

The growing use of hybrid cloud environments is a key driver of SMB infrastructure spending

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Overall spending on IT by small (<100 employees) and medium-sized (100–999 employees) businesses (SMBs) worldwide will reach USD1.4 trillion in 2024. Spending on infrastructure will account for approximately 20% of this total. Spending on cloud solutions will outpace that on on-premises options, but SMBs will continue to rely on on-premises hardware due to the greater perceived security and control over data. SMBs are increasingly attracted to hybrid cloud (a mix of public cloud and private cloud, which often includes legacy infrastructure), which combines the best of both worlds: it offers the security of private cloud and the versatility of public cloud. SMBs will require additional support as the hybrid IT environment becomes more complex, thereby creating opportunities for managed service providers (MSPs). Vendors and partners should offer economical packaged services and products to SMBs.

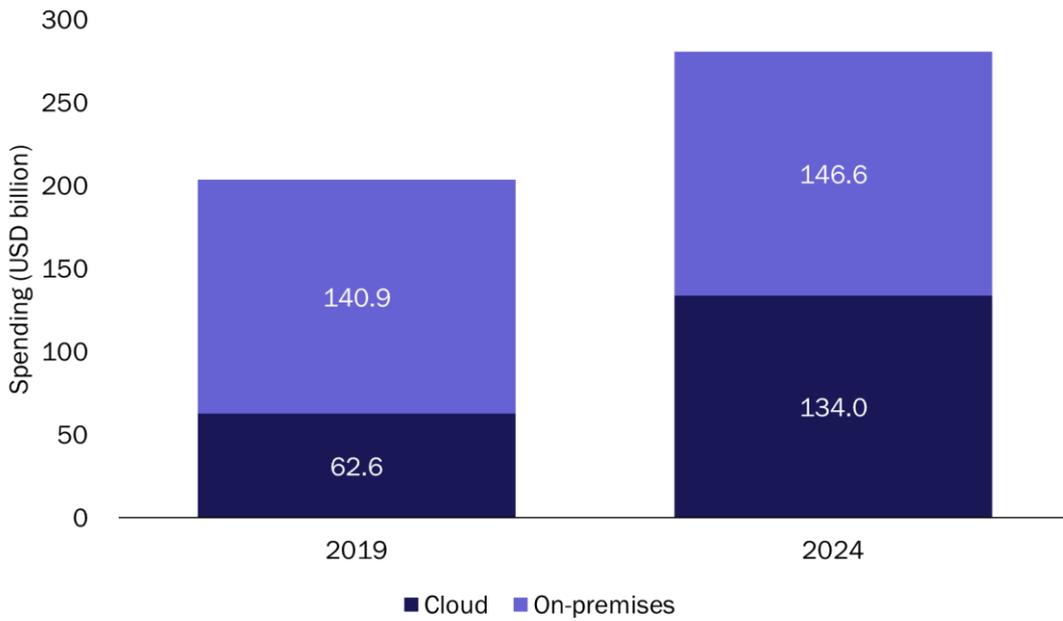
SMBs' cloud infrastructure spending is expected to grow significantly, but on-premises infrastructure is not going away

[Analysys Mason's SMB Technology Forecaster](#) predicts that SMBs' overall spending on infrastructure will grow at a CAGR of 6.6% during 2019–2024, and will exceed USD280 billion by 2024. The majority of this growth will come from increased spending on cloud infrastructure. However, 52% of infrastructure revenue will still come from on-premises infrastructure by 2024,¹ and only 48% will come from cloud infrastructure (Figure 1).²

¹ On-premises infrastructure includes LAN switches, routers (wired), wireless LAN, WAN, networking software, point-to-point VPN, databases (on-premises), middleware, operating systems, point of sales (hardware), servers, FC SAN, IP SAN, NAS, PC-attached storage, SAN switches, server-attached storage, back-up and recovery (on-premises), other storage software, replication software and storage resource management software.

² Cloud infrastructure includes IaaS storage online back-up, IaaS storage simple development, recovery-as-a-service (RaaS), cloud VPN, IP VPN, IaaS servers, IaaS server co-location, databases (cloud) and desktop-as-a-service (DaaS).

Figure 1: SMB spending on infrastructure, split by on-premises and cloud, worldwide, 2019 and 2024



Source: Analysys Mason, 2020

The COVID-19 pandemic has caused a slight decrease in SMBs’ spending on on-premises infrastructure in 2020 due to a temporary shift in investment priorities. However, we expect spending to pick up again in 2021. This finding is supported by results from our [recent survey](#) of over 400 US SMBs: 22% of small businesses and 32% of medium-sized businesses reported that their spending on servers and networking equipment in 2021 is likely to be higher than originally planned in their pre-COVID-19 budgets.

Cloud technologies have become an important part of IT strategies in the last decade. As SMBs digitise their businesses, they must decide whether to use only public cloud, only private cloud (on-premises and hosted) or hybrid cloud (public and private). Hybrid cloud is increasingly attractive to SMBs because it has the benefits of both public and private clouds.

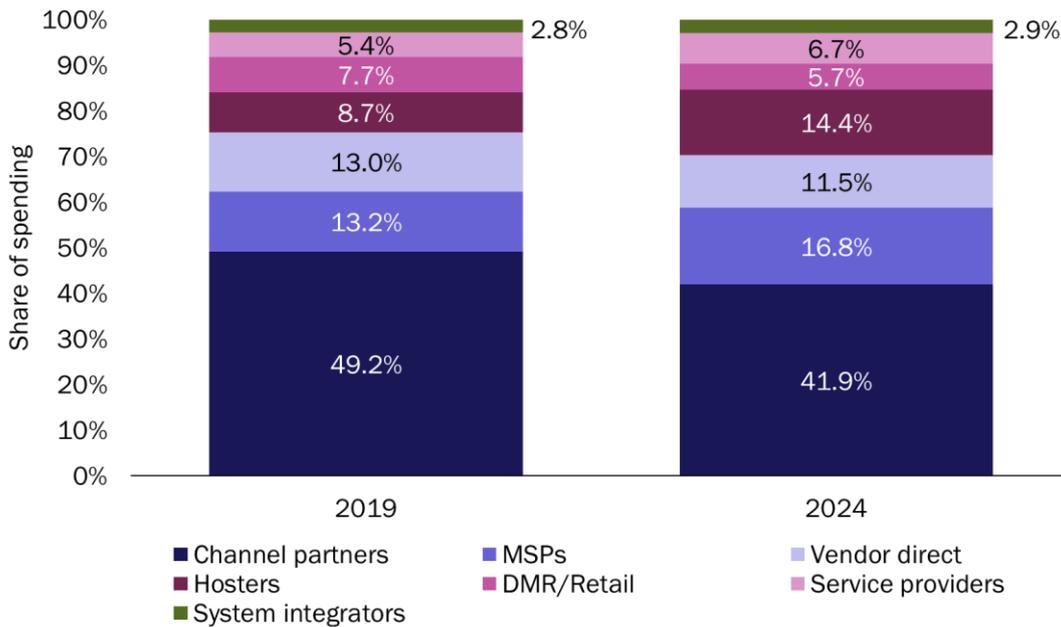
A hybrid environment offers the security of private cloud while running front-end applications such as productivity tools, project management and CRM in the public cloud. For example, SMBs can keep sensitive data such as user registry on their on-premises servers to keep it secure. Hybrid cloud environments simplify matters for SMBs in industries such as financial services and healthcare because they need to meet regulatory compliance requirements for data handling and storage. Hybrid clouds also offer the flexibility of moving workloads that can benefit from scalability to the public cloud. In recent years, major public cloud providers such as AWS, Google, IBM and Microsoft have started to work on hybrid clouds in order to support blended environments.

Examples of hybrid cloud products include VMware Cloud on AWS, AWS Outpost, Azure Stack HCI, Google Cloud’s Anthos and IBM Cloud for VMware with Red Hat OpenShift. SMBs need strong on-premises infrastructure to run a successful hybrid environment. The surge in demand for hybrid cloud will translate into sustained investment in both on-premises and cloud infrastructure during 2019–2024 while SMBs digitally transform their businesses.

SMBs favour partners and vendors with a wide range of resources and skills

Analysys Mason estimates that the SMB infrastructure market share for MSPs, hosters, service providers and system integrators will increase during 2019–2024, while that for traditional channel partners such as local value-added resellers (VARs) and independent software vendors (ISVs), direct market resellers (DMRs), retailers and vendors that sell directly will decrease. SMBs are shifting their infrastructure spending to partners who can provide managed services and support (Figure 2).

Figure 2: Share of SMB infrastructure spending, by routes to market, worldwide, 2019 and 2024



Source: Analysys Mason, 2020

Results from [our survey of 3000 SMBs](#) show that 85% of small businesses do not have any full-time, internal, dedicated IT employees; medium-sized businesses have an average of just three such employees. The lack of internal IT resources coupled with the increasing complexity of today’s IT environments (that is, a mixture of on-premises, off-premises, public cloud, private cloud, multi-cloud and hybrid cloud solutions) are driving SMBs to look for vendors and partners that have a broad range of capabilities to assist them with their infrastructure needs. SMBs cited “provides on-site technology support” as the top capability that their external technology partners must have to ensure their future success.

There is no ‘one-size-fits-all’ strategy for SMBs

SMBs are looking for vendors with managed service expertise, flexible service models and access to a team of IT professionals to help them to design, implement and maintain advanced technologies. Some providers already offer such services. For example, AWS, Microsoft Azure and Google Cloud have their own partner network of audited managed service providers, and Dell Technologies offers infrastructure managed services.

Vendors should package services and products to make them simple and affordable for both their SMB customers and the MSPs that serve SMBs. Ultimately, vendors and partners need to tailor both their cloud-based

and non-cloud-based infrastructure options to give their SMB clients the best value for money while providing the security and control that SMBs desire. COVID-19 will decrease the spending on on-premises infrastructure in the short term, and SMBs are expected to move to cloud environments (or at least hybrid cloud) in the long term. Vendors and their MSP partners will need to be positioned to support SMBs with these blended IT environments.