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Next Generation Hosting – the Microsoft Vision for the Hosting Industry

White Paper

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# Introduction: The Evolution of the Hosting Industry

Since the dawn of the Internet, the hosting industry has grown successfully and adapted to new technologies and fast-changing market needs. It has expanded its reach well beyond basic shared and dedicated hosting services, delivering media-rich applications for consumers and businesses alike. Today, the shared Web hosting business is more competitive than ever and basic services have been commoditized. The industry has experienced consolidation while at the same time moving up-market to remain competitive. Additionally, a new model of software delivery and consumption has captured the eye of hosters, a model known in the market as Software as a Service (SaaS).

Microsoft anticipates that the SaaS model will bring more opportunities to the hosting industry, expanding the addressable market among small and midsize businesses from the current $15 billion to more than $280 billion. Indeed, according to Edge Strategies Inc., almost half of all companies with fewer than 100 employees do *not* want to manage their own IT infrastructure and would prefer to outsource.

However, Microsoft also believes that the SaaS model as commonly defined is only one part of a broader opportunity that is unfolding for service providers. As discussed today, SaaS focuses on the delivery of software applications as a service and consumed through a browser interface. For some applications and end users, this will be an ideal channel for the delivery of software, but for other applications and customers it may not be—and for any number of legitimate reasons. Government and industry regulations will require some companies to run certain applications within their own data centers. Some applications will require greater client-side functionality than a browser can offer. These requirements point to a world in which companies and end users have more software options than ever. Yet all these options can also mean more complexity and more infrastructure management—which is exactly what many companies want to avoid.

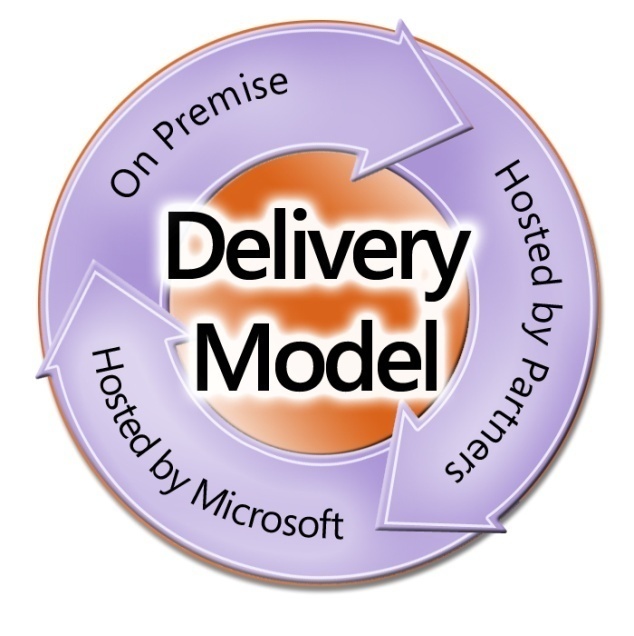
This, then, begins to illuminate the broader opportunity that Microsoft sees: the evolving world of software delivery is not just about software *as* a service. It’s about software *plus* services (S+S). SaaS is a part of the S+S world, but the S+S world is a broader one that emphasizes the use of services to meet customer needs, not just to deliver software through a browser. Some of those customer needs will be fulfilled through an SaaS offering; others will be fulfilled by services that effectively blend an application that the customer must run internally with one delivered in an SaaS model, or that blends multiple hosted services into something that goes beyond the functionality delivered by any single software service by itself.

The real opportunity for service providers in this world is to create the integrated experiences and complete business solutions that customers are seeking. By creating those experiences, by enabling the customer to make optimal use of whatever combination of enterprise, desktop, and Web-based applications they require, the next generation service provider—the S+S solution provider—becomes much more than a hosting provider. It becomes the new value-added reseller (VAR) and systems integrator (SI), the trusted advisor of businesses seeking ways to operate more efficiently and effectively in a changing world. By focusing on the delivery of these more complete business solutions, S+S solution providers can better create and secure the long term relationships that will help carry them along as the world of software delivery continues to evolve.

This white paper outlines Microsoft’s vision for the world of S+S and describes the Microsoft products and programs that can help hosting providers evolve into S+S solution providers that can take greater advantage of these emerging opportunities.

# A New World of Software Delivery

Microsoft sees three models for delivering software, and each one affords distinct opportunities for S+S solution providers:

* **On-premise**. In this model, software is installed at the customer location and licensed to the customer. An S+S solution provider could make money in this environment by providing services such as offsite backup, disaster recovery and security and hygiene services. Partnerships are important.
* **Hosted by Partner**. In this model, the S+S solution provider manages the infrastructure and provisions end users on the software. The infrastructure and software is often (though not always) owned and licensed by the service provider. The hoster creates service offerings and bundles based on customer needs. They generally offer service level agreements and superior customer support, and bill on a subscription basis. The hoster procures Microsoft software licenses in accordance with the Microsoft Service Provider Licensing Agreement (SPLA).
* **Hosted by Microsoft**. In this model, Microsoft manages the infrastructure and provisions the software, which an S+S solution provider partner can bring to customers in a variety of ways that add value and help them overcome their business challenges. Examples include Microsoft Office™ Live Small Business, Microsoft Online Services, Windows Live™ Virtual Earth and the upcoming Microsoft Dynamics™ CRM Live. This model creates new opportunities for Microsoft S+S solution provider partners, with monetization opportunities that include subscription fees for provider-developed solutions that are built on top of Microsoft-hosted services, on-premise integration services, and referral and reseller fees charged to customers who use those services.

Most organizations will find themselves with software delivered through some combination of these models. The real challenge for businesses will lie in making the most of each service delivery model. Some situations will demand the richness and responsiveness of desktop applications; others will demand the security and power of traditional enterprise computing. Some situations will clearly lend themselves to an environment optimized for a mobile experience. At the same time, both organizations and end users are increasingly interested only in the result, not how it is obtained. For the most part, they are not interested in whether the software is delivered from a data center downstairs or from across the country; they do not want to wonder whether applications and platforms are compatible or will work together. They want to make choices based upon the work they need to do and the ways in which they want to work. They simply want the experience of all the pieces working together seamlessly when they need to get their work done.

Looking at the future in these terms can help a hosting provider envision new opportunities. While some hosting providers will continue to focus exclusively on the delivery of software as a service, others will see opportunities to aggregate services and create seamless customer experiences. Others will see new opportunities through partnerships, integration, and the brokering of services. All these software delivery permutations can involve increased complexity, which in turn necessitates more sophisticated integration, deployment, migration and management skills. Clearly, this is an opportune evolutionary path for service providers that today focus only on hosting. By expanding the business model to deliver the sophisticated services that customers need to take advantage of these more complex hosted offerings, hosting providers can become S+S solution providers that support end-customers in critical ways. Because S+S solution providers can integrate business solutions and deliver software in ways that create new and compelling experiences, the S+S solution provider can become the trusted advisor to customers. You become the VAR and the SI of this new service delivery world. That will not be an overnight transition but one that unfolds gradually as hosting providers add more sophisticated integration, deployment, migration and management skills to their offerings.

# Supporting Hosters in this Next-Generation Hosting World

To help hosting providers evolve to meet the needs of customers in the S+S world, Microsoft is building business and technology capabilities designed to enable S+S solution providers to deliver the services and experiences that customers are seeking. These efforts are focused around three core areas:

* Next Generation Hosting Platform: Microsoft continues to invest in building the platform and developer technology for delivering services. As the S+S opportunities expand, Microsoft will deliver more innovation and enhancements at the core service platform level (including Microsoft Windows Server 2008 with Internet Information Services 7.0, Microsoft SQL Server 2008, Virtualization services, and the Microsoft Visual Studio 2008 development environment). These enhancements will help S+S solution providers build out the infrastructure to deliver the applications and services that customers require.
* **Next Generation Services:** Critical to the success of S+S solution providers is the breadth of services available to meet customer needs. Using Windows as a service delivery platform makes it easy for S+S solution providers to launch services quickly and deliver them profitably. These services can be thought of in several categories:
* **Microsoft applications**. Applications such as Microsoft Exchange Server, Microsoft Dynamics CRM and Windows SharePoint Services are examples of applications that Microsoft has designed for easy delivery as hosted services.
* **Microsoft services.** Services hosted *by Microsoft* can be included as part of an S+S solution provider’s offerings. The John L. Scott real estate Web site (<http://www.johnlscott.com/>), for example, combines Microsoft Virtual Earth mapping (a service hosted by Microsoft) with real estate listings to deliver a compelling end-user experience.
* **Commercial ISV-created applications**. With specific architectural guidance both for hosters and ISVs, more and more applications are being built that S+S solution providers can easily host, aggregate, broker, and deliver as services.
* **Open-source applications**. With Microsoft Windows Server 2008 with Internet Information Services 7.0 now optimized to run PHP, S+S solution providers can tap into the many applications available through the open-source community and deliver them efficiently on the Windows platform.
* **Client Experience:** Microsoft continues to support the development of tools for a richer end user experience, such as Microsoft Silverlight™, the Microsoft Expression® Suite, tools for AJAX development, the Microsoft .NET framework, ActiveX for Microsoft Internet Explorer, Microsoft SoftGrid Application Virtualization for Terminal Services, and more—so that S+S solution providers can take any Windows application and deliver it with click-to-run characteristics over the Internet.

Within this strategy lie many opportunities for hosting providers that want to become S+S solution providers. The following sections will examine these efforts and their ramifications in more detail.

## Next Generation Hosting Platform Enhancements

For S+S solution providers, one of the keys to winning the loyalty of customers will be the ability to manage total cost of ownership (TCO) while ensuring a dynamic and compelling user experience. Deploying a platform that enables robust service delivery at scale is a critical success factor. Microsoft continues to improve the Windows server product family to ensure that these products are optimized for the delivery of hosted services, taking into consideration cost, manageability, security and reliability. In addition, Microsoft continues to drive innovation at a faster pace than ever, so that the service provider community can use the platform to deliver real value to customers. Consider two examples—Microsoft Windows Server 2008 with Internet Information Services 7.0 and the Microsoft Solution for Hosted Messaging and Collaboration (HMC).

### Microsoft Windows Server 2008 with Internet Information Services 7.0

Microsoft Windows Server 2008 with Internet Information Services 7.0, the latest server technology from Microsoft, is so much more than just a Web server. Windows Server 2008 has been developed in collaboration with customers and service providers, taking into consideration their requests and feedback throughout the product planning and earliest development phases.

Internet Information Services 7.0 provides a secure, easy to manage platform for developing and reliably hosting Web applications and services. The innovations delivered in Internet Information Services 7—including PHP support, built-in .NET support, built-in virtualization, better site density, modular management, diagnostic tools, and secure publishing—will help lower costs while adding significant value to end users and their organizations. In addition, Windows Server 2008 supports both ASP.NET and PHP applications running on the same physical server. With powerful media streaming technology, Ajax technology support, Windows SharePoint Services, and more, S+S solution providers will find in Microsoft Windows Server 2008 all the flexibility and all the service delivery management options that they need to support the broadest range of customer-oriented services.

Recognizing the broad adoption of PHP by the Web developer community, Microsoft has also released a FastCGI module for Internet Information Services 6.0 to enable PHP support in Windows Server 2003 (in addition to built-in PHP support in Windows Server 2008), available as a free download at www.iis.net/php.

### Microsoft Solution for Hosted Messaging and Collaboration

The Microsoft Solution for Hosted Messaging and Collaboration (HMC) provides a good example of how S+S solution providers can use the ***platform*** to deliver ***services*** that deliver the ***experience*** that end users want. With HMC, S+S solution providers can use the *platform* to deliver messaging and collaboration *services* (hosted Microsoft Exchange, hosted SharePoint and hosted Office Communicator) through either a dedicated or shared service model. These offerings deliver a familiar and rich e-mail and collaboration *experience* as end users can access their e-mail and content anywhere and anytime, using Microsoft Office Outlook, Microsoft Outlook Web Access, and Microsoft Office Mobile clients.

HMC offers S+S solution providers a proven platform for revenue growth. According to Edge Strategies Inc., more than half of all Hosted Exchange customers said that they plan to add at least one additional hosted service, and 30 percent of customers said they will add two or more. Incremental revenues from up-sold or cross-sold services can increase basic hosted Microsoft Exchange revenues by as much as six times. For example, mobile access to e-mail and user-generated content through the “anywhere access” feature of HMC is the number one add-on service, with a third of all new customers purchasing this service when they purchase Hosted Exchange. Following mobility are services for spam and virus filtering (which an S+S solution provider could support using Microsoft Exchange Hosted Services, for example). These services deliver incremental value to customers and increase the average revenue per user (ARPU) for the S+S solution provider.

Similarly, S+S solution providers could offer customers access to services built on Microsoft Windows SharePoint Services (WSS) and, increasingly, Microsoft Office SharePoint Server (MOSS). MOSS provides advanced collaboration and content management solutions that can be integrated with other hosted services and provide a familiar interface for end users. For example, an S+S solution provider could integrate an HMC-based e-mail account with a MOSS-based repository of customer support documentation. This kind of integration creates compelling up-sell and cross-sell opportunities for S+S solution providers to deliver a complete and seamless IT solution to SMBs.

## Next Generation Services

The next generation hosting platform from Microsoft puts S+S solution providers in a solid position to deliver an ever broader range of customer-focused software and services:

* **Microsoft applications.** Applications such as Microsoft Exchange Server, Microsoft Dynamics CRM and Windows SharePoint Services are examples of applications that are designed to be hosted and delivered as services to end users and organizations. Microsoft makes licensing these next generation services easy through the service provider license program (SPLA). The SPLA offers month-to-month subscription-based licensing designed to make licensing easy for service providers delivering software services to their customers. With the SPLA, upfront costs and resulting high risks are reduced. Benefits include access to the most up-to-date versions of Microsoft software, no term commitments, and only paying for revenue-generating licenses. Microsoft also offers a new Go-Live licensing program, which enables both SaaS and S+S solution providers to acquire and test certain Microsoft applications before their actual release. The Go-Live license enables a provider to deploy a new application, get to know it, develop a service around it, and offer that service to customers even before Microsoft formally launches the product. Today, Microsoft offers a Go-Live license for Microsoft Windows Server 2008, ensuring that SaaS and S+S solution providers alike will be well positioned to offer services on this next generation platform as soon as the product is officially released.
* **Commercial ISV-created applications** The S+S opportunity has prompted an increasing number of ISVs to enable their complex applications for delivery in an S+S model. In some cases the ISVs offer software that SaaS and S+S solution providers can host and offer directly to their customers for a monthly fee. In other cases the ISVs host the software themselves and partner with S+S solution providers, who then act as aggregators or distributors and resell that service to customers. For all these reasons, hosting providers should consider expanding their service offerings and developing relationships with ISVs, just as ISVs should invest their energy in developing their S+S applications while relying on S+S solution providers to deliver their sophisticated software solutions to customers.
* **Open-source applications.** With Microsoft Windows Server 2008 with Internet Information Services 7.0 now optimized to run PHP, S+S solution providers can tap into the many applications available through the open-source community and deliver them efficiently on the Windows platform.

Not only does the Microsoft platform enable an S+S solution provider to deliver core applications from these different sources, but it facilitates the creation of new services that providers can use to distinguish their offerings The John L. Scott Real Estate Web site noted earlier offers a perfect example of how an S+S solution provider can take a service hosted by Microsoft and integrate that service into a real estate client’s commerce site to create a more compelling and interactive experience for home buyers. In offering a wider range of distinctive services, an S+S solution provider moves “up the stack” so to speak—away from the commodity services related to Web hosting and further up into the realm of value-added services that customers are increasingly seeking.

## Client Experience

In order to facilitate the creation of services that customers are demanding, Microsoft is developing a new generation of tools specifically designed to help developers and S+S solution providers create software and services that deliver the experiences that customers want. This suite of tools – from Silverlight, Visual Studio, and the Microsoft Expression Suite to Microsoft Windows SharePoint Services – are targeted for developers and Web agencies to create rich applications and enable the end user experience in social networking, multi-media, gaming, and application consumption. We have been working with S+S solution providers to create offerings that not only include hosted services but that also access these tools so that S+S solution providers can offer one stop shopping for the developers or Web agencies with whom they work.

Consider the experiences of Australian service provider WebCentral. WebCentral already offered a broad range of Web hosting services. It already offered business-class messaging and collaboration services based on Microsoft® Exchange Server 2003. Still, the company wanted to offer more to small and midsize businesses. They wanted to deliver services that would increase the average revenue per user (ARPU) and that would help increase customer retention. They discovered they could accomplish both goals by delivering services that enable business information sharing and the development and deployment of lightweight business applications. Based on Windows® SharePoint® Services 3.0, the WebCentral Managed SharePoint 2007 service is helping WebCentral increase revenues and keep customer turnover low while providing a valuable service to its customers.

WebCentral’s services are not limited to SMBs, either. It has a reseller channel that consists of a combination of Australian Web developers and Microsoft value-added resellers who are excited about the service opportunities afforded by Managed SharePoint 2007. In particular, they appear to be excited about the application templates and the power of tools such as Office SharePoint Designer 2007, which is specifically designed to give users the tools to customize a Windows SharePoint Services–based site.

# Beyond the Platform: Delivering the Resources to Foster S+S

IDC notes that the software industry has moved beyond the educational phase of software on demand and that the associated benefits of the SaaS delivery model have been recognized by companies of all sizes and across a spectrum of industries. Therefore, the next phase in the evolution of the S+S world will be about educating, building relationships, and driving the development of an on-demand ecosystem. This is what IDC believes will be crucial to maintaining software-on-demand growth.[[1]](#footnote-2)

Microsoft is invested in fostering the evolution of the S+S world, and it has developed several programs and resources that can help hosting providers thrive during this evolution.

## Microsoft Partner Program

The Microsoft Partner Program helps hosting service providers realize their full business potential through the application of innovative Microsoft technologies as well as their close interactions with Microsoft and the global partner community. For hosting and S+S solution providers alike, the Microsoft Partner Program can extend market reach. It can help a provider run its business more efficiently through the use of valuable software, targeted training, and support assets that improve operational efficiency and increase profitability.

The Microsoft Partner Program offers special programs for service providers. The hosting solutions specialization helps service providers develop their competence to manage complex service-oriented infrastructures. Different benefits exist at different membership levels (Gold, Certified, and Registered), so service providers should select the membership level that is right for their organization and business at this time. Service provider–specific benefits include access to industry-specific analyst reports, discounts on Microsoft Certification exams, focused marketing materials to help grow the business and online tutorials on software as a service. Membership at the Registered level is free and provides benefits ranging from software updates to invitations to events, and connections to the broader hosting and partner community.

## Microsoft SaaS Incubation Centers

Microsoft has been working closely with hosters to develop SaaS incubation centers that can link ISVs with hosting companies that have a strategic focus on the SaaS opportunity. ISVs will develop service-ready applications while Incubation Center partners will host and aggregate them to be delivered as services and provide infrastructure management as well as business guidance, best practices and licensing management. Over time Microsoft anticipates expanding this model to include resellers and other S+S solution providers, which will facilitate the evolution of an even richer ecosystem in which S+S solution providers will be able to offer whatever software and services users want to use. As noted earlier, the more an S+S solution provider can offer the software *plus* services that create the seamless software experiences that businesses want in order to operate effectively and efficiently, the more value the S+S solution provider adds and the more indispensable it will become to its clients.

# Conclusion

As multiple software delivery models become more accessible to businesses and end users, S+S solution providers will play a increasingly critical role in the delivery of optimized business solutions. Businesses want choices. They want to be able to operate efficiently, effectively, and in a manner that helps them achieve their business goals. S+S solution providers can help businesses realize these goals by delivering the services that create the seamless software experiences that their customers need to succeed.

Microsoft’s goal in this evolving world is to help service providers and their customers succeed. To achieve this goal, Microsoft is creating the platform, the software, the tools, and the services that S+S solution providers can use to meet their customer’s needs. How software is consumed will ultimately be decided by customers based on their IT strategies and specific needs. However, one thing is certain: choice is always a good thing, and an S+S strategy will help hosting providers become S+S solution providers, which better positions them to help their customers realize their full potential. Microsoft will continue to ensure market awareness of the emerging S+S world and the important role that S+S solution providers play in helping businesses and end users achieve their goals.

# For More Information

##### Windows Server 2008 with Internet Information Services 7.0

* <http://www.microsoft.com/windowsserver2008/default.mspx>

##### Go Live Licensing for Internet Information Services 7.0

* Microsoft has created a program for service providers to experience and get trained on Microsoft Windows Server 2008 with Internet Information Services 7.0. Please sign up at <http://www.iis.net/default.aspx?tabid=7&subtabid=79>

##### Microsoft Windows Server 2008 World Tour

* Microsoft would like to invite service providers to a special FREE event specifically designed for service providers. This event is a unique opportunity to learn about and get hands-on experience with Microsoft Windows Server 2008 and Internet Information Services 7.0. Please register at <https://ws08hostingroadshow.msregistration.com/>

##### Microsoft Partner Program

* <https://partner.microsoft.com/global/program/competencies/aisolutions/hosting>

##### Service Provider Licensing

* <http://www.microsoft.com/serviceproviders/licensing/default.mspx>

##### Microsoft and the Hosting Community

* <http://www.microsoft.com/hosting>

##### Case Studies

Lower TCO for Windows-Based Services fuels profitability of Italian Hosting Leader

* <http://download.microsoft.com/download/6/b/e/6be5466b-51a5-4eaf-a7fc-590f32bc9cb3/Aruba.it%20Case%20Study.doc>

Increasing ARPU and Customer Retention with Hosted Business Application Services

* <http://download.microsoft.com/download/5/c/4/5c49d9c8-a3e9-4806-8c6d-a621b8d2402b/WebCentralCaseStudy.doc>

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1. Source: Worldwide Software on Demand 2007.2011 Forecast: A Preliminary Look at Delivery Model Performance, IDC #206240 March 2007 [↑](#footnote-ref-2)