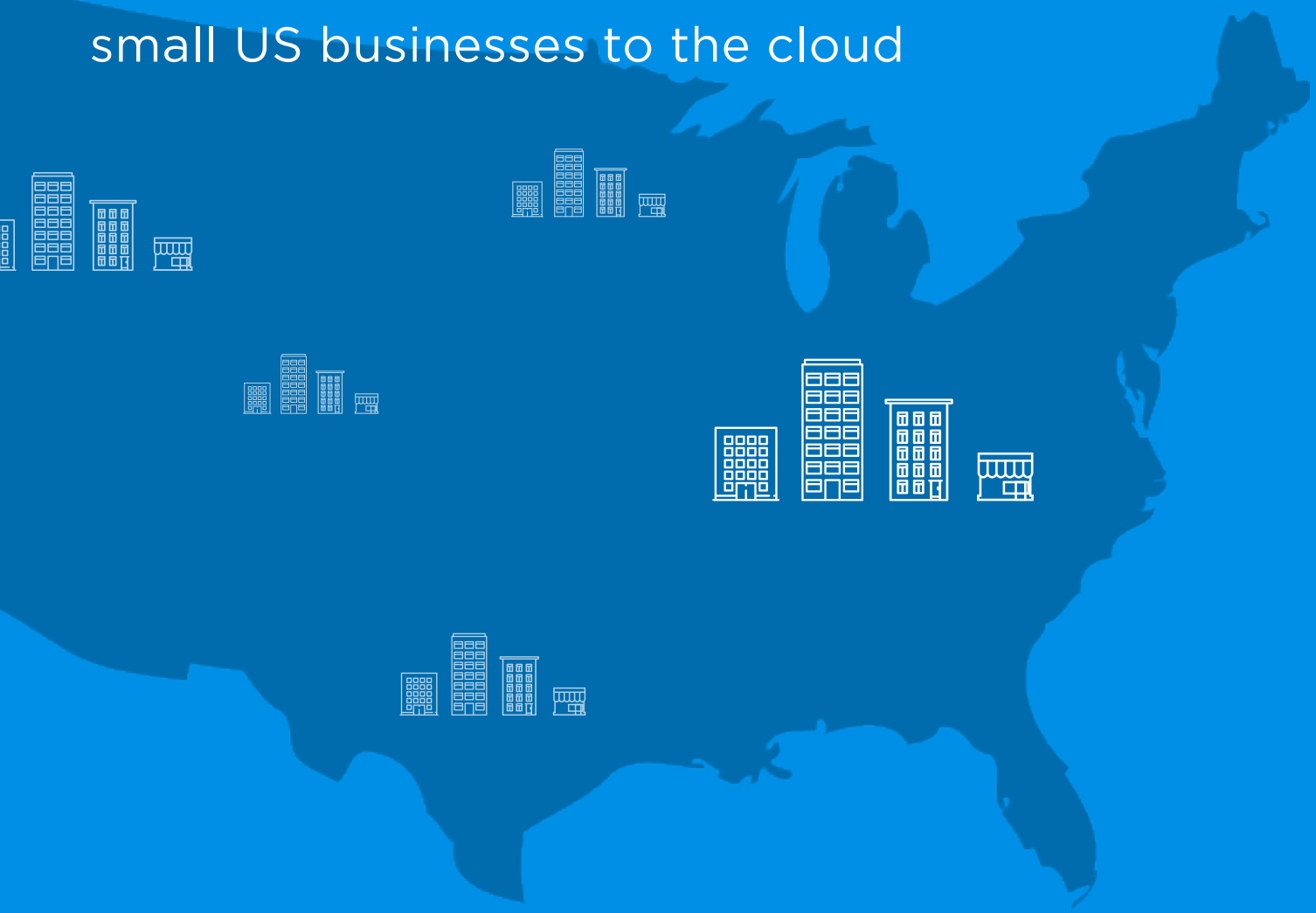
skykick

State of the Office 365 Cloud

Insights and opportunities for moving small US businesses to the cloud



A LETTER FROM SKYKICK'S CEOS

Cloud, cloud, cloud. That's all folks in IT seem to be hearing these days.

So as a cloud software company serving IT solution providers around the world, we thought we could contribute to the community by providing some insight into what's going on in the SMB cloud. For Office 365, at least.

One of the key themes we hear time and time again is the question around cloud strategy. For the IT solution providers that have already made the decision to invest in a cloud practice, the primary question is how do I grow it?

For the many partners who are still trying to assess their cloud strategy, the key question is where do I start and how best do I do it? However, for all of these partners, there is one fundamental question that underlies all these strategic decisions:

How Big and Where Is the Cloud Opportunity Ahead?

Whichever camp you're in, we have some good news for you.

We're excited to share the results of our first ever State of the Office 365 SMB Cloud study, which seeks to answer this question, starting with the US market.

In this study we hope to provide partners with:

- The answer to this important question (spoiler alert — a lot!)
- An understanding of the opportunity across business segments, geographies and verticals
- Go to market insights, where to differentiate, and the value of different markets.

Our mission as a company is to help partners be more successful in the cloud. We want to help partners by not only providing great technology and tools, but also insights that can help inform partners along the path to more successful cloud businesses.

As you read on, you'll see what we continue to see, that the business opportunity for cloud solution providers in the Office 365 ecosystem is enormous.

We hope you find the data and insights in this report valuable as the industry continues its epic journey to the cloud.

Enjoy,

Todd and Evan

SkyKick Co-CEOs

This eBook focuses on 2 key elements:



Evaluating the opportunity that remains to move US small businesses to Office 365 cloud email



Providing insight into strategic decisions on how to pursue this opportunity

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METHODOLOGY & APPROACH

The **Data:**



1–250
Employees



Incorporated in
the United States



Domain name provided
for each record



Doing business under one of
the most popular SIC codes

The data in this report was analyzed from a database of business records provided by a major, independent US data provider. The data selected included full business records and included representative sample sizes with the following attributes:

- 1-250 Employees (Small and Medium-Sized Businesses)
- 50 states in the United States
- Domain name provided
- Operating in one of the most popular 127 SIC codes

Because email is included in every Office 365 plan, for the purposes of this study, we analyzed SMBs' email environments to ascertain whether or not they were using Office 365 email.

To accomplish this we used our proprietary SkyKick Email Discovery technology on each domain record in the data set.

This returned the email platform for over 109,000 small and medium-sized businesses (SMB) in the United States, the results of which have been used as the basis of this study.

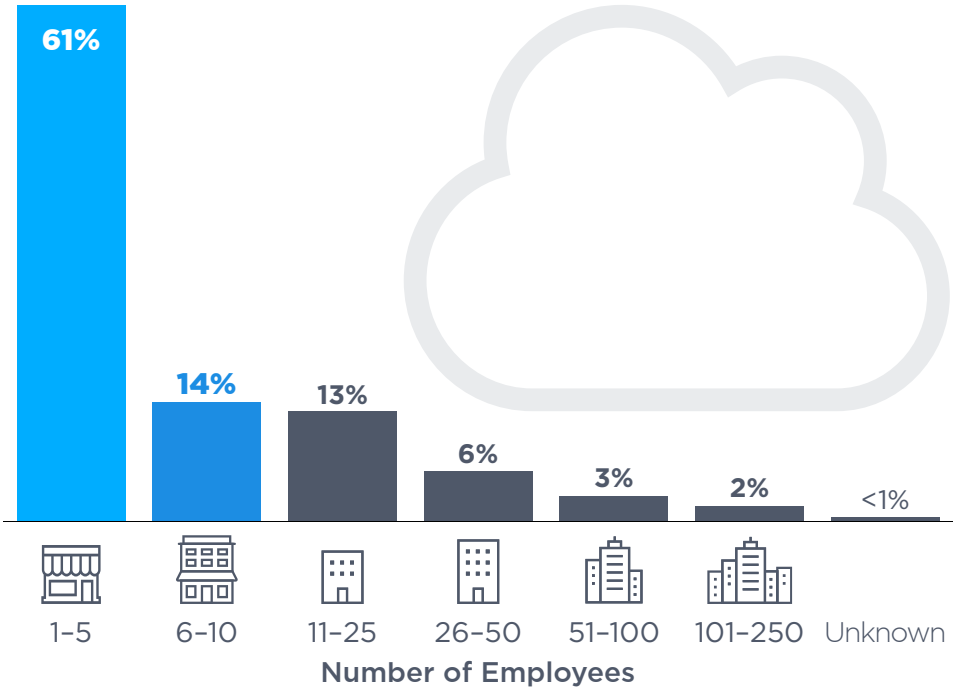
Finally, to validate that the data was statistically significant, we ran a statistical analysis using US Small Business Administration data[1], which identified that the number of records reviewed provided a margin of error of less than 1% at a 0.29[2] confidence interval.

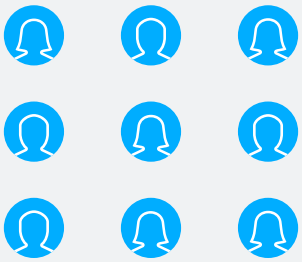
The majority of SMBs employ less than 250 people representing the "sweet spot" for the majority of IT solution providers

1. http://www.forbes.com/sites/jasonnazar/2013/09/09/16-surprising-statistics-about-small-businesses/#2996f8673078
2. Online calculation from Creative Research Systems — http://www.surveysystem.com/sscalc.htm

DATA SET AT A GLANCE

DATA BY BUSINESS SIZE



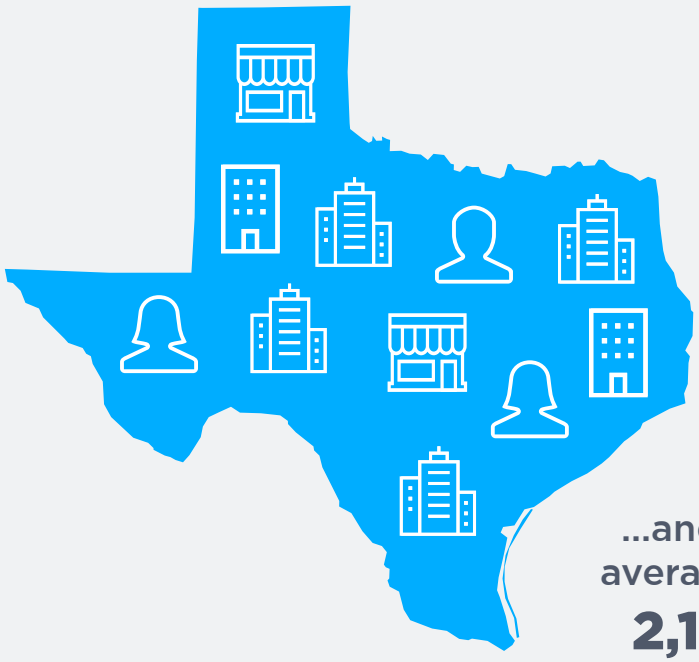


75% of the SMBs analyzed had less than 10 employees



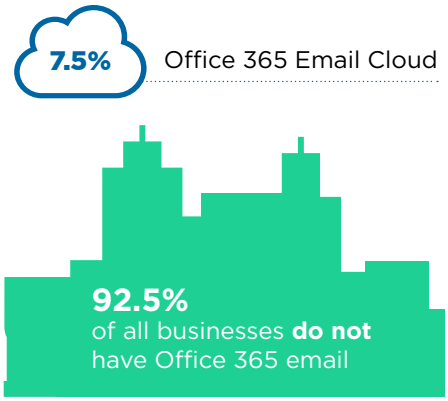
We have an average of **869** businesses per SIC





...and an average of **2,167** businesses per state.

OFFICE 365 CLOUD OPPORTUNITY



Only 7.5% of *all* businesses under 250 employees are using Office 365 email.

Yes, that's right — 92.5% of businesses with under 250 employees have yet to move to Office 365 in the cloud. This is a massive opportunity for IT Solution providers to go after. What this means is that on average, for every 1,000 businesses in a city or region, partners still have the opportunity to help 925 of them move to Office 365. Whether you're an experienced cloud partner, or new to the cloud game, there's lots of opportunities to grow your business.

Why this matters?

At SkyKick, we see Office 365 as the single most important cloud application that IT Partners should be thinking about when it comes to their cloud strategy. Office 365 offers significant productivity, collaboration and security capabilities that SMB customers consistently rank as high value drivers for moving to the cloud.

Since we've been hearing about the cloud for several years, and Microsoft has received lots of media attention and praise for their success in the cloud partners might be mistaken for thinking that the level of adoption is so high that the opportunity is over.

Office 365 adoption and traction in absolute numbers so far has been impressive, yet as the data shows, from the IT provider's perspective, there's a long road to go. The remaining opportunity is almost endless. How partners harness the opportunity is the key factor.

Businesses that have more than 10 employees have at least twice the Office 365 cloud email adoption as businesses under 10 employees.

BUILDING A WINNING GO TO MARKET STRATEGY

Any way you slice and dice it, the data in this study and others continues to show that the cloud opportunity for partners continues to be immense. For partners specifically focused on the Microsoft ecosystem and Office 365, the focus is increasingly on building a game plan and go-to-market strategy that is effective, and scalable.

There are many components to success in the cloud, and Microsoft recently announced a series of publications titled the Modern Microsoft Partner Series[3], designed to provide a roadmap to profitability for the modern partner.

The **4 Key Competencies:**



Differentiating to Stand Out | **Modernizing Sales and Marketing** | **Optimizing Business Operations** | **Delivering Customer Lifetime Value**

Win in the Cloud by Building Differentiation:

In the second publication of that series, Microsoft argues that the best cloud partners will differentiate[4] either through targeting verticals or industries, technology specializations or building unique intellectual property.

Our State of Office 365 Cloud Email study provides a number of clues as to ways that partners can think about differentiation. In the following sections, we do a dive into some of the data across the three core pillars of Business Size, Industry, and Geography.

Partners should find intriguing insights across these dimensions, with the data highlighting that there is a significant opportunity to differentiate through specialization, combined with focused sales and marketing practices.

Some will view higher adoption areas as where they should focus. Others may see lower adoption areas as more Greenfield opportunity.

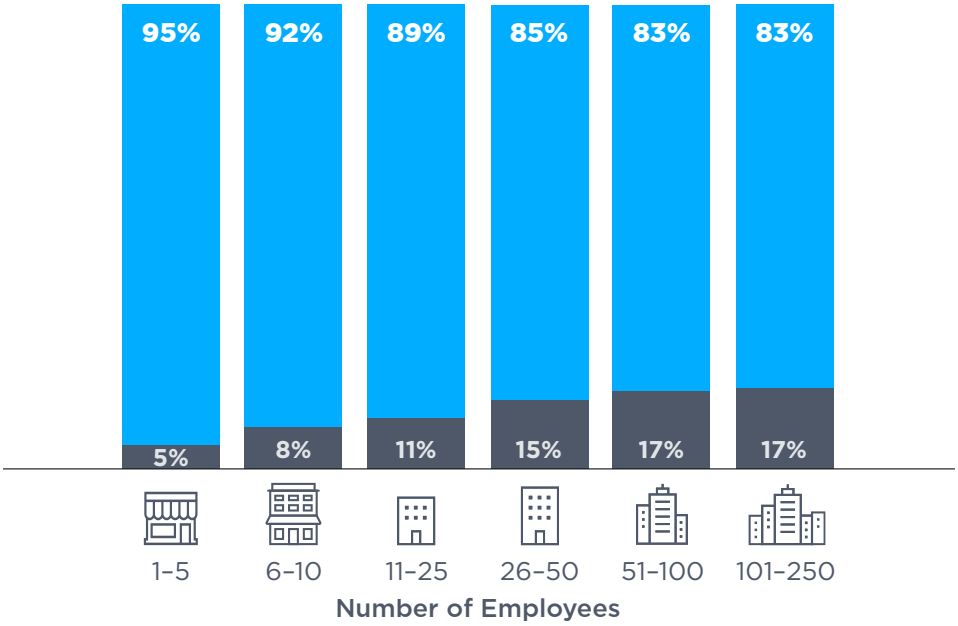
Ultimately our view is similar to Microsoft's, namely that what matters above all else, is that you have a differentiation game plan built into your cloud strategy, versus which criteria you select to differentiate.

Our State of Office 365 Cloud email study provides a number of clues that partners can use to think about differentiation.

3. Microsoft on Cloud Partner Profitability http://bit.ly/1TMtsoH
4. Check out Microsoft's Differentiate to Stand out ebook here, or watch this video focused on specialization by industry

THE BUSINESS SIZE TREND

ANALYSIS OF O365% ADOPTION BY BUSINESS SIZE



ADOPTION

- Office 365
- Other

As business size increases there is more Office 365 Cloud adoption, ranging from 5% at SMBs with 1–5 employees, up to 17% for SMBs with between 101 and 250 employees.

The data is clear — as the size of the business increases, the higher the likelihood that it will adopt Office 365 email.

Businesses that have more than 10 employees have at least twice the Office 365 cloud email adoption as businesses under 10 employees (13.0% vs 5.6%).

There are many factors that could contribute to this higher adoption rate:

- The larger the business, the higher the likelihood that they use a 3rd party IT provider
- More employees means more need for productivity and collaboration, making cloud more attractive
- As businesses scale, managing the breadth of storage and security needs can be easier in the cloud

Factors that could be influencing cloud email adoption include presence of a partner and greater need for operational efficiency

As IT providers seek success in the cloud, specialization and sales and marketing will increasingly be differentiators.

Why this matters?

The bottom line is that there's opportunity in every sub-segment of the SMB market. This is relevant because as IT providers seek success in the cloud, specialization and go-to-market strategy will increasingly be differentiators.

IT providers often choose to focus on larger SMBs, and the data shows that this should continue to be part of the strategy.

The data also suggests that now might be the point in time where partners consider going down-market, incorporating more efficient sales and marketing capabilities for smaller SMBs.

THE INDUSTRY / VERTICAL VIEW

As more IT Service providers become proficient in the cloud, those who can develop Industry niches are finding more and more success.

The data on the top 25 industry verticals with the highest adoption of Office 365 falls solidly within 3 larger categories — Industrial, Business Services focusing on Technology and White Collar Businesses.

That's a broad range of businesses that are using Office 365. In any given part of the country a Coal Mining Company, Investment Office and an Insurance carrier could be the best opportunities to move to Office 365 in the Cloud.

Click here to learn more about SIC codes.

TOP INDUSTRY VERTICALS USING OFFICE 365 CLOUD

INDUSTRIAL

INDUSTRY	OFFICE 365 ADOPTION
Coal Mining	30.96%
Pipelines (Except Natural Gas)	22.65%
Railroad Transportation	21.95%
Admin. of Environmental Quality and Housing Programs	17.16%
Industrial Launderers	15.20%

BUSINESS SERVICES

INDUSTRY	OFFICE 365 ADOPTION
Computer Facilities Management Services	21.26%
Holding and Other Investment Offices	19.97%
Computer Integrated Systems Design	17.78%
Computer Related Services, Other	16.73%
Employment Agencies	15.51%

WHITE COLLAR

INDUSTRY	OFFICE 365 ADOPTION
Engineering, Accounting, Research, Mgmt, and Related	14.13%
Insurance Carriers	13.49%
Security & Commodity Brokers, Dealers, Exchanges	13.39%
Legal Services	12.45%
Non-depository Credit Institutions	12.07%

THE INDUSTRY / VERTICAL VIEW

BOTTOM INDUSTRY VERTICALS USING OFFICE 365 CLOUD



INDUSTRY	OFFICE 365 ADOPTION
Commercial Art and Graphic Design	3.88%
Miscellaneous Repair Services	3.45%
Photofinishing Laboratories	3.38%
Disinfecting and Pest Control Services	2.79%
Commercial Photography	2.02%



INDUSTRY	OFFICE 365 ADOPTION
Fishing, Hunting, and Trapping	3.84%
Forestry	3.05%
Agricultural Services	2.91%
Agricultural Production Crops	2.49%
Agricultural Production Livestock	0.88%



INDUSTRY	OFFICE 365 ADOPTION
Coin-Operated Laundries and Drycleaning	1.87%
Barber Shops	1.63%
Shoe Repair Shops and Shoeshine Parlors	1.34%
Laundry and Garment Services, Other	1.34%
Garment Pressing and Agents for Laundries and Drycleaners	1.25%

BUILDING A GEOGRAPHIC PLAN

Why It Matters:

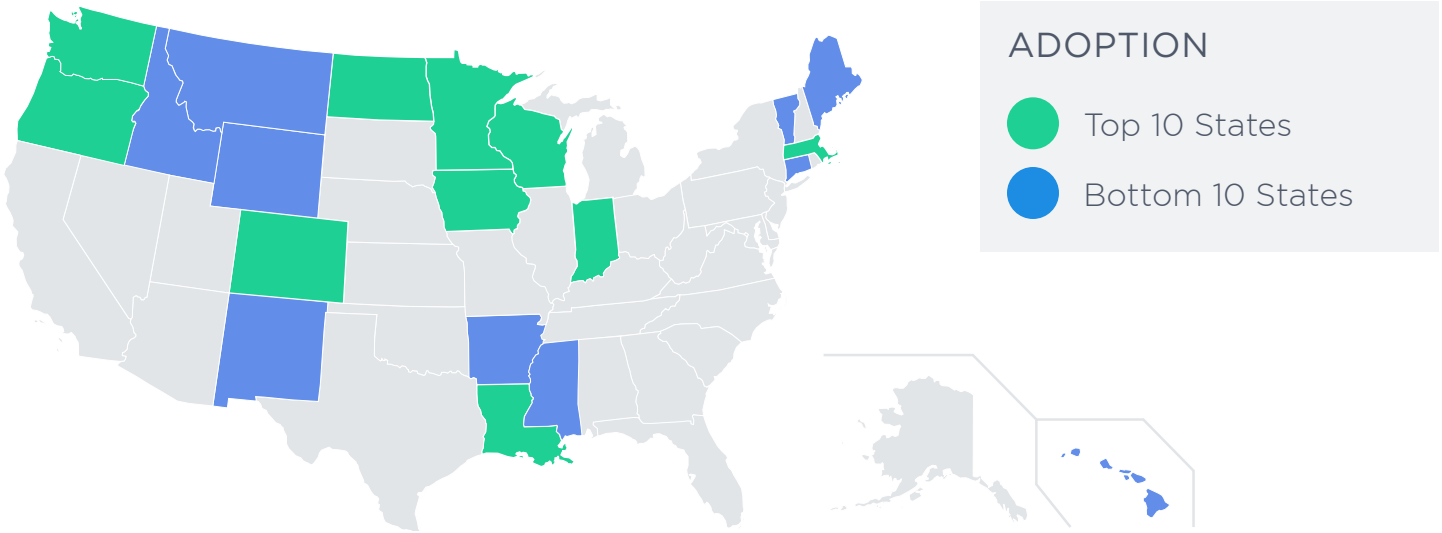
A local focus can be advantageous from a serviceability and relationship perspective.

However, similar to specializing by business size and industry, Partners who are locally focused should consider expanding their geographic footprint to take advantage of the broad opportunity nationwide.

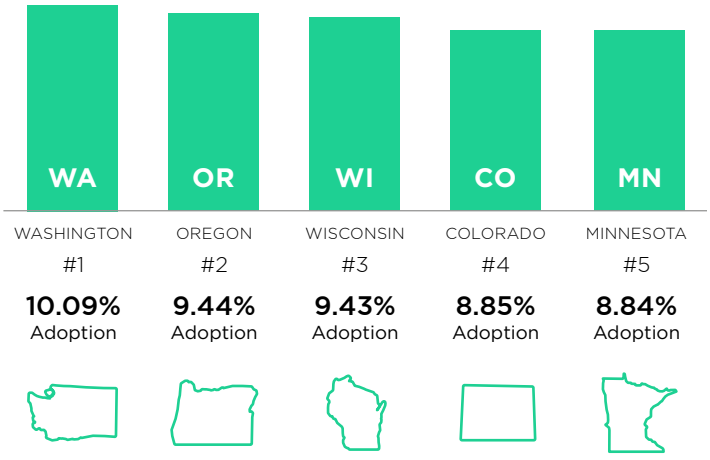
No matter where you provide IT services across the United States, the data makes clear that opportunity abounds.

> No matter where you provide IT services across the US, opportunity abounds.

AN OPPORTUNITY THROUGHOUT THE UNITED STATES

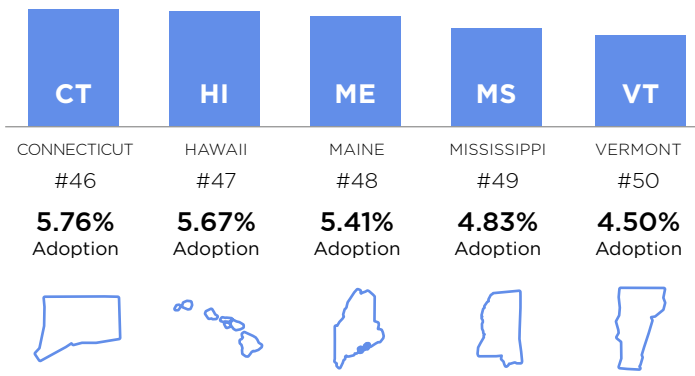


TOP ADOPTING STATES



WASHINGTON	OREGON	WISCONSIN	COLORADO	MINNESOTA
#1	#2	#3	#4	#5
10.09% Adoption	**9.44%** Adoption	**9.43%** Adoption	**8.85%** Adoption	**8.84%** Adoption

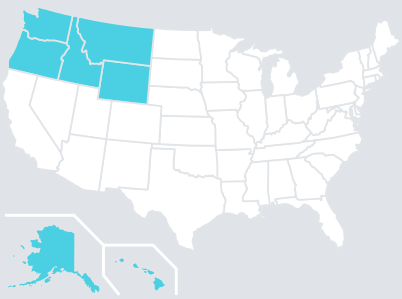
LOWEST ADOPTING STATES



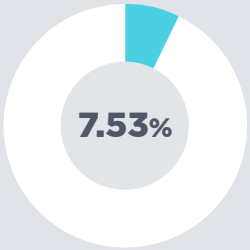
CONNECTICUT	HAWAII	MAINE	MISSISSIPPI	VERMONT
#46	#47	#48	#49	#50
5.76% Adoption	**5.67%** Adoption	**5.41%** Adoption	**4.83%** Adoption	**4.50%** Adoption

NORTHWEST REGION ANALYSIS

REGIONAL MAP
AK, HI, ID, MO, OR, WA, WY

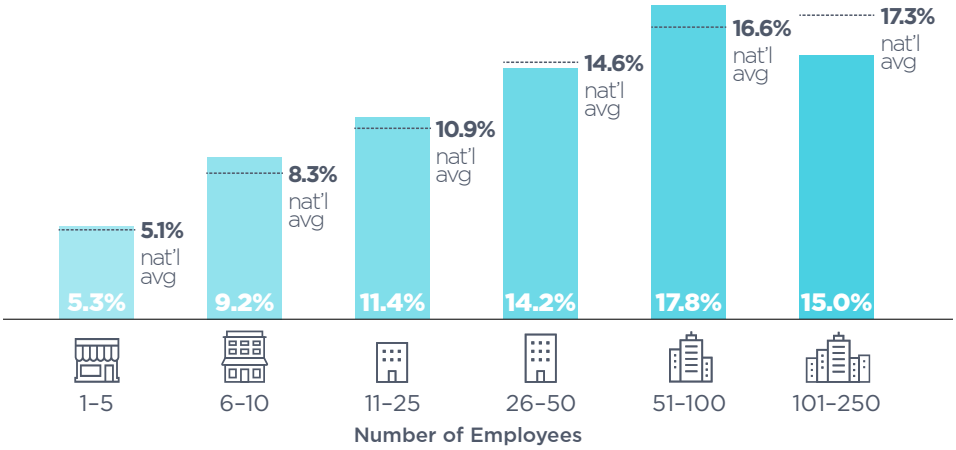


MARKET PENETRATION



Penetration of Office 356 cloud email for all SMBs across NW region is 7.53%, closely in line with the national average.

NORTHWEST O365 ADOPTION BY BUSINESS SIZE



SMBs in NW states are generally well aligned with the national averages for Office 365 adoption. The primary exceptions being companies between 101 and 250 employees (-13.3% below average), and companies between 6 and 10 employees (11.6% above average).

INDUSTRY OPPORTUNITY
HIGH % ADOPTION

INDUSTRY	OFFICE 365 ADOPTION
Coal Mining	46.13%
Insurance Carriers	32.63%
News Syndicates	29.24%
Computer Facilities Management Services	28.28%
Help Supply Services	24.03%

Many of the top verticals on a National basis are also at the top of the NW Region's list.

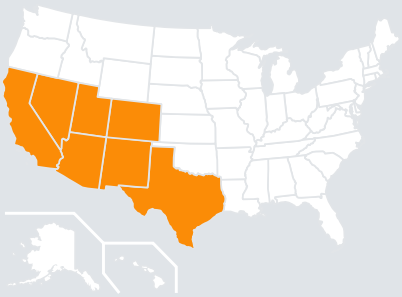
INDUSTRY OPPORTUNITY
LOW % ADOPTION

INDUSTRY	OFFICE 365 ADOPTION
Photofinishing Laboratories	1.80%
Miscellaneous Personal Services	1.78%
Commercial Photography	1.55%
Automotive Repair, Services, and Parking	1.43%
Local and Suburban Transit	1.31%

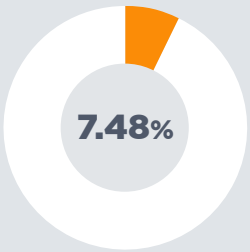
Many of the Personal Service categories that dominate the bottom of the National average of SIC codes are present in the NW region as well.

SOUTHWEST REGION ANALYSIS

REGIONAL MAP
AZ, CA, CO, NM, NV, TX, UT

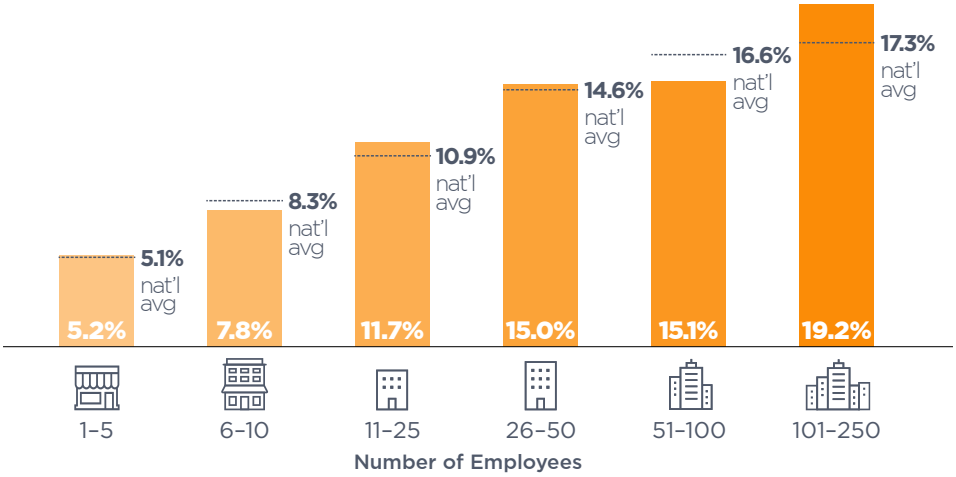


MARKET PENETRATION



The Southwest Region has an average Office 365 cloud email adoption rate of 7.48%, on par with the National average.

SOUTHWEST O365 ADOPTION BY BUSINESS SIZE



Southwest companies primarily vary with national averages in the larger sized businesses with 51–100 employees (-9.18% below average) and 101–250 employee segment (10.6% above average).

INDUSTRY OPPORTUNITY
HIGH % ADOPTION

INDUSTRY	OFFICE 365 ADOPTION
Coal Mining	28.40%
Pipelines (Except Natural Gas)	23.19%
Computer Rental and Leasing	21.78%
Admin. of Environmental Quality and Housing Programs	20.26%
Computer Facilities Management Services	19.74%

The SW Top SIC codes and industries line up very consistently with the Top 25 verticals across the Nation. Industrial, Tech-Focused Business Services and White Collar businesses are all well-represented.

INDUSTRY OPPORTUNITY
LOW % ADOPTION

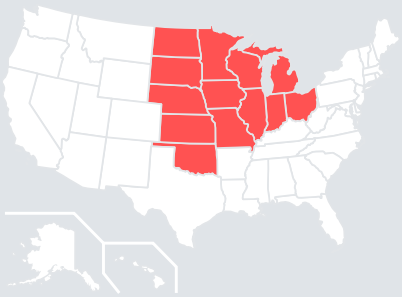
INDUSTRY	OFFICE 365 ADOPTION
Linen Supply	2.09%
Commercial Art and Graphic Design	1.97%
Drycleaning Plants (Except Rug Cleaning)	1.61%
Shoe Repair Shops and Shoeshine Parlors	1.04%
Laundry and Garment Services, Other	0.65%

As with the top of the list, the bottom section of the Office 365 cloud email adoption list falls in alignment with the lowest adopted SIC codes and Industries of the National average.

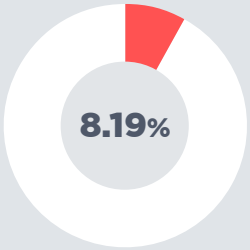
CENTRAL REGION ANALYSIS

REGIONAL MAP

IA, IL, IN, KS, MI, MN, MO, NE, ND, OH, OK, SD, WI

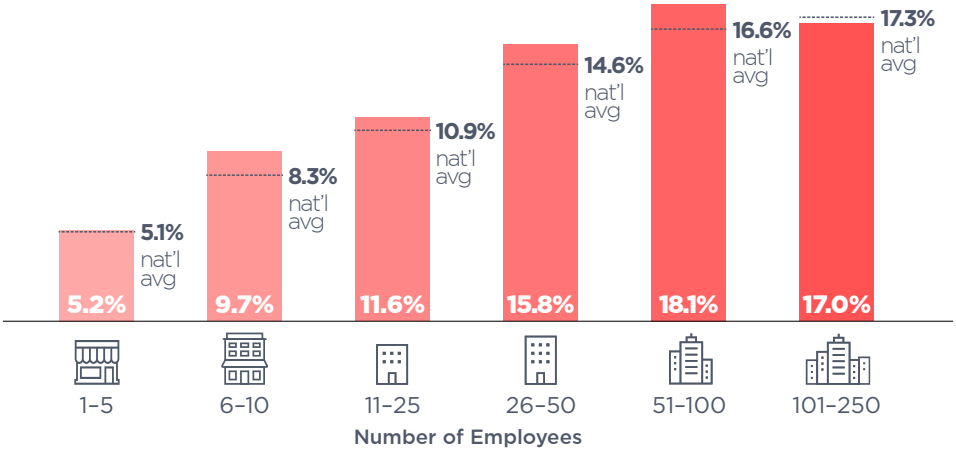


MARKET PENETRATION



The Central region has the highest Office 365 Cloud email adoption of any region — 8.19%. That is just over 1% higher adoption than the national average.

CENTRAL O365 ADOPTION BY BUSINESS SIZE



The Central Region has generally higher Office 365 adoption, with all segments other than the largest outpacing the national average. Particularly notable are the SMBs with 6–10 employees, where adoption is 17.1% higher than the national average.

INDUSTRY OPPORTUNITY
HIGH % ADOPTION

INDUSTRY	OFFICE 365 ADOPTION
Coal Mining	43.15%
Railroad Transportation	36.02%
Admin. of Environmental Quality and Housing Programs	26.58%
Administration Of Human Resource Programs	21.98%
Medical Equipment Rental and Leasing	21.40%

6 of the Top 10 Verticals in the Central Region are also in the National Top 10. Coal Mining, the top national vertical for Office 365 adoption has 17% higher adoption in this region. The top national categories for adoption all represent strongly in this region.

INDUSTRY OPPORTUNITY
LOW % ADOPTION

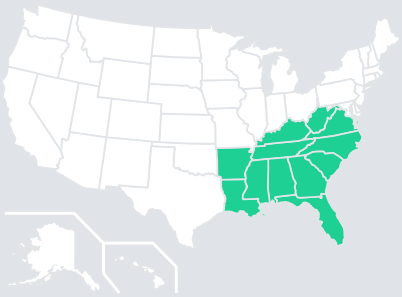
INDUSTRY	OFFICE 365 ADOPTION
Commercial Photography	1.89%
Coin-Operated Laundries and Drycleaning	1.57%
Agriculture Production Livestock and Animal Specialties	1.21%
Agriculture Production Crops	0.80%
Miscellaneous Personal Services	0.79%

In general, the Central region's least penetrated Office 365 Cloud categories and SIC codes align with the National results. Specific verticals in Agriculture and specific Personal Services lag in adoption.

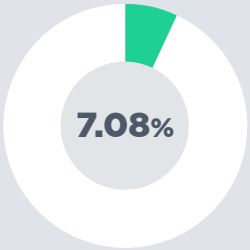
SOUTHEAST REGION ANALYSIS

REGIONAL MAP

AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, WV

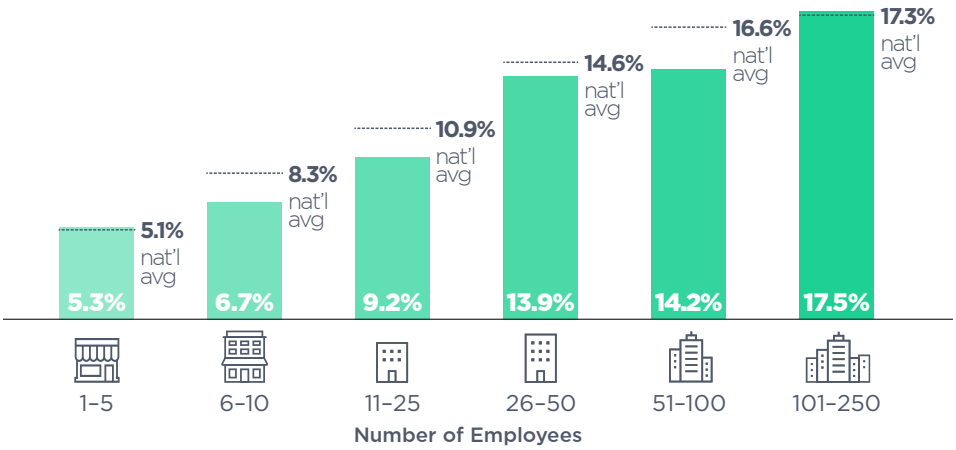


MARKET PENETRATION



The Southeast Region has the lowest Office 365 Cloud email adoption of any region — 7.08%.

SOUTHEAST O365 ADOPTION BY BUSINESS SIZE



The Southeast region has generally lower adoption of Office 365. SMBs with under 26 employees lag (-19.1% for SMBs with 6–10 employees and -15.0% for SMBs with between 11 and 25 employees).

INDUSTRY OPPORTUNITY

HIGH % ADOPTION

INDUSTRY	OFFICE 365 ADOPTION
Pipelines (Except Natural Gas)	33.44%
Industrial Launderers	23.90%
Coal Mining	23.00%
Public Finance, Taxation, and Monetary Policy	21.30%
Holding And Other Investment Offices	20.91%

As with adoption overall, Office 365 adoption in almost every vertical lags behind the national average. Fewer of the heavy industrial verticals top the list in the Southeast region, instead replaced by verticals in Business Services categories

INDUSTRY OPPORTUNITY

LOW % ADOPTION

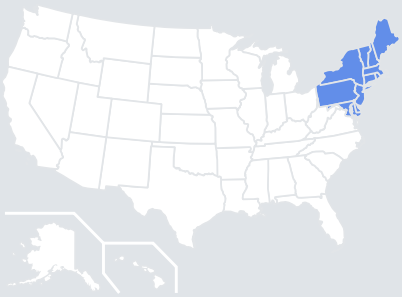
INDUSTRY	OFFICE 365 ADOPTION
Agricultural Production Crops	1.32%
Photographic Studios, Portrait	1.29%
Health Services	1.23%
Agriculture Production Livestock and Animal Specialties	0.81%
Barber Shops	0.42%

Consistent with the national averages, businesses in Agriculture and Personal Services dominate the poorest performing SIC codes. Unlike other regions, Health Services stands out with particularly low adoption.

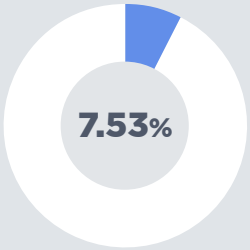
NORTHEAST REGION ANALYSIS

REGIONAL MAP

CT, DE, MA, ME, MD, NH, NJ, NY, PA, RI, VT

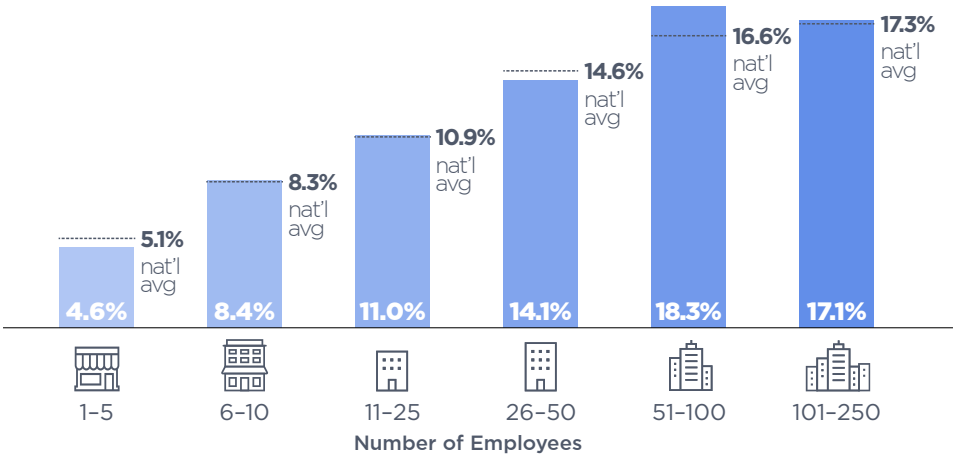


MARKET PENETRATION



The Northeast Region has an average Office 365 cloud email adoption rate of 7.53%, on par with the National average.

NORTHEAST O365 ADOPTION BY BUSINESS SIZE



NE companies lag behind the national average in the smallest businesses with adoption among companies with 1–5 employees -10.4% below average. Conversely SMBs with between 51 and 100 employees outpace the national average by 10%.

INDUSTRY OPPORTUNITY

HIGH % ADOPTION

INDUSTRY	OFFICE 365 ADOPTION
Administration Of Economic Programs	36.32%
Pipelines (Except Natural Gas)	28.63%
Public Finance, Taxation, and Monetary Policy	22.30%
Computer Facilities Management Services	22.21%
Coal Mining	21.63%

In the Northeast, adoption trends by vertical are generally consistent with national trends, though of note is the high adoption rate by SMBs focused on administering economic programs at 36.32%.

INDUSTRY OPPORTUNITY

LOW % ADOPTION

INDUSTRY	OFFICE 365 ADOPTION
Disinfecting and Pest Control Services	1.60%
Beauty Shops	1.01%
Garment Pressing and Agents for Laundries	0.88%
Laundry and Garment Services, Other	0.69%
Barber Shops	0.57%

Personal services dominate the NE's lowest adoption industries at a much higher rate than the National averages.

CONCLUSION: WHAT TO DO NEXT?

It's an exciting time for IT solution providers with only 7.5% of US SMBs adopting Office 365.

This survey was designed to help Partners who are either considering, or already invested in Office 365.

Overall, the data shows that it's an exciting time for IT solution providers with only 7.5% of US SMBs adopting Office 365.

From a geographic perspective, no state shows more than 10.1% adoption. From an industry perspective, Industrial, Tech-Focused business services and White Collar services are the highest adopted, while Agriculture, General business services and Personal services are the lowest.

With respect to business size, adoption ranges from 5% among SMBs with 1 to 5 employees, up to a maximum of 17% among SMBs with 101 to 250 employees.

In addition, the data exposes some key implications for IT providers.

KEY IMPLICATIONS

Some key implications have been explored in this document:

The Office 365 Cloud Opportunity is STILL Massive:

Good news! The Office 365 momentum to date is literally just the tip of the iceberg. 92.5% of US SMBs with under 250 employees are yet to migrate to Office 365 in the Cloud, a number that should energize any Microsoft Partner or Cloud Services Provider.

A differentiated, Cloud Go-to-Market Strategy is absolutely crucial:

Where there's opportunity there is competition. Many already see the massive opportunity that exists, and as such building and maintaining a strong go-to-market plan is absolutely critical. Partners must consider the ways that they will differentiate, and industry focus and technology specialization are two key pillars that influence everything from sales and marketing to building operational efficiencies.

KEY QUESTIONS

Some key questions emerge for partners reviewing the data to ask themselves, including:

- Do your existing clients fall largely into specific business categories? Does this or any other factor provide an opportunity for industry specialization?
- What are your company's sweet spots with respect to the size of your SMB customers?
- Do you want to specialize your practice in a geographic region, or do you seek to expand nationally with a broader sales, marketing and operational reach?
- What combinations of focus and targeting criteria will be most effective for your business?

WHAT'S NEXT IN THIS SERIES

This study is the first of a series of future insights SkyKick will provide with a goal of empowering partners to make better decisions and succeed in the cloud. Look for updated data, deeper insights and more in the future.



ABOUT SKYKICK

We are an award-winning, global cloud-management software company, with a maniacal focus on helping IT solution providers to be successful in the cloud.

Our products help IT partners build successful cloud businesses by making it easy and efficient to migrate, backup and manage their customers in the cloud.

MIGRATE

Project automation makes migrations safer and easier

BACKUP

One minute setup, unlimited backup, 1 second restore

MANAGE

All your customer's SaaS apps in one dashboard

Over 5,000 partners in 125 countries use SkyKick's products to accelerate their cloud business, and the company has won numerous awards including being named a Microsoft Partner of the Year, Red Herring Top 100 North America winner and one of the "100 Best Companies to Work For" in Washington State. SkyKick is headquartered in Seattle.

Special Offer for Microsoft Partners



Microsoft Partner Network and SkyKick have teamed up to give partners with a valid MPN ID, FREE use of the SkyKick Migration Suite and SkyKick Cloud Backup for your company. Use this limited time offer today.

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