

Microsoft Will Turn Up the Server Virtualization Volume in 2008

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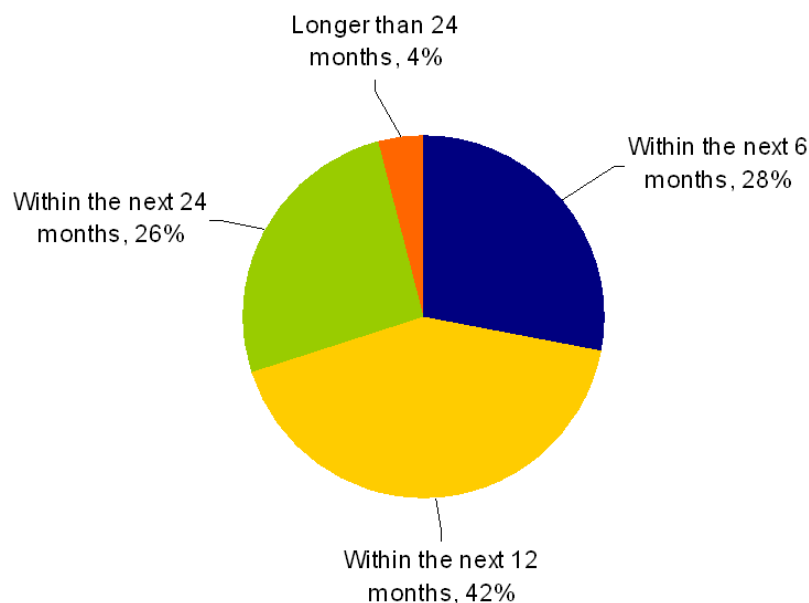
Abstract: The technology vendor graveyards are filled with competitors who underestimated Microsoft's ability in product innovation and sales execution. You'd think that people would learn from the past, but many pundits continue to discount Microsoft in server virtualization. ESG believes this is a mistake. Users are already deploying Virtual Server 2005 R2 and Microsoft will soon release its bare-metal hypervisor, dubbed Hyper-V. ESG believes that Microsoft could ride its new product, global installed base, partner network and distribution machine to become a major server virtualization player in the new year.

Overview

In 2007, the red hot "virtualization" market—which includes application, desktop, server and data center virtualization—was proven to be a market full of broad adoption, opportunities and big-dollar acquisitions. While server virtualization continues to occupy center stage, perhaps the most fascinating aspect of it is the affect it is having across IT and the technology industry at large. Virtual server technology is driving changes in many areas of IT infrastructure and business processes, causing many IT organizations to refresh their data center strategy. This trend is not isolated to any particular industry or market segment because ESG believes that the pervasive nature of server virtualization is encouraging vast adoption across all industries. In a recent ESG survey of current and planned virtualization users, 28% of companies that are planning to implement server virtualization plan to do so in the next six months and 42 % plan to deploy within the next year (See Figure 1). Not simply the latest IT trend du jour, server virtualization is becoming a foundational technology.

FIGURE 1. SERVER VIRTUALIZATION PLANNED ADOPTION

When do you believe your organization will deploy a server virtualization solution? (Percent of respondents, N = 341)



Source: ESG Research Report: , *The impact of Server Virtualization on Storage*, 2007

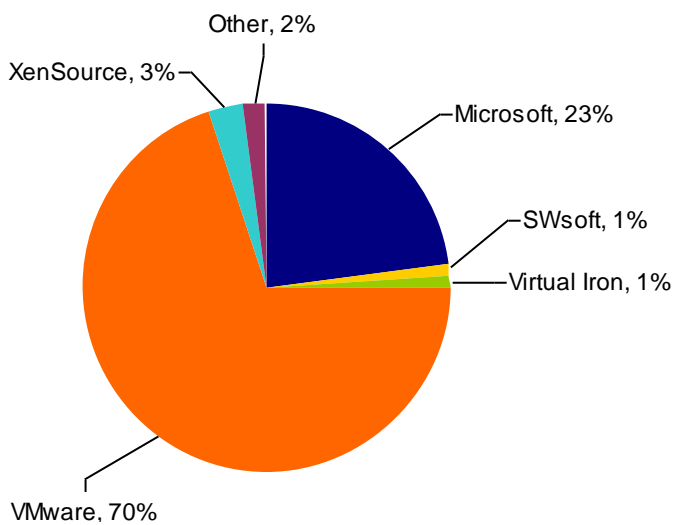
Why the server virtualization popularity? Reducing capital and operational costs, better utilizing resources and creating cost-effective disaster recovery strategies are just a few of the reasons why companies—both small and large—are jumping on board. In many cases, the ROI can be computed on the back of a napkin and sold to the CFO bundled with a message that also includes improved utility savings. With so much opportunity, technology vendors are lining up for an invitation to the server virtualization party. The early market leader in server virtualization is VMware, but other contenders including Citrix, Oracle, Sun and Virtual Iron see plenty of future business and revenue ahead.

What About Microsoft?

Server operating system king Microsoft is also dipping its toe in the server virtualization market with Virtual Server 2005, but many industry pundits have discounted Microsoft’s ability to deliver a competitive server virtualization product to the market. They feel that Microsoft’s development effort is plagued with delays and all the while, VMware continues to gobble up the market. They further believe that Microsoft’s missteps have resulted in missed market opportunities. ESG disagrees. Recent research results demonstrate that Microsoft actually has a significant foothold in today’s market with its hosted server virtualization solution. As shown in Figure 2, of those respondents that have deployed server virtualization in a production environment, 23% claim Microsoft as their primary server virtualization solution.

FIGURE 2. PRIMARY SERVER VIRTUALIZATION SOLUTION

What is your organization's primary server virtualization solution? (Percent of respondents, N = 365)



Source: ESG Research Report: *The impact of Server Virtualization on Storage*, December 2007

Microsoft’s quiet success is based on its freely available download product, Virtual Server 2005 R2—the next version of Virtual Server 2005, originally released October 1, 2004. Virtual Server 2005 R2 is a hosted server virtualization solution, which means that it is installed on top of an existing operating system. The hosted architecture does not scale and perform as well as a bare metal hypervisor (i.e., VMware ESX, Citrix XenSource, etc), but the consolidation benefits of enabling end-users to consolidate multiple virtual machines onto a single physical server seem to outweigh any technology limitations.

Why are users eschewing other server virtualization products in favor of Microsoft? ESG Research found that the majority of virtual machines (i.e., guest operating systems that sit on top of a hypervisor) are running Microsoft Windows operating systems (76%). This means that Microsoft is well positioned to push its server virtualization products and strategy to its massive installed base and help users consolidate underutilized Windows-based boxes into a virtual server environment. This strategy is especially attractive with SMB organizations trying to “do

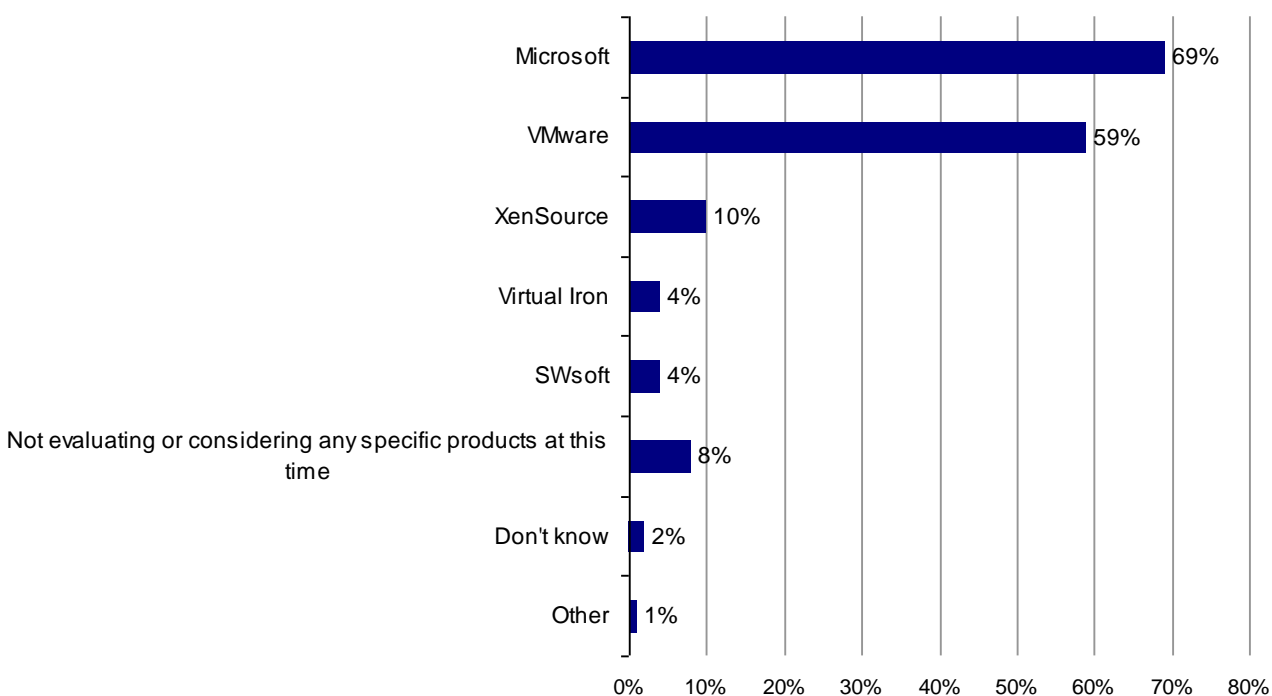
more with less.” With server virtualization, Microsoft can provide technology tools that can help SMB firms meet this challenge.

Beyond the Windows server customer base, Redmond’s position is also bolstered by the large army of Microsoft Certified Professionals (MSP) who are comfortable in the Windows operating environment and prefer to use tools, technology and techniques that build upon their existing skill set.

In contrast to common industry wisdom, ESG Research places Microsoft in a commanding #2 position. The data also points to a bright server virtualization future for Redmond. Of those respondents planning to deploy server virtualization, the highest percentage of organizations are evaluating or considering Microsoft (69%) over any other server virtualization alternative.

FIGURE 3. EVALUATING OR CONSIDERING FOR DEPLOYMENT

What server virtualization solutions is your organization currently evaluating or considering? (Percent of respondents, N = 341, multiple responses accepted)



Source: ESG Research Report: *The impact of Server Virtualization on Storage*, December 2007

Enter Windows Server 2008 Hyper-V

With the turn of a new year, Microsoft will release its long anticipated Windows Server 2008. Included as part of the new core operating system or sold separately for \$28 will be Hyper-V—a bare metal hypervisor solution that has the potential to level the technology playing field. Hyper-V will first be introduced in Beta 3 and the full release will ship within 180 days.

ESG anticipates a brand new “battle royale” when Windows Server 2008 and Hyper-V hit the pavement. Expect Microsoft to pull out all the server virtualization stops as it:

- **Organizes its allies.** Where VMware has had to build an ecosystem from scratch, Microsoft can build upon its existing community of customers, developers and partners to drive its Windows server virtualization strategy to market. Arm in arm with its partner network, Microsoft has the opportunity to build education programs, offer assessment, planning and deployment services and create attractive

incentives that grease the channel wheels and accelerate distribution of Windows Server 2008 Virtual Server solutions directly to the customer.

- **Makes a lot of noise!** The release of Windows Server 2008 will be a well marketed and highly publicized event and ESG expects server virtualization to be a key facet of the release. Expect Microsoft to present a unified approach to virtualization including desktop virtualization (Virtual PC), application virtualization (SoftGrid), Presentation virtualization (Windows Terminal Services) and server virtualization. This industry-wide cacophony should raise Microsoft's server virtualization visibility throughout 2008 and beyond.
- **Integrates server virtualization into Windows administration and operations.** The integration of server virtualization with Microsoft System Center and Virtual Machine Manager will highlight Microsoft's ability to manage both physical server and virtual machines from a single pane of glass that has a familiar look and feel to a Microsoft Windows system administrator. The goal? Improve the customer's experience from simple server virtualization deployment to building an enterprise virtual server architecture with central management, common operations, maximum hardware resource utilization and massive ROI benefits.
- **Uses virtualization to pull Windows Server 2008.** Ironically, ESG anticipates that Microsoft will use server virtualization as a Trojan horse into organizations to help accelerate Windows Server 2008 deployment. Why? Server virtualization gives users motivation and a reason to purchase, install and upgrade their existing infrastructure as ROI benefits cancel out new product expenses. This tradeoff gives Microsoft a whole new way to approach customers and monetize large server deployments.

The Bottom Line

Server virtualization is well beyond the initial hype. Businesses of all sizes now see it as a catalyst for reducing IT infrastructure costs, building scalable data centers and simplifying IT operations.

Microsoft is currently playing catch up in a market that is wildly successful, but it is extremely well positioned to do so—especially in the SMB market. This is a strong foundation that Microsoft can build upon as it delivers Windows Server 2008 Hyper-V and its next generation hypervisor. Microsoft could also trump the competition with its unique ability to establish best practices for server virtualization use with Microsoft applications such as Exchange, SQL and SharePoint.

Finally, Microsoft is Microsoft. ESG has spoken with end-users holding back on implementing large scale server virtualization projects until Microsoft updates its hypervisor and brings its best horse to the race. It may appear that Microsoft has been slow to compete in a market that is on fire, but end-users are currently deploying Microsoft server virtualization solutions for improved hardware utilization and server consolidation, and the next wave of adopters are excited to embrace Microsoft Windows Server 2008 Virtual Server when it becomes available in the middle of 2008.

ESG sees the writing on the wall: Behind the scenes, Microsoft is poised to become a very visible and aggressive server virtualization competitor in the next year.