

Microsoft Matches Google With SaaS for E-Mail/SharePoint

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Responding to the threat from Google, and sensing a significant business opportunity, Microsoft has announced substantial plans for an Exchange and SharePoint software-as-a-service model.

NEWS ANALYSIS

Event

On 2 March 2008, Microsoft announced a beta version of a multitenant server software-as-a-service (SaaS) platform, to be used initially for e-mail and teamware (SharePoint), but expanding, we believe, to other applications, such as Office, over time. Delivery of the platform is planned for 4Q08. Microsoft already offers a dedicated server SaaS platform for companies with over 5,000 seats. This implementation is for organizations with under 5,000 seats. Pricing has not been announced.

Analysis

The SaaS model is in its infancy, but holds considerable appeal, particularly for small and midsize businesses (SMBs). This is because it offers fixed monthly fees, freedom from most operational management, elimination of upgrade responsibilities and, in some cases, lower costs. The potential of the SaaS delivery model has had a significant impact on vendor dynamics, driving Cisco to acquire WebEx, Yahoo to buy Zimbra, Google to purchase Postini, Dell to buy MessageOne and SAP to invest heavily in its Business ByDesign platform.

We believe the SaaS model will dramatically change the way businesses provision, operate and consume IT services during the next five years. Microsoft's SaaS investment is both an offensive move to capture operational revenue (in addition to the license fees it now collects), and a defensive measure to combat potential incursions from suppliers such as Google.

The challenges Microsoft faces are considerable. While it runs one of the largest public portal sites in the industry, providing large-scale SaaS services for business requires significant expertise in high availability, security, multitenant architectures, network topologies and problem resolution. Furthermore, Microsoft is retrofitting its existing software to the multitenant server model. It won't be until the next version of Exchange (due in 2011) that its core products are better architected to run in a multitenant SaaS model.

Nonetheless, Microsoft's substantial market share in the e-mail and teamware market, particularly among SMBs, and the growing acceptance of SaaS business models create a significant opportunity for Microsoft. We believe that 20% of enterprise e-mail seats will use a SaaS provisioning model by 2012, compared with 1% in 2007.

RECOMMENDATIONS

- Develop a model for evaluating SaaS offerings in preparation for the expected heavy vendor participation in this area during the next several years.
- Pilot Microsoft's SaaS offering in 2008 if appropriate, but deploy it in production only after maturity is demonstrated, which is likely to take 12 to 18 months.

RECOMMENDED READING

- "E-Mail Hosting: Poised for Explosive Growth" — After a decade of treading water, the market for hosted e-mail mailbox services is poised for rapid growth due to the economics of "cloud computing" and the entry of new e-mail vendors. **By Matt Cain**

- "Tactical Guideline: Minimizing Risk in E-Mail Hosting Relationships" — Many companies are exploring the possibility of hosted e-mail relationships, but there are many areas of uncertainty that need to be addressed before final contracting. **By Matt Cain**

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