

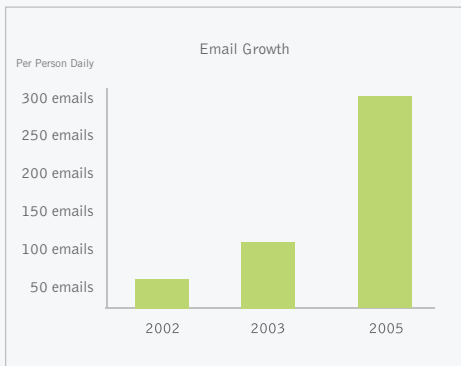
## ***What CIOs must know about MS Exchange Outsourcing: Benefits & Expectations***

Charles P. Whaley, PhD  
Information Technology Enterprises

### **Abstract**

The decision to outsource MS Exchange involves several key considerations. MS Exchange, as an auditable repository of corporate communications at all levels, is a mission-critical enterprise resource that needs to be diligently managed, and securely protected so that unnecessary business downtime is avoided and business continuity is achieved. To ensure business continuity dependent on email exchanges, there are some compelling reasons to consider a *managed service provider* (MSP). Foremost among them are potential cost savings, scalability, reliability, security, availability of expertise and value-added services.

“These trends present the challenges in managing bandwidth and storage, and if not managed appropriately, can threaten the reliability of even the best-managed messaging systems. ”



Source: The Radicati Group

## The MS Exchange Landscape

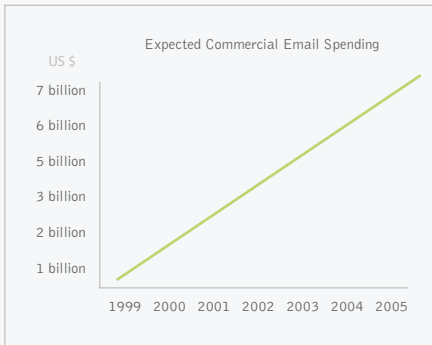
To outsource or not to outsource? This is a question that CIOs face on a regular basis when it comes to the management of their core IT functions. The comfort of maintaining control in-house needs to be weighed against the potential, financial and practical benefits of turning control over to third-party experts.

The decision to outsource MS Exchange and related functions is particularly challenging. After all, a corporation’s MS Exchange infrastructure (and content) is essentially a blueprint of the overall operations of the company. Would you trust something that valuable to a third party?

Increasingly, many corporations, large and small, are doing just that.

### Current Email Trends

- Market research firm, IDC, expects that the total number of email messages sent daily will exceed 60 billion by 2006, up from 31 billion in 2002. More than half of those will be person-to-person emails, the rest spam.
- Jupiter Communications estimates that commercial email spending will rise to US\$7.3 billion in 2005, compared to US\$164 million in 1999.
- And, according to industry analyst Radicati Group, in 2002 email users handled 61 messages per day. In 2003, workers sent and received an average of 110 emails per day, an increase of 80% in one year. And in 2005, that number is expected to reach over 300 emails per day.
- The number of mailboxes worldwide is also expected to rise. Radicati predicts that the number of mailboxes will increase 23% or more annually through 2006, effectively doubling the number of mailboxes between now and 2006.
- Additionally, mailboxes per person are expected to rise 43% between now and 2006.
- The Radicati Group expects a 57% increase in the worldwide hosted email market during the next three years.



Source: Jupiter Communications

Not only are the number of mailboxes increasing, the types of tasks users perform are increasing in complexity.

Workers are not only sending more attachments via email, but those attachments are expected to grow in size. The average person sent or received about 5 megabytes of email per day in 2002. That figure is expected to grow to more than 42 megabytes in 2005.

### **Business Implications**

These points present the challenges in managing bandwidth and storage, and if not managed appropriately can threaten the reliability of even the best-managed messaging systems. Where will all these messages be stored and archived, not only for internal purposes, but also to comply with the new regulations on corporate governance, such as the Sarbanes-Oxley Act of 2002?

Technology advancements have also presented additional challenges. Wireless email is increasing due to the influx of affordable mobile devices on the market and the decrease in costs associated with wireless email servers and solutions. These new wireless devices, such as Blackberries and other personal digital assistants (PDAs), need to be administered and integrated into core enterprise messaging systems.

### **Consider the Cost of Downtime**

The Radicati Group and Creative Networks estimate that the productivity loss caused by messaging downtime could result in annual per user costs of anywhere from \$36 to \$93. Creative Networks adds an additional \$261 lost per user annually to cover revenue losses and has reported that downtime could constitute as much as 50% of the total cost of ownership of a company's messaging infrastructure. These figures suggest that downtime costs could easily reach \$350,000 for an organization of 1,000 users.

“...downtime costs could easily reach \$350,000 for an organization of 1,000 users.”

### **So, Who Should Outsource?**

Small-to-medium sized businesses can typically outsource their MS Exchange requirements (if they choose to do so) to their managed service provider. Security and reliability issues are obvious considerations in these cases, as are integration functions with other internal corporate IT applications.

For large corporations, however, email and related functions have not traditionally been entrusted to a third party. In most cases, such companies have already aligned themselves with one of the top enterprise email providers: IBM Lotus or Microsoft Exchange. Together, IBM and Microsoft have captured 56% of the worldwide installed base.

According to Radicati analysts, IBM Lotus will have 22% market share this year (2005) and Microsoft Exchange will commandeer 31%. The remaining market is widely dispersed among many vendors with 5% share or less.

The fundamental question, of course, is why should a major corporation that has already invested in building an internal solution based on IBM or Microsoft give away the crown jewels to an outsourcer?

### Key Decision Factors

The decision to outsource MS Exchange and related functions should involve much more than simply the displacement of on-site service with service provided by an MS Exchange service provider (MSP). Cost savings are an obvious issue, but other important considerations include: scalability, security, the availability of expertise for user support and reliability. And, even beyond that, value-added services come into play.

#### Cost

On the cost side of the equation, many MSPs will offer bare bones bundled MS Exchange outsourcing at \$10-\$15 per seat per month, but that could increase to as much as \$25 per month with customization and value-added services. On the flip side, estimates of running MS Exchange service internally can run as high as \$40 per seat per month according to one Canadian telco that offers outsourced email.

#### Security & Filtering

So, on a cost basis alone, outsourced MS Exchange requires careful consideration. But can you trust a third-party with all of that MS Exchange data that one day might be the basis of a headline legal case, the likes of which we've seen all too often in the press recently?

That's where security and, more importantly, service level agreements are vital parts of the equation. Security, of course, implies many things. One would expect an MSP to ensure virus screening and spam filtering. According to Nucleus Research, the average loss per employee per year due to spam is US\$1,934.

“According to Nucleus Research, the average loss per employee per year due to spam is US\$1,934.”

### **Scalability**

It should be self-evident that if you are going to outsource your MS Exchange requirements, your MSP should have the capability to handle both your current and future needs. Most leading MSPs will offer a choice of either dedicated hardware/software to accommodate increasing mailboxes and services or some sort of shared hosting infrastructure which handles multiple clients.

### **Reliability**

It should go without saying that your MSP should be able to guarantee at least 99.9% uptime. Challenging as it may be, you would hope to achieve this level of availability if you were managing your MS Exchange internally, so why not demand it if you choose to outsource MS Exchange and related functions.

### **Support**

If your outsourcing efforts clearly involve the reduction or elimination of in-house support people for MS Exchange and related functions, it will be critical that your MSP is capable of assuming that role. Whether it's an administrative problem or an end-user complaint, you'll need to establish the ground rules for handling both as part of the contractual obligation.

### **Value-added services**

There was a time when MS Exchange was pretty much a stand-alone application. Then file attachments made MS Exchange a transport vehicle in addition to a communications medium.

From there, all kinds of value-added services have been tied to email, and it is important that your MSP can provide those while allowing for new ones that haven't even appeared yet.

Other value-added services include group scheduling, archiving, guaranteed delivery and advanced directory services. Adding a wireless component via cell phone messaging or PDA, MS Exchange delivery makes the whole scenario that much more complicated. If any of these are important to your organization then they should be discussed with potential MSPs.

“...it should go without saying that your MSP should be able to guarantee at least 99.9% uptime.”

“By 2008, we expect the worldwide market for hosted business email to reach \$788 million, up from \$501 today.”

- Radicati Group

### Additional Benefits & Considerations

There are a few more points that could influence a CIO's decision.

In many cases, it's a plus to simply know that your costs are fixed and the cost of scaling up is predictable. Your MSP should be able to provide you with a cost per user per month for the configuration of services you require. Additional mailboxes, services, etc. should similarly be a matter of a few simple calculations.

The initial costs of an outsourced MS Exchange solution should be minimal compared to an in-house solution, but that implies that you have no MS Exchange service now – a highly unlikely scenario.

So, it will be important to estimate your migration costs if you do outsource. Your potential MSP should be able to help you to both estimate those costs and establish a migration path that minimizes loss of service (if any) in switching to a managed solution.

Most other considerations come down to how much you would be willing to spend internally for such things as 24x7 monitoring and support, backup and disaster recovery, and staff training. Those costs alone can often justify an outsourced MS Exchange alternative, where all those features are built into your per seat per month fees.

Personnel costs by far represent the largest expense related to enterprise messaging administration and can be approximately 60% of the total cost of ownership. In addition, accessing the required advanced technical skills and certifications is an issue to consider.

Software represents the second largest expense related to messaging system administration and can represent 22% of the total cost of ownership. Software costs include software licensing, upgrade fees, and all related support packages.

Costs associated with the facility represent approximately 12% of the total cost of ownership and includes data center construction, upkeep, necessary network equipment and T1 lines for access and connectivity.

Hardware represents about 6% of the total costs of ownership and includes the acquisition and support for the necessary servers (hub, spoke, application, mail, SMTP) and the necessary hard disk space.

All of these need to be weighed against what an MSP can offer you to take on that responsibility.

### **Conclusion**

The bottom line is that the outsourcing of MS Exchange should be given careful consideration in the interests of cutting costs and achieving potential benefits through value-added services that may be difficult if not impossible to implement in-house.

The selection of a trusted MSP with a proven track record is essential. And, whether the MS Exchange outsourcing involves a particular function (e.g., MS Exchange only) or the full-blown management of all corporate messaging capabilities (i.e., including email, collaboration, calendaring, wireless, etc.), service level agreements should be an essential part of the negotiation process with the provider.

### **Charles Whaley, PhD**

Information Technology Enterprises

Charles founded Information Technology Enterprises (ITE) in 1995 to provide contract research and consulting services for Canada's fast-growing information technology (IT) industry. Prior to ITE, he spent five years in the dual roles of Director of Research for Evans Research Corporation, a Toronto based IT market research firm, and Editorial Director for the numerous IT trade magazines and newspapers produced by Plesman Publications Ltd. Prior to 1990, Charles spent twelve years directing and executing market research studies for Bell-Northern Research (now Nortel Networks) - Canada's largest private sector R&D facility.

His major accomplishments there included research leading to innovations in the integration of voice, data and multimedia technologies, improvements in the measurement and understanding of communications patterns, and research identifying various high value, vertical business applications of networking and information technologies. Charles holds M.A. and Ph.D. degrees from the University of Waterloo, and a B.A. Honours from the University of Alberta in cognitive and quantitative psychology.