

## VENDOR RESEARCH

# INTERNATIONAL BUSINESS MACHINES CORP.



# SMALL AND MIDSIZE BUSINESSES IN ASIA-PACIFIC

Outsourcing Server  
Management/Web Hosting

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## Executive Summary

In December 2005, JupiterResearch conducted an executive survey of IT decision makers among small and midsize businesses (SMBs) in China, Hong Kong, Australia, and India with 500 to 1,500 employees—referred to herein as Asia-Pacific (AP) SMBs. Respondents had involvement with their organizations' budgets for outsourced server management/Web hosting services. Respondents also said their organizations were currently outsourcing Web hosting/server management for various elements of infrastructure, or had done so during the past 18 months. Based on this study, JupiterResearch offers the following key findings:

- In 2005, the majority of AP SMBs surveyed outsourced both basic hosting server management services and other extension services such as security and administration, to name a few.
- In 2005, AP SMBs significantly saved by outsourcing server management to third parties, rather than managing the same infrastructure in-house. Savings ranged from 12 percent to 24 percent.
- In general, organizations outsourcing through shared server environments (vs. through dedicated environments) will save even more than they will through in-house management.
- With these savings, the vast majority of AP SMBs surveyed are satisfied with the total cost of ownership (TCO) of outsourcing.
- In addition to significant savings, AP SMBs are largely satisfied with the performance of their hosting providers. Satisfaction regarding overall performance ranged from 70 percent to 86 percent.
- In addition to economic benefits, the promise of reliable security drives AP SMBs to outsource server management.
- Outsourcing server management will drive relatively longer-term success of AP SMBs by enabling organizations to efficiently and effectively allocate time and personnel to activities comparatively more in line with corporate objectives (often leading to additional savings in IT spending).
- JupiterResearch cautions that SMBs are paying higher-than-expected fees to hosting providers for implementation and ongoing support.

### Outsourced Server Management Defined

The recent JupiterResearch survey differentiates between dedicated server and shared server environments in outsourced services, as follows:

- **Dedicated server environment.** This type of environment refers to the rental and exclusive use of a computer system that includes a Web server, related software, and an Internet connection, housed on the Web hosting company's premises.
- **Shared server environment.** This type of environment refers to the rental of a computer (including Web server, related software, and Internet connection) that can simultaneously support multiple applications (often from multiple customers). The third-party hosting provider houses the equipment on its premises. This definition can apply to both full-service outsourcing as well as co-location services.

## Level of Application Support and Outsourced Server Management Across AP SMBs

Among AP SMBs currently outsourcing server management for at least some portion of their infrastructure, the vast majority of them support a wide portfolio of applications (either through outsourcing or in-house management).

### SMBs Outsourcing in AP Support a Broad Application Portfolio

**Fig. 1 Percentage of SMBs Surveyed That Currently Support Various Applications by Region**

Applications Currently Supported (in-house or outsourced)	India	Australia	Hong Kong	China
Web site enabled for online commerce	98%	91%	100%	99%
Data warehousing or analysis	87%	88%	100%	99%
Document or content management	98%	92%	100%	99%
Financial	94%	93%	100%	99%
Enterprise resource planning/logistics	95%	84%	99%	98%
E-mail	40%	98%	98%	98%
Customer relationship management	97%	88%	97%	98%
Supply chain management	93%	81%	96%	97%
Human resources	88%	91%	99%	97%
Non-online commerce Web site	98%	94%	98%	97%
Sales force automation	95%	79%	98%	96%

Question: For which of the following enterprise applications has your company outsourced server management/Web hosting services to a third-party provider?

Source: JupiterResearch Executive Survey (12/05), n = 296 (corporate decision makers outsourcing some element of infrastructure, China only), n = 212 (corporate decision makers outsourcing some element of infrastructure, Hong Kong only), n = 187 (corporate decision makers outsourcing some element of infrastructure, India only), n = 109 (corporate decision makers outsourcing some element of infrastructure, Australia only)

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For these SMBs, a relatively high level of IT sophistication has led to broad application development, in turn leading to more appreciation for outsourcing. These SMBs tend to have comparatively more-developed IT departments and processes. Also, JupiterResearch's executive survey of AP SMBs shows significant adoption of outsourced server management/Web hosting services across the application portfolio—in both dedicated and shared server environments.

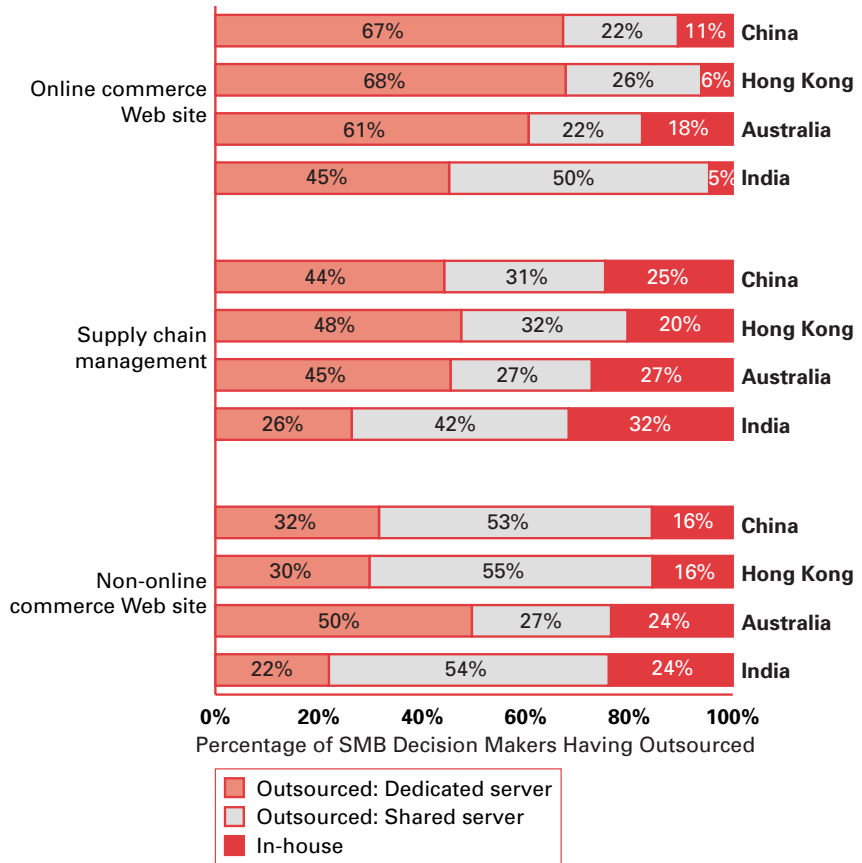
## Outsourced Server Management of External Enterprise Applications

**Fig. 2 Segmented View of SMBs' Server Management/Web Hosting Practices for Selected External Enterprise Functions**

Question: For which of the following enterprise applications has your company outsourced server management/Web hosting services to a third-party provider? Please also indicate if these applications are hosted using dedicated or shared servers. (Please select one for each row.)

Source: JupiterResearch Executive Survey (12/05), n = 323 (corporate decision makers having outsourced some element of infrastructure, China only), n = 229 (corporate decision makers having outsourced some element of infrastructure, Hong Kong only), n = 200 (corporate decision makers having outsourced some element of infrastructure, India only), n = 125 (corporate decision makers having outsourced some element of infrastructure, Australia only)

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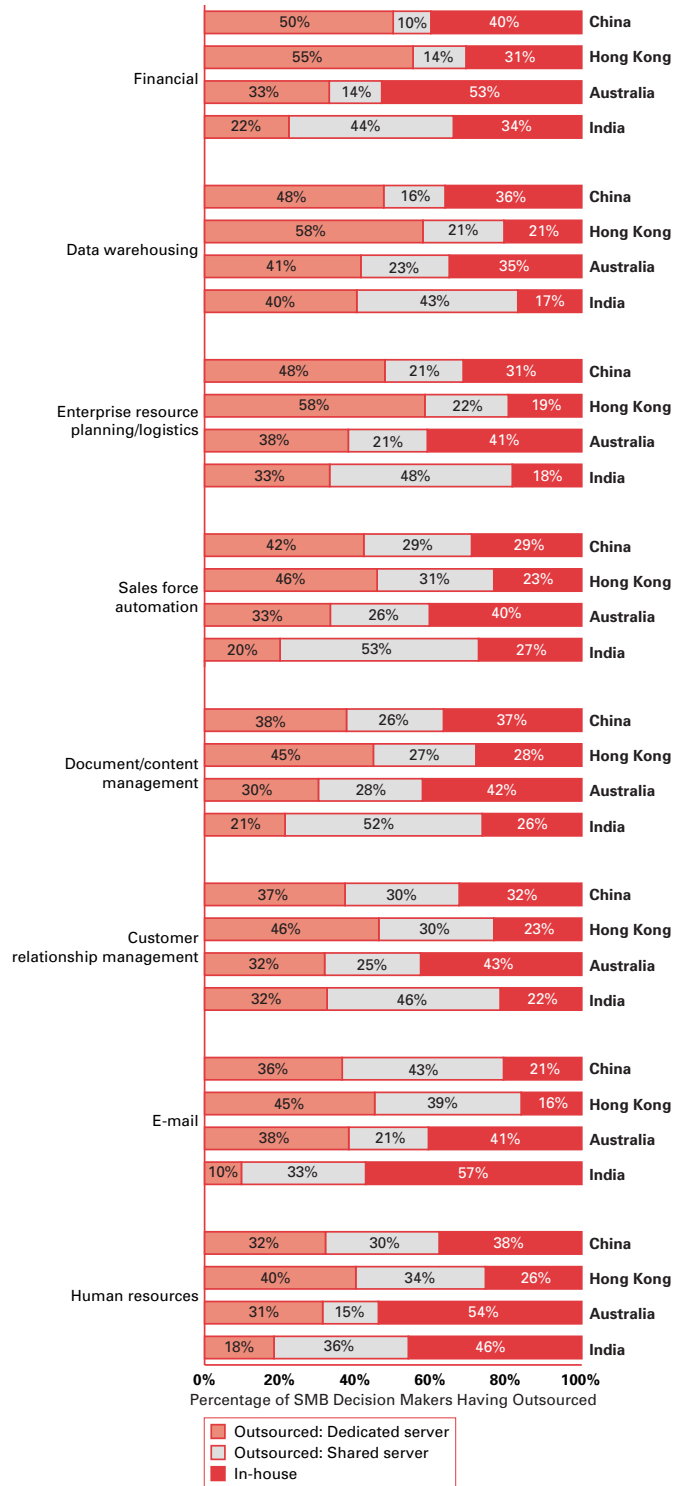
Targets for outsourced server management are often externally-facing applications, such as public Web sites or supply chain solutions. Among AP SMBs looking to third-party vendors for Web hosting and server management services, certain externally-facing infrastructure elements become their focus. According to the survey, the highest percentages of AP SMBs outsourced their Web sites (with or without enabled commerce functionality), compared with percentages outsourcing any other applications in their portfolios.

Based on the heightened demands for around-the-clock security and scalable support (particularly for highly trafficked sites), AP SMBs tend to outsource to dedicated server environments for commerce-enabled Web sites. Because of a diminished burden, however, external Web sites not supporting commerce functionality tend to reside in relatively more cost-effective shared server environments.

SMBs in India tend to take a different approach. SMBs surveyed here consistently chose shared environments over dedicated ones when opting for outsourced server management services. SMBs in this country are probably in a relatively earlier stage of online business development, and therefore do not require the security of dedicated servers.

## Outsourced Server Management of Internal Enterprise Applications

**Fig. 3 Segmented View of SMBs' Server Management/Web Hosting Practices for Selected Internal Enterprise Functions**



Question: For which of the following enterprise applications has your company outsourced server management/Web hosting services to a third-party provider? Please also indicate if these applications are hosted using dedicated or shared servers.

Source: JupiterResearch Executive Survey (12/05), n = 323 (corporate decision makers having outsourced some element of infrastructure, China only), n = 229 (corporate decision makers having outsourced some element of infrastructure, Hong Kong only), n = 200 (corporate decision makers having outsourced some element of infrastructure, India only), n = 125 (corporate decision makers having outsourced some element of infrastructure, Australia only)

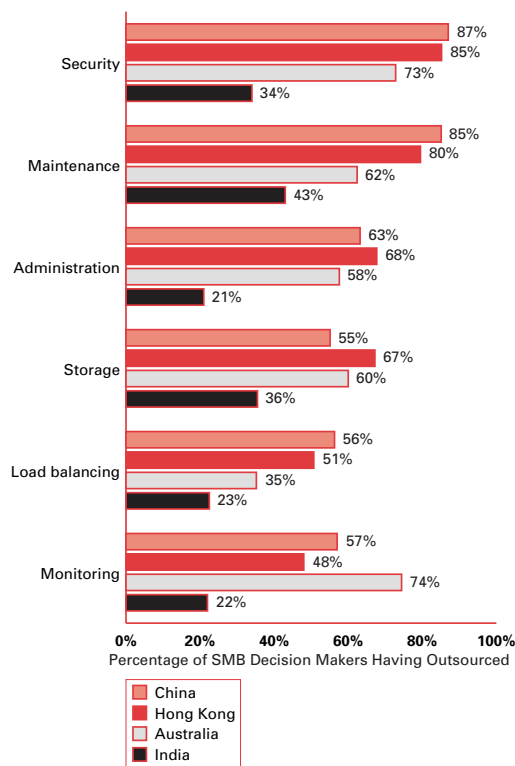
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Although relatively less prevalent across internal enterprise applications, AP SMBs still employed external third parties for Web hosting and server management in 2005. Many SMBs demonstrated a relatively higher preference for outsourcing server management of internal applications such as data warehousing, enterprise resource planning, and e-mail applications.

In India, SMBs show far higher adoption of shared server environments, compared with dedicated environments, for outsourced Web hosting of internal applications. SMBs in India have relatively less concern about security implications of shared server environments, and instead focus on the overall savings on total outsourced spending. With increased economic efficiencies, JupiterResearch projects an increase in adoption of servers simultaneously supporting multiple applications in the AP region.

### China, Hong Kong, and Australia Generally Receive Full-service Hosting

**Fig. 4 Percentage of SMBs by Additional Bundled Services and Region**



Note: "Other" and "none" responses are not displayed.

Question: For applications hosted by a third party, what are additional services your provider(s) bundles with your hosting services? (Select all that apply.)

Source: JupiterResearch Executive Survey (12/05), n = 323 (corporate decision makers having outsourced some element of infrastructure, China only), n = 229 (corporate decision makers having outsourced some element of infrastructure, Hong Kong only), n = 200 (corporate decision makers having outsourced some element of infrastructure, Australia only), n = 125 (corporate decision makers having outsourced some element of infrastructure, India only)

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In 2005, the majority of AP SMBs retained more than basic hosting. These SMBs generally received at least four additional services (e.g., security, maintenance, administration, storage). When evaluating Web hosting providers, most AP SMBs said high security standards were extremely important (surpassing price considerations in many instances). Among services in Figure 4, AP SMBs received security enhancements most.

SMBs that tend to opt for shared server environments for outsourcing certain applications (e.g., those in India) may not receive many services apart from hosting. Dedicated hosting provides a relatively more complete set of services, including data protection. Thus, AP SMBs should understand that choosing shared server environments may come at the expense of receiving a relatively more complete set of services for outsourced server management.

## SMBs in AP Are Saving Money by Outsourcing Server Management

Corporate markets in the AP region have been limited to anecdotal evidence and company-specific case studies regarding economic implications of outsourcing Web hosting. Furthermore, cost is a key driver in assessing the adoption of new technology or services in corporate settings. Therefore, JupiterResearch asked SMB executives in the AP region about overall spending and savings they attributed to outsourcing, compared with costs of managing the same infrastructure in-house. In 2005, SMBs said they were generally satisfied with their outsourcing experiences, and significantly saved overall by outsourcing server management to third parties.

### Total 2005 Spending for Server Management

**Fig. 5 SMBs' Spending by Region**

Question: How much did your company spend overall in 2005 on dedicated and shared server management/Web hosting services from a third party? (Please select one.) How much did your company spend overall in 2005 for internal application hosting and related maintenance? [Please include annual fees, capital expenditures, external consultation, recurring costs (e.g., bandwidth, co-location services, vendor management).]

Source: JupiterResearch Executive Survey (12/05), n = 323 (corporate decision makers having outsourced some element of infrastructure, China only), n = 229 (corporate decision makers having outsourced some element of infrastructure, Hong Kong only), n = 200 (corporate decision makers having outsourced some element of infrastructure, India only), n = 125 (corporate decision makers having outsourced some element of infrastructure, Australia only)  
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Region	Average Total Spending (in US\$)	Average In-house Spending (in US\$)	Outsourced: Average Dedicated Server Spending (in US\$)	Outsourced: Average Shared Server Spending (in US\$)
China	\$936,400	\$446,325	\$261,325	\$228,750
Hong Kong	\$807,750	\$404,575	\$225,475	\$177,700
Australia	\$1.16 million	\$558,000	\$319,400	\$279,800
India	\$1.22 million	\$568,500	\$280,250	\$370,000

On average, AP SMBs with 500 to 1,500 employees spent from \$800,000 to \$1.2 million in 2005 on server management and Web hosting, with approximately one-half going to internal management and hosting of their infrastructure. They generally split the remainder (for outsourced Web hosting) between dedicated and shared server environments.

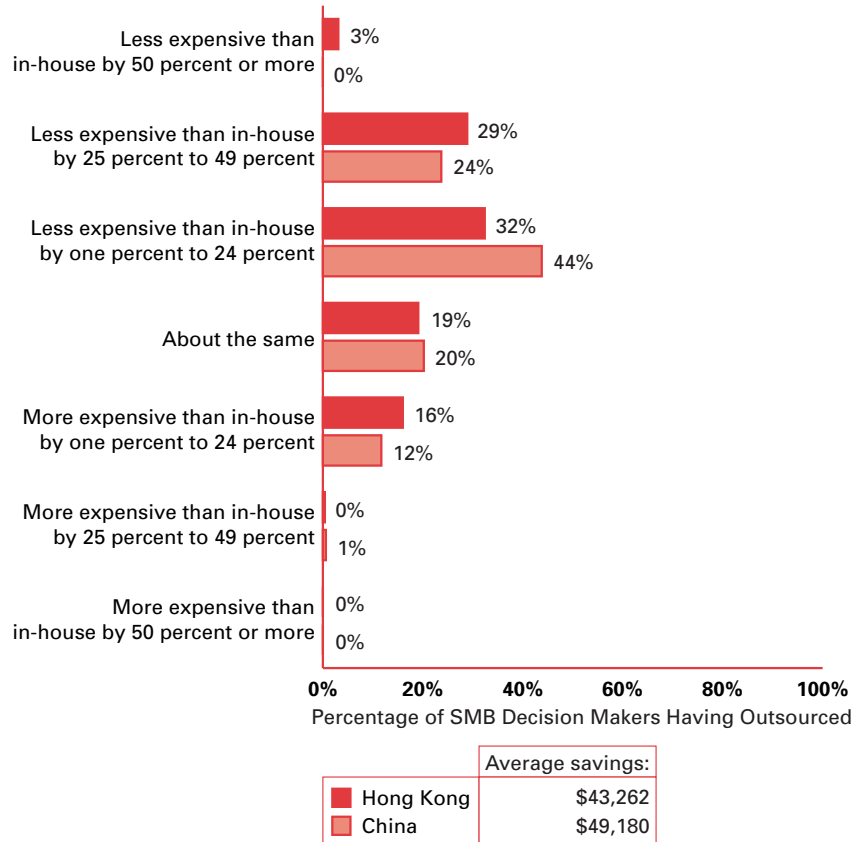
## SMBs in China and Hong Kong Save from 12 Percent to 13 Percent by Outsourcing Server Management

**Fig. 6** SMBs' Relative Costs for Server Management/Web Hosting, Outsourced Versus In-house, in China and Hong Kong

Question: How does your company's overall cost of outsourcing server management/Web hosting services compare with how much it would cost to manage the same infrastructure and services in-house? (Please select one for each.)

Source: JupiterResearch Executive Survey (12/05), n = 317 (corporate decision makers having outsourced some element of infrastructure and able to estimate savings, China only), n = 225 (corporate decision makers having outsourced some element of infrastructure and able to estimate savings, Hong Kong only)

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In 2005, AP SMBs estimated they saved from 12 percent to 24 percent by outsourcing server management to third parties, rather than managing the same infrastructure in-house. This level represents an average annual savings of \$40,000 to more than \$180,000.

As detailed in the above Figure 6, SMBs in Hong Kong and China have average annual savings ranging from approximately \$43,000 to \$49,000. In India and Australia, average annual savings of SMBs range from approximately \$49,000 to \$182,000 (represented in the subsequent Figure 7), with savings in India representing the high end due to reasons that follow.

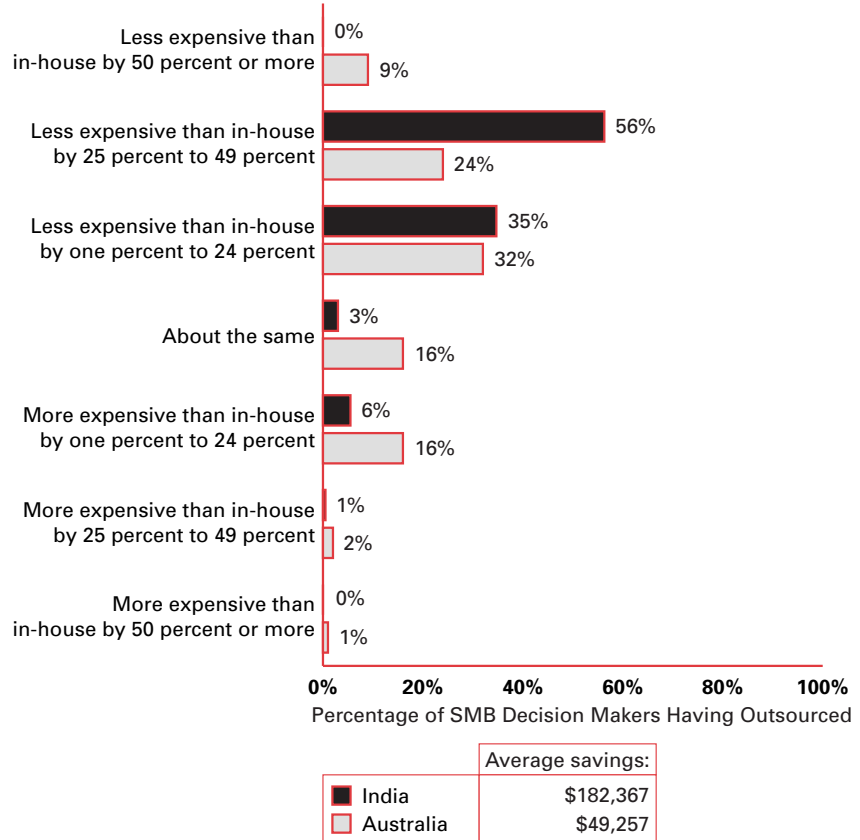
## SMBs in Australia and India Save 12 Percent to 24 Percent by Outsourcing Server Management

**Fig. 7 SMBs' Relative Costs for Server Management/Web Hosting, Outsourced Versus In-house, in India and Australia**

Question: How does your company's overall cost of outsourcing server management/Web hosting services compare with how much it would cost to manage the same infrastructure and services in-house? (Please select one for each.)

Source: JupiterResearch Executive Survey (12/05), n = 199 (corporate decision makers having outsourced some element of infrastructure and able to estimate savings, India only), n = 100 (corporate decision makers having outsourced some element of infrastructure and able to estimate savings, Australia only)

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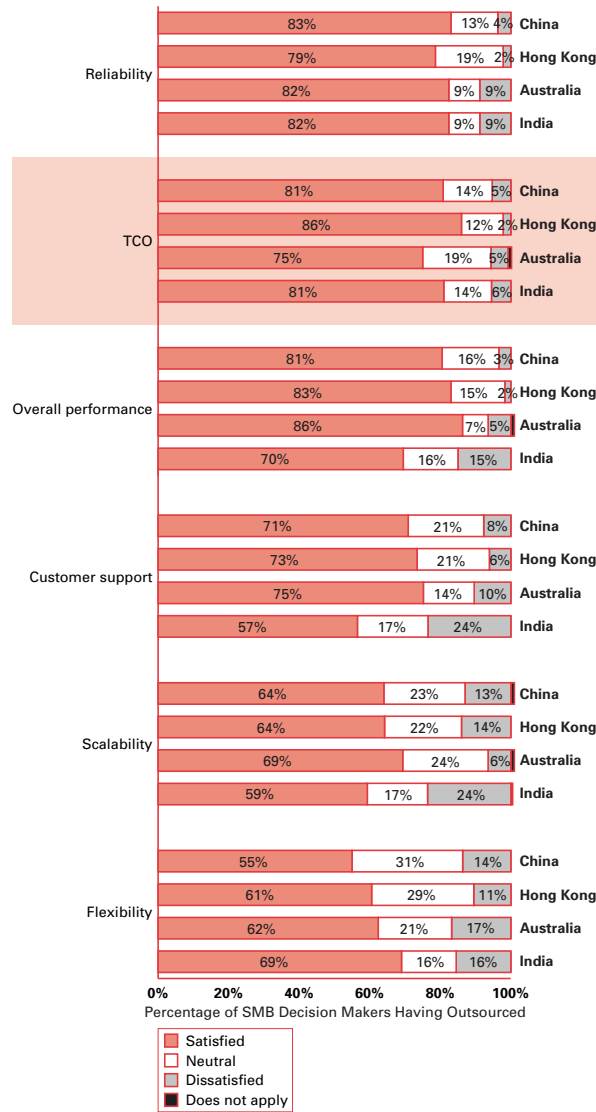


In general, AP SMBs that favored shared server environments (e.g., those in India) tended to save more money than did SMBs predominantly relying on dedicated server environments. With businesses achieving greater overall savings using shared servers, as opposed to dedicated servers, JupiterResearch projects increased adoption of servers simultaneously supporting multiple applications.

# Cost Savings Do Not Appear to Sacrifice Quality of Outsourcing Services

## SMBs Are Largely Satisfied, but There Is Room for Improvement

**Fig. 8 Percentage of SMBs by Outsourcing Satisfaction and Region**



Question: In general, for all outsourced server management/Web hosting services, please indicate your level of satisfaction with each of the following factors.

Source: JupiterResearch Executive Survey (12/05), n = 323 (corporate decision makers having outsourced some element of infrastructure, China only), n = 229 (corporate decision makers having outsourced some element of infrastructure, Hong Kong only), n = 200 (corporate decision makers having outsourced some element of infrastructure, India only), n = 125 (corporate decision makers having outsourced some element of infrastructure, Australia only)

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With savings reported, AP SMBs were generally satisfied with TCO (at least 75 percent of all SMBs surveyed). In addition, SMBs using outsourced server management were largely satisfied with most other aspects of their experience. SMBs' savings from

outsourced Web hosting (rather than in-house management) did not come at the expense of quality regarding third-party hosting support and services.

However, SMBs preferring shared to dedicated server environments should be aware that their choice could result in availability of fewer (or relatively less comprehensive) services. Some AP SMBs, including those surveyed in India, with preference for shared servers were comparatively more critical of the performance of their providers. If SMBs are not fully aware of the services they will receive up front, they could later exhibit relatively lower satisfaction.

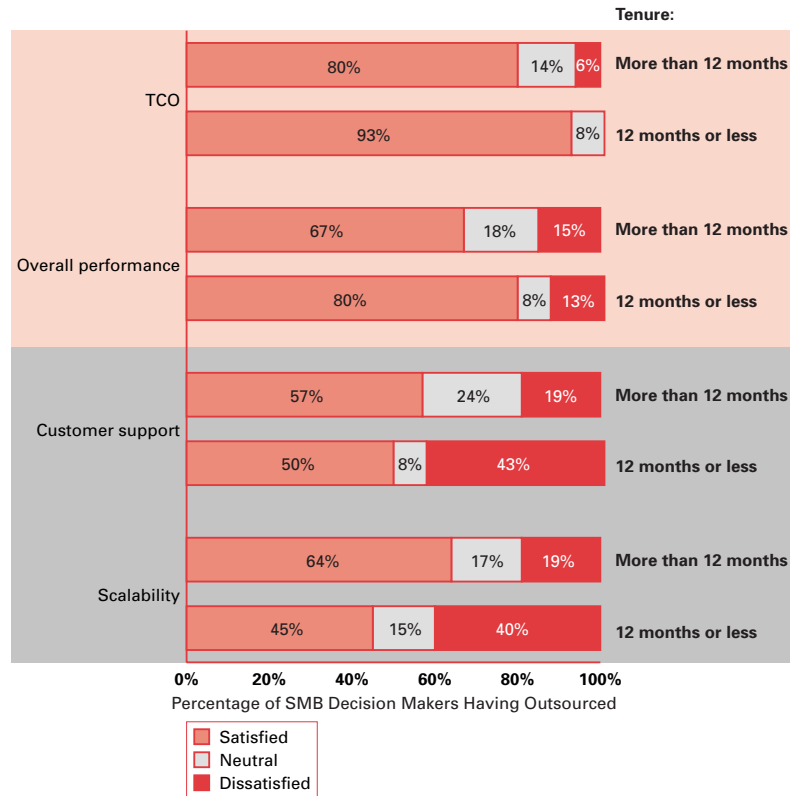
As for customer support, most AP SMBs were largely satisfied, and cases of low satisfaction were probably a byproduct of core infrastructure deficiencies. In regions (e.g., India) where network and power outages occur relatively more frequently, Web applications can underperform, adversely affecting SMBs' satisfaction with outsourced Web hosting.

### **Satisfaction Among SMBs by Tenure**

In general, satisfaction among AP SMBs remains consistently high, regardless of outsourcing tenure. A minor exception occurs regarding outsourcing providers' ability to adapt to changing business conditions and evolving IT infrastructures. SMBs surveyed in Hong Kong and Australia also showed a relative drop in satisfaction (from almost 75 percent to less than 60 percent) after the first 12 months of outsourcing. Server management/Web hosting vendors must not take long-standing customer accounts for granted. As clients' tenure increases, their sophistication grows regarding their needs and expectations of outsourced server management services.

## SMBs' Satisfaction with Outsourcing Varies in India

**Fig. 9 Percentage of SMBs by Outsourcing Satisfaction and Tenure in India**



Question: In general, for all outsourced server management/Web hosting services, please indicate your level of satisfaction with each of the following factors. (Please select one for each row.)

Source: JupiterResearch Executive Survey (12/05), n = 200 (corporate decision makers having outsourced some element of infrastructure, India only)

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In general, satisfaction among SMBs surveyed in India changes as outsourcing tenure increases. In particular, satisfaction with TCO and overall performance suffers among SMBs with more than 12 months of outsourcing experience. Also in India, due partly to preference for shared server environments when outsourcing, SMBs' satisfaction with hosting providers' ability to scale grows as outsourcing tenure increases. Hosting providers in India are succeeding at scaling with organizations using shared services, as the complexity of their infrastructures demands it.

SMBs should carefully review hosting providers' track record for customer service. As SMBs mature, their server management needs expand. Hosting providers should have the ability to articulate their knowledge of and experience with addressing the ever-changing business operations and infrastructure requirements of SMBs.

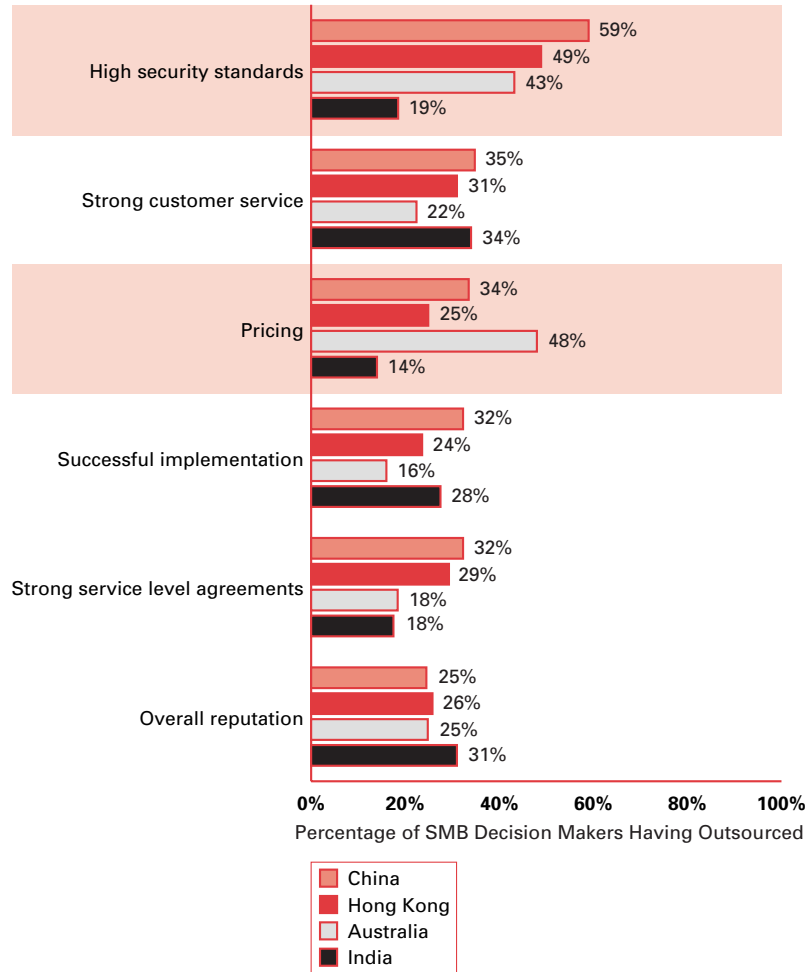
## China, Hong Kong Value Security, While Australia Seeks Minimal Costs

**Fig. 10 Percentage of SMBs by Web Hosting Provider Selection Criteria and Region**

Note: Strong service level agreements between outsourcing providers and clients include clear definitions of provider commitments, escalation procedures, and clear recourse in the event of infringement on these agreements. Top six responses are shown. "Other" responses are not shown.

Question: When evaluating vendors for outsourced server management/Web hosting services, what are your top considerations? (Please select up to three.)

Source: JupiterResearch Executive Survey (12/05), n = 323 (corporate decision makers having outsourced some element of infrastructure, China only), n = 229 (corporate decision makers having outsourced some element of infrastructure, Hong Kong only), n = 200 (corporate decision makers having outsourced some element of infrastructure, Australia only), n = 125 (corporate decision makers having outsourced some element of infrastructure, India only)  
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With expectations of cost savings, many SMBs place greater importance on high security standards than on pricing when evaluating potential hosting providers. The majority of AP SMBs received security services in 2005, but they do not take these services for granted. (See Figure 4.) Hosting providers can expect continued demand for high levels of security, matching (or perhaps exceeding) levels SMBs would anticipate if applications resided locally.

## Cost Savings and Reliable Security Are Key Drivers of Outsourced Server Management Services

**Fig. 11 Top Drivers of Outsourcing by Region**

Region	Top Three Drivers per Region	Additional Drivers
China	<ol style="list-style-type: none"> <li>1. Establish reliable level of security</li> <li>2. Reduce capital outlays for monthly fees</li> <li>3. Improve reliability</li> </ol>	Help cope with increasing complexity
Hong Kong	<ol style="list-style-type: none"> <li>1. Establish reliable level of security</li> <li>2. Gain access to specialized skills</li> <li>3. Improve reliability</li> </ol>	Reduce capital outlays for monthly fees
Australia	<ol style="list-style-type: none"> <li>1. Cut costs</li> <li>2. Keep technology up-to-date</li> <li>3. Reduce costly staff</li> </ol>	N/A
India	<ol style="list-style-type: none"> <li>1. Improve reliability</li> <li>2. Establish reliable level of security</li> <li>3. Allow more focus on core competencies</li> </ol>	Shorten time to market

Driver category: Cost issues Security issues Flexibility issues Other

Source: JupiterResearch Executive Survey (12/05), n = 323 (corporate decision makers having outsourced some element of infrastructure, China only), n = 229 (corporate decision makers having outsourced some element of infrastructure, Hong Kong only), n = 200 (corporate decision makers having outsourced some element of infrastructure, India only), n = 125 (corporate decision makers having outsourced some element of infrastructure, Australia only)  
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Monetary benefits represent AP SMBs’ justification for outsourcing server management—a consistent theme. These savings often lead to a redistribution of funds to upgrade existing applications or develop new ones. However, several other motivators also encourage outsourced Web hosting.

Conceptually, the idea of moving elements of corporate infrastructure outside corporate firewalls to improve data security can be counterintuitive. However, many AP SMBs rely on outsourced server management services to provide a reliable level of security. In fact, robust security is the number-one or -two driver for outsourcing server management in several AP countries. In some cases, IT organizations may not be able to offer sufficient security in-house. Therefore, hosting providers must address security issues in their service offerings.

Nearly as much as they outsource for robust security, AP SMBs outsource services to improve reliability (e.g., uptime and stability of corporate applications). With the inherent advantages of shared server environments (e.g., efficient use of hardware, low costs) and a comparatively higher preference for shared services, SMBs surveyed in India emphasize improvements in reliability and scalability above other drivers for outsourcing.

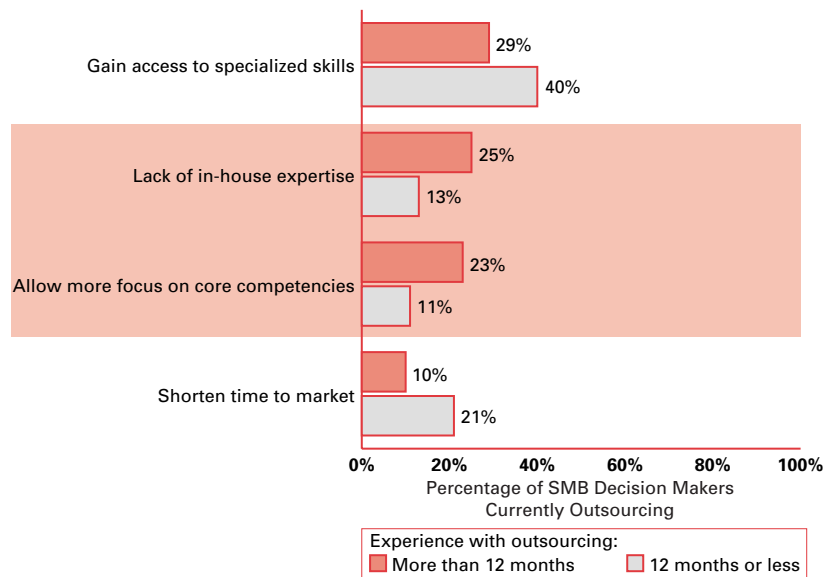
Despite the prevalent use of outsourced server management services, opportunities still exist for educating SMBs about outsourced server management’s myriad benefits. The ability to increase focus on organizations’ core competencies is a widely recognized driver in the US. By eliminating heavy investment in manpower and expenses required for

ongoing in-house server management and maintenance, organizations' IT departments can focus on their core business—activities that earn (or save) their companies money. In addition to achieving direct cost savings from outsourcing server management, AP SMBs will thus realize that a reallocation of IT efforts will also likely save them money.

### Long-Term, Hong Kong SMBs Look to Overcome Resource Constraints, Focusing on Core Business

**Fig. 12 SMBs' Reasons for Outsourcing by Tenure in Hong Kong**

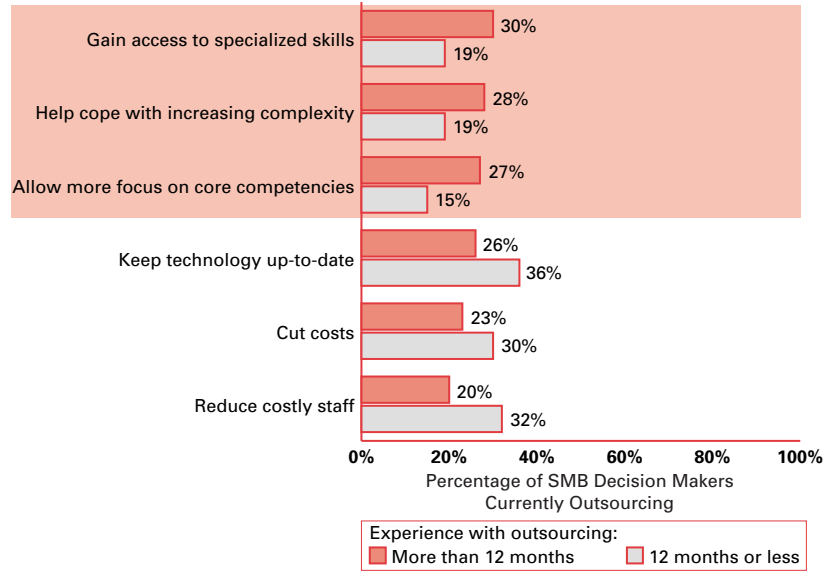
Note: Only data points of significant discrepancy are shown.  
 Question: For what reasons does your company currently outsource server management/Web hosting services? (Please select top three.)  
 Source: JupiterResearch Executive Survey (12/05), n = 47 (corporate decision makers outsourcing for 12 months or less, Hong Kong only), n = 165 (corporate decision makers outsourcing for more than 12 months, Hong Kong only)  
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The importance of increasing focus on organizations' core competencies is increasingly apparent when observing SMBs with more than 12 months of outsourcing experience. The long-term success SMBs will enjoy with outsourced server management will be driven by the realization that organizations can relatively more efficiently and effectively allocate time and personnel to activities in line with corporate objectives.

## In China, Experienced SMBs Are Evaluating Vendors on More than Just Cost Considerations

**Fig. 13 SMBs' Reasons for Outsourcing by Tenure in China**



Note: Top six responses are shown.

Question: For what reasons does your company currently outsource server management/Web hosting services? (Please select top three.)

Source: JupiterResearch Executive Survey (12/05), n = 53 (corporate decision makers outsourcing for 12 months or less, China only), n = 243 (corporate decision makers outsourcing for more than 12 months, China only)

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SMBs surveyed in China with more than 12 months of outsourcing experience also demonstrated relatively greater acknowledgment of the following benefits:

- Access to specialized skills through hosting providers
- Reliance on third parties to cope with increasing IT complexities as businesses grow

## In India, No Outsourcing Driver Stands Apart Among Relatively Experienced SMBs

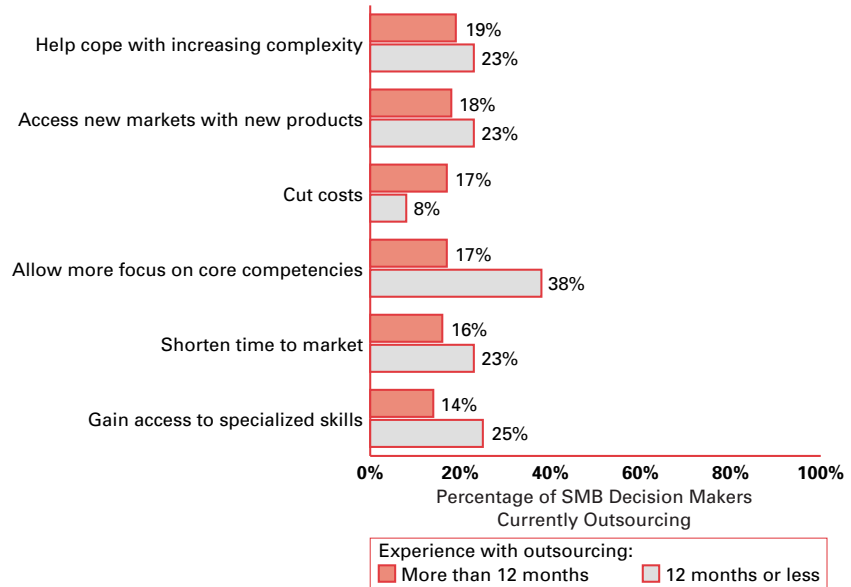
**Fig. 14 SMBs' Reasons for Outsourcing by Tenure in India**

Note: Only data points of significant discrepancy are shown.

Question: For what reasons does your company currently outsource server management/Web hosting services? (Please select top three.)

Source: JupiterResearch Executive Survey (12/05), n = 40 (corporate decision makers outsourcing for 12 months or less, India only), n = 147 (corporate decision makers outsourcing for more than 12 months, India only)

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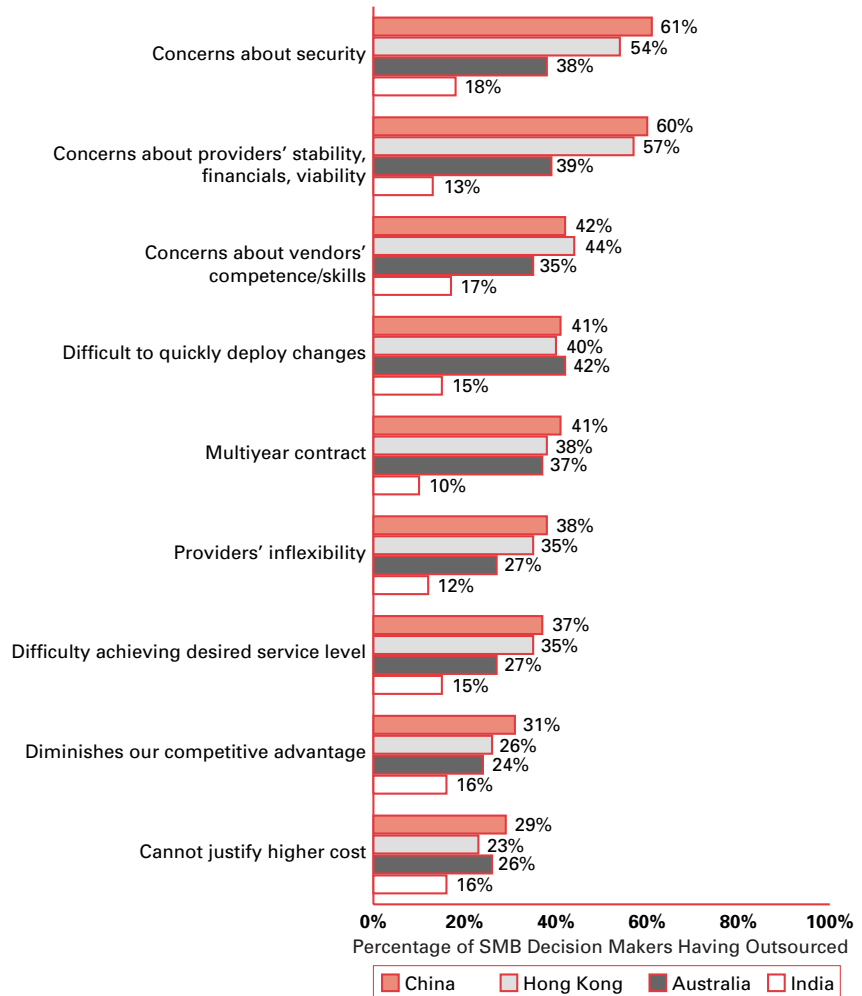


Throughout this study, SMBs in India demonstrated a broad appreciation for the myriad benefits of outsourcing, but no driver dominates their decision to outsource. (A possible exception is anticipated improvements in flexibility and scalability, selected by 40 percent of respondents.) Among SMBs in India with more than one year of experience in outsourcing, this characteristic becomes increasingly evident—no driver stands apart.

With increased attention on nonfinancial benefits, SMBs with more than one year of outsourcing experience rely to a relatively lesser degree on cost cutting. Cost considerations will always represent part of the decision to migrate toward outsourced server management. However, relatively more-experienced SMBs are also gaining an increased appreciation of nonfinancial benefits.

## SMBs Cautious About Security and Providers' Stability, Not About Justifying Costs

**Fig. 15 SMBs' Perceived Disadvantages of Outsourcing by Region**



Note: Top five responses are included.  
 Question: From your experience, what are the biggest disadvantages of outsourcing server management/Web hosting services?  
 Source: JupiterResearch Executive Survey (12/05), n = 323 (corporate decision makers having outsourced some element of infrastructure, China only), n = 229 (corporate decision makers having outsourced some element of infrastructure, Hong Kong only), n = 200 (corporate decision makers having outsourced some element of infrastructure, India only), n = 125 (corporate decision makers having outsourced some element of infrastructure, Australia only)  
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Many benefits propel businesses toward outsourcing server management, but providers of these services must continue to focus on concerns regarding corporate security. Establishing a consistent level of security is often the number-one driver of outsourcing. (See Figure 11.) Proper service level agreements, coupled with testimonials from customers as well as an increasing résumé of successful implementations and ongoing relationships, will ease the minds of IT decision makers.

Concerns regarding outsourcing providers' stability and long-term viability also rank highly (second only to security). However, concerns about justifying investment in outsourced services generally rank low among AP SMBs, which supports the idea that outsourced server management facilitates corporate savings.

## SMBs Must Work with Hosting Providers to Properly Anticipate Related Fees

**Fig. 16 SMBs' Expectation of Outsourcing Fees, Compared with Actual Fees Paid, by Type of Fee and Region**

Region	Type of Fee	Percentage of Decision Makers with Experience in Outsourced/ In-house Hosting, Saying Fees Were 15% or More Expensive than Expected	Average Price, Compared with Expectations
China	One-time up-front	29%	13% more expensive
	Monthly	20%	9% more expensive
Hong Kong	One-time up-front	48%	18% more expensive
	Monthly	32%	13% more expensive
Australia	One-time up-front	51%	20% more expensive
	Monthly	33%	14% more expensive
India	One-time up-front	89%	30% more expensive
	Monthly	77%	23% more expensive

Question: In moving from in-house server management to ongoing outsourced server management/Web hosting, please indicate the extent to which certain fees met your expectations. (Please select one for each row.)

Source: JupiterResearch Executive Survey (12/05), n = 323 (corporate decision makers having outsourced some element of infrastructure, China only), n = 229 (corporate decision makers having outsourced some element of infrastructure, Hong Kong only), n = 200 (corporate decision makers having outsourced some element of infrastructure, India only), n = 125 (corporate decision makers having outsourced some element of infrastructure, Australia only)

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JupiterResearch also cautions that a lack of outsourcing tenure can lead (and has led) to higher-than-expected fees charged by hosting providers for implementation and ongoing support. SMB respondents in the AP region underestimated up-front costs of outsourced server management by 13 percent to 30 percent. Expectations of recurring monthly fees fared only slightly better. On average, SMBs underestimated these fees by nine percent to 23 percent.

Providers of outsourced server management services must understand that many SMBs have insufficient experience to assess their total costs. They should also understand that the definition of up-front costs and recurring fees differs among hosting providers. At the same time, SMBs should demand a clear and detailed explanation of up-front and recurring monthly fees from their hosting providers. In addition, SMBs must realize that not performing due diligence regarding details of outsourcing contracts risks gross underestimation of future costs.

## Two (or Fewer) Hosting Providers Are Typically Sufficient for Supporting Outsourced Applications

Approximately three-quarters of SMBs surveyed in the AP region employ two or fewer providers to host their internal (e.g., human resources, financial, customer relationship management) and external (e.g., externally-facing Web site, supply chain) applications. SMBs will often use a single provider for their outsourced server management needs. In situations in which two are employed, an incumbent provider is typically in place for relatively standard/commodity applications such as e-mail. As SMBs' hosting needs expand across their corporate infrastructure to include potentially mission-critical applications, however, a second Web hosting provider may be hired.

Operational efficiencies and monetary savings will probably occur with IT outsourcing, but managing several third-party partner relationships can still require significant time and attention. Therefore, businesses still try to minimize the number of relationships they need to maintain, especially in cases in which multiple partners provide the same, or similar, services.

## Mandate to SMBs Seeking Outsourced Server Management

In a market that has steadily matured, outsourced server management services can empower SMBs to seek ever-increasing benefits from their experience. Based on the results of this study, JupiterResearch encourages SMBs to do the following:

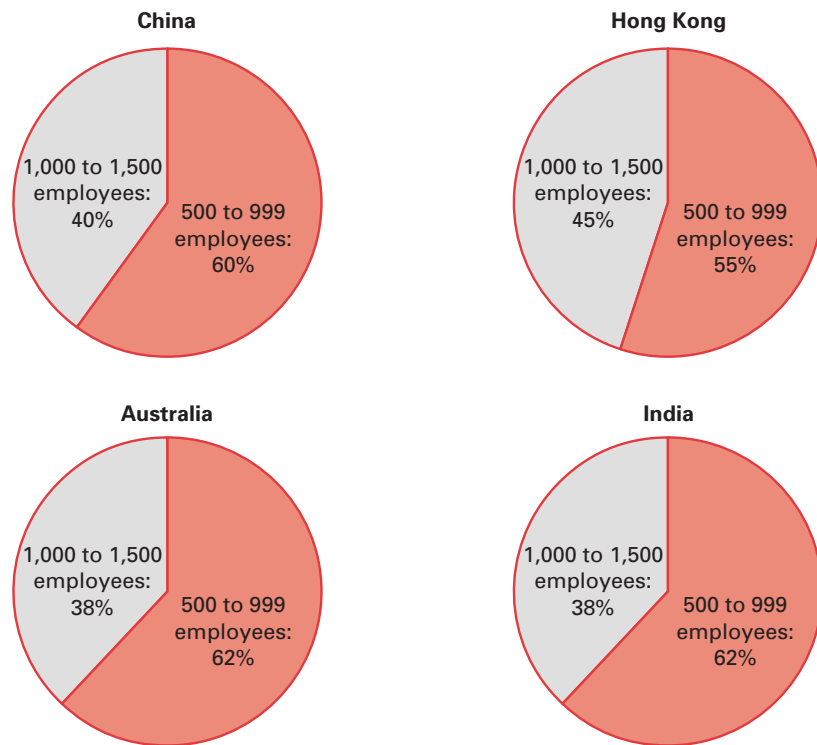
- Continue to expect financial benefits from outsourcing. Challenge outsourcing providers to present evidence of (or at least a solid rationale for) cost savings through outsourcing.
- Demand a clear and detailed explanation of up-front and recurring monthly fees from Web hosting candidates. In addition, be diligent as an organization in reviewing the details of outsourcing contracts. Too often, SMBs have grossly underestimated such expenses.
- Have discrimination when reviewing hosting providers' track record for customer service. As a business matures, server management needs increase and develop. Today's hosting providers should have the ability to articulate knowledge of and experience with adapting to meet demands of companies' ever-changing IT environments.

## Appendix

All respondents to JupiterResearch’s executive survey review and/or approve budgeting for their company’s outsourced server management or Web hosting services (e.g., for Web sites, extranets, intranet applications, overall Web-based applications).

All respondents are employed by an organization that currently outsources server management for at least some portion of its corporate infrastructure, or has done so during the past 18 months.

**Fig. 17 Survey Respondents by Company Size**



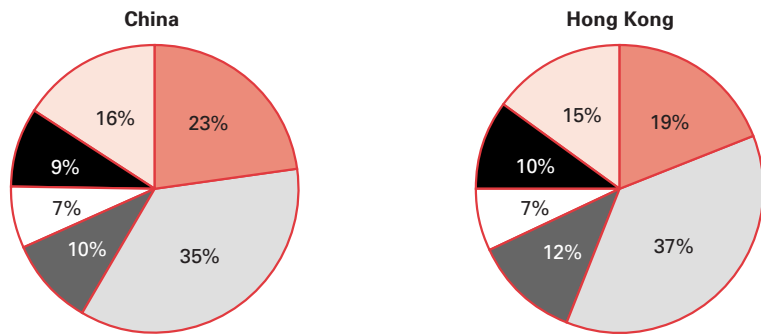
Question: Which of the following describes your company? (Please select one.)

Source: JupiterResearch Executive Survey (12/05), n = 323 (corporate decision makers having outsourced some element of infrastructure, China only), n = 229 (corporate decision makers having outsourced some element of infrastructure, Hong Kong only), n = 200 (corporate decision makers having outsourced some element of infrastructure, India only), n = 125 (corporate decision makers having outsourced some element of infrastructure, Australia only)

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In addition, respondents are employed by organizations that have from 500 to 1,500 employees, thereby ensuring the inclusion of significant organizations with regular IT investments. The majority of respondents come from companies with at least 1,000 employees.

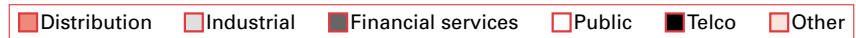
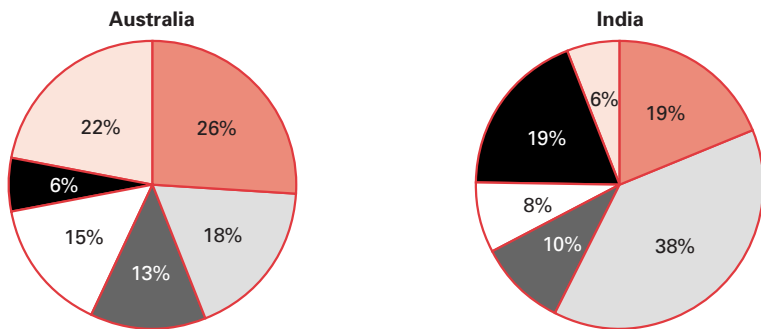
**Fig. 18 Survey Respondents by Industry Sector**



Question: Which of the following describes your company? (Please select one.)

Source: JupiterResearch Executive Survey (12/05), n = 323 (corporate decision makers having outsourced some element of infrastructure, China only), n = 229 (corporate decision makers having outsourced some element of infrastructure, Hong Kong only), n = 200 (corporate decision makers having outsourced some element of infrastructure, India only), n = 125 (corporate decision makers having outsourced some element of infrastructure, Australia only)

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Survey respondents are also fairly evenly distributed across sectors, led by the industrial sector (e.g., automotive, electronics, manufacturing) and distribution sector (e.g., consumer products, travel, wholesale).

## Report Methodology

In December 2005, JupiterResearch conducted a formal survey of IT-budget decision makers selected from the executive panel of E-Rewards, Inc. Respondents were targeted by company size (i.e., 500 to 1,500 employees) as well as their company's involvement with outsourcing, and screened for decision-making responsibility regarding outsourcing budgets for their companies. A total of 323 qualified individuals from China, 229 qualified individuals from Hong Kong, 200 qualified individuals from India, and 125 qualified individuals from Australia completed the survey. Respondents received an e-mail invitation to participate in the survey, with an attached URL linked to the Web-based survey form. As an incentive, respondents were awarded with frequent-flier points.

The results of this survey were used to evaluate the market landscape for outsourced server management and Web hosting across much of the AP region, including China, Hong Kong, India, and Australia. JupiterResearch also compared and contrasted the attitudes, activities, and preferences of these SMB survey respondents with general opinions and other studies conducted by JupiterResearch.



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