

Outblaze Hosted E-Mail Buy Will Help IBM Target SMBs

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IBM plans to buy popular, low-cost e-mail assets from Outblaze. The deal will enable IBM to tap strong demand for hosted e-mail among small and midsize businesses and respond to competitors Microsoft, Google and Cisco.

NEWS ANALYSIS

Event

On 15 January 2009, IBM said it will acquire the messaging assets of Outblaze, a provider of e-mail and collaboration services. The vendors did not reveal the terms of the deal, expected to close in 1Q09.

Analysis

This deal will help IBM compete with Microsoft, Google and Cisco Systems in the market for low-priced hosted e-mail and collaboration services, especially for small and midsize businesses (SMBs). The hosted e-mail market is growing rapidly and will likely account for 20% of the overall market by the end of 2012. The benefits of e-mail software as a service (SaaS) — lower costs, regular payments, no upgrade burden — appeal most to companies with fewer than 1,000 seats. Gartner estimates that IBM has less than 5% of the commercial e-mail market worldwide for companies under 1,000 seats. IBM has trialed an SMB-oriented hosted collaboration platform, project "Bluehouse" (now LotusLive Engage), but it lacked e-mail. The Outblaze acquisition will fill this gap.

Outblaze is one of the few large-scale e-mail hosters left from the dot-com boom, when many vendors competed for low-price e-mail seats supplied to telcos, Internet service providers, cable operators, Internet sites and corporate boundary workers. Outblaze hosts about 40 million seats, most priced under \$12 per user per year. That installed base provides IBM with a ready market to pursue with Engage. The IBM version of Outblaze e-mail will be available in mid-2009, with full integration with Engage expected several months later.

Engage is better suited to the SMB market than Notes/Domino due to lower operational costs via a multi-tenant architecture, a provisioning model for SMBs, white-labeling capabilities and new branding opportunities. IBM will target the hosting market for larger companies with a new service built on Notes/Domino, LotusLive Notes, which it introduced in September 2008 as Lotus Notes Hosted Messaging. However, IBM does not believe there will be a strong uptake of Domino SaaS for existing large customers because it believes the economics will favor on-premises deployments. But IBM does see opportunity in offering SaaS services to enterprise boundary workers.

Engage faces several challenges:

- It faces tough competition from three hosted collaboration offerings: Microsoft's Business Productivity Online Suite (BPOS), Google Apps Premier Edition and a suite from Cisco, expected in mid-2009, which will combine WebEx Web conferencing, PostPath's e-mail and Jabber instant messaging.
- In creating a new brand around Engage, IBM must avoid confusing the Notes/Domino base about its long-term direction in strategic collaboration.

RECOMMENDATIONS

- SMBs looking for hosted options for procurement in 2H09 should consider LotusLive Engage, once its stability and functions are proved. Departmental and boundary workers within large enterprises should also consider Engage.

RECOMMENDED READING

- "Microsoft Collaboration Offering Ushers in New Era for SaaS" — Gartner expects the elements of the BPOS to mature rapidly, with mainstream adoption occurring in 2010.
By Matt Cain and Mark Gilbert
- "IBM Notes Hosting Will Compete With Exchange Service Offerings" — Notes/Domino customers will consider outsourced hosting of Notes/Domino e-mail and applications if IBM can demonstrate that the service will save money compared to on-premises deployments. **By Tom Austin and Matt Cain**

(You may need to sign in or be a Gartner client to access the documents referenced in this First Take.)

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