

Google's Postini Buy Will Boost Gmail Corporate Appeal

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Google's planned acquisition of Postini shows a commitment to penetrate the enterprise e-mail market. The purchase will provide needed business features for Gmail, and thereby enhance its attractiveness for enterprises.

NEWS ANALYSIS

Event

On 9 July 2007, Google agreed to buy Postini, a leading hosted e-mail hygiene vendor, for \$625 million in cash — which we believe represents a high price premium of close to a 10-times-revenue multiple for the San Carlos, California-based company. The deal is expected to close by the end of 3Q07.

Analysis

Key to Google's long-term expansion plans is its drive to generate substantial revenue from enterprise customers. It has been successful with its search appliance, and it is now looking to sell personal and group productivity applications to businesses. Its e-mail service, Gmail, is the most attractive component of the fee-based Google Apps suite aimed at businesses, but the initial incarnation (released in February 2007) lacked enterprise control and security services, diminishing its appeal to the corporate audience. The uptake of Google Apps has generally been limited to small organizations.

As a result of those deficiencies, Google had partnered with Postini, which offers hosted spam and virus filtering, message recovery, archiving and content control services for commercial Gmail customers (as it also does for Microsoft Exchange and Lotus Note/Domino). By buying Postini, Google will now own a strategic platform for offering sophisticated message hygiene services to commercial accounts, a business necessity for multiple types of messaging, including instant messaging and VoIP services. The hygiene and control services also represent a significant "upsell" opportunity for the \$50 per user, per year Google Apps suite, but high add-on fees will likely threaten its pricing advantage over Microsoft Exchange — its chief competitor for enterprise seats — which is likely to launch an aggressive Exchange software as a service (SaaS) program next year.

The Postini business model and architecture is custom fit for Google. It is an entirely hosted model where all mail is sent through the Postini network prior to delivery to the enterprise (or external recipients, if outbound). Billing is done on a per-user, per-year model, and ranges from a low of about \$1 per user, per month for basic spam and virus filtering, up to \$4 per user, per month for a complete set of services. Postini has been one of the most successful of the hosted hygiene vendors — it competes primarily with Microsoft (which acquired FrontBridge Technologies in 2005) and MessageLabs, a U.K.-based company that also is an attractive acquisition candidate. We expect Cisco and Symantec to directly enter the e-mail hygiene SaaS market in the next 12 to 18 months.

Postini also represents an attractive commercial market channel for Google. The eight-year-old company has 11 million mailboxes under management from 35,000 organizations, representing larger enterprises and, small businesses — the primary target for Google Apps. Postini also maintains a healthy distributor channel which Google might exploit, although it has always favored a direct-sales approach.

RECOMMENDATIONS

- **Postini customers:** Expect business as usual through existing contracts. In the longer term, customers need to validate that rich Postini services will continue to be available for Microsoft Exchange and IBM Lotus Notes/Domino, which are Google's biggest

competitors in the e-mail market. Similar commitments must be made for Postini's instant messaging and Web filtering services.

- **Enterprises evaluating Google Apps for e-mail services:** Continue to exercise caution. Enterprises considering Google Apps for e-mail need to verify that Google can meet uptime and other requirements, which generally means more than 12 months of continuous service.

RECOMMENDED READING

- "Pros and Cons of SaaS Anti-spam Solutions" — IT organizations should focus their initial anti-spam solution analysis on meeting business requirements, not preconceptions about the delivery model. **By Peter Firstbrook**
- "Google Is Looking to Dominate the Public Portal Market With Gmail" — Google's entry into the e-mail market demonstrates its ability to innovate ahead of its public portal competitors. **By Matthew Cain**

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