

WHITE PAPER

Channel Opportunities for Windows Mobile In North America and Western Europe

Sponsored by: Microsoft

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IN THIS WHITE PAPER

IDC looks at the opportunities for the channel to develop sales of Microsoft server, business applications, tools, infrastructure deployment services, and managed services to customers building infrastructure around Windows Mobile. This IDC White Paper includes a forecast of Microsoft Windows Connected devices in Western Europe and North America and the attached revenue opportunity for channel partners in these regions that sell Windows Mobile devices. In addition, the White Paper includes two case studies of US-based Microsoft Windows Mobile channel partners.

EXECUTIVE SUMMARY

Enterprises are progressively working towards mobilizing their workforces in order to make them more versatile, available and effective. However, mobilizing a workforce is a challenging task, it is not simply a matter of providing a device for email and Internet access and another for voice calls. Rather, companies must both provide the mobile device to the enterprise worker, as well as determine the best way to manage the device and applications. Mobility should capitalize on unified applications and multi-purpose access, enabling users to not just connect, but to also fully engage from a distance.

Increasingly, companies with experience of managing mobile services across the mobile ecosystem are being viewed as critical partners to help meet the challenge of integrating mobility into legacy back-end systems. These companies must be able to provide an end-to-end mobile portfolio of solutions, from hosting and managing data to managing mobile operator relationships, to mobile device management itself. IDC believes Microsoft is very well placed to capitalize on the exponential growth in mobility and has the experience and coverage in many aspects, from in-depth knowledge of infrastructure environments to the client devices themselves. As a result the company will increasingly be a key player as organizations build their network infrastructures with mobility in mind.

Mobile devices powered with Windows Mobile allow workers the ability to retrieve email, keep track of their schedule and contacts, browse the Internet, send and receive text messages, utilize the usual Microsoft Office applications as well as other mobile applications such as unified messaging.

THE MARKET OPPORTUNITY

Enabling mobility is of strategic significance for many IT managers and their businesses. IDC predicts that the number of mobile workers in Western Europe will increase from 84 million in 2006 to over 91 million by end of 2011. Over the same period, the percentage of mobile workers who are wireless data-enabled is predicted to grow from 36% to well over 50%. In the US market, IDC predicts that the number of mobile workers will increase from 105 million in 2006 to over 120 million by end of 2011.

IDC forecasts the total addressable market for Western Europe and North America to grow from a base of 39 million corporate mobile users in 2006 to 132 million by 2011. The total addressable market does not include all mobile workers, but only those that have a mobile data subscription with an operator. We saw strong growth in 2006, with 9.7 million net additions, and predict growth acceleration to 27 million new net additions in 2011. For its forecasts IDC slices the market into five sections:

1. Mobilizing Exchange Server (hosted): in this scenario we discuss Windows Mobile devices connected to Microsoft Exchange in a hosted environment.
2. Mobilizing Small Business Server: in this scenario we discuss Windows Mobile devices connected to Microsoft Exchange as part of a small business server implementation.
3. Mobilizing Exchange Server (on premise): in this scenario we discuss Windows Mobile devices connected to Microsoft Exchange in a server on premise (or managed in a data center, but not in a shared hosted environment) implementation
4. Mobilizing line of business (LOB): Windows Mobile devices connected to Sales and Field Force Automation applications.
5. Mobilizing Office Communications Server (OCS - formerly Live Communications Server LCS): Windows Mobile devices connected to Microsoft OCS.

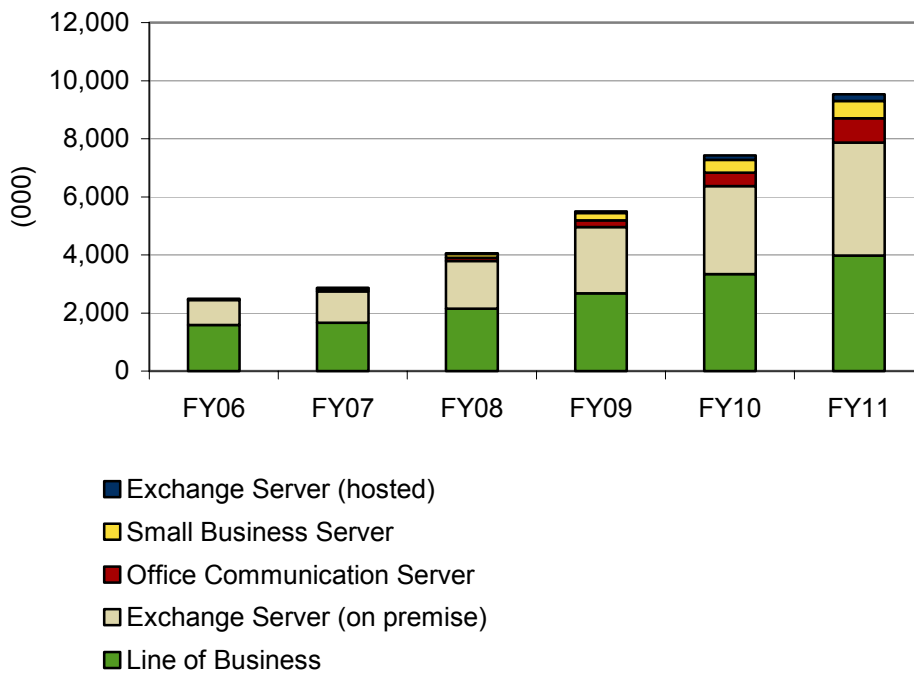
Essentially, Microsoft's strategy is to make communications and applications seamless in the hands of users, from critical LOB applications through to Exchange email, and bringing many elements together through OCS.

OCS is the centerpiece of Microsoft's unified communications strategy to bring together e-mail, instant messaging, presence, voice and video. It is a Session Initiation Protocol (SIP)-based server that routes and switches IP-based voice traffic, as well as instant messaging and Web conferencing sessions. With Microsoft's Office Communicator client technology front-ending the server, the need for an IP-PBX is radically diminished. Fundamentally, it will allow users to make calls from Outlook, and collaborate through voice and IM seamlessly through a number of applications (such as Exchange, Sharepoint, and Live).

Over the 2006-2011 forecast period, mobilizing LOB applications offers the greatest target in terms of connected Windows Mobile devices. As Figure 1 indicates, we forecast that LOB unit sales will increase from 1.6 million 2006 to 4.0 million by end of 2011. For Exchange Server (on premise) we forecast growth from 856,000 units in 2006 to 3.9 million by end of 2011. For OCS we forecast growth from 14,000 units in 2006 to 841,000 by end of 2011.

FIGURE 1

Western Europe and North America Connected Microsoft Windows Mobile Device Unit Sales, Microsoft FY 06-11

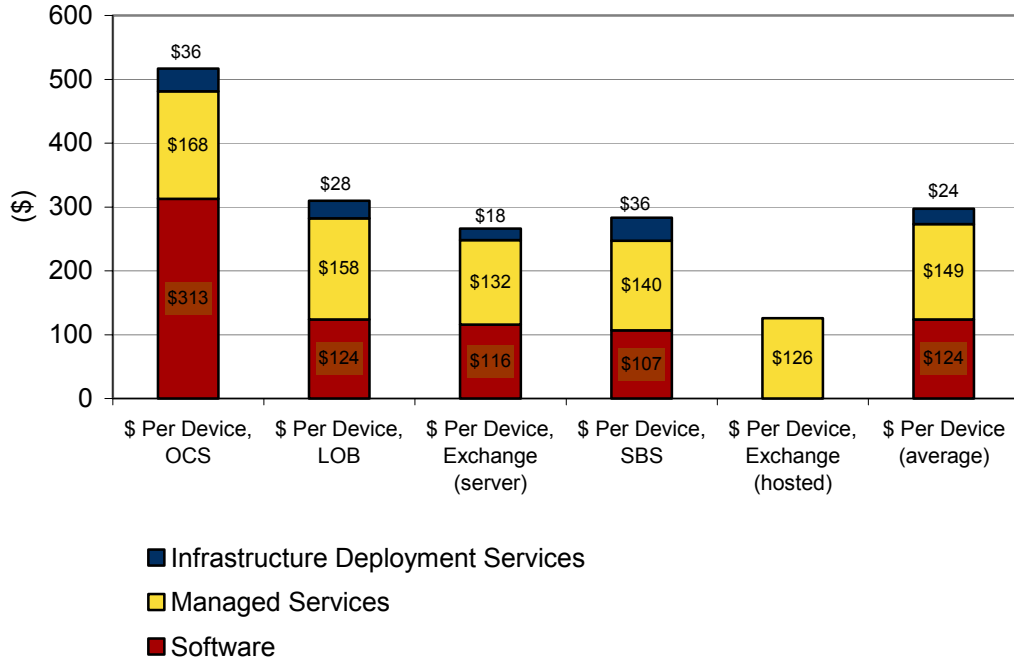


Source: IDC, 2007

For each connected Windows Mobile device there is significant associated attached revenue generated through sales of additional Microsoft products and partner services. Figure 2 highlights the attached revenue per device and scenario. A device that is not connected does not attach additional Microsoft software that is needed to mobilize the device, such as upgrades to Exchange for instance. If a device that is not connected does not attach software, it also does not attach infrastructure deployment services associated with that software. Last but not least, businesses will not out task the management of a device that is not connected.

FIGURE 2

Western Europe and North America Windows Mobile Revenue Attach Opportunity Per Device and Scenario, FY2007



Source: IDC, 2007

Sales of a connected Windows Mobile device attach an average of \$297 of Microsoft software and partner services revenue in FY2007. Attached revenue is sales of add-on Microsoft software and partner services as a result of implementing a mobile scenario such as mobilizing Exchange.

Sales of a connected Windows Mobile device attach an average of \$124 of Microsoft server and tools revenue in FY2007. Software attached revenue is sales of add-on Microsoft software as a result of implementing a mobile scenario such as mobilizing Exchange

Sales of a connected Windows Mobile device attach an average of \$149 of managed services revenue per device in FY2007. Managed services include device management, security services, support services, and help desk services. IDC believes that there is potential to increase the managed services attach rate by adding on more services to the managed services pool. Managed services start with managing the mobile infrastructure, and managing a simple messaging environment can be below \$15 per device per month. However, there are opportunities to add collaboration, service desk, encryption, device management, application upgrades etc. A fully loaded managed services deal might come up to \$40+ per device per month.

Sales of a connected Windows Mobile device attach an average of \$24 of infrastructure deployment services revenue per device in FY2007. Infrastructure deployment services include all activities, expertise, and systems aimed at providing the customer with proper installation and configuration of Microsoft software.

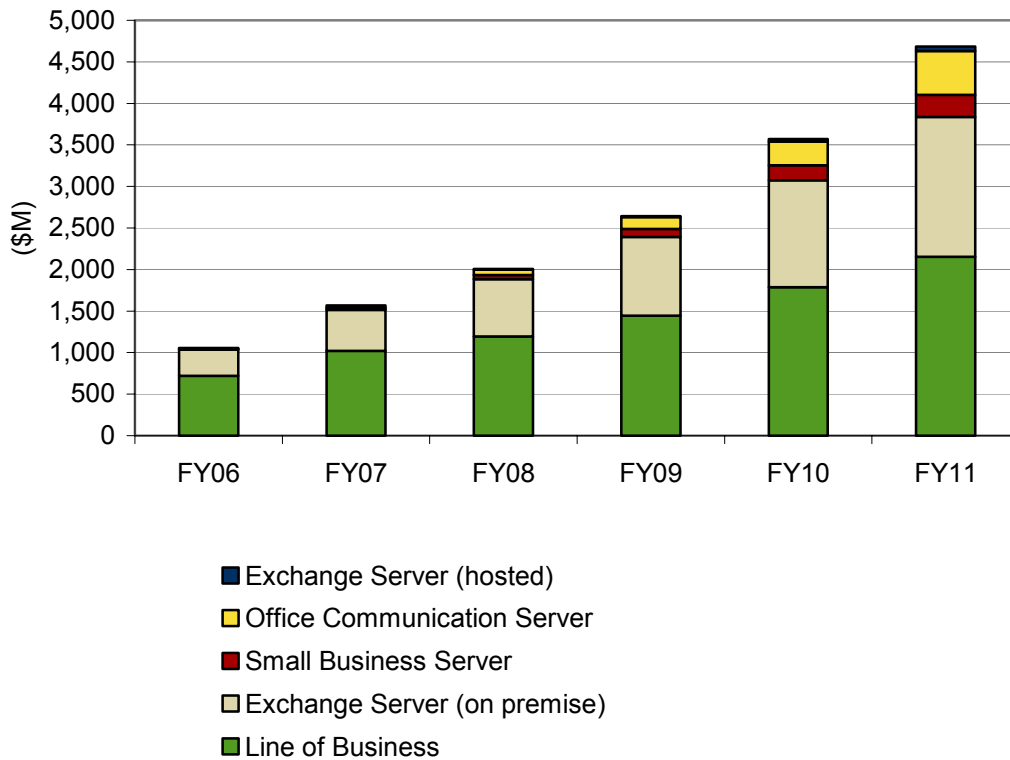
Connecting mobile devices to Office Communications Server offer the highest revenue attach opportunity per device, \$516 in FY2007.

Connecting mobile devices to Exchange Server (hosted) offer the smallest revenue attach opportunity per device, \$126 in FY2007. In this scenario, IDC does not attach software or infrastructure deployment revenue.

A connected Windows Mobile device attaches significant revenue in additional Microsoft software and partner services compared to a device that is not connected. IDC research shows that the attached revenue will grow from \$1056 million in FY2006 to \$4683 million in FY2011, an average growth of 35% per year (see Figure 3).

FIGURE 3

Western Europe and North America Windows Mobile Total Revenue Attach Opportunity by Scenario, FY06-11



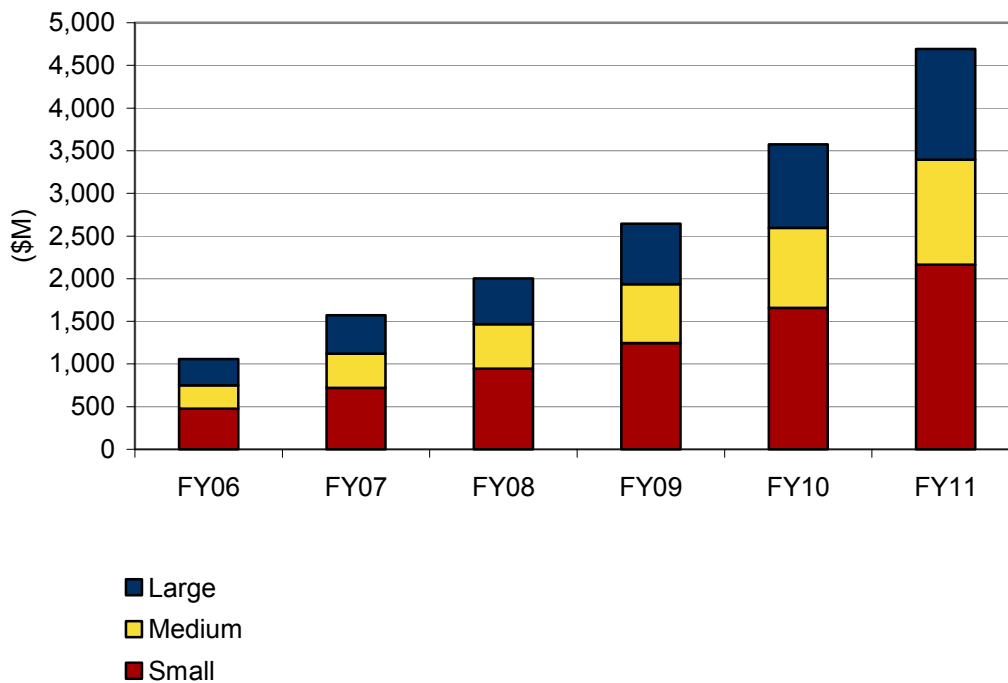
Source: IDC, 2007

Over the FY2006-2011 forecast period mobilizing LOB offers the greatest cumulative attached revenue opportunity. IDC research shows that the attached revenue will grow from \$721 million in FY2006 to \$2152 million in FY2011, an average growth of 24% per year.

Figure 4 highlights our forecasts by business size. IDC analyzed the attached revenue potential in the following business size classes: Small (1-49 employees), Medium (50-499 employees), and Large (500+ employees). Over the FY2006-2011 forecast period mobilizing small business offers the greatest cumulative attached revenue opportunity. IDC research shows that the attached revenue will grow from \$477 million in FY2006 to \$2155 million in FY2011, an average growth of 35% per year.

FIGURE 4

Western Europe and North America Windows Mobile Total Revenue Attach Opportunity by Business Size Class, FY06-11

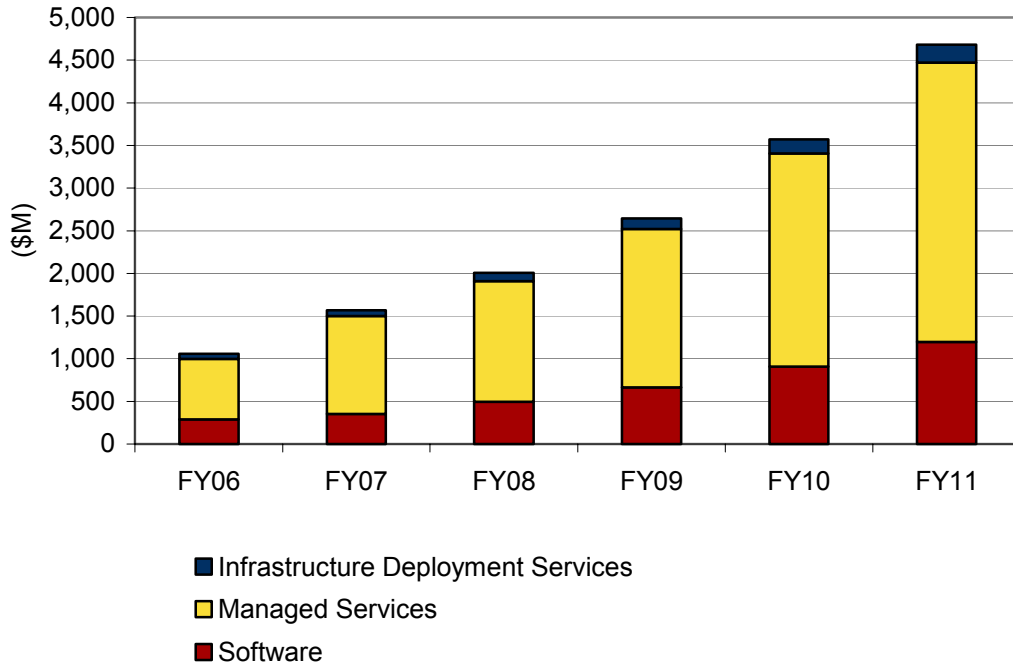


Source: IDC, 2007

Figure 5 shows the attached revenue opportunity by attach category. Over the FY2006-2011 forecast period, managed services offer the greatest cumulative attached revenue opportunity. IDC research shows that the attached revenue will grow from \$709 million in FY2006 to \$3277 million in FY2011, an average growth of 36% per year.

FIGURE 5

Western Europe and North America Windows Mobile Total Revenue Attach Opportunity by Category, FY06-11



Source: IDC, 2007

Software will offer the next largest attached revenue opportunity. IDC research shows that the attached revenue will grow from \$290 million in FY2006 to \$1195 million in FY2011, an average growth of 33% per year.

The infrastructure deployment services attached revenue opportunity is the smallest. IDC research shows that the attached revenue will grow from \$57 million in FY2006 to \$211 million in FY2011, an average growth of 30% per year.

REGIONAL ANALYSIS

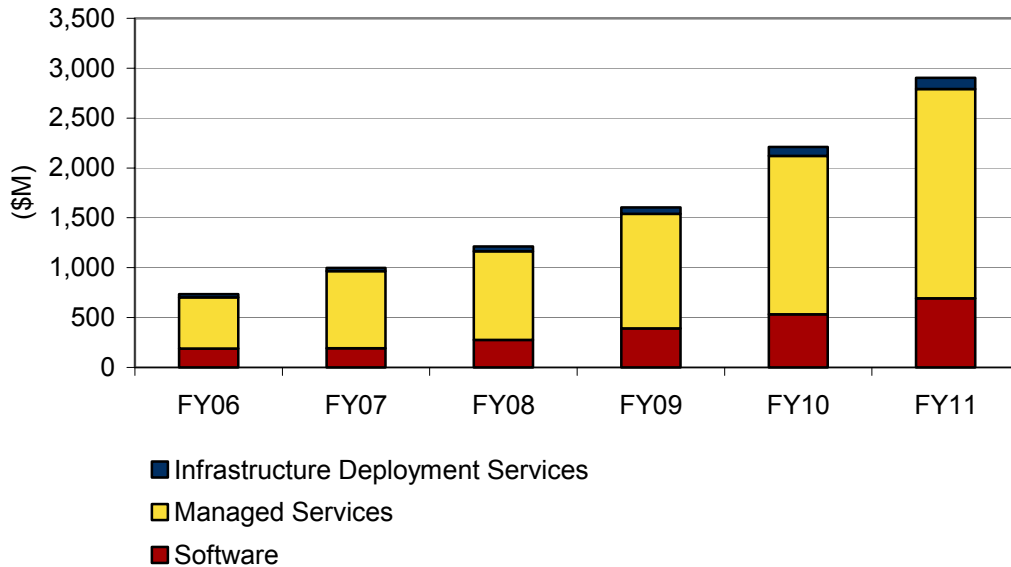
IDC has analyzed the North America and Western Europe market separately. In North America, IDC scenarios show that unit sales of connected Windows Mobile devices offered a potential target of 1.9 million devices in FY2006. The scenarios predict a potential target of 6.9 million devices in FY2011, an average growth of 29% per year.

In Western Europe, IDC scenarios show that unit sales of connected Windows Mobile devices offered a potential target of 566 thousand devices in FY2006. The scenarios predict a potential target of 2.6 million devices in FY2011, an average growth of 36% per year.

Figures 6 and 7 show the total revenue opportunity by attach category for both geographies respectively.

FIGURE 6

North America Windows Mobile Total Revenue Attach Opportunity by Category, FY06-11



Source: IDC, 2007

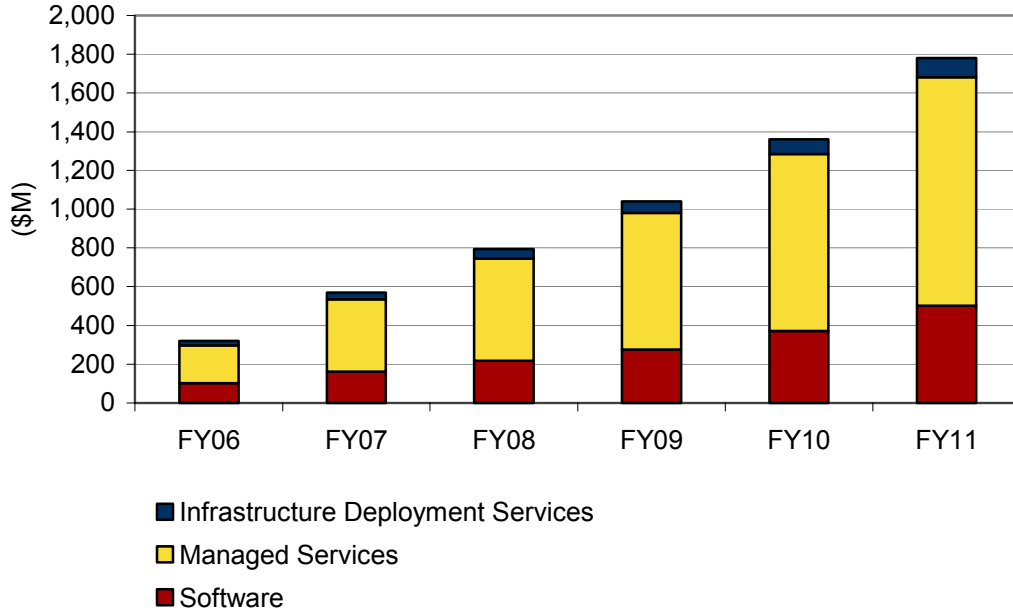
Over the FY2006-2011 forecast period, managed services offer the greatest cumulative attached revenue opportunity in North America. IDC research shows that the attached revenue will grow from \$514 million in FY2006 to \$2,098 million in FY2011, an average growth of 33% per year.

Software will offer the next largest attached revenue opportunity. IDC research shows that the attached revenue will grow from \$188 million in FY2006 to \$694 million in FY2011, an average growth of 30% per year.

The infrastructure deployment services attached revenue opportunity is the smallest. IDC research shows that the attached revenue will grow from \$34 million in FY2006 to \$111 million in FY2011, an average growth of 27% per year.

FIGURE 7

Western Europe Windows Mobile Total Revenue Attach Opportunity by Category, FY06-11



Source: IDC, 2007

Over the FY2006-2011 forecast period, managed services offer the greatest cumulative attached revenue opportunity in Western Europe. IDC research shows that the attached revenue will grow from \$195 million in FY2006 to \$1179 million in FY2011, an average growth of 43% per year.

Software will offer the next largest attached revenue opportunity. IDC research shows that the attached revenue will grow from \$102 million in FY2006 to \$502 million in FY2011, an average growth of 37% per year.

The infrastructure deployment services attached revenue opportunity is the smallest. IDC research shows that the attached revenue will grow from \$23 million in FY2006 to \$100 million in FY2011, an average growth of 34% per year.

THE CHANNEL OPPORTUNITY

A connected Windows Mobile device attaches significant revenue in additional Microsoft software and partner services compared to a device that is not connected.

- ☒ For distributors and resellers, it means sustained sales of mobile devices ranging from smartphones and mobile phones to high-margin attached accessories and consumables.
- ☒ For ISVs, Systems Integrators, VARS and ICT service providers, offering Windows Mobile software as the core or part of a mobile solution means increased sales of software licenses and related development, integration and support services.

Microsoft's infrastructure-oriented partners can build on sales of mobile devices by providing comprehensive mobile device management, and management and security. In addition, Microsoft Windows Mobile can create new business opportunities for VARs, integrators and service providers in the form of projects such as:

- ☒ Extending mobile access to e-mail through Microsoft Exchange.
- ☒ Mobilizing custom applications that can be accessed by mobile devices such as tablet PCs, PDAs and even custom-designed devices.
- ☒ Making enterprise applications accessible to field and/or mobile employees
- ☒ Proposing collaborative Web-based applications and services to mobile workers.

Windows Mobile software goes hand in hand with Microsoft Exchange, standard Microsoft Office applications as well as with many other customized mobile applications. ISVs and value-adding channel companies offering customized or vertical applications can increase software license sales and related services revenues by extending real-time availability of companies' core "in-house" applications to field sales and services staff.

Channel Opportunity in Practice

Below are a few examples of how channels are practicing their sale of the Microsoft Windows Mobile software as a part of, or add-on, to a solution.

ADC Technologies

Based in Newport Beach California, ADC Technologies provides supply chain solutions that leverage automated data collection technologies. The core of its product line is the EasyTrac Warehouse Management System, which supports functions such as receiving, inventory control, picking and shipping. Powered by X10DATA and leveraging Microsoft SQL Server, the EasyTrac solution integrates with Microsoft Dynamics GP Distribution. The solution employs Symbol Technologies devices running Microsoft Windows Mobile. ADC's primary value proposition is the ability to enable blue-collar automation within a warehouse setting, which, according

to ADC CEO Doug Migliori, has become a basic competitive requirement. "This is where inventory-centric companies are focusing their mobilization priorities," says Migliori. "What they really care about is 'how are you going to automate my warehouse?' That's why our warehouse solution is critical to the initial sale." Because of the price sensitivity of its target customer base, ADC has focused much of its energy on developing a solution that can be deployed rapidly, with a minimum requirement for systems integration or setup. As Migliori explains, the use of Microsoft Windows Mobile as the core platform is a key enabler of the strategy. "We can deploy our solution fast and at low cost because we built it from the ground up using Microsoft technologies. If the customer has Microsoft servers in place, we're able to just build on top of that."

ADC's most common add-on sales scenario is a customer using the warehouse solution extending availability of the application to field sales and/or service employees – Little or no implementation effort is required for ADC's solution. For customers, such a scenario would at minimum require investments in additional Microsoft Windows Mobile-enabled devices, the sales of which generate a 30% to 35% margin for ADC. However, in the many cases where ADC's warehouse solution interfaces directly with Microsoft Dynamics GP, add-on customers typically also purchase additional Client Access Licenses (CALs) of Microsoft Dynamics GP from resellers, representing an average incremental revenue of roughly \$500. ADC's incremental revenue, derived from additional software subscriptions, is approximately \$30 per user per month. For companies bringing 20 field-based employees onto the warehouse solution, this translates into additional annual revenue of \$7,200, or \$360 per user, for ADC's product, and another \$10,000, or \$500 per user, for additional Dynamics GP licenses.

EDS

Based in Plano, Texas, EDS delivers Microsoft-based mobile solutions as part of its Mobile Workplace Services offerings, a key theme of which is the ability to deliver voice and enterprise data to users regardless of the geography, device, network and application. EDS defines its target segment outside the US as companies with 2,000 or more employees. These companies typically have at least 100 mobile users. In terms of vertical markets, EDS points to government, transportation/logistics, consumer/retail and manufacturing as the biggest early adopters of mobility solutions. In many cases, EDS's mobile engagements represent a small subset of other activities that EDS typically performs for its enterprise customers, including implementation and integration support, helpdesk services and outsourced data center services. EDS views the flexibility needed to address these smaller-scale solutions an important part of its strategy.

EDS engagements involving Microsoft Windows Mobile can be categorized into three types of initiatives. The first—and largest number—involves the extension of mobile access to e-mail through Microsoft Exchange. The second is the development of custom applications that can be accessed by a variety of devices. The third—and fastest growing—involves extending access to enterprise applications to field and/or mobile employees. While the follow-on sales of Microsoft products such as Live Communications Server are important to EDS, the vast majority of its mobility revenue comes from the delivery of services around mobile solutions. In cases where

EDS enables mobile access to enterprise applications like ERP, the major service components would be solution design and integration, which typically generate \$200,000 to \$300,000 in one-time service revenues (representing an estimated \$500 to \$1,000 per mobile user).

But that's just a start. Another key part of EDS's mobile value proposition is the ability to tie into the wide range of ongoing services that are its strong suit. The most fundamental of these is the ability to extend its helpdesk and technical support resources, to mobile devices. As an offshoot of its support offerings, EDS also provides full mobile device management and backup services. EDS views carrier management—the ability to manage carrier relationships across a number of countries—as an important future service opportunity, especially for its larger customers.

CHALLENGES AND OPPORTUNITIES

IDC sees a key challenge for Microsoft's role in the unified communications environment regarding its indirect partner channels. This network of indirect partners plays a crucial role for Microsoft's go-to-market strategies. IDC believe that the strength of these indirect partner channels lies in their in-depth understanding of IT challenges. IDC doubts, however, that these indirect channels are well equipped to address the more traditional communication needs of businesses. Moreover, IDC doubts that the migration of communication applications into an IT environment is always a straightforward one. Microsoft might find it therefore challenging to use these indirect distribution channels with the same effectiveness when it comes to communication needs as it does regarding IT products and services.

With regard to OCS, the question remains as to whether Microsoft can fulfill all parts of a unified communications offering and how long it will be before companies standardize on alternative solutions such as Cisco, Avaya, etc. and whether companies will want to standardize on Microsoft for their communications. For Windows Mobile, there are challenges from other device platforms as well, with Nokia, Symbian and S60 with Intellisync and partnerships with key IP-PBX players, and even RIM with BlackBerry OS and its integrated Ascendant voice offering on its forthcoming middleware releases.

Opportunity is one thing and the ability to exploit it is another. Microsoft's traditional channel partners are well versed in developing, deploying and evolving networking infrastructure and applications. With the escalation in the demand for mobility solutions and the advent of software applications designed to run on Web 2.0, new technical and sales skills will be required. Selling Software as a Service (SaaS) will also mean weaning channel partners away from traditional resale business models.

As mobile technology matures and the demand for converged IT and communications solutions develops, the indirect channels are facing new challenges in terms of skills acquisition and financing future growth. Despite ongoing mergers and acquisitions and cross-investments in networking and telephony, the IT and Telecoms channels remain fairly distinct. It is by no means clear that the IT channels are best placed to cash in on the mobility opportunity. Smaller partners, in particular, are likely to require some help from technology suppliers in making the transition.

Microsoft is well aware of the need to inform and encourage its existing channel partners while developing new relationships with non-IT organizations, such as banks and commercial undertakings advertising agencies, capable of selling software as a service to business customers. Microsoft's recent Partnering for the Future initiative, for example, aims to ensure that the software vendor's evolving partner community not only becomes more aware of new business opportunities related to Web 2.0, and related aspects such as mobility, but also to be able to take full advantage of them.

CONCLUSIONS

IDC believes that the market size and customer demand for mobile technologies and Windows Mobile products makes this a viable channel to continue to invest technical and marketing resources.

To be successful, channel partners will need to execute the following:

- ☒ Fully analyze and understand the business model you want to pursue and how it fits into customers' technological and business requirements.
- ☒ In order to grow your revenues in this rapidly expanding market, you will need to think about how best to add skills and knowledge to your team as well as marketing the Windows Mobile and other SaaS proposal.
- ☒ Exploit the existing presence of Microsoft in the small to medium business place to facilitate and encourage adoption of Windows Mobile solutions.

METHODOLOGY

IDC define business mobile data users as users who connect to the Internet or other computer over the cellular network using a laptop, PDA, Smartphone or mBrowser on the mobile phone. The business mobile data user number is the total addressable market (TAM) for the five scenario's IDC analyzed. All scenarios are based on published IDC data.

The next step was to split the total TAM into the TAM for each scenario. Microsoft's position vis-à-vis competing platform was taken into account. In order to make sure that the position of Exchange versus other mail programs was taken into account, IDC used its Exchange installed base information. IDC assumed different licensing ratios, managed services attach rates, and infrastructure deployment services attach rates for small, medium, and large business.

- ☒ Scenario 1 is about Windows Mobile devices connecting to Microsoft Exchange Server (hosted). The first output in this scenario is Windows Mobile device sales connected to all messaging solutions. IDC applied the Microsoft device share to the total new messaging users. Windows Mobile Devices connected to hosted Exchange is a subset of the first scenario and was calculated by applying the hosted Exchange market share to the Windows Mobile devices connected to all messaging.

- ☒ Scenario number 2 is about connecting Windows Mobile devices to Small Business Server. In this scenario we discuss Windows Mobile devices connected to Microsoft Exchange as part of a small business server implementation. The first output in this scenario is Windows Mobile device sales connected to all messaging solutions. IDC applied the Microsoft device share to the total new messaging users. Windows Mobile Devices connected to Small Business Server is a subset of the first scenario and was calculated by applying the Small Business Server Exchange market share to the Windows Mobile devices connected to all messaging.
- ☒ Scenario 3 is about connecting Windows Mobile devices to Exchange Server (on premise). In this scenario we discuss Windows Mobile devices connected to Microsoft Exchange in a server on premise (or managed in a data centre, but not in a shared hosted environment) implementation. The first output in this scenario is Windows Mobile device sales connected to all messaging solutions. IDC applied the Microsoft device share to the total new messaging users. Windows Mobile Devices connected to Exchange Server (on premise) is a subset of the first scenario and was calculated by applying the Exchange Server (on premise) market share to the Windows Mobile devices connected to all messaging.
- ☒ Scenario 4 is about mobilizing line of business (LOB). In this scenario we look at Windows Mobile devices connected to Sales and Field Force Automation applications. Windows Mobile Devices connected to LOB is calculated by applying the Windows Mobile device share to all LOB users.
- ☒ Scenario 5 is about connecting Windows Mobile devices to Microsoft OCS. IDC applied the Microsoft Device share to the total number of unified communication users. IDC then applied the Exchange (server + hosted + on premise) market share to this number to arrive at the OCS connected Windows Mobile device sales.

In order to arrive at scenario sales into small (<50), medium (50-499), and large (500+) businesses, IDC applied employee and business size number data to the Microsoft TAM share output. IDC then applied solution costs to each of the scenario business size splits to arrive at the Microsoft sales attached to Windows Mobile device sales. IDC used average number of employees to derive a solution cost for that category. IDC calculated Exchange market share separately for small, medium, and large business.

As part of the qualitative methodology, IDC analyst interviewed Microsoft Windows Mobile specialists, customers deploying Microsoft infrastructure and Windows Mobile devices, and Microsoft partners that specialize in mobility solutions.

Related Research

The following IDC research documents and databases were used to develop the scenario's in this White Paper:

- ☒ *Worldwide Mobile Workforce Forecast Update, FY2006–2012* (forthcoming)
- ☒ *Enterprise and SMB Channels to Market for Mobile Device Solutions, So Many Roads* (IDC #208711, September 2007)
- ☒ *Managed Wireless Services: An Emerging Option for Enterprise Mobility* (IDC #207263, June 2007)
- ☒ *Worldwide Enterprise Converged Mobile Device 2007-2011 Forecast and Analysis* (IDC #206734, May 2007)
- ☒ *The Role of Mobility in Enterprise Unified Communications* (IDC #204818, December2006)
- ☒ *Western European Mobile Workforce Forecast Update, FY2006–2012* (IDC #LM52P, October 2007)
- ☒ *Worldwide Collaborative Applications 2007–2011 Forecast: A First Look at the Numbers* (IDC# 206167, March 2007)
- ☒ European Telecom Services Database
- ☒ Worldwide Telecom Services Database
- ☒ IDC Mobile Device Tracker

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