

IBM Notes Hosting Will Compete With Exchange Service Offerings

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IBM's announcement of Lotus Notes Hosted Messaging is a reaction to customer demand for hosted e-mail services and to a competitive challenge from Microsoft.

Event

On 22 October 2008, IBM announced that it will deliver Lotus Notes through a hosted service, Lotus Notes Hosted Messaging. The service is priced starting at less than \$10 per user per month, and is designed primarily for companies with 1,000 to 10,000 employees. It will be supported by a dedicated IBM team and offers two service-level agreement options, spam and virus filtering, and backup-and-restore services.

Analysis

IBM is responding to demand from its Notes customers for standard hosted e-mail services, as well as to the continuing competitive e-mail threats from Microsoft and forthcoming competition from Google and Cisco.

Hosted Notes actually has been available for many years through IBM Global Services and third parties. With this announcement, IBM will enable its software sales force to sell the hosted Notes e-mail service with a more fixed price schedule. IBM appears to be matching Microsoft's Hosted Exchange e-mail service pricing, but accurate comparisons require a quote from the vendors, because of the need for custom options such as mobility, larger mailbox stores and archiving services.

IBM's hosted offering is based on servers dedicated to each individual customer. (IBM's offer is not a multitenant implementation.) Microsoft will release a multitenant server hosted version of Exchange by year-end 2008, targeted at enterprises with fewer than 5,000 users. (Microsoft currently offers a dedicated server model for companies with more than 5,000 seats.)

Absent a multitenant server model, we believe IBM cannot economically pursue firms with 1,000 or fewer employees where demand for hosted e-mail services is greatest. IBM's Lotus Foundations is IBM's appliance model offering for the small business sector, where it currently has little market presence. IBM does not have a standard, externally hosted e-mail offering for small businesses. Thus, that segment of the market is left to Microsoft and, to a lesser extent, Google. IBM's hosted Notes offer is not cloud computing, but we believe the company is likely to pursue that path in the future, perhaps with its Bluehouse hosted collaboration option, currently in beta.

Notes/Domino is used for both e-mail and business applications, but the current Notes hosting announcement does not include Notes applications. Lacking a standard set of application services and prices, IBM's Notes customers are left with three alternatives when considering hosting options with IBM:

- Retain applications in-house while outsourcing e-mail to IBM
- Establish a custom services deal for e-mail and applications
- Maintain both applications and e-mail on-premises

We believe many companies will be hesitant to externally host Notes e-mail while keeping applications inside the firewall. Notes/Domino customers will be more likely to consider outsourced hosting of both Notes/Domino e-mail and applications. Notes/Domino customers are more likely to pursue that path if IBM can demonstrate — through standardized pricing and metrics — that hosting applications with IBM will save money compared to on-premises deployments (while meeting or exceeding existing service levels).

RECOMMENDATIONS

- Enterprises should understand internal costs of Notes/Domino e-mail and application services so that they may compare them with externally hosted pricing.
- Large users committed to Notes/Domino applications should press IBM to provide lower-cost, "cloud-based" e-mail and application services.

RECOMMENDED READING

- "Microsoft and Google Jostle Over Cloud-Based E-Mail and Collaboration" — Though Microsoft and Google are vying to become the key provider in the emerging cloud-based e-mail and collaboration services market, neither has yet gathered all the components it needs to succeed. **By Tom Austin**
- "Cisco Challenges Microsoft in E-Mail With Postpath Acquisition" — The acquisition of Postpath will enable Cisco to vie with Microsoft for leadership in the unified communications and collaboration market. **By Matt Cain**

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