

SMB: Next Big Battleground for Storage Industry Growth

By Graeme Thickins
October 2002



TidalWire

The Storage Connection.SM

www.tidalwire.com

As large-enterprise IT spending barely muddles along, an interesting thing is happening in the storage industry: a sudden love affair with the huge market segment known as small to mid-sized business -- "SMB" for short. One can't help but notice the level of buzz building.

The SMB sector is generally defined as companies from 1 to 999 employees. A wide swath, you say? That would be correct: some 8 million firms worldwide, and 5.3 million in the U.S. alone (But more about confusing terms and definitions later).

Despite the big opportunity that experts agree this market segment represents for storage and storage networking vendors, the mounting hype has some observers wondering, "Where's the beef?" Meaning, what in the way of real solutions for SMBs does the industry even have, anyway?

"Many people I talk with in this space are fed up with the low level of product they have to make do with," says Mike Karp, senior analyst at Enterprise Management Associates. "These companies may be small, but their data is as valuable to them as Amazon's is to Jeff Bezos."

NEW BALL GAME

The opportunity is nothing to sniff at. According to a recent study, growth in storage spending by SMBs is predicted to outpace that of the big guys by a huge margin. The sector "will undergo phenomenal growth over the next four years, more than quadrupling to \$18.5 billion by 2006," says Access Markets International (AMI) Partners Inc. of New York.

Worldwide SMB storage spending will grow at a compound annual growth rate of 43% over this period, according to AMI, far outpacing the 5% rate in large-enterprise storage spending.

But, says AMI founder and former IDC vice president Andy Bose, "Companies that do well selling complex solutions to large enterprises often fail to relate to the unique needs of the smaller company and struggle to successfully navigate the highly fragmented SMB market."

In fact, AMI's research on IT spending patterns shows that most SMBs are generally reluctant to spend in excess of \$25,000 for any single solution. "This represents a significant challenge to the majority of today's storage vendors, as the average price of a solution seldom falls below \$100,000 and generally exceeds \$500,000," states AMI in its recent report. (See http://www.ami-partners.com/news.asp?code=PR_081302_Storage_rb .)

And though painful, lower pricing (and, one would assume, lower margins) is just one area of adjustment that established vendors must make to successfully attack this market.

How are the storage needs of SMBs different from "LBs" -- the large business market? "This comes down to a few issues that vendors need to be acutely aware of," says AMI's Ryan Brock, senior consultant. "Data volume and access needs, sophistication of the network, applications deployed, and capabilities of the IT staff -- if one even exists."

Actually, one could say that the buyer for storage systems within small to mid-sized firms isn't IT at all, at least not for most of these companies. Rather, it would seem to be more of a pure business sell. As in, skip the bits and bytes -- tell me why my business can't live without it.



One doesn't have to drill in far to find more references to what amounts to a marketing dichotomy facing the industry. Even storage leader EMC, in a white paper posted on its own web site (published by Sageza), is brought to account: "The primary suppliers for midrange storage have been the systems vendors and EMC. The focus of these suppliers has been the high end of the market, and up to now they have dedicated most of their resources to addressing the needs of enterprise customers. Vendors have offered products for the mid-market, but they have largely been point products to fill in product roadmaps rather than equipment strategically designed to meet the needs of medium enterprise and departmental customers," says the paper's author, Joyce Tompsett Becknell.

JUST WHAT IS THIS MARKET?

Definitions as clinical as "1-999 employees" don't do much for marketers. (Some state the SMB market in revenue terms, about \$1M to \$100M annually – also a huge range.) "SBs" are the 1-99 employee variety, while "MBs" are 100-999 employees. Still, all this hardly gives one a warm fuzzy feeling in terms of whom one is targeting here, when the universe is 8,000,000 firms. (AMI Partners claims to have figured out how to segment this monster, however.).

Add to the mix the term "midrange," increasingly being used by big storage vendors, who realize they have no choice in these times but to go down-market to seek revenue growth. But it would appear their use of this term means companies only in the upper end of the SMB market that can afford their big-ticket systems; this upper-end could even include some of the smaller "Fortune 1000" or "Global 2000" firms. How can that be "small" business, or even "medium" business? Rather, is it simply the "low-end enterprise" market? And what about "departments" in large enterprises -- will they be thought of as SMBs, too -- only in different clothing?

The definitions, in other words, are very much in the eye of the beholder. Meanwhile, this plethora of confusing market terms is just beginning to get thrown around. And therein lies a danger for an industry some would say must almost reinvent itself -- marketing wise if not technologically -- to address this vast, new, highly fragmented market.

Perhaps it's best to think of "SMB" as simply more of a business mindset, no matter what the size of the company -- and start preparing to sell into it, big time.

ALIGNING PRICING TO BUDGETS

So, what then will SMBs pay for the improved storage solutions they increasingly say they need? "This particular question is best answered with actual end-user reported data, which we gather on a continuing basis," says AMI Partners consultant Brock.

"The quick answer is that it depends on which SMB segment we're talking about. What we call our 'Tier 1 MBs', which typically are much further along the IT adoption curve and generally treat IT as a strategic asset, have much higher annual budgets for IT solutions, averaging close to \$140,000 and sometimes exceeding \$500,000 or more," Brock says. "So, for these high-end medium sized businesses, a storage price-point of \$100,000 may not be unreasonable."



"However," he notes, "if we're targeting the 'Tier 1 SBs', their entire IT budget averages only around \$30,000. So, even though these businesses are the furthest along the SB IT adoption curve and represent the best opportunity in the SB market for storage vendors, a \$100,000 or even \$50,000 storage solution will generally not be within their reach."

"But, this being said," AMI's Brock points out, "we then can draw the conclusion that practically all of the current SAN and most NAS solutions are priced beyond the reach of even the top-tier SBs." Take that, storage industry!

DIFFERENT PRODUCTS, DIFFERENT DISTRIBUTION

One aspect of this market shift that no one will deny: it calls for a different go-to-market strategy. Resellers maintain firm control here.

In a "Channels Study" just published by Enterprise Management Associates, "SMB" was the stated market focus of 78% of the resellers responding, the highest ranking of all choices (followed by 62% that said "Verticals"). And most of these resellers are small businesses themselves, averaging between 25 and 50 employees.

Another big example of distribution changes coming is the recent announcement of the first co-branded "midrange" storage system from EMC and Dell, two lone wolves who announced in 2001 that they were pairing up. Now a year later, the CLARiiON CX600 is the first product of that partnership.

Interestingly, Dell was quoted as saying the deal helps them "move up into the enterprise space and target some markets they haven't targeted before." Up? Enterprise? EMC's wants to head down-market! I told you this was confusing.

Then again, perhaps it's the stuff of a perfect marriage.

Dell gives EMC a new distribution channel, direct to the small and medium-business and government markets. EMC has agreed not to pursue such customers except through Dell.

"EMC most assuredly does not understand the SMB business," says Enterprise Management Associates' Mike Karp. "But they do get a positive nod for buddying up with someone who does."

With the CX600 starting at \$115,000, according to an EMC PR spokesman, or a published price-point of \$98,000 for Dell's version, can significant numbers of SMB customers bite off that much? Stay tuned.

Meanwhile, lower priced systems from the happy couple are said to be on the way, according to a recent CNet report: "Sources expect Dell will manufacture EMC's CLARiiON CX400 and CX200 products soon, and will also sell them under its Dell-EMC brand. Dell declined to comment."

At press time, EMC told me they've booked CX600 sales already. "We're happy with its progress in the early going," says company spokesman Justin Bartinoski. "Customers include educational institutions, small banks, retail companies, and healthcare providers. The CX600 is an ideal storage solution for data center installations in small to medium-sized businesses, as well as



government and educational entities. We also have Fortune 500s deploying CX600 systems in departmental situations."

THE RESELLER VIEW

VAR Business magazine recently reported a positive outlook for the SMB market. In its annual study, surveying 400 small to midsize end-user firms, it said, "The good news is that, despite changes in the broader economy, half of the SMBs polled say they will not change their technology-spending intentions during the next 12 months. And 39 percent actually expect to increase their IT investments, by 30 percent on average."

How important is IT to this market? VAR Business goes on to say that 56 percent of these end-user respondents are increasingly relying on technology as a way to differentiate their businesses. What's more, a vast majority of SMBs (82 percent) currently view technology as a productivity booster, the study shows, and more than two-thirds (68 percent) agree their company's future "completely" relies on it.

SO, DO THE VENDORS GET IT?

I sought out three different perspectives on which storage vendors seem to be making good moves to address the SMB market opportunity. Two are from analysts, and the third is from a marketing manager at a Midwest-based reseller/integrator.

First, from Enterprise Management Associates' senior analyst Mike Karp: "The lower priced EMC CLARiIONS, built with manufacturing partner Dell, will offer a real opportunity for EMC to push down into the SMB market. This segment is served vigorously by the reseller community, and if the EMC-Dell manufacturing relationship causes the kind of operational efficiencies that the companies hope for, CLARiION machines will offer a compelling story for many of the resellers servicing this segment." What about the seemingly high initial price point? "Those cheaper boxes coming out at the end of the year will probably suit (smaller SMBs) quite nicely."

"Virtually none of the storage vendors has network storage solutions that are 'out of the box' relevant to SBs," says AMI Partners' senior consultant Ryan Brock. "However, a few have introduced solutions that could play in the MB space if positioned properly at the relevant segments. One example would be Cisco, with its recent acquisition of Andiamo Systems and its launch of SAN solutions supporting iSCSI and fibre channel over IP solutions. This is a company with SMB experience and solutions starting at \$30,000, which is an attractive price point for this market."

Brock continues: "EMC/Dell can address the needs of certain MB segments. Look for more SMB-relevant solutions around iSCSI/IP in the near future."

"HPQ's StorageWorks NAS solutions can also be targeted at specific segments of the mid-market," Brock says, "with prices ranging from about \$40k to \$100k. And here's a company with a dedicated SMB marketing team and sales force."



But Brock says the real issue is efficient targeting, since the SMB market is huge and fragmented, "and only a fraction (of these 8 million firms) are reasonable targets" for these advanced storage solutions. "Many of these vendors have solutions that can be relevant to the SMB space," says AMI's Brock. "The key is can they hit on the right segments of these markets."

"EMC has made its fortune selling data uptime at insane margins," says Paul Mayer, a marketing manager at reseller/integrator Datalink in Minneapolis. "They have not been a channel-friendly company. Now, they're shooting for midrange, low-margin, high-volume deals... It should be interesting."

From his reseller perspective, Mayer notes that "some of the software guys basically repackage their enterprise products to fit the SMB market, selling products through distribution to reach a class of reseller that they cannot deal with effectively in direct relationships, due to low revenue per reseller and low-margin business." Legato, he notes, has released a lower end "Business Edition" of its enterprise backup offering, which includes many wizards and GUI utilities that make it end-user installable. "It's well positioned for upgrade," says Mayer, "as it shares much of its source code from the enterprise product."

Veritas also has a lower-tier version of NetBackup called Business Server, which they claim "provides enterprise scalability on a workgroup budget." Like the Legato product, Mayer says it shares a source-code base with its enterprise offering, "making it an entry point with room to grow." Veritas is also building upgrade paths into its commercial products, he says, so they can scale to the enterprise as well. "Backup Exec is a good example of this. Veritas now offers a conversion utility for customers wanting to upgrade from Backup Exec to NetBackup Data Center (enterprise) or Business Server," says Mayer.

AND THAT'S NOT ALL...

The mix of storage industry players, alas, never stands still. New technologies, coupled with the continuing emergence of standards, the Linux operating system, and improved interoperability, promise even more to come in storage solutions for the SMB market, particularly in backup and data protection. In other words, look for startups seeking to out-race the big boys.

Says Gary Doan, founder of still-stealthy startup Intradyn Inc.: "There's a price/performance gap in storage solutions between the enterprise and small business big enough to drive an aircraft carrier through."

ABOUT THE AUTHOR

Graeme Thickins is a freelance technology writer and consultant based in the Twin Cities and Southern California. Graeme began working in the storage industry more than 25 years ago and today, among other things, provides news and perspective on storage industry events nationwide. His reporting and commentary has appeared in a number of print and online journals, magazines and newsletters, including [Conferenza](#), [Business 2.0](#), [Office.com](#), [The Journal of the Hyperlinked Organization \(JOHO\)](#), [NanoTechNews.com](#) and [Darwin](#).

