



INSIGHT

One Small Step for Client Virtualization, One Giant Leap for Microsoft

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IDC OPINION

Microsoft has crossed an important turning point in its willingness to proactively encourage the adoption of a full spectrum of client virtualization technologies, with its March 18 announcement significantly redefining its client virtualization strategy. Moving forward, Microsoft can be expected to continue down a path of more strongly embracing client virtualization. Other observations include:

- ☒ Microsoft has finally delivered an integrated story for its suite of client virtualization technologies, which already was the most complete in the industry. Ironically, the news delivered on March 18 was almost completely devoid of new product announcements; instead, it was heavily focused on a new, more relevant, and appropriate go-to-market message.
- ☒ This move has been very long in coming and will likely be seen historically as the point in time when Microsoft finally let go of its long-standing unwillingness to accept the changing landscape of end-user access to corporate applications. While Microsoft has moved slowly, it has not stopped the mobile device industry from exploding. This mobile device industry growth, which in large part is not leveraging any Microsoft technology directly, runs the risk of reducing the essential nature of Microsoft's products. This move helps blunt that trend.
- ☒ In typical Microsoft fashion, the pricing action on the formerly named Virtual Enterprise Centralized Desktop (VECD), now renamed Virtual Desktop Access (VDA), leaves the company with more ground to give if customer pushback and competitive circumstances warrant such a move. In this case, the decrease in the VDA pricing for non-Software Assurance (SA) customers, from \$110/device/year to \$100/device/year — along with expanded use rights — is a meaningful move that clearly is in the right direction.
- ☒ However, many customers are still likely to balk at the \$100 annual use tax, especially since they invariably will compare it with the cost of buying a perpetual license for Windows 7, which when purchased from a major OEM costs businesses a one-time fee of under \$100.
- ☒ Of course, SA customers are unlikely to complain that their costs were reduced to zero for what the former VECD offering brought to the table for them.

IN THIS INSIGHT

This IDC Insight considers the market impact of Microsoft's March 18 announcement regarding significant revisions to its client virtualization go-to-market strategy.

SITUATION OVERVIEW

Highlights

On March 18, 2010, Microsoft announced dramatic revisions to its marketing and sales strategy for its client virtualization portfolio. IDC has frequently noted that Microsoft has long offered the broadest portfolio of client virtualization technologies in the industry, but its pricing and the restrictive use rights associated with parts of the portfolio complicated the acquisition process for customers and added costs that many customers felt were prohibitive. This pricing and product marketing strategy was sending a message to customers that Microsoft was disinterested in seeing client virtualization widely adopted.

The announcement by Microsoft includes components addressing cost reductions and simplification of the portfolio and taps partners to expand the viability of sales efforts on the street. Specifically, the announcement includes the following elements:

- ☒ The company is rebranding of the Virtual Enterprise Centralized Desktop offering. This subscription offering has been renamed Virtual Desktop Access. In addition, the company will proactively promote its Virtual Desktop Infrastructure Suite (VDI Suite) product in marketing efforts.
- ☒ The company is eliminating incremental costs associated with VDA subscriptions for certain customers. VDA, which is primarily intended for thin clients and desktops that are not covered by SA (a not so insignificant portion of Microsoft customers), is now offered at a new price point for SA customers. Effective on July 1, 2010, Windows Client SA customers will no longer pay extra for increased access rights for PCs accessing VDI environments. Although this cost was relatively minimal at \$23 per year, removing it still represents a meaningful savings for customers.
- ☒ From a device perspective, there are some important distinctions between business and home and/or personal device use as well as PC and thin-client access. For instance, under the EULA, each PC that is covered by SA must have a single user assigned to it. That user has the rights to access VDI technology remotely from devices that are not owned by his/her business entity without incurring any additional charge. However, additional charges do apply if that user wishes to access the VDI environment from business machines other than his/her primary machine.
- ☒ Since thin clients are not normally SA-qualifying devices, a Windows VDA license must be purchased to cover these devices. However, when you license a thin client for Windows for VDA, that device becomes eligible for SA benefits.

- ☒ Customers without a current Software Assurance relationship still face incremental costs to gain access to Windows Virtual Desktops. The cost of Windows VDA has been lowered to \$100/device/year from the previous cost of \$110/device/year for VECD. IDC notes that in some cases acquiring Software Assurance may be a less expensive option than paying for VDA.
- ☒ Microsoft updated Windows XP Mode with capabilities for deployment aboard PC hardware that does not include hardware virtualization extensions. Previously, Microsoft Enterprise Desktop Virtualization (MED-V) deployments could run on PCs without hardware virtualization extensions, while Windows XP Mode mandated the hardware features.
- ☒ New enhancements will be delivered when SP1 for Windows Server 2008 R2 is released. These enhancements include increased performance and an improved user experience for Remote Desktop Services users through a new technology called Microsoft RemoteFX. In addition, SP1 will add a dynamic memory feature to Microsoft Hyper-V, enabling customers to dynamically increase and decrease memory availability to guest virtual machines. The company has not disclosed when Windows Server 2008 R2 SP1 is expected.
- ☒ The announcement includes a partnership dimension that puts longtime client virtualization partner Citrix Systems in a position to integrate its client virtualization protocol, Citrix HDX, with Microsoft's RemoteFX. In addition, Microsoft and Citrix will offer a competitive replacement program designed to displace existing VMware VDI installations.

Analysis

The announcement by Microsoft is indeed a giant leap for the company. Microsoft traditionally has taken a position that many have seen as anti-client virtualization. This position has hurt Microsoft in the past and rendered the company, in some market sectors, a nonfactor in the rapidly growing client virtualization market, despite having the most comprehensive virtualization solution of any of the major players.

It is the opinion of IDC that Microsoft needed to fundamentally change the customer perception of its virtualization positioning to render itself as a serious contender in the client virtualization market. The March 18 announcement is the first part of a much bigger marketing campaign. Microsoft has planned a worldwide marketing blitz and will be working with its partners to educate customers on Microsoft's client virtualization solutions and strategies.

Additionally, Microsoft has been gradually accepting more of the dynamic and distributed use cases that are enabled by virtualization technologies as well as the proliferation of devices, and recent licensing changes have reflected this. As a result, the company's new approach is simpler and inherently more flexible, a combination rarely seen in the realm of software licensing.

On the surface, the name and pricing change announcement from Microsoft is fairly simple, and many might feel Microsoft could have done more to show its commitment to grow the client virtualization market. However, IDC thinks this is a good strategic

move by Microsoft to prove it's serious about client virtualization, while leaving plenty of room for future improvement, both pricewise and featurewise.

Microsoft's announcement seems to benefit SMBs the most, as this group has been seeking to reduce IT costs through client virtualization but has been unable to justify the high initial cost of the technology. With Microsoft's solution, a non-SA organization can deploy a thin-client VDI solution at \$128 per device per year (\$21 VDI Suite Standard + \$7 MDOP + \$100 VDA license) complete with App-V and offline virtual desktop (MED-V), or \$384 per device for a three-year period (\$128 * 3). VMware View, on the other hand, would cost \$550 (\$250 View Premier + \$100 * 3 VDA license, based on published price) for a comparable solution for the same three-year period. Similarly, organizations that are currently subscribed to SA could see even more savings. Additionally, the new VDA's expanded use rights effectively give Microsoft a seat at any organization looking at application virtualization to complement its VDI, given MDOP (which includes App-V) is now only \$7 per year per user, compared with VMware ThinApp, which costs \$39 per seat, not including a \$5,000 initial cost.

Larger enterprises looking to deploy client virtualization are the customers most likely to be current Microsoft SA customers, and the new pricing announcement from Microsoft can yield significant cost savings on large-scale VDI deployments, regardless of which vendor is utilized. For non-SA customers, the new VDA license now has a lot more value built in. The Microsoft VDI Suite is a good entry-level product and can be upgraded to Citrix XenDesktop for a feature-rich VDI experience. Yes, Microsoft is serious this time.

FUTURE OUTLOOK

What Will Happen?

The March 18 announcement included plans for an hour-long, customer-driven town hall-style discussion. Microsoft will actively engage a selected customer panel as well as studio audience to discuss the pain points and challenges of the current desktop status quo and how Microsoft can provide the technologies and solutions to address them.

Complementing the March 18 announcement, Microsoft will also kick off a 100-city, 45-country road show marketing campaign aimed at engaging IT professionals and organization decision makers with its new position on client virtualization.

A big focus of Microsoft's marketing campaign will be educating customers about competitive client virtualization technologies and working with customers to create individualized solutions. Microsoft would benefit from creating use cases for different industry verticals, ROI calculations, and actual deployment cost (software + hardware + support) figures as part of its marketing blitz.

ESSENTIAL GUIDANCE

Actions to Consider

Advice for Buyers

Microsoft has a complete client virtualization solution, but in the past the company has not done a good job of telling a viable virtualization story. That is all about to change. Microsoft will be actively marketing its solution to customers and is likely to stop nearby many customers during its road show. Organizations should not pass up the opportunity to go the Microsoft event to better understand the company's position and product suite. IDC believes that organizations looking for a client virtualization strategy should not write Microsoft off as a nonfactor without listening to what the company has to say first, but due diligence mandates also taking a close look at competitors such as VMware and Citrix.

When it comes to client virtualization, no two organizations' requirements are the same. Many times, companies have to build up their own VDI solutions with multiple vendors. Despite perceptions to the contrary, it appears Microsoft understands this and is willing to work with customers to design individualized solutions. Microsoft's new go-to-market strategies add much value to what organizations have to buy.

Under the new pricing scheme, Windows Client SA customers and Microsoft VDI Suites customers will no longer pay extra for increased access rights for PCs accessing VDI environments. However, since thin clients are not eligible for SA, these customers will need to purchase a Windows VDA license. This creates a situation where a customer potentially needs to spend money (buying a PC with SA) to save money in the longer run.

Advice for Other Vendors

Microsoft's announcement will have an impact on VMware's View and ThinApp businesses. However, VMware is well prepared to deal with this announcement, with improved versions of View and ThinApp coming to the market. With the recent acquisition of RTO software assets, VMware View has some competitive benefits. VMware View's key customers are typically larger enterprises, which VMware must retain in the face of the new Microsoft push. For customers, this means a more negotiable VMware sales rep.

The removal of Microsoft VECD for SA should help VMware improve its cost model and combine with additional sales efforts; the Microsoft announcement might even help VMware.

In addition to Citrix, Microsoft will announce more companies partnering with its marketing campaign. Microsoft will need vendors to provide solutions for areas like better personalization management, virtual application management, and license management. For niche virtualization vendors, this is a great time to jump on the Microsoft bandwagon or strengthen an existing relationship.

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Related Research

- ☒ *VMware View Getting Better with Some Help from RTO* (IDC #lcUS22227510, February 2010)
- ☒ *IDC's Top 10 System Infrastructure Software Predictions for 2010* (IDC #221673, January 2010)
- ☒ *Worldwide Application and User Session Virtualization Software 2009–2013 Forecast* (IDC #221348, December 2009)

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