



J. Gold Associates LLC, 6 Valentine Road, Northborough, MA 01532, USA  
www.jgoldassociates.com +1-508-393-5294

## RIM and Microsoft – Cloudy with a Chance of Collaboration

*RIM announced it is partnering with Microsoft on BlackBerry cloud services. Is this just two weak mobile players trying to reinforce their positions against the onslaught of Android, Apple and others? Certainly both companies have been feeling the pressure of late. But contrary to what some may believe, this partnership actually is a pretty significant win-win for both companies, as well as enterprises.*

The vast majority of enterprise BlackBerry users are tied to a corporate installed-behind-the-firewall BlackBerry Enterprise Server (BES), and >80% of those enterprise users are connected to a Microsoft Exchange server for their messaging infrastructure. But there are a couple of dramatic changes taking place. First, many companies are looking at outsourcing their messaging and office infrastructure to the cloud. Microsoft currently has a hosting service for enterprise Exchange clients but the total number of enterprise Exchange seats currently run from the cloud is fairly small (<10% in our estimation). This will change rapidly as companies adopt a cloud-based infrastructure strategy, and Microsoft competes head to head with Google (and others) for cloud-based seats. In fact, we expect 15%-25% of enterprise Exchange seats to be cloud-based within 3 years (although many companies will have a hybrid approach with some seats hosted and some on their internal Exchange servers). Microsoft's Office 365 service will gain a significant portion of corporate seats over time.

The second significant trend is the "crowd sourcing" of mobile devices. Few enterprises can now enforce a single device standard as they did in the past, when many chose BlackBerry. The iPhone blew the locked doors off the enterprise, and now many are looking at Android based devices as well (both phones and tablets). The extremely high level of security and manageability in the BlackBerry platform is not available on the others. This put many companies in a quandary. Running Exchange means they can enforce a lesser degree of security and manageability on most smartphone devices (Apple, Google and others license ActiveSync, the main component of Exchange policy enforcement). Faced with the need to deploy multiple platforms, many companies are now reevaluating whether it makes sense to invest in a proprietary BES. Many are starting to say Exchange/ActiveSync is good enough (although we believe it's not enough for many organizations).

Both Microsoft and RIM have to react to these trends. And both believe heading to the cloud and partnering is the best solution. RIM is moving its BES off-premise (if the customer chooses) and offering a limited service in the cloud when Exchange is hosted by Microsoft. Microsoft currently offers the BES service hosted in its data centers for \$10 per user per month. The new arrangement with BlackBerry will eliminate this charge altogether. RIM will host BES in its own data centers and tie it to the Office 365 cloud offering. To be clear, this is a lesser version of BES than a full blown enterprise installation, but for many organizations it will be adequate. What RIM gets by going this route is essentially leveling the playing field with iOS and Android, since there is no longer a premium cost for BES over plain ActiveSync. This is good for RIM and its customers.

Microsoft wins here too. At one point it fought with RIM tooth and nail about ActiveSync's in-house deployment being a superior solution to RIM's Network Operating Center (NOC) approach. This was primarily a battle to get more people to adopt Windows Mobile devices, which have now become a nearly extinct species in the enterprise. Microsoft clearly makes a lot more money in Office services than it does selling mobile operating systems. And Microsoft's Exchange and Office groups are separate from WP7, so they have an incentive to make sure as many devices as possible can connect to the Office/Exchange franchise. And as companies move to the cloud, they could be hindered in the move if they still have to run a BES behind the firewall and may just leave Exchange running there too. This deal provides incentive for companies to move where they might have had an excuse not to.

So, let's review:

- Currently Microsoft hosted Exchange customers with hosted BES were paying \$10 per user per month. This partnership will waive the charge completely (albeit for a slightly "lighter" version of BES)- a win for both RIM and Microsoft.
- This arrangement will remove the "BES penalty" that BlackBerry customers had with BlackBerry over other devices using vanilla ActiveSync – a win for RIM.
- As part of the deal, RIM will actually host the BES (not Microsoft) so Microsoft saves cost and users are always sure of the latest version – a win for Microsoft and users
- RIM is throwing in a product it calls BlackBerry Balance which essentially separates out the personal side of devices from the business side – a win for business
- Office 365 with BES will have a distinct advantage in attracting the very large number of current BlackBerry users – a win for Microsoft and BlackBerry
- This will provide a choice for enterprises who don't want to invest in the upkeep and overhead of BES and enable company employees with the option to get their own BlackBerry device if they so choose.
- And this arrangement extends to the PlayBook once it makes its way into corporations, thus making it a good cloud-based citizen – a win for users and RIM

Exchange already powers many BlackBerries and this provides an easy path to the cloud, even though we expect a hybrid environment to exist for some time. And RIM just equalized the playing field - by eliminating the cost and complexity advantage that ActiveSync provides for nearly all other devices (Android, iOS). RIM is offering companies more control if they want it or basic functionality that is more than just Exchange ActiveSync capability as a fallback position (and for competitive differentiation). This is the best of both worlds for RIM and there appears to be no down side for Microsoft either.

**Bottom line:** this is a win-win strategy, and something neither company would have considered doing a few years ago in the heyday of their competition. Clearly the market conditions have changed. Microsoft can't dictate device choice, with WP7 a minor player in the market. And RIM has to have an answer to the corporate "ActiveSync is good enough, cross platform and free" mantra its hearing more often as organizations increasingly go to a mixed platform environment. If handled effectively, this partnership should prove a win-win for the two companies and for their

customers as well by reducing cost and complexity, increasing flexibility, and making BlackBerry (and PlayBook) a more attractive long term enterprise option.

Jack Gold is the founder and principal analyst at J.Gold Associates, an information technology analyst firm based in Northborough, MA, covering the many aspects of business and consumer computing and emerging technologies.

***For more in-depth comments or analysis on this or other subjects, feel free to contact us.***

Jack E. Gold

[jack.gold@jgoldassociates.com](mailto:jack.gold@jgoldassociates.com)

[www.jgoldassociates.com](http://www.jgoldassociates.com)

508-393-5294

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