

Microsoft Cuts Cloud Collaboration Prices to Rival Google, Others

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Microsoft slashed prices on its cloud collaboration services to spur demand and fend off aggressive competition from Google, IBM and Cisco.

NEWS ANALYSIS

Event

On 2 November 2009, Microsoft announced that it has reduced the price of the Business Productivity Online Suite (BPOS) from \$15 to \$10 per user per month. Microsoft extended BPOS services to 15 new countries and regions, bringing the total to 36. Microsoft also lowered the price of Exchange Online from \$10 to \$5 per user per month and raised the mailbox size from 5GB to 25GB for users of the standard service.

Analysis

Microsoft cut prices, expanded storage and extended BPOS to more countries to protect its dominance in the collaboration market, threatened by a move away from on-premises provisioning to the cloud. Microsoft has to stop Google from building momentum in the enterprise e-mail market because corporate Gmail usage can easily lead to use of Google's personal productivity applications, which would threaten Microsoft's Office franchise. Google Apps Premier Edition lists for \$4.16 per user per month. Microsoft also faces challenges from IBM, which has recently shown renewed interest in cloud collaboration, and from Cisco, which we anticipate will soon enter the market. Microsoft already has a \$2 per user per month deskless worker option for Exchange Online.

Enterprises will benefit from this price and storage battle although they should exercise caution with cloud collaboration services, particularly for multitenant implementations. The battle will hurt the vendors that already provide Exchange and SharePoint hosted services; they will have difficulty competing with Microsoft as it establishes new low price points with its own services. Resellers will also suffer since their initial and recurring revenue is based on total deal size. Resellers will likely focus on value-added services such as provisioning and support.

The numbers of users reported by cloud collaboration vendors will likely escalate sharply as they try to show that their services have momentum. Interpret these numbers with caution. Google says it has 20 million business users of Gmail, but we believe the number of paid and deployed Gmail users is under 1 million. Microsoft said it has 1 million BPOS users, but we cannot determine whether they are committed or deployed users, nor how many use the dedicated and standard offerings. We suspect the vast majority are on the dedicated platform, which has been in the market since 2007.

RECOMMENDATIONS

Enterprises considering cloud collaboration:

- Calculate internal collaboration costs to gauge the impact of a move to the cloud.
- Compare cloud and on-premises options based on functions, service-level agreements, data integration and compliance.
- Understand the differences between the multitenant and dedicated cloud models.
- Solicit bids from multiple vendors to drive down prices.

RECOMMENDED READING

- "Understanding Microsoft Business Productivity Online Suite Pricing"— The key to understanding the pricing is first to differentiate between the shared provisioning model and the dedicated provisioning model, and between a new and an existing Microsoft customer. **By Matt Cain**
- "Microsoft BPOS: Maturation Under Way"— Microsoft has been transforming its collaboration business model — for instant messaging, e-mail, Web conferencing and shared workspaces — to accommodate both on-premises and cloud provisioning models. **By Matt Cain**

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