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## Cable Companies Should Follow Comcast's Lead In SMB Services

Comcast And Microsoft Team Up To Move SMB Services Into The Realm Of Office Productivity And Collaboration

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### EXECUTIVE SUMMARY

Comcast inked a deal with Microsoft to offer free email, calendaring, and document sharing solutions to its broadband customers with fewer than 20 employees. The deal represents a maturing of the small and medium-size business (SMB) telecom market, moving beyond the resale of consumer-grade services toward packaged applications. Marketers at multiservice operators (MSOs) like Cox Communications and Time Warner should follow and extend Comcast's strategy by adding mobility to broadband and voice bundles, building unified communications solutions, and creating software-as-a-service (SaaS) offerings.

### COMCAST AND MICROSOFT BRING EMAIL AND DOCUMENT SHARING TO SMALL SMBs

In November, Comcast announced "Microsoft Communications Services from Comcast," which provides email, calendaring, and document sharing solutions to SMBs in the US. The service is targeted at companies with one to 20 employees and is based on Microsoft Exchange Server 2007, Microsoft Office Outlook 2007, and Windows SharePoint Services 3.0. Comcast is offering this Internet-based product for free with its broadband service and is including around-the-clock customer support. The service is a win-win-win for everyone involved because:

- **Comcast gets product marketing and advertising help from Microsoft.** To ensure the success of the offering, Microsoft is providing Comcast with critical marketing and sales support such as market segmentation, product spec sheets, banner ad creation, and video-based sales training.
- **Microsoft lands a large US cable operator and establishes a template for future business.** Comcast is the first major MSO offering hosted Exchange and SharePoint services for the small business. With Comcast ironing out the wrinkles in the service, other cable operators like Cox and Cablevision Systems will look to replicate Comcast's service within their territories, providing future upside for Microsoft's Connected Services Framework, Exchange, and SharePoint offerings.
- **SMBs get an alternative to the telcos.** Telcos have invested heavily in triple-play offerings for consumers and large enterprise accounts, but businesses with fewer than 50 employees struggle to find an offering from a large telco that fits their needs. Comcast's entry in the space will provide an offering targeted at their size of company and provide the competitive stimulus for larger telcos like Verizon to market small-business packs.

## CONNECTING THE CUSTOMER WILL BE COMCAST'S GREATEST CHALLENGE

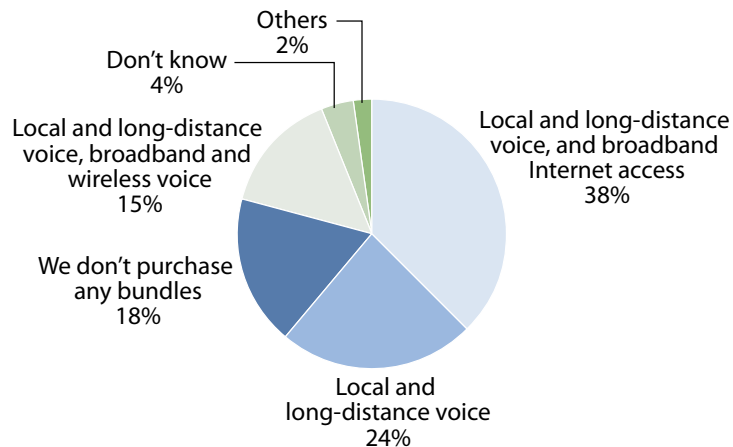
Creating a product targeted at the market eliminates only one of the three main challenges that MSOs face when marketing advanced services to SMBs. To be successful, Comcast must also overcome:

- **Educating a fragmented market.** There are more than 10 million US SMBs with fewer than 99 employees, representing a highly fragmented group in terms of IT knowledge and requirements.<sup>1</sup> While a trucking firm and a hedge fund may have the same number of employees, their needs for email and collaboration software differ dramatically. Comcast will need to work with Microsoft to build a set of vertically oriented case studies, how-to guides, and FAQs that it can put on its SMB Web site for IT novices.
- **Perceptions of a bit pipe instead of an apps provider.** Most SMBs don't consider buying application-level services from their existing voice and broadband provider. For example, only 3% of the North American small businesses (six to 99 employees) we interviewed said they are interested in purchasing email services from their existing carrier and a mere 1% for SaaS (see Figure 1). With 61% of small SMBs relying on peers for information, Comcast must go to the source to change perceptions.<sup>2</sup> It must seek out lead IT users from blogs to participate in product trials and future product development.

**Figure 1** SMBs' Use Of Telecom Services

**1-1 Bundles are big with small firms**

**"Which of the following bundles of telecommunications services does your company currently buy?"**

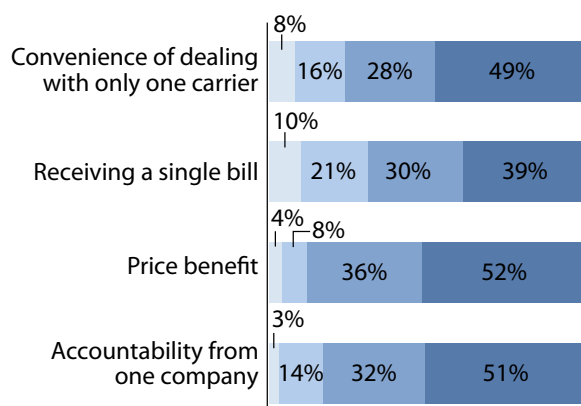


Base: 285 North American small businesses (6-99 employees)

**1-2 Price motivates discount**

**"How important to your company are the following reasons for purchasing your bundle of telecom services from the same carrier?"**

1 = Not at all important    2    3    4 = Very important



(percentages may not total 100 because of rounding)

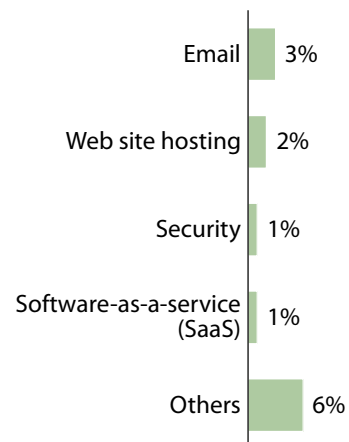
Base: 225 North American small businesses (6-99 employees)

Source: SMB Network And Telecommunications Survey, North America And Europe, Q1 2007

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**1-3 SMBs don't think about carriers for value-added services**

**"Which additional services would your company be willing to purchase from one of its existing carriers?"**



Source: Forrester Research, Inc.

## RECOMMENDATIONS

### TECH MARKETERS AT MSOs MUST UP THE ANTE TO APPLICATIONS TO DRIVE SMB SALES

The Comcast/Microsoft announcement demonstrates the increasing need for cable operators to move beyond broadband services to create differentiation, increase revenues, and drive retention. MSO tech marketers who want to compete with telcos in the small-business market should:

- **Add mobile to the package.** Bundles and mobility are hot. Less than one-fifth of the North American small businesses we surveyed do not buy bundled communications today, while 15% purchase wireless, Internet, local voice, and long distance. Also, almost one-third of the small businesses we interviewed are using mobile email, and another 31% are interested in deploying it.<sup>3</sup> Cable operators should enhance existing bundles with mobile voice and data by partnering with a mobile operator like Alltel, Sprint Nextel, and T-Mobile.
- **Look to create “out-of-the-box” unified communications.** Unified communications can help small businesses look big by improving their ability to communicate with customers and suppliers via the most optimal path. But most businesses are perplexed by the myriad of products. As MSOs like Comcast offer voice, broadband, and email services, they have the foundations to build a unified communications offering that includes integrated fixed and mobile voice, email, presence, location, and collaboration services with minimal effort required from the SMB.
- **Layer on value-added applications.** Tech marketers shouldn't stop at network-based services like email and Web hosting. MSOs can differentiate by reselling SaaS solutions that SMBs require but would prefer to purchase on a “pay-as-you-grow” model such as CRM from salesforce.com and payroll packages from Automatic Data Processing (ADP). A short step would be to partner with these SaaS application vendors, reselling their branded offering. A bolder move would be to partner and invest in a distinct — and unique — offering for the very small business market.

## ENDNOTES

- <sup>1</sup> Source: U.S. Census Bureau, Tabulations by Enterprise Size (<http://www.census.gov/csd/susb/susb04.htm>).
- <sup>2</sup> Between 56% and 67% of all types of SMB IT and telecom decision-makers view peers and colleagues as important or very important sources of information for telecom products and services. For additional information, see the May 10, 2007, “[Profile Of Preferred Information Sources Used By North American SMBs](#)” report.
- <sup>3</sup> Forrester surveyed 1,247 network and telecommunications decision-makers for SMBs in North America and Europe. Of these, 830 were from North American SMBs. Source: SMB Network And Telecommunications Survey, North America And Europe, Q1 2007.

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