

The Market for Service Provider-Based Email and Collaboration

An Osterman Research Position Paper

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Overview

The market for ISP-provided email is large, growing and becoming increasingly sophisticated, moving beyond just email to include calendaring and collaboration services. There are hundreds of millions of ISP-provided mailboxes currently in use, offered by a wide variety of hosted vendors who typically provide these services at no charge, often using an advertising model to generate revenue. There are also a variety of email services paid for by small to mid-sized businesses, many times included with Web hosting accounts or related services. These offerings include POP3 or IMAP mailboxes and, in many cases, calendaring and other services, as well.

It is important to note that a significant proportion of free email accounts are actually used in a business context by sole proprietors, home-based businesses and small businesses of various types. Further, many corporate employees use these email accounts to send work home to themselves or to send email to colleagues if, for example, their corporate email account will not permit sending very large files. Add to this the many sophisticated consumers who employ email, address books, calendaring and other tools to manage their personal activities.

Osterman Research anticipates strong growth in the hosted messaging services market, particularly for smaller organizations, due primarily to three factors:

- **The need to reduce messaging costs**
In a survey conducted by Osterman Research in July 2006, 64% of messaging decision makers indicated that they are concerned or very concerned about reducing infrastructure costs over the next three years.
- **The expanding needs for both users and administrators**
There has been a dramatic leap in the demands of users and administrators put on their collaboration platform. Users expect mobility, document sharing, search, multiple GB mailboxes and more. Administrators require archiving, real-time security controls, online backup and recover, and more.
- **The increasing complexity involved in maintaining a secure messaging system**
In the same study, 79% of messaging decision makers in smaller organizations indicated they are concerned or extremely concerned about filtering content for malware, while 72% are this concerned about filtering email for spam objectionable content.

Because infrastructure and security costs tend to be much higher on a per-user basis for smaller organizations, ISP-based and other hosted services will become more important in the context of reducing the cost of messaging.

ISPs and other providers of business email must adapt to increasing pressure from the consumer market and from enterprises. Free email offerings, such as those

from Google and Yahoo!, are morphing into sophisticated messaging environments that provide a growing range of services. Users in enterprises, on the other hand, are demanding an increased level of functionality from the business-grade email systems that they use personally or in conjunction with their employer-provided services. The result is that ISPs will be increasingly pressured to offer more sophisticated capabilities to their business email customers. To satisfy this demand, ISPs must operate a scalable messaging infrastructure that provides opportunities to upsell a variety of premium services to their customers.

Needs are Becoming More Sophisticated

Gone are the days when email meant just 'email'. Today, email systems have evolved into sophisticated tools that provide email, of course, but also calendaring services, shared address books, task management, encryption, support for mobile messaging and other capabilities. The result is that email has become the focal point for users' work. For example, in a study that Osterman Research conducted among end users in December 2006, it was discovered that 46% of users spend more than two hours per day in their email client, while 28% spend more than three hours per day using email and its various capabilities.

Enterprise users and consumers alike care more and more about "mobility" and access to their information systems and collaboration services at any place, at any time and across a range of devices. Employers are encouraging this trend to improve productivity and have their teams stay connected wherever they might be. Further, because email systems are increasingly used to send a variety of critical content, email systems are becoming repositories of a wide variety of information, making search capabilities increasingly important. The impact of this trend is evidenced by offerings from Google and others, which include multi-gigabyte mailboxes, sophisticated search tools and a number of other business-oriented features. In short, requirements for email are becoming more sophisticated in response to users' growing demands.

The State of the Hosted Messaging Market

Despite the advantages of hosted messaging and related services, the pay-per-user business email market in its several facets has lagged behind the 'free' consumer email market during the past several years. One reason for this is the fact that many consumers are satisfied with very basic email capabilities and so are unwilling to pay for services that offer more than simple email, even when used in a business setting. Perhaps more importantly, however, many of the current crop of fee-based services does not provide compelling feature sets that will motivate people to pay for these services.

That said, Osterman Research anticipates significant growth in the market for hosted email and related services. Based on research conducted by Osterman Research in summer 2006, we anticipate that more than 10% of all business email will be hosted by 2009. However, given that the small to mid-sized business (SMB) market is the true 'sweet' spot for hosted messaging, the market for hosted messaging services among SMBs will be significantly greater than it will be for the market in general. Reasons for this growth include increasing use of consumer

email in a business context, which carries with it a need for improved email and collaboration capabilities that traditional email cannot provide; coupled with ever more sophisticated consumers who want to replicate at home the features of the email system they use at work. Plus, the trend toward 'Enterprise 2.0', in which a growing proportion of services will be hosted to provide easier and less expensive management and improved portability of applications, will help to fuel the growth for hosted messaging services.

What Service Providers Need in the Context of Architecture and Performance

In order to satisfy these evolving requirements and to compel users to pay for email and a variety of premium services, providers of hosted email services need a sound and reliable platform on which to build an offering. Of course, they require an infrastructure that is highly scalable to accommodate growing numbers of users, the ability to host large numbers of users per server, multi-tenancy to host a large number of customer domains, low cost storage, very high reliability through server clustering and the ability to provide messaging services via a Web browser, all of which translates to low cost of ownership. Further, they need very strong inbound security in the form of native anti-virus and anti-spam services, as well as robust Internet-based security to give their customers a secure and satisfying email experience, all while minimizing the cost of providing this security.

It is very important for service providers to have a messaging capability that provides a 'class-of-service' traffic management model because it is more scalable and is simpler to manage. Because a class-of-service model allows grouping of different types of traffic, it permits service providers to offer a variety of services, from basic email through premium services like syncing with Microsoft Outlook and over-the-air sync for mobile devices from which it can derive incremental revenue from subscribers on an ongoing basis.

Service providers must also offer their customers a variety of compelling features, including a rich user interface, support for leading messaging clients on multiple operating system platforms, robust search capabilities, collaboration services, the ability to create Web-based documents, support for mobile messaging devices and other capabilities. Service providers are now able to monetize integration with disparate hosted enterprise information systems like Salesforce.com through architectures that support the ability to flexibly integrate through the use of Web services. Above all, service providers must be able to offer services that provide 'stickiness', or the ability to compel users to pay for and remain with a particular service provider in an increasingly competitive market.

In short, service providers need a messaging capability that is inexpensive to acquire, deploy and operate; and that offers their customers a satisfying experience for which they will pay a premium compared to other offerings.

How Zimbra Meets Service Providers' Architecture and Performance Needs

Zimbra is a next-generation messaging system built on a modern distributed architecture, offering very high scalability. For example, in testing performed by the HP Solutions Center Lab in mid-2006, a single server¹ running Zimbra Collaboration Suite (ZCS) was able to support 50,000 simultaneous active consumer² users while suffering no degradation in performance. If we assume that 20% of users would be active at any given time, these results mean that a single server can support 250,000 mailboxes running ZCS. More typical figures for simultaneous users of 10% to 15% mean that ZCS can support as many as 500,000 users in some environments.

This performance data clearly suggests that Zimbra's solution would also be very useful in a service provider environment focused on business email users. For example, if we assume that business users' requirements are four times those of the typical consumer user and that there would be double the number of simultaneous users, the data demonstrates that a single ZCS server could support well over 50,000 mailboxes.

ZCS provides:

- Strong Internet-level security using SSL and TLS and supports single sign-on through a service provider's portal, allowing users to have a safe and secure computing experience while imposing virtually no requirement on service providers to manage security capabilities.
- Class-of-service capabilities to create different feature bundles for free and paid users and the ability to control contextual advertising based on these classes of service
- Native anti-virus, anti-spam and online back up capabilities, thereby lowering costs for service providers who can avoid the cost and difficulty associated with purchasing, integrating and deploying third-party security capabilities.
- Native volume and hierarchical storage management to accommodate very large quotas on commodity storage systems, further reducing costs. Multi-tenancy capabilities built into ZCS permit hosting of a large number of domains, a critical requirement for larger service providers.
- Over-the-air synchronization for a wide range of smart phones without the requirement to install Zimbra software on the handset. This allows service providers to offer mobile device synchronization capabilities as a premium

¹ Zimbra was tested on a single HP Proliant dual-core, dual-CPU Opteron server using HP EVA SAN storage. The server had 8Gb of RAM and was running Red Hat Enterprise Linux (32-bit).

² A 'consumer' user was assumed to be one that in a single session received eight non-spam messages, each of which was 32Kb.

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service without the difficulty associated with supporting users' download of specialized software.

The ZCS Server supports leading email clients, including Microsoft Outlook, Mozilla Thunderbird, Apple Mail and Novell Evolution, among others. However, to take advantage of sophisticated capabilities provided by the ZCS Server, Zimbra has also developed its own browser-based client that can exploit capabilities that are unavailable with other clients. This gives users the flexibility to use their client of choice, while offering them greater capabilities than are available with the client they may be using now. The Zimbra client provides a number of useful Web services-based features for which third parties can develop to expand the range of capabilities available to end users. Further, service providers can rebrand Zimbra's offering.

Summary

In order to generate incremental revenue from customers, service providers need an email and collaboration offering that is inexpensive to acquire, deploy and operate and that provides users with compelling features that will induce them to pay for these services instead of relying on free email services. The Zimbra Collaboration Suite offers this capability to service providers by giving them a highly scalable, secure and reliable platform that minimizes their cost of ownership, while providing opportunities to upsell a variety of premium business email services.