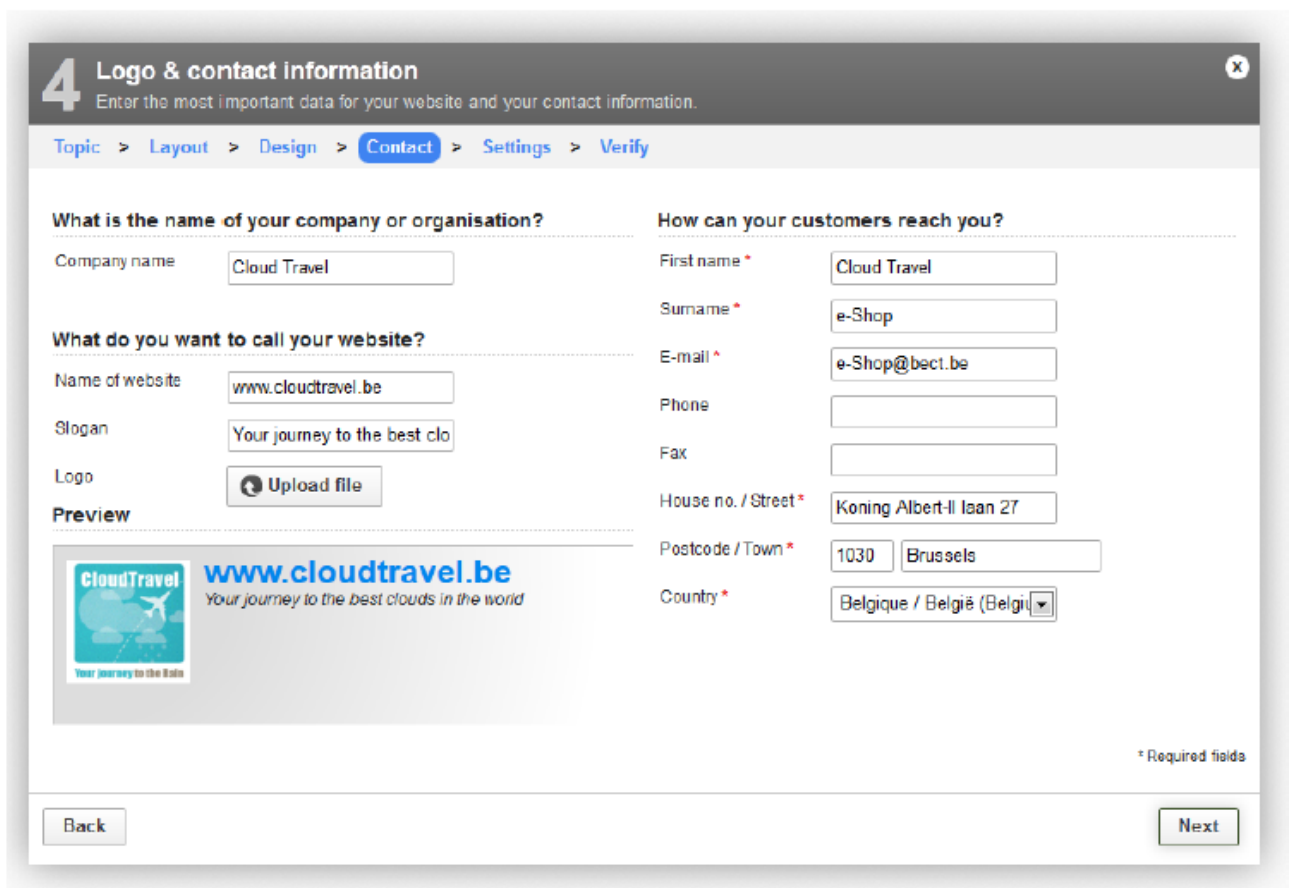
Commerce market in Belgium. However, 30% of Belgians consider a lack of convenient payment methods as an obstacle while buying online; this was the single largest demand-side obstacle.

The interest in this case study is how Proximus has developed a product targeted at a particular vertical, specifically retail.

Service description and technology

Using Proximus e-Commerce service, customers can create a full e-commerce website through a web-based interface⁵. What the customer actually gets is an online administrative console for managing the customer's e-commerce site that can be driven from any browser. A screenshot of the console is in Figure 5.

Figure 5: Proximus e-Commerce administration console



Source: Proximus

⁵ Proximus' website for the service and the associated marketing and technical documents can be found at <http://www.proximuscloudpro.be/en/becloud/Solutions-and-services/App-online/Becloud-e-commerce.html> .

Some of the basic features of the console are:

- Adjustment of color and design of the sales platform.
- Management and administration of orders, customers, products and calendar-based reservations.
- Management of web pages and product categories.
- Configuration of general settings, users, deliveries & payments, e-mail settings, tax settings, specific product settings, and the reservation module.

The customer can personalise their website and make it more visible using newsletters, promotion tools, and links to social media. Customers can also bundle products at a discount and cross-sell them. Customers can even offer rebates or distribute coupons to market certain goods or e-commerce websites. Search engine optimization is built in.

The e-Reservation option of the service also allows SME customers to book appointments online with predefined booking schedules; these features are directed at businesses such as restaurants and equipment rental firms.

Proximus e-commerce offers wide range of specifications – it can support multiple languages, different currencies and country-specific settings for shipping and payments; these features are designed to support international sales. Integration with other e-commerce sites such as eBay and Amazon is supported. The service also optimises shops for mobile devices.

The service is mainly marketed through Proximus' website, which provides detailed manuals and video lessons on how to use the service. Take-up is encouraged by offering the service free for 30 days on a no-obligation basis.

The Becloud e-commerce products contain a payment module option which allows Internet customers to pay for their purchases online via a wide choice of payment methods, including credit card, Bancontact, and Paypal. Proximus partnered with Docdata (which takes care of the online payments), a leading European provider of transaction-oriented Internet services. The payment module offers SSL encryption and certification from Trusted Shop, a European trustmark for online shops with a money-back guarantee for consumers.

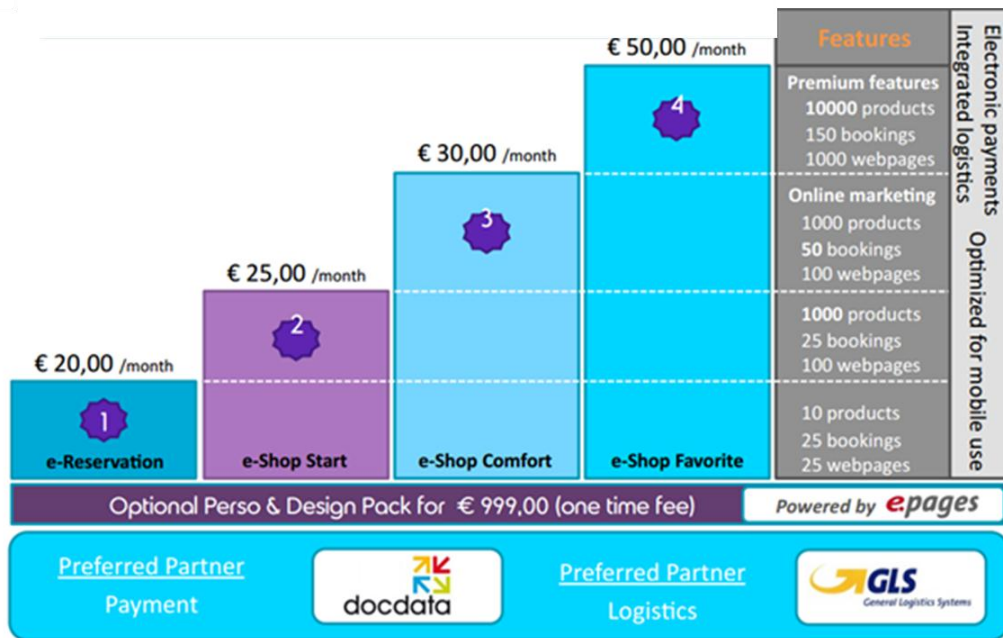
The physical parcel module makes it possible for the purchases to also be delivered. Proximus has struck a partnership with GLS, one of the leading parcel service providers in Belgium. GLS with its own national companies and partners covers 37 European countries and is connected to all the major business centres of the world. The service offered is therefore end-to-end e-commerce, providing everything right up to the delivery of the goods.

Finally, all options of the service provide transactional analytics that allow customers to measure historic sales trends. This feature is important because it increases the stickiness of the service by providing management data which is most effective based on long-term usage of the service.

Service pricing and monetisation

The range of e-commerce products enables the SMEs or self-employed customers to create fully-fledged online shops. Becloud e-Commerce is available from €20 per month. It is available to any SME; Belgacom does not restrict the service to its own broadband customers.

Figure 6: BeCloud e-Commerce offers and price structure



Source: Belgacom

Becloud e-Reservation is the entry level offer, and is aimed at companies that work with appointments or offer products or services that can be scheduled. e-Reservation has been designed for customers requiring appointments and reservation functionality.

Becloud e-Shop options are intended for companies that want to sell their products online and have them delivered to customers. e-Shop Start enables customers to develop quick and easy online shop. e-Shopcomfort provides more functions, more flexibility and more usability whereas e-ShopFavorite offers an extended and customisable e-Shop.

Becloud e-commerce has moderate mass market significance as this is an effort by Proximus to position itself appropriately to tap into SME opportunities in its market. Such service has the potential to attract new customers from the SME market segment, improve customer loyalty and increase ARPU. Differentiators for the Becloud e-commerce service include:

- An array of secured electronic payment options (including credit card, Bancontact, and Paypal).
- Integrated delivery option throughout the region.
- Ability to build online shop with multiple languages.
- Optimised for use on smartphone or tablet.
- Tools to increase presence on web search results and social media such as Facebook and Twitter.
- 30 day free trial without commitment.

Proximus has not yet published subscription figures for the e-Commerce service, which was launched in March 2013. However, Becloud was awarded as the “Best Cloud Vendor” in Belgium in 2014 Channel Awards (regarded as the 'Oscars' for the distribution of ICT products in Belgium).

Case study: Portugal Telecom Cloud for SMEs

Portugal Telecom is the incumbent fixed line operator in Portugal. It also has significant operations in Brazil and several other international markets.

In June 2011, Portugal Telecom (PT) and Microsoft launched a partnership to provide cloud based productivity, collaboration and communication solutions especially for SMEs. Portuguese SMEs were among the first countries in the world to have such access⁶.

This enabled SMEs to use the Internet to access productivity tools, communication and collaboration services hosted at PT data centres. It allows SMEs to have the same applications and solutions as large organisations, with the same guaranteed reliability and security. The deal is not exclusive; Microsoft has also partnered with other telecommunications service providers to make its suites of productivity applications available to service provider companies. Initially a syndication partner with Microsoft, Portugal Telecom has run Microsoft Cloud OS on its own servers since 2013 and serves directly to its own customers.

Unlike the Proximus e-Commerce product which is targeted at retail, Microsoft Office 365 is relatively generic product. The service was tailored to meet the needs of the SME segment, specifically simplicity.

⁶ Further details of Portugal Telecom's cloud offer for SMEs can be found at <https://cloud.ptempresas.pt/Pages/Content/Default.aspx?key=sme&language=en-US>.

One of the main areas of interest in this case study is that it is based on a strategic partnership between a telecommunications service provider and an IT company, and that the telecommunications service provider has taken steps to differentiate itself by adding value to the product. In addition, Portugal Telecom is gradually upgrading its own cloud infrastructure; beginning as a syndication partner for Microsoft, it has subsequently moved 365 onto its own cloud infrastructure, using resale as a stepping stone to a more sophisticated strategy.

Service description and technology

PT launched the cloud-based software Microsoft Office 365, a subscription-based online office suite, offering access to various services and software built around the Microsoft Office platform. Microsoft Office 365 gives businesses cloud access to the latest Microsoft productivity tools including email and calendar, collaboration tools, instant messaging and online meetings.

Portugal Telecom has added value to the package by including:

- A single contact person for support.
- Personalised 24x7 technical assistance.
- An administration console to install new Office versions without having to remove previous versions.

Later in 2012, Microsoft and Portugal Telecom enhanced their cooperation to launch a digital SME initiative: a suite of services that includes fixed voice and internet solutions, including fibre and 4G access and enables the creation and management of SME websites and associated e-commerce stores for selling products and services on the internet, along with Microsoft Office 365.

Portugal Telecom also offers as standalone packages:

- Security services including email scanning and Clean Pipes (a security service that includes firewall and bandwidth management, protects against DDoS attacks and spam, and provides URL filtering).
- Cloud-based collaboration tools such as video and web conferencing,
- Management applications for different business areas in SMEs, such as customer relationship management, sales, supplier management, and stock management and financial applications.
- Vertical-specific applications have begun to emerge. Medigraf Cloud is a cloud-based tool that supports real time medical consultations via video conference, and is targeted at medical professionals.

These services are only available to Portugal Telecom telecommunications subscribers, but bundle discounts are not a significant feature of its SME marketing. Portugal Telecom principally relies on the quality of its network and its customer relations management to maintain customer loyalty in the SME market.

Service pricing and monetisation

The Microsoft Office 365 offer allows SMEs to pay based on number of users rather than for the product or application. The monthly fee per user depends on the chosen package of services starting at EUR4.6 per user. Plans can be tailored and customised according to SMEs business areas as every business has specific objectives and needs.

Plans for SMEs include:

- **Plans for small businesses:** This plan has been designed for independent professionals and companies with less than 25 employees. The plan includes professional email with contacts and calendar synchronisation, instant messaging and online meetings, public website, private sites, Office Web Apps and Office applications (in the Premium version).
- **Plans for medium-sized businesses:** This plan is for companies with less than 250 employees. In addition to Office applications, it includes advanced administration and configuration features, synchronisation with Active Directory, and other service features of Exchange Online and SharePoint Online.

Starting from 2012, Microsoft allowed its partners under its Office 365 Open Program to bill their customers directly for Office 365, and bundle into a single invoice any other services they were selling alongside. In addition, Microsoft allowed partners to earn up to 23% margin in the first year of Office 365 sales.

The other Portugal Telecom services above attract a monthly subscription charge. As noted, bundling plays a limited role in Portugal Telecom's SME marketing. Upsell from telecommunications services to cloud services is driven by its customer support systems and the quality of its network.

Portugal Telecom has not released take-up figures for Microsoft Office 365 and related services. However, Portugal Telecom's cloud solutions offer was awarded as Best Cloud Service Product at EuroCloud Europe Awards 2013, which evaluates cloud services according to marketplace acceptance and compliance with security and privacy best practices. In addition, Portugal Telecom announced in its 3Q14 results that its non-traditional enterprise product revenue, which is dominated by cloud, grew 133% in the quarter.

Case study: Colt Smart Office

Colt is a non-incumbent European operator with networks in several European countries. It offers a wide variety of services, principally focused on the enterprise and government markets, operating a 21-country, 35,000km network that includes metropolitan area networks in 39 major European cities with direct fibre connections into 18,000 buildings and 19 Colt data centres.

Colt launched an SME-focused service suite called Smart Office in 2010, designed for businesses with up to 250 employees. It has continued to develop the service suite over time, which now consists of network, compute and communications services that can be sold individually or as a solution⁷. All of these are available alongside Colt's traditional offers around voice and data services. Managed services and security are important differentiators for Colt, and are used to encourage SMEs to make Colt their one-stop shop for both connectivity and cloud services.

In 2012, Colt also repackaged its SME-focused Smart Office portfolio to allow a select group of franchise partners to on-sell the portfolio. These partners are not simply resellers, they are IT integration companies that specialise in the SME segment and have complementary strengths to Colt's networks and services. Some of them specialise in particular industries, adding a vertical flavour to Colt's relatively generic cloud offers. The partners will therefore add their own value to Colt's enterprise services.

Colt continues to sell direct to the SME segment but has developed this indirect channel to diversify the offer to SMEs and take advantage of the strong relationships that integrators have developed in the SME segment.

Service description and technology

Colt has an extensive cloud service offer for SMEs and divides this offer into three main areas: Infrastructure, Platform, and Workloads.

Infrastructure encompasses IaaS services such as full cloud and hybrid compute and storage. It also includes co-location and IP WAN services.

Platform involves generic capabilities that support cloud operation. These include:

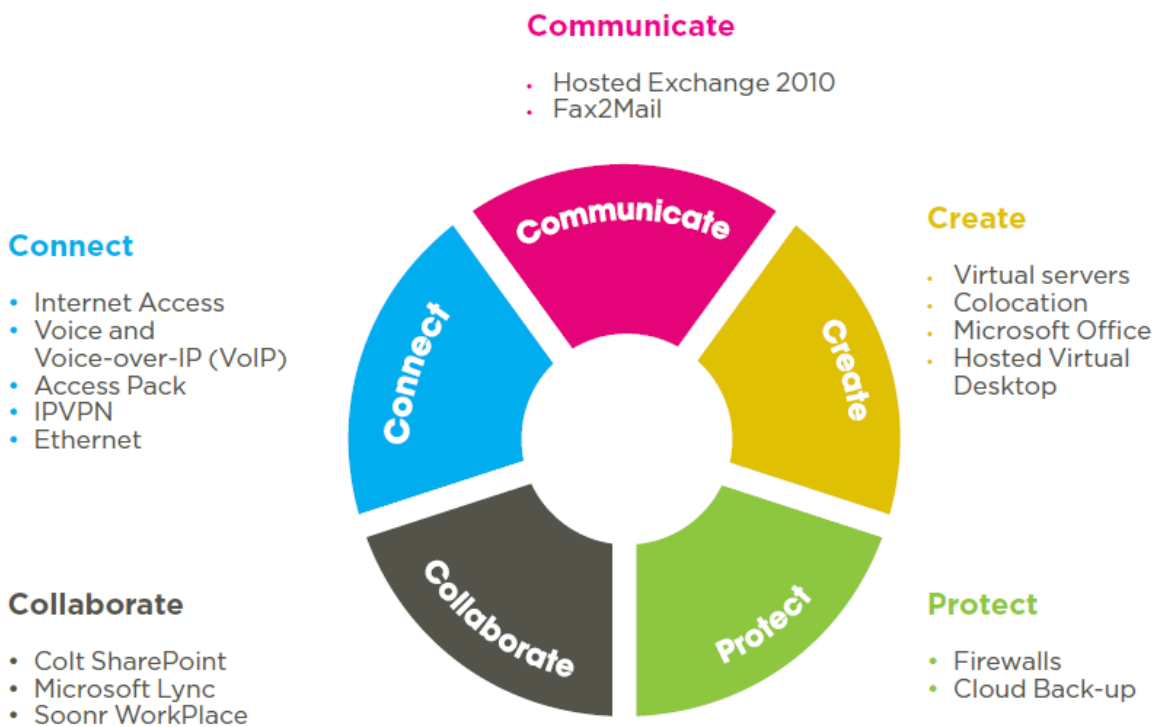
- **Managed platform:** an outsourced IT environment. Colt's IT platform can process data and manage operating systems and devices. Managed web servers and middleware support both Windows and Linux based applications.
- **Data protection:** Data retrieval and backup services that protect, retain and retrieve data and applications, including critical and confidential business data.
- **Managed security:** Colt's range of security services, including managed firewall and intrusion prevention, Distributed Denial of Service (DDoS) protection, email security and email archiving services, and endpoint protection services to support BYOD. Colt also offers secure authentication services, including an active directory service that can synchronise access, security and account information across users, networks and platforms where required. Some of these services are more appropriate for medium-sized than small enterprises.

⁷ Further details of Colt's SME offer can be found at <http://www.colt.net/uk/en/sme/index.htm>.

Finally Workloads encompasses Colt's SaaS offer. These offers include:

- Workspace as a service: hosted desktop and applications support to deliver secure access to business network, data and applications from multiple terminals and BYODs.
- Communication and collaboration: this includes the Microsoft Hosted Exchange, Lync and SharePoint suite for real-time communication, presence information, file sharing and collaboration. Colt also offers the Soonr Workplace collaboration solution to support mobile, remote and third party collaboration⁸.
- SAP cloud services: SAP application landscapes can be migrated to a cloud platform to increase performance while maintaining security on a pay-as-you-go model.

Figure 7: Colt's complete SME service portfolio



Source: Colt

⁸ For more details about the Soonr Workplace, see <http://www.soonr.com/>.

These services are available on a modular basis, and can be integrated with on-premise hardware and software. Colt can therefore support either all-cloud or hybrid approaches, depending on the preferences of the SME customer.

It is interesting that unlike the other case studies, Colt does not place exclusive emphasis on Microsoft 365 in its marketing, though it supports and delivers this service. Colt maintains a mixed infrastructure platform, and is able to support Microsoft, Cisco and Avaya implementations. This maximises flexibility, but also adds expense and would not make sense for a smaller service provider.

As noted above, Colt markets these services through both direct and indirect channels. Colt's indirect channel structure currently has 14 franchisees in seven European countries.

Colt has deployed a user interface that automates access to its portfolio of channel-ready services for franchisees and other channel partners. Colt also works with its franchise partners to deliver training, resources and support around new products and market trends. This includes marketing and brand support, as well as web design guidance.

A key advantage of the indirect model is that Colt gets to reach SMEs that it would normally not reach or find expensive to serve. Its franchisees are selected for their proven expertise in supporting SMEs and their ability to deliver a "high-touch" solution in a cost-effective way. This both spares Colt the cost of managing the SME customer and improves customer experience.

Colt has its own vertical strategy, but its franchisees reinforce this in some cases. For example, franchisee Insight has vertical strategies in the health and education sectors.

Service pricing and monetisation

No other carrier in Europe has launched a specifically focused partner program like Colt's, although a growing number of carriers make their enterprise services available on a wholesale basis. Colt requires that franchisees sign exclusivity agreements, but Colt specifically designed the program to provide individual franchisees the full range of the Smart Office portfolio in their region in order to maximise their commercial opportunities from the deal.

Colt does not publish standard prices for its SME customers (or wholesale prices for its reseller channel as these are determined in commercial negotiations). However, it generally follows a modular approach to pricing, and charges for each service on a per-seat basis. In the indirect channel, it only states that its franchisees pay on a "pay-as-you-go" basis, suggesting that a similar pricing model applies there.

Colt appears to be attracting significant additional customers and revenue through this new indirect channel. Though Colt does not publish revenues from its wholesale channel, the franchisees deliver Colt services to over 3,000 customers.

CONCLUSION

The development of cloud services is undoubtedly at an early stage, but there is potential for growth in the SME market. Australia's 800,000 SMEs are a significant market, and an untapped one compared to the large enterprise market where cloud services are becoming common.

New opportunities are opening up for telecommunications service providers to address this market. The rapid fall in prices for cloud services is bringing cloud within the reach of even small enterprises. At the same time, SMEs need support with network security and an assurance of reliability. Telecommunications service providers can position themselves within the cloud ecosystem as trusted partners to SMEs and as a channel to market for larger cloud players. The business models needed to achieve this positioning are not fully developed, but are taking form.

The major challenge for telecommunications service providers is to find ways to support SMEs and so to differentiate themselves, but in a cost effective way. Simplification of offers, productisation of security and reliable cloud connectivity, and automation of support processes will all play a role.

A key point is that SMEs will be successfully served by an ecosystem of players, not any single monopoly. Once this is clear, the scale and power of major players like AWS or Microsoft is less threatening. As the case studies show, this scale and power is of little use without a channel to market. While these companies will indeed be potent competitors in the large enterprise market, SMEs need support that global giants cannot provide in order to capture the productivity and innovation benefits of cloud services. Telecommunications service providers are a logical partner both for SMEs and for the giants, and therefore have a place in the cloud ecosystem.