

MICROSOFT'S VIRTUALIZATION STRATEGY

Key Insights Gained from Microsoft Management Summit 2008

INTRODUCTION

This Springboard Research document presents observations and analyses gained from the Microsoft Management Summit (MMS) held in Las Vegas, Nevada (USA), from April 28 to May 2, 2008. The basis for the insights expressed within this document – beyond Springboard's continuous tracking of Microsoft's business activities – includes information obtained from presentations, briefings and interviews with senior Microsoft executives.

KEY MMS MESSAGE: MICROSOFT REINFORCES ITS VIRTUALIZATION STRATEGY

At MMS 2008, Microsoft reiterated its intent to be an important player in the virtualization platform business and made several announcements that outlined its roadmap and long-term goals for that segment. In our view, these announcements reflect the first clear signs from the vendor that it is serious about virtualization and has a long-term strategy for this technology that is finding increasing adoption among enterprises across the world. The summit also highlighted a new openness in Microsoft's approach to non-windows IT environments as it made known its willingness to help its customers manage those environments as well.

While on one hand Microsoft named virtualization as a key enabler of its "Dynamic IT" vision for enterprises, the company also emphasized its "integrated view" of virtualization, which is the development of an "end-to-end" virtualization platform for servers, desktops, and applications, as well as management of both physical and virtual environments. A key message communicated at MMS was Microsoft's focus on interoperability and making things work in heterogeneous environments. Furthermore, in order to support these

goals, the vendor announced the availability of products that help expand its virtualization capabilities.

KEY MMS ANNOUNCEMENTS

Even as Microsoft gets ready to ship its Hyper-V hypervisor over the next couple of months, Springboard Research believes that the big play for the vendor is going to be in the management space. Two key product announcements made by Microsoft at MMS underscored this assumption. These announcements were:

New System Center Operations Manager 2007 Cross Platform Extensions

Microsoft announced the public availability of the beta edition System Center Operations Manager 2007 Cross Platform Extensions, which builds upon the existing Operations Manager 2007 capabilities. Microsoft is now developing Systems Center to manage not just the Microsoft environment, but also Solaris, HP-UX, and AIX, as well as RedHat and SUSE.

New System Center Virtual Machine Manager 2008

The vendor also announced the publicly available beta product, System Center Virtual Machine Manager 2008 (formerly code-named “Virtual Machine Manager vNext”), which enables customers to configure and deploy new virtual machines and to centrally manage their virtualized infrastructure, whether running on Windows Server 2008 Hyper-V, Microsoft Virtual Server 2005 R2 or VMware ESX Server.

KEY INSIGHTS GAINED FROM MMS

Springboard Research believes while on one hand Microsoft is trying to position itself as a virtualization platform vendor, on the other hand, it is looking at management to give it an edge in a market dominated by VMware. The vendor is not just trying to emphasize its management capabilities in the physical and virtual space, it is also trying to build capabilities that will help its customers manage non-Windows environments. These, and other key factors, which we think will not just shape the vendor’s virtualization market strategy, but also define market dynamics, are discussed in greater detail below.

Market Positioning: Microsoft wants customers to think of it as a virtualization platform company and not just another hypervisor company. Even as the vendor thinks that Hyper-V will drive virtualization adoption in the market, it is betting on positioning itself as a platform vendor that offers an integrated view of virtualization by optimizing several IT resources and not just servers. Given that, the company is trying to position itself as a virtualization platform vendor that has everything a customer needs to virtualize or manage IT resources (desktops, servers, applications, storage).

Management as Customer Engagement Point: Microsoft believes that management is going to be the critical customer engagement point for the vendor and wants its System Center Virtual Machine Manager to be the management platform of choice for customers, including those running VMware. The vendor believes that as System Center will manage both physical and virtual environments and also VMware, it has a clear edge in the market where enterprises are struggling with new management challenges in a virtualized environment.

Focus on Heterogeneous Environments: As mentioned earlier, System Center Virtual Machine Manager 2008 will also manage VMware ESX Server. This indicates that Microsoft accepts and respects the reality of heterogeneous environments. Given VMware's dominance in the market, a significant number of Microsoft's target customers are most likely to have VMware. Moreover, as Springboard Research believes, it is unlikely that most customers will depend on just one platform, one vendor, or one technology for virtualization. In other words, a virtualized infrastructure is likely to be as heterogeneous as the physical infrastructure. As such, any management element that does not address non-Windows environments will be a hard sell to customers.

Expanding Capabilities and Product Portfolio: In addition to Hyper-V and System Center Virtual Manager, Microsoft is building other assets and expanding its existing capabilities. For instance, Microsoft is working to apply application virtualization technology to server application virtualization. The company is also expanding investments in desktop virtualization. Toward that end, it recently acquired Kidaro, a desktop virtualization company. The acquisition will help Microsoft provide a seamless user experience on physical and virtual machines, and improve desktop management.

Partnerships with Citrix and Hardware Vendors: Microsoft recently expanded its partnership with Citrix beyond terminal services. The alliance has now evolved to include server virtualization, applications and desktops. In the short term, the vendor is likely to promote a mixed hypervisor environment with XenServer and Hyper-V complementing each other. Citrix will also deliver XenDesktop on Windows Server 2008 Hyper-V and will integrate XenDesktop and XenApp with System Center Virtual Manager 2008. Microsoft is

also focusing on building strong relationships with OEMs focused on Hyper-V, Windows Server 2008 and System Center tools.

Hyper V Pricing: When Microsoft's Hyper-V hits the market in a few months, Windows Server 2008 will cost US\$ 28 more with Hyper V feature. This essentially means that anybody who opts for Windows Server 2008 can virtualize at an additional cost of just US\$ 28 per physical host. Microsoft believes that this price will be one of the key reasons that customers will opt for Hyper-V over VMware. Despite this, Springboard believes that Microsoft does not expect enterprise customers to shift from VMware to Microsoft based only on cost. It is obvious that Hyper-V will need to also deliver superior performance and user experiences in order to lure customers away from VMWare. However, Microsoft's pricing strategy will surely generate a lot of market excitement and also help Microsoft expand its virtualization business.

Virtualization Services: The four key scenarios targeted for the virtualization service offering from Microsoft include: server consolidation and provisioning, disaster recovery using virtualization, high availability, and advanced management of physical and heterogeneous virtualization technologies. The vendor also offers virtualization assessment and planning services to help customers decide on the number of servers they need to virtualize, envision different migration scenarios, and select the right technologies.

Virtualization and Software as a Service: Microsoft is making a number of investments in cloud-based services, and also several investments in management services. According to the company, virtualization will provide the foundation for software as a service and help centrally manage these services. The vendor believes that as it updates millions of PCs every year, it understands software as a service better than anyone else. Working on the premise that system management-related software as service will be a big market over the next three years, Microsoft is planning to offer system management as a service. Virtualization, according to the vendor, will be a key enabler in this area as well.

SPRINGBOARD CONCLUSIONS

Given the fact that large segments of the virtualization market are still untapped, Microsoft can make significant inroads into the space. Springboard Research believes that if the vendor can deliver performance and user experiences that are superior to the competition, and can back up its promise of developing an end-to-end virtualization solution that covers virtually the entire IT stack from servers and desktops to applications, Microsoft has a fair chance of competing with VMware over the next 3 years. From that

perspective, its strategy to expand to virtualized management of heterogeneous environments will definitely provide Microsoft with an edge in a market that is waking up to the challenges of managing virtual resources.

Springboard Research believes that Microsoft has several assets (such as Microsoft Application Virtualization and its expanding partnership with Citrix, in addition to upcoming products like Hyper-V and System Center Virtual Machine Manager 2008, as well as its Kidaro and Calista Technologies acquisitions, and its system management capabilities) that will help Microsoft position itself as an integrated virtualization platform vendor.

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