



Microsoft Windows Small Business Server 2003 Takes Off and Propels Partners' Revenue Growth

Executive Summary

Microsoft Corp.'s Windows Small Business Server (SBS) 2003 is an unqualified success with small and medium business (SMB) customers, Microsoft value-added resellers (VARs) and consulting partners.

Windows Small Business Server's success and soaring adoption rate are all the more notable because Microsoft's marketing efforts have been minimal in comparison to its campaigns for Windows Server 2003 and Office 2003.

Windows Small Business Server is selling itself. The word-of-mouth buzz cannot be overstated. In less than 1 year of deployment, Windows Small Business Server 2003 has outsold its predecessor Windows Small Business Server 2000 by 200 percent.

SMB shops with 1 to 75 users are installing Windows Small Business Server in record numbers for its unparalleled functionality, ease of use and economical price tag. At \$599 for the base-level Standard Edition and \$1,499 for the Premium Edition, there is nothing else like it for the money. For that matter, there is no bundled package that can match Windows Small Business Server at any price in the SMB space. Linux and open source vendors have no products that individually or collectively can compete with the bundled feature set of Windows SBS 2003, according to customers. Small businesses further reported that Windows SBS 2003 has a near immediate ROI.

Microsoft's consulting and reseller partners are equally enthusiastic about Windows SBS 2003. They unanimously praised the product—sometimes referred to as "Baby BackOffice"—noting that it has sparked a major resurgence in their companies' revenue. The product is a collection of software packages that incorporates the following: Windows Server 2003, Microsoft Exchange Server 2003, Microsoft Internet Information Server, Microsoft Shared Fax Service, Microsoft Management Console (MMC), Microsoft FrontPage 2003,

Microsoft SQL Server 2000, and the Internet Security and Acceleration (ISA) Server in the Premium Edition, and a variety of tools and utilities. It is an incomparable bargain. Microsoft partners reported that their sales have soared by 100 to even 300 or 400 percent in the past 12 months. They said this sales spike is directly attributable to Windows Small Business Server deployments.

There is a certain irony to this last statement because the SMB partners make minuscule profit margins from the actual sale of Windows SBS. Rather, they realize the greatest return in assisting customers with deployment, aftermarket consulting, and technical service and support. These fees—which can range from \$8,000 to \$15,000—more than compensate for the approximately \$4.00 they make on each unit sale of Windows SBS.

Customers and partners cited the remote-management capabilities, enhanced security (e.g., firewall in the Standard version and the inclusion of the ISA Server) and available bundled packages (e.g., CRM 2.1) as their favorite features.

SMB customers are satisfied with the relatively inexpensive price points of Windows Small Business Server. However, overall upgrade costs and the high cost of the Client Access Licenses (CALs) remain the chief impediments to a Windows Small Business Server 2003 upgrade. A Yankee Group survey of 500 SMB customers indicated that 52 percent might delay an SBS deployment because of ongoing cost constraints.

That statistic was overshadowed when a convincing 86 percent of SMB survey respondents said they currently use or plan to deploy Windows Small Business Server 2000 or Windows Small Business Server 2003 (see Exhibit 1).

Surprisingly, the Microsoft customers' and partners' biggest criticism of Windows Small Business Server was not technical in nature; rather, it was reserved for Microsoft's marketing efforts. Although many customers and VARs noted that Microsoft's SBS marketing noticeably improved with the latest 2003 version, they still deemed its marketing "barely adequate." Repeatedly, customers and partners referred to Windows Small Business Server 2003 as one of Microsoft's "best-kept secrets."

Overall, Microsoft Windows Small Business Server is a rousing success and is vanquishing the competition. Improved marketing and partner incentives will further cement Microsoft's dominant position among SMB customers.

Exhibit 1 Microsoft Windows Small Business Server Rules

Source: *The Yankee Group, 2004*

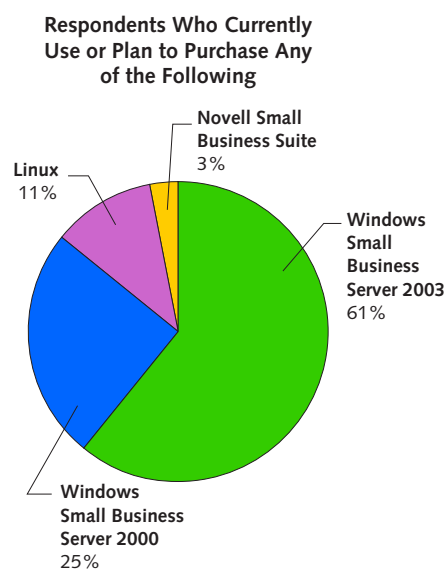


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I. Introduction

To obtain the most accurate, focused and in-depth responses regarding the trends and issues defining Windows Small Business Server adoption, the Yankee Group embraced a two-pronged research approach. We supplemented data from a Web-based multiple-choice survey hosted by Sunbelt Software, Inc., with a series of in-depth interviews with a wide variety of VARs, consultants and SMB customers.

Approximately 500 users responded to the survey questions, which covered a range of topics including:

- Current network infrastructure
- Planned deployments
- Key elements driving network upgrades
- Impediments to purchasing Windows Small Business Server
- Frequency of PC, software and server upgrades
- The types of resources SMBs use to upgrade and maintain their PCs, servers and software

Upon completion and review of the survey responses, the Yankee Group conducted a series of in-depth interviews with Microsoft VARs, consulting partners and customers. The supplemental interviews validated the survey responses and afforded us the opportunity to delve more deeply into the issues raised by the survey responses.

Survey Highlights

The survey netted approximately 500 responses from SMB customers. Most respondents—80 percent—have 1 to 30 computers at their sites. The results showed strong support for Windows Small Business Server 2000 and Windows Small Business Server 2003.

Among the survey highlights:

- 21 percent said they currently use or plan to purchase Windows Small Business Server 2000.
- 51 percent said they currently use or plan to purchase Windows Small Business Server 2003.
- Only 3 percent said they plan to purchase Novell Small Business Suite.

- Only 11 percent said they use or plan to purchase Linux. At this point, the respondents indicated that they use their Linux servers mainly as Internet gateways or Web servers.
- A significant portion of those surveyed—47 percent—said the need to replace outdated computers is the driving factor in their network upgrades (see Exhibit 2). This compares with 37 percent who said improved security, data protection and backup were their primary migration motivators.
- Only 16 percent of the respondents indicated their upgrade decisions were driven by the need for new business applications.
- Cost is by far the primary purchasing inhibitor by a wide margin (see Exhibit 3 on next page). Fifty-three percent of customers cited cost of licensing and 36 percent said overall cost might keep their firms from purchasing Microsoft Small Business Server. Security was surprisingly far down on the list and was cited as a concern by only 18 percent of companies. Only 15 percent of organizations are concerned about support—so that is a big plus for Microsoft.
- Ease of manageability and compatibility were called out as potential migration inhibitors by 23 and 22 percent of companies, respectively. Ease of use does not appear to be much of an issue—only 18 percent said it might keep them from migrating to Small Business Server.

Exhibit 2
SMB Purchasing Drivers

Source: The Yankee Group, 2004

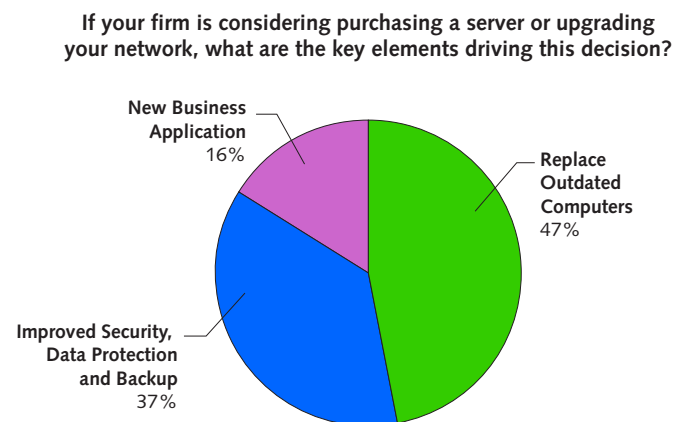
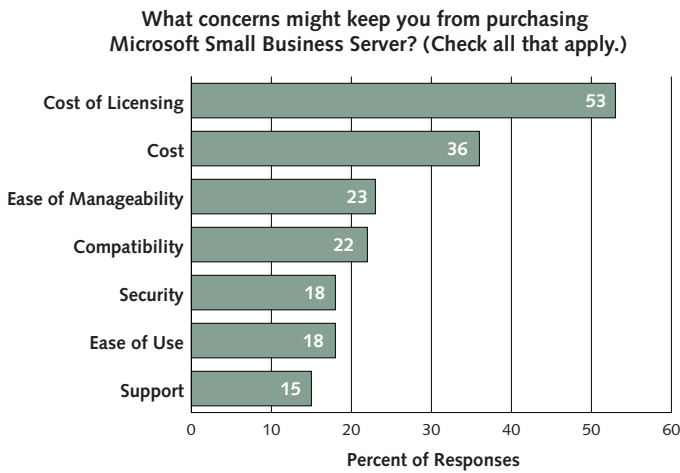


Exhibit 3
SMBs Are Still Cost-Conscious

Source: The Yankee Group, 2004



- One of the biggest surprises in this survey is that small businesses upgrade more regularly than their larger corporate counterparts. Sixty-two percent of the survey respondents said they migrate every 3 to 4 years; 6 percent said they migrate with every new version; and 15 percent said they are on a 2-year upgrade cycle. Eighteen percent are hard-core laggards and upgrade only every 5 to 6 years.
- In another surprise response, 43 percent of the small business respondents said they have dedicated network administrators (see Exhibit 5). An additional 22 percent said they have a combination of internal staff and external system administrators.
- Eighty-five percent of the SMB customers said they have a network with a central PC or server to store files and share printing loads.
- Regarding purchasing trends: 45 percent of SMBs indicated they plan to upgrade their network or PC; 33 percent said they will add additional PCs; 7 percent will purchase their first server or dedicated file share PC; and 15 percent are undecided about their next purchase. The time frame for these upgrades is within the next 12 to 15 months.

Exhibit 4
SMBs Upgrade More Frequently than Enterprises

Source: The Yankee Group, 2004

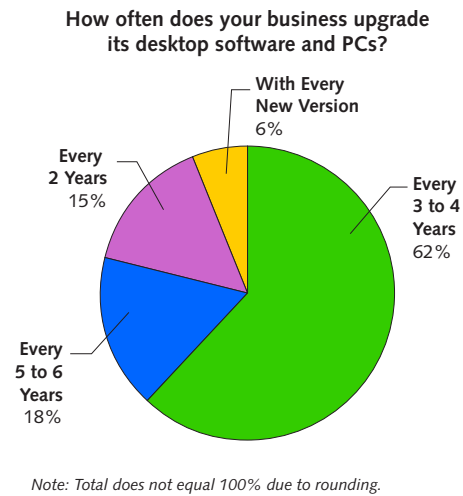
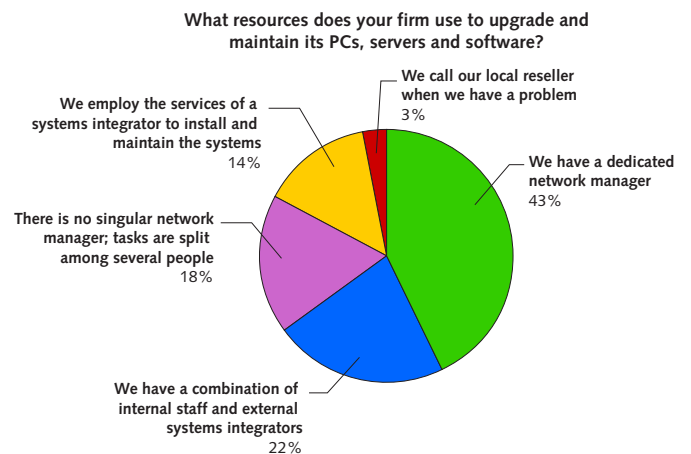


Exhibit 5
SMB Networks Are Surprisingly Sophisticated

Source: The Yankee Group, 2004



Customer Interview Highlights

The second component of the Yankee Group's research entailed in-depth interviews with a diversified group of approximately two-dozen VARs, consultants and customers. This ensured the most comprehensive industry profile, and one that reflected and identified economic and cultural differences. The Yankee Group spoke with U.S. customers in such diverse markets as Seattle, Wash.; the greater metropolitan New York area; Cincinnati and Cleveland, Ohio; and Atlanta, Ga.

The Yankee Group also conducted phone and e-mail interviews with a number of international partners and customers, including representatives from the United Kingdom, Australia, New Zealand and India.

The high-level interview findings included the following:

- Business and spending are both on the upswing among SMB consultants, VARs and corporate customers. Customers will spend from 8 to 15 percent more on software between 2004 and 2005, according to the interviews.
- Most Microsoft VARs and consulting partners report strong book-to-bill ratios and activity. Several consulting partners reported they are booked for months in advance. Most anticipate a strong summer with a wave of deployments commencing in the third quarter of 2004 and continuing throughout 2005.
- Linux is not a factor and is not even considered by most SMB businesses.
- The overwhelming majority of SMBs generally have a positive view of Microsoft.
- Microsoft's licensing model and the CALs are a source of great confusion. Customers were particularly baffled and dismayed by Microsoft's decision to charge a separate fee for Windows Small Business Server 2003 Terminal Services. This is a departure from Microsoft's earlier pricing policy for Windows Small Business Server 2000, in which the cost of the Terminal Server was bundled into the core product price tag.
- Most of Microsoft's SMB partners would like Microsoft to provide more real-world "scenario-based" licensing and deployment guidance.

- Microsoft's marketing of Windows SBS is still spotty, though improving.
- Many Microsoft SMB partners, VARs and consultants are forming ad hoc user groups. Some have even begun asking local Microsoft offices and reps for meeting space and are getting it. Some report Microsoft local offices are even throwing in free beverages and snacks, and are offering to raffle off free software to spur attendance.

II. Data and Analysis

To reiterate: The success of Windows Small Business Server 2000 and Windows Small Business Server 2003 is all the more notable for two reasons:

- The success initially occurred in the midst of an economic downturn; and although the economy is currently enjoying a modest recovery, customers are still cautious and risk-averse.
- Windows Small Business Server's achievement has come despite uncharacteristically anemic Microsoft marketing.

The primary piece of constructive criticism or advice customers and partners would offer to Microsoft if given the opportunity is: "Improve marketing—particularly to vertical markets such as healthcare and legal—and call out the features and functionality."

Suresh Ramani of Techgyan, a Microsoft VAR based in India, noted: "Microsoft had done a remarkably poor job of promoting Windows SBS 2000." He added, "They have become more aggressive with SBS 2003, so user awareness is increasing."

Although customers and VAR partners indicate Microsoft's Windows SBS 2003 marketing efforts are a noticeable improvement over SBS 2000 efforts, they say it is still nowhere near where it should be. They characterize SBS 2003 as a "well-kept secret."

The lone dissenting voice came from David Armstrong, managing director at Action Computer Support Limited in the United Kingdom, who praised Microsoft's marketing efforts. He said he has had SMB customers contact him

about Windows Small Business Server 2003 as a direct result of a Hewlett-Packard advertising campaign for a bundled version of the Standard Edition on top of a specific HP hardware platform. The extremely aggressive entry-level price of £900 (about \$1,600) generated a lot of interest.

Armstrong added that the Standard Edition of Windows SBS 2003 is selling well in his region of Great Britain, particularly among SMB customers in the financial sector. However, he acknowledged that although brand awareness of the product is growing, many customers remain ignorant of specific features. "One of my clients is not even aware of SharePoint Services; they are just interested in Exchange Server and the ability to update and access their calendars from home," Armstrong said.

Windows Small Business Server's Compelling Advantages

Marketing issues aside, all of the Microsoft VARs and consulting partners agree that Windows Small Business Server is unique in its space. It combines the best of the Windows Server and application packages, features tight integration with other Microsoft products, and incorporates embedded firewall protection in the Standard Edition and the more advanced ISA Server proxy, caching and firewall product in the Premium Edition.

The top business advantages identified by Microsoft VAR partners and customers include the following:

- Remote workplace
- Proactive and reactive server capabilities
- E-mail-based alert system, so you see alert notifications of problems and issues remotely
- Spam protection and reverse DNS (another mechanism to drastically reduce spam by ensuring the e-mail sender is valid); support for DNS blacklist provides an additional level of antispam protection
- Enhanced support for 128-bit SSL encryption
- Content filtering
- Integration with Microsoft .NET and Visual Studio packages
- Extremely reasonable price points
- Secure by design

- No fear of being locked into an all-Microsoft solution (Windows SBS is both extensible and flexible. Customers can add on Microsoft's CRM product or opt for third-party products such as Great Plains, Solomon, Navision and even Linux firewalls.)
- Backup

Individually, each of these features is a staple in today's business environment, irrespective of company size and vertical market. Enterprises traditionally have had access to these features via the old BackOffice and more recently the newer Core CAL bundle.

Before Windows Small Business Server, this all-inclusive package was not available to SMB organizations with 75 or fewer end users. Those that attempted to cobble together this level of functionality via à la carte purchases found the cost prohibitive.

Harry Brelsford, CEO of SMB Nation, Inc. (a consultancy based in Bainbridge Island, Wash., that focuses on small and medium business consulting and systems integration), said now that the economy is experiencing a "modest recovery," SMB customers are once again actively seeking applications that can improve business functionality and profitability.

"You can't beat Windows SBS for the money," Brelsford said. "Customers realize this and they're scooping it up." There are two versions of Windows SBS: the less expensive Standard version that lists for \$599 and the Premium edition for \$1,499, which contains the more advanced ISA Server for firewall, proxy and caching protection and SQL database.

Brelsford said his customers are particularly enamored of CRM applications and Microsoft provides an economical bundle: Windows SBS 2003 with CRM 1.2 for dramatically discounted price. "The other thing driving upgrades is remote and mobile access," Brelsford noted. The Windows SBS package includes portal functionality, for example, and this delivers a tangible and near immediate total cost of ownership and return on investment, he added.

All of the Microsoft VAR partners alluded to the high degree of affinity for Microsoft in the SMB space.

The Microsoft partners assume different roles depending on cultural differences and geographic locations. A U.S.-based consultant such as Brelsford, for instance, is far more likely to sell his or her services as billable hours.

“I sit down with the customer and go through a vendor’s Web site, like HP, and pick the server, pick the software and walk them through the purchasing process,” Brelsford said.

An international consultant in Australia, however, is far more likely to be a systems builder.

Whatever the partner’s location, one trend is ubiquitous: Windows SBS installations are driven by the need to add business value via applications. This is true even if the initial impetus for the upgrade is sparked by the need to replace hardware. And although the economy is beginning to recover, no one is taking the recovery or their hard-earned IT capital expenditure money for granted.

Customers are pragmatic and risk-averse. TCO and ROI are of paramount importance. Windows SBS delivers both.

Windows Small Business Server TCO and ROI

When considering a Windows Small Business Server deployment, calculating the true TCO is crucial. This figure encompasses far more than the purchase price of the actual bundled software package. Prospective Windows SBS users also must factor in the cost of CALs. For greenfield networking situations (firms that are installing a network for the first time or are upgrading to Windows SBS from small or simple networks that lack a dedicated file server), multiple network components must be added at an incremental cost.

Frederick Johnson, a principal at Ross-Tek (a Cleveland, Ohio-based consultancy), observed that for his customers, the cost for additional CALs “is not an issue.”

“My customers want their networks done right. If anything, I find that I have to educate them on the misconception that the \$599 or \$1,499 list price for Windows SBS Server represents their total cost,” Johnson said.

The overwhelming majority of SMB companies (80 percent) currently have 1 to 30 end users, according to the Yankee Group SMB survey.

Ross-Tek’s Johnson said SMBs that are installing an entire network infrastructure for the first time should budget \$12,000 to \$15,000 for a five-user Windows SBS installation.

Windows Small Business Server TCO Costs: New Network Infrastructure

The figures in Exhibit 6 are an average estimated cost for a new, five-user network deployment. SMB firms that already have a network in place, or current Windows Small Business Server 2000 customers that are upgrading, will incur substantially lower costs than businesses that are starting from scratch. Therefore, it is possible that a Microsoft Open customer with 30 customers and an existing network infrastructure will only incur upgrade costs.

However, it is important that SMBs that are installing their initial networks take all of the appropriate components into account.

Exhibit 6

The TCO of Windows Small Business Server

Source: The Yankee Group, 2004

Network Component	Cost*	Total
Network Server	\$3,500	\$3,500
Antivirus Software	\$500	\$500
Workstation	\$875	\$4,375
Network Switch	\$200	\$200
Firewall	\$300 to \$500	\$300
UPS	\$450	\$450
Structured Cabling	\$150 per user	\$750
Microsoft Office	\$400 per user	\$2,000
Deployment Time**	\$95 to \$200 per hour—average installation can be 15 hours	\$2,000
Total		\$14,075***

* This is based on a new, five-user network configuration and excludes recurring telecommunications and WAN costs.

** Rates vary according to nonprofit and commercial businesses. Nonprofits can expect a discount of approximately 30%.

*** Note: Costs will increase with each additional new user and will vary according to geographic location and discount rate.

Windows Small Business Server Standard versus Premium Edition

David Gerhart, a consultant at Tyrnstone in Seattle, Wash., noted there are considerable differences between the Standard and the Premium Editions of Windows SBS 2003.

“The blue collar kinds of businesses—like construction companies, lumber yards and plumber’s offices—typically like the less expensive Standard Edition. They don’t have a huge need for some of the more advanced features like the SQL database or ISA Server,” he observed. The so-called “white collar” businesses such as advertising agencies, public relations firms and law offices, which have more data-intensive business models, prefer the Premium Edition because they need SQL Server and the ISA Server to manage Internet connections and control access and packet content.

If there is one trait shared by all of the Microsoft consulting partners and VARs from New York to New Zealand and the United Kingdom to India, it is their in-depth knowledge of Windows SBS coupled with a deep understanding of what their SMB customers require and desire. The consultants forge strong bonds with their clients and provide excellent and extensive support. With the cost constraints of the last 3 years, these deep relationships enabled the Windows SBS VARs to survive by doing upgrades even when new business was slow.

Microsoft Improves VAR Support

Microsoft has become more supportive of its small VAR partners.

“Three years ago, if I went to the local Microsoft sales rep and asked for help, it wasn’t readily forthcoming. Microsoft was not focused on creating products for small businesses. The economic downturn changed all that and Microsoft is much more responsive to small VARs and SMBs,” Ross-Tek’s Johnson said.

He observed that his firm “doesn’t lose money installing Windows Small Business Server but we don’t make a lot, either.” For a five-user network, a net profit of \$4,500 on a

\$12,000 to \$15,000 installation is the average. Ross-Tek realizes the bulk of its profits from its service contracts, Johnson said Microsoft recognizes this and has raised profit margins. “We typically net from \$7,000 to \$30,000 on each service contract.”

All of the Microsoft VARs and consulting partners interviewed by the Yankee Group cited specific improvements to the programs—beginning with a newfound appreciation on Microsoft’s part for these often overlooked SMB partners.

Kevin Royalty, a Microsoft Certified Systems Engineer (MCSE) and principal consultant at Solution Net, Inc. in Cincinnati, characterized Microsoft as a “good partner” and noted that Microsoft has lowered its annual fees and added ways for VARs to earn points. Eighteen months ago that was not necessarily the case. Microsoft, like many large software vendors, focused on enterprise accounts often to the exclusion of SMBs.

Now, things are different, Royalty said. “Solution Net doesn’t have an assigned rep, but when I make a phone call to the Microsoft Great Plains regional office we get a call back. I think a lot of this is driven by Microsoft corporate telling them to be more cognizant of *all* of the certified partners even if they don’t help you sell 10,000 copies of Office.”

One sure sign that the SMB market is robust and growing is that the small consultants, VARs and ISVs are forming ad hoc user groups. Royalty related that his Cincinnati firm works with ISVs in areas including Australia, Florida, Cleveland and Chicago. “We’re creating customer training groups,” he said. “We use Yahoo! and created a group called SmallBiz IT. And on the side I run a local computer user group—the Cincinnati Network Professional Association. We trade tips and tricks on Windows SBS 2003.”

Other Small Business Server user groups are calling their local and regional Microsoft offices to request meeting space and are getting it. One Atlanta, Ga., consultant reported that Microsoft even contributed snacks and refreshments for their meeting and donated copies of Office 2003 and OneNote to raffle off to attendees. These informal outreach efforts are netting results.

VARs and Consultants Forge Close Ties with SMB Customers

Microsoft was not always this receptive and proactive in courting SMB customers, but the VARs and consultants in this space have worked overtime to forge close customer bonds. That trust is one of the chief reasons for the high satisfaction rate of Windows Small Business Server among SMB customers.

A significant portion of SMB shops do not have a specific IT budget, do not have sophisticated network administrators, and are not fully aware of all the features and how to utilize the product to their best advantage. These customers make no secret of the fact that they need a great deal of assistance in designing and deploying a secure, manageable network.

“We work with them to take full advantage of Windows SBS value,” Ross-Tek’s Johnson said. “That entails a lot of hand-holding on the part of consultants, but that is our business model,” he added.

Consultants such as Johnson, Brelsford and Michael Klein (a principal at Computer Directions, Inc., in Searingtown, N.Y.) do not merely call out features like the Remote Web Workplace, SharePoint and Outlook Web Access. Rather, they work with customers to show them how to manipulate the feature set to derive the maximum business advantage and improve their quality of life. They have an intimate knowledge of their individual customers and the trends that drive SMB deployments.

Klein noted that certain SMB verticals remained insulated from the economic downturn. And that, in turn, helped shore up his company’s revenue.

“Fortunately, with our customer base we have some clients that are ‘negatively elastic.’ If the market goes down, their business goes up,” Klein said. Who are these lucky SMBs that are immune to adverse market conditions? They include:

- Bankruptcy attorneys
- Matrimonial or divorce attorneys
- Collection agencies
- Tax accountants

- Funeral homes
- So-called “vulture capitalists”: corporations that will raid a failing firm

For the aforementioned SMB verticals, the reversals of fortune that affect the masses actually generated an upsurge in their business model between 2000 and 2003.

Timing is also a crucial factor driving upgrades. Klein referred to it as the “Y2K Syndrome.” Many of these firms have not done an upgrade since 1999—in preparation for Y2K. For these firms with 4- and 5-year-old networks, migration is an absolute necessity. “Windows SBS 2003 is the right product at the right time,” Klein said.

Klein and his counterparts are notably proactive in keeping their credentials up to date. Klein’s achievements include MBAs in finance and marketing and a master’s degree in computer science.

“My clients have faith and trust in my business acumen. Our firm becomes their director of MIS,” Klein said.

Klein and his VAR peers and consultants differentiate themselves from large reseller chains such as CompUSA and Best Buy, which approach computer sales in a manner similar to selling a consumer item like a TV or DVD. “Our clients have been with us for years; in many cases we have the keys to their offices,” Klein said.

They know exactly what features of Windows SBS 2003 their customers need to make them competitive now and over the next several years.

The Remote Web Workplace, for example, has proven to be real boon for SMBs, which—like their enterprise counterparts—have increasing numbers of remote, telecommuting and traveling workers. It enables customers to access their network and data such as files and calendar contacts remotely from any Internet-connected PC running Windows XP.

“That translates into immediate ROI,” Johnson said. “They are no longer chained to their offices; business owners and workers can leave early and telecommute.”

Computer Directions' Klein agreed: "Windows Small Business Server 2003 is not merely an upgrade; it fundamentally changes the way customers do business."

Other big lures for Klein's customers are the Outlook Web Access, SharePoint and the improved Windows SBS 2003 security facilities.

The Standard Edition contains an entry-level firewall, while the Premium Edition incorporates the ISA Server. "Dealing with spyware has become a full-time job for just about every company, and the Windows Update Services in Windows SBS 2003 provides a large measure of relief," Klein noted. Businesses that use Windows XP can now take advantage of Group Policies, which provide more granular administration capabilities and the ability to lock down the desktop for a much greater degree of security.

Royalty said his customers are flocking to Windows SBS 2003 because "It does a great job out of the box. It's solid. And it really is secure by design." Royalty said Windows SBS 2003 wouldn't allow SMB customers to do too much until they first run Windows Update.

Tyrnstone's Gerhart concurred: "As a product suite, there is no competition for Windows SBS 2003; there is nothing that even comes close. All of the network components just work," he said.

Like his peers, Gerhart cited the "incredible" integration among Outlook, Exchange, Office and SharePoint Services, and the remote access capabilities. He added that his SMB customers appreciated the ready-to-use tools for accessing Exchange Server natively over TPPS and using PDA right out of the box.

SharePoint Becomes a Communications Focal Point

If security, backup, Exchange Server messaging and SQL Database capabilities are customary network components, then the SharePoint Services component is the next big thing.

SMB customers have seized on SharePoint with the enthusiasm of teenagers in chat rooms.

Solution Net's Royalty said that every one of his SMB accounts has constructed a SharePoint Services site. He and his clients use SharePoint as their point of contact for a wide range of functions including tracking billing and invoice information, cataloging documents to control projects, operating a help desk, tracking work orders, and creating an event log to record what clients do when they visit a customer site. "It is a very useful tool for communication, coordination and a focal point of control," he said.

Royalty's customers also use SharePoint to create and organize public shared folders on Exchange Server and individualized SharePoint sites based on specific user criteria. One of Royalty's customers, a local Cincinnati church, created individual, customized SharePoint sites for each of the church's various ministries.

More Economical Backup

Microsoft also responded to SMB customers caught in the economic crunch by delivering more economical embedded backup functionality. In the past, Windows SBS 2000 customers were required to purchase a third-party backup package. Prices for these incremental backup solutions typically ranged from \$700 to \$2,000—a negligible cost for a large enterprise, but a substantial investment for a small or startup SMB.

"In the past it was possible for customers to spend more on backup hardware and software than they did on their servers," Royalty said. "Now, Microsoft has completely revamped the bundled backup package and it represents a huge TCO value," he added.

The Microsoft Windows SBS 2003 backup component supports a large number of tape drives and has the flexibility to back up Exchange Server, SQL Server and SharePoint. It also will perform a disaster-recovery backup of the server.

Again, such a benefit has immediate and tangible TCO implications for small businesses.

“One disaster could put an SMB out of business,” Royalty said. On the basis of this feature alone, several of his SMB customers have gone to their insurance companies and obtained additional discounts because Windows SBS 2003’s backup feature constitutes “an embedded business continuity feature.”

Royalty supplements Windows SBS 2003 backup with online backup from a third-party ISV, Boomerang Backup, for his clients. This third-party software backs up Windows SBS 2003 for an incremental cost ranging from \$20 to \$150 per month. This saves SMBs the time, resources and money associated with additional tape drive hardware, the cleaning tapes, the cost of replacement tapes and paying someone to physically take the tapes offsite to backup. Third-party online backup can further reduce the backup portion of the Windows SBS 2003 TCO “by orders of magnitude,” Royalty said.

CALs and Licensing Issues Still Confound Users

Although most of the feedback on Windows SBS 2003 is positive, there are two issues that users find irksome: the incremental cost of the CALs, and confusion over the terms and conditions of the Microsoft Licensing 6.0 Agreements.

Some of the VARs and consultants such as Ross-Tek’s Johnson said the price of CALs were not an issue. However, others such as Computer Directions’ Klein and Solution Net’s Royalty said it definitely was problematic for their customers.

“The price of CALs is a big sticking point for my SMB customers. They view it as double dipping,” Klein said. “If they upgrade the server software and have already paid once for the workstation license, in their minds they’ve already purchased the right to have the workstation connect to the SMB Server,” he observed.

And with the retail price of roughly \$100 per workstation CAL, the Microsoft VARs and consultants do not make much of a profit either. Wholesale or discounted per-workstation CAL tags are approximately \$92. Klein said his firm may realize about \$4 per CAL license. “The only one who makes money on CALs is Microsoft and the customers don’t like it one bit,” he said.

“The majority of complaints came from the SMB customer that upgraded from Windows SBS 2000 because they spent \$60 per user before and the price went up to \$99 and that was a big price hike for some of them,” Klein said. He added that Microsoft did respond to customer feedback and it created a special discounted SKU in November 2003.

Tyrnstone’s Gerhart said that is not enough, though. He believes Microsoft should scrap the CALs in favor of a flat rate.

“Microsoft needs to make this [Windows SBS 2003] a no-brainer to use. Just give the customers a single flat rate that encompasses up to 75 users. Right now, 2 out of 10 of my customers won’t migrate to Windows SBS 2003 because of the high price of CALs,” he said. Instead, these customers—though in the minority—will elect to make do with their current Windows SBS 2000 package or “cobble together a hodge-podge of various servers,” Gerhart said.

In emerging nations such as India—where SMBs are even more cost-conscious—users may react a bit differently, Techgyan’s Ramani said. Indian SMBs and VARs were adversely affected by the protracted economic downturn. Recovery remains slow for that sector, he said. Ramani expects the SMB arena to rebound in 2005. Cultural differences also affect upgrade decisions.

“In India, users do not readily upgrade to latest versions. The perception is that the old technologies are good enough. And since most of the users are basic users, the extra functionality provided by new versions is not very appealing,” Ramani said. “Price sells in India. SMBs like the core Microsoft business applications. Usage is high but a good percentage of this usage is unlicensed,” he added.

Ramani’s advice to Microsoft: Consider a tiered pricing model that is country-specific. “Uniform worldwide software pricing is not a great idea,” Ramani said.

The other major stumbling block confronting SMB users contemplating a Windows SBS 2003 migration is comprehending the intricacies of Licensing 6.0. The SMBs frequently rely on their VARs and consultants to unravel the mystery for them. The trouble is that the terms and conditions of Licensing 6.0 also mystify the VARs.

Gerhart recounted a recent incident when he attended a Windows SBS user group meeting in Redmond, Wash. A representative from Microsoft’s Worldwide Licensing Group was present and gave the attendees a multiple-choice quiz on six different user scenarios involving Windows SBS 2003. The objective was to discern how well or poorly SMB customers and VAR partners understand their licensing issues.

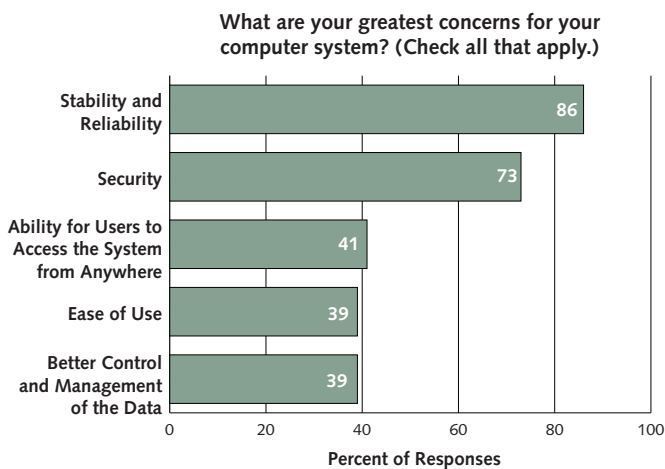
“None of the 40 people present scored 100 percent; about five people got 80 percent or a ‘B,’” Gerhart said. “But most of us got a ‘D’ or worse, got all the answers wrong.” The implication is that SMBs or any customers that lack a true understanding of the terms and conditions of their licensing contracts may shortchange both Microsoft and their own businesses.

All the VAR partners strongly recommend that Microsoft compile a straightforward list of sample SMB licensing scenarios to use as guidelines.

Additionally, the VARs and consultants advised Microsoft to continue to address reliability and security concerns, which—according to the survey responses—are the top two customer issues (see Exhibit 7).

Exhibit 7
Security and Reliability Are the Greatest SMB User Concerns

Source: The Yankee Group, 2004



Windows SBS 2003: Technically Solid

Thus far, Windows SBS 2003 has been remarkably free of major technical glitches. There are some external issues that are not inherent with the product but do affect usage.

Chief among these is the 16G storage limit on Microsoft Exchange Server.

“No matter how big your server is, Exchange can only handle is 16G of storage. You can have a 200G hard drive and you’re still stuck,” Computer Directions’ Klein said.

Exchange Server Enterprise Edition does have a large capacity limit. However, it also comes with a list price of \$4,000, which is prohibitive for most SMBs.

“A company that spends \$599 for the Windows SBS 2003 Standard Edition is not usually going to spend an additional \$4,000 on a Premium Edition of Exchange Server,” Klein said. He believes that Microsoft has not kept pace with the times and should raise the storage limit for the Exchange Server Standard Edition to satisfy customer demand.

III. Conclusions and Recommendations

In summary, Microsoft's Windows Small Business Server 2003 is a hit with SMB customers, VARs and small business consultants.

It is the right product at the right time at a cost-efficient and very competitive price point.

At present, no software bundle can effectively compete with Windows SBS 2003 on features and functionality for the \$599 baseline Standard Edition or the \$1,499 list price for the Premium Edition.

There is no comparable bundled server application set in the open source, Linux or UNIX markets that even comes close to Windows SBS 2003 functionality at any price. The majority (86 percent) of the 500 SMB respondents to the Yankee Group survey said they currently use or plan to use Windows SBS 2000 or Windows SBS 2003. Linux is not a consideration for most SMBs; although approximately 10 percent said they use Linux as a Web server or Internet gateway. The closest product—Novell, Inc.'s Small Business Suite—has just 3 percent market share.

Microsoft's best allies in the Windows Small Business Server 2003 space are the legions of VAR partners, consultants and systems integrators. These SMB partners have forged close bonds with their customers. They play a pivotal role in assisting the SMB clients on when to upgrade and—most important—how to take maximum advantage of the myriad features, tools and utilities that come bundled with the Windows SBS 2003 package.

Microsoft has raised its VAR and consulting partners' profit margins for technical service and support contracts, and rightfully so.

Small and mid-sized businesses with fewer than 1,000 users constitute 50 percent of the overall installed base of global customers. The Windows SBS 2003 suite focuses on the 25 percent of this group with fewer than 100 users. This is a powerful and emerging constituency whose needs Microsoft is addressing perfectly.

Recommendations

There are three major issues that SMB customers and Microsoft VARs would like Microsoft to address and modify:

- **Improve marketing.** Most of the VARs and consultants interviewed by the Yankee Group reported that Microsoft's marketing improved with the introduction of Windows SBS 2003, but the product still remains one of the software giant's best-kept secrets. The VARs advise Microsoft to mount a campaign that includes television and radio spots, and also targets specific vertical market publications such as medical and legal periodicals.
- **Proactively encourage and support Windows SBS 2003 user groups.** Individual local and regional Microsoft offices are supportive and receptive when approached by SMB users, VARs and consultants for meeting space. Now that the product is an unqualified success, Microsoft should accelerate its efforts, assist with meetings and promotions, and schedule guest Microsoft SBS 2003 product managers and licensing experts to speak at meetings.

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