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Market Analysis

Office 2003: Why Upgrades Are Looking Up

By Lauren Gibbons Paul
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The combination of cheap, powerful notebooks, an improving economy and a compelling new version of Microsoft® Office add up to a **favorable upgrade season for office suites**. Indeed, the new features in [Microsoft Office 2003](#) give large, small and medium-sized businesses great incentive to upgrade.

For those who dig beneath the surface, "Office 2003 is radically different than the still-used preceding versions, Office XP, Office 2000 and Office 97," says Nate Root, senior analyst for Forrester Research Inc. in Cambridge, Mass. Root points to Office 2003's enhanced collaboration features through [Document Workspaces](#) as one example. In addition, he cites the tight ties to [Microsoft® SharePoint™ Portal Server 2003](#) . In Europe, large companies are embracing SharePoint since it allows them to get a portal up and running in a quick, cost-effective manner. The fact that **Office 2003 integrates so well with SharePoint** just might be the push European companies need to upgrade their productivity suites.

"European companies have tighter budgets. They need an incentive to upgrade," says Root. "If they could, they would keep one version of Office forever." Root expects **Europe will be fertile ground for Office 2003 upgrades**, both for businesses that are finally buying new PC hardware after the prolonged dry spell and those that are not upgrading but would like to leverage the SharePoint integration.

Operating System Upgrade Plans

Operating systems in use and planned for use at U.S. SMBs (0-336 employees), based on a survey of 1,750 U.S. companies

Small Business

Operating Systems	Currently Use	Plan to Use
Windows 98/ME/95	93%	33%
Windows 2000	31%	17%
Windows XP Professional	27%	19%
Windows NT	14%	6%
Windows XP Home	11%	4%
Other OSs*	9%	5%

Medium-sized Business

Windows 2000	72%	63%
Windows 98/ME/95	60%	37%
Windows XP Professional	58%	64%
Windows NT	40%	24%
Other OSs*	33%	29%
Windows XP Home	9%	8%


* Includes Mac/Apple, Linux and other Unix OSs

Source: AMI-Partners, 2003


SMBs Slower to Jump

As with European firms of all sizes, U.S. SMBs are more likely than their LB counterparts to stick to **whatever business productivity suite** version they currently use. They tend to hold off on upgrading unless there is a compelling reason to do so, such as buying new PC hardware or they

need the leverage of a SharePoint Portal Server, for example. "They usually take the attitude that what they have now works fine," says Laurie McCabe, vice president, SMB Insights for AMI-Partners Inc. in New York.

But AMI's most recent research indicates **U.S. SMBs are accelerating their adoption** of newer operating systems such as [Microsoft® Windows® XP Professional](#) . An upgrade to Office 2003 will likely result. "The operating system decisions have a lot of impact on which version of Office these businesses use," says McCabe.

Many SMBs don't think of technology strategically as do LBs, says McCabe. And since many SMBs don't have a dedicated IT support person, they tend to operate in "heads down" mode, using a platform or application suite until it can't be used anymore. OEMs have an opportunity to market technology features specifically to this segment, says McCabe. "**OEMs should help educate this space** on what the new version of Office can do for their business. People tend to assume Office is Office. The trick is to give these businesses very concrete, relevant proof points."

SMBs are also likely to be attracted to unparalleled functionality as well as **sweet pricing deals on Microsoft® Windows® Small Business Server 2003** . Priced at about \$1,500 for the premium edition (the standard edition is around \$600), the package includes, among other things:

- Microsoft Windows Server 2003
- SQL Server
- Internet Security and Acceleration Server
- FrontPage
- SharePoint Services
- Shared Fax Service
- Shred Modem Service
- Microsoft Management Console

"There's nothing like it for the price," says Laura DiDio, senior analyst for the Yankee Group in Boston. Although Microsoft Office is not included in Small Business Server, most SMBs **will upgrade to Office 2003 when they buy Small Business Server**, says DiDio. "It's a no-brainer to buy Office 2003 at the same time."

Small Business Server's Piggyback Effect

Survey of 500 worldwide SMBs and their purchasing plans for 2004

- ▶ 53% of participants cite cost as the most important factor in purchasing back-office software
- ▶ 51% currently use or plan to purchase Windows Small Business Server 2003
- ▶ 21% currently use or plan to purchase Windows Small Business Server 2000
- ▶ 3% plan to purchase the Novell Small Business Suite
- ▶ 11% currently use or plan to use Linux

Source: Yankee Group/Sunbelt Software, 2004

Interest in Small Business Server has been phenomenal, says DiDio. Worldwide VARs and consulting firms DiDio speaks to attribute a 100% to 300% increase in their business to the product. In a recent Yankee Group survey of 500 global SMBs, 86% said they were currently using or **planned to deploy Small Business Server 2000 or 2003**. "This is almost a greenfield situation," says DiDio.

Microsoft Office vs. OpenOffice

Forrester analyst Root is readying a comparative study of Microsoft Office and the OpenOffice.org project's OpenOffice.org suite; the study will be published this summer. His early conclusion: Open source office suites in general are **not a one-to-one replacement** for Microsoft Office.

Aside from the lack of support in the free downloadable version, OpenOffice lacks certain tools and capabilities, has some bugs and requires more technical savvy to run, according to Root. Though OpenOffice documents are largely interoperable with their Microsoft Office counterparts, most U.S. businesses will steer clear of open source software, says Root -- and that includes both operating systems and business productivity suites. "In the U.S., **many large companies still see open source as too risky**. However, in Asia/Pacific and China in particular -- where the emerging economy makes price tolerance much lower -- there is greater interest," he says.

Office 2003 and OpenOffice Compared


Feature	Microsoft Office 2003	OpenOffice
Price	\$399 - \$499 ¹	Free
Support	Fully supported	No support in free version
Level of functionality	100%	70% ^{2,3}
Operating system	Windows only	Windows, Linux, Solaris, FreeBSD, Mac OS X

¹ Microsoft volume licensing pricing


² Relative to the "industry standard," Microsoft Office

³ Missing a Microsoft Outlook-equivalent and features such as full template support, macro programming and some complex spreadsheet graphic functions

Source: Forrester Research, 2004


By all accounts Microsoft has done a good job of **creating innovative and well-priced software packages and tools** that will have a spillover effect on Office 2003 upgrades. Root cites the [Microsoft Office Information Bridge Framework](#) , a free developer tool kit that enables enables

organizations to connect their desktop programs to line-of-business systems.

"You can read an e-mail order in Outlook and click on the order number and it will call into the Siebel application and send that data right back to Outlook," says Root. **Microsoft is successfully incenting companies with new features** to keep them in the Microsoft Office fold. "If Microsoft can continue to innovate, it will continue to own this space," says Root. 

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About the Author

Lauren Gibbons Paul has more than 15 years of experience as a writer and editor for leading business and technology publications, including *eWEEK*, *CIO*, *Managing Automation* and *Network World*. She has also done research assignments for a number of well-known analyst firms.

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