

(Introductions)

2 major new trends

1, the trend toward SaaS as a software pricing and delivery method

2, the trend toward Web2.0 and user-directed Web experience

In this process, I'd like to make one very simple point:

ISVs that enable users to mix and match the value in their software with the value in other people's software are the ones that will win in a Web2.0 world

**The Industry Debate**

**SaaS Emerges as Long-Term Rival to Packaged Software**

**Enterprise Software Gets a Face-Lift**

**SaaS Will Grow At a 21% CAGR During the Next Three Years Reaching \$10.7B in 2009**

**Is the Enterprise Ready for 2.0?**

**SaaS in 2007: It's about services, doh!**

**The Rich Client Strikes Back**

Healthy tension between off and on premise software

**Off premise** software services (in the cloud)

For the **customer**

- **Infrastructure mgmt is somebody else's problem** now
- **Try before you buy** is a serious benefit for customers
- **Paying as you go** provides **low risk investment**
- **No-cost deployment** lowers the IT costs for customers

For the **ISV**

- **Reaching** new markets (**SMB**) becomes more of a reality in B2B
- **New revenue streams** (subscription, transaction, ad based)

**On premise** software

- Gives customers **control** (perceived and actual)
- Allows for greater **customization** (some good and some ill-advised)
- Provides customers greater **privacy/security**
- Helps customer be more **regulatory compliant**

**Industry/press/media** seems to like the tension of either/or – **makes for great theater**

In many ways this debate **reminds me of the stovepipe server mindset that characterized the mainframe era.**

Given that today, technology has advanced by leaps and bounds, but all the same, it would be hard not to be reminded of the debates that permeated earlier in the evolution of IT

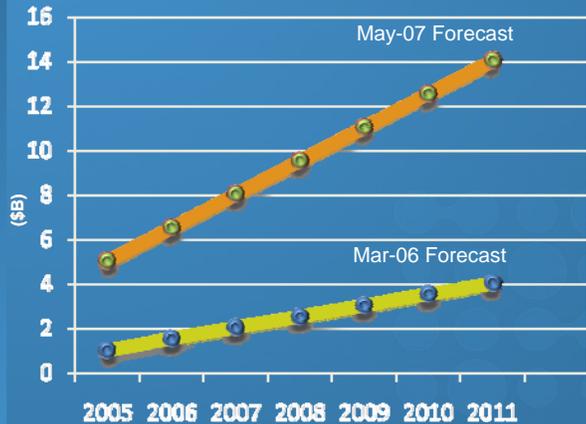
Similarly, this mindset **tends to polarize the two software delivery models as opposed to bringing the best of both together**

It also **influences customers and accordingly, ISVs**, to think more in a **black and white framework**

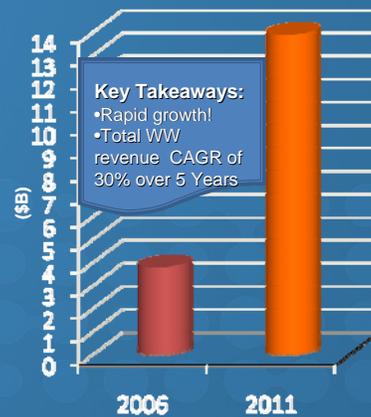
As a result, we reach **two unfortunate outcomes:**

# The SaaS Opportunity IDC's Updated Position

WW Software On Demand Revenue 2005-2011:  
Comparison Of May 2006 And March 2007 Forecasts



Worldwide Software On Demand Revenue, 2006 and 2011



**Key Takeaways:**  
 •Rapid growth!  
 •Total WW revenue CAGR of 30% over 5 Years

Source: Worldwide Software on Demand 2007-2011 Forecast: A Preliminary Look at Delivery Model Performance, IDC #206240 March 2007



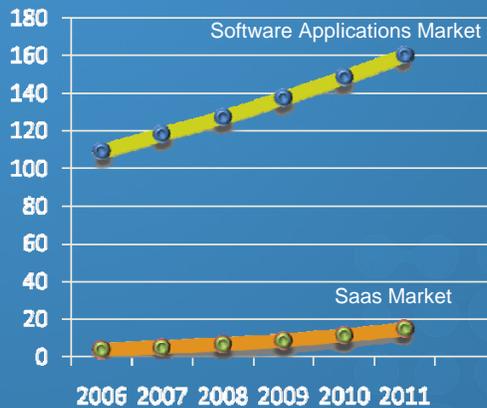
Microsoft

IDC's revised forecasts project **much faster growth for SaaS from \$ 3.6 billion today to \$14.8 billion in 2011**

**Drivers** for this change include:

- Constrained IT budgets**
- Need to **increase employee productivity** as well as efficiency
- The desire for businesses to acquire and **improve business processes** by adopting on-demand solutions
- An unwillingness, or **inability**, of small and medium-sized businesses (**SMBs**) to administer software and **to take IT folks off existing core business infrastructure**
- The **growth in bandwidth availability** with the **continuing trend toward user- and consumer-focused Internet applications**
- A clear **focus on business functionality**, as software on demand can help provide maximum value **with minimal pain to customers**

## But here is the question you should really be asking



- While the SaaS market grows by \$11.2B in the next 5 years
- The overall Software Applications market will be growing by **\$51B**
- **Your target customer is much bigger than their Web Browser**

What if you could use the SaaS model to deliver what your customers want both inside and outside the browser?



**Microsoft**

SaaS forecast is impressive

And so is the on-premise overall packaged apps market

From a revenue perspective, it will still be 4X the amount of SaaS at \$51B

Your customers are bigger than just their browser at all segments in the market

As you look at these two trend lines and the combination of revenue growth and market growth, we think you should be aiming somewhere in the middle

And Other market leaders are as well

So what about just services?

Google

eWEEK.COM Google CEO Says Software to Play a Bigger Role

eBay Desktop beta  
Your Desktop. Your eBay.

salesforce.com

Salesforce to Go  
Take Your Apps on the Road with Salesforce Mobile

1-800-NO-SOFTWARE  
1-800-667-6389

InformationWeek

RIGHT NOW TECHNOLOGIES  
"Ajax and Web 2.0 are great technologies for casual use, but for mission critical you need the capabilities of a desktop app." Greg Gianforte, CEO, RightNow

Microsoft

The biggest SaaS players in the world make it clear that the future is going to include a mix of both software plus services

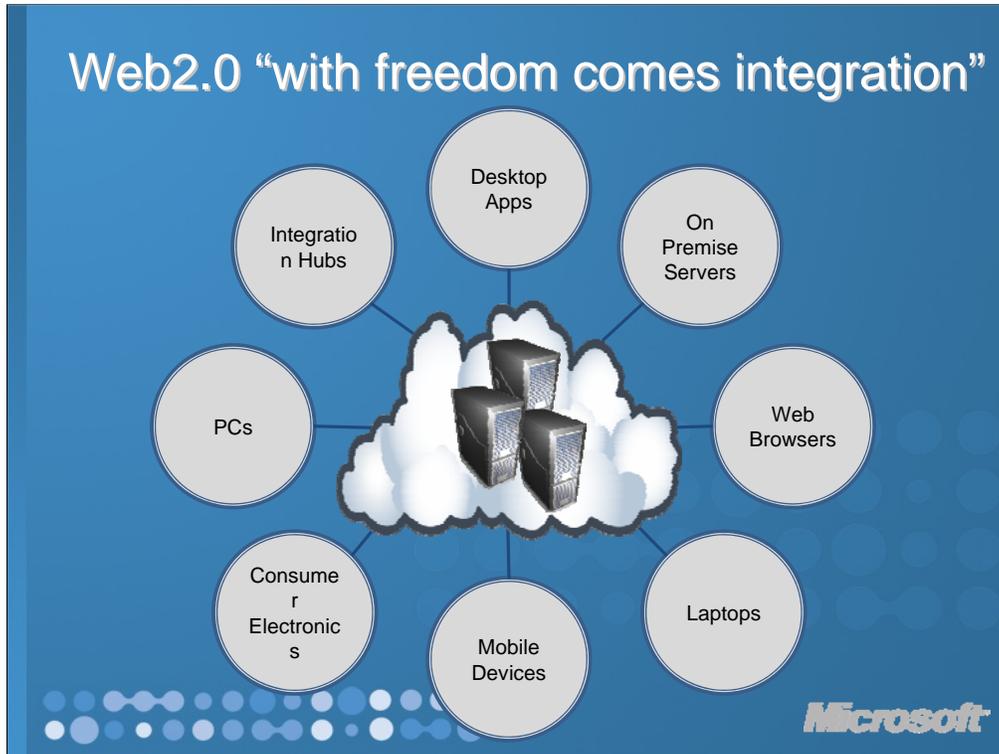
Whether you look at the leading auction company offering a desktop client

Or the leading online CRM service that installs software on mobile devices

It is clear that both software and services are important

ISVs shouldn't be trying to decide if one or another is the right model

ISVs should be determining how to maximize the value of their software by employing the right mix of software, services, and integration



ISVs on the forefront of the Web2.0 evolution are faced with a lot of important decisions for the future of their businesses

Web2.0 puts more control into the community at large

New and evolving value propositions are surfacing as a result

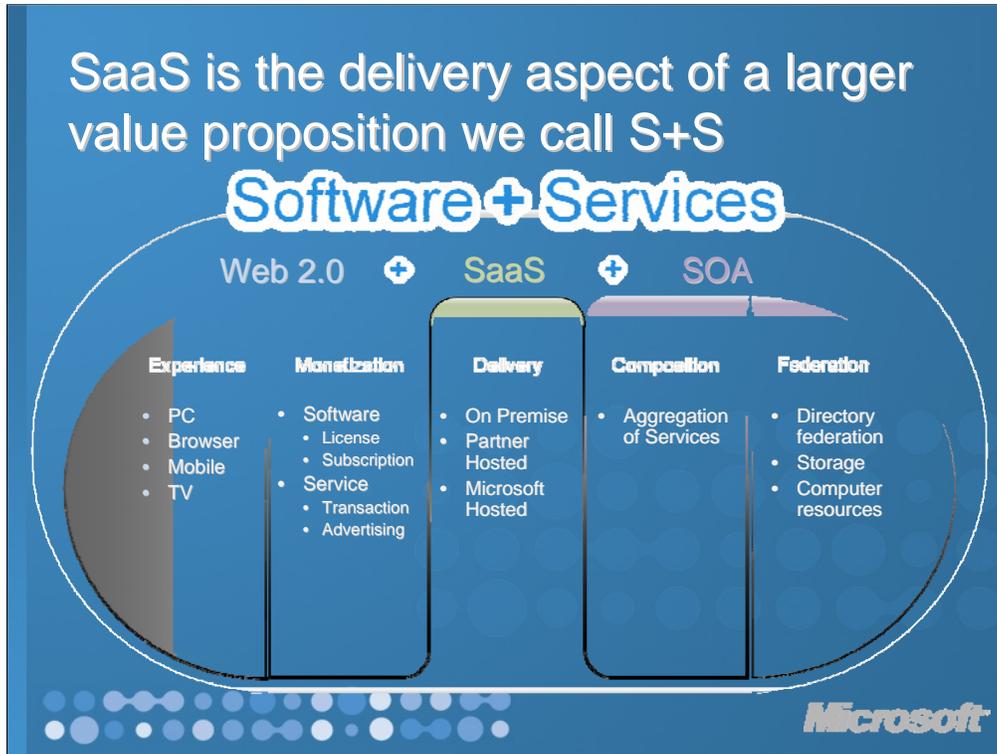
ISVs that are taking advantage of what their customers and prospective customers need are figuring out the right combination of services and key integrations

Integration into not only their customer's data, but also into the applications and devices the users live in every day

IDC has stated that one of the most important success factors we are faced with moving forward is integration

The last thing we want to do is reinvent the stovepipe server mindset from our mainframe past

The more integrated you can be, the more competitive you will be



We believe that SaaS is a revolutionary way to deliver great software experiences to users:

- By putting the right computing power in the right place at the right time
- Either on-demand or locally or through a combination of both delivery methods as it makes sense for the user

The servers will either be on premise or off-premise based on the business needs of the customer

Most ISV SaaS apps are silo'd today

On-demand services will be integrated together and aggregated using SOA principles

Web UX should be integrated and smooth

Across desktop, Web, and mobile form factors

These services, the software, and the Services Oriented Architecture that brings the solutions together are the guiding principles of what we see as the way of the future

The name that we are giving this combination of Web2.0 experience is "Software + Services"

With Software + Services, monetization may be

- Traditional (perpetual licenses)
- Subscription based (most SaaS ISVs)
- Transaction based (such as Ebay)
- Ad based (such as MSN or Yahoo)
- Or a combination of these models

Allows you to combine the right mix of revenue streams into your business model while maximizing what your customers and prospective customers need



In this general depiction, we have business apps, client apps, and rich interactive Web apps

Looking at each tier separately

And if we relate this to the business application side

Microsoft Office represents not only an application suite, but also a platform to extract value out of apps your customers already run

It allows you to compose services from both inside and outside the IT perimeter

Allows you to sell more client access and reach more users in a familiar environment

And you can compose services at multiple tiers, depending on the applicability of where your application and value proposition are most relevant

For instance, and as it relates to Office as an example; does your application need to integrate with Microsoft Outlook? Does it need to integrate into Excel?

Does SharePoint integration drive an interesting value prop?

On aggregate, it certainly helps to drive what we call "relevance" to our products

I would argue that it also helps drive relevance to yours as well

And it helps you ride the wave of innovation and market share that a company like Microsoft drives

Now we aren't the only game in town of course...so most importantly, think of how you use this model to drive value for your customers and your business

Windows apps

You should also think about how you drive value on the desktop and mobile devices

Windows Vista has become the fastest selling operating system in history with over 100M licenses sold and counting

Your customers will most likely adopt the latest OS

Additionally exploitive technology on the Vista platform such as WPF offers up a development platform that you can take advantage of...whether it is a Gadget that sits on your customers desktop or a cutting edge client application layer that hooks into your service, you should consider what makes business sense at this tier

And the same holds true for Windows Mobile and the proliferation of Windows Mobile devices in the market place.

For example, ~14M Windows Mobile devices sold just in the last 6 months and that number is trending to 20M in the next 4 months

Rich Interactive Applications

You no longer need to sacrifice user experience to get reach

UX matters now more than ever

User expectations heightened by things they get on the consumer side

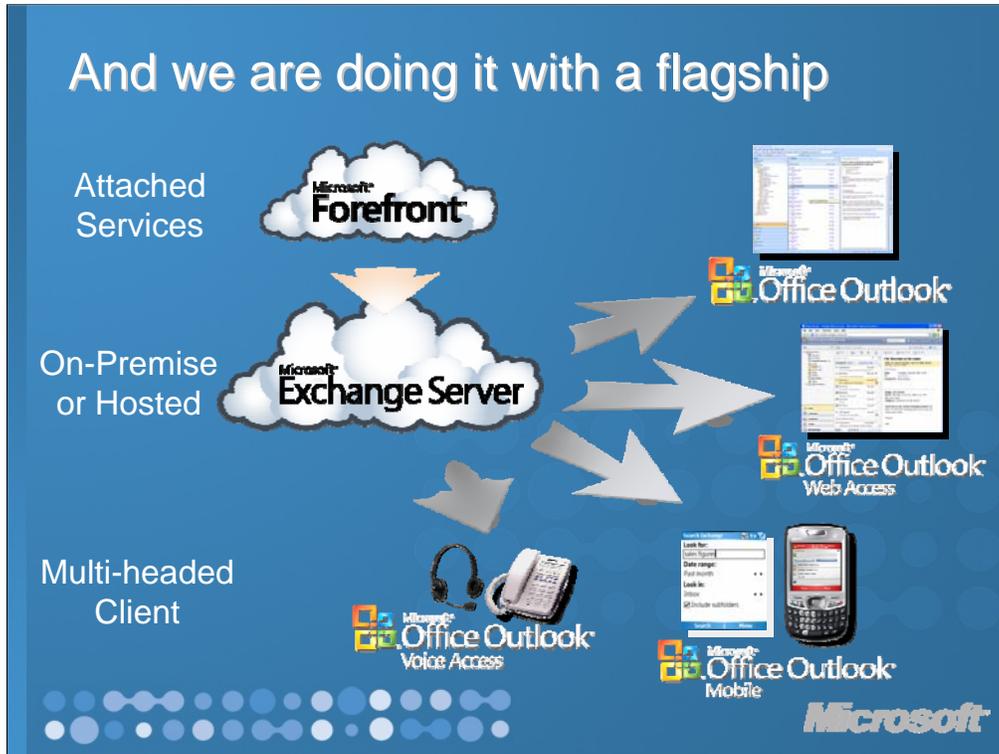
Customers' IT is feeling that pressure

This makes the need of accommodating where your customers are already working with a seamless experience that combines your services in the right medium even more important

ISVs need to embrace multiple form factors in the S+S world - exploit the endpoints, make it seamless across all of them

If you get to do all of these you will drive more on the experience front and will achieve more seamless UX across all form factors

No surprise to you here, but from our perspective, .NET is the common denominator and we feel that we have the right technology, tools, and platforms across the entire value proposition to help you be successful



Microsoft Exchange is a core flagship product and represents probably our most classic example

Core services are delivered on premise or in the cloud

Consumed by multiple client environments such as Outlook and Windows Mobile devices

Augmented by additional attached services such as Forefront for security and 3rd party ISV solutions

We are moving more rapidly in this direction

So you've now seen an example of how Microsoft is doing it. But how are other companies doing it?

## This is how WebTrends is doing it

- Marketing analytics
- Comprehensive software
  - Web site analysis, Search, CRM, offline data
  - Campaign management, targeting and optimization
- S+S
  - On premise installation
  - Hosted services



WebTrends provides analytics for Web sites

Bundled or sold separately as either hosted or as software solutions

Listed as one of the top SAAS companies by IDC's software market forecaster

"On Demand" and "Software" products are available both as a service that is hosted by WebTrends and on premises using the same code base

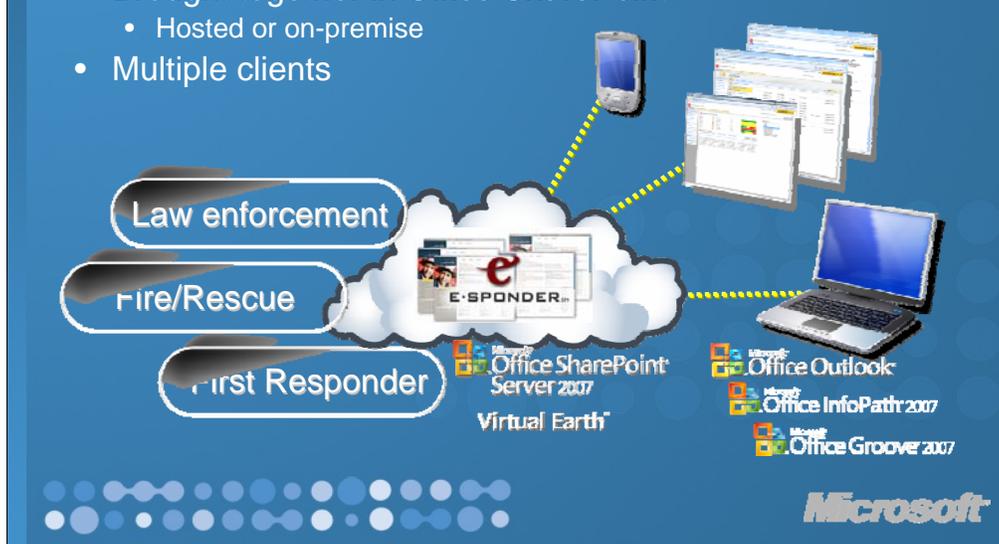
More growth is coming in hosting because of their market focus

Microsoft Stack

- Windows Server
- SQL Server
- .NET in the middle tier and Web front end
- Interface directly with Microsoft Dynamics CRM
- Also presenting at MIX08 on their support of analytics for Silverlight

# This is how Convergence is doing it

- Composition of multiple services
- Brought together in Office SharePoint
  - Hosted or on-premise
- Multiple clients



Another good example is Convergence

Convergence specializes in providing government and commercial enterprises to maximize their communications and collaboration

Brings multiple agencies on multiple systems into the same environment

Delivers the "full picture" to those in command and control of a situation.

Empowers organizations with the ability to:

- Collaborate in planning events
- Fully communicate during an event or crisis
- Performs after-action reviews
- Allows for daily collaboration and provides an easy interface

Delivers a combination of software + services utilizing familiar mechanisms and driving the best of what SaaS and on premise software has to offer to the end benefit of real people on the front lines of crisis

So how was this put into use?

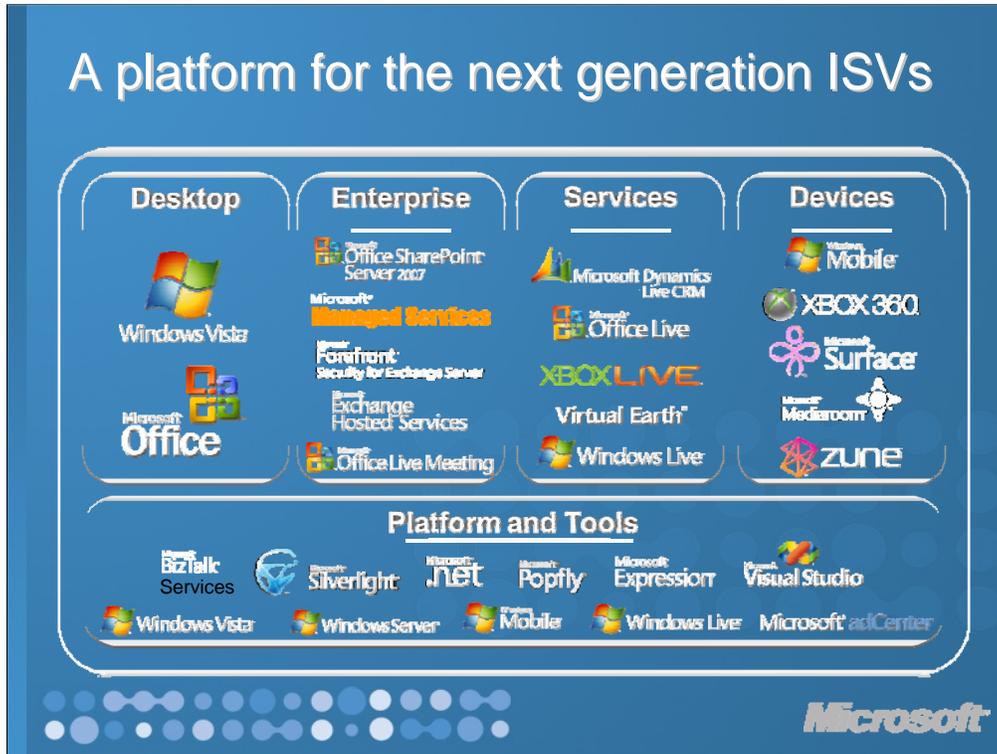
Jacksonville Sheriff's Dept. (Super Bowl XXXIX)

Needed to coordinate security at 35 venues over 10 days leading up to and including the game

- 53 different agencies in communication
- 650 authenticated users
- 6,000 pre-planned events logged into the system
- Another 500 unplanned events had to be dealt with during the 10 days

100% situational awareness the entire time

Security optimized



We believe Microsoft has the richest platform for S+S

All of these technologies are predicated on .NET and Web services

All are possible integration points and integration levers for the ISVs

Here are a few examples:

With Silverlight you can build rich multimedia client applications

- More powerful and secure than Ajax and based on XML making it as easy to deploy as a Web page

With Office as a platform, you can use integrate yourself into the Office UI with Office APIs and unify your solution with an existing and familiar experience

On the Server side, you can extend your app with things like Windows Live services, Virtual Earth, or Live Mtg

Granted it's not the specific product that matters, but the power and flexibility that our platform provides so you can mix and match capabilities to fit your customers' needs

And things are going to get even more flexible

## Expanding interoperability

Ensuring open connections

Promoting data portability

Enhancing support for industry standards

Fostering more open engagement



Microsoft

Now I'd like to touch on the **big announcement** that we made one week ago

This reflects the **significance** that individuals and businesses place **upon the ease of information-sharing**

By increasing the openness of our products, we **will provide developers additional opportunity to innovate and deliver value for customers**

Some of the details of our announcement include:

**Publishing documentation for APIs and communication protocols across our high volume products**

**No royalty fees or licenses for developers to access these APIs and communications protocols**

**A covenant not to sue open source developers for development or non-commercial distribution of implementations of these Open Protocols**

**Working with other key industry stakeholders to focus on interoperability within the standards and will document for the development community**

**Enhancing Office 2007 to provide greater flexibility of document formats**

**Launching a new open source interoperability initiative to promote and enable more interoperability between commercial and community-based open source technologies and Microsoft products**

**Expanding industry outreach and dialogue with the online Interoperability Forum**

**With this enhanced focus around interoperability, we continue to strengthen the breadth and depth of our product and technology set for a Software + Services future**

# So what is a SaaS delivery platform?

## A fully managed hosting infrastructure, plus...

- **SaaS Consulting Offerings**
  - SaaS-Enablement Consulting Services
  - SaaS Business Planning Consulting Services
  - SaaS Go-To-Market Consulting Services
- **SaaS Operations**
  - Application-specific Monitoring and Capacity Planning
  - Application-specific operational run-books / procedures
  - Customized backup configurations / schedules
  - Personnel with specific expertise on the ISV application
- **SaaS Support**
  - Level 1 Call Center Support for the ISVs customers
  - Customized Service Level Agreements
- **SaaS Infrastructure**
  - Customer Account Provisioning
  - User Account Provisioning / Directory Services
  - End-Customer Self-Administration Portals
  - Online self-signup capabilities
  - Billing Services including Credit-Card Billing



Microsoft

S+S involves SaaS for delivery

This is not marketing speak to lure ISVs back to client server

We are committed to SaaS and making it easier for our customers to adopt

One key challenge for an ISV investing in a SaaS model

Transforms the ISV for the customer experience through entire product ownership lifecycle

Traditionally ISVs have been good at building and selling software

Not traditionally in the business of running software

That is why the choice an ISV makes in a hosting partner may be the most important choice an ISV makes in this new model

We believe that the future of SaaS delivery may be shaped by partnerships between platform hosters and SaaS providers

The best hosting providers will provide much more than the datacenter  
Will also include business/technology consulting, operations staff, helpdesk, and business services

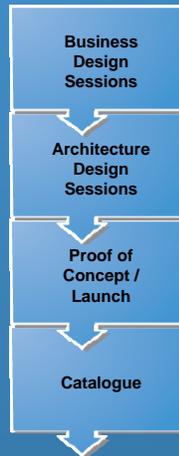
Some hosting providers offer a turnkey level of support

OpSource is one such provider and we see this as an emerging trend moving forward

# SaaS delivery. Microsoft and OpSource

Microsoft®

## SaaS Incubation Center



- Learn how to target your complete market with a hosted S+S solution
- The program provides the SaaS ISV with:
  - Business consultancy (BDS)
  - Infrastructure and architectural consultancy (ADS)
  - Access to Microsoft selected SI partners
  - Hosting expertise from Microsoft Gold Certified hosting partners
  - Access to new channels to market
- Additional technical & business guidance

OpSource is one of the leading Authorized Microsoft SaaS Incubation Centers in the US

Microsoft

We have partnered with select hosting providers

To build out Microsoft SaaS Incubation Centers

OpSource is one of the selected partners in the US

Microsoft SaaS Incubation Centers provide

- Business consulting
- Infrastructure and architectural consulting
- Priority access to Microsoft integration partners
- Special licensing program for ISVs
- Special go-to-market promotions and campaigns

The idea is to help ISVs get a jumpstart with SaaS

# What other have said

Microsoft  
SaaS Incubation Center

**sunergeo**  
WORKING TOGETHER TO DELIVER RESULTS

... "The Business Design Session helped us to recognize that there are two key but clearly separate threads available within our go to market strategy; because of that input we are now successfully pursuing mid market opportunities as well as our original Enterprise targets." ... Sam Nixon, CEO, Sunergeo

"The Microsoft SaaS Enablement Program helped us find answers to questions where we knew we didn't know the answer, and identify answers to some questions where we didn't know we didn't know. All in all a very good program for information, putting us in contact with the right people, and enabling us to commit with confidence to a SaaS offering in our next release." Robert Hobbs, CEO, INPHASE

**INPHASE**  
SOFTWARE

**brixx**

"The Business Design Session was a great investment of our time to get a new perspective of our business and the future potential of SaaS. It is was great way to quick start our 2.0 business with competent Partners helping avoid the pitfalls." Soren Krarup, Brixx Solutions

Microsoft

As you can see from this slide, we are highlighting some SaaS incubation center successes

These are only a few

What I want to encourage all of you to do while you are here at this conference, is to seek out ISVs that have tried this or that are currently involved in an incubation center

- Ask them hard questions
- Find out what they think
- Be better informed
- And make the right choice for your business

## Additional resources

- Microsoft Interoperability
  - <http://www.microsoft.com/interop/>
- Microsoft Software as a Service Site
  - <http://www.microsoft.com/serviceproviders/saas/default.aspx>
- MSDN SaaS Architecture Center
  - <http://msdn.microsoft.com/architecture/saas/>
  - <http://www.codeplex.com/litwarehr>
- SaaS Incubation Centers
  - [www.microsoft.com/serviceproviders/scenarios/incubationcenter.aspx](http://www.microsoft.com/serviceproviders/scenarios/incubationcenter.aspx)
- Microsoft Empower for ISVs
  - <https://partner.microsoft.com/empower>
- Microsoft ISV Developer Training
  - <http://isvinnovation.com>
- Microsoft Partner Program
  - <http://partner.microsoft.com/us/isv>



**Microsoft**

Thank You  
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*Microsoft*