WHITE PAPER

Microsoft Online Services: Giving Businesses A New Choice for Productivity Tools

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IDC OPINION

Why do more than 80% of US organizations still run their own email and other business productivity applications on-site? Three simple myths tell the story:

☒ Myth #1: Organizations have achieved a high level of efficiency in operating on-premises software infrastructures. But the fact is that the vast majority of organizations today have little to no automation or knowledge capture in their IT infrastructures which results in higher than necessary costs and less than stellar service levels and agility.

☒ Myth #2: Organizations are unwilling to give up running on-premises software infrastructures to rely on third-party service providers. But the fact is that many organizations today are already relying on Software as a Service (SaaS) offerings for critical business activities and are planning greater reliance on SaaS in the future.

☒ Myth #3: SaaS offerings available today do not provide organizations with what they need. But the fact is that as a result of software solution providers embracing SaaS in a big way over the past several years, one can find hosted services versions of many of the leading on-premises software products as well as SaaS-only offerings. .

The on-premises software status quo for business productivity tools will be changing with the launch of services such as Microsoft Online Services which provide business users with many of the same Microsoft productivity features and user experiences previously found only in on-premises software. While SaaS may still not for everyone, Microsoft's decision to host a comprehensive set of its own popular business productivity tools as part of a software-plus-services strategy assisted by Microsoft business partners will promote wider adoption of SaaS among organizations that are looking to change the way Microsoft productivity tools are delivered to their business users. Microsoft's software-plus-services strategy will give customers the power of choice to decide which Microsoft applications to run on-premises and which ones to be hosted online based on users, workloads, geographies and other considerations.

IN THIS WHITE PAPER

In this IDC white paper, we take a look at three myths that are used to explain and even justify why over 85% of all organizations still run their own email and other productivity tools software. We look at each of these myths to show why they are hiding the fact that SaaS will be achieving wider adoption over the next several years. We look at how the arrival of Microsoft Online Services and the company's commitment to SaaS will mean the end of business as usual for the way productivity tools are delivered to business users at a growing number of organizations. We take a look at Microsoft's Online Services offerings and their benefits for customers and partners. We conclude with some of the opportunities and challenges of expanding the use of hosted services in a world that will continue to be dominated by on-premises software.

METHODOLOGY

The analysis presented here is based on interviews, surveys and case studies of end-user organizations and business partners (including Ceryx and Unisys) conducted specifically for this white paper as well as for IDC's ongoing research into collaborative applications and SaaS. It also incorporates IDC's research in the Infrastructure Optimization Model developed by Microsoft to help customers understand and improve the state of their IT infrastructure by identifying tools and techniques that could help reduce costs and increase efficiencies.

SITUATION OVERVIEW

Myth #1: Organizations Have Achieved a High Level of Efficiency in Operating On-Premises Software Infrastructures

There is a common misconception that many organizations have learned to create and operate software infrastructures that are highly efficient. As a result, they are not interested in changing the status quo by switching to a third-party infrastructure.

The fact is that despite years of investments and experience running on-premises software infrastructures, the vast majority of organizations today have little or no automation or knowledge capture. The result is less agility and higher costs for IT shops, and poor service levels for business users, and for both, a diminished agility to respond to ever changing business needs.
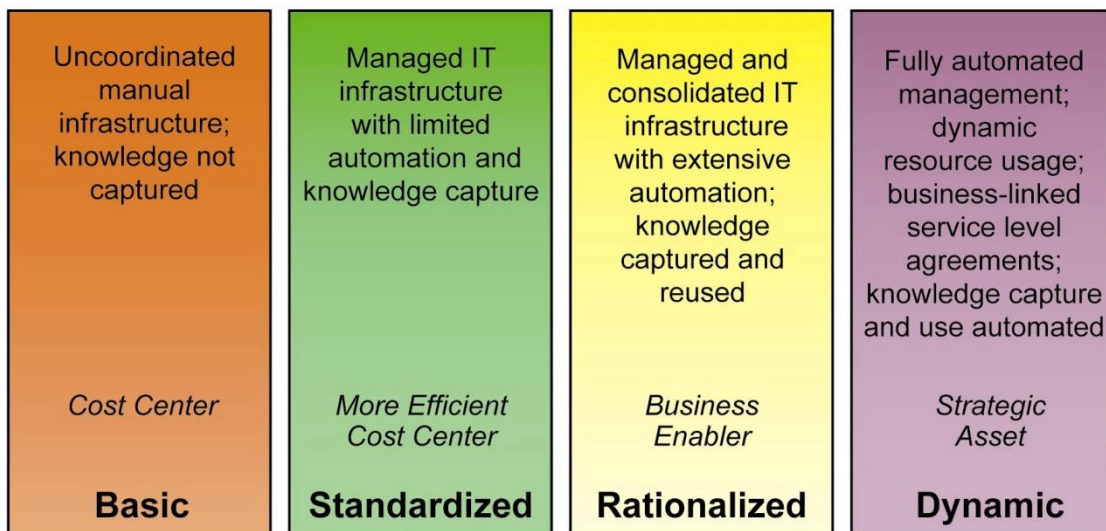
With a leadership position in both the integrated collaborative application (ICE) market and the business productivity application market, Microsoft is in a position to understand customer organizations well. According to its Infrastructure Optimization Model, there are 4 types of user organizations: basic, standardized, rationalized and dynamic (see Figure 1). IDC's analysis of 140+ large U.S. organizations, sponsored by Microsoft, revealed that nearly a quarter fell in the basic group, while nearly two thirds fell in the standardized group. The remainder qualified as rationalized, and

none reached the level of dynamic. This stratification has significant cost implications. For example, in looking at email operations, IDC found that in a basic environment, the total annual cost per user for operating on-premises email software was 33% higher than in a standardized environment, which itself was 50% higher than in a rationalized environment. For organizations which had more sophisticated content collaboration needs, IDC found that in a basic environment, the total annual cost per user for operating on-premises team sites was 37% higher than in a standardized environment, which was 63% higher than in a rationalized environment (see *Optimizing Infrastructure: The Relationship Between IT Labor Costs and Best Practices for Deploying and Managing the Office Systems*, IDC #207601, January 2008).

While organizations can embrace best practices such as the use of server management and monitoring tools to rise to a higher level of IT infrastructure optimization, SaaS can offer an accelerated path of moving to highly-efficient environments created and run by experienced third-party service providers with the skills, resources and financial incentives to build and operate the most efficient IT infrastructures possible.

FIGURE 1

Microsoft Infrastructure Optimization Model

| Basic	Standardized	Rationalized	Dynamic
Uncoordinated manual infrastructure; knowledge not captured	Managed IT infrastructure with limited automation and knowledge capture	Managed and consolidated IT infrastructure with extensive automation; knowledge captured and reused	Fully automated management; dynamic resource usage; business-linked service level agreements; knowledge capture and use automated
Cost Center	*More Efficient Cost Center*	*Business Enabler*	*Strategic Asset*

Source: Microsoft's IOM model cited and analyzed in IDC's Optimizing Infrastructure: The Relationship Between IT Labor Costs and Best Practices for Deploying and Managing the Office Systems, 2008

Myth #2: Organizations are Unwilling to Give Up Running On-Premises Software Infrastructures to Rely on Third Party Service Providers

A second common misconception is that that many organizations will not let business critical applications leave their own data centers and instead run inside third- party data centers. The thinking is that doubts about the security and reliability of hosted environments essentially guarantee that the status quo of on-premises software will prevent customers from moving to the SaaS offerings. The fact is, in the words of a Palmolive commercial from yesteryear, "you're soaking in it." Organizations have been choosing to trust key business operations, ranging from payroll to Web conferencing, to service providers for many years. The preference for SaaS is expanding to other business applications. According to a Fall 2007 IDC survey of mid-sized organizations, on-premises software continues to represent the majority of current installations of enterprise software and a little more than 30% are currently implementing an on-premises solution. However, nearly 25% of respondents indicated that they are moving away from an on-premises software model. Hosted application management, which used to be called ASP, wherein an ISP hosts a single instance of an application like Microsoft Exchange, is currently in use in nearly 25% of the organizations surveyed, with another 15-20% each evaluating, implementing or moving away from this approach. SaaS delivery has the lowest usage level, currently at just under 20%, but significantly, 15-18% of respondents are evaluating and implementing SaaS. A lower number are moving away from this model (see Figure 2).

FIGURE 2

Enterprise Software Delivery Models in the Midmarket

% of Respondents
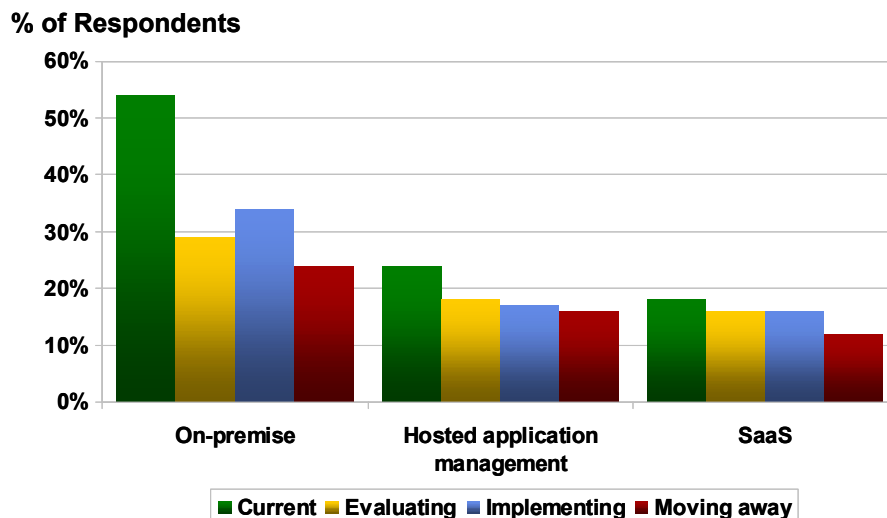
Note: n = 1,551 U.S. midmarket firms with 100-999 employees; multiple responses accepted - total may exceed 100%

Source: IDC 4Q07 AppStats survey cited in IDC Directions 2008 "Software as a Service
Shifting into a New Gear," March 2008

For email applications, on-premises software is more deeply entrenched. According to a Spring 2007 IDC survey of organizations of all sizes, on-premises email software represents the vast majority of current email operations and a little more than 30% are currently implementing an on-premises email solution. Nearly 10% of respondents indicated that they are moving away from on-premises email software. Hosted application management for email is currently in use in 8% of the organizations surveyed, while SaaS is in use at 6% of those surveyed. Approximately 5% of the respondents are evaluating or implementing SaaS for email (see Figure 3).

Organizations are no longer wed to on-premises software as the only delivery model worth considering. IDC expects that organizations will increasingly rely on a combination of all three software delivery models. Which one to use at a particular time will depend on a variety of factors including the application or product desired, preferred solution providers, size and location of the expected user base, availability and experience of internal IT staff, and the time in which the application needs to be up and running.

FIGURE 3

Email Application Delivery Models
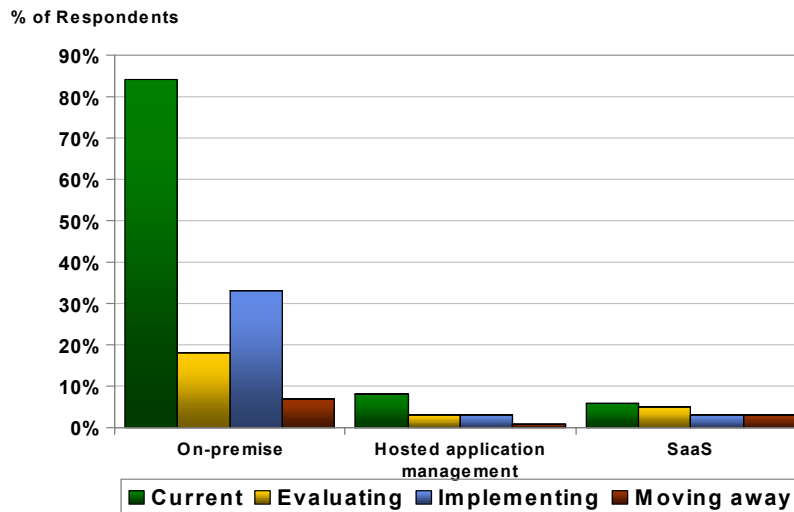
Note: n = 235 U.S. firms of all sizes; multiple response —— total may exceed 100%.

Source: IDC,: IDC 2Q07 AppStats survey, 2007

Myth #3: SaaS Offerings Available Today Do Not Provide Organizations With What They Need

A third common misconception is that SaaS offerings available today are not providing what organizations need.

But the fact is that there are lots of SaaS offerings targeting a wide range of applications and serving a wide range of organizations. As a result of independent software vendors (ISVs) embracing SaaS in a big way over the past several years, buyers can find hosted services versions of many of the leading on-premises software products as well as SaaS offerings that are only available as SaaS. To say that there aren't SaaS products that address the needs of IT staff and business users is wrong.

However, there is some truth to the position that SaaS offerings may not provide everything that organizations need. Some customers will have significant requirements for customization or integration with other business applications, while others may have internal policies or industry regulations that favor and sometimes require on-premises storage and management. There is a growing number of SaaS integrators providing SaaS front-end offerings which integrate with back-office databases and other applications, allowing users to keep control over data. However, for many customers, until software-plus-services data integration is seamless, on-premises software may remain the best option until SaaS offerings can fully address these needs.

This is why the on-premises status quo for business productivity tools is poised to change with the launch of Microsoft Online Services. In the past, Microsoft developed software mainly for deployment on customer premises. In recognition of the unique needs of hosting environments, Microsoft developed its Solution for Hosted Messaging and Collaboration (HMC) to provide support for incremental functionality, templating, and other features to address different customer needs. While HMC blew wind into the sails of Microsoft's hosting services business partners, all to many Microsoft customers remained on the SaaS sideline with regard to productivity tools because they didn't want to switch off Microsoft software but they wanted software from an ISV that was truly committed to developing software and business models for successfully hosting business applications.

Microsoft Online Services is seen as proof by customers and business partners that Microsoft is stepping up to the plate to become a full participant in the hosting game. By handing the hosting and services delivery, in addition to its traditional ISV role, Microsoft is demonstrating its commitment to customers and business partners by supporting the infrastructure and quality assurance which ultimately will reach customers. Microsoft will know first-hand and in real-time what patches and changes if any are needed to its software products to ensure that Microsoft and its partners can deliver the hosted experience that customers need. This is what skeptical IT departments have been waiting for - a software-plus-services strategy that represents equal delivery models from which customers can choose based on the tool or user needs. Microsoft's software-plus-services strategy will give customers the power of choice to have Microsoft business productivity tools be installed and managed as on-premises software, hosted by a partner, or delivered as an online service directly from Microsoft.

It's important to remember that organizations that are content with Microsoft's on-premises software products can continue to run the desktop and some server software infrastructure in house, while at the same time relying on Microsoft and its business partners to host key software on the customer's behalf. This ensures that business users and IT staff can continue to benefit from their knowledge of and expertise with familiar Microsoft products while letting a trusted third party take over the responsibility for keeping the server infrastructure running smoothly. The result is greater agility in responding to changing user and business requirements.

The decision of whether an on-premises or SaaS delivery model is best will often not be the same across an entire organization. Organizations must assess their workforce based on worker geography, workloads and roles. For example, a SaaS offering may perfectly satisfy the business productivity needs of deskless workers or other task workers located far from their organization's corporate headquarters but not meet the needs of mobile information workers. Organizations should expect that SaaS may fit best when used by one segment of the workforce in conjunction with on-premises software used by others. Being able to have the same software on premise and as a hosted service makes it easier to support a workforce that needs to share corporate user directories, files, emails, instant messages and other content.

MICROSOFT ONLINE SERVICES

Description

Microsoft Online Services are online applications designed especially for the needs of business customers. These services are backed by strong service-level agreements made possible by Microsoft's investing $2.3 billion in data centers to support these services. They make it easier for customers to rapidly and cost-effectively access the most up-to-date technologies, and are fully integrated and designed for rapid deployment to provide customers with streamlined communications, simplified management, and business-class reliability and security. The services, which can be purchased individually or in a suite called the Microsoft Business Productivity Online Suite, include the following:

☐ **Microsoft Exchange Online** is a hosted enterprise messaging solution based on Microsoft Exchange Server 2007 that gives organizations the anywhere access employees want and the operational efficiency the IT staff needs. Companies benefit from management by Microsoft experts, the application of best practices developed with customers and partners, and the lessons learned from Microsoft's own corporate messaging infrastructure. The directory synchronization tool enable customers to keep local and online active directories consistent, deploy services to new users, and support seamless interaction among users regardless of whether their mailboxes are hosted by Exchange Online or on-premises Exchange servers.

- ☑ **Microsoft Office SharePoint Online** provides a single, integrated location where employees can efficiently collaborate with team members, find organizational resources, search sites, manage content and workflow, and leverage business insight to make better-informed decisions. Based on Microsoft Office SharePoint Server 2007, this solution enables employees to easily create and manage custom team and project-focused sites for effective collaboration, including document sharing.

- ☑ **Microsoft Office Communications Online** enables people to communicate with their colleagues across locations and time zones, using a range of communication types, including instant messaging (text) enabled by presence. Integration with the Microsoft Office system — including Microsoft Office Word, Microsoft Office Excel®, Microsoft Office PowerPoint®, Microsoft Office OneNote®, Microsoft Office Groove®, and Office SharePoint Server — enables people to see the availability of colleagues and partners through presence-enabled applications and to connect with one another as a part of the every-day workflow through a consistent experience.

- ☑ **Microsoft Office Live Meeting** is a hosted Web conferencing service that connects and engages audiences in online meetings, training, and events through a reliable, enterprise-class hosted service. Office Live Meeting brings together multiple communication channels, including live and recorded video, chat, slide and application sharing, Voice over Internet Protocol (VoIP) and audio, and audience feedback tools.

- ☑ **Microsoft Exchange Hosted Services** includes four distinct services that provide enterprise-class reliability for messaging security and management, actively supporting the security, compliance, and availability of electronic communications. These services are delivered across a high-availability global network of tier-one data centers and backed by a comprehensive set of service level agreements. To date, customers have subscribed to these services managed by Microsoft to protect their on-premise email environments by offloading key administrator activities to a trusted service and freeing IT resources to focus on other IT initiatives. Microsoft Exchange Hosted Filtering, one of the four services, is included in the core Microsoft Online Services offering and provides anti-spam and virus protection.

Microsoft Online services work with each other and with other Microsoft Office products to provide information workers with the tools and information they need when they need it, in the context of their daily activities. For example, when using Microsoft Office SharePoint Online, employees can share documents as well as contacts, calendars, and tasks from Microsoft Office Outlook® (see Figure 4).

FIGURE 4

Microsoft Online Services Integration

Source: IDC, 2008

Benefits for Customers

Microsoft Online services are designed for organizations that recognize the value of collaboration and real-time communication and would like to provide Microsoft business productivity tools for their information workers but would like to do so with the help of Microsoft or its partners in operating the software infrastructure. This choice means being able to give business users access to the latest set of Microsoft software products configured and supported by people who are full-time experts in ensuring that the latest versions of these products are kept up-to-date with the latest service packs and software patches and are accessible with PCs and mobile devices.

For business users, this means being told less often that they must continue to use outdated software that lacks cutting-edge productivity features and that may cause interoperability issues when used to communicate or exchange files with other people fortunate enough to be running the latest software.

Choosing hosted Microsoft products, rather than hosted offerings that are not also available as on-premises software, gives organizations the benefits of a combination software-plus-services strategy. These benefits include the ability to extend popular productivity tools to remote or deskless workers for whom using desktop software to access hosted services may be the most cost effective option. The familiarity that most users and support staff already have with these tools means no special training is needed to use the SaaS versions. In addition, files, templates and user information created for use by users of on-premises software will be easily sharable with users of the hosted versions of the same products.

For the IT professionals who are responsible for ensuring that the line of business needs are met, choosing hosted services from Microsoft or its partners means that they can deliver branded software from Microsoft with business class security and reliability, backed by a set of service level agreements (SLAs) designed for business customers. Think food. Many larger organizations have turned to food outsourcing solutions to provide nutritious, consistently good meals for their employees in a cost-effective way. Hosted services can help relieve IT from having to "cook every meal" for everyone in the organization everywhere by relying by Microsoft and its partners to serve up Microsoft "signature dishes."

Benefits for Business Partners

When Microsoft started talking to its business partners about plans for Microsoft Online Services, the partners realized that Microsoft had the potential of both validating and gaining a large share of the markets, especially hosted Exchange, that partners were already pursuing for years. How can partners reap the benefits from the market awareness and resources provided by Microsoft as it enters these markets without having to compete with and potentially lose business to Microsoft?

The answer is for partners to focus on giving customers what the customers want. While Microsoft will attract some customers that may have chosen a Microsoft partner, its entry into this space will create significant opportunities for partners that keep their eyes on the customers. Microsoft's entrance in the hosted business productivity services will lead many organizations to consider hosted services because of the support and direct relationship available from Microsoft, the developer of the software being hosted. Partners will benefit from the larger number of organizations interested in hosted services because a portion of these organizations will look at Microsoft but choose a business partner to provide the services due to the partner's experience or specific capabilities offered that go beyond what is available in Microsoft Online Services.

Another benefit of Microsoft Online Services is that partners will have access to a portfolio of hosted services based on popular Microsoft products that the partners can help bring to their customers. Partners will have several ways to do this. First, they can choose to help Microsoft sell the services in exchange for referral fees. Second, they can bundle the Microsoft Online services with their own service offerings. Third, the partners can provide professional services for integrating Microsoft Online Services with customer applications and infrastructure.

The extent to which partners will benefit from Microsoft Online Services will depend largely on how well they stay focused on what they do best in providing value alongside or on top of Microsoft's products. Partners are already accustomed to identifying and addressing customer needs that go beyond the features that Microsoft software offers. For business applications delivered as SaaS, partners play an important role in providing high degrees of configuration, consulting and integration to help solve complex business problems. Partners can charge for their application knowledge, ability to perform integration between systems, and be trusted advisors who understand the customers' businesses.

Microsoft's business partners can determine whether offering Microsoft Online Services or hosting their own Microsoft products makes the most sense for the customer and the partner. Customer size is an important factor to consider but it is not determinative alone. While larger customers tend to have more sophisticated customization and integration requirements because they tend to have many different kinds of workers and IT infrastructures, there are very small organizations (with less than 50 employees) that have very specific needs for business productivity tools that require a partner's understanding of the business and its needs to create a customized solution that fits the bill. These requirements could include support for a variety of mobile devices, security and compliance solutions, extremely high performance and availability, and delivering these tools as part of a comprehensive IT environment.

CHALLENGES/OPPORTUNITIES

If organizations were starting from scratch to create an IT infrastructure to deliver the tools in the smartest, most cost effective way, the SaaS model would likely be chosen over on-premises solutions two to one. The reality, however, is that most organizations have made many IT infrastructure decisions and investments that can be hard to undo without clear justification. The internal switching costs associated with moving from an on-premises software to hosted software include the reallocation of hardware servers, IT staff and other resources that have been dedicated for years to operating software infrastructure.

Adoption of SaaS is easiest for obtaining new collaboration capabilities such as access from anywhere without the need for a virtual private network (VPN), enterprise instant messaging, or conferencing applications that have not been present across the enterprise previously and therefore do not have an infrastructure that needs to be repurposed or written off. Adoption of SaaS for capabilities such as email that have typically been provided by an on-premises infrastructure requires an diligent evaluation process to convince the decision makers that such a move away from the status quo will work both in the short and long terms. In addition to evaluating the functionality of the service offerings, organizations considering SaaS must also consider all of the related add-ons and integrations. For email, this may include inbound (anti-virus and anti-spam) and outbound content filtering, backup and recovery, compliance (archiving, e-discovery) as well as integrations with business applications such as call centers. In addition, a return on investment (ROI) analysis would help ensure that the decision makes sense from a financial perspective.

These steps in deciding whether to adopt or switch to a SaaS offering creates opportunities for organizations and their trusted partners to create strong relationships by discussing the answers to key questions: What operations are core to the business and what are not? What IT skills should be fostered inside the organization and what skills are better leveraged from a third party? What productivity tools should be integrated with other productivity tools and which should be integrated with other business applications and workflows? What should come out of these discussions is an understanding the most effective roles that the organization and its partners can play in supporting the business productivity and other computing needs of the organization's workers.

CONCLUSION

Business productivity tools are a natural for hosted services. Email was an early example of how hosted services can provide optimal connectivity between users located at different locations. Later, instant messaging and Web conferencing proved again that hosted services offered advantages over on-premises solutions. Now that we have come full circle and secure, reliable, feature rich hosted business productivity tools are widely available from trusted service providers such as Microsoft and its partners, it is time for organizations to explore how a software-plus-services strategy can help them be better at and smarter about running their businesses.