

## Microsoft's E-Mail/SharePoint Pricing Portends Shift to SaaS

Matthew W. Cain, Frances O'Brien

Newly announced Microsoft software-as-a-service pricing and distribution for Exchange and SharePoint — coupled with robust pent-up demand — will accelerate the transition away from premises-based collaboration software.

## NEWS ANALYSIS

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### Event

On 8 July 2008, Microsoft announced pricing and distribution for the forthcoming 4Q08 launch of its collaboration software as a service (SaaS) program. Sample prices (license included, all prices per user, per month) include:

- Exchange: \$10 (1 GB store, Outlook client not included)
- Outlook Web Access only: \$2 (100 MB store)
- SharePoint: \$7.25 (250 MB store)
- Office Communication Server: \$2.50 (instant messaging and presence)
- Live Meeting: \$4.50

The entire set of services, called Business Productivity Online Suite (BPOS), is bundled together for \$15, a 33% discount over individual pricing. Enterprises with existing licenses will receive discounts commensurate with license value. Volume discounts will be offered.

Microsoft also announced the Quickstart for Online Services program, under which channel partners receive 12% of the first-year contract value of any sale and 6% of recurring fees thereafter.

### Analysis

Microsoft's newly announced collaboration SaaS pricing is likely to generate substantial interest from enterprises seeking to cut costs or move away from premises-based collaboration deployments. The economics will be most appealing to small enterprises (those with fewer than 1,000 employees), which have the highest operational unit cost and generally can't provide the BPOS suite services internally for less than \$15 per user per month. Enterprises with 20,000 or more employees are unlikely to experience cost savings, but may be looking to move to a SaaS model for other reasons. Microsoft's inclusion of a strong channel model for SaaS distribution will ensure broad market coverage and should keep government regulators at bay.

Microsoft likely is being forced into aggressive support for collaboration SaaS by Google Apps, which is priced at \$4 per user per month. While the e-mail portion of Google Apps has yet to reach critical mass in market share, it is maturing rapidly and is likely to give Microsoft significant competition during the next several years. Personal productivity applications will likely be the next area in which the two companies compete, as Microsoft races to offer a cost-effective SaaS version of Office before Google's personal productivity suite attains maturity.

Gartner expects elements of the BPOS to mature rapidly, with routine, mainstream adoption occurring in 2010. We expect 20% of enterprise e-mail seats to use SaaS (from Microsoft and other vendors) in 2012, up from 1% in 2007. Early adopters of this multitenant SaaS will likely encounter issues associated with its immaturity, such as stability, contract terms, data migration, integration, security and legal issues. Enterprises should therefore wait for several quarters of successful large-volume operations prior to engagement.

## RECOMMENDATIONS

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### All enterprises:

- Calculate internal collaboration costs and uptime levels for comparison with the SaaS model.
- If pursuing Microsoft SaaS, seek contractual protections, including uptime guarantees, data access rights and assurance of service continuity. Clauses should be appended to a volume license agreement.

**Smaller enterprises:**

- In 2009, compare BPOS (the suite and individual services) and other SaaS collaboration programs against internal deployments, taking into account potential migration to the SaaS model in 2010, assuming appropriate BPOS maturity.

**Larger enterprises:**

- Establish granular evaluation criteria — incorporating security, legal, operational and integration concerns — to determine when the SaaS model can meet internal requirements and can be considered as an alternative to premises-based deployments.

**RECOMMENDED READING**

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- "Tactical Guideline: Minimizing Risk in E-Mail Hosting Relationships" — Despite a decade of experience with the hosted e-mail model, enterprises must address many areas of uncertainty before final contracting. **By Matthew Cain**
- "The Impact of SaaS on E-Mail Applications" — Due to the rapid expansion of SaaS within the enterprise e-mail market, organizations must consider a SaaS provisioning model in any long-term e-mail strategy planning. **By Matthew Cain**

(You may need to sign in or be a Gartner client to access the documents referenced in this First Take.)

This research is part of a set of related research pieces. See "Control IT Spending for Microsoft Licensing" for an overview.

## REGIONAL HEADQUARTERS

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### **Corporate Headquarters**

56 Top Gallant Road  
Stamford, CT 06902-7700  
U.S.A.  
+1 203 964 0096

### **European Headquarters**

Tamesis  
The Glanty  
Egham  
Surrey, TW20 9AW  
UNITED KINGDOM  
+44 1784 431611

### **Asia/Pacific Headquarters**

Gartner Australasia Pty. Ltd.  
Level 9, 141 Walker Street  
North Sydney  
New South Wales 2060  
AUSTRALIA  
+61 2 9459 4600

### **Japan Headquarters**

Gartner Japan Ltd.  
Aobadai Hills, 6F  
7-7, Aobadai, 4-chome  
Meguro-ku, Tokyo 153-0042  
JAPAN  
+81 3 3481 3670

### **Latin America Headquarters**

Gartner do Brazil  
Av. das Nações Unidas, 12551  
9º andar—World Trade Center  
04578-903—São Paulo SP  
BRAZIL  
+55 11 3443 1509