



Microsoft's Vista-Office-Exchange Wave Hits Hard

Monday, December 04, 2006

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We've been consulted, prebriefed, briefed, and rebriefed nearly continually, the past three years, on **Microsoft's** next wave of applications and technologies. Anyone looking for press information, commentary, and speculation on the topic hasn't been left wanting.

We attended this week's Windows Vista, Office 2007, and Exchange 2007 business launch and heard from some key Microsoft executives, including CEO Steve Ballmer, group marketing General Managers Chris Caposella (Office), Mike Sievert (Vista), and Kim Akers (Exchange).

Yes, Microsoft just announced the availability to businesses of its new Windows Vista operating system, Microsoft Office 2007, and Exchange 2007. Consumers and hardware OEMs will have to wait until the end of January.

While he may not have thought it the pithiest quote in his presentation, Ballmer sums it up pretty well: "There's a tremendous amount of technology here." The problem and the opportunity for customers and partners is what to do with it. That is, whether, when, and how to adopt it to ensure maximum benefit and minimum risk.

Thousands of new features, interface improvements, wide-ranging search capability, and XML file formats swell into a new wave, with the promise of bringing businesses differentiation, innovation, and converting personal and group performance into enterprise performance.

The three products together amount to the core of a new Microsoft platform that will seek to associate companies' Microsoft investments more firmly with business initiatives, systems, and processes. Companies will inevitably adopt them, and they'll solve numerous old problems while raising at least a few new ones. It's partly an accommodation for and partly a defense against the disruptions of service-oriented architectures (SOAs), software as a service (SaaS), Web 2.0, and the Google effect.

And more than any of those trends, Microsoft's new wave will cause an upheaval in the enterprise software market as we know it.

Tying enterprise to the desktop

First, the newfound flexibility and interoperability of the systems, and the accessibility to developers, business analysts, and even end users will urge companies to embed Microsoft more firmly into the enterprise than ever before. Microsoft will be irreplaceable, not only because of product features, distribution channels, usability or familiarity, but also because employees will build integrations between Microsoft's tools and their vital business processes and systems.

This is not an unprecedented concept. A good 10 years ago, **IBM's** Lotus successfully entered and entrenched itself in the enterprise market on this premise. Given the accessible Lotus tools, companies created all sorts of Notes- and Domino-based applications that are still crucial to their operations today, to the extent that even those companies standardizing on Microsoft for messaging and office productivity are leaving the Lotus applications in place.

But Lotus on its own could never garner the dominant market share that would result in this new wave impact. The huge and multimotivated IBM, 11 years after the Lotus acquisition, has taken too long to understand and get behind the concept. No coincidence that Ray Ozzie, cofounder of Lotus, is now with Microsoft as one of its chief strategists; in fact, he's taken over Bill Gates' position as "chief software architect."

Entering enterprise software markets

The new wave also marks Microsoft's earnest and ineluctable entry into a range of established software spaces, which will force companies to rethink their investments. Microsoft Office SharePoint 2007, for instance, is the linchpin for Microsoft's entry into several software spaces at once. These include, at various levels of maturity and completeness:

- Enterprise portal framework
- Collaboration
- Enterprise content management
- Enterprise search
- Business intelligence
- Workflow

Furthermore, Microsoft's tendency to introduce functionality that defies categorization—at least under currently established enterprise software definitions—can create a different kind of confusion and lock-in for customers. SharePoint, with its central role in all of the above software categories, yet its inadequacy to fulfill completely any one of them, is one example.

Another, even when Microsoft talks about the four pillars of its late push into the enterprise...

- Simplify the way people work.
- Find info and improve business insight.
- Help protect and manage content.
- Reduce IT costs and improve security.

... each is served by features working across the products. Nothing is accomplished in any one product alone.

Thus, Microsoft's products tend to cut across enterprise demand, with the product-to-demand match never corresponding. This creates a kind of lock-in in itself and can cause redundancy and conflict with established systems, or it can count them out entirely. In the meantime, the Microsoft stack may not solve any of the problems completely.

The power of a "people-ready" perspective

The misalignment with enterprise software categories isn't simply Microsoft's master plan to take over the universe. Rather, Microsoft's perspective on enterprise software tends to be different from other established enterprise vendors. The brunt of Microsoft's influence, and its most substantial stream of feedback to refine its products, is from the mass end-user audience, not just enterprise IT. And the end-user angle is particularly compelling, today, since companies have associated so many enterprise software failures with end-user adoption problems. The need for end-user appeal and participation is also one of the reasons why Web 2.0 is such a popular topic for enterprise executives today.

Further, no vendor we've heard of has been able to capitalize upon the feedback of a mass audience like Microsoft. For one, no other has such a massive audience; and second, most lack the capacity or inclination to listen to them. Microsoft collected and analyzed feedback from 5 million downloads and 1 billion sessions in its customer experience program to refine its products. Who else does that?

So software vendors in collaboration, content management, search, and business intelligence may find their growth stymied unless they act quickly. The increasingly popular "embrace and extend" strategy, the "support for heterogeneous environments" mantra, and the movement toward industry- and process-specific systems all acknowledge the pressure among vendors in these categories today.

And introducing the notion of Office as a platform will force smaller vendors to develop expertise and allegiance above the operating system, the development environment, and the database. That is, they'll have to become part of the Microsoft ecosystem.

Despite IBM's longstanding Lotus efforts and installations, **Oracle's** collaboration suite and new WebCenter effort, and any impending offering from **Google**, no one comes close to Microsoft's presence and influence with end users.

Accessibility and usability introduces new threats and opportunities

The new wave will also make building connections to existing enterprise applications, as well as building new applications entirely on the Microsoft suite more feasible and far easier. According to Microsoft, this translates into a \$250B services opportunity.

Microsoft provided us with a good example in The Scripps Research Institute's Peter Kuhn Lab, a non-profit organization seeking to provide early diagnostics and effective therapies for SARS. With the help of services provider **InterKnowlogy**, Scripps created The Collective Molecular Environment, which allows scientists to examine, notate, and collaborate on 2D and 3D images of protein molecules.

While Peter Kuhn and InterKnowlogy CEO Tim Huckaby attest to a good deal of struggling with various iterations and revisions of SharePoint and Office over the years, they say the Collective Molecular Environment, built using Windows Presentation Foundation, Microsoft Office 2007, and Microsoft Office SharePoint Server 2007, took only one developer two weeks.

Yet this evident ease of use may also tip the scales back toward build-versus-buy or outsource, especially for providers accustomed to long engagements and high fees. Larger firms will have to improve their ability to offer more business strategy expertise and downplay tactical programming and integration. Meanwhile, the lion's share of the \$250B opportunity may well go to smaller, more agile services firms like InterKnowlogy.

Similarly, and in part derived from this scenario, the new wave will bring ample opportunity for smaller software vendors, many of which will emerge from the ranks of services firms. For example, many a pharmaceutical organization will find the Collective Molecular Environment valuable, and it might well be repeated and extended into other industries.

When the wave breaks

With the applications only just introduced, we're just at the beginning now—but it's the beginning of something big. While the largest hindrance to enterprise adoption appears to be the increased hardware requirements, Microsoft expects 200 million people to use at least one of the three components before the end of 2007. And yes, that's "people," not enterprises. But people is exactly where Microsoft wields its power.

The changes to the software market are already happening in preparation for the wave. Microsoft has been open enough about its plans for its partners and its sometime competitors to reset their strategies. 2007 will be a year of planning for most organizations, with most early upgrades happening at the server level, likely focusing on Exchange 2007 and Microsoft Office SharePoint Server. We should see much more active adoption in clients in 2008 into 2009. After that is when the vendor and service provider opportunity and threat will be felt most strongly.

So, there's a note on the impact of Microsoft's "tremendous amount of technology" on the enterprise software industry. In the coming months, we'll look deeper at the question of what to do with it.